Round Six of the MCA:
Which Countries Are Most Likely to Be Selected for FY2009?

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I. Introduction and Overview

The Board of Directors of the Millennium Challenge Corporation (MCC) will meet on December 11th to select countries that will be eligible to apply for grants using FY2009 funds. This year marks the sixth round of MCC selections. Three key documents guide the deliberations:

1. In August, the MCC released its *list of candidate countries* separated into two groups: low income countries (LICs) and lower middle income countries (LMICs).[2]
2. In October, it released a description of the *selection criteria and methodology* it will employ in FY2009—with no new indicators included this year.[3]
3. On November 11, the MCC released the data for each candidate country for the 17 indicators that will be used as a basis for determining eligibility.[4]

Our analysis draws on these documents to explore which countries we think the MCC Board is most likely to select in FY2009. We look closely at the 17 indicators but recognize that, as in previous years, these data alone do not determine whether or not a country will be selected. In addition to the use of indicators, the MCA authorizing legislation directs the MCC Board to select countries on the basis of the opportunity to reduce poverty and generate economic growth within the country, and on the availability of funds. The last criteria may play a significant role in this year's selection round due to recent developments in Congress.[5] As always, the Board retains the authority to select countries that do not meet these criteria. In the FY2008 round, the Board selected twelve out of twenty LICs and one out of four LMICs that passed the indicators test. In addition it selected six LICs and five LMICs that did not pass the indicators test.

This analysis is our *forecast* of the countries we think the Board is most likely to select as eligible for FY2009 funding; it is not an official list of the countries that *will* be selected. Our analysis has five sections. Following this introduction, section II examines the low-income

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[2] For the MCC's report on candidate countries, see http://www.mcc.gov/documents/mcc-report-fy09-candidatecountry.pdf
[3] For the selection criteria and methodology report, see http://www.mcc.gov/documents/mcc-report-fy09-criteriaandmethodology.pdf
[4] For the MCC's FY08 country scorecards, see http://www.mcc.gov/selection/scorecards/index-2009.php
[5] See the MCA Monitor blog for more information on MCC's budgetary challenges (http://blogs.cgdev.org/mca-monitor/archives/2008/07/responsible_app.php)

country group, section III analyses the lower-middle-income country group, section IV examines the threshold country program, and section V provides some concluding comments.

To pass the indicators test a county must score above the median relative to its income peer group (LIC or LMIC) for at least half the indicators in three broad categories: Ruling Justly, Investing in People, and Economic Freedom. (The inflation indicator is the one exception to the median methodology; instead MCC uses a set standard of requiring a country to have an inflation rate below 15 percent in order to pass.) The country must also score above the median on the Control of Corruption indicator—the only hard hurdle of the selection criteria. In addition, a country should not fall "substantially below" the median (generally defined as scoring in the lowest quartile) on any indicator.

Our analysis shows that

- 19 LICs pass the indicators test in FY2009, 2 for the first time (Indonesia and Zambia);
- 6 LMICs pass the test, 2 for the first time (Bosnia Herzegovina and Macedonia);
- 2 countries graduate from LIC to LMIC status (Georgia and Vanuatu);
- 12 of the 18 countries with which MCC has approved or signed compacts do not pass the indicators test: Armenia, Benin, Cape Verde, El Salvador, Georgia, Madagascar, Mali, Morocco, Mozambique, Namibia, Nicaragua, and Vanuatu. This is the third year in a row that Benin and Madagascar have failed the indicators test and the fourth year in a row for Cape Verde.

This year in our view several key principles should guide the Board deliberations:

- ***Restrict New Selections to Strong Passers***: The Board should take a conservative approach this year and not select any "stretch countries" for three main reasons:
    - ***Uncertainty of FY09 and FY10 budgets:*** The Continuing Resolution signed in September leaves the International Affairs budget at current levels through early March 2009. That means the MCC has roughly $600 million available for funding compacts, threshold programs, and due-diligence activities until Congress and the new administration finalize the FY09 budget.
    - ***Need to focus on implementation***: As with last year, it remains critically important for the MCC to maintain the right balance between selecting new countries and focusing on the existing ones. The MCC faces increasing pressure from Congress to show results from the 18 compacts currently under implementation.
    - ***Presidential transition:*** The Board should not select any countries that might pose immediate challenges to the incoming Administration.
- ***Select Deserving Countries***: At the same time, the Board should select deserving countries that clearly pass the indicators, including new entrants. To not choose such countries would threaten to significantly undermine the credibility of the MCC selection process.
- ***Maintain High Standards on Transparency:*** The growing number of compact countries that fail the indicators test will raise questions about the volatility and validity of the data. This year will be an opportunity for the MCC to boldly and transparently defend its

selection, re-selection, and de-selection choices and explain in each case how the data supports those choices.
- ***Bring Clarity to Threshold Program Country Selection:*** The current set of Threshold countries is a broad assortment of countries ranging from those that had already passed the indicators test (e.g., Philippines), were legitimately "on the threshold" of passing the indicators test (e.g., Moldova), are far from passing the indicators test (e.g., Kyrgyzstan and Mauritania). As we wrote last year, it is time to more clearly define "on the threshold."

II. Low Income Countries

The FY2009 LIC group consists of 72 countries with per-capita gross national incomes (GNI) less than or equal to $1,785. Of this group, nine countries are statutorily ineligible for U.S. foreign assistance, but are included for the purposes of calculating the medians.

Countries that Pass the Indicators Test

Table 1 summarizes the LIC results. The first column shows current eligible countries and others that passed the indicator test in FY2008 but were not selected. The second column shows the LICs that pass the FY2009 indicators as well as those that narrowly fail. The third column lists the countries that we feel the Board is most likely to select as well as some that we consider borderline cases. Table 2 provides detailed data for each of the 73 countries on each of the 17 indicators. The median score for each indicator is listed at the top of each column.

According to the data, 19 LICs pass the indicators test including the following:
- eight from sub-Saharan Africa: Burkina Faso, Ghana, Lesotho, Malawi, Rwanda, Senegal, Tanzania, and Zambia
- one from North Africa: Egypt
- seven from Asia: Bhutan, Indonesia, Moldova, Mongolia, Nepal, Sri Lanka, and Vietnam
- three from Latin America: Bolivia, Guyana and Honduras

The MCC selected 18 LICs last year, 12 of which passed the indicators; 6 did not: Benin, Honduras, Madagascar, Mali, Mozambique and Timor-Leste. Each of these exceptions had passed in previous years. This year, Honduras regains its passing status. Timor-Leste fails for the second year in a row and Benin, and Madagascar fail for the third year in a row.

Of the 13 LICs that passed the indicators test last year and were selected,
- nine countries pass again (***Bolivia, Burkina Faso, Ghana, Lesotho, Malawi, Moldova, Mongolia, Senegal,*** and ***Tanzania***);
- two countries do not **(*Nicaragua*** and the ***Philippines***);
- two countries move to Lower-Middle-Income status (***Georgia*** and ***Vanuatu*)**.

A critical issue is that ***five of the countries that do not pass the FY2009 LIC standards have compacts: Benin, Madagascar, Mali, Mozambique, and Nicaragua.*** Two of these—Benin and Madagascar—fail for the third year in a row.

Nine countries pass the indicators test in FY2009 that were not selected last year:

- ***Six of these also passed the indicators test in FY2008 but were not chosen***: Bhutan, Egypt, Guyana, Rwanda, Sri Lanka and Vietnam. (Bhutan, Egypt, and Vietnam also passed the test in FY2007 but were not selected.)
- ***Two countries pass for the first time***: Indonesia and Zambia.
- ***Honduras regains its passing status:*** Honduras passes this year as it has every year except FY2008.

Four countries would have passed the indicators test if not for failing the corruption hard hurdle: Kenya, Nicaragua (the median country), Paraguay, and the Philippines.

