

## **Report on the Selection of MCA Eligible Countries for FY 2004**

### **Summary**

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

The Act authorizes the provision of assistance to countries that enter into compacts with the United States to support policies and programs that advance the prospects of such countries to achieve lasting economic growth and poverty reduction. The Act requires the Millennium Challenge Corporation (“MCC”) to take a number of steps to determine the countries that, based on their demonstrated commitment to just and democratic governance, economic freedom and investing in their people, will be eligible to receive Millennium Challenge Account (“MCA”) assistance during 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:

1. the “candidate countries” for MCA assistance (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 such decisions (Section 608(d) of the Act).

This is the third of the above-described reports. It identifies the countries determined by the Board to be eligible for MCA assistance in FY 2004 (other than under Section 616 of the Act) and those that the Board will seek to enter into MCA Compacts, and the justification for such decisions.

### **Eligible Countries**

The MCC Board of Directors met on May 6, 2004, to select countries that will be eligible for FY 2004 MCA assistance (other than under Section 616 of the Act) and will be invited to submit proposals for such assistance. The Board determined the following countries eligible for FY 2004 assistance: Armenia, Benin, Bolivia, Cape Verde, Georgia, Ghana, Honduras, Lesotho, Madagascar, Mali, Mongolia, Mozambique, Nicaragua, Senegal, Sri Lanka, and Vanuatu.

In accordance with the Act and with MCC’s “Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in FY 2004,” submitted to the Congress on March 2, 2004, selection was based 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 as the predominant basis for determining which countries would be eligible for assistance. Where appropriate, the Board also considered other data and quantitative information as well as qualitative information to determine whether a country performed satisfactorily in relation to its peers in a given category, including performance with respect to investing in their people, particularly women and children, economic policies that promote private sector growth, the sustainable management of natural resources, and human and civil rights, including the rights of people with disabilities. The Board also considered whether any adjustments should be made for data gaps, lags, trends, or strengths or weaknesses in particular indicators.

The following countries were selected because (i) they performed above the median in relation to their peers on at least half of the indicators in each of the three policy categories, (ii) they performed above the median on corruption, (iii) they did not perform substantially below average on any indicator, and (iv) the supplemental information available to the Board supported their selection: Armenia, Benin, Ghana, Honduras, Madagascar, Mali, Mongolia, Nicaragua, Senegal, and Vanuatu.

Three of the countries performed above the median in relation to their peers on at least half of the indicators in each of the three policy categories and above the median on corruption, though they were substantially below average on one indicator: Cape Verde, Lesotho and Sri Lanka. . The following is some of the information that was available to the Board in making its eligibility determinations that suggested that each of these countries was taking measures to address these shortcomings:

- **Cape Verde** - Although Cape Verde received a low score on the “Trade Policy” indicator, its score did not capture improvements resulting from a recent shift to a Value Added Tax that reduced Cape Verde’s reliance on revenue from import tariffs. Cape Verde is also making good progress in its efforts toward World Trade Organization accession.
- **Lesotho** - Although Lesotho scores substantially below the median on the “Days to Start a Business” indicator, it recently established a one-stop shop to facilitate new business formation. It also performs very well overall in the “Economic Freedom” category and the other categories. Lesotho also performs well on other measures of starting a business; for example, it costs 68% of per capita income to start a business in Lesotho, versus a sub-Saharan Africa average of 256%, and Lesotho’s minimum capital requirement for new businesses is only a tenth of the sub-Saharan average.
- **Sri Lanka** - Although Sri Lanka’s score on the “Fiscal Policy” indicator falls substantially below the median, the deficit has declined each year since 2001, reflecting a positive trend over the past several years. Additionally, Sri Lanka’s non-concessional borrowing in 2004 is expected to be less than half of the 2002 level.

Finally, three countries were determined by the Board to be eligible despite the fact that they (i) were not above the median in relation to their peers on at least half of the indicators in one of the three policy categories and/or (ii) were at or below the median on the corruption indicator. The Board made a positive eligibility determination on these countries in light of the notable actions taken by their governments and positive trends contained in supplemental information available to the Board. The following is some of the information that was available to the Board that suggested the policy performance of each of these countries was better than was reflected in the indicator data:

- **Bolivia** – Bolivia is right at the median on the “Corruption” indicator and is above the median on all of the other indicators in the “Ruling Justly” category; however, its current score on the “Corruption” indicator does not reflect changes made since President Mesa assumed power in October 2003. For instance, President Mesa has created a cabinet-level position to coordinate anti-corruption efforts as well as establishing an office to provide for the swift investigation of police corruption.
- **Georgia** – Although Georgia is at or below the median on more than half of the “Ruling Justly” categories, including the “Corruption” indicator, this data does not capture the substantial progress made by the newly elected Georgian government in only three months time. The Government of Georgia has, among other things, created an anti-corruption bureau, a new bureau to investigate and prosecute corruption cases, a single treasury account for all government revenue to ensure transparency and accountability, and has started revamping procurement legislation to ensure an open and competitive process.
- **Mozambique** – The trends and supplemental information that filled in data lags for Mozambique’s “Investing in People” indicators demonstrated Mozambique’s progress and achievement that were not reflected in the indicators. Primary education completion rates, for example, have been steadily rising in Mozambique, and this positive trend is backed by the fact that enrollment rates have increased to over 90% in 2000, from 60% in 1995. Girls’ primary school enrollment rates increased by 60% between 1995 and 2000.

Although Mozambique scores above the median in four of the six “Ruling Justly” categories, it falls below the median on the World Bank’s anti-corruption indicator. However, certain indications suggest that this data is lagged and that Mozambique is making significant progress to fight corruption. Mozambique has passed new legislation to fight corruption and has created a special Anti-Corruption Unit that is conducting numerous investigations. These recent improvements on corruption are in fact reflected in another source -- Transparency International’s anti-corruption index -- a more up-to-date indicator, in which it scored well above the median (74<sup>th</sup> percentile).

MCC will closely monitor the continued progress of these countries in these and other policy areas between the time of this report and the presentation to the Board of any proposed MCA Compact, and anticipates that continued performance and improvement in these areas will be part of the Compacts themselves.

### **Selection for Compact Negotiation**

The Board also authorized the 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 eligible countries to submit program proposals to MCC. MCC has posted guidance on the MCC website ([www.mcc.gov](http://www.mcc.gov)) regarding the development and submission of MCA program proposals, and will soon begin outreach visits to each of the eligible countries where this and related information on developing their proposals for MCA assistance will be discussed.

Submission of a proposal is not a guarantee that MCC will finalize a Compact with an eligible country. MCC will evaluate proposals and make funding decisions based on the potential for impacting economic growth and other considerations. The quality of the initial proposal -- including how well the country has demonstrated the relationship between the proposed priority area(s) and economic growth and poverty reduction -- will be a determining factor. An eligible country's commitment and capacity will also be a factor in determining how quickly MCC can begin substantive discussions with a country on a Compact and will likely influence the speed with which a Compact can be negotiated as well as the amount and timing of any MCA assistance approved by the Board.

Any MCA assistance (other than certain types of technical assistance or assistance provided under Section 616 of the Act) will be contingent on the successful negotiation of a mutually agreeable Compact between the eligible country and MCC, and approval of the Compact by the Board.