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Millennium Challenge Account

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Millennium Challenge Account

Summary

In a speech on March 14, 2002, President Bush outlined a proposal for a major new U.S. foreign aid initiative. The Millennium Challenge Account (MCA) is managed by the Millennium Challenge Corporation (MCC) and provides assistance, through a competitive selection process, to developing nations that are pursing political and economic reforms in three areas: ruling justly, investing in people, and fostering economic freedom.

The MCC differs in several respects from past and current U.S. aid practices:

- the competitive process that rewards countries for past and current actions measured by 17 objective performance indicators;
- the pledge to segregate the funds from U.S. strategic foreign policy objectives that often strongly influence where U.S. aid is spent; and
- the requirement to solicit program proposals developed solely by qualifying countries with broad-based civil society involvement.

As announced by the President in March 2002, the initial plan had been to fund the MCC annually at $5 billion by FY2006, but this figure has not yet been reached. The Administration sought a combined $9.8 billion for the MCA program, FY2004-FY2007, while Congress appropriated $6 billion, or less than two-thirds of the total sought. FY2007 funding is provided under the terms of a continuing resolution (H.R. 5631/P.L.109-289, as amended by H.J.Res. 20 on February 15, 2007) that provides $1.75 billion to the MCA. The Administration requested $3 billion for FY2008.

Congress authorized the MCC in P.L. 108-199 (January 23, 2004). Since that time, the MCC's Board of Directors has selected 25 eligible countries for FY2004 — FY2007 (another, The Gambia, was suspended in 2006) and approved 16 Compacts with Madagascar (April 2005), Honduras June 2005), Cape Verde (July 2005), Nicaragua (July 2005), Georgia (September 2005), Benin (February 2006), Vanuatu (March 2006), Armenia (March 2006), Ghana (August 2006), Mali (November 2006), El Salvador (November 2006), Mozambique (July 2007), Lesotho (July 2007), Morocco (August 2007), Mongolia (September 2007), and Tanzania (September 2007). Other MCA implementation matters continue to unfold, including the relationship of MCA and USAID, how to support "threshold" countries, and the country programs.

A growing question raised by some Members of Congress concerns the level of funding to support MCC programs. Some fear that insufficient funds might force the MCC to reduce the number of recipients or the size of the grants. Others, however, believe that the slower-than-anticipated pace of Compact agreements means that the Corporation has or will have enough resources, and have supported reductions in MCC budget requests.

This report will be updated as events unfold.

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Most Recent Developments

On September 18, 2007, the MCC Board approved a five-year $698 million Compact with Tanzania aimed at reducing poverty, improving the road network, generating more electric power, and increasing access to clean water.

On September 12, 2007, the MCC Board approved a five-year $285 million Compact with Mongolia aimed at increasing economic activity by modernizing the rail system, assisting land titling, developing vocational education, and improving health care.

On September 12, 2007, the MCC Board adopted two new indicators to be used in determining candidate country eligibility for Compact and threshold agreements. They are natural resource management and land rights and access indicators.

On September 6, 2007, the Senate approved its version of H.R. 2764, the FY2008 appropriations (S.Rept. 110-128), providing $1.2 billion for the MCC, $1.8 billion less than the Administration request.

Overview

In a speech on March 14, 2002, President Bush outlined a proposal for a new program that would represent a fundamental change in the way the United States invests and delivers economic assistance. The resulting Millennium Challenge Account (MCA), managed by a new Millennium Challenge Corporation (MCC), provides assistance, through a competitive selection process, to developing nations that are pursing political and economic reforms in three areas:

- Ruling justly — promoting good governance, fighting corruption, respecting human rights, and adhering to the rule of law.
- Investing in people — providing adequate health care, education, and other opportunities promoting an educated and healthy population.
- Fostering enterprise and entrepreneurship — promoting open markets and sustainable budgets.

As the new agency develops, the 110th Congress will continue to debate MCA funding issues and conduct oversight hearings on operations of the Corporation.

MCA Background[1]

The MCA is based on the premise that economic development succeeds best where it is linked to free market economic and democratic principles and policies, and where governments are committed to implementing reform measures in order to achieve such goals. The MCA concept differs in several fundamental respects from past and current U.S. aid practices:

- the size of the original $5 billion commitment;
- the competitive process that will reward countries for past actions measured by 17 objective performance indicators;
- the pledge to segregate the funds from U.S. strategic foreign policy objectives that often strongly influence where U.S. aid is spent; and
- the requirement to solicit program proposals developed solely by qualifying countries with broad-based civil society involvement.

The new initiative, which Congress authorized in January 2004 (Division D of P.L. 108-199), was scheduled to phase in over a three-year period, beginning in FY2004. During the first year, MCA participation was limited to the 74 poorest nations with per capita incomes below $1,415 and that were eligible to borrow from the World Bank's International Development Association. The list expanded in FY2005 to include all low-income countries with a per capita income below $1,465 (adding another 13 nations). Beginning in FY2006 and beyond, all low- and lower-middle-income countries (with per capita incomes between $1,735 and $3,595 in FY2008) may compete for MCC resources (a total of 95 countries in FY2008). However, lower-middle-income countries may receive only a quarter of MCA assistance in any year.

Country selection is based largely, but not exclusively, on the nation's record measured by 17 performance indicators related to the three categories, or "baskets," of good governance, economic freedom, and investing in people. Countries that score above the median on half of the indicators in each of the three areas qualify. Emphasizing the importance of fighting corruption, the indicator for corruption is a "pass/fail" test: should a country fall below the median on the corruption indicator, it will be disqualified from consideration unless other, more recent trends suggest otherwise. (See **Table 4** below for a complete list of the 17 performance indicators.) Administration officials, since announcing the MCA initiative in 2002, have said that the selection process would be guided by, but not necessarily bound to the outcomes of the performance indicators. Missing or old data, general trends, and recent steps taken by governments might also be taken into account when annual decisions are made.

Eligibility to receive MCA assistance, however, does not necessarily result in an aid grant. Once selected, countries are required to submit program proposals — referred to as MCA Compacts — that have been developed through a broad-based,

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[1] For a more in-depth discussion of the original MCA proposal and issues debated by Congress in 2003, see CRS Report RL31687, *The Millennium Challenge Account: Congressional Consideration of a New Foreign Aid Initiative*, by Larry Nowels.

national discussion that includes input from civil society. The focus of program submissions may vary among countries in size, purpose, and degree of specificity, and are evaluated by the Corporation for, among other things, how well the Compact supports a nation's economic growth and poverty reduction goals. Only those Compacts that meet the MCA criteria will be funded. It is expected that successful Compacts will support programs lasting three to five years, providing a level of resources roughly equivalent to the largest providers of assistance in the country. In most cases, this will likely result in a significant increase of U.S. economic assistance to MCA participant countries.

To manage the new initiative, the Administration proposed and Congress authorized the creation of a Millennium Challenge Corporation (MCC), an independent government entity separate from the Departments of State and the Treasury and from the U.S. Agency for International Development (USAID). The MCC plans for an eventual staff of about 300. It is led by a CEO confirmed by the Senate. The current CEO is Ambassador John Danilovich.[2] A Board of Directors oversees operations of the MCC and makes the country selections. It is chaired by the Secretary of State and composed of the Secretary of the Treasury, the USAID Administrator, the U.S. Trade Representative, the Corporation's CEO, and four individuals from the private sector drawn from lists of proposed nominees submitted by Congressional leaders.[3]

The decision to house the MCA in a new organization was one of the most debated issues during early congressional deliberations of the President's foreign aid initiative. The Administration argued that because the MCA represents a new concept in aid delivery, it should have a "fresh" organizational structure, unencumbered by bureaucratic authorities and regulations that would interfere in effective management. Critics, however, contended that if the MCA was placed outside the formal U.S. government foreign aid structure, it would lead to further fragmentation of policy development and consistency. Some believed that USAID, the principal U.S. aid agency, should manage the MCA, while others said that the MCA should reside in the State Department where more U.S. foreign policy entities have been integrated in recent years. At least, some argued, the USAID Administrator should be a member of the MCC Board, which had not been proposed in the initial Administration request.

It appears that the MCC's status will remain unchanged under Secretary Rice's realignment of foreign aid authorities, announced on January 19, 2006. Henrietta

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[2] Replacing Paul Applegarth who resigned on August 8, 2005.

[3] The two private sector Board members in place (since June 2007), both proposed by House leaders, are Alan Patricof, co-founder of a venture capital corporation, and Lorne Craner, President of the International Republican Institute. The first two Senate nominees, Kenneth Hackett, President and CEO of Catholic Relief Services, and Christine Todd Whitman, former Governor of New Jersey and former head of the Environmental Protection Agency, 2001-2003, completed their three-year terms in mid-July 2007 but could be re-appointed for two more years. On September 12, the President nominated Kenneth Hackett for the permitted two-year term and former Senate Majority Leader William Frist for a three-year term.

Holsman Fore, the USAID Administrator, also serves concurrently in the newly created State Department position of Director of Foreign Assistance. While gaining policy and budget authority over nearly all USAID and State Department foreign aid programs, the Director will play a more limited role in other agency activities, by developing an overall U.S. government development strategy and providing "guidance" to foreign aid programs delivered through other agencies like the MCC.

MCC Implementation

On February 2, 2004, the Board of Directors held its initial meeting to establish the program and agreed to Corporation by-laws. Over the following weeks the Corporation identified "candidate" countries for that fiscal year, published the criteria and methodology to be used for country selection, issued guidelines for Compact proposals, and selected countries to participate in the MCA program. Although subsequent years have seen similar steps, there have been changes in procedures and policy as the program evolves. These are discussed below.

Selection Criteria and Methodology

The choice of criteria on which to base the eligibility of countries for threshold and Compact programs is one of the most important elements in MCC operations. They are a key statement of MCC development priorities. Perhaps of greater significance, the current indicators themselves have become prominent objectives of some developing countries in what Board CEO Danilovich has called the "MCC effect."[4] Countries seeking eligibility are moving on their own to enact reforms and take measures that would enable them to meet MCC criteria. The criteria and the methodology for applying them have evolved over time.

Pursuant to reporting requirements set in the MCC legislation, the Corporation on March 5, 2004 sent to Congress an overview of the criteria and methodology that would be used to determine the eligibility of the 63 candidate countries in FY2004. Although the Corporation did not alter any of the originally proposed 16 performance indicators, it attempted to address additional criteria added by Congress in P.L. 108-199 through the use of supplemental data and qualitative information. While the legislative authorities broadly match criteria proposed by the Administration, lawmakers included four additional matters on which to evaluate a country's performance. These relate to the degree to which a country:

- recognizes the rights of people with disabilities;
- supports a sustainable management of natural resources;
- respects worker rights; and
- makes social investments, especially in women and girls.

