

**Testimony of Alan Larson**  
**Undersecretary of State for Economic, Business and**  
**Agriculture Affairs**  
**on the Millennium Challenge Account**  
**before the Senate Foreign Relations Committee**  
**March 4, 2003**

Mr. Chairman, members of the committee, I am pleased to appear before you to testify in favor of the establishment of the Millennium Challenge Account (MCA).

Last March, President Bush described an exciting new approach to development assistance. He called for "a new compact for global development" linking "greater contributions from developed nations" to "greater responsibility from developing nations." The United States would lead by example, the President pledged, and increase core development assistance by 50 percent over the next three years - an increase of \$5 billion per year by the third year. A Millennium Challenge Account would channel this new assistance only to "nations that govern justly, invest in their people, and encourage economic freedom."

**Why a Millennium Challenge Account?**

Mr. Chairman, this new foreign assistance initiative, the Millennium Challenge Account, brings together in a new and innovative way the lessons we have learned about development over the past 50 years.

- It affirms that economic growth is key to development and targets assistance at those countries that have adopted the governance, health, education and economic policies that enable growth. In this way, the MCA increases the odds of spurring successful economic development and, at the same time, encourages more countries to adopt growth-enabling policies.
- It recognizes that development must primarily come from within, not conferred from the outside. No one can develop a country except its own people. The MCA thus proposes a true partnership in which the developing country with full participation of its citizens proposes its own development priorities and plans.
- It insists on results. Funds will go to those countries that have the best proposals - with clear objectives and benchmarks - and those that best implement their programs.

The MCA builds on the promise of the global economy and the spread of democratic institutions. It rests on the greater recognition by developing countries that their policies and governance are the most critical keys to development. The MCA is not the sole answer. It is part of a broad array of Administration efforts to spur development that stretch from the Doha Development Agenda to initiatives on HIV/AIDs, famine and education. Along with these other efforts, the MCA supports our overall foreign policy, including the struggle against terrorism, by encouraging free, democratic and prosperous societies where people have a stake in the future and value partnership with the United States.

The Administration's vision of the MCA, as reflected in the legislation sent forward to the Congress on February 3, is profoundly positive. It affirms the ability of the poorest people in the poorest countries to improve their lives; it embraces human dignity by stressing mutually responsible and accountable partnership; and it upholds the key insight that thoughtful and participatory political and economic governance are fundamental to lasting progress.

### **Developing the MCA**

This past year our challenge has been to implement the vision that the President put forward last March in Monterrey. In so doing, we have engaged in an intense, thoughtful and collegial interagency process involving the Departments of State and Treasury, the U.S. Agency for International Development, the Office of Management and Budget, the National Security Council, and a number of other agencies. We have also benefited greatly from the strong interest and suggestions of many, including from members of congress and staff. The public, especially the NGO and business communities, have been vital advisors and sounding boards. We have kept other donor nations and potential MCA beneficiary countries apprised, as both have welcomed the MCA and been keen observers of our progress. Throughout this process, the involvement of the President has been central. President Bush has given an unprecedented level of direct and sustained commitment to the MCA and to development issues more generally.

After months of discussion and deliberation, the Administration came to a number of conclusions:

- The MCA should focus on development objectives;
- It must complement, not replace current assistance;

- To ensure we select only those countries that can best use assistance, the MCA requires the integrity of objective eligibility criteria;
- To combine all the new elements - a selective program, partnership that gives developing nations themselves the lead role in guiding their development, and a program where results are integrated and measured from beginning to end - we decided that the MCA could not just be grafted onto existing assistance programs or structures;
- We also concluded that to realize the promise of the MCA without a huge increase in bureaucracy, we will have to organize and run the MCA in a whole new way, requiring a clean, flexible and creative legislative mandate.

### **Legislative Overview**

Mr. Chairman, to make this vision a reality, the legislation before you would create a new organization - the Millennium Challenge Corporation (MCC) - with one key goal: "to reduce poverty through promoting sustained economic growth in developing countries committed to implementing good policies." A Chief Executive Officer nominated by the President and confirmed by the Senate would run the MCC. A cabinet-level board, chaired by the Secretary of State, would provide policy guidance and oversee operations. This will ensure policy consistency and coordination between the MCA and other foreign assistance, which by law the Secretary of State supervises.

Selection: Only poor countries will be eligible for the MCA. In FY 2004, countries eligible to borrow from the International Development Association (IDA), and which have per capita incomes below \$1,435, (the historical IDA cutoff) will be considered. As funding expands, we would also gradually expand the countries eligible for participation in the MCA. In 2005, all countries with incomes below \$1,435 will be considered. In 2006, all countries with incomes up to \$2,975 (the current World Bank cutoff for lower middle income countries) will be eligible.

At the heart of the MCA is a challenge to countries to create and maintain the policy and institutional environment that underpins lasting development and makes assistance truly effective. We have therefore based MCA qualification on these criteria and have chosen 16 indicators, falling into three baskets: ruling justly, investing in people and encouraging economic freedom. In order to participate in the MCA, countries would be expected to do better than the median on half the indicators in each category. We will give special attention to the corruption indicator, since corruption has such a corrosive effect on democratic institutions and developmental achievement.

