Order Code RL32427

CRS Report for Congress
Received through the CRS Web

Millennium Challenge Account: Implementation of a New U.S. Foreign Aid Initiative

Updated November 14, 2005

Larry Nowels
Specialist in Foreign Affairs
Foreign Affairs, Defense, and Trade Division

Congressional Research Service ❖ The Library of Congress

Millennium Challenge Account: Implementation of a New U.S. Foreign Aid Initiative

Summary

In a speech on March 14, 2002, President Bush outlined a proposal for a major new U.S. foreign aid initiative. The program, referred to as the Millennium Challenge Account (MCA), is managed by the Millennium Challenge Corporation (MCC) and provides assistance, through a competitive selection process, to developing nations that are pursing political and economic reforms in three areas: ruling justly, investing in people, and fostering economic freedom. If fully implemented, the initiative would represent one of the largest increases in foreign aid spending in half a century, outpaced only by the Marshall Plan following World War II and the Latin America-focused Alliance for Progress in the early 1960s.

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

- the size of the $5 billion commitment;
- the competitive process that rewards countries for past and current actions measured by 16 objective performance indicators;
- the pledge to segregate the funds from U.S. strategic foreign policy objectives that often strongly influence where U.S. aid is spent; and
- the requirement to solicit program proposals developed solely by qualifying countries with broad-based civil society involvement.

The Administration sought $1.3 billion for the MCA's first year (FY2004), $2.5 billion for FY2005, amounts reduced by Congress to a combined $2.48 billion, about one-third less requested. The President sought $3 billion for FY2006, double the FY2005 level but less than the original $5 billion commitment for the third year. Congress approved $1.77 billion.

Congress authorized the MCC in P.L. 108-199 (January 23, 2004). Since that time, the MCC's Board of Directors has selected 23 eligible countries for FY2004 — FY2006, and signed five Compacts with Madagascar (April 18, 2005), Honduras June 13, 2005), Cape Verde (July 4, 2005), Nicaragua (July 14, 2005), and Georgia (September 12, 2005). Other MCA implementation matters continue to unfold, including the relationship of MCA and USAID, how to support "threshold" countries, and the country programs.

A growing question raised by some Members of Congress concerns the level of funding to support MCC programs. Some, noting that proposals received by the Corporation in 2004 totaled more than $4.2 billion, fear that insufficient funds might force the MCC to reduce the number of recipients or the size of the grants. Others, however, believe that the slower-than-anticipated pace of Compact agreements means that the Corporation has or will have enough resources, and support reductions to the $3 billion FY2006 request. The Foreign Operations Appropriations, as passed by Congress (H.R. 3057) provides $1.77 billion for FY2006.

This report will be updated as events unfold.

Contents

List of Tables

Millennium Challenge Account: Implementation of a New U.S. Foreign Aid Initiative

Most Recent Developments

On November 8, 2005, the Millennium Challenge Corporation's Board of Directors selected 20 low-income countries and three low-middle income nations to participate in the program for FY2006. Of these 23 countries, 17 had been selected in FY2004 and FY2005. New countries for FY2006 are Burkina Faso, East Timor, El Salvador, the Gambia, Namibia, and Tanzania. The Board also designated 13 nations as Threshold Program countries, including Indonesia, Jordan, Kyrgyz Republic, Moldova, and Ukraine which are new for FY2006.

On November 2, House-Senate conferees agreed to a $1.77 billion FY2006 appropriation for the MCC (H.R. 3057), a substantial reduction from the $3 billion request.

On October 7, Representatives Hyde and Lantos, Chairman and Ranking Member, respectively, of the House International Relations Committee, introduced legislation (H.R. 4014) to re-authorize the Millennium Challenge Act of 2003. Key provisions of the bill would authorize the Millennium Challenge Account (MCA) through fiscal 2008, adjust the methodology for designating countries as low and lower middle income, set time limits for completion of program proposals, allow for a country to maintain two MCA programs concurrently, expand consultation with Congress, and require the Millennium Challenge Corporation (MCC) to operate with more transparency.

Also on October 7, the Senate confirmed the nomination of John Danilovich as the new CEO of the Millennium Challenge Corporation. He previously served as the U.S. Ambassador to Brazil and Costa Rica. Ambassador Danilovich replaced Paul Applegarth who left the MCC in August. At his confirmation hearing in September, Ambassador Danilovich pledged to streamline the MCC process, assist potential MCA countries earlier in the process, and to increase the dollar size of future Compacts in order to achieve the transformational development impact envisioned the MCC concept.

On September 12, 2005, the Millennium Challenge Corporation signed a $295 million Compact with Georgia. Beginning on April 18, the MCC has signed four other Compacts with Madagascar, Honduras, Cape Verde, and Nicaragua.

Overview

In a speech on March 14, 2002, President Bush outlined a proposal for the United States to increase foreign economic assistance beginning in FY2004 so that by FY2006 American aid would be $5 billion higher than three years earlier. The funds, referred to as the Millennium Challenge Account (MCA), is managed by a new Millennium Challenge Corporation (MCC) providing assistance, through a competitive selection process, to developing nations that are pursing political and economic reforms in three areas:

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

If fully implemented, the initiative would represent one of the largest increases in foreign aid spending in half a century, outpaced only by the Marshall Plan following World War II and the Latin America-focused Alliance for Progress in the early 1960s. It would also represent a fundamental change in the way the United States invests and delivers economic assistance.

While the program was established and initially funded during the 108th Congress, the 109th Congress is debating a major appropriation increase — to $3 billion — proposed for the MCA. Committees of jurisdiction have held several oversight hearings, and could consider changes to the authorizing legislation concerning such matters as selection criteria and methodology, operation and funding of the "threshold" programs for those countries that just missed qualifying for MCA grants, and program monitoring and oversight. Authorization for MCC operations in FY2006 are included in S. 600, as reported by the Senate Foreign Relations Committee. For funding matters, the House recommends a cut to the President's $3 billion request to $1.75 billion (H.R. 3057), while the Senate Appropriations Committee proposes $1.8 billion (also H.R. 3057).

MCC Background[1]

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

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

- the size of the $5 billion commitment;
- the competitive process that will reward countries for past actions measured by 16 objective performance indicators;
- the pledge to segregate the funds from U.S. strategic foreign policy objectives that often strongly influence where U.S. aid is spent; and
- the requirement to solicit program proposals developed solely by qualifying countries with broad-based civil society involvement.

The new initiative, which Congress authorized in January 2004 (Division D of P.L. 108-199),[2] was scheduled to phase in over a three-year period, beginning in FY2004. During the first year, MCC participation was limited to the 74 poorest nations with per capita incomes below $1,415 and that were eligible to borrow from the World Bank's International Development Association. The list expanded in FY2005 to include all countries with a per capita income below $1,465 (adding another 13 nations). Beginning in FY2006 and beyond, all lower middle-income countries with per capita incomes between $1,575 and $3,255 may compete for MCC resources (adding another 29 countries in FY2006).

Country selection is based largely, but not exclusively, on the nation's record measured by 16 performance indicators related to the three categories, or "baskets," of good governance, economic freedom, and investing in people. Countries that score above the median on half of the indicators in each of the three areas qualify. Emphasizing the importance of fighting corruption, the indicator for corruption is a "pass/fail" test: should a country fall below the median on the corruption indicator, it will be disqualified from consideration unless other, more recent trends suggest otherwise. (See **Table 1** below for a complete list of the 16 performance indicators.) Administration officials, since announcing the MCC initiative in 2002, said that the selection process would be guided by, but not necessarily bound to the outcomes of the performance indicators. Missing or old data, general trends, and recent steps taken by governments might also be taken into account when annual decisions are made.

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

---

[2] **Table 2**, found at the end of this report, provides a summary of major MCA issues and compares positions approved by the House, Senate, and Conference Committee during the 2003 debate.