For an evaluation of the rights of people with disabilities, the MCC reported that it would draw on information in the State Department's annual Human Rights Report, which includes a discussion of discrimination based on disability. Regarding natural

[4] MCC Public Outreach Meeting, February 15, 2007.

resource management, the Corporation would also use the Human Rights Report as supplemental information on such issues as access to sanitation, deforestation, conservation of land and marine resources, land tenure institutions, and protection of threatened and endangered species. The State Department's Human Rights Report would also be used for additional information regarding worker rights, while statistics on girls' primary enrollment rates would supplement the four social investment performance indicators.

The MCC also noted that it would use the most recent release (then October 2003) of Transparency International's Corruption Perception Index to update and supplement the World Bank's survey data on which the corruption performance indicator is based. This was necessary because the World Bank information was last published in March 2003. Since the corruption indicator is a "pass/fail" measure, the quality and timeliness of the data are especially important.

During the public comment period and at congressional oversight hearings, some suggested that existing data sources needed to be refined or new surveys created in order to specifically measure a country's commitment on the four criteria added by Congress. After further study of the criteria and methodology, the Corporation announced on August 26, 2004, a revised set of performance indicators that were used for the FY2005 selection process. The MCC lowered the inflation rate threshold from 20% to 15%, making it somewhat more difficult to pass this test (only 6 of the 63 candidate countries failed this test for FY2004). An indicator measuring girls' primary education completion rates replaced a broader measure used in FY2004 that did not disaggregate primary education graduation by gender. As noted above, including the means to measure country performance on key women and girls issues was one of the requirements added by Congress during deliberation on MCC authorizing legislation.

For FY2006, the Corporation made further changes in the criteria and methodology. The most notable was the addition of a new indicator — the Cost of Starting a Business — that replaced the Country Credit Rating, a measure that was used in the FY2004 and FY2005 evaluation process. The Corporation believed that not only did the new indicator have a strong correlation with economic growth, but that it was a measurement that might encourage governments to take action in order to improve their scores. Since the initial use of the indicator Days to Start a Business, MCA candidate countries had introduced many business start-up reforms, the results of which were reflected in a lowered median for this category. MCC officials hoped that adding an indicator for the Cost of Starting a Business would stimulate additional policy improvements. They believed that the Country Credit Rating indicator was not as well linked to policy reforms and that it had a greater income bias than other MCC indicators.

The Corporation also modified the principal, in selected cases, that countries must score *above* the median in order to pass a hurdle, with a rule that scores at the median will represent a passing grade. This comes into play especially for those indicators (civil liberties, political rights, and trade policy) where performance is measured on a relatively narrow scale of 1-5 or 1-7. A number of countries fall exactly on the median of these indicators and the methodology change allows the

MCC to make a more refined determination of whether a country passes or fails these hurdles.

The MCC further indicated that it would explore additional criteria and methodology changes for the future. Under consideration were options to:

- identify a measurement related to natural resource management; the MCC has created a working group to study possibilities.
- review other possible indicators that would better measure trade barriers that are linked with economic growth.
- consider additional gender-relation indicators; the MCC looked closely at the indicator of Skilled Attendants at Birth (a proxy for maternal mortality) but decided for now that the data lack the necessary quality and coverage.[5]

In December 2006, Ambassador Danilovich announced that the MCC would apply gender analysis to all aspects of the MCC program, including country selection and Compact development and implementation.

Efforts to develop a measurement to assess a country's commitment to policies that promote sustainable management of natural resources (as required by MCC authorizing legislation) led to the adoption of two new indicators, first used as supplemental information in determining FY2007 MCA eligibility and then integrated with all the other indicators beginning with the FY2008 eligibility process. The Natural Resources Management index is a composite of indicators: whether the country is protecting at least 10% of its biomes, the percentage of population with access to sanitation and clean water, and child mortality levels. It has been placed in the Investing in People basket, raising the number of those indicators to five. The Land Rights and Access index looks at whether land tenure is secure and access to land is equitable, and the number of days and cost of registering property. It has been placed in the Economic Freedom basket. That basket remains at six indicators, because, beginning in FY2008, the MCC collapsed the Days to Start a Business and Cost of Starting a Business indicators into one Business Start-Up indicator.[6]

Selecting Countries

Country Selection — FY2004. On February 2, 2004, the MCC Board issued a list of 63 "candidate" countries that would be reviewed for possible selection as MCA participants in FY2004. These countries, according to authorizing legislation, had to be eligible for assistance from the World Bank's International Development Association, have a per capita income of $1,415 or less, and not be otherwise ineligible to receive U.S. assistance. The latter condition eliminated

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[5] For a complete discussion of this issue, see *Report on the Criteria Methodology for Determining Eligibility of Candidate Countries for Millennium Challenge Account Assistance in FY2006,* at [http://www.mcc.gov], Congressional Reports.

[6] The Senate version of H.R. 2764, the FY2008 State/Foreign Operations bill, would amend sec. 607 of the MCC authorization to move the natural resource management criteria to the investing in people basket and add protection of biodiversity.

twelve countries — Burma, Burundi, Cambodia, Central African Republic, Cote d'Ivoire, Guinea-Bissau, Liberia, Serbia, Somalia, Sudan, Uzbekistan, and Zimbabwe — that were statutorily barred from receiving American aid.[7]

On May 6, the MCC Board of Directors determined that 16 countries would be eligible for FY2004 MCA funding and invited each to submit program proposals. As expected, the selection process raised a number of questions and concerns. The Administration had previously said that the Board would be guided by, but not entirely bound to, the outcome of the performance indicator review process; that Board members could apply discretion in their selection. Performance trends, missing or old data, and recent policy actions might come into play during selection deliberations, officials noted.

The final selection reflected decisions that both strictly followed the performance indicator outcomes and applied Board discretion to take into account other factors. Ten of the countries complied with the stated criteria: performing above the median in relation to their peers on at least half of the indicators in each of the three policy "baskets" and performing above the median on corruption. The Board also examined whether a country performed substantially below average on any single indicator and whether their selection was supported by supplemental information. Each of the 10 countries also passed these additional tests.

Armenia	Madagascar
Benin	Mali
Bolivia	Mongolia
Cape Verde	Mozambique
Georgia	Nicaragua
Ghana	Senegal
Honduras	Sri Lanka
Lesotho	Vanuatu

For 10 other countries, however, some discretion was applied by the Board. In three cases, countries which met the criteria but fell significantly below average on one indicator were still selected by the Board due to recent policy changes or positive trend lines. Cape Verde, for example, scored poorly on the Trade Policy indicator, but the Board took into account the country's progress towards joining the World Trade Organization and implementing a value added tax that will reduce reliance on

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[7] Various types of aid restrictions applied to these countries. For several — Burundi, Central African Republic, Cote d'Ivoire, Guinea-Bissau, and Sudan — U.S. aid was blocked because an elected head of government had been deposed by a military coup. For Cambodia and Uzbekistan, legislation banned FY2004 assistance to the central governments of these countries. Aid restrictions imposed on nations not cooperating in counter-narcotics efforts (Burma), that are on the terrorist list (Sudan), or in arrears on debt owed the United States (Liberia, Somalia, and Zimbabwe) also applied. Serbia could not receive aid in FY2004 unless the President issued a determination stating, among other things, that the government was cooperating with the International Criminal Tribunal. Notwithstanding these restrictions, each country remained eligible for humanitarian assistance from the United States.

import tariffs. Lesotho did not score well on the measurement for Days to Start a Business. The MCC Board, however, took note of Lesotho's creation of a central office to facilitate new business formation and saw positive performance on other factors related to business start-ups. Sri Lanka scored far below the median on Fiscal Policy, but the most recent trends suggested that the government was making progress in reducing its budget deficit.

For three other countries — Bolivia, Georgia, and Mozambique — the Board deviated from a strict application of the selection criteria because of evidence that the governments were taking corrective actions in the deficient areas. Bolivia fell at the median (as opposed to above the median) on the corruption indicator, something that would eliminate it from consideration. The Board, however, noted that President Mesa, who took office in October 2003, had created a cabinet position to coordinate anti-corruption activities and an office to investigate police corruption. Georgia, with a newly elected government that had created an anti-corruption bureau and taken other steps to fight corruption, was also selected despite scoring below the median on corruption and three other "ruling justly" indicators. Mozambique, which failed on corruption and each of the four "investing in people" indicators, was chosen based on supplemental data that was more current than information available from the primary data sources. This evidence, the Board felt, demonstrated Mozambique's commitment to fighting corruption and improving its performance on health and education.

On the other hand, the MCC Board chose not to select four countries that technically met the performance criteria but fell substantially below the median on one or more indicator. In each of these cases, the Board did not believe that the government was taking any action to improve its performance. Although Bhutan, Mauritania, and Vietnam passed the corruption hurdle and half of the "ruling justly" indicators, they scored very low on the measurements for Political Rights and Civil Liberties, and in Vietnam's case, on the Voice and Accountability indicator. A fourth country — Guyana — was also not selected despite passing the necessary hurdles. It scored particularly low on the Fiscal Policy measurement.[8]

It has been long assumed by MCC officials and close observers of the MCA initiative that when the country selections were announced, there would be disagreements and possible surprises in the final list, especially if the Board exercised its discretionary authority as it did for FY2004 participants. Representative Lowey, for example, expressed her view at a May 13, 2004 House Appropriations Committee hearing that East Timor, which failed to pass the "economic freedom" hurdle in part due to missing data on two of the indicators, should have been selected. CEO Applegarth responded that East Timor is a new nation and that it was premature to conclude that it was a "high-performing" country. He acknowledged, however, that East Timor should be given close consideration in the future if the current trends continue.

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[8] For a complete statement regarding the Board's rationale, see *Report on the Selection of MCA Eligible Countries for FY2004*, found at [http://www.mcc.gov], "Congressional Reports."

Besides East Timor, some suggested that Kenya should have been included because of its new government's commitment to education and anti-corruption efforts. USAID Administrator Natsios acknowledged at the May 13 hearing that Albania was a "close call," failing because it scored slightly below the median on corruption. Like Albania, Malawi and Moldova would have qualified on the basis of performance if not for slightly failing scores on corruption. Several small island states, including Kiribati, Sao Tome, and Tonga, were not selected even though the absence of data for several categories may have played a role.[9]

Despite these questions over specific country eligibility, the selection process appeared to have satisfied two major concerns that have been consistently expressed over the past year. Based on earlier analysis, some argued that Africa would be under-represented in the final selection process, with perhaps as few as three regional states participating. In fact, eight, or half of the first year qualifying nations, are from Africa.

