3

Selecting the Countries, Part II: Who Qualifies?

Although the administration has described in detail the methodology it proposes to use for choosing the MCA countries, it has not yet selected the countries. Nevertheless, based on the administration's proposed methodology and using the most recent data available, I have determined as best as possible which countries would qualify for the MCA during each of the first three years. It is important to emphasize that this list is my best estimate of the qualifying countries. It probably will differ slightly from the official list that the administration ultimately will announce. There are several reasons for these possible differences:

- First, the underlying data may differ slightly. Though I obtained data from the sources the administration named in its proposed methodology, some differences probably remain. For example, the administration has filled in missing data from secondary sources to which I do not have access, increasing its country coverage and the number of qualifying countries. On one indicator, the budget deficit, the administration uses a confidential dataset from the IMF to which I do not have access, so I used public IMF data, which may differ slightly.

- Second, the first group of MCA countries will not be chosen until just before fiscal 2004. Some of the indicators will be revised before then, changing both the medians and the qualifying countries. The process of choosing countries for the second and third rounds from the expanded set of countries is even farther into the future, so the underlying data are likely to change significantly.

Table 3.1 Possible qualifying countries, year 1 (IDA eligible with per capita income below $1,435)

Countries	Civil liberties	Political rights	Voice and accountability	Government effectiveness	Rule of law	Control of corruption	Public primary education spending as percent of GDP	Primary education completion rate (percent)
	(1 to 7, 1 = best)		(0 to 1, 1 = best)					
Qualify								
1 Armenia	***4***	***4***	0.36	0.41	0.41	0.30	***1.20***	82
2 Bhutan	***5***	***6***	***0.12***	0.81	0.58	0.81	***n.a.***	***59***
3 Bolivia	3	2	0.53	0.34	0.32	0.25	2.30	72
4 Ghana	3	2	0.52	0.59	0.53	0.42	1.40	64
5 Honduras	3	3	0.48	0.27	***0.23***	0.27	***1.20***	67
6 Lesotho	3	2	0.49	0.49	0.54	0.48	3.20	69
7 Mongolia	2	2	0.63	0.51	0.65	0.54	2.40	82
8 Nicaragua	3	3	0.53	***0.17***	0.32	0.39	2.10	65
9 Senegal	3	2	0.54	0.52	0.52	0.53	1.50	***41***
10 Sri Lanka	***4***	3	0.45	0.59	0.61	0.54	***n.a.***	111
11 Vietnam	***6***	***7***	***0.08***	0.48	0.45	0.33	***1.10***	101
Qualify if median score counts as passing a hurdle								
1 Cape Verde	2	1	0.68	0.50	0.60	0.66	***n.a.***	117
2 Guyana	2	2	0.69	0.47	0.42	0.38	***n.a.***	89
3 Nepal	4	4	0.34	0.36	0.37	0.46	1.20	65
Eliminated by corruption								
1 Albania	3	3	0.46	0.38	***0.17***	***0.23***	***1.00***	89
2 Bangladesh	***4***	***4***	0.32	0.35	0.26	***0.08***	***0.90***	70
3 Malawi	***4***	***4***	0.36	0.28	0.46	***0.19***	1.80	***50***
4 Moldova	***4***	3	0.42	0.30	0.39	***0.21***	1.40	79
5 Mozambique	***4***	3	0.44	0.42	0.30	***0.15***	***1.00***	***36***
Missed by one indicator								
1 Benin	2	3	0.55	0.31	0.43	0.34	1.60	***39***
2 Burkina Faso	***4***	***4***	0.43	0.28	0.34	0.57	1.60	***25***
3 Georgia	***4***	***4***	0.40	0.25	***0.10***	***0.12***	***0.30***	82
4 India	3	2	0.58	0.54	0.57	0.49	***1.00***	76
5 Mali	3	2	0.58	***0.19***	0.34	0.46	***1.00***	***23***
6 Mauritania	***5***	***5***	***0.26***	0.52	0.48	0.64	1.80	***46***
7 São Tomé and Príncipe	2	1	0.70	0.29	0.40	0.50	1.90	81
8 Togo	***5***	***5***	***0.16***	***0.09***	0.29	0.32	1.80	63
Median	**4**	**4**	**0.31**	**0.24**	**0.25**	**0.24**	**1.2**	**59.3**

n.a. = not available

Note: Missed hurdles are in bold italic.

- Third, the MCC board will have the power to slightly adjust the list under certain circumstances, as discussed in chapter 2.

Possible Qualifying Countries in Year 1

Table 3.1 lists the countries that are most likely to qualify for the MCA in the first year, based on available data. This list differs slightly from that presented earlier in Radelet (2002a) since new data have become available

Immunization rate: DPT and measles (percent)	Public expenditure on health as percent of GDP	Country credit rating (1 to 100, 100 = best)	Inflation (percent)	3-year budget deficit (percent)	Trade policy (1 to 5, 1 = best)	Regulatory quality (0 to 1, 1 = best)	Days to start a business	Number of passed hurdles: Ruling justly	Investing in people	Economic freedom
93.5	4.02	***n.a.***	0.9	***–4.6***	1	0.59	***79***	4	3	3
83	3.22	***n.a.***	2.7	–2.7	***n.a.***	0.31	***n.a.***	3	2	3
80	4.12	30.7	2.4	–4.1	3	0.51	***104***	6	4	5
80.5	***1.66***	25.2	13.1	***–9.6***	***4***	0.44	***126***	6	3	3
95	3.92	25.9	8.1	***–7.5***	3	0.41	***146***	5	3	4
81	***n.a.***	26.5	7.1	***–5.5***	3	0.36	***n.a.***	6	3	4
95	***n.a.***	21.5	3.1	***–9.5***	2	0.48	31	6	3	5
95.5	8.50	***18.2***	7.4	***–7.6***	2	0.39	***69***	5	4	3
50	2.62	27.6	1.1	–3.9	***4***	0.46	58	6	2	5
99	***1.74***	34.8	11.3	***–9.0***	3	0.59	***73***	5	2	4
97.5	***0.79***	33.5	4.6	–2.4	***5***	***0.25***	***68***	3	2	3
75	***1.81***	***n.a.***	1.2	***–16.6***	4	0.47	***n.a.***	6	2	3
88.5	4.54	***n.a.***	1.5	***–8.1***	4	0.40	***n.a.***	6	3	3
71.5	***1.28***	23.3	3.0	***–3.9***	***5***	0.35	25	6	2	5
96	2.00	***15.7***	4.1	***–8.5***	***5***	0.41	62	4	3	3
79.5	***1.71***	28.2	3.5	–4.3	***5***	***0.14***	29	3	2	4
86	2.77	19.4	16.5	***–14.2***	***4***	0.42	56	3	3	4
85.5	2.88	***17.4***	6.4	–2.1	2	0.49	41	4	4	5
86	2.81	19.8	9.0	***–11.9***	***4***	0.27	***214***	4	2	3
70.5	***1.61***	21.3	1.6	–3.2	***4***	0.31	***63***	6	1	4
43.5	***1.50***	19.5	3.9	***–11.5***	***4***	0.47	39	4	1	4
79.5	***0.75***	***16.9***	5.8	–3.0	***4***	***0.21***	62	2	2	3
60	***n.a.***	49.4	5.2	***–7.5***	***5***	0.43	***95***	6	1	3
44	2.09	18.9	3.8	***–8.8***	3	0.36	61	5	1	5
59.5	***1.38***	***n.a.***	0.6	–0.4	***4***	0.55	***n.a.***	3	1	3
75.5	***n.a.***	***n.a.***	9.8	***–44.9***	***n.a.***	0.43	***n.a.***	6	3	2
61	***1.29***	***17.1***	1.3	–4.3	3	0.27	***n.a.***	2	2	4
72.5	**1.86**	**18.2**	**20.0**	**–4.6**	**4**	**0.26**	**63**			

for several indicators. The table shows the actual score for each of the 16 indicators for each country, along with the median score for each indicator at the bottom. The scores in bold italic are those that are below the median; the rest are above the median and therefore constitute passing grades.