To manage the new initiative, the Administration proposed and Congress authorized the creation of a Millennium Challenge Corporation (MCC), an independent government entity separate from the Departments of State and the Treasury and from the U.S. Agency for International Development (USAID). The MCC plans for an eventual staff of about 200, drawn from various government agencies, non-governmental organizations, and the private sector, and led by a CEO confirmed by the Senate. A Board of Directors, chaired by the Secretary of State and composed of the Secretary of the Treasury, the USAID Administrator, the U.S. Trade Representative, and the Corporation's CEO, oversees operations of the MCC and makes the country selections. Four additional Board members, two of which have yet to be confirmed by the Senate, are individuals from the private sector drawn from lists of proposed nominees submitted by Congressional leaders.[3]

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

For FY2004, the Administration sought $1.3 billion for the MCA's first year, a level reduced by Congress to $994 million. The FY2005 budget proposed $2.5 billion while Congress approved $1.488 billion. The combined FY2004/2005 funding level of $2.48 billion is about one-third less than requested. The President initially planned a $5 billion MCA program by FY2006, but proposed $3 billion for next year. Administration officials say that given congressional reductions the past two years and competing demands elsewhere, a $3 billion request is more realistic for FY2006. Even this reduced level has been trimmed by Congress, as the House recommends $1.75 billion while the Senate proposes $1.8 billion (H.R. 3057; Foreign Operations appropriations).

MCC Implementation Steps and Issues

The passage of legislation on January 23, 2004 authorizing and funding the MCC for FY2004 (Division D of P.L. 108-199) launched a period of 90 days during which the new Corporation formed, issued required reports, consulted with Congress

---

[3] On July 13, 2004, the Senate confirmed two of the four new Board members: Kenneth Hackett, President and CEO of Catholic Relief Services, and Christine Todd Whitman, former Governor of New Jersey and former head of the Environmental Protection Agency, 2001-2003. No further nominees have been submitted by the White House.

and the public, and selected first year participant countries. Within 10 days of enactment, the Board of Directors held its initial meeting to establish the program, and over the following weeks the Corporation identified "candidate" countries for FY2004, published the criteria and methodology to be used for country selection, solicited public comments, issued guidelines for Compact proposals, and, on May 6, 2004, selected 16 countries to participate in the MCA's first year of operations. This was followed on November 10 with the selection of FY2005 eligible MCA countries, an action that added one new participant to the FY2004 list. The MCA Board issued its third round of selections on November 8, 2005, choosing 23 countries, six of which are new for FY2006. In addition, 18 countries have been named as threshold nations — those that just missed qualifying as eligible countries — for FY2005 and FY2006.

Implementation matters that continued to unfold in 2005 included the relationship of MCC programs with those operated by USAID, how the Corporation and USAID will support threshold countries to better prepare for future performance reviews, the awarding of MCA grants — in the form of Compacts — to MCA eligible countries, funding for FY2006, and the selection of FY2006 eligible countries.

Establishing the Millennium Challenge Corporation

On February 2, 2004, the Board of Directors met, agreed to Corporation by-laws, and approved then-Under Secretary of State Larson as the interim CEO. Subsequently, the President nominated Paul Applegarth to be the permanent MCC CEO, an individual confirmed by the Senate on May 5.[4]

Naming FY2004 Candidate Countries

Also on February 2, the MCC Board issued a list of 63 "candidate" countries that would be reviewed for possible selection as MCA participants in FY2004. These countries, according to authorizing legislation, must be eligible for assistance from the World Bank's International Development Association, have a per capita income of $1,415 or less, and not be otherwise ineligible to receive U.S. assistance. The latter condition eliminated twelve countries — Burma, Burundi, Cambodia, Central African Republic, Cote d'Ivoire, Guinea-Bissau, Liberia, Serbia, Somalia, Sudan, Uzbekistan, and Zimbabwe — that were statutorily barred from receiving American aid.[5]

---

[4] CEO Applegarth resigned his position, effective August 8, 2005. President Bush has nominated John Danilovich, currently the U.S. Ambassador to Brazil, as the new CEO.

[5] Various types of aid restrictions applied to these countries. For several — Burundi, Central African Republic, Cote d'Ivoire, Guinea-Bissau, and Sudan — U.S. aid was blocked because an elected head of government had been deposed by a military coup. For Cambodia and Uzbekistan, legislation banned FY2004 assistance to the central governments of these countries. Aid restrictions imposed on nations not cooperating in counter-narcotics efforts (Burma), that are on the terrorist list (Sudan), or in arrears on debt owed the United States (Liberia, Somalia, and Zimbabwe) also applied. Serbia could not receive aid in FY2004

(continued...)

Publishing the Selection Criteria and Methodology

Pursuant to reporting requirements set in the MCC legislation, the Corporation on March 5, 2004 sent to Congress an overview of the criteria and methodology that would be used to determine the eligibility of the 63 candidate countries in FY2004. The report suggested that there would be relatively few and only minor changes to the criteria and methodology that had been outlined 15 months earlier. The same 16 performance indicators, as listed in **Table 1** below, would be utilized. In a few cases, data sources shifted from international institutions to national governments. This was especially true in cases where existing data for an indicator were old or incomplete.

Although the Corporation did not alter any of the original 16 performance indicators, it attempted to address additional criteria added by Congress in P.L. 108-199 through the use of supplemental data and qualitative information. While the legislative authorities broadly match criteria proposed by the Administration, lawmakers included four additional matters on which to evaluate a country's performance. These relate to the degree to which a country:

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

For an evaluation of the rights of people with disabilities, the MCC reported that it would draw on information in the State Department's annual Human Rights Report, which includes a discussion of discrimination based on disability. Regarding natural resource management, the Corporation would also use the Human Rights Report as supplemental information on such issues as access to sanitation, deforestation, conservation of land and marine resources, land tenure institutions, and protection of threatened and endangered species. The State Department's Human Rights Report would also be used for additional information regarding worker rights, while statistics on girls' primary enrollment rates would supplement the four social investment performance indicators.

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

[5] (...continued)
unless the President issued a determination stating, among other things, that the government was cooperating with the International Criminal Tribunal. Notwithstanding these restrictions, each country remained eligible for humanitarian assistance from the United States.

Given the range and diversity of suggestions offered throughout the public and congressional debate of the MCC, many observers were surprised that the Corporation did not propose more substantive changes to the criteria and methodology. Some questioned how seriously the Administration considered alternative approaches and whether the Corporation would be open to future revisions.[6] During the public comment period and at congressional oversight hearings, some suggested that existing data sources needed to be refined or new surveys created in order to specifically measure a country's commitment on the four criteria added by Congress.

After further study of the criteria and methodology, the Corporation announced on August 26, 2004, a revised set of performance indicators that were used for the FY2005 selection process. The MCC lowered the inflation rate threshold from 20% to 15%, making it somewhat more difficult to pass this test (only 6 of the 63 candidate countries failed this test for FY2004). An indicator measuring girls' primary education completion rates replaced a broader measure used in FY2004 that did not disaggregate primary education graduation by gender. As noted above, including the means to measure country performance on key women and girls issues was one of the requirements added by Congress during deliberation on MCC authorizing legislation.

For FY2006, the Corporation made further changes in the criteria and methodology. The most notable is the addition of a new indicator — the Cost of Starting a Business — that replaced the Country Credit Rating, a measure that was used in the FY2004 and FY2005 evaluation process. Data for the Cost of Starting a Business are drawn from the World Bank's Doing Business report, the same source for another MCC indicator of Days to Start a Business. The Corporation believes that not only does the new indicator have a strong correlation with economic growth, but that it is a measurement that may encourage governments to take action in order to improve their scores. Since the initial use of the indicator Days to Start a Business, MCA candidates countries have introduced many business start-up reforms, the results of which have been reflected in a lowered median for this category. MCC officials hope that adding an indicator for the Cost of Starting a Business will stimulate additional policy improvements. They believe that the Country Credit Rating indicator is not as well linked to policy reforms and that it has a greater income bias than other MCC indicators.

The Corporation also modified the principal, in selected cases, that countries must score *above* the median in order to pass a hurdle, with a rule that scores at the median will represent a passing grade. This is most likely to come into play 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 will allow the MCC to make a more refined determination of whether a country passes or fails these hurdles.

