MCA Monitor Analysis

Round Eight of the MCA:
Which Countries Will the MCC Board Likely Select as Eligible in FY2011?

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I. INTRODUCTION AND OVERVIEW

The Millennium Challenge Corporation (MCC) is about to conduct its eighth round of country eligibility selection. These decisions will take place amid recent changes in the U.S. global development and MCC landscape. The Obama administration released a new global development policy built around many central tenets of the MCC, including selectivity, country ownership, and a focus on economic growth as the way to reduce poverty.[2] For the first time in its history, some MCC compacts have come to their five-year completion, prompting renewed emphasis on innovation and results. Second compacts will comprise a significant portion of the MCC compact pipeline. The MCC has revamped its threshold program and is seeking legislative changes for longer and concurrent compacts and new income category definitions.[3]

The MCC board of directors will meet on December 15, 2010, to select candidate countries as eligible to apply for compact and threshold assistance from the FY2011 pool of funds. The first two of three congressionally mandated MCC reports define the parameters for the selection process:

1.) *The Report on Countries that are Candidates for Millennium Challenge Account Eligibility for Fiscal Year 2011 and Countries that would be Candidates but for Legal Prohibitions* (released August 2010). This report outlines the low income country (LIC) and lower middle income country (LMIC) groups and specifies which countries are prohibited from receiving MCC funds due to statutory reasons.[4]
2.) *The Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance for Fiscal Year 2011* (released

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[2] See the Obama administration's *Fact Sheet: U.S. Global Development Policy,* www.whitehouse.gov/the-press-office/2010/09/22/fact-sheet-us-global-development-policy.
[3] For a full explanation of the new income definition proposal, see *From Challenge to Opportunity: A Proposal to Adjust the MCC's Candidacy Selection Method,* http://www.cgdev.org/content/publications/detail/1424063.
[4] MCC's Candidate Country Report can be accessed at www.mcc.gov/documents/reports/report-2010001036301-candidate-country-report.pdf. See Tables 2 and 4 for complete LIC and LMIC lists.

September 2010) highlights how the MCC board of directors will measure and evaluate the policy performance of candidate countries.[5] This report defines three criteria that guide the board's selection decisions: 1) a country's overall performance on the 17 indicators in the Ruling Justly, Encouraging Economic Freedom, and Investing in People policy categories;[6] 2) the MCC's opportunity to reduce poverty and generate economic growth in a country; and 3) the availability of funds to the MCC.

3.) After the MCC board makes its selection decisions, the MCC will release the FY2011 eligible country report with a complete list of the countries determined to be eligible and justification for these selections. This report marks the conclusion of the annual MCC selection process.

This analysis draws upon these first two reports and country indicator performance to predict which countries the MCC board will select as eligible to apply for FY2011 compact or threshold assistance. This is our ***forecast*** of the countries we think the MCC board is most likely to select as eligible for FY2011 funding. It is ***not*** an official list of the countries that will be selected.

The MCC board judges a country's indicator performance as passing or failing. To pass the indicators test, a country must score above the median relative to its peer income group on at least three indicators in each of three policy categories (Ruling Justly, Encouraging Economic Freedom, and Investing in People).[7] A country must also score above the median on the control of corruption indicator, the only "hard hurdle" for MCA eligibility.

In addition to the indicators, the MCC board also considers how much money it has in the budget, the potential to spur economic growth and reduce poverty, and, for countries being considered for second compacts, the country's compact implementation performance. The board can use its discretion to select countries that do not meet the indicator criteria and not to select countries that do meet the indicators. As in years past, we encourage the MCC board to be transparent about why and how it selects countries.

It is also important to note that countries with signed compacts do not need to be reselected annually but countries still developing their compacts do. This policy was introduced by the MCC in the FY2009 selection round.[8] Should an MCC compact country's policy performance on the indicators deteriorate or show a pattern of actions inconsistent with the indicators, the MCC can suspend or terminate the country's compact assistance.

FY2011 Indicator Performance by the Numbers

- Fifteen low income countries (LICs) pass the FY2011 indicators test.

[5] MCC's Criteria and Methodology Report can be accessed at www.mcc.gov/documents/reports/report-2010001039502-selection-criteria-and-methodology.pdf.

[6] For MCC's scorecards on all LIC and LMIC countries, see the *MCC's 2011 Country Scorebook,* www.mcc.gov/documents/reports/reference-2010001042001-fy11-scorebook.pdf.

[7] One exception to this methodology is that the median is not used for the inflation indicator. To pass the inflation indicator, a country must have below 15 percent inflation.

[8] See MCC's *Report on the Selection of Eligible Countries for Fiscal Year 2009*, December 2008, www.mcc.gov/documents/reports/mcc-report-fy09-countryselection.pdf.

- Three lower middle income countries (LMICs) pass the FY2011 indicators test.
- Three countries graduate from LIC to LMIC status **Egypt**, **Kosovo**, and **Sri Lanka**.
- Three countries graduate from LMIC to upper middle income country (UMIC) status: **Albania, Azerbaijan**, and **Iran**.
- Three countries move down from LMIC to LIC status: **Republic of Congo, Kiribati**, and **the Philippines**.
- No countries move down from UMIC to LMIC status this year.
- Nine of nineteen countries in compact implementation ***do not*** pass the indicators test: **Armenia, Burkina Faso, El Salvador, Georgia, Mali, Mongolia, Morocco, Mozambique,** and **Vanuatu**. This is the third year in a row that Georgia and Vanuatu fail the indicators test, and the fourth year that Armenia, El Salvador, Mali, and Mozambique fail the indicators test. Morocco fails for the fifth year in a row.
- Two countries have completed five-year MCC compacts: **Honduras** and **Cape Verde**. Cape Verde was selected as eligible for a second compact in FY2010. Both countries fail the indicators test this year.
- Six countries are on track to complete MCC compacts (in 18 months or less): **Georgia** (April 7, 2011), **Vanuatu** (April 28, 2011), **Nicaragua** (May 26, 2011), **Armenia** (September 29, 2011), **Benin** (October 6, 2011), and **Ghana** (February 16, 2012).

MCA Monitor Selection Guiding Principles

Many of the same guiding principles we have put forward in prior years remain relevant. This year, the MCC board should continue to select only the strongest potential partners and be more transparent about the criteria it is using to select countries, especially for second compacts and threshold countries.

- **The indicators are the initial—not the only—guide.** The 17 policy indicators offer helpful information on the relative performance of each country in a given fiscal year. The country scorecards bring simplicity and objectivity to a complex process, but things are not always as straightforward as they seem. Some indicators can have wide margins of error, high levels of volatility, and significant data lags. The indicators should not be taken as perfect measures but meaningful proxies for policy assessment.[9] In many cases, individual indicators must be examined more deeply than a simple pass or fail. However, we do take special note of countries that repeatedly fail or pass the indicators test. The MCC board should select countries with solid passing records and upward trends in policy performance, and explain why any countries that appear to fail the indicators are in fact on the right policy track and deserve selection. The MCC board will (and should) also take into account overall levels of poverty and opportunity for economic growth and poverty reduction.[10]
- **Prioritize democracy and control of corruption.** The democracy indicators, Political Rights, Civil Liberties, and Voice & Accountability, provide a critical touchstone to the relative openness of a government and the power of its civil society. Failing all three indicators points to a serious problem in a government's ability to respond to its citizens. The MCC model gives much responsibility and power to partner governments with each compact grant, allowing a government

[9] The MCC is reviewing its eligibility selection process and use of the indicators.
[10] See Table 5 for a list of poverty figures for selected countries.

to determine what projects are funded and have a significant role in their implementation. For these reasons, the MCC board has not selected countries such as Vietnam and Thailand that pass the indicator test on the whole but fail the democracy indicators. Similarly, control of corruption is the only hard hurdle for eligibility and should be enforced. The board should continue to prioritize democracy and control of corruption, and be clear and transparent when these are the reasons countries are not selected.

