Center for Global Development

Round Seven of the MCA:
Which Countries Are Most Likely to Be Selected for FY2010?

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I. Introduction and Overview

On December 9, the Board of Directors of the Millennium Challenge Corporation (MCC) will meet to select the countries that will be eligible to apply for funds from the FY2010 pool of resources. This deliberation marks the seventh round of the MCC eligibility selection process. Three key reports guide the process:

1. In September, the MCC released its report on candidate countries for FY2010. Divided into low income countries (LICs) and lower middle income countries (LMICs), this report lists candidate countries as well as those countries excluded from MCC candidacy due to legal prohibitions.[2]
2. Also in September, the MCC issued its report on the criteria and methodology for eligibility determination. The selection methodology for FY2010 includes no new indicators but does highlight two new and important elements: (i) a new approach to assessing the performance of LIC to LMIC graduates, and (ii) considerations for second (or "consecutive") compact eligibility.[3]
3. In November, the MCC released indicator data for each candidate country on the seventeen indicators that will be used to determine eligibility.[4]

This analysis draws upon these documents to explore which countries we think the MCC Board will select as eligible for compact assistance in FY2010. We examine the data on the seventeen indicators but recognize that, as in previous years, the data, while the cornerstone of the selection process, does not alone determine whether a country will be selected for eligibility. In addition to the indicators, the Board also considers the availability of funding, the potential to spur economic growth and reduce poverty in the country, and the country's compact implementation performance (in cases of second compact eligibility). The Board also retains the authority to select countries that do not meet the indicator criteria.

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[2] For the MCC's Candidate Country Report, see: http://www.mcc.gov/mcc/bm.doc/mcc-report-FY2010-candidatecountrytreport.pdf.
[3] For the MCC's Eligibility Criteria and Methodology Report, see: http://www.mcc.gov/mcc/bm.doc/mcc-report-fy2010-selection-criteria-and-methodology.pdf.
[4] For the MCC's FY2010 Scorecards, see: http://www.mcc.gov/mcc/selection/scorecards/score-2010/index.shtml.

It is important to note that countries with signed compacts do not need to be re-selected annually since eligibility is tied to funding (the entirety of which is set aside at compact signing) while countries in compact development do. This policy was introduced by the MCC in last year's selection round.[5] Should a country demonstrate a deterioration of policy performance or actions inconsistent with the MCC's mission, the MCC can employ its suspension and termination policy to the country's compact assistance.

This note is our ***forecast*** of the countries – right or wrong – we think the Board is ***most likely*** to select as eligible for FY2010 funding. It is ***not*** an official list of the countries that will be selected.

To pass the indicators test, a country must score above the median relative to its income peer group in at least half of the indicators in each of three categories: Ruling Justly, Investing in People, and Economic Freedom.[6] A country must also score above the median on the Control of Corruption indicator in the Ruling Justly category. This indicator represents the only "hard hurdle" that a country must pass to be considered for MCA eligibility. Additionally, the Board considers whether a country falls substantially below the median – in the lowest quartile – on any indicator.

Our analysis finds that:

- 15 LICs pass the FY2010 indicators test.
- 5 LMICs pass the FY2010 indicators test: Albania for the first time ever and Cape Verde for the first time as an LMIC.[7]
- 10 countries graduate from LIC to LMIC status.[8]
- 7 countries graduate from LMIC to upper middle income country (UMIC) status.[9]
- 1 country drops from UMIC to LMIC status.[10]
- 10 of the 18 countries with which MCC has signed compacts *do not* pass the indicators test: Armenia, Burkina Faso, El Salvador, Georgia, Honduras, Mali, Morocco, Mozambique, Nicaragua, and Vanuatu. This is the third year in a row that Armenia, El Salvador, Mali, and Mozambique have failed the indicators test, and the fourth year in a row that Morocco has failed.
- 5 compact countries are nearing completion (within 18 months or less) of their first compacts.[11] Countries that are good candidates for second compacts would need to be selected as eligible this round in order to access 609(g) compact preparedness funds.

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[5] For the MCC's FY2009 Eligible Country Selection Report, see: http://www.mcc.gov/mcc/bm.doc/mcc-report-FY2009-countryselection.pdf.

[6] The inflation indicator represents the single exception to the median scoring methodology. A country must have an inflation rate below 15 percent to pass the inflation indicator.

[7] China also passes the indicators test but is not a candidate country for statutory reasons prohibiting assistance. See MCC's FY2010 Candidate Country Report: http://www.mcc.gov/mcc/bm.doc/mcc-report-FY2010-candidatecountrytreport.pdf.

[8] Bhutan, Republic of Congo, Indonesia, Iraq, Kiribati, Paraguay, the Philippines, Syria, Timor-Leste and Turkmenistan.

[9] Algeria, Bosnia and Herzegovina, Colombia, Dominican Republic, Macedonia, Namibia, and Peru.

[10] Belize.

Many of the same guiding principles we have put forward in prior years pertain again this year. ***Above all, however, our major recommendation this year is to be selective and to appropriately use (and explain) the indicator system***. The MCC Board should seek to select countries that are strong passers, have a solid passing record, and have big potential for poverty reduction. Here's why:

- **There should be a premium on delivering results under current compacts:** With five years of experience under its belt, the MCC has learned that its initial expectations on the readiness of the majority of its partner countries to take on – to "own" – the design, implementation and evaluation process were ambitious, particularly with the size and complexity of the compacts approved in recent years. There is no more powerful response to fans and skeptics alike than delivering promised results. Further, an arsenal of strong performance stories is critical to building a constituency of support in Congress and with the American public and to proving the MCC model is more than just a promising idea. It is equally important to assessing decisions on second compacts. This suggests focusing this year on delivering results in countries already selected rather than adding new countries.
- **The indicator system is important, but not everything:** The country scorecards are loved for their "simplicity" and objectivity. But they are not as simple as they look. The performance indicators are objective ***proxies*** for good policies but are imperfect measures due to volatility and lag times in the data. For example, the FY2010 scorecards underlying this selection round actually reflect the situation on the ground 1-3 years ago, not today. And the margins of error associated with the data, and changes to the data, make it difficult in many (but, of course, not all) cases to state in absolute terms that a country "passes" (suggesting good policies for growth impact) or "fails" (suggesting bad policies that will inhibit growth). Graduation compounds the situation (see below). For example, Georgia "fails" the indicators test this year by one indicator in the Investing in People category; one of the indicators it "fails" is the primary girls' completion rate which, despite being at 96.7 percent, falls in the 48th percentile relative to its other LMIC peers. The indicators are an important part of the performance story but must be examined and applied to decisions more deeply than "red" or "green."
- **We are in an uncertain budget environment:** The MCC is still awaiting final approval for its FY2010 budget which should be somewhere between $950 million (the Senate proposal) and $1.4 billion (the House proposal). Assuming the MCA ends up somewhere in between (say approximately $1.1-1.2 billion), it will be very difficult to fund all of the compacts in the FY2010 funding queue – Malawi, Jordan, and the Philippines (if they are re-selected as eligible) – as well as administrative costs, the threshold program, and due diligence activities. The 25 percent LMIC cap[12] is also an important budgetary concern

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[11] Honduras, Cape Verde, Georgia, Vanuatu, and Nicaragua. These countries would need to be selected as eligible in FY2010 in order to have at least nine months for compact development and due diligence activities. MCC compact development time is averaged at 18 months for first compacts. (FY2010 Report on Criteria and Methodology, p. 2) However, because these would be second compacts, we suspect compact development time would be much shorter.

[12] The MCC may only allocate up to 25% of its overall funding to LMIC countries; see MCA authorizing legislation: http://www.mcc.gov/mcc/bm.doc/mca_legislation.pdf.

in meeting the current estimates for Jordan's compact (expected to be funded with FY2010 funds), even more so should Philippines have access only to the LMIC pool (see discussion below).