Countries Most Likely to Be Selected

In our view the Board is likely to select 18 LICs:

- Nine of these pass the indicators and are straightforward selections: ***Burkina Faso, Ghana, Honduras, Lesotho, Malawi, Moldova, Mongolia, Senegal,*** and ***Tanzania.***
- One passes for the first time: ***Indonesia*** and ***Zambia*** (see discussion below).
- Seven do not pass but we believe are likely to be selected: ***Benin, Madagascar, Mali, Mozambique, Nicaragua, Philippines,*** and ***Timor-Leste.*** The Philippines and Timor-Leste will likely receive heightened scrutiny (see discussion below).

Benin fails the indicators test for the third year in a row, this year failing the Investing in People Category and narrowly missing the Economic Freedom category. Unlike last year, in which it failed due the Control of Corruption indicator, this year Benin misses by more than one indicator. Benin has continued to improve on the Control of Corruption indicator, moving from 45th percentile last year to the 89th percentile this year. We believe the Board should enforce a "three strikes and you're out" policy and not select Benin, which would not affect compact implementation (Benin is heading into its third year of the five-year compact), but would send an important message about the importance of indicator performance. That said, we believe the MCC will maintain Benin as eligible in FY2009.

Indonesia passes the indicator test for the first time, rising above the median for Control of Corruption (it was the median country for this indicator last year). Indonesia has registered continuous improvements on its Control of Corruption indicator since 2002, and it also improves on 11 of the 17 indicators this year. The experience Indonesia has gained to date working with the MCC through implementation of a Threshold Program could translate into a more efficient compact-design process. While the Board may think twice about selecting new countries this year, Indonesia clearly passes the standards with notable positive trends, so we believe the Board will select them.

Madagascar fails the indicators test for the third year in a row. Just as last year, it easily passes all six Ruling Justly indicators and all but one Economic Freedom indicator. This year there is improvement in the Investing in People category— failing all but one rather than all five indicators as before, and showing progress in three of the six scores in this category. Madagascar continues to improve on Girls' Primary Education Completion, though despite the improvement over last year, it is still below the median. Primary Education Expenditure increases slightly this year, putting it just above the median in the 55th percentile. Immunization rates also improve slightly and hover around the median in the 49th percentile, up from the 41st percentile in FY2008. However, Madagascar declines slightly in the Natural Resource Management Indicator falling substantially below the median for the second year in a row (9th percentile). Madagascar has just begun the penultimate year of its compact; the indicators failure comes at a critical time when the country is beginning to consider the possibility of a subsequent compact. We believe the Board should not select Madagascar, and make clear the consequences of failing a third year in a row and reinforce that eligibility is not a given for countries with compacts, particularly in light of the current funding environment. That said, we believe the Board will retain Madagascar's eligibility.

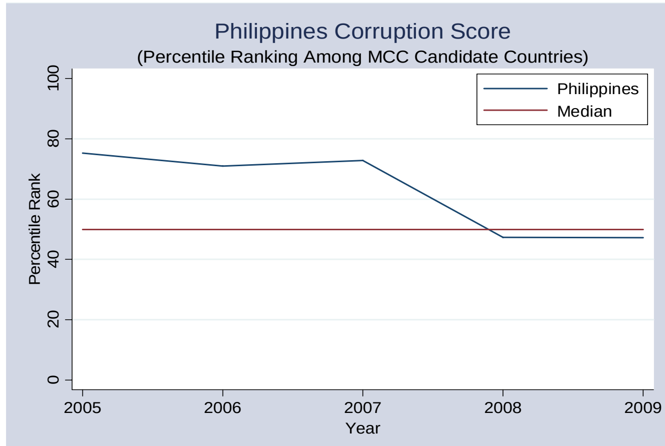
Mali again misses passing the indicators test by one indicator, since it only passes two of five Investing in People indicators (Public Expenditure on Primary Education and Public Expenditure on Health). Last year, the inclusion of the Natural Resource Management Index indicator made this category more difficult to pass; however, this year the most notable change is the large decline in Immunization Rates. While appearing to be a large drop from the 58th percentile last year to the (substantially below) 21st percentile this year, this decline is actually a reflection of a revision to the underlying data. The revised estimates from the World Health Organization indicate that Mali has continually improved the rate of immunization for diphtheria and measles since the inception of the MCC in 2004— albeit from a lower starting point than previously estimated. Also noteworthy is that Mali passes the Public Expenditure on Primary Education indicator this year. It did not pass last year due to lack of reliable data; this year the data was submitted to UNESCO in time for inclusion. Since this is the second (and not third) year that Mali fails the indicator test, and in light of the aforementioned improvements, we expect that the Board will still deem Mali eligible. That said, it should send clear signals that next year's performance will be critical to sustain eligibility.

Mozambique continues to be challenged by the Investing in People category, falling short by just one indicator in this group. In the other categories it passes unequivocally— beating the median in all six of the Ruling Justly indicators and five of the six Economic Freedom indicators. Mozambique's failure of the indicators test is not indicative of policy slippage in the country, since it continues to maintain or improve the majority of its raw scores. We expect supplemental data will play an important role in Mozambique and that the Board will again select it, particularly as the compact just entered into force and attention should be focused on implementation rather than policy improvement plans. As in the case of Mali, the Board should send clear signals of a "three strikes and you're out" policy.

Nicaragua, in year three of compact implementation, scores as the median on Control of Corruption this year, which the MCC regards as failing. We have long argued that the MCC should count the median score as passing, and therefore Nicaragua should be considered fully eligible. Nicaragua is also likely to receive heightened scrutiny due to recent election irregularities that, due to lag time, will not be captured in this year's data. Despite these concerns we believe the Board is likely to re-select Nicaragua.

This year, the ***Philippines*** fails the indicators test due to one indicator—Control of Corruption. At the same time, it passes 14 of the 17 indicators, including 5 of 6 Ruling Justly and all six Economic Freedom indicators. FY 2009 will mark only the second time (the first being FY2007) that the Philippines failed the indicators test, but the fourth year that the Control of Corruption score has declined (as Fig. 1 shows). This comes at a particularly inopportune time, coinciding with the end of their Threshold Program focused on corruption and following the unprecedented out-of-cycle decision last March (to allow time for more thorough review of the Control of Corruption indicators) to name the Philippines as compact eligible. While there does appear to be a negative trend in the Control of Corruption indicator, we suspect that the Board will maintain the Philippines' eligibility but with a warning that progress on compact development and progress on improving the Control of Corruption indicator will be interlinked.

Figure 1.



Zambia strongly passes the indicators test, passing 16 of 17 indicators. Zambia maintains or improves its scores on all but three indicators overall, including a jump from the 49th percentile to the 71st percentile for Control of Corruption. This is only the second time that Zambia has passed Control of Corruption, and the first time it has beaten the median by a large margin. This is a positive sign that reforms are progressing that coincides well with the conclusion of the two-year program. Zambia was invited to submit a Stage II Threshold Program proposal, which may signal the MCC's intent to keep them engaged—especially through an election year due to the death of President Levy Mwanawasa—but not select them as compact eligible. Nevertheless, Zambia's performance on the indicators is very strong, and if the indicators process is to retain its credibility, then they should be selected, and we believe the Board will do so.

Borderline Countries

We think it is unlikely that the Board will select ***Guyana,*** which squarely passes the indicators again test this year. Guyana is in the first year of implementing its Threshold program focused on tax, customs, and the number of days and cost of starting a business. In past years, the Board has selected for full eligibility Threshold-eligible countries that have not or have only recently signed Threshold Program agreements (Tanzania and Moldova are two examples). However, due to budget constraints, the ongoing Threshold Program, and an emerging practice (without a clear policy) away from small (particularly island) nations, the Board will probably not select Guyana. Guyana's consistent performance on the indicators, including passing all three of the democracy indicators, should, in our opinion, merit its selection, but we believe the Board will not do so.

