Round Four of the MCA:
Which Countries Are Most Likely to be Selected for FY 2007?

Sheila Herrling, Steve Radelet, and Sarah Rose
Center for Global Development
October 30, 2006

Introduction and Overview

The Board of Directors of the Millennium Challenge Corporation (the MCC) will meet on November 8th to select countries to be eligible to apply for funding in FY 2007. This year marks the fourth round of MCC selections. To lay the groundwork for the selection, the MCC has released three key documents:

1. In August, it released its *list of candidate countries* separated into two groups: low-income countries (LICs) and lower middle-income countries (LMICs).[1]
2. In September it released a description of its *selection methodology*, including some modifications in sources for and/or scaling of several indicators.[2]
3. On October 16th, it released the data for each candidate country for the 16 indicators that will be used to partially determine eligibility.[3] It also released country scores on two new indicators—natural resource management and land rights and access—that will be used as "supplemental" information this year and fully incorporated next year.

This note draws on these documents to explore which countries are most likely to be selected for FY 2007. We look closely at the 16 indicators but recognize that these data alone do not determine selection. As in the past, the MCC Board has the power to select (or not select) countries based on both the 16 indicators and supplemental qualitative and quantitative information. In the FY 2006 round, the Board selected 18 out of 26 LICs and two out of eight LMICs that passed the indicator test; it also selected three countries that did not pass the indicator test. Hence, this analysis represents our *forecast* of the countries most likely to be selected by the MCC as eligible for funding in FY 2007; it is not an official list of the countries that *will* be selected.

---

[1] For the candidate countries, see http://www.mcc.gov/countries/candidate/FY07_candidate_report.pdf.
[2] For the selection criteria and methodology, see http://www.mcc.gov/about_us/congressional_reports/FY07_Criteria_Methodology.pdf.
[3] To view the country scorecards for FY 2007, see http://www.mcc.gov/countries/rankings/FY07/index.shtml.

Our analysis shows that:

- 21 LIC countries pass the indicators test for FY 2007, five fewer than last year.
- 8 LMICs pass the tests, the same number as last year.
- Four countries with which the MCC has signed compacts do not pass the indicators test: Ghana, Benin, Madagascar, and Cape Verde. Some other countries that are quite far along in the compact development process also fail.

The Board is faced with several key issues this year:

- The Board must decide on FY 2007 eligibility for the four countries with signed compacts that do not pass the indicator test. The decisions are largely symbolic: they will not affect compacts in place, the compact development process, or the amount of funding available for these countries. But signals are important, and effectively the Board must decide whether it wants to send a strong signal about the indicators or a strong signal of support for countries in the early stages of implementing a compact. Each case is different, but in our judgment the MCC is likely to select each of the four countries again this year.
- Most controversially, we think it is highly likely that the Board will select both Indonesia and Jordan, but we do not believe that either would be an appropriate choice. Indonesia falls short by two hurdles but is likely to be chosen for political reasons, and Jordan is already a very large recipient of US assistance, is not a democracy, and has many other sources of funding.
- The Board faces borderline decisions on several countries, including Bolivia, East Timor, Senegal, the Solomon Islands, Ukraine, and Zambia among the LICs, and Bulgaria, Morocco, and Samoa among the LMICs.
- In our view, since FY 2007 funding is unlikely to differ significantly from the FY 2006 level of $1.77 billion (and is unlikely to change much perhaps for several years out), the Board's selections should be guided by heightened selectivity. In particular, we believe it should not choose any additional LMICs this year, since overall funding is limited and the LICs have much greater needs and much less access to alternative sources of funding than LMICs.
- The Board has an opportunity to strengthen and clarify the purposes of the Threshold Program. It needs to be more consistent in its country choices, since its past choices have sent very mixed signals, and begin to think more imaginatively about the purposes of the Program.
- The Board must decide how transparent it wants to be in its decision-making. We believe the MCC selection process would be strengthened significantly if the Board were more open and transparent in explaining its decisions when selections differ from the indicators results, both in selecting countries that do not meet the tests and not selecting those that do.

Low Income Countries

The appendix explains in detail the MCC selection methodology and its recent changes. In brief, to pass the indicators test a country must score above the median for its group (LIC or LMIC) for at least half of the indicators in each of three broad categories: Ruling

Justly, Investing in People, and Economic Freedom. In addition, the country must score above the median on the "control of corruption" indicator. For the inflation indicator, the MCC uses an inflation rate of 15% as the standard rather than the median. In addition, a country must not fall "substantially below the median" on any indicator (generally defined as scoring in the lowest quartile). The LIC group consists of 79 candidate countries with per capita incomes less than $1,675. Ten of those countries are statutorily ineligible to receive U.S. foreign assistance, and therefore cannot be selected, leaving a pool of 69 potentially eligible countries.

Countries that Pass the Indicators Test

Table 1 summarizes the LIC country results. The first column shows *current* eligible countries and others that passed the tests in FY 2006 but were not selected. Column 2 shows the LIC countries that pass the indicators for FY 2007, along with those countries that narrowly fail. Column 3 lists those countries we feel the Board is most likely to select as well as some that appear to be borderline cases. Table 2 provides detailed data for each of the 79 countries for each of the 16 indicators as well as the scores for the natural resource management and land rights and access indicators. The median (passing) score for each indicator is listed at the top of each column.

According to the data, 21 LICs pass the indicators test, including:

- six from Sub-Saharan Africa: Burkina Faso, The Gambia, Lesotho, Mali, Mozambique, and Tanzania;
- one from North Africa: Egypt;
- four from Asia: Bhutan, East Timor, Mongolia, and Vietnam;
- three Pacific Island countries: Kiribati, Solomon Islands, and Vanuatu;
- three from Latin America: Bolivia, Honduras, and Nicaragua; and
- four from Eastern Europe and Central Asia: Armenia, Georgia, Moldova and Ukraine.

The MCC selected 20 LICs last year, 18 of which passed the indicators and two that did not: Georgia and Senegal. This year Georgia passes the tests, while Senegal again does not.

Of the 18 countries that passed the tests last year and were selected, 13 pass again. ***However, five countries that passed the indicators last year do not pass this year: Benin, Ghana, Madagascar, Morocco, and Sri Lanka***. The most critical issue is that three of these countries have already signed compacts (Benin, Ghana, and Madagascar) and a fourth (Morocco) is at an advanced stage in the compact development process, as we discuss further below.

Seven countries pass the indicators that were not selected last year. Four of these also passed the tests last year but were not chosen: Bhutan, Egypt, Kiribati, and Vietnam. ***Three countries pass the tests this year for the first time: Moldova, Solomon Islands, and Ukraine.***

Seven countries would have passed the indicators test if not for failing the corruption hard hurdle: Benin, Kenya, Malawi, Niger, Papua New Guinea, Paraguay, and Uganda.

Countries Most Likely to Be Selected

The Board is likely to select again most (but not all) of the countries it selected in FY 2006 that pass the indicators test this year plus the three compact countries that do not pass this year. In particular we believe the Board is likely to again select ***Armenia, Benin, Burkina Faso, Georgia, Ghana, Honduras, Lesotho, Madagascar, Mali, Mongolia, Mozambique, Nicaragua, Sri Lanka, Tanzania,*** and ***Vanuatu***. In addition, it probably will again select ***East Timor***, although the combination of some political unrest earlier in the year and the sharp increase in revenues from new oil exports may give the Board some pause. ***The Gambia*** passes the tests again this year, but since the Board suspended The Gambia's eligibility in June 2006, it almost certainly will not select the country this year.

In addition to these countries, the Board may select ***Moldova*** this year for the first time. Moldova did not pass the corruption indicator last year, but this year it scores just above the median. Moldova passes 15 of the 16 indicators (as well as the two new natural resource indicators), failing on only on primary education expenditures, making it one of the strongest overall performers. However, since Moldova's Threshold Program was just signed last week, there is a chance that the Board may pass it up for full eligibility this year, but in the past the Board has selected several other Threshold countries for full eligibility (Burkina Faso, East Timor, and Tanzania). It is also possible that the situation in Dniester, the region of Moldova that wants to break away and unite with Russia, may factor into the Board's decision.