- **The impact of graduates on the system is a major factor this year**: Since the MCC's inception and its first eligibility selection process in FY2004, 24 countries have graduated from LIC to LMIC status.[13] This high number of graduate countries should be grounds for celebrating the solid progress countries are making. That said, should the trajectory continue, strong partner countries – including the likely candidates for second compacts – will all be in the LMIC pool, funding for which is capped at 25 percent. This year's Selection Criteria and Methodology Report notes that the Board "may *consider* the indicator performance of all countries that graduated from the LIC to LMIC category in FY2010 both relative to their LMIC peers as well as in comparison to the current fiscal year's LIC pool." A legislative fix will, however, be needed to actually *fund* these countries from the LIC pool.[14]

Over the past seven years the MCC selection process has worked relatively well, as it has generally led to the selection of the right countries for the right reasons, and has largely protected against politicization. But with the lessons learned over time, budget realities, and the volatile income fluctuations resulting in graduation of so many countries, ***it would be appropriate to review the process with a view toward some modifications to strengthen it going forward***. The arrival of a new management team, and the ongoing review of the entire U.S. development and foreign assistance apparatus, provides an opportunity to review and refresh the selection process, accommodating lessons learned to date and projecting trends going forward. The new team should reach out to Congress and external stakeholders to re-introduce them to the MCC model, show intermediate results, and seek their input into necessary reforms, including to the authorizing legislation.

That said, in this year's selection round, the Board should consider the following principles in an effort to exercise selectivity:

- **Lead batters should have a strong batting record:** New entrants should solidly pass and demonstrate a consistent track record of policy improvement (accounting for graduation in relevant cases). Compact countries being "re-selected" (i.e., in need of being selected this year to begin preparations for second compacts) should also be strong performers, demonstrated both by their indicator performance (including their commitment to consistently improve their performance after selection) as well as their performance as an implementing partner (their capacity to design and deliver results) under their first compact.
- **Potential for impact should factor into the line-up:** The goal of the MCC is poverty reduction through growth. The objective of the indicators is to help choose countries where MCC dollars can have the biggest impact on that goal, meaning: where is the

[13] Albania, Angola, Armenia, Azerbaijan, Bhutan, Bosnia & Herzegovina, Cape Verde, China, Georgia, Indonesia, Iraq, Kiribati, Morocco, Paraguay, the Philippines, Republic of Congo, Serbia, Swaziland, Syria, Timor-Leste, Tonga, Turkmenistan, Ukraine, and Vanuatu.

[14] See page 9 for a complete explanation on this consideration and the needed legislative fix.

policy environment most conducive to achieving the goal ***and*** where are there substantial poverty levels to impact?

- **Actions inconsistent with MCC principles count:** In some cases, countries may take actions or make policy changes that will not impact the indicators for several years due to time lags in the data. In cases where those decisions will negatively affect the indicators in future years or the potential to generate growth and reduce poverty, employment of the suspension and termination policy is important (both for eligibility in pre-compact situations and for compacts in under-implementation situations).
- **Democracy is a priority – and so are its indicators:** The MCC should not select countries that fail all three of the "democracy indicators."[15] Together these indicators give a good picture of the level of democracy in a given country and when a country fails all three – but still passes the indicators test – it warrants a closer look. Egypt, Jordan, Rwanda, Thailand, and Vietnam all pass the indicators test but fail all three democracy indicators.

In previous years, we have recommended that the MCC Board apply rigorous standards to the Threshold Program, just as it does to MCC eligibility selection. Lack of clarity on the definition of "on the threshold" has resulted in the current hodge-podge of programs that run the gamut from those that have already passed to those not close to passing. It is past time for the MCC to re-examine the Threshold Program with a view toward either repurposing it or eliminating it. ***Thus, we believe the MCC should select no new countries for threshold program eligibility this round.***

II. LOW INCOME COUNTRIES

The FY2010 LIC group consists of 63 countries with per-capita gross national incomes (GNI) less than or equal to $1855. Of these countries, eight are legally prohibited from receiving U.S. foreign assistance but are included in median calculations.

Countries that Pass the Indicators Test

Table 1 summarizes the results for the LIC group. The first column indicates the countries that were selected in FY2009 and are currently eligible as well as those countries that passed the indicators test but were not selected and those compact countries that did not require selection. The second column shows the countries that pass the FY2010 indicators test, those that would have passed but for failing the control of corruption hard hurdle, and those countries that miss by only one indicator. The final column lists the countries that we believe the Board will most likely select as eligible for FY2010 as well as a list of countries that are borderline. The third column also lists the compact countries that do not require selection in FY2010 and those compact countries that are potentially eligible for a second compact. Table 2 provides detailed data for all 63 countries on each of the 17 indicators. The category, indicator, and median score are listed at the top of each column.

[15] The democracy indicators are Political Rights, Civil Liberties, and Voice & Accountability – all in the Ruling Justly category.

15 LICs pass the indicators test this year. They include:

- Eight from sub-Saharan Africa: Benin, Ghana, Lesotho, Malawi, Rwanda, Senegal, Tanzania, and Zambia
- One from North Africa: Egypt
- One from Eastern Europe: Moldova
- Three from Asia: Mongolia, Nepal, and Vietnam
- Two from Latin America: Bolivia and Guyana

Last year the MCC Board of Directors chose six LICs as eligible. Indonesia and Zambia were selected for the first time while Malawi, Moldova, the Philippines, and Senegal were re-selected to continue compact development. Of these six, five met the indicator criteria; the Philippines did not. Of the five countries that passed the FY2009 indicators test and were selected last year, four – Malawi, Moldova, Senegal and Zambia – pass again this year. Senegal signed a compact and will, therefore, not be considered for selection in the FY2010 round. Indonesia passed last year but fails this year due to graduation to LMIC status. The Philippines, which passed in previous years, fails for the second year in a row, but this year's failing grade is due to income group graduation rather than policy deterioration.

Five countries that fail the FY2010 indicators test have compacts: Burkina Faso, Honduras, Mali, Mozambique, and ***Nicaragua***. Nicaragua fails for the second year in a row while Mali and Mozambique fail for the third year in a row. Burkina Faso fails by only one indicator after passing for the previous five years while Honduras and Nicaragua fail the control of corruption indicator and otherwise would have passed the indicators test. A sustained passing record is proving hard. Only three countries – Lesotho, Mongolia and Vietnam – have passed the indicators test for all seven years since FY2004. An additional four – Bolivia, Egypt, Jordan and Tanzania – have passed for the last five years since FY2006.

Six countries pass the indicators test in FY2010 that were not selected last year. All of them – Bolivia, Egypt, Guyana, Nepal, Rwanda and Vietnam – also passed the FY2009 indicators test.

Three LICs would have passed the indicators test but for failing the corruption hard hurdle: Honduras, Kenya, and Nicaragua.

Countries Most Likely to be Selected

To reiterate, under its new policy the Board does not have to re-select the eleven LICs with compacts. Other than those countries, in our view, the MCC Board will most likely select 4 low income countries as eligible for FY2010.

- Three of these pass the indicators test, are currently eligible, and are straightforward selections: ***Malawi, Moldova,*** and ***Zambia***.
- ***Guyana*** also squarely passes and has for the past three years without being chosen. We think this will be the only new country selected this year.

Guyana passes the indicators test for the third year in a row and thus we believe should be selected as eligible for MCA funding. Guyana has shown steady policy improvement and now fails only one out of 17 indicators. It is currently in the second year of a two-year Threshold program that is helping to implement a new VAT system and develop ways to assist and educate taxpayers. Guyana's trafficking in persons ranking[16] hurt its prospects in early years and we presume more recent eligibility deliberations focused on the question of relative impact on poverty reduction. Guyana is a small country with 7.3 percent of its population below the poverty line (compared to Cape Verde, for example, at 18.3 percent).[17] We suspect the Board will pick at least one new eligible country. With Rwanda and Guyana the two contenders, we think they will chose Guyana.

Malawi passes for the third year in a row and should be re-selected as compact negotiations continue. Malawi is currently in the middle of compact development, having received 609(g) funding for feasibility studies and constraints analysis in January 2009 and its compact assessment memo in June 2009. It successfully completed a two-year Threshold program focused on improving the legislative and judicial branches (e.g., enhancing oversight and enforcement), reducing corruption, and expanding the work of civil society organizations.[18]

Moldova passes for the fourth year in a row and will undoubtedly be re-selected as compact eligible. Moldova has shown steady improvement in the indicators, now passing all indicators in the Ruling Justly and Economic Freedom categories and only missing one indicator in the Investing in People category. Moldova's $260 million compact – focused on road rehabilitation and value-added agriculture – is expected to be approved by the Board this month.