Timor-Leste passed the indicators test easily in FY2006 and FY2007, failed in FY2008, and this year again fails. It falls below the median on Control of Corruption and fails three of five Investing in People indicators. The Control of Corruption indicator registers a decline for the third year in a row, but proximity to the median and changes in the sub-indicators obscure whether this is due to a decline in policy or not. The MCC will have to evaluate supplemental sources to assess the climate in Timor-Leste as part of its deliberation on selection. After a slow-down in negotiations due to parliamentary elections and the formation of a new government in August 2007, Timor-Leste continued with compact preparation by working on constraints analysis and revisions to the previously submitted proposal. Timor-Leste has also developed a Policy Improvement Plan (usually undertaken by compact countries), the acceptance of which by the MCC signals a willingness to continue negotiations. Timor-Leste does improve on 7 of the 17 indicators in FY2009, and reported scores for Girls' Primary Education Completion for the first time since 2004 and for the first time for Trade Policy. The Board may choose to not select Timor-Leste this year because of the deterioration in key indicators. However, we believe that the MCC will re-select Timor Leste in spite of the declining Control of Corruption score, but we hope it will execute a "three strikes and you're out" policy which would put pressure on Timor-Leste to improve its score this year.

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

Bhutan, Egypt, and ***Vietnam*** all pass the indicators test this year as they have in the past five years for Bhutan and Vietnam and four years for Egypt when they were not selected. Each of them is substantially below the median on at least one indicator (although the MCC uses this principle inconsistently at best in its selection decisions). Perhaps more importantly, these countries are not democracies. As mentioned earlier, the MCC does not have a firm rule to select only democracies, but it has done so with only two exceptions (Morocco and Jordan), a preference we strongly support. We urge the Board to make this preference more explicit when explaining their decisions.

Bolivia has passed the indicators test every year except for the first in FY2004, when it ranked as the median for Control of Corruption.[6] The controversial moves by President Evo Morales to nationalize much of the energy sector and his close ties with Venezuelan President Hugo Chavez have strained relations with the United States government. In September, Bolivia expelled all U.S. Drug Enforcement Administration (DEA) representatives and the U.S. Ambassador from La Paz, essentially severing diplomatic ties with the United States. Despite the fact that Bolivia passes the indicators test—including all of the democracy indicators, suspension of Bolivia's eligibility status until diplomatic relations are restored should be seriously considered by the Board.

Rwanda again passes the indicators test, but fails all three democracy indicators (Political Rights, Civil Liberties and Voice and Accountability). These are included in the Threshold Program Rwanda recently signed which is focused on civic participation and civil liberties. The MCC Board has only rarely selected countries that do not pass all three democracy indicators,

[6] MCC ranks the median score as failing, a policy with which we have long disagreed with particularly in regards to the Control of Corruption indicator.

and we suspect they will continue that pattern in these cases. We have argued that as a matter of policy the MCC should only select democracies.

III. Lower Middle Income Countries

The LMIC category consists of 31 countries with per-capita GNI between $1,736 and $3,705. Two of those countries are statutorily ineligible to receive U.S. foreign assistance. The MCC can use up to 25 percent of its appropriated funds for LMICs. Last year the Board selected no new countries and reselected one other country (Jordan) that passed the FY2008 indicators test. It also reselected two countries, Morocco and Namibia, that each missed passing the test by one indicator; Morocco failed due to the median not being considered as a passing score. The Board also reselected Ukraine, Armenia, and El Salvador—of which the first failed Control of Corruption and the latter two missed by more than one indicator.

This year, there were some changes in the makeup of the category. Georgia and Vanuatu graduated from LIC status to LMIC status, Cuba was reclassified as a middle-income country, and four countries (Belarus, Fiji, Jamaica, and Suriname) moved out of the category, thus affecting the medians for all of the indicators.

We have long argued that the MCC should not include LMICs as long as the overall program funding remains well below the originally envisioned $5 billion per year. While LMICs do have many poor citizens, MCA resources should not be diverted from the poorest countries to those with greater tax bases, better access to private capital, and higher domestic savings.

Nevertheless, the MCC has chosen to select LMICs as eligible, and each year eligible countries previously designated as LICs move into the LMIC category. ***The most appropriate policy for the MCC going forward is to continue to focus on finalizing and implementing compacts with already selected LMICs and select no new LMICs.***

The first column of Table 3 shows the seven currently eligible LMICs along with other LMICs that passed the indicators test last year but were not selected. The second column shows the LMICs that pass the indicators for FY2009, along with those countries that narrowly fail. The third column lists those countries we feel the Board is most likely to select as well as some we feel are borderline cases. Table 4 provides the data for each of the 31 countries' scores for each of the 17 indicators. The median score for each indicator is listed at the top of the page.

Six LMICs pass the indicators test: ***Bosnia-Herzegovina***, ***Colombia, Jordan, Macedonia, Thailand,*** and ***Tunisia***. Countries that come close include ***Tonga and Ukraine,*** which would pass if not for failing Control of Corruption; and ***Albania, El Salvador, Maldives, Peru and Samoa,*** which miss by one indicator.

Countries Most Likely to be Selected

We expect that the MCC will reselect ***Jordan*** which passes the indicators test as well as ***Armenia, El Salvador, Georgia, Morocco***, ***Namibia,*** and ***Vanuatu,*** which it previously selected but which this year fail the indicators. It is possible that the MCC will add a new LMIC—***Colombia***—this year (see borderline).

Armenia, in its second year as an LMIC, fails the indicators test again. While it passes three out of six and five out of six in the Investing in People and Economic Freedom categories, respectively, Armenia continues to struggle in the Ruling Justly category. Just as last year, even had it remained in the LIC category, it would have failed all but the Government Effectiveness indicator. This is cause for concern in conjunction with the post-election political turmoil, which prompted the MCC to send a letter of warning to President Kocharian.[7] This year, Armenia also does not improve in its Control of Corruption score. We suggest that the Board ***not reselect Armenia due to continued poor performance on the democracy indicators and decline in the Control of Corruption score.*** As in the case of Cape Verde last year, a decision not to reselect would not impact continued compact funding. (Indeed, Armenia could be a candidate worth considering suspension of its compact until performance improves.) Nevertheless, we believe that the Board is likely to reselect Armenia.

El Salvador does not regain its passing status this year despite raising three off its raw scores in the Investing in People category and this year passing two out of five indicators (compared with one out of five last year). While some of last year's scores may have reflected measurements affecting the Girls' Primary Education Completion and Natural Resources Management from an outdated census which overestimated population, El Salvador has undertaken concrete steps toward policy reforms which may not be reflected yet in the indicator data. Some of these which could impact the indicators in the next year or two include formation of an education trust (affecting the Primary Education Expenditure indicator); modernization of land registry systems (affecting the Land Rights and Access indicator); and establishment of a government commission to ensure that accurate and timely information is provided to the objective third-party organizations which compile the foundational data for MCC's 17 indicators (affecting indicators such as Girls' Primary Education Completion which depend on countries reporting to UNESCO). The negotiation of a Policy Improvement Plan between the MCC and El Salvador has furthermore identified key actions for continued progress. For these reasons we believe that the MCC Board will be lenient and select El Salvador despite its failing the indicators test for two years in a row.

Georgia moves from the LIC to the LMIC category and fails the indicators in this more difficult peer group. As with many other countries that have graduated to the LMIC category (Ukraine and Armenia are recent examples) Georgia struggles to vault the more competitive hurdles for each indicator. Also notable is that Georgia fails all three democracy indicators. This is troubling both in light of the recent turmoil there and because the MCC provided an additional $100 million for the Georgian compact this year. Georgia's failure of the indicators raises the

[7] See MCC Press Release "Armenia and the Millennium Challenge Corporation More Information" (http://www.mcc.gov/press/releases/documents/stmt-031208-armenia.php; March 12, 2008).

issue of whether the MCC is the best channel for assistance to Georgia, a strategic geopolitical ally for the United States.[8]

Morocco fails the indicator test for the third year in a row since graduating into the LMIC category in FY2007. Although the Board has been lenient with those countries that have graduated in the past, Morocco has not demonstrated consistent gains or policy improvements. Furthermore, it has yet to pass any of the democracy indicators since FY2006 when it was in the LIC group. In keeping with the “three strikes and you’re out” policy and the premium on democracy, we feel that the Board should not select Morocco as eligible this year.

