



## **Which Countries Jump the FY2010 Corruption Hurdle? A Preview into Round 7 of Millennium Challenge Account Country Selection**

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The Millennium Challenge Corporation (MCC) seeks to engage with countries that rule justly, invest in their people, and promote economic freedom. While the MCC takes into account 17 different measures of these important principles in its selection process, it is control of corruption that stands as the only “hard” hurdle, meaning that a country must pass it in order to become (and, presumably, maintain its standing as) eligible.<sup>2</sup>

This note offers a preliminary analysis of country scores on the FY10 control of corruption indicator. To measure control of corruption (and four other areas of good governance), the MCC relies on the World Bank Institute’s (WBI) Worldwide Governance Indicators. In July, the WBI released its new Worldwide Governance Indicators,<sup>3</sup> which will be used by the MCC in its FY2010 selection round. The corruption scores examined together with the first two (of three) MCC FY10 pre-selection reports—one on candidate countries<sup>4</sup> and one on the eligibility criteria and methodology<sup>5</sup>—offer an initial insight into the MCC’s 2010 country selection process.

The impact and timing of several country income-bracket graduations,<sup>6</sup> as noted in the MCC’s two annual reports, adds one more layer of intrigue to this year’s selection round. We will provide our annual analysis of the full set of MCA eligibility indicators later this year when these data become available.

Table 1 reports the rankings for all low-income and lower middle-income countries on the control of corruption indicator, ordered by their percentile rank. As in past years, to pass the MCC hurdle, a country must score above the median (the 50th percentile) in their income bracket.

This year, there are several notable changes:

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<sup>2</sup> Exceptions to this rule were made in the original selection of Georgia and Bolivia in FY2004 and in maintaining eligibility in several other countries.

<sup>3</sup> World Bank Governance Matters 2009: Worldwide Governance Indicators 1996–1998.

<http://info.worldbank.org/governance/wgi/index.asp>

<sup>4</sup> Millennium Challenge Corporation, “Report on Countries that Are Candidates for Millennium Challenge Account Eligibility for Fiscal Year 2010 and Countries That Would Be Candidates but for Legal Prohibitions.” September 2009. <http://www.mcc.gov/mcc/bm.doc/mcc-report-fy10-candidatecountryreport.pdf>

<sup>5</sup> Millennium Challenge Corporation, “Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2010.” September 2009.

<http://www.mcc.gov/mcc/bm.doc/mcc-report-fy2010-selection-criteria-and-methodology.pdf>

<sup>6</sup> Countries are “candidate countries” for MCA assistance based on their per-capita income levels and their eligibility to receive assistance under U.S. law (i.e., not statutorily prohibited). Countries are categorized into two income brackets: low-income (less than \$1,855 gross national income per capita for FY10) and lower middle-income (\$1,856 to \$3,855 gross national income per capita for FY10).

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- Graduation from one income group to another, while not a new issue to the MCC,<sup>7</sup> will play a pivotal role this year:
  - **Indonesia** and the **Philippines** graduate from low-income country (LIC) to lower-middle-income country (LMIC) status and fail the control of corruption indicator in the new (and tougher) group. Both are in the process of compact design (based on prior year eligibility) and would have passed the indicator had they remained in the LIC category. The MCC FY10 Eligibility Criteria and Methodology report, however, notes that the Board will consider a graduate country's performance in the current fiscal year's LIC pool for a three-year period when deciding eligibility.<sup>8</sup>
  - **Colombia** (just named eligible last year as an LMIC) and **Namibia** (just entering-into-force on its compact), graduate to the upper-middle-income country (UMIC) category and, therefore, entirely out of MCC candidacy.
- Three of the 19 countries currently with signed compacts (Nicaragua, Honduras and Armenia) fail the FY10 control of corruption indicator.
- Eight of the 14 countries that have or had Threshold Programs with an anti-corruption element fail the FY10 control of corruption indicator: Uganda has fluctuated above and below the median; Indonesia, the Philippines, and Ukraine have been impacted by graduation; Niger, Kenya, Kyrgyz Republic, and Paraguay have never passed.