We believe that the Board is likely to select ***Indonesia*** this year, but unfortunately for the wrong reasons. Indonesia does not pass the indicators, falling two short: it passes just one of four Investing in People indicators and falls short on control of corruption. But indications are that the MCC will select it this year for political reasons, both because of a desire to include more predominately Muslim countries, and because President Bush is scheduled to visit Indonesia in mid-November just after the Board meets. Indonesia has a long history of successful development policies. One of the authors of this note (Radelet) lived in Indonesia for many years as an advisor to the government, so knows it well and if anything is biased to be very supportive. But the fact remains that Indonesia has not yet met the MCC standards, and there is every reason to expect that Indonesia is fully capable of doing so without making special exceptions. Indeed the MCC just approved a $55 million Threshold Program with Indonesia focused on the two areas in which it falls short—corruption and immunization. If the US wants to provide additional financial support to Indonesia for political purposes, it should do so through State Department or USAID funds, not through the MCC. It would be far more appropriate for the Board to wait until Indonesia passes the tests than to make an exception for political reasons. The Board's choosing to select Indonesia and not select other countries with equal or better scores (e.g., Zambia, the Solomon Islands) would weaken the selection process, especially if it does not transparently explain its decisions where they differ from the indicators.

Our list of most likely selections includes four countries that do not pass the indicators: Benin, Ghana, Madagascar, and Sri Lanka. ***Sri Lanka*** only passes one of four Investing in People indicators, down from two of four last year. However, it is missing data on the girls' primary school completion rate this year after scoring a very high 95.2% last year. Since it is nearly impossible to conceive that its rate this year actually fell below the median score of 66.7%, we believe the Board will again select Sri Lanka. However, the Board might consider not choosing Sri Lanka, given the recent return to civil conflict and signs that it could worsen in coming months.

The Board faces more difficult issues this year around three countries that have signed compacts but did not pass the indicators: Benin, Ghana, and Madagascar. Its decisions this year will set a precedent for future years, since as the MCC matures and signs more compacts these issues will arise again. A key point is that the Board's decisions about eligibility this year do not directly affect the legal standing or available funding for the compacts that have already been signed, since they were based on eligibility and appropriations made in previous years. (Note that all funding for a multi-year compact comes from amounts appropriated in the year the Board selected the country as eligible). These compacts will remain in force regardless of the Board's eligibility decisions for FY 2007. Moreover, under current legislation these countries cannot sign a second compact (although that could change for FY 2008, depending on the reauthorization process that is currently underway). Thus the importance of the Board's decisions for this year on these countries is mostly for signaling effect, and in effect the Board must decide between two different signals that it could send. It could choose to not select these countries in order to send a strong signal about the indicators. Alternatively, it could choose to send a signal of continuing support to countries that it has praised for strong performance and are now beginning to implement compacts.

In our view, in making this choice the key issue for the Board is whether or not there are reasons to believe that government commitment to strong development policies has <u>significantly and materially</u> deteriorated over the past year. Since the data underlying the indicators contains substantial "noise" which leads to a certain amount of variance each year, it is not surprising that in some cases, a country's score moves from slightly above to slightly below the median, either because of slight variations in performance or because of weaknesses in the measurement system. In these cases, there is no particular reason for the Board to not select a country, although it may want to convey some concerns to the government for the future. By contrast, if the decline in indicator performance appears to indicate a more significant deterioration in government policies, the Board should consider not selecting a country. (By contrast, decisions about *suspending a compact* should be based more directly on performance covenants made in the compact agreement itself, rather than on the indicators). With these considerations in mind, we briefly review the three countries in question.

Benin signed a compact in February 2006, and in previous years has easily passed the indicators test. However, its score on control of corruption fell very sharply this year from the 86th percentile to the 38th percentile. Last year Benin's control of corruption score was 12th best out of 81 LICs; this year it ranks 49th out of 79. The main reason for this drop is that the World Bank Institute changed the composition of the underlying data it uses for its corruption indicator by adding two new sources (Afrobarometer and the World Economic Forum's Global Competitiveness Report) and removing one source (Columbia University's State Capacity Project). The two new sources score Benin lower on corruption than the Columbia source, thus yielding a lower aggregate score. The World Bank Institute feels that this gives a more accurate picture. Thus the revised indicator does not show real erosion in performance so much as it indicates that Benin's previous scores were too positive. Although passing the corruption indicator is required by the MCC, the Board has made exceptions in the past (e.g., Georgia, Mozambique in 2004). We think the Board is likely to select Benin again for FY 2007, but we expect that it will express some concern to the government of Benin, and may consider not selecting Benin in the future if the corruption score does not improve. However, the Board could choose to not select Benin to set a stronger precedent for future cases and to send a clear message to the government of Benin.

Ghana recently signed the biggest MCC compact to date, valued at $547 million. This year it does not pass the requisite three out of six indicators in the Economic Freedom category. However, it misses the inflation hurdle by the slimmest of margins, registering 15.1% inflation for 2005, at least according to the MCC's official source, the IMF's World Economic Outlook. However, the IMF's International Financial Statistics, which is updated more regularly than the WEO, shows that Ghana's 2005 inflation rate actually was 14.8%. More importantly, for the most recent 12 months (August 2005 through July 2006), Ghana's inflation was 11.4%. Moreover, Ghana's fiscal deficit improved this year to -2.71% of GDP, which would have been good enough to pass last year's median of -3.04%, though it is not good enough to pass this year's median score of -2.54%. Ghana also passes both of the new natural resource indicators. Thus, the data do not indicate a significant deterioration in Ghana's economic polices, and we believe the Board will select Ghana this year.

Madagascar was the first country to sign a compact and has passed the indicators in each previous year. This year it passes only one of four Investing in People indicators, as it no longer passes the immunization indicator as it did last year. This year the WHO database updated the immunization rate for Madagascar from 86% in 2003 and 2004 to around 60% for both of those years as well as for the most recent year. Thus with more accurate data, Madagascar would not have passed the indicators in the past. In addition, for the first time Madagascar does not pass the indicator on public health expenditures, as its reported spending (using the new WHO source) fell from 2.25 to 1.9% of GDP. Moreover, Madagascar does not pass either of the two natural resource indicators, which does not bode well for its selection prospects next year. We think the Board is likely to select Madagascar again this year, although as with Benin, it could choose to not select them to set a stronger precedent and send a clear signal.

Borderline Countries

Bolivia has been selected every year so far and passes easily again this year. Its previous government submitted a compact proposal to the MCC, and the new government of Evo Morales has endorsed the proposal. However, the US government is very uneasy with the Morales government, particularly following the nationalization of parts of the hydrocarbons industry. But these steps by themselves, even when they are fully captured by the data in future years, are unlikely (by themselves) to lead to Bolivia failing the indicators test. And it is a bit hard for the MCC not to select Bolivia out of concern for what a democratically-elected government might do in the future. The MCC Board surely will discuss Bolivia carefully, but we think it is most likely to choose Bolivia this year, since doing so will make no material difference in the amount of funds available to Bolivia, and to *not* select them might draw more attention to the issue than the Board desires. Meanwhile, the MCC is likely to continue to move very slowly on Bolivia's compact.

East Timor passes easily this year, just as it did last year when it was selected. Because of its continued good indicator performance and its past selection, the Board may choose to select East Timor again this year. There are two reasons, however, why the Board may choose not to select East Timor. First, there was significant political unrest within the armed forces earlier this year, which may give some pause. Second, the beginning of the massive oil revenues East Timor is projected to see over the next several decades due to the revenue-sharing deal it secured with Australia for large maritime oil and gas reserves under the Timor Sea, has driven up government revenues to unprecedented levels, leading to a huge budget balance of 45% of GDP (three-year average). As East Timor works to adopt new policies to ensure effective management of such massive amounts of revenues, the Board may choose to not select East Timor, arguing that the government does not need MCA resources on top of its new revenues. However, it would be odd not to select a country because of very good performance on an indicator. Moreover, if the Board were to decide to not select countries with alternative large financial resources, it should eliminate the LMICs, which all have far more income and resources than East Timor. It would be preferable to stick with the indicators and select East Timor, and then carefully review its compact proposal to discern whether the country can effectively absorb both its new oil and gas revenues and MCA funds, rather than just assume that it cannot.

