

Report on the Selection of Eligible Countries for FY 2005

Summary

This report is provided in accordance with Section 608(d) of the Millennium Challenge Act of 2003, 22 U.S.C.A. § 7707(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 prospects of such countries to achieve lasting poverty reduction and economic growth. The Act requires the Millennium Challenge Corporation (“MCC”) to take a number of steps to determine the countries that, based on their demonstrated commitment to just and democratic governance, economic freedom and investing in their people, will be eligible to receive MCA assistance during 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:

1. the “candidate countries” for MCA assistance in a fiscal year (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 MCA “Compacts” and a justification for such decisions (Section 608(d) of the Act).

This is the third of the above-described reports for FY2005. It identifies countries determined by the Board to be eligible for MCA assistance in FY 2005 under Section 605 of the Act and those that the Board will seek to enter into MCA Compacts under Section 609 of the Act, and the justification for such decisions.

Eligible Countries

The MCC Board of Directors met on November 8, 2004, to select countries that will be eligible for FY 2005 MCA assistance under Section 605 of the Act and will be invited to submit proposals for such assistance. The Board determined the following countries eligible for FY 2005 assistance: Armenia, Benin, Bolivia, Georgia, Ghana, Honduras, Lesotho, Madagascar, Mali, Mongolia, Morocco, Mozambique, Nicaragua, Senegal, Sri Lanka, and Vanuatu.

In accordance with the Act and with MCC’s “Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in FY 2005,” submitted to the Congress on August 31, 2004, selection was based on a

country's overall performance in relation to three broad policy categories: Ruling Justly, Encouraging Economic Freedom, and Investing in People. The Board relied on sixteen publicly available indicators to assess policy performance as the predominant basis for determining which countries would be eligible for assistance. Where appropriate, the Board took into account other data, such as trends and recent events since the indicators were published, and quantitative information as well as qualitative information to determine whether a country performed satisfactorily in relation to its peers in a given category, and other factors, including, inter alia, a country's commitment to economic policies that promote private sector growth and the sustainable management of natural resources, and the rights of people with disabilities. The Board considered whether any adjustments should be made for data gaps, lags, trends, or strengths or weaknesses in particular indicators.

Only one new country was selected for FY05: Morocco. Morocco 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 the corruption indicator specifically. Although Morocco was substantially below average on one economic indicator -- Trade Policy -- the Board decided that a positive eligibility determination was nonetheless justified based on positive trends and concrete actions taken by the Government of Morocco that were not fully reflected in the "point in time" indicator data. Since 2000, Morocco has made significant efforts to liberalize its trade policy. Furthermore, in addition to the EU Agreement, which calls for the removal of all non-agricultural tariffs on trade between the two areas by 2012, Morocco recently concluded free trade agreements with the Turkey, Jordan, Egypt, Tunisia and the United States. These agreements put Morocco in a select group of countries that have negotiated among the most liberal market access for goods and services and the highest standards of trade and investment rules.

With the exception of Morocco, all of the countries selected were previously selected by the Board as eligible for FY04 MCA assistance: Armenia, Benin, Bolivia, Ghana, Georgia, Honduras, Lesotho, Madagascar, Mali, Mongolia, Mozambique, Nicaragua, Senegal, Sri Lanka, and Vanuatu. These countries were re-endorsed by the Board on November 8, 2004, based on their continued performance since the May selection, most notably in the areas outlined in MCC's Report on the Selection of MCA Eligible Countries for FY 2004, submitted to Congress on May 7, 2004. The Board also determined that no material change has occurred in the performance of these countries on the selection criteria since the FY04 selection that would justify removing them from the eligible country list.

Selection for Compact Negotiation

The Board also authorized the MCC to seek to negotiate an MCA 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 eligible countries to submit program proposals to MCC. 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. MCC will evaluate proposals and make funding decisions based on the potential for impacting poverty reduction through economic growth and other considerations. The quality of the initial proposal -- including how well the country has demonstrated the relationship between the proposed priority areas and poverty reduction through economic growth -- will be a determining factor, in addition to, the breadth of public support within the country for the proposal and the government's commitment to continued policy improvement. An eligible country's commitment and capacity to oversee effective implementation of the program will also be a factor in determining how quickly MCC can begin substantive discussions with a country on a Compact and will likely influence the speed with which a Compact can be negotiated as well as the amount and timing of any MCA assistance approved by the Board.

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 and approval of the Compact by the Board.