



New Global Governance Indicators and the Possible Impact on MCA Qualification

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Last week the World Bank Institute released a new and updated version of its global governance indicators for 2004 for 208 countries and territories. The indicators, which are updated every two years, provide information on six dimensions of governance: rule of law, government effectiveness, voice and accountability, control of corruption, regulatory quality, and political stability. The Millennium Challenge Corporation (MCC) draws on five of the six indicators – all but political stability – as part of the set of 16 indicators it uses to select countries to qualify to submit proposals for Millennium Challenge Account (MCA) funding. This note takes a preliminary look at the potential impact of these new indicators, along with several other indicators that have recently been updated, on country qualification for FY 2006.

We stress that this analysis is very preliminary, for several reasons:

- (1) The MCC Board probably will not make its decisions on FY 2006 eligibility until at least October, if not later. Although many of the indicators are now final (e.g., all of the “ruling justly” indicators), several others will be revised before then, which obviously will affect the analysis.
- (2) The MCC is considering replacing some indicators (such as for trade) or adding new ones (such as for environmental policy). Ideally, of course, the MCC should provide plenty of advance notice before changing the process (e.g., a full year), but if it should decide to change the indicators sooner it would obviously affect the FY 2006 results.
- (3) The World Bank modifies its income cutoffs for various country classifications each July, and when it does so this year it may change which countries are considered as candidates, which in turn will affect the median scores for each country group.
- (4) Even after the numbers are finalized, the MCC Board will have the power to use its discretion to adjust the list, and could add certain countries that may not fully qualify by the numbers, or drop others that do meet the numerical standards. The Board made several exceptions in both FY '04 and FY '05, and it is likely to do so again. There were many questions, for example, about the selection of Georgia in round one, as this was seen as based on political criteria rather than on demonstrated sound policy, which is the foundation of the MCA.¹

¹ For a comment on the countries selected and the Board’s use of discretion in round one, see “An MCA Scorecard: Who Qualified, Who Did Not, and the MCC Board’s Use of Discretion” by Sarah Lucas and Steve Radelet available at <http://www.cgdev.org/Publications/?PubID=118>.

We also stress that the details of the MCA country selection process should not be over-emphasized. The MCC has a range of other challenges at the moment that are more pressing than country selection, such as compact size, speed of processing countries beyond the next four in the queue, compact content, clarifying expectations around the participatory process, financial arrangements in recipient countries, monitoring and evaluation processes, and relations with USAID on the ground. We hope to provide some analysis of these issues over the coming weeks (see the MCA Monitor website at www.cgdev.org/research/mca-monitor). We write this note at this time because of the release of the new WBI governance indicators and the questions that have immediately been raised about their potential impact on the FY 2006 selection process, not because we believe it is the most important issue for the MCC at this time.

I. The Candidate Countries and the Selection Methodology

In FY 2006, for the first time the MCC will chose eligible countries from two separate groups. First, the low income group consists of 84 countries with per capita incomes below \$1,465, the same group of countries that were candidate countries for FY 2005. Of these countries, 15 are ineligible to receive U.S. foreign assistance, leaving 69 candidate countries in this group. Note that according to the latest income data, Cape Verde again will be a candidate in this group. It was a candidate in FY 2004, but official data showed that its income rose so that it was not a candidate in FY 2005, but recent data revalues its income level to be once again below the cut-off. Similarly Samoa's income was too high in both FY 2004 and 2005, but it is now below the cut-off.

Second, for the first time in FY 2006, the MCC Board will consider a group of 32 lower middle-income countries with incomes between \$1,465 and \$3,035. One of these (Iran) is ineligible for U.S. assistance, leaving 31 candidate countries.²

To pass the indicators test, a country must score better than the median score in its group in half of the indicators in each of three broad areas (ruling justly, investing in people, and establishing economic freedom), and must surpass the median on corruption as one of the "ruling justly" indicators. As mentioned previously, the MCC Board will use these data as the primary input to its qualification decisions, but has the discretion to modify the list under certain circumstances. In particular, the selection procedures state the Board may choose to not select a country if it "performs substantially below the average on any indicator and has not taken appropriate measures to address this shortcoming." The Board can also "take into account other data and quantitative information as well as qualitative information to determine whether a country performed satisfactorily in relation to its peers in a given category."

² The \$1,465 cut-off is based on the World Bank's "historical" definition of eligibility for International Development Association (IDA) financing, while the \$3,035 limit is based on the Bank's upper limit for classifying countries as "upper middle income." The World Bank adjusts these cut-offs every year in July, so both numbers may change slightly before the MCC Board makes its next selections, which in turn could affect the pool of candidate countries.

II. Low Income Countries

A. Countries that Pass the Indicators Tests

The first column of Table 1 lists the countries that pass the indicators test in the low-income group, based on these preliminary data, along with the countries that fall just short. The second column shows those countries that we feel the MCC Board is most likely to actually select from this list, as described below, along with some key exceptions. Obviously, these lists are preliminary speculation, and should be seen that way, but they are based on some patterns that began to emerge in the FY 2004 and 2005 selection processes. Table 2 provides detailed data on each of the 16 indicators for each of the 84 countries, with the median score for each indicator shown at the bottom.

According to these data and a strict interpretation of the MCC's procedure, 27 countries pass this preliminary indicators test (although not all are likely to be selected by the MCC), up from 24 in FY 2005. Ten are from sub-Saharan Africa (Benin, Cape Verde, Ghana, Lesotho, Madagascar, Malawi, Mali, Senegal, Tanzania, and Zambia), two from North Africa (Egypt and Morocco), eight from Asia (Armenia, Bhutan, China, Mongolia, the Philippines, Sri Lanka, Timor-Leste, and Vietnam), three Pacific island countries (Kiribati, Samoa, and Vanuatu), and four from Latin America (Bolivia, Guyana, Honduras, and Nicaragua).

