

Millennium Challenge Corporation

Report on the Selection of Eligible Countries for Fiscal Year 2009

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MILLENNIUM
CHALLENGE CORPORATION

UNITED STATES OF AMERICA

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”), 22 U.S.C. 7708(d)(1).

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 steps to determine the countries that, based on their demonstrated commitment to just and democratic governance, economic freedom, and investing in their people, as well as the opportunity to reduce poverty and generate economic growth in the country, will be eligible to receive MCA assistance during the 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 countries that are “candidate countries” for MCA assistance during FY09 based on their per-capita income levels and their eligibility to receive assistance under U.S. law, and countries that would be candidate countries but for specified legal prohibitions on assistance (section 608(a) of the Act; 22 U.S.C. 7708(a));
2. The criteria and methodology that the Board of Directors of MCC (the Board) will use to measure and evaluate the relative policy performance of the candidate countries consistent with the requirements of section 607 of the Act in order to select “MCA eligible countries” from among the “candidate countries” (section 608(b) of the Act, 22 U.S.C. 7708(b)); and
3. The list of countries determined by the Board to be “MCA eligible countries” for FY09, with justification for eligibility determination and selection for compact negotiation, including which of the MCA eligible countries the Board will seek to enter into MCA compacts (section 608(d) of the Act, 22 U.S.C. 7708(d)).

This is the third of the above-described reports by MCC for fiscal year 2009 (FY09). It identifies countries determined by the Board to be eligible under section 607 of the Act for FY09 (22 U.S.C. 7706) and countries with which the Board will seek to enter into compacts under section 609 of the Act, as well as the justification for such decisions.

Eligible Countries

The Board met on December 11, 2008 to select countries that will be eligible for MCA compact assistance under section 607 of the Act for FY09. The Board selected the following countries as eligible for such assistance for FY09: Colombia, Indonesia, Jordan, Malawi, Moldova, the Philippines, Senegal, and Zambia.

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 Fiscal Year 2009” submitted to the Congress on October 9, 2008, selection was based primarily on a country’s overall performance in relation to three broad policy categories: (1) “Ruling Justly”; (2) “Encouraging Economic Freedom”; and (3) “Investing in People.” The Board relied upon 17 transparent and independent indicators to assess to the maximum extent possible policy performance and demonstrated commitment in these three areas as a basis for determining which countries would be eligible for MCA compact 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 the Ruling Justly and Economic Freedom policy categories, above the median on at least three of five indicators in the Investing in People policy category, and above the median on the “Control of Corruption” indicator. The Board also took into account whether the country performed substantially below the median on any indicator and if so, whether it is taking appropriate action to address the shortcomings. Scorecards reflecting each country’s performance on the indicators are available on MCC’s website at www.mcc.gov.

The Board also considered whether any adjustments should be made for data gaps, lags, trends, or recent events since the indicators were published, as well as 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, and its effective protection of human rights. In addition, the Board considered the opportunity to reduce poverty and promote economic growth and poverty reduction in a country, in light of the overall context of the information available, as well as the availability of appropriated funds.

Three countries were selected as eligible for the first time in FY09. Indonesia and Zambia, both low income candidates, were selected under section 606(a) of the Act (22 U.S.C. 7705(a)). Colombia, a lower middle income candidate, was selected under section 606(b) (22 U.S.C. 7705(b)) of the Act. All three of these countries: (1) performed above the median in relation to their peers on at least half of the indicators in each of the three policy categories; (2) performed above the median on corruption; and (3) in cases where they performed substantially below the median on an indicator, demonstrated that actions to address the problem are being taken or had data that did not accurately reflect their policy performance

Indonesia meets MCC’s indicator criteria for the first time in FY09, after having made steady progress improving its Control of Corruption score over the past several years. The Government of Indonesia has demonstrated a strong commitment to fighting corruption: anti-corruption institutions have been strengthened and high-level anti-corruption investigations and prosecutions have become increasingly common. In addition to anti-corruption reforms, the Government has initiated a series of reforms to improve the investment climate. Indonesia is in its second year of a successful Threshold program that has focused on reducing corruption and improving immunization rates.

