Round Five of the MCA:
Which Countries are Most Likely to be Selected for FY2008?

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I. Introduction and Overview

The Board of Directors of the Millennium Challenge Corporation (MCC) will meet on December 12th to select countries that will be eligible to apply for grants using FY2008 funds. This year marks the fifth round of MCC selections. Three key documents guide the deliberations:

1. In August, the MCC released its *list of candidate countries* separated into two groups: low income countries (LICs) and lower middle income countries (LMICs).[2]
2. In September, it released a description of the *selection criteria and methodology* it will employ in FY2008, including the addition of two new indicators and the combination of two other indicators.[3]
3. On November 14, the MCC released the data for each candidate country for the 17 indicators that will be used as a basis for determining eligibility.[4]

Our analysis draws on these documents to explore which countries we think are most likely to be selected in FY2008. We look closely at the 17 indicators but recognize that, as in previous years, these data alone do not determine whether or not a country will (or will not) be selected. In addition to the indicators, the MCA authorizing legislation directs the MCC Board to select countries based also on the opportunity to reduce poverty and generate economic growth within the country; and the availability of funds. The latter two criteria may play a greater role in this year's selection round. As always, the Board retains the authority to select countries that do not meet these criteria. In the FY2007 round, the Board selected fifteen out of twenty-one LICs and three out of eight LMICs that passed the indicators test. In addition it selected five LICs and two LMICs that did not pass the indicators test.

Thus, this analysis is our *forecast* of the countries we think the Board is most likely to select as eligible for FY2008 funding; it is not an official list of the countries that *will* be selected. Our

[1] We are indebted to Sami Bazzi and Rebecca Schutte for their research assistance, and especially to Sarah Rose for her analysis and research on this note before her departure from CGD to join the MCC. While we are indebted to all three for their assistance, the views and opinions expressed here are solely those of the authors.
[2] For the MCC's report on candidate countries, see http://www.mcc.gov/documents/cn-082307-candidatecountryreport.pdf
[3] For the selection criteria and methodology report, see http://www.mcc.gov/documents/mcc-report-fy08-criteria%20and%20methodology.pdf
[4] For the MCC's FY08 country scorecards, see http://www.mcc.gov/features/selection/2008/index.php

analysis has five sections. Following this introduction, section II examines the low-income country group, section III analyses the lower-middle income country group, section IV examines the threshold country program, and section V provides some concluding comments.

To pass the indicators test a county must score above the median relative to its income peer group (LIC or LMIC) for at least half the indicators in three broad categories: Ruling Justly, Investing in People and Economic Freedom. (The inflation indicator is the one exception to the median methodology; instead MCC uses a set standard of requiring a country to have an inflation rate below 15% in order to pass.) The country must also score above the median on the Control of Corruption indicator. In addition, a country should not fall "substantially below" the median (generally defined as scoring in the lowest quartile) on any indicator.

Our analysis shows that:

- 21 LICs pass the indicators test in FY2008, the same number as last year, despite a change to a more difficult Investing in People category.[5]
- 4 LMICs pass the test, half the number that passed last year.
- 9 of the 16 countries with which MCC has approved or signed compacts do not pass the indicators test: Armenia, Benin, Cape Verde, El Salvador, Honduras, Madagascar, Mali, Morocco and Mozambique. This is the second year in a row that Benin, Madagascar, and Morocco have failed the indicators test, and the third year in a row for Cape Verde.

This year, there several key questions that should guide the Board deliberations:

- To what extent should the expected low FY08 budget allocation limit country selection? In a best case scenario, the MCC would receive $1.8 billion in FY08 – just enough to cover the three countries now sitting at the finish line (Tanzania, Namibia and Burkina Faso).[6]
- To what extent should the MCC-announced shift of operational focus from compact development to compact implementation limit country selection? The Board will have to weigh the merits of selecting many (or any) new countries as eligible when there are five recently approved/signed compacts and eight currently eligible countries in various stages of compact development.
- What are the principles that should guide decisions about reselection in the cases of the nine countries with signed (and even approved) compacts that do not pass the indicators test, as well as existing eligible countries that are not demonstrating the requisite effort to develop a compact?
- How can the guidelines for Threshold Program country selection be made more precise? The current set of Threshold countries is a broad assortment of countries ranging from those that had already passed the indicators test (e.g., Philippines), were legitimately "on

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[5] The addition of the Natural Resource Management Index in Investing in People brings the category to five indicators. Countries must pass at least half the indicators to pass a category, so they must pass three out of five Investing in People indicators. For more analysis on the options for the Investing in People category, see Sarah Rose, Sheila Herrling and Steve Radelet (August 27, 2007), "Investing in People by Investing in Data: How Best to Incorporate the New MCA Eligibility Indicators," Center for Global Development. http://www.cgdev.org/content/publications/detail/14316

[6] For more analysis on the impact of various funding outcomes, see Sheila Herrling (November, 2007), "The Impact of FY08 Funding Options on the MCA: From Saving Face to Saving the Program," Center for Global Development. http://www.cgdev.org/content/publications/detail/14873/

the threshold" of passing the indicators test (e.g., Moldova), are far from passing the indicators test (e.g., Kyrgyzstan), or are "rewards" for committed reformers (e.g., Yemen). It is time to explicitly define "on the threshold" and/or seek Congressional approval to dedicate a small portion of the program to leverage forward reform momentum in progressive countries.
- To what extent is MCA assistance additional to USAID assistance or displacing it?

II. Low Income Countries

The FY2008 LIC group consists of 75 countries with per capita gross national incomes (GNI) less than or equal to $1,735. Of this group eight countries are statutorily ineligible for US foreign assistance, but are included in the LIC group for the purposes of calculating the income-level group medians.

Countries that Pass the Indicators Test

Table 1 summarizes the LIC results. The first column shows current eligible countries and others that passed the indicator test in FY2007 but were not selected. Column 2 shows the LICs that pass the FY2008 indicators as well as those that narrowly fail. Column 3 lists the countries we feel the Board is most likely to select as well as some that we consider borderline cases. Table 2 provides detailed data for each of the 75 countries for each of the 17 indicators. The median (passing) score for each is listed at the top of each column.

According to the data, 21 LICs pass the indicators test including:
- eight from Sub-Saharan Africa: Burkina Faso, Ghana, Lesotho, Malawi, Rwanda, Senegal, Tanzania and Uganda
- one from North Africa: Egypt
- five from Asia: Bhutan, Mongolia, Philippines, Sri Lanka and Vietnam
- two Pacific Island countries: Solomon Islands and Vanuatu
- three from Latin America: Bolivia, Guyana and Nicaragua
- two from Eastern Europe and Central Asia: Georgia and Moldova

The MCC selected 20 LICs last year, 15 of which passed the indicators; five did not: Benin, Ghana, Madagascar, Senegal and Sri Lanka. Each of these exceptions had passed the indicators in previous years. This year Ghana, Senegal and Sri Lanka pass the indicators test while Benin and Madagascar fail for the second year in a row.

Of the 15 LICs that passed the indicators test last year and were selected:
- Nine countries pass again: ***Bolivia, Burkina Faso, Georgia, Lesotho, Moldova, Mongolia, Nicaragua, Tanzania*** and ***Vanuatu***.
- ***Four LICs that passed the indicators test last year do not pass in FY2008. Honduras, Mali, Mozambique and Timor-Leste***.
- Two other countries, Armenia and Ukraine, change income status to LMIC and—while they would have passed had they remained classified as LICs—do not pass the higher medians in the LMIC group.

A critical issue is that ***five of the countries that do not pass the FY2008 LIC standards have compacts: Benin, Honduras, Madagascar, Mali and Mozambique.***

Nine countries pass the indicators test in FY2008 that were not selected last year:

- Four of these also passed the indicators test in FY2007 but were not chosen: Bhutan, Egypt, Solomon Islands and Vietnam (all but the Solomon Islands also passed the test in FY2006 but were not selected).
- ***Three countries pass the indicator test this year for the first time: Malawi, Rwanda and Uganda.***
- ***Two countries regain their passing status: Guyana passes this year as it did in FY2004 and FY2005. The Philippines passes this year as it has every year except FY2007.***

Five countries would have passed the indicators test if not for failing the corruption hard hurdle: Benin, Honduras, Kenya, Paraguay and Zambia. In contrast, in FY2007, seven countries would have passed if not for falling below the median on the Control of Corruption indicator.