The sources for these indicators, and the data for evaluating them, will be publicly available. By giving countries access to the information they need to qualify, the MCA

helps to give poor countries incentive and direction to develop the policies required. The indicators come from independent and analytically rigorous sources, including the multilateral development banks, academic policy institutes, international financial institutions and non-profit organizations. When countries create the policies to meet these indicators, they will create the conditions friendly to sustained economic growth.

We know that indicators cannot capture all critical aspects of a country's performance in these areas and may not be fully up to date. The legislation addresses this by providing for discretion by the Board of Directors to exercise final judgment as to which countries will qualify. Secretary Powell and this administration are absolutely committed to keeping the MCA focused on development, with the basis for qualifying reflected in the President's three categories. We have other tools, including development assistance and economic support funds, to address other important national goals.

**Implementation:** To implement the partnership between the MCA and MCA countries, the MCA will use time-limited, business-like contracts that represent a commitment between the United States and the developing country to meet agreed performance benchmarks. Developing countries will set their own priorities and identify their own greatest hurdles to development. They will do so by engaging their citizens, businesses and government in an open debate, which will result in a proposal for MCA funding. This proposal will include objectives, a plan and timetable for achieving them, benchmarks for assessing progress and how results will be sustained at the end of the contract, delineation of the responsibilities of the MCA and the MCA country, the role of civil society, business and other donors, and a plan for ensuring financial accountability for funds used. The MCA will review the proposal, consulting with the MCA country. The Board will approve all contracts.

To be most effective in promoting development, the MCA will need flexible authorities with regard to funding, personnel, procurement and contracting. The MCA will fund programs to promote economic growth. We envision a focus on areas such as agricultural development, education, enterprise and private sector development, governance, health, and trade and investment capacity building, but to be able to respond to MCA country proposals, the MCA should not be restricted to specific areas of funding.

The Millennium Challenge Corporation will draw its staff from the best and brightest in the public, private and non-profit sectors. We envision a relatively small staff, which would serve for time-limited terms. The staff would rely heavily on contracted services for monitoring, evaluation and many services. The MCA will need the ability to contract for services with the private sector, with government agencies, and with international organizations and should be able to procure globally.

**Funding:** The initial funding request for the MCA is \$1.3 billion. This is the first stage of a ramp-up that will increase to \$5 billion by 2006. That is a 50 percent increase in current core US development assistance, and represents an unprecedented effort to reduce poverty. We believe \$1.3 billion will provide sufficient resources for a strong start. We

deliberately chose to ramp up requests over time to ensure funds would match but not exceed our ability to use them well.

Operation: Mr. Chairman, we know that the keys to success of any initiative as innovative as the Millennium Challenge Account lie not only in ensuring that it has a well thought out mandate and the needed authorities. It must also operate well. We have sought to give the MCA a unique identity so that it will work well with other agencies that deliver development assistance. We have kept its staff small, so that it will rely on other agencies in the field and in Washington. We have placed MCA officials in the field under Chief of Mission authority to ensure that they coordinate well with other Embassy elements, including the AID mission. And to ensure accountability, the Secretary of State, who oversees all of our foreign assistance programs, will serve as Chairman of the Board.

USAID will continue to be central to U.S. foreign assistance. The Administration is working hard to bring forward new development initiatives on agricultural development, famine, HIV/AIDS, rural poverty, trade capacity building and humanitarian relief. Under the committed leadership of Administrator Natsios, USAID will not only have a growing role in these new development assistance initiatives, but it will also be a key partner of the MCA and the implementing agency for many MCA programs. In fact, USAID programs will work in partnership with the MCA to provide technical assistance and other funding for those countries that are "near qualifiers," so that they can make the policy changes necessary to qualify for the MCA.

#### **What the MCA Can Achieve**

Mr. Chairman, in conclusion, the Millennium Challenge Account is an innovative effort to spark international development that deserves support. While many of the elements of the MCA are not new, this will be the first attempt to integrate them into a concept that challenges countries to adopt policies that enable development, that challenges aid recipients to take the lead in a new form of partnership, and that challenges us and MCA countries alike to adopt a business-like, results-oriented approach. The MCA's goal and mission are clear: to raise countries out of poverty by promoting sustained and broadly shared economic growth.

The Millennium Challenge Account is a key element of the overall U.S. effort to address poverty and development, which must also include existing programs of AID and others to provide humanitarian assistance and famine relief, fight HIV/AIDs, build trade capacity, and provide for economic stability and defense of key partners. We are convinced that the MCA is in our national interest. Greater prosperity in the developing world will alleviate the poverty that breeds discontent and instability. It will expand markets for American exports. It will reduce the spread of disease and pestilence. The Millennium Challenge Account will promote our own security and well-being even as it brings a better life to millions around the globe.

Mr. Chairman, members of the committee, I request your speedy and favorable consideration of the "Millennium Challenge Act of 2003."