



Report on the Selection of Eligible Countries for Fiscal Year 2017

December 16, 2016

Summary

This report is provided in accordance with section 608(d)(1) of the Millennium Challenge Act of 2003, as amended, Pub. L. 108-199, Division D, (the “Act”) (22 U.S.C. 7707(d)(1)).

The Act authorizes the provision of assistance under section 605 of the Act (22 U.S.C. 7704) to countries that enter into compacts with the United States to support policies and programs that advance the progress of such countries in achieving lasting economic growth and poverty reduction, and are in furtherance of the Act. The Act requires the Millennium Challenge Corporation (“MCC”) to determine the countries that will be eligible to receive assistance for the fiscal year, based on their demonstrated commitment to just and democratic governance, economic freedom, and investing in their people, as well as on the opportunity to reduce poverty and generate economic growth in the country. The Act also requires the submission of reports to appropriate congressional committees and the publication of notices in the Federal Register that identify, among other things:

1. The countries that are “candidate countries” for assistance for fiscal year (“FY”) 2017 based on their per-capita income levels and their eligibility to receive assistance under U.S. law, and countries that would be candidate countries but for specified legal prohibitions on assistance (section 608(a) of the Act (22 U.S.C. 7707(a)));
2. The criteria and methodology that the Board of Directors of MCC (the “Board”) will use to measure and evaluate the policy performance of the “candidate countries” consistent with the requirements of section 607 of the Act in order to select “eligible countries” from among the “candidate countries” (section 608(b) of the Act (22 U.S.C. 7707(b))); and
3. The list of countries determined by the Board to be “eligible countries” for FY 2017, with justification for eligibility determination and selection for compact negotiation, including with which of the eligible countries the Board will seek to enter into compacts (section 608(d) of the Act (22 U.S.C. 7707(d))).

This is the third of the above-described reports by MCC for FY 2017. It identifies countries determined by the Board to be eligible under section 607 of the Act (22 U.S.C. 7706) for FY 2017 with which the MCC will seek to enter into compacts under section 609 of the Act (22 U.S.C. 7708), as well as the justification for such decisions. The report also identifies countries selected by the Board to receive assistance under MCC's threshold program pursuant to section 616 of the Act (22 U.S.C. 7715).

Eligible Countries

The Board met on December 13, 2016 to select those eligible countries with which the United States, through MCC, will seek to enter into a Millennium Challenge Compact pursuant to section 607 of the Act (22 U.S.C. 7706) for FY 2017. The Board selected the following eligible countries for such assistance for FY 2017: Burkina Faso, Sri Lanka, and Tunisia. The Board also reselected the following countries for compact assistance for FY 2017: Cote d'Ivoire, Mongolia, Nepal, and Senegal.

Criteria

In accordance with the Act and with the "Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2017" formally submitted to Congress on September 20, 2016, selection was based primarily on a country's overall performance in three broad policy categories: Ruling Justly, Encouraging Economic Freedom, and Investing in People. The Board relied, to the maximum extent possible, upon transparent and independent indicators to assess countries' policy performance and demonstrated commitment in these three broad policy areas. The Board compared countries' performance on the indicators relative to their income-level peers, evaluating them in comparison to either the group of low income countries ("LIC") or the group of lower middle income countries ("LMIC").

The criteria and methodology used to assess countries on the annual scorecards are outlined in the "Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2017." ¹ Scorecards reflecting each country's performance on the indicators are available on MCC's website at www.mcc.gov/scorecards.

The Board also considered whether any adjustments should be made for data gaps, data lags, or recent events since the indicators were published, as well as strengths or weaknesses in particular indicators. Where appropriate, the Board took into account additional quantitative and qualitative information, such as evidence of a country's commitment to fighting corruption, investments in human development outcomes, or poverty rates. For example, for additional information in the area of corruption, the Board considered how a country is evaluated by supplemental sources like Transparency International's Corruption

Perceptions Index, the Global Integrity Report, Open Government Partnership status, and the Extractive Industry Transparency Initiative, among others, as well as on the defined indicator. The Board also took into account the margin of error around an indicator, when applicable. In keeping with legislative directives, the Board also considered the opportunity to reduce poverty and promote economic growth in a country, in light of the overall information available, as well as the availability of appropriated funds.

This was the eighth year the Board considered the eligibility of countries for subsequent compacts, as permitted under section 609(k) of the Act (22 U.S.C. 7708(k)). As in previous years, they considered the higher bar expected of subsequent compact countries, including examining the implementation of the first compact, and evidence of both improved scorecard policy performance and a commitment to reform. The Board also considered the eligibility of countries for initial compacts. The Board sees the selection decision as an annual opportunity to determine where MCC funds can be most effectively invested to support poverty reduction through economic growth in relatively well-governed, poor countries. The Board carefully considers the appropriate nature of each country partnership – on a case-by-case basis – based on factors related to economic growth and poverty reduction, the sustainability of MCC’s investments, and the country’s ability to attract and leverage public and private resources in support of development. In addition, this is the first year where the Board considered an explicit higher bar for those countries close to the upper end of the candidate pool, looking closely in such cases at a country’s access to development financing, the nature of poverty in the country, and its policy performance.

