



**SELECTING FOR SUCCESS AND REACHING THE POOREST:  
MCA ELIGIBILITY CRITERIA CAN DO BOTH**

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Since the announcement in March by the Bush Administration of a new window for development aid, the Millennium Challenge Account (MCA), scholars and development professionals in research centers, non-governmental organizations and advocacy groups have engaged in wide-ranging discussion on the ideal MCA design and implementation. These discussions have highlighted a wide variety of issues important to increased effectiveness of foreign assistance, including: the number and selection of countries; what is meant by greater recipient country “ownership”; how to integrate the MCA with existing development frameworks such as the Millennium Development Goals, the Education for All initiative, the Global Health Fund, and the Poverty Reduction Strategy Paper process; the proper structure to house and administer the MCA; and so on. Among the many issues has been concern that MCA spending will be limited to a small set of “eligible” countries, thus excluding many of the poorest countries, and therefore many of the world’s poorest people. That concern reflects both a fear that the MCA will be too exclusive, and the likelihood that beyond the MCA there may be little other additional funding for development. (The MCA is expected, however, to be fully additional to all existing development assistance.)

We believe the idea of country eligibility has merit, and that application of eligibility criteria may not be as restrictive as some fear. In this note we address three of the frequently asked questions about the effects of the application of selection criteria for determining eligibility for the MCA:

- 1. Will a reasonable number of poor countries meet the criteria for ruling justly, investing in people and fostering economic freedom?***
- 2. Will the eligible countries really be able to absorb (use effectively) the amount of money that they might receive under the MCA?***
- 3. Will an MCA that focuses on “good performers” discourage and exclude other needy countries?***

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I thank Sarah Lucas for her contribution to this note.

**First, will a reasonable number of poor countries meet the criteria?**

**Yes. As of the year 2000, we conclude there were at least 20 countries that would have been eligible.**

Many observers have expressed concern that countries that are the most poor, with the most needy people, will not meet the criteria the U.S. government is likely to set (or if they do, will not be able to compete with higher-income countries that will meet the criteria). In an earlier note, however, Birdsall et. al.<sup>1</sup> concluded that at least 20 of the world's poorest countries could well meet the likely criteria.

Birdall et. al. identify and explain the logic of 12 criteria covering the three categories (see Table 2). Using available and reasonable (though far from perfect) information and indicators to represent closely those 12 criteria, they applied them to the 69 countries currently eligible to borrow from IDA, the concessional window of the World Bank, with income per capita below \$1000 in 2000.<sup>2</sup> The result was a list of 20 countries, set out in Table 1.<sup>3</sup>

<b>Country</b>	<b>2000 GNI (Atlas Method)</b>	<b>Country</b>	<b>2000 GNI (Atlas Method)</b>
Armenia	520	Madagascar	250
Bangladesh*	370	Mali	240
Benin	370	Mongolia	390
Bolivia	990	Mozambique	230
Georgia	630	Nicaragua	270 (1998 figure)
Ghana	330	Sao Tome and Principe	290
Guyana	860	Senegal	490
Honduras	860	Solomon Islands	640
India	450	Sri Lanka	850
Lesotho	580	Tanzania	270

Of the 20 countries, nine are in sub-Saharan Africa, four in Latin America, three are in South Asia, and the remaining four in other parts of Asia. Twelve of the 20 are eligible for official debt reduction under the HIPC (Heavily Indebted Poor Countries) program.<sup>4</sup> Their combined populations are about 1.3 billion, with all but about 170 million in Bangladesh and India. It is not our intention to endorse this list of

<sup>1</sup> "On Eligibility Criteria for the Millennium Challenge Account" by Nancy Birdsall, Ruth Levine, Sarah Lucas and Sonal Shah, Center for Global Development, September 12, 2002. This and other CGD papers on the MCA are available at [www.cgdev.org](http://www.cgdev.org).

