

Millennium Challenge Corporation

Report on the Selection of Eligible Countries for Fiscal Year 2010

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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 determine the countries that will be eligible to receive MCA assistance during the fiscal year, based on their demonstrated commitment to just and democratic governance, economic freedom, and investing in their people, as well as on the opportunity to reduce poverty and generate economic growth in the country. The Act also requires 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 fiscal year 2010 (FY10) 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 FY10, 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 FY10. It identifies countries determined by the Board to be eligible under section 607 of the Act for FY10 (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 9, 2009 to select countries that will be eligible for MCA compact assistance under section 607 of the Act for FY10. The Board selected the following countries as eligible for such assistance for FY10: Cape Verde, Indonesia, Jordan, Malawi, Moldova, the Philippines, 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 2010” submitted to the Congress on September 11, 2009, selection was based primarily on a country’s overall performance in three broad policy categories: (1) “Ruling Justly”; (2) “Encouraging Economic Freedom”; and (3) “Investing in People.” As a basis for determining which countries would be eligible for MCA compact assistance, the Board relied upon 17 transparent and independent indicators to assess, to the maximum extent possible, countries’ policy performance and demonstrated commitment in these three broad policy areas. In determining eligibility, the Board compared countries’ performance on the indicators relative to their income-level peers, evaluating them in comparison to either the group of low income countries (LIC) or the group of lower-middle income countries (LMIC). In particular, 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 the country 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, data lags, 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. For countries that graduated from the LIC group to the LMIC group in FY10 due to an increase in their per capita gross national income, the Board also took into account supplemental information that showed how the new LMIC country would have performed in comparison to the LIC group. In addition, the Board considered the opportunity to reduce poverty and promote economic growth in a country, in light of the overall context of the information available, as well as the availability of appropriated funds.

This was the first year the Board considered countries for eligibility for second compacts, which is permissible under section 609(k) of the Act. In determining second compact eligibility, the Board considered – in addition to the criteria outlined above – the country’s performance implementing its first compact, including the nature of the country partnership with MCC, the degree to which the country has demonstrated a commitment and capacity to

achieve program results, and the degree to which the country has implemented the compact in accordance with MCC's core policies and standards.

There were no countries selected as eligible for the first time in FY10. However, Cape Verde, an LMIC, was selected as eligible for MCA assistance for a second compact under section 606(b) (22 U.S.C. 7705(b)) of the Act.

Cape Verde meets MCC's indicator criteria this year for the first time since it advanced from the LIC group to the LMIC group four years ago. Cape Verde has been an economic reformer over the past two decades and has consistently displayed good economic and political governance. Since becoming an LMIC, the Government of Cape Verde has worked hard to raise its indicator performance to meet the standards of its more competitive peer group. It has worked over the past four years on ongoing reforms to streamline business registration, as well as on efforts to improve the accuracy of its indicator data. These efforts are now reflected on Cape Verde's MCC scorecard. Cape Verde's current compact is due to conclude in October 2010. Cape Verde corrected some early compact implementation difficulties and is now a relatively strong performer on the implementation of its compact.

Country partners that are developing or implementing compacts must also show a commitment to maintaining and improving their policy performance. 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 LIC category to the LMIC category,
- data improvements or revisions,
- MCC's introduction of two new indicators in fiscal year 2008 and the accompanying requirement that countries pass three of the five indicators in the Investing in People category,
- increases in peer-group medians, and
- slight declines in performance.

Six countries selected as eligible for MCA assistance in FY10 were previously selected as eligible in at least one prior fiscal year. Because they have not yet signed a compact agreement, they needed to be reselected as eligible for FY10 funds to continue compact development. Three of these countries are in the LIC category: Malawi, Moldova, and Zambia. Three countries, Indonesia, Jordan, and the Philippines, are in the LMIC 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 their performance on the indicator criteria since the fiscal year 2009 selection that indicates a serious decline in policy performance. While two of the countries – Indonesia

and the Philippines – graduated to the more competitive LMIC category this year and fare less well against the higher standards, both countries would have met MCC’s indicator criteria as LICs.

The Board also reviewed the policy performance of countries that are implementing compacts. However, these countries do not need to be reselected each year in order to continue implementation. Once MCC makes a commitment to a country through a compact agreement, MCC will not consider the country for reselection on an annual basis during the term of its compact. MCC will continue to work with a country—even if it does not meet the indicator criteria each year—as long as the country 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 MCC’s 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 FY10. As discussed above, the Board considered a variety of factors in addition to the country’s performance on the policy indicators in determining whether it was an appropriate candidate for assistance (e.g., the country’s commitment to fighting corruption and promoting democratic governance; the availability of appropriated funds; and where MCC would likely have the best opportunity to reduce poverty and generate economic growth).

Selection to Initiate the Compact Process

The Board also authorized MCC to invite Cape Verde to submit a proposal for a second compact, as described in section 609 of the Act (22 U.S.C. 7708) (previously eligible countries that were reselected but have not yet signed a compact will not be asked to submit another proposal for FY10 assistance). 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 the availability of funds.