

Testimony of
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Committee on Foreign Relations
United States Senate

On
“The Millennium Challenge Account: A New Way To Aid”

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Thank you, Mr. Chairman, for the opportunity to testify before this Committee on the Millennium Challenge Account. I also want to acknowledge the leadership and support that you, Senator Biden, and many others on this Committee have provided on issues of importance to those of us in the humanitarian and development community. I am grateful for the opportunity to present some of the views and perspectives of InterAction members and the broader NGO development community on the Millennium Challenge Account.

InterAction is the largest alliance of U.S.-based international development and humanitarian nongovernmental organizations. Our 160 members operate in every developing country and have decades of experience on the ground in working to overcome poverty, exclusion and suffering by advancing social justice and basic dignity for all. While many in our membership have a long and successful history of partnership with U.S. government agencies, collectively, the members receive \$3 billion in annual contributions from private donors, including direct contributions from the American people. Both faith-based and secular, InterAction members are headquartered in 25 states and have branch offices and/or constituencies in every state in the country. Furthermore, when you look at the donors, sponsors, and supporters of our member organizations, InterAction reaches millions of Americans who care about and support in some form our foreign assistance programs. I come before you to reflect views from this broad-based coalition.

President Bush's announcement in March 2002 of a new "Millennium Challenge Account" (MCA) has galvanized great interest and support from the development community. Under the MCA, the President has pledged additional funds beginning in FY 2004, leading to a \$5 billion annual increase in development assistance over current levels by 2006. According to the President, funds would go to selected countries that govern justly, invest in people, and encourage economic freedom. These are new and significant resources. Importantly, the President has also made clear that the funds will be used to "fight world poverty" and "bring hope and opportunity to the world's poorest people." It is a significant signal that the United States must play a much larger role in fighting world poverty, a point the President recognized by making it a "moral imperative" and a U.S. foreign policy priority. Indeed, development is now a key component of the National Security Strategy.

In announcing this pledge, the President endorsed internationally-agreed targets for cutting in half extreme poverty around the world and for substantial improvements in health and education in developing countries by 2015, known as the "Millennium Development Goals". These goals, which include improving access to basic education, helping mothers and children stay alive, advancing the status of women and girls, improving access to clean water, and reducing poverty and hunger, are all concrete concerns supported by the American people, based on polling commissioned by InterAction and other organizations.

In fact, we believe President Bush's strong and consistent statements reflect a growing consensus in this country that development assistance can bring lasting and positive change in the lives of the world's poorest people. Indeed, the MCA provides the

opportunity to revitalize and redefine foreign assistance policy of the United States and to maximize the impact, effectiveness and coherence of our aid programs. It will have a critical effect on the way development is carried out in the years to come by the United States and other donor nations.

For these reasons, the new initiative must be shaped and defined in a careful and comprehensive way. The Administration has articulated a powerful vision to transform development; yet, many unanswered questions remain as to what this assistance will fund, how it will be implemented and how it will relate to other foreign assistance programs of the U.S. government. We hope that this Committee and your colleagues in the House of Representatives will take up the challenge and work to further define and shape the MCA and its role and relationship to the rest of our foreign aid program. We look forward to working with you and with the Administration to fashion an innovative and effective fund.

To that end, InterAction has developed a set of recommendations as to how the new account should be developed and implemented. We have brought together 40 of our member organizations and the broader development community to create a consensus around a set of principles and priorities for the MCA. InterAction developed a policy paper in May, and subsequently with the broader community, a legislative proposal that we have shared with Members of Congress and with the Administration. With your permission, Mr. Chairman, I would like to submit for the record our initial policy paper, The Millennium Challenge Account: A New Vision for Development, along with our legislative proposal on the MCA.

I will touch on several of our specific recommendations in a moment, but first let me place the Millennium Challenge Account in the context of a broader reassessment of U.S. development assistance and foreign policy.

THE LARGER FRAMEWORK

Although it represents a significant step forward, the MCA must be seen as just one tool to stimulate broad-based economic growth and prosperity in developing countries. To leverage it, a comprehensive U.S. development strategy should be designed. This strategy should include clear goals, realistic timetables, and sufficient resources for reducing poverty and meeting the Millennium Development Goals through programs of assistance, trade and economic policies, debt relief and private investment flows. It should identify strategies to promote development in the countries that will not be eligible to receive assistance under the new account, and address such complex issues as how the Millennium Development Goals can be met by finding new ways to deal with trade barriers, debt reduction and tied aid.

To be successful, the Millennium Challenge Account must be seen within this larger strategy for development. In short, the MCA cannot be considered in a vacuum if “the advance of development,” which the President has called a “central commitment of American foreign policy,” is to be truly realized. After all, as the President has defined

it, the MCA is a bonus or incentive pool of large, concentrated assistance that will be directed to a small, select group of countries that meet the eligibility criteria set forth in the President's proposal. It is not meant to replace the development assistance being provided largely by the U.S. Agency for International Development (USAID) to poor countries that for the most part do not meet the rather stringent criteria. And I will come back to that point. Further, the President has underscored that funds for the MCA would be in addition to, and not a substitute for, other core bilateral development and humanitarian programs.