---

[6] See, for example, Steve Radelet, et al., *A Comment on the Millennium Challenge Account Selection Process*, Center for Global Development, March 9, 2004.

The MCC further indicates that it will explore additional criteria and methodology changes for the future. Under consideration are options to:

- identify a measurement related to natural resource management; the MCC has created a working group to study possibilities.
- review other possible indicators that would better measure trade barriers that are linked with economic growth.
- consider additional gender-relation indicators; the MCC looked closely at the indicator of Skilled Attendants at Birth (a proxy for maternal mortality) but decided for now that the data lack the necessary quality and coverage.[7]

Country Selection — FY2004

On May 6, the MCC Board of Directors determined that 16 countries would be eligible for FY2004 MCA funding and invited each to submit program proposals:

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

As expected, the selection process raised a number of questions and concerns. The Administration had previously said that the Board would be guided by, but not entirely bound to, the outcome of the performance indicator review process; that Board members could apply discretion in their selection. Performance trends, missing or old data, and recent policy actions might come into play during selection deliberations, officials noted.

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

For ten other countries, however, some discretion was applied by the Board. In three cases, countries which met the criteria but fell significantly below average on

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

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.[8]

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

---

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

conclude that it was a "high-performing" country. He acknowledged, however, that East Timor should be given close consideration in the future if the current trend lines continue.

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

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

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

Naming Candidate Countries — FY2005

On July 20, 2004, the MCC Board of Directors launched the initial step in the FY2005 selection process by naming 70 candidate countries, 7 more than were reviewed for FY2004. After adjusting the per capita income upward to $1,465[11] and

---

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

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

[11] The MCC plans to adjust the per capita income threshold each year to correspond to the (continued...)

dropping the requirement that a country must be an IDA-eligible borrower from the World Bank, 11 new countries were added to the list: China, Egypt, Equatorial Guinea, Iraq, Morocco, Paraguay, Philippines, Swaziland, Turkmenistan, Tuvalu, and Ukraine. Four countries fell off the FY2005 list that had qualified in FY2004 — Albania, Bosnia and Herzegovina, Cape Verde, and Tonga — because their per capita income grew beyond the $1,465 cutoff. Thirteen other nations were excluded because they were ineligible for other U.S. economic assistance.[12]

Country Selection — FY2005

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

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

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

Continuity in the FY2005 Selection Round. The fact that each country (except Cape Verde) selected for FY2004 MCA participation was also declared eligible for FY2005 should not be surprising, given the nature of the MCA concept. The Board identified in May 2004 what it determined to be the 16 "best performers" based on the assumption that these countries had, and would continue to express, a strong commitment to the types of economic, governance, and social policy reforms measured by the MCC. Absent a substantial negative development since May, there

---

[11] (...continued)
per capita income cutoff of the "historic ceiling" of IDA lending, a calculation made by the World Bank. In future years when all lower middle-income countries will be eligible to compete, the MCC also will adjust that threshold — which grew from $2,975 in 2003 to $3,035 in 2004 and to $3,255 in 2005 — in the consideration of determining candidate countries.

[12] Eleven of these countries were also excluded in FY2004. Serbia, which was barred from consideration for FY2004, exceeded the per capita income limit for FY2005 so was not under consideration. Syria and Cuba, which became potential candidate countries beginning in FY2005, were excluded because of a ban on direct aid to the countries. See Footnote 5, above, for a complete list of countries and aid restrictions.

was a presumed expectation that these same countries would score well in a subsequent performance comparison with their income peers. Moreover, except in some extreme situations, evidence of a slide in policy performance as measured through the various data sources would likely lag behind the actual policy shift and not be reflected in the immediate data updates.

In addition, two other factors that may not apply in future years seem to have affected the outcome for FY2005. First, with the selection dates for FY2004 and FY2005 coming only six months apart — rather than one year, as should be the case in the future — it was likely that the data would indicate less change than might be the case if the comparisons occurred over a longer period. Between May and November, several of the data sources upon which the 16 performance indicators are based did not update or revise their figures.[13] As a result, the review of countries for FY2005 was based on much of the same data and rankings as had been the case for the FY2004 selection.

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

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

As noted above, in May 2004, the Board chose not to select four countries — Bhutan, Guyana, Mauritania, and Vietnam — although each passed the minimum number of indicators. The Board decided to exclude these four because they scored

---

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

"substantially below" the median on one or more measurements, although without defining precisely what represented a mark "substantially below"the median.

For FY2005, the Board did not select 10 countries that met the criteria, including three of the four left out of the FY2004 round (Mauritania did not meet the minimum qualifications). In addition, for FY2005 Burkina Faso, China, Djibouti, Egypt, Nepal, the Philippines, and Swaziland met the minimum standards but were not selected. The Corporation offered little explanation as to why these countries were not chosen.[14] It appears, however, that scoring "substantially below" — perhaps in the lowest 25th percentile — has become a de-facto criteria for exclusion. For example, the Corporation's CEO Paul Applegarth commented that the Philippines, a country that passed 13 of the 16 indicators, did not qualify because Manilla scored "substantially below" the median on tests for health expenditures and fiscal policy, and that more recent trends indicated the fiscal policy situation was deteriorating further.[15] Each of the other nine nations that met the minimum qualifications but were not selected also had one score in the 25th percentile, although the Corporation has not commented on whether this was the reason for not choosing them.

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

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

Another Board departure in the FY2005 selection process was to avoid using its discretionary authority to qualify countries that did not meet the minimum performance indicators. In May, the Board chose three nations — Bolivia, Georgia, and Mozambique — that did not pass the so-called "hard-hurdle" of corruption. The latter two again qualified despite falling below the median on corruption, while Bolivia did not require an exemption after the median dropped below its score with the addition of new countries. For FY2005, five nations — Malawi, Moldova, Paraguay, Tanzania, and Ukraine — passed the required number of performance

---

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

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

indicators, except corruption. Although Malawi, Paraguay, and Tanzania are Threshold Countries, none of the five were chosen for full MCA status.

Naming Candidate Countries — FY2006

On August 5, the MCC released a list of 69 low-income countries and 29 lower middle-income nations that were evaluated for MCA grants in FY2006. The number of low-income nations — those with a per capita GNI of less than $1,575 — was one less than the previous year (Equatorial Guinea was dropped) while all of the lower middle-income group, with per capita GNI between $1,575 and $3,255, were new to the MCA selection process.[16] Fifteen nations were excluded from the FY2006 candidate country list because they are ineligible under existing law to receive U.S. economic aid. Most had been barred in prior years as well.[17]

Country Selection — FY2006

On November 8, 2005, the MCC Board of Directors made its selection of FY2006 eligible countries, and, for the first time, selected participants in both the low-income and lower middle-income groups:

Low-Income Countries

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

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

[17] For several — Burundi, Central African Republic, Cote d'Ivoire, and Sudan — U.S. aid is blocked because an elected head of government has been deposed by a military coup. For Cambodia and Uzbekistan, legislation bans FY2005 assistance to the central governments of these countries. Aid restrictions imposed on nations not cooperating in counter-narcotics efforts (Burma), that are on the terrorist list (Cuba, Iran, North Korea, Sudan, and Syria), not complying with minimum trafficking in persons standards (Burma and Sudan), or in arrears on debt owed the United States (Somalia, and Zimbabwe), also apply. Serbia and Bosnia and Herzegovina are not eligible for aid in FY2005 unless the President issues a determination stating, among other things, that the governments are cooperating with the International Criminal Tribunal.

Lower Middle-Income Countries

Cape Verde	Namibia
El Salvador*	

* New for FY2006.

All 17 countries previously selected in FY2004 or FY2005, or both years, again qualified in FY2006. Four new low-income countries are added for FY2006 — Burkina Faso, East Timor, The Gambia, and Tanzania — plus two new lower middle-income nations — El Salvador and Namibia.[18] None are the four low-income nations are surprising. Three — Burkina Faso, East Timor, and Tanzania — were chosen last year as Threshold countries, meaning they were "near-misses" in FY2005. The Gambia improved its scores significantly between FY2005 and FY2006, including those for inflation, fiscal policy, controlling corruption, and other governance indicators. The rationale for selecting any lower middle-income countries, on the other hand, and El Salvador and Namibia in particular, is less clear, as discussed below.