Zambia passes for the second year in a row and does so only failing one out of 17 indicators. Zambia was selected as eligible last year and should be re-selected. Zambia is currently working on a constraints analysis that will highlight the challenges to economic growth as it seeks to develop a compact. Previously, it completed a two-year Threshold program which focused on reducing opportunities for corruption, removing barriers to business and investment, and improving border management.

Borderline Countries

Rwanda passes for the third year in a row and is likely in contention this year. It is currently implementing a two-year Threshold program designed to strengthen civic participation and promote civil liberties and rights. These activities align with the one critical problem in its bid for eligibility selection – failure of the democracy indicators. As we have previously said, we believe that the failure of all three democracy indicators is a serious issue and those countries that fail all three indicators should not be selected for eligibility. We suspect there will be several Board members who advocate eligibility for Rwanda in light of its sustained passing record and its performance in the Threshold program (which could presumably affect its democracy indicators in future years), but think the Board will wait.

[16] U.S Department of State, Office to Monitor and Combat Trafficking in Persons Report. http://www.state.gov/g/tip.

[17] $1.25/day; The World Bank, PovcalNet: http://iresearch.worldbank.org/PovcalNet/povcalNet.html. See Table 5 for a complete listing.

[18] See: http://www.mcc.gov/mcc/countries/malawi/mw-threshold/index.shtml

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

Bolivia passes the indicators test – and the democracy indicators – as it has done for the past five years. Diplomatic relations between the U.S. and Bolivia have been strained. In the absence of a U.S. ambassador resident in La Paz, and despite the fact that a bilateral dialogue is underway, we suspect the Board is not likely to select Bolivia as eligible.

Egypt and **Vietnam** both pass the indicators test this year as they have done for the past five and six years, respectively. The Board is not likely to break from precedent this year and select these countries. Both countries are not democracies and fail all three democracy indicators. As we have advocated, countries that fail the democracy indicators should not be selected as eligible for MCA funding.

Nepal passes the indicators test for the second year and this year makes in-roads into improving its democracy indicators by passing the political rights indicator and coming in at the median for civil liberties. Continued policy improvements, especially in the democracy indicators, could put it into contention in future rounds.

Compact Countries Not Likely to be Re-Selected this year for Second Compact Preparedness

Honduras and Nicaragua both have existing compacts, so the Board does not have to re-select them. However, both are nearing the end of their compacts, and if the Board wanted to begin to move forward for second compacts at this time, it would have to re-select them for that purpose. We believe it will not do so in either case.

Honduras fails the indicators test this year because it does not pass the control of corruption hard hurdle– falling from the 60th percentile in FY2009 to the 44th percentile this year. Discussion on Honduras will no doubt center upon the impact of the political situation on the potential to implement a strong program to reduce poverty and generate economic growth. The ouster of President Manuel Zelaya last summer, although never legally called a coup, resulted in a partial termination of the compact (roughly $11 million). Now in its fifth and final year of what remains of its compact, much rides on if and how it finishes its compact. Because it is set to have its compact complete in September 2010, Honduras would need to be re-selected as eligible this year to have access to 609(g) funds and begin due diligence activities in anticipation of a second compact. We suspect the Board will not re-select Honduras due to actions inconsistent with MCC principles.

For the second year, **Nicaragua** fails the indicators test due to failing the control of corruption hard hurdle. Nicaragua's democracy indicators are trending down and current political events have led to the termination of its property regularization project and portions of its road development project. Nicaragua approaches the final year of its compact; should a second compact be a consideration, the Board would need to re-select it as eligible in order to provide compact development funds. The combination of indicator trends and actions inconsistent with the MCC's principles do not bode well for re-selection.

III. Lower Middle Income Countries

The FY2010 LMIC group consists of 35 countries, each with a per-capita GNI greater than $1855 and less than or equal to $3855. Four of these countries are legally prohibited from receiving U.S. foreign assistance but are included in median calculations.

In particular this year, the LMIC category experienced numerous changes to its composition. Ten countries moved into the LMIC classification from LIC while seven countries graduated from LMIC to UMIC and one country moved down from UMIC to LMIC.[19] ***That is a total of 18 individual changes to the LMIC category this year (there were seven for FY2009).*** These changes affected the median scores for all indicators.

The MCC is authorized to use up to 25 percent of its appropriated funds for LMICs. While this limited pool of resources has always been an issue during country selection, it is especially salient this year as two countries with compacts under development – the Philippines and Indonesia – have graduated from LIC to LMIC and thus into a much smaller funding pool (and higher performance standards in its new peer group). To address this problem, this year the MCC is:

> "adopting an approach to income graduation in which a country that graduates from LIC to LMIC will have its indicator performance considered both relative to its LMIC peers as well as in comparison to the current fiscal year's LIC pool for a period of three years."[20]

However, while a country might be ***analyzed*** next to its previous income group's peers, current legislation does not allow LMICs to ***use funding*** from the LIC pool. For this to happen, MCA authorizing legislation will need to be amended. We understand that a temporary fix is included in the FY2010 foreign operations appropriations bill but at the time of this writing, that bill has not been approved.

We have long advocated that no *new* LMICs should be selected for compact eligibility in order to focus the MCC's scarce resources (it will never reach the originally envisioned $5 billion per year) on the poorest countries. We have, however, supported maintaining eligibility in the LMIC pool for graduated, previously-eligible LICs, even if they initially fail the indicators test in the higher-standard pool. The Philippines and Indonesia would fall into that category this year, and, with over 20 percent of their populations living below the poverty line,[21] are countries with a large potential for impact on poverty reduction. ***A thorough examination of the sustainability of the current eligibility process, the impact of graduation, and necessary legislative changes should be considered***.

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[19] For the names of these countries, please see footnotes 8-10.

[20] *MCC Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2010*, September 2009, p. 2.

[21] The World Bank, PovcalNet: http://iresearch.worldbank.org/PovcalNet/povcalNet.html. See Table 5 for a complete listing.

Countries that Pass the Indicators Test

Table 3 highlights the LMIC country qualification predictions for FY2010. The first column details the decisions made last year, the second column indicates those countries that passed or narrowly missed the indicators test for FY2010, and the third column includes our predictions for what countries will be selected and those compact countries that do not need to be re-selected for FY2010. Table 4 shows detailed data for each of the 35 LMICs on all 17 indicators. At the start of each column is information on the category, individual indicator, and median score.

Five countries pass the indicators test for FY2010: ***Albania, Bhutan, Cape Verde, Jordan***, and ***Thailand***.

Five of the six LMICs that have compacts fail the FY2010 indicators test:

- Two miss passing the indicators test by one indicator: ***El Salvador*** and ***Georgia***
- Three miss by two indicators: ***Armenia, Morocco***, and ***Vanuatu***
- Only ***Cape Verde*** passes the indicators test as an LMIC with a compact, and it does so for the first time as an LMIC.

The median rule – countries must be *above* the median to be considered passing – affects Samoa, which would have passed the indicators test if the median counted as passing.

One country, Ukraine, would pass the indicators test had it not failed the control of corruption hard hurdle. This is the third year in a row that Ukraine would have passed the indicators test had it not been for failing the corruption indicator.

Five countries miss passing the indicators test by one indicator.

- One country that fails by one indicator moved into the LMIC category this year: Belize from the UMIC category.
- El Salvador misses passing by one indicator for the second year and fails the indicators test for the third year in a row.
- Georgia fails the indicators test for the second year in a row since graduating to the LMIC category but is now only one indicator short of passing.
- The Maldives fails by one indicator for the third year in a row.
- Tunisia fails the indicators test for the first time ever.

In FY2009, the MCC Board selected two LMIC countries as eligible for MCC funding. Colombia was selected for the first time (but this year graduates out of candidacy to the UMIC category) and Jordan maintained eligibility; both countries passed the FY2009 indicators test.

Four countries – Bosnia-Herzegovina, Macedonia, Thailand, and Tunisia – passed the FY2009 indicators test but were not selected.

This year, two countries pass the indicators test that were not selected last year.

- Albania passes the indicators test for the first time ever.
- Thailand also passed the FY2009 indicators test but was not chosen.

Countries Most Likely to Be Selected

The Board will most likely re-select three LMICs this year.