### The low-income category:

- Notable gains in percentile ranking were seen in Solomon Islands, Guyana, and Malawi.<sup>9</sup>
- Notable losses in percentile ranking were seen in Liberia, Yemen, Mauritania, Honduras, and Kenya (although Liberia and Yemen still achieve a passing score).<sup>10</sup>
- **Honduras**, entering its fourth year of Compact implementation, fails the control of corruption indicator with its lowest-ever ranking (44th percentile).
- **Nicaragua** fails the control of corruption indicator (45th percentile) for the second year in a row.

### The lower middle-income category:

- Notable gains in percentile ranking were seen in Georgia, Armenia, Ukraine, and Guatemala. The impact of graduates from LIC to LMIC lowering the LMIC median, rather than an absolute improvement in corruption scores, plays a role in the improved rankings of some countries.<sup>11</sup>
- **Albania** passes the corruption hurdle for the first time with a 53rd percentile ranking. Albania was the first country to implement a Stage II Threshold Program.
- After years of downward-trending indicators in the Ruling Justly category, this year **Armenia** made a huge leap in the control of corruption indicator—moving up 24 percentage points to the 47th percentile. Armenia is in the third year of implementation on its compact.

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<sup>7</sup> There have been a total of 10 compact-eligible countries that have graduated into a higher income group while still eligible: Cape Verde (FY05), Morocco (FY07), Armenia (FY08), Ukraine (FY08), Georgia (FY09), Vanuatu (FY09), the Philippines (FY10), and Indonesia (FY10) graduated from LIC to LMIC; Namibia (FY10) and Colombia (FY10) graduated from LMIC to UMIC. Ukraine was removed from eligibility in FY09; other countries had either signed their compact prior to graduation (Armenia, Georgia, Vanuatu, and Namibia) or were able to apply carry-over funding from prior years (Morocco, Cape Verde), therefore not impacting their funding. Indonesia, the Philippines, and Colombia will have neither time to sign their compacts nor availability of carry-over funding in the FY10 cycle.

<sup>8</sup> This new, explicit statement in the report may be paving the way for the legislative amendment that would be required to allow LMIC candidate countries some sort of time-bound, performance-based access to the larger LIC funding pool. Continued graduation cases are putting extreme pressure on the existing legislatively mandated 25 percent cap on LMIC funding.

<sup>9</sup> Many of the year-on-year changes in country scores over the last few years are related to the introduction (or subtraction) of new sources as opposed to either a substantial improvement or deterioration of policy.

<sup>10</sup> See note 9.

<sup>11</sup> Eleven of the 35 LMICs are new this year, and seven countries that were in the LMIC pool last year are gone—a total change of 18 countries from FY09 in the LMIC pool alone.

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- **Timor-Leste** graduates to the LMIC category this year and fails the control of corruption indicator in that new (tougher) peer group.
- **Swaziland** passes the control of corruption indicator for the first time, jumping 18 percentage points to reach the 65th percentile in the rankings.

We delve into some of these cases as a preview to the MCA Monitor's FY10 selection round predictions paper coming later this year.

### Low-Income Countries (LICs)

#### *Honduras*

Honduras has experienced wide fluctuations in its control of corruption performance over the past five years, failing in FY08 and dropping a significant 16 percentage points to the 44th percentile this year (its lowest score yet). While the recent "coup that's not a coup" has put Honduras in the spotlight, the impact of the events surrounding the change in government is not captured in the FY10 data, but may negatively affect next year's Ruling Justly scores. Having entered-into-force on its compact in September 2005, Honduras is nearing the close of its five-year compact (a portion of which was terminated because of the political events).<sup>12</sup>

#### *Kenya*

Kenya fell 5 percentage points to the 31st percentile this year. Kenya is currently implementing a \$12.7 million Threshold Program focused on reducing public-sector corruption by overhauling its procurement system and financial management systems.

#### *Kyrgyz Republic*

The Kyrgyz Republic rose to the 29th percentile in the control of corruption rankings, up 10 percentage points from last year. Its \$16 million Threshold Program supporting efforts to fight corruption and improve the rule of law, is in year one of implementation. Given time lags in the data, the improved score cannot be attributed to the Threshold Program.

#### *Madagascar*

Madagascar came in with a 95th percentile ranking in its control of corruption indicator. However, the impacts of this year's coup (that led to the termination of its compact in May 2009), as in the case of Honduras, is not captured in this year's data but may be evident next year. MCC is currently working with MCA-Madagascar (the local implementing entity) to ensure an orderly wind-down of programs.