Senegal has been selected by the MCC each year, but for the second year in a row it passes just one of four Investing in People indicators. However, it is relatively close on both the immunization rate (79% against a median of 81%) and on public primary school education (1.95% of GDP against a median of 2.07 %). It passes one of the two natural resource indicators. Overall, we think it most likely that the Board will again choose Senegal. However, since it is the second year in a row that Senegal has fallen short, the Board could choose to send a signal by not selecting it this year, while still allowing the country to proceed with its compact development based on previous eligibility.

The Solomon Islands passes the indicators test this year for the first time, and in two of the indicators it fails, rule of law and regulatory quality, it shows a trend of improvement over prior years. (However, it does not pass the two new natural resource indicators). Thus, to stay true to the indicators, the Board should lean towards selecting the Solomon Islands. Nevertheless, it may not do so. After selecting Vanuatu (which has subsequently signed a compact), the MCC seems to have shied away from choosing other small Pacific Island nations. For reasons it has not explained, the Board did not select either Kiribati or Samoa (an LMIC) even though both passed the indicators, so we are not sure what the Board will decide for the Solomon Islands. If the Board does not select the Solomon Islands, it should publicly and transparently state the reasons why.

Ukraine passes all of the Ruling Justly indicators, two of four Investing in People indicators, and five of six Economic Freedom indicators (it also passes the natural resource management indicator, with no data available for the access to land indicator). However, it scores particularly poorly on public education expenditures, ranking only in the 5th percentile. The Board could decide to not select Ukraine since it is clearly "substantially below" the median on this indicator. Moreover, the Board has approved a Threshold Program with Ukraine focusing on anti-corruption programs. The Threshold Program has not yet been signed, however, and the Board may choose to allow for more time for this program to begin before elevating Ukraine to full eligibility. The Board is likely to debate the case of Ukraine carefully, but based on its "substantially below the median" rule, it seems most likely to not select Ukraine this year.

Zambia passes sufficient hurdles overall to pass the test, including four of six Ruling Justly indicators (and it is very close on the two others), two of four in Investing in People, and four of six in Economic Freedom. It also passes the natural resource management indicator and is very close on the land access indicator. But it technically does not pass the corruption indicator, because it is exactly the median country. Its corruption score increased from the 34th percentile in 2004 and 2005 to the 58th percentile last year before it slipped to the 50th percentile this year. Zambia has been close to qualifying each year. We think it would be a reasonable choice for the Board, but it may hold off until Zambia fully passes the corruption indicator.

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

Bhutan, Egypt, and ***Vietnam*** all pass the indicators test this year as they did for the past three years (Egypt for the past two years) when they were not selected. Egypt is substantially below the median for three indicators (political rights, trade, and fiscal policy); Bhutan is substantially below for two (political rights and fiscal policy); and Vietnam is substantially below for five (political rights, civil liberties, voice and accountability, health expenditures, and trade policy). Perhaps more importantly, these three countries are not democracies. Although the MCC does not have a firm rule to select only democracies, it clearly puts a special emphasis on the issue (we have argued in the past that, in our view, MCC funds should only go to democracies). To date, Morocco is the only non-democracy that the Board has selected, and we do not expect it will select any of these three countries.

The Gambia was selected (somewhat surprisingly) in FY 2006, but in a widely commended move, the MCC suspended its eligibility in June due to allegations of human rights abuses, restrictions of press freedoms, and worsening anti-corruption efforts. Although The Gambia passes the indicators, there is no chance the Board will select it this year.

Kiribati was not selected last year despite passing the indicators. Even though Kiribati is on average the strongest performer on the Ruling Justly criteria, it falls substantially below the median on both immunization and fiscal policy. The fiscal policy score, the lowest of the LICs, is not actually a problem, as it reflects large inflows of donor funding through the budget.[4] Its immunization rate is indeed low, but it is higher than East Timor's, which was selected last year. So even though Kiribati might be a reasonable candidate, since the Board did not select it last year and since the indicators have not changed substantially, we think the Board is unlikely to select it this year either.

Lower Middle Income Countries

The LMIC category consists of 34 candidate countries with per capita incomes between $1,676 and $3,465. Four of these countries are ineligible to receive US aid money, leaving a pool of 30 potentially eligible LMICs. The MCC can use up to 25% of its appropriated funds for LMICs. Last year the Board selected three LMICs: two (El Salvador and Namibia) of the eight that passed the indicators test and one (Cape Verde) that missed by one.

We have long argued that the MCC should not include LMICs, as MCA resources should not be diverted from the poorest countries to those with less widespread poverty, greater tax bases, access to private capital, and higher domestic savings. This is especially true since MCA funding remains less than $2 billion, far less than the $5 billion originally pledged by President Bush, leaving less available for the poorest countries than originally envisaged.

Nevertheless, MCC practice has been to choose LMICs. Cape Verde has signed a compact, and El Salvador is on track to sign one soon, using essentially all of the FY 2006 funds. The focus for FY 2007 therefore should be Namibia. ***The most appropriate policy for the MCC this year would be to select no new LMICs, and instead concentrate its efforts on the three already selected along with the many deserving LICs discussed earlier which have much greater needs and face much greater resource constraints than the LMICs***.

[4] When donor funds flow through a budget, by conventional definitions it counts as a financing item rather than revenue. Thus the increase in expenditure leads to a larger deficit, which is fully financed by the donor inflows. Under these circumstances, an increased deficit does not indicate poor fiscal policy. We have recommended in the past that the MCC used an alternative (accepted) definition of the deficit that is calculated after including grant receipts.

The first column of Table 3 shows the three currently eligible LMICs along with other LMICs that passed the indicator tests last year but were not selected. Column 2 shows the LMICs that pass the indicators for FY 2007, along with those countries that narrowly fail. The third column lists those countries we feel the Board is most likely to select as well as some we feel are borderline cases. Table 4 provides the data for each of the 34 countries' scores for each of the 16 indicators as well as their scores for the natural resource management and land rights and access indicators. The median score for each indicator is listed at the top of the page.

Eight LMICs pass the indicators test: ***Brazil, Bulgaria, El Salvador, Jordan, Maldives, Namibia***, and ***Samoa***. Tonga is eliminated for failing the corruption hurdle.

Countries Most Likely to Be Selected

The Board is unlikely to select many new LMICs due to the fact that the MCC is limited by law from allocating more than 25% of any one year's appropriated funds to LMIC compacts. The El Salvador compact that is set to be approved by the MCC Board on November 8th essentially consumes the entire FY 2006 LMIC allocation, leaving no funds available for currently eligible Namibia. Thus, the Board is likely to select perhaps one, and at most two additional LMICs, or else the resulting compacts could be small. We expect the Board will again select ***Cape Verde***, ***El Salvador***, and ***Namibia***. It is also likely to select ***Jordan***, a choice we do not support, and perhaps one of ***Bulgaria, Morocco,*** or ***Samoa***.

El Salvador passes sufficient hurdles, but falls substantially below the median on two indicators (cost of starting a business and girls' primary school completion rate). But since the country is only a few months from signing a compact, we fully expect the Board will choose it again. Note that El Salvador's new compact will use FY 2006 funding and will not require any funds from the FY 2007 budget.

Namibia has just submitted its compact proposal to the MCC. Namibia passes sufficient indicators, but falls substantially below the median on four indicators (immunization, girls' primary education completion, days to start a business, and fiscal policy). However, it has no glaring deteriorations in performance relative to last year, and it would be difficult for the Board to explain *not* choosing it this year if its performance is similar and it has just submitted a compact. Since the El Salvador compact essentially used up all FY 2006 funds, a new Namibia compact would rely on FY 2007 funds, so the Board must select Namibia this year if its compact is to go forward.

Cape Verde signed a compact with the MCC in July of 2005 based on its FY 2004 eligibility, when Cape Verde was an LIC rather than an LMIC. In FY 2006 it was selected as an LMIC, despite falling short by one indicator. This year Cape Verde again falls one short, passing just 2 of 6 Economic Freedom indicators. Last year it failed because it was missing data on both days and cost of starting a business; this year those data are available for the first time, but Cape Verde falls below the median. We suspect the Board will again choose Cape Verde since it has a compact in place and its performance has not deteriorated substantially. Its budget deficit and trade scores have fallen, but there are reasons to suspect that the trade score may not be fully accurate.[5] Since Cape Verde already has a funded compact in place, the Board's decision about it this year is largely symbolic. It is possible that the Board might choose not to select Cape Verde this year since it is the second year in a row that it misses, and to set a precedent about performance. But we think it most likely the Board will select Cape Verde, perhaps with a message about expectations for strong performance on both the compact and the indicators over the following years.