- **For potential second compacts, indicator scores *and* publicly available compact track record matter.** Two MCC compacts are complete and six more will finish in the next 18 months. This means possible second compacts will play a big role in FY2011 selection. In the case of second compacts, the MCC will evaluate indicator scores and first compact performance.[11] Countries vying for a second compact should show steady improvement through the indicators and strong initial outcomes from the first compact. First compact results should include results that are both quantitative (e.g., the compact in Honduras trained over 7000 farmers) and qualitative (e.g., the compact in Cape Verde incentivized the government to approve a microfinance law regulating lending). For compacts still under implementation, the MCC should pay special attention to 1) current progress as it relates to original goals and benchmarks; 2) the efficacy of the partner government and *especially* the accountable entity; 3) how the compact was used to innovate and take risks beyond standard development aid, and; 4) the compact's expected impact on economic growth and poverty reduction. The MCC should, to the greatest extent possible, share this information publicly on the MCC website. This would allow the MCC to maintain high standards for clear, objective selection methods and allow candidates to see why one country may be selected over another (and spur healthy competition among compact countries to demonstrate strongest performance).
- **The revamped threshold program requires revamped threshold selection.** After an extensive review, the threshold program has been redesigned to now focus on constraints to growth in its programming rather than moving specific country indicator scores. Constraints analysis and feasibility studies will determine the sector(s) in a country's program. However, threshold selection will continue to rely heavily on the indicators. With its new emphasis on targeting constraints to growth instead of specific indicators, the threshold program should include countries which pass or very nearly pass (those that fail by no more than two indicators and are close to the median on the failing indicators). To have maximum impact in a short period of time, threshold selection should focus on countries that generally do well in the Ruling Justly category.
- **An uncertain budget environment demands greater selectivity.** The entire FY2011 federal budget remains in question. The government is operating under a continuing resolution that may be extended for a few months or for the full fiscal year. If levels are kept the same, this would mean a $1.105 billion budget for the MCC. This will make it difficult to fully fund all the compacts in the queue: Malawi ($100 million in FY2011, up to $350 million total), Zambia ($350 million), Indonesia ($521 million in FY2011, $700–800 million total split between FY2011 and FY2012 funding), and Cape Verde ($100 million), not to mention operating expenses. And, if a

[11] The MCC's FY2011 Selection Methodology report says: "To assess implementation of a first compact, the board will consider the nature of the country partnership with MCC, the degree to which the country has demonstrated a commitment and capacity to achieve program results, and the degree to which the country has implemented the compact in accordance with MCC's policies and standards."

continuing resolution flat-lines or cuts the MCC budget, new threshold program funds would come at the expense of projected compact amounts already in the pipeline.

II. COMPACT ELIGIBILITY FOR LOW INCOME COUNTRIES

There are 63 countries in the FY2011 low income country (LIC) group of candidates that have per capita gross national incomes (GNI) of $1905 or less. Of these countries, eight are legally prohibited from receiving MCC funds but are included in median calculations for the LIC category.

Countries that Pass the Indicators Test

Table 1 summarizes the results for the LIC group. Column 1 highlights the selection results from FY2010, column 2 shows the indicators test outcomes for FY2011, and column 3 offers our predictions for which countries will be selected as eligible for FY2011. Table 2 provides detailed indicator outcomes for all 63 countries in each of the seventeen indicators. The category, indicator, and indicator median are labeled at the top of each column. Shaded indicator scores designate a failed score. Scores at or below the median are considered failing; unavailable data is also considered failing.

Fifteen LICs pas the FY2011 indicators test, including the following:

- Nine from Africa: **Benin, The Gambia, Ghana, Lesotho, Malawi, Rwanda, Senegal, Tanzania,** and **Zambia**
- Three from Latin America: **Bolivia, Guyana,** and **Nicaragua**
- Three from Europe, Asia, and the Pacific: **Moldova, The Philippines,** and **Vietnam**

The MCC board of directors chose no new LICs as eligible for compact assistance in FY2010. Moldova, Malawi, and Zambia were reselected as eligible to continue their compact development. Moldova signed its compact on January 21, 2010, and Malawi and Zambia are in compact development. All three countries passed the indicators test in FY2010 and also pass in FY2011.

This year, eight of the twelve LIC countries that have signed compacts in force pass the indicators test: Benin, Ghana, Lesotho, Moldova, Nicaragua, the Philippines, Senegal, and Tanzania. Nicaragua passes this year after being eliminated by corruption in FY2010. After failing the indicators test because it graduated to the LMIC group in FY2010, the Philippines moves back down to the LIC category this year and passes the indicators test.

Four LICs that have MCC compacts fail the indicators test: Burkina Faso, Mali, Mongolia, and Mozambique. This is the second year in a row that Burkina Faso fails the indicators test by one indicator in failing in the Investing in People category. Mali and Mozambique both fail for the fourth year in a row because of shortcomings in the Investing in People category; Mali misses by one indicator and Mozambique misses by two. For the first time ever, Mongolia fails the indicators test by coming in at the median on the control of corruption indicator. This leaves Lesotho and Vietnam as the only countries to have passed the indicators test all eight years since FY2004. Bolivia and Tanzania have the next best record, passing for six straight years since FY2006.

Honduras, the only LIC to complete a compact, does not pass the FY2011 indicators because it fails the control of corruption hard hurdle.

Four countries pass the FY2011 indicators test that also passed in FY2010 but were not selected last year: Bolivia, Guyana, Rwanda, and Vietnam. The Gambia also passes in FY2011 but did not pass the FY2010 indicators test and was not selected last year.

Countries Most Likely to be Selected

In a tough budget environment, the MCC must be smart about its selection choices. The board should continue building a portfolio of countries in which the MCC can have significant impact on economic growth and poverty reduction. In our view, the board will most likely select three LICs for compact eligibility.

- **Malawi** and **Zambia** are straightforward reselection choices. Both squarely pass the indicators test and are currently developing compacts.
- **Ghana** will complete its first compact in February 2012 and will likely be selected as eligible for a second compact this year so that it will have ample time for compact development.

Ghana passes the indicators test for the fourth year in a row, passing all indicators in the Ruling Justly and Investing in People categories. Ghana will complete its first compact on February 16, 2012. The $547 million compact seeks to increase farmer incomes through private sector–led agribusiness development. The compact aims to achieve this through improved credit services, road and school rehabilitation, and increased land registration activity. All reports indicate that the Millennium Development Authority (MiDA), the Ghanaian entity responsible for implementing the compact, has been a proficient partner and the compact has already posted impressive results. The MCC board will likely select Ghana as eligible for a second compact so that it may begin considering second compact plans and investments. If the MCC board selects Ghana as eligible for a second compact *well before* (14 months) it completes its first compact, the MCC must continue to make clear that second compact eligibility does not guarantee a compact. A second compact would still depend on first compact results, continued policy performance, and the quality of the second compact proposals.

Like Ghana, **Malawi** continues a steady passing record. It passes the indicators test for the fourth year in a row in FY2011. Malawi has shown a general upward trend in the Ruling Justly and Investing in People categories and has maintained solid marks in the Economic Freedom category. Malawi successfully completed a $21 million threshold program in 2009 focused on preventing corruption and enhancing oversight functions. It was originally selected as compact eligible in FY2008 and is currently in the final stages of developing a roughly $300 million compact largely focused on reforming and revitalizing the energy sector.

Zambia passes for the third year in a row and only fails the public primary education spending indicator this year because of unavailable data. Zambia was originally selected as compact eligible in FY2009 and is currently developing a $350 million compact. The MCC provided $12.2 million in 609(g) funding in June 2010 for further compact development and analysis. Zambia completed a $22.7 million threshold program in February 2009; the program focused on reducing corruption by removing administrative barriers and improving public service delivery.

Borderline

Benin is due to complete its compact on October 6, 2011 and passes the indicators test for the second year in a row. Since its initial selection, Benin's indicator results have been inconsistent with no clear trend upward in any category. The $307.3 million compact is rehabilitating the Port of Cotonou to improve access to markets, increasing access to land through land registration and policy reform, providing financial services to local microfinance projects, and training magistrates and court clerks in modern court practices. Because of Benin's uneven indicator record, its selection for second compact eligibility will most likely hinge on its compact implementation record thus far. We encourage the MCC to be transparent about the efficacy of Benin as a partner and implementer.