Vanuatu joins the LMIC category for the first time this year and fails the Investing in People indicators—passing only one of five — in this tougher group. It would have passed had it remained an LIC. Vanuatu does pass both Control of Corruption and all three democracy indicators, however, and this combined with historical leniency for countries that move into the LMIC pool means that the Board is likely to re-select Vanuatu for FY2009. Vanuatu is also in year two of compact implementation on the $66 million agreement focused on transportation infrastructure improvements and institutional strengthening.

Borderline Countries

Colombia passes the indicators test for the second year in a row. Given the special mention of Colombia’s consideration last year and likely pressure from the U.S. Trade Representative to include them this year, we suspect the Board may select it. We believe the Board should not do so. First of all, Colombia is in the top 10 richest out of all countries in the pool—if its GNI continues to grow as it has Colombia could exceed the LMIC ceiling in the next few years — and with a limited budget, the MCC should prioritize its funding to LICs. Second, Colombia is already one of the largest recipients of U.S. foreign assistance; it ranked sixth in 2006, receiving over $700 million,[9] most of which is allocated to the Plan Colombia drug eradication strategy.

Ukraine is stymied for the second year in a row by Control of Corruption—passing sufficient indicators but failing due to the hard hurdle. Ukraine has inched up its score however—moving from the 19th percentile last year to the 20th percentile this year—and it would have been sufficient to pass the median in the LIC group. In most cases, this would mean that the Board would be likely to reselect Ukraine as compact eligible for FY2009; however this year due to the political instability and lack of progress on Compact development, its eligibility may be in jeopardy. The MCC’s last contact with Ukrainian officials was in July, and it remains questionable due to ongoing political crisis and pending parliamentary elections what governmental representatives would be capable of managing negotiations, much less completing the design and execution of a compact. While the MCC has yet to sever Threshold Programs based on Compact eligibility decisions, doing so in this case could make sense given Ukraine’s lack of engagement. The Threshold Program is focused on corruption and has one year remaining in the agreement; in light of the budget uncertainty and MCC’s premium on

[8] See Sheila Herrling, “Georgia on My Mind” in the MCA Monitor Blog (http://blogs.cgdev.org/mca-monitor/archives/2008/09/georgia_on_my_m_1.php; September 14, 2008).
[9] DAC database, pulled 11/17/08

governance, it may merit a stronger response towards Ukraine's poor partnership. We recommend that the Board not re-select Ukraine for eligibility in light of these concerns.

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

Bosnia-Herzegovina is included as a candidate country for the first time this year and passes the indicators in its inaugural selection round. However, Bosnia-Herzegovina ranks at the top of the income spectrum in the LMIC category—second only to Algeria. Graduation out of the eligible range of GNI per capita for MCA assistance is thus likely in the next few years; this, in combination with the fact that it is a first-time inclusion, means that Bosnia-Herzegovina is an unlikely Board selection for FY09.

Macedonia is a strong candidate this year, soundly passing the indicators test. Macedonia has shown sustained improvement since FY2007, improving from failing all six Ruling Justly indicators to passing all but one indicator due to being on the median for Rule of Law. However, since Macedonia has a high per-capita income relative to the rest of the LMIC category, has a small population below the poverty line, and is a candidate for accession to the European Union the Board is unlikely to select it this year.

Thailand passes the indicators after being statutorily ineligible last year due to the ruling military junta. While the statutory restrictions have been lifted this year, the junta has rewritten the constitution and has held elections; these developments, in combination with Thailand's failing scores on two of the three (Political Rights and Civil Liberties) democracy indicators, mean that Thailand is an unlikely selection this year.

Tunisia also passes the indicators again for the fourth year in a row. Yet it does not pass the three democracy indicators and, despite passing the indicators test each year, the MCC has never selected it. It is unlikely to be selected this year.

IV. The Threshold Program

At the same time that the MCC Board selects countries to be eligible to apply for compact funding, it also selects countries eligible to apply for Threshold Program funding. The MCA authorizing legislation allows it to direct up to 10 percent of total funds toward countries that "are on the 'threshold,' meaning they have not yet qualified for MCA Compact funding, but have demonstrated improvements in the definition of the eligibility criteria for MCA Compact funding."[10]

Currently 21 countries are Threshold eligible. Of those, 19 have approved Threshold Programs and 7 will complete their programs this year (Albania, Burkina Faso, Malawi, Philippines, Paraguay, Tanzania, and Zambia). The Threshold Program countries selected to date are a mixed group. Some countries pass the indicators test but were not selected, some fall short on just one or two indicators, and some are several indicators away from passing.

[10] Millennium Challenge Corporation. Reports and Notifications. http://www.mcc.gov/about/reports/mca_legislation.pdf

In our view, MCC should further clarify and define the role of the Threshold Program—especially in preparation for a new administration. Should the goal be to help push countries over the threshold to full eligibility as is currently the case? Or should it be to prepare countries that are close to eligibility through a mini-compact that is not necessarily focused on missed indicators? Is it a "risk capital" account to support reformers, particularly emerging democracies, at critical junctures to help move countries closer to passing the indicators test? There are arguments for and against each of these approaches. Although MCC has now posted the criteria used to judge whether a country should be selected they remain vague.

On average, Threshold eligible countries passed ten indicators and failed six when they were selected. Eleven out of the 21 Threshold countries did not pass corruption when they were selected. Because of this and because of the importance the MCC places on the Control of Corruption hard hurdle, the majority of funded Threshold Programs have focused on anticorruption reforms. On the basis of countries' performance on this year's indicators and selection precedent to date, a few countries emerge as potential new candidates for Threshold eligibility. We list those that will likely receive discussion leading up to the Board meeting but believe ultimately that the Board will reselect current eligible countries (except those that are selected for compact eligibility), is likely to select ***Liberia*** for the first time, and will seriously deliberate the ***Dominican Republic.***

Liberia passes eight indicators (up from seven last year); maintains its passing scores on all three democracy indicators (unlike five of the current Threshold eligible countries); and passes Control of Corruption for the first time.[11] Liberia has continued to show significant improvements in several indicators over the last three years, including the largest improvement of any country this year on Control of Corruption—moving from the 45th percentile last year to the 88th percentile this year. Thus to fully pass it would only need to improve its score on one additional Investing in People indicator and one additional Economic Freedom indicator (its score on Business Start Up improved from the 3rd to the 40th percentile this year). Liberia's scores are similar to those of Kenya, Rwanda, Yemen, and Zambia when they were selected for the Threshold program. The steady upward score trends and increase in data reported—11 indicators improve from last year and two indicators (Girls' Primary Education and Trade Policy) are included that were not in FY08 — provide evidence of positive reforms as well as improvements in data collection.

The ***Dominican Republic*** is a credible candidate for the threshold program as it passes seven indicators, but fails Control of Corruption. A Threshold Program could be focused on corruption and one or more of the actionable indicators in the Investing in People category—such as Primary Education Expenditures, which has also been substantially below for the past three years. What makes the Dominican Republic a good candidate is its demonstrated interest and engagement with the MCC on how it can improve its indicators. Thus the Board should seriously deliberate on the Dominican Republic as a candidate for Threshold funding even though we feel that it should not be selected since it is an LMIC with a relatively high GNI per capita.

[11] One of the authors, Steve Radelet, also serves as economic advisor to the Government of Liberia.

V. Conclusion

Neither the tight budget situation nor the change in administration should be principal reason for limiting country selection. It is important for the MCC to encourage the countries that have worked hard to meet the indicators tests, and therefore the Board should formally consider all LICs that pass. It would completely undermine the MCC incentive effect if countries were not selected purely for budgetary reasons. However, the budget realities inform two recommendations:

- ***Select no new LMICs***. Until the MCA annual budget nears the originally announced $5 billion, funding to LMICS—that have greater tax bases, better access to private capital, and higher domestic savings—should not crowd out funding to LICs.
- ***Remain strict on democracy***. Since its outset the MCC has leaned strongly against selecting countries that fail the three democracy-related indicators. We believe this should be an explicit rather than implicit requirement, and the Board should not select countries for either full eligibility unless they meet this test, and for the Threshold program unless they are clearing moving closer to passing.

