

**Testimony of
The Honorable Paul V. Applegarth
Chief Executive Officer
Value Enhancement International**

**Hearing
United States Senate
Committee on Indian Affairs
Senator Byron L. Dorgan, Chairman
Senator Lisa Murkowski, Vice Chairman**

**The Foreign Aid Lessons
for
Domestic Economic Assistance Act of 2007**

February 27, 2008

9:30 a.m.

Room 485

Russell Senate Office Building

Washington, DC

PREPARED STATEMENT OF
THE HONORABLE PAUL V. APPLGARTH
CHIEF EXECUTIVE OFFICER
VALUE ENHANCEMENT INTERNATIONAL
REGARDING
THE FOREIGN AID LESSONS FOR
DOMESTIC ECONOMIC ASSISTANCE ACT OF 2007
S. 2232

Good morning, Mr. Chairman and Madame Vice-Chair Woman, Senator Murkowski, and Members of the Committee. I am Paul Applegarth, CEO of Value Enhancement International, and, formerly, the founding CEO of the U.S. Millennium Challenge Corporation.

Thank you for the invitation to speak with you today about S 2232, the Foreign Aid Lessons for Economic Assistance Act of 2007, introduced by Senators Inouye, Stevens, Akaka, and yourself, Madame Vice-Chairwoman. It is a pleasure to be here. I will speak only briefly this morning, but with your permission will provide longer written remarks for the record.

It is likely that anyone entering this committee room by mistake this morning would be wondering why we are discussing Foreign Aid in the Committee on Indian Affairs. Yet we are, thanks to an original insight of the leaders at the Alaskan Federation of Natives, BBNA, and AVCP.

About two years ago, they came to me, introduced themselves, and said, in effect: “Even though we are in the United States, our people face challenges like those in a developing country. Do you have some ideas from your experience in international development that might benefit us?”

I gave them a couple of suggestions, and thought that would be it.

Somewhat to my surprise, they came back several months later, and even more to my surprise, had implemented my earlier suggestions. They asked if there was more they could do, and that ultimately led to the reason we are today—legislation which establishes a pilot program targeted to Native Americans based on the lessons of fifty years of international development assistance.

The objective of the legislation is to promote poverty reduction among Native Americans through sustainable growth and economic development, utilizing these lessons of development. The Millennium Challenge Corporation, the United States' major new initiative in foreign aid, is built on these same lessons. The experience with the pilot projects created by the legislation can be used to fine-tune both a larger program based on the same lessons, as well as to make adjustments in other programs intended to benefit Native Americans.

As you have heard this morning from my colleagues here on the panel despite some improvement in recent decades in measures of their economic and social well-being, many Native American communities --- American Indians, Alaska Natives and Native Hawaiians--do face issues similar to those faced by peoples in the developing world. They continue to suffer disproportionately high rates of unemployment and poverty, poor health, substandard housing, a lack of access to basic infrastructure like reliable power and water, and limited job opportunities. These conditions lead in turn to high alcoholism and suicide rates, and the loss of young people to urban areas, threatening traditional culture and heritage, and the case of Alaska, a valued traditional life style. Now, many communities also face increased concerns about environmental changes that could be precipitated by global warming.

The Lessons of International Development

Mr. Chairman, as you know, the concept of foreign aid does is not well regarded by many Americans. In several instances, this poor reputation is richly deserved. However, foreign aid and development assistance have had a number of successes. In the more that fifty years of international development assistance, there have been a number of lessons learned—lessons about what works and what does not.

Because Native economies are often plagued by the same challenges as the economies of the developing world, they are likely to benefit from these lessons. The legislation we are discussing today has been designed with them in mind.

The lessons include:

Lesson #1: Programs intended to assist long-term development need to explicitly focus on sustainable poverty reduction, economic growth and job creation. If you do not make poverty reduction and growth the objective of the program, it is less likely to happen. Much of U.S. foreign aid has other objectives. It is directed to important humanitarian assistance, to disaster relief efforts, or simply to reward friends of the United States. Many of the efforts are by their nature short-term. To achieve long-term poverty reduction and ensure Native Americans permanently escape the cycle of poverty, these short-term assistance efforts must be complemented with assistance explicitly targeted to economic growth, including development of the private sector. If sustainable poverty reduction and job creation are not explicit objectives, experience shows that they are less likely to happen.

