Millennium Challenge Corporation

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Summary

The Millennium Challenge Corporation (MCC) provides economic assistance through a competitive selection process to developing nations that are pursuing political and economic reforms in three areas: ruling justly, investing in people, and fostering economic freedom.

Established in 2004, 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;
- the requirement to solicit program proposals developed solely by qualifying countries with broad-based civil society involvement; and
- the responsibility of recipient countries to implement their own MCC-funded programs.

As announced by President Bush in March 2002, the initial plan had been to fund the MCC annually at $5 billion by FY2006, but this figure has never been reached.

On February 1, 2010, the Obama Administration issued its FY2011 budget request, providing $1.280 billion for the MCC, a 16% increase over the FY2010-appropriated level. FY2011 funding for the MCC is currently provided under the terms of the Continuing Appropriations Act 2011 (P.L. 111-242, H.R. 3081), approved September 30, 2010, which provides foreign aid spending at the level in the FY2010 Consolidated Appropriations Act (P.L. 111-117).

Congress authorized the MCC in P.L. 108-199 (January 23, 2004). Since that time, the MCC's Board of Directors has approved 22 compacts: with Madagascar (2005), Honduras (2005), Cape Verde (2005), Nicaragua (2005), Georgia (2005), Benin (2006), Vanuatu (2006), Armenia (2006), Ghana (2006), Mali (2006), El Salvador (2006), Mozambique (2007), Lesotho (2007), Morocco (2007), Mongolia (2007), Tanzania (2007), Burkina Faso (2008), Namibia (2008), Senegal (2009), Moldova (2009), Philippines (2010), and Jordan (2010). In June 2009, the Madagascar compact was terminated early, as were uncontracted components of the Nicaragua compact. A hold on the roads portion of the Armenia compact has been continued. In September 2009, uncontracted portions of the Honduras compact were terminated as a result of an undemocratic change in government.

MCC implementation concerns include the relationship of MCC and USAID, the level of funding to support MCC programs, the impact of budget reductions on MCC programs, the rate of program implementation, and the results of MCC compact and threshold programs.

This report will be updated as events unfold.

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Most Recent Developments

On September 30, 2010, the Continuing Appropriations Act of 2011 (P.L. 111-242, H.R. 3081) was signed, providing FY2011 funding for the MCC at the level in the FY2010 Consolidated Appropriations Act (P.L. 111-117). It expires on December 3, 2010.

On September 23, 2010, the Senate Foreign Relations Committee reported S. 2971 (S.Rept. 111-301), the Foreign Relations Authorization Act, FY2010 and FY2011, providing the MCC with the authority to enter into separate concurrent compacts, to extend five-year compacts to seven years, to redefine candidate status qualifying income levels, and to allow transitioning candidate countries to retain their previous income level status for two years.

On September 23, 2010, a five-year, $434 million compact with Philippines was signed. The compact will focus on reform of tax revenue administration, rehabilitation of a 222-kilometer road, and support for small-scale rural community development projects.

On September 15, 2010, the MCC Board approved a five-year, $275.1 million compact with Jordan. The compact will support a range of water projects, including expansion of a wastewater treatment plant and rehabilitation of the water distribution and sewer network in one governorate.

On August 10, 2010, Congress rescinded $50 million from unobligated balances of the MCC, one of dozens of rescissions included in P.L. 111-226, an act that funded a number of domestic programs.

On July 29, 2010, the Senate Appropriations Committee reported S. 3676, the FY2011 State, Foreign Operations appropriations, providing $1.105 billion for the MCC, the same level as in FY2010 and $174.7 million less than the request.

On June 30, 2010, the House State, Foreign Operations Appropriations subcommittee approved a draft FY2011 bill, not yet reported out of committee. The bill would provide $1.105 billion for the MCC.

On May 27, 2010, the MCC Board approved two new threshold programs. The three-year, $10.5 million Timor-Leste program focuses on childhood immunization and corruption. The three-year, $15 million Liberia program focuses on girls' education and strengthening of land rights.

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 Corporation (MCC) 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 MCC concept differs in several fundamental respects from past and current U.S. aid practices:

- the competitive process that rewards 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;
- the requirement to solicit program proposals developed solely by qualifying countries with broad-based civil society involvement; and
- the responsibility of recipient countries to implement their own MCC-funded programs.

The proposal also differed from previous aid efforts in the size of the original $5 billion commitment, an aim never even approximately met.

Congress authorized the new initiative in January 2004 (the Millennium Challenge Act of 2003, Division D of P.L. 108-199) and has closely followed its implementation.[1] As the program evolves, the 111th Congress will consider MCC funding issues and conduct oversight hearings on operations of the Corporation.

MCC Background

The Millennium Challenge Corporation (MCC) provides assistance through a competitive selection process to developing nations that are pursuing 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.
- Economic freedom—fostering enterprise and entrepreneurship and promoting open markets and sustainable budgets.

Country selection is based largely, but not exclusively, on a nation's record measured by 17 performance indicators related to the three categories, or "baskets." 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 6** below for a complete list of the 17 performance indicators.) Government officials, since announcing the MCC 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.

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[1] When first proposed and in its early years, the initiative was known as the Millennium Challenge Account. Today, both the program and the funding account in the foreign operations budget are more commonly known by the name of the managing entity, the MCC. For a more in-depth discussion of the original MCC 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.

Eligibility to receive MCC assistance, however, does not necessarily result in an aid grant. Once selected, countries are required to submit program proposals—referred to as MCC compacts—that have been developed through a broad-based, 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 MCC 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 MCC participant countries. In perhaps the most dramatic departure from previous U.S. assistance practices, MCC compacts are implemented by the recipient country government.

To manage the new initiative, 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).[2] The MCC headquarters staff level is currently about 300, with a handful of additional employees in each compact country. On December 8, 2009, Daniel Yohannes was sworn in as the new Chief Executive Officer (CEO) of the MCC. 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]

MCC Implementation

From the time the MCC Board of Directors held its initial meeting to establish the program and agree to Corporation by-laws on February 2, 2004, procedures and policies have continued to evolve. Program implementation moves chronologically through a number of steps: candidate countries are identified, criteria are formulated, compact and threshold-eligible countries are selected, programs are developed and proposed, and those approved are funded and carried out. Elements in this process are discussed below.

[2] The decision to house the initiative in a new organization was one of the most debated issues during early congressional deliberations. The Bush Administration argued that because the initiative 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 initiative 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 program, while others said that it should reside in the State Department. 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. The MCC's status remained unchanged under Secretary of State Rice's realignment of foreign aid authorities, announced on January 19, 2006. While gaining policy and budget authority over nearly all USAID and State Department foreign aid programs, the new Director of Foreign Assistance in the State Department played a more limited role in other agency activities, developing an overall U.S. government development strategy and only providing "guidance" to foreign aid programs delivered through other agencies like the MCC.

[3] With the expiration of the term of former Senate Majority Leader William Frist in October 2010, all four private sector board positions will be vacant. In September 2010, the President nominated former Ambassador Mark Green to replace Frist, and re-nominated Alan Patricof, co-founder of a venture capital corporation, to serve a second term. First terms run three years and second terms run two years.

Selection of Candidate Countries

The selection of initial candidate countries is fairly straightforward and based on the authorizing statute. Countries must fall into specific economic categories determined by their per capita income status (as defined and ranked by the World Bank). MCC participation is limited to all low- and lower-middle-income countries (the former with per capita incomes below $1,905 and the latter between that figure and $3,945 in FY2011), a total of 84 in FY2011. Countries in the low-income group compete with other countries in the low-income group; countries in the lower-middle-income group compete with each other.

