



**MILLENNIUM
CHALLENGE
CORPORATION**

REDUCING POVERTY THROUGH GROWTH

FRANCES C. MCNAUGHT
VICE PRESIDENT, CONGRESSIONAL AND PUBLIC AFFAIRS

I am pleased to submit the attached report on the FY 2007 Millennium Challenge Account (“MCA”) Selection of Eligible Countries, as required by Section 608(d)(1) of the Millennium Challenge Act of 2003, Pub. L. 108-199, Division D (the “Act”). On September 8, 2006, we sent you a report identifying the criteria and methodology that the Millennium Challenge Corporation (“MCC”) would use to determine which of these candidate countries will be eligible to be considered for MCA assistance in FY 2007. In accordance with those criteria, on November 8, 2006, the MCC Board of Directors determined countries that are eligible to apply for MCA funds for FY 2007 and will be invited to submit proposals for MCA assistance.

As required by the Act, the information contained in this report will also be published in the Federal Register. The attached report is being sent to Congress on November 13, 2006.

Sincerely,

Frances C. McNaught
Vice President
Congressional and public Affairs

Enclosure:

Report on Millennium Challenge Account Selection of Eligible Countries for FY 2007



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Report on the Selection of Eligible Countries for Fiscal Year 2007

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").

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 take a number of steps to determine the countries that based, to the maximum extent possible, upon objective and quantifiable indicators of a country's demonstrated commitment to just and democratic governance, economic freedom and investing in their people, will be eligible to receive MCA assistance for 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, among other things:

1. the "candidate countries" for MCA assistance for a fiscal year and all countries that would be candidate countries if they met the requirement of Section 606(a)(1)(B) (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 a Compact and a justification for the decisions regarding eligibility and selection for negotiation (Section 608(d)(1) of the Act).

This is the third of the above-described reports by MCC for fiscal year 2007 (FY07). It identifies countries determined by the Board to be eligible under Section 607 of the Act for FY07 and those that the Board will seek to enter into Compacts under Section 609 of the Act, and the justification for such decisions.

ELIGIBLE COUNTRIES

The Board met on November 8, 2006, to select countries that will be eligible for MCA Compact assistance under Section 607 of the Act for FY07. The Board determined the following countries eligible for such assistance for FY07 and with which MCC may seek to enter into a Compact: Armenia; Benin; Bolivia; Burkina Faso; Cape Verde; East Timor; El Salvador; Georgia; Ghana;

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Honduras; Jordan; Lesotho; Madagascar; Mali; Moldova; Mongolia; Mozambique; Namibia; Nicaragua; Senegal; Sri Lanka; Tanzania; Ukraine; and Vanuatu.

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 2007” submitted to the Congress on September 8, 2006, selection was based primarily on a country's overall performance in relation to three broad policy categories: (1) “Ruling Justly”; (2) “Encouraging Economic Freedom”; and (3) “Investing in People.” The Board relied upon 16 publicly available and independent indicators to assess policy performance and demonstrated commitment in these three areas, to the maximum extent possible, for determining which countries would be eligible for MCA Compact assistance. In determining eligibility, the Board considered if a country performed above the median in relation to its peers on at least half of the indicators in each of the three policy categories and above the median on “Control of Corruption” and, if the country performed substantially below the median on any indicator, whether it 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, lags, trends, or recent events since the indicators were published and 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, its economic policies to promote the sustainable management of natural resources, human rights, and the rights of people with disabilities. In addition, the Board considered the opportunity to reduce poverty, promote economic growth and have a transformational impact in a country in light of the overall context of the information available to it as well as the availability of appropriated funds.

