



Expand and Enhance: A Proposal to Strengthen the MCA Eligibility Process When Adding the Natural Resource Indicators

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INTRODUCTION

In September 2006 the Board of Directors of the Millennium Challenge Corporation (MCC) approved two new natural resources indicators for use in the selection of eligible countries.¹ The new indicators, a Natural Resources Management Index (NRMI) and a Land Rights and Access Indicator were approved for use only as supplemental data in the FY 2007 selection round with the intention to incorporate both fully in FY 2008. In mid-February of 2007 the Board will determine how these new indicators will be incorporated into the selection process, specifically, in which of the three indicator categories—Ruling Justly, Investing in People, or Economic Freedom—they will reside.² MCC recommends the inclusion of both in the Investing in People basket. We suggest that the MCC seize the opportunity to enhance the full set of eligibility indicators by placing the NRMI in the Investing in People basket, placing the Land Rights and Access indicator in the Economic Freedom basket, and making some adjustments within both baskets to accommodate the additions. Our arguments are based on technical analysis and legislative intent.

About The Indicators

The NRMI, compiled by Columbia University's Center for International Earth Science Information Network (CIESIN) and the Yale Center for Environmental Law and Policy (YCELP), is a composite measure of four components:

- Whether countries are protecting at least 10% of their biomes
- The percentage of the population with access to an improved water source
- The percentage of the population with access to improved sanitation facilities
- Child (ages one to four) mortality

¹ For more information on the indicators and the process used to select them see *Adding Natural Resource Indicators: An Opportunity to Strengthen the MCA Eligibility Process*, by Steve Radelet, Sarah Rose, and Sheila Herrling, November 7, 2006

(http://www.cgdev.org/doc/mca%20monitor/natural_resource_note_up.pdf).

² Although there is a Board meeting February 21, 2007, the decision will likely be made prior by written consent.

The Land Rights and Access indicator draws data from the International Fund for Agricultural Development (IFAD) and the International Finance Corporation's (IFC) *Doing Business* survey. The indicator combines IFAD's measures of:

- The extent to which the law guarantees secure land tenure for the poor
- The extent to which the law guarantees secure land tenure for women, indigenous peoples, and other vulnerable groups
- The extent to which land is titled and registered
- The status and functionality of formal land markets
- The extent to which the law provides regulation for the allocation and management of communal lands

with the IFC's measures of:

- The number of days to register property
- The cost to register property

CATEGORIZING THE NEW INDICATORS

The MCC's current proposal is that both indicators should fall within the Investing in People category. This makes sense for the NRMI. Its focus on access to improved water sources, access to improved sanitation, and child mortality clearly make it appropriate for the Investing in People basket.

The same is not true for the Land Rights and Access indicator. There appear to be two reasons why the Land indicator might be put in the Investing in People basket. The first is convenience. The MCA eligibility process currently includes six Ruling Justly indicators, four Investing in People indicators, and six Economic Freedom indicators. Thus, simply adding the two new indicators to Investing in People would make for six in each category. Convenience, however, is not a solid rationale.

A second reason is the more substantive argument that secure land rights give people greater security around an economic asset and a social safety net which allows them to make human capital investments they might not otherwise be able to make. Thus, by providing greater security and expanded economic opportunities, stronger land policies are an investment in people.

While the argument has some merit, ultimately it is not compelling. The same argument can be made for almost any of the 16 indicators. For example, reducing the days or costs to start a business allows for greater economic opportunities for all entrepreneurs, including the poor, to reduce poverty and provide an economic safety net. It is well known that high rates of inflation are particularly harmful to the poor; thus a key first step in providing a social safety net and protecting the individual welfare of the poor is to reduce inflation. The same argument can be made for reducing corruption, strengthening the rule of law and protecting civil liberties. At some level, all the indicators can be thought of as investing in people, since increasing and protecting the welfare of individual people is at the very core of the development process.

The better fit for Land Rights and Access is in the Economic Freedom category, for two principal reasons:

- Technical: It affirms the value of land as an economic asset with causal links to economic freedom and growth;
- Legislative: It is consistent with the original intention of the MCA authorizing language.

