

Testimony of Alice Albright
Chief Executive Officer, Millennium Challenge Corporation
Senate Appropriations Committee on State, Foreign Operations, and Related Programs
Subcommittee
May 15, 2024 at 2:00pm
“MCC’s FY25 Budget”

Chairman Coons, Ranking Member Graham, and distinguished members of the Subcommittee, thank you for inviting me to testify here today. I am pleased to participate in this hearing and share the Millennium Challenge Corporation’s (MCC) FY25 Congressional Budget Justification.

I also want to thank you and your staff for your ongoing collaboration and support. MCC has always benefited from bipartisan backing. We deeply value this support and I welcome your continued counsel and engagement as we work to reduce poverty through economic growth.

I am proud to lead such a critical agency that has a proven record of partnership, accountability, and delivering results over the past twenty years for the American people.

President Bush signed MCC into law on January 23, 2004, as a grand experiment to test cost-effective and data-driven methods to address global poverty. The approach was unprecedented – partner with low-income and lower-middle-income countries that have demonstrated a commitment to democratic governance, economic freedom, and investing in their people; support sustainable country-led solutions to unlock their greatest constraints to economic growth; and use data to drive all decision-making. The experiment worked. Since MCC’s founding, we have delivered nearly \$17 billion in aid to 47 low-income and lower-middle-income countries, with programs expected to benefit nearly 400 million people.

MCC’s model of country owned program development and conditioning our investments on good governance enables us to incentivize partners to undertake often difficult political and regulatory reforms, maximizing our impact prior to funds being executed. Having funding in hand 9-12 months prior to signing ensures programs are scoped appropriately prior to negotiations. It also assures our partners that funding is available as they make necessary political and institutional reforms to receive an MCC grant and where possible, as they aim to mobilize their own financing to contribute to compacts. Without funding in advance of program signings, MCC risks losing meaningful leverage and undermining USG commitments and credibility to our partners when there is strong competition.

MCC delivers values-driven, high-impact, sustainable, and transparent infrastructure and policy reform projects to meet the needs of low- and middle-income countries and to support the United States’ economic and national security interests. The agency also reinforces a network of partner countries—both nascent and thriving democracies—that share the United States’ belief that ruling justly, investing in people, and upholding human rights create durable pathways to prosperity. In addition to improving the lives of millions of people around the world, MCC serves as an important counter to malign influence of foreign nations by increasing U.S. Government presence, by providing large-scale infrastructure development alternatives, building stronger relationships and trust, and helping provide a clear roadmap for democratic best practices through our country scorecards.

With a relatively small budget (<2% of international affairs budget last year). MCC has proven itself a thought-leader in development and sets the standard for transparency and use of evidence in the development space, having earned the distinction of being named the most transparent bilateral donor seven years in a row. From a budget and appropriations standpoint, supporting the MCC experiment continues to be an excellent investment of taxpayer resources.

FY25

MCC requests \$937 million in discretionary funding for FY25 to fund compacts in Zambia, Togo, Cote d'Ivoire, and The Gambia while providing ongoing compact development and oversight support across 20 compacts and 8 threshold programs. In addition, the President's Budget includes at least \$200 million as a transfer to MCC from a new International Infrastructure Fund as part of a broader mandatory proposal to out-compete China globally.

For FY25, MCC is developing a program in Zambia focused on the transportation and agriculture sectors. The Togo program aims to fully integrate digital applications to administer programmatic investments in connectivity, payment systems, new innovations, local skills-building and education. MCC and the Government of Cote d'Ivoire are developing a regional compact program in partnership with entities of the Economic Community of West African States (ECOWAS), focused on modernizing the electricity grid and improving the financial, regulatory, and operational capacities of Ivorian and regional energy entities. For the compact with The Gambia, MCC is exploring investments in secondary education to increase skilled workers and in river cargo transport to reduce transport costs. Each of these programs will address critical development constraints in our partner countries, helping their democracies deliver for their people, while also showcasing the value of partnering with the United States in a competitive geopolitical environment.