Honduras was the first MCC country to complete a compact, in September 2010. The compact focused on increasing the productivity and business skills of farmers and on reducing transportation costs between production centers and markets. According to the MCC, Honduras's compact trained more than 7000 farmers, improved 500 kilometers of rural roads, increased access to credit services for farmers, and incentivized the Honduran government to nearly double the road maintenance budget. MCC CEO Daniel Yohannes said the MCC's "foundational principles including country ownership, accountability, and a focus on results [were] embodied in MCC's partnership with Honduras to achieve real results leading to economic growth and poverty reduction." These aspects suggest Honduras would be an ideal candidate for a second compact and selecting Honduras would also provide some regional balance to MCC's pipeline that otherwise lacks new programs in Latin America. However, the MCC board will take into account the changes in government (some would call it a coup) that led the MCC to terminate a portion of its compact in the road activity section in September 2009. Honduras also fails the control of corruption indicator (and therefore the indicators test) in FY2011 even though its score in the 45th percentile is statistically indistinguishable from that of a country just above the median like Nicaragua, which comes in at the 52nd percentile. The MCC board will heavily weigh these aspects and could decide to defer a decision for another year to allow time to evaluate the political stability and significance of Honduras's control of corruption scores.

Countries that Pass the Indicators Test but are Unlikely to be Chosen

Bolivia passes the indicators test for the sixth time this year but is unlikely to be selected for a compact. Bilateral relations with Bolivia deteriorated in recent years, causing the United States to recall its ambassador. While relations have since improved, it seems unlikely that Bolivia will be selected as compact eligible this year. Though Bolivia might not yet be a suitable compact partner, Bolivia may be a potential candidate for the revamped threshold program, as we discuss below.

The Gambia, **Rwanda**, and **Vietnam** are all unlikely to be chosen as eligible this year because each fails the democracy indicators. The Gambia (which was selected as eligible in FY2006 and then suspended in June 2006) regains passing status this year after failing for the past three years, but it exhibits downward trends in the democracy indicators. Rwanda and Vietnam pass for the fourth and eighth year, respectively. Rwanda is implementing a $24.7 million threshold program aimed at increasing civic participation, improving media professionalism, and strengthening the capacity of local government. The

MCC board is not likely to break from precedent and select these countries as eligible. As we have long advocated, those countries which fail all three democracy indicators should not be chosen as eligible for compact funding.

Guyana passes the indicators test for the fourth year but has never been selected as eligible for a full MCC compact. Guyana recently completed a $6.7 million threshold program focused on supporting national fiscal reform. Despite Guyana's good threshold program implementation, it is unlikely that the MCC board will break with precedent and select it for compact eligibility. Presumably this is because Guyana has a relatively small population and a small percentage of people living in poverty (7.7 percent), meaning the opportunity to reduce poverty is relatively small compared to other countries.[12]

Compact Countries Not Likely to be Reselected this year for Second Compact Eligibility

Nicaragua passes the indicators test this year and will complete its compact in May 2011, but worrisome actions by the government of Nicaragua make it unlikely that the MCC board will select Nicaragua as eligible for a second compact this year. In July 2009 the MCC terminated the compact's property regularization project and portions of the transportation project when the government of Nicaragua refused to address credible accusations of fraud related to the November 2008 municipal elections. Unless the MCC can show that the processes and actions that led to the partial termination have been appropriately dealt with, the MCC should not reselect Nicaragua for a second compact at this time.

III. COMPACT ELIGIBILITY FOR LOWER MIDDLE INCOME COUNTRIES

There are 32 countries in the FY2011 lower middle income country (LMIC) group, who have per capita GNIs between $1906 and $3945. Three of these countries are statutorily prohibited from receiving MCC funds but are included in median calculations.

The MCC can only use up to 25 percent of compact assistance funds for LMICs. In a tight budget environment, this means that the MCC will have to make difficult decisions with regard to LMIC country selections. Four of the eight compact countries that have recently completed or are due to complete their compact in the next 18 months are LMICs (Cape Verde, Georgia, Vanuatu, and Armenia). The cap on LMIC funding will be a serious consideration as the MCC begins developing and implementing second compacts.

Countries that Pass the Indicators Test

Table 3 summarizes the results for the LMIC group. Column 1 highlights the selection results from FY2010, column 2 shows the indicators test outcomes for FY2011, and column 3 offers our predictions for which countries will be selected as eligible for FY2011. Table 4 provides detailed indicator outcomes for all 32 countries in each of the 17 indicators. The category, indicator, and indicator median are labeled

[12] These poverty figures refer to $1.25 per day poverty line. See Table 5 for poverty figures on selected countries.

at the top of each column. Shaded indicator scores designate a failed score. Scores at or below the median are considered failing; unavailable data is also considered failing.

Only three LMIC countries pass the indicators test this year: **Jordan**, **Sri Lanka**, and **Thailand**. Two countries, Egypt and Bhutan, fail the indicators test for the first time ever. Egypt fails because it graduated from the LIC to the LMIC group and now faces a more difficult set of performance standards.

Six of the seven LMIC countries that have signed or completed compacts *fail* the indicators test:

- **Cape Verde** (which recently completed a compact and was selected as eligible for a second compact in FY2010), **El Salvador**, **Georgia**, and **Morocco** all miss by one indicator in the Investing in People category.
- **Vanuatu** misses by one indicator in the Encouraging Economic Freedom category.
- **Armenia** misses passing the indicators test by two indicators in the Ruling Justly category, including the control of corruption indicator.
- **Jordan**, which signed a compact on October 25, 2010, passes the indicators test but fails all three democracy indicators.

Last year, the MCC board selected Cape Verde, Jordan, the Philippines, and Indonesia as eligible LMICs. Jordan and the Philippines have signed compacts so do not need to be reselected as eligible. Cape Verde passed the indicators test last year but misses by one indicator in FY2011. Indonesia failed the indicators test last year and this year, both times missing by two indicators.

The Philippines, an LMIC last year, drops back down to the LIC category in FY2011. Indonesia was originally selected as a LIC in FY2009, but graduated to the LMIC group in FY2010 and stays there in FY2011. To address the challenges of income group transition, the MCC board considers Indonesia's performance against the LMIC *and* the LIC categories for three years following its graduation to the higher income category.[13] Compared to its LMIC peers in FY2011, Indonesia fails the indicators test; compared to the LICs, Indonesia passes. A congressional amendment authorizes the MCC board to fund a country like Indonesia from the lower income category of unrestricted funds for two fiscal years after the country graduates to a higher income group.[14] Should the MCC board reselect Indonesia, it can be considered with and receive funds from the LIC resource pool through FY2012.

[13] The MCC Board can "consider the indicator performance of countries that transitioned from the LIC to the LMIC category both relative to their LMIC peers, as well as in comparison to the current fiscal year's LIC pool for a period of three years" (*MCC's Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance for FY2011*, September 2010, p.3).

[14]"A MCC candidate country selected as an eligible country in fiscal year 2009 in accordance with section 607(c) of the Millennium Challenge Act of 2003 that is transitioning out of one of the income categories identified in subsections 606(a) and (b) shall retain its candidacy status at the lower income category for purposes of setting compact funding levels for the fiscal year of its transition and the two subsequent fiscal years" (FY2010 Omnibus Appropriations Bill).

Countries Most Likely to be Selected

Cape Verde was the first country selected for a second compact (and passed the indicator test) in FY2010. But Cape Verde fails the indicators test this year by missing one indicator in the Investing in People category (but comes in at the 48th percentile on Primary Education Expenditures). However, Cape Verde has not shown a decline in actual policy performance in these areas and will likely be reselected as eligible to continue the development of its second compact. Cape Verde completed its first compact, worth $110 million, in October 2010. The compact focused on reforming the financial sector, improving infrastructure, and increasing agricultural productivity. Again, the board should be clear about how it judges Cape Verde's compact implementation and how that assessment and any nuances in the indicators inform the decision to select Cape Verde as eligible for a second compact.

Like Cape Verde, **Georgia** fails the indicators test by one indicator in the Investing in People category. Georgia will complete its first compact on April 7, 2011. The compact focuses on key infrastructure rehabilitation and rural enterprise development. A forthcoming MCA Monitor report from the field highlights important interim results in Georgia's compact and the extent to which Georgia, and the accountable entity, embraced the MCC's core principles of country ownership, public-private partnerships, and innovation including leveraging other donor resources.[15] As shown in Table 5, Georgia also has higher levels of poverty than most LMICs (six times more people live below the poverty line in Georgia than in Cape Verde).