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

The Board seemed to heed this advice for the low-income group by not choosing eight countries that qualified and not using its discretionary powers to select any new nations that failed to meet the minimum requirements.[19] Bhutan, China, and Vietnam passed enough hurdles but did not qualify, as was the case the past two years, based on very low scores on political rights, civil liberties. Kiribati, the Philippines, and India were not selected most likely because some of their scores were substantially below the median, which has become a marker used by the Board previously. India also presents a challenging case for the Board in that despite qualifying, it is a country with a significantly large poor population which would require a sizable MCA Compact in order to produce a reasonable degree of impact on poverty reduction. It is also a nation with the means to attract capital and investment from other sources. Egypt, also not selected, falls into a somewhat different category as the second largest recipient of annual U.S. assistance based on a strategic rationale. The

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

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

reason for not selecting Uganda, despite having passed 12 of the 16 indicators and not falling significantly below the median on the other 4, is less obvious.

Selection of Lower Middle-Income Countries is Less Clear. Whether to include relatively more wealthy nations — those with a per-capita income higher than $1,575 — in the MCA program has been debated since the launch of the initiative. A number of analysts have argued that especially given the less-than-anticipated budget available to the MCC, the Board should refrain from selecting any lower middle-income countries (LMICs), at least in the FY2006 round.[20]

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.[21] It appears, however, that the Board could have decided to select none of the lower middle-income nations by using criteria it has applied consistently in the two previous rounds. Moreover, it is 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, has not been explained by the Board.

MCA Compacts and Program Proposals

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

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

- a country's strategy for economic growth and poverty reduction, impediments to the strategy, how MCA aid will overcome the

[20] 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.

[21] 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.

impediments, and the goals expected to be achieved during implementation of the Compact.;

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

Initial MCA Compacts.[22] The Corporation did not set hard deadlines for Compact submissions in order to allow countries adequate time to conduct a national dialogue over the contents of the program proposal.[23] By December 1, 2004, the MCC had received proposals and "concept papers" from 15 of the 16 FY2004 eligible countries, and began the next phase — negotiating formal Compacts — with several countries. The MCC signed its first Compact, with Madagascar, on April 18, 2005, an event that has been followed by four other signings with Honduras (June 13), Cape Verde (July 4), Nicaragua (July 14), and Georgia (September 12).

Two features of the first series of Compacts have drawn particular attention. First, most of the Compacts include a similar sector concentration, focusing on agriculture and transportation infrastructure projects. While these activities are well justified, the similarity across Compacts is somewhat surprising. Given the wide diversity of conditions in each of the countries, plus the Corporation's willingness to support all types of programs, many observers had expected to see a greater degree of variation among the Compacts. Some believe that social sectors, including those in health and education, should be receiving greater attention in Compact design. Others had expected greater variety in aid delivery mechanisms, and are concerned that the MCC is reluctant to approve sector grants and other types of budget support assistance. While there can be greater accountability risks associated with this kind of aid, countries that qualify for MCA support are selected because they have already demonstrated stronger performance in managing resources and fighting corruption.[24] As subsequent Compacts are signed, the issue of sector focus is likely to be closely watched.

---

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

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

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

A second closely examined characteristic of the early Compacts has been the dollar size of the grants; or more specifically, the lower-than-anticipated funding level. While Administration officials have said repeatedly that Compacts will be funded at various levels depending on the nature and potential impact of the proposal, the presumption has been that the MCA grant would represent a sizable increase in U.S. assistance to the eligible country. In order to realize its potential as a "transformational" aid program and to provide sufficient incentives to countries requesting "breakthrough" projects, the MCC says that the size of its grants must place MCA assistance among the top aid donors in a country.[25] Some had estimated that once the Corporation's budget reached $5 billion, each Compact would be supported with annual resources in the $150-$200 million range.[26] 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 five Compacts, however, do not appear to meet the anticipated financial allocation thresholds. Madagascar's four-year, $110 million Compact will result in a roughly doubling of U.S. assistance to the country, but will not place MCA assistance among the top donors. France is the largest bilateral donor, disbursing on average $82 million per year, 2000-2003. The European Commission's aid program, 2001-2003, has averaged $63 million per year, while the World Bank's International Development Association is Madagascar's largest source of concessional assistance of about $170 million lent in each of 2002 and 2003.[27] The $110 million Compact for Madagascar is also not very large relative to the country's population. Of the 16 qualified countries for FY2004, Madagascar has the fourth largest population (16.4 million), and might have been expected to receive one of the larger MCA grants given its population size and its per capita income ($230, second lowest among the 16 MCA countries).

For Honduras (a $215 million MCA program over five years), Nicaragua ($175 million over five years), and Georgia ($295 million over five years), the United States has been the top bilateral donor in recent years without the MCA program, and will likely remain in that position once the MCA grants begin to disburse. But the MCA Compacts for Honduras and Nicaragua call for only slightly higher annual amounts than current U.S. economic assistance provides, while Georgia's Compact will average only about three-fourths of the annual level of present American aid. While these are not insignificant amounts of new resources, they are far less than Administration officials had suggested previously.[28]

---

[25] See, for example, Millennium Challenge Corporation FY2005 Budget Justification, p. 7. Found at [http://www.mcc.gov/about_us/key_documents/index.shtml].

[26] 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.

[27] Organization for Economic Cooperation and Development (OECD), *Geographical Distribution of Financial Flows to Aid Recipients, 1999/2003: 2005 edition.* p. 172.

[28] 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.

In contrast, the $110 million, five-year Compact with Cape Verde represents a substantial investment by the United States. 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 will place the United States roughly on par with Portugal, Cape Verde's former colonial power, as the leading donor, and represent a one-third increase of total development aid grants from all sources compared with figures for 2002 and 2003.[29]

This issue was addressed by Ambassador Danilovich during his September 27, 2005 confirmation hearing to be the MCC's new CEO. He noted that the MCC was "meant to create transformative programs," and to do so he said that "future Compacts will generally need to be larger than those signed thus far." Ambassador Danilovich cautioned, however, that with limited resources but larger Compacts, fewer countries will receive funding if MCC is to achieve its transformational goal.[30]

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

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

Honduras Compact. The five-year, $215 million MCA Compact with Honduras focuses on two objectives — rural development and transportation. The

---

[29] *Geographical Distribution of Financial Flows to Aid Recipients, 1999/2003: 2005 edition.* p. 116.

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

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

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

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

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

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

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

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

Georgia Compact. 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.

Table 1. Status of MCA Compacts

Country	Compact Signed	GNI per capita	Population Living Below $2 p/day (%)	Human Development Index Ranking[1]	FY05 US Econ. Aid (millions)	Compact Size (millions)	Compact Focus
Cape Verde	July 4, 2005	$1,770	NA	105	$1.7	$110 5 years	- Agriculture - Transport/roads - Private sector
Georgia	Sept. 12, 2005	$1,040	15.7%	100	$87.6	$295 5 years	- Infrastructure/gas - Transport/roads - Agriculture/business
Honduras	June 13, 2005	$1,030	44.0%	116	$22.6	$215 5 years	-Agriculture -Transport/roads
Madagascar	April 18, 2005	$300	85.1%	146	$39.1	$110 4 years	- Land titling - Financial sector - Agriculture
Nicaragua	July 14, 2005	$790	79.9%	112	$40.7	$175 5 years	- Land titling - Transport/roads - Agriculture

Sources:
Population Living Below $2 Per Day — data from the World Bank, *World Development Indicators, 2005*; Gross National Income per capita — 2004 data from the World Bank, *World Development Indicators On-Line, 2005*. Human Development Index Rank — from UNDP, *Human Development Report, 2005*. U.S. Economic Aid — Department of State. MCA Compact information — Millennium Challenge Corporation.

