Creating a Better Candidate Pool for the Millennium Challenge Corporation

Sarah Rose, Nancy Birdsall, and Anna Diofasi

Abstract

The Millennium Challenge Corporation (MCC) was established to provide large-scale grant funding to poor, well-governed countries to support their efforts to reduce poverty and generate economic growth. However, the statutory definition of which countries are "poor" for the purposes of MCC candidacy is inadequate. Based solely on GNI per capita with a rigid graduation threshold, it does not portray a clear picture of broad-based well-being in a country. MCC should explore, with support from Congress, ways to create a candidate pool that better reflects the significant poverty and development need in potential partner countries. One particularly promising measure is median household income or consumption, which better covers typical material well-being. Using a new, comprehensive country-level dataset of median consumption/income, the authors explore the merits and limitations of such a measure and suggest how it might be applied as an additional determinant of MCC candidacy.

Center for Global Development
2055 L Street NW
Fifth Floor
Washington DC 20036
202-416-4000
www.cgdev.org

Sarah Rose, Nancy Birdsall, and Anna Diofasi. 2016. "Creating a Better Candidate Pool for the Millennium Challenge Corporation." CGD Policy Paper 082. Washington DC: Center for Global Development.
http://www.cgdev.org/publication/creating-better-candidate-pool-millennium-challenge-corporation

The authors would like to thank Clay Lowery, Bradley Parks, and Eric Werker for their thoughtful comments and helpful suggestions on an earlier draft.

CGD is grateful for contributions from the William and Flora Hewlett Foundation in support of this work.

Center for Global Development
www.cgdev.org

CGD Policy Paper 082
April 2016

Contents

Introduction

The Millennium Challenge Corporation (MCC) was established to provide large-scale grant funding to poor, well-governed countries to support their efforts to reduce poverty and generate economic growth. The agency's definition of which countries are "poor," however, merits reevaluation. MCC should explore, with support from Congress, ways to create a candidate pool that better reflects the significant poverty and development need in potential partner countries.

MCC's authorizing legislation defines "candidate countries"—the set of countries that can be considered for funding—based on their per capita gross national income (GNI). The pool is restricted to low income (LIC) and lower middle income countries (LMIC), as defined by the World Bank—countries with a per capita income of around $4000 or less.[1] However, millions of people who are poor by any reasonable standard live in upper middle income countries (UMIC) that are above this cutoff. Many of these countries, despite good governance today, are not yet on a secure trajectory of sustained growth.[2] In many cases, continued progress is vulnerable to external factors such as fluctuation in commodity prices, global financial crises, instability in neighboring countries, and natural disasters. Since the social safety nets and economic diversification that protect against shocks and provide a more secure trajectory toward sustained growth typically only come at higher levels of income, it is clear that a number of middle income countries that are currently excluded from consideration could benefit from the type of grant funding MCC provides.[3]

The problem is that GNI per capita does not portray a clear picture of broad-based well-being in a country, especially if there is significant inequality or if growth in national accounts is driven largely by enclave sectors (e.g., mining, offshore oil). Simply put, GNI per capita, alone, is not an adequate measure for assessing development need.

MCC is not the only donor to use GNI per capita as a basis for determining "need." A number of other donors—notably the World Bank and other multilateral development banks—also rely on national income to classify countries for eligibility or lending terms. [4]

[1] The LMIC ceiling is adjusted annually. For the World Bank's fiscal year 2016, LMICs were defined as those with a per capita income below $4126 in 2014 (the most recent year available).

[2] The case of Albania provides a good illustration of the arbitrariness of the LMIC-UMIC divide. In fiscal year 2011, after years of strong growth, Albania graduated to UMIC status and out of MCC candidacy. Growth slowed, however, and it returned to LMIC status and MCC candidacy two years later, only to edge above the LMIC ceiling again the following year.

[3] Earlier CGD work (Radelet, Herrling and Kinder, 2009) argued that MCC should focus exclusively on LICs. This paper takes a different view that some middle income countries are not yet on a clear path to sustainable growth and can benefit from the combination of funding and policy support that MCC provides.

[4] Donors are increasingly exploring alternatives to GNI. For instance, a group of major international and multilateral health organizations convened the Equitable Access Initiative in 2015 to come up with a more nuanced way to assess eligibility for and allocation of health financing, rather than relying heavily on GNI (Global Fund, 2016).