#### *Nicaragua*

After technically failing the control of corruption indicator last year because it was *the* median country (the rules say a country must be *above* the median), Nicaragua slipped further this year to the 45th percentile. Nicaragua's five-year, \$175 million compact entered-into-force in May 2006. Following actions in the November 2009 municipal elections that were inconsistent with MCC's eligibility criteria, MCC partially terminated the compact, ceasing to fund assistance for the Property Regularization Project and for activities not already contracted under the Transportation Project. MCC will continue to provide assistance to local beneficiaries through MCA-Nicaragua (the local implementing entity) with the Rural Business Development Project and will complete three roads already under construction.<sup>13</sup>

#### *Uganda*

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<sup>12</sup> See MCC press release: <http://www.mcc.gov/mcc/press/releases/mcc-board-of-directors-upholds-importance-of-count.shtml>

<sup>13</sup> See MCC press release: <http://www.mcc.gov/mcc/press/releases/release-061009-boardmeets.shtml>

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After passing two years in a row, Uganda fails the corruption hurdle this year as it slips to the 48th percentile, just beneath the median, and within a credible margin of error of passing. Uganda is in the midst of a two-year, \$10.4 million Threshold Program focused on fighting corruption by improving public procurement and financial management practices, increasing the effectiveness of investigations and prosecutions, and strengthening the role of civil society.

### Lower Middle-Income Countries (LMICs)

#### *Albania*

In the midst of its second MCC Threshold Program, Albania makes a significant leap in control of corruption, rising from the 37th to the 53rd percentile to pass the corruption hard hurdle for the very first time. Albania's raw control of corruption score increased slightly, but most of the gain in percentile rank is due to the changed composition of the LMIC group, and hence the lower median score. Its current \$15.7 million Threshold Program supports anti-corruption activities, public administration reform, and judicial capacity building.

#### *Armenia*

Three years into its graduation to the LMIC group, Armenia continues to fail the control of corruption indicator (47th percentile). Its 24-percentage-point jump this year is mainly a reflection of the changed composition of the LMIC group; its raw scores have remained more or less unchanged over the past couple of years. Armenia is currently in the third year of a five-year compact designed to increase the agricultural sector's economic performance. Further road construction and rehabilitation under the compact was put on hold by the Board in June 2009 as a result of actions inconsistent with MCC principles promoting democratic governance.

#### *Belize*

Belize was the only country to slip into a lower income group and MCC candidacy this year. It moved from the UMIC to LMIC group, where it easily passes the control of corruption hurdle (68th percentile). Belize has hovered just over the income ceiling for years; this year, the ceiling rose above its income level.

#### *Indonesia*

Indonesia was declared compact eligible in FY09, after steadily improving its control of corruption score to reach the 56th percentile. Currently in the final year of its \$55 million Threshold Program, Indonesia had turned its attention to developing a compact proposal. However, this year it graduated into the LMIC category, where it fails the control of corruption indicator (41st percentile) against a tougher peer group. When its raw score is compared to the median of its former LIC peers for FY10, Indonesia easily passes the corruption hurdle and indeed improves upon its previous FY09 score.<sup>14</sup> The failed control of corruption indicator and graduation to LMIC status has serious implications for Indonesia. Not only has it failed the hard hurdle performance indicator but it is now in a category where resources are capped at 25 percent of the annual appropriation, the entirety of which is teed up for Jordan's compact in FY10. Although the MCC's annual report on FY10 Eligibility Indicators and Methodology notes that the Board will consider the indicator performance of graduates in the current fiscal year's LIC pool for a period of three years, a legislative amendment would be required to actually *fund* Indonesia's compact through the LIC funding pool. (This issue is more immediately relevant to the Philippines given its advanced stage in compact design; see below.)

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<sup>14</sup> The raw score of the LIC median country (The Gambia) is -0.777, and Indonesia comes in with a higher score of -0.642. Indonesia's raw score would put it near Moldova, which came in at the 65th percentile this year. Indonesia's raw score increased this year, though within a margin of error that does not necessarily equate improvement.

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### *Pakistan*

After failing for the past four years, Pakistan scored in the 52th percentile this year to pass the control of corruption hurdle.