In support of MCC's programmatic work, I want to thank you for increasing MCC's Administrative budget in the FY24 appropriations. The FY25 Administrative Expenses request of \$146 million includes a small (2%) increase to support management and oversight of MCC's portfolio and includes the President's 2025 federal pay increase proposal (+2.1%). This request represents a modest 2% of the more than \$6 billion of assets under management that MCC will be overseeing in FY25.

Amidst today's difficult geopolitical and social challenges, MCC's grant assistance is a key economic contributor to the way the United States incentivizes good governance and democratic values globally, and – because MCC funding does not add to a country's debt burden – a key differentiator in how the U.S. supports partners compared to predatory loans provided by malign actors. In FY24, MCC plans to sign compacts in Sierra Leone (\$480 million estimated)—provided the Government of Sierra Leone continues to make clear progress to implement the Agreement for National Unity including completing the work of the Electoral Review Committee—and Belize (\$125 million estimated), and will implement five programs, including compacts in Indonesia (\$649 million), Kosovo (\$202 million), Lesotho (\$300 million), and Malawi (\$350 million), and the Kenya threshold program (\$60 million). At the same time, MCC is continuing to develop programs with multiple countries, including four partners selected in early FY23 and MCC's most recent selectees (Cabo Verde, Tanzania, and the Philippines) announced in December 2023.

The United States must have a robust foreign assistance toolbox that responds to both short and long-term challenges and reinforces country ownership and a network of partnerships with countries that share our democratic values. This is not only in the best interest of the global community, but also is necessary

for the United States. We recognize that the challenges of today are not the same as they were when MCC first started. In order to meet the moment, it is important that the United States use all of the tools in its toolbox to be the partner of choice for countries looking to develop future partnerships.

This means MCC must go broader and deeper to bring our tools to bear in more places around the world – whether that’s a program focused on regional integration or an urban investment or a pocket of poverty in an upper middle-income country. MCC will continue to apply its data-driven model to identify the greatest opportunities to reduce poverty through economic growth. Guided by MCC’s framework for selectivity and accountability, we will meet countries where they are on their development journey with effective partnerships by embracing a broader range of interventions to address new challenges and opportunities. We will respond to countries’ needs by adjusting and adapting the tools within MCC’s model – whether that’s a focus on the digital economy or public financial management—and bolster our processes and operations, while investing in our people and our partnerships to improve MCC’s efficiency, speed, and impact. By applying nearly two decades of lessons learned, we will use these innovative approaches to deploy MCC resources that are fit for purpose.

Legislative Change

The FY25 Budget repeats a request in the FY24 Budget for legislative changes that would reform MCC’s candidate country pool to include countries below the threshold for starting graduation from the International Bank for Reconstruction and Development (IBRD). Senators Risch and Menendez introduced legislation—S.1240 the Millennium Challenge Corporation Candidate Country Reform Act—at the beginning of the 118th Congress to address this change. I want to thank the Senators and staff of this subcommittee for supporting this change in your FY24 Bill Report.

This legislative change would apply MCC’s impactful model in a broader range of places. For instance, under current law, only four countries in the Western Hemisphere can be considered. This legislation would add nine additional countries, including Colombia, Guatemala, Ecuador, and Peru to MCC’s candidate pool. In the Eastern Europe/Balkans/Caucuses regions, nine countries would be added, including Armenia, Bosnia, Georgia, and Moldova, while five countries would be added in the Asia and the Pacific region, including Fiji, Tonga, and Tuvalu.

This legislative change would supercharge the “MCC Effect.” MCC’s scorecards -- which are used by our Board of Directors to select our partner countries -- provide an objective measure of a country’s commitment to ruling justly, promoting economic freedoms, and investing in their people. Since our founding, we have observed a phenomenon referred to by many as the “MCC Effect,” which is the clear incentivizing effect of MCC’s transparent eligibility criteria, whereby countries pursue specific policy reforms to both qualify for, maintain eligibility for, and ultimately compete for MCC assistance.

