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MILLENNIUM CHALLENGE CORPORATION

[MCC FR 18-04]

Fiscal Year 2018 Report on the Selection of Eligible Countries for Fiscal Year 2018

AGENCY: Millennium Challenge Corporation.

ACTION: Notice.

SUMMARY: This report is provided in accordance with section 608(d)(1) of the Millennium Challenge Act of 2003, Pub. L. 108-199, Division D, (the “Act”), 22 U.S.C. 7708(d)(1).

Dated: December 20, 2017.

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Report on the Selection of Eligible Countries for Fiscal Year 2018

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”) 2018 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 2018, 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 2018. It identifies countries determined by the Board to be eligible under section 607 of the Act (22 U.S.C. 7706) for FY 2018 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 19, 2017 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 2018. The Board selected the following eligible country for such assistance for FY 2018: Timor-Leste. The Board also reselected the following countries for compact assistance for FY 2018: Burkina Faso, Lesotho, Mongolia, Senegal, Sri Lanka, and Tunisia.

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 2018” formally submitted to Congress on September 27, 2017, 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 2018.”¹ Scorecards reflecting each country’s performance on the indicators are available on MCC’s website at www.mcc.gov/scorecards.

¹ Available at <https://www.mcc.gov/resources/doc/report-selection-criteria-and-methodology-fy18>.

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 ninth 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 second 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 to develop a compact for FY 2018. FY 2018 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 one country that passed the scorecard and related stringent eligibility criteria was newly selected to develop an MCC compact, and only one country for the threshold program.

MCC's engagement with partner countries is not open-ended, and the Board is very deliberate when selecting for follow-on partnerships. In making subsequent compact selection decisions, 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

Supplemental Information² and a Guide to the Compact Survey Summary³ 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, Timor-Leste was the only candidate country under section 606(a) of the Act (22 U.S.C. 7705(a)) that was newly selected for assistance under section 607 of the Act (22 U.S.C. 7706).

Timor-Leste: Timor-Leste passes the MCC scorecard with 13 of 20 indicators met, including the hard hurdles on both control of corruption and democratic rights (including both Political Rights and Civil Liberties). MCC has found Timor-Leste to be a willing and committed partner during development of the threshold program over the past year. As a result, MCC feels Timor-Leste is now solidly exemplifying the profile of a compact partner, and has decided to move Timor-Leste from the threshold program to the compact program. Work done to date in developing the threshold program will contribute to the compact development process.

Countries reselected to continue compact development

Five of the countries selected for compact assistance for FY 2018 were previously selected for FY 2017. These countries are Burkina Faso, Mongolia, Senegal, Sri Lanka, and Tunisia. The Board reselected these countries based on their continued or improved policy performance since their prior selection. Lesotho, which had originally been selected for compact

² Available at <https://www.mcc.gov/resources/doc/guide-to-supplemental-information-fy18>.

³ Available at <https://www.mcc.gov/resources/doc/guide-to-the-compact-survey-summary-fy18>.

assistance for FY 2014, received vote deferrals for reselection in FY 2016 and FY 2017. Due to positive actions taken by the Government of Lesotho this year, the Board has once again selected the country for compact assistance for FY 2018.

Countries selected to receive threshold program assistance

The Board selected The Gambia to receive threshold program assistance.

The Gambia: The Gambia offers MCC the opportunity to support the government as it continues its democratic transition following the inauguration of its new president in early 2017 and successful legislative elections in April 2017. While it has historically struggled to pass the MCC scorecard due to its performance on the democratic rights hard hurdle, the recent transition and reforms being pursued suggest the country will see strong improvements on these indicators in the coming years. The Gambia meets 12 of 20 indicators overall on the scorecard and demonstrates good performance on the control of corruption indicator.

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 Policy⁴.

⁴Available at <https://www.mcc.gov/resources/doc/policy-on-suspension-and-termination>.

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