As the relative income status of countries changes from year to year, their MCC eligibility is affected, often negatively. For FY2011, two countries—Azerbaijan and Albania, the latter with a threshold program—have moved from lower-middle-income to upper-middle income status and are, therefore, now ineligible for further MCC assistance. Namibia signed a compact in 2008 and, therefore, continues its program regardless of the upper-middle income status gained in FY2010. Another advancing country in FY2010 was Colombia, first selected in FY2009 for Compact eligibility, but the FY2010 Consolidated appropriations (H.R. 3288, Division F, P.L. 111-117) contains language that allows FY2009 selectees that transition to a higher income status to retain candidacy status at their original income level for several years, leaving open the possibility that Colombia could be reselected.

Countries that move from low-income to lower-middle-income status may also be affected negatively by having to compete against countries at a higher level of development. In addition, under the MCC legislative authority, only a quarter of total MCC assistance in any year is available for lower-middle-income country compacts, severely limiting the possibility that such countries will be selected or funded. For FY2010, this would have affected the chances of threshold program countries like Indonesia, the Philippines, and Paraguay, all of which would have been in a better position to obtain a compact had they remained in the low-income group. In September 2009, the MCC Board announced that, for countries that move from low to lower-middle-income status, it will consider their performance relative to both their old income group and the newer one for a period of three years. Further, as noted, the FY2010 Consolidated appropriations (H.R. 3288, Division F) allows transitioning countries already selected in FY2009 to maintain their candidacy for eligibility and, if reselected, draw on the same source of funds as when they were first selected. A possible compact for Indonesia, reselected in FY2010, will therefore be funded as though in the low-income group.[4]

In addition to the income ceiling, countries may be candidates only if they are not statutorily prohibited from receiving U.S. economic assistance. For FY2011, 11 countries were excluded for this reason. Most had been barred in prior years as well.[5] One, Madagascar, excluded in FY2010 because of an undemocratic change in government, was one of the first compact countries and, in losing its eligibility, has had its program terminated early.

[4] The Philippines moved to the lower-middle income level in FY2010, signed a compact as a low-income country in FY2010, and has now returned to low-income status in FY2011.

[5] Various types of aid restrictions applied to these countries. For several—Sudan, Cote d'Ivoire, and Madagascar—U.S. aid was blocked because an elected head of government had been deposed by a military coup. For Uzbekistan, legislation banned assistance to the central government. Aid restrictions imposed on nations not cooperating in counter-narcotics efforts (Burma), that are on the terrorist list (Sudan, Syria, North Korea), or in arrears on debt owed the United States (Syria, Sudan) also applied. Notwithstanding these and other restrictions, each country remained eligible for humanitarian assistance from the United States.

In August 2010, the MCC transmitted to Congress its annual notification of candidate countries, listing 55 low-income countries and 29 lower-middle-income countries (see **Table 4** and **Table 5**).

Country 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 (See **Table 6** for Performance Indicators). They are a key statement of MCC development priorities and ultimately determine which countries will receive U.S. assistance. Perhaps of equal significance, the current indicators themselves have become prominent objectives of some developing countries in what former CEO Danilovich has called the "MCC effect."[6] 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, each year the Corporation sends to Congress an overview of the criteria and methodology that would be used to determine the eligibility of the candidate countries in that fiscal year. The criteria have been altered and refined, sometimes dramatically, over time.

As noted above, the main criteria is that a country has demonstrated a commitment to good governance, economic freedom, and investments in its people (especially in health and education). While the MCC legislative authorities broadly match criteria originally 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;
- respects worker rights;
- supports a sustainable management of natural resources; and
- makes social investments, especially in women and girls.

For each of these, the MCC has sought to use supplemental data and qualitative information to inform its decisions on compact eligibility. The latter two factors have led to the development of new indicators.

With regard to the requirement added by Congress regarding social investments in women and girls, at first the MCC reported it would draw on girls' primary enrollment rates to supplement the four social investment performance indicators. But in FY2005, an indicator measuring girls' primary education completion rates replaced a broader measure used in FY2004 that did not disaggregate primary education graduation by gender.

Beginning with 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). For FY2006, the Corporation added a new indicator—the Cost of Starting a Business—that replaced the Country Credit Rating, a measure that was used in

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

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, MCC 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.

Efforts to develop a measurement to assess a country's commitment to policies that promote sustainable management of natural resources as required by Congress led to the adoption of two new indicators, first used as supplemental information in determining FY2007 MCC 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.

In addition to adding or refining indicators, the Corporation has also modified its principal that, in selected cases, 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 allowed the MCC to make a more refined determination of whether a country passes or fails these hurdles.

In December 2006, the MCC began to apply gender analysis to all aspects of the MCC program, including country selection and compact development and implementation.

In the explanatory statement accompanying the FY2009 Omnibus appropriations (P.L. 111-8), Congress urged the Board of Directors to consider establishment of an indicator that would take into consideration the votes and positions of countries in international institutions with regard to human rights issues. The MCC explored this option and noted in its September 2009 criteria report that as indicators measuring commitment to human rights within a country already exist and a country's voting record could be influenced by political goals, the suggested indicator was not appropriate.

Selecting Eligible Countries

Shortly after release of the performance criteria, the MCC publishes a scorecard, showing where each candidate country's performance falls in relation to the other candidate countries in its peer group (i.e., low-income countries "compete" with other low-income countries and lower-middle-income countries with other lower-middle-income countries). Some time later, the MCC Board meets to select its list of countries eligible to apply for compact assistance.

A review of the history of MCC selections suggests that the Board is guided by, but not entirely bound to, the outcome of the performance indicator review process; board members can apply discretion in their selection. Performance trends, missing or old data, and recent policy actions might come into play during selection deliberations.

For example, in its first year, FY2004, the MCC selected 16 countries. The 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.

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 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.[7]

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[7] For a complete statement regarding the Board's rationale, see *Report on the Selection of MCA Eligible Countries for* (continued...)

As the candidate pool has expanded in succeeding years while funding levels failed to meet expectations, the Board has become increasingly more selective. Many outside the MCC support the approach of keeping the number of new participants to a few so that future compacts can be larger and emphasize "transformational" development opportunities as the MCC program originally envisioned.

For FY2005, the Board did not select 10 countries that met the criteria, including Bhutan, Vietnam, Guyana, Burkina Faso, China, Djibouti, Egypt, Nepal, the Philippines, and Swaziland. The Corporation offered little explanation as to why these countries were not chosen.[8] It appeared, however, that scoring "substantially below"—perhaps in the lowest 25th percentile—on an indicator had become a de-facto criteria for exclusion. For example, the Corporation's then-CEO Paul Applegarth commented that the Philippines, a country that passed 13 of the 16 indicators, did not qualify because it 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.[9] 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 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. For FY2004, 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 MCC status.

In FY2006, the Board did not choose eight countries in the low-income group that qualified and did not use its discretionary powers to select any new nations that failed to meet the minimum requirements.[10] Bhutan, China, and Vietnam passed enough hurdles but did not qualify, as was the case the previous 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. 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 MCC 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

(...continued)

FY2004, found at http://www.mcc.gov, "Congressional Reports."

[8] 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 MCC 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.

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

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

passed 12 of the 16 indicators and not falling significantly below the median on the other 4, is less obvious.

In its first year of choosing among lower-middle-income countries, the Board's approach was less clear. A number of analysts had 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.[11] 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 indicators and therefore, did not technically qualify.[12] 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.