Countries Most Likely to Be Selected

In our view the Board is likely to select again all the currently eligible countries: ***Benin***, ***Bolivia, Burkina Faso, Georgia, Ghana, Honduras, Lesotho, Madagascar, Mali, Moldova, Mongolia, Mozambique, Nicaragua, Senegal, Sri Lanka, Tanzania, Timor-Leste*** and ***Vanuatu***. That said, Madagascar (due to the second year of failing the indicators), Sri Lanka (due to instability in the country) and Timor-Leste (because of declining Control of Corruptions score two years running) will likely receive heightened scrutiny. While Madagascar could continue its compact (which uses FY2004 appropriated funds) even if it were not reselected, the implications for not reselecting Timor-Leste and Sri Lanka are more critical. MCC has at this point committed nearly all of the program funds appropriated in past years when these countries were selected, so any new compacts will have to be funded with money from FY2008 or later years. Timor-Leste and Sri Lanka do not yet have signed compacts, so without continued eligibility they will not have access to funds.[7]

The MCC Board faces the difficult challenge of balancing the FY2008 budget reality with the desire to reward countries that pass the indicators. We predict that in addition to the currently eligible countries, the Board will select ***Malawi and Philippines***, and possibly ***Uganda*** (see borderline countries), but not the other countries that pass the indicators. We believe, however, that it should select Guyana, Indonesia, Malawi, and the Philippines.

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[illegible] ections includes six countries that do not pass the indicators test this [illegible] Benin, Honduras, Madagascar, Mali, Mozambique and Timor-Leste. It also includes Sri Lanka despite the fact that compact development activities were put on hold due to growing concern over instability in the country.

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[7] Given the likely FY08 budget outcome, even the best case scenario will leave no funds available for these two countries; the first possible approval year would, therefore, by FY09 and they would need to be reselected that year. See Herrling (November, 2007). "The Impact of FY08 Funding Options on the MCA: From Saving Face to Saving the Program," Center for Global Development.

Benin passes sufficient indicators in each category but does not pass Control of Corruption for the second year in a row. However, Benin's 2006 score places it in the 45th percentile among its LIC peers, a significant improvement from last year's 38th percentile. Last year, Benin's Control of Corruption score dropped sharply due to the World Bank Institute (WBI), the source of the Control of Corruption indicator, changing the composition of the underlying data for Benin's indicator. Two new sources that were added scored Benin lower on corruption than a source that was removed, thus generating a lower aggregate score. It is unclear from publicly available data to what degree the improvement in this year's score is attributable to policy change, change in perceptions, or the three new sub-sources that were added, but the picture of anti-corruption efforts in Benin is looking better. Because of this, we believe the MCC will reselect Benin as eligible in FY2008.

Honduras also passes a sufficient number of indicators, but fails Control of Corruption by a narrow margin (47th percentile). After a steady improvement in controlling corruption since 2002, the 2006 score drops off somewhat. It is extremely unlikely that this drop-off will affect Honduras' status for two reasons: (i) the existence of measurement error means that a score in the 47th percentile is too close to the median to definitively say that the true measure of corruption in a country is in fact below the 50th percentile; and (ii) Honduras showed no change in score from last year in Transparency International's 2007 Corruption Perceptions Index (CPI), a supplemental source used by MCC.[8] In our view, in deciding about selecting a country already involved in a compact, the key issue for the Board should be whether or not there are reasons to believe that the government's commitment to good development policies has significantly and materially deteriorated over the past year. That said, it will be important to track Honduras' anticorruption efforts to see if a continued downward trend emerges.

FY2008 marks the second year in a row that ***Madagascar*** does not pass the indicators test. It easily passes all six Ruling Justly indicators and all but one Economic Freedom indicator. However, it does not pass a single Investing in People indicator this year. There appear to be several reasons. Last year the WHO revised its immunization estimates for Madagascar, and the new number was significantly below the median. Madagascar has never passed Girls' Primary Education Completion, but it has shown continued upward progress with an increase in completion of over 20 percentage points since 2002,. Madagascar's score on Health Expenditures is an improvement over last year', but it is still below the median. It shows a decline on Primary Education Expenditure from over 2% of GDP in 2004 to 1.63% of GDP in 2005 (the data point used for Madagascar's FY2008 score), putting it just below the median this year in the 48th percentile (compared to last year's ranking in the 65th percentile). Finally, Madagascar falls substantially below the median (11th percentile) on the new NRMI.

hree of its compact, has logged some successes in its implementation, and the possibility of a subsequent compact. The Board is likely to take into gascar's below-median scores do not represent an actual deterioration in policy; but rather changes in the construction of the indicators and the addition of a new one, and it is likely to reselect Madagascar again this year. Nevertheless the MCC should make clear to Madagascar the consequences (de-selection) of failing a third year in a row.

[8] There was a small downward shift in the confidence interval around the score in 2007. Honduras' score remained at 2.5, but the confidence interval went from 2.4-2.7 in 2006 to 2.3-2.6 in 2007.

Malawi passes the indicators test for the first time this year, and does so solidly passing all six Ruly Justly, three of five Investing in People and four of six Economic Freedom indicators. Although its performance cannot be directly attributed to completion of its two-year anticorruption Threshold Program, its performance under that program bodes well for the compact development stage. Malawi should be commended for passing Control of Corruption for the first time,

Mali misses passing the indicators test by one indicator, since it only passes two of five Investing in People indicators (Public Expenditure on Health and Immunization Rate). In past years this would have been sufficient to pass Investing in People, but with the inclusion of the Natural Resource Management Index (NRMI), countries must pass a third indicator. On Public Expenditure on Primary Education, which Mali passed last year, this year no data are available. It turns out that past reports may have conflated spending on both primary and part of secondary, so the data could not be used this year. It is likely that the MCC will utilize supplemental data to try to obtain a more complete story of Mali's social sector investments and we expect it might be lenient this year for countries like Mali that are currently working on a compact and are negatively affected by the addition of the NRMI. However, this "grace period" should taper off after this year.

Mozambique is also affected by the addition of the NRMI, as it passes only two of five Investing in People indicators. Otherwise its performance is outstanding, passing all six Ruling Justly and five of six Economic Freedom indicators. Mozambique's failure of the indicators test is not indicative of policy slippage in the country. For instance, even though it falls in the bottom quartile on Girls' Primary Education Completion, it is moving in a positive direction showing an increase of over 20 percentage points since 2000, 10 of which occurred between 2004 (the data used for the FY2007 selection) and 2005 (the data used for the FY2008 selection). Again, we expect supplemental data will play a more important role in Mozambique and that the Board will again select it, particularly since Mozambique just signed a compact in July.

The ***Philippines*** has passed the indicators test every year except FY 2007. It was selected as Threshold eligible in FY2005 and is now in year two of a two-year anti-corruption program. This year, the Philippines passed all six Ruling Justly, three of five Investing in People and five of six Economic Freedom indicators. Despite concerns over declines in Control of Corruption and Voice and Accountability, the Board will likely select the Philippines this year given its broadly solid performance for several years, and perhaps a bit of diplomatic pressure to support a strategic ally (a factor that should not enter into these decisions, although it does on the margins in some cases).

The Board decision on ***Sri Lanka*** will not be about indicator performance – it passes solidly, as it has every year except FY 2007, missing only 4 indicators. Rather, it will be about whether Sri Lanka passes the criteria regarding "the opportunity to reduce poverty and generate economic growth." In May the MCC put a hold on further compact development activities with Sri Lanka. The compact was quite far along, having neared the end of the "due diligence" phase, and the MCC had projected it would sign the compact this year. The decision was based on escalating violence in the country and concerns about increasing restrictions on certain freedoms – captured in declines in this year's Political Rights and Civil Liberties indicators.. The Board's decision will provide an indication of whether the MCC considers Sri Lanka ready to implement a compact. The decision will be mostly symbolic -- although Sri Lanka would need to be reselected as eligible to have a chance of seeing a funded compact, FY2008 funds are almost all pre-committed to other compacts that are nearing finalization, so in the best case it probably would be in a holding pattern until FY2009.

Timor-Leste passed the indicators test easily in FY2006 and FY2007, but this year it misses because it falls below the median on corruption and fails three of five Investing in People indicators. Because Timor-Leste's failure to pass more than half the indicators in Investing in People is driven mostly by the addition of the new indicator, we expect the MCC will show some leniency, at least for this year. The bigger issue is the Control of Corruption indicator, which registers a decline for the second year in a row. However, Timor-Leste shows no change in score from last year in Transparency International's 2007 CPI (a score which, incidentally, places it in the 53rd percentile among LIC candidate countries), and its WBI Control of Corruption score is within the standard error of the median. Nevertheless, two declines in a row is reason for concern. Timor-Leste is in the very early stages of compact preparation, having submitted a draft proposal in February 2007. Since Timor-Leste has spent the bulk of 2007 focusing on Parliamentary elections, forming a new Government, and addressing some accompanying civil unrest (which is captured, in part, as declines in Timor-Leste's scores on the Political Rights and Civil Liberties indicators, both of which remain above the median), further compact development will likely remain on hold until the political climate settles down. A key issue for compact development will be how MCC funds will be used in conjunction with other donor funds and large oil and gas revenues. Timor-Leste's large revenues from oil and gas are not a reason for the MCC to not select it, but rather an issue that needs full discussion and analysis as part of the compact.