This rationale suggests that the Board should select Guyana, Indonesia, and Zambia but not Rwanda, Bolivia, and no new LMICs as FY2009 eligible.[12]

The MCC should institute a "three strikes and you're out" policy on reselection (or de-selection) for countries that were previously selected but do not pass the indicators test:

- Countries that fail the indicator test three years in a row should not be reselected. De-selection in and of itself would not impact compact implementation in those countries with approved compacts. ***That argues for not reselecting Benin, Cape Verde, Madagascar, or Morocco this year, and for putting Armenia, El Salvador, Mali, Mozambique, Timor-Leste, and Ukraine on a watch-list.***

The MCC should reinforce that selection does not guarantee signing of a compact, especially in a tight budgetary environment. It should be more willing to halt discussions with countries that are not progressing sufficiently. For example, the MCC could set deadlines for proposal submittal, or expect countries to submit papers that provide a vision of policy improvements or evidence of steps taken towards them as evidence of commitment to the MCA process.

The MCC took a step forward this year by establishing certain criteria for eligibility for the Threshold Program. However, the criteria remain vague. We think the criteria should be more concrete in terms of the number of missed indicators, trends of improvement, and other factors.

The Board should go further in making its decisions transparent. ***The Board needs to be more explicit about why countries that passed the indicators were not chosen and why countries that failed the indicators were***, particularly in light of perceptions of political considerations and a raised bar for new countries as well as the uncertainty of the MCC and its budget in a new administration.

[12] We do not restate the countries in the earlier section that pass but are unlikely to be selected.

Table 1: Country Qualification Predictions for Low Income Countries

Current candidate countries (selected in FY2008)	**Countries that pass the FY2009 indicators test**	**Countries most likely to be selected**
1 Benin [C*]	1 Bhutan	
2 Bolivia	2 Bolivia	1 Benin
3 Burkina Faso [CT]	3 Burkina Faso [CT]	2 Burkina Faso [T]
4 Georgia [C]	4 Egypt	3 Ghana [C]
5 Ghana [C]	5 Ghana [C]	4 Honduras [C*]
6 Honduras [C*]	6 Guyana [T]	5 Indonesia
7 Lesotho [C]	7 Honduras [C*]	6 Lesotho [C]
8 Madagascar [C*]	8 Indonesia	7 Madagascar
9. Malawi	9 Lesotho [C]	8 Malawi
10 Mali [C*]	10 Malawi [T]	9 Mali [C*]
11 Moldova [T]	11 Moldova [T]	10 Moldova
12 Mongolia [C]	12 Mongolia [C]	11 Mongolia [C]
13 Mozambique [C*]	13 Nepal	12 Mozambique [C*]
14 Nicaragua [C]	14 Rwanda [T]	13 Nicaragua [C]
15 Philippines [T]	15 Senegal	14 Philippines [T]
16 Senegal	16 Sri Lanka	15 Senegal
17 Tanzania [CT]	17 Tanzania [CT]	16 Tanzania [CT]
18 Timor-Leste [T*]	18 Vietnam	17 Zambia [T]
19 Vanuatu [C]	19 Zambia	
Countries that passed the indicators in FY2008 but were not selected	**Countries that would pass if the median counted as passing**	**Borderline countries**
1 Bhutan	1 Nicaragua [C]	1 Guyana [T]
2 Egypt		2 Timor-Leste [T*]
	Countries that fail control of corruption	
3 Guyana [T]	1 Kenya [T]	
4 Rwanda	2 Nicaragua [C]	
5 Solomon Islands	3 Paraguay [T]	
6 Sri Lanka	4 Philippines [T]	
7 Uganda [T]		
8 Vietnam		
	Countries that miss by one indicator	
	1 Kiribati	
	2 Mali [C*]	
	3 Mozambique [C*]	
	4 Sao Tome & Principe	
	5 Uganda [T]	

* *Indicates a country that was selected in FY 2008 despite not passing the indicators test*
[C] *Indicates a country has signed a compact with (or has a compact approved by) MCC*
[T] *Indicates a country has been previously selected for MCC's Threshold Program*

Table 2: MCA Candidate Countries and the Indicators Test, FY 2009

Low Income Countries (LICs)