Although the Gambia was selected in FY2006, its eligibility for MCC assistance was suspended by the MCC Board on June 16, 2006, because of "a 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.

On November 8, 2006, the MCC Board added three new countries to the list of those eligible for FY2007 MCC 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 other indicators in this category. Several development analysts further argued that Jordan should not be selected, because the MCC is not an appropriate funding source. They assert that Jordan, already is one of the largest recipients of U.S. aid, has access to private sector capital, and is not a democracy.[13] In selecting Jordan, the MCC Board appears not to have been swayed by these arguments.

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[11] 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.

[12] 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.

[13] 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.

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 2006 candidate selection meeting.

For the 2008 selection process, the MCC Board added the Philippines and Malawi to the list of countries eligible to apply for a Compact. Two countries that had appeared in the past were absent in the 2008 list. Sri Lanka was left out because of the resurgent civil strife that would make a compact problematic, and Cape Verde for more complicated reasons. Due to changes in the qualifying indicators, Cape Verde would not have been eligible for the third year in a row, and, as a lower-middle-income country, would be more strictly judged. Nonetheless, according to the MCC, 12 of the 25 countries that made the cut did not meet the FY2008 criteria, five of them failing the control of corruption indicator. One reason that the MCC reselected these countries was that they were viewed as maintaining or improving their performance rather than adopting policies contrary to the criteria. This approach was taken because countries following reasonable policies may fall behind the performance criteria when other countries are improving faster—thereby raising the bar. They may also fail when new criteria are introduced which countries have not had an opportunity to address and when institutions measuring performance refine or revise their indicators.

For the FY2009 selection, the MCC Board added three new entries to the list of compact-eligible countries—Indonesia, Zambia, and Colombia—and reinstated an old entry, Cape Verde. The first two met the indicator criteria for the first time, both benefitting from threshold programs targeting corruption factors that had prevented them from eligibility in the past. The most striking aspect of the year was the decision not to reselect several countries that had been eligible in the previous year—Bolivia, Timor-Leste, and Ukraine. In FY2008 and FY2009, both Ukraine and Timor-Leste failed the corruption indicator. Timor-Leste, in addition, failed the "investing in people" basket in those years. Bolivia, however, had passed its indicator test in every year. The hold put on MCC consideration of its compact proposal in FY2008 and its exclusion from eligibility in FY2009 appeared likely due to the political tensions existing between it and the United States rather than its performance in development-related matters. Countries previously selected that remained eligible in FY2009 and which continued to prepare compact proposals were Jordan, Malawi, Moldova, Philippines, and Senegal. The Board, however, noted that a Philippines compact would not be signed until it passed the corruption indicator that it failed in FY2009.

Country Selection—FY2010

For its FY2010 selection, the MCC Board, unlike previous years, did not reselect countries that already had signed compacts, unless the possibility of a second compact was at issue. In fact, the Board added no new countries to its eligibility list. Cape Verde was invited to submit a proposal for a second compact, as the first was due to conclude in October 2010. Two reselected countries that had moved to the lower-middle income group, the Philippines and Indonesia, would not have qualified under FY2010 indicators for corruption and the investing in people basket, but appear to have been reselected on the basis of their performance had they remained in the low-income group. The FY2010 Consolidated appropriations legislation (H.R. 3288, Division F) allowed the Board to treat countries selected in FY2009 that had transitioned to a different income group in FY2010 to be treated in this fashion.

Table 1. Compact-Eligible Countries: FY2010

Low-Income Countries	Lower-Middle-Income Countries
Malawi Moldova Zambia	Cape Verde Indonesia Jordan Philippines

MCC Compacts and Program Proposals

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

While acknowledging that compact proposal contents likely will vary, the MCC expects each to discuss certain matters:

- a country's strategy for economic growth and poverty reduction, impediments to the strategy, how MCC 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 MCC performance indicators.

The MCC 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. Proposals are developed by a country with the guidance of and in consultation with the MCC. Sometime during the proposal development process, the MCC may provide so-called pre-compact development grants to assist the country's efforts. Among other things, grants may be used for design studies, baseline surveys, technical and feasibility studies, environmental and social assessments, ongoing consultations, fees for fiscal and/or procurement agents, and the like. For example, in June 2009, the MCC provided Jordan with a pre-compact development grant of $13.34 million, not counted as part of the final compact. It is being used for feasibility studies and other assessments for water and wastewater projects.

Once a proposal is submitted, the MCC conducts an initial assessment, then, on the basis of that assessment, launches a due diligence review that closely examines all aspects of the proposal, including costs and impacts. At the same time, MCC staff work with the country to refine program elements. Finally, the MCC negotiates a final compact agreement prior to its approval by the MCC Board. The compact is signed but does not enter into force until supplemental agreements on disbursements and procurement are reached.[14]

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, Cape Verde, Nicaragua, and Georgia. In 2006, six more agreements were signed: Benin, Vanuatu, Armenia, Ghana, Mali and El Salvador. In 2007, four compacts were signed—with Mozambique, Lesotho, Morocco, Mongolia. In 2008, three, with Tanzania, Burkina Faso, and Namibia were signed. In 2009, one compact, with Senegal was signed. A compact with Moldova will be signed early in 2010.

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 MCC process. Discussions regarding the scope and purpose of the MCC grant occurred at the regional and national level in Madagascar that included broad representation of civil society. Management and oversight of the compact was handled by a new entity, MCA-Madagascar, whose Steering Committee included government and non-government officials. Both of these steps underscore the "country-ownership" and broad participatory nature of MCC programs. The compact also included fiscal accountability requirements concerning audits, monitoring, and evaluation that support the transparency concept of the MCC. While the $110 million MCC grant was fully obligated when the compact entered into force, resources were transferred periodically following a determination that performance continued satisfactorily. This funding plan emphasizes the MCC principles of accountability and results.

Madagascar is also a case of how things can go wrong. In May 2009, with little more than a year remaining in the compact's five-year span and $88 million of the $110 project committed, the compact was terminated because of the undemocratic change in government.

Compact Descriptions

The 20 compacts agreed up to this point are described below in alphabetical order (also see **Table 3**). In addition to individual compact components noted in each description, compact totals include administrative and monitoring costs.

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%.

Misgivings have been raised both prior to and during implementation of the Armenia 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 and freedoms in the country. Moreover, the MCC Board delayed final approval of the compact

[14] Details on each of the negotiated compacts can be found at the MCC website: http://www.mcc.gov.

following the November 27, 2005, constitutional referendum, after allegations of fraud, mismanagement, limited access by the press, and abuse of individuals were raised. In signing the compact on March 27, 2006, the MCC issued a cautionary note, signaling that Armenia must maintain its commitment to the performance indicators or risk suspension or termination of the compact. On March 11, 2008, the MCC issued a warning that assistance might be suspended or terminated in response to the government's actions, including the imposition of a state of emergency and restrictions on press freedoms.[15] In the autumn of 2008, the Armenian government used $17 million of its own funds to begin a road segment when there was some question of whether the MCC would continue its support. In December 2008, then-MCC CEO Danilovich noted that Armenia had since moved forward on a number of reforms addressing MCC concerns and he expected MCC support to resume in the spring of 2009.[16] However, on March 11, 2009, the MCC Board of Directors declined to lift the funding hold for the rural roads component of the Armenia compact until an interim review session could be held prior to its normal June 2009 meeting in order to assess the status of democratic governance in Armenia. On June 10, 2009, the MCC Board decided to continue its hold on financial support for the roads project. At least one board member noted that the hold on funding was, in effect, a termination, as the work, if reapproved, could not be completed within the compact lifespan.[17]

Benin

The five-year, $307 million compact focuses 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.