Jordan passes the indicators, passing just one more than the minimum number of required hurdles. It falls substantially below the median on the cost of starting a business indicator, and passes the natural resource management indicator (but not access to land). Last year the Board did not select Jordan when it had a similar performance. We suspect that it will select Jordan this year, a decision we do not support for several reasons. First, Jordan is already one of the largest recipients of US foreign aid, receiving nearly $70 per Jordanian in economic aid from the US in 2005, more than twice the amount of any other MCA eligible country, and seven times the MCA-eligible average. Second, it has access to much larger private sector capital flows than most MCA countries. Third, it is not a democracy, and the MCC should lean hard against selecting non-democracies, and even better not choose any at all. Fourth, selecting Jordan would appear to add a political element to MCC decisions, since Jordan clearly needs the funding much less than other countries, and would be chosen above other LMICs that score better on the indicators (e.g., Bulgaria, Brazil, and Samoa). Fifth, the result of MCA funding going to Jordan is likely to be that the State Department would reduce its funding to Jordan and provide it (or most of it) instead to a more poorly-performing political ally, so on the margin the next US dollar would not be going to Jordan but to some other country. Sixth, and much more speculatively, if in the future Jordan performs poorly on a compact, the MCC will have great difficultly in adhering to performance-based standards and cutting off the grant for non-performance.

We emphasize that we strongly support the US policy of providing substantial foreign aid to Jordan, which is a long-standing and important ally. This is not a question about whether or not the US should provide support to Jordan. It is about the proper funding source. US foreign policy goals should be met through State Department and USAID funding mechanisms, not the MCA, and limited MCA funding for LMICs should go (if they are to go at all) to countries that score better and have more limited alternative sources of funding.

[5] The Heritage Foundation reports a poor (and worsening) score for Cape Verde. Though Heritage's trade score is the official score used in the indicators test, the Board may use other information to get a better picture of Cape Verde's performance. The International Finance Commission's 2007 Doing Business Report, for instance, ranks Cape Verde first among Sub-Saharan African countries and twentieth among the full sample for its ease of trading across borders. Furthermore, looking at the Heritage Foundation's complete Index of Economic Freedom for 2006, the index from which the trade score is taken, Cape Verde is the second best overall performing Sub-Saharan African country after Botswana.

Borderline Countries

Bulgaria is the best performer of the LMIC group, passing 13 indicators and falling substantially below the median on only one. If the Board is going to select any LMICs this year, Bulgaria would be a more appropriate choice than Jordan. It passes 13 indicators compared to Jordan's nine, receives about one-fourteenth of the amount of US aid per person ($5.08), and is much less politicized than Jordan.[6] But we think it is unlikely that the Board will select Bulgaria, Jordan, and Namibia together when available funds for compacts are limited. If the Board does not select Bulgaria, it should publicly and transparently say why, especially if it selects Jordan.

This year ***Morocco*** was re-categorized from an LIC to a LMIC, and not surprisingly, it does not pass the tougher standards. It comes very close, just missing on a third Ruling Justly indicator. Morocco is the only non-democracy the Board has chosen in the past. The decision this year is symbolic, since if Morocco's compact is approved it could use funds from FY 2005 and FY 2006. However, if it were selected this year, as with Cape Verde, it would be done over countries with a stronger indicators performance.

Samoa is a strong candidate for selection again this year as it was last year. Despite its good performance Samoa was not selected last year, and we think it unlikely that the Board will select it this year. Of course, not selecting Bulgaria and Samoa raises questions about the impartiality of the selection process, so if the Board does not select Samoa, it should clearly say why.

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

Maldives and ***Tunisia*** fall substantially below the median for four of the indicators that they fail. Like Jordan, neither is a democracy. When there is no precedent for eligibility for these two, it makes less sense for the Board to select these two over others that perform better on average.

Brazil is a credible candidate since it passes 12 of 16 indicators and both new indicators. It also performed well last year, but was not selected. But the Board is unlikely to select Brazil because of its size (although it is less populous than Indonesia) and because it has access to alternative sources of both domestic and foreign private capital.

The Threshold Program

At the same time the MCC Board selects countries eligible to apply for compact funding, it also selects countries eligible to apply for Threshold Program funding. The MCA authorizing legislation allows it to direct up to 10% of total funds toward any country that "demonstrates a significant commitment to meet the selection requirements but fails to meet such requirements (including by reason of the absence or unreliability of data)."

[6] ODA data is from the OEDC DAC database and population data is from the World Bank's World Development Indicators.

Currently, 17 countries are Threshold eligible. Eleven Threshold Program agreements have been approved for a total of $287 million.

The Threshold Program countries selected to date are a mixed group. For the most part, the MCC seems to have targeted countries that fail the corruption indicator. Some countries (e.g., Jordan) pass the indicators test and technically do not need a Threshold Program. The Board has selected some countries that are close to passing, but others that are not. We think it is time for the Board and the MCC to redefine and clarify the role of the program as well as the guiding principles around selection. Indeed, we would like to see the MCC use the Threshold Program more as a "risk capital" fund to take advantage of windows of opportunity to assist countries that are clearly committed and moving in the right direction, but still not passing, such as those emerging from conflict. Given the indicator-based selection process grounding the MCA, we also think the MCC should use the Threshold Program for building statistical capacity and data systems in MCA eligible countries, particularly those that may have passed the indicators tests had data been available.

We suspect that in FY 2007 the Board will again target countries that fail the corruption indicator. ***Guyana, Kenya, Kyrgyzstan*** (despite failing five of six Ruling Justly indicators), ***Sao Tome and Principe*** (despite slipping in performance), and ***Uganda*** will likely maintain their eligibility with hopes of signing a program in FY 2007. ***Niger*** would be a good candidate; it would have passed except for failing the corruption hurdle. If the Board selects Kyrgyzstan, it is hard to understand why it would not select ***Rwanda*** that equally fails 5 of 6 Ruling Justly indicators but at least passes the corruption hurdle. Lastly, we expect the Board will consider ***Liberia*** where a new government is clearly committed to strong reforms. Liberia fails largely due to absence of data and a failing score on corruption (although it scores higher on corruption than Paraguay did when it was chosen last year, and its raw score on corruption is also higher than Kenya's raw score when it was selected in FY 2004).

Appendix: The Candidate Countries and Selection Methodology

The MCC announced several changes to the indicators for the FY 2007 selection round. These modifications are, for the most part, a result of improved methodologies, increased country coverage, or increased frequency of reporting, and are welcome changes. Reporting changes include:

- a rescaling of Freedom House's political rights and civil liberties indicators from a 1-7 scale for both to a 0-40 and 0-60 scale respectively,
- a rescaling of the Heritage Foundation's trade index from a 1.0-5.0 scale to a 1-100 scale, and
- a change from biennial to annual reporting of the World Bank Institute data from which voice and accountability, government effectiveness, rule of law, control of corruption, and regulatory quality are drawn.

Source changes include:

- the exclusive use of the International Monetary Fund's World Economic Outlook data for inflation,
- the use of World Health Organization (WHO) data instead of self-reported data for public expenditure on health, and
- the use of United Nations Educational, Scientific, and Cultural Organization (UNESCO) data as the primary source of public expenditure on primary education, with self-reported data used only where no UNESCO data exists.

In addition to these source changes, the MCC Board also approved two new indicators[7]—natural resource management and land rights and access—for use as supplemental data for FY 2007. This year's supplemental information presented to the Board will highlight specifically each country's performance on the two new indicators. Because the MCC plans[8] to fully incorporate the new indicators in the selection process next year, they are encouraging the Board's particular consideration of performance on these two indicators in addition to the regular sixteen.

The MCC Board uses the indicators as the main determinants of a country's eligibility status, but it also reserves the right to amend the list based on several other factors. "[T]he Board may exercise discretion in evaluating and translating the indicators into a final list of eligible countries. In this respect, the Board may also consider whether any adjustments should be made for data gaps, lags, trends or other weaknesses in particular indicators. Likewise, the Board may deem a country ineligible if it performs substantially below the median on any indicator and has not taken appropriate measures to address this shortcoming." [9] Additionally, as mentioned above, the Board may also take into account supplemental quantitative or qualitative material.