Zambia meets MCC's indicator criteria for the first time this year, performing above the median on 16 of 17 indicators. Anti-corruption efforts are a high priority for the Government of Zambia, and performance on the Control of Corruption indicator has improved in recent years. Zambia is also nearing the end of a successful anti-corruption Threshold Program. In recent years, Zambia has moved to a relatively open environment for investment and has demonstrated prudent macroeconomic management.

Colombia meets the indicator criteria for the second year in row. The Government of Colombia has pursued a significant reform agenda, including major tax, civil service, and justice sector reforms. Colombia has also been cited as a top reformer by the World Bank's *Doing Business* report for two years in a row. In addition, President Uribe's strategy to expand the professional armed forces and promote a strong state presence throughout the country has yielded significant results in terms of improving security. While the U.S. Government provides a substantial amount of assistance to Colombia through other accounts, the majority has gone toward counternarcotics aid.

Five countries selected as eligible for MCA assistance in FY09 were previously selected as eligible in at least one prior fiscal year; however, because they have not yet signed a compact agreement, they needed to be reselected as eligible for FY09 funds. Four of these countries were in the low income category: Malawi, Moldova, the Philippines, and Senegal. One country, Jordan, was in the lower middle income category.

The Board reselected these countries based on their continued performance since their prior selection. The Board determined that no material change has occurred in the performance of these countries on the indicator criteria since the FY08 selection that would justify not including them in the FY09 eligible country list. Only one of the countries – the Philippines – did not meet the indicator criteria, performing just below the median on the Control of Corruption indicator; however, MCC does not believe that the Philippines has demonstrated a pattern of action inconsistent with the selection criteria (i.e. a serious policy reversal) since it was last selected as eligible. The Board also stressed that the Philippines must meet the selection criteria, particularly the Control of Corruption indicator, before it would approve a compact.

Country partners which are implementing compacts must show a commitment to maintain and improve their policy performance. Once we sign a compact with these countries, they will not need to be reselected annually. MCC's Board closely evaluates a country's policy performance throughout the life of the compact. While MCC's indicators work well as a transparent way of identifying those countries that are most committed to sound development policies and for discerning trends over the medium-term, they are not as well-suited for tracking incremental progress from year-to-year. Countries may be *generally* maintaining performance but not meet the criteria in a given year due to factors such as:

- ★ graduation from the low income country category to the lower middle income country category,
- ★ data improvements and revisions,

- ★ last year's introduction of two new indicators and the requirement that countries pass three of the five indicators in the Investing in People category,
- ★ increases in peer-group medians,
- ★ slight declines in performance.

Once MCC has made a commitment to a country through a signed compact, MCC continues to work with that country—even if it doesn't meet the indicator criteria each year—as long as it has not demonstrated a pattern of actions inconsistent with the eligibility criteria. If it is determined that a country has demonstrated a significant policy reversal, the Board can hold it accountable by applying the Suspension and Termination Policy.

For those countries that have not demonstrated a significant policy reversal but do not meet the indicator criteria, MCC will invite these countries to participate or continue their participation in MCC's policy improvement process. Countries participating in the policy improvement process are asked to develop and implement a forward-looking action plan that outlines the steps they plan to take to improve performance on certain policy criteria. They then periodically report on progress made on the plan.

Finally, 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 FY09. 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 the countries in which MCC would likely have the best opportunity to reduce poverty and generate economic growth).

Selection for Compact Negotiation

The Board also authorized MCC to invite Indonesia, Zambia, and Colombia to submit a proposal for a compact, as described in section 609 of the Act (22 U.S.C. 7708) (previously eligible countries that were reselected will not be asked to submit another proposal for FY09 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.