- ***Cape Verde*** passes the indicators test as a compact country but is nearing compact completion. Should the MCC consider it a good candidate for a second compact, it will need to be re-selected as eligible in order to access funds for compact development.
- ***Georgia*** misses passing by one indicator but is also nearing completion on its compact. It will need to be re-selected as eligible for funds to begin development of a second compact.
- ***Jordan*** passes the indicators test easily and needs to be re-selected in order to access compact funding.

Cape Verde passes the indicators test for the first time as an LMIC this year after four prior years of failing.[22] Cape Verde is in the fifth and final year of its compact (based on its selection as an LIC) which focuses on private-sector-led growth and improved infrastructure. Cape Verde was the third country to enter-into-force on a compact (after Madagascar and Honduras) and is a prime candidate for a second compact, assuming it maintains strong indicator performance. Despite its income status, 18 percent of the population lives below the poverty line.[23] Thus, it should be re-selected as eligible so that it can access 609(g) funds and begin consultation on developing its second compact.

Georgia fails the indicators test for the second year after having graduated to LMIC status. Georgia only misses passing by one indicator this year in the Investing in People category. In that category, however, it shows broad improvement, passing the Natural Resources Management indicator and coming close to passing the girls' primary completion rate indicator which, despite being at 96.7 percent, is just below the median relative to other LMIC peers. Georgia is in the fourth year of its compact dedicated to building reliable infrastructure and promoting agribusiness. It is set to complete its compact in April 2011 and thus would need to be re-selected this year to have at least nine months for due diligence activities in preparation for a second compact. Georgia is improving its indicators, but its performance in its current compact implementation should also play a big role in eligibility re-selection for a second compact.

Jordan passes the indicators test for the fifth year in a row and the MCC Board is likely to re-select it for compact eligibility. Jordan, well into its compact development having received its compact assessment memo in February 2009 and received 609(g) funding in April 2009 to perform a constraints analysis and a sector analysis, is expected to use the entirety of the FY2010 LMIC budget to fund its compact. Jordan has also successfully completed a two-year Threshold program to modernize customs and strengthen local governance mechanisms. Jordan fails all three democracy indicators and has done so for the past five years. This is a serious problem,

[22] Cape Verde passed as a LIC in FY2004 selection round and was selected as eligible. In FY2005, it graduated to LMIC status and has failed the indicators test each year until this round.

[23] The World Bank, PovcalNet: http://iresearch.worldbank.org/PovcalNet/povcalNet.html. See Table 5 for a complete listing.

and we believe Jordan should never have been selected as eligible and, instead, should have been supported by other U.S. funding mechanisms.

Borderline countries

We see two countries as borderline decisions – Indonesia and the Philippines – only because we are not sure how the Board will handle the graduation issue when the availability of funding for them (given the 25 percent cap) in FY2010 will rely on a legislative fix.

Indonesia and **the Philippines** offer interesting cases this year as both countries, in the midst of developing their compacts, graduate from LIC to LMIC status and fail in the higher-standard peer group. Indonesia misses passing by one indicator in the Investing in People category and also fails the control of corruption hard hurdle. However, when its raw scores are compared to those in the LIC group, Indonesia easily passes, passing all indicators in Ruling Justly and Economic Freedom and three indicators in Investing in People.[24] As Indonesia works on compact development, it is also implementing a two-year Threshold program focused on increasing immunization rates and fighting corruption. The Philippines fails by missing two indicators in Investing in People and also fails the corruption hard hurdle. But like Indonesia, when compared to the LIC cohort, it easily passes, passing every indicator but the public expenditure on health measure in Investing in People. The Philippines is further along in its compact development having received its compact assessment memo and 609(g) funding to facilitate a constraints analysis, sector analysis, and multiple consultations. Both countries have over 20 percent of their populations living below the poverty line.[25]

We believe the Board will (and should) select both countries as eligible in the LMIC category, as it has done in other cases of graduates that fail the indicators test in the new category. The Board will need to consider the uncertainty of available funding, as mandated in the authorizing legislation. Since the entirety of the LMIC FY2010 funding pool is currently slated to fund the Jordan compact, only a legislative fix (pending in the FY2010 foreign operations appropriations bill) would enable the MCC to fund compacts in the Philippines or Indonesia. Given the amount of work that has been invested in compact development, particularly in the case of the Philippines, hopefully the fix will come through.

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

Albania is to be commended for passing the indicators test for the first time ever this year. It finally passes the control of corruption hard hurdle as well as the health expenditure and primary education expenditure indicators in Investing in People. Given all the uncertainties of available funding (particularly the fact that no LMIC resources beyond that for Jordan will be available in FY2010), we suspect the Board will not select Albania this year. The extremely low percentage

[24] Both Indonesia and the Philippines are analyzed against the LIC cohort using their raw scores and the raw scores of the LICs. The LIC median is not affected.

[25] The World Bank, PovcalNet: http://iresearch.worldbank.org/PovcalNet/povcalNet.html. See Table 5 for a complete listing.

of the population living below the poverty line – less than 1 percent[26] – also raises questions on the relative impact of MCC resources on its goal of poverty reduction.

Bhutan graduates to LMIC status this year and continues its record of passing, having previously passed for six straight years as a LIC. Despite consistently passing the indicators test, Bhutan has not been selected as eligible. It has yet to perform above the median and pass any of the three democracy indicators in its years of passing the indicators test. As in years past, we think the Board will not select Bhutan.

Thailand passes the indicators test for the second year in a row but continues to perform badly on the democracy indicators – failing all three this year. While elections have been held and the constitution re-written, Thailand should show further policy improvement in this area before being deemed eligible by the MCC Board.

Compact Countries Not Likely to be Re-Selected this year for Second Compact Preparedness

Vanuatu fails the indicators test for the second year after having graduated to LMIC status. It misses passing by two indicators, one in Economic Freedom and one in Investing in People. Vanuatu's compact, which entered-into-force in April 2006, targets the country's poor transportation infrastructure. Vanuatu is nearing completion of its compact and will need to be re-selected if a second compact is an option, but we think the Board will not select Vanuatu.

IV. COMPACT COUNTRIES

Per the change in the MCC's FY2009 eligibility selection process, countries that have signed compacts no longer need to be re-selected as they do not need to be eligible for funding since all funds are obligated at the time of signing. However, as discussed above, a compact country does need to be re-selected as eligible to receive 609(g) funding for due diligence activities for second compact development.

Below we reference, for the record, indicator trends in those compact countries that are *not* nearing completion and thus not in the running for eligibility.

Armenia fails the indicators test for the third year since moving into the LMIC category. While it passes in the Investing in People and Economic Freedom categories, Armenia only passes the Government Effectiveness indicator in Ruling Justly – failing control of corruption and all three democracy indicators. Further, Armenia is exhibiting downward trends in both the Political Rights and Voice & Accountability indicators. Armenia is in the fourth year of its compact with projects designed to promote agriculture and infrastructure. In June 2009, the Board put a hold on funding to part of Armenia's road construction project due to a deterioration of political rights and civil liberties post-election. Armenia's lack of policy improvement – failing the indicators test and all three democracy indicators for three consecutive years – is grounds for extreme caution in setting expectations for a second compact.

[26] The World Bank, PovcalNet: http://iresearch.worldbank.org/PovcalNet/povcalNet.html. See Table 5 for a complete listing.

The LIC **Burkina Faso** fails the indicators test for the first time in five years, and only does so by missing one indicator in the Investing in People category. Burkina Faso's immunization score drastically declined this year (38th percentile from 89th percentile in FY2009) due to downward revisions in the data, not an actual decline in performance. It did, however, make improvements in its natural resource management indicator (43rd percentile from 34th percentile in FY2009). Burkina Faso signed a five year compact on July 14, 2008 that entered-into-force in August of this year. This compact will focus on increasing rural productivity, enhancing access to markets, and improving primary school completion rates for girls.

El Salvador fails the indicators test this year. This is its third failing year as it was directly impacted by the MCC's addition of the Natural Resource Management indicator into the Investing in People category in FY2008. El Salvador misses passing by one indicator in this category but does show a slight improvement in its Natural Resource Management score this year. El Salvador is an LMIC in the third year of a compact that is working to unite El Salvador through a massive transportation project as well as promote many smaller community infrastructure projects.

For the third year in a row, **Mali**, an LIC, fails the indicators test by missing one indicator in the Investing in People category. It shows improvement in increasing the rate of girls' primary education completion but fails for the third time, mainly due to the impact of adding the Natural Resource Management indicator. Outside of the Investing in People category, Mali has performed very well, passing hugely on the Ruling Justly indicators. Mali's compact entered-into-force in September 2007 and focuses on increasing agricultural productivity and expanding access to markets and trade.