Technical Justification:

Improving land rights and access to land will strengthen the value of land as an economic asset, either directly for productive purposes (e.g., for cultivation, to locate a business, or to use land as an asset that can be pledged as collateral of other indirect purposes). The important point is that the enhancement of economic value is the link between the Land index and management of natural resources, which is the original motivation. With stronger and clearer legal rights that extend over time and enhanced economic value, land is likely to be used and conserved more carefully as a natural resource. Land is often exploited when tenure rights have short duration, so holders have the incentive to exploit and exhaust all the economic value quickly. By placing the Land index in the Economic Freedom basket, the MCC addresses a root cause of development (or underdevelopment) by affirming the link between effective land titling and functioning land markets and the facilitation of private sector development that encourages the conservation of natural resources. And, importantly, improvements in the outcomes measured by this indicator are achievable in the short-term by economic policy interventions on the part of MCA-eligible countries.

Legislative Justification:

The Millennium Challenge Act of 2003, the MCC's authorizing legislation, states that considerations for eligibility should include a country's "commitment to...economic freedom, including a demonstrated commitment to economic policies that...promote private sector growth and the sustainable management of natural resources." As outlined in our technical justification above, land tenure policies clearly promote private sector growth and the sustainable management of natural resources. We believe it was the intent of the authorizers of the MCA that a natural resources indicator would be included in the Economic Freedom basket.

AN ALTERNATIVE PROPOSAL

Although placing the NRMI in the Investing in People basket and placing Land Rights and Access in the Economic Freedom basket is conceptually solid and supported by the authorizing legislation, it creates a problem: there would be seven indicators in Economic Freedom and five in Investing in People. Fortunately, there are good solutions to this dilemma.

First, it is an opportunity to address a current weakness in the Economic Freedom basket. With the addition of the Costs to Start a Business indicator, it is now very easy for a country to pass this indicator basket. All it must do is keep inflation under 15% and take steps to reduce the days and costs to start a business. In effect, the MCA process now implies that this combination is sufficient to ensure a sound economic environment for growth and poverty reduction, which it is not. The Economic Freedom basket would be significantly strengthened by combining the days and costs to start a business into one indicator, and then adding the Land Rights and Access indicator. Combining the days and costs to start a business would be conceptually symmetric to the Land Rights and Access indicator procedure that combines the days and costs to register a property. This would make for a solid set of indicators, and would place the land rights indicator where it belongs.

The remaining issue is the odd number of indicators in the Investing in People basket. *This should be seen more as an opportunity than a problem.* At the creation of the initial MCA eligibility process, there was a desire to come up with six Investing in People indicators, but a shortage of appropriate indicators, particularly in health, made it difficult to do so. With the addition of the NRMI indicator, which includes several important health-related measures, a very credible potential solution is to add an additional education indicator. This would give education the attention it deserves. It would also ease concerns that the addition of the two new indicators dilutes the attention that countries would give to the education indicators —concerns that have merit in the current proposal.

There are at least four relatively strong education indicators that could be added:

- **Primary school enrollment rates.** The MCC considered using enrollment rates at its inception, but decided that completion rates were a better indicator of educational achievement. That was the right choice, but now there is an opportunity to use both. Enrollment rates are easier for governments to influence, and are a first step in achieving higher completion rates. The combination of both enrollment and completion rates would be strong. Enrollment rates are highly correlated with increased literacy and lower infant mortality, although not strongly correlated to economic growth.
- **Girls' primary school enrollment rates.** This is one of the best potential candidates, as it focuses attention on enrollment rates of girls, and increased girls education has been shown to be strongly associated with a wide range of development outcomes.
- **The ratio of girls to boys in primary school.** This indicator focuses on gender equity in education, although it says less about attainment (a high ratio can be achieved with low enrollments of both boys and girls). It is widely available and updated regularly. The U.N. uses it as an indicator to achieve the Millennium Development Goal of "promoting gender equality and empowering women." The ratio is highly correlated with literacy rates, but less so with other development outcomes.
- **Secondary school enrollment.** This indicator measures higher skill level development at the national level. It can also indicate whether skills were attained during the primary years, particularly in Africa and South Asia where British and French standards ensure that children who enter secondary school after primary school have met specific criteria. The combination of primary completion rates (a better indicator

of education achievement) and secondary enrollment rates (an indication of higher skill level pursuit at the national level) would be robust.

