



Millennium Challenge Corporation

Reducing Poverty Through Growth

THRESHOLD COUNTRY PROPOSAL GUIDANCE

I. INTRODUCTION

The Millennium Challenge Corporation's (MCC) Threshold Program is directed toward a limited number of countries that have not yet qualified for Millennium Challenge Account (MCA) assistance but have demonstrated a significant commitment to meeting the eligibility criteria. The Threshold Program is designed as an added incentive to countries committed to reform, and will be used to assist such countries in moving towards future MCA eligibility.

MCC has asked the U.S. Agency for International Development (USAID) to take a lead implementation role in administering the Threshold Program. Other U.S. agencies and departments may play an implementation role as well.

II. PRINCIPLES OF THE MILLENNIUM CHALLENGE ACCOUNT

The MCA is based on several key principles – including a focus on poverty reduction, sustainable economic growth, political commitment, inclusiveness, accountability, and emphasis on results – that will be reflected throughout the development and implementation of MCA programs. The MCA builds on development research that emphasizes the central role a country's own policies and institutions play in its economic development and the need for strong country "ownership" of development objectives, policies and actions.

The primary means to improve country performance on the policy indicators that are central to the MCA eligibility criteria is to carry out policy reforms and institutional changes in those areas in which the country failed to meet the criteria. Assistance funded under the Threshold Program is intended to help countries make these changes. Participation in the Threshold Program does not guarantee that a country will become eligible for MCA assistance in the future. Likewise, countries may become eligible for future MCA funding without participating in the Threshold Program.

III. PROGRAM SIZE AND SCOPE

The MCC Board of Directors has approved an initial amount of up to \$40 million for the FY 04 Threshold Program. The Board may approve additional amounts from time to time based upon program requirements and the quality of proposals.

Seven countries, **Albania, East Timor, Kenya, Sao Tome and Principe, Tanzania, Uganda and Yemen**, have shown a significant commitment to improving on the MCA eligibility requirements and have been invited to participate in the Threshold Program for FY 04.

IV. THE APPLICATION PROCESS

An application for Threshold Program assistance is a two-step process. Countries that have been invited to submit proposals and are interested in participating in the Threshold Program will first be required to submit a concept paper to the USAID Mission in their respective countries (or to the U.S. Chief of Mission in countries

that do not have a USAID presence) no later than January 31, 2005. Concept papers that are submitted earlier will be reviewed when received.

A Threshold Program concept paper should address the following topics:

1. Analysis of where and why the country fell short on the MCA indicators, including any mitigating factors.
2. Proposals for policy, regulatory or institutional reforms to improve country performance with respect to one or more MCA indicators. This should include:
 - Tangible steps to implement policy, regulatory, or institutional reforms.
 - Timeline of expected progress on indicator improvements.
3. Assistance requested (up to 24 months) to help implement the reforms and actions specified above.

A concept paper need not be a lengthy or highly detailed document. Its format is less important than the presentation of a coherent and compelling expression of the country's vision and commitment toward policy reform and MCA indicator improvement. The elements of the general action plan for advancing the reform agenda and "closing the indicator gap" should emphasize commitment to, and understanding of, concrete, objectively-verifiable steps necessary for change.

MCC and USAID, along with other U.S. agencies where appropriate, will review the concept papers once submitted. This initial analysis may lead to requests for clarifications from the applicant country.

If MCC and USAID believe the concept paper effectively demonstrates the country's commitment to meaningful reforms and the country's likelihood of success in achieving the agreed objectives, the country will be asked to proceed to the second phase of the application process: development of a Threshold Country Plan. Applicant countries should be aware that a decision by MCC and USAID to proceed to the second phase of the application process does not guarantee that MCC will actually fund the resulting Threshold Country Plan.

The Threshold Country Plan should include the following elements:

- A schedule for performance.
- A clear indication of how progress and success are to be measured.
- Evidence of political commitment to the Threshold Country Plan.
- A transparent and efficient financial management mechanism.
- A budget.

Generally, a fully developed Threshold Country Plan should portray an aggressive near term action plan (12-to-24 months) likely to increase significantly the prospects for fully qualifying as an MCA eligible country.

MCC and USAID will review the proposed Threshold Country Plans. The evaluation process will be rigorous and there is no guarantee that a Threshold Country Plan will be approved and funded. MCC will make the final determination as whether a given Threshold Country Plan is to be funded.

V. IMPLEMENTATION

USAID will have primary responsibility for overseeing implementation of Threshold Country Plans. USAID will work with the country to consider the full range of potential implementing partners for the Threshold Country Plan including, but not limited to, local, U.S. and other international firms (other than firms from countries that are restricted or prohibited under relevant U.S. law), NGOs other U.S. Government agencies and international organizations. USAID will monitor country performance and, in coordination with MCC, evaluate progress. After consultation with USAID, MCC reserves the right (when necessary and appropriate) to modify or terminate a Threshold Country Plan if a country fails to perform as mutually agreed.