Borderline Countries

We think it is unlikely that the Board will select ***Guyana, Rwanda*** or ***Uganda***, all of which pass the indicators test this year. Guyana and Uganda signed Threshold programs in August and March, respectively, and in past years the Board has selected for full eligibility Threshold-eligible countries that have not or have only recently signed Threshold Program agreements (Tanzania and Moldova are two examples). However, because of budget constraints and the fact that both countries have existing Threshold Programs, the Board may elect to hold off on selecting these two countries. The case of Guyana is an interesting one because it regains squarely its FY2004 and FY2005 passing status this year (including all three democracy indicators), after consistent annual improvements in years prior. The case of Uganda is complicated because it does not pass the Political Rights indicator, one of the three MCC

long with Civil Liberties and Voice and Accountability). Rwanda fails
tors. The MCC Board only rarely has selected countries that do not pass
icators, and we suspect they will continue that pattern in these cases. We have argued that as a matter of policy the MCC should only select democracies. ***Although we do not think the Board will select Guyana, we believe that it should based on its solid passing of the indicators, including all three democracy indicators.***

Last year there were signs that the MCC Board was close to selecting ***Indonesia***, despite its passing just one of four Investing in People indicators and falling short on Control of Corruption. Though they did not—a decision we wholeheartedly supported[9]—Indonesia's improved performance on the indicators test this year makes a stronger case. Indonesia passes all the required indicators this year except that its Control of Corruption score is exactly equal to the median rather than above it. Commendably, Indonesia has registered continuous improvements on its Control of Corruption indicator since 2002; additionally it is a year into its MCA Threshold program that, in part, targets corruption and immunization. ***We have long argued that the MCC should count the median score as passing, and thus we think that Indonesia's performance this year merits its selection as fully eligible***. Nevertheless, we believe that a combination of a tight budget scenario and stricter adherence to indicator-based decision making means the Board is unlikely to select Indonesia this year.

Countries that Meet the Indicators Test but Are Unlikely to Be Chosen

Bhutan, Egypt, and ***Vietnam*** all pass the indicators test this year as they have in the past four years for Bhutan and Vietnam and three years for Egypt when they were not selected. Each of them is substantially below the median on at least one indicator (although the MCC uses this principle inconsistently at best in its selection decisions). Perhaps more importantly, these countries are not democracies. As mentioned earlier, the MCC does not have a firm rule to select only democracies, but with only two exceptions which may have been due to political pressures (Morocco and Jordan), it has selected only democracies, a preference we strongly support. We urge the Board to make this preference more explicit when explaining their decisions.

The ***Solomon Islands***—which is a democracy—passes the indicators for the second year in a row. The MCC, however, with the single exception of Vanuatu, seems to have avoided selecting small Pacific Island nations. For reasons not clearly stated, the Board has not selected the Solomon Islands, Kiribati or Samoa (an LMIC) when they passed the indicators in previous years (Kiribati does not pass this year), so we expect the Board will not select the Solomon Islands again this year. We urge the Board to adhere to the principle of transparency and explain its decisions in this and other borderline cases.

III. Lower Middle Income Countries

The LMIC category consists of 33 countries with per capita GNI between $1,736 and $3,595. Five of those countries are statutorily ineligible to receive US foreign assistance. The MCC can use up to 25% of its appropriated funds for LMICs. Last year the Board selected one new country (Jordan) and reselected two other countries (El Salvador and Namibia) out of the eight LMICs that passed the FY2007 indicators test. It also reselected two countries, Cape Verde and

[9] See Sheila Herrling, Steve Radelet and Sarah Rose (October 30, 2006), "Will Politics Encroach in the MCA FY2007 Selection Round? The Cases of Jordan and Indonesia," Center for Global Development. http://www.cgdev.org/content/publications/detail/14124

Morocco, that each missed passing the test by one indicator; both countries had been reclassified from LIC status to LMIC status (Cape Verde in FY2006 and Morocco in FY2007).

We have long argued that the MCC should not include LMICs as long as the overall program funding remains well below the originally envisioned $5 billion per year. While LMICs do have very many poor citizens, MCA resources should not be diverted from the poorest countries to those with greater tax bases, better access to private capital and higher domestic savings.

Nevertheless, the MCC has chosen to select LMICs as eligible, and each year eligible countries previously designated as LICs move into the LMIC category. ***The most appropriate policy for the MCC going forward is to focus on finalizing and implementing compacts with the LMICs it has already selected and select no new LMICs.*** Since only four LMICs pass the FY2008 indicators test, the decision to select no new LMICs should be easier.

The first column of Table 3 shows the five currently eligible LMICs along with other LMICs that passed the indicators test last year but were not selected. Column 2 shows the LMICs that pass the indicators for FY2008, along with those countries that narrowly fail. The third column lists those countries we feel the Board is most likely to select as well as some we feel are borderline cases. Table 4 provides the data for each of the 33 countries' scores for each of the 17 indicators. The median score for each indicator is listed at the top of the page.

Four LMICs pass the indicators test: ***Colombia*** (passing for the first time this year***), Jordan, Samoa*** and ***Tunisia***. Countries that come close include ***Macedonia*** and ***Morocco*** which would pass if the median counted as a passing score; ***Ecuador, Maldives, Tonga*** and ***Ukraine*** which would pass if not for failing Control of Corruption; and ***Namibia, Peru*** and ***Suriname*** which miss by one indicator.

Countries Most Likely to Be Selected

We do not think the Board will select any new LMICs in FY2008, even though three of the four countries that pass this year are not currently eligible.

We expect that the MCC will reselect ***Jordan*** which passes the indicators test (a decision we did not support last year and would not support this year) as well as ***Morocco, Namibia*** and ***El Salvador*** which it previously selected but this year fail the indicators. The Board is may also likely to select two currently eligible countries which move into the LMIC group from the LIC group this year -- ***Armenia*** and ***Ukraine*** – despite their failing score in the new peer group.

Morocco moved into the LMIC category last year and was reselected despite falling one indicator short in the Ruling Justly category. This year Morocco falls one indicator short again. It passes Ruling Justly after a dramatic improvement in its Government Effectiveness score, but

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Economic Freedom indicators, and scores the median on Regulatory
rd previously selected Morocco and because Morocco barely misses
: believe the Board will select it again.

Namibia misses passing because of the addition of the NRMI, as it only passes two of five Investing in People indicators. Since this is the first year Namibia has not passed the indicators test, the MCC is likely to show some leniency this year and reselect it.

For the first time since FY2006 when LMICs were first permitted MCA candidacy, ***El Salvador*** does not pass the indicators test due to passing just one of five of the Investing in People indicators. It also scores on the median on Health Expenditures, a decline from last year. El Salvador also falls significantly below the median on the newly added NRMI. Because El Salvador's difficulty with Investing in People is due to a median score and a new indicator, the MCC is likely to give it a pass this year and continue to work with the Government—which has a separate unit dedicated to tracking and improving the MCA indicators—to improve its chances of passing Investing in People next year.

Armenia is one of two countries that move into the LMIC category for the first time in FY2008. Where it had passed the indicators test as a LIC it does not do so this year as an LMIC, passing only one Ruling Justly indicator and two Investing in People indicators along with five Economic Freedom indicators. Had Armenia remained in the LIC group, it would have passed three Ruling Justly indicators (rather than one), but it would have failed all three of the democracy indicators. Armenia's scores on the three democracy-related indicators have slipped for three years in a row so that this year it fails all three against both the LIC and LMIC standard. The deteriorating democracy scores should be an issue of concern for the MCC, since it has only rarely selected countries that fail these three indicators. Armenia does, however, register an improvement in its corruption score over last year. Of the three Investing in People indicators Armenia fails as an LMIC, two (Girls' Primary Education Completion Rate and Immunization Rate) would easily pass the LIC group. In the past the MCC has given new LMICs certain leeway regarding the new standards to which they are compared, and we expect a similar exception will be made for Armenia this year. However, we would prefer that it not select Armenia given its weakening performance on the democracy indicators over the last several years. As in the case of Cape Verde, a decision not to reselect would not impact continued compact funding.