		Ruling Justly						Investing in People					Economic Freedom						Number of passed hurdles		
		Political Rights (0-40, 40=best)	Civil Liberties (0-60, 60=best)	Voice and Account-ability (-2.5 to +2.5, +2.5=best)	Government Effectiveness (-2.5 to +2.5, +2.5=best)	Rule of Law (-2.5 to +2.5, +2.5=best)	Control of Corruption (-2.5 to +2.5, +2.5=best)	Girls' Primary Education Completion Rate, %	Public Primary Education Spending, % of GDP	Public Expenditure on Health, % of GDP	Immunization Rate: DPT and Measles, %	Natural Resource Management (0 to 100, 100=best)	Business Start-Up	Inflation, %	3-Year Budget Balance, %	Trade Policy (1-100, 100=best)	Regulatory Quality (-2.5 to +2.5, +2.5=best)	Land Rights and Access (0 to 1, 1=best)	Ruling Justly	Investing in People	Economic Freedom
	Median	17	30	0.00	0.00	0.00	0.00	69.2	1.80	2.23	81.5	65.2	0.90	15.0	-1.31	68.0	0.00	0.62			
	Substantially below	10	19	-0.59	-0.38	-0.31	-0.27	47.3	1.18	1.50	69.8	56.6	0.82	20.0	-3.00	61.2	-0.39	0.53			
Countries that pass the indicators test																					
1	Bhutan	11	23	-0.24	0.83	1.34	1.70	73.10	1.56	3.11	95.00	79.69	0.96	5.20	-2.5	42.00	0.03	0.86	3	4	4
2	Bolivia	29	41	0.65	0.00	-0.10	0.29	100.05	5.21	4.15	81.00	79.79	0.84	8.70	-0.4	81.80	-0.47	0.72	4	4	3
3	Burkina Faso	17	36	0.32	-0.02	0.38	0.38	29.21	3.81	3.65	96.50	58.54	0.92	-0.25	2.0	70.40	0.37	0.48	4	3	5
4	Egypt	7	18	-0.61	0.38	0.72	0.20	95.93	NA	2.59	97.50	83.99	0.97	10.95	-8.4	63.40	0.41	0.87	3	4	4
5	Ghana	37	47	1.14	0.78	0.77	0.61	67.81	2.50	2.27	94.50	66.94	0.94	10.73	-5.7	63.00	0.71	0.71	6	4	4
6	Guyana	31	42	0.71	0.74	0.28	0.14	122.29	2.35	4.66	95.00	78.50	0.89	12.20	-11.0	72.60	0.25	0.81	6	5	4
7	Honduras	25	36	0.40	0.25	0.00	0.08	90.31	1.92	3.55	87.50	75.74	0.93	6.94	-1.7	78.00	0.49	0.64	5	5	5
8	Indonesia	30	37	0.47	0.42	0.15	0.06	98.87	2.15	1.09	77.50	82.15	0.86	6.17	-0.4	76.40	0.42	0.56	6	3	4
9	Lesotho	30	41	0.76	0.40	0.51	0.58	92.13	5.34	4.12	84.00	48.49	0.93	8.00	9.9	57.00	0.03	0.63	6	4	5
10	Malawi	23	34	0.37	0.23	0.46	0.04	55.89	1.81	8.84	85.00	76.53	0.83	7.95	-1.8	68.80	0.20	0.68	6	4	4
11	Moldova	24	33	0.26	-0.01	0.19	0.10	97.65	1.42	4.39	94.00	91.68	0.98	12.41	0.5	81.60	0.41	0.86	5	4	6
12	Mongolia	33	49	0.77	0.13	0.44	0.17	113.13	1.36	4.27	96.50	75.57	0.99	9.05	4.5	81.20	0.37	0.67	6	4	6
13	Nepal	17	29	-0.26	0.01	0.22	0.12	72.29	2.26	1.75	81.50	70.18	0.91	6.44	-1.1	63.20	0.07	0.69	3	3	5
14	Rwanda	11	23	-0.60	0.45	0.21	0.68	NA	2.25	6.60	98.00	58.03	0.87	9.08	-0.4	61.20	0.08	0.65	3	3	4
15	Senegal	30	43	0.61	0.48	0.47	0.27	46.59	2.18	1.70	89.00	68.24	0.91	5.87	-4.1	71.20	0.36	0.53	6	3	4
16	Sri Lanka	21	31	0.25	0.53	0.91	0.65	106.78	0.70	2.05	98.00	90.59	0.97	15.84	-7.0	71.00	0.60	0.58	6	3	3
17	Tanzania	22	36	0.49	0.40	0.40	0.33	73.15	2.95	3.25	86.50	64.08	0.93	7.03	-3.8	75.60	0.34	0.73	6	3	5
18	Vietnam	2	19	-0.98	0.42	0.33	0.08	NA	1.81	2.12	87.50	80.49	0.95	8.30	-0.5	63.40	0.28	0.80	3	3	5
19	Zambia	26	34	0.38	0.23	0.22	0.18	82.62	1.18	2.45	82.50	65.95	0.95	10.66	5.3	71.20	0.24	0.65	6	4	6
Pass if median counted as passing a hurdle																					
20	Nicaragua	27	37	0.54	-0.09	0.02	0.00	76.69	1.72	4.29	93.00	78.88	0.83	11.08	0.3	79.20	0.31	0.62	4	4	4
Eliminated by corruption																					
21	Kenya	20	38	0.57	0.23	-0.12	-0.17	91.57	3.82	2.23	80.50	66.76	0.93	9.76	-2.6	71.80	0.50	0.71	4	3	5
22	Paraguay	26	36	0.26	-0.03	-0.12	-0.18	95.83	1.90	2.91	73.00	80.74	0.90	8.10	1.1	83.60	0.14	0.66	3	4	5
23	Philippines	23	38	0.47	0.81	0.26	-0.01	97.50	1.32	1.32	89.50	91.59	0.93	2.80	-0.7	78.60	0.58	0.84	5	3	6
Miss by one indicator																					
24	Kiribati	36	55	1.41	0.26	1.70	0.89	126.03	NA	11.74	93.50	NA	0.91	0.20	-26.5	55.00	-0.39	NA	6	3	2
25	Mali	30	42	0.89	0.28	0.49	0.35	39.76	2.86	3.09	68.00	52.36	0.84	2.50	8.4	73.00	0.38	0.48	6	2	4
26	Mozambique	25	35	0.57	0.41	0.18	0.19	34.58	3.00	3.28	74.50	55.97	0.96	8.16	-2.2	73.40	0.22	0.65	6	2	5
27	Sao Tome And Principe	33	47	1.08	0.03	0.45	0.30	77.30	1.18	8.94	91.50	73.70	0.79	18.50	47.7	60.00	-0.05	0.63	6	4	2
28	Uganda	15	30	0.16	0.43	0.32	0.02	51.46	2.26	1.95	66.00	65.45	0.87	6.80	-0.5	75.20	0.51	0.63	4	2	5
Miss by more than one indicator																					
29	Afghanistan	17	17	-1.17	-1.33	-2.00	-1.53	76.50	0.01	1.14	20.79	23.71	0.93	13.03	-1.3	73.20	-1.03	0.35	0	1	3
30	Bangladesh	12	28	0.01	0.02	0.05	-0.27	NA	1.18	1.14	89.00	58.35	0.92	9.11	-3.2	40.20	-0.14	0.49	3	1	2
31	Benin	33	49	0.95	0.25	0.29	0.29	52.48	1.80	2.82	64.00	65.17	0.75	1.26	-0.5	67.40	0.27	0.50	6	1	3
32	Burundi	22	23	-0.16	-0.52	-0.31	-0.28	32.44	2.63	0.74	74.50	53.35	0.72	8.35	-1.8	63.00	-0.50	0.56	1	1	1
33	Cambodia	11	24	-0.24	0.00	-0.20	-0.30	84.67	0.08	1.55	80.50	68.75	0.77	5.85	-2.4	63.40	0.21	0.77	0	2	3
34	Cameroon	9	16	-0.31	-0.05	-0.23	-0.15	50.28	1.29	1.46	78.00	69.10	0.82	0.91	13.7	56.00	0.00	0.50	0	1	3
35	Central African Republic	17	23	-0.30	-0.56	-0.67	-0.12	18.73	0.73	1.40	58.00	62.31	0.72	0.94	2.0	50.40	-0.52	0.33	0	0	2

Table 2: MCA Candidate Countries and the Indicators Test, FY 2009, continued

Low Income Countries (LICs)

