



CARNEGIE ENDOWMENT  
for International Peace

## 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:
  - 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
  - Score above the group median on the “Control of Corruption” indicator
  - Not score “substantially below the median” – below the 25<sup>th</sup> 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 grandfathered 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 25<sup>th</sup> 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 (21<sup>st</sup> 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 (18<sup>th</sup> 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.