Because GNI per capita was, for many years, the only measure of material well-being available for essentially every country, it has been useful to donors seeking to explain allocation decisions in a way that is—at least to some degree—transparent and easily understood by partner countries. In recognition of its limitations, however, the World Bank does not imbue GNI per capita with all-encompassing power to determine which countries get what kind of money. It also considers a country's "creditworthiness," a range of factors related to a country's relative development and financing needs (World Bank, 2013). In practice, this tends to result in a lag—of nearly six years, on average—between when a country crosses the income threshold for eligibility for concessional lending and actual graduation (Morris and Gleave, 2015). MCC, on the other hand, has extremely rigid categorization rules. Once a country becomes classified as UMIC, the agency can no longer select it to receive funding.

The flexible, case-by-case approach to graduation taken by the World Bank would not be appropriate for MCC. MCC's process for picking partner countries is intentionally based on a hard "income" or "development need" criterion in addition to specific criteria related to the demonstration of good governance.[5] The use of transparent, concrete rules to circumscribe the choice of partner countries is intended to de-politicize eligibility decisions, minimize the conflation of development and diplomatic or strategic objectives, and reduce the incentives for a bureaucracy to expand its mandate for the sake of its own growth. However, it is possible to rely on a different income criterion while still being transparent and rule-based.

Median Income: A Promising Alternative

While a number of indicators of development need are worth exploring, one particularly promising measure is the median of household income or consumption per capita. Based on household survey data, this measure better captures typical material well-being because: (1) it excludes government spending and public and private investment *except* as they affect household income and consumption, and (2) unlike average measures (like GNI per capita), it corrects for the skewness in income distribution that is present in almost every country. A UMIC with low median consumption/income suggests that though average per capita income is relatively high, in fact one half or more of the population is insecure in a material sense and a significant share may continue to live in absolute or extreme poverty. Even a responsible government in such countries may not have developed the institutional capacity

[5] MCC compares candidate countries' relative performance on a series of 20 independent, quantitative policy indicators that are compiled into country "scorecards." In general, countries must "pass" at least half of these indicators, including two "hard hurdles" that measure the anti-corruption environment and democratic rights. For most indicators, a country "passes" if its score is above the median score in its respective income group (LIC or LMIC). Therefore, allowing the agency to define its candidate pool based on criteria that are not clearly defined could raise the risk (real or perceived) of political interference to make particular countries eligible since in a system of relative performance the composition of the pool matters quite a bit for which countries meet the criteria for eligibility.

to generate adequate tax revenue to fund health, education, and other services that help the poor to exit poverty.

For example, while Tunisia's per capita income is just above the cutoff for MCC candidacy, half the population survives on less than $8 a day (compared to median income in the US which, at nearly $50 a day, is over six times higher). There is clearly a continued development need that the US can help address in this nascent democracy to support its sustained growth in a difficult region. Another example is Mongolia which, despite median daily consumption of about $8 a day, recently transitioned to the UMIC category principally because of substantial foreign investment in its mining sectors. Meanwhile, it will take years for the country to transform its institutions and make the kinds of investments in health, education, roads, and energy that will bring the benefits of its newfound wealth to all of its people.

UMICs and the MCC Model

Not all countries with relatively low median consumption/income would be appropriate partners for MCC. For instance, where higher average income exists in combination with low median income, the government may be making intentional policy choices (or engaging in corrupt practices) that reinforce inequality and concentrate wealth among a small elite. However, the policy performance standards MCC applies—eligible countries must demonstrate relatively sound, democratic governance and commitment to policy choices that support poverty reduction and growth—would effectively screen out such cases from consideration. The UMICs that would make it through MCC's good governance screen would likely be those that have had relatively recent political transitions and are working to remediate years of structural inequalities and those that have had recent fast growth—typically in enclave or extractive sectors—whose institutions and whose ability to translate growth into poverty reduction have not developed as rapidly.

In addition, since UMICs tend to have greater access to private financing than lower income countries, there is the question of whether they are the right target recipients for MCC's scarce grant resources. While well-governed lower income countries should remain top priorities, there are a number of reasons to believe that MCC partnerships with select UMICs are a good way for the agency to expand its impact. First, MCC's country-led approach to compact development and implementation tends to work more smoothly in countries with relatively strong capacity and well-qualified human resources. Second, it is important to recognize that a large part of MCC's value is not the grant itself, but the process of developing and implementing the investment package. MCC's approach models transparency, raises the profile of economic analysis, emphasizes the importance of stakeholder engagement, and builds capacity in economic analysis, procurement, and project management. Private financing streams do not necessarily come with these important ancillary benefits. Finally, and perhaps most importantly, MCC investments motivate conversations about—and action on—tough policy and institutional reforms in sectors critical for growth. Of course, the grant (or the good governance "stamp of approval" associated with being an MCC country) must be a significant enough incentive to motivate reform and it may not be for some UMICs with substantial private inflows.[6] It will fall to MCC to determine, on a case by case basis, whether a partnership with a particular UMIC is likely to be effective. For ambiguous cases, the threshold program could be a valuable tool. The threshold program is a small program—$20 million on average, compared to $350 million on average for a compact—that assesses the opportunity for an impactful partnership before committing to a larger compact by working with partner governments on policy reform and institutional strengthening programs in the critical-for-growth sectors a potential future compact would likely address.

