



**MILLENNIUM
CHALLENGE
CORPORATION**

REDUCING POVERTY THROUGH GROWTH

June 16, 2006

We wish to inform you of the Millennium Challenge Corporation (MCC) Board of Directors decision to suspend The Gambia's eligibility for Millennium Challenge Account (MCA) assistance.

Under MCC's Policy on Suspension and Termination of Assistance and/or Eligibility for Assistance, MCC may suspend or terminate eligibility for assistance if the MCC Board of Directors makes a determination that one of three circumstances occurred, including that a country has engaged in a pattern of actions inconsistent with MCC selection criteria.

Over the past six months, MCC has witnessed a troubling pattern of policy slippage by the Government of The Gambia that is inconsistent with the MCA selection criteria. The third-party institutions that collect the indicator data used in MCC's eligibility criteria have documented evidence of growing human rights abuses, increased restrictions on political rights, civil liberties and press freedom, as well as deteriorating economic policies and anti-corruption efforts. This erosion of commitment and performance has resulted in declines on two indicators already reported: Political Rights and Trade Policy. In addition, preliminary data suggest pending degradation of The Gambia's performance on six additional indicators in future fiscal years: Voice and Accountability; Civil Liberties; Control of Corruption; Regulatory Quality; Cost of Starting a Business; and Fiscal Policy. The declines are summarized in the enclosed attachment.

As a result of this decline in overall performance on the MCA selection criteria, the MCC Board of Directors decided to suspend The Gambia's eligibility for MCA assistance. The Gambia was formally notified of this suspension and the basis for it, on June 16, 2006.

Under the MCC Policy on Suspension and Termination of Assistance and/or Eligibility for Assistance, the Board of Directors may reinstate eligibility for a country that was subject to a suspension if it is determined that the country has taken corrective action or has demonstrated a sufficient commitment to correcting each condition for which led to suspension.

MCC officials are available to meet at your convenience to discuss this suspension. If you or your staff would like to arrange a meeting, please contact Jake Stefanik at (202) 521-3856.

Sincerely,

Frances C. McNaught
Vice President
Congressional and Public Affairs

Enclosure

THE GAMBIA'S POLICY PERFORMANCE AND POTENTIAL REFORMS

The following is an overview of The Gambia's declining performance on MCA selection criteria. This analysis is drawn from the third-party institutions that provide the basis for the MCC indicators. To consider reinstatement, the Board will look for concrete actions that demonstrate the Government of The Gambia's commitment to reform in the policy areas where there have been declines.

Civil Liberties (Freedom House)

The Gambia's decline in Civil Liberties is predominantly due to a documented trend in violations of press freedoms and human rights. A 2004 law forced media outlets to reapply for their licenses and established harsh sentences for all press offenses, while changes in the criminal code enable the state to confiscate any publication deemed seditious without judicial oversight. Since then, there have been multiple documented cases of unexplained arrest and detention of journalists, as well as threats, arson attacks, or official raids on independent media sources. There are also increased reports of arbitrary arrests and torture by the security forces.

Political Rights (Freedom House)

The Gambia's Political Rights score declined in 2006 from a 4 to a 5 (with 1 representing "most free" and 7 representing "least free"). As presidential elections approach, the government has placed growing restrictions on the movement and activity of opposition political parties and their leadership, prohibiting them from holding public gatherings and arresting key opposition leadership on charges of subversion. Legal provisions in official records enable the National Intelligence Service to search, arrest, or detain people without a warrant, and this practice has been repeatedly but selectively applied to opposition figures. Freedom House and other third-party indicator institutions are concerned that this chain of individual actions, in conjunction with a documented deterioration of press freedom, may constitute an effort to subvert the electoral process.

Voice and Accountability (World Bank Institute)

The decline of this indicator is evident in six of its sub-components and is likely due to the cumulative result of the situations described above. The third-party institutions which provide this data have registered significant declines in press freedom, human rights, freedom of assembly, openness and transparency, and political competition. Access to information also remains problematic, as current state-security laws serve as a blanket restriction on freedom of information.

Control of Corruption (World Bank Institute)

In 2005, The Gambia registered significant declines on the World Economic Forum's "corruption in export and import permits," "corruption in procurement," "corruption in judicial decisions," "corruption in public utilities," and "corruption in the police force" indicators. These are all important subcomponents of MCC's Control of Corruption index.

Regulatory Quality (World Bank Institute)

The Gambia's score will likely decline in future fiscal years due to the government's lack of progress in implementing a privatization program, increasingly centralized economic policy making, unnecessary business licensing, and labor market inflexibility.

Cost of Starting a Business (World Bank Group/International Finance Corporation)

Preliminary data from the IFC strongly suggest that The Gambia will fail this indicator in Fiscal Year 2007 (FY07). It is estimated that it costs 222 percent of average per capita income to register a business in The Gambia.

Trade Policy (Heritage Foundation)

The Gambia's Trade Policy score declined in 2006 from 3.5 to 4.5 (with 1 as "very low levels of protectionism and 5 as "very high levels of protectionism") because of increasing evidence of non-tariff barriers and fraud, and delays in customs administration.

Fiscal Policy (International Monetary Fund)

The Gambia is in imminent danger of failing the Fiscal Policy indicator in FY07. The fiscal deficit will likely be somewhere between 4.5 - 7.5 percent of Gross Domestic Product in 2006, placing The Gambia well below the median in its income peer group. Poor performance in this area is attributable to high levels of government expenditure, Central Bank financing of extra-budgetary expenditures, unreliable statistical reporting, and lack of fiscal transparency.