In February 2002, one month prior to the President's announcement, InterAction launched a campaign, the Global Partnership for Effective Assistance, a multiyear effort to save lives and build self-sufficiency by increasing development and humanitarian assistance, improving aid effectiveness, and building international partnerships. In the broadest sense, this campaign aims to help reinvigorate America's role in partnering to build safer, more stable and democratic societies. Effective assistance programs with concrete, realistic goals and adequate funding are key ingredients for reducing poverty and meeting basic needs. The issue is not only about how much money is spent, but also how the money is spent. To that end, we are working to influence the policy debate and raise public awareness about the importance of aid effectiveness.

The MCA initiative, which we strongly advocate for in our campaign, can be a critical new instrument of policy to fight poverty. Yet, as noted, it envisions funding for a limited number of qualifying countries and does not address the development needs and objectives in the many nations that won't qualify. The initiative also does not take into account humanitarian concerns such as disaster response and refugees, or areas that may need a global or regional strategy, such as HIV/AIDS. Yet we know that these objectives are critical and that countries in which peoples' basic needs are met are more stable and less prone to conflict.

That is why InterAction's campaign urges that the MCA be seen as a part of the overall aid strategy, and that existing bilateral aid programs in the foreign operations budget be increased. These programs build self-sufficiency by promoting basic education, healthcare, job and business skills, reducing hunger, women and girls, refugee and disaster response, and peace and democracy. In short, programs funded under these core accounts, if carried out effectively, can build capacity in people and lay the groundwork for additional nations to qualify for the MCA in future years.

It is critical, therefore, that funding for these programs not be cut or diverted to fund the MCA. We must also guard against the fragmentation of our foreign aid program that can lead to uncoordinated, inefficient and duplicative use of resources. Instead, we must ensure that core development programs work together with the MCA to meet the international goals for poverty reduction, promote broad-based economic growth, and help create a better, more secure world. If we do it right, the MCA can serve as the catalyst for a comprehensive and coherent new aid policy that recognizes progress and encourages change.

We believe the Millennium Challenge Account offers an opportunity to maximize the impact of our development assistance. Behind the new initiative should be an understanding that for development to succeed in the long run, there must be the right mix of good policies, sufficient resources, measurable goals, coordination among donors, effective innovative delivery mechanisms, and the program ownership and participation of developing nations. Both sides of the development equation--rich and poor countries alike--must make a commitment to reform, and hold themselves accountable for the results.

THE MCA

With this broader context in mind, I will highlight several of the key principles and priorities of concern to us that I hope you and your Committee, Mr. Chairman, will keep in mind as you work to shape and define the Millennium Challenge Account in the months ahead.

Purpose

- We urge that funds from the new account targeted for poverty-focused development—advancing the Millennium Development Goals in the poorest nations. These goals provide a broad framework for the MCA, including parameters for the sectors on which the MCA should focus. Furthermore, they serve as useful mechanism to both leverage funding from other donors and to secure international support for this new framework for development. And, the American public is supportive of the concerns addressed under the MDGs, such as basic education, and advancing the status of women and girls.
- In its proposal, the Administration has indicated that the goal of the MCA is “to reduce global poverty through increased economic growth.” It is correct to highlight the importance of economic growth, as there is ample evidence that sustained growth is essential to poverty reduction in developing countries. However, it is also clear that growth by itself is not sufficient. While we agree about the importance of economic growth in helping countries meet their development objectives, it must be broad-based growth that is built on policies that promote equity, reduce poverty, and provide robust investments in people. Achieving a just, equitable pattern of growth and development has important implications for the type of investments to be financed by the MCA.

Country Eligibility

- The MCA should target strong performers among the poorest countries. The Administration’s proposal, however, would also allow lower-middle income countries to be eligible in 2006 and beyond. We recommend targeting MCA assistance to low income countries eligible to borrow from World Bank International Development Association (IDA). Many of the lower middle income countries do indeed have many poor people and face significant development challenges. They, however, also have

better access to means of attracting other financial resources and are less in need of the MCA assistance than the low-income countries.

- If there is a concern that not enough poor countries will meet the eligibility criteria, then we would advise that the pool be expanded by providing a lesser amount of MCA funds to the “near miss” countries to help them qualify in future years. Our legislation call for a second tier of MCA countries that would fall into this category. Thus a part of the MCA funds could be directed towards building capacity and creating incentives for countries to graduate to the first tier.
- With regard to the specific indicators as outlined by the Administration, we welcome the use of publicly-available indicators to select MCA countries because that approach offers a potential for transparency and allows for monitoring of the selection process by civil society and other interested parties. There are several details of the criteria and selection process, however, on which our members have differing views. InterAction has not made specific recommendations on the indicators themselves.