1. 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) US dollars. The most recent report (2005) evaluates 177 countries, with number 1 having the best HDI and number 177 scoring the worst in the Index.

"Threshold" Countries and U.S. Assistance

In order to encourage non-qualifying countries to improve in weak areas, the United States will help governments that are committed to reform to strengthen performance so that they would be more competitive for MCA funding in future years. Congress provided in authorizing legislation that not more than 10% of MCA appropriations ($99.4 million in FY2004) could be used for such purposes, stating that the funding could be made available through USAID. The MCC set aside up to $40 million for countries that just missed qualifying for FY2004 funding and projects an additional $90 million for FY2005, subject to the quality of submitted proposals.[31]

The Corporation has made two announcements regarding the selection of Threshold Countries. On September 30, the Corporation named seven participants: Albania, East Timor, Kenya, Sao Tome and Principe, Tanzania, Uganda, and Yemen. Five weeks later, on November 8, the MCC added six more nations for FY2005: Burkina Faso, Guyana, Malawi, Paraguay, the Philippines, and Zambia. According to the Threshold Program Policy guidance issued by the Corporation,[32] the program will assist countries make policy reforms and institutional changes in areas where they failed to meet the MCA performance criteria. In order to qualify for Threshold Program FY2004 assistance, countries must have submitted by January 31, 2005, concept papers identifying:

- where and why the country failed to pass specific indicators;
- proposals for policy, regulatory, or institutional reforms that would improve the country's performance on these indicators; and
- types of assistance, over a two-year maximum period, required to implement these reforms.

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

---

[31] Initially, assistance for Threshold countries was authorized only for FY2004. The FY2005 Foreign Operations Appropriations (Division D of P.L. 108-447, the Consolidated Appropriations Act for FY2005, makes 10%, or $149 million of the new appropriation available Threshold assistance. H.R. 4014, as introduced on October 7, 2005, would make the 10% set-aside for threshold programs permanent.

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

The MCC signed the first Threshold Agreement with Burkina Faso on July 22, 2005. The $12.9 million plan is designed to improve girls' primary education, targeting areas of the country with the lowest primary completion rates. Although Burkina Faso "passed" enough performance indicators to qualify for a regular MCA program in FY2005, the Corporation's Board did not select the country, presumably because its scores on girls' primary education completion and days to start a business fell significantly below the median level.

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

As noted above, how USAID would participate in the MCA initiative has been a continuing concern of Congress and various policy analysts. Legislation authorizing the MCC requires the Corporation's CEO to coordinate with USAID and directs the Agency to ensure that its programs play a primary role in helping candidate countries prepare for MCA consideration. Corporation and USAID officials have said there will be close collaboration between the two entities, although the precise nature of the relationship has yet to be made public. USAID maintains missions in 14 of the 17 eligible countries and might be expected to support MCC programs, through contracting, procurement, and monitoring tasks.

Another question is how USAID will adjust its own programs in MCA countries, especially where the Agency maintains relatively small activities in relation to other donors. Since the goal is to provide resources that will make MCA programs among the largest aid operations in a country, it was anticipated that USAID spending would fall well below amounts provided through MCC Compacts. For example, in Mongolia, where U.S. aid programs have totaled $10-$12 million annually in recent years, the United States was the fourth largest bilateral donor in 2002, representing less than a quarter of the size of Japan's economic aid disbursements. In Ghana, Senegal, and Sri Lanka, USAID maintains larger programs but spends far less than other countries and multilateral agencies. But in the case of the first Compacts for Madagascar, Honduras, and Nicaragua, the MCA grants are only somewhat higher on a per-year average ($28 million for Madagascar, $43 million for Honduras, and $35 million for Nicaragua) than USAID's "core" economic aid programs (about $20 million for Madagascar, $34 million for Honduras, and $34 million for Nicaragua). For Georgia, the Compact's average level of $59 million is well below USAID's $86 million allocation for FY2005.

Like other issues involving USAID, this question remains under review. USAID Administrator Natsios told the House Appropriations Committee on May 9, 2004 that the Agency would not withdraw from or cut programs in MCA countries, but would not increase spending either. He said, however, that USAID would work to ensure that its programs operate in an integrated way with MCA-funded activities.

The first test could come in Madagascar where the MCA Compact focuses on rural agriculture, land tenure, and the financial sector, with an anticipated outcome of protecting the country's fragile ecosystem. USAID's current program is largely targeted on preventing sexually transmitted infections and HIV/AIDS, strengthening health services, improving the nation's governance capacity, conserving

Madagascar's biologically diverse forest ecosystems, and promoting agriculture market development and trade. The latter two objectives appear to be consistent with the MCA Compact. Adjustments to USAID's program could be made in the future, however, as the Agency undertakes a review of its strategic goals now that Madagascar entered into an MCA program. Similar outcomes could occur in other MCA Compact countries.

Funding Issues — Previous and in the 109th Congress

As mentioned above, Congress appropriated $994 million for FY2004 MCC programs and an additional $1.488 billion for FY2005. The enacted appropriation for FY2005 is 40% below the President's $2.5 billion request. The MCC recommendation was by far the largest increase sought by the Administration in the Foreign Operations appropriations proposal and viewed by many observers as one of the most vulnerable items in an increasingly difficult budget environment. In earlier congressional action, House and Senate Budget Committees (H.Con.Res. 393 and S.Con.Res. 95) recommended reductions in international affairs spending, suggesting that much of the proposed cuts could be achieved by trimming back the MCC request. Legislation authorizing appropriations for the MCC reported by the Senate Foreign Relations Committee (S. 2144) would have reduced the level to $2 billion.

Foreign Operations appropriation bills passed in both the House and Senate (H.R. 4818) made substantial reductions to the President's MCC request for FY2005. The bill, as approved by the House, reduced by half the President's $2.5 billion proposal. In cutting the MCC proposal, the House Appropriations Committee noted that its decision resulted solely from the constrained budget environment in FY2005 and the need to address other Administration and Congressional priorities. The executive branch, in its Statement of Administration Policy on H.R. 4818, expressed its "disappointment" over the level of MCC funding and urged Congress to increase resources. During floor debate on July 15, the House defeated (41-379) an amendment by Representative Paul to eliminate all MCC appropriations.

The House Committee, in its report on H.R. 4818, also expressed concern over Corporation plans to enter into multi-year Compacts without committing total funding for these programs in the year the Compact is signed. This, the Committee believed, would obligate future Congresses to fund prior year contracts. Consequently, the bill required the MCC to only sign Compacts for which complete funding was available from existing appropriations. The House Committee also recommended that Compacts be limited to a three to four year period rather than a three to five year duration envisioned by the MCC.

The Senate measure — also H.R. 4818, as amended to incorporate the text of S. 2812, proposed a more significant cut to the President's MCC request — to $1.12 billion. Despite the reduction, the Senate Appropriations Committee noted its strong support for the program.

Following strong pressure from the White House to increase MCC funding above House and Senate-passed levels, conferees settled on $1.5 billion for the MCC in FY2005, adjusted downward to $1.488 billion by an across-the-board rescission requirement. Like the House bill, the conference agreement requires that the MCC fully fund multi-year compacts selected in FY2004 and FY2005.

For some time, some Members of Congress have raised questions regarding whether sufficient funds will be available to support MCC programs in every country selected, especially if the Board continues its practice of selecting more countries than meet the strict criteria. Representative Kolbe, chairman of the House Foreign Operations Subcommittee, speculated at a May 9, 2004, hearing that based on recent Board decisions, by 2006, as many as 40 countries might have qualified. This, he believed, could not be fully supported with likely funding levels, and might raise country expectations that could not be met and undermine program incentives.

MCC officials point out that qualification for the program does not mean that a government will receive funding. That decision will be based on the quality of the Compact proposals and it is possible that the Corporation will not finalize agreements with all eligible countries. Nevertheless, the Corporation's CEO Paul Applegarth acknowledged the funding dilemma for future MCC operations at a Senate Foreign Relations Committee hearing on October 5, noting that the sum of proposals received thus far totaled $4.2 billion.