Selection of countries that would give the appearance of geostrategic considerations was an additional concern of many who view the absence of security-related factors from MCA decision-making as one of the most attractive features of the initiative. For the most past, the Board appeared to have avoided this concern. Had the Board used its discretionary powers to select Indonesia, for example, some critics would have likely charged that the decision stemmed more from Jakarta's role in the war on terrorism than on strict policy performance. Indonesia passed all necessary hurdles except for corruption. Some, nevertheless, have questioned whether Georgia's selection was driven by broad U.S. foreign policy objectives of assisting a smooth political transition in the country rather than a choice based on performance.[10] Likewise, Bolivia, a country in which the United States maintains strong counter-narcotics goals, had been experiencing a period of instability despite strong performance prior to October 2003. Both Georgia and Bolivia were selected despite not strictly meeting the MCA performance criteria.

Country Selection — FY2005. On July 20, 2004, the MCC Board of Directors launched the initial step in the FY2005 selection process by naming 70 candidate countries, 7 more than were reviewed for FY2004. After adjusting the per capita income upward to $1,465[11] and dropping the requirement that a country must be an IDA-eligible borrower from the World Bank, 11 new countries were added to the list: China, Egypt, Equatorial Guinea, Iraq, Morocco, Paraguay, Philippines, Swaziland, Turkmenistan, Tuvalu, and Ukraine. Four countries fell off the FY2005

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[9] As noted below, East Timor, Albania, and Sao Tome were subsequently selected as three of the first seven "threshold" countries that will receive assistance to help the country meet the MCA requirements.

[10] See Steve Radelet, *A Note on the MCC Selection Process for 2005*, September 23, 2004, found at [http://www.cgdev.org].

[11] The MCC plans to adjust the per capita income threshold each year to correspond to the per capita income cutoff of the "historic ceiling" of IDA lending, a calculation made by the World Bank. After 2006,when all lower middle-income countries became eligible to compete, the MCC also adjusted that threshold — $3,595 in 2008 — in the consideration of determining candidate countries.

list that had qualified in FY2004 — Albania, Bosnia and Herzegovina, Cape Verde, and Tonga — because their per capita income grew beyond the $1,465 cutoff. Thirteen other nations were excluded because they were ineligible for other U.S. economic assistance.

Meeting on November 8, the MCC Board of Directors made its selection of FY2005 eligible countries:

Armenia	Mali
Benin	Mongolia
Bolivia	Morocco
Georgia	Mozambique
Ghana	Nicaragua
Honduras	Senegal
Lesotho	Sri Lanka
Madagascar	Vanuatu

The Board chose one new country for FY2005 — Morocco — while 15 of the 16 nations included for FY2004 were determined eligible again for FY2005. Cape Verde was not selected due to the fact that its per capita GNI exceeded the $1,465 ceiling. Cape Verde, however, remained eligible for MCA support using FY2004 funds. Board selections represented both a high degree of continuity between FY2004 decisions as well as a sharp difference in the degree to which it applied its discretionary authority for qualifying or denying countries for FY2005.

Continuity in the FY2005 Selection Round. The fact that each country (except Cape Verde) selected for FY2004 MCA participation was also declared eligible for FY2005 should not be surprising, given the nature of the MCA concept. The Board identified in May 2004 what it determined to be the 16 "best performers" based on the assumption that these countries had, and would continue to express, a strong commitment to the types of economic, governance, and social policy reforms measured by the MCC. Absent a substantial negative development since May, there was a presumed expectation that these same countries would score well in a subsequent performance comparison with their income peers. Moreover, except in some extreme situations, evidence of a slide in policy performance as measured through the various data sources would likely lag behind the actual policy shift and not be reflected in the immediate data updates.

In addition, two other factors that may not apply in future years seem to have affected the outcome for FY2005. First, with the selection dates for FY2004 and FY2005 coming only six months apart — rather than one year, as should be the case in the future — it was likely that the data would indicate less change than might be the case if the comparisons occurred over a longer period. Between May and November, several of the data sources upon which the 16 performance indicators are based did not update or revise their figures.[12] As a result, the review of countries for

[12] This is not true for the performance indicators of Inflation and Primary Girls Graduation (continued...)

FY2005 was based on much of the same data and rankings as had been the case for the FY2004 selection.

Moreover, the addition of 13 new countries for consideration in the FY2005 round had the effect for at least six of the indicators of lowering the median against which countries were compared. Because of this, if a country scored well — above the median — in the FY2004 selection decision, it was likely that it would score the same or better in the review for FY2005 where medians declined. For example, in May, Bolivia fell exactly at the median on the corruption indicator. But, in November, when the median for corruption dropped somewhat after new countries were added, Bolivia scored above the median even though Bolivia's score on corruption did not change. This phenomena is unlikely to be repeated again to the same extent since countries in the low-income group will be added or subtracted only if their economy grows beyond the per capita income ceiling or U.S. foreign aid sanctions are applied or lifted since the last review. The net effect is that the core set of low-income countries competing for MCA selection is unlikely to change as much as it did in FY2005, thereby reducing the extent to which the median will be altered simply because of the addition of new countries.

Excluding More Countries that Qualified. Despite the degree of continuity between FY2004 and FY2005 in the selection of eligible countries, the MCC Board departed somewhat from the previous round by not selecting a large number of countries that technically met the MCA performance criteria. Many observers raised questions over the FY2005 selections regarding the countries that were *not* selected rather than those that were.

As noted above, in May 2004, the Board chose not to select four countries — Bhutan, Guyana, Mauritania, and Vietnam — although each passed the minimum number of indicators. The Board decided to exclude these four because they scored "substantially below" the median on one or more measurements, although without defining precisely what represented a mark "substantially below"the median.

For FY2005, the Board did not select 10 countries that met the criteria, including three of the four left out of the FY2004 round (Mauritania did not meet the minimum qualifications). In addition, for FY2005 Burkina Faso, China, Djibouti, Egypt, Nepal, the Philippines, and Swaziland met the minimum standards but were not selected. The Corporation offered little explanation as to why these countries were not chosen.[13] It appears, however, that scoring "substantially below" — perhaps

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[12] (...continued)
Rate, which were modified for the FY2005 selection, or for the indicators measuring Days to Start a Business, Civil Liberties, and Political Freedom which were updated in 2004. For some of the other economic and social investment indicators where data were drawn from national sources, revised figures were used in the FY2005 selection, but only where available. World Bank data for six governance-related indicators and the Trade Policy measurement, however, were not revised between May and November 2004.

[13] The MCC's authorizing legislation (section 608(d)) requires the Corporation's CEO to provide justification to Congress regarding only those countries declared as eligible for (continued...)

in the lowest 25th percentile — has become a de-facto criteria for exclusion. For example, the Corporation's CEO Paul Applegarth commented that the Philippines, a country that passed 13 of the 16 indicators, did not qualify because Manilla scored "substantially below" the median on tests for health expenditures and fiscal policy, and that more recent trends indicated the fiscal policy situation was deteriorating further.[14] Each of the other nine nations that met the minimum qualifications but were not selected also had one score in the 25th percentile, although the Corporation has not commented on whether this was the reason for not choosing them.

Another possible reason for limiting the number of qualifying countries in the FY2005 round might be due to funding reductions that were anticipated in early November. The Administration had requested combined FY2004/FY2005 appropriations of $3.8 billion, but was more likely, at the time of selection, to have available 25%-35% less, depending on the outcome of congressional debate on the FY2005 budget. Corporation officials have said that reduced funding would lead to fewer countries assisted and/or smaller grants per country, a situation that would be complicated further by qualifying additional nations.

Instead, the Board of Directors invited three of these 10 countries — Burkina Faso, Guyana, and the Philippines — to participate in the Threshold Program, intended to help "near-miss" nations take steps to strengthen areas that would help them qualify for full MCA assistance in the future. Burkina Faso became the first to sign a Threshold Agreement on July 22, 2005.

Another Board departure in the FY2005 selection process was to avoid using its discretionary authority to qualify countries that did not meet the minimum performance indicators. In May, the Board chose three nations — Bolivia, Georgia, and Mozambique — that did not pass the so-called "hard-hurdle" of corruption. The latter two again qualified despite falling below the median on corruption, while Bolivia did not require an exemption after the median dropped below its score with the addition of new countries. For FY2005, five nations — Malawi, Moldova, Paraguay, Tanzania, and Ukraine — passed the required number of performance indicators, except corruption. Although Malawi, Paraguay, and Tanzania are Threshold Countries, none of the five were chosen for full MCA status.

Country Selection — FY2006. On August 5, 2005, the MCC released a list of 69 low-income countries and 29 lower-middle-income nations to be evaluated for MCA grants in FY2006. The number of low-income nations — those with a per capita GNI of less than $1,575 — was one less than the previous year (Equatorial Guinea was dropped) while all of the lower-middle-income group, with per capita

[13] (...continued)
MCA assistance and for those selected for Compact negotiation. Otherwise, there is no statutory requirement for the MCC to comment on its decision-making process, including the rationale for not selecting specific countries.

[14] Comments by Paul Applegarth at a State Department Foreign Press Center Briefing, November 9, 2004.

GNI between $1,575 and $3,255, were new to the MCA selection process.[15] Fifteen nations were excluded from the FY2006 candidate country list because they are ineligible under existing law to receive U.S. economic aid. Most had been barred in prior years as well.

Low-Income Countries

Armenia	Madagascar
Benin	Mali
Bolivia	Mongolia
Burkina Faso*	Morocco
East Timor*	Mozambique
The Gambia*	Nicaragua
Georgia	Senegal
Ghana	Sri Lanka
Honduras	Tanzania*
Lesotho	Vanuatu

Lower-Middle-Income Countries

Cape Verde	Namibia
El Salvador*	

* New for FY2006.

On November 8, 2005, the MCC Board of Directors made its selection of FY2006 eligible countries, and, for the first time, selected participants in both the low-income and lower-middle-income groups. All 17 countries previously selected in FY2004 or FY2005, or both years, again qualified in FY2006. Four new low-income countries were added for FY2006 — Burkina Faso, East Timor, The Gambia, and Tanzania — plus two new lower-middle-income nations — El Salvador and Namibia.[16] None of the four low-income nations were surprising. Three — Burkina Faso, East Timor, and Tanzania — were chosen the previous year as Threshold countries, meaning they were "near-misses" in FY2005. The Gambia improved its scores significantly between FY2005 and FY2006, including those for inflation, fiscal policy, controlling corruption, and other governance indicators. The rationale for selecting any lower-middle-income countries, on the other hand, and El Salvador and Namibia in particular, is less clear, as discussed below.

Although selected only seven months previously, The Gambia's eligibility for MCA assistance was suspended by the MCC Board on June 16, 2006, due to "a

[15] Each year, the MCC adjusts the low-income country per capita income threshold to correspond to the per capita income cutoff of the "historic ceiling" of IDA lending, a calculation made by the World Bank. The range of per capita GNI for the lower middle-income group is also drawn from the World Bank.

