

Report on the Selection of Eligible Countries for Fiscal Year 2012

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MILLENNIUM
CHALLENGE CORPORATION

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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 2012 (“FY12”) 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 FY12, 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 FY12. It identifies countries determined by the Board to be eligible under section 607 of the Act (22 U.S.C. 7706) for FY12 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. This year, for the first time, the report also identifies countries determined by the Board to be eligible for MCC’s Threshold Program under section 616 of the Act (22 U.S.C. 7715).

Eligible Countries

The Board met on December 15, 2011, to select countries that will be eligible for MCA compact assistance under section 607 of the Act (22 U.S.C. 7706) for FY12. The Board selected the following countries as eligible for such assistance for FY12: Benin, Cape Verde, El Salvador, Georgia, Ghana, and Zambia.

Criteria

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 2012” formally submitted to the Congress on September 29, 2011, selection was based primarily on a country’s overall performance in three broad policy categories: *Ruling Justly*, *Encouraging Economic Freedom*, and *Investing in People*. The Board relied, to the maximum extent possible, upon 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”).

As outlined in the *“Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2012”*, a number of changes were adopted to update the criteria and methodology for FY12. MCC published and the Board considered both the traditional and updated scorecards this year. MCC plans to transition to exclusive use of the updated scorecard in the future, and there was deeper consideration of performance on the new scorecard for FY12. When performance differed across the scorecards, MCC outlined the reasons for the Board. Scorecards reflecting each country’s performance on the indicators are available on MCC’s website at www.mcc.gov/scorecards.

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, investments in human development outcomes, or poverty rates. In keeping with legislative directives, the Board also considered the opportunity to reduce poverty and promote economic growth in a country, in light of the overall information available, as well as the availability of appropriated funds.

This was the third 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)). MCC has no explicit preference for either new or subsequent compacts, and sees the Board’s selection decision as an annual opportunity to determine where MCC funds can be most effectively invested to support poverty reduction through economic growth in relatively well-governed, poor countries. However, in light of the fact that a large share of the best-governed low and lower-middle income countries are already MCC partners, subsequent compacts are likely to be a consistent part of MCC’s compact portfolio.

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. To the greatest extent possible, this was assessed using pre-existing monitoring and evaluation targets and regular quarterly reporting. This information was supplemented with direct surveys and consultation with MCC staff responsible for compact implementation, monitoring, and evaluation.

As with previous years, 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 FY12. MCC is aware

that some stakeholders expressed concern that using the updated scorecard criteria might make the Board less selective in its eligibility decisions. This was not the case. The selection of two new compact countries and two new threshold countries is consistent with the highly selective standard the Board has previously established.

Countries newly selected for Compact Eligibility

Using the criteria described above, Benin and El Salvador 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)), Benin is one of the poorest countries in the world, but maintains relatively strong policy performance. It is particularly strong in the Ruling Justly category, where it passes all six indicators, and is recognized as a stable, democratic country in West Africa. In FY12, Benin passed the new indicator criteria, but it did not pass the old indicator criteria, due to performance in the Investing in People category. Both scorecards for Benin can be found here: www.mcc.gov/scorecards. By compact conclusion, Benin delivered all core construction targets and undertook an ambitious and complex series of policy reforms. This included letting a major port concession, undertaking changes to customs and port procedures designed to reduce corruption and improve port efficiency, and making improvements in the microfinance regulatory system. These activities allowed the Government of Benin to address some of their greatest development challenges and create new opportunities for economic growth. Over the next 20 years, MCC's port investment in Benin is expected to affect a regional import-export facility that not only serves the entire population of Benin, but also provides meaningful trade capacity for Mali, Niger, Burkina Faso, and Nigeria. Increased imports and exports could also open up the potential for new market and trade opportunities for U.S. businesses.

This port project serves as an example of MCC and the Government of Benin working together to address a complex project that combined ambitious infrastructure investments and policy reform. While projects with this level of complexity are difficult, they embody MCC's mandate of reducing poverty through economic growth in poor, well-governed countries.

As a candidate country under section 606(b) of the Act (22 U.S.C. 7705(b)), El Salvador is a reform oriented country with a strong democracy and favorable investment policies. In FY12, El Salvador passed the new indicator criteria, but it did not pass the old indicator criteria, due to performance in the Investing in People category. Both scorecards for El Salvador can be found here: www.mcc.gov/scorecards. El Salvador's current compact is on track to achieving re-scoped objectives, and the investment is managed by a strong country-led MCA unit. At the compact mid-point, MCA-El Salvador was able to assume procurement responsibilities directly, which was a key step in resolving early delays in the procurement process, and setting the compact on track to achieve key targets. Throughout compact development and implementation, El Salvador has consistently demonstrated a commitment to take positive actions in pursuit of poverty reduction and economic growth. El Salvador is one of only four countries to be included as a pilot country for the Partnership for Growth (PFG) initiative. El Salvador's role as a pilot PFG country makes it uniquely situated to utilize compact resources effectively. In 2011, El Salvador completed an economic constraints analysis, an exercise that forms the basis of MCC's compact development process. There is a high-capacity and experienced MCA team already in operation, and the Government of El Salvador and US Government have, through the PFG, both committed to focusing energy and resources towards combating specific constraints to growth.

Countries re-selected to continue Compact Development

Four of the countries selected as eligible for MCA compact assistance in FY12 were previously selected as eligible. Reselection allows them to continue compact development and receive funding from FY2012. Two of these countries are in the LIC category: Ghana and Zambia. Two countries, Georgia 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 initial selection, there has been no material change in their performance on the indicator criteria that indicates a serious decline in policy performance. All four countries pass both sets of scorecards.

Countries newly selected for Threshold Program Eligibility

For FY12, the Board selected Nepal and Honduras as eligible for threshold assistance. Nepal has not only been a consistently strong scorecard performer for multiple years (in FY12, it passed both scorecards), but it has also achieved a recent breakthrough in the implementation of its peace process, which is expected to help move forward the process of drafting a constitution and normalizing the political process. Honduras passes 16 of 20 indicators on the scorecard and performs just below the median on Control of Corruption. Honduras was a good partner and successfully completed a compact in 2010. Since suffering a serious setback – the political crisis of 2009 – the government has taken a number of significant steps to restore the country’s positive trajectory, in particular, taking steps to improve control of corruption through improved fiscal transparency.

These selections are consistent with the recently re-designed threshold program. In FY 2010, MCC completed a review of its Threshold Program and developed a body of lessons learned. Under the re-designed concept, the new threshold country programs will no longer focus explicitly on trying to move indicator scores. Rather, the program will allow countries to diagnose binding constraints to economic growth and demonstrate the capacity and political will to make difficult policy reforms in partnership with MCC. This will contribute directly to the Board’s understanding of a country’s capacity to undertake the type of policy reforms typically required to enable a compact investment to have maximum sustainable impact.

Ongoing review of partner countries’ policy performance

The Board also reviewed the policy performance of countries that are implementing compacts. 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 does not consider the country for reselection on an annual basis during the term of its compact. The Board emphasized the need for all partner countries to continue to improve their environment. 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.

Selection to Initiate the Compact Process

The Board also authorized MCC to invite Benin and El Salvador 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.