Borderline Countries

Indonesia presents a unique and somewhat problematic case to the MCC board. It was selected as compact eligible in FY2009 as a LIC that passed the indicators test and then graduated to LMIC status in FY2010 where it failed the indicators test. Indonesia has been slowly developing a $700–800 million compact. However, the MCC board considers Indonesia against both the LMIC and the LIC income group for one more year.[16] As an LMIC this year, Indonesia fails the indicators test, scoring in the 26th percentile in control of corruption and missing by one indicator in the Investing in People category. When measured against the LIC group, Indonesia passes the indicators test. Meanwhile, there is an enormous opportunity for economic growth and poverty reduction as more than 47 million Indonesians live below the poverty line. While the MCC board will likely reselect Indonesia, it should not sign a compact until Indonesia demonstrates improvements in controlling corruption and shows it can and will be a good MCC partner. Regardless of whether Indonesia's low control of corruption score indicates a commensurate decline in policy performance, awarding a huge compact to a country with a control of corruption score in the 26th percentile sends the wrong signals about MCC's commitment to providing assistance to select, well-performing (read: controls corruption above all else!) countries.

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

Sri Lanka passes the indicators test after graduating to the LMIC category. (Its GNI per capita puts it just over the line and into the LMIC category.) Sri Lanka passes this year in a more difficult peer group

[15] MCA Monitor Report from the Field: Georgia, November 2010.

[16] See footnote 11, p. 4.

after missing by one indicator last year as a LIC. Sri Lanka was named compact eligible in FY2004 through FY2007 but was not reselected. Sri Lanka fails two of the three democracy indicators, Civil Liberties and Voice and Accountability, and its Political Rights score is just above the median. More importantly, policy performance in these areas has shown downward trends. We believe the MCC should monitor Sri Lanka's policy performance in these areas and not select it as eligible this year.

Thailand passes the indicators test but fails all three democracy indicators for the third year in a row. The MCC board should continue to monitor Thailand's policy performance in these areas but keep with precedent and not select Thailand as eligible this year.

Compact Countries Not Likely to be Reselected as Eligible for a Second Compact

Armenia fails the indicators test for the fourth year in a row. Interestingly, Armenia passes the Investing in People and Encouraging Economic Freedom categories but fails five of six indicators in the Ruling Justly category. Armenia's $236 million compact focuses on improving agriculture and infrastructure, but a portion of the road construction's funding was placed on hold in June 2009 because of a deterioration of political rights and civil liberties post-election. Armenia will complete its compact in September 2011 but should not be reselected for a second compact until it shows governance policy improvements, especially in the control of corruption and democracy indicators.

Vanuatu fails the indicators test for the third year in a row, missing by one indicator in the Encouraging Economic Freedom category. Vanuatu's compact, which focuses on rehabilitating transportation infrastructure, is due to finish in April 2011. However, we think Vanuatu's relatively small population means that the MCC board will not select it as eligible for a second compact in this tight budget environment.

IV. THRESHOLD PROGRAM ELIGIBILITY

The MCC is in the final stages of revamping its threshold program.[17] The original threshold program grew out of a concern that too few countries would pass MCC eligibility selection criteria and that the MCC would operate as a stand-alone agency, uncoordinated with USAID. MCC initially focused the threshold program almost exclusively on improving indicator performance in failed MCC selection indicator areas (for example, Kenya is failing the control of corruption indicator, so its threshold program aimed to control corruption and improve indicator performance).

But after six years, 23 threshold agreements, and $495 million, the MCC has recognized flaws in this approach: limitation of the indicators, data lags, and attribution issues; little demonstrable impact on either indicator performance or compact eligibility; and an undermining of the "MCC effect" that says countries are responsible for their own policy performance and are encouraged to improve policies before becoming eligible for MCC funds. Inconsistent threshold program selection criteria was also a concern: in some cases the MCC board chose countries falling just short of passing the indicators test (Burkina

[17] For more information, see "MCC Threshold Program is on the Threshold," CGD Rethinking U.S. Foreign Assistance blog by Sarah Jane Staats and Casey Dunning, September 14, 2010, http://blogs.cgdev.org/mca-monitor/2010/09/mcc-threshold-program-is-on-the-threshold.php,

Faso and Tanzania); others that were doing the right thing but were far from meeting the indicators (Liberia); and others that were far from qualifying (Kyrgyz Republic).

The new threshold program aims to de-link investments from improvements in the indicators and instead focus on broad policy and institutional reforms that are constraints to economic growth and poverty reduction. The MCC plans to use the revised threshold programs to inform board decisions on eligibility and strengthen engagement with USAID. The shift recognizes that full MCC compact eligibility is based on a combination of indicator performance and supplementary information on a country's perceived commitment to reform, among other things.

The revamped program also promises clearer selection criteria, but these criteria remain unknown to date. If the revamped threshold program aims to improve broad policy performance and increase the likelihood for full compact eligibility, it would make sense for the MCC board to select threshold countries with good indicator records, especially in the Ruling Justly category. (The new threshold program should avoid the nondemocracies, as they are likely furthest from full MCC eligibility).

In the absence of other information on how threshold countries will be selected—and the likely budget pressures—we recommend that the MCC choose no more than one new threshold country this year. This would allow MCC to pilot the new threshold program direction but also give it more time to clarify and explain the program details, including threshold country selection.

The MCC should be applauded for conducting and publicly sharing the threshold evaluations. They wisely recognize non-results not as a failure, but as important feedback on what is and isn't working and they are making midcourse corrections accordingly. Right now, the threshold program allows the MCC and USAID to work together on policy reform and constraints to growth—two elements highlighted in the new Presidential Policy Directive on U.S. Global Development. While this collaboration makes sense for the time being (it allows USAID more flexibility and resources to work on these types of programs and both agencies have expertise to share), the medium-term focus should be on positioning USAID to take over this type of program and the MCC should focus on its core mandate and full compact programs.

Possible MCC Threshold Program Countries (Pick One!)

Bolivia passes the indicators test for the sixth year in row. Though the United States still does not have an ambassador in Bolivia, diplomatic relations are slowly improving and could be in a different place in another three to four years (approximately how long a threshold program would last). Bolivia scores strongly in the Ruling Justly category and has an active USAID mission which would allow the MCC room to work closely with USAID on the threshold program's new approach. Further, nearly 20 percent of Bolivia's population lives below the poverty line. And a Bolivia threshold program would provide some regional balance to the MCC portfolio.

Guyana easily passes the indicators test for the fourth year in a row. Guyana passes sixteen out of seventeen indicators, failing only the Fiscal Policy measure. Guyana recently completed a $6.7 million threshold program focused on supporting national fiscal reform. The program assisted the government of Guyana with implementation of a new value-added tax system, improvements in expenditure planning and management, enhanced fiduciary oversight, and streamlined business registration. Guyana has a small population relative to other LICs and also has a small total population living in poverty (57,600 as compared to Bolivia's 1.8 million) but could continue to improve broad policy reforms and reduce constraints to growth through a threshold program.[18]

Possible Threshold Twist: Post-Compact Country as Revamped Threshold Country

Eight countries have or will complete compacts in the next 18 months. The MCC can't (and shouldn't) select every country for a second compact. It is possible however, that the MCC will consider selecting post-compact countries for the new threshold program instead. Potential options include a country like Honduras that completed its compact successfully but fails the FY2011 indicators test and a change in government (which some would call a coup) in Honduras forced a partial termination of part of the compact. On the one hand, a threshold program would allow the MCC and USAID to continue working with a country on broad policy reform and constraints to growth should they fail to meet full compact eligibility standards. On the other hand, a threshold program would be a four-year commitment (from time of selection to completion of three-year program), during which time the country would presumably not be fully compact-eligible. While selecting a post-compact country as a new threshold country could be an interesting possibility, there are no obvious post-compact country candidates (including Honduras) for the threshold program this year.

V. MCC Selection with New Income Definitions

A legislative change to the way MCC defines income categories is pending, and may or may not be included in the FY2011 budget package.[19] The proposed change would redefine the LIC category to be the 75 lowest income countries according to GNI per capita. The LMIC category would be the 76th poorest country at the lower bound and would retain the current LMIC ceiling as defined by the World Bank at its upper bound. Should this income category modification be enacted, it will affect the FY2012 selection, so here we offer a preview of the new system and explore what the new income categories would have meant for FY2011 selection.

If the new income definitions were in place this year, the LIC category would comprise 75 countries and the LMIC category would be 20 countries. Twelve countries would change from LMIC to LIC status.[20] Key MCC countries that would be redefined as LICs are: Georgia, Indonesia, Paraguay, Timor-Leste, and Vanuatu. The table below offers a selection of countries, their income category, and how they would fare on the indicators test in the altered income groups. Selected countries are those that *show a change in indicators test outcome* under the new income definitions in FY2011.