Ukraine is the other eligible country that moves into the LMIC group for the first time. It passes sufficient indicators except for Control of Corruption. While it falls in the 19th percentile for Control of Corruption among the LMICs, its score would have been sufficient to pass the median had it remained in the LIC group. Because of this, the Board is likely to reselect Ukraine in FY2008, particularly since Ukraine was newly eligible last year and is starting the process of compact development. Through a Threshold Program the MCC is engaged with Ukraine on anticorruption efforts, in particular those that target judicial reform, the enforcement of anticorruption regulations and civil society monitoring. The MCC needs to closely track Ukraine's performance on this program relative to expected results and any decisions related to proceeding with a compact.

Borderline Countries

Cape Verde was selected as eligible for the MCA in FY2004 when its income level put it in the LIC category. FY2004 is the only year in which Cape Verde passed the indicators test. In FY2005 it moved up to the LMIC group, but LMICs were not eligible that year. In FY2006 and FY2007 it missed by one indicator. This year, however, it misses by four, passing only one indicator in both Investing in People and Economic Freedom, and its performance declined on several key indicators (notably the girls' primary school completion rate). This year Cape Verde falls short on Health Expenditures, registering a decline in public spending as a percentage of GDP from last year. The fact that Cape Verde fails the Business Start Up indicators – a very actionable indicator -- three years in a row is also problematic. The Board has provided Cape Verde some leeway in the past two years, so it may do so again this year. However, since the margin by which Cape Verde falls short is larger this year, the Board is on solid ground to not reselect Cape Verde in FY2008. Doing so would have no impact on compact participation (Cape Verde is about two years into a five year compact) since compact continuation is based more on performance on implementing the compact itself. We think it would send an important signal that if a country fails the indicators test three years in a row, the Board will follow a "three strikes and you're out" policy. Reselecting Cape Verde on the hope that it will improve next year places the MCC in the camp of traditional foreign aid programs that reward countries based on *promised* or forecasted changes without holding them accountable for producing time-bound results. The Board should avoid losing perhaps one of the most innovative features of the MCC by taking such a decision.

Countries that Meet the Indicators Test but Are Unlikely to Be Chosen

Samoa performs well on the indicators this year, as it did the last two years. Despite this good performance Samoa has not yet been selected, so we think it unlikely that the Board will select it this year. Still, since Samoa consistently passes the indicators, the Board should be transparent and clearly state why it is not selected.

Tunisia also passes the indicators again for the third year in a row. Yet it is not a democracy and, despite passing the indicators test each year, the MCC has never selected it. It is unlikely to be selected this year.

Although ***Colombia*** passes the indicators test for the first time this year, it is unlikely that the Board will select it. Colombia is one of the largest recipients of US foreign assistance; in 2005 it was the 8th largest recipient.[10] Jordan was the 7th largest recipient of US aid in 2005 and it was selected as eligible last year—a decision to which we were opposed—but we expect that there were stronger political motivations behind the selection of Jordan than there would be for Colombia.

IV. The Threshold Program

At the same time the MCC Board selects countries as eligible to apply for compact funding it also selects countries eligible to apply for Threshold Program funding. The MCA authorizing

[10] OECD DAC

legislation allows it to direct up to 10% of total funds toward countries that "are on the 'threshold,' meaning they have not yet qualified for MCA Compact funding, but have demonstrated a significant commitment to improve their performance on the eligibility criteria for MCA Compact funding."[11]

Currently 22 countries are Threshold eligible. Of those 17 have approved Threshold Programs and 4 will complete their programs this year (Albania, Malawi, Paraguay and Philippines). The Threshold Program countries selected to date are a mixed group. Some countries pass the indicators test but were not selected, some fall short on just one or two indicators, and some are several indicators away from passing.

In our view, it is time for the MCC to clarify and define the role of the Threshold Program. Is the goal really to help push countries over the threshold to full eligibility (focusing narrowly on the one or two indicators needed to pass)? Is it to prepare countries that are close to eligibility through a mini-compact that is not necessary focused on missed indicators? Is it a "risk capital" account to support reformers, particularly emerging democracies, at critical junctures to help move countries closer to passing the indicators test? There are arguments for and against each of these approaches. And under any of them, what criteria should be used to judge whether a country should be selected? These key issues remain unclear.

On average, Threshold eligible countries passed ten indicators and failed six when they were selected. Kenya was selected after passing seven indicators, and several countries were selected after passing eight indicators. Thirteen out of the 22 Threshold countries did not pass corruption when they were selected. Because of this and because of the importance the MCC places on the Control of Corruption hard hurdle, the majority of funded Threshold Programs have focused on anticorruption reforms. Nearly a quarter of Threshold eligible countries did not pass the three democracy proxies.. Based on countries' performance on this year's indicators and selection precedent to date, several candidates emerge as potential new candidates for Threshold eligibility. We list those that will likely receive discussion leading up to the Board meeting but believe ultimately that the Board will reselect current eligible countries (except those that are selected for compact eligibility), it is likely to select ***Macedonia*** for the first time; will seriously deliberate ***Liberia, Mauritania*** and the ***Dominican Republic;*** and will consider ***Nepal, Papua New Guinea,*** and ***Suriname***.

Low Income Countries

Liberia passes seven indicators, which is on the low end of the currently Threshold eligible countries but, importantly, it passes all three democracy indicators (unlike five of the current Threshold eligible countries) and has shown very significant improvements in several indicators in the last two years.[12] To fully pass would only need to improve its score on Control of Corruption, one additional Investing in People indicator and one Economic Freedom indicator. Liberia's Control of Corruption score registered the second-largest improvement of any country

[11] Millennium Challenge Corporation. Programs & Activities. http://www.mcc.gov/programs/index.php
[12] One of the authors, Steve Radelet, also serves as economic advisor to the Government of Liberia.

in the world this year. Liberia's scores are similar to those of Kenya, Rwanda, Yemen, and Zambia when they were selected for the Threshold program.

Nepal passes eleven indicators and misses passing the indicators test by just one Ruling Justly indicator (they pass Control of Corruption). However, Nepal misses the three democracy proxies. It is not substantially below the median on any of these indicators, and it even falls in the 45th percentile on Government Effectiveness. It has registered substantial improvements in both Political Rights and Civil Liberties from its FY2007 scores. In addition, Nepal goes from passing zero Investing in People indicators in FY2007 to passing all but one in FY2008. Part of this is due to lower LIC medians for both Health and Primary Education Expenditures, but part is due to higher scores on Girls' Primary Education Completion Rate and Immunization Rate as well as good performance on the NRMI.

Mauritania passes eight indicators, including control of corruption, but fails to pass all five Investing in People indicators and the three democracy proxies. Its scores on the three democracy indicators have improved slightly over the past two years, but it still fails all three, which in our view is a strong reason to not select it. In addition, Mauritania has achieved almost no progress in the last few years on its Investing in People indicators. Mauritania could be enticing to the Board for two reasons: first, to encourage continued forward progress on democratization and second, to have more Threshold programs that focus on social sector investments (an issue of particular interest to Congressional democrats). In our view, however, it should not be selected for the threshold program until it demonstrates more progress in passing at least some of the democracy indicators.

Papua New Guinea passes eight indicators, but needs only to pass Control of Corruption and two additional Investing in People indicators to fully pass. It is in the 48th percentile for the NRMI (it would have passed last year, but a higher LIC median this year pushes Papua New Guinea just below). It falls well below the median for Primary Education Expenditures and Immunization Rate (though it registers an increase in the latter).

Lower-Middle Income Countries

Macedonia is a strong candidate for a Threshold Program. It only misses passing because of a Control of Corruption score that is exactly the median. This is a vast improvement from FY2007 when it fell short on all six Ruling Justly indicators. Due to the fact that Macedonia is soundly "on the threshold" and anticorruption programs have become rather standard fare for Threshold programs, the Board will likely select Macedonia this year. However, the fact that Macedonia is a candidate for accession to the European Union should be factored into the decision making process.

The ***Dominican Republic*** passes eight indicators, but fails Control of Corruption and four of five Investing in People indicators (two rather substantially). It scores on the median on Rule of Law, and hence is on the verge of passing four Ruling Justly indicators. Whereas last year it missed four of six Economic Freedom indicators, this year it misses only two (and that includes being exactly the median score on Land Rights and Access). What makes the Dominican Republic a more likely candidate is its demonstrated interest and willingness to work on improving its indicators. It has actively engaged with the MCC on how it can improve its indicators and is looking at El Salvador's model of establishing an independent unit in the executive branch tasked explicitly with following performance on the indicators and identifying ways to improve.