Burkina Faso

The five-year, $480.9 million compact has four elements. A rural land governance project ($59.9 million) will focus on improving legal and institutional approaches to rural land issues, including registration and land use management. An agriculture project ($141.9 million) will target water management and irrigation, diversified agriculture, and access to rural finance in specific regions of the country. A roads project ($194.1 million) will improve rural roads. The education effort ($28.8 million) will build on the country's MCC threshold program and construct additional classrooms and provide daily meals to children. The education project will be administered by USAID.

Cape Verde

The five-year, $110 million compact, completed in October 2010, has focused largely on improving the country's investment climate, transportation networks, and agriculture productivity. The program's goal has been to increase the annual income in Cape Verde by at least $10 million.

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[15] See letters of John Danilovich to Armenia President Robert Kocharyan on December 16, 2005 and March 11, 2008 on MCC website.

[16] MCC, Public Outreach Meeting Transcript, December 12, 2008, p. 12.

[17] Lorne Craner at Public Outreach Meeting, June 11, 2009.

The compact evolved around three projects. In support of private sector development, $2.1 million and additional participation with the International Finance Corporation was used to remove constraints to private sector investment by creating a commercial credit information bureau and stimulate other reforms. The MCC invested $83.2 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. By investing $11.4 million to increase the collection and distribution of rainfall water and strengthen agribusiness services, including access to credit, the project hoped to increase agricultural production and double the household income of farmers.

Cape Verde is the first compact country to be made eligible for a second compact.

El Salvador

The five-year, $461 million compact addresses 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.

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.

On September 4, 2008, the Bush Administration proposed a $1 billion aid initiative for Georgia, of which one component was adding $100 million to the existing $295 million MCC compact. An amendment to the compact was signed on November 20, 2008. The additional $100 million, complementing or completing projects begun in the original compact, is directed at road projects, water and sanitation facilities, and a natural gas storage facility.

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.

Honduras

The five-year, $205 million (originally $215 million) compact with Honduras, completed on September 17, 2010, focused on two objectives—rural development and transportation. The rural development project, representing $68.3 million of the compact, assisted small and medium-size farmers to enhance their business skills and to transition from the production of basic grains to more high-value horticultural crops, such as cucumbers, peppers, and tomatoes. The project provided farmers with the appropriate infrastructure and necessary training for producing and marketing these different crops. More than 7,000 farmers were trained, of which 6,029 significantly increased production of horticulture crops. About 422 kilometers of rural roads were also upgraded, helping farmers transport their goods to markets at a lower cost. The original objective was 1,500 kilometers, but increased construction costs limited that figure.

The transportation project, totaling $119.2 million of the compact, sought to improve the CA-5 major highway linking Honduran Atlantic and Pacific ports and major production centers in Honduras, El Salvador, and Nicaragua. Almost 50 kilometers of the CA-5 were completed of 107 originally planned and 45 of 68 kilometers in secondary roads before an undemocratic change in government led to the September 9, 2009, MCC termination of these two planned activities in the transportation sector. The termination affected about $10 million in funding, including $4 million for the CA-5 road project. Already contractually obligated programs were continued.

Jordan

The five-year, $275.1 million compact is solely aimed at the water sector. In the governorate of Zarqa, it will reduce water loss by rehabilitating the water supply and distribution network from reservoir to household ($102.5 million) and will improve the sewage system by replacing or rehabilitating sewage lines ($58.22 million). In a partnership with the private sector, the compact will also expand a wastewater treatment plant originally built by USAID ($93.03 million).

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.

Madagascar

The Madagascar compact was a four-year, $110 million program, focusing on rural agriculture development and poverty reduction. Specifically, the project had 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 was 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.

After restoring 149,000 land rights documents, digitizing another 128,000, and formalizing land rights for 12,800 families, constructing two new bank branches, and providing agriculture technical assistance to 34,450 farmers and 290 small businesses and farmers associations, the Madagascar compact was terminated in May 2009 due to an undemocratic change in government.

Mali

The five-year, $461 million compact emphasizes an increase in agricultural production and expansion of trade. About half the funds ($234.6 million) support a major irrigation project, including modernization of infrastructure and improvements in land tenure. Improvements in the airport ($89.6 million) target both passenger and freight operations. Due to rising construction costs and changes in currency valuations, $94.6 million in funds originally intended for construction of an industrial park at the airport have been reallocated to the airport project.

Moldova

The five-year, $262 million compact addresses agriculture and roads. On the agriculture side, $101.77 million will be provided to repair large irrigation systems supporting high-value fruits and vegetables, to support the legal transfer for these systems to water user organizations, to facilitate financing facilities for farmers and entrepreneurs. USAID will provide technical assistance to improve market access for high-value agriculture. The compact will also provide $132.84 million to repair a major bridge and highway leading toward Ukraine, facilitating commercial traffic between the two countries.

Mongolia

The most significant part of the original five-year, $285 million compact was intended to stimulate economic growth by refurbishing the rail system, including infrastructure and management ($188.38 million). However, in April 2009, the government of Mongolia informed the MCC that it would not be able to implement the $188 million rail component of its compact, because Russian members of the joint Mongolian-Russian rail company would not allow an audit of the company.

The MCC has decided to use $52 million of this amount to expand the three other original projects in the compact. These include support for improvements in the property registration and titling system ($23.06 million) and the vocational education system ($25.51 million), and an attempt to reform the health system to better address non-communicable diseases and injuries, which are rapidly increasing in the country ($17.03 million). In December 2009, the MCC Board approved a further restructuring of the compact, utilizing remaining funding from the terminated rail component of the compact to target $47.2 million at energy and environmental projects and $79.7 million at rehabilitating a road and bridge.

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).

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%.

Namibia

The five-year, $304.5 million compact focuses on education, tourism, and agriculture. The education project ($145 million) will improve school infrastructure and training, vocational and skills training, and textbook acquisition. The tourism project ($67 million) will target management and infrastructure in Etosha National Park, the premier wildlife park in Namibia, and build ecotourism capacity in the country. The agriculture project ($47 million) will focus on land management, livestock support, and production of indigenous natural products.

Nicaragua

The five-year, $175 million compact with Nicaragua focuses on 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.

On June 10, 2009, the MCC Board voted to terminate assistance for activities not yet contracted under the Nicaragua compact. These activities had been suspended since December 2008 because of the actions of the Nicaraguan government inconsistent with the MCC eligibility criteria, specifically in the area of good governance. In 2008, the credibility of Nicaragua's municipal elections was seriously questioned, and a fair resolution of the electoral issue has not been reached since that time. The termination, reducing about $62 million from the compact total, affects a property regularization project and a major road.

Philippines

The five-year, $434 million compact has three components. Computerization of the revenue collection process is expected to raise tax revenues and reduce tax evasion, while improving the impartiality of tax administration ($54.4 million). Support for small-scale, community development projects, designed and implemented by rural communities, is intended to strengthen local governance and participation in development activities ($120 million). Rehabilitation of 222 kilometers of road linking two provinces is meant to reduce transport costs and increase incomes ($214.4 million).