As with previous years, a number of countries that performed well on the quantitative elements of the eligibility criteria (i.e., on the policy indicators) were not chosen as eligible countries for FY 2017. FY 2017 was a particularly competitive year: several countries were already working to develop compacts, multiple countries passed the scorecard (some for the first time), and funding was limited due to budget constraints. As a result, only three countries that passed the scorecard and met the higher bars described above were newly selected for MCC compacts, and only two countries for the threshold program.

MCC’s engagement with partner countries is not open-ended, and the Board is very deliberate when determining eligibility for follow-on partnerships. In determining subsequent compact eligibility, the Board considered – in addition to the criteria outlined above – the country’s performance implementing its first compact, including the nature of the country’s partnership with MCC, the degree to which the country has demonstrated a commitment and capacity to achieve program results, and the degree to which the country has implemented the compact in accordance with MCC’s core policies and standards. To the greatest extent possible, this was assessed using pre-existing monitoring and evaluation targets and regular quarterly reporting. This information was supplemented with direct surveys and consultation with MCC staff responsible for compact implementation,

monitoring, and evaluation. MCC published a Guide to the Supplemental Information Sheet ² and a Guide to the Compact Survey Summary ³ in order to increase transparency about the type of supplemental information the Board uses to assess a country's policy performance and compact implementation performance. The Board also considered a country's commitment to further sector reform, as well as evidence of improved scorecard policy performance.

Countries newly selected for compact assistance

Using the criteria described above, Burkina Faso, Sri Lanka, and Tunisia are the only candidate countries under section 606(a) of the Act (22 U.S.C. 7705(a)) that were newly selected for assistance under section 607 of the Act (22 U.S.C. 7706).

Burkina Faso: With an ambitious reform agenda focused on poverty reduction, a clearly improved scorecard, and the completion of its first compact in July 2014, Burkina Faso exemplifies the higher bar MCC has for second compact countries. Its continued policy improvement is clear: despite being one of the poorest countries in Africa, the country passes 13 of 20 indicators, has shown strong improvement on democratic rights, and has a consistently strong score on the Control of Corruption indicator. In addition, the country has taken important steps to ensure the sustainability of the first compact investments.

Sri Lanka: On the back of a successful election in 2015, Sri Lanka now passes the MCC scorecard with 13 of 20 indicators met, including the hard hurdles on both democratic rights and Control of Corruption. In addition MCC has found Sri Lanka to be a high-capacity and committed partner during development of the threshold program over the past year. As a result, MCC feels Sri Lanka is now solidly exemplifying the profile of compact partner, and has decided to move Sri Lanka from the threshold program into the compact program. Work done to date in developing the threshold program will now contribute to the compact development process.

Tunisia: Tunisia meets the higher bar expected of candidate countries that sit towards the upper end of the Lower Middle Income Country pool (LMIC). It passes MCC's scorecard with 13 of 20 indicators met, including very strong performance on democratic rights, as well as Control of Corruption. The country also continues to confront major development challenges, with significant inequality, large pockets of poverty, and vulnerability undermining the recent strong democratic gains. Together with a significant policy reform agenda, a compact with Tunisia would provide MCC with a unique opportunity to partner with a high-capacity partner in a critically important region.

Countries reselected to continue compact development

Three of the countries selected for compact assistance for FY 2017 were previously selected

for FY 2016. These countries are Cote d'Ivoire, Nepal and Senegal. The Board reselected these countries based on their continued or improved policy performance since their prior selection. Mongolia, which had originally been selected for compact assistance for FY 2015, temporarily left the candidate pool in FY 2016 when it graduated to UMIC status. It has returned to the candidate pool as a LMIC in FY 2017, and so the Board has once again selected the country for compact assistance for FY 2017.

Countries selected to receive threshold program assistance

The Board selected Kosovo and Timor-Leste to receive threshold program assistance.

Kosovo: Kosovo is committed to reform and is a strong partner of MCC – taking numerous steps to improve its scorecard performance since 2012, and ultimately being selected for compact assistance for FY 2016. However, given Kosovo's trajectory on the Control of Corruption indicator, the Board decided that threshold program assistance is a more appropriate tool. By selecting Kosovo to receive threshold program assistance, MCC will support the government in its efforts on continued institutional and policy reform.

Timor-Leste: Timor-Leste offers MCC the opportunity to support the government with its significant policy and institutional reform needs as it confronts substantial poverty and capacity challenges, especially in the face of a difficult macroeconomic environment. While it has historically struggled to pass the MCC scorecard as an LMIC, Timor-Leste has fallen into the LIC category, where it does pass MCC's scorecard with 12 out of 20 indicators met, including both democratic rights indicators and the Control of Corruption indicator.

Countries reselected to continue developing threshold programs

This year the Board reselected Togo to continue developing a threshold program. Togo continues to improve on MCC's scorecard, passing more than half of the scorecard overall by meeting 12 of 20 indicators this year. It also continues to meet the democratic rights hurdle and passed the Control of Corruption indicator for the first time.

Ongoing review of partner countries' policy performance

The Board emphasized the need for all partner countries to maintain or improve their policy performance. If it is determined during compact implementation that a country has demonstrated a significant policy reversal, MCC can hold it accountable by applying MCC's Suspension and Termination Policy ⁴ .