Suriname is legitimately "on the threshold," needing only to pass one additional Economic Freedom indicator to pass fully. A regular strong performer on Ruling Justly, last year it failed all four Investing in People indicators and five out of six Economic Freedom indicators. This year shows substantial improvement, passing three of five Investing in People indicators and two of six Economic Freedom indicators.

Jamaica is also close to passing, needing to pass just two additional Investing in People indicators. Jamaica, however, has the highest per capita GNI ($3,480) of the LMIC group, so it may graduate out of MCA candidacy in the next year or two.

V. Conclusion

Based on the key issues facing the Board this year, we advise the following course of action:

1. The tight budget situation should not be the principal reason for limiting country selection. It is important for the MCC to encourage the countries that have worked hard to meet the indicators tests, and therefore the Board should formally consider all LICs that pass. It would completely undermine the MCC incentive effect if countries were not selected purely for budget reasons. However, the budget realities are reason to:

- ***Select no new LMICs***. Until the MCA annual budget nears the originally-announced $5 billion, funding to LMICS -- that have greater tax bases, better access to private capital and higher domestic savings -- should not crowd out funding to LICs.
- ***Remain strict on democracy***. Since its outset the MCC has leaned strongly against selecting countries that fail the three democracy-related indicators. We believe this should be an explicit rather than implicit requirement, and the Board should not select countries for either full eligibility unless they meet this test, and for the Threshold program unless they are clearing moving close to passing.
- ***Establish a position on the role (or not) of the MCC in small island nations***.

This rationale suggests that the Board should select Guyana, Indonesia, Malawi and the Philippines, but not Rwanda or Uganda, and no new LMICs as FY2008 eligible.[13]

2. The MCC's organizational shift of focus to implementation should also not be a principle reason for limiting country selection. Rather, ***the MCC should introduce operational processes after country selection that allow scarce MCA resources in the compact development unit to be directed to countries that distinguish themselves as most serious***. For example, the MCC could set deadlines for proposal submittal, or expect countries to

[13] We do not restate the countries in the earlier section that pass but are unlikely to be selected.

submit early concept papers that provide a sense of country understanding of its constraints to growth and commitment to the MCA process.

3. On reselection (or de-selection) for countries that were previously selected but do not pass the indicators test, the MCC should institute a “three strikes and you’re out” policy:
    - Countries that fail the indicator test three years in a row should not be reselected. De-selection in and of itself would not impact compact implementation in those countries with approved compacts. ***That argues for not reselecting Cape Verde this year, and for putting Benin, Madagascar and Morocco on a watch-list.***
4. The criteria for Threshold Program selection needs to be firmly decided, communicated, and upheld going forward. The intent of Congress at the inception of the MCA was for the Threshold Program to be dedicated to that small group of countries that were legitimately close to passing. Specifying an exact number of indicators away from passing may not be as useful as defining “close.” We think the following factors should come into play and, together, form the basis for selection:
    - The number of indicators that would need to improve; the fewer the better.
    - The degree of difficulty involved in improving the indicators (e.g., improving the “starting a business” indicator is much easier and quicker to effect than “control of corruption”).
    - Trends of improvements to date, with a premium on countries that show consistent and significant improvements vis a vis its peers.
    - Performance on the three democracy indicators; the more passed the better.
5. The Board should go further in making its decisions transparent. Summaries of Board meetings were a welcome introduction. ***The Board needs to be more explicit on the reasons countries that passed the indicators were not chosen and countries that failed the indicators were***, particularly in light of perceptions of a raised bar for new countries based on the budget situation.

Table 1: Country Qualification Predictions for Low Income Countries

Current candidate countries (selected in FY2007)	Countries that pass the FY2008 indicators test	Countries most likely to be selected
1 Benin [C]*	1 Bhutan	1 Benin [C]*
2 Bolivia	2 Bolivia	2 Bolivia
3 Burkina Faso [T]	3 Burkina Faso [T]	3 Burkina Faso [T]
4 Georgia [C]	4 Egypt	4 Georgia [C]
5 Ghana [C]*	5 Georgia [C]	5 Ghana [C]*
6 Honduras [C]	6 Ghana [C]*	6 Honduras [C]
7 Lesotho [C]	7 Guyana [T]	7 Lesotho [C]
8 Madagascar [C]*	8 Lesotho [C]	8 Madagascar [C]*
9 Mali [C]	9 Malawi [T]	9 Malawi
10 Moldova [T]	10 Moldova [T]	10 Mali [C]
11 Mongolia [C]	11 Mongolia [C]	11 Moldova [T]
12 Mozambique [C]	12 Nicaragua [C]	12 Mongolia [C]
13 Nicaragua [C]	13 Philippines [T]	13 Mozambique [C]
14 Senegal*	14 Rwanda [T]	14 Nicaragua [C]
15 Sri Lanka*	15 Senegal*	15 Philippines
16 Tanzania [T]	16 Solomon Islands	16 Senegal*
17 Timor-Leste [T]	17 Sri Lanka*	17 Sri Lanka*
18 Vanuatu [C]	18 Tanzania [T]	18 Tanzania [T]
	19 Uganda [T]	19 Timor-Leste [T]
Countries that passed the indicators in FY2007 but were not selected	20 Vanuatu [C]	20 Vanuatu [C]
	21 Vietnam	
		Borderline countries
1 Bhutan	**Countries that would pass if the median counted as passing**	1 Guyana [T]
2 Egypt		2 Indonesia [T]
3 The Gambia	1 Indonesia [T]	3 Rwanda [T]
4 Kiribati		4 Uganda [T]
5 Solomon Islands	**Countries that fail control of corruption**	
6 Vietnam	1 Benin [C]*	
	2 Honduras [C]	
	3 Kenya [T]	
	4 Paraguay [T]	
	5 Zambia [T]	
	Countries that miss by one indicator	
	1 Kiribati	
	2 Mali [C]	
	3 Mozambique [C]	
	4 Nepal	
	5 São Tomé and Principe [T]	

* *Indicates a country that was selected in FY 2007 despite not passing the indicators test*
[C] *Indicates a country has signed a compact with (or has a compact approved by) MCC*
[T] *Indicates a country has been previously selected for MCC's Threshold Program*

Table 2: MCA Candidate Countries and the Indicators Test, FY 2008

Low Income Countries (LICs)