Senegal

The five-year, $540 million compact targets two infrastructure needs—roads and irrigation, both largely intended to support the agricultural sector in Senegal. The road rehabilitation project ($324 million) seeks to improve two key roads, one connecting major towns and neighboring countries to the capital and the other connecting the agricultural area of the Casamance to the rest of Senegal. The irrigation project ($170 million) will develop up to 10,500 hectares of land and prevent abandonment of 26,000 hectares. It will also address land tenure issues.

Tanzania

The five-year, $698 million compact focuses 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 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.

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.

Anticipated Compacts in FY2011

During FY2011, the MCC anticipates approval of three compacts—Malawi, Zambia, and Cape Verde. The Malawi compact is expected to focus on electricity access. At this stage, the government of Zambia has conducted an analysis of possible poverty reduction strategies and has identified issues that will help guide its future compact proposal. Cape Verde is developing a second compact. A compact with Indonesia was anticipated for FY2011, but the probable large size of the compact and the requirement to obligate all funds up front will likely force its approval into FY2012.

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 MCC funding in future years. Congress provided in authorizing legislation that not more than 10% of MCC 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 MCC appropriations available for this threshold assistance.[18]

In the first part of 2010, the threshold program underwent a review, the conclusions of which, discussed below, have only recently begun to emerge and have not yet been published in formal policy guidance. Up through mid-2010, the threshold programs sought chiefly to assist countries make policy reforms and institutional changes in areas where they failed to meet the MCC performance criteria. Those countries deemed eligible for the program had to submit concept papers identifying where and why the country failed to pass specific indicators; make proposals for policy, regulatory, or institutional reforms that would improve the country's performance on these indicators; and note types of assistance, over a two-year maximum period, required to implement these reforms. If the MCC, in consultation with USAID, determined that the concept paper showed sufficient commitment to reform and a promise of success, the country would prepare a threshold country plan that specifically established a program schedule, the means to measure progress, and financing requirements, among other considerations. USAID was and continues to be charged with overseeing the implementation of nearly all 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 MCC compacts, funding is not guaranteed for each country selected for the threshold program, but is based on the quality of the country plan.

Although eight threshold country programs have been followed by compact eligibility, Congress and others raised concerns regarding the efficacy of threshold programs. It has been variously argued that two years is insufficient time to alter the indicators; that some countries passed the indicators before the threshold program could begin; that, by funding reform to improve an indicator, the threshold program undermines the principle that countries should themselves be responsible for reform and MCC eligibility; and that programs should focus on better preparing countries to implement compacts rather than on enabling them to qualify for eligibility. [19] In response to an explanatory statement accompanying the FY2009 Omnibus appropriations that suggested an assessment of the programs be undertaken before more are approved, the MCC did not select any new countries for threshold eligibility for FY2010 and did not request funding for the program in its FY2011 budget.

The MCC briefed its board in June and announced in September 2010 a new approach to threshold programs. While maintaining the basic purpose of helping countries become compact-

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[18] Initially, assistance for Threshold countries was authorized only for FY2004.

[19] One such critic, Sheila Herrling, has since become the MCC Vice President for Policy and Evaluation . See "Precedent-Setting Board Meeting for Team Obama," *MCA Monitor Blog*, June 9, 2009, Center for Global Development website http://blogs.cgdev.org/mca-monitor.

eligible as required by the authorizing language, the MCC will no longer focus on changing specific indicator scores. Rather, it will focus on constraints to economic growth, like those identified for compact countries. Working on resolving constraints to growth would have the benefit of helping MCC and the board become more familiar with potential compact countries as well as of beginning to work on problem sectors that would likely be among the ones addressed in compact projects.

To date threshold programs worth a total of about $495 million have been awarded to 21 countries. Currently 14 countries are receiving threshold assistance: Albania (second program), Guyana, Indonesia, Kenya, Kyrgyz Republic, Liberia, Moldova, Paraguay (second program), Peru, Rwanda, Sao Tome & Principe, Timor-Leste, Uganda, and Ukraine. Eight countries have completed programs, two of which, noted above, are conducting follow-on programs. Of those that have completed programs or are currently receiving assistance, Indonesia, Moldova, Burkina Faso, Jordan, Malawi, the Philippines, Tanzania, and Zambia, have either begun or are eligible for compacts.

Yemen had developed a program approved by the Board, but implementation was postponed on October 27, 2007, pending a review. It is no longer eligible for threshold assistance. Mauritania was made eligible in 2007, but could not be offered a program due to aid prohibitions on governments deposed by a coup. In September 2009, the MCC Board warned that Niger appeared to be moving away from its reform agenda, jeopardizing its $23 million threshold program. In December 2009, Niger's threshold program was suspended due to undemocratic actions taken by its leadership contrary to the MCC's governance criteria.

In December 2007, the MCC Board invited three countries—Albania, Paraguay, and Zambia—to submit proposals for follow-on threshold programs (stage II) as their initial threshold programs were going to expire in 2008. In September 2008, the MCC Board approved a $16.4 million stage II program for Albania. In January 2009, the Board approved a $30.3 million stage II program for Paraguay, aimed at improving anti-corruption and rule of law indicators. Zambia will not require the stage II program as it now passes the corruption indicator the program was meant to address and was approved for compact eligibility in December 2009.

Funding levels for threshold programs differ, most recently ranging from $8.7 million for Sao Tome and Principe to $35.6 million for Peru. Of the programs ongoing or completed, most have sought to improve country scores on the corruption indicator. Several countries have multiple objectives. Indonesia and Peru, for example, target both corruption and immunization indicators. Liberia's program focuses on girls' education and land rights. Timor-Leste targets corruption and childhood immunization.

Select Issues

Funding

In each year since the MCC was established, its enacted appropriation has been well below the President's request. At $1.1 billion, the FY2010 appropriation is $320 million or 22% below the request.

Supporters of the MCC argue that if, as a consequence, few compacts are offered annually, the incentive for countries to go through the whole process of seeking eligibility and designing and refining a proposal is diminished and the so-called MCC effect, which encourages countries to reform on their own in order to meet eligibility requirements, may be lost. Although the priority given to other foreign assistance programs competing for limited available funding is the likely chief reason for cuts made to the MCC request, concerns regarding the MCC have been expressed at various points in time on the rate of implementation of the program, the size of compacts, the sectors supported, and its impact on development. These issues are discussed below.

Table 2. MCC Appropriations: FY2004-FY2011

(in $ billions)

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Request	1.300	2.500	3.000	3.000	3.000	2.225	1.425	1.280
Appropriation	0.994	1.488	1.752	1.752	1.486[a]	.875	1.055[b]	

a. Original appropriation was $1.544 million; $58 million was rescinded in P.L. 110-252.

b. P.L. 111-226 rescinded $50 million from unobligated amounts in FY2009 and prior fiscal years. To match OMB practice, however, full amount is subtracted from year of rescission, FY2010. Original FY2010 appropriation was $1.105 billion.

MCC Appropriations Request and Congressional Action for FY2011

On February 1, 2010, the Obama Administration issued its FY2011 budget request, providing $1.280 billion for the MCC, a 16% increase over the FY2010-appropriated level. On June 30, the House State, Foreign Operations Appropriations subcommittee approved a draft FY2011 bill, not yet reported out of committee. The bill would provide $1.105 billion for the MCC. On July 29, the Senate Appropriations Committee reported S. 3676, the FY2011 State, Foreign Operations appropriations, also providing $1.105 billion for the MCC, $174.7 million below the request and equal to the FY2010 appropriation level. The Senate bill also contains extensive amendments to the MCC authorization (see below).