---

[7] S. Radelet, S. Rose, and S. Herrling (Sept. 11, 2006). Adding Natural Resource Indicators: An Opportunity to Strengthen the MCA Eligibility Process. Center for Global Development.

[8] Pending Board approval

[9] Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2007 http://www.mcc.gov/about_us/congressional_reports/FY07_Criteria_Methodology.pdf. The MCC defines "substantially below" the median as in the 25th percentile or below.

Table 1: Country Qualification Predictions for Low Income Countries

Current candidate countries (selected in FY 2006)**

1. Armenia[C]
2. Benin[C]
3. Bolivia
4. Burkina Faso[T]
5. East Timor[T]
6. Georgia[C]*
7. Ghana[C]
8. Honduras[C]
9. Lesotho
10. Madagascar[C]
11. Mali[C]
12. Mongolia
13. Morocco
14. Mozambique
15. Nicaragua[C]
16. Senegal*
17. Sri Lanka
18. Tanzania[T]
19. Vanuatu[C]

Countries that passed the indicators in FY 2006 but were not selected

1. Bhutan
2. China
3. Egypt
4. India
5. Kiribati
6. Philippines[T]
7. Uganda[T]
8. Vietnam

Countries that pass the FY 2007 indicators test

1. Armenia[C]
2. Bhutan
3. Bolivia
4. Burkina Faso[T]
5. East Timor[T]
6. Egypt
7. The Gambia
8. Georgia[C]*
9. Honduras[C]
10. Kiribati
11. Lesotho
12. Mali[C]
13. Moldova[T]
14. Mongolia
15. Mozambique
16. Nicaragua[C]
17. Solomon Islands
18. Tanzania[T]
19. Ukraine[T]
20. Vanuatu[C]
21. Vietnam

Countries that would pass if the median counted as passing

1. Zambia[T]

Countries eliminated by corruption

1. Benin[C]
2. Kenya[T]
3. Malawi[T]
4. Niger
5. Papua New Guinea
6. Paraguay[T]
7. Uganda[T]

Countries that miss by one indicator

1. Ethiopia
2. Ghana[C]
3. Guyana[T]
4. India
5. Madagascar[C]
6. Mauritania
7. Philippines[T]
8. Senegal*
9. Sri Lanka

Countries most likely to be selected

1. Armenia[C]
2. Benin[C]
3. Burkina Faso[T]
4. East Timor[T]
5. Georgia[C]*
6. Ghana[C]
7. Honduras[C]
8. Indonesia[T]
9. Lesotho
10. Madagascar[C]
11. Mali[C]
12. Moldova[T]
13. Mongolia
14. Mozambique
15. Nicaragua[C]
16. Sri Lanka
17. Tanzania[T]
18. Vanuatu[C]

Borderline countries

1. Bolivia
2. Solomon Islands
3. Ukraine[T]
4. Zambia[T]

* *Indicates a country that was selected in FY 2006 despite not passing the indicators test*

** *The Gambia passed the indicators test and was selected in FY 2006, but its eligibility was later suspended*

[C] *Indicates a country has signed a compact with (or has a compact approved by) MCC*

[T] *Indicates a country has been previously selected for MCC's Threshold Program*

Table 2: MCA Candidate Countries and the Indicators Test, FY 2007
Low Income Countries (LICs)

		Ruling Justly						Investing in People				Economic Freedom						Number of passed hurdles			New Indicators	
		Political Rights (0-40, 40=best)	Civil Liberties (0-60, 60=best)	Voice and Account-ability (-2.5 to +2.5, +2.5=best)	Government Effectiveness (-2.5 to +2.5, +2.5=best)	Rule of Law (-2.5 to +2.5, +2.5=best)	Control of Corruption (-2.5 to +2.5, +2.5=best)	Girls' Primary Education Completion Rate, %	Public Primary Education Spending, % of GDP	Public Expenditure on Health, % of GDP	Immunization Rate: DPT and Measles, %	Cost of Starting a Business, % of GNI per capita	Inflation, %	3-Year Budget Balance, %	Trade Policy (1-100, 100=best)	Regulatory Quality (-2.5 to +2.5, +2.5=best)	Days to Start a Business	Ruling Justly	Investing in People	Economic Freedom	Natural Resource Management (0 to 100, 100=best)	Land Rights and Access (0 to 1, 1=best)
	Median	17	30	0.00	0.00	0.00	0.00	66.7	2.07	2.22	81	85.7	15	-2.54	59.1	0.00	43				64.1	0.62
	Passing Score	17	30	0.00	0.00	0.00	0.00	66.7	2.07	2.22	81	85.7	15	-2.54	59.1	0.00	43				64.1	0.62
	Substantially below	9	19	-0.52	-0.31	-0.30	-0.26	43.5	1.18	1.44	68	173.3	20	-4.41	52.6	-0.43	71				54.7	0.53
Countries that pass the indicators test																						
1	Armenia	13	28	0.07	0.72	0.38	0.18	107.6	2.57	1.30	92	5.1	0.6	-1.83	75.6	0.87	24	4	3	6	79.1	0.93
