



**MILLENNIUM
CHALLENGE
CORPORATION**

REDUCING POVERTY THROUGH GROWTH

CONGRESSIONAL NOTIFICATION

I am pleased to submit the attached report on the FY 2008 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 17, 2007, 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 2008. In accordance with those criteria, on December 12, 2007, the MCC Board of Directors determined countries that are eligible to apply for Millennium Challenge Account (MCA) funds for FY 2008 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 notification is being sent to Congress on December 17, 2007.

Sincerely,

Matthew K. McLean
Vice President
Congressional and Public Affairs

Enclosure:

Report on Millennium Challenge Account Selection of Eligible Countries for FY 2008

Millennium Challenge Corporation

Report on the Selection of Eligible Countries for Fiscal Year 2008

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 2008 (FY08). It identifies countries determined by the Board to be eligible under Section 607 of the Act for FY08 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 December 12, 2007, to select countries that will be eligible for MCA Compact assistance under Section 607 of the Act for FY08. The Board determined the following countries eligible for such assistance for FY08: Armenia, Benin, Bolivia, Burkina Faso, El Salvador, Georgia, Ghana, Honduras, Jordan, Lesotho, Madagascar, Malawi, Mali, Moldova, Mongolia, Morocco, Mozambique, Namibia, Nicaragua, Senegal, Tanzania, Timor Leste, Ukraine and Vanuatu, and with which MCC may seek to enter into a Compact: Bolivia, Burkina Faso, Jordan, Malawi, Moldova, Namibia, Senegal, Tanzania, Timor Leste, and Ukraine.

Report on the Selection of Eligible Countries for Fiscal Year 2007

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 2008” submitted to the Congress on September 17, 2007, 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 17 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 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, its economic policies to promote the sustainable management of natural resources, and its effective protection of human rights and the rights of people with disabilities. In addition, the Board considered the opportunity to reduce poverty, promote economic growth and poverty reduction in a country in light of the overall context of the information available to it as well as the availability of appropriated funds.

One country was selected as eligible for the first time in FY08: Malawi, a low income candidate, was selected under Section 606(a) of the Act. Malawi (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.

Malawi is currently participating in the Threshold Program. Malawi meets the eligibility criteria for the first time in FY08, scoring above the median on 13 of 17 indicators, including the Corruption indicator. The Government of Malawi has demonstrated a strong commitment to fighting corruption, and is well into the implementation of a Threshold Program focused on accelerating anti-corruption reforms and improving fiscal policy. There is a significant opportunity for a Compact with Malawi to reduce poverty and promote economic growth. Roughly 7 million people (over half the population) live on less than \$2 a day. Although Malawi now meets the MCA eligibility criteria for Compact assistance, successful implementation of its Threshold Program – and of the corresponding reform commitments – remains critical. Hence, the Government of Malawi 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.

Report on the Selection of Eligible Countries for Fiscal Year 2007

Seventeen of the countries selected eligible for MCA assistance for FY08 were in the “low income” category and were previously selected as eligible in at least one previous fiscal year – Benin, Bolivia, Burkina Faso, Ghana, Georgia, Honduras, Lesotho, Madagascar, Mali, Moldova, Mongolia, Mozambique, Nicaragua, Senegal, Tanzania, Timor Leste and Vanuatu. Six of the countries selected as eligible for MCA assistance for FY08 were in the “lower middle income” category and were previously selected as eligible in at least one previous fiscal year – Armenia, El Salvador, Jordan, Morocco, Namibia and Ukraine.

On December 12, 2007, 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 FY07 selection that would justify not including them in the FY08 eligible country list. Eleven countries – Armenia, Benin, El Salvador, Honduras, Madagascar, Mali, Morocco, Mozambique, Namibia, Timor Leste and Ukraine – 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. Cape Verde was not re-selected as eligible as this is the third year it does not meet the criteria in its new Lower Middle Income competition. MCC does not believe that a serious policy reversal or a pattern of actions inconsistent with the selection criteria has occurred in any of these countries. In analyzing performance, MCC found that these countries did not meet the criteria, due to one or a combination of the following factors:

- graduation from the “low income” to the “lower middle income” category,
- data improvements and revisions,
- the introduction of two new indicators and a new methodology in the Investing in People category,
- slight declines in performance,
- score changes within the margin of error.

Therefore, all of the 12 countries can continue with compact implementation or compact development, providing they demonstrate progress toward meeting the criteria. These MCC countries will be required to develop and implement a remediation plan to address policy performance and/or data issues which prevent countries from meeting the eligibility criteria. The remediation process will give MCC and other U.S. Government agencies a basis for policy dialogue with the country about how to improve performance while allowing the country to demonstrate commitment to and progress toward meeting the eligibility criteria.

The Board also did not re-select Sri Lanka and the Gambia. Sri Lanka was not re-selected this year due to the ongoing conflict in the country which has escalated to a level that precludes MCC activities and which is inconsistent with the performance of an MCC eligible country. The Gambia’s eligibility was suspended in previous years and was not considered this year for eligibility.

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 FY08. 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

Report on the Selection of Eligible Countries for Fiscal Year 2007

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 poverty reduction).

SELECTION FOR COMPACT NEGOTIATION

The Board also authorized MCC to invite Malawi to submit a proposal for a Compact, as described in Section 609 of the Act. MCC will initiate the process by inviting Malawi to submit a program proposal to MCC for due diligence review (previously eligible countries will not be asked to submit another proposal for FY08 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.