Because UMICs with low median income are, by definition, those whose growth has not been well distributed, it would be particularly important for MCC programs in these countries to focus on *inclusive* growth. The agency's model for program design is increasingly able to support this. MCC has been working to build in more data and analysis on beneficiaries and is beginning to bring in more analysis on the relationship between growth and factors like social inequalities and gender. These additional lenses are increasingly applied to the agency's analyses of the root causes of identified constraints to growth, as well as its project cost-benefit analysis.[7]

About the Median Consumption/Income Data

Information on the distribution of income or consumption in a country is available on the World Bank's PovcalNet. Diofasi and Birdsall (2016) provide a comprehensive country-level dataset of median consumption/income for 144 countries, using 2011 purchasing power parity (PPP) and the latest survey years. Moreover, the World Bank has indicated its willingness to publish median consumption/income per country in the future; interest in the data from MCC could provide additional incentive for it to do so.

The data have some limitations, but they are largely manageable (see the Appendix for more detailed discussion). Important considerations include: gaps in country coverage (data are unavailable for 17 low and middle income countries); inexact comparability (most surveys report household consumption but some report income); inconsistent periodicity (only around three-quarters of low and middle income countries have had surveys within the last five years); and questions about data quality (a minority of countries' results are based on outdated, unreliable, or estimated data). These limitations should not disqualify median

---

[6] A number of anecdotes suggest the "stamp of approval" is a strong motivating factor, even for relatively high income countries. For instance, Kosovo, whose income is approaching the LMIC ceiling and whose early steps toward European Union (EU) membership may lead to additional EU resources, intently pursued MCC eligibility for years before finally being selected for compact eligibility in 2015 (Millennium Challenge Corporation, 2016a).

[7] These efforts are already underway, and MCC's strategic plan, MCC NEXT, recommits the agency to expanding and deepening beneficiary, poverty, and gender analyses and improving their timing so they can be used more effectively in project selection and design (Millennium Challenge Corporation, 2016b). Data scarcity, including on things like differential impacts on men and women, information on intra-household allocation, etc. will remain a challenge for full implementation of this objective, however.

consumption/income from consideration, however. First of all, data gaps are largely accounted as long as median income is considered a complement to—not a replacement of—GNI per capita. That is, a country should be an MCC candidate if it is a LIC or LMIC (the current rule) *or* if it is a UMIC with median household consumption/income below a certain threshold. Such a rule would ensure no LICs or LMICs are dropped from consideration due to missing survey data; rather, the existing pool would be augmented by select UMICs. Second, it would be acceptable for MCC to use "best available" data, recognizing that estimates of low median consumption/income, even if they are imprecise or outdated, suggest a country is likely many years away from having the economic and political institutions that sustain shared growth over time. Moreover, it is important to recognize that this is, in effect, a new dataset, albeit one created from pre-existing data. As with many new data series, increased attention to and demand for the data can be expected to gradually motivate improvements in coverage and quality over time.

Risk of Unintended Consequences

A proposal to apply financial stakes to any measure requires consideration of the extent to which the data are vulnerable to gaming by government officials. There is convincing evidence that governments do opportunistically meddle with national statistics, including GNI, when these metrics influence donor decisions (Kerner, Jerven, and Beatty, 2015, Sandefur and Glassman, 2014). Data that come from household surveys, however, may be more protected from such interference. Sandefur and Glassman (2014) suggest that household survey data is "likely to be more reliable as it is better documented and collected with much higher levels of international technical assistance and oversight." The risk would remain that countries close to the cutoff for MCC candidacy would delay future survey rounds or stall the release of results if updated data were to threaten their MCC candidacy status. However, such pressures would not likely be widespread since many UMICs have median income considerably below a reasonable threshold for candidacy.[8]

Setting the Cutoff

The question of where to set the threshold is an important one. Though there is no clear consensus on what an appropriate threshold should be, there are some plausible options. One clear choice would be a fixed threshold of $10 a day, a level which Birdsall (2010), Kharas (2010), and Ferreira et al. (2012) suggest is the minimum level of consumption for a household to have "middle class" status. While $10 may seem high, especially compared to the absolute poverty threshold of $1.90 a day, it is probably below the true upper threshold at which most people escape the risk of falling into poverty (Lopez-Calva and Ortiz-Juarez,

[8] A $10 threshold is proposed below. Only four of the 28 UMICs with median household income below $10 report median income that is close to that threshold (i.e., above $8).