[16] Cape Verde was also selected in the new lower middle-income country grouping. Cape Verde, however, had been previously chosen in FY2004 when its income placed it in the low-income grouping, and signed an MCA Compact on July 4, 2005.

disturbing pattern of deteriorating conditions" in half of the 16 conditions that are used to determine candidate countries. Among the problems cited in this case were human rights abuses, restrictions on civil liberties and press freedom, and worsened anti-corruption efforts.

Greater Board Selectivity. Given the likelihood that the MCC would have substantially less appropriated funds for FY2006 than it had requested, a number of observers argued that now was not the time to expand the list of eligible countries to a great extent, especially for cases where Board discretion would be necessary to qualify a country that did not pass a sufficient number of indicators. Instead, many asserted, the Board should be more selective, keeping the number of new participants to a few so that future Compacts could be larger and emphasize "transformational" development opportunities as the MCA program envisioned.

The Board seemed to heed this advice for the low-income group by not choosing eight countries that qualified and not using its discretionary powers to select any new nations that failed to meet the minimum requirements.[17] Bhutan, China, and Vietnam passed enough hurdles but did not qualify, as was the case the past two years, based on very low scores on political rights and civil liberties. Kiribati, the Philippines, and India were not selected most likely because some of their scores were substantially below the median, which has become a marker used by the Board previously. India also presents a challenging case for the Board in that, despite qualifying, it is a country with a significantly large poor population which would require a sizable MCA Compact in order to produce a reasonable degree of impact on poverty reduction. It is also a nation with the means to attract capital and investment from other sources. Egypt, also not selected, falls into a somewhat different category as the second largest recipient of annual U.S. assistance based on a strategic rationale. The reason for not selecting Uganda, despite having passed 12 of the 16 indicators and not falling significantly below the median on the other 4, is less obvious.

Selection of Lower-Middle-Income Countries Was Less Clear. Whether to include relatively more wealthy nations — in FY2006 those with a per-capita income higher than $1,575 — in the MCA program has been debated since the launch of the initiative. A number of analysts have argued that especially given the less-than-anticipated budget available to the MCC, the Board should refrain from selecting any lower-middle-income countries (LMICs), at least in the FY2006 round.[18]

Of the eight LMICs (out of 32 total) that passed sufficient performance hurdles, the Board chose two to participate in FY2006. In addition, the Board also selected Cape Verde, a country that passed only two of the six economic performance

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[17] Georgia and Senegal were selected despite not passing the necessary hurdles, but both had been chosen in FY2004 and FY2005.

[18] See, for example, Steve Radelet, Kaysie Brown, and Bilal Siddiqi, "Round Three of the MCA: Which Countries are Most Likely to Qualify in FY 2006?" Center for Global Development, October 27, 2005.

indicators and therefore, did not technically qualify.[19] It appears, however, that the Board could have decided to select none of the lower-middle-income nations by using criteria it had applied consistently in the two previous rounds. Moreover, it was not clear why the Board chose the two that did qualify and excluded others.

All eight LMICs that passed the performance indicator test fell significantly below the median on at least one of the indicators. El Salvador and Namibia, the two that were selected, both had low scores on fiscal policy. El Salvador also scored well below the median on the costs of starting a business, while Namibia also did poorly on days to start a business and immunization rates. The other six that were not chosen — Brazil, Bulgaria, Jordan, Samoa, Thailand, and Tunisia — also performed substantially below the median in at least one area, although Jordan was selected to participate in the Threshold program. What separated these latter six from El Salvador and Namibia, however, was not explained by the Board.

Country Selection — FY2007. On August 11, 2006, the MCC released a list of 69 low-income and 29 lower-middle-income countries to be candidates for MCA grant eligibility. The number of low-income countries — those with per capita GNI of less than $1,675 — and lower-middle-income countries — those with per capita GNI of $1,675 to $3,465 — was the same as the previous year. However, China and Morocco were dropped from the low-income group — the former was restricted by human rights concerns and the latter moved to the lower-middle-income list — and were replaced by Burundi and Central African Republic, both no longer restricted by military coup prohibitions. Thailand was removed from the lower-middle-income list due to its coup and Romania moved up to the ranks of upper middle-income countries. New entries were Montenegro and Morocco. Fifteen countries were excluded from the FY2007 candidate country list because they were ineligible under existing law to receive U.S. economic aid. Most had been barred in prior years as well.

On November 8, 2006, the MCC Board added three new countries to the list of those eligible for MCA grants — Moldova, Jordan, and Ukraine.

Even prior to the selection, the possible choice of Jordan had come in for severe criticism. Freedom House, the organization whose annual Index of Freedom is drawn upon for two of the "Ruling Justly" indicators, had urged the MCC Board to bypass countries that had low scores on political rights and civil liberties. It argued that countries like Jordan that fall below 4 out of a possible 7 on its index should be automatically disqualified. Jordan, however, did well on three of the six other indicators in this category. Several development analysts further argued that Jordan should not be selected, because the MCA is not an appropriate funding source. They assert that Jordan already is one of the largest recipients of U.S. aid, has access to

[19] Cape Verde had been classified as an eligible low-income country in FY2004 and signed a Compact in July 2005. The Cape Verde case, however, also points out a limitation in using the system of 16 performance indicators. For two of the economic categories, no data are available for Cape Verde, resulting in a failing score on those hurdles.

private sector capital, and is not a democracy.[20] In selecting Jordan, the MCC Board appears not to have been swayed by these arguments.

Low-Income Countries

Armenia	Moldova*
Benin	Mongolia
Bolivia	Morocco
Burkina Faso	Mozambique
East Timor	Nicaragua
Georgia	Senegal
Ghana	Sri Lanka
Honduras	Tanzania
Lesotho	Ukraine*
Madagascar	Vanuatu
Mali	

Lower-Middle-Income Countries

Cape Verde	Jordan*
El Salvador	Namibia

* New for FY2007.

Another concern expressed by observers regarding the FY2007 selection process was that four of eleven current Compact countries — Ghana, Benin, Madagascar, and Cape Verde — would fail if measured under FY2007 indicators. While it was not expected that existing Compact funding would be withdrawn as it is based on eligibility in previous years, some had hoped the Board would send a signal of disapproval of such lapses. However, the MCC Board did not address this issue at the November candidate selection meeting.

Country Selection — FY2008. On August 24, 2007, the MCC transmitted to Congress its annual notification of candidate countries, listing 67 low-income countries and 28 lower-middle-income countries. There are two new entries to the low-income candidates — Somalia and Cambodia. Previously, Somalia had been barred by the Brook Amendment prohibiting aid to countries defaulting on debt to the U.S. government. Cambodia was prohibited from receiving most aid under the annual Foreign Operations appropriations; relations with that country have since improved. Angola, Armenia, Azerbaijan, and Ukraine have moved from low-income to lower-middle-income status. Five previously lower-middle-income countries are no longer candidates: one, Fiji, cannot be considered because of a military coup; the others have graduated to middle-income status. Thirteen countries, including Fiji, were excluded from the FY2008 candidate country list because they are ineligible

[20] Freedom House, "Millennium Challenge Corporation Should Hold Countries to Higher Standards of Democratic Governance," November 2, 2006 [http://www.freedomhouse.org]; Sheila Herrling, Steve Radelet, and Sarah Rose, "Will Politics Encroach in the MCA FY2007 Selection Round? The Cases of Jordan and Indonesia," Center for Global Development, October 30, 2006, [http://www.cgdev.org].

under existing law to receive U.S. economic aid. Most had been barred in prior years as well. Selection of countries eligible for MCA grants in FY2008 will likely be determined in December.

MCA Compacts and Program Proposals

Once declared as eligible, countries may prepare and negotiate program proposals with the MCC. The proposals are referred to as MCA Compacts. Only those Compacts that demonstrate a strong relationship between the program proposal and economic growth and poverty reduction will receive funding. Not all qualified MCA countries may submit successful Compacts.

While acknowledging that Compact contents likely will vary, the Corporation expects each to discuss certain matters:

- a country's strategy for economic growth and poverty reduction, impediments to the strategy, how MCA aid will overcome the impediments, and the goals expected to be achieved during implementation of the Compact;
- why the proposed program is a high priority for economic development and poverty reduction and why it will succeed; the process through which a public/private dialogue took place in developing the proposal;
- how the program will be managed, monitored, and sustained after the Compact expires;
- the relationship of other donor activities in the priority area;
- examples of projects, where appropriate;
- a multi-year financial plan; and
- a country's commitment to future progress on MCA performance indicators.

The Corporation did not set hard deadlines for Compact submissions in order to allow countries adequate time to conduct a national dialogue over the contents of the program proposal.[21] By December 1, 2004, the MCC had received proposals and "concept papers" from 15 of the 16 FY2004 eligible countries, and began the next phase — negotiating formal Compacts — with several countries. The MCC signed its first Compact, with Madagascar, on April 18, 2005, an event that was followed by four other signings in 2005 — with Honduras (June 13), Cape Verde (July 4), Nicaragua (July 14), and Georgia (September 12). In 2006, six more agreements were signed: Benin (February 22), Vanuatu (March 2), Armenia (March 27), Ghana (August 1), Mali (November 13) and El Salvador (November 29). So far, in 2007, five Compacts have been signed — with Mozambique (July 13), Lesotho (July 23),

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[21] H.R. 4014, introduced on October 7, 2005, expresses the sense of Congress that the MCC should encourage countries to submit Compact proposals within one year of being declared eligible, enter into a Compact within two years, and to consider removing countries from the status of eligibility if they do not comply with these guidelines in a timely and good faith manner.

Morocco (August 31), Mongolia (approved, not yet signed, September 12), and Tanzania (approved, not yet signed, September 18).[22]

The case of Madagascar is a good example of how the Compact process is expected to take shape. Elements of the design, negotiation, and completion of the Madagascar Compact met several of the key criteria of the MCA process. Discussions regarding the scope and purpose of the MCA grant occurred at the regional and national level in Madagascar that included broad representation of civil society. Management and oversight of the Compact will be handled by a new entity, MCA-Madagascar, whose Steering Committee will include government and non-government officials. Both of these steps underscore the "country-ownership" and broad participatory nature of MCA programs. The Compact also includes fiscal accountability requirements concerning audits, monitoring, and evaluation that support the transparency concept of the MCA. While the $110 million MCA grant was fully obligated when the Compact entered into force, resources will be transferred periodically following a determination that performance continues satisfactorily. This funding plan emphasizes the MCA principles of accountability and results.

Compact Descriptions. The 16 Compacts agreed up to this point are described below. In addition to individual Compact components noted in each description, Compact totals also include administrative and monitoring costs.