By taking this combination of steps, the MCC would create a much more solid set of indicators that would strengthen both the Investing and People and the Economic Freedom baskets by placing each indicator where it belongs and by adding new information where appropriate. ***The four education indicators above are only suggestions intended to show that there are several potential additional education indicators that could enhance the MCA eligibility indicators; they do not represent our recommendation of a particular indicator. This alternative requires a public process to select a new indicator*** as well as some additional analysis – something similar to, but perhaps not as extensive as, the process for finding a natural resources management indicator.³ A new education indicator could also be implemented in the short term with minimal concern about unfairly “changing the goalposts” without notice since MCA-hopeful countries already focus on education policy. This solution appears to be a credible alternative to the current proposal, with several key advantages.

A COMPARISON OF POSSIBLE SOLUTIONS

Adding the two new natural resources indicators—regardless of their placement—will make the eligibility test more difficult to pass since it will require passing at least nine indicators, as opposed to the requisite eight in the current version. In this analysis we compare four possibilities for including the new natural resources indicators:

Option 1: NRMI and Land Rights and Access in Investing in People (the current MCC proposal)

Option 2: NRMI in Investing in People; Land Rights and Access in Economic Freedom

Option 3: NRMI in Investing in People; Land Rights and Access and the Combined Business indicator in Economic Freedom

Options 4: NRMI and a new education indicator (e.g., Girls’ Primary Education Enrollment or Secondary Education Enrollment) in Investing in People; Land Rights and Access and the Combined Business indicator in Economic Freedom (CGD’s proposal)

Table 1 in the Appendix lists the countries that would pass the indicators test for each of the four different possibilities. Tables 2 through 13 in the companion spreadsheet⁴ show detailed information on how each FY 2007 candidate country would perform under each scenario.

³ A working group similar to CGD’s Global Health Indicators Working Group could serve as a model (<http://www.cgdev.org/content/publications/detail/10016/>).

⁴ Download the companion spreadsheet from: http://www.cgdev.org/doc/MCA/nat_resource_placemt.xls

Option 1: *NRMI and Land Rights and Access in Investing in People (the current MCC proposal)*

To pass the indicators test, a country must score above the median on three of six Ruling Justly indicators, three of six Investing in People indicators, and three of six Economic Freedom indicators.

We find that when both new indicators are included in Investing in People only 19 countries in the LIC group pass the full indicators test. Those which pass the current 16-indicator test but fail this version are: East Timor, The Gambia and Solomon Islands. The Philippines, which just fails the Investing in People category in the 16-indicator version passes both new indicators in this version allowing it to pass both the Investing in People category and the overall indicators test.

Six countries from the LMIC group pass the indicator test when both new indicators are included in Investing in People. Those that pass in the absence of the two new indicators but fail under the MCC proposition are El Salvador, Namibia and Samoa. Interestingly, two out of those three are currently eligible, one with a compact (El Salvador) and another in advanced stages of compact development (Namibia). Thailand is the only country that fails without the new indicators but passes upon their inclusion.

Option 2: *NRMI in Investing in People; Land Rights and Access in Economic Freedom*

This composition is the most difficult to pass of the four options since it requires a country to pass a total of 10 indicators. A country must score above the median on three of six Ruling Justly indicators, three of five Investing in People indicators and four of seven Economic Freedom indicators.

Only 15 countries in the LIC group pass the test. Those that pass the current 16-indicator test but fail this version are Burkina Faso, East Timor, The Gambia, Kiribati, Mozambique and the Solomon Islands. Of these, only Burkina Faso, East Timor and Mozambique are currently eligible. There are no low income countries that pass this version of the test that failed the 16-indicator version.

Only four countries in the LMIC category—none of which are currently eligible—pass the test: Brazil, Bulgaria, Maldives and Tunisia. Those that pass the current test but fail this version include El Salvador, Jordan, Namibia and Samoa.

Option 3: *NRMI in Investing in People; Land Rights and Access and the Combined Business indicator in Economic Freedom*

Combining the Days to Start a Business and the Cost of Starting a Business indicators in the Economic Freedom basket, in addition to correcting a current weakness in the category, allows the inclusion of the Land indicator while keeping the total number of indicators in the basket at six. Countries have to score above the median on three of these six indicators

to pass Economic Freedom, in addition to passing three of six Ruling Justly indicators and three of five Investing in People indicators.

Eighteen countries in the LIC group pass this construction of the indicators test. Those that pass the current 16-indicator test but fail this version include East Timor, The Gambia, Kiribati, Mozambique and the Solomon Islands. Of these, only East Timor and Mozambique are currently eligible countries. Countries that pass this version but not the current test include Ghana, a compact country, and Guyana, a Threshold country.