On September 30, 2010, the Continuing Appropriations Act of 2011 (P.L. 111-242, H.R. 3081) was signed, providing FY2011 funding for the MCC at the level in the FY2010 Consolidated Appropriations Act (P.L. 111-117). It expires on December 3, 2010.

On August 10, 2010, Congress rescinded $50 million from unobligated balances of the MCC in FY2009 and prior fiscal years, one of dozens of rescissions included in P.L. 111-226, an act that funded a number of domestic programs.

Authorizing Legislation and MCC Reform

Observers have anticipated that an MCC reauthorization measure would be considered in the 111th Congress. A previous effort, in the 109th Congress (2006), was reported by the House International Relations Committee (H.R. 4014, H.Rept. 109-563), but received no further consideration. That bill would have made a number of policy modifications to the original legislation and would have authorized MCC appropriations ("such sums as may be necessary") for fiscal years 2007 through 2009. The requirement of an authorization of foreign aid programs has been routinely waived in annual Foreign Operations appropriations bills, as the FY2010

Consolidated appropriations measure did in the case of currently unauthorized foreign aid programs, including the MCC (section 7023).

Early in 2010, the Administration proposed a number of changes to MCC legislative authorities, including provisions on eligibility of countries moving from one income status to another, compact extensions, and concurrent compacts. Provisions on these issues were included in section 609 of the Foreign Relations Authorization Act, S. 2971 (Kerry), introduced on January 29, 2010, and were largely maintained in section 405 of the amended version of S. 2971 reported by the Senate Foreign Relations Committee on April 27, 2010. A somewhat similar set of authorization provisions is included in section 7075 of the Senate version of the FY2011 State, Foreign Operations appropriations, S. 3676.

With regard to the MCC, these two pieces of legislation would

- extend the potential eligibility of selected countries that transition from low-income status to lower-middle income status, or the reverse, as though they remained in their former income status for the year of transition and two subsequent years. S. 3676 requires retention of the former status; S. 2971 allows it. This provision addresses a matter raised first in the FY2010 Consolidated appropriations (H.R. 3288, P.L. 111-117). However, the latter also allowed countries that moved in FY2009 to the upper-middle-income class, a group technically banned from MCC assistance, to maintain their lower-middle status for several years. No such provision is included in either S. 3676 or S. 2971.
- allow a compact to exceed five years in length, up to seven years. This provision is deemed necessary in view of the difficulties that recipient countries may have in implementing complex projects within a limited timeframe.
- allow concurrent compacts (more than one at the same time), in order to give the MCC flexibility to do several smaller, staggered projects, instead of wrapping them all in one compact. The MCC argues that concurrent compacts could be implemented as a recipient country is prepared to do so, thereby speeding up the implementation process. For example, some infrastructure projects require more planning than do technical assistance projects. S. 3676 contains additional provisions that would allow concurrent compacts only up to two years after an initial compact and would limit compact funding to any one country to 15 years.
- redefine low- and lower-middle income status to place the lowest 75 countries in the low-income group and the remaining lower-middle income countries in the lower-middle income level. Without this change, there would be 55 countries in the low-income and 29 in the lower-middle level in FY2011. This move is a response to the continually shifting classification of candidate countries that determines who they compete against for compact eligibility and the level of funding available to support their compacts (only 25 % of appropriations are available to the lower-middle group each year).

Compact Size

During its first five years, the MCC was criticized for supporting compacts that were either too small or too large based on the dollar size of the grants. A closely examined characteristic of the early compacts was their lower-than-anticipated funding level. While Bush Administration officials had said repeatedly that compacts would be funded at various levels depending on the nature and potential impact of the proposal, the presumption in its first years was that the MCC 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 said that the size of its grants must place MCC assistance among the top aid donors in a country.[20] Some had estimated that once the Corporation's budget reached the $5 billion annual level originally suggested, each compact would be supported with annual resources in the $150-$200 million range.[21] 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, did not meet the anticipated financial allocation thresholds. Madagascar's four-year, $110 million compact roughly doubled U.S. assistance to the country, but did not place MCC assistance among the top donors. France was 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 was Madagascar's largest source of concessional assistance of about $209 million lent in each of 2001 through 2004.[22] The $110 million compact for Madagascar was also not very large relative to the country's population. Of the 16 qualified countries for FY2004, Madagascar had the fourth largest population (16.4 million), and might have been expected to receive one of the larger MCC grants given its population size and its per capita income.

For Honduras (a $215 million MCC program over five years), Georgia ($295 million over five years), and Armenia ($236 million over five years), the United States was the top bilateral donor without the MCC program, and will likely remain in that position as MCC grants are disbursed. But the MCC Compact for Honduras called for only a slightly higher annual amount ($43 million) than U.S. economic assistance provided ($34 million) at the time, while Georgia's compact averaged only about three-fourths and the Armenia compact only about two-thirds of the annual level of their recent American aid. While these were not insignificant amounts of new resources, they were far less than Bush Administration officials had suggested previously.[23]

In contrast, the early five-year compacts with Cape Verde ($110 million), Benin ($307 million), and Vanuatu ($66 million) represented a substantial investment by the United States, relative to the size of recent American aid and the size of their economies. USAID, which last provided direct bilateral assistance to Cape Verde in the mid-1990s, does not maintain a mission presence, allocating small amounts of aid through regional programs. The compact's $22 million annual average placed the United States second to Portugal, Cape Verde's former colonial power, as the leading donor, and represented 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

[20] 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.

[21] 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.

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

[23] 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.

million annual average of the Vanuatu program places 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 Benin compact likely places the MCC as the top aid donor, together with France.[24]

This issue of compact size was a priority of Ambassador Danilovich following his September 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 would receive funding if MCC was to achieve its transformational goal.[25] After assuming the CEO position, he moved the MCC towards larger compacts and placing the MCC as the largest donor in recipient countries. In 2005, the average amount of compacts signed in that year was $181 million, in 2006, $364 million, in 2007, $463 million, and in 2008, $495 million.

Apparently, in the view of some in Congress, the move to larger compacts went too far. In the explanatory statement accompanying the FY2009 Omnibus appropriations (P.L. 111-8), the MCC was urged to limit compact size to under $350 million in order to "ensure that the MCC does not become overextended, that existing compacts are meeting their goals, and future compacts are of a manageable size."

Speed of Implementation

A recurrent criticism of the MCC, especially in Congress, has been the seemingly slow speed of implementation, reflected largely by the limited amount of disbursements made to date. It is, to some extent, a cause of cuts in MCC funding from the Administration request and of threatened rescissions from amounts already appropriated during the past few years. As of the end of September 2009, of the $8.3 billion appropriated for the MCC up to that point since 2004, only $1.7 billion, or 20%, had been disbursed.

There are some good reasons for this spending rate. 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. Further, the countries themselves are responsible for developing proposals, and they have problems common to most developing countries in managing complex programs to meet donor requirements of accountability. 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.[26]

Once launched, compacts may be slow to get underway. For example, Honduras and Cape Verde, both in their fourth year had disbursed only 29% and 40%, respectively, of their total grants by end of March 2009. Among the causes for these low rates are delays by compact countries in filling managerial positions. The nature of many of the compacts is also responsible for the

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

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

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

delays. Typically, infrastructure projects are slow to disburse funds, the majority of activity in the first few years being the design and planning of projects rather than actual construction.

Whatever the causes, the MCC responded to the criticisms by shifting its organizational focus from the early emphasis on compact development to compact implementation. In October 2007, it announced a reorganization aimed at facilitating implementation. The MCC expects annual compact disbursements to top $1 billion by 2010.