Eighteen of the countries selected eligible for MCA assistance for FY07 were in the “low income” category and were previously selected as eligible in at least one previous fiscal year – Armenia, Benin, Bolivia, Burkina Faso, East Timor, Ghana, Georgia, Honduras, Lesotho, Madagascar, Mali, Mongolia, Mozambique, Nicaragua, Senegal, Sri Lanka, Tanzania, and Vanuatu. Three of the countries selected as eligible for MCA assistance for FY07 were in the “lower middle income” category and were previously selected as eligible in at least one previous fiscal year – Cape Verde, El Salvador, and Namibia. On November 8, 2006, the Board re-selected these countries based on their continued performance since their prior selection. The Board also determined that no material change has occurred in the performance of these countries on the selection criteria since the FY06 selection that would justify not including them in the FY07 eligible country list. Six of these countries – Benin, Cape Verde, Ghana, Madagascar, Senegal, and Sri Lanka – either did not perform above the median on Control of Corruption or did not perform above the median in relation to their peers on at least half of the indicators in each of the three policy categories. However, at this time, MCC does not believe that a serious erosion of policy performance has occurred in any of these countries. MCC will ask each of these countries to commit to specific actions by their respective governments to address indicator performance weaknesses and to strive to maintain or improve upon their performance overall.

Three additional countries were selected for the first time in FY07: (1) two in the “low income” category under Section 606(a) of the Act – Moldova and Ukraine; and (2) one in the “lower middle income” category under Section 606(b) of the Act – Jordan. Each of these countries: (1) performed above the median in relation to their peers on at least half of the indicators in each of the three policy categories; (2) performed above the median on corruption; and (3) in cases where they performed substantially below the median on an indicator, there was either evidence that the data did not adequately reflect their policy performance or that the government is taking corrective action to address the problem.

All three of these countries are currently participating in the Threshold Program. Each country now meets the MCA eligibility criteria for Compact assistance but successful implementation of their respective Threshold Program – and of the corresponding reform commitments – remains critical. The governments will be required to demonstrate successful implementation of the Threshold Program during the Compact development process in order to reach a Compact and then to continue to receive MCA funding under a Compact.

- **Moldova:** Moldova presents an excellent opportunity for MCC to use its Compact funding in a transformational way. Moldova is the poorest country in Europe with half of its population living on less than \$2 per day. It now passes 15 of the 16 indicators, as well as both of the two new Natural Resource Management indices. The Government of Moldova has adopted a series of significant policy and institutional reforms over the last several years. After being selected as a Threshold Program Country in FY06, the Government of Moldova proposed an ambitious anti-corruption Threshold Program and improved its performance on the “Control of Corruption” indicator from the 46th percentile to the 55th percentile.
- **Ukraine:** For the first time, Ukraine also passes the MCA selection eligibility criteria and has made significant improvements on all of the indicators in the “Ruling Justly” category. In addition, Ukraine passes one of the new supplementary Natural Resources Management indices. Ukraine was selected as a Threshold country in FY06, and in June 2006, the Board approved its Threshold program which is focused on accelerating anti-corruption efforts. MCC expects that implementation of Ukraine’s Threshold Program will begin soon and will bolster the Government of Ukraine’s reform efforts.
- **Jordan:** Jordan passes the MCA selection eligibility criteria, including “Control of Corruption,” and has demonstrated its commitment to MCC principles through home-grown democratic reform initiatives, which MCC is currently supporting through the implementation of the Threshold Program agreement signed in October, 2006. Jordan has made significant reform commitments in its Threshold Program and MCC will require successful implementation of the Threshold Program as the Government of Jordan works to develop and implement a Compact. A Compact in Jordan could have a transformation impact as structural reforms over the last decade have liberalized the private investment regime, opened the trade environment, and established modern regulation and institutions for private sector development.

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 FY07. As discussed above, the Board considered a variety of factors in addition to the country's performance on the policy indicators in determining whether they were appropriate candidates for assistance (e.g., the country's commitment to fighting corruption and promoting democratic governance; the availability of appropriated funds; and in which countries MCC would likely have the best opportunity to reduce poverty, generate economic growth and have a transformational impact).

SELECTION FOR COMPACT NEGOTIATION

The Board also authorized MCC to seek to negotiate a 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 newly eligible countries to submit program proposals to MCC (previously eligible countries will not be asked to submit another proposal for FY07 assistance). MCC has posted guidance on the MCC website (www.mcc.gov) regarding the development and submission of MCA program proposals. 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 availability of funds.