Madagascar. The Madagascar Compact is a four-year, $110 million program, focusing on rural agriculture development and poverty reduction. Specifically, the project has three objectives: 1) to increase land titling and land security ($36 million); 2) to expand the financial sector and increase competition ($36 million); and 3) to improve agricultural production technologies and market capacity in rural areas ($17 million). According to the MCC, the Compact is designed to assist Madagascar's rural poor, which account for 80% of the nation's impoverished population, and generate income by expanding opportunities to own land, to access credit, and to gain technical training in agriculture and market identification.

Honduras. The five-year, $215 million MCA Compact with Honduras focuses on two objectives — rural development and transportation. The rural development project, representing $72.2 million of the Compact, will assist small and medium-size farmers enhance their business skills and to transition from the production of basic grains to horticultural crops, such as cucumbers, peppers, and tomatoes. According to the MCC, these vegetable crops will generate about $2,000 to $4,000 in annual income per hectare, compared with roughly $500 for basic grains. The project intends to provide farmers with the appropriate infrastructure and necessary training for producing and marketing these different crops. The transportation project, totaling $125.7 million of the Compact, will improve the major highway linking Honduran Atlantic and Pacific ports, and major production centers in Honduras, El Salvador, and Nicaragua. Rural roads will also be upgraded, helping farmers

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[22] Details on each of the negotiated Compacts can be found at the MCA website: [http://www.mcc.gov].

transport their goods to markets at a lower cost. Specific results sought in the Compact are:

- double productivity in 15,000 hectares in rural areas
- expand access to credit for farmers by over 20%
- upgrade the major road that links Honduras with commercial centers
- upgrade about 1,500 kilometers of rural roads

Cape Verde. The MCC and Cape Verde have signed a five-year, $110 million Compact focused largely on improving the country's investment climate, transportation networks, and agriculture productivity. The program's goal is to increase the annual income in Cape Verde by at least $10 million. The Compact evolves around three projects:

- Private Sector Development — with $7.2 million and additional participation with the International Finance Corporation, the project aims to remove constraints to private sector investment.

- Infrastructure — the project will invest $78.7 million in road and bridge construction to help link the nine inhabited islands and improve transportation links to social services, employment opportunities, local markets, and ports and airports.

- Watershed Management and Agriculture Support — by investing $10.8 million to increase the collection, storage, and distribution of rainfall water, the project hopes to increase agricultural production and double the household income of farmers.

Nicaragua. The five-year, $175 million Compact with Nicaragua will focus on the promoting economic growth primarily in the northwestern region of the country where potential opportunities exist due to the area's fertile land and nearby markets in Honduras and El Salvador. The Compact has three components: 1) to strengthen property registration ($26.5 million); 2) to upgrade primary and secondary roads between Managua and Leon and to provide technical assistance to the Ministry of Transportation ($92.8 million); and 3) to promote higher-profit agriculture activities, especially for poor farmers, and to improve water supply in support of higher-value sustainable agriculture.

Georgia. The $295 million, five-year agreement with Georgia focuses on reducing poverty and promoting economic growth in areas outside of the capital where over half the population lives in poverty. The Compact is divided into two projects. The first and the largest component ($211.7 million) concentrates on infrastructure rehabilitation, including roads, the north-south gas pipeline, water supply networks, and solid waste facilities. The Enterprise Development Project ($47.5 million) will finance an investment fund aimed at providing risk capital and technical assistance to small and medium-sized businesses, and support farmers and agribusinesses that produce commodities for the domestic market. The program expects to:

- reduce in the incidence of poverty by 12% in the Samtskhi-Javakheti region;
- provide direct benefits to 500,000 people and indirectly benefit over 25% of Georgia's population;
- reduce the travel time by 43% to Tbilisi, the capital, from regional areas, thereby cutting transportation costs for farmers, businesses, and individuals needing health and other social services; and
- lower the risk of a major gas pipeline accident and improve the reliability of heat and electricity to over one million Georgians.

Armenia. The five-year, $236 million Compact concentrates on the agricultural sector, investing in the rehabilitation of rural roads ($67 million) and improving irrigation ($146 million). The program anticipates that it will benefit about 750,000 people, 75% of Armenia's rural population, by improving 943 kilometers of rural roads and increasing the amount of land under irrigation by 40%.

In signing the Compact, however, the MCC issued a cautionary note, signaling Armenia that it must maintain its commitment to the performance indicators on which the country was selected, or risk suspension or termination of the Compact. In September 2005, the MCC expressed concerns with Armenian officials regarding slippage on two of the governance indicators and matters raised by international groups concerning political rights, political freedom, and an independent media in the country. Moreover, the MCC Board delayed final approval following the November 27, 2005, constitutional referendum, after allegations of fraud, mismanagement, limited access by the press, and abuse of individuals were raised.[23]

Vanuatu. The $65.7 million, five-year Compact targets improvements broadly in multiple types of infrastructure, including roads, wharfs, an airstrip, and warehouses. The objective is to increase the average per capita income by 15%, by helping rural agricultural producers and providers of tourism-related goods and services. The Compact further aims to help strengthen Vanuatu's Public Works Department in order to enhance capacity to maintain the country's entire transport network.

Ghana. The five-year $547 million Compact focuses on agriculture and rural development. Poverty rates in the three targeted geographic areas are above 40%. The agriculture component ($241 million) will provide training for farmer-based organizations, improve irrigation, provide greater access to credit, and rehabilitate local roads. The transport component ($143 million) will seek to reduce transport costs to farmers by improving key roads, such as the one between the capital and the airport, and an important ferry service. Rural development programs ($101 million) will construct and rehabilitate education, water, and electric facilities, among other activities.

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[23] See letter of John Danilovich to Armenia President Robert Kocharyan on December 16, 2005.

Table 1. Status of MCA Compacts

Country	Compact Signed	GNI per capita	Population Living Below $2 p/day (%)	Human Development Index Ranking[a]	FY06 US Econ. Aid (millions)	Compact Size (millions)	Compact Focus
Armenia	Mar. 27, 2006	$1,930	31.1%	80	$70.8	$236 5 years	-Agriculture/irrigation -Rural roads
Benin	Feb. 22, 2006	$540	73.7%	163	$15.0	$307 5 years	-Land and property -Financial services -Judicial improvement -Port rehabilitation
Cape Verde	July 4, 2005	$2,130	NA	106	$1.7	$110 5 years	- Agriculture - Transport/roads - Private sector
El Salvador	November 29, 2006	$2,540	40.5%	101	$34.8	$461 5 years	-Education -Transport/roads -Small business/farm development
Georgia	Sept. 12, 2005	$1,560	25.3%	97	$69.7	$295 5 years	- Infrastructure/gas - Transport/roads - Agriculture/business
Ghana	August 1, 2006	$520	78.5%	136	$48.2	$547 5 years	-Agriculture -Transport -Rural Development
Honduras	June 13, 2005	$1,200	44.0%	117	$37.6	$215 5 years	-Agriculture -Transport/roads
Lesotho	July 23, 2007	$1,030	56.1%	149	$2.3	$362.6 5 years	-Water sector -Health sector -Private sector
Madagascar	April 18, 2005	$280	85.1%	143	$24.0	$110 4 years	- Land titling/Agriculture - Financial sector

Country	Compact Signed	GNI per capita	Population Living Below $2 p/day (%)	Human Development Index Ranking[a]	FY06 US Econ. Aid (millions)	Compact Size (millions)	Compact Focus
Mali	November 13, 2006	$440	90.6%	175	$35.6	$460.8 5 years	-Irrigation -Transport/airport -Industrial park
Mongolia	September 12, 2007 (approved)	$880	74.9%	116	$9.2	$285 5 years	-Transport/rail -Property Rights -Voc Ed -Health
Morocco	August 31, 2007	$1,900	14.3%	123	$22.9	$697.5 5 years	-Agriculture/Fisheries -Artisan Crafts -Financial Serv/ Enterprise Support
Mozambique	July 13, 2007	$340	78.4%	168	$33.0 ($79.6)[b]	$506.9 5 years	-Water and Sanitation -Transportation -Land Tenure/Agriculture
Nicaragua	July 14, 2005	$1,000	79.9%	112	$35.8	$175 5 years	- Land titling/Agriculture - Transport/roads
Tanzania	September 18, 2007 (approved)	$350	89.9%	162	$37.3 ($100.3)[b]	$698 5 years	-Transport/roads and airport -Energy -Water
Vanuatu	March 2, 2006	$1,710	NA	119	$2.1	$66 5 years	-Transport rehab -Public Works Dept.

Sources: Population Living Below $2 Per Day — data from the World Bank, *World Development Report, 2007*; Gross National Income per capita — 2006 data from the World Bank, *World Development Indicators*. Human Development Index Rank — from UNDP, *Human Development Report, 2006.* MCC Information: Millennium Challenge Corporation.
Note: U.S. Economic Aid is defined here as Child Survival/Health, Development Assistance, Economic Support Fund, FREEDOM Support Act, and Peace Corps.

a. The Human Development Index (HDI) is compiled by the U.N. Development Program and is published annually in the UNDP Human Development Report. It is a composite index that measures the average achievements in a country in three basic dimensions of human development: a long and healthy life, as measured by life expectancy at birth; knowledge, as measured by the adult literacy rate and the combined gross enrolment ratio for primary, secondary, and tertiary schools; and a decent standard of living, as measured by GDP per capita in purchasing power parity (PPP) U.S. dollars. The most recent report (2006) evaluates 177 countries, with number 1 having the best HDI and number 177 scoring the worst in the Index.

b. Figure in parenthesis is HIV/AIDS Initiative.

Benin. Benin, one of the world's poorest countries with the lowest Human Development Index ranking of any MCC Compact nation, has been approved for a $307 million, five year program focused on four sectors:

- Land rights, reducing the time and cost of obtaining property title;
- Financial services, helping micro, small, and medium-sized businesses;
- Justice reform, assisting the judicial systems capacity to resolve business and investment claims; and
- Market access, improving the Port of Cotonou.

The Compact's goal is to benefit five million people, bringing 250,000 of the population out of poverty by 2015.

Mali. The five-year $461 million Compact emphasizes an increase in agricultural production and expansion of trade. About half the funds ($234.6 million) will support a major irrigation project, including modernization of infrastructure and improvements in land tenure. Improvements in the airport ($89.6 million) will target both passenger and freight operations. An industrial park project located at the airport ($94.6 million) will assist agro-processing and other industry.

El Salvador. The five-year $461 million Compact will address economic growth and poverty reduction concerns in El Salvador's northern region where more than half the population lives below the poverty line. Education as well as water and sanitation, and electricity supply ($95.1 million); support for poor farmers and small and medium-sized business ($87.5 million); and transportation, including roads ($233.6 million) are the chief elements of program.