Compact Sectors

One feature of the first series of compacts drew particular attention. Most of the early compacts included a similar sector concentration, focusing on agriculture and transportation infrastructure projects. While these activities are well justified, the similarity across Compacts surprised some observers. Given the wide diversity of conditions in each of the countries, plus the MCC'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 budget support aid, countries that qualify for MCC support are selected because they have already demonstrated stronger performance in managing resources and fighting corruption.[27]

As more compacts are signed, some diversity in programs is creeping in—four of the more recent ones, in Lesotho, Mozambique, Tanzania, and Jordan, feature a water and sanitation component. The Morocco compact includes micro-credit and artisan crafts support among its projects. Burkina Faso and Namibia have education components.

Compact Outcomes and Impact

The purpose of the MCC is to reduce poverty by supporting economic growth, but some observers have complained about the lack of measurable results to date.[28] There are some possible reasons for this, most prominently the slow speed of compact implementation noted above. As a result, it will likely be some time before a serious analysis of actual impacts can be undertaken. In the meantime, some reporting on outcomes has emerged. For instance, according to the MCC, the number of new registered businesses in Albania has grown by 20,000, and the time and cost of starting a business in Paraguay has fallen by nearly half. In March 2009, the MCC issued an independent impact analysis of the Burkina Faso Threshold Program, which constructed 132 primary schools and provided other assistance to increase girls' enrollment rates. It found that enrollment increased for both genders, by about 20%, and for girls over boys, by 5%.[29] With the

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

[28] The Senate Appropriations Committee report (S.Rept. 110-425) on its version of the FY2009 State/Foreign Operations appropriations explained a proposed cut to the MCC by noting the small compact disbursement rate (4% of total compact funding at the time) and the lack of tangible results to date as factors. The committee stated its intention to support future compacts "if current country compacts are shown to be cost effective and achieving results."

[29] MCC Public Board Meeting, June 11, 2009. Mathematica Policy Research, Inc., *Impact Evaluation of Burkina Faso's BRIGHT Program*, March 2009.

recent completion of two compacts, Honduras and Cape Verde, close of compact independent assessments are expected to more thoroughly enumerate outcomes and explore possible impacts.

A 2007 GAO report highlighted a concern, that, in the case of Vanuatu, projected impacts had been overstated. The GAO noted that the MCC estimated a rise from 2005 per 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.[30] The MCC response was 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.[31]

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 and then later suspended for different reasons). Both the House and Senate approved resolutions in 2007 (H.Res. 294 and S.Res. 103) noting the role the MCC played in encouraging Lesotho to adopt legislation improving the rights of married women.

Changing Costs

The majority of Compact projects support construction of economic infrastructure, primarily roads and water and sanitation systems. In 2007 and early 2008, costs for the machines and material necessary for these activities rose worldwide. At the same time, the U.S. dollar depreciated significantly. As a result, MCC projects were faced with having less funding than envisioned to meet the agreed-on objectives. The MCC reported that at least six projects were to be scaled-back from the original plans or supplemented by financing from other sources. It is not yet clear how the current worldwide economic crisis is affecting MCC program costs, but it is likely that projects planned for a five-year life span will continually require review and revision.

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

How USAID would participate in the MCC initiative has been a concern of Congress and members of the development community. Section 615 of the 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 MCC consideration. USAID maintains missions in most of the eligible countries and might be expected to support MCC programs, through contracting, procurement, and monitoring tasks. Although

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

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

USAID is the chief implementor on behalf of the MCC of threshold programs, its role in other aspects of MCC activities is not clear.

One question of concern to the development community is how USAID will adjust its own programs in MCC countries. Then-USAID Administrator Natsios told the House Appropriations Committee on May 13, 2004, that the Agency would not withdraw from or cut programs in MCC 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 MCC-funded activities. Nonetheless, some critics continue to express concern that MCC funding is not always additive, as had been the pledge, but substitutes for portions of previous USAID bilateral development aid programs. In its FY2008 report on the State/Foreign Operations bill (H.Rept. 110-197), the House Appropriations Committee expressed the view that MCC aid should be "a complement," not a substitute, to the current aid program.

Procurement

In the course of implementing compacts, the entity that MCC sets up with partner governments signs hundreds of contracts each year to procure equipment, construct infrastructure, or obtain technical expertise. Under MCC rules, compact procurement processes are based on World Bank procedures, not U.S. federal acquisition requirements or the compact country's own rules. To counter corruption, build capacity, and achieve the maximum value for the cost of goods and services, MCC-approved rules feature transparent, competitive bidding from all firms, regardless of national origin. According to the MCC, companies from 54 countries have won contracts.

In August 2010, Senator Jim Webb raised the concern that some of these contracts had been won by Chinese government-owned firms. In a letter to the MCC, he argued that contracts awarded to Sinohydro Corporation for construction work in Mali and Tanzania supported Chinese foreign policy efforts to expand influence in Africa and harmed U.S. business. In October 2011, the MCC amended its procurement guidelines to prohibit contracts with state-owned enterprises (SOEs), except in the case of educational, research, and statistical units of government not formed for a commercial purpose. Its chief stated reason for making the change is to ensure a level playing field for competing firms. As of June 30, 2010, $325 million or about 10% of MCC contracts had gone to SOEs. According to the MCC, the majority of MCC-funded contracts have been won by U.S. firms.

Corruption

In 2009 and 2010, several members of Congress noted their concern regarding provision of MCC funding to corrupt countries. Specifically, they each referred to the case of Senegal, whose leader installed a monument to the country's independence estimated to cost between $24 million and $70 million. The $540 million compact with Senegal was signed in September 2009.

MCC programs are designed to prevent corrupt contracting. Among other things, MCC requires a transparent and competitive process and mandates separation of technical and financial elements of a bid. The MCC reviews each decision made by the procurement entity and must register approval for many of them, and it provides funds directly to contractors rather than through the government implementing entity. MCC argues that, in following this process, recipient governments learn how to do procurement in a corrupt-free way.

In addition to concerns about safeguarding U.S. aid dollars, the degree to which a country controls corruption is one of the performance indicators that help determine whether a country should be eligible for compact funding. In fact, it is the only "pass-fail" indicator. Passing the indicator, however, does not mean there is little or no corruption—an unrealistic expectation for most developing countries. It only demonstrates that a country's performance is above the median relative to other countries at the same economic level. Further, as suggested in the discussion of country selection, the MCC board does not depend on indicator scores alone to determine the selection process. These scores change from year to year, depending on fresh data and the relative scores of competing countries. Taking this into account, the MCC board uses discretion by looking at a number of factors, including the many underlying data sources that make up indicators, as well as recent steps taken by the government in question to address corruption (or, in some cases, recent increased allegations of corruption). Accordingly, a country can be selected that technically falls near or below the median if mitigating factors occur. Alternatively, countries that pass the corruption indicator may be the subject of intense debate over incidences of alleged corruption. Because of data lags, countries passing the indicator may fail a year or two later, once a compact is in place. This can be true of all the indicators, particularly when a country "graduates" into a higher income category, thereby changing the medians. The MCC attempts to address this concern by looking for a pattern of behavior on the part of the government in order to judge the severity of any proposed corrective action.

In the case of Senegal, the country scores in the 74^{th} percentile of the FY2011 Control of Corruption indicator formulated by the World Bank. The MCC says it has looked at but found no pattern of corrupt behavior since signing the Senegal compact that would justify suspending or closing the compact program. It has notified the Senegalese government that any decline in policy performance, regardless of indicator scores, could jeopardize the compact.

