

**House Foreign Operations Subcommittee
Hearing on the Millennium Challenge Account
April 13, 2005**

Summary by Sarah Lucas
Center for Global Development

On April 13, 2005, the House Foreign Operations Subcommittee held a hearing on the Millennium Challenge Account. The hearing was exceptionally well attended by subcommittee members. The chairman of the full Appropriations Committee, Jerry Lewis (R-CA), attended the first segment of the hearing – a signal of substantial interest in the MCA.

Members present

Jim Kolbe, AZ (R - Chairman)	Nita M. Lowey, NY (D - Ranking Member)
Don Sherwood, PA (R - Vice Chair)	Jesse L. Jackson, Jr., IL (D)
Joe Knollenberg, MI (R)	Carolyn C. Kilpatrick, MI (D)
Mark Steven Kirk, IL (R)	Steven R. Rothman, NJ (D)
Ander Crenshaw, FL (R)	Chaka Fattah, PA (D)
Dennis R. Rehberg, MT (R)	
John Carter, TX (R)	

Opening Statements

Chairman Kolbe opened the hearing by reminding attendees that he has been “one of the MCC's biggest supporters on Capitol Hill” but that current budget situation makes it very unlikely that the foreign operations budget will receive the 17% increase requested by the President for FY 2006, or that the MCA would see the requested 100% over last year’s appropriation. Read [Chairman Kolbe’s opening statement](#)

Ranking member Lowey echoed Kolbe’s pessimism about full funding for the MCA, noting its “failure to spend existing funds,” and the “opportunities lost” to spend these funds on other priorities like conflict resolution and poverty reduction. She expressed some discomfort with the MCC’s focus and stated, “thinking outside of the box is one thing; ignoring sound experience is another.” Read [Ms. Lowey’s opening statement](#)

MCC CEO Paul Applegarth delivered an opening statement based on three core topics: 1) justification of the \$3 billion budget request; 2) description of the pipeline of the country compacts and associated funding; and 3) steps the MCA is taking to accelerate progress. He emphasized that the MCC is taking the time it needs to do things right, not just fast, and at the pace necessary to avoid early mistakes. Read [Paul Applegarth’s testimony](#) to the Foreign Operations Subcommittee

Questions and Answers

The subcommittee members were very engaged in the hearing, asking well-informed questions and many staying for the duration of the hearing. The following summary of the Q&A session groups the questions by topic.

Funding for the MCA

Chairman Kolbe's first question of Mr. Applegarth was to justify his budget request of \$3 billion in the context of a budget deficit and cuts in domestic spending. Other members asked questions along these lines, with Ms. Kilpatrick asking how much the MCC would spend by the end of the 2005 calendar year, while Mr. Knollenberg argued that the MCC deserved credit for "being slow on the accelerator" and not rushing money out the door. Applegarth responded to these questions with the following comments:

- Existing proposals from eligible countries exceed the total MCA budget by \$1 billion. This does not include an expected proposal from Morocco or from countries that will be deemed eligible later this year. "The MCA will exhaust currently available resources by the 4th quarter of 2005" due to the expected obligations under upcoming compacts.
- The funding of proposals is such that all of the funds for the three to five year grants are obligated up front, reducing corruption, inefficiencies and the chance the funds would not be available for out-year installments. "We need to have the resources in hand to have credible discussions with the countries."

Mr. Kolbe asked whether funds are obligated at the signing of the compact, and how they will be disbursed. Mr. Applegarth answered that:

- Funds are obligated at the time the compact is signed and will mostly be disbursed quarterly, though some cases may vary. Funds will be disbursed to each countries' implementation entity.

Sectoral focus of MCA

Quite a few members expressed concern that, based on the Madagascar compact and anecdotes from organizations on the ground in MCA countries, the MCA was leaning away from funding core development needs such as health, education and a focus on gender. Ms. Lowey asked how the MCA could "ignore these building blocks," and Applegarth responded to these questions with the following comments:

- The MCA assess a country's commitment to health and education (including a specific focus on girls' education) in the selection process.
- The MCA will measure impacts of compact activities on women, and is now collecting baseline data for this.

Ms. Lowey asked again about education, saying that despite the fact that the selection criteria include girls' education, Madagascar scored below the median on this indicator and still has no education focus in its compact. She also asked about Georgia's compact which includes a private equity fund. Why should the MCA focus in this area of OPIC is built to do this? Mr. Applegarth responded:

- Madagascar is trending up on girls' education, but recall that countries do not have to pass all indicators to be selected. Once countries are deemed eligible, they choose funding priorities.
- The track record of the US government on private equity funds is bad. The difference between OPIC and the MCA is that OPIC *leverages* equity; it does not *provide* equity.

Poverty Reduction and Economic Growth

Mr. Jackson asked if the MCC is supporting progress toward the MDGs. He stated that the relationship between economic growth and poverty reduction is complex and asked how the MCC assesses whether compacts will promote poverty reduction. Mr. Fattah asked Mr. Applegarth what he believed to be three keys to reducing poverty. Mr. Applegarth responded:

- To Mr. Jackson that the MCC's focus on poverty reduction happens in the design phase as well as the implementation phase of the compacts.
- To Mr. Fattah, country ownership and policy environment.

Coordination with Other Donors

Several members, including Ms. Lowey, Mr. Jackson, and Mr. Rehberg asked about the coordination with other agencies such as USAID and the Office of the Global AIDS coordinator. There was keen interest in what would happen to USAID funding and programs in MCA recipient countries. Applegarth responded to these questions with the following comments:

- He meets with Mr. Tobias regularly, and “we refer HIV/AIDS requests to the Office of the Global AIDS Coordinator (OGAC).”
- “It is my understanding that USAID has requested the same amounts as last year” for the countries in which it operates.

Mr. Jackson asked to clarify that the MCC refers AIDS cases to the OGAC, and asked if the MCC considers the fight against AIDS as key to poverty reduction. Mr. Applegarth answered:

- The MCC does believe that AIDS is an important part of poverty reduction, but does not want to duplicate of the OGAC. The MCC has also referred some things to OPIC. “We are a catalyst.”

Mr. Rothman asked what other US aid programs were targeted to helping poor people in countries with corrupt governments.

- Mr. Applegarth did not name any programs.

Measuring the MCA's Success

Mr. Knollenberg stated that “our subcommittee has the responsibility to look at the evidence” to judge the MCA's success and asked what indicators members should look at to measure the MCA's achievements. Mr. Sherwood asked how the members should evaluate the success of the Madagascar compact. Applegarth offered the following with regards to overall measures of success:

- Number and quality of compacts signed
- Progress towards meeting the quantifiable targets outlined in the compacts
- Disbursements against commitments
- Progress on the selection indicators – are the medians rising over time, indicating progress in policy reform?
- With regards to the Madagascar compact, increases in rural income and agricultural productivity as well as the government's capacity to manage the land reform component of the compact.

Other Questions

Mr. Crenshaw asked how the MCC could justify including the lower-middle income countries as MCA candidate countries when the least developed countries still have such high needs.

- Applegarth responded that the legislation allows the MCC to dedicate up to 25% of MCA funds to this pool of countries in 2006.

Mr. Rothman asked if there was any evidence that the MCA's approach was inspiring dictators to enact policy reforms. Mr. Applegarth responded:

- "Not among the most incorrigible," but in the countries on the cusp, yes.