Mozambique. The five-year $506.9 million Compact, like most other Compacts, targets specific districts, in this case the less prosperous North of the country. The Compact has four components. Water and sanitation services will be improved ($203.6 million), a major road will be rehabilitated ($176.3 million), land tenure services will be made more efficient ($39.1 million), and steps will be taken to protect existing coconut trees, improve coconut productivity, and support diversification to other cash crops ($17.4 million). The long-term objective is to reduce the projected poverty rate by more than 7%.

Lesotho. The five-year $362.6 million Compact has three elements. A water sector project ($164 million) will focus on both industrial, supporting garment and textile operations, and domestic needs. It will also support a national watershed management and wetlands conservation plan. A health project ($122.4 million) will seek to strengthen the health care infrastructure, including renovation of up to 150 health centers, improved management of up to 14 hospital out-patient departments, construction and equipping of a central laboratory, and improved housing for medical staff and training for nurses. A private sector development project ($36.1 million) will address a wide range of legal and administrative obstacles to increased private sector activity, including development of land policy and administration authority, implementation of a new payments and settlement system, and improvement of case management of commercial courts.

Morocco. The five-year, $697.5 million Compact has multiple components, all aimed at increasing private sector growth. These include efforts to increase fruit tree productivity ($300.9 million), modernize the small-scale fisheries industry ($116.2 million), and support artisan crafts ($111.9 million). In addition, the Compact will fund financial services to micro-enterprises ($46.2 million) and will provide business training and technical assistance aimed at young, unemployed graduates ($33.9 million).

Mongolia. The most significant part of the five-year $285 million Compact intends to stimulate economic growth by refurbishing the rail system, including infrastructure and management ($188.38 million). In addition, the Compact will support improvements in the property registration and titling system ($23.06 million) and the vocational education system ($25.51 million). The Compact will also attempt to reform the health system to better address non-communicable diseases and injuries, which are rapidly increasing in the country ($17.03 million).

Tanzania. The five-year, $698 million Compact will focus on three key economic infrastructure issues. A transport sector project ($373 million) will improve major trunk roads, select rural roads, general road maintenance capabilities, and upgrade an airport. An energy sector project ($206 million) will lay an electric transmission cable from the mainland to Zanzibar, will construct a small hydro-electric plant at Igamba Falls, and will rehabilitate the existing distribution system to unserved areas. A water sector project ($66 million) will expand a clean water treatment facility serving the capital, reduce water loss in the capital region, and improve the water supply in Morogoro, a growing city.

"Threshold" Countries and Programs

In order to encourage non-qualifying countries to improve in weak areas, the MCC will help governments that are committed to reform to strengthen performance so that they would be more competitive for MCA funding in future years. Congress provided in authorizing legislation that not more than 10% of MCA appropriations could be used for such purposes, stating that the funding could be made available through USAID. Subsequent foreign operations appropriations have made 10% of new MCA appropriations available for this Threshold assistance.[24]

According to the Threshold Program Policy guidance issued by the Corporation,[25] the program will assist countries make policy reforms and institutional changes in areas where they failed to meet the MCA performance criteria. In order to qualify, countries must submit concept papers identifying:

- where and why the country failed to pass specific indicators;

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[24] Initially, assistance for Threshold countries was authorized only for FY2004. The MCC Authorization bill, H.R. 4014, as reported by the House International Relations Committee, would make the 10% set-aside for threshold programs permanent.

[25] Found at [http://www.MCC.gov].

- proposals for policy, regulatory, or institutional reforms that would improve the country's performance on these indicators; and

- types of assistance, over a two-year maximum period, required to implement these reforms.

If the Corporation, in consultation with USAID, determines that the concept paper shows sufficient commitment to reform and a promise of success, the country will prepare a Threshold Country Plan that specifically establishes a program schedule, the means to measure progress, and financing requirements, among other considerations. USAID is charged with overseeing the implementation of Threshold Country Plans, including working with countries to identify appropriate implementing partners such as local, U.S., and international firms; NGOs; U.S. government agencies; and international organizations. Like regular MCA Compacts, funding is not guaranteed for each country selected for the Threshold Program, but will be based on the quality of the Country Plan.

Currently, 21 countries are eligible for threshold assistance. To date, the threshold programs of 17 countries totaling $361 million have been approved by the MCC Board — Albania, Tanzania, Burkina Faso, Malawi, Moldova, Philippines, Zambia, Jordan, Indonesia, Ukraine, Paraguay, Kenya, Uganda, Guyana, Kyrgyz Republic, Yemen, and Sao Tome and Principe. Countries that are eligible but have not yet been awarded threshold program support are East Timor, Niger, Peru, and Rwanda. The latter three were added on November 8, 2006.

Of the 17 programs, 13 seek to improve country scores on the corruption indicator. Several countries have multiple objectives. Indonesia, for example, targets corruption and immunization indicators. Albania focuses on corruption and improvements in its business environment. The Burkina Faso program is designed to improve girls' primary education, targeting areas of the country with the lowest primary completion rates.

Select Issues

Role of USAID and the Future of Agency Programs in MCA Countries

How USAID would participate in the MCA initiative has been a continuing concern of Congress and various policy analysts. Legislation authorizing the MCC requires the Corporation's CEO to coordinate and consult with USAID and directs the Agency to ensure that its programs play a primary role in helping candidate countries prepare for MCA consideration. USAID maintains missions in 20 of the 25 eligible countries and might be expected to support MCC programs, through contracting, procurement, and monitoring tasks. Although USAID is the chief implementor on behalf of the MCC of threshold programs, its role in other aspects of MCC activities is not clear.

Another question is how USAID will adjust its own programs in MCA countries. USAID Administrator Natsios told the House Appropriations Committee on May 13, 2004, that the Agency would not withdraw from or cut programs in MCA countries, but would not increase spending either. He said, however, that USAID would work to ensure that its programs operate in an integrated way with MCA-funded activities. Nonetheless, some critics continue to express concern that MCA funding is not always additive, as had been the pledge, but will substitute for portions of previous USAID bilateral development aid programs. The FY2008 budget request offers a look at how funding levels may be affected by MCA Compacts. With the exceptions of new entries Lesotho, Mozambique, and Morocco, in Compact countries where there has been a bilateral economic assistance program, that assistance would be reduced under the FY2008 budget plan from FY2006 levels. In its FY2008 report on the State/Foreign Operations bill (H.Rept. 110-197), the House Appropriations Committee made note of this trend and expressed the view that MCC aid should be "a complement," not a substitute, to the current aid program.

Compact Sectors

One feature of the first series of Compacts has drawn particular attention. Most of the early Compacts include a similar sector concentration, focusing on agriculture and transportation infrastructure projects. While these activities are well justified, the similarity across Compacts has surprised some observers. Given the wide diversity of conditions in each of the countries, plus the Corporation's willingness to support all types of programs, many had expected to see a greater degree of variation among the Compacts. Some believe that social sectors, including those in health and education, should be receiving greater attention in Compact design. Others had expected greater variety in aid delivery mechanisms, and are concerned that the MCC is reluctant to approve sector grants and other types of budget support assistance. While there can be greater accountability risks associated with this kind of aid, countries that qualify for MCA support are selected because they have already demonstrated stronger performance in managing resources and fighting corruption.[26] As more Compacts are signed, some diversity in programs is creeping in — three of the more recent ones, in Lesotho, Mozambique, and Tanzania, feature a water and sanitation component. The Morocco Compact includes micro-credit and artisan crafts support among its projects.

Compact Size

A second closely examined characteristic of the early Compacts has been the dollar size of the grants; or, more specifically, the lower-than-anticipated funding level for the first several Compacts. While Administration officials have said repeatedly that Compacts will be funded at various levels depending on the nature and potential impact of the proposal, the presumption has been that the MCA grant would represent a sizable increase in U.S. assistance to the eligible country. In order to realize its potential as a "transformational" aid program and to provide sufficient incentives to countries requesting "breakthrough" projects, the MCC says that the

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[26] James Fox and Lex Rieffel, *The Millennium Challenge Account: Moving Toward Smarter Aid.* The Brookings Institution, July 14, 2005, p. 24.

size of its grants must place MCA assistance among the top aid donors in a country.[27] Some had estimated that once the Corporation's budget reached $5 billion, each Compact would be supported with annual resources in the $150-$200 million range.[28] These levels could vary up or down depending on many factors, such as the number of people living in poverty, the size of the economy, and the scope of the proposed projects.

Most of the first several Compacts, however, do not meet the anticipated financial allocation thresholds. Madagascar's four-year, $110 million Compact roughly doubles U.S. assistance to the country, but does not place MCA assistance among the top donors. France is the largest bilateral donor, disbursing on average $189 million per year, 2001-2004. The European Commission's aid program, 2001-2004, averaged $82 million per year, while the World Bank's International Development Association has been Madagascar's largest source of concessional assistance of about $209 million lent in each of 2001 through 2004.[29] The $110 million Compact for Madagascar is also not very large relative to the country's population. Of the 16 qualified countries for FY2004, Madagascar has the fourth largest population (16.4 million), and might have been expected to receive one of the larger MCA grants given its population size and its per capita income ($230, second lowest among the 16 MCA countries).

For Honduras (a $215 million MCA program over five years), Georgia ($295 million over five years), and Armenia ($236 million over five years), the United States has been the top bilateral donor in recent years without the MCA program, and will likely remain in that position once the MCA grants begin to disburse. But the MCA Compact for Honduras calls for only a slightly higher annual amount ($43 million) than current U.S. economic assistance provides ($34 million), while Georgia's Compact will average only about three-fourths and the Armenia Compact only about two-thirds of the annual level of recent American aid. While these are not insignificant amounts of new resources, they are far less than Administration officials had suggested previously.[30]

In contrast, the six five-year Compacts with Cape Verde ($110 million), Benin ($307 million), Vanuatu ($66 million), Ghana ($547 million), Mali ($461 million), and El Salvador ($461 million) represent a substantial investment by the United States, relative to the current size of American aid and the size of their economies. USAID, which last provided direct bilateral assistance to Cape Verde in the mid-

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[27] See, for example, Millennium Challenge Corporation FY2005 Budget Justification, p. 7. Found at [http://www.mcc.gov/about/reports/congressional/budgetjustifications/budget_justification_fy05.pdf].

[28] Prepared statement of Steve Radelet, Senior Fellow at the Center for Global Development, before a hearing of the House International Relations Committee, April 27, 2005.

[29] Organization for Economic Cooperation and Development (OECD), *Geographical Distribution of Financial Flows to Aid Recipients, 2000/2004: 2006 edition.*

[30] For example, USAID Administrator Natsios remarked in an October 22, 2002 speech at the American Embassy in London that "we estimate in most countries the MCA will provide funding 5 to 10 times higher than existing levels" of U.S. assistance.