		Ruling Justly						Investing in People					Economic Freedom						Number of passed hurdles		
		Political Rights	Civil Liberties	Voice and Account-ability	Government Effectiveness	Rule of Law	Control of Corruption	Girls' Primary Education Completion Rate, %	Public Primary Education Spending, % of GDP	Public Expenditure on Health, % of GDP	Immunization Rate: DPT and Measles, %	Natural Resource Management	Business Start-Up	Inflation, %	3-Year Budget Balance, %	Trade Policy	Regulatory Quality	Land Rights and Access	Ruling Justly	Investing in People	Economic Freedom
		(0-40, 40=best)	(0-60, 60=best)	(-2.5 to +2.5, +2.5=best)								(0 to 100, 100=best)				(1-100, 100=best)	(-2.5 to +2.5, +2.5=best)	(0 to 1, 1=best)			
	Median	20	30	0.00	0.00	0.00	0.00	67.8	1.67	2.08	84.0	66.5	0.93	15.0	-1.34	58.2	0.00	0.61			
	Passing Score	20	30	0.00	0.00	0.00	0.00	67.8	1.67	2.08	84.0	66.5	0.93	15.0	-1.34	58.2	0.00	0.61			
	Substantially below	10	19.5	-0.51	-0.38	-0.32	-0.30	47.5	1.09	1.52	70.5	58.2	0.90	20.0	-3.32	52.0	-0.46	0.50			
Countries that pass the indicators test																					
1	Bhutan	10	21	-0.25	1.19	1.52	1.66	65.0	NA	3.44	92.5	79.7	0.96	5.0	-3.03	NA	0.52	0.86	3	3	4
2	Bolivia	28	43	0.56	0.17	-0.02	0.14	99.2	5.21	4.27	81.0	80.3	0.90	4.3	-2.07	69.2	-0.33	0.73	5	4	3
3	Burkina Faso	17	36	0.38	0.07	0.39	0.34	26.2	3.33	3.31	91.5	55.8	0.95	2.4	2.30	57.2	0.29	0.44	5	3	4
4	Egypt	7	20	-0.38	0.45	0.88	0.36	93.7	NA	2.34	98.0	81.7	0.98	4.2	-8.52	52.2	0.25	0.81	3	4	4
5	Georgia	25	37	0.54	0.70	0.27	0.41	87.0	0.14	1.76	91.0	79.2	0.99	9.2	0.71	61.8	0.48	1.00	6	3	6
6	Ghana	37	47	1.07	0.92	0.74	0.65	67.8	1.70	2.59	84.5	67.7	0.95	10.9	-3.94	58.0	0.60	0.77	6	4	4
7	Guyana	31	42	0.71	0.71	0.17	0.17	122.3	2.65	4.71	91.5	76.0	0.93	6.7	-8.27	57.0	0.21	0.81	6	5	3
8	Lesotho	30	43	0.95	0.59	0.63	0.73	73.3	5.76	5.55	84.0	73.3	0.93	6.1	8.07	44.4	0.07	0.60	6	4	4
9	Malawi	23	35	0.39	0.01	0.41	0.04	55.5	1.64	11.05	92.0	76.0	0.89	9.0	-2.54	59.6	0.05	0.62	6	3	4
10	Moldova	24	33	0.21	0.01	0.26	0.12	90.8	0.73	4.28	96.5	75.2	0.98	12.7	0.86	74.4	0.33	0.83	6	4	6
11	Mongolia	33	49	0.80	0.41	0.56	0.23	110.0	1.34	3.80	99.0	74.0	0.99	5.0	3.27	70.0	0.38	0.73	6	4	6
12	Nicaragua	28	39	0.48	-0.11	0.11	0.01	77.0	1.54	4.35	93.0	77.5	0.92	9.1	-0.11	72.4	0.21	0.59	5	4	4
13	Philippines	28	41	0.52	0.85	0.40	0.08	99.7	1.48	1.29	90.0	88.6	0.95	6.2	-1.68	74.8	0.63	0.84	6	3	5
14	Rwanda	10	23	-0.44	0.46	0.28	0.65	37.2	2.15	4.64	97.0	65.0	0.91	8.8	-0.01	60.6	0.05	0.60	3	3	4
15	Senegal	33	43	0.65	0.63	0.55	0.36	47.6	2.58	2.00	84.5	75.2	0.91	2.1	-3.96	61.6	0.41	0.44	6	3	3
16	Solomon Islands	23	42	0.76	-0.06	-0.02	0.49	NA	7.37	4.74	87.5	50.1	0.93	8.0	5.50	NA	-0.44	NA	4	3	3
17	Sri Lanka	22	32	0.35	0.50	0.89	0.48	107.8	0.73	1.96	99.0	92.1	0.97	9.5	-7.38	66.6	0.58	0.58	6	3	4
18	Tanzania	22	36	0.44	0.56	0.41	0.40	73.2	2.79	2.03	91.5	69.3	0.96	7.3	-3.81	63.6	0.30	0.73	6	4	5
19	Uganda	15	31	0.16	0.36	0.37	0.06	51.5	3.20	2.16	84.5	67.0	0.94	6.6	-1.01	58.8	0.51	0.63	5	4	6
20	Vanuatu	32	48	1.20	0.47	1.34	0.98	85.9	2.24	3.06	92.0	62.3	0.95	1.6	0.90	NA	0.57	NA	6	4	4
21	Vietnam	2	19	-0.75	0.49	0.45	0.11	NA	1.70	1.16	93.5	84.9	0.96	7.5	-0.20	51.0	0.20	0.79	3	3	5
Pass if median counted as passing a hurdle																					
22	Indonesia	30	35	0.45	0.48	0.05	0.00	100.0	1.96	0.93	71.0	82.2	0.89	13.1	-0.33	69.0	0.43	0.56	5	3	4
Eliminated by corruption																					
23	Benin	33	49	1.03	0.37	0.34	-0.04	51.3	1.80	2.98	91.0	66.4	0.89	3.8	-1.25	54.6	0.32	0.50	5	3	3
24	Honduras	25	37	0.36	0.26	0.00	-0.01	82.8	2.26	4.41	89.0	86.8	0.96	5.6	-2.47	69.2	0.26	0.64	4	5	5
25	Kenya	25	39	0.52	0.17	-0.10	-0.20	91.6	4.20	1.66	78.5	67.9	0.95	14.5	-1.55	65.0	0.48	0.71	4	3	5
26	Paraguay	26	37	0.34	-0.02	-0.06	-0.25	95.3	2.03	2.67	80.5	81.7	0.94	9.6	1.23	67.4	0.01	0.64	3	4	6
27	Zambia	25	34	0.36	0.12	0.26	0.00	70.1	1.19	2.91	82.0	66.7	0.96	9.1	4.72	60.8	0.13	0.61	5	3	5
Miss by one indicator																					
28	Kiribati	36	55	1.19	0.38	1.72	0.86	125.0	6.05	11.74	73.5	NA	0.96	-0.2	-33.79	NA	-0.32	NA	6	3	2
29	Mali	30	44	1.04	0.45	0.56	0.21	35.0	NA	3.14	85.5	47.6	0.92	1.9	8.46	58.6	0.28	0.48	6	2	4
30	Mozambique	25	33	0.64	0.57	0.28	0.20	34.3	2.59	2.77	74.5	56.5	0.97	13.2	-2.56	60.2	0.20	0.69	6	2	5
31	Nepal	17	28	-0.45	-0.03	0.19	0.03	72.3	1.87	1.52	87.0	74.0	0.94	8.0	-1.11	51.4	0.13	0.69	2	4	5
32	Sao Tome and Principe	33	47	0.94	-0.01	0.41	0.24	76.3	2.39	8.99	92.0	72.2	0.85	23.6	0.53	NA	-0.07	0.61	5	5	2

Table 2 (cont.): MCA Candidate Countries and the Indicators Test, FY 2008

Low Income Countries (LICs)