This year marks **Morocco**'s fourth year failing the indicators test as an LMIC and it fails all three democracy indicators. Morocco passes the Ruling Justly and Economic Freedom categories but only passes one indicator in the Investing in People category. Morocco entered-into-force on its compact in September 2008 and is working to increase productivity in fruit-tree production, small-scale fisheries, and artisan crafts.

Like Mali, **Mozambique** is an LIC that fails the indicators test for the third year a row, each time missing by one indicator in the Investing in People category. It too was largely impacted by the addition of the Natural Resource Management indicator. Mozambique made a large improvement in its girls' primary education completion rate but still fails to pass the median, though as of this year it no longer scores substantially below the median on any indicator. It performs very well in the Ruling Justly and Economic Freedom categories, passing all 6 and 5 of 6 indicators, respectively. Mozambique's compact entered-into-force in September and aims to support farmer incomes, rehabilitate roads, increase water supply, and strengthen land tenure.

V. THRESHOLD COUNTRIES

In addition to selecting compact-eligible countries at the upcoming MCC Board meeting, the Board will also select those countries eligible for assistance through the Threshold program. The

MCC's authorizing legislation allows up to 10 percent of MCA funds to go to the Threshold program.

Currently 13 countries have Threshold programs with two – Albania and Paraguay – in their second Threshold program.[27] Six countries – Burkina Faso, Jordan, Malawi, the Philippines, Tanzania, and Zambia – have completed Threshold programs.

As we have previously stated and as is evident by the wide range of countries with Threshold agreements, the Threshold program is overdue for a serious re-think, building on the earlier preliminary review provided to the Board. The Threshold program is examined at length in a forthcoming MCA Monitor paper in which the many future possibilities for the Threshold program, from repurposing to elimination, are explored.

With the Threshold program awaiting definition and restructure, we recommend that it take a hiatus this year and that no new countries be selected as eligible. Liberia and Timor-Leste are the two countries with programs under development, however, and should maintain (be re-selected) their eligibility.

Liberia passes seven out of 17 indicators this year, passing the Ruling Justly category, missing one indicator in the Economic Freedom category (due to the spike in global food and fuel prices), and missing two indicators in the Investing in People category. Revisions in the data mean that Liberia fails the Immunization Rates and Health Expenditures indicators this year. Liberia did improve and pass in the Natural Resource Management indicator. In the Economic Freedom category, Liberia made great improvements in the Business Start-Up indicator as it declined in the Inflation indicator. Despite these fluctuations, Liberia is steadily improving on its overall policy performance and should be re-selected for Threshold eligibility to address some of its specific indicator shortfalls.

Timor-Leste graduates into the LMIC category this year and, despite the higher income-group standards, only fails one additional indicator when compared to FY2009. Timor-Leste fails the Business Start-Up indicator this year but still passes the Economic Freedom category with three passed indicators. To pass the indicators test, Timor-Leste needs to improve upon Control of Corruption and one more indicator in the Investing in People category.

VI. CONCLUSION

As the MCC works to strengthen its unique model of supporting growth and poverty reduction, this year should be one of great selectivity, making eligible those countries that are strong passers, including on the democracy indicators, and offer potential for substantial impact on poverty reduction. This is a crucial year for the MCC as it navigates budget and graduation uncertainties at the same time that it must show positive results for compacts nearing completion and have a prospective queue of countries for FY2011. Not an easy circle to square.

[27] Albania, Guyana, Indonesia, Kenya, Kyrgyz Republic, Moldova, Niger, Paraguay, Peru, Rwanda, Sao Tome and Principe, Uganda, and Ukraine

Transparency on country selection, particularly the rationale for country selection (or not) is, as always, important to help steady expectations.

The MCC will have a new CEO and management team in place hopefully by next month and they will need to hit the ground running – seeing through to the end some of the first compacts, deciding what to do about second compacts, designing and selling a graduation policy and other legislative fixes to Congress, examining the selection process, communicating results, and much more. At the same time, the new team is going to have to put its own mark on the MCC model – focus its mission, tighten its standards, and position itself within the larger foreign assistance framework.

Table 1: Country Qualification Predictions for Low Income Countries

Current eligible countries (selected in FY2009)

1. Indonesia [TG]
2. Malawi [T]
3. Moldova [T]
4. The Philippines [TG]*
5. Senegal
6. Zambia [T]

Countries that passed the indicators in FY2009 but were not selected

1. Bhutan [G]
2. Bolivia
3. Egypt
4. Guyana [T]
5. Nepal
6. Rwanda [T]
7. Sri Lanka
8. Vietnam

Compact countries that did not require selection in FY2009

1. Benin [C]
2. Burkina Faso [C]
3. Ghana [C]
4. Honduras [C]
5. Lesotho [C]
6. Madagascar [C]
7. Mali [C]
8. Mongolia [C]
9. Mozambique [C]
10. Nicaragua [C]
11. Tanzania [C]

Candidate countries that pass the FY2010 indicators test

1. Benin [C]
2. Bolivia
3. Egypt
4. Ghana [C]
5. Guyana [T]
6. Lesotho [C]
7. Malawi [T]
8. Moldova [T]
9. Mongolia [C]
10. Nepal
11. Rwanda [T]
12. Senegal [C]
13. Tanzania [C]
14. Vietnam
15. Zambia [T]

Countries that fail control of corruption

1. Honduras [C]
2. Kenya [T]
3. Nicaragua [C]

Countries that miss by one indicator

1. Burkina Faso [C]
2. Mali [C]
3. Mozambique [C]
4. Sao Tome and Principe [T]
5. Sri Lanka

Countries most likely to be selected

1. Guyana [T]
2. Malawi [T]
3. Moldova [T]
4. Zambia [T]

Borderline countries

1. Rwanda [T]

Compact countries that do not require selection in FY2010

1. Benin [C]
2. Burkina Faso [C]
3. Ghana [C]
4. Lesotho [C]
5. Mali [C]
6. Mongolia [C]
7. Mozambique [C]
8. Senegal [C]
9. Tanzania [C]

Potential countries for second compact eligibility

1. Honduras [C]
2. Nicaragua [C]

Note: Per the MCC's new policy, compact countries *do not* have to be re-selected unless in the case of second compact eligibility.

* Denotes a country that was selected in FY2009 despite not passing the indicators test
[C] Denotes a country that has signed a Compact with the MCC
[G] Denotes a country that has graduated to LMIC category this year
[T] Denotes a country that has or had a Threshold Program