1990s, does not maintain a mission presence, allocating small amounts of aid through regional programs. The Compact's $22 million annual average will place the United States second to Portugal, Cape Verde's former colonial power, as the leading donor, and represent more than a quarter of total bilateral development aid grants from all sources compared with figures for 2003 and 2004. Likewise, the United States does not maintain a bilateral program with Vanuatu, limiting direct aid through the Peace Corps. The $13 million annual average of the Vanuatu program will place the United States as the country's top aid donor, along with Australia. In Benin, USAID manages an annual bilateral economic aid program of about $15 million, compared with the $61 million annual size of the MCC Compact. The Compact appears likely to place the MCC as the top aid donor, together with France, for Benin.[31]

This issue has been a priority of Ambassador Danilovich since his September 27, 2005 confirmation hearing to be the MCC's new CEO. He noted that the MCC was "meant to create transformative programs," and to do so he said that "future Compacts will generally need to be larger than those signed thus far." Ambassador Danilovich cautioned, however, that with limited resources but larger Compacts, fewer countries will receive funding if MCC is to achieve its transformational goal.[32] His record since assuming the CEO position appears to be moving towards larger Compacts and placing the MCC as the largest donor in recipient countries.

Compact Impact

The purpose of the MCA is to reduce poverty by supporting economic growth, but some observers have complained about the lack of measurable results to date. There are some possible reasons for this. The MCC is a new experiment, and it has taken considerable time to develop methods of operation, including settling on the rules of eligibility and the requirements of Compact proposals. The GAO found that for five signed Compacts in Africa — with Madagascar, Cape Verde, Benin, Ghana, and Mali — the process of going from eligibility to compact signature took between 12 and 31 months. Four of these compacts entered into force about five months after compact signature. Once launched, Compacts may be slow to get underway. For two in their second year — Madagascar and Cape Verde — disbursements have been slow, only 24% and 25%, respectively, of planned disbursements had been made by end of March 2007. Among the causes are delays by these Compact countries in filling managerial positions.[33] It will likely be some time before a serious analysis of actual impacts can be undertaken.

A recent GAO report highlighted a related concern, that, in the case of Vanuatu, projected impacts have been overstated. Among many the economic factors considered in its report, the GAO notes that the MCC estimated a rise from 2005 per

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[31] *Geographical Distribution of Financial Flows to Aid Recipients, 2000/2004: 2006 edition.*

[32] Prepared statement of John J. Danilovich, before the Senate Committee on Foreign Relations, September 27, 2005.

[33] Government Accountability Office, *Millennium Challenge Corporation: Progress and Challenges with Compact in Africa*, Testimony, June 28, 2007, GAO-07-1049T.

capita income in Vanuatu of about 15% ($200) by 2015 when, in fact, the data suggest it would rise by 4.6%. Although the MCC states that the Compact would benefit 65,000 poor, rural inhabitants, the data, according to the GAO, do not establish the extent of benefit to the rural poor. Further, the MCC projections assume continued maintenance of projects following completion, whereas the experience of previous donors is that such maintenance has been poor.[34] The MCC response is that, although there may be varying views on the degree of benefit, both agencies agree that the underlying data show that the Compact will help Vanuatu address poverty reduction.[35]

In lieu of results from the Compacts, MCC officials have pointed to the impact made by the MCC process itself. Under the so-called MCC effect, many countries are said to be establishing reforms in an effort to qualify under the 17 indicators. Yemen has been cited in this regard, because, following its suspension from the threshold program in 2005, it approved a number of reforms to address indicators where its performance had lapsed (and subsequently was reinstated). Both the House and Senate recently approved resolutions (H.Res. 294 and S.Res.103) that note the role the MCC played in encouraging Lesotho to adopt legislation improving the rights of married women.

Funding Issues

In each year since the MCA was established, the MCC proposal was by far the largest increase sought by the Administration in the Foreign Operations appropriations bill and viewed by many observers as one of the most vulnerable items in an increasingly difficult budget environment. In each year as well, its enacted appropriation has been well below the President's request.

Supporters of the MCC are disturbed by this trend, reflected again in the House- and Senate-passed funding levels for FY2008, both well below the Administration request. They argue that countries that have gone through the whole process of seeking eligibility and designing and refining a proposal are likely to seek funding elsewhere if they have to wait long for MCC funding to become available. Further, the so-called MCC effect, which encourages countries to reform on their own in order to meet eligibility requirements, is likely to be lost if fewer Compacts are offered annually.

Table 2. MCA Appropriations: FY2004-2008

(in $ billions)

	FY2004	FY2005	FY2006	FY2007	FY2008
Request	1.300	2.500	3.000	3.000	3.000
Appropriation	0.994	1.488	1.752	1.752	—

[34] Government Accountability Office, *Millennium Challenge Corporation: Vanuatu Compact Overstates Projected Program Impact*, July 2007, GAO-07-909.

[35] Testimony of Rodney Bent before the House Committee on Foreign Affairs, Subcommittee on Asia, the Pacific, and the Global Environment, July 26, 2007.

MCA Request and Congressional Action for FY2007. The Administration sought a $3 billion appropriation for FY2007. The MCC had estimated that it would exhaust all existing appropriations from FY2004-FY2006 by the second quarter of FY2007, leaving nine then-eligible countries, plus any new nations selected for FY2007 to be funded out of the FY2007 appropriation. In testimony before the House Foreign Operations Appropriations Subcommittee on March 29, 2006, CEO Danilovich argued that a funding level less than $3 billion would require the MCC to delay the negotiation and approval process for new Compacts. He further asserted that without full funding, the ability of the MCC to leverage reforms and provide incentives to eligible countries would be diminished.

Some, including Subcommittee Chairman Kolbe, questioned whether the MCC could pick up the pace of signing new Compacts to the degree required to utilize the full $3 billion request for FY2007. Ambassador Danilovich said the Corporation has learned from its first two years of operations and has accelerated several steps in the evaluation and approval process.

On June 9, 2006, the House approved the FY2007 Foreign Operations appropriations, H.R. 5522, reducing the FY2007 MCA funding level to $2 billion. The Appropriation Committee's report on the legislation (H.Rept. 109-486) said that the panel continued to strongly support the MCC and that the proposed reduction stemmed solely from the constrained budget environment and the need to allocate resources to other Presidential and congressional priorities.

On June 29, 2006, the Senate Appropriations Committee approved its version of the FY2007 State/Foreign Operations appropriations, providing $1.9 billion for the Millennium Challenge Corporation, $1.1 billion below the Administration request. Like the House, the Senate Committee report (S.Rept. 109-277) offered strong support to the MCC and noted that, in allocating funds, it was restricted by broader budget constraints. The Committee directed the Director of Foreign Assistance at State to submit a report no later than 15 days after the signing of a compact assessing its place within the context of the overall foreign aid program in a country and noting any possible resulting duplication of programs. It also suggested that judicial reform should be part of MCC compacts and raised a concern that education has not yet been a major part of compacts. The Committee directed that the MCC submit a report regarding steps it is taking to address social and environmental costs resulting from infrastructure investments. The full Senate did not take up the foreign operations appropriations legislation.

Under the terms of a continuing resolution (H.R. 5631/P.L.109-289, Division B as amended by H.J.Res. 20 on February 15, 2007), $1.75 billion was provided in FY2007 funding for the MCA.

MCA Request and Congressional Action for FY2008. On February 5, 2007, the Administration requested a FY2008 appropriation of $3 billion for the MCA. In its budget presentation, the MCC argued that currently available resources are expected to be fully utilized on Compacts likely to be signed this year, including Lesotho, Morocco, Mozambique, Tanzania, and Sri Lanka. Expected to be left in the pipeline for funding in FY2008 are 9 to 10 countries, possibly including Jordan, Moldova, and Ukraine. If fully funded at $3 billion, the MCC could support about six of these compacts in FY2008.

On June 22, 2007, the House approved H.R. 2764, the FY2008 State/Foreign Operations appropriations, providing $1.8 billion to the MCC, $1.2 billion or 40% below the Administration request and roughly the same as in FY2007. The Appropriations Committee expressed support for the MCC and pointed to budget constraints as the cause of the reduction (H.Rept. 110-197).

On September 6, 2007, the Senate approved its version of the FY2008 appropriations, providing $1.2 billion for the MCC, $1.8 billion (or 60%) below the Administration request and a 32% decline from the FY2007 level. The bill, however, also contains a provision that would allow the Administration to transfer up to $200 million in State Department Diplomatic and Consular Program account funds to the MCC. As the funding level provided for this account is less than the request, a transfer may be unlikely.

An amendment added on the floor would require the MCC to obligate no more than half of the promised Compact total. Currently, the full amount of a Compact must be obligated at the time of signing. The impact of this change would be to allow the MCC to sign more Compacts with fewer up-front appropriations. It might also lessen the impression that the MCC has inordinately large amounts of undisbursed obligations available for possible congressional diversion to other aid programs. On the other hand, it may suggest to countries that full payment of Compacts is not guaranteed, leaving them wondering if it is worth their time and effort to seek one.

By way of an explanation for the deep cut in the MCC request, the Senate Appropriations Committee report on the bill (S.Rept. 110-128) contains a number of serious criticisms of the MCC that amount to a challenge to its mode of operation. The committee points out that the MCC has only disbursed one-thirtieth of its obligations under the first 11 Compacts, raising the possibility of there being undisbursed amounts at the end of the Compact term. The committee notes that few tangible results can be measured from these Compacts to date. It questions the usefulness of a possible Compact with Tanzania for its large size (nearly $700 million) relative to a small population and weighed against the similar size of the total FY2008 Development Assistance and ESF request for all of sub-Saharan Africa. Further, the committee raises the concern that some Compacts have been made with countries of relatively little strategic importance to the United States. Finally, it criticizes the lack of Compacts with health, education, or governance components.

These concerns appear to strike at the heart of the MCC model. Supporters of the MCC would argue that large amounts of undisbursed obligations at the early stages of a Compact are intrinsic to the guarantee that funds will be available as contracted and not be subject to the uncertainty of future appropriations. They might also argue that immediate results from uncompleted development projects are rare, and that the early plan for the MCC was that Compacts would be larger than other U.S. and most competing donor aid programs and sufficiently large to have a real impact in a country, that their purpose would be developmental and not strategic, and that their nature would be determined by the Compact country requesting such aid and not reflect U.S. sectoral preferences. However, even many defenders of the MCC appear to share the concern regarding the slow speed of project implementation and the choice of sectors, despite the fact that both features may be the result of putting power into the hands of the aid recipients as much as any fault of the MCC itself.