<sup>2</sup> World Bank, 2002 (using the Atlas method). Another 10 countries are eligible to borrow from IDA, but have income above \$1000 per capita; they are eligible because of their small size or their high debt and thus their poor access to private capital.

<sup>3</sup> Almost half of the 79 IDA-eligible countries were eliminated by the composite indices of civil and political liberties of Freedom House. Many fewer countries were eliminated by the criteria related to economic freedom and investing in people. Some were excluded due to extreme lack of data.

<sup>4</sup> Of the HIPC countries, seven have reached decision point and five have reached completion point (three under the enhanced framework, and two under the original framework.)

countries over any other, but to illustrate that there are more than a handful of countries that are very poor, with large numbers of poor people, that are sufficiently well managed and have sufficiently sound policies to be selected as initial recipients of MCA resources.

**Table 2. Summary of Criteria<sup>5</sup>**

<b>Criterion</b>	<b>Data Source</b>
1. The judiciary is independent	Freedom House's "Civil Liberties Index"
2. A free press exists	Freedom House's "Civil Liberties Index"
3. Trade unions, peasant organizations or equivalents, and professional and other private organizations are permitted to exist freely.	Freedom House's "Civil Liberties Index"
4. The head of state and/or head of government or other chief authority is elected through free and fair elections.	Freedom House's "Political Freedom Index"
5. The head of state and/or head of government or other chief authority has been in power for less than 15 consecutive years.	
6. The national budget is transparent and publicly available.	
7. Public administration is relatively free of corruption	Kaufmann, Kraay, and Zoido-Lobaton "Control of Corruption" indicator
8. The three-year moving average for inflation is less than 20%.	<i>World Development Indicators 200</i> , World Bank
9. Weighted average tariff rate less than 35%.	<i>Development, Trade, and the WTO</i> , World Bank
10. Regulation on business is not overly burdensome	Kaufmann, Kraay, and Zoido-Lobaton "Regulatory Quality" indicator
12. DTP3 coverage is greater than 50%.	World Health Organization
12. Non-salary spending on basic education per school aged child amounts to 9% of government revenue	Calculated from <i>World Development Indicators</i> , World Bank

<sup>5</sup> For more on the selection criteria, how they were chosen, and a description of the shortcoming of some of the data, please see "On Eligibility Criteria for the Millennium Challenge Account" by Nancy Birdsall, Ruth Levine, Sarah Lucas and Sonal Shah, Center for Global Development, September 12, 2002

\* Transparency International's 2001 Corruption Perceptions Index ranks Bangladesh as worst among 91 countries. They do say that data for Bangladesh in 2001 were "available from only three independent survey sources, and each of these yielded very different results. While the composite score is 0.4, the range of individual survey results is from -1.7 to +3.8. This is a greater range than for any other country. TI stresses, therefore, that this result needs to be viewed "with caution." Uncertainty due to poor data argues for generous initial thresholds so as to err on the side of inclusion, particularly assuming there is a second stage in which countries or groups within countries sponsor specific proposals for MCA funding in a competitive process, as set out in Birdsall et.al, June 3, 2002 and Radelet, September 10, 2000.

**Second, will the eligible countries be able to absorb effectively the MCA resources?**

**Yes, we conclude that there need not be a problem of absorptive capacity – even if and when the MCA is funded at the annual level of \$5 billion – as long as there is flexibility both in country allocations and in the way the resources can be spent at the country level.**

Studies of the effectiveness of aid generally find a positive impact of aid on growth, especially in countries with “sound” policies, at least up to some point. The point at which additional aid no longer helps ranges widely, from 4% to 50% of GDP, in different studies, and thus provides little real insight into how much any one country can effectively absorb.<sup>6</sup>

Table 3 shows aid as a percentage of GDP (the average for the years 1990 – 2000, and the figure for 2000 itself) in our 20 countries. In the year 2000, the figures ranged widely, from highs of over 20 percent of GDP in post-conflict countries such as Mozambique and Nicaragua to just one third of 1 percent of its GDP in India. The combined GDP of Bangladesh and India is \$525 billion; \$5 billion would amount to less than one percent of that. The combined GDP of the other 18 countries is about \$62 billion; the \$5 billion would amount to about 8 percent of that. Given these figures, and the wide range of turning points for effectiveness shown in various studies, it seems clear that in the aggregate there is no obvious problem of absorptive capacity, as long as the MCA is not concentrated in just four or five countries that are very small.