The 11 countries qualifying in the first year meet the criterion of scoring above the median in half the indicators in each of the three broad areas, as well as on corruption. Of these 11, 3 are from Africa (Ghana, Lesotho, and Senegal), 5 from Asia (Armenia, Bhutan, Mongolia, Sri Lanka, and Vietnam), and 3 from Latin America (Bolivia, Honduras, and Nicaragua). Most of these countries seem to be sensible choices, including Ghana, Lesotho, Senegal, Bolivia, and Honduras. Others, however, are more questionable, particularly Bhutan and Vietnam. Bhutan misses all three democracy indicators (civil liberties, political rights, and voice and accountability) but passes most of the other indicators where data are available. Vietnam also misses the three democracy indicators, yet it barely qualifies by making the minimum number of hurdles in each category.

The table shows that three more countries (Cape Verde, Guyana, and Nepal) would qualify if the administration slightly changed its criteria so that a score *equal* to the median counted as passing a hurdle.[1] Cape Verde's and Guyana's trade policy scores are equal to the median, as is Nepal's primary education spending score. Each country needs to pass these hurdles to qualify. These countries are cases in which missing data in other countries, or adding or deleting countries from the sample, could change the median score and the country's qualification status. In my opinion, given the uncertainties in the data, median scores should count as passing grades.

Guyana is worth closer inspection. It passes 11 of the 13 indicators for which it has data and achieves a median score on a 12th, yet fails to qualify. It passes all six "ruling justly" indicators and three of four "investing in people" indicators (it has no data on public primary education spending). Of the six "economic freedom" indicators, it is missing data on two through no fault of its own (days to start a business and credit rating indicators). Of the four remaining variables, it misses one (the budget deficit) and scores at the median on another (trade), so that it passes only inflation and regulatory quality indicators. Cape Verde follows a similar story, except that it also misses (barely) the public health spending indicator. These two countries seem to be prime candidates for the board of directors of the new corporation to elevate to qualification status, which would bring the number of qualifiers to 13.

The table also shows five countries that score above the median on sufficient indicators but do not score above the median on control of corruption and therefore are eliminated. Albania scores just below the corruption median, and Malawi and Moldova are also fairly close to the mark. These three countries would qualify if the corruption rule were modified to eliminate only those countries where there is at least a 75 percent probability that the actual corruption score is below the median, as discussed previously. Malawi's and Mozambique's corruption scores were significantly lower in 2002 than in 2000, moving both countries off the list of potential qualifiers. While many factors may have contributed to the declines, Malawi suffered from a scandal surrounding the disappearance of food stocks before the current drought that led to the firing of the minister of poverty alleviation. Similarly, Mozambique's reputation suffered from the murder of a journalist that was investigating a banking scandal.

1. The administration's fact sheet says that "a country would have to score above the median" to qualify on a hurdle.

Table 3.1 also shows eight countries that did not qualify because they missed one hurdle more than allowed by the proposed procedure. Five of the eight (Benin, Burkina Faso, India, Mali, and Mauritania) fall short in the "investing in people" category, where they each make one out of four hurdles. India is missing data on health spending and could qualify when those data become available. Georgia and Togo fall short in the "ruling justly" category, where they each pass two of the six hurdles. São Tomé and Príncipe passes 11 of the 12 indicators for which it has data, including all 6 "ruling justly" indicators and 3 of 4 "investing in people" indicators. It is missing 3 of the 6 "establishing economic freedom" indicators, and passes 2 of the 3 remaining ones—one short of the requisite number. Like Cape Verde and Guyana, São Tomé and Príncipe would be a strong candidate for the board to add to the list of qualifiers. If all three were added to the qualification list—and they should be—14 countries would qualify in the first year. Benin, India, and Mali also should be given strong consideration, which could bring the number of qualifiers to 17. Each is a strong democracy that scores well on the other indicators but falls one short in "investing in people."

Possible Qualifying Countries in Year 2

Table 3.2 displays the same information for countries likely to qualify in fiscal 2005, when the pool of eligible countries is expanded to include all 87 countries with per capita incomes below $1,435. Bear in mind that the data will change by then, and with it, the list of qualifers. The number of qualifying countries increases from 11 to 12. Two new countries qualify: the Philippines and Swaziland. However, Ghana, one of the original qualifiers, drops out in the second year. The basic reason is that the addition of the 13 countries raises the median score on many of the indicators. Ghana's level of public-sector spending on primary education (1.4 percent) surpasses the median in the first year but is equal to the median in the second year, so technically it would not pass enough hurdles to qualify. Obviously Ghana would qualify if the administration counted median scores as passing grades.

How should the administration treat the countries that qualify in year one but not in year two? In my opinion, these countries should remain eligible in year two. It would make no sense for them to be dropped off the list simply because the medians moved slightly. This raises a much larger issue: once a country becomes eligible for the MCA, how long should it remain eligible? As discussed in chapter 4, once a country qualifies, under the administration's plan it will negotiate one or more contracts with the US government to fund specific activities over a multiple-year period (probably three to four years). The country would continue to receive funding during the life of the contract as long as it continues to meet specified

Table 3.2 Possible qualifying countries, year 2 (countries with per capita income below $1,435)

