



El Salvador Today Advocacy Issues Series

The Millennium Challenge Account 101: What is it and how will it affect El Salvador?

December 2007

What is the Millennium Challenge Corporation?

The Millennium Challenge Corporation (MCC) is a corporation of the United States government that provides financial aid to developing countries that focuses on the promotion of economic growth as a means to reduce poverty.

What type of projects do developing countries use the MCC money to fund?

The money provided by the MCC is used to fund projects such as expanding water systems and electricity networks, road construction and improvement, business and agriculture training, and education. The country applying for funds makes a proposal of what projects should be funded with the money from the MCC.

How does the MCC choose which countries receive assistance?

Financial aid is provided to countries that the MCC thinks has good policies in three categories: Investing in People, Encouraging Economic Freedom, and Ruling Justly. The MCC selects countries that are eligible to receive funding based on the country's performance in a set of seventeen indicators that fall under the above-mentioned categories. The seventeen indicators are evaluated by third party organizations, and the grades that each country receives are relative to the performance of other countries.

What performance on the indicators is necessary for a country to be selected for MCC Compact assistance?

In order for a country to be eligible to receive assistance, the government needs to have a passing grade in at least half of the indicators in each of the three categories, and also must have a passing grade in the indicator that measures "Control of Corruption."

How do countries receive a passing grade?

A passing grade is achieved by having better performance in an indicator than half of the countries that are eligible to receive assistance. For example, among lower middle income countries that are eligible to receive MCC assistance, the median score for the indicator entitled "Girls' Primary Education Completion" was 96.6%, and in El Salvador, only 89.2% of girls complete their primary education. Therefore, El Salvador did not receive a passing grade for that indicator because the score was below the median score for lower middle income countries.

Do countries need to comply with any expectations in order to continue receiving funds?

Countries that are receiving money from the MCC need to maintain, with the expectation to improve, their grades on the seventeen indicators. Every year, after the grades for each country's report card have been published, the MCC needs to re-certify the country and its receipt of assistance with regard to that country's performance on the indicators. The expectation is that countries will not fall behind on their performance in order to continue to receive funds from the MCC.

What is the relationship between the MCC and El Salvador?

The MCC and the Government of El Salvador signed a Millennium Challenge Compact on November 29, 2006. The Compact outlines a five year, \$460.94 million anti-poverty campaign in the Northern Zone of El Salvador that spans from the Santa Ana Department to La Unión Department.

Does El Salvador need to repay the \$460.94 million to the U.S. Government?

The money is a grant of funds, and not a loan, so it does not need to be repaid.

What projects will be funded by with the money from the MCC-El Salvador Compact?

The Millennium Challenge Compact of El Salvador consists of three projects that target the Northern Zone: Human Development, Productive Development, and Transportation.

The **Human Development Project** will receive \$95.07 million over the five year Compact period. The activities under this Project will include: improved access to potable water systems; improved sanitation services; increased electricity coverage; formal and non-formal training aimed to increase employment opportunities; and construction and improvement of community infrastructure, including small roads and bridges, and drainage systems.

The \$87.47 million for the **Productive Development Project** will be used for: business development for small and medium businesses, including tourism; investment support; financial services to increase lending activity; and technical assistance for farmers to grow high-value crops, forestry and animal products.

The largest of the three projects is the **Transportation project**, which will receive \$233.56 million over five years. The Transportation Project consists of two parts: first, the design, construction, and rehabilitation of a 298 kilometer two-lane secondary road (Transnational Highway); and second, the improvement of the connecting road network, which includes paving 240 kilometers of unpaved roads. The Transnational Highway will stretch across the Northern Zone of El Salvador from the border with Guatemala in Santa Ana to the border with Honduras in La Union.

Who oversees the use of the funds and implementation of the projects in El Salvador?

The Government of El Salvador has created an agency, *Fondo del Milenio* (FOMILENIO), to administer the Millennium Challenge Compact program. FOMILENIO is governed by a Board of Directors comprised of seven voting members—four designated by the Government of El Salvador, one private sector member, and two representatives from non-governmental organizations.

When did El Salvador begin to use MCC funds, and where has the money gone?

During the first year of funding, September 2007 – September 2008, FOMILENIO has planned to spend \$42.82 million, of which \$16.44 million will go toward the Transnational Highway.

How did El Salvador qualify for MCC Compact assistance?

When El Salvador presented its proposal to the MCC for Compact assistance, El Salvador had received passing grades in nine out of previously sixteen indicators. The following year, El Salvador improved its performance on the sixteen indicators, and received a passing grade in eleven indicators.

How did El Salvador perform for the fiscal year of 2008?

For the fiscal year of 2008, the MCC added two new indicators, land rights and access and natural resource management, and combined two previous business start-up indicators. El Salvador did not pass a majority of the indicators for the 2008 fiscal year, failing nine of seventeen indicators. On December 12th, however, the MCC announced that it will provide funds to the government of El Salvador, encouraging it to improve its performance over the next year.