A March 2004 GAO report estimated that the MCC could adequately fund 8-13 Compacts with an appropriation of $3.5 billion (the combined FY2004 enacted and FY2005 requested amounts). This suggests, that even if Congress had fully funded the FY2005 proposal, the Corporation would not be able to support programs in all 17 countries approved for FY2004 and FY2005. With $1 billion less than the assumption used by GAO in its assessment, the MCC may face increasing difficulties funding Compacts of a sufficient size that will have a meaningful impact on a country's economic growth and poverty reduction goals. This may lead to further congressional examination of the Board's selection process and consideration of ways to limit the number of countries selected in the future.

MCA Request and Congressional Action for FY2006. The Administration sought a $3 billion appropriation for FY2006, a level that was criticized for being both too small and too large. Some argued that given the heightened budget pressures and proposed reductions for many domestic programs, coupled with the fact that the MCC spent only $4 million of the nearly $2.5 billion in existing appropriations, a request for roughly double the amount provided in FY2005 was not warranted. Others, however, noted that President Bush pledged an MCA funding level of $5 billion by FY2006 when he announced the initiative in March 2002, and believe the Administration should stick with its promise regardless of congressional reductions the past two years. The MCC called its $3 billion budget proposal a realistic level given prior congressional actions and competing resource demands.

Countering the argument that the Corporation has spent only a fraction of its resources, MCC officials say that program proposals received thus far total more than $3 billion, not including Morocco (the largest eligible country), and will exhaust available resources by early 2006. The Corporation, in its FY2006 budget justification to Congress, estimated that it would sign 18 Compacts with low-income countries using FY2004-FY2006 funds, totaling just over $4 billion, or an average

Compact size of nearly $225 million. The MCC budget assumptions also included four new Compacts in FY2006 with low-middle income countries which become eligible in FY2006 to compete for MCA grants. These costs would add $680 million or an average of $170 million per Compact. The remaining $800 million would be divided among amendments to earlier Compacts ($300 million), Threshold country programs ($270 million), and administrative and related expenses (over $200 million).

These MCA budget projections appear to assume that all, or nearly all eligible low-income countries will sign Compacts, and that four of the 32 new lower-middle income nations will reach an MCA agreement by the end of FY2006.[33] If so, MCA financed programs could absorb the total $4.7 billion budgeted for Compacts, FY2004-2006, but only if subsequent Compacts are of the size of the Honduras and Georgia Compacts and significantly larger in dollar terms than the Madagascar program.

Implications for the FY2007 budget are also unclear. Because a country must complete one MCA program before applying for a second, none of the 22 potential Compact countries assumed in the MCC budget documents would be eligible for a subsequent grant until FY2008. Given that only one new country was added to the eligible list in FY2005 and six in FY2006, a possible FY2007 funding level of between $3 and $5 billion would suggest several possible scenarios: a surge (unlike FY2005 and FY2006) in the number of newly eligible countries, possibly including the elevation of Threshold countries to full MCA eligible status; significant amendments to existing Compacts increasing their size; or the creation of a large funding reserve that could be utilized in subsequent years as current MCA countries complete programs and apply for new grants.

Congressional Action. The House voted on June 28, 2005, to reduce the FY2006 MCA funding level to $1.75 billion (H.R. 3057). The Appropriation Committee's report on the legislation said that the reduction stemmed solely from the constrained budget environment and the need to allocate resources to other Presidential and congressional priorities. In order to operate in FY2006 with reduced resources, the Committee recommended that the Corporation not use funds for amending and increasing existing Compacts, but to maximize the number of new compacts with available appropriations.

The Senate Appropriations Committee recommended on June 30 (also H.R. 3057) a slightly higher MCA appropriation, providing $1.8 billion. The Committee, in its report (H.Rept. 109-96), also said that the constrained budget allocation was one reason for the reduced appropriation. The Senate panel, however, further noted that the MCC had obligated less than $34 million of the nearly $2.5 billion in existing funds, and that the average value to the two signed Compacts was about one-half of what the Corporation stated in its budget justification. The Committee further expressed concern about coordination and consistency with other U.S. aid programs

---

[33] In fact, that number is likely to be two at the most. The Board chose only three LMICs in the FY2006 round, including Cape Verde which signed a Compact in July 2005 as a low-income country eligible in FY2004.

in MCA countries, and directed the Secretary of State to report on these issues, including an assessment of whether MCA programs were duplicative of USAID or other aid activities in Compact countries. The Senate approved the $1.8 billion appropriation when it passed the FY2006 Foreign Operations funding measure on July 20.

As enacted and signed by the President on November 14, 2005 (H.R. 3057; P.L. 109-102), the Foreign Operations Appropriations provides $1.77 billion for the MCC, representing a 19% increase over FY2005 levels, but 41% less than the President requested.

Pending Authorizing Legislation

While there is no "sunset" provision in the Millennium Challenge Act of 2003, the initial MCA statute only authorized appropriations through FY2005. Although funding for FY2006 and beyond is not necessarily contingent on an authorization — annual Foreign Operations appropriation bills routinely waive the requirement of authorization of foreign aid programs — Representatives Hyde and Lantos, Chairman and the ranking Member of the House International Relations Committee, introduced H.R. 4014 on October 7, 2005, that among other things, would authorize the MCA through FY2008. Beyond this, the bill further proposes a number of policy modifications to the original legislation and to the operations of the Corporation.

Modifies the Criteria for Determining the Income Grouping of Countries. Instead of classifying a country as low-income, lower middle-income, or above the lower middle-income range based on the most current per capita income figures released annually by the World Bank, H.R. 4014 proposes to use an average of the three most current years for making such determinations. This would largely have the affect of avoiding an abrupt reclassification of a country from one income group to another. Cape Verde, for example, moved from the low-income group to the lower middle-income group in FY2005, at which time it could no longer compete, and remains in this higher income category for FY2006 where it will face stiff competition from countries with nearly twice the per capita income. Under the three-year average formula recommended in H.R. 4014, Cape Verde would remain in the low-income group at least through FY2006. Likewise, several countries such as South Africa, Russia, and Turkey, that previously fell in the lower middle-income group and were assumed to be part of the FY2006 competition, are not because of a sharp rise in per capita income. Had the MCC applied a three-year average, each would have been a candidate country for FY2006.

Strengthens Local Country Input in Compact Development. A continuing concern expressed in public meetings on MCA implementation is that Compacts have been developed with broad national participation of civil society. H.R. 4014 would require each Compact to describe how the government met local input requirements for the creation of the Compact and how local input will be reflected in Compact projects. The bill further adds a specific need for national legislatures of eligible countries to be consulted during the Compact development phase.

Assists Countries in the Preparation of Compacts. One reason for the delay in finalizing Compacts with eligible countries has been the lack of country capacity to draft solid proposals. Although original MCA legislation authorized grants for the purpose of aiding Compact development, H.R. 4014 would expand such assistance by allowing the MCC to provide its own staff on a temporary basis for such purposes.

Sets a More Precise Timetable for Compact Preparation and Signing. A key frustration by many lawmakers during the early period of MCA implementation has been long delays in the submission of program proposals and the actual completion of Compact documents. Although not mandating a specific schedule, H.R. 4014 expresses a sense of Congress that countries should be encouraged to submit proposals within a year of their selection and that it should be a goal to enter into Compacts within two years of their eligible status.

Allows Compacts to Cover a Longer Period. Currently, Compacts cannot last for more than five years. H.R. 4014 would permit Compacts that cannot be completed in that period to be approved for up to 10 years.

Permits Multiple Compacts. Under current law, a country cannot maintain more than one Compact. H.R. 4014 would allow the Corporation to enter into two concurrent Compacts with an eligible country, so long as the country is making "considerable and demonstrable progress" in meeting the terms of the original Compact. Likewise, when a country applies for a subsequent Compact, the MCC must determine that the country has "substantially met" the goals of prior Compacts.

