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October 3, 2006

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VIA FACSIMILE AND FIRST CLASS MAIL

Ambassador John J. Danilovich
Chief Executive Officer
Millennium Challenge Corporation
875 15th Street, N.W.
Washington, DC 20005

Re: Environmental indicators

Dear Mr. Ambassador:

The Millennium Challenge Corporation (MCC) recently notified Congress and the public, *inter alia*, of its intent to incorporate two new indicators into the eligibility criteria so as to measure better a country's demonstrated commitment to economic policies that promote the sustainable management of natural resources. The indicators are a Natural Resources Management index and an Access to Land index. The first is primarily managed by Columbia University's Center for International Earth Science Information Network (CIESIN); and the second, by the International Fund for Agricultural Development (IFAD). The MCC notification also stated that the Corporation intended to utilize the two new indicators as supplemental information in the Board's deliberation of fiscal year (FY) 2007 eligible countries, to expand the eligibility criteria by these two indicators for the FY 2008 selection process, and to locate eventually the two new indicators in the Investing in People category.

While we applaud the efforts of the MCC and Governor Whitman in identifying the indicators through a consultative process, we wish to record our reservations about the delay in the indicators' formal adoption and reiterate our strongly held preference that the IFAD indicator not be included in the Investment in People category.

Until the recent notification, MCC staff have repeatedly assured us that they anticipated that the CIESIN and IFAD indicators would be incorporated into the FY07 selection cycle. Although we were frustrated that the MCC will not integrate the natural resource indicators, but particularly the CIESIN indicator, into the existing criteria until FY 2008 at the earliest, we understand the need to grant candidate countries adequate notice of the planned change. With the staggered implementation of the indicators, certain countries will have more time to adjust their policies and improve their performance on the two new indicators. Delaying full implementation until FY 2008 also permits the institutions which are responsible for gathering data to expand their coverage of countries. To enhance the incentive effect of adequate notice, we recommend that the MCC publish on its website the FY 2007 scores of all candidate countries for the two new indicators, without prematurely placing the indicators in any particular category or categories.

Legislative history and the existing logic of the eligibility criteria argue for the IFAD indicator not to be included in the Investing in People category. The authorizing legislation for the Millennium Challenge Account places the “promotion of private sector growth and the sustainable management of natural resources” within the Encouraging Economic Freedoms category. Similarly, the Hyde-Lantos *Millennium Challenge Account Authorization and Peace Corps Expansion Act of 2003* (H.R. 2441), upon which the authorizing legislation is based and for which the United States House of Representatives overwhelmingly voted its approval, located the natural resource indicator in the Encouraging Economic Freedoms category. More recently, the Committee on International Relations unanimously ordered reported to the full House the *Millennium Challenge Reauthorization Act of 2006* (H.R. 4014). In the report accompanying this bill, the Committee again makes clear its position that the IFAD indicator not be placed in the Investing in People category:

The Committee notes that the IFAD indicator is less of an indicator for natural resource protection than for a government's promotion of property rights. If the MCC decides after completing its public process to add these two new indicators to the eligibility criteria, the Committee believes that the CIESIN indicator should be placed in the Investing in People category and the IFAD indicator should be placed in the Providing Economic Opportunities category. (Report 109-563).

The Committee adopted this position because it believed that the components of the IFAD indicator more closely resemble the indicators already in the Encouraging Economic Freedoms/Providing Economic Opportunities category. For example, two of IFAD's data sets — Days to Register Property and the Cost of Registering Property — approximate the regulatory nature of two existing data sets in that category, i.e., Days to Start a Business and the Cost of Starting a Business. The third and final IFAD data set — Access to Land — focuses on the legal framework which enables or complicates the acquisition of real property by individuals residing in a candidate country. Thus, IFAD contrasts sharply with the indicators in the Investing in People category which reflect a candidate country's direct investment of resources in its people.

Ambassador Danilovich, we commend you again for the MCC's efforts on identifying a natural resource indicator and look forward to continuing to work with you to ensure the success of one of our most innovative foreign assistance programs.

Most cordially,



TOM LANTOS
Member of Congress



EARL BLUMENAUER
Member of Congress

cc: Secretary of State Condoleezza Rice
Secretary of Treasury Henry M. Paulson, Jr.
United States Trade Representative Susan Schwab
USAID Administrator Randall Tobias
Mr. Kenneth Hackett
Governor Christine Todd Whitman