Countries	Civil liberties	Political rights	Voice and accountability	Government effectiveness	Rule of law	Control of corruption	Public primary education spending as percent of GDP	Primary education completion rate (percent)
	(1 to 7, 1 = best)		(0 to 1, 1 = best)					
Qualify								
1 Armenia	***4***	4	0.36	0.41	0.41	0.30	***1.20***	82
2 Bhutan	***5***	***6***	***0.12***	0.81	0.58	0.81	***n.a.***	***59***
3 Bolivia	3	2	0.53	0.34	0.32	0.25	2.30	72
4 Honduras	3	3	0.48	0.27	***0.23***	0.27	***1.20***	67
5 Lesotho	3	2	0.49	0.49	0.54	0.48	3.20	69
6 Mongolia	2	2	0.63	0.51	0.65	0.54	2.40	82
7 Nicaragua	3	3	0.53	***0.17***	0.32	0.39	2.10	65
8 Philippines	3	2	0.55	0.55	0.38	0.37	1.60	92
9 Senegal	3	2	0.54	0.52	0.52	0.53	1.50	***41***
10 Sri Lanka	***4***	3	0.45	0.59	0.61	0.54	***n.a.***	111
11 Swaziland	***5***	***6***	***0.14***	0.40	0.29	0.48	1.80	81
12 Vietnam	***6***	***7***	***0.08***	0.48	0.45	0.33	***1.10***	101
Qualify if median score counts as passing hurdle								
1 Cape Verde	2	1	0.68	0.50	0.60	0.66	n.a.	117
2 The Gambia	***5***	5	***0.20***	***0.21***	0.37	0.24	1.60	70
3 Ghana	3	2	0.52	0.59	0.53	0.42	1.40	***64***
4 Guyana	2	2	0.69	0.47	0.42	0.38	***n.a.***	89
Eliminated by corruption								
1 Bangladesh	***4***	4	0.32	0.35	0.26	***0.08***	***0.90***	70
2 Ecuador	3	3	0.48	***0.13***	0.33	***0.14***	***n.a.***	96
3 Malawi	***4***	4	0.36	0.28	0.46	***0.19***	1.80	***50***
4 Moldova	***4***	3	0.42	0.30	0.39	***0.21***	***1.40***	79
5 Paraguay	3	4	0.40	***0.07***	***0.12***	***0.04***	2.00	78
6 Ukraine	***4***	4	0.31	0.26	***0.24***	***0.17***	2.40	94
Eliminated from receiving US foreign assistance for statutory reasons								
1 China	***6***	***7***	***0.06***	0.63	0.51	0.42	***0.70***	108
2 Syria	***7***	***7***	***0.05***	0.33	0.43	0.47	***n.a.***	90
Missed by one indicator								
1 Benin	2	3	0.55	0.31	0.43	0.34	1.60	***39***
2 Burkina Faso	***4***	4	0.43	0.28	0.34	0.57	1.60	***25***
3 India	3	2	0.58	0.54	0.57	0.49	***1.00***	76
4 Mali	3	2	0.58	***0.19***	0.34	0.46	***1.00***	***23***
5 Mauritania	***5***	***5***	***0.26***	0.52	0.48	0.64	1.80	***46***
6 Morocco	***5***	***5***	0.35	0.61	0.59	0.58	***n.a.***	***55***
7 São Tomé and Príncipe	2	1	0.70	0.29	0.40	0.50	1.90	81
Median	**4**	**5**	**0.30**	**0.24**	**0.26**	**0.24**	**1.40**	**64.6**

n.a. = not available

Note: Missed hurdles are in bold italic.

Immunization rate: DPT and measles (percent)	Public expenditure on health as percent of GDP	Country credit rating (1 to 100, 100 = best)	Inflation (percent)	3-year budget deficit (percent)	Trade policy (1 to 5, 1 = best)	Regulatory quality (0 to 1, 1 = best)	Days to start a business	Number of passed hurdles		
								Ruling justly	Investing in people	Economic freedom
93.5	4.02	***n.a.***	0.9	***–4.6***	1	0.59	***79***	5	3	3
83	3.22	***n.a.***	2.7	–2.7	***n.a.***	0.31	***n.a.***	3	2	3
80	4.12	30.7	2.4	***–4.1***	3	0.51	***104***	6	4	4
95	3.92	25.9	8.1	***–7.5***	3	0.41	***146***	5	3	4
81	***n.a.***	26.5	7.1	***–5.5***	3	0.36	***n.a.***	6	3	4
95	***n.a.***	21.5	3.1	***–9.5***	2	0.48	31	6	3	5
95.5	8.50	***18.2***	7.4	***–7.6***	2	0.39	***69***	5	4	3
72.5	***1.56***	43.4	2.7	–3.9	2	0.58	***62***	6	2	5
50	2.62	27.6	1.1	–3.9	***4***	0.46	58	6	2	5
99	***1.74***	34.8	11.3	***–9.0***	3	0.59	***73***	5	2	4
74.5	2.49	28.9	12.2	–2.3	2	0.45	***n.a.***	3	3	5
97.5	***0.79***	33.5	4.6	–2.4	***5***	***0.25***	***68***	3	2	3
75	***1.81***	***n.a.***	1.2	***–16.6***	4	0.47	***n.a.***	6	2	3
93	2.27	***n.a.***	4.0	***–4.0***	4	0.33	***n.a.***	3	4	3
80.5	***1.66***	25.2	13.1	***–9.6***	4	0.44	***126***	6	2	4
88.5	4.54	***n.a.***	1.5	***–8.1***	4	0.40	***n.a.***	6	3	3
79.5	***1.71***	28.2	3.5	***–4.3***	***5***	***0.14***	29	4	2	3
94.5	***1.67***	23.2	10.1	0.3	***4***	0.30	***90***	4	2	4
86	2.77	***19.4***	16.5	***–14.2***	***4***	0.42	56	4	3	3
85.5	2.88	***17.4***	6.4	–2.1	2	0.49	41	4	3	5
71.5	***1.68***	28.6	18.2	–1.6	3	0.32	***n.a.***	3	2	5
99	2.92	25.5	10.9	–1.4	3	0.28	42	3	4	6
79	2.08	60	–3.6	–3.2	***5***	0.40	55	3	3	5
92.5	***0.89***	25.2	–0.6	–0.5	***4***	***0.16***	42	3	2	4
70.5	***1.61***	21.3	1.6	–3.2	***4***	0.31	***63***	6	1	4
43.5	***1.50***	***19.5***	3.9	***–11.5***	***4***	0.47	39	5	1	3
60	***n.a.***	49.4	5.2	***–7.5***	***5***	0.43	***95***	6	1	3
44	2.09	***18.9***	3.8	***–8.8***	3	0.36	61	5	1	4
59.5	***1.38***	***n.a.***	0.6	–0.4	***4***	0.55	***n.a.***	3	1	3
96	***1.20***	46.1	2.2	–3.2	***5***	0.55	***62***	4	1	4
75.5	***n.a.***	***n.a.***	9.8	***–44.9***	***n.a.***	0.43	***n.a.***	6	3	2
75.0	**1.9**	**19.9**	**20.0**	**–4.0**	**4.0**	**0.26**	**62**			

benchmarks, and there are no major negative events (such as a coup d'état), even if it dips below the strict qualification requirements during the life of the contract. At the end of the contract, the country would have to requalify for MCA funding for a follow-on proposal.

The fact that a country can drop off the list between the first and second years reveals a quirky characteristic of using median scores rather than absolute scores to determine qualification. Scores that are good enough to make the grade in one year (with the implication that the economic and institutional environment is of sufficiently high quality that foreign aid can be used effectively) might not be good enough in a different year. Conversely, scores that are not high enough in one year could be passing grades in another if the medians fall. Ghana's case illustrates the importance of shifting the hurdles from a relative score (the median) to an absolute score, at least for the indicators in which this change is possible. While Ghana can be accommodated by a multiple-year funding process, the fact remains that for other countries that did not qualify in year one, the bar effectively will be raised in year two, making qualification more difficult.

Four additional countries would qualify in the second year if median scores counted as passing a hurdle: Cape Verde, Guyana (the same as in the first year), Ghana (as discussed), and The Gambia. The Gambia has the median score on three indicators: political rights, corruption, and trade policy. Six other countries miss qualifying because they score below the median on corruption. These include three countries that had the same status in the first year (Bangladesh, Malawi, and Moldova), joined by Ecuador, Paraguay, and Ukraine.