Seven countries pass the new standards that either were not eligible to compete or did not pass the indicators in FY 2005: Cape Verde, Kiribati, Malawi, Samoa, Tanzania, Timor-Leste, and Zambia. At the same time, four countries that met the criteria last year fail to do so with these preliminary data for FY 2006: Burkina Faso, Djibouti, Nepal, and Swaziland (none of these countries were selected by the MCC).

B. Countries most likely to be selected

Of the 27 countries that pass the indicators test, there are 19 that seem most likely to be chosen by the Board. Fourteen of these were selected for either FY 2004 or FY 2005, and with their updated scores there is no reason to believe they will be dropped: ***Benin, Bolivia, Cape Verde, Ghana, Honduras, Lesotho, Madagascar, Mali, Mongolia, Morocco, Nicaragua, Senegal, Sri Lanka, and Vanuatu.***

Five other countries that did not qualify last year now register strong enough scores to pass the indicators test on a par with last year's selections: ***Malawi, Samoa, Tanzania, Timor-Leste, and Zambia.*** Each of these countries except Samoa was selected last year for the MCA "Threshold Program." Based on preliminary data for FY 2006, all five now pass sufficient hurdles in each category and score above the median on corruption. Moreover, according to the available data, none of these countries score "substantially below the average" on any indicator. The lowest percentile ranking for any of these five countries on any indicator is Malawi's 17th percentile on the budget deficit, but this is better than Bolivia's (12th percentile), Nicaragua's (10th percentile) and Sri Lanka's (7th percentile), all of which were selected by the Board in FY 2004 and FY 2005.

Mozambique and *Georgia* are also likely to be chosen, even though they do not meet the indicators test, as was the case last year. Mozambique's governance scores improved, particularly on control of corruption where it went from the 31st percentile among MCA countries to 53rd percentile, but also in regulatory quality and rule of law (Mozambique still struggles in the "investing in people" category). Georgia's scores also improved, although less markedly, and it remains well below the median on control of corruption. Although it was a controversial choice last year, there is little reason to suggest that judgment will change for FY 2006.

C. Borderline countries

Armenia was selected for both FY 2004 and 2005, and although it still passes sufficient quantitative targets, some of its updated governance scores show a large decline. Its political rights score shifted to 5 (on a 1-7 scale with 7 being worst), and on voice and accountability it slipped from the 64th percentile among MCA countries to the 51% -- just above the median. Thus, on the three political governance variables, it now scores equal to the median on two (civil liberties and political rights) and just above on the third (voice and accountability). There has been a clear deterioration in democracy related indicators in Armenia in the last several years. The Board is likely to look closely at trends in other related information before making its determination.

Burkina Faso was not chosen last year even though it met the indicators test, apparently because the number of days to start a business (135) was very poor. This year its score on that indicator has improved dramatically to 45 days. Unfortunately, Burkina's improvement, along with the addition of Cape Verde and Samoa to the group of candidate countries, caused the median to drop from 46 days to 45 days, so Burkina Faso now scores equal to the median on that indicator (providing a clear example of why the MCC should use absolute scores rather than medians as the benchmarks, as we have discussed before). Burkina passes 4 of 6 "ruling justly" indicators (and easily passes the control of corruption indicator) and 3 of 4 in "investing in people." Unfortunately it passes only 2 of 6 in "economic freedom," but scores equal to the median in *three* others (country credit rating, trade policy and days to start a business). In other words, its scores are about as close as possible to passing without actually doing so. Given its improvement relative to last year, the Board is likely to give serious consideration to Burkina Faso becoming eligible.

D. Countries that meet the indicators test but are unlikely to be chosen

Bhutan, China, Egypt, and Vietnam all met the indicators test last year but were not selected, and the same is likely to occur for FY 2006. Ostensibly, the MCC has claimed that these countries did not qualify because they scored "substantially below the average" on an indicator, which according to the selection procedures can disqualify a country. However, the MCC used this clause extremely erratically last year, choosing to invoke it in some cases but not in all. For example, Bhutan's and Guyana's (see below) worst scores were for fiscal policy, where they scored well below average (about the 10th percentile), and were thus excluded. But Bolivia's and Nicaragua's fiscal deficits were about the same, and Sri Lanka's even worse, and yet all three were selected.

The more likely reason that these four countries were not chosen is because they are not democracies. There were 8 non-democratic countries that passed the indicators test last year (Bhutan, China, Djibouti, Egypt, Morocco, Nepal, Swaziland, and Vietnam) and the Board selected only one (Morocco) as an eligible country. For transparency purposes, if the Board is to continue using this standard, it should be more explicit about it. Meanwhile, for this reason, it is highly unlikely that Bhutan, China, Egypt, and Vietnam will be selected in FY 2006.

Guyana easily passed the indicators test last year (passing 13 of 16 indicators) but was not selected. As mentioned, it was substantially below the average on fiscal policy, but two countries that scored worse (Sri Lanka and Nicaragua) were selected, so that cannot be the real concern. The more likely reason that Guyana was not selected is because in June 2004 the State Department officially categorized Guyana as one of only ten countries worldwide to be given a Tier III (lowest) ranking by the State Department in its 2004 Trafficking in Persons Report. This is a perfectly legitimate reason to not select Guyana, but the MCC would be better served if it made its rationale public and transparent.

