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United States Senate

COMMITTEE ON FOREIGN RELATIONS

WASHINGTON, DC 20510-6225

FRANK G. LOWENSTEIN, STAFF DIRECTOR
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December 15, 2010

Mr. Daniel W. Yohannes
Chief Executive Officer
Millennium Challenge Corporation
875 Fifteenth Street NW
Washington, D.C. 20005-2221

Dear Mr. Yohannes:

On January 5th, 2011, the Board of Directors of the Millennium Challenge Corporation (MCC) is scheduled to hold a meeting to consider the selection of countries that will be eligible for FY 2011 Millennium Challenge Account assistance under Section 607 of the Millennium Challenge Act of 2003. As you well know, for a country to be selected as eligible for an MCC assistance program, it must demonstrate a commitment to just and democratic governance, investments in the people of a country, and economic freedom as measured by 17 different policy indicators.

In July 2005, the Millennium Challenge Corporation signed a five-year, \$175 million Compact with the Government of Nicaragua. The MCC Compact in Nicaragua entered into force (EIF) in May 2006, formally initiating the 5-year timeline for project implementation. On July 3, 2009 MCC terminated funding some of the projects under the Compact in response to a pattern of actions by the Government of Nicaragua that were inconsistent with the criteria used by MCC to determine eligibility for assistance. Due to that partial termination, MCC reduced the amount of MCC funding available to Nicaragua from \$175 million to \$113.5 million of which \$105 million (93%) has been disbursed. I understand that the Nicaragua Compact will close-out during the summer of 2011.

It is very unfortunate that once again, the Government of Nicaragua has reportedly acted inconsistently with MCC's eligibility criteria by breaching its international obligations with respect to its neighboring country, Costa Rica. According to recent reports, Nicaraguan Army troops have entered and continue to illegally occupy Costa Rican territory, at an area located at the northeast Caribbean tip of Costa Rica, simultaneously and in connection with certain dredging activities on the San Juan River. As a consequence, Nicaraguan troops are said to be destroying an area of primary rainforests and fragile wetlands on Costa Rican territory (listed as such under the Ramsar Convention's List of Wetlands of International Importance) for the purpose of facilitating the construction of a canal through Costa Rican territory, intended to deviate the waters of the San Juan River from its natural historical course into Laguna los Portillos (the Harbor Head Lagoon).

The Government of Costa Rica has brought the issue to the attention of the Organization of American States, and has also instituted proceeding before the International Court of Justice for the occupation and use of Costa Rican territory by Nicaragua, and before the Secretariat of the Ramsar Convention.

As you prepare for the upcoming board meeting, I would like to commend the MCC for previously terminating part of its funding for Nicaragua. At this late juncture, I ask that MCC consider any actions, including a policy pronouncement, available to MCC to address Nicaragua's continued pattern of action that is clearly inconsistent with the MCC eligibility criteria.

Sincerely,

A handwritten signature in black ink, reading "Richard G. Lugar". The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

Richard G. Lugar
Ranking Member

RGL/cmn