Two other countries—China and Syria—are eliminated from the MCA because they are precluded from receiving US foreign assistance for statutory reasons. Syria is on the State Department's list of state sponsors of terrorism. China is treated as though it is on the list of countries statutorily prohibited from receiving aid for human rights reasons, even though officially China is not on it. China scores well in both "investing in people" and "establishing economic freedom" indicators. It also passes three of six of the "ruling justly" criteria, each by reasonably comfortable margins, including corruption, rule of law, and government effectiveness. Not surprisingly, it does not pass the civil liberties, political rights, and voice and accountability indicators. These overall high scores reflect China's strong performance over the last 20 years on economic growth and poverty reduction, which has been among the best in the world.

In year two, seven countries fall one hurdle short of qualifying. Six of the seven (Benin, Burkina Faso, India, Mali, Mauritania, and Morocco) fail to pass sufficient hurdles in the "investing in people" category. As in the first year, São Tomé and Príncipe passes 11 of the 12 indicators for which it has data but fails to pass sufficient hurdles in "establishing economic freedom." Table 3.3 presents an indicator scorecard for all 87 countries that are eligible to compete for the MCA during the first two years. For

Table 3.3 Indicator scorecard, MCA countries with per capita income below $1,435

	Ruling justly						Investing in people				Economic freedom					
	Civil liberties	Political rights	Voice and accountability	Government effectiveness	Rule of law	Control of corruption	Primary education spending as percent of GDP	Primary education completion rate	Immunization rate	Health spending as percent of GDP	Country credit rating	Inflation	3-year budget deficit	Trade policy	Regulatory quality	Days to start a business
Afghanistan	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Albania	✓	✓	✓	✓	X	X	X	✓	✓	✓	X	✓	X	X	✓	✓
Angola	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Armenia	X	X	✓	✓	✓	✓	X	✓	✓	✓	X	✓	X	✓	✓	X
Azerbaijan	X	X	X	X	X	X	X	✓	✓	X	✓	✓	✓	✓	X	X
Bangladesh	X	X	✓	✓	✓	X	X	✓	✓	X	✓	✓	✓	X	X	✓
Belarus	X	X	X	X	X	✓	✓	✓	✓	✓	X	X	✓	X	X	X
Benin	✓	✓	✓	✓	✓	✓	✓	X	X	X	✓	✓	✓	X	✓	X
Bhutan	X	X	X	✓	✓	✓	X	X	✓	✓	X	✓	✓	X	✓	X
Bolivia	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	X
Bosnia and Herzegovina	X	X	✓	X	X	✓	X	✓	✓	✓	X	X	X	✓	X	X
Burkina Faso	X	X	✓	✓	✓	✓	✓	X	X	X	✓	✓	X	X	✓	✓
Burundi	X	X	X	X	X	X	✓	X	✓	X	X	✓	✓	X	X	X
Cambodia	X	X	X	✓	X	X	X	✓	X	X	X	✓	X	✓	✓	X

✓ indicates score above median.
X indicates score equal to or below median.

(table continues next page)

Table 3.3 Indicator scorecard, MCA countries with per capita income below $1,435 *(continued)*

	Ruling justly						Investing in people				Economic freedom					
	Civil liberties	Political rights	Voice and accountability	Government effectiveness	Rule of law	Control of corruption	Primary education spending as percent of GDP	Primary education completion rate	Immunization rate	Health spending as percent of GDP	Country credit rating	Inflation	3-year budget deficit	Trade policy	Regulatory quality	Days to start a business
Cameroon	X	X	X	✓	X	X	X	X	X	X	✓	✓	✓	X	X	✓
Cape Verde	✓	✓	✓	✓	✓	✓	X	✓	✓	X	X	✓	X	X	✓	X
Central African Republic	X	X	X	X	X	X	X	X	X	✓	X	✓	X	X	X	X
Chad	X	X	X	✓	X	X	X	X	X	✓	X	✓	X	X	X	X
China	X	X	X	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	X	✓	✓
Comoros	X	X	✓	X	X	✓	X	X	X	X	X	X	✓	X	X	X
Congo, Democratic Republic	X	X	X	X	X	X	X	X	X	X	X	X	✓	X	X	X
Congo, Republic	X	X	X	X	X	X	X	X	X	✓	X	✓	✓	X	X	X
Côte d'Ivoire	X	X	X	X	X	X	✓	X	X	X	X	✓	✓	X	✓	X
Djibouti	X	X	X	X	✓	✓	✓	X	X	✓	X	X	✓	X	X	X
Ecuador	✓	✓	✓	X	✓	X	X	✓	✓	X	✓	✓	✓	X	✓	X
Equatorial Guinea	X	X	X	X	X	X	X	X	X	X	X	X	✓	X	X	✓
Eritrea	X	X	X	✓	✓	✓	✓	X	✓	X	X	X	X	X	X	X
Ethiopia	X	X	X	X	✓	✓	X	X	X	X	X	✓	X	X	X	✓

The Gambia	X	X	X	X	✓	X	✓	✓	✓	✓	X	✓	✓	X	✓	X
Georgia	X	X	✓	✓	X	X	X	✓	✓	X	X	✓	✓	X	X	✓
Ghana	✓	✓	✓	✓	✓	✓	✓	✓	✓	X	✓	✓	X	X	✓	X
Guinea	X	X	X	✓	✓	✓	X	X	X	✓	X	X	X	X	X	X
Guinea-Bissau	X	X	X	X	X	✓	X	X	X	X	X	✓	X	X	X	X
Guyana	✓	✓	✓	✓	✓	✓	X	✓	✓	✓	X	✓	X	X	✓	X
Haiti	X	X	X	X	X	X	X	X	X	X	X	✓	✓	✓	X	X
Honduras	✓	✓	✓	✓	X	✓	X	✓	✓	✓	✓	✓	X	✓	✓	X
India	✓	✓	✓	✓	✓	✓	X	✓	X	X	✓	✓	X	X	✓	X
Indonesia	X	✓	✓	✓	X	X	X	✓	X	X	✓	✓	✓	✓	✓	X
Kazakhstan	X	X	X	X	X	X	X	X	✓	✓	✓	✓	✓	X	X	✓
Kenya	X	X	X	X	X	X	✓	X	✓	✓	✓	✓	✓	X	✓	X
Kiribati	✓	✓	✓	✓	✓	✓	X	X	✓	X	X	X	X	X	X	✓
Kyrgyz Republic	X	X	X	X	X	X	✓	X	✓	✓	X	✓	✓	X	✓	✓
Laos	X	X	X	X	X	X	X	✓	X	X	X	✓	X	X	X	X
Lesotho	✓	✓	✓	✓	✓	✓	✓	✓	✓	X	✓	✓	X	✓	✓	X
Liberia	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Madagascar	X	✓	✓	✓	✓	✓	✓	X	X	X	X	✓	✓	✓	✓	X
Malawi	X	X	✓	✓	✓	X	✓	X	✓	✓	✓	✓	X	X	✓	✓
Mali	✓	✓	✓	X	✓	✓	X	X	X	✓	✓	✓	X	✓	✓	✓
Mauritania	X	X	X	✓	✓	✓	✓	X	X	X	X	✓	✓	X	✓	X
Moldova	X	✓	✓	✓	✓	X	✓	✓	✓	✓	X	✓	✓	✓	✓	✓
Mongolia	✓	✓	✓	✓	✓	✓	✓	✓	✓	X	✓	✓	X	✓	✓	✓

✓ indicates score above median.
X indicates score equal to or below median.