The Philippines easily passed the indicators test but, oddly, was not selected. Apparently there were concerns raised about its fiscal policy, although it is better than that of many other MCA countries. Introducing this level of subjectivity in the MCC process is not good for the program, as it undermines the clear intent of the objective selection process. The Philippines should have been selected and given the opportunity to propose a program (including fiscal oversight procedures) with no guarantee of funding, just like every other country, and then judged on results. Although the Philippines objectively should be selected in FY 2006, it is more likely that the Board will repeat last year's action.

Kiribati passes the indicators test, but has an extremely large budget deficit of over 20% of Gross National Income (GNI). This very high figure is a reflection of large donor flows being passed through the budget, which simultaneously raises the deficit and provides the funds to finance it, so is not generally a problem. As we have written previously, the MCC should shift its definition of the budget balance to include grants to correct for this problem. However, without this switch, it is unlikely that the Board will choose Kiribati.

II. Lower-Middle Income Countries

A. The debate on lower middle income countries

The inclusion of the lower middle income countries in the MCA process has always been controversial. They are much richer than the low income countries and have less need for foreign aid, since they generally have much larger private capital inflows, saving rates, and tax revenue. Generally, countries that reach this income level begin to “graduate”

from aid and move to private sector finance. The counter-argument is that many of these countries have significant numbers of poor people that can effectively use MCC assistance. While this may be true, aid funds must be allocated to where they are most urgently needed, and most lower-middle income countries have several other alternative sources of finance to fund poverty reduction programs. Allocating funds away from the poorest countries (that have far fewer options) in favor of the richer countries is not the most optimal use of MCC funds.

Nevertheless, the MCC legislation states that the Corporation shall consider these countries as candidates for MCC assistance in 2006. The Board has the flexibility to determine which, if any, of these candidate countries it will select to be eligible to submit proposals for assistance, and the authority to allocate from zero to up to 25% of appropriated funds for this set of countries.

These decisions were taken at a time when the administration and Congress were aiming to provide the MCC with \$5 billion in FY 2006, the first year the lower-middle income countries would become candidates. Now that the administration has scaled back its request to \$3 billion (with the prospect that it may receive substantially less), the eligibility of these countries should be seriously reconsidered. With constrained budgets, and with many of the first year eligible countries not yet having reached the negotiation stage, the MCC should concentrate its efforts on the poorest countries and not expand to the middle income countries. The size of the programs in the poorest countries should not be diluted by the addition of several lower-middle income countries to the list of eligible countries.

In considering the candidacy of these countries for 2006, the MCC Board should aim to make very few, if any, eligible to submit proposal during this start up phase. Ideally, at most one or two (if any) should be declared eligible, and the amount of funding available to them should be restricted so that they do not undermine the size of the programs in the poorer countries, where funding needs are more urgent. This part of the program could be gradually ramped up over time as funding and other constraints allow, so long as these richer countries do not detract funding from lower-income MCA eligible countries.

Moreover, to the extent any of these countries are chosen, compacts should be more clearly focused on poverty reduction (in the context of economic growth) since the extent of poverty in these countries seems to be the main rationale for their inclusion.

B. Country selection

The first column of Table 3 lists the countries that pass the indicators test in the lower middle income group, based on the available preliminary data, along with the countries that fall just short. As with the low income group, these lists are preliminary speculation. Table 4 provides detailed data on the 16 indicators for each of the 32 lower middle income countries, with the median score for each indicator shown at the bottom.

According to these data and a strict interpretation of the MCC's procedure, 9 countries pass this preliminary indicators test (although not all are likely to be selected by the

MCC). Two are from sub-Saharan Africa (Namibia and South Africa), two from North Africa and the Middle East (Tunisia and Jordan), two from Asia and the Pacific (Micronesia and Thailand), two from Eastern Europe (Bulgaria and Romania) and one from Latin America (Brazil). It is unlikely that all nine of these will be selected. South Africa and Thailand appear to be the strongest candidates, with Bulgaria, Namibia, and Romania also possibilities. We briefly examine each in alphabetical order.

Brazil surpasses the median on 5 ruling justly, 3 investing in people, and 4 economic freedom indicators. However, it clearly fails the secondary criteria of falling substantially below the average on “days to start a business” where it registers the worst score of the 32 countries (by far) at 152 days (only one other country registers higher than 100 days), relative to the median of 41 days. This will create an interesting test for the MCC Board on how seriously they consider the “substantially below the indicator” clause. Brazil may receive strong support from some quarters, but others may push back since it is among the richest of this group of countries, with per capita income of \$2,720 and has graduated from many (although not all) foreign aid programs (foreign aid is about 0.1% of GNI).

Bulgaria surpasses the median on 6 ruling justly, 2 investing in people, and 6 economic freedom indicators. However, it falls substantially below the median on the (very) preliminary data on public primary education spending: its spending was 0.75% of GNI, relative to the median of 1.62% of GNI, the fourth lowest score among the 32 countries.

Jordan surpasses the median on 3 ruling justly, 4 investing in people, and 3 economic freedom indicators. However, as a non-democracy and a large recipient of other US foreign aid, it is unlikely to be selected. (Jordan received \$371 million in US foreign aid in 2004, making it the 7th largest US recipient). It falls far below the median on both political rights and voice and accountability.

Micronesia surpasses the median on 5 ruling justly, 2 investing in people, and 3 economic freedom indicators. It probably would have scored even better except that it is missing data on 4 of the 6 indicators that it does not pass. It does not appear to score substantially below the median on any indicator. The Board may think twice about the growing number of very small pacific islands that might qualify (including Kiribati, Samoa, and Vanuatu). Moreover, Micronesia received aid flows from all sources that reached 44% of GNI in 2003, equivalent to \$923 per Micronesian, which weakens the case for the need for substantial new aid flows.