Table 2: MCA Low Income Countries (LICs) and the Indicators Test, FY2010

	Ruling Justly						Economic Freedom						Investing in People					Passed Indicators		
	Political Rights	Civil Liberties	Voice and Account-ability	Government Effectiveness	Rule of Law	Control of Corruption	Business Start-up	Land Rights and Access	Trade Policy	Regulatory Quality	Inflation, %	3-Year Budget Balance, %	Immunization Rate: DPT and Measles, %	Public Expenditure on Health, % of GDP	Girls' Primary Education Completion Rate, %	Public Primary Education Spending, % of GDP	Natural Reseource Management	Ruling Justly	Economic Freedom	Investing in People
	(0-40, 40=best)	(0-60, 60=best)	(-2.5 to +2.5, +2.5 = best)					(0 to 1, 1=best)	(1-100, 100=best)	(-2.5 to +2.5, +2.5=best)							(0 to 100, 100=best)			
Median	18	29	0.00	0.00	0.00	0.00	0.92	0.61	67.9	0.00	15.00	-1.36	81.8	2.25	66.52	1.61	61.6			
Substantially Below	10	20	-0.58	-0.48	-0.26	-0.31	0.84	0.54	62.1	-0.57		-3.34	68.0	1.46	48.13	1.25	52.4			
Countries that pass the indicators test																				
1 Benin	32	48	1.00	0.27	0.35	0.36	0.82	0.51	57	0.17	7.96	-0.20	64	2.47	55.02	2.03	66.6	6	3	3
2 Bolivia	28	40	0.65	-0.01	-0.23	0.31	0.87	0.68	76.9	-0.39	14.02	0.63	84.5	4.52	97.58	2.21	79.5	4	4	5
3 Egypt	7	18	-0.53	0.42	0.80	0.11	0.98	0.96	74	0.46	11.70	-8.16	94.5	2.43	92.98	1.36	79.7	3	5	4
4 Ghana	37	47	1.14	0.72	0.80	0.72	0.95	0.73	65.3	0.71	16.52	-9.69	86.5	2.17	77.16	2.50	64	6	3	4
5 Guyana	31	42	0.83	0.62	0.20	0.30	0.94	0.81	71.3	0.08	8.10	-8.46	94	4.61	108.54	2.06	73.6	6	5	5
6 Lesotho	30	41	0.70	0.48	0.60	0.82	0.94	0.61	63.5	0.00	10.72	11.86	84	3.79	83.82	4.47	47.5	6	4	4
7 Malawi	23	34	0.48	0.14	0.60	0.19	0.86	0.70	68.6	0.24	8.71	-2.55	89.5	5.90	58.23	1.55	76.1	6	4	3
8 Moldova	22	33	0.39	0.03	0.43	0.13	0.99	0.95	79.9	0.43	12.72	-0.42	94.5	5.26	83.58	1.43	69.5	6	6	4
9 Mongolia	34	48	0.90	0.11	0.36	0.16	0.99	0.71	79.8	0.34	26.81	2.03	96.5	4.67	92.39	1.35	75.3	6	5	4
10 Nepal	21	29	-0.13	0.04	0.13	0.10	0.92	0.69	58.8	-0.03	7.70	-1.56	80.5	1.89	76.01	2.37	71.8	4	3	3
11 Rwanda	11	23	-0.58	0.59	0.39	0.80	0.99	0.81	67.4	0.14	15.44	-0.47	94.5	4.93	55.9	1.86	57.4	3	4	3
12 Senegal	29	43	0.50	0.67	0.58	0.32	0.93	0.48	69.7	0.34	5.76	-4.23	82.5	3.25	55.66	2.16	64.6	6	4	4
13 Tanzania	22	36	0.57	0.34	0.62	0.27	0.94	0.81	70.5	0.24	10.28	-3.26	86	2.62	80.79	2.57	64.2	6	5	5
14 Vietnam	2	20	-0.96	0.48	0.46	0.02	0.95	0.85	68.9	0.10	23.12	-0.25	92.5	2.79		1.57	77.6	3	5	3
15 Zambia	26	35	0.57	0.13	0.40	0.30	0.96	0.62	79.9	0.30	12.45	5.69	82.5	2.66	87.53		64.6	6	6	4
Eliminated by corruption																				
1 Honduras	25	35	0.37	0.22	0.00	-0.04	0.94	0.65	83.7	0.36	11.40	-1.60	94	3.40	92.67	1.92	84.8	4	5	5
2 Kenya	19	35	0.50	0.19	-0.09	-0.24	0.94	0.70	67.9	0.56	13.10	-3.31	87.5	2.27		3.81	63.9	4	4	4
3 Nicaragua	22	35	0.52	-0.17	0.03	-0.03	0.86	0.69	82.8	0.27	19.90	-0.20	97.5	4.87	78.37	1.72	75.5	4	4	5
Miss by one indicator																				
1 Burkina Faso	17	35	0.33	0.13	0.52	0.42	0.94	0.49	71.3	0.31	10.67	2.18	77	3.79	33.54	3.02	56.4	5	5	2
2 Mali	30	40	0.94	0.01	0.54	0.31	0.90	0.47	69.6	0.30	9.15	8.63	68	3.01	48.13	2.86	40.6	6	4	2
3 Mozambique	25	36	0.64	0.41	0.23	0.23	0.96	0.69	74.5	0.16	10.33	-3.17	74.5	3.66	52.09	2.89	55.3	6	5	2
4 Sao Tome & Principe	33	47	0.90	0.06	0.39	0.33	0.82	0.62	66.6	-0.09	26.05	40.42	96	3.94	77.3	1.54	48.2	6	2	3
5 Sri Lanka	21	31	0.22	0.50	0.88	0.63	0.97	0.61	62.2	0.35	22.56	-7.13	98	1.99	105.05	0.58	89.8	6	2	3
Miss by more than one indicator																				
1 Afghanistan	16	16	-0.60	-0.52	-1.12	-0.86	0.97	0.38	69.6	-0.95	26.76	-2.80	80	2.70		1.28	22.5	0	2	1
2 Bangladesh	22	30	0.05	0.02	0.20	-0.32	0.93	0.49	58	-0.19	7.71	-3.32	92	1.03	57.13	1.08	56.2	5	2	1
3 Burundi	20	23	0.00	-0.42	-0.17	-0.20	0.83	0.63	68.6	-0.55	24.44	-0.56	88	1.96	41.99		52.6	1	3	1
4 Cambodia	11	23	-0.28	-0.01	-0.19	-0.36	0.80	0.70	70	0.16	25.00	-0.20	90	1.72	79.04	0.02	68.3	0	4	3
5 Cameroon	8	15	-0.36	-0.01	-0.10	-0.12	0.85	0.61	59.7	-0.03	5.34	12.99	82	0.81	66.52	1.28	64.6	0	2	2
6 Central African Rep.	17	23	-0.34	-0.66	-0.55	-0.12	0.74	0.31	58.1	-0.65	9.26	-0.27	58	1.46	24.71	0.62	59.5	0	2	0
7 Chad	5	15	-0.79	-0.68	-0.68	-0.68	0.77	0.55	58.4	-0.63	8.34	3.29	21.5	2.67	21.61	0.86	41.2	0	2	1
8 Comoros	25	30	0.23	-1.09	-0.13	0.03	0.80	0.54	62.4	-0.88	4.80	-2.35	78.5	1.94		3.81	52.3	4	1	1
9 Congo, Dem. Rep.	11	11	-0.82	-1.10	-0.79	-0.53	0.50	0.58	61.7	-0.80	17.97	-2.30	68	1.24	43.55	4.93	53	0	0	1
10 Djibouti	12	22	-0.46	-0.19	0.36	0.45	0.78	0.60	31.9	-0.12	11.96	-1.28	81	5.81	36.76	1.66	57	2	2	2
11 Eritrea	3	10	-1.54	-0.62	-0.35	0.40	0.86	0.83	69.1	-1.50	12.63	-12.71	96	1.66	41.49	0.63	49.4	1	3	1
12 Ethiopia	13	20	-0.64	0.37	0.29	0.12	0.98	0.73	61.9	-0.23	25.32	-3.47	77.5	2.20	48.05	1.98	53.2	3	2	1

Table 2: MCA Low Income Countries (LICs) and the Indicators Test, FY2010, continued