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Table 3.3 Indicator scorecard, MCA countries with per capita income below $1,435 *(continued)*

	Ruling justly						Investing in people				Economic freedom					
	Civil liberties	Political rights	Voice and accountability	Government effectiveness	Rule of law	Control of corruption	Primary education spending as percent of GDP	Primary education completion rate	Immunization rate	Health spending as percent of GDP	Country credit rating	Inflation	3-year budget deficit	Trade policy	Regulatory quality	Days to start a business
Morocco	X	X	✓	✓	✓	✓	X	X	✓	X	✓	✓	✓	X	✓	X
Mozambique	X	✓	✓	✓	✓	X	X	X	✓	✓	✓	✓	X	X	✓	X
Myanmar	X	X	X	X	X	X	X	X	X	X	X	X	✓	X	X	X
Nepal	X	X	✓	✓	✓	✓	X	✓	X	X	✓	✓	✓	X	✓	✓
Nicaragua	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	X	✓	X	✓	✓	X
Niger	X	X	✓	X	✓	X	✓	X	X	X	X	✓	X	X	X	✓
Nigeria	X	X	X	X	X	X	✓	✓	X	X	✓	✓	✓	X	X	✓
Pakistan	X	X	X	✓	✓	✓	X	X	X	X	✓	✓	X	X	X	X
Papua New Guinea	✓	✓	✓	X	X	X	X	X	X	✓	✓	✓	X	X	✓	X
Paraguay	✓	✓	✓	X	X	X	✓	✓	X	X	✓	✓	✓	✓	✓	X
Philippines	✓	✓	✓	✓	✓	✓	✓	✓	X	X	✓	✓	✓	✓	✓	X
Rwanda	X	X	X	X	X	✓	✓	X	✓	✓	X	✓	✓	X	X	X
São Tomé and Príncipe	✓	✓	✓	✓	✓	✓	✓	✓	✓	X	X	✓	X	X	✓	X
Senegal	✓	✓	✓	✓	✓	✓	✓	X	X	✓	✓	✓	✓	X	✓	✓
Sierra Leone	X	X	✓	X	X	✓	✓	X	X	X	X	✓	X	X	X	X

Solomon Islands	✓	✓	✓	X	✓	X	✓	✓	✓	X	X	X	X	X	X	X
Somalia	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Sri Lanka	X	✓	✓	✓	✓	✓	X	✓	✓	X	✓	✓	X	✓	✓	X
Sudan	X	X	X	X	X	X	X	X	X	X	X	X	✓	X	X	X
Swaziland	X	X	X	✓	✓	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	X
Syria	X	X	X	✓	✓	✓	X	✓	✓	X	✓	✓	✓	X	X	✓
Tajikistan	X	X	X	X	X	X	X	✓	✓	✓	X	✓	✓	✓	X	X
Tanzania	✓	X	✓	✓	✓	X	X	X	✓	X	✓	✓	X	X	✓	✓
Timor Leste	✓	✓	✓	X	X	✓	X	X	X	X	X	X	X	X	X	X
Togo	X	X	X	X	✓	✓	✓	✓	X	X	X	✓	✓	✓	✓	X
Turkmenistan	X	X	X	X	X	X	X	X	✓	✓	✓	✓	✓	X	X	X
Uganda	X	X	X	✓	X	X	✓	✓	X	X	✓	✓	X	✓	✓	✓
Ukraine	X	✓	✓	✓	X	X	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Uzbekistan	X	X	X	X	X	X	✓	X	✓	✓	✓	X	✓	X	X	✓
Vanuatu	✓	✓	✓	✓	✓	✓	✓	✓	✓	X	X	X	X	X	X	X
Vietnam	X	X	X	✓	✓	✓	X	✓	✓	X	✓	✓	✓	X	X	X
West Bank	X	X	X	X	✓	X	X	X	X	X	X	X	X	X	X	X
Yemen	X	X	X	X	X	✓	✓	X	✓	X	X	✓	✓	✓	✓	X
Yugoslavia, Federal Republic	✓	✓	✓	✓	X	✓	X	X	✓	X	X	X	✓	X	✓	X
Zambia	X	X	✓	X	✓	X	X	✓	✓	✓	X	X	X	X	✓	✓
Zimbabwe	X	X	X	X	X	X	✓	✓	X	✓	X	X	X	X	X	X

✓ indicates score above median.
X indicates score equal to or below median.

Table 3.4 Possible qualifying countries, year 3 (countries with per capita income between $1,435 and $2,975)

Countries	Civil liberties	Political rights	Voice and accountability	Government effectiveness	Rule of law	Control of corruption	Public primary education spending as percent of GDP	Primary education completion rate (percent)
	(1 to 7, 1 = best)		(0 to 1, 1 = best)					
Qualify								
1 Belize	2	1	0.72	0.55	0.56	0.50	3.0	***82***
2 Bulgaria	2	1	0.64	0.56	0.57	0.52	1.6	***91.8***
3 Jordan	***5***	***6***	***0.32***	0.66	0.64	0.59	2.2	104
4 Namibia	***3***	***2***	0.61	0.63	0.67	0.63	4.9	***90***
5 South Africa	2	1	0.70	0.69	0.60	0.67	***n.a.***	98
6 St. Vincent and Grenadines	1	***2***	0.79	0.57	0.70	0.70	3.0	***84***
Eliminated by corruption								
1 Romania	2	***2***	0.62	***0.46***	0.54	***0.45***	***1.3***	98
Missed by one indicator								
1 Maldives	***5***	***6***	***0.24***	0.76	0.66	0.60	4.1	112
2 Thailand	***3***	***2***	0.56	0.64	0.62	0.53	***1.2***	***90***
3 Tunisia	***5***	***6***	***0.19***	0.71	0.62	0.67	***n.a.***	***91***
Median	**3**	**2**	**0.55**	**0.49**	**0.48**	**0.49**	**1.5**	**91.9**

n.a. = not available

Note: Missed hurdles are in bold italic.

each of these countries, the table shows which indicators the country passes and which it fails.

Possible Qualifying Countries in Year 3

In the administration's proposal, countries with income between $1,435 and $2,975 will be eligible to compete for funding in fiscal 2006. Of course, the data available today (and the list of qualifiers) are the most tentative for this group. This group of 28 countries would compete separately from countries with income less than $1,435, with different medians calculated independently for the two groups. Table 3.4 shows the six countries—Belize, Bulgaria, Jordan, Namibia, South Africa, and St. Vincent and the Grenadines—that would qualify if the administration's proposal to include these countries is adopted. The median scores in this group are much higher on almost every indicator, reflecting the much higher development status of these countries. For example, the median primary school completion rate is 92 percent, compared with 65 percent for the countries with per capita incomes below $1,435. Similarly, the immunization rate is 92 percent, compared with 75 percent for the second-year countries. The Free-