Namibia surpasses the median on 5 ruling justly, 2 investing in people, and 4 economic freedom indicators. It would be a very strong candidate except that it has relatively weak scores on the immunization rate and days to start a business. Its per capita income of \$1,930 is somewhat misleading because of its very poor distribution of income, a legacy of the occupation and administration of the South African apartheid regime.

Romania surpasses the median on 5 ruling justly, 2 investing in people, and 5 economic freedom indicators. Romania’s only weak score is on public primary education, where it scores well below the median.

South Africa is perhaps the strongest candidate of this group. It surpasses the median on 6 ruling justly, 2 investing in people, and 6 economic freedom indicators, and is relatively close to passing the two investing in people indicators that it misses. Although its average income is relatively high, it has a very poor distribution of income as a legacy of the apartheid regime. The average income of the majority of its population is much lower than the overall average. However, it does have much greater access to private capital markets than most low income countries.

Thailand surpasses the median on 5 ruling justly, 2 investing in people, and 6 economic freedom indicators, and is relatively close to passing the three indicators that it misses. However, it has access to private capital markets and has graduated from many (although not all) aid programs.

Tunisia surpasses the median on 3 ruling justly, 2 investing in people, and 3 economic freedom indicators. However, as a non-democracy it is unlikely to be selected. It falls particularly far below the median on both political rights and voice and accountability.

In sum, 27 low-income countries and 9 lower middle income countries pass the indicators tests, based on these very preliminary data, bringing the total to 36. Although the Board is unlikely to select all of these countries, it could select around 21 from the lower income group and several more from the middle income group, bringing about a significant addition to the 17 countries that are currently eligible for the program.

Table 1. Country Qualification Update for Low Income Countries

Countries that pass the indicators test	Countries most likely to be selected
1 Armenia	Benin
2 Benin	Bolivia
3 Bhutan	Cape Verde
4 Bolivia	Georgia
5 Cape Verde	Ghana
6 China	Honduras
7 Egypt, Arab Rep.	Lesotho
8 Ghana	Madagascar
9 Guyana	Malawi
10 Honduras	Mali
11 Kiribati	Mongolia
12 Lesotho	Morocco
13 Madagascar	Mozambique
14 Malawi	Nicaragua
15 Mali	Samoa
16 Mongolia	Senegal
17 Morocco	Sri Lanka
18 Nicaragua	Tanzania
19 Philippines	Timor-Leste
20 Samoa	Vanuatu
21 Senegal	Zambia
22 Sri Lanka	
23 Tanzania	Borderline countries
24 Timor-Leste	Armenia
25 Vanuatu	Burkina Faso
26 Vietnam	
27 Zambia	
Pass if median counts as passing a hurdle	
28 Burkina Faso	
29 Nepal	
Eliminated by corruption	
30 Bangladesh	
31 Djibouti	
32 Kenya	
33 Moldova	
34 Paraguay	
35 Ukraine	
Missed by one indicator	
36 Gambia, The	
37 Mauritania	
38 Rwanda	
39 Sao Tome and Principe	
40 Uganda	