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[18] These poverty figures refer to $1.25 per day poverty line. See Table 5 for poverty figures on selected countries.

[19] See *From Challenge to Opportunity: A Proposal to Adjust the MCC's Candidacy Selection Method,* www.cgdev.org/content/publications/detail/1424063.

[20] Bhutan, Egypt, Georgia, Indonesia, Iraq, Micronesia, Paraguay, Sri Lanka, Swaziland, Syria, Timor-Leste, and Vanuatu.

Country	Current Income Group	New Income Group*	Indicators Test Result*	Indicators Passed*
Bhutan	LMIC	LIC	Pass	RJ: 3 EF: 3 IP: 4
Egypt	LMIC	LIC	Pass	RJ: 3 EF: 4 IP: 3
Georgia	LMIC	LIC	Pass	RJ: 6 EF: 5 IP: 3
Indonesia	LMIC	LIC	Pass	RJ: 6 EF: 6 IP: 3
Nicaragua	LIC	LIC	Eliminated by corruption	RJ: 4 EF: 5 IP: 4
Paraguay	LMIC	LIC	Eliminated by corruption	RJ: 3 EF: 5 IP: 3
Swaziland	LMIC	LIC	Pass	RJ: 3 EF: 4 IP: 3
Vanuatu	LMIC	LIC	Pass	RJ: 6 EF: 3 IP: 4

Note: RJ indicates Ruling Justly, EF indicates Economic Freedom, and IP indicates Investing in People.
* Under proposed income definition change.

The eight countries above would have had different results under the new income definition. While many countries would experience the same indicators test outcome, the new income definitions affect individual indicators and change relative scores due to the change in medians. Not only would these 12 countries be measured in a less difficult peer group, but they would also be free from the LMIC 25 percent funding cap.

VI. CONCLUSION

As the MCC works to strengthen its unique model to support economic growth and poverty reduction, it should continue to be extremely selective, choosing countries that have consistently perform well on the indicators (including the democracy indicators) and offer potential for substantial impact on poverty reduction. Like last year, we do not think the MCC should select any first-time eligible countries (in part because of the uncertain budget environment but also because there are no obvious new country partners). Instead, the focus this year is on reselecting countries that are currently developing compacts or are possible second compact countries.

Selecting one new threshold country would allow the MCC to pilot its revamped program in partnership with USAID, but this selection (and the threshold program itself) should not take place merely for the sake of collaboration. The selection should be based on sound and publicly available principles and expectations that it will demonstrate results in line with the program's new objectives: broad policy performance and greater likelihood for full MCC compact eligibility. And the medium-term goal should be to position USAID to take over the threshold program, leaving the MCC to focus on its core mandate and full compact programs.

The MCC board should be transparent on why countries are selected, or not selected.[21] This is even more important for selecting possible second compact countries and the revamped threshold program, where criteria are less well defined.

Given the MCC's initial decision to select more rather than fewer eligible countries (and to sign compacts with as many of those countries as possible), the pool of new, good country partners is getting smaller. Second compacts may very well become the majority of MCC's pipeline in the coming years, presenting new and different challenges. For example, what happens if second compact countries are selected *before* first compacts are completed, as may be the case this year with Ghana? Do the incentives change if compact countries believe a second compact is possible? How long should the MCC continue to work with a partner country (is five years too few and twenty years too many)? These questions—and a comprehensive review of the entire selection process—are among the issues that MCC CEO Daniel Yohannes, the MCC board, and MCC staff will be grappling with in the coming months.[22] Meanwhile, the MCC must continue to communicate both interim and longer-term results, explaining why the MCC model and approach matter; maintain congressional support for the program and proposed legislative fixes; and demonstrate how the MCC fits within the broader U.S. development policy framework.

[21] Section 608 of the MCA's authorizing legislation requires the MCC to prepare a report that "contains the list of all such eligible countries, an identification of those countries on such list with respect to which the Board will seek to enter into a Compact under section 609, and a *justification* [authors' italics] for such eligibility determination and selection for Compact negotiation."

[22] The onus is also on the research community to improve the data and measurement of policy performance areas, such as those used in the MCC indicators test.

Table 1: Country Qualification Predictions for Low Income Candidate Countries

Current eligible countries (selected in FY2010)	**Candidate countries that pass the FY2011 indicators test**	**Countries most likely to be selected**
1. Malawi 2. Zambia **Countries that passed the FY2010 indicators but were not selected** 1. Bolivia 2. Egypt 3. Guyana 4. Nepal 5. Rwanda 6. Vietnam **Compact countries that did not require selection in FY2010** 1. Benin 2. Burkina Faso 3. Ghana 4. Honduras 5. Lesotho 6. Mali 7. Mongolia 8. Mozambique 9. Nicaragua 10. Senegal 11. Tanzania	1. Benin 2. Bolivia 3. The Gambia 4. Ghana 5. Guyana 6. Lesotho 7. Malawi 8. Moldova 9. Nicaragua 10. The Philippines 11. Rwanda 12. Senegal 13. Tanzania 14. Vietnam 15. Zambia **Countries eliminated by failing the control of corruption indicator** 1. Honduras 2. Mongolia (at median) **Countries that miss by one indicator** 1. Burkina Faso 2. Mali 3. Nepal 4. Niger	1. Ghana 2. Malawi 3. Zambia **Borderline countries** 1. Benin 2. Honduras **Compact countries that do not require selection in FY2011** 1. Burkina Faso 2. Lesotho 3. Mali 4. Moldova 5. Mongolia 6. Mozambique 7. The Philippines 8. Senegal 9. Tanzania **Potential countries for second compact eligibility** 1. Benin 2. Ghana 3. Honduras 4. Nicaragua

Note: Once a country signs a compact agreement, it *does not* have to be reselected for eligibility. A compact country *does* have to be selected as eligible in the case of a second compact.