Expands Consultation Requirements with Congress. H.R. 4014 includes several provisions that would require more extensive consultation with Congress, especially on matters for which policy changes are proposed. For example, when negotiating concurrent or subsequent Compacts, the MCC would need to notify Congress that the country had met the requirements of existing or previous Compacts. In addition, the bill would require the Corporation to consult and provide copies of Compacts to congressional committees 15 days prior to Board meetings to approve Compacts and 15 days prior to signing a Compact. H.R. 4014 further expands information the MCC must supply in its annual report.

Strengthens Transparency Requirements. The initial concept of the MCA program was to make the selection process and MCC operations an open and transparent system. H.R. 4014 builds on existing legislation by requiring that the MCC post the texts of Compacts on its website; that the Corporation publish in the *Federal Register* its criteria for deciding whether or not to terminate assistance to a country with which a Compact is in effect; and by making the MCC and its staff subject to the Freedom of Information Act.

Recommends Larger Staff. A concern voiced by many has been that the MCC, with a 200-staff target, would be too small to adequately conduct oversight and monitoring of Compacts. Compared with other U.S. and international foreign aid agencies, the ratio of staff to funds-managed is very low for the Corporation. H.R. 4014 recommends, as a sense of Congress, that the MCC maintain a staff of about 300.

Table 2. MCA Candidate, Eligible, and Threshold Countries — FY2004

Criteria: IDA-eligible, per capita income $1,415 and below, and not prohibited from receiving other U.S. economic assistance.

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

Africa	Income*	East Asia/Pacific	Income*	Latin America	Income*
Angola	$660	East Timor (TC)	$430	**Bolivia**	$940
Benin	$390	Indonesia	$680	Guyana	$840
Burkina Faso	$220	Kiribati	$810	Haiti	$440
Cameroon	$560	Laos	$310	**Honduras**	$920
Cape Verde	$1,290	**Mongolia**	$440	**Nicaragua**	**
Chad	$220	Papua New Guinea	$580		
Comoros	$390	Solomon Islands	$570		
Congo, Dem Rep of	$90	Tonga	$1,410		
Congo, Rep of	$700	**Vanuatu**	$1,080		
Eritrea	$160	Vietnam	$430		
Ethiopia	$100				
Gambia	$280	**South Asia**	**Income***	**Mid-East**	**Income***
Ghana	$270	Afghanistan	**	Djibouti	$900
Guinea	$410	Bangladesh	$360	Yemen (TC)	$490
Kenya (TC)	$360	Bhutan	$590		
Lesotho	$470	India	$460		
Madagascar	$240	Nepal	$230		
Malawi	$160	Pakistan	$420		
Mali	$240	**Sri Lanka**	$840		
Mauritania	$340				
Mozambique	$210	**Eurasia**	**Income***	**Europe**	**Income***
Niger	$170	**Armenia**	$790	Albania(TC)	$1,380
Nigeria	$290	Azerbaijan	$650	Bosnia	$1,270
Rwanda	$230	**Georgia**	$720		
Sao Tome & Principe (TC)	$290	Kyrgyz Rep.	$290		
Senegal	$470	Moldova	$460		
Sierra Leone	$140	Tajikistan	$180		
Tanzania (TC)	$280				
Togo	$270				
Uganda (TC)	$240				
Zambia	$330				

* Gross National Income, dollars per capita, 2002. *World Bank Annual Report, 2003.*
** Precise data unavailable.

Table 3. MCA Candidate, Eligible, and Threshold Countries — FY2005

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

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

Africa	Income*	East Asia/Pacific	Income*	Latin America	Income*
Angola	$740	China	$1,100	**Bolivia**	$890
Benin	$440	East Timor (TC)	$430	Guyana(TC)	$900
Burkina Faso (TC)	$300	Indonesia	$810	Haiti	$380
Cameroon	$640	Kiribati	$880	**Honduras**	$970
Chad	$250	Laos	$320	**Nicaragua**	$730
Comoros	$450	**Mongolia**	$480	Paraguay(TC	$1,100
Congo, Dem Rep	$100	Papua New Guinea	$510		
Congo, Rep of	$640	Philippines (TC)	$1,080		
Equatorial Guinea	**	Solomon Islands	$600		
Eritrea	$190	Tuvalu	**		
Ethiopia	$90	**Vanuatu**	$1,180		
Gambia	$310	Vietnam	$480		
Ghana	$320				
Guinea	$430	**South Asia**	**Income***	**Mid-East**	**Income***
Kenya (TC)	$390	Afghanistan	**	Djibouti	$910
Lesotho	$590	Bangladesh	$400	Egypt	$1,390
Madagascar	$290	Bhutan	$660	Iraq	**
Malawi (TC)	$170	India	$530	**Morocco**	$1,320
Mali	$290	Nepal	$240	Yemen (TC)	$520
Mauritania	$430	Pakistan	$470		
Mozambique	$210	**Sri Lanka**	$930		
Niger	$200				
Nigeria	$320	**Eurasia**	**Income***	**Europe**	**Income***
Rwanda	$220	**Armenia**	$950		
Sao Tome & Principe (TC)	$320	Azerbaijan	$810		
Senegal	$550	**Georgia**	$830		
Sierra Leone	$150	Kyrgyz Rep.	$330		
Swaziland	$1,350	Moldova	$590		
Tanzania (TC)	$290	Tajikistan	$190		
Togo	$310	Turkmenistan	$1,120		
Uganda (TC)	$240	Ukraine	$970		
Zambia (TC)	$380				

* Gross National Income, dollars per capita, 2003. *World Bank Annual Report, 2004.*
** Precise data unavailable.

Table 4A. MCA Low-Income Candidate, Eligible, and Threshold Countries — FY2006

Criteria: Per capita income $1,575 and below, and not prohibited from receiving other U.S. economic assistance.

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

Africa	Income*	East Asia/Pacific	Income*	Latin America	Income*
Angola	$1,030	China	$1,290	**Bolivia**	$960
Benin	$530	**East Timor**	$550	Guyana (TC)	$990
Burkina Faso	$360	Indonesia (TC)	$1,140	Haiti	$390
Cameroon	$800	Kiribati	$970	**Honduras**	$1,030
Chad	$260	Laos	$390	**Nicaragua**	$790
Comoros	$530	**Mongolia**	$590	Paraguay (TC)	$1,170
Congo, Dem Rep of	$120	Papua New Guinea	$580		
Congo, Rep of	$770	Philippines (TC)	$1,170		
Djibouti	$1,030	Solomon Islands	$550		
Eritrea	$180	**Vanuatu**	$1,340		
Ethiopia	$110	Vietnam	$550		
Gambia	$290				
Ghana	$380				
Guinea	$460	**South Asia**	**Income***	**Mid-East**	**Income***
Guinea-Bissau	$160	Afghanistan	**	Egypt	$1,310
Kenya (TC)	$460	Bangladesh	$440	Iraq	**
Lesotho	$740	Bhutan	$760	**Morocco**	$1,520
Liberia	$110	India	$620	Yemen	$570
Madagascar	$300	Nepal	$260		
Malawi (TC)	$170	Pakistan	$600		
Mali	$360	**Sri Lanka**	$1,010		
Mauritania	$420				
Mozambique	$250	**Eurasia**	**Income***		
Niger	$230	**Armenia**	$1,120		
Nigeria	$390	Azerbaijan	$950		
Rwanda	$220	**Georgia**	$1,040		
Sao Tome&Principe (TC)	$370	Kyrgyz Rep. (TC)	$400		
Senegal	$670	Moldova (TC)	$710		
Sierra Leone	$200	Tajikistan	$280		
Tanzania	$330	Turkmenistan	$1,340		
Togo	$380	Ukraine (TC)	$1,260		
Uganda (TC)	$270				
Zambia (TC)	$450				

* Gross National Income, dollars per capita, 2004. World Bank, *World Development Indicators, On Line, 2005.*
** Precise data unavailable.

Table 4B. MCA Lower Middle-Income Candidate and Eligible Countries — FY2006

Criteria: Per capita income between $1,575 and $3,255, and not prohibited from receiving other U.S. economic assistance.