Table 2. MCA Candidate Countries and the Indicators Test, FY 2006

Countries	Ruling Justly						Investing in People				Economic Freedom					Number of passed hurdles				
	Civil Liberties	Political Rights	Voice and Accountability	Government Effectiveness	Rule of Law	Control of Corruption	Public Education Spending, % of GDP	Girls' Education Completion Rate, %	Primary Education Rate: DPT and Malaria, %	Public Expenditure on Health, % of GDP	Country Credit Rating, (1-100, 100=best)	3-Year Budget Inflation, %	Trade Policy, (1 to 5, 1=best)	Regulatory Quality, (-2.5 to +2.5, +2.5=best)	Days to Start a Business	Ruling Justly	Investing in People	Economic Freedom		
	(1 to 7, 1=best)		(-2.5 to +2.5, +2.5=best)																	
Countries that pass the indicators test																				
1	Armenia	4	5	-0.66	-0.35	-0.58	-0.53	1.03	108.1	94	1.48	24.1	4.82	-1.68	2	0.05	25	4	2	6
2	Benin	2	2	0.30	-0.39	-0.47	-0.34	3.94	36.8	85.5	1.74	23.4	0.08	-2.17	5	-0.49	32	6	2	5
3	Bhutan	5	6	-1.18	-0.17	0.27	0.69	1.18	45.7	91.5	3.83	25.5	5	-8.46		0	62	3	2	3
4	Bolivia	3	3	-0.01	-0.63	-0.55	-0.78	5.82	99.1	72.5	3.47	28.6	5.26	-7.97	2	0.05	59	6	3	4
5	Cape Verde	1	1	0.80	-0.19	0.26	0.31	3.45	105.4	73	3.76	27.4	1	-3.43	5	0.27	6	3	3	3
6	China	6	7	-1.54	0.10	-0.47	-0.51	0.83	95.0	87	2.08	66	4.3	-3.1	4	-0.45	41	3	3	5
7	Egypt, Arab Rep.	5	6	-1.04	-0.21	-0.02	-0.21		89.6	98	1.8	46.5	9.5	-2.39	4	-0.58	43	3	3	5
8	Ghana	2	2	0.39	-0.17	-0.16	-0.17	3.32	59.5	80	2.51	29.7	14.03	-5.38	4	-0.28	85	6	3	3
9	Guyana	2	2	0.62	-0.20	-0.48	-0.35	2.93	88.9	89.5	5.26	26.5	5.8	-8.12	4	-0.14	6	4	4	3
10	Honduras	3	3	-0.02	-0.69	-0.61	-0.71	2.37	70.4	93.5	4.29	27.6	9.18	-3.62	3	-0.33	62	6	4	4
11	Kiribati	1	1	0.87	-0.59	0.25	-0.02	5.62		93.5	1.26	23.6	1.4	-23.44		-0.49	21	6	2	4
12	Lesotho	3	2	0.28	-0.33	-0.03	-0.05	4.91	77.2	74.5	2.5	28.8	5.87	-0.99	2	-0.26	92	6	3	5
13	Madagascar	3	3	0.07	-0.43	-0.30	-0.15	2.67	47.8	55	2.37	18.5	26.99	-4.67	2	0.1	44	6	2	3
14	Malawi	4	4	-0.50	-0.81	-0.29	-0.83	2.53	68.8	80.5	4.68	19.3	10.98	-6.99	4	-0.57	35	4	4	3
15	Mali	2	2	0.35	-0.29	-0.34	-0.52	2.39	32.2	68.5	1.98	22.7	-3.24	-3.32	3	-0.26	42	6	2	6
16	Mongolia	2	2	0.45	-0.46	0.18	-0.51	3.77	110.9	98	4.28	24.3	5	-5	1	0.18	20	6	4	5
17	Morocco	4	5	-0.55	-0.03	-0.05	-0.02	2.45	71.5	90.5	1.4	50.7	2.39	-5.22	5	-0.26	11	4	3	4
18	Nicaragua	3	3	0.06	-0.71	-0.65	-0.34	1.4	79.0	89.5	2.93	20.6	10.14	-8.45	2	-0.15	45	6	3	3
19	Philippines	3	2	0.02	-0.23	-0.62	-0.55	2.83	93.6	79.5	0.27	43.5	8.48	-4.44	2	-0.06	50	6	3	4
20	Samoa	2	2	0.69	0.06	0.62	0.05	2.01	107.9	96.5	4.71		5.56	-1.7		0.39	73	6	4	3