Table 2: MCC Low Income Countries (LICs) and their Indicator Scores, FY2011

	Ruling Justly						Economic Freedom						Investing in People					Passed Indicators		
	Political Rights	Civil Liberties	Voice & Account-ability	Government Effectiveness	Rule of Law	Control of Corruption	Regulatory Quality	Land Rights and Access	Inflation, %	Trade Policy	Business Start-up	Fiscal Policy	Immunization Rate: DPT and Measles, %	Public Expenditure on Health, % of GDP	Girls' Primary Education Completion Rate, %	Public Primary Education Spending, % of GDP	Natural Resources Management	Ruling justly	Economic Freedom	Investing in People
	(0 to 40, 40=best)	(0 to 60, 60=best)	(-2.5 to +2.5, +2.5=best)				(-2.5 to +2.5, +2.5=best)	(0 to 1, 1=best)		(0 to 100, 100=best)							(0 to 100, 100=best)			
Median	17	29	0	0	0	0	0.00	0.60	15.00	68.65	0.944	-2.25	81.0	2.54	70.8	1.71	61.88			
Substantially Below	9	19	-0.57	-0.33	-0.30	-0.37	-0.49	0.52	3.00	62.25	0.876	-4.00	71.5	1.46	51.1	1.17	51.48			
Countries that pass the indicators test																				
1 Benin	32	48	1.01	0.42	0.24	0.12	0.33	0.50	2.16	58.80	0.875	-0.97	77.5	2.55	55.0	1.99	64.57	6	3	3
2 Bolivia	28	40	0.61	0.19	-0.30	0.06	-0.29	0.62	3.35	77.60	0.896	-1.67	85.5	3.33	98.3	n/a	74.97	5	4	4
3 The Gambia	15	24	-0.35	0.25	0.50	0.22	0.39	0.66	4.55	60.40	0.845	-1.24	97.0	2.46	82.5	1.06	62.03	3	4	3
4 Ghana	37	47	1.19	0.97	0.82	0.83	0.81	0.70	19.25	67.80	0.978	-11.22	93.5	3.87	79.9	2.74	65.27	6	3	5
5 Guyana	31	41	0.81	0.70	0.33	0.23	0.08	0.75	2.95	71.30	0.966	-3.78	97.5	7.01	108.8	2.06	73.85	6	5	5
6 Lesotho	29	41	0.56	0.64	0.66	0.91	0.11	0.59	7.16	63.60	0.954	3.82	84.0	3.63	83.8	4.47	47.51	6	4	4
7 Malawi	26	34	0.48	0.38	0.73	0.30	0.15	0.69	8.42	71.00	0.899	-4.76	92.5	5.79	60.5	1.66	76.12	6	4	3
8 Moldova	25	33	0.39	0.35	0.47	0.04	0.54	0.87	0.01	80.20	0.986	-2.54	87.5	5.40	91.5	1.71	69.49	6	5	4
9 Nicaragua	20	34	0.21	-0.14	0.09	0.01	0.30	0.63	3.70	84.80	0.892	0.00	98.5	4.67	78.4	n/a	83.49	5	5	4
10 The Philippines	21	36	0.58	0.76	0.39	0.06	0.71	0.72	3.25	77.80	0.953	-2.25	87.5	1.27	96.6	1.36	91.00	6	6	3
11 Rwanda	10	24	-0.59	0.72	0.42	0.90	0.35	0.81	10.40	77.80	0.993	-1.04	94.5	4.91	55.9	1.87	65.12	3	6	4
12 Senegal	29	43	0.39	0.50	0.62	0.24	0.43	0.49	-1.71	73.20	0.952	-4.60	82.5	3.21	57.3	2.76	68.36	6	4	4
13 Tanzania	21	36	0.56	0.48	0.49	0.35	0.31	0.74	12.14	69.60	0.959	-4.51	88.0	3.37	80.8	4.61	61.73	6	5	4
14 Vietnam	2	19	-0.83	0.65	0.50	0.25	0.13	0.78	6.72	68.90	0.961	-3.91	96.5	2.80	n/a	1.57	80.58	3	5	3
15 Zambia	26	34	0.43	0.23	0.45	0.27	0.24	0.63	13.39	82.40	0.969	-1.97	83.0	3.71	82.3	n/a	64.40	6	6	4
Eliminated by corruption																				
1 Honduras	18	33	0.23	0.20	0.05	-0.12	0.45	0.63	8.67	77.00	0.959	-2.63	98.5	3.52	95.7	n/a	87.18	5	5	4
2 Mongolia	35	50	0.65	0.10	0.53	0.00	0.34	0.68	6.27	79.80	0.989	-2.50	94.5	3.00	111.7	1.53	76.26	6	5	4
Miss by one indicator																				
1 Burkina Faso	17	35	0.45	0.25	0.64	0.33	0.56	0.59	2.60	76.20	0.957	-4.81	78.5	3.07	39.6	3.08	56.92	6	4	2
2 Mali	31	40	0.85	0.14	0.51	0.08	0.26	0.65	2.19	73.20	0.941	-0.74	72.5	2.60	51.5	1.93	37.39	6	5	2
3 Nepal	21	29	0.12	-0.05	-0.04	0.02	-0.09	0.70	13.23	61.40	0.947	-1.95	80.5	1.90	n/a	2.93	72.38	4	4	2
4 Niger	13	29	0.00	0.15	0.28	0.12	0.21	0.53	1.14	71.80	0.908	-1.61	71.5	2.85	33.6	2.88	40.14	5	4	2
Miss by more than one indicator																				
1 Afghanistan	11	16	-0.69	-0.65	-1.12	-0.80	-1.09	0.47	-12.24	n/a	0.977	-2.24	79.5	1.56	n/a	1.28	30.80	0	3	0
2 Bangladesh	26	33	0.33	-0.08	0.20	-0.19	-0.10	0.50	5.43	58.00	0.964	-4.00	91.5	1.26	57.1	1.08	60.45	4	2	1
3 Burundi	22	23	-0.03	-0.20	-0.28	-0.35	-0.46	0.65	10.66	78.80	0.890	20.15	91.5	5.67	50.7	4.42	54.07	1	4	3
4 Cambodia	11	21	-0.18	0.16	-0.12	-0.41	0.32	0.64	-0.66	70.00	0.852	-0.79	93.0	1.53	79.0	0.33	67.52	1	5	3
5 Cameroon	8	16	-0.33	0.10	-0.14	-0.15	0.00	0.56	3.04	59.60	0.952	2.27	77.0	1.56	67.2	1.27	64.64	1	3	1
6 Central African Rep.	17	22	-0.28	-0.51	-0.39	-0.05	-0.43	0.44	3.52	58.10	0.829	0.41	58.0	1.72	28.8	0.62	60.53	1	2	0
7 Chad	5	15	-0.70	-0.58	-0.60	-0.61	-0.39	0.53	10.10	55.60	0.792	9.19	23.0	2.64	24.4	1.90	41.71	0	2	2
8 Comoros	25	30	0.40	-0.89	-0.16	0.02	-0.89	0.52	4.75	62.40	0.863	-1.23	81.0	1.94	70.8	4.70	55.09	4	2	1
9 Congo, Republic	7	22	-0.34	-0.33	-0.26	-0.45	-0.59	0.55	4.34	61.00	0.810	12.62	83.5	1.16	71.5	0.40	62.83	0	2	3
10 Congo, Dem. Rep.	11	10	-0.75	-0.82	-0.78	-0.65	-0.93	0.54	46.22	63.00	0.440	-3.24	76.5	1.21	43.5	4.93	49.88	0	0	1

Table 2: MCC Low Income Countries (LICs) and their Indicator Scores, FY2011, continued