For example, post-conflict Cote d’Ivoire went from passing five out of 20 indicators on the MCC scorecard in FY12 to ten in FY15, and then 14 in FY19. This impressive progress in a relatively short amount of time was led in large part by a dedicated committee created by President Ouattara in 2011 and chaired by the Prime Minister. The committee was focused solely on becoming eligible for MCC assistance. This focus on the scorecard has had tangible benefits for the people of Cote d’Ivoire as exemplified by the country’s efforts to enhance gender equality in the economy. In response to MCC adding this indicator on the scorecard, the government passed a revised family code, which removed discriminatory measures that prevented women from obtaining passports, choosing jobs freely, and from being the heads of household

in the same way as a married man. Because of these reforms, millions of women in Cote d'Ivoire gained the right to basic economic participation.

This is just one example. We have heard from numerous governments that the data-driven insights that MCC and its scorecard offer can help countries identify their reform priorities and pave the way for accelerating economic growth and prosperity in a country. This is why, in July 2022, President Tshisekedi of the Democratic Republic of Congo announced his intent to use the MCC scorecard as the country's roadmap for its ambitious development and reform agenda.

Another key area where we see the incentivizing effect of MCC's model is in applying our Suspension and Termination Policy. If countries fail to adhere to MCC's model and statutorily mandated eligibility criteria at any point, MCC can take action to pause, suspend, or terminate eligibility for MCC assistance. In fact, MCC has ended 25% of its partnerships due to eligibility concerns. Prior to taking action, in the spirit of partnership and transparency, MCC has routinely engaged in dialogue with its partner countries to convey concerns and encourage reform. This has led to governments taking concrete action on a range of issues from strengthening the fight against trafficking in persons, enhancing democratic protections, or redoubling efforts to combat corruption, in order to maintain eligibility for MCC assistance.

Thus, MCC can be thought of as a powerful projection of soft power – the MCC Effect incentivizes good governance reforms in countries before a single program dollar is spent as countries adopt reforms to pass the MCC scorecard. Modifying MCC's candidate pool— as outlined in S.1240—to incorporate a subset of vulnerable upper middle-income countries, expands this effect without incurring any program costs.

Conclusion

I am proud to lead an agency built on the pillars of effective development. Our FY25 budget will build upon more than 20 years of experience as a leader in how the international community approaches development. MCC is a uniquely impactful that punches above its weight to reduce poverty through inclusive and sustainable economic growth. In this constrained budget environment, you can be assured that MCC's catalytic investments are used efficiently and deliver high impact programs. We also contribute to systemic changes that go well beyond specific investments thanks to a strong emphasis on supporting the policy and institutional reforms and good governance that will allow developing countries to reduce poverty through economic growth. In an increasingly globalized economy, MCC's programs are a down payment on poverty reduction, increased growth and stability, as well as expanded market opportunities for American businesses.

MCC's model is a counterweight to other development actors and stands in contrast to predatory financing from other sources, such as the People's Republic of China (PRC). We have a proven track record of effectively building infrastructure in countries of strategic importance to the United States. The MCC model encourages country partners to double down on good governance, democratic rights, and anti-corruption as prerequisites to investments. Once we select a partner, MCC responds to countries' real needs with grant financing, including to support policy reforms and transformative infrastructure investments that our partner countries have shaped. MCC's model and grant financing differentiate us from other donors' approaches and increased reliance on lending.

In particular, as the PRC reduces its development aid in favor of more lending, there is a real opportunity for MCC partnerships that promote open, sustainable, and inclusive development. Although MCC is a small

portion of USG foreign assistance spending, it is often the largest and most visible USG investments in the countries where the agency works.

Most of MCC's current partners are among the poorest countries in the world, and MCC works with them because they pass a high bar for their commitment to democratic governance, to investing in their people, and to sound economic policies that are critical to reducing poverty among their citizens. MCC incentivizes this commitment through our competitive standards. We back countries' commitment through large, predictable grants that do not add to a country's debt burden. We seek to embed a culture of accountability, transparency, and responsible stewardship that helps sustain and scale progress.

Through their support for MCC and our FY25 budget request of \$937 million, the American people are creating the building blocks for stronger and more vibrant economies and societies around the world. This means better governance, less poverty, and more economic opportunity – vital elements of peace and stability around the world and at home.