2011; Birdsall, Lustig and Meyer, 2013). [9] The number of people below international poverty lines is greater over a period of months or years than in any given point in time due to the vulnerability of the "near poor" to shocks or crises (Pritchett, Suryahadi, and Sumarto, 2000; Kanbur and Lustig, 2000).[10] Since MCC was designed as a reward and incentive for good governance, the agency should be able to assist countries still working to build the middle class societies in which good government emerges and persists as income-secure taxpayers have the wherewithal to hold their governments accountable (Birdsall, 2015).[11]

Figure 1 shows the distribution of median consumption/income among all LICs, LMICs, and UMICs. Countries in the bottom right box are the set of UMICs with median consumption/income below $10 that would be added to MCC's current pool of candidates if the definition were adjusted according to the option presented above.

Such a change would add 28 countries to MCC's current candidate pool though the number of plausible new partner countries would be much smaller due to considerations like democratic governance, population size, access to private capital, and other factors.[12] However countries like Mongolia, Namibia, and Tunisia could be good prospects, assuming they meet MCC's other eligibility criteria.

---

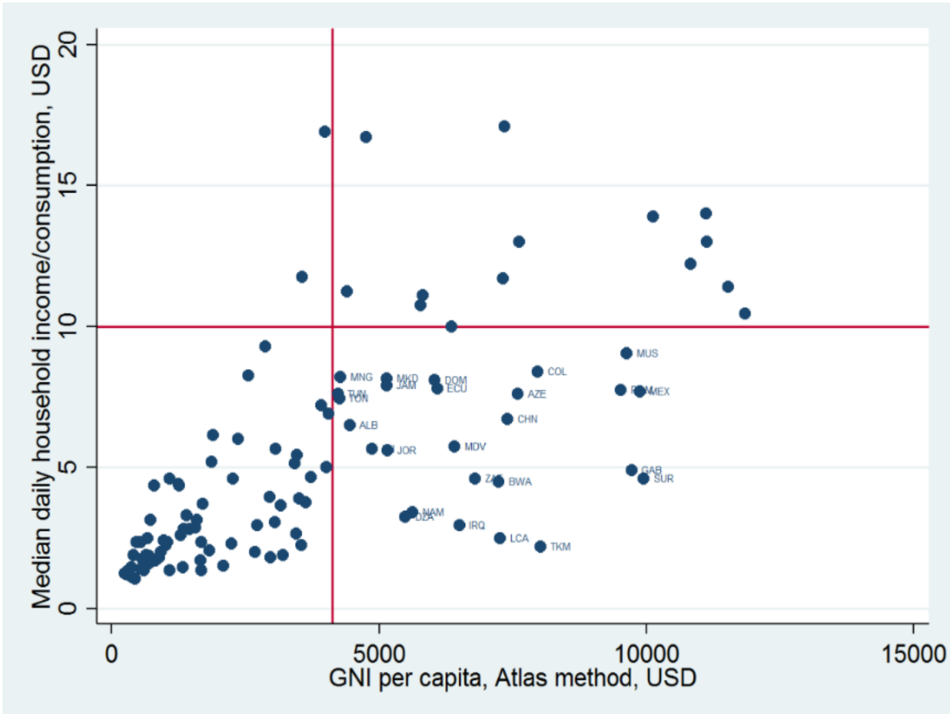
[9] The $10 estimate suggested by the authors cited in this paragraph is based on 2005 PPPs. The data reflected in this note reflect updated 2011 PPPs, implying the threshold for the middle class, according to the cited authors' intent, would be somewhat greater than $10 (around $12) if it were also adjusted to reflect the new price information. However, $10 remains an appropriate threshold option since in many very poor countries, where a very small percentage of the population lives on $10 a day or more, the vulnerability threshold is likely somewhat lower.

[10] In addition, the absolute poverty line is roughly the average poverty line (in terms of consumption) of the poorest 15 countries and thus the very lower limit of poverty lines (Ravallion, Chen, and Sangraula 2008). MCC's candidate pool, however, is made up of over 80 countries, the vast majority of which would have a higher national poverty line. Based on the premise that *relative* poverty in a country matters for a household's welfare (Ravallion, Chen, and Sangraula 2008, Ravallion 2008), it follows that many households above $1.90 or $3.00 a day are still very poor by any reasonable standard.

