FACT-SHEET: THE MILLENNIUM CHALLENGE CORPORATION AND POLITICAL REFORM IN THE ARAB WORLD

I) HOW THE MCC WORKS

Design of the MCC

• Established in 2004 as an independent U.S. government agency
• Designed to “reduce global poverty through sustainable economic growth”
• Only provides assistance to countries meeting minimum standards of good governance
• FY 2007 budget approximately $1.8 billion
• Countries judged vis-à-vis peers in their income bracket, with at least 75 percent of MCC funds reserved for lower income countries (FY 2007 GNI/capita below $1675)
• Large compacts provide economic assistance and smaller threshold program agreements improve failing scores of countries close to compact eligibility.
• Democracy and governance programs are not a part of compacts, but can be funded under threshold agreements to help countries become eligible.

Eligibility for MCC Funding

• Eligibility for compact assistance depends heavily on whether countries:
  o Score above the group median on at least half of the indicators in each of the “Ruling Justly,” “Investing in People,” and “Economic Freedom” categories
  o Score above the group median on the “Control of Corruption” indicator
  o Not score “substantially below the median” – below the 25th percentile ranking in their income group – on any indicator
• The six “Ruling Justly” indicators are: “Political Rights” and “Civil Liberties” (measured by Freedom House indexes); and “Control of Corruption,” “Government Effectiveness,” “Rule of Law,” and “Voice and Accountability” (measured World Bank Institute indexes).

Influence on Democracy and Governance

• Countries with low scores far below the eligibility criteria are outside MCC influence.
• Countries close to eligibility, but with failing “Ruling Justly” scores have an incentive to improve their “Ruling Justly” scores in order to become eligible for threshold program assistance, implement threshold programs, and then become eligible for compact assistance.
• Countries with passing “Ruling Justly” scores must maintain or improve their scores to uphold their agreements with the MCC.
• Countries that backslide on governance can be removed from eligibility, or have MCC agreements cancelled or suspended if scores decline due to policy reversals.
II) MCC IN THE ARAB WORLD

Morocco
- August 2007, MCC awards Morocco a $698 million five-year compact.
- Planned projects target productivity and unemployment in five high potential sectors: fruit tree productivity, small-scale fisheries, tourism-related artisans, financial services, and entrepreneurship among young graduates.
- In attaining eligibility, Morocco was judged as a lower income country.
- In FY 2007, Morocco graduates to the lower middle income bracket, where it only passes two of the six “Ruling Justly” indicators, but the compact grandfathers Morocco in as a low income country.

Jordan
- November 2006, MCC identifies Jordan as eligible for compact assistance after modest improvements in three “Ruling Justly” indicators that were previously below the 25th percentile ranking.
- October 2006, Jordan signs a two-year threshold agreement to strengthen municipal governance ($16.5 million) and customs administration ($8.5 million).
- The municipal governance project provides technical assistance to increase voter participation and resources to enhance collaboration at the local level.
- Jordan is working on but has not submitted a compact proposal to the MCC.

Yemen
- September 2007, MCC approves a two-year $20.6 million threshold program with Yemen to fight corruption, increase judicial capacity, improve elections, and strengthen the investment climate.
- February 2007, the MCC reinstates Yemen as eligible for threshold assistance, citing “a series of impressive reforms” after being suspended in November 2005 due to a decline in eight categories.
- Yemen is currently passing only the corruption indicator in the “Ruling Justly” category, and its “Civil Liberties” ranking is very low (21st percentile).
- If it eventually does become eligible, as a low income country, Yemen has the potential to receive a large compact.

Other Arab countries
- No other Arab country is eligible or close to eligible for MCC assistance.
- Egypt has overall passing scores, but its “Political Rights” ranking (18th percentile) is substantially below the median.
- Mauritania has very low “Economic Freedom” scores.
- Iraq and Algeria are failing every “Ruling Justly” indicator.
- Tunisia has substantially below median scores on three “Ruling Justly” indicators.
- Other Arab countries are either above the lower middle income cut-off or subject to restrictions on U.S. foreign assistance.

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