



Which Countries Pass the FY2012 Selection Hard Hurdles?

A Preview into Round 9 of the Millennium Challenge Corporation's Country Selection

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Summary

The Millennium Challenge Corporation (MCC) delivers targeted U.S. foreign assistance to well-governed, lower income countries and places special emphasis on good policies, country ownership, and results as a part of its aid model. The MCC board of directors selects eligible partner countries based, in part, on policy performance on independent, third-party indicators.

This note offers a preliminary assessment of MCC candidate country scores on the FY2012 hard hurdles. As in years past, to pass the control of corruption hard hurdle, a country must score above the median (50th percentile) in its income bracket. The World Bank / Brookings Institution Worldwide Governance Indicators produce the control of corruption indicator. Passing the control of corruption indicator remains the only hard hurdle for the old system.

The MCA Monitor provides rigorous policy analysis and research on the operations and effectiveness of the Millennium Challenge Corporation. It is part of CGD's Rethinking U.S. Foreign Assistance program that tracks efforts to reform aid programs and improve aid effectiveness.

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The Millennium Challenge Corporation (MCC) delivers targeted U.S. foreign assistance to well-governed, lower income countries and places special emphasis on good policies, country ownership, and results as a part of its aid model. The MCC board of directors selects eligible partner countries based, in part, on policy performance on independent, third-party indicators.¹

This year's selection round will be unique as the MCC recently adopted a new selection system and will run both the new and old selection systems for all low income and lower middle income countries. In both systems, countries will be measured in relation to their income-level peers. In the old system, countries will be assessed on 17 indicators in three policy categories: ruling justly, investing in people, and economic freedom. To pass the indicators test, countries must pass half of the indicators in each category and the control of corruption hard hurdle. In the new system, countries are evaluated on 20 indicators in the same three policy categories. To pass the indicators test, countries must pass half of the indicators overall, one indicator in each category, the control of corruption hard hurdle, and a new "democratic rights" hard hurdle.²

This note offers a preliminary assessment of MCC candidate country scores on the FY2012 hard hurdles.³ As in years past, to pass the control of corruption hard hurdle, a country must score above the median (50th percentile) in its income bracket. The World Bank / Brookings Institution Worldwide Governance

1. The MCC board of directors also bases its selection of eligible countries on the MCC's opportunity to reduce poverty and promote economic growth in a country and on the availability of funds in a given fiscal year.

2. The MCC board will consider the results from both systems equally. In cases with conflicting results, the board will use its discretion to adjudicate the results and decide on eligibility at the December 2011 board meeting.

3. Details on the hard hurdle indicators—control of corruption, political rights, and civil liberties—are available in the MCC's *Guide to the MCC Indicators and the Selection Process for Fiscal Year 2012*, September 2011.

Indicators produce the control of corruption indicator. Passing the control of corruption indicator remains the only hard hurdle for the old system.

The new selection system retains the control of corruption hard hurdle and adds an additional hard hurdle focused on democratic rights. To pass the democratic rights hard hurdle, a country must score higher than the threshold in either the political rights indicator or the civil liberties indicator. The new system replaces median thresholds with absolute thresholds for these two indicators. Thus, a country must score above a 17 in political rights or a 25 in civil liberties to pass the hurdle. Freedom House produces both the political rights and civil liberties indicators.

A country's performance on the hard hurdles, assessed together with the MCC's FY2012 candidate country and selection methodology reports, offers initial insights into