[11] A relative threshold is another option. The median value of UMIC median consumption/income, which is around $8 according to current data, is one possibility. A significant downside to using a relative threshold, however, is that it could fluctuate unpredictably from year to year based on which countries are in the UMIC pool and changes to survey data.

[12] For instance, eight of the 28 countries would not pass MCC's criteria for democracy—scoring above a minimum threshold on the Political Rights or Civil Liberties indicator (both produced by Freedom House) (Algeria, Angola, Azerbaijan, China, Gabon, Iraq, Jordan, and Turkmenistan). Another six countries (Belize, Fiji, Maldives, St. Lucia, Suriname, and Tonga) have a population under a million. While MCC no specific criteria about country size, it has, with few exceptions, typically not selected small countries, even If they otherwise meet its eligibility criteria.

Figure 1: Median income vs GNI per capita[13]



Source: World Bank (World Development Indicators, PovcalNet), Diofasi and Birdsall (2016)

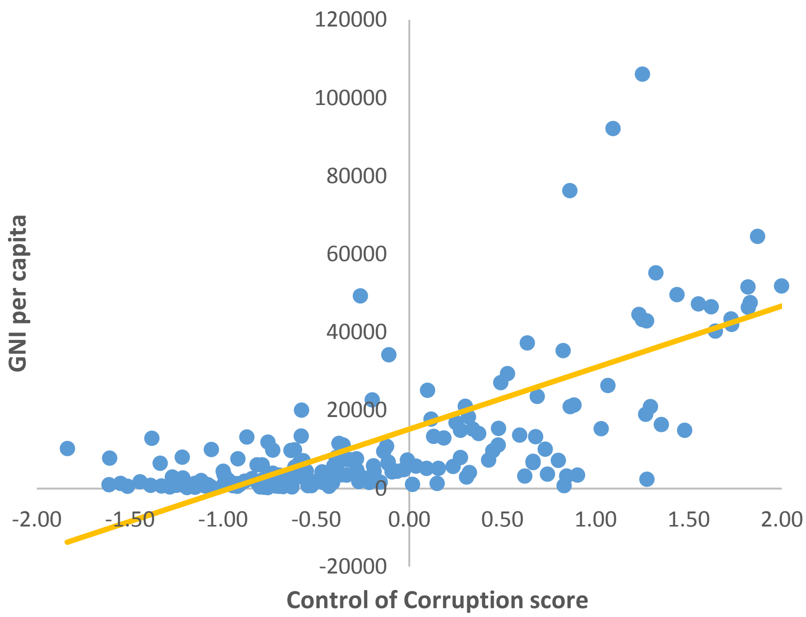
Adding higher income countries would seem to disadvantage lower income countries on MCC's governance criteria if one assumes that higher income countries are better governed on average or, at a minimum, that the indicators MCC uses to measure governance are income biased. Figure 2, which shows a clear correlation between income and performance on MCC's "hard hurdle" Control of Corruption indicator, suggests that this might be the case.[14]

---

[13] Figure includes all countries with consumption or income data, including those with methodologically questionable data. Two countries, Angola and Belize, are not depicted on this graph because the World Bank's World Development Indicators database does not report estimates for GNI per capita. However, they are classified as UMIC and have median consumption/income under $10 so would be added to the candidate pool in this example.

[14] The correlation is 0.75.

Figure 2: Correlation of income and Control of Corruption scores for all countries



Source: World Bank (World Development Indicators), World Bank and Brookings Institution (Worldwide Governance Indicators)

However, income bias is unlikely to be a significant problem, especially since MCC evaluates LICs separately from middle income countries.[15] There are several conceptually defensible options for adding UMICs into MCC's system of evaluating countries and none suggest income bias is cause for concern, at least for the corruption "hard hurdle." Figure 3 illustrates this point for a middle income pool that combines LMICs with the set of additional UMICs that meet the standards of the presented scenario.[16]

---

[15] MCC's definition of LIC for purposes of evaluating countries' policy performance is different than the standard World Bank definition. MCC defines LICs as countries with a GNI per capita below the historical ceiling for International Development Association (IDA) eligibility for the fiscal year involved. LMICs are then the set of countries whose GNI per capita lies between the historical IDA ceiling and the World Bank's ceiling for LMICs.

[16] The correlation between income and Control of Corruption score for this comparison is 0.00. Evidence of income bias is similarly absent from other plausible permutations of a middle income candidate pool. The correlation between income and Control of Corruption score is -0.10 for the set of UMICs with median consumption/income under $10. It is -0.08 for the set of all UMICs. It is -0.01 for a middle income pool that combines all LMICs and all UMICs.

