

Report on the Selection of Eligible Countries for Fiscal Year 2013

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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 2013 (“FY13”) 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 FY13, 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 FY13. It identifies countries determined by the Board to be eligible under section 607 of the Act (22 U.S.C. 7706) for FY13 and countries with which the MCC 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. 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 19, 2012, to select countries that will be eligible for MCA compact assistance under section 607 of the Act (22 U.S.C. 7706) for FY13. The Board selected the following countries as eligible for such assistance for FY13: Liberia, Morocco, Niger, Sierra Leone, and Tanzania. The Board also reselected the following countries as eligible for MCA compact assistance: Benin, El Salvador, Georgia, and Ghana.

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 2013”

formally submitted to Congress on September 14, 2012, 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 scorecard countries ("LIC") or the group of lower-middle income scorecard countries ("LMIC").

The criteria and methodology used to assess countries on the annual scorecards is outlined in the "*Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2013*." 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 fourth 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)). The Board also considered the eligibility of countries for initial compacts. The Board sees the 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. The Board carefully considers the appropriate nature of each country partnership -- on a case by case basis -- based on where the country is on its growth path, the sustainability of MCC's investments, and the country's ability to attract and leverage public and private resources in support of development.

MCC's engagement with partner countries is not open-ended, and the Board is particularly selective when determining eligibility for follow-on partnerships. 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. For the first time, MCC published a *Guide to the Supplemental Information Sheet* and a *Guide to the Compact Survey Summary*, in order to increase transparency about the type of supplemental information the Board uses to assess a country's policy performance and compact implementation performance.

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 FY13. FY13 was a particularly competitive year: five countries were within the window of consideration for subsequent compacts, multiple other countries passed the scorecard (some for the first time), and funding was limited due to budget constraints. As a result, not every country that passed the scorecard was selected for MCC eligibility.

Countries newly selected for Compact Eligibility

Using the criteria described above, Morocco, Liberia, Niger, Sierra Leone, and Tanzania are candidate countries under section 606(a) of the Act (22 U.S.C. 7705(a)) that were selected as eligible for MCA assistance for a compact under section 607 of the Act (22 U.S.C. 7706).

Liberia passed the MCC scorecard for the first time in FY13, after several years of improving economic governance and strengthening democratic institutions. Scorecards for Liberia can be found here: www.mcc.gov/scorecards. Liberia is a post-conflict country that has held two democratic elections since the end of its civil war, electing the first female president in sub-Saharan Africa. Liberia's efforts to combat corruption have been recognized in numerous assessments, including on the Control of Corruption indicator, and it has made significant improvements to macroeconomic management in recent years. Liberia's threshold program, focused on expanding girls' access to education, land rights and access, and trade opportunities, is scheduled to conclude September 2013. Capacity constraints may impact the timeline of the compact development process.

Morocco is a consistently strong performer on the MCC scorecard. Scorecards for Morocco can be found here: www.mcc.gov/scorecards. In the wake of the Arab Spring, the Government of Morocco has reacted in a relatively peaceful and responsive manner, including expanding democratic rights through the adoption of new powers for the prime minister and the parliament. A second compact can help to solidify economic reforms and growth necessary for long-term regional stability. Morocco is scheduled to conclude its first compact in September 2013. The initial MCC compact has invested in expansion of fruit tree agriculture, support for small-scale fisheries and fish-markets, enhancement of the artisanal sector in the Fez Medina, and training for small-scale businesses across all these sectors, with an emphasis on training for women and youth including literacy training. In the *current compact*, Morocco's government established a high-capacity team, which is currently completing one of the largest and most complex compacts in MCC's history.

Niger is one of the poorest countries in the world but has relatively strong policy performance, as indicated by two consecutive years passing the MCC indicators. Scorecards for Niger can be found here: www.mcc.gov/scorecards. In 2011, Niger was the first country to demonstrate that with sufficient political will, countries can restore their MCC eligibility. Niger's constitutional reform, clean and competitive elections, and peaceful transfer of power to civilian government prompted MCC to reinstate Niger's threshold eligibility last year. Since that time, Niger has pursued reforms related to democratic and economic governance and contributed to efforts to promote stability in the region. Niger has been a strong MCC partner in its threshold program, operating a dedicated program and policy analysis unit through both elected governments and even during its period of suspension. Niger is currently finalizing its constraints to growth analysis, an exercise that forms the basis of MCC's compact development process, and this will now shift from a threshold program assessment tool to part of the compact development process. Capacity constraints may impact the timeline for the compact development process.

Sierra Leone is a post-conflict country that has undergone dramatic reforms over the past several years. Many of these reforms are reflected in the FY13 scorecard, which Sierra Leone passes for the first time, after notable improvements in all scorecard categories. Sierra Leone recently held its third democratic election since the end of its civil war, which was widely recognized as peaceful, transparent, and participatory. It has strengthened its anti-corruption commission, provided free health care to children under five and pregnant and lactating women, expanded vaccine coverage, improved access to credit, and lowered trade barriers. The Government of Sierra Leone's policy reforms, direct engagement with MCC's indicator institutions and now passing scorecard illustrate the strength of the MCC's incentive effect. Scorecards

for Sierra Leone can be found here: www.mcc.gov/scorecards. Capacity constraints may result in a longer compact development process.

Tanzania is a democratic nation experiencing economic growth and working to reduce one of the highest poverty rates in the world. In FY13, Tanzania passed the indicator criteria for the eighth consecutive year. Scorecards for Tanzania can be found here: www.mcc.gov/scorecards. Tanzania is one of only four countries to be included as a pilot country for the U.S. Partnership for Growth (PFG) initiative. Tanzania's role as a pilot PFG country makes it uniquely situated to utilize compact resources effectively. In 2011, under the PFG initiative, Tanzania completed a constraints to growth analysis. There is an engaged MCA team already in operation, and the Government of Tanzania and U.S. Government have, through the PFG, both committed to focusing efforts towards combating specifically-identified constraints to growth. Tanzania's *current compact*, which will close in September 2013, is investing in roads, access to potable water, and improving the energy sector.

With this selection decision, MCC looks forward to increased competition during compact development among those countries already selected. The agency believes that a deeper pool of qualified contenders competing for scarce budget resources will reinforce the importance of maintaining strong performance on the policy indicators and can inspire a more efficient, high-quality compact development process.

Countries re-selected to continue Compact Development

Four of the countries selected as eligible for MCA compact assistance in FY13 were previously selected as eligible. Reselection allows them to continue compact development and access funding from FY2013. These countries include Benin, El Salvador, Georgia, and Ghana.

The Board reselected these countries based on their continued 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 the scorecards.

Countries newly selected for Threshold Program Eligibility

For FY13, the Board selected Guatemala as eligible for threshold assistance. This selection is consistent with the recently re-designed threshold program. 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.

Guatemala passes 10 of 20 indicators on the scorecard, including both Democratic Rights indicators, and performs on the median on Control of Corruption. Guatemala's government has engaged on a series of reform to improve the fight against corruption and strengthen the rule of law.

Countries re-selected to continue developing Threshold Programs

Two countries selected as eligible for threshold assistance in FY13 were previously selected as eligible. Reselection allows them to continue developing threshold programs and access funding from FY2013. These countries are Honduras and Nepal.

The Board reselected these countries based on their continued performance since their prior selection. The Board determined that since their initial selection, there has been no material change in their performance that indicates a serious decline in policy performance.

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 re-selected 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 maintain or improve their policy performance. 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 Liberia, Morocco, Niger, Sierra Leone, and Tanzania to submit a proposal for a 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.