Table 3. MCC Compacts

Country	Compact Signed	Compact Size (millions)	Entry Into Force	Compact Focus	GNI per capita	Population Living Below $2 p/day (%)	Human Develop-ment Index Ranking[a]	Other U.S. Econ. Aid: FY2009 (millions)[b]
Armenia	Mar. 27, 2006	$236 5 years	Sept. 29, 2006	-Agriculture/ irrigation -Rural roads	$3,100	43.4%	76	$48.4
Benin	Feb. 22, 2006	$307 5 years	Oct. 6, 2006	-Land & property -Financial services -Judicial improvement -Port rehab	$750	75.3%	134	$30.7
Burkina Faso	July 14, 2008	$481 5 years	July 31, 2009	- Rural land governance - Agriculture - Roads - Education	$510	87.6%	161	$6.0
Cape Verde	July 4, 2005	$110 5 years	Oct. 17, 2005	-Agriculture -Transport/roads -Private sector	$3,010	40.2	118	$0.0
El Salvador	Nov. 29, 2006	$461 5 years	Sept. 20, 2007	-Education -Transport/roads -Small business/farm development	$3,370	20.5%	90	$27.2
Georgia	Sept. 12, 2005	$295 5 years	April 7, 2006	- Infrastructure/ gas - Transport/ roads - Agriculture/ business	$2,530	34.2%	74	$295.4
Ghana	August 1, 2006	$547 5 years	Feb. 16, 2007	-Agriculture -Transport -Rural Development	$700	63.3%	130	$109.5
Honduras (completed)	June 13, 2005	$215 5 years	Sept. 29, 2005	-Agriculture -Transport/roads	$1,820	34.8%	106	$34.1
Jordan	Oct. 25, 2010	$275.1 5 years	—	-Clean Water and Sanitation	$3,740	11.0%	82	$263.5
Lesotho	July 23, 2007	$362.6 5 years	Sept. 17, 2008	-Water sector -Health sector -Private sector	$1,030	61.1%	141	$25.6
Madagascar (terminated May 2009)	April 18, 2005	$110 4 years	July 27, 2005	- Land titling/ Agriculture - Financial sector	$420	88.7%	135	$54.8
Mali	Nov. 13, 2006	$460.8 5 years	Sept. 17, 2007	-Irrigation -Transport/ airport -Industrial park	$680	82.0%	160	$86.8
Moldova	Jan. 22, 2010	$262 5 years	—	-Agriculture -Roads	$1,590	28.9%	99	$14.5
Mongolia	Oct. 22, 2007	$285 5 years	Sept. 17, 2008	-Transport/rail -Property Rights -Voc Ed -Health	$1,630	38.8%	100	$7.5

Country	Compact Signed	Compact Size (millions)	Entry Into Force	Compact Focus	GNI per capita	Population Living Below $2 p/day (%)	Human Develop-ment Index Ranking[a]	Other U.S. Econ. Aid: FY2009 (millions)[b]
Morocco	August 31, 2007	$697.5 5 years	Sept. 15, 2008	-Agriculture/ Fisheries -Artisan Crafts -Financial Serv/ Enterprise Support	$2,790	24.3%	114	$10.9
Mozambique	July 13, 2007	$506.9 5 years	Sept. 22, 2008	-Water and Sanitation -Transport -Land Tenure/ Agriculture	$440	92.9%	165	$272.5
Namibia	July 28, 2008	$305 5 years	Sept. 16, 2009	- Education - Tourism - Agriculture	$4,290	62.2%	105	$109.3
Nicaragua	July 14, 2005	$175 5 years	May 26, 2006	- Land titling/ Agriculture - Transport roads	$1,000	37.5%	115	$25.4
Philippines	Sept. 23, 2010	$434 5 years	—	-Revenue Reform -Community Dev -Road Rehab	$1,790	43.8%	97	$87.2
Senegal	Sept. 16, 2009	$540 5 years	—	-Roads -Irrigation	$1,030	71.3%	144	$89.4
Tanzania	Feb. 17, 2008	$698 5 years	Sept. 15, 2008	-Transport/roads and airport -Energy -Water	$500	91.3%	148	$367.9
Vanuatu	March 2, 2006	$66 5 years	April 28, 2006	-Transport rehab -Public Works Dept.	$2,620	NA	Not ranked	$0.0

Sources: Population Living Below $2 Per Day—data from the World Bank, *World Development Indicators, 2010*; Gross National Income per capita (Atlas method)—2009 data from the World Bank, *World Development Indicators*. Human Development Index Rank—from UNDP, *Human Development Report, 2010.* MCC Information: MCC.

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 (2010) evaluates 169 countries, with number 1having the best HDI and number 169 scoring the worst in the Index.

b. Other U.S. Economic Aid is defined here as Global Health and Child Survival, Development Assistance, Economic Support Fund, and Assistance to Europe, Eurasia, and Central Asia accounts.

Table 4. MCC Low-Income Candidate Countries—FY2011

Criteria: Per capita income $1,905 and below, and not prohibited from receiving other U.S. economic assistance.

Compact Eligible Countries (FY2010) are in Bold

Compact Countries are followed with (C)

Threshold Eligible Countries (FY2010) are in Italics

Threshold Program Countries are followed with (TC)

Africa		**East Asia/Pacific**
Benin (C)	Tanzania (C)	Cambodia
Burkina Faso (C)	Togo	Kiribati
Burundi	Uganda (TC)	Laos
Cameroon	**Zambia**	Mongolia (C)
Central African Rep		Papua New Guinea
Chad		**Philippines** (C)
Comoros		Solomon Islands
Congo, Dem Rep of		Vietnam
Congo, Rep of		
Djibouti		
Ethiopia		
Gambia		
Ghana (C)		
Guinea		**Latin America**
Guinea-Bissau		Bolivia
Kenya (TC)	**South Asia**	Guyana (TC)
Lesotho (C)	Afghanistan	Haiti
Liberia (TC)	Bangladesh	Honduras (C)
Malawi	India	Nicaragua (C)
Mali (C)	Nepal	
Mauritania	Pakistan	
Mozambique (C)		**Mid-East**
Niger (TC)		Yemen
Nigeria		
Rwanda		
Sao Tome & Principe (TC)	**Eurasia**	
Senegal (C)	Kyrgyz Rep. (TC)	
Sierra Leone	**Moldova** (TC) (C)	**Europe**
Somalia	Tajikistan	

Table 5. MCC Lower-Middle-Income Candidate Countries—FY2011

Criteria: Per capita income between $1,906 and $3,945, and not prohibited from receiving other U.S. economic assistance.

Compact Eligible Countries (FY2010) are in Bold

Compact Countries are followed with (C)

Threshold Eligible Countries (FY2010) are in Italics

Threshold Program Countries are followed with (TC)

Africa	East Asia/Pacific	Latin America
Angola	**Indonesia** (TC)	Belize
Cape Verde (C)	Marshall Islands	Ecuador
Swaziland	Micronesia	El Salvador(C)
	Samoa	Guatemala
	Thailand	Paraguay (TC)
	Timor-Leste (TC)	
	Tonga	
	Tuvalu	
	Vanuatu (C)	

South Asia	Mid-East
Bhutan	Egypt
Maldives	**Jordan** (C)
Sri Lanka	Morocco (C)
	Tunisia

Eurasia	Europe
Armenia (C)	Kosovo
Georgia (C)	
Turkmenistan	
Ukraine (TC)	

Table 6. MCC Performance Indicators for FY2011

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

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