Figure 3: Correlation of income and Control of Corruption scores for middle income pool combining LMICs and UMICs with median consumption/income under $10

Source: World Bank (World Development Indicators), World Bank and Brookings Institution (Worldwide Governance Indicators)

Adjusting the Funding Cap

Changing the candidacy rules to allow the inclusion of UMICs with low median consumption/income should also prompt reconsideration of the current cap on funding to middle income countries. Under current law, MCC can allocate no more than 25 percent of a given year's funds to LMICs. With an expanded pool of middle income countries, which, under this scenario, would make up approximately half the candidate pool, the cap should, at a minimum, be revised to better reflect this share. A better option would be to eliminate the cap entirely. A fixed proportional cap is an inappropriate way to allocate resources among fluid groups whose relative sizes change substantially over time.[17] Its removal would be

[17] The 25 percent cap on funds to LMICs is a relic of MCC's early years when LMICs made up only about one quarter of the total candidate pool. However, as countries graduated from LIC to LMIC, the LMIC group started to grow to be far larger than 25 percent of the candidate pool. In response, Congress enacted a change to the legal definition of income categorizations for MCC funding (Consolidated Appropriations Act, 2012 (Pub. L. 112-74)). LICs are now defined as the 75 lowest income countries and LMICs begin with the 76th lowest income country and are capped by the World Bank's per capita income ceiling for LMICs. This construction is satisfactory for the current candidate pool but would be inappropriate if nearly 30 more countries were added to a middle income category, even if few would ultimately be plausible candidates for eligibility. The new set of middle income countries (the 76th lowest income country through the upper middle income ceiling) would make up substantially more than 25 percent of the total candidate pool, so they should not be limited to just 25 percent of available funds.

unlikely to particularly disadvantage LICs since there are typically very few countries of any income level that are viable contenders for MCC eligibility in any given year.[18]

Graduation

Regardless of the measure(s) chosen to define candidacy, it is important to maintain a defined point of graduation that is transparent, objective, and measurable. The rigidity of the current graduation rule, however, merits reevaluation. Currently candidacy abruptly ends when a country becomes a UMIC, even though such a transition does not imply a sudden, major shift in a country's poverty profile or need for continuing development support to solidify the good governance institutions that contribute to poverty reduction and economic growth. Though the agency can continue to work with graduated countries as long as funding from the prior year(s) in which they were eligible remains available, the unpredictability of graduations unnecessarily complicates MCC's medium-term budgeting and creates needless uncertainties in the partner country. A more gradual, or "lagged" graduation policy that enables countries to remain in the candidate pool for perhaps three to five years after exceeding the candidacy ceiling would make better sense.

Recommendations

1) MCC should explore alternative measures of need to GNI per capita, including median consumption/income, to produce a candidate pool that better reflects the significant poverty and development need in potential partner countries.

2) Congress should encourage this pursuit and be willing to make necessary legislative changes—to the definition of candidacy, to the graduation rule, and, as appropriate, to the cap on funds to middle income countries—to create an improved pool of MCC candidate countries.

Conclusion

There is a compelling case for considering indicators beyond GNI per capita to define MCC's candidate pool. A measure like median income would create a more rational set of candidates by providing a more accurate reflection of the significant poverty and development need in countries that are currently excluded from consideration. MCC's

[18] Around a third of candidate countries pass the scorecard in any given year. However, few of these are viable prospects for eligibility. First of all, many of the countries that pass the scorecard are currently implementing compacts and are not up for new eligibility decisions. Second, in addition to considering policy performance, MCC must, according to its authorizing legislation, consider "the opportunity to reduce poverty and generate economic growth in the country." This criterion has been used to rule out, for instance, very small island countries and countries with ongoing conflict. Finally, some countries that pass the scorecard have already completed a compact but the quality of the partnership was sufficiently weak that they are unlikely to be considered for a follow on program in the near term.

mission is poverty reduction through economic growth. GNI per capita can get at growth, but it is insufficient to understand poverty.

Appendix: Discussion of Data Limitations

The currently available data on median consumption/income have certain limits with respect to comparability, availability, periodicity, and quality. None should preclude the measure from consideration by MCC to improve the definition of country candidacy.

Comparability

The data are not strictly comparable across countries. Most LICs, LMICs, and UMICs (82%) report consumption data but some (18%) report income data. In general, consumption will be similar to or somewhat higher than income for poor households since income is somewhat less reflective of a household's ability to meet its basic needs.[19] While estimates along the income distribution can vary between countries reporting income data and countries reporting consumption data, this should not be of great concern for the purpose of defining candidate countries. For most low and middle income countries, income and consumption estimates at the median are likely to be quite close.

