

Report on the Selection of Eligible Countries for Fiscal Year 2006

Summary

This report is provided in accordance with Section 608(d)(1) of the Millennium Challenge Act of 2003, Pub. L. 108-199, Division D, (the “Act”).

The Act authorizes the provision of Millennium Challenge Account (“MCA”) assistance under Section 605 of the Act to countries that enter into Compacts with the United States to support policies and programs that advance the progress of such countries in achieving lasting economic growth and poverty reduction and are in furtherance of the Act. The Act requires the Millennium Challenge Corporation (“MCC”) to take a number of steps to determine the countries that based, to the maximum extent possible, on their demonstrated commitment to just and democratic governance, economic freedom and investing in their people, will be eligible to receive MCA assistance for a fiscal year. These steps include the submission of reports to appropriate congressional committees and the publication of notices in the Federal Register that identify, among other things:

1. the “candidate countries” for MCA assistance for a fiscal year and all countries that would be candidate countries if they met the requirement of Section 606(a)(1)(B) (Section 608(a) of the Act);
2. the eligibility criteria and methodology that the MCC Board of Directors (the “Board”) will use to select “eligible countries” from among the “candidate countries” (Section 608(b) of the Act); and
3. the countries determined by the Board to be “eligible countries” for a fiscal year, the countries on the list of eligible countries with which the Board will seek to enter into MCA “Compacts” and a justification for the decisions regarding eligibility and selection for negotiation (Section 608(d)(1) of the Act).

This is the third of the above-described reports by MCC. This report is for Fiscal Year 2006 (FY06). It identifies countries determined by the Board to be eligible under Section 607 of the Act for FY06 and those that the Board will seek to enter into MCA Compacts under Section 609 of the Act, and the justification for such decisions.

Eligible Countries

The Board met on November 8, 2005, to select countries that will be eligible for MCA assistance under Section 607 of the Act for FY06. The Board determined the following countries eligible for such assistance for FY06: Armenia, Benin, Bolivia, Burkina Faso, Cape Verde, East Timor, El Salvador, The Gambia, Georgia, Ghana, Honduras, Lesotho, Madagascar, Mali, Mongolia, Morocco, Mozambique, Namibia, Nicaragua, Senegal, Sri Lanka, Tanzania, and Vanuatu.

In accordance with the Act and with the “Report on the Criteria and Methodology

for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in FY 2006” submitted to the Congress on September 6, 2005, selection was based primarily on a country's overall performance in relation to three broad policy categories: Ruling Justly, Encouraging Economic Freedom, and Investing in People. The Board relied on sixteen publicly available indicators to assess policy performance and demonstrated commitment in these three areas, to the maximum extent possible, for determining which countries would be eligible for assistance. In determining eligibility, the Board considered if a country performed above the median in relation to its peers on at least half of the indicators in each of the three policy categories and above the median on corruption and, if the country performed substantially below the median on any indicator, whether it is taking appropriate action to address the shortcomings.

The Board also considered whether any adjustments should be made for data gaps, lags, trends, recent events since the indicators were published, and strengths or weaknesses in particular indicators. Where appropriate, the Board took into account additional quantitative and qualitative information, such as evidence of a country's commitment to fighting corruption and promoting democratic governance, its economic policies to promote the sustainable management of natural resources, and the rights of people with disabilities. In addition, the Board considered the opportunity to reduce poverty, promote economic growth and have a transformational impact in a country in light of the overall context of the information available to it as well as the availability of appropriated funds.

Sixteen of the countries selected as eligible for MCA assistance for FY06 were in the low income category and were previously selected as eligible in FY04 and/or FY05: Armenia, Benin, Bolivia, Ghana, Georgia, Honduras, Lesotho, Madagascar, Mali, Mongolia, Morocco, Mozambique, Nicaragua, Senegal, Sri Lanka, and Vanuatu. On November 8, 2005, the Board re-selected these countries based on their continued performance since their prior selection, most notably in the areas outlined in MCC's Report on the Selection of MCA Eligible Countries for FY 2004 and FY 2005, previously submitted to Congress on May 7, 2004 and November 12, 2004, respectively. The Board also determined that no material change has occurred in the performance of these countries on the selection criteria since the FY05 selection that would justify not including them in the FY06 eligible country list.

Six new countries were selected for the first time in FY06, including (i) four in the “low income” category under Section 606(a) of the Act: Burkina Faso, East Timor, Tanzania and The Gambia; and (ii) two in the “lower middle income” category under Section 606(b) of the Act: El Salvador and Namibia. Each of these countries (i) performed above the median in relation to their peers on at least half of the indicators in each of the three policy categories, (ii) performed above the median on corruption, and (iii) in cases where they performed substantially below the median on an indicator, there was either evidence that the data did not adequately reflect their policy performance or that the government was taking corrective action to address the problem.

The Board also selected Cape Verde in the lower middle income category. Cape Verde was selected as a low income eligible country in FY04 but was not a candidate in FY05 because it exceeded the per capita income threshold for that year. Although Cape Verde “passes” only two of the six indicators in the “Economic Freedom” category, this was because the International Finance Corporation does not yet include Cape Verde in its Doing Business survey. As a result, there was no data for Cape Verde on two indicators: “Cost of a Business” and “Days to Start a Business”. Based on supplemental information available to MCC, we believe that, had this data been collected, Cape Verde would have “passed” this category and, indeed, have been one of the highest performing of the lower middle income countries.

A number of countries that performed well on the quantitative elements of the selection criteria (*i.e.*, on the policy indicators) were not chosen as eligible countries for FY06. As discussed above, the Board considered a variety of factors in addition to the country’s performance on the policy indicators in determining whether they were appropriate candidates for assistance (*e.g.*, the country’s commitment to fighting corruption and promoting democratic governance; the availability of appropriated funds; and in which countries MCC would likely have the best opportunity to reduce poverty, generate economic growth and have a transformational impact).

Selection for Compact Negotiation

The Board also authorized MCC to seek to negotiate an MCA Compact, as described in Section 609 of the Act, with each of the eligible countries identified above that develops a proposal that justifies beginning such negotiations. MCC will initiate the process by inviting newly eligible countries to submit program proposals to MCC (previously eligible countries will not be asked to submit another proposal for FY06 assistance). MCC has posted guidance on the MCC website (www.mcc.gov) regarding the development and submission of MCA program proposals. Submission of a proposal is not a guarantee that MCC will finalize a Compact with an eligible country. Any MCA assistance provided under Section 605 of the Act will be contingent on the successful negotiation of a mutually agreeable Compact between the eligible country and MCC, approval of the Compact by the Board, and availability of funds.