### *Paraguay*

Paraguay graduated into the LMIC group and subsequently fell to the 18th percentile in the control of corruption rankings. That said, its raw score has gradually increased since 2005. Paraguay is implementing its second Threshold Program, a \$30.3 million program deepening the first program's efforts to reduce corruption in law enforcement, customs, healthcare, and the judiciary.

### *The Philippines*

The Philippines faces a situation similar to that of Indonesia (above). In moving from the LIC to LMIC group, the Philippines fails the control of corruption indicator with a 26th percentile ranking. Last year in the LIC group, the Philippines came in at the 47th percentile as it worked to pass the median. It was undercut this year by graduating to a higher-standard peer group. If the Philippines had remained in the LIC group, it would have passed the control of corruption hurdle.<sup>15</sup> The Philippines became compact-eligible in March 2008 and is close to reaching agreement with the MCC on its compact, putting it in contention for the smaller pool (25 percent of the annual MCC appropriation) allowable for LMICs, which for FY10 is currently teed up entirely for Jordan. Again, the MCC's annual report on FY10 Eligibility Indicators and Methodology notes that the Board will consider the indicator performance of graduates in the current fiscal year's LIC pool for a period of three years, but a legislative amendment would be required to actually *fund* the Philippines' compact through the LIC funding pool. The Philippines previously implemented a \$21 million Threshold Program focused on enhancing anti-corruption efforts by strengthening the Office of the Ombudsman, improving revenue administration and increasing enforcement capacity within the Department of Finance.

### *Timor-Leste*

Timor-Leste also graduated to the LMIC group this year and failed the control of corruption hurdle, coming in at the 21st percentile in the tougher peer group. Timor-Leste was removed from compact eligibility but given Threshold Program eligibility in December 2008.

### *Ukraine*

Ukraine, failing the control of corruption indicator every year since it graduated to LMIC in FY08, succumbs again this year (35th percentile) despite an increase of 15 percentage points from last year's rankings. The improvement is almost entirely due to the lower median of a very different LMIC pool from FY09. Ukraine's compact eligibility was revoked in FY09, and is currently in the second year of implementation on a \$45 million Threshold Program aimed at reducing corruption in the public sector, streamlining and enforcing regulations, and increasing education testing.

## **Upper Middle-Income Countries (UMICs)**

### *Colombia*

Colombia graduated into the UMIC group this year, one year after being named compact-eligible. MCC's authorizing legislation prevents UMICs from being candidates and therefore being selected as eligible to receive MCA funds. If the MCC did have carry-over funds from a fiscal year when a UMIC was a candidate (as an LMIC) and was selected as eligible, it could apply those funds to a compact. This does not appear to be viable, however, given the lack of substantial carry-over from previous fiscal years

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<sup>15</sup> The raw score of the LIC median country (The Gambia) is -0.777, and the Philippines received a -0.746 for FY10. In the LIC rankings, the Philippines' score would bring it in around Comoros, which was in the 55th percentile. The Philippines' raw score did increase this year, though within a margin of error that does not necessarily equate improvement.

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and the already-limited pool of LMIC funds. If Colombia is compared to its previous LMIC cohort, it easily passes the corruption hurdle.<sup>16</sup>

### *Namibia*

Having just entered-into-force on a five-year, \$304.5 million compact in July 2008, Namibia graduated into the UMIC group this year. The compact—focused on improving the quality of education, reducing poverty in the north, and developing land for livestock and eco-tourism—will not be impacted by the graduation since full compact funding was obligated at entry-into-force. When compared to the LMIC group, Namibia performs very well on control of corruption.<sup>17</sup>

### *Peru*

Peru also graduated to the UMIC group and is currently one year into a two-year, \$35.6 million Threshold Program designed to increase immunization rates, strengthen information and vaccination management systems, and combat corruption in the judicial branch, law enforcement, ombudsman, and controller's offices. Peru improved its corruption score and, if compared to the LMIC group, passes the corruption hurdle.<sup>18</sup>

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<sup>16</sup> The raw score of the LMIC median country (Marshall Islands) is -0.544, and Colombia's score is -0.249. Colombia's score would put it around Georgia, which came in at the 74th percentile.

<sup>17</sup> The LMIC median raw score is -0.544, and Namibia's score is 0.586. This would put Namibia roughly around the 96th percentile in the LMIC group.