Lesson #2: Policies matter: If a country's policies are not supportive of development, if they do not fight corruption, promote economic freedom, and invest in their people's health and education, including the education of young women, if they do not manage their natural resources well, growth does not occur.

As the chart on the next page shows, there is a strong correlation among good policies, aid effectiveness and growth rates. Fortunately, by being in the United States, Native communities are relatively well off in terms of their macro-policy environment. There are certainly improvements to be made, but we rank near the top of most country policy rankings.

Lesson #3: Local ownership is important. Intended beneficiaries of programs should determine priorities and be responsible for implementation.

Critics of traditional approaches to development assistance sometimes say that “it consists of consultants and development officials from developed countries going to developing countries and saying ‘You need this, and we’re here to do it for you.’”¹ They then do their work, depart for their home countries, and leave nothing behind.” This assertion does an injustice to many dedicated professionals, but does contain at least a kernel of truth. Development assistance is more effective when the beneficiaries identify what they need, and themselves take responsibility for insuring that the programs are a success.

There is no Federal economic development paradigm for Indian country, and if there is list of Lessons Learned for Indian economic development assistance similar to those in the international area, no one I have asked is aware of it. However, it should be acknowledged that Native American communities have some experience with this approach.² The Foreign Aid Lessons for Domestic Economic Assistance Act of 2007 builds on the most effective tools to date: self-determination, contracting and self-governance, and leave provide broad Federal parameter but leave specific program objectives and tactics to the tribes.

Lesson #4: Programs should focus on, and be measured by their outcomes--by their impact on the people they are intended to help. Simply focusing on how much money is spent and how quickly it is disbursed is a recipe for disaster. Rather, an investment approach

¹ Similar criticisms are made of Congressional “earmarks” that mandate that certain amounts of foreign aid must be directed to specific purposes.

² The highly regarded Indian Self Determination and Education Assistance Act of 1975 (25 U.S.C. 450 et seq.) has been particularly effective in devolving Federal decision-making and authority to administer programs and services from the United States to tribal governments. Its transfer of authority and resources has resulted in more effective and efficient program administration as well as the development of an Indian civil service whose skills are transferable to tribal economic development efforts. At the end of the day, however, the ISDEAA is a mechanism whereby Indian tribes and tribal consortia manage Federal funds, and is therefore akin to a contracting program.

whereby the beneficiaries determine, up-front, what results they want to achieve, and how they will measure success is crucial, i.e., “what they will get for the money.”

Lesson #5: It is important to establish quantitative measures of success up-front, and to track the progress toward those objectives. Proponents of many programs claim success in qualitative terms. However, establishing clearly articulated quantitative targets and rigorously tracking progress toward those targets promotes accountability and leads to more successful programs. Keys to this are collecting baseline data up front, and establishing an arm’s-length program of monitoring and evaluation that tracks progress against benchmarks and that highlights the need for mid-course adjustments.

Lesson #6: Each program should build capacity, as well as seek to achieve its specific objectives. This is why local ownership and responsibility for implementation is so important. Skills learned in setting objectives, implementing programs, and making adjustments based on measurable results are readily transferred to other programs and to public and private sector activities.

Lesson #7: Assurance of longer term funding over the life of a program is important for success. Being dependent on annual appropriations, which are uncertain in their amount, and when-and even if--the money will arrive, and which expire at the end of a fiscal year, makes program management difficult. It leads to inefficiencies, wasteful spending, and in some cases corruption.

S. 2232 and the Lessons of Development

The original legislation establishing MCC is built on these lessons, as is the legislation before you today.

Potential beneficiaries compete to be selected for funding, based on the quality of their plans, their existing poverty rates, and their ability to implement the plan. Funding is explicitly directed to promoting economic growth and the elimination of poverty.

Ownership is built in up front, as the entities must compete, it is their plan, and they have responsibility to implement it. This of course builds local capacity, and promotes entrepreneurship.

Compacts can be for up to five years of operations, and are fully funded up front.

Funding is “no year” money; i.e., authorizations do not expire, so there is no artificial rush to spend everything by September 30 of each year.