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

Africa	Income*	East Asia/Pacific	Income*	Latin America	Income*
Cape Verde	$1,770	Fiji	$2,690	Brazil	$3,090
Namibia	$2,370	Marshall Islands	$2,370	Colombia	$2,000
Swaziland	$1,660	Micronesia	$1,990	Dominican Rep	$2,080
		Samoa	$1,860	Ecuador	$2,180
		Thailand	$2,540	**El Salvador**	$2,350
		Tonga	$1,830	Guatemala	$2,130
		Tuvalu	**	Jamaica	$2,900
				Peru	$2,360
				Suriname	$2,250
		South Asia	**Income***	**Mid-East**	**Income***
		Maldives	$2,510	Algeria	$2,280
				Jordan (TC)	$2,140
				Tunisia	$2,630
		Eurasia	**Income***	**Europe**	**Income***
		Belarus	$2,120	Albania	$2,080
		Kazakhstan	$2,260	Bulgaria	$2,740
				Macedonia	$2,350
				Romania	$2,260

* Gross National Income, dollars per capita, 2004. World Bank, *World Development Indicators On Line, 2005.*
** Precise data unavailable.

Table 5. MCC Performance Indicators for FY2006

Ruling Justly	Investing in People	Economic Freedom
Control of Corruption Source: World Bank Institute [http://www.worldbank.org/wbi/governance/govdata2002/index.html]	**Public Primary Education Spending as % of GDP** Sources: National governments	**Inflation** (must be below 15%) Source: Multiple
Voice and Accountability Source: World Bank Institute [http://www.worldbank.org/wbi/governance/govdata2002/index.html]	**Primary Girls' Education Completion Rate** Sources: World Bank and UNESCO	**Fiscal Policy** Source: National governments and IMF World Economic Outlook
Government Effectiveness Source: World Bank Institute [http://www.worldbank.org/wbi/governance/govdata2002/index.html]	**Public Expenditure on Health as % of GDP** Sources: National governments	**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/govdata2002/index.html]	**Immunization Rates: DPT and Measles** Sources: World Health Organization	**Regulatory Policy** Source: World Bank Institute [http://www.worldbank.org/wbi/governance/govdata2002/index.html]
Civil Liberties Source: Freedom House [http://www.freedomhouse.org/research/freeworld/2004/table2004.pdf]		**Days to Start a Business** Source: World Bank [http://rru.worldbank.org/DoingBusiness/ExploreTopics/StartingBusiness/CompareAll.aspx]
Political Freedom Source: Freedom House [http://www.freedomhouse.org/research/freeworld/2004/table2004.pdf]		**Cost of Starting a Business** Source: World Bank [http://rru.worldbank.org/DoingBusiness/ExploreTopics/StartingBusiness/CompareAll.aspx]

Table 6. Comparison of MCA Authorization Legislation

Issue	Administration	Senate (S. 925)[a]	House (H.R. 1950)[a]	Conference (H.R. 2673)
MCA oversight	Board of Directors, chaired by Secretary of State, with Treasury and OMB	Board of Directors, chaired by the Secretary of State, with Treasury, USAID, USTR, and the MCA's Chief Executive Officer (CEO)	Board of Directors, chaired by Secretary of State, with Treasury, USTR, USAID, MCC CEO, and four others nominated by the President from a Congressional list. Non-voting members include OPIC, OMB, Peace Corps, and TDA.	Board of Directors, chaired by Sec. of State, with Treasury, USTR, USAID, MCC CEO, and four others nominated by the President that may come from list submitted by Congressional leaders.
MCA organization	Independent Millennium Challenge Corporation	Independent Millennium Challenge Corporation whose CEO reports to and be under the direct authority and foreign policy guidance of the Secretary of State	Independent Millennium Challenge Corporation	Independent Millennium Challenge Corporation
MCA coordinator	CEO of Corporation	CEO "manages" the Corporation, reporting to and under the direct authority and foreign policy guidance of the Secretary of State	CEO "heads" the Corporation, reporting to the President	CEO "manages" the Corporation, reporting to and under the direct authority and foreign policy guidance of the Board of Directors.
Interim CEO	—	—	—	Board of Directors may appoint a confirmed U.S. Government official to serve as interim CEO until a CEO has been confirmed by the Senate.
Selection of countries	Board of Directors	Board of Directors	CEO of Corporation	Board of Directors
MCC Advisory Council	None	None	Nine members named by the CEO to advise on MCA policy, review eligibility criteria, evaluate the MCC, assess MCC capabilities, and make recommendations to the CEO.	None

Issue	Administration	Senate (S. 925)[a]	House (H.R. 1950)[a]	Conference (H.R. 2673)
Country income eligibility	FY2004 - IDA eligible and per capita GNI less than historical IDA level for the year ($1,415 in FY2004) FY2005 - per capita GNI less than historical IDA level for the year ($1,465 in FY2005) FY2006 - per capita GNI less than historical IDA level for the year ($1,465 in FY2005), plus low-middle income countries as defined in the World Bank Development Report ($3,035 in FY2005)	FY2004 - IDA eligible FY2005 - per capita GNI less than historical IDA cutoff for the year ($1,465 in FY2005) FY2006 - per capita GNI less than historical IDA cutoff for the year ($1,465 in FY2005), plus, if appropriation exceeds $5 billion, low-middle income countries as defined in the World Bank Development Report ($3,035 in FY2005); low-middle income countries capped at 20%	FY2004 - IDA eligible and per capita GNI less than historical IDA level for the year ($1,415 in FY2004) FY2005 - per capita GNI less than historical IDA level for the year ($1,465 in FY2005) FY2006 - per capita GNI less than historical IDA level for the year ($1,465 in FY2005), plus low-middle income countries as defined in the World Bank Development Report ($3,035 in FY2005); low-middle income countries capped at 20%	FY2004 - IDA eligible and per capita GNI less than historical IDA level for the year ($1,415 in FY2004) FY2005 - per capita GNI less than historical IDA level for the year ($1,465 in FY2005) FY2006 - per capita GNI less than historical IDA level for the year ($1,465 in FY2005), plus low-middle income countries as defined in the World Bank Development Report ($3,035 in FY2005); low-middle income countries capped at 25%
Eligible entity	None stated	A government, including a local or regional government, or an NGO or private entity.	A national government, regional or local government, an NGO, an international organization and trust funds.	A national government, regional or local government, or an NGO or private entity.
Aid to "threshold" countries	General support	10% of MCA funds available for countries failing to qualify because of inadequate data or missing one indicator	15% of MCA funds available for countries demonstrating a development commitment but fail to meet a sufficient number of performance indicators	10% of MCA funds available for countries showing a commitment to MCA criteria but fail to qualify
Oversight and reports	MCA contracts and performance posted on the Internet.	Disclosure in Federal Register and on the Internet of eligible countries, programs supported, and performance; proposed performance indicators open to public comment; annual report to Congress	CEO consultation with Congress on eligibility criteria; notification 15 days in advance on grants exceeding $5 million; "Compacts" with countries published in Federal Register and on the Internet; advance notification of aid termination;	Establishes a period of at least 95 days during which Congress will receive the list of "candidate countries," the eligibility criteria and methodology for making a final selection, and the list of "eligible" countries (those that

Issue	Administration	Senate (S. 925)[a]	House (H.R. 1950)[a]	Conference (H.R. 2673)
			annual reports to Congress from the CEO and Advisory Council	will receive MCA assistance). Consultation with congressional committees will occur during this period and the information will be published in the Federal Register. "Compacts" with countries will be reported to Congress and published in Federal Register. Annual report by March 31.
Funding	FY2004 - $1.3 billion FY2005 - no decision FY2006 - $5 billion	FY2004 - $1 billion FY2005 - $2.3 billion FY2006 - $5 billion	FY2004 - $1.3 billion FY2005 - $3 billion FY2006 - $5 billion	Such sums as may be necessary for FY2004 and FY2005.

a. The Senate position is based on S. 925, the Foreign Affairs Act, Fiscal Year 2004, as amended, but not passed during debate on July 9 and 10, 2003. The House position is taken from H.R. 1950, an omnibus foreign policy authorization measure which passed the House on July 16, 2003.