2	Bhutan	9	20	-0.34	1.23	1.36	1.66	NA	5.95	2.65	94	16.6	5.5	-4.87	NA	0.64	62	3	3	3	78.8	0.87
3	Bolivia	28	43	0.62	0.10	0.06	0.01	97.9	2.81	4.10	72.5	140.6	5.4	-5.25	69.4	0.23	50	6	3	3	80.1	0.70
4	Burkina Faso	17	36	0.34	0.30	0.30	0.88	25.3	2.36	2.79	90	120.8	6.4	-4.04	57.2	0.29	34	5	3	3	55.0	0.59
5	East Timor	29	38	0.90	-0.08	0.29	0.05	NA	4.77	8.29	51.5	83.3	0.9	45.60	NA	-0.33	92	5	2	3	54.7	0.21
6	Egypt	8	22	-0.43	0.54	0.86	0.40	92.8	4.08	2.23	98	68.8	11.4	-8.78	52.6	0.28	19	3	4	4	81.5	0.82
7	Gambia, The	17	32	-0.01	0.25	0.56	0.13	NA	0.84	3.18	86	292.1	3.2	-6.35	54.6	0.33	27	4	2	3	56.7	0.50
8	Georgia	24	37	0.44	0.42	0.02	0.25	87.5	0.14	0.91	88	10.9	8.3	-0.26	62.6	0.21	16	6	2	6	76.4	0.96
9	Honduras	26	40	0.58	0.26	0.06	0.15	81.8	2.33	3.83	91.5	60.6	8.1	-4.08	64.4	0.31	44	6	4	4	86.4	0.69
10	Kiribati	38	55	1.58	0.40	1.60	1.04	120.3	6.05	12.15	59	50	0	-32.40	NA	-0.23	21	6	3	3	NA	NA
11	Lesotho	31	43	0.99	0.60	0.65	0.67	82.0	3.69	4.18	84	39.9	4	4.61	72.8	0.21	73	6	4	5	52.9	0.58
12	Mali	30	44	1.18	0.44	0.72	0.53	29.6	3.34	2.78	85.5	201.9	6.4	-2.36	58.8	0.26	42	6	3	4	44.0	0.54
13	Moldova	24	33	0.22	0.14	0.25	0.06	91.5	0.89	4.22	97.5	13.3	11.9	0.99	74.4	0.33	30	6	3	6	71.6	0.85
14	Mongolia	34	49	1.07	0.54	0.58	0.27	96.3	1.42	4.35	99	5.1	12.5	-1.04	72	0.43	20	6	3	6	71.4	0.76
15	Mozambique	25	31	0.65	0.55	0.12	0.14	23.4	2.63	2.77	74.5	85.7	10.1	-3.49	60.2	0.16	113	6	2	3	54.8	0.81
16	Nicaragua	25	38	0.70	0.11	0.14	0.20	77.0	1.59	3.66	91	131.6	9.6	-1.36	72.6	0.44	39	6	3	5	75.4	0.64
17	Solomon Islands	24	42	0.99	0.21	-0.06	0.84	NA	2.23	5.53	76	68.9	7.3	2.79	NA	-0.29	57	5	2	3	49.4	NA
18	Tanzania	22	36	0.40	0.53	0.37	0.09	56.3	6.75	2.01	90.5	91.6	4.4	-2.54	63.6	0.24	30	6	2	5	66.7	0.84
19	Ukraine	27	45	0.46	0.48	0.24	0.19	NA	0.41	3.86	96	9.2	13.5	-2.55	72.2	0.50	33	6	2	5	82.4	NA
20	Vanuatu	32	48	1.31	0.57	1.37	1.08	86.2	2.43	2.91	68	61.3	1	0.07	NA	0.81	39	6	3	5	61.7	NA
21	Vietnam	2	17	-0.89	0.59	0.39	0.06	97.6	1.51	1.43	95	44.5	8.2	-4.07	52.6	0.12	50	3	2	3	75.7	0.68
Pass if median counted as passing a hurdle																						
22	Zambia	22	34	0.37	-0.05	0.23	0.00	61.5	1.82	2.64	82	29.9	18.3	-3.52	61.2	0.13	35	4	2	4	64.6	0.61
Eliminated by corruption																						
23	Benin	30	48	1.05	0.21	0.25	-0.18	38.3	4.38	2.12	89	173.3	5.4	-1.27	54.6	0.21	31	5	2	4	65.5	0.63
24	Kenya	26	40	0.59	0.12	-0.10	-0.19	90.3	4.38	1.59	72.5	46.3	10.3	-1.66	59.4	0.44	54	4	2	5	66.5	0.72
25	Malawi	23	34	0.27	0.12	0.49	-0.03	57.2	3.31	3.42	87.5	134.7	15.5	-6.17	59.6	0.17	37	5	3	3	70.8	0.62
26	Niger	27	35	0.66	0.11	0.02	-0.01	20.0	2.22	2.67	86	416.8	7.8	-2.88	52.6	0.22	24	5	3	3	38.3	0.55
27	Papua New Guinea	26	38	0.67	-0.06	-0.08	-0.25	49.5	3.38	3.32	60.5	28.2	1.7	1.17	NA	-0.10	56	3	2	3	64.8	0.71
28	Paraguay	25	38	0.52	0.07	-0.16	-0.37	91.1	2.00	2.55	82.5	136.8	6.8	1.06	69.6	-0.01	74	4	3	3	80.5	0.61
29	Uganda	14	31	0.12	0.42	0.10	-0.05	53.3	3.18	2.42	85	114	8	-2.19	69	0.76	30	4	3	5	66.1	0.70
Miss by one indicator																						
30	Ethiopia	15	21	-0.39	-0.07	0.07	0.03	43.2	2.64	3.04	64	45.9	6.8	-5.01	53	-0.33	16	2	2	3	45.8	0.64
31	Ghana	37	47	1.13	0.80	0.61	0.44	59.9	3.70	1.55	83.5	49.6	15.1	-2.71	50.4	0.62	81	6	2	2	67.0	0.63
32	Guyana	29	41	1.20	0.38	0.04	0.24	91.5	1.78	4.12	92.5	100.2	6.9	-8.83	58.8	0.38	46	6	3	2	72.7	0.73
33	India	34	42	1.07	0.78	0.93	0.51	83.9	1.18	1.09	58.5	73.7	4	-7.93	24	0.41	35	6	1	4	61.6	0.69
34	Madagascar	24	36	0.71	0.78	0.69	0.82	46.0	2.54	1.93	60	35	18.4	-4.93	72.8	0.49	21	6	1	4	48.0	0.54
35	Mauritania	11	27	-0.38	0.70	0.30	0.56	41.0	3.59	3.13	66	121.6	12.1	-7.88	57.6	0.62	82	3	2	2	38.2	0.69
36	Philippines	29	43	0.72	0.83	0.32	0.24	99.9	1.90	1.32	79.5	18.7	7.6	-3.15	74.8	0.74	48	6	1	4	88.5	0.78
37	Senegal	33	43	1.01	0.75	0.58	0.60	41.7	1.95	2.24	79	112.6	1.7	-2.48	61.6	0.45	58	6	1	4	75.1	0.54
38	Sri Lanka	24	35	0.45	0.48	0.84	0.51	NA	0.88	1.63	99	9.2	10.6	-7.60	66.4	0.63	50	6	1	4	90.8	0.59