There may be limits to comparability even within the different types of data. Survey design can vary across countries and across time making direct comparisons among consumption data inexact (World Bank, 2001).

Finally, four countries report rural and/or urban data separately rather than a national estimate. Three of these countries report both urban and rural data, making possible the imputation of a national figure.[20] Only one country reports only urban data.[21]

Availability

Data are unavailable for 17 low and middle income countries, 10 of which are UMICs. MCC could easily enough account for much of the gap in data coverage by assessing median consumption/income in conjunction with GNI per capita. This paper proposes employing a rule whereby a candidate country would be a LIC or LMIC (the current rule) *or* a UMIC with median household consumption/income below a certain threshold. Under this rule, the

---

[19] Income can fluctuate throughout the course of a year and reported income does not account well for non-monetized income like household production that is consumed by household members. Along the same vein, consumption can better reflect households' actual standard of living since it can capture whether households can access credit or savings to continue to meet basic needs during periods of low or no income (World Bank, 2016).

[20] China (UMIC), India, and Indonesia report separate data for both rural and urban populations.

[21] Micronesia reports only urban data. It is currently classified as an LMIC, so it would retain its candidacy by virtue of its GNI per capita.

seven LICs and LMICs missing household income data would remain candidates by virtue of their GNI per capita. [22]

The 10 UMICs missing data present somewhat more of a dilemma, but not an insurmountable problem.[23] While none of these 10 countries are likely prospects for MCC eligibility in the foreseeable future due to governance concerns or small size, simply excluding them from consideration may not be an optimal approach because of the way MCC evaluates candidate countries' policy performance.[24] Because countries' performance on governance indicators is evaluated *relative* to their income-level peers, the peer group should ideally be as complete as possible in order to get the most "accurate" comparison. Excluding countries that potentially should be candidates (i.e., those where median consumption/income is, in fact, low, even though there is no data to prove it) could skew the distribution of observed policy performance scores.[25] MCC could simply decide to assess only those countries with median consumption/income data, recognizing that the resulting performance standards would most likely differ from the performance standards of the "true" comparison group. Alternatively, MCC could consider the entire set of UMICs as the relevant peer group for comparison but only consider for eligibility those that meet the criteria for candidacy (those with median consumption/income below a certain threshold).

Periodicity

The year of the most recent survey varies by country, and there is no cross-country uniformity in the length of time between surveys. Fortunately, most LICs, LMICs, and UMICs have fairly recent data—73% of surveys were conducted within the last five years (2010 or later) and 47% were conducted within the last three years.

Even when results are older, it would be acceptable for MCC to use the most recent data available. It takes many years to develop the economic and political institutions that sustain shared growth over time, so a country reporting low median consumption/income several years ago is still probably working toward that objective.

---

[22] The LICs and LMICs missing data are: Afghanistan, Burma, Eritrea, North Korea, Somalia, South Sudan, and Zimbabwe.

[23] The UMICs missing data are: Cuba, Dominica, Equatorial Guinea, Grenada, Lebanon, Libya, Marshall Islands, Palau, Saint Vincent and the Grenadines, and Tuvalu.

[24] Dominica, Grenada, Marshall Islands, Palau, Saint Vincent and the Grenadines, and Tuvalu are small islands; Cuba, Equatorial Guinea, and Libya would not meet MCC's democracy criteria; and Equatorial Guinea and Lebanon have relatively low scores on the Control of Corruption indicator.

[25] For instance, the exclusion of generally democratic small island states (e.g., Saint Vincent and the Grenadines) which tend to score well on MCC's policy indicators would introduce a downward bias to the median score which serves as the pass/fail threshold for most indicators. The exclusion of countries that perform less well on the governance indicators (e.g., Equatorial Guinea) would bias the median score upward.

Quality

For 15 countries, four of which are UMICs, there are particularly notable quality questions that stem from outdated, unreliable, or estimated data. Problematic data are of three types:

(1) data are only reported using 2005 PPP, in comparison with 2011 PPP for other countries;[26]
(2) data are only reported using 2005 PPP and are considered unreliable due to conflict, outdated or major revisions to the latest surveys, or inexplicably large deviations between consumer price index and PPP inflations;[27] and
(3) regressions rather than price data were used to estimate PPP.[28]

Here again, the use of "best available" data would be acceptable. Estimates of low median consumption/income, even when they are imprecise, suggest that a country's political and economic institutions are not (yet) supporting the sustained shared growth that leads to true middle class societies.