The same four LMICs that pass Option 2—Brazil, Bulgaria, Maldives, and Tunisia—pass this construction of the indicators test. None are currently eligible.

Option 4: NRMI and a New Education Indicator (e.g., Girls' Primary Education Enrollment or Secondary Education Enrollment) in Investing in People; Land Rights and Access and the Combined Business indicator in Economic Freedom (CGD's proposal)

Including Land Rights and Access plus a combined business indicator, as noted above, brings the total Economic Freedom indicators to six. Adding an additional education indicator to Investing in People balances the addition of the NRMI and brings this category total to six as well. As noted earlier in this paper, there are several credible education indicators that could be added to the eligibility indicator test. For purposes of illustration, we have applied two indicators – Girls' Primary Education Enrollment and Secondary Education Enrollment⁵ – to the test to demonstrate its viability. A public process would be necessary to determine the most viable indicator should this option be further pursued.

Option 4(a): Using Girls' Primary Education Enrollment

Using option 4(a), 21 countries in the LIC group pass the indicators test. This is the same number that passed the current 16-indicator test, however the composition is slightly different. Those that pass the current test but fail this version include East Timor, The Gambia, Kiribati and Mozambique. East Timor and Mozambique are both currently eligible though neither have compacts. Countries that fail the 16-indicator test but pass this version include Ghana, Guyana, the Philippines and Sri Lanka. Ghana and Sri Lanka are both currently eligible (despite failing to pass the indicators in the FY 2007 round), and Guyana and the Philippines are Threshold countries.

Five LMICs pass this version of the indicators test: Brazil, Bulgaria, El Salvador, Maldives and Tunisia. Current eligibles Cape Verde, Jordan, Morocco and Namibia do not pass.

⁵ Data for girls' gross primary school and gross secondary enrollment is from the World Bank's [EDSTATS database](#), October 2006. Data is for the most recent year available, 2002-2005. The selection of these indicators should not be construed as a recommendation of an education indicator nor as a recommendation of a data source. It is merely one of several reasonable choices, and serves only to illustrate the availability of additional and complementary data.

Option 4(b): Using Secondary Education Enrollment

Using option 4(b), 20 countries in the LIC group pass the indicators test. Those that pass the current 16-indicator test but fail this version include East Timor, The Gambia, Kiribati, Mozambique and the Solomon Islands. East Timor and Mozambique are both currently eligible though neither have compacts. Countries that fail the 16-indicator test but pass this version again include Ghana, Guyana, the Philippines and Sri Lanka.

Four LMICs pass this version of the indicators test: Brazil, Bulgaria, Maldives and Tunisia. None of the currently eligible LMICs pass.

Conclusion

The current MCC proposal to add both new indicators to the “Investing in People” basket is not the right approach. The MCC has a big opportunity to significantly strengthen the indicators through a four-step process: (1) add Land Rights and Access to the Economic Freedom basket, (2) combine the existing Days to Start a Business and Costs to Start a Business in the Economic Freedom basket, (3) add the NRMI indicator to the Investing in People basket, and (4) incorporate an additional education indicator, such as Girls’ Primary Education Enrollment or Secondary Education Enrollment, into the Investing in People basket. The result would be a stronger and deeper set of indicators that would receive widespread support.

We hope this analysis proves useful to decision makers as they consider the MCC’s proposals for fully integrating the new natural resources indicators into the eligibility process in the FY 2008 round. Changing the indicators is a difficult business, which involves balancing the costs of being viewed as “changing the goalposts” with the benefits of establishing a more credible and mission-relevant set of indicators. Our analysis presents what we consider the right approach forward, but there is clearly public work to be done if our option were to be further pursued. And while we have presented country-level results for each of the options, our aim was purely to show that there are implications of changing the system in terms of countries falling in and out that will need to be managed either by formal grandfathering or by the current rules of Board discretion. Our aim most certainly was not to enable decision makers to choose an option most suitable to the countries they want or need to support. Instead we hope decision makers take into account the technical implications of the indicators as well as the original legislative intent of including measures of natural resource management when considering the indicators’ placement.