21	Senegal	3	2	0.19	-0.14	-0.20	-0.40	2.08	42.9	66.5	2.11	31	0.65	-1.01	3	-0.31	57	6	2	5
22	Sri Lanka	3	3	-0.16	-0.27	-0.03	-0.16	0.64	95.2	99	1.66	34.4	14.58	-8.86	3	0.21	50	6	2	4
23	Tanzania	3	4	-0.35	-0.37	-0.49	-0.57	1.99	57.5	96	2.16	26.9	4.01	-1.24	5	-0.55	35	6	3	5
24	Timor-Leste	3	3	0.25	-1.24	-0.60	-0.29	2.34		65	1.94	17.7	7.1	1.96		-0.43	5	2	3	3
25	Vanuatu	2	2	0.68	-0.58	-0.07	-0.53	2.65	97.0	48.5	2.61	26.8	4	-2.08		-0.33	39	6	3	5
26	Vietnam	6	7	-1.54	-0.31	-0.59	-0.74	0.95	94.8	96	0.85	38.7	9.6	-3.11	5	-0.57	56	3	2	4
27	Zambia	4	4	-0.36	-0.84	-0.54	-0.74	1.79	64.0	82.0	1.78	16.2	17.5	-6.13	3	-0.49	35	4	2	3
	Median	4	5	-0.68	-0.81	-0.84	-0.84	1.9	66.0	75.3	1.77	22.1	15	-3.38	4	-0.59	45			
Pass if median counts as passing a hurdle																				
28	Burkina Faso	4	5	-0.38	-0.52	-0.62	-0.35	2.56	24.4	80	2.05	22.1	-0.25	-3.92	4	-0.26	45	4	3	2
29	Nepal	5	5	-1.00	-0.91	-0.82	-0.61	1.84	71.9	76.5	1.05	23.7	4.59	-3.48	5	-0.6	21	2	2	3
Eliminated by corruption																				
30	Bangladesh	4	4	-0.69	-0.73	-0.86	-1.09	0.85	75.7	81	0.88	28.8	4.9	-3.17	5	-1.15	35	2	2	4
31	Djibouti	5	5	-0.85	-0.77	-0.61	-0.94	2.2	31.6	67	5.4	27.3	2	-2.41	5	-0.76	2	2	2	3
32	Kenya	3	3	-0.34	-0.81	-0.98	-0.89	3.6	69.5	72.5	1.5	26	14.87	-4.05	5	-0.43	47	3	2	3
33	Moldova	4	3	-0.47	-0.73	-0.65	-0.86	0.89	83.2	97	2.65	16	12.11	-0.2	2	-0.49	30	4	3	5
34	Paraguay	3	3	-0.23	-1.07	-1.09	-0.99	1.73	93.4	84	0.92	29.4	6.65	-0.92	3	-0.6	74	3	2	4
35	Ukraine	3	4	-0.62	-0.67	-0.83	-0.89	2.77	97.3	98	2.92	37.5	12.31	-0.6	3	-0.48	34	5	4	6
Missed by one indicator																				
36	Gambia, The	4	4	-0.59	-0.49	-0.32	-0.61	1.24	60.1	90	1.9	20.3	18	-7.71	3	-0.15		5	2	2
37	Mauritania	5	6	-1.16	0.22	-0.62	0.02	1.81	40.6	73.5	3.5	21.2	2.06	2.88	3	0.04	82	3	1	4
38	Rwanda	5	6	-1.09	-0.56	-0.90	-0.36	1.8	36.3	93	1.78	13.1	10.49	-1.89	3	-0.42	21	2	2	5
39	Sao Tome and Principe	2	2	0.55	-0.89	-0.55	-0.66		66.0	90.5	6.13	17.1	9.6	-16.6		-0.47		5	2	2
40	Uganda	4	5	-0.64	-0.43	-0.79	-0.71	1.5	58.2	81.5	1.03	22.7	7.38	-4.28	3	0.07	36	4	1	5
	Median	4	5	-0.68	-0.81	-0.84	-0.84	1.9	66.0	75.3	1.77	22.1	15	-3.38	4	-0.59	45			
Missed by more than one																				
41	Afghanistan	6	5	-1.35	-1.24	-1.81	-1.33	1.11	0.4	52	0.47	14.7	11.9	0.82		-2.05		0	0	2
42	Angola	5	6	-1.02	-1.14	-1.33	-1.12	0.15		54	3.25	18	29.58	-5.9	5	-1.4	146	0	1	0
43	Azerbaijan	5	6	-0.97	-0.82	-0.85	-1.04	2.49	104.5	97.5	0.98	35	2.2	-0.7	3	-0.57	123	0	3	5
44	Cameroon	6	6	-1.18	-0.64	-1.00	-0.78	0.04	64.4	67	1.17	23.8	1.2	2.05	5	-0.71	37	2	0	4
45	Chad	5	6	-1.09	-1.29	-1.15	-1.14	1.13	15.6	54	2.29	20.8	-5.62	-5.67	5	-0.84	75	0	1	1