	Ruling Justly						Economic Freedom						Investing in People					Passed Indicators		
	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)	Business Start-up	Land Rights and Access (0 to 1, 1=best)	Trade Policy (1-100, 100=best)	Regulatory Quality (-2.5 to +2.5, +2.5=best)	Inflation, %	3-Year Budget Balance, %	Immunization Rate: DPT and Measles, %	Public Expenditure on Health, % of GDP	Girls' Primary Education Completion Rate, %	Public Primary Education Spending, % of GDP	Natural Reseource Management (0 to 100, 100=best)	Ruling Justly	Economic Freedom	Investing in People
Median	18	29	0.00	0.00	0.00	0.00	0.92	0.61	67.9	0.00	15.00	-1.36	81.8	2.25	66.52	1.61	61.6			
Substantially Below	10	20	-0.58	-0.48	-0.26	-0.31	0.84	0.54	62.1	-0.57		-3.34	68.0	1.46	48.13	1.25	52.4			
Miss by more than one indicator																				
13 Gambia	16	27	-0.31	0.03	0.64	0.00	0.77	0.58	60.6	0.19	4.45	-3.03	93.5	2.55	82.5	1.37	55.5	2	2	3
14 Guinea	5	23	-0.66	-0.60	-0.71	-0.58	0.83	0.60	60	-0.52	18.37	-1.43	65	0.70	46.67	0.69	54.5	0	0	0
15 Guinea-Bissau	21	29	-0.13	-0.46	-0.54	-0.38	0.52	0.60	58.2	-0.59	10.45	-8.73	69.5	1.52			56	1	1	0
16 Haiti	22	25	-0.05	-0.50	-0.46	-0.44	0.63	0.41	79.1	-0.26	14.40	-1.47	55.5	6.24		0.81	40.7	1	2	1
17 India	34	42	1.11	0.76	1.02	0.40	0.91	0.57	67.9	0.42	8.35	-5.99	68	0.91	91.7	1.13	60.5	6	2	1
18 Kosovo	11	24	0.01	-0.02	0.26	0.12	0.92			0.67						2.51		3	3	1
19 Kyrgyz Republic	13	26	-0.06	0.09	-0.37	-0.28	0.99	0.78	75.9	0.31	24.53	-0.86	97	2.63	91.67		77.6	1	5	4
20 Laos	1	12	-1.05	-0.05	-0.01	-0.45	0.92	0.63	68.4	-0.62	7.63	-2.63	56.5	0.76	70.99	1.15	74.2	0	3	2
21 Liberia	25	34	0.37	-0.57	-0.33	0.18	0.93	0.36	53.8	-0.69	17.49	0.57	64	1.09	52.52	0.85	65	4	2	1
22 Niger	28	30	0.25	0.00	0.09	-0.05	0.87	0.54	75.7	0.11	11.29	13.62	73	2.11	31.49	2.56	38.1	4	4	1
23 Nigeria	17	30	0.06	-0.19	-0.23	-0.14	0.90	0.39	67.2	0.01	11.58	3.19	58	1.07		0.18	53.6	2	3	0
24 Pakistan	18	22	-0.35	0.06	-0.03	0.00	0.98	0.65	67	0.16	12.00	-5.00	79	0.34	53.43		80.4	2	4	1
25 Papua New Guinea	23	36	0.75	-0.01	-0.05	-0.36	0.94	0.71	86.2	0.04	10.70	6.43	53	2.59			48.2	3	6	1
26 Sierra Leone	27	37	0.38	-0.33	-0.14	-0.29	0.87	0.43	62.8	-0.23	14.84	5.89	60	1.37	74.71	1.55	44.7	3	2	1
27 Solomon Islands	22	42	0.85	0.00	0.11	0.37	0.91	0.55	65.2	-0.68	17.22	1.23	69	4.70			48.5	6	1	1
28 Somalia	0	2	-1.19	-1.72	-1.79	-1.13				-2.14			27.5				25.4	0	1	0
29 Tajikistan	8	19	-0.66	-0.09	-0.22	-0.21	0.96	0.56	82.5	-0.34	20.44	-3.57	86	1.28	92.75		70.9	0	2	3
30 Togo	14	25	-0.47	-0.64	0.10	-0.20	0.74	0.32	62.8	-0.42	8.40	-2.23	83	1.15	51.29	1.43	62.7	1	1	2
31 Uganda	15	30	0.19	0.28	0.39	-0.01	0.90	0.74	72.1	0.55	7.30	-1.03	66	1.69		2.09	65	4	5	2
32 Yemen	15	20	-0.52	-0.20	-0.04	0.05	0.91	0.84	76.1	-0.07	18.98	-3.51	65.5	2.25	49.44	2.98	49.2	1	2	1
Eliminated for statutory reasons																				
1 Cote d'Ivoire	6	19	-0.58	-0.60	-0.63	-0.39	0.84	0.47	64.3	-0.30	6.32	-1.07	68.5	1.00	38.79		69.2	0	2	1
2 Korea, Dem. Rep.	0	2	-1.55	-1.33	-0.16	-0.96			0	-1.65			95	3.01			77.7	0	1	3
3 Madagascar	22	36	0.50	0.21	0.43	0.67	0.99	0.65	73.2	0.30	9.17	10.31	81.5	2.15	71.2	1.55	40.8	6	6	1
4 Mauritania	9	23	-0.26	-0.18	-0.12	-0.02	0.95	0.59	69.9	0.04	7.35	8.83	69.5	1.59	65.75	1.89	38.2	0	5	1
5 Myanmar	-3	5	-1.58	-0.88	-0.59	-0.91			72.3	-1.61	22.50	-3.42	83.5	0.21	99.67		72.6	0	1	3
6 Sudan	3	7	-1.11	-0.62	-0.61	-0.71	0.94	0.55	62.1	-0.73	14.29	-3.70	82.5	0.98	46.85		52.9	0	2	1
7 Uzbekistan	0	3	-1.24	0.11	-0.29	-0.30	0.98		65.1	-0.78	12.75	6.91	98	2.03	95.3		74.6	1	3	3
8 Zimbabwe	4	8	-0.86	-0.76	-0.92	-0.60	0.43	0.40	44.8	-1.55	156.20	-4.57	64	4.14			74.9	0	0	2
Number of countries for which data are available	63	63	63	63	63	63	60	58	61	63	60	60	62	61	49	48	62			

Table 3: Country Qualification Predictions for Lower Middle Income Countries

Current eligible countries (selected in FY2009)	**Candidate countries that pass the FY2010 indicators test**	**Countries most likely to be selected**
1. Colombia [G] 2. Jordan [T] **Countries that passed the indicators in FY2009 but were not selected** 1. Bosnia-Herzegovina [G] 2. Macedonia [G] 3. Thailand 4. Tunisia **Compact countries that did not require selection in FY2009** 1. Armenia [C] 2. Cape Verde [C] 3. El Salvador [C] 4. Georgia [C] 5. Morocco [C] 6. Namibia [CG] 7. Vanuatu [C]	1. Albania [T] 2. Bhutan 3. Cape Verde [C] 4. Jordan [T] 5. Thailand **Countries that would pass if the median counted as passing** 1. Samoa **Countries that fail control of corruption** 1. Ukraine [T] **Countries that miss by one indicator** 1. Belize 2. El Salvador [C] 3. Georgia [C] 4. Maldives 5. Tunisia	1. Cape Verde [C] 2. Georgia [C] 3. Jordan [T] **Borderline countries** 1. Indonesia [T] 2. The Philippines [T] **Compact countries that require selection in FY2010** 1. Armenia [C] 2. El Salvador [C] 3. Morocco [C] **Potential countries for second compact eligibility** 1. Cape Verde [C] 2. Georgia [C] 3. Vanuatu [C]

Note: Per the MCC's new policy, compact countries *do not* have to be re-selected unless in the case of second compact eligibility.

[C] Denotes a country that has signed a Compact with the MCC
[G] Denotes a country that has graduated to UMIC category in FY2010
[T] Denotes a country that has or had a Threshold Program

Table 4: MCA Lower Middle Income Countries (LMICs) and the Indicators Test, FY2010