		Ruling Justly						Economic Freedom						Investing in People					Passed Indicators		
		Political Rights	Civil Liberties	Voice & Account-ability	Government Effectiveness	Rule of Law	Control of Corruption	Regulatory Quality	Land Rights and Access	Inflation, %	Trade Policy	Business Start-up	Fiscal Policy	Immunization Rate: DPT and Measles, %	Public Expenditure on Health, % of GDP	Girls' Primary Education Completion Rate, %	Public Primary Education Spending, % of GDP	Natural Resources Management	Ruling justly	Economic Freedom	Investing in People
		(0 to 40, 40=best)	(0 to 60, 60=best)	(-2.5 to +2.5, +2.5=best)				(-2.5 to +2.5, +2.5=best)	(0 to 1, 1=best)		(0 to 100, 100=best)							(0 to 100, 100=best)			
	Median	17	29	0	0	0	0	0.00	0.60	15.00	68.65	0.944	-2.25	810	2.54	70.8	171	6188			
	Substantially Below	9	19	-0.57	-0.33	-0.30	-0.37	-0.49	0.52	3.00	62.25	0.876	-4.00	715	146	511	117	5148			
Miss by more than one indicator																					
11	Djibouti	12	23	-0.41	-0.01	0.28	0.51	0.1	0.58	17	59.6	0.858	-2.1	81	6.49	n/a	1.60	54.2	2	3	1
12	Ethiopia	13	18	-0.56	0.50	0.15	0.06	-0.3	0.63	36.4	65.6	0.985	-2.5	77	1.96	53.2	198	52.5	3	2	1
13	Guinea	2	13	-0.73	-0.39	-0.68	-0.46	-0.5	0.57	4.7	61.2	0.871	-2.8	54	0.61	46.7	0.99	54.7	0	1	0
14	Guinea-Bissau	21	27	-0.06	-0.16	-0.45	-0.35	-0.5	0.59	-16	63.6	0.720	-2.3	72	1.52	n/a	n/a	53.8	1	1	0
15	Haiti	22	25	0.10	-0.53	-0.41	-0.35	-0.1	0.39	3.4	74.8	0.781	-2.4	59	1.24	n/a	0.81	41.4	2	2	0
16	India	34	42	117	0.89	0.97	0.45	0.4	0.66	10.9	64.2	0.941	-7.0	68.5	1.13	94.3	1.48	61.0	6	3	1
17	Kenya	19	33	0.37	0.25	-0.15	-0.34	0.5	0.67	9.3	72.8	0.951	-4.0	74.5	1.69	n/a	2.96	61.6	4	5	1
18	Kiribati	36	55	143	0.19	110	0.66	-0.6	0.39	8.8	55.4	0.958	-15.6	84	12.43	n/a	n/a	n/a	6	2	2
19	Kyrgyzstan	11	25	-0.26	-0.07	-0.36	-0.45	0.3	0.72	6.8	63.2	0.991	-0.3	97	3.16	94.6	n/a	77.8	0	5	4
20	Lao PDR	1	12	-1.01	-0.13	-0.01	-0.37	-0.4	0.61	0.0	68.4	0.921	-4.4	58	0.69	71	0.52	74.7	0	2	2
21	Liberia	24	34	0.38	-0.27	-0.17	0.21	-0.5	0.36	7.4	53.8	0.949	-7.1	64	3.86	52.5	0.85	62.2	4	2	2
22	Mauritania	11	23	-0.31	0.00	0.08	0.11	0.0	0.57	2.2	69.9	0.964	-5.7	61.5	1.75	75.1	1.70	36.0	3	4	1
23	Mozambique	23	36	0.63	0.56	0.35	0.36	0.4	0.67	3.3	81	0.982	-3.7	76.5	4.26	50.7	n/a	53.1	6	5	1
24	Nigeria	16	29	-0.15	-0.33	-0.30	-0.29	0.0	0.45	12.4	65	0.925	-2.7	41.5	1.68	n/a	n/a	56.8	1	1	0
25	Pakistan	19	24	-0.30	-0.03	0.00	-0.33	0.2	0.67	20.8	67	0.978	-5.9	82.5	0.85	53.9	n/a	77.1	2	3	2
26	Papua New Guinea	23	36	0.81	0.07	-0.05	-0.61	0.2	0.59	6.9	85.4	0.952	13	61	2.57	n/a	n/a	48.2	4	5	1
27	Sao Tome & Principe	33	47	0.87	0.22	0.20	0.37	-0.1	0.60	17.0	66.6	0.844	39.1	94	3.95	88.7	1.28	49.5	6	1	3
28	Sierra Leone	27	37	0.44	-0.28	-0.05	-0.21	-0.1	0.51	9.2	62.8	0.917	6.0	73	1.19	74.7	2.26	44.2	3	2	2
29	Solomon Islands	22	42	0.88	-0.10	0.25	0.40	-0.6	0.45	7.1	62.4	0.913	11	70.5	4.91	n/a	0.36	n/a	5	2	1
30	Somalia	0	1	-1.29	-1.39	-1.61	-0.96	-1.9	n/a	n/a	n/a	n/a	n/a	27.5	n/a	n/a	n/a	25.9	0	0	0
31	Tajikistan	8	19	-0.63	-0.20	-0.29	-0.34	-0.4	0.54	6.5	82.5	0.956	-5.8	91	1.47	92.7	0.18	72.1	0	3	3
32	Togo	16	27	-0.34	-0.45	0.03	-0.31	-0.1	0.31	19	62.2	0.825	-19	86.5	1.55	52	2.29	63.0	1	2	3
33	Uganda	15	30	0.21	0.27	0.49	-0.10	0.5	0.78	14.2	74.8	0.918	-2.1	66	1.43	56.1	1.83	69.5	4	5	2
34	Yemen	11	18	-0.57	-0.22	-0.23	-0.26	0.1	0.80	3.7	81.6	0.936	-7.3	62	1.49	49.4	2.39	51.3	0	4	1
Eliminated for statutory reasons																					
1	Burma	-3	5	-1.47	-0.95	-0.60	-0.98	-1.6	n/a	8.0	72.3	n/a	-18	88.5	0.23	99.9	n/a	70.1	0	3	3
2	Côte d'Ivoire	6	20	-0.46	-0.31	-0.41	-0.39	-0.3	0.45	10	72.2	0.881	-10	74	1.01	38.7	3.00	68.7	0	3	2
3	Eritrea	3	5	-1.46	-0.50	-0.32	0.44	-1.6	0.80	34.7	69.1	0.893	-17.2	97	1.40	43.2	n/a	51.9	1	2	1
4	Madagascar	9	32	0.08	0.27	0.19	0.52	0.2	0.59	9.0	73.2	0.987	-2.6	71	3.15	79	1.57	39.1	5	4	2
5	North Korea	0	1	-1.54	-0.98	-0.33	-0.62	-1.7	n/a	n/a	0	n/a	n/a	95.5	3.02	n/a	n/a	n/a	0	0	2
6	Sudan	3	6	-0.89	-0.42	-0.42	-0.47	-0.6	0.66	11.3	n/a	0.952	-3.8	83	1.31	46.8	n/a	49.4	0	3	1
7	Uzbekistan	0	4	-1.23	0.18	-0.29	-0.49	-0.9	n/a	14.1	66.2	0.982	6.4	96.5	2.53	90.6	n/a	75.4	1	3	3
8	Zimbabwe	7	10	-0.86	-0.77	-0.99	-0.72	-1.6	0.41	6.5	45	0.811	-3.3	74.5	5.08	n/a	n/a	74.6	0	1	2
Number of countries for which data are available																					
		63	63	63	63	63	63	63	59	61	60	60	61	63	62	49	45	60			

Table 3: Country Qualification Predictions for Lower Middle Income Candidate Countries

Current eligible countries (selected in FY2010)	**Candidate countries that pass the FY2011 indicators test**	**Countries most likely to be selected**
1. Cape Verde 2. Indonesia **Countries that passed the FY2010 indicators but were not selected** 1. Albania 2. Bhutan 3. Thailand **Compact countries that did not require selection in FY2010** 1. Armenia 2. El Salvador 3. Georgia 4. Morocco 5. Vanuatu	1. Jordan 2. Sri Lanka 3. Thailand **Country eliminated by failing the control of corruption indicator** 1. Maldives **Countries that miss by one indicator** 1. Belize 2. Bhutan 3. Cape Verde 4. Ecuador 5. El Salvador 6. Georgia 7. Morocco 8. Samoa 9. Tunisia 10. Vanuatu	1. Cape Verde 2. Georgia **Borderline countries** 1. Indonesia **Compact countries that do not require selection in FY2011** 1. El Salvador 2. Jordan 3. Morocco **Potential countries for second compact eligibility** 1. Armenia 2. Cape Verde 3. Georgia 4. Vanuatu

Note: Once a country signs a compact agreement, it *does not* have to be reselected for eligibility. A compact country *does* have to be selected as eligible in the case of a second compact.

Table 4: MCC Lower Middle Income Countries (LMICs) and their Indicator Scores, FY2011