		Ruling Justly						Investing in People					Economic Freedom						Number of passed hurdles		
		Political Rights (0-40, 40=best)	Civil Liberties (0-60, 60=best)	Voice and Accountability (-2.5 to +2.5, +2.5=best)	Government Effectiveness (-2.5 to +2.5, +2.5=best)	Rule of Law (-2.5 to +2.5, +2.5=best)	Control of Corruption (-2.5 to +2.5, +2.5=best)	Girls' Primary Education Completion Rate, %	Public Primary Education Spending, % of GDP	Public Expenditure on Health, % of GDP	Immunization Rate: DPT and Measles, %	Natural Resource Management (0 to 100, 100=best)	Business Start-Up	Inflation, %	3-Year Budget Balance, %	Trade Policy (1-100, 100=best)	Regulatory Quality (-2.5 to +2.5, +2.5=best)	Land Rights and Access (0 to 1, 1=best)	Ruling Justly	Investing in People	Economic Freedom
	Median	20	30	0.00	0.00	0.00	0.00	67.8	1.67	2.08	84.0	66.5	0.93	15.0	-1.34	58.2	0.00	0.61			
	Passing Score	20	30	0.00	0.00	0.00	0.00	67.8	1.67	2.08	84.0	66.5	0.93	15.0	-1.34	58.2	0.00	0.61			
	Substantially below	10	19.5	-0.51	-0.38	-0.32	-0.30	47.5	1.09	1.52	70.5	58.2	0.90	20.0	-3.32	52.0	-0.46	0.50			
Miss by more than one indicator																					
33	Afghanistan	17	18	-0.61	-0.53	-1.13	-0.70	20.8	1.14	1.04	72.5	31.4	0.96	5.3	-1.40	NA	-1.01	0.37	0	0	2
34	Bangladesh	22	31	0.18	0.05	0.02	-0.52	74.2	0.97	0.86	84.5	59.4	0.93	6.8	-2.85	0.0	-0.18	0.43	5	2	1
35	Burundi	22	23	-0.35	-0.42	-0.09	-0.31	30.2	2.63	0.98	74.5	60.0	0.85	2.7	-3.88	50.6	-0.49	0.52	1	1	1
36	Cambodia	11	24	-0.28	-0.15	-0.23	-0.42	83.4	1.21	1.68	79.0	60.0	0.85	4.7	-1.18	47.2	0.07	0.60	0	1	3
37	Cameroon	11	16	-0.32	-0.03	-0.15	-0.17	52.9	1.15	1.53	77.0	68.6	0.91	5.1	11.80	50.0	0.00	0.50	0	1	2
38	Central African Republic	17	26	-0.36	-0.55	-0.68	-0.29	16.1	1.07	1.52	37.5	63.6	0.90	6.7	0.14	44.2	-0.54	0.40	0	0	2
39	Chad	6	16	-0.70	-0.51	-0.48	-0.41	21.1	0.94	1.64	21.5	43.3	0.86	7.9	-0.33	54.2	-0.45	0.46	0	0	2
40	Comoros	24	30	0.45	-0.84	-0.05	0.19	49.1	NA	1.60	67.5	77.4	0.90	3.4	-1.40	NA	-0.83	0.56	3	1	1
41	Congo, Dem. Rep.	14	12	-0.93	-0.75	-0.80	-0.66	NA	NA	1.43	75.0	53.6	0.66	13.2	-3.21	NA	-0.81	0.61	0	0	2
42	Congo, Rep.	11	24	-0.40	-0.44	-0.38	-0.28	64.5	0.60	0.99	72.5	64.6	0.90	4.8	12.14	44.4	-0.50	0.47	0	0	2
43	Djibouti	12	23	-0.29	-0.15	0.08	0.11	31.6	3.54	4.53	69.5	56.9	0.88	3.5	-0.36	26.4	-0.24	0.62	2	2	3
44	Eritrea	3	10	-1.12	-0.38	-0.12	0.60	44.3	0.97	1.69	96.0	52.2	0.88	17.3	-18.09	NA	-1.18	0.77	1	1	1
45	Ethiopia	14	20	-0.39	0.25	0.24	0.22	52.1	2.22	3.38	67.5	48.4	0.97	12.3	-4.09	53.0	-0.13	0.61	3	2	2
46	Gambia	17	31	-0.20	0.13	0.59	0.13	NA	0.87	1.85	95.0	59.2	0.85	1.4	-6.87	54.6	0.31	0.53	4	1	2
47	Guinea	9	23	-0.45	-0.57	-0.52	-0.19	47.1	0.12	0.74	69.0	57.4	0.91	34.7	-2.83	54.6	-0.36	0.55	0	0	0
48	Guinea-Bissau	22	33	0.29	-0.29	-0.34	-0.22	NA	2.99	1.75	68.5	58.2	0.71	2.0	-12.22	52.8	-0.37	0.67	3	1	2
49	Haiti	20	22	-0.41	-0.51	-0.68	-0.70	NA	NA	2.72	55.5	47.7	0.79	14.2	-1.49	74.2	-0.13	0.41	0	1	2
50	India	34	42	1.05	0.82	1.05	0.57	82.4	1.23	0.87	57.0	64.3	0.94	6.1	-6.92	51.2	0.54	0.71	6	1	4
51	Iraq	11	11	-0.85	-0.83	-1.07	-0.62	63.5	NA	2.94	60.0	64.7	0.90	NA	NA	NA	-0.77	NA	0	1	0
52	Kyrgyz Republic	16	30	0.00	0.00	-0.31	-0.31	99.7	NA	2.61	94.5	79.6	0.98	5.6	-3.43	71.4	0.12	0.80	0	4	5
53	Laos	1	12	-0.88	-0.05	-0.07	-0.27	67.9	1.46	0.73	52.5	67.6	0.92	6.8	-3.72	55.8	-0.40	0.65	0	2	2
54	Liberia	24	33	0.15	-0.51	-0.29	-0.07	NA	1.30	4.43	91.0	58.2	0.70	8.9	0.40	NA	-0.94	0.38	3	2	2
55	Madagascar	23	36	0.65	0.68	0.57	0.52	56.7	1.63	1.96	60.0	49.4	0.99	10.8	9.16	72.8	0.41	0.53	6	0	5
56	Mauritania	17	29	-0.25	0.23	0.45	0.17	45.8	1.42	1.98	65.0	43.4	0.93	6.2	8.16	61.4	0.45	0.71	3	0	5
57	Niger	29	35	0.46	0.07	0.01	-0.19	23.5	3.44	1.67	43.0	50.4	0.90	0.1	11.56	52.4	0.13	0.69	5	1	4
58	Nigeria	21	30	-0.08	-0.09	-0.39	-0.51	67.8	0.21	1.40	58.0	58.5	0.95	8.3	8.58	56.6	-0.20	0.40	1	0	3
59	Pakistan	11	24	-0.48	0.35	0.06	-0.16	51.0	1.95	0.45	81.5	81.0	0.98	7.9	-2.83	53.6	0.30	0.68	2	2	4
60	Papua New Guinea	26	36	0.65	0.02	-0.06	-0.36	NA	0.56	3.32	70.0	66.1	0.95	2.9	4.07	NA	-0.01	0.52	4	1	3
61	Sierra Leone	23	37	0.27	-0.23	-0.33	-0.45	NA	1.55	2.01	65.5	49.2	0.48	9.5	-2.99	50.2	-0.43	0.34	3	0	1
62	Somalia	1	3	-1.37	-1.33	-1.65	-0.99	NA	NA	NA	35.0	32.0	NA	NA	NA	NA	-2.01	NA	0	0	0
63	Tajikistan	8	20	-0.57	-0.19	-0.18	-0.13	99.6	0.93	1.14	86.5	63.1	0.95	10.0	-1.19	66.0	-0.28	0.63	0	2	5
64	Timor-Leste	26	33	0.37	0.15	-0.28	-0.11	NA	2.00	9.36	65.5	62.2	0.94	4.1	115.63	NA	-0.77	0.21	4	2	3
65	Togo	8	21	-0.54	-0.73	-0.15	-0.23	54.2	1.05	1.14	85.0	65.1	0.85	2.2	-1.42	58.4	-0.20	0.33	0	1	2
66	Turkmenistan	0	1	-1.30	-0.59	-0.57	-0.51	NA	NA	3.56	98.5	67.8	NA	8.2	2.13	74.2	-1.43	NA	0	3	3
67	Yemen	14	19	-0.36	-0.07	-0.11	0.18	44.2	3.97	2.05	82.5	51.2	0.87	18.2	-1.05	56.4	0.02	0.74	1	1	3
Eliminated for statutory reasons																					
68	Cote d'Ivoire	5	16	-0.75	-0.56	-0.63	-0.38	NA	0.14	0.71	75.0	68.0	0.91	2.5	-1.72	58.6	-0.40	0.35	0	1	2
69	Cuba	1	6	-0.85	-0.06	-0.03	0.52	91.2	2.96	5.63	92.5	94.1	NA	NA	NA	60.2	-1.11	NA	1	5	1
70	Korea, Dem. Rep.	0	1	-1.49	-0.84	-0.41	-0.92	NA	NA	3.01	92.5	69.4	NA	NA	NA	0.0	-1.82	NA	0	3	0
71	Myanmar	-2	6	-1.58	-0.72	-0.57	-0.91	92.8	0.18	0.23	80.0	74.6	NA	18.8	-4.33	71.8	-1.54	NA	0	2	1
72	Sudan	3	7	-1.06	-0.27	-0.45	-0.35	43.4	1.31	1.42	75.5	58.9	0.95	7.2	-1.34	NA	-0.46	0.77	0	0	3
73	Syria	1	8	-0.94	-0.17	0.32	0.12	113.5	2.58	2.10	98.5	72.2	0.94	10.0	-4.79	49.0	-0.55	0.52	2	5	2
74	Uzbekistan	0	3	-1.16	-0.37	-0.56	-0.24	96.5	NA	2.48	95.0	66.6	0.99	14.2	2.33	68.2	-0.97	NA	0	4	4
75	Zimbabwe	4	9	-0.88	-0.67	-0.83	-0.59	NA	NA	3.67	90.0	77.4	0.92	1016.7	-6.94	42.6	-1.52	0.27	0	3	0
Number of countries for which data are available		75	75	75	75	75	75	60	62	74	75	74	70	71	71	60	75	65			

Table 3: Country Qualification Predictions for Lower Middle Income Countries

Current candidate countries (selected in FY2007)	**Countries that pass the FY2008 indicators test**	**Countries most likely to be selected**
1 Armenia[C] 2 Cape Verde[C*] 3 El Salvador[C] 4 Jordan[C T] 5 Morocco[C*] 6 Namibia 7 Ukraine[T] **Countries that passed the indicators in FY2007 but were not selected** 1 Brazil 2 Bulgaria 3 Maldives 4 Samoa 5 Tunisia	1 Colombia 2 Jordan[C T] 3 Samoa 4 Tunisia **Countries that would pass if the median counted as passing** 1 Macedonia 2 Morocco[C*] **Countries that fail control of corruption** 1 Ecuador 2 Maldives 3 Tonga 4 Ukraine[T] **Countries that miss by one indicator** 1 Namibia 2 Peru[T] 3 Suriname	1 Armenia[C] 2 El Salvador[C] 3 Jordan[C T] 4 Morocco[C*] 5 Namibia 6 Ukraine[T] **Borderline countries** 1 Cape Verde[C*]