Program Design/Funding Process

We suggest in our legislative proposal “implementation agreements” between recipient countries and the United States which would establish the funding parameters and guidelines under which proposals could be submitted by various governmental, private sector, and civil society or NGO actors. The Administration’s proposal does not detail how its MCA contract relates to the proposal process.

- Developing nations should be partners in the formation and implementation of the new account, and broad participation of the private sector and civil society should be evident throughout. Funding decisions should follow the principle of country ownership, and should ensure that resources support priorities identified by the country’s government, in consultation with its citizens. MCA assistance programs for recipient countries should be designed through consultations with, and implemented by, civil society, local governments and the private sector as well as the national government. The MCA should support locally conceived and implemented national development strategies such as the Poverty Reduction Strategy Papers (PRSP). The Administration’s proposal is properly supportive of country ownership and broad consultation, but this language could be reinforced and further defined.
- Women’s participation is essential to the success of all development strategies. For example, the World Bank has noted that countries can significantly boost productivity and economic growth by focusing on the abilities and potential of their women. To benefit from these synergies, it is critical that gender be fully considered in the design, implementation and evaluation of MCA programs.
- Because broad-based growth and social development take time, it is important that country agreements or contracts set reasonable timetables and expectations. The Administration has indicated it would like to see results in short timeframes. A

careful balance must be struck, however, between shorter timeframes for program support, and a longer-term commitment to poverty reduction and broad-based growth. Exit strategies for ending aid should be carefully planned in collaboration with recipient countries.

- The MCA assistance should utilize multiple funding mechanisms including, but not limited to, government to government grants, as well as direct funding to civil society organizations, international private voluntary organizations, as well as local governments. The Administration's proposal appears to contemplate this approach. I stress the importance of civil society and private voluntary organizations because, even in the best performing nations, governments often do not have open transparent and inclusive processes to engage civil society. And yet, a robust civil society is critical to achieving good, accountable governance. NGO and civil society implementers also help ensure a more equitable delivery of services at the local level, particularly to segments of the population that might otherwise be neglected or marginalized.
- Donor coordination is important to increase effectiveness and reduce wasteful financing. The United States cannot undertake the global development challenge on its own. We must leverage the resources of other donors and, more importantly, of the developing countries themselves. Too often, competing requirements from different donors place undue burdens on developing countries. The MDG framework provides one mechanism to ensure donor coordination since the international community has already agreed to these targets. Using national development strategies or PRSPs is another. The Administration's proposal acknowledges the importance of donor coordination. However, it places the burden solely on recipient countries. We believe responsibility should be borne by both the donor and developing countries.

Implementation Structure

- We have proposed a separate, semi-autonomous office within USAID to implement the MCA, with new authorities and procedures that enable faster, more flexible and more innovative programming to assure funds are programmed effectively and expeditiously. Such an approach would allow for the MCA to help reform and revitalize USAID, enable its experience and expertise to guide the MCA, and help further policy coherence and coordination among various foreign assistance programs.
- The Administration proposes to set up a new entity to implement the MCA, the Millennium Challenge Corporation. If the Congress agrees with the Administration's approach to establish a separate entity, it will be critical to avoid duplication of effort, competing priorities and contradictory policies. We would therefore recommend the following steps to establish strong linkages to and a central meaningful role for USAID in order to foster policy coherence in our development programs.

- 1) The MCC should utilize, and improve upon, where necessary, existing mechanisms at USAID for implementing programs and disbursing funds.
- 2) The MCC, which contemplates only about 100 staff, should make use of the field infrastructure of USAID rather than trying to establish a new presence in MCA countries. This will also help improve coordination between USAID run programs and MCA programs.
- 3) USAID should be on the board of the MCC. This would enable USAID, with its strong institutional experience and knowledge in international development to inform Board decisions and policies, including selection of countries, development of country strategies, and review of funding proposals.

I conclude with a few words on the continuing role and importance of USAID in our development and foreign policy. The MCA will likely include only 15 to 20, selected countries. USAID, however, continues to have the difficult challenge of assisting the larger universe of developing countries. It includes a group of failed, or failing, states which require largely humanitarian assistance, such as disaster aid or HIV/AIDS funds. There are also many other low income countries that are struggling in the development process, making progress in one area and falling back in another. It is in these countries where development assistance targeted to reform-oriented leaders, institutions, and communities can make a difference. Assistance targeted to building capacity in both government and civil society and delivering key services can lay the foundation for future reform.

We believe that the MCA can play a transforming role in U.S. development policy. The President has laid out a bold new vision for expanding the circle of development. Mr. Chairman, your Committee will play a pivotal role in shaping this initiative. Many questions remain to be addressed on the MCA and we welcome the opportunity to work with you in the weeks and months ahead.