Table 2 (cont'd). MCA Candidate Countries and the Indicators Test, FY 2006

Countries	Ruling Justly						Investing in People				Economic Freedom					Number of passed hurdles			
	Civil Liberties	Political Rights	Voice and Accountability	Government Effectiveness	Rule of Law	Control of Corruption	Primary Education Spending, %	Education Completion Rate, %	Immunization Rate: DPT and Malaria, %	Expenditure on Health, % of GDP	Credit Rating, (1-100)	Inflation, %	3-Year Budget Deficit, %	Policy, (1 to 5, 1=best)	Quality, (-2.5 to +2.5, +2.5=best)	Days to Start a Business	Ruling Justly	Investing in People	Economic Freedom
	(1 to 7, 1=best)		(-2.5 to +2.5, +2.5=best)																
46 Comoros	4	4	-0.14	-1.45	-1.04	-1.14	1.22	50.9	69	0.64	16.3	4.5	-4.78		-1.06		2	0	1
47 Congo, Dem. Rep.	6	6	-1.64	-1.41	-1.74	-1.31	0.11	29.8	51.5	0.12	9	9.1	-3.04		-1.8	155	0	0	2
48 Congo, Rep.	4	5	-0.79	-1.17	-1.18	-1.02	3.8	56.4	50	1.74	13.8	1.04	-2.82	5	-1.16	67	0	1	2
49 Eritrea	6	7	-1.96	-1.05	-0.78	-0.64	5.17	32.7	83.5	6.52	16.2	22.6	-27.61		-1.29		2	3	0
50 Ethiopia	5	5	-1.11	-0.96	-1.00	-0.85	3.65	29.5	54	2.69	17.6	2.96	-7.75	5	-1.19	32	0	2	2
51 Georgia	4	3	-0.34	-0.80	-0.87	-0.91	0.62	82.0	74.5	1.09	18.7	4.8	-2.14	4	-0.64	25	3	1	3
52 Guinea	5	6	-1.12	-0.93	-1.09	-0.81	1.41	31.0	48.5	0.56	16.8	12.9	-4.54	4	-0.94	49	1	0	1
53 Haiti	6	7	-1.50	-1.90	-1.66	-1.49	0.38	26.5	48	0.79	14.1	19.79	-3.09	3	-1.11	203	0	0	2
54 India	3	2	0.27	-0.04	-0.09	-0.31	1.22	76.9	68.5	1.1	55.3	4.37	-9.98	5	-0.59	89	6	1	2
55 Indonesia	4	3	-0.44	-0.36	-0.91	-0.90	0.56	106.7	71	0.29	37.7	7.15	-2.58	2	-0.42	151	3	1	5
56 Kyrgyz Republic	5	6	-1.06	-0.83	-1.04	-0.92	3.76	91.4	98.5	2.09	20	-0.14	-5.29	3	-0.06	21	0	4	4
57 Lao PDR	6	7	-1.55	-0.99	-1.27	-1.15	1.03	69.3	46	1.22	18.3	6.32	-4.74	4	-1.24	198	0	1	1
58 Mozambique	4	3	-0.13	-0.40	-0.60	-0.79	1.05	45.1	74.5	1.08	25.7	12.43	-6.37	4	-0.29	153	5	0	3
59 Niger	3	3	-0.12	-0.87	-0.92	-0.87	1.95	20.1	58	1.72	16.4	5.96	-2.93	5	-0.63	27	3	1	3
60 Nigeria	4	4	-0.65	-1.02	-1.44	-1.11		73.0	30	0.66	26.6	10.01	-2.84	5	-1.26	44	2	1	4
61 Pakistan	5	6	-1.31	-0.58	-0.78	-0.87	0.65	46.8	64	0.42	30.1	8.51	-3.31	5	-1.03	24	2	0	4
62 Papua New Guinea	3	3	-0.03	-1.01	-0.82	-0.90	0.69	46.4	51.5	1.77	30.3	1.5	-3.91		-0.64	56	4	0	2
63 Sierra Leone	3	4	-0.49	-1.32	-1.10	-0.88	0.4	44.8	71.5	0.87	10.3	8.89	-9.57	5	-1.02	26	3	0	2
64 Solomon Islands	3	3	0.10	-1.75	-1.15	-1.23	2		74.5	3.36	20.3	7.5	-7.61		-1.47	35	3	2	2
65 Swaziland	5	7	-1.45	-0.60	-0.95	-0.95	1.7	77.4	94.5	2.49	30.1	3.12	-4.4	2	-0.36		1	3	4
66 Tajikistan	5	6	-1.12	-1.05	-1.18	-1.11	3.13	97.5	85.5	1.36	13.3	5.5	-2.15	3	-1.16		0	3	3
67 Togo	5	6	-1.22	-1.31	-1.01	-0.92	2.21	63.4	61	0.62	17.9	-1.78	0.16	3	-0.77	53	0	1	3
68 Turkmenistan	7	7	-1.90	-1.37	-1.43	-1.34		97.5	4.08		23.1		0.15	5	-2.22		0	2	2
69 Yemen, Rep.	5	5	-0.99	-0.84	-1.11	-0.84	3.59	48.3	66	1.44	27.9	14.5	-0.4	4	-1.04	63	0	1	3
Eliminated for statutory reasons																			
70 Burundi	5	5	-1.13	-1.24	-1.50	-1.16	1.28	26.3	74.5	0.68	12.1	12.06	-4.26	5	-1.35	43	0	0	2
71 Cambodia	5	6	-0.89	-0.87	-0.98	-0.97	0.16	76.4	67	0.76	20.1	5.76	-6.4	4	-0.25	94	0	1	2
72 Central African Republic	5	6	-1.20	-1.65	-1.44	-1.36	1.1	19.1	37.5	0.26	13.7	1.42	-2.07	5	-1.28	14	0	0	3
73 Cote d'Ivoire	6	6	-1.46	-1.30	-1.42	-1.01	2.95	39.6	55	1.01	14.9	0.79	-1.26	4	-0.83	58	0	1	2
74 Cuba	7	7	-1.88	-0.47	-1.12	-0.62	2.94	94.2	85	8.25	16.1			4	-1.81		2	4	0
75 Guinea-Bissau	4	4	-0.62	-1.25	-1.26	-0.71	2.05	19.8	69	1.39	11.5	0.83	-12.58	5	-0.86		3	1	1
76 Iraq	5	7	-1.71	-1.51	-1.97	-1.45		49.9	85.5	3.8	10.9	7		5	-1.79		0	2	1
77 Korea, Dem. Rep.	7	7	-2.05	-1.68	-1.15	-1.46			81.5	3.52	7.2			5	-2.05		0	2	0
78 Liberia	4	5	-1.24	-1.86	-1.76	-0.86	1.9	10.2	45.5	1.43	8.3	14.2	-0.57		-1.83		0	0	2
79 Myanmar	7	7	-2.19	-1.57	-1.62	-1.49	0.64	73.3	76	0.29	14.9	8.13	-4.64	5	-2.34		0	2	1
80 Somalia	7	6	-1.58	-2.32	-2.31	-1.58			40		8.7				-2.63		0	0	0
81 Sudan	7	7	-1.81	-1.28	-1.59	-1.30	1.31	45.3	53.5	0.8	12.6	7.7	-0.15	5	-1.04		0	0	2
82 Syrian Arab Republic	7	7	-1.72	-0.72	-0.40	-0.74	1.6	84.7	98.5	0.89	29.9	4.3	-0.08	5	-1.21	47	3	2	3
83 Uzbekistan	6	7	-1.75	-1.05	-1.30	-1.21	2.48	102.0	98.5	2.23	22.8	14.8	-0.51	3	-2.1	35	0	4	5
84 Zimbabwe	6	7	-1.48	-1.20	-1.53	-1.01	6.19	78.0	80	2.85	10.6		-4.88	4	-2.15	96	0	4	0
Median	4	5	-0.68	-0.81	-0.84	-0.84	1.9	66	75.3	1.77	22.1	15	-3.38	4	-0.59	45			
Number of countries for which data are available	84	84	84	84	84	84	77	77	84	83	83	79	80	70	84	64			