Immunization rate: DPT and measles (percent)	Public expenditure on health as percent of GDP	Country credit rating (1 to 100, 100 = best)	Inflation (percent)	3-year budget deficit (percent)	Trade policy (1 to 5, 1 = best)	Regulatory quality (0 to 1, 1 = best)	Days to start a business	Number of passed hurdles: Ruling justly	Number of passed hurdles: Investing in people	Number of passed hurdles: Economic freedom
92.5	***2.27***	38.8	1.2	***–10.7***	***4***	0.60	***n.a.***	6	2	3
92	3.89	39.6	3.8	1.4	***4***	0.69	30	6	2	5
99	3.62	38.6	0.9	***–2.7***	***5***	0.58	***89***	3	4	3
60.5	3.33	39.6	13.6	***–3.9***	3	0.64	***n.a.***	4	2	4
76.5	3.33	52.4	8.4	–2.0	3	0.69	32	6	2	6
98.5	4.16	***n.a.***	–0.8	–2.3	***n.a.***	0.61	***n.a.***	5	3	3
98.5	3.77	***33.9***	17.8	***–3.0***	***4***	0.56	46	3	3	3
98.5	3.67	***n.a.***	–2.1	***–4.7***	***n.a.***	0.74	***n.a.***	3	4	2
95	***1.87***	52.2	2.2	***–5.4***	***4***	0.65	45	4	1	4
94	***2.21***	50.7	1.5	***–2.5***	***5***	0.54	47	3	1	4
92.0	**3.2**	**38.1**	**20.0**	**–2.4**	**4.0**	**0.53**	**48.5**			

dom House political rights median score is 2 (on a scale of 1 to 7, with 1 being the top score) compared with 5 for the earlier group.

Romania is the only country from this group to fail solely because of its corruption score. The Maldives, Thailand, and Tunisia miss qualification by one hurdle. The Maldives misses qualification essentially because it is missing data for three of the six "establishing economic freedom" indicators. Table 3.5 is an indicator scorecard for all 28 countries from this group eligible to compete under the administration's proposal.

Each of these potential qualifiers is a reasonable choice, including the three countries that miss by one indicator, with the exception of Jordan. Although Jordan has had a decent economic record in recent years, it already receives substantial bilateral flows from the United States, so in a sense it is already receiving many of the benefits that the MCA might confer. Moreover, including Jordan in the MCA could politicize allocation decisions. It would be best if Jordan remained out of the MCA and continued to receive funding through the State Department's Economic Support Fund. The other countries seem plausible on economic grounds, but most are rich enough that they can access private capital markets and have less need of aid flows than do the poorest countries (South Africa may be an exception, given the extent of the HIV/AIDS crisis there). For example, Tunisia

Table 3.5 Indicator scorecard, MCA countries with per capita income between $1,435 and $2,975

	Ruling justly						Investing in people				Economic freedom					
	Civil liberties	Political rights	Voice and accountability	Government effectiveness	Rule of law	Control of corruption	Primary education spending as percent of GDP	Primary education completion rate	Immunization rate	Health spending as percent of GDP	Country credit rating	Inflation	3-year budget deficit	Trade policy	Regulatory quality	Days to start a business
Algeria	X	X	X	X	X	X	X	X	X	X	X	✓	✓	X	X	✓
Belize	✓	✓	✓	✓	✓	✓	✓	X	✓	X	✓	✓	X	X	✓	X
Bulgaria	✓	✓	✓	✓	✓	✓	✓	X	X	✓	✓	✓	✓	X	✓	✓
Colombia	X	X	X	X	X	X	X	X	X	✓	X	✓	X	X	X	X
Dominican Republic	✓	X	✓	X	X	X	X	X	X	X	X	✓	✓	X	X	X
Egypt	X	X	X	X	✓	X	X	✓	✓	X	✓	✓	X	X	X	X
El Salvador	X	X	X	X	X	X	X	X	✓	X	✓	✓	✓	✓	✓	X
Fiji	X	X	X	✓	X	✓	X	✓	X	X	X	✓	✓	X	X	X
Guatemala	X	X	X	X	X	X	X	X	X	X	X	✓	X	✓	X	✓
Iran	X	X	X	X	X	X	X	✓	✓	X	X	✓	✓	✓	X	X
Jamaica	X	X	✓	✓	X	X	✓	✓	X	X	X	✓	X	X	✓	✓
Jordan	X	X	X	✓	✓	✓	✓	✓	✓	✓	✓	✓	X	X	✓	X

Macedonia, Former Yugoslav Republic of	X	X	X	X	X	X	X	X	X	✓	X	✓	X	X	X	X
Maldives	X	X	X	✓	✓	✓	✓	✓	✓	✓	X	✓	X	X	✓	X
Marshall Islands	✓	✓	✓	X	X	✓	X	X	X	X	X	X	X	X	X	X
Micronesia	✓	✓	✓	X	X	X	X	X	X	X	X	X	X	X	X	X
Namibia	X	X	✓	✓	✓	✓	✓	X	X	✓	✓	✓	X	✓	✓	X
Peru	X	X	✓	X	X	✓	X	✓	X	X	X	✓	✓	X	✓	X
Romania	✓	X	✓	X	✓	X	X	✓	✓	✓	X	✓	X	X	✓	✓
Russia	X	X	X	X	X	X	X	✓	✓	X	✓	✓	✓	X	X	X
Samoa	✓	X	✓	✓	✓	✓	X	✓	✓	✓	X	✓	X	X	X	X
South Africa	✓	✓	✓	✓	✓	✓	X	✓	X	✓	✓	✓	✓	✓	✓	✓
St. Vincent and Grenadines	✓	X	✓	✓	✓	✓	✓	X	✓	✓	X	✓	✓	X	✓	X
Suriname	✓	✓	✓	✓	✓	✓	✓	X	X	X	X	X	✓	X	X	X
Thailand	X	X	✓	✓	✓	✓	X	X	✓	X	✓	✓	X	X	✓	✓
Tonga	X	X	X	X	X	X	X	X	✓	X	X	✓	X	X	X	X
Tunisia	X	X	X	✓	✓	✓	X	X	✓	X	✓	✓	X	X	✓	✓
Turkey	X	X	X	✓	✓	X	X	✓	X	✓	X	X	X	✓	✓	X

✓ indicates score above the median.
X indicates score equal to or below the median.

"graduated" from USAID funding several years ago, so while its policy record is sufficient, its need for large sums of foreign aid is questionable.

To reiterate the points made in chapter 2, it would be best if this group of countries were dropped from the MCA. Although these countries include many people living in poverty, overall their standards of living are substantially higher than those in low-income countries, and they have access to several other sources of financing that are out of reach of the poorest countries.

Changing the Weighting on Different Indicators

Some observers have suggested giving greater prominence to various indicators in the country selection process, including economic competitiveness, trade, and democracy. The question is finding the right balance, since giving one indicator more weight automatically gives others less. For example, Paolo Pasicolan and Sara J. Fitzgerald (2002) recommend that the MCA rely exclusively on economic competitiveness criteria, and not include "ruling justly" or "investing in people" criteria. They argue that improved health and education and improved governance are the *result* of rapid economic growth, rather than *inputs* to the growth process. This argument, however, differs from a large body of research showing better health, education, and governance as causal factors of growth, as well as benefiting from growth in the long term (Barro 1998; Bloom and Canning 2000; Kaufmann et al. 2002). The administration's proposal is more consistent with both economic theory and empirical research.

Other observers have suggested that trade policy be given greater weight, since trade is central to the growth process. This argument is more consistent with both economic theory and empirical research. However, as discussed earlier, there is a surprising paucity of strong trade policy indicators, and until more accurate indicators are developed it will be difficult to give greater emphasis to this area.