<sup>18</sup> The LMIC median raw score is -0.544, and Peru's raw score is -0.261. Peru's raw score is roughly equivalent to that of Morocco, which came in at the 71st percentile this year.

Table 1—Country Percentile Rankings on Control of Corruption Indicator

**Low-Income Countries<sup>19</sup>**

<b>Country</b>	<b>CC Percentile Rank</b>	<b>Country</b>	<b>CC Percentile Rank</b>
Lesotho <sup>C</sup>	100%	The Gambia	50%
Rwanda <sup>T</sup>	98%	Uganda <sup>T</sup>	48%
Ghana <sup>C</sup>	97%	Mauritania	47%
Madagascar	95%	Nicaragua <sup>C</sup>	45%
Sri Lanka	94%	Honduras <sup>C</sup>	44%
Djibouti	92%	Niger <sup>T</sup>	42%
Burkina Faso <sup>C</sup>	90%	Cameroon	40%
India	89%	Central African Republic	39%
Eritrea	87%	Nigeria	37%
Solomon Islands	85%	Burundi	35%
Benin <sup>C</sup>	84%	Togo	34%
São Tomé and Príncipe <sup>T</sup>	82%	Tajikistan	32%
Senegal <sup>C</sup>	81%	Kenya <sup>T</sup>	31%
Bolivia	79%	Kyrgyz Republic <sup>T</sup>	29%
Mali <sup>C</sup>	77%	Sierra Leone	27%
Guyana <sup>T</sup>	76%	Uzbekistan	26%
Zambia <sup>CD</sup>	74%	Bangladesh	24%
Tanzania <sup>C</sup>	73%	Papua New Guinea	23%
Mozambique <sup>C</sup>	71%	Cambodia	21%
Malawi <sup>CD</sup>	69%	Guinea-Bissau	19%
Liberia	68%	Cote d'Ivoire	18%
Mongolia <sup>C</sup>	66%	Haiti	16%
Moldova <sup>CD</sup>	65%	Laos	15%
Ethiopia	63%	Congo, Dem. Rep.	13%
Kosovo	61%	Guinea	11%
Egypt	60%	Zimbabwe	10%
Nepal	58%	Chad	8%
Yemen	56%	Sudan	6%
Comoros	55%	Afghanistan	5%
Vietnam	53%	Myanmar	3%
Pakistan	52%	Korea, Dem. Rep.	2%
		Somalia	0%

<sup>C</sup> Indicates country is currently receiving compact assistance.

<sup>T</sup> Indicates country is currently receiving threshold assistance.

<sup>CD</sup> Indicates country is currently developing a compact program.

<sup>19</sup> Low-income countries have a GNI per capita of less than or equal to \$1855.

Table 1, continued—Country Percentile Rankings on Control of Corruption Indicator

**Lower Middle-Income Countries<sup>20</sup>**

<b>Country</b>	<b>CC Percentile Rank</b>	<b>Country</b>	<b>CC Percentile Rank</b>
Cape Verde <sup>C</sup>	100%	Marshall Islands	50%
Bhutan	97%	Armenia <sup>C</sup>	47%
Jordan <sup>CD</sup>	94%	Maldives	44%
Vanuatu <sup>C</sup>	91%	Indonesia <sup>CD</sup>	41%
Samoa	88%	Iran	38%
Kiribati	85%	Ukraine <sup>T</sup>	35%
Tunisia	82%	Guatemala	32%
Tuvalu	79%	Tonga	29%
El Salvador <sup>C</sup>	76%	The Philippines <sup>CD</sup>	26%
Georgia <sup>C</sup>	74%	Ecuador	24%
Morocco <sup>C</sup>	71%	Timor-Leste	21%
Belize	68%	Paraguay <sup>T</sup>	18%
Swaziland	65%	Azerbaijan	15%
Thailand	62%	Syria	12%
Micronesia	59%	Congo, Rep.	9%
China	56%	Angola	6%
Albania <sup>T</sup>	53%	Turkmenistan	3%
		Iraq	0%

<sup>C</sup> Indicates country is currently receiving compact assistance.

<sup>T</sup> Indicates country is currently receiving threshold assistance.

<sup>CD</sup> Indicates country is currently developing a compact program.

<sup>20</sup> Lower middle-income countries have a GNI per capita between \$1855 and \$3855.