



MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform you that the Millennium Challenge Corporation ("MCC") will terminate, in part, assistance to Honduras as set forth in the attached notification and accompanying report. The report summarizes MCC's determination that the Government of the Republic of Honduras has engaged in a pattern of actions inconsistent with the criteria used to determine eligibility for MCC assistance.

We are available to meet with you at your convenience to discuss this termination. If you or your staff would like to arrange a meeting, please contact me or Ellona Fritschie at (202) 521-3850. The attached notification is being sent to the Congress on September 17, 2009.

Sincerely,

James Mazarella
Vice President (Acting)
Congressional and Public Affairs

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

September 17, 2009

This notification is submitted under section 611(c) of the Millennium Challenge Act of 2003, as amended (22 USC 7701 *et seq.*) (the "Act") and under section 7057(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2009 (Pub. L. 111-8, Division H) (the "Appropriations Act, 2009"). The Millennium Challenge Corporation ("MCC") will, pursuant to section 611(a)(2) of the Act, terminate, in part, MCC's assistance to the Government of the Republic of Honduras originally granted under section 605 of the Act.

On June 13, 2005, MCC signed a \$215 million Millennium Challenge Compact (the "Compact") with the Government of Honduras. Funding for the Compact was obligated in full when the Compact entered into force on September 29, 2005.

As set forth in the accompanying report, on June 28, 2009, Honduras's democratically elected leader, President Manuel Zelaya, was removed from office. A de facto government, headed by the former president of congress Roberto Micheletti, is currently in place. This undemocratic transfer of power involved the participation of the civilian institutions of the Honduran government as well as the military, raising complex factual and legal questions. After closely monitoring the situation, and in consultation with other U.S. government agencies, on July 17, 2009, MCC informed the de facto Government of Honduras that funding through the Compact was at risk due to actions inconsistent with MCC's policies.

On September 3, 2009, the Department of State announced, consistent with section 7008 of the Appropriations Act, 2009, the termination of a broad range of assistance to the de facto Government of Honduras as a result of the coup d'etat that took place on June 28 and the failure to restore the democratic and constitutional order. No final determination has been made, however, regarding the application of section 7008 to Honduras.

On September 9, 2009, MCC's Board of Directors decided to terminate funding for certain projects and activities under the Compact and authorized the Acting Chief Executive Officer of MCC to take the necessary actions to carry out the termination. Effective on or after October 2, 2009, MCC will terminate funding for (i) the vehicle weight control activity in the Transportation Project and (ii) the uncommitted portion of the farm to market roads activity (approximately 93 km) in the Rural Development Project. For the time being, because of the immediate impact a termination will have on Honduras' rural poor, MCC will continue to provide assistance to local farmers, farming cooperatives and other rural businesses through MCA-Honduras by continuing the Rural Development Project and selected ongoing investments in the Transportation Project.

A report containing the determination by the Acting Chief Executive Officer under section 611(a)(2) of the Act that Honduras has engaged in a pattern of actions inconsistent with MCC's eligibility criteria is attached.

SUPPLEMENTAL INFORMATION

REPORT ON THE DETERMINATION BY THE ACTING CHIEF EXECUTIVE OFFICER THAT THE GOVERNMENT OF HONDURAS HAS ENGAGED IN A PATTERN OF ACTIONS INCONSISTENT WITH THE ELIGIBILITY CRITERIA OF THE MILLENNIUM CHALLENGE CORPORATION

The Millennium Challenge Corporation (“MCC”) selected Honduras as one of the first countries to be eligible for MCC assistance. On June 13, 2005, MCC signed a \$215 million Millennium Challenge Compact (the “Compact”) with the Government of Honduras, aimed at reducing poverty by alleviating two key impediments to economic growth: low agricultural productivity and high transportation costs. The Compact entered into force on September 29, 2005 and is due to conclude on September 29, 2010.

On June 28, 2009 Honduras’s democratically elected leader, President Manuel Zelaya, was removed from office. A de facto government, headed by the former president of congress Roberto Micheletti, is currently in place. This undemocratic transfer of power involved the participation of the civilian institutions of the Honduran government as well as the military, raising complex factual and legal questions. After closely monitoring the situation, and in consultation with other U.S. government agencies, on July 17, 2009, MCC informed the de facto Government of Honduras that funding through the Compact was at risk due to actions inconsistent with MCC’s policies.

The Millennium Challenge Act of 2003 (the Act) establishes MCC’s right to suspend or terminate assistance to a country in the event that the country demonstrates a pattern of actions that is inconsistent with the criteria MCC uses to determine eligibility for assistance. MCC’s Policy on Suspension and Termination of Assistance stipulates that a “pattern of actions” may be evidenced by either an “actual decline in performance on the indicators used to determine eligibility,” or through “actions by the country which are determined to be contrary to sound performance in the areas assessed for eligibility.”

MCC has determined that the manner of the removal of President Zelaya on June 28 and the failure to reestablish the democratic order in Honduras are contrary to sound performance on MCC’s *Ruling Justly* criteria. MCC expects that the impact of these events will be most directly observed in three indicators: *Political Rights; Civil Liberties; and Voice and Accountability*. Data lags will delay the impact of these events from appearing on Honduras’s next MCC scorecard, which is due to be released in November 2009. If, however, there is no restoration of democratic and constitutional governance in Honduras, MCC would expect to see declines in these indicators in future years.

MCC’s eligibility criteria include a commitment to “just and democratic governance.” The pattern of actions taken by Honduras beginning on June 28, 2009 is inconsistent with this commitment and MCC’s eligibility criteria.