		Ruling Justly						Investing in People					Economic Freedom						Number of passed hurdles		
		Political Rights	Civil Liberties	Voice and Accountability	Government Effectiveness	Rule of Law	Control of Corruption	Girls' Primary Education Completion Rate, %	Public Primary Education Spending, % of GDP	Public Expenditure on Health, % of GDP	Immunization Rate: DPT and Measles, %	Natural Resource Management	Business Start-Up	Inflation, %	3-Year Budget Balance, %	Trade Policy	Regulatory Quality	Land Rights and Access	Ruling Justly	Investing in People	Economic Freedom
		(0-40, 40=best)	(0-60, 60=best)	(-2.5 to +2.5, +2.5=best)								(0 to 100, 100=best)				(1-100, 100=best)	(-2.5 to +2.5, +2.5=best)	(0 to 1, 1=best)			
	Median	17	30	0.00	0.00	0.00	0.00	69.2	1.80	2.23	81.5	65.2	0.90	15.0	-1.31	68.0	0.00	0.62			
	Substantially below	10	19	-0.59	-0.38	-0.31	-0.27	47.3	1.18	1.50	69.8	56.6	0.82	20.0	-3.00	61.2	-0.39	0.53			
Miss by more than one indicator																					
36	Chad	5	15	-0.80	-0.63	-0.54	-0.44	21.05	0.88	1.27	21.50	44.85	0.75	-8.81	1.8	58.40	-0.45	0.53	0	0	2
37	Congo	8	24	-0.48	-0.51	-0.41	-0.26	69.40	0.50	0.85	73.50	67.42	0.85	2.59	14.6	55.40	-0.49	0.57	0	2	2
38	Congo, Dem. Rep.	13	12	-0.83	-0.86	-0.81	-0.49	NA	2.03	1.60	83.00	53.86	0.39	16.71	-1.8	62.20	-0.64	0.62	0	2	0
39	Comoros	23	30	0.18	-0.98	-0.08	0.08	49.12	4.03	1.77	70.00	77.65	0.77	4.49	-1.5	27.20	-0.72	0.56	3	2	1
40	Djibouti	12	22	-0.42	-0.16	0.34	0.30	31.59	1.63	5.09	81.00	57.88	0.74	4.97	-1.6	31.80	-0.09	0.62	2	1	1
41	Eritrea	3	10	-1.52	-0.48	-0.25	0.18	41.64	0.75	1.66	96.00	50.00	0.82	9.28	-14.4	69.20	-1.24	0.77	1	1	3
42	Ethiopia	13	20	-0.56	0.37	0.32	0.08	41.26	1.98	2.94	69.00	52.87	0.95	15.84	-3.8	68.60	-0.18	0.61	3	2	2
43	Gambia	17	31	-0.33	0.11	0.65	-0.01	63.64	1.37	2.53	87.50	57.92	0.69	5.37	-5.2	59.60	0.33	0.56	3	2	2
44	Guinea	10	23	-0.59	-0.65	-0.61	-0.55	54.96	0.61	0.70	73.00	62.66	0.82	22.86	-1.5	59.60	-0.42	0.57	0	0	0
45	Guinea-Bissau	21	30	0.13	-0.38	-0.50	-0.33	NA	2.99	1.52	69.50	57.20	0.54	4.62	-10.6	66.80	-0.39	0.55	2	1	1
46	Haiti	22	25	-0.13	-0.51	-0.57	-0.50	NA	NA	5.43	55.50	42.23	0.68	9.05	-0.4	79.40	-0.15	0.41	1	1	3
47	India	34	42	1.02	0.85	0.96	0.39	83.07	1.15	0.96	64.50	62.54	0.90	6.37	-5.8	51.00	0.49	0.72	6	1	4
48	Liberia	25	34	0.29	-0.36	-0.20	0.37	49.80	1.30	3.57	91.50	60.20	0.87	11.39	3.4	53.80	-0.53	0.38	4	2	2
49	Kosovo	11	23	-0.01	0.48	0.02	0.03	NA	2.29	NA	NA	NA	NA	NA	NA	NA	NA	NA	3	1	0
50	Kyrgyzstan	16	29	0.00	0.07	-0.33	-0.31	94.04	NA	2.78	96.50	91.69	0.98	10.20	-2.2	87.60	0.31	0.80	1	4	5
51	Laos	1	12	-1.02	0.01	-0.11	-0.22	69.81	1.43	0.75	45.00	74.34	0.91	4.52	-3.7	66.40	-0.37	0.65	1	2	3
52	Madagascar	22	36	0.60	0.53	0.51	0.62	61.25	1.85	2.17	81.50	45.17	0.98	10.30	10.1	79.60	0.51	0.62	6	1	6
53	Niger	28	32	0.25	-0.03	-0.04	-0.11	26.14	2.35	2.11	43.00	47.95	0.79	0.06	12.7	70.40	0.16	0.53	3	1	4
54	Nigeria	18	31	0.10	-0.11	-0.34	-0.23	NA	0.17	1.22	58.00	54.72	0.87	5.46	5.7	61.80	-0.18	0.40	3	0	2
55	Pakistan	8	18	-0.41	0.20	-0.07	-0.06	56.24	1.95	0.33	81.50	80.37	0.97	7.77	-3.6	65.60	0.15	0.65	1	2	4
56	Papua New Guinea	24	36	0.75	0.08	0.01	-0.27	NA	0.56	2.62	59.00	66.77	0.93	0.90	5.5	87.20	0.21	0.59	5	2	5
57	Sierra Leone	26	37	0.31	-0.26	-0.27	-0.24	69.84	1.56	1.71	65.50	40.69	0.92	11.65	10.6	66.00	-0.29	0.49	3	1	3
58	Solomon Islands	21	42	0.79	0.00	0.03	0.15	NA	7.37	4.36	78.50	50.40	0.90	7.66	5.1	66.40	-0.43	0.54	5	2	2
59	Somalia	0	3	-1.26	-1.53	-1.78	-1.09	NA	NA	NA	36.50	25.20	NA	NA	NA	NA	-2.01	NA	0	0	0
60	Tajikistan	9	19	-0.63	-0.15	-0.28	-0.08	103.74	0.93	1.13	85.50	72.89	0.93	13.17	-2.5	82.60	-0.31	0.63	0	3	4
61	Timor-Leste	28	34	0.51	-0.09	-0.42	-0.14	69.18	3.86	14.54	66.50	63.65	0.93	7.77	179.1	73.00	-0.87	0.21	3	2	4
62	Togo	14	24	-0.52	-0.66	-0.08	-0.20	48.01	1.52	1.52	84.00	61.14	0.67	0.95	-3.1	70.60	-0.27	0.33	0	1	2
63	Turkmenistan	0	5	-1.43	-0.54	-0.48	-0.41	NA	NA	3.22	98.50	63.14	NA	6.26	4.5	79.20	-1.30	NA	0	2	3
64	Yemen	14	20	-0.43	-0.20	-0.08	0.16	46.21	NA	2.13	80.50	51.82	0.88	12.48	-2.8	76.20	0.00	0.79	1	0	3
Eliminated for statutory reasons																					
65	Cote d'Ivoire	5	19	-0.63	-0.55	-0.68	-0.31	36.44	0.14	0.88	71.50	63.98	0.82	1.91	-1.3	70.40	-0.26	0.38	0	0	3
66	Iraq	11	12	-0.66	-0.86	-1.04	-0.62	63.46	NA	2.74	65.50	60.07	0.77	30.82	10.3	NA	-0.64	NA	0	1	1
67	Korea, Dem. Rep.	0	2	-1.67	-1.28	-0.17	-0.91	NA	NA	3.01	95.50	70.27	NA	NA	NA	0.00	-1.55	NA	0	3	0
68	Mauritania	22	30	-0.12	0.14	0.26	0.28	60.12	1.44	1.52	71.00	43.90	0.95	7.26	8.9	75.60	0.36	0.71	4	0	6
69	Myanmar	-2	5	-1.53	-0.85	-0.55	-0.69	97.78	0.18	0.39	83.50	75.46	NA	33.90	-3.8	72.20	-1.52	NA	0	3	1
70	Sudan	3	7	-1.09	-0.36	-0.60	-0.47	46.20	NA	1.40	81.50	57.71	0.91	7.98	-3.0	54.40	-0.54	0.75	0	0	3
71	Syria	1	8	-1.14	-0.06	0.31	-0.11	113.14	2.38	1.85	98.50	71.60	0.97	4.68	-4.9	54.00	-0.51	0.53	1	4	2
72	Uzbekistan	0	3	-1.28	0.08	-0.21	-0.17	99.26	NA	2.38	97.50	75.08	0.98	12.28	3.8	65.40	-0.74	NA	1	4	3
73	Zimbabwe	5	9	-0.91	-0.66	-0.81	-0.48	NA	NA	4.42	64.00	75.68	0.43	10452.56	-4.5	50.40	-1.53	0.27	0	2	0
Number of countries for which data are available																					
		73	73	73	73	73	73	61	63	73	73	73	69	71	71	71	73	66			

Table 3: Country Qualification Predictions for Lower Middle Income Countries

Current candidate countries (selected in FY2008)	**Countries that pass the FY2009 indicators test**	**Countries most likely to be selected**
1 Armenia [C]*	1 Bosnia - Herzegovina	1 Armenia [C]
2 El Salvador [C]*	2 Colombia	2 El Salvador [C]
4 Jordan [C T]	3 Jordan [C T]	3 Georgia [C]
5 Morocco [C]*	4 Macedonia	4 Jordan [C T]
6 Namibia [C]*	5 Thailand	5 Morocco [C]*
7 Ukraine [T]*	6 Tunisia	6 Namibia [C]*
		7 Vanuatu [C]
Countries that passed the indicators in FY2008 but were not selected	**Countries that fail control of corruption**	**Borderline countries**
1 Colombia	1 Tonga	1 Colombia
2 Samoa	2 Ukraine [T]*	2 Ukraine [T]*
3 Tunisia	**Countries that miss by one indicator**	
	1 El Salvador [C]*	
	2 Maldives	
	3 Peru [T]	
	4 Samoa	

* *Indicates a country that was selected in FY 2008 despite not passing the indicators test*
[C] *Indicates a country has signed a compact with (or has a compact approved by) MCC*
[T] *Indicates a country has been previously selected for MCC's Threshold Program*

Table 4: MCA Candidate Countries and the Indicators Test, FY 2009

Lower Middle Income Countries (LMICs)