		Ruling Justly						Economic Freedom						Investing in People					Passed Indicators		
		Political Rights	Civil Liberties	Voice & Account-ability	Government Effectiveness	Rule of Law	Control of Corruption	Regulatory Quality	Land Rights and Access	Inflation, %	Trade Policy	Business Start-up	Fiscal Policy	Immunization Rate: DPT and Measles, %	Public Expenditure on Health, % of GDP	Girls' Primary Education Completion Rate, %	Public Primary Education Spending, % of GDP	Natural Resources Management	Ruling justly	Economic Freedom	Investnig in People
		(0 to 40, 40=best)	(0 to 60, 60=best)	(-2.5 to +2.5, +2.5=best)				(-2.5 to +2.5, +2.5=best)	(0 to 1, 1=best)		(0 to 100, 100=best)							(0 to 100, 100=best)			
	Median	21	33	0.00	0.00	0.00	0.00	0.00	0.71	15.00	73.90	0.964	-1.24	93.5	2.72	94.3	1.95	82.50			
	Substantially Below	10	22	-0.80	-0.39	-0.44	-0.45	-0.60	0.55	0.24	68.20	0.938	-3.92	82.0	2.03	82.6	1.52	69.67			
Countries that pass the indicators test																					
1	Jordan	10	24	-0.60	0.65	0.71	0.65	0.77	0.84	-0.67	78.8	0.961	-5.6	96.5	5.3	100.3	1.8	80.9	3	4	3
2	Sri Lanka	22	30	-0.25	0.20	0.26	0.03	0.13	0.62	3.42	72.2	0.972	-8.0	96.5	1.7	98.9	0.5	93.0	4	3	3
3	Thailand	12	32	-0.15	0.52	0.20	0.16	0.78	0.91	-0.85	75.9	0.974	-0.9	98.5	3.0	n/a	1.7	96.5	3	6	3
Eliminated by corruption																					
1	Maldives	25	32	0.11	-0.01	0.25	-0.30	0.00	0.40	4.00	43.8	0.988	-17.8	98.0	7.8	111.9	4.1	89.6	3	3	5
Miss by one indicator																					
1	Belize	37	51	1.00	-0.02	-0.05	0.33	-0.06	0.60	2.02	71.5	0.936	-0.6	97.0	2.7	107.9	2.7	96.5	4	2	4
2	Bhutan	19	24	-0.38	0.76	0.50	1.23	-0.65	0.85	8.70	52	0.963	n/a	97.0	3.1	92.4	1.1	85.6	3	2	3
3	Cape Verde	37	53	1.10	0.37	0.81	1.09	0.45	0.71	0.99	67.6	0.980	-2.8	97.5	3.1	86.6	1.9	64.8	6	4	2
4	Ecuador	29	39	-0.01	-0.48	-0.95	-0.53	-0.95	0.75	5.16	76	0.938	-0.9	70.5	2.3	103.9	3.3	94.1	2	4	3
5	El Salvador	34	40	0.33	0.33	-0.45	0.22	0.79	0.69	0.43	85	0.958	-3.4	93.0	3.5	94.5	1.4	69.7	5	3	2
6	Georgia	20	34	0.08	0.59	0.16	0.16	1.01	0.95	1.73	89.2	0.995	-2.6	85.5	1.8	104.4	1.1	83.1	5	5	2
7	Morocco	14	28	-0.54	0.26	0.18	0.16	0.40	0.75	0.97	75.8	0.981	0.0	98.5	1.9	77	2.0	69.5	3	6	2
8	Samoa	32	49	0.79	0.39	0.98	0.49	0.16	0.71	14.35	70	0.988	-1.7	60.5	4.4	90	2.0	n/a	6	4	2
9	Tunisia	5	18	-1.02	0.78	0.55	0.41	0.51	0.74	3.53	53.5	0.989	-1.4	98.5	3.0	93	n/a	72.5	3	4	2
10	Vanuatu	32	48	0.83	0.10	0.74	0.79	-0.30	n/a	4.52	55.1	0.947	0.8	60.0	3.2	81.2	2.6	83.0	6	2	3
Miss by more than one indicator																					
1	Angola	10	21	-0.89	-0.55	-0.86	-0.95	-0.59	0.41	13.72	70.2	0.841	3.9	75.0	2.2	n/a	0.7	57.1	0	2	0
2	Armenia	11	28	-0.57	0.44	-0.06	-0.20	0.75	0.94	3.46	85.5	0.988	-4.0	94.5	1.6	99.9	n/a	89.5	1	5	3
3	Egypt, Arab Rep.	7	20	-0.87	0.07	0.31	-0.02	0.27	0.96	16.24	74	0.991	-7.4	96.0	2.4	93	1.7	86.9	2	4	2
4	Guatemala	23	33	-0.08	-0.32	-0.78	-0.21	0.34	0.71	1.86	84.6	0.941	-2.1	92.0	2.0	76.9	1.9	89.8	2	3	1
5	Indonesia	30	35	0.20	0.16	-0.22	-0.32	0.13	0.67	4.81	73.8	0.952	-0.9	82.0	1.1	105.6	2.1	82.1	4	3	2
6	Kosovo	14	26	0.17	-0.14	-0.15	-0.23	0.62	n/a	-2.41	n/a	0.939	1.3	n/a	n/a	n/a	2.5	n/a	1	3	1
7	Marshall Islands	36	55	1.36	-1.07	0.01	0.02	-0.60	0.14	n/a	n/a	0.977	n/a	93.5	13.1	94.1	n/a	n/a	5	1	1
8	Micronesia, Fed. Sts.	37	56	1.30	-0.22	0.42	0.28	-0.47	n/a	n/a	81	0.887	n/a	88.5	12.6	n/a	n/a	n/a	5	1	1
9	Paraguay	28	36	0.01	-0.56	-0.65	-0.49	0.00	0.63	2.59	83	0.938	1.7	91.5	2.4	95	1.6	76.1	3	3	1
10	Swaziland	3	21	-0.96	-0.34	-0.30	0.12	-0.11	0.49	7.59	79.8	0.938	0.6	95.0	3.8	69.2	2.6	64.0	1	3	3
11	Timor-Leste	28	34	0.34	-0.77	-0.91	-0.60	-0.75	0.14	0.06	73	0.928	328.3	71.0	8.4	65.4	n/a	64.8	3	2	1
12	Tonga	15	40	0.20	0.01	0.31	-0.31	-0.20	0.43	3.50	56.2	0.978	-1.1	99.0	2.7	n/a	n/a	98.5	4	3	2
13	Turkmenistan	1	7	-1.81	-0.97	-1.04	-1.04	-1.66	n/a	-2.67	79.2	n/a	7.7	97.5	1.0	n/a	n/a	n/a	0	3	1
14	Tuvalu	37	57	1.06	-0.04	1.36	0.21	-0.63	n/a	n/a	n/a	n/a	n/a	89.5	9.0	n/a	4.5	n/a	5	0	2
15	Ukraine	28	45	0.19	-0.40	-0.40	-0.51	-0.13	n/a	15.90	85.2	0.977	-3.8	92.0	3.8	99.4	n/a	93.5	3	2	3
Eliminated for statutory reasons																					
1	China	1	16	-1.40	0.48	-0.01	-0.14	0.21	0.76	-0.69	71.6	0.970	-0.8	95.5	2.0	n/a	n/a	81.5	1	5	1
2	Iraq	12	14	-0.92	-0.89	-1.50	-0.99	-0.63	0.73	-2.80	n/a	0.872	-4.3	67.0	2.2	54	n/a	61.6	0	2	0
3	Syrian Arab Republic	1	8	-1.38	-0.24	-0.13	-0.57	-0.66	0.58	2.80	65.4	0.965	-4.1	80.5	1.5	111.5	2.08	72.43	0	2	2
Number of countries for which data is available																					
		32	32	32	32	32	32	32	26	29	28	30	28	31	31	24	22	26			

Table 5: Poverty Levels for Selected Countries

Country	Population Living in Poverty	Total Population (in millions)	Percent Living in Poverty (%)	World Bank Survey Year	MCC Income Category
India [P]	449,631,920	1079.7	41.6	2004	LIC
Indonesia	47,291,250	220.56	21.4	2005	LMIC
Tanzania [C]	29,831,240	33.7	88.5	2000	LIC
The Philippines [C]	19,702,020	87.1†	22.6	2006	LIC
Vietnam [P]	18,048,030	84.14	21.5	2006	LIC
Nepal [P]	15,880,072	28.81	55.1	2003	LIC
Mozambique [C]	14,265,790	19.1	74.7	2002	LIC
Malawi [P]	9,306,360	12.6	73.9	2004	LIC
Niger [P]	8,729,100	13.25	65.9	2005	LIC
Zambia [P]	7,393,350	11.5	64.3	2004	LIC
Burkina Faso [C]	7,265,390	12.85†	56.5	2003	LIC
Ghana [C]	6,759,746	22.54	30.0	2005	LIC
Rwanda	6,515,256	8.51	76.6	2000	LIC
Mali [C]	6,233,316	12.12	51.4	2006	LIC
Senegal [C]	3,942,950	11.77	33.5	2005	LIC
Benin [C]	3,478,755	7.35†	47.3	2003	LIC
Sri Lanka [P]	2,743,965	19.67	14.0	2002	LMIC
Bolivia [P]	1,801,116	9.18	19.6	2005	LIC
Honduras [C]	1,278,757	7.03†	18.2	2006	LIC
Nicaragua	863,226	5.46	15.8	2005	LIC
Morocco [C]	790,250	31.61†	2.5	2007	LMIC
Namibia [C]	771,498	1.57	49.1	1993	UMIC
El Salvador [C]	731,699	6.67	11.0	2005	LMIC
Georgia [C]	600,768	4.47	13.4	2005	LMIC
Mongolia [C]	570,690	2.55	22.4	2005	LIC
The Gambia [P]	494,496	1.44†	34.3	2003	LIC
Moldova [C]	341,880	4.2	8.1	2004	LIC
Armenia [C]	325,278	3.06†	10.6	2003	LMIC
Thailand [P]	254,800	63.7	0.4	2004	LMIC
Tunisia [P]	243,780	9.56	2.6	2000	LMIC
Cape Verde [C]	92,520	0.45	20.6	2001	LMIC
Guyana [P]	57,600	0.75	7.7	1998	LIC
Jordan [C]	21,052	5.54†	0.4	2006	LMIC

Source: The World Bank's PovCalNet. Figures are based on 2005 PPP at a poverty line of $1.25/day. Data for Vanuatu, Lesotho, Kiribati, Samoa, and Sao Tome and Principe are not available. India and Indonesia's poverty headcount ratios are combinations of the reported urban and rural poverty headcounts.

[C] Denotes a country that is currently implementing or has completed a compact.
[P] Denotes a country that passes the FY2011 indicators test.
†Figure is from the World Development Indicators, World Bank.