MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform you that the Millennium Challenge Corporation ("MCC") has decided to terminate, in part, assistance to Nicaragua as set forth in the attached notification and an accompanying report. The report contains MCC's determination that the Government of the Republic of Nicaragua has engaged in a pattern of actions inconsistent with the criteria used to determine the eligibility of Nicaragua for MCC assistance.

Members of MCC's staff are available to meet with you at your convenience to discuss this partial termination. If you or your staff would like to arrange a meeting, please contact me or Ellona Fritschie at (202) 521-3850. The attached notification is being sent to the Congress on June 17, 2009.

Sincerely,

James Mazzarella
Acting Vice President
Congressional and Public Affairs

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MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION

June 17, 2009

This notification is submitted under section 611(c) of the Millennium Challenge Act of 2003, as amended (22 USC 7701 *et seq.*) (the "Act") and under section 7057(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2009 (Pub. L. 111-8, Division H), to report that the Acting Chief Executive Officer of the Millennium Challenge Corporation ("MCC"), after consultation with the Board of Directors of MCC, has decided under section 611(a)(2) of the Act to terminate, in part, MCC's assistance to the Government of the Republic of Nicaragua under section 605 of the Act.

MCC and the Government of the Republic of Nicaragua (the "GoN") entered into a $175 million Millennium Challenge Compact on July 14, 2005 (the "Compact"). As set forth in the accompanying report, in the period leading up to, during, and following the Nicaraguan municipal elections of November 9, 2008, the GoN engaged in a pattern of actions inconsistent with MCC's eligibility criteria. On November 24, 2008, MCC informed the GoN that MCC would not approve disbursements for any projects or activities not already under contract until further notice, and, after consulting with the Board of Directors of MCC on December 11, 2008, MCC notified the GoN that MCC formally suspended, in part, funding under the Compact effective December 31, 2008.

After consulting with the Board of Directors of MCC on June 10, 2009, the Acting Chief Executive Officer notified the GoN on June 17, 2009 that MCC would formally terminate funding under the Compact as follows.

Effective July 3, 2009, MCC will terminate funding for both (i) activities in the Transportation Project not already under contract, including the Nejapa to Izapa road rehabilitation and (ii) all activities in the Property Regularization Project. For the time being, because of the immediate impact a termination would have on Nicaragua's rural poor, MCC will continue to provide assistance to local farmers, farming cooperatives and other rural businesses through MCA-Nicaragua by continuing the Rural Business Development Project. MCC will also continue to provide assistance to complete 68 km of roads that are already under construction.

A report containing the determination by the Chief Executive Officer under section 611(a)(2) of the Act that the GoN has engaged in a pattern of actions inconsistent with MCC's eligibility criteria is attached.

REPORT ON THE DETERMINATION BY THE ACTING CHIEF EXECUTIVE OFFICER THAT THE GOVERNMENT OF NICARAGUA HAS ENGAGED IN A PATTERN OF ACTIONS INCONSISTENT WITH THE ELIGIBILITY CRITERIA OF THE MILLENNIUM CHALLENGE CORPORATION

The Millennium Challenge Corporation ("MCC") selected Nicaragua as one of the first countries to be eligible to apply for a Millennium Challenge Compact on May 6, 2004. On July 14, 2005, MCC and the Government of the Republic of Nicaragua (the "GoN") entered into a Millennium Challenge Compact (the "Compact"), in the amount of $175 million, which Compact entered into force on May 26, 2006. On November 9, 2008, Nicaragua held municipal elections for over 100 towns and cities. On December 9, 2008, the Chief Executive Officer of MCC provided a memorandum to the Board of Directors of MCC in which he stated his determination, under section 611(a)(2) of the Millennium Challenge Act of 2003, as amended (22 USC 7701 *et seq.*) (the "Act"), that during the period leading up to, during, and following such municipal elections, the GoN engaged in a pattern of actions inconsistent with the criteria used to determine the eligibility of Nicaragua for assistance under the Act. The basis for this determination is set forth below.

Events Leading up to the Elections

Prior to the Nicaraguan municipal elections of November 9, 2008, the institutions that provide data for MCC's eligibility indicators, the press, and the United States Embassy in Managua reported that the GoN engaged in a series of actions that cast doubt on the credibility of such municipal elections. These actions included selectively barring opposition parties for procedural reasons; failing to accredit or permit monitoring by any credible election observers; and police raids on domestic and international nongovernmental organizations critical of the GoN.

Independent human rights groups also accused the GoN of supporting efforts to intimidate opposition supporters. The press and human rights organizations were subjected to government pressure and violence at the hands of Citizens' Power Councils (neighborhood committees controlled and organized by supporters of the ruling party). The United States Department of State concluded that the "political conditions that existed during the campaign were not conducive to free and fair elections."

Municipal Elections and the Aftermath

Opposition parties and domestic election observers reported widespread irregularities and fraud during and after the elections. An independent Nicaraguan human rights organization, Ética y Trasparencia, which fielded 30,000 election observers despite lack of accreditation, reported that the observers witnessed irregularities at 32 percent of polling stations. The opposition presented compelling evidence (as noted by the United States Embassy in Managua) that its candidate for Mayor of Managua had won instead of the ruling party candidate. Despite efforts by the international community to encourage a

review of the results with the participation of international observers, the GoN certified the results of the elections. There was post-election violence, including clashes between pro-ruling party and opposition supporters and Amnesty International cited a number of attacks on journalists and radio stations.

Indicator Performance

The events surrounding the elections impact policy areas that are measured by the Political Rights, Civil Liberties, and Voice and Accountability indicators used by MCC to determine compact-eligibility and are likely to negatively impact these indicator scores for fiscal year 2010. Because Nicaragua's scores are currently relatively high in its peer group, the anticipated declines are unlikely to cause Nicaragua's scores to fall below the median on these indicators the next time the scorecard is released for FY 2010. However, the actions of the GoN are inconsistent with good performance in the policy areas the indicators are designed to track.

In addition, Nicaragua does not pass the Control of Corruption indicator on the FY 2009 scorecard, causing it to fail the eligibility criteria for the first time. Nicaragua's score declined from the 51st percentile last year to the 50th percentile this year; in FY 2006, Nicaragua scored in the 85th percentile on the corruption indicator. The decline in absolute score from last year to this year is very slight and does not reflect the recent events surrounding the elections; however, Nicaragua's marked downward trend in performance on several Ruling Justly indicators, including the Control of Corruption, is noteworthy, and the recent elections could cause further downward pressure on the Control of Corruption indicator.

Summary

MCC's eligibility criteria include a commitment to "just and democratic governance, including a demonstrated commitment to promote political pluralism, equality and the rule of law…[and] encourage transparency and accountability of government." The pattern of actions taken by the GoN, prior to and in connection with the Nicaraguan municipal elections of November 9, 2008, summarized above, is inconsistent with this commitment and MCC's eligibility criteria.