Note: The hurdle for the inflation indicator is 15 percent, and this is listed in the Median line.

Table 3. Country Qualification Update for Lower Middle Income Countries

Countries that pass the indicators test

- 1 Brazil
- 2 Bulgaria
- 3 Jordan
- 4 Micronesia, Fed. Sts.
- 5 Namibia
- 6 Romania
- 7 South Africa
- 8 Thailand
- 9 Tunisia

Missed by one indicator

- 10 Colombia
- 11 El Salvador
- 12 Turkey

Table 4. MCA Candidate Countries and the Indicators Test, FY 2006

Countries	Ruling Justly						Investing in People				Economic Freedom					Number of passed hurdles				
	Civil Liberties	Political Rights	Voice and Accountability	Government Effectiveness	Rule of Law	Control of Corruption	Public Primary Education Spending, % of GDP	Girls' Primary Education Completion Rate, %	Immunization Rate: DPT and Malaria, %	Public Expenditure on Health, % of GDP	Country Credit Rating, (1-100, 100=best)	Inflation, %	3-Year Budget Deficit, %	Trade Policy, (1 to 5, 1=best)	Regulatory Quality, (-2.5 to +2.5, +2.5=best)	Days to Start a Business	Ruling Justly	Investing in People	Economic Freedom	
	(1 to 7, 1=best)		(-2.5 to +2.5, +2.5=best)																	
Countries that pass the indicators test																				
1	Brazil	3	2	0.34	0.02	-0.21	-0.15	1.31	114.2	97.5	3.63	46.7	7.39	0.86	4	0.19	152	5	3	4
2	Bulgaria	2	1	0.58	-0.08	0.05	-0.04	0.75	96.2	96	4.45	52	3.36	-0.05	2	0.6	32	6	2	6
3	Jordan	4	5	-0.68	0.23	0.3	0.35	2.28	98.6	96.5	4.29	44	3.5	-2.24	4	0.13	36	3	4	3
4	Micronesia, Fed. Sts.	1	1	1.01	-0.3	0.4	-0.3	3.12		91.5	5.73		2	0.4		0.04		5	2	3
5	Namibia	3	2	0.47	0.29	0.22	0.18	4.28	94.4	76	4.7	45.7	5.39	-2.36	2	0.45	85	5	2	4
6	Romania	2	3	0.36	-0.15	-0.18	-0.25	0.97	89.2	97	4.15	48.4	8.94	-2.7	3	-0.06	28	5	2	5
7	South Africa	2	1	0.86	0.73	0.32	0.48	2.32	102.0	88.5	3.53	59.9	2.96	-1.43	2	0.44	38	6	2	6
8	Thailand	3	2	0.24	0.38	-0.05	-0.25	1.73	86.8	95	3.07	62.4	2.51	2.04	3	-0.01	33	5	2	6
9	Tunisia	5	6	-1.11	0.57	0.24	0.29	2.3	101.7	92.5	2.89	55.4	1.72	-2.34	5	-0.22	14	3	2	3
Missed by one indicator																				
10	Colombia	4	4	-0.47	-0.18	-0.7	-0.16	1.9	90.5	91.5	6.72	46.3	5.28	-7.11	4	-0.12	43	2	2	3
11	El Salvador	3	2	0.26	-0.22	-0.34	-0.39	1.54	86.2	93.5	3.58	46.7	5.34	-3.63	2	0.56	115	5	1	4
12	Turkey	3	3	-0.15	0.01	0.04	-0.23	1.44	87.8	71.5	4.28	44.3	8.69	-15.43	3	-0.07	9	3	1	4
	Median	3	3	-0.03	-0.23	-0.39	-0.44	1.62	97.5	92.50	3.61	44.50	15.00	-1.56	4.00	-0.16	41.00			
Missed by more than one																				
13	Albania	3	3	0.03	-0.36	-0.8	-0.72	1.77	99.7	95	2.36	24.9	2.26	-5.3	4	-0.08	47	1	3	2
14	Algeria	5	6	-0.91	-0.46	-0.73	-0.49	1.62	94.9	85.5	3.18	44.7	1.99	5.16	5	-0.93	26	0	0	4
15	Belarus	6	7	-1.54	-0.94	-1.31	-0.91		98.2	92.5	4.73	20.4	12.19	0.12	3	-1.78	79	0	2	3
16	Bosnia and Herzegovina	3	4	-0.14	-0.54	-0.76	-0.54	2.74		85.5	4.58	26.9		-1.7	3	-0.66	54	0	2	1
17	Dominican Republic	2	2	0.27	-0.46	-0.54	-0.5	1.44	97.1	72	2.22	26.5	46.09	0.38	4	-0.28	78	3	0	1
18	Ecuador	3	3	-0.19	-0.85	-0.71	-0.75	0.47	100.3	94	1.73	29.5	1.51	0.73	4	-0.6	92	0	2	2
19	Equatorial Guinea	6	7	-1.71	-1.4	-1.05	-1.65	0.17	47.5	42	1.3			12.37	4	-0.78		0	0	1
20	Fiji	3	4	0.15	-0.57	-0.19	-0.14	1.97	103.5	92.5	2.71			-1.48	4	-0.36	45	3	2	1
21	Guatemala	4	4	-0.39	-0.87	-0.96	-0.74	1.21	62.5	79	2.28	40.1	9.04	-1.63	3	-0.07	39	0	0	4
22	Jamaica	3	2	0.54	0.13	-0.32	-0.52	1.9	85.4	79.5	3.44	32.8	12.43	-7	4	0.15	31	4	1	3
23	Kazakhstan	5	6	-1.21	-0.63	-0.98	-1.1	0.6	109.9	99	1.86	51.8	6.84	-0.07	4	-0.89	25	0	2	4
24	Macedonia, FYR	3	3	-0.02	-0.17	-0.44	-0.52	1.01	102.0	96	5.76	30.2	-0.83	-4.8	4	-0.19	48	2	3	1
25	Maldives	5	6	-1.07	0.5	-0.57	0.12	4.1		97	3.98		6.96	-7.24		0		2	3	2
26	Marshall Islands	1	1	1.14	-0.39	-0.11	-0.84	11.59		79	7.13			4.97		-0.55	22	4	2	2
27	Peru	3	2	-0.04	-0.58	-0.63	-0.35	1.15	97.9	92	2.2	44.9	1.68	-2.18	4	0.17	98	2	1	3
28	Russian Federation	5	6	-0.81	-0.21	-0.7	-0.72			97	3.46	55.2	12.68	4.61	3	-0.51	36	1	1	5
29	Serbia and Montenegro	2	3	0.12	-0.21	-0.72	-0.48	1.49	95.7	88	5.09	24.1	12	-2.93		-0.72	51	3	1	1
30	Suriname	2	1	0.6	-0.23	-0.25	0.36			72.5	5.18			-1.13	4	-0.52		5	1	1
31	Tonga	3	5	-0.35	-0.74	-0.11	-0.68	2.37	108.3	98.5	5.07	28.6	10.35	-2.03		-0.43	39	1	4	2
Eliminated for statutory reasons																				
32	Iran, Islamic Rep.	6	6	-1.36	-0.66	-0.83	-0.59	1.28	104.4	99	2.87	42.6	15.97	1.37	2	-1.33	48	0	2	2
	Median	3	3	-0.03	-0.23	-0.39	-0.44	1.62	97.5	92.50	3.61	44.50	15.00	-1.56	4.00	-0.16	41.00			
	Number of countries for which data are available	32	32	32	32	32	32	29	26.0	32	32	26	27	32	27	32	28			

Note: The hurdle for the inflation indicator is 15 percent, and this is listed in the Median line.