* *Indicates a country that was selected in FY 2007 despite not passing the indicators test*
[C] *Indicates a country has signed a compact with (or has a compact approved by) MCC*
[T] *Indicates a country has been previously selected for MCC's Threshold Program*

Table 4: MCA Candidate Countries and the Indicators Test, FY 2008

Lower Middle Income Countries (LMICs)

		Ruling Justly						Investing in People					Economic Freedom						Number of passed hurdles		
		Political Rights	Civil Liberties	Voice and Account-ability	Government Effectiveness	Rule of Law	Control of Corruption	Girls' Primary Education Completion Rate, %	Public Primary Education Spending, % of GDP	Public Expenditure on Health, % of GDP	Immunization Rate: DPT and Measles, %	Natural Resource Management	Business Start-Up	Inflation, %	3-Year Budget Balance, %	Trade Policy	Regulatory Quality	Land Rights and Access	Ruling Justly	Investing in People	Economic Freedom
		(0-40, 40=best)	(0-60, 60=best)	(-2.5 to +2.5, +2.5=best)								(0 to 100, 100=best)				(1-100, 100=best)	(-2.5 to +2.5, +2.5=best)	(0 to 1, 1=best)			
	Median	24	36	0.00	0.00	0.00	0.00	96.6	1.87	3.41	93.0	84.9	0.96	15.0	-1.52	63.2	0.00	0.69			
	Passing Score	24	36	0.00	0.00	0.00	0.00	96.6	1.87	3.41	93.0	84.9	0.96	15.0	-1.52	63.2	0.00	0.69			
	Substantially below	10	25	-0.59	-0.39	-0.20	-0.22	87.3	1.15	2.27	86.0	71.7	0.95	20.0	-3.32	60.9	-0.37	0.61			
Countries that pass the indicators test																					
1	Colombia	26	36	0.00	0.28	-0.14	0.15	107.1	2.27	6.77	87.0	93.2	0.96	4.3	-0.80	61.4	0.25	0.72	3	4	4
2	Jordan	14	28	-0.37	0.45	0.95	0.74	100.6	2.18	4.69	98.5	96.7	0.96	6.3	-3.49	64.2	0.56	0.68	3	5	3
3	Samoa	32	49	0.79	0.34	1.42	0.59	98.4	4.64	3.95	55.0	86.2	0.96	3.2	-1.45	NA	0.12	NA	6	4	3
4	Tunisia	6	18	-0.90	0.81	0.88	0.56	100.1	2.49	2.42	98.5	75.8	0.99	4.5	-2.87	61.8	0.38	0.76	3	3	4
Pass if median counted as passing a hurdle																					
5	Macedonia	24	36	0.32	0.06	0.04	0.00	98.3	1.67	5.57	93.5	NA	0.99	3.2	0.05	73.4	0.10	0.81	3	3	6
6	Morocco	17	28	-0.38	0.29	0.47	0.31	76.7	3.05	1.91	96.0	87.6	0.99	3.3	-3.40	51.0	0.00	0.69	3	3	2
Eliminated by corruption																					
7	Ecuador	28	41	-0.10	-0.85	-0.46	-0.38	106.4	1.27	2.27	97.5	93.5	0.94	3.3	1.95	62.0	-0.91	0.77	2	3	3
8	Maldives	11	23	-0.78	0.29	0.70	-0.14	136.2	3.87	10.95	97.5	59.2	0.99	3.7	-6.70	NA	0.42	0.17	2	4	3
9	Tonga	15	40	0.13	-0.38	1.04	-0.92	NA	2.16	4.84	99.0	98.5	0.97	7.0	0.45	NA	-0.62	NA	3	4	3
10	Ukraine	28	45	0.13	-0.30	-0.22	-0.31	104.6	0.61	4.21	98.0	83.7	0.98	9.0	-2.69	72.2	-0.31	NA	3	3	3
Miss by one indicator																					
11	Namibia	31	46	0.64	0.39	0.67	0.53	81.4	5.94	4.53	68.5	74.2	0.92	5.1	-1.94	79.0	0.32	0.57	6	2	3
12	Peru	32	41	0.29	-0.20	-0.25	0.01	99.8	0.98	1.90	96.5	83.7	0.94	2.0	0.05	62.6	0.26	0.80	4	2	4
13	Suriname	32	45	0.50	0.24	0.29	0.16	97.3	NA	3.74	83.5	95.2	0.43	11.3	-1.46	55.0	-0.21	0.55	6	3	2
Miss by more than one indicator																					
14	Albania	26	38	0.23	-0.15	-0.20	-0.30	95.9	1.67	2.86	97.5	79.4	0.97	2.4	-3.98	63.2	0.01	0.73	3	1	4
15	Algeria	11	25	-0.59	-0.09	-0.13	-0.03	95.6	NA	2.53	93.0	88.6	0.98	2.5	11.23	56.0	-0.46	0.63	0	1	3
16	Angola	8	21	-1.01	-0.93	-0.79	-0.77	NA	0.92	1.65	46.0	51.5	0.76	13.3	7.22	68.0	-1.05	0.38	0	0	3
17	Armenia	13	28	-0.47	0.11	-0.02	-0.21	92.9	1.96	1.54	89.5	86.6	0.99	2.9	-2.07	75.6	0.41	0.91	1	2	5
18	Azerbaijan	10	22	-0.89	-0.43	-0.36	-0.63	90.0	0.43	1.01	95.5	70.9	0.98	8.4	1.35	67.6	-0.29	0.83	0	1	5
19	Belarus	4	10	-1.47	-0.97	-0.66	-0.48	92.8	0.55	4.84	98.0	95.3	0.96	7.0	0.09	62.2	-1.45	NA	0	3	2
20	Cape Verde	37	53	1.10	0.43	1.11	1.02	83.3	3.24	3.29	68.5	55.0	0.95	5.4	-5.13	31.2	-0.05	0.59	6	1	1
21	Dominican Republic	33	47	0.35	-0.17	0.00	-0.22	86.6	1.18	1.80	90.0	89.8	0.97	7.6	-4.71	63.8	0.04	0.69	3	1	4
22	El Salvador	33	41	0.19	0.00	-0.02	0.19	89.2	1.40	3.41	97.0	70.8	0.95	4.6	-3.10	66.6	0.28	0.69	4	1	3
23	Guatemala	24	33	-0.04	-0.40	-0.52	-0.33	72.6	0.92	2.29	87.5	92.3	0.96	6.6	-1.59	70.2	0.06	0.70	0	1	4
24	Jamaica	31	43	0.76	0.39	-0.10	0.00	83.6	1.78	2.30	86.0	92.7	0.99	8.6	-5.27	60.4	0.40	0.61	5	1	3
25	Marshall Islands	37	55	1.41	-0.80	0.27	-0.17	NA	NA	13.98	85.0	NA	0.98	NA	NA	NA	-0.81	NA	4	1	1
26	Micronesia	37	56	1.29	0.04	1.19	0.09	NA	10.23	6.55	75.0	68.9	0.93	NA	NA	NA	0.30	NA	6	2	1
27	Swaziland	3	20	-0.86	-0.44	-0.19	-0.11	64.4	2.38	4.04	62.5	52.7	0.94	5.3	-1.89	59.0	-0.37	0.50	0	2	1
28	Tuvalu	37	57	0.96	-0.02	1.57	0.29	113.3	5.37	7.45	90.5	NA	NA	NA	NA	NA	-0.64	NA	5	3	0
Eliminated for statutory reasons																					
29	Bosnia and Herzegovina	25	39	0.43	-0.39	-0.03	0.04	NA	NA	4.04	88.5	74.4	0.95	7.5	1.16	70.2	-0.29	0.74	4	1	4
30	China	2	15	-1.41	0.25	0.10	-0.17	NA	NA	1.84	93.0	76.4	0.97	1.5	-1.15	68.0	-0.04	0.79	2	0	5
31	Fiji	7	31	-0.13	0.16	0.43	0.01	101.4	2.51	2.70	90.0	58.1	0.96	3.4	-3.43	61.8	-0.23	NA	3	2	1
32	Iran	10	13	-1.08	-0.53	-0.31	-0.22	100.7	1.06	4.08	99.0	86.2	0.97	13.6	0.64	50.4	-1.35	0.61	0	4	3
33	Thailand	4	32	-0.25	0.55	0.53	0.11	NA	1.33	2.23	97.0	98.5	0.98	4.6	0.80	69.2	0.52	0.75	3	2	6
Number of countries for which data are available																					
		33	33	33	33	33	33	26	28	33	33	30	32	30	30	27	33	25			