More relevant than general figures of aid as a percentage of GDP are specific characteristics of recipient countries, and the flexibility with which the U.S. would use the resources. Countries recovering from long periods of conflict, or from major natural disasters (the case for several countries in Central America after the 1998 Hurricane Mitch) can absorb more new resources quickly. Countries that are well managed but have high debt accumulated in early periods, can absorb large amounts of aid effectively in the form of debt relief and debt reduction. In terms of flexibility of the U.S. approach, we know that countries can absorb more resources relative to their own GDP if they are able to use aid for general support of major sectoral programs (such as basic education and health, or building and maintenance of a rural road network), including for teacher salaries, books, medicines, and other operating costs. This approach, as opposed to designing and financing specific donor projects, makes most sense anyway in countries eligible for the MCA, since they are most likely to be able to manage their own-designed programs of this nature.<sup>7</sup>

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<sup>6</sup> See Collier, Paul and David Dollar, 2002; Dalgaard, Carl-Johan, Henrik Hansen and Finn Tarp, 2002; Hadjimichael, Michael T., Dhaneshwar Ghura, Martin Muhleisen, Roger Nord, and E. Murat Ucer, 1995; Hansen, Henrik, 2001; Lensink, Robert and Howard White, 1999; Durberry, Ramesh, Norman Gemmell and David Greenaway, 1998; and Hansen, H. and F. Tarp, 2000.

<sup>7</sup> Donors have been reluctant to finance operating costs so that in countries with high aid/GDP ratios, most aid has gone to one-time initial “investments” in infrastructure, training and technical assistance, but not to operating costs such as those named above. Commitments to debt relief, untied aid, and greater

The bottom line is that absorptive capacity of MCA-eligible countries will be mainly a function of decisions by the U.S. government on where and how the MCA resources can be used. To the extent that MCA resources go to countries like Bangladesh and India, which are large and currently receive small amounts in aid transfers, the absorptive capacity question will be almost completely moot. (In those countries, MCA resources could almost certainly even be concentrated in just a few subregions or states, for maximum visible effectiveness.) Many of the other initially eligible countries (using our criteria) have major debt problems and are subject to commodity price shocks and weather shocks which are already showing the initial HIPC projections of their capacity to sustain even reduced debt completely unrealistic.<sup>8</sup> That implies they could benefit from large transfers to meet their own budget needs, if not to directly reduce their debt.<sup>9</sup>

Some of the 20 countries (including India) will face rising costs of dealing with the HIV/AIDS pandemic in the next few years. In still other countries, donor spending for the next decade on such costs as teacher and health and banking supervisor salaries could easily be absorbed. These have traditionally been seen as recurrent or operating costs that donors should not finance (as opposed to one-time initial “investments” in infrastructure or training). However, there is a good argument for viewing them as part of the process of ensuring and sustaining the initial investments in a country’s human capital that are required to put very poor countries at the starting line of growth.

Finally, we believe there is reason to think that the list of MCA-eligible countries will grow over the next few years, implying that the problem of absorptive capacity, even if it were to exist initially, would not persist. That brings us to the third question.