Appendix

Table 1: Countries that pass the indicators test, four versions

	<i>Current Test:</i>	<i>Option 1:</i>	<i>Option 2:</i>	<i>Option 3:</i>	<i>Option 4a:</i>	<i>Option 4b:</i>
	16-Indicator Test	NRMI and Land Rights and Access in Investing in People	NRMI in Investing in People; Land Rights and Access in Economic Freedom	NRMI in Investing in People; Land Rights and Access and Combined Business indicator in Economic Freedom	NRMI and Girls' Primary Education Enrollment in Investing in People; Land Rights and Access and Combined Business indicator in Economic Freedom	NRMI and Secondary Education Enrollment in Investing in People; Land Rights and Access and Combined Business indicator in Economic Freedom
LICs						
1	Armenia ^{E,C}	Armenia ^{E,C}	Armenia ^{E,C}	Armenia ^{E,C}	Armenia ^{E,C}	Armenia ^{E,C}
2	Bhutan	Bhutan	Bhutan	Bhutan	Bhutan	Bhutan
3	Bolivia ^E	Bolivia ^E	Bolivia ^E	Bolivia ^E	Bolivia ^E	Bolivia ^E
4	Burkina Faso ^{E,T}	Burkina Faso ^{E,T}	Egypt	Burkina Faso ^{E,T}	Burkina Faso ^{E,T}	Burkina Faso ^{E,T}
5	East Timor ^{E,T}	Egypt	Georgia ^{E,C}	Egypt	Egypt	Egypt
6	Egypt	Georgia ^{E,C}	Honduras ^{E,C}	Georgia ^{E,C}	Georgia ^{E,C}	Georgia ^{E,C}
7	The Gambia	Honduras ^{E,C}	Lesotho ^E	Ghana ^{E,C}	Ghana ^{E,C}	Ghana ^{E,C}
8	Georgia ^{E,C}	Kiribati	Mali ^{E,C}	Guyana ^T	Guyana ^T	Guyana ^T
9	Honduras ^{E,C}	Lesotho ^E	Moldova ^{E,T}	Honduras ^{E,C}	Honduras ^{E,C}	Honduras ^{E,C}
10	Kiribati	Mali ^{E,C}	Mongolia ^E	Lesotho ^E	Lesotho ^E	Lesotho ^E
11	Lesotho ^E	Moldova ^{E,T}	Nicaragua ^{E,C}	Mali ^{E,C}	Mali ^{E,C}	Mali ^{E,C}
12	Mali ^{E,C}	Mongolia ^E	Tanzania ^{E,T}	Moldova ^{E,T}	Moldova ^{E,T}	Moldova ^{E,T}
13	Moldova ^{E,T}	Mozambique ^E	Ukraine ^{E,T}	Mongolia ^E	Mongolia ^E	Mongolia ^E
14	Mongolia ^E	Nicaragua ^{E,C}	Vanuatu ^{E,C}	Nicaragua ^{E,C}	Nicaragua ^{E,C}	Nicaragua ^{E,C}
15	Mozambique ^E	Philippines ^T	Vietnam	Tanzania ^{E,T}	Philippines ^T	Philippines ^T
16	Nicaragua ^{E,C}	Tanzania ^{E,T}		Ukraine ^{E,T}	Solomon Islands	Sri Lanka ^E
17	Solomon Islands	Ukraine ^{E,T}		Vanuatu ^{E,C}	Sri Lanka ^E	Tanzania ^{E,T}
18	Tanzania ^{E,T}	Vanuatu ^{E,C}		Vietnam	Tanzania ^{E,T}	Ukraine ^{E,T}
19	Ukraine ^{E,T}	Vietnam			Ukraine ^{E,T}	Vanuatu ^{E,C}
20	Vanuatu ^{E,C}				Vanuatu ^{E,C}	Vietnam
21	Vietnam				Vietnam	
LMICs						
1	Brazil	Brazil	Brazil	Brazil	Brazil	Brazil
2	Bulgaria	Bulgaria	Bulgaria	Bulgaria	Bulgaria	Bulgaria
3	El Salvador ^{E,C}	Jordan ^E	Maldives	Maldives	El Salvador ^{E,C}	Maldives
4	Jordan ^E	Maldives	Tunisia	Tunisia	Maldives	Tunisia
5	Maldives	Thailand			Tunisia	
6	Namibia ^E	Tunisia				
7	Samoa					
8	Tunisia					

E=Eligible, C=Compact, T=Threshold