	Ruling Justly						Investing in People					Economic Freedom						Number of passed hurdles		
	Political Rights (0-40, 40=best)	Civil Liberties (0-60, 60=best)	Voice and Account-ability (-2.5 to +2.5, +2.5=best)	Government Effectiveness (-2.5 to +2.5, +2.5=best)	Rule of Law (-2.5 to +2.5, +2.5=best)	Control of Corruption (-2.5 to +2.5, +2.5=best)	Girls' Primary Education Completion Rate, %	Public Primary Education Spending, % of GDP	Public Expenditure on Health, % of GDP	Immunization Rate: DPT and Measles, %	Natural Resource Management (0 to 100, 100=best)	Business Start-Up	Inflation, %	3-Year Budget Balance, %	Trade Policy (1-100, 100=best)	Regulatory Quality (-2.5 to +2.5, +2.5=best)	Land Rights and Access (0 to 1, 1=best)	Ruling Justly	Investing in People	Economic Freedom
Median	24	36	0.00	0.00	0.00	0.00	98.3	1.99	3.18	95.0	84.4	0.96	15.0	-0.61	75.6	0.00	0.73			
Passing Score	24	36	0.00	0.00	0.00	0.00	98.3	1.99	3.18	95.0	84.4	0.96	15.0	-0.61	75.6	0.00	0.73			
Substantially below	11	26.5	-0.59	-0.22	-0.23	-0.22	91.3	1.42	2.22	87.5	73.2	0.92	20.0	-2.43	70	-0.43	0.66			
Countries that pass the indicators test																				
1 Bosnia-Herzegovina	23.00	39.00	0.33	-0.43	-0.04	0.02	NA	NA	4.72	95.50	98.21	0.92	1.50	1.0	77.20	-0.14	0.84	3	3	4
2 Colombia	26.00	35.00	-0.09	0.41	-0.10	0.17	108.8	1.79	6.21	94.00	91.57	0.96	5.54	-0.6	72.40	0.36	0.73	3	3	3
3 Jordan	13.00	28.00	-0.45	0.64	0.98	0.77	98.3	2.29	4.17	96.50	92.85	0.92	5.39	-5.0	78.80	0.51	0.71	3	4	3
4 Macedonia	24.00	36.00	0.35	0.09	0.00	0.18	98.3	2.09	5.86	95.50	83.22	0.99	2.28	0.1	81.60	0.24	0.83	3	4	6
5 Thailand	8.00	31.00	-0.42	0.54	0.41	0.01	103.6	1.85	2.24	97.00	97.79	0.97	2.23	0.4	75.60	0.27	0.80	3	3	5
6 Tunisia	5.00	18.00	-1.04	0.83	0.79	0.53	117.3	2.46	2.30	98.00	73.15	0.98	3.15	-3.0	53.00	0.30	0.76	3	3	4
Eliminated by corruption																				
7 Tonga	15.00	40.00	0.11	-0.20	0.97	-0.55	102.4	3.02	4.03	99.00	98.49	0.97	5.11	0.0	56.00	-0.59	NA	3	5	3
8 Ukraine	29.00	44.00	0.09	-0.22	-0.23	-0.27	101.5	0.59	3.83	98.00	83.14	0.97	12.84	-1.9	84.00	-0.26	NA	3	3	3
Miss by one indicator																				
9 El Salvador	33.00	40.00	0.25	0.15	-0.21	0.32	92.5	1.41	4.13	97.00	71.92	0.93	3.86	-2.3	81.80	0.36	0.72	5	2	3
10 Maldives	11.00	25.00	-0.73	0.19	0.49	-0.32	127.0	3.97	8.52	97.50	59.22	0.98	7.40	-8.5	44.00	0.11	0.17	2	4	3
11 Peru	32.00	41.00	0.18	-0.06	-0.24	0.07	101.2	1.02	2.44	89.50	86.29	0.92	1.78	1.5	79.40	0.35	0.78	4	2	5
12 Samoa	32.00	49.00	0.86	0.17	1.41	0.69	98.2	8.74	3.99	67.00	86.43	0.93	6.00	-2.8	70.00	0.08	NA	6	3	2
Miss by more than one indicator																				
13 Albania	26.00	39.00	0.22	0.00	-0.22	-0.12	NA	2.06	2.19	97.50	79.65	0.97	2.94	-3.6	75.80	0.24	0.81	3	2	5
14 Algeria	11.00	25.00	-0.82	-0.14	-0.25	-0.02	96.1	NA	2.75	93.50	93.20	0.97	3.56	12.4	68.60	-0.51	0.63	0	1	3
15 Angola	8.00	21.00	-0.92	-0.79	-0.87	-0.67	NA	0.83	2.32	85.50	55.73	0.73	12.25	11.1	72.00	-0.85	0.38	0	0	2
16 Armenia	14.00	28.00	-0.40	0.07	-0.04	-0.22	100.5	2.32	1.93	90.00	96.46	0.98	4.40	-2.1	86.40	0.40	0.91	1	3	5
17 Azerbaijan	10.00	21.00	-0.95	-0.28	-0.36	-0.59	92.3	0.33	1.07	96.00	80.35	0.99	16.60	1.9	78.40	-0.35	0.91	0	1	4
18 Cape Verde	37.00	53.00	1.08	0.73	1.09	1.22	88.4	2.34	4.58	77.50	55.01	0.92	4.39	-4.0	65.40	-0.05	0.66	6	2	1
19 Dominican Republic	33.00	47.00	0.37	-0.08	-0.08	-0.20	91.3	1.44	2.17	87.50	88.38	0.96	6.14	-2.4	73.00	0.00	0.70	3	1	3
20 Ecuador	27.00	42.00	-0.04	-0.67	-0.57	-0.42	106.1	1.25	2.34	99.00	92.56	0.91	2.28	2.2	72.60	-0.94	0.72	2	3	2
21 Georgia	20.00	34.00	0.00	0.25	0.03	0.07	86.3	NA	1.81	97.50	84.34	0.99	9.20	-3.3	80.60	0.36	1.00	3	1	5
22 Guatemala	24.00	33.00	-0.11	-0.21	-0.64	-0.30	73.8	1.92	1.69	87.50	85.82	0.92	6.82	-1.8	78.40	0.00	0.69	0	1	2
23 Marshall Islands	37.00	55.00	1.37	-0.47	0.48	-0.13	92.3	NA	14.80	93.50	NA	0.97	NA	-1.5	NA	-0.76	NA	4	1	1
24 Micronesia	37.00	56.00	1.20	-0.06	1.20	0.00	NA	NA	10.88	85.50	68.19	0.83	NA	NA	81.00	-0.24	NA	4	1	1
25 Morocco	16.00	28.00	-0.43	0.31	0.32	0.21	79.2	1.87	1.83	95.00	87.79	0.98	2.04	-2.0	88.00	0.04	0.77	3	1	5
26 Namibia	31.00	46.00	0.77	0.55	0.59	0.64	80.9	4.28	3.18	77.50	78.16	0.93	6.73	1.3	88.40	0.18	0.57	6	1	4
27 Swaziland	3.00	20.00	-0.91	-0.34	-0.28	-0.02	69.1	3.01	3.67	93.00	52.70	0.92	8.16	5.3	71.60	-0.51	0.47	0	2	2
28 Tuvalu	37.00	57.00	1.01	-0.03	1.50	0.26	118.2	6.43	10.48	96.00	NA	NA	NA	NA	NA	-0.71	NA	5	4	0
29 Vanuatu	32.00	48.00	0.64	0.04	1.10	0.67	NA	2.05	2.72	70.50	62.19	0.91	3.90	0.5	63.00	-0.33	NA	6	1	2
Eliminated for statutory reasons																				
30 China	2.00	16.00	-1.51	0.53	0.03	-0.21	NA	1.04	1.91	93.50	84.41	0.96	4.77	-0.3	71.40	-0.09	0.79	2	0	4
31 Iran	10.00	14.00	-1.33	-0.40	-0.37	-0.11	113.3	1.57	4.33	98.00	87.84	0.96	18.39	1.8	57.40	-1.46	0.61	0	4	1
Number of countries for which data are available	31	31	31	31	31	31	25	26	31	31	29	30	28	29	29	31	24			