Still others suggest giving more weight to democracy. Although most of the potential MCA qualifiers are democracies, the possibility that Bhutan, Swaziland, and Vietnam could qualify under the proposed methodology raises red flags. Including these countries, critics argue, would undermine the credibility of the MCA and contradict US efforts to advocate democracy worldwide (Palley 2003). However, to some extent, the administration's proposal takes this viewpoint into account, since it gives democracy greater prominence in the selection process than any other area except corruption by including three democracy indicators (political rights, voice and accountability, and civil liberties). As mentioned previously, both of the Freedom House indicators (political rights and civil liberties) are components of the World Bank Institute's voice and accountability indicator, so they are counted twice in the selection process. Giving additional weight to democracy would mean giving less weight to health, education, and other indicators. In addition, the precise empirical relationship between democracy and economic development and poverty reduction remains unclear, as summarized by the UNDP's 2002 *Human Development Report*, which found that "the literature finds no causal relationship between democracy and economic performance, in either direction" (UNDP 2002). Probably the best way to give more weight to democracy in the few cases where it is necessary is by using the procedure by which the MCC board can adjust the list of qualifying countries. The administration should use the discretion afforded by this process to eliminate the most egregious nondemocracies rather than reorganizing the indicators in a way that might inadvertently deemphasize other important aspects of the qualification process.

The administration's weighting of the 16 indicators ultimately is arbitrary and should be recognized as such. Different weighting systems might be more consistent with identifying countries where aid can be effective in supporting economic growth and poverty reduction. Deeper research is necessary on alternative weighting systems to consider moving in that direction.

An Alternative Ranking System: How Would the List Change?

The previous chapter suggested an alternative way to aggregate the same 16 indicators to determine the set of qualifying countries. Briefly, I rescale each indicator so that the mean score is reassigned a value of zero, and values that are one standard deviation above or below the mean are reassigned values of 1 and –1, respectively. I convert all other scores by a proportional scale. To account for the problem of missing data, I (arbitrarily) assign them the score equal to the 25th percentile—that is, halfway between the worst and the median scores. This produces scores ranging from about –2.5 to +2.5. I then add the rescaled indicators within each of the three broad criteria to calculate one score for each country in each of the three areas. Finally, I add the three scores to determine a single aggregate score for each country. I use this score to rank countries from best to worst.

Table 3.6 shows the top 25 countries in each of the first two years and the top 10 in the third year using this ranking system. As mentioned previously, under this system, the administration would have to decide how many countries would qualify—say, the top 15 or 20. This decision would be arbitrary, replacing the arbitrary decision to use medians in the other system. For comparison, the countries in bold are those that qualify under the administration's proposed system.

Table 3.6 List of qualifying countries using the alternative aggregate ranking method

	Year 1: IDA-eligible countries with per capita incomes less than $1,435	Year 2: All countries with per capita incomes less than $1,435	Year 3: Countries with per capita incomes between $1,435 and $2,975
1	**Mongolia**	**Mongolia**	**St. Vincent and Grenadines**
2	**Sri Lanka**	**Philippines**	**Bulgaria**
3	**Nicaragua**	**Nicaragua**	**South Africa**
4	**Lesotho**	**Sri Lanka**	Samoa
5	**Bolivia**	**Lesotho**	Maldives
6	Cape Verde	**Bolivia**	Thailand
7	Guyana	Cape Verde	Romania
8	**Armenia**	Guyana	**Jordan**
9	Vanuatu	**Armenia**	**Namibia**
10	India	Vanuatu	Jamaica
11	Moldova	Moldova	
12	**Senegal**	Ukraine	
13	Bosnia and Herzegovina	Morocco	
14	**Ghana**	**Senegal**	
15	**Honduras**	India	
16	São Tomé and Príncipe	Bosnia and Herzegovina	
17	**Bhutan**	China[a]	
18	Benin	Ghana	
19	Kiribati	**Swaziland**	
20	Mauritania	São Tomé and Príncipe	
21	Albania	**Honduras**	
22	Madagascar	**Bhutan**	
23	Nepal	Benin	
24	Uganda	Kiribati	
25	**Vietnam**	Ecuador	

a. Ineligible to receive US foreign assistance for statutory reasons.

Note: Bold indicates countries that also qualify using the administration's methodology.

Notes about other countries (not shown here) that possibly qualify using the administration's methodology:
In year 2, Vietnam ranks number 33.
In year 3, Belize ranks number 11.

There is a fair amount of overlap between this list and the original list of qualifiers shown in tables 3.1 to 3.3. For example, in year one, 10 of the 11 original qualifiers are in the top 17. The 11th qualifier, Vietnam, ranks 25th. In the second year, Honduras (21), Bhutan (22), and Vietnam (33) score outside the top 20. In the third year, three of the original qualifiers rank 1 to 3 (St. Vincent and the Grenadines, Bulgaria, and South Africa). Several other countries not on the original list score high in the new ranking, including Cape Verde, Guyana, and India, each of which would be reasonable choices for the MCA. Most of the more controversial qualifiers under the administration's system score relatively poorly in this system, including Bhutan, Vietnam, Swaziland, and Jordan. Indeed, with the exception of Bosnia and Herzegovina, the top 16 countries in each of the first two years and the top 6 in the third year are all sensible qualifiers in this system.

One issue in this system is that extreme scores on one indicator can heavily influence the rankings. A very high level of health spending (8.5 percent of GDP), far higher than other countries, drives Nicaragua's overall ranking. Bosnia and Herzegovina, which does not qualify under the administration's system because of poor "ruling justly" scores, climbs to 13 because of very high health spending (8 percent of GDP). But Honduras tumbles to number 21 largely because it records a poor score of 146 on the "days to start a business" indicator.

Overall, this is a reasonable alternative aggregation method and in many ways is superior to the administration's system. The biggest issue is deciding how many countries should qualify. It creates difficulties for countries not qualifying, as it is less clear to them exactly what standards they must attain to qualify for the program. Nevertheless, this system should be used at least as a cross-check on the other system to guide decisions about modifying the original list, and should be given strong consideration to become the basic system to determine qualification.

Conclusions and Recommendations

Using the administration's proposed system, 11 countries will qualify in the first year. Two additional countries will qualify in the second year and six more in the third. Thus, using available data, 19 countries could qualify for the MCA in the first three years. Six of these countries are in sub-Saharan Africa (SSA), 5 in South and East Asia, 2 in Eastern Europe and Central Asia, 5 in Latin America and the Caribbean, and 1 in the Middle East. In addition, 25 other countries miss qualifying by one indicator (including corruption). Several of these countries, including Cape Verde, Guyana, São Tomé and Príncipe fail to qualify only because they are missing data on several indicators (through no fault of their own). These countries should be added to the list of qualifiers in the first year. Several other countries that miss qualifying by one indicator would also make strong candidates. Conceivably, several of these countries could improve their scores and qualify within a few years. However, even if they do, under the administration's proposal the total number of countries qualifying for the MCA is unlikely to expand much beyond the original size, since the use of the median as the hurdle dictates that as some countries improve their scores to qualify, the medians rise, and others fall below the qualifying standard.