Finally, programs proposed under the legislation must have specific objectives, identify intended beneficiaries, and establish regular benchmarks to measure progress.

To give an example of how this will work in practice: One of the entities in Alaska that hopes to be able to participate in the demonstration project has already begun working on what its proposal might be. Thanks to prior studies, it has excellent social, economic, and demographic data on the population of Alaska, both Native American and other. While the data shows improvement for all groups, it also shows a persistent gap between the status of Native Americans and other parts of the population. The program they are working on is explicitly targeted to help close that gap. Intended results are specific, targeted to growth and poverty reduction, and measurable. The beneficiaries, you here on the Hill—and U.S. taxpayers—can know in advance for what the funding will be used and what the implementation plan is. You will be able to monitor progress, and, at the end of the program, know whether it has been successful.

Advantages of a Demonstration Project and Benchmarks for Success

The proposed legislation also incorporates one lesson not built into the original MCC bill--it is structured as a pilot and demonstration project. It allows the parties to learn.

The Foreign Aid Lessons for Domestic Economic Assistance Act of 2007 represents a fundamental change in approach. Many potential beneficiaries are accustomed to having the government set priorities, design programs, handle implementation, procure goods and services, and manage many other aspects of these activities.

It will take time for Native Americans—in Alaska, Hawaii, and the lower 48 states--and government officials to understand that this approach is different and to come up the learning curve. Once they have, the experience with the pilot can be used to fine-tune both a larger program based on the same lessons, as well as to make adjustments in other programs intended to benefit Native Americans.

The benefits of a pilot are not limited to Native Americans and others directly involved in the programs. There is a need for education elsewhere as well. MCC, which was a start-up as recently as 2004,--has been criticized by some--for the most part, unfairly I believe--for being slow in making commitments and disbursements. Certainly, in a world of fast-disbursing emergency assistance and in which money not spent by September 30 is lost, it may be seem slow. But that is not the model or the lessons on which it was built, nor how it should be evaluated.

Ultimately, both MCC and this legislation should be evaluated on the outcomes they achieve, and the progress their programs make toward their benchmarks. In the interim, other measures exist.

In terms of the pace of its commitments, MCC compares favorably with other international aid institutions, even though it has slowed somewhat from its early days.

MCC COMPACT APPROVALS

By Six-month period	# of Compact Approvals	Approvals within 15 months of country selection	Average months from country selection to compact approval	Average months from proposal receipt to compact approval	\$ Amount (millions)
March 05-Aug-05	5	5	12	8	\$905
Sept 05-Feb 06	3	0	19	*	\$608
March 06-Aug 06	1	0	26	*	\$547
Sept 06-Feb07	2	1	20	*	\$922
Mar 07-August 07	3	0	32	21	\$1,566
Sept 07-Feb 08	2	0	31	18	\$983

Number of Approvals by calendar year

2005	7	
2006	4	**
2007	5	

* Not publicly available

**Assumes Vanuatu approved in 2005, press release dated 1/3/06

Source: MCC Press Releases

Similarly, benchmarks can be set for the pace of disbursements. It would be unreasonable in measuring the pilot's success to expect that 100% of the funding for a 5-year program would be disbursed in the first year. In a fully functioning, steady state program, achieving a pace of 20% a year might be reasonable. However, allowing for initial start-up challenges, the time needed to decide objectives, prepare proposals, to evaluate them, and mobilize to implement them is likely to result in a disbursement pace will be below that in the project's early years.

Establishing this initial program as a demonstration project gives time for participants to come up the learning curve and to get start-up issues behind them. It allows them to educate constituents, and to manage expectations.

In closing

The original MCC legislation was passed with bipartisan support, and with the support of many of your Senate colleagues who serve on the Foreign Relations Committee. I remember with appreciation and respect the support

and knowledgeable assistance we received from many of them, including Senators Lugar and Biden--the Chair and co-Chair of the Committee—Senators Feinstein, Coleman, Hagel, Dodd, Sununu, and others.

You now have the opportunity to bring some of those same lessons and ideas here domestically, to address the same fundamental problems of helping people to escape poverty and achieve sustainable long-term growth—and to do so on a bipartisan basis. I hope that you will.

Thank you.