[26] This applies to Bangladesh, Cabo Verde, Cambodia, Jordan (UMIC), and Laos.
[27] This applies to Algeria (UMIC), Egypt, Iraq (UMIC), Syria, and Yemen.
[28] This applies to Guyana, Kosovo, Timor-Leste, Turkmenistan (UMIC), and Uzbekistan.

References

Birdsall, Nancy. 2010. "The (Indispensable) Middle Class: Or, Why It's the Rich and the Rest, Not the Poor and the Rest." Working Paper 207. Washington, DC: Center for Global Development.

___________. 2015. "Does the Rise of the Middle Class Lock in Good Government in the Developing World?" European Journal of Development Research 27, 217-229 (April 2015).

Birdsall, Nancy, Nora Lustig, and Christian J. Meyer. 2013. "The Strugglers: The New Poor in Latin America?" Working Paper 337. Washington, DC: Center for Global Development.

Diofasi, A. and Birdsall, N. 2016. "The World Bank's Poverty Statistics Lack Median Income Data, So We Filled In the Gap Ourselves – Download Available." CGD blog. http://www.cgdev.org/blog/world-bank-poverty-statistics-lack-median-income-data-so-we-filled-gap-ourselves-download-available

Ferreira, Francisco H. G., Julian Messina, Jamele Rigolini, Luis-Felipe López-Calva, Maria Ana Lugo, and Renos Vakis. 2012. "Economic Mobility and the Rise of the Latin American Middle Class." Washington, DC: The World Bank.

Global Fund. 2016. Equitable Access Initiative. The Global Fund. n.d. Web. 30 March 2016. http://www.theglobalfund.org/en/equitableaccessinitiative/

Kanbur, Ravi and Nora Lustig. 2000. "Why is Inequality Back on the Agenda?" Proceedings of the Annual World Bank Conference on Development Economics 1999. Washigngton, DC: The World Bank.

Kerner, Andrew, Morten Jerven, and Alison Beatty. 2015. "Does it Pay to be Poor? Testing for Systematically Underreported GNI Estimates." The Review of International Organizations. 1-38 (December 2015).

Kharas, Homi. 2010. "The Emerging Middle Class in Developing Countries." Working Paper 285. Paris: Organisation for Economic Co-operation and Development.

López-Calva, Luis F., and Eduardo Ortiz-Juarez. 2011. "A Vulnerability Approach to the Definition of the Middle Class." Policy Research Working Paper Series 5902. Washington, DC: The World Bank.

Millennium Challenge Corporation. 2016a. "Congressional Budget Justification, FY 2017." Washington, DC: Millennium Challenge Corporation. https://www.mcc.gov/resources/pub-full/cbj-fy2017

___________. 2016b. "MCC NEXT." Millennium Challenge Corporation. n.d. Web 8 March 2016. https://www.mcc.gov/resources/pub/next

Morris, Scott and Madeleine Gleave. 2015. "The World Bank at 75." Policy Paper 058. Washington, DC: Center for Global Development.

Pritchett, Lant, Asep Suryahadi, and Sudarno Sumarto. 2000. "Quantifying Vulnerability to Poverty - A Proposed Measure, Applied to Indonesia." Policy Research Working Paper Series 2437. Washington, DC: The World Bank.

Radelet, Steve, Sheila Herrling, and Molly Kinder. 2009. "From Innovation to Impact: Next Steps for the Millennium Challenge Corporation." MCA Monitor Analysis. Washington, DC: Center for Global Development.

Ravallion, Martin. 2008. "On the Welfarist Rationale for Relative Poverty Lines." Policy Research Working Paper Series 4486. Washington, DC: The World Bank.

Ravallion, Martin, Shaohua Chen, and Prem Sangraula. 2008. "Dollar A Day Revisited." Policy Research Working Paper Series 4620. Washington, DC: The World Bank.

Sandefur, Justin and Amanda Glassman. 2014. "The Political Economy of Bad Data: Evidence from African Survey & Administrative Statistics." Working Paper 373. Washington, DC: Center for Global Development.

World Bank. 2001. "World Development Report: Attacking Poverty." Washington, DC: The World Bank.

___________. 2013. "Follow-up on IDA's Graduation Policy and Proposal for Transitional Support for Graduating Countries." Washington, DC: The World Bank.

___________. 2016. "Defining Welfare Measures." World Bank. n.d. Web. 27 January 2016. http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPA/0,,contentMDK:20242876~menuPK:435055~pagePK:148956~piPK:216618~theSitePK:430367~isCURL:Y~isCURL:Y,00.html