Authorizing Legislation

On July 13, 2006, the House International Relations Committee reported a measure, H.R. 4014 (H.Rept. 109-563), that would have authorized MCC appropriations ("such sums as may be necessary") for fiscal years 2007 through 2009 and made a number of policy modifications to the original legislation and to the operations of the Corporation. These included allowing Compacts to last up to 10 years, instead of the five currently permitted; allowing two concurrent Compacts, rather than the current one; and requiring notification to authorizing and appropriating Committees 15 days prior to signing a Compact (as in the procedures of reprogramming notifications under section 634A of the Foreign Assistance Act), in place of existing language requiring that the MCC consult with "appropriate committees" prior to negotiating a Compact. H.R. 4014 received no further consideration in the 109th Congress, but it is likely that a reauthorization measure will be considered in the 110th Congress. The requirement of an authorization of foreign aid programs has been routinely waived in annual Foreign Operations appropriations bills, as the FY2007 continuing resolution measure did in the case of currently unauthorized foreign aid programs, including the MCA.

Table 3A. MCA Low-Income Candidate, Eligible, and Threshold Countries — FY2007

Criteria: Per capita income $1,675 and below, and not prohibited from receiving other U.S. economic assistance.

Eligible Countries are in Bold.
Threshold Countries are followed with (TC)

Africa	Income*	East Asia/Pacific	Income*	Latin America	Income*
Angola	$1,350	**East Timor** (TC)	$750	**Bolivia**	$1,010
Benin	$510	Indonesia (TC)	$1,280	Guyana (TC)	$1,010
Burkina Faso	$400	Kiribati	$1,390	Haiti	$450
Burundi	$100	Laos	$440	**Honduras**	$1,190
Cameroon	$1,010	**Mongolia**	$690	**Nicaragua**	$910
Central African Rep	$350	Papua New Guinea	$660	Paraguay (TC)	$1,280
Chad	$400	Philippines (TC)	$1,300		
Comoros	$640	Solomon Islands	$590		
Congo, Dem Rep of	$120	**Vanuatu**	$1,600		
Congo, Rep of	$950	Vietnam	$620		
Djibouti	$1,020				
Eritrea	$220				
Ethiopia	$160				
Gambia (suspended)	$290				
Ghana	$450				
Guinea	$370	**South Asia**	**Income***	**Mid-East**	**Income***
Guinea-Bissau	$180	Afghanistan	**	Egypt	$1,250
Kenya (TC)	$530	Bangladesh	$470	Iraq	**
Lesotho	$960	Bhutan	$870	Yemen (TC)	$600
Liberia	$130	India	$720		
Madagascar	$290	Nepal	$270		
Malawi (TC)	$160	Pakistan	$690		
Mali	$380	**Sri Lanka**	$1,160		
Mauritania	$560				
Mozambique	$310	**Eurasia**	**Income***		
Niger (TC)	$240	**Armenia**	$1,470		
Nigeria	$560	Azerbaijan	$1,240		
Rwanda (TC)	$230	**Georgia**	$1,350		
Sao Tome&Principe (TC)	$390	Kyrgyz Rep. (TC)	$440		
Senegal	$710	**Moldova** (TC)	$880		
Sierra Leone	$220	Tajikistan	$330		
Tanzania	$340	Turkmenistan	**		
Togo	$350	**Ukraine** (TC)	$1,520		
Uganda (TC)	$280				
Zambia (TC)	$490				

* Gross National Income, dollars per capita, 2005. World Bank, *World Development Indicators, On Line, 2007.*

** Precise data unavailable.

Table 3B. MCA Lower-Middle-Income Candidate and Eligible Countries — FY2007

Criteria: Per capita income between $1,675 and $3,465, and not prohibited from receiving other U.S. economic assistance.

Eligible Countries are in Bold
Threshold Countries are followed with (TC)

Africa	Income*	East Asia/Pacific	Income*	Latin America	Income*
Cape Verde	$1,870	Fiji	$3,280	Brazil	$3,460
Namibia	$2,990	Marshall Islands	$2,930	Colombia	$2,290
Swaziland	$2,280	Micronesia	$2,300	Dominican Rep	$2,370
		Samoa	$2,090	Ecuador	$2,630
		Tonga	$2,190	**El Salvador**	$2,450
		Tuvalu	**	Guatemala	$2,400
				Jamaica	$3,400
				Peru (TC)	$2,610
				Suriname	$2,540
		South Asia	**Income***	**Mid-East**	**Income***
		Maldives	$2,390	Algeria	$2,730
				Jordan (TC)	$2,500
				Morocco	$1,730
				Tunisia	$2,890
		Eurasia	**Income***	**Europe**	**Income***
		Belarus	$2,760	Albania	$2,580
		Kazakhstan	$2,930	Bulgaria	$2,450
				Macedonia	$2,830
				Montenegro	$3,280**

* Gross National Income, dollars per capita, 2005. World Bank, *World Development Indicators On Line, 2007.*

** Precise data unavailable. Montenegro figure is based on combined Serbia and Montenegro.

Table 3C. MCA Low-Income Candidate, Eligible, Compact, and Threshold Countries — FY2008

Criteria: Per capita income $1,735 and below, and not prohibited from receiving other U.S. economic assistance.

Compact Eligible Countries are in Bold (expected to be chosen December 2007)
Compact Countries are followed with (C)
Threshold Eligible Countries are in Italics
Threshold Program Countries are followed with (TC)

Africa	Income*	East Asia/Pacific	Income*	Latin America	Income*
Benin (C)	$540	Cambodia	$480	Bolivia	$1,100
Burkina Faso (TC)	$460	*East Timor*	$840	Guyana (TC)	$1,130
Burundi	$100	Indonesia (TC)	$1,420	Haiti	$480
Cameroon	$1,080	Kiribati	$1,230	Honduras (C)	$1,200
Central African Rep	$360	Laos	$500	Nicaragua (C)	$1,000
Chad	$480	Mongolia (C)	$880	Paraguay (TC)	$1,400
Comoros	$660	Papua New Guinea	$770		
Congo, Dem Rep of	$130	Philippines (TC)	$1,420		
Congo, Rep of	$950	Solomon Islands	$680		
Djibouti	$1,060	Vanuatu (C)	$1,710		
Eritrea	$200	Vietnam	$690		
Ethiopia	$180				
Gambia	$310				
Ghana (C)	$520				
Guinea	$410				
Guinea-Bissau	$190	**South Asia**	**Income***	**Mid-East**	**Income***
Kenya (TC)	$580	Afghanistan	**	Egypt	$1,350
Lesotho (C)	$1,030	Bangladesh	$480	Iraq	**
Liberia	$140	Bhutan	$1,410	Yemen (TC)	$760
Madagascar (C)	$280	India	$820		
Malawi (TC)	$170	Nepal	$290		
Mali (C)	$440	Pakistan	$770		
Mauritania	$740	Sri Lanka	$1,300		
Mozambique (C)	$340				
Niger	$260	**Eurasia**	**Income***		
Nigeria	$640	Georgia (C)	$1,560		
Rwanda	$250	Kyrgyz Rep. (TC)	$490		
Sao Tome&Principe (TC)	$780	Moldova (TC)	$1,100		
Senegal	$750	Tajikistan	$390		
Sierra Leone	$240	Turkmenistan	**		
Somalia	**				
Tanzania (C) (TC)	$350				
Togo	$350				
Uganda (TC)	$300				
Zambia (TC)	$630				

* Gross National Income, dollars per capita, 2006. World Bank, *World Development Indicators, On Line.*

** Precise data unavailable.

Table 3D. MCA Lower-Middle-Income Candidate and Eligible Countries — FY2008

Criteria: Per capita income between $1,735 and $3,595, and not prohibited from receiving other U.S. economic assistance.

Compact Eligible Countries are in Bold (expected to be chosen December 2007)
Compact Countries are followed with (C)
Threshold Eligible Countries are in Italics
Threshold Program Countries are followed with (TC)

Africa	Income*	East Asia/Pacific	Income*	Latin America	Income*
Angola	$1,980	Marshall Islands	$3,000	Colombia	$2,740
Cape Verde (C)	$2,130	Micronesia	$2,380	Dominican Rep	$2,850
Namibia	$3,230	Samoa	$2,270	Ecuador	$2,840
Swaziland	$2,430	Tonga	$2,170	El Salvador (C)	$2,540
		Tuvalu	**	Guatemala	$2,640
				Jamaica	$3,480
				Peru	$2,920
				Suriname	
		South Asia	**Income***	**Mid-East**	**Income***
		Maldives	$2,680	Algeria	$3,030
				Jordan (TC)	$2,660
				Morocco (C)	$1,900
				Tunisia	$2,970
		Eurasia	**Income***	**Europe**	**Income***
		Armenia (C)	$1,930	Albania (TC)	$2,960
		Azerbaijan	$1,850	Macedonia	$3,060
		Belarus	$3,380		
		Ukraine (TC)	$1,950		

* Gross National Income, dollars per capita, 2006. World Bank, *World Development Indicators On Line.*

** Precise data unavailable. Montenegro figure is based on combined Serbia and Montenegro.

Table 4. MCC Performance Indicators for FY2007

Ruling Justly	Investing in People	Economic Freedom
Control of Corruption Source: World Bank Institute [http://www.worldbank.org/wbi/governance]	**Public Primary Education Spending as % of GDP** Sources: UNESCO and National governments	**Inflation** Source: IMF World Economic Outlook
Voice and Accountability Source: World Bank Institute [http://www.worldbank.org/wbi/governance]	**Primary Girls' Education Completion Rate** Source: UNESCO	**Fiscal Policy** Source: National governments and IMF World Economic Outlook
Government Effectiveness Source: World Bank Institute [http://www.worldbank.org/wbi/governance]	**Public Expenditure on Health as % of GDP** Source: World Health Organization (WHO)	**Trade Policy** Source: The Heritage Foundation, Index of Economic Freedom [http://www.heritage.org/research/features/index/]
Rule of Law Source: World Bank Institute [http://www.worldbank.org/wbi/governance]	**Immunization Rates: DPT and Measles** Source: World Health Organization (WHO)	**Regulatory Policy** Source: World Bank Institute [http://www.worldbank.org/wbi/governance]
Civil Liberties Source: Freedom House [http://www.freedomhouse.org/template.cfm?page=15&year=2006]	**Natural Resource Management: Eco-Region Protection, Access to Clean Water and Sanitation, Child Mortality** Sources: Columbia Center for Int'l Earth Science Info Network (CIESIN) and Yale Center for Env. Law and Policy (YCLEP)	**Business Start-Up: Days and Cost of Starting a Business** Source: World Bank [http://www.doingbusiness.org]
Political Rights Source: Freedom House [http://www.freedomhouse.org/template.cfm?page=15&year=2006]		**Land Rights and Access** Source: Int'l Fund for Agricultural Development (IFAD) and Int'l Finance Corporation