Note : The hurdle for the inflation indicator is 15%, and this is listed in the Median line. The cutoff for "substantially below" is 20%.

Table 2 (cont.): MCA Candidate Countries and the Indicators Test, FY 2007
Low Income Countries (LICs)

		Ruling Justly						Investing in People				Economic Freedom						Number of passed hurdles			New Indicators	
		Political Rights (0-40, 40=best)	Civil Liberties (0-60, 60=best)	Voice and Accountability (-2.5 to +2.5, +2.5=best)	Government Effectiveness (-2.5 to +2.5, +2.5=best)	Rule of Law (-2.5 to +2.5, +2.5=best)	Control of Corruption (-2.5 to +2.5, +2.5=best)	Girls' Primary Education Completion Rate, %	Public Primary Education Spending, % of GDP	Public Expenditure on Health, % of GDP	Immunization Rate: DPT and Measles, %	Cost of Starting a Business, % of GNI per capita	Inflation, %	3-Year Budget Balance, %	Trade Policy (1-100, 100=best)	Regulatory Quality (-2.5 to +2.5, +2.5=best)	Days to Start a Business	Ruling Justly	Investing in People	Economic Freedom	Natural Resource Management (0 to 100, 100=best)	Land Rights and Access (0 to 1, 1=best)
	Median	17	30	0.00	0.00	0.00	0.00	66.7	2.07	2.22	81	85.7	15	-2.54	59.1	0.00	43				64.1	0.62
	Passing Score	17	30	0.00	0.00	0.00	0.00	66.7	2.07	2.22	81	85.7	15	-2.54	59.1	0.00	43				64.1	0.62
	Substantially below	9	19	-0.52	-0.31	-0.30	-0.26	43.5	1.18	1.44	68	173.3	20	-4.41	52.6	-0.43	71				54.7	0.53
Miss by more than one indicator																						
39	Afghanistan	16	19	-0.57	-0.31	-0.84	-0.55	NA	0.94	2.13	70	67.4	13.2	-1.29	NA	-0.87	8	0	0	4	24.9	0.36
40	Angola	8	21	-0.44	-0.06	-0.44	-0.26	NA	0.92	2.25	46	486.7	23	-0.04	63	-0.48	124	0	1	2	50.5	0.28
41	Azerbaijan	10	23	-0.44	0.16	0.00	-0.19	95.2	0.59	0.90	95.5	9.5	9.7	0.58	67.6	0.23	53	1	2	5	71.9	0.85
42	Bangladesh	22	31	0.21	0.00	-0.03	-0.36	78.8	0.90	1.14	84.5	87.6	7	-2.64	48.2	-0.31	37	3	2	2	57.1	0.47
43	Burundi	25	24	-0.44	-0.45	-0.33	-0.04	26.9	2.64	0.73	74.5	222.4	13.4	-5.80	51	-0.47	43	1	1	1	48.2	0.44
44	Cameroon	11	16	-0.48	0.00	-0.18	-0.33	57.6	1.08	1.27	74	152.2	2	1.37	49.8	0.00	37	0	0	3	63.9	0.46
45	Central African Republic	17	27	-0.43	-0.57	-0.44	-0.26	16.5	NA	1.50	37.5	209.3	2.9	-4.32	44.2	-0.48	14	0	0	2	61.7	0.53
46	Chad	8	18	-0.53	-0.23	-0.39	-0.40	23.5	NA	2.00	21.5	226.1	7.9	-3.23	52	-0.19	75	0	0	1	40.4	0.61
47	Comoros	18	30	0.44	-0.74	-0.12	-0.10	49.0	1.22	1.37	80	192.3	3.6	-1.90	NA	-0.88	23	2	0	3	53.7	0.56
48	Congo, Dem. Rep.	8	12	-0.93	-0.75	-0.92	-0.52	31.1	0.19	0.78	71.5	481.1	21.4	-4.23	54.8	-0.91	155	0	0	0	52.3	0.55
49	Congo, Rep.	12	25	0.00	-0.41	-0.58	-0.19	63.2	1.81	1.19	60.5	214.8	2.5	6.72	44.4	-0.45	71	0	0	2	64.3	0.53
50	Djibouti	12	23	-0.13	0.05	-0.03	0.18	28.9	NA	3.90	68	222	3.1	-1.39	23.6	-0.10	37	2	1	3	56.2	0.62
51	Eritrea	3	11	-1.12	-0.08	0.03	0.46	35.5	0.87	1.77	83.5	115.9	12.4	-18.97	NA	-1.08	76	2	1	1	50.1	0.67
52	Guinea	9	23	-0.47	-0.13	-0.27	-0.02	38.8	1.18	0.72	64	186.5	31.4	-3.92	42.8	-0.17	49	0	0	0	57.1	0.64
53	Guinea-Bissau	25	34	0.40	-0.56	-0.49	-0.25	NA	2.05	1.62	80	261.2	3.4	-14.22	52.8	-0.36	233	3	0	1	56.3	0.31
54	Haiti	5	16	-0.69	-0.49	-0.78	-0.63	NA	NA	2.91	48.5	127.7	15.8	-2.36	74.2	-0.42	203	0	1	2	43.9	0.33
55	Indonesia	30	35	0.50	0.42	-0.03	-0.04	102.1	0.35	1.11	71	86.7	10.5	-1.10	69.6	0.31	97	4	1	4	81.5	0.55
56	Iraq	9	19	-0.75	-0.74	-0.97	-0.45	62.7	NA	2.43	85.5	67.6	NA	NA	70	-0.85	77	0	2	2	60.6	NA
57	Kyrgyzstan	16	31	-0.31	-0.01	-0.23	-0.24	93.4	NA	2.21	98.5	9.8	4.3	-4.43	71.4	0.09	21	1	2	5	77.9	0.82
58	Laos	1	12	-0.83	-0.20	-0.28	-0.28	69.6	1.04	1.07	45	17.3	7.2	-3.91	53	-0.45	163	0	1	2	61.6	0.66
59	Liberia	23	33	-0.21	-0.47	-0.76	-0.26	NA	NA	2.44	90.5	NA	6.9	NA	NA	-0.94	NA	2	2	1	56.8	NA
60	Nepal	9	19	-0.47	-0.07	0.03	0.11	65.0	1.91	1.65	74.5	78.5	4.5	-1.13	48.8	0.16	31	2	0	5	72.0	0.72
61	Nigeria	21	28	0.03	-0.03	-0.54	-0.40	68.4	NA	1.40	30	54.4	17.9	5.30	46.2	-0.25	43	2	1	2	57.3	0.48
62	Pakistan	11	24	-0.52	0.36	0.03	-0.19	NA	0.49	0.67	75	21.3	9.3	-2.04	54	0.15	24	2	0	5	80.1	0.57
63	Rwanda	11	21	-0.60	-0.15	-0.16	0.01	36.8	2.31	1.72	92	188.3	9.2	-0.65	66.8	0.03	16	1	2	5	64.8	0.47
64	Sao Tome and Principe	33	47	1.27	0.14	0.21	0.05	77.0	2.23	8.31	92.5	147.2	16.3	5.23	NA	-0.09	144	6	4	1	46.2	0.68
65	Sierra Leone	23	37	0.33	-0.31	-0.28	-0.17	NA	2.09	1.94	65.5	1194.5	12.1	-4.31	53.4	-0.19	26	3	1	2	47.2	0.40
66	Tajikistan	9	21	-0.46	-0.16	-0.15	-0.26	89.6	0.72	1.03	82.5	75.1	7.1	-2.43	65.8	-0.29	67	0	2	4	57.6	0.63
67	Togo	7	18	-0.52	-0.48	-0.23	0.12	55.0	1.61	1.44	76	252.7	6.8	0.82	52	-0.05	53	1	0	2	64.3	0.50
68	Turkmenistan	0	1	-1.24	-0.67	-0.57	-0.48	NA	NA	2.44	99	NA	10.7	0.00	74.2	-1.19	NA	0	2	3	62.7	NA
69	Yemen	13	18	-0.35	-0.05	-0.26	0.19	45.6	3.97	1.98	81	228	11.8	-3.17	56.6	-0.07	63	1	1	1	48.6	0.74
Eliminated for statutory reasons																						
70	Burma	-1	6	-1.44	-0.72	-0.72	-0.62	75.1	NA	0.59	72.5	NA	10.1	-4.47	72.2	-1.44	NA	0	1	2	72.7	NA
71	Cambodia	11	24	-0.22	-0.05	-0.29	-0.30	77.8	1.29	1.88	80.5	236.4	5.8	-4.71	68.4	0.13	86	0	1	3	57.1	0.69
72	Cote d'Ivoire	6	15	-0.79	-0.48	-0.63	-0.41	NA	3.17	0.90	53.5	134.1	3.9	-2.09	58.6	-0.19	45	0	1	2	67.2	0.36
73	Cuba	1	7	-1.16	-0.05	-0.30	0.57	92.1	3.25	6.66	98.5	NA	NA	NA	60.2	-1.00	NA	1	4	1	90.7	NA
74	North Korea	0	0	-1.34	-0.92	-0.31	-0.50	NA	NA	5.26	87.5	NA	NA	NA	NA	-1.55	NA	0	2	0	66.1	NA
75	Somalia	8	7	-1.17	-1.32	-1.52	-0.92	NA	NA	NA	35	NA	NA	NA	NA	-1.59	NA	0	0	0	25.3	NA
76	Sudan	1	6	-1.13	-0.41	-0.64	-0.57	44.5	1.31	2.31	59.5	58.6	8.5	0.15	40.8	-0.53	39	0	1	4	55.4	0.72
77	Syria	1	7	-0.95	-0.33	0.42	0.24	104.3	NA	2.21	98.5	21.1	7.2	-3.67	49	-0.46	43	2	2	2	71.6	0.53
78	Uzbekistan	0	3	-1.04	-0.31	-0.47	-0.25	96.5	2.48	2.28	99	14.1	21	0.63	68.2	-0.95	29	0	4	4	65.7	NA
79	Zimbabwe	5	10	-0.94	-0.53	-0.63	-0.42	78.6	5.41	4.29	87.5	35.6	237.8	-4.63	42.2	-1.45	96	0	4	1	74.1	0.34
Number of countries for which data are available		79	79	79	79	79	79	62	66	78	79	73	75	74	66	79	73				78	67

Note : The hurdle for the inflation indicator is 15%, and this is listed in the Median line. The cutoff for "substantially below" is 20%.

Table 3: Country Qualification Predictions for Lower Middle Income Countries

Current candidate countries (selected in FY 2006)

1 Cape Verde[C]*
2 El Salvador
3 Namibia

Countries that passed the indicators in FY 2006 but were not selected

1 Brazil
2 Bulgaria
3 Jordan[T]
4 Samoa
5 Thailand
6 Tunisia

Countries that pass the FY 2007 indicators test

1 Brazil
2 Bulgaria
3 El Salvador
4 Jordan[T]
5 Maldives
6 Namibia
7 Samoa
8 Tunisia

Countries eliminated by corruption

1 Tonga

Countries that miss by one indicator

1 Cape Verde[C]*
2 Colombia
3 Micronesia, Federated States
4 Morocco
5 Thailand

Countries most likely to be selected

1 Cape Verde[C]*
2 El Salvador
3 Jordan[T]
4 Namibia

Borderline Countries

1 Bulgaria
2 Morocco
3 Samoa

* *Indicates a country that was selected in FY 2006 despite not passing the indicators test*
[C] *Indicates a country has signed a compact with (or has a compact approved by) MCC*
[T] *Indicates a country has been previously selected for MCC's Threshold Program*

Table 4: MCA Candidate Countries and the Indicators Test, FY 2007
Lower Middle Income Countries (LMICs)