Africa has been a focus of attention in the MCA. The six SSA countries most likely to qualify constitute 12 percent of the population of the region. Excluding Nigeria from the equation, which accounts for one-fifth of the population of SSA and is far from qualifying for the MCA, the qualifiers account for 14 percent of SSA's population. The countries that miss by just one hurdle account for an additional 8 percent of the region's population (excluding Nigeria), so that 22 percent of SSA's population outside Nigeria is likely to qualify or be close to qualifying for the MCA during the first three years. This is a fairly small share. This outcome raises the important question of the US government's strategy in countries that do not qualify for the MCA. Many African countries (along with low-income countries from other regions) are far from qualifying for the MCA, and there is no clear strategy yet for US foreign aid in these countries to help them qualify. I return to this subject in chapter 9.

The administration's proposed methodology to select MCA countries is by and large a reasonable initial approach, if it is willing to add some of the countries that are close to qualifying. Most of the countries on the qualification list are fairly sensible choices (although there are some exceptions). However, there are some weaknesses in the system, which fortunately can be improved relatively easily. Some of these changes can be implemented immediately, whereas others will take more time.

The biggest concern is the inclusion of the countries with incomes between $1,435 and $2,975. Although there are many people living in poverty in some of these countries, their overall development status is much more advanced than the lower-income countries. As mentioned earlier, these countries have access to a much wider array of financial resources to address their problems. They should not be eligible for the MCA and should continue to access traditional forms of US assistance as appropriate. Instead, the MCA-eligible countries should be split into two groups in a different way. The first group would include all countries with per capita incomes of $875 or less, equal to the World Bank's current operational cut-off for IDA eligibility. This group would include the 68 poorest countries. The second group would include 19 additional countries with per capita incomes between $875 and $1,435. In this system, the 87 poorest countries would be eligible for the MCA rather than the 115 in the current proposal, eliminating the 28 countries in the third group. The two groups would compete separately for funding as in the current proposal, with the vast majority of funds going to the lower-income group. Alternatively, as suggested in chapter 2, if the current income groups are retained, the administration should adopt a limit (up to $1 billion a year) that would be available to the richer country group, consistent with its population share.

The use of the median as the hurdle raises three concerns. First, medians change from year to year, so countries will be aiming at moving targets. Second, using medians as benchmarks severely restricts the potential for the number of MCA countries to expand over time. Because of these two concerns, the administration should quickly adopt absolute hurdles for as many indicators as possible, perhaps using the medians from the first year as a guide. This step could be taken immediately for the four "investing in people" indicators, inflation (already using an absolute standard of 20 percent), budget deficit, and days to start a business. It will be more difficult to take this step for the other indicators, but the administration could work with the suppliers of the data to explore ways in which the other indicators can be adjusted to an absolute scale that could be compared over time. Third, several indicators with narrow scales have a large number of countries bunched together on the median. The administration should try to refine some of the indicators that use very narrow scales resulting in many countries bunched together near or at the median. The Heritage Foundation/Wall Street Journal trade policy index is the weakest indicator in this area, but the Freedom House civil liberties and political rights indices are also of concern. Once this step is taken, the administration can allow median scores to be a passing grade on each hurdle.

The proposal to eliminate all countries with corruption scores below the median regardless of their performance in other areas should be reexamined. The data used for this indicator (along with most other indicators) are not robust enough to have a high degree of confidence about the true level of corruption in countries with scores near the median. As an alternative, the administration could eliminate immediately the worst corruption offenders where the data indicate that there is a 75 percent or greater chance that the true score is below the median. Other countries would remain eligible and could qualify if they met half the hurdles in each of the three categories even if they missed on the corruption indicator.

The chosen indicators, while far from perfect, probably are the best available at the moment to help choose countries for the MCA. The current indicators can be improved over time, and the administration should consider exploring other indicators that could be used either in place of or in addition to existing indicators. Although the proposed system is a reasonable starting point, it has some clear weaknesses.

For example, the list of qualifying countries is a good start but not ideal. Many of the countries that would qualify are reasonable choices for MCA funding, including Bolivia, Honduras, Ghana, Lesotho, and Senegal. However, several other countries are surprising qualifiers, including Bhutan, Swaziland, and Vietnam. A few others are surprising for *not* making the list of qualifiers, such as Guyana and Thailand. The administration's proposal to allow the board of directors of the new corporation to modify the list of qualifying countries could help remove some of these anomalies. But the outcomes indicate some weaknesses in the chosen indicators as well.

The "economic freedom" indicators give heavy weight to several standard macroeconomic variables, so countries with a reasonable macroeconomic environment but weaker microeconomic policies still pass this group of hurdles. One striking result is that Nigeria, Cameroon, Haiti, Syria, Turkmenistan, and Ukraine pass three or more of the "economic freedom" indicators. This suggests that greater attention should be given to the microeconomic foundations of sustained economic growth, such as licensing and regulatory burdens, agriculture pricing distortions, financial market operations, and state ownership of productive assets. In a different direction, the "investing in people" indicators are particularly difficult for poor, highly indebted countries to pass, since two of the indicators relate to public spending on health and education. Expanding this set of indicators, or exploring ways to take account of significant improvements in health and education (that still may fall short of the qualifying level), could strengthen the selection process.

The administration should consider the following changes to the indicators:

- Countries should be urged to make available data on tariff and nontariff barriers to trade, with a breakdown for capital and intermediate goods. These data could replace the current trade indicator, which is among the weakest of the indicators, both because of its subjectivity and narrow range of scores.
- Budget data should be improved to refine the measure of the budget deficit and the most appropriate spending items for health and education.
- Data on "days to start a business" should be expanded to include information on other barriers to start new business, and the data's country coverage should be expanded substantially.
- An indicator should be added to measure the extent of state ownership of productive assets. It should be limited to measuring state ownership in manufacturing, retail trade, and financial services, where the benefits of privatization are clearer and less controversial. It should exclude measures of state ownership of infrastructure and utilities (including water), where the results of privatization have been much less clear. This indicator would take a year or two to develop.
- The "investing in people" indicators should be expanded to include the ratio of girls to boys in primary schools, perhaps the primary school enrollment ratio, plus one other health indicator.
- The indicators on spending on primary education and health should be replaced over time by indicators that measure spending in the most important areas of health and education.

The MCA should be used to stimulate broader and deeper data collection efforts that will help guide effective development policies and foreign assistance programs in the future.

Countries should be ranked by their aggregate score as well as by the original system to double-check the list of qualifiers. The administration should continue to modify and refine both the ranking systems to determine which can evolve into the stronger and more accurate method.

Ultimately, these refinements would marginally change the list of qualifying countries, adding some countries and dropping others. They would not change the fundamental character of the qualification process, which is designed to select a small number of countries for the MCA.

Finally, improving the selection methodology will take time, energy, and technical skill. The process involves several important issues such as the appropriate income categories, choice of indicators, weighting and aggregation, and quality of the data. To give these issues the attention and expertise they deserve, the administration and Congress should jointly commission a team of independent technical experts to review the selection process on an annual basis and make recommendations for improvement. These experts could review a range of alternative selection methodologies and report their findings publicly to Congress, the administration, and other interested groups. This step would ensure a stronger selection process over time and help ensure that MCA funds are allocated to the countries that are most committed to supporting economic growth and poverty reduction.