	Ruling Justly						Economic Freedom						Investing in People					Passed Indicators		
	Political Rights	Civil Liberties	Voice and Account-ability	Government Effectiveness	Rule of Law	Control of Corruption	Business Start-up	Land Rights and Access	Trade Policy	Regulatory Quality	Inflation, %	3-Year Budget Balance, %	Immunization Rate: DPT and Measles, %	Public Expenditure on Health, % of GDP	Girls' Primary Education Completion Rate, %	Public Primary Education Spending, % of GDP	Natural Reseource Management	Ruling Justly	Economic Freedom	Investing in People
	(0-40, 40=best)	(0-60, 60=best)	(-2.5 to +2.5, +2.5=best)					(0 to 1, 1=best)	(1-100, 100=best)	(-2.5 to +2.5, +2.5=best)							(0 to 100, 100=best)			
Median	20	33	0.00	0.00	0.00	0.00	0.96	0.72	72.60	0.00	15.00	-0.37	93.50	2.81	97.56	1.97	79.60			
Substantially Below	11	23	-0.86	-0.29	-0.42	-0.23	0.93	0.62	59.80	-0.58		-2.38	80.00	2.01	90.21	1.54	61.90			
Countries that pass the indicators test																				
1 Albania	26	40	0.39	0.08	-0.24	0.09	0.98	0.87	85.8	0.60	3.36	-4.18	98.5	2.92		2.06	97.3	5	5	4
2 Bhutan	19	24	-0.47	0.53	0.73	1.27	0.96	0.87	52	-0.43	8.4	-0.06	97.5	3.24	87.52	1.19	79.6	3	3	2
3 Cape Verde	37	53	1.21	0.47	0.87	1.30	0.97	0.71	65.5	0.41	6.79	-2.30	97	3.40	94.35	2.01	61.1	6	3	3
4 Jordan	13	25	-0.46	0.69	0.85	0.95	0.94	0.89	78.8	0.77	14.93	-5.08	96	4.19	100.1	1.90	92.4	3	4	4
5 Thailand	12	32	-0.30	0.53	0.33	0.16	0.97	0.80	75.9	0.69	5.47	-0.30	98.5	2.32	88.47	2.17	96.5	3	6	3
Eliminated by corruption																				
1 Ukraine	28	45	0.23	-0.18	-0.26	-0.18	0.98		82.6	0.04	25.21	-2.20	92	3.80	99.35		80.5	3	3	3
Miss by one indicator																				
1 Belize	36	51	0.99	0.00	0.16	0.26	0.92	0.62	71.5	0.03	6.39	-0.87	95	2.81	100.45	2.50	83.8	5	2	4
2 El Salvador	33	40	0.32	0.27	-0.27	0.32	0.95	0.72	83.8	0.74	7.26	-2.36	94.5	3.63	91.11	1.38	72.7	5	3	2
3 Georgia	18	33	0.00	0.60	0.02	0.31	0.99	1.00	89.1	1.02	10.01	-4.67	94	1.50	96.72	1.05	81.5	4	5	2
4 Maldives	20	28	-0.13	0.06	0.12	-0.06	0.98	0.12	44.5	0.01	11.89	-8.65	97.5	8.14	108.96	4.06	59.7	2	3	4
5 Samoa	32	49	0.89	0.35	1.10	0.79	0.98		70	0.00	6.2	-3.54	45.5	4.54	99.63	1.97	84.7	6	2	3
6 Tunisia	5	18	-1.01	0.76	0.60	0.50	0.99	0.78	53.5	0.54	5.05	-2.38	98.5	2.27	101.83		72.4	3	4	2
Miss by more than one indicator																				
1 Angola	11	21	-0.81	-0.56	-0.92	-0.68	0.80	0.43	70.4	-0.51	12.47	11.71	80	2.04		0.83	57.3	0	2	0
2 Armenia	11	27	-0.40	0.35	0.00	0.00	0.99	1.00	80.5	0.75	8.98	-2.72	91.5	2.10	98.39	2.32	90.3	1	5	3
3 Azerbaijan	8	21	-0.98	-0.22	-0.40	-0.46	0.99	0.92	77.1	0.11	20.79	8.02	68	1.18	119.2	0.33	79.6	0	5	1
4 Congo, Rep.	9	24	-0.91	-0.92	-0.79	-0.62	0.89	0.66	61	-0.76	6.02	17.57	84	1.69	71.09		60.3	0	2	0
5 Ecuador	29	40	0.03	-0.56	-0.87	-0.25	0.92	0.73	71.8	-0.71	8.4	1.61	70.5	2.35	90.79	2.88	92.4	3	3	2
6 Guatemala	24	33	0.00	-0.07	-0.74	-0.18	0.93	0.69	84	0.31	11.36	-1.67	90.5	1.99	73.78	1.89	91	1	3	1
7 Indonesia	30	36	0.11	0.13	-0.29	-0.10	0.93	0.71	77.9	0.16	9.78	-0.40	80	1.27	106.88	1.93	82.1	4	3	2
8 Kiribati	36	55	0.97	-0.16	0.75	0.55	0.95		55.4	-0.79	10.97	-14.93	77	11.37				5	1	1
9 Marshall Islands	36	55	1.45	-0.80	0.50	0.00	0.97			-0.25		-0.37	93.5	14.36	92.28			4	1	1
10 Micronesia	37	56	1.28	-0.21	0.78	0.11	0.85		81	-0.20			85.5	12.74			61.1	5	2	1
11 Morocco	16	28	-0.44	0.32	0.25	0.28	0.98	0.78	71.2	0.40	3.89	0.31	97.5	1.40	77.58	1.82	70.6	3	5	1
12 Paraguay	28	36	-0.07	-0.36	-0.67	-0.38	0.92	0.64	83.5	-0.06	10.15	1.80	76.5	2.60	94.58	1.90	73.9	2	3	0
13 Philippines	22	38	0.06	0.42	-0.13	-0.20	0.93	0.76	77.8	0.38	9.3	-0.24	91.5	1.35	95.14	1.71	92	4	5	1
14 Swaziland	3	20	-0.95	-0.24	-0.15	0.16	0.92	0.61	74.9	-0.14	13.11	6.37	95	3.70	69.24	3.22	53.2	1	3	3
15 Timor-Leste	28	34	0.41	-0.58	-0.79	-0.35	0.94	0.20	73	-0.97	7.62	280.73	76	12.45	79.04	4.66	53.3	3	3	2
16 Tonga	15	40	0.18	0.01	0.49	-0.19	0.97		56.2	-0.31	14.51	-0.86	99	3.66	108.14	3.02	98.3	4	2	5
17 Turkmenistan	1	5	-1.81	-0.74	-0.94	-0.80			79.2	-1.59	14.54	6.83	97.5	1.86			63.5	0	3	1
18 Tuvalu	37	57	1.05	-0.25	1.35	0.37				-0.73			96	9.77	118.18	6.43		5	1	4
19 Vanuatu	32	48	0.87	0.06	0.82	0.87	0.93		55.1	-0.33	4.8	1.00	70.5	3.28		2.05	61.9	6	2	2
Eliminated for statutory reasons																				
1 China	2	14	-1.47	0.65	0.03	0.11	0.97	0.81	72.2	0.22	5.92	-0.03	95.5	2.05	101.58	1.04	83.5	3	5	3
2 Iran	9	13	-1.23	-0.33	-0.43	-0.16	0.99	0.61	50.2	-1.19	25.4	0.59	98.5	3.17	125.83	1.33	85.8	0	2	4
3 Iraq	11	13	-1.00	-0.99	-1.51	-0.94	0.87			-0.66	2.67	10.77	65.5	2.32			61.9	0	2	0
4 Syria	1	8	-1.49	-0.25	-0.18	-0.53	0.96	0.60	54	-0.74	15.15	-2.47	81.5	1.91	112.76	2.38	71.4	0	1	2
Number of countries for which data is available																				
	35	35	35	35	35	35	33	25	32	35	32	33	35	35	28	27	32	35	35	35

Table 5: Poverty Levels for Selected Countries

Country	Percent of Population Living in Poverty (%)	Total Population (in millions)	Income Classification
Tanzania ^{C}	82.4	38.48	LIC
Rwanda ^{P}	74.43	9.23	LIC
Malawi ^{P}	73.86	13.23	LIC
Mozambique ^{C}	68.23	20.53	LIC
Zambia ^{P}	64.29	11.48	LIC
Burkina Faso ^{C}	55.04	13.93	LIC
Nepal ^{P}	54.7	27.09	LIC
Mali ^{C}	51.43	11.61	LIC
Benin ^{C}	49.99	8.44	LIC
Lesotho ^{C}	38.73	1.98	LIC
Senegal ^{C}	33.5	11.77	LIC
Ghana ^{C}	29.99	22.54	LIC
Vietnam ^{P}	22.81	83.1	LIC
Mongolia ^{C}	22.38	2.55	LIC
Honduras ^{C}	22.19	6.83	LIC
Bolivia ^{P}	19.62	9.18	LIC
Nicaragua ^{C}	15.81	5.46	LIC
Moldova ^{P}	8.14	3.88	LIC
Guyana ^{P}	7.29	0.74	LIC
Egypt ^{P}	1.99	72.85	LIC
Indonesia	21.34†	220.56	LMIC
The Philippines	22.62	84.57	LMIC
Bhutan ^{P}	26.23	0.69	LMIC
Cape Verde ^{C}	18.36	0.51	LMIC
El Salvador ^{C}	13.48	6.67	LMIC
Georgia ^{C}	13.44	4.47	LMIC
Armenia ^{C}	4.74	3.02	LMIC
Morocco ^{C}	2.96	30.14	LMIC
Albania ^{P}	0.85	3.15	LMIC
Thailand ^{P}	0.4	63	LMIC
Jordan ^{P}	0.38	5.41	LMIC
Namibia ^{C}	43.75	2.02	UMIC

Source: The World Bank's PovcalNet. Figures are based on 2005 PPP at a poverty line of $1.25/day. Data for Vanuatu is not available.

^{C} Denotes a compact country
^{P} Denotes a country that passes the FY2010 indicators test
†Figure is average of urban and rural data