	Ruling Justly						Investing in People				Economic Freedom						Number of passed hurdles			New Indicators	
	Political Rights (0-40, 40=best)	Civil Liberties (0-60, 60=best)	Voice and Account-ability (-2.5 to +2.5, +2.5=best)	Government Effectiveness (-2.5 to +2.5, +2.5=best)	Rule of Law (-2.5 to +2.5, +2.5=best)	Control of Corruption (-2.5 to +2.5, +2.5=best)	Girls' Primary Education Completion Rate, %	Public Primary Education Spending, % of GDP	Public Expenditure on Health, % of GDP	Immunization Rate: DPT and Measles, %	Cost of Starting a Business, % of GNI per capita	Inflation, %	3-Year Budget Balance, %	Trade Policy (1-100, 100=best)	Regulatory Quality (-2.5 to +2.5, +2.5=best)	Days to Start a Business	Ruling Justly	Investing in People	Economic Freedom	Natural Resource Management (0 to 100, 100=best)	Land Rights and Access (0 to 1, 1=best)
Median	25	40	0	0	0	0	97.3	1.88	3.66	92.5	19.8	15	-1.36	62.1	0	33				86.2	0.70
Passing Score	25	40	0	0	0	0	97.3	1.88	3.66	92.5	19.8	15	-1.36	62.1	0	33				86.2	0.70
Substantially below	14	25.75	-0.84	-0.39	-0.36	-0.20	93.4	1.17	2.43	81.875	37	20	-3.68	56.75	-0.20	54				71.9	0.62
Countries that pass the indicators test																					
1 Brazil	32	45	0.33	0.07	-0.04	0.13	NA	2.36	3.76	97.5	9.9	6.9	-3.68	64	0.34	152	5	3	4	90.1	0.76
2 Bulgaria	36	51	0.55	0.39	0.19	0.36	97.4	0.81	4.28	96	7.9	5	1.21	60.8	0.90	32	6	3	5	91.1	NA
3 El Salvador	32	43	0.22	-0.14	0.00	0.02	86.2	1.44	3.72	94	75.6	3.7	-3.20	71.4	0.39	26	5	2	4	69.7	0.69
4 Jordan	15	27	-0.77	0.24	0.81	0.74	96.3	2.19	4.13	95	73	3.5	-2.64	57.2	0.43	18	3	3	3	96.3	0.69
5 Maldives	9	22	-1.12	0.34	0.71	0.13	101.7	5.66	5.70	97.5	18.1	3.3	-5.70	NA	0.77	13	3	4	4	58.8	0.16
6 Namibia	31	46	0.33	0.25	0.36	0.48	85.3	4.34	4.61	79.5	18	2.4	-5.06	72.8	0.38	95	6	2	4	71.9	0.56
7 Samoa	32	49	0.59	0.51	1.47	0.59	98.2	NA	4.32	60.5	45.5	7.8	-0.40	NA	0.28	35	6	2	3	86.2	NA
8 Tunisia	6	18	-1.16	0.59	0.58	0.54	97.5	2.85	3.22	97	9.3	2	-2.86	33.6	0.20	11	3	3	4	72.1	0.71
Eliminated by corruption																					
9 Tonga	15	42	-0.19	-0.32	0.83	-0.87	NA	2.14	4.84	99	10.3	9.5	0.08	NA	-0.42	32	2	3	4	98.4	NA
Miss by one indicator																					
10 Cape Verde	37	53	0.80	0.05	0.58	0.62	95.3	3.02	3.89	69	45.6	0.4	-4.20	31.2	0.06	52	6	2	2	54.9	0.59
11 Colombia	24	36	-0.35	0.07	-0.34	0.19	96.4	1.96	6.61	88	19.8	5	-1.31	60.8	0.32	44	2	2	3	93.0	0.71
12 Micronesia, Fed. Sts.	37	56	1.07	0.07	1.10	0.13	NA	10.23	5.81	95	135.9	NA	NA	NA	0.46	16	6	3	2	61.4	NA
13 Morocco	17	26	-0.80	-0.04	0.27	0.32	72.0	2.54	1.63	97.5	12.7	1	-5.24	30.2	-0.12	12	2	2	3	87.3	0.70
14 Thailand	29	38	0.04	0.56	0.48	0.17	NA	1.32	2.03	97	5.8	4.5	0.82	63.4	0.65	33	5	1	5	98.1	0.76
Miss by more than one indicator																					
15 Albania	25	38	0.04	-0.33	-0.47	-0.34	97.3	1.67	2.74	97.5	22.4	2.4	-4.41	57.4	-0.01	39	1	2	1	74.4	0.73
16 Algeria	11	25	-0.95	-0.20	-0.34	-0.02	94.5	1.64	3.47	85.5	21.5	1.6	9.64	56	-0.36	24	0	0	3	87.1	0.64
17 Belarus	5	10	-1.71	-1.03	-0.66	-0.49	98.7	0.56	4.71	99	26.1	10.3	-0.40	62.2	-1.26	69	0	3	3	91.9	NA
18 Dominican Republic	32	46	0.17	-0.25	-0.29	-0.25	93.4	0.73	2.36	88	30.2	4.2	-2.73	62.4	0.00	73	3	0	2	87.8	0.67
19 Ecuador	27	41	-0.20	-0.85	-0.46	-0.40	101.1	1.10	1.92	93.5	31.8	2.1	1.48	62	-0.56	65	2	2	2	93.5	0.77
20 Fiji	20	42	0.14	0.07	0.12	-0.19	105.1	2.50	2.29	72.5	25.8	3.7	-4.21	55.2	-0.08	46	4	2	1	56.3	NA
21 Guatemala	22	33	-0.40	-0.53	-0.66	-0.57	65.4	0.87	2.28	79	52.1	9.1	-1.32	70.2	0.00	30	0	0	5	91.7	0.70
22 Jamaica	31	43	0.54	0.04	-0.17	-0.08	85.7	1.59	3.17	86	9.4	15.3	-5.83	60.4	0.51	8	4	0	3	92.4	0.68
23 Kazakhstan	10	22	-1.22	-0.55	-0.41	-0.52	109.5	0.73	2.46	98.5	7	7.6	3.82	64.2	-0.20	20	0	2	5	65.4	0.72
24 Macedonia	25	36	-0.01	-0.12	0.00	-0.08	97.3	1.36	5.88	96.5	7.4	0.5	0.19	63.8	0.07	18	0	2	6	NA	0.84
25 Marshall Islands	37	55	1.15	-0.80	0.10	-0.02	127.5	NA	13.85	81.5	18.1	NA	NA	NA	-0.50	17	4	2	2	NA	NA
26 Montenegro	NA	NA	NA	NA	NA	NA	NA	2.40	NA	NA	6.6	NA	NA	NA	NA	24	0	1	2	NA	NA
27 Peru	32	42	0.01	-0.44	-0.39	-0.08	98.9	0.99	2.29	82	32.5	1.6	-1.10	62.2	0.36	72	3	1	4	82.0	0.80
28 Suriname	33	45	0.71	0.13	0.23	0.47	NA	NA	3.60	87	153.8	9.9	-1.36	56.6	-0.20	694	6	0	1	95.7	0.54
29 Swaziland	1	20	-1.32	-0.68	-0.37	-0.19	64.2	2.35	2.98	65.5	41.1	4.8	-3.36	72.8	-0.17	61	0	1	2	47.9	0.48
30 Tuvalu	37	57	1.00	0.39	1.58	0.26	113.3	6.75	4.72	77.5	NA	NA	NA	NA	-0.10	NA	6	3	0	NA	NA
Eliminated for statutory reasons																					
31 Bosnia and Herzegovina	23	39	-0.15	-0.37	-0.36	0.10	NA	2.67	4.59	91.5	37	1.9	-0.72	70.2	-0.26	54	1	2	3	73.7	0.80
32 China	2	15	-1.69	0.05	-0.10	-0.28	NA	NA	2.08	86.5	9.3	1.8	-1.75	68	-0.01	35	1	0	3	75.0	0.90
33 Iran	9	15	-1.46	-0.61	-0.39	-0.06	96.9	1.12	2.61	94.5	5.4	12.1	1.27	50.4	-1.22	47	0	1	3	85.7	0.55
34 Serbia	NA	NA	NA	NA	NA	NA	NA	1.8	NA	NA	10.2	17.3	NA	NA	NA	18	0	0	2	NA	NA
Number of countries for which data are available	32	32	32	32	32	32	25	30	32	32	33	30	29	26	32	33				29	24

Note : The hurdle for the inflation indicator is 15%, and this is listed in the Median line. The cutoff for “substantially below” is 20%.