**Table 3. Percent of GDP as aid in eligible countries**

Country	Average AID/GDP 1990-2000	Aid/GDP 2000
Armenia	8.2	11.2
Bangladesh	4.10	2.49
Benin	13.26	11.01
Bolivia	9.70	5.75
Georgia	6.10	5.60
Ghana	10.07	11.74
Guyana	29.66	15.21
Honduras	10.24	7.57
India	0.56	0.33
Lesotho	8.48	4.61
Madagascar	12.85	8.31
Mali	17.8	15.9
Mongolia	23.96	22.43
Mozambique	44.50	23.34
Nicaragua	40.75	23.44
Sao Tome e Principe	109.77	75.23
Senegal	12.39	9.69
Solomon Islands	16.51	24.92
Sri Lanka	4.95	1.69
Tanzania	18.69	11.57

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coordination with other donors and the national development strategies of recipient countries all would increase the ability of recipient countries to absorb increased aid.

<sup>8</sup> See Birdsall and Deese, 2002, for a summary of the problem.

<sup>9</sup> The problem here is that the U.S. is not likely to want to appear to be the major contributor to financing the elimination of debt owed to the multilaterals.

**Third, will an MCA focused on “good performers” discourage and exclude other needy countries from undertaking the steps to become eligible?<sup>10</sup>**

**No, on the contrary. The characteristics of currently ineligible countries suggest that many could easily become eligible in short order.**

In addition to the 20 countries in Table 1, many other countries fall just short of eligibility using our criteria. For example, Uganda meets standards in both economic criteria and investing in people. It is one level short of the minimum standard we set for eligibility using the Freedom House indices of civil liberties and political freedoms. Freedom House does not publish countries’ scores on the various subcomponents of those two indices, but we imagine that Uganda scored poorly on freedom of opposition parties to organize and on freedom of the press in 2000 (prior to its elections). Kenya also would qualify using our criteria except for its poor governance situation, with lack of free and fair elections as the most obvious shortcoming. Albania just barely falls short on a measure of civil liberties, while meeting all other criteria.<sup>11</sup> These are areas where active civil society organizations can mobilize citizens to encourage change in the next several years, particularly since the cost to the government of exclusion from MCA eligibility would be visible and embarrassing.

Burkina Faso passes all thresholds except immunization rates (as of 1999, coverage reached 42% of children, while our threshold is set at 50%) and spending on basic education (as in the case of several former French colonies, Burkina Faso spends a relatively high proportion of its public education budget on university education, including subsidizing university training abroad for some students). Malawi’s only barrier to eligibility is the inflation rate, which is 15 percentage points higher than our threshold.

In all these cases, with thresholds for eligibility that are transparent and comprehensible to developing country governments and civil societies, the MCA system is likely to encourage rather than discourage governments and citizens to make sometimes small changes in policies and programs in order to cross the eligibility

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<sup>10</sup> This has been a primary concern among many in the US-based development NGO community and is expressed in several papers including “A Second Tier for the MCA” by Gene Sperling and Tom Hart, October 2002, and “MCA: A Proposed Conceptual Approach for Eligibility” by the Office of International Justice and Peace of the US Conference of Catholic Bishops, August 2002.

<sup>11</sup> For the governance criteria of independent judiciary, free press, freedom of organization, and fairness of elections we relied on Freedom House’s surveys on Civil Liberties and Political Freedom, and for each applied maximum score of 4 as meeting the threshold for selection. At the time of the most recent Freedom House survey, Uganda scored 5 on civil liberties and 6 on political rights; Albania scored 5 on civil liberties. As argued in “On Eligibility Criteria for the Millennium Challenge Account” by Nancy Birdsall, Ruth Levine, Sarah Lucas and Sonal Shah, Center for Global Development September 12, 2002, we would argue that transparency and understanding of criteria would best be achieved by employing single indicators rather than composite indices as measures. In the absence of disaggregated data on governance indicators, we relied on the Freedom House indices of political freedom and civil liberties. Ideally, the individual indicators that make up these indices would be available.

threshold. Indeed an important measure of the MCA's success is that it reach more and more countries over time, while staying true to its principles of ensuring aid effectiveness.

## Resources

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