

Millennium Challenge Corporation

# Report on the Selection of Eligible Countries for Fiscal Year 2011

January 2011



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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. 7707(d)(1)).

The Act authorizes the provision of Millennium Challenge Account (“MCA”) assistance under section 605 of the Act (22 U.S.C. 7704) 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 2011 (“FY11”) 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. 7707(a)));
2. The criteria and methodology that the Board of Directors of MCC (the “Board”) will use to measure and evaluate the 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. 7707(b))); and
3. The list of countries determined by the Board to be “MCA eligible countries” for FY11, with justification for eligibility determination and selection for compact negotiation, including with 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. 7707(d))).

This is the third of the above-described reports by MCC for FY11. It identifies countries determined by the Board to be eligible under section 607 of the Act (22 U.S.C. 7706) for FY11 and countries with which the Board will seek to enter into compacts under section 609 of the Act (22 U.S.C. 7708), as well as the justification for such decisions.

## Eligible Countries

The Board met on January 5, 2011, to select countries that will be eligible for MCA compact assistance under section 607 of the Act (22 U.S.C. 7706) for FY11. The Board selected the following countries as eligible for such assistance for FY11: Cape Verde, Georgia, Ghana, Indonesia, Malawi, 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 2011” formally submitted to the Congress on September 30, 2010, selection was based primarily on a country’s overall performance in three broad policy categories: Ruling Justly, Encouraging Economic Freedom, and Investing in People. As a basis for determining which countries would be eligible for MCA compact assistance, the Board relied, to the maximum extent possible, upon 17 transparent and independent indicators to assess countries’ policy performance and demonstrated commitment in these three broad policy areas. 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 three indicators in each of the Ruling Justly, Investing in People, and Encouraging Economic Freedom policy categories, and above the median on the Control of Corruption indicator. Scorecards reflecting each country’s performance on the indicators are available on MCC’s website at [www.mcc.gov](http://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 within the last two years, 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 countries would have performed in comparison to the LIC group. This is consistent with a 2009 congressional decision to allow MCC to fund as LICs a set of countries that had recently transitioned to the LMIC category. Finally, 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 second year the Board considered the eligibility of countries for subsequent compacts, as permitted under section 609(k) of the Act (22 U.S.C. 7708(k)). In determining subsequent 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. Using this higher bar to measure eligibility, Ghana and Georgia were selected as eligible for MCA assistance for a second compact under section 607 of the Act (22 U.S.C. 7706).

As a candidate country under section 606(a) of the Act (22 U.S.C. 7705(a)), Ghana consistently performs well on the MCC indicator criteria. Its continued track record of democratic governance is demonstrated by its regular

ranking among the top LIC performers in the *Ruling Justly* category. Implementation of Ghana's Compact is on track to achieve its objectives, and the investment is managed by a strong Ghanaian-led and staffed team. The Ghana Compact has also already generated tangible interest from the private sector. MCC believes that a second compact offers opportunities for deeper investment in a low income country that not only has a demonstrated commitment to a positive policy environment and effective program implementation, but is also considered a regional economic anchor in West Africa.

As a candidate country under section 606(b) of the Act (22 U.S.C. 7705(b)), Georgia performs well on the MCC indicator criteria, even after having transitioned from the LIC group to the more competitive LMIC group two years ago. Georgia is widely recognized as an investment climate reformer and is regularly among the top performers in the *Encouraging Economic Freedom* category for all MCC candidate countries. Although Georgia does not meet the formal indicator criteria in the *Investing in People* category this year, supplemental information, including analysis from the World Health Organization, describes a situation in which the performance on MCC's *Immunization Rates* indicator can be largely attributed to a temporary shortage of one vaccine and the introduction of alternative, private vaccination facilities that were not captured in 2010 data. As a result, MCC does not have policy concerns in this category. The government of Georgia has demonstrated commitment to the ongoing Georgia Compact and the Georgian-led implementation unit is effectively managing the compact through its final months. MCC sees a subsequent compact in Georgia as an opportunity to support growth and poverty reduction in a country with a track record of rigorous policy reform and a desire to foster private sector investment in its own development.

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 for some indicators, and
- ★ slight declines in performance.

Four of the countries selected as eligible for MCA compact assistance in FY11 were previously selected as eligible last year. Because they have not yet signed a compact agreement, they needed to be reselected as eligible for FY11

to continue compact development and receive funding from this fiscal year. Two of these countries are in the LIC category: Malawi and Zambia. Two countries, Indonesia and Cape Verde, are in the LMIC category.

The Board reselected these countries based on their continued good performance since their prior selection. The Board determined that since their fiscal year 2010 selection, there has been no material change in their performance on the indicator criteria that indicates a serious decline in policy performance. This includes the two countries—Cape Verde and Indonesia—that do not meet the formal indicator criteria this year. Although the data available at the time of the publication of the scorecards suggested that Cape Verde did not meet the *Investing in People* criteria this year, after the publication of the scorecards, revised data for FY11 were received from UNESCO. The revised data for the expenditures on primary education indicator indicate that Cape Verde would have passed this indicator, and the *Investing in People* category, had the revised figures been available at the time of scorecard publication. Additionally, Cape Verde's progress in achieving high levels of primary education attainment is widely recognized by third party experts. Indonesia transitioned to the more competitive LMIC category last year and fares less well against the higher standards, but would have continued to meet MCC's indicator criteria as an LIC. Last year, Congress granted MCC authority that allows Indonesia to be funded as a LIC for up to three years.

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, MCC can hold it accountable by applying MCC's Suspension and Termination Policy.

The Board emphasized the need for all partners to continue to improve their policy environment and, if they do not meet the criteria, to demonstrate their ongoing commitment by informing MCC of actions they are undertaking. Countries participating in this policy improvement process may work with MCC to develop and implement a forward-looking action plan that outlines the steps they plan to take to improve performance on certain policy criteria, including key areas of governance (e.g., public financial management), or provide periodic reports on government efforts to improve performance on specific indicators. MCC recognizes that there are cases in which countries that do not meet the indicator criteria have not demonstrated a significant policy reversal.

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 FY11. 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 Ghana and Georgia to submit a proposal for a second compact, as described in section 609 of the Act (22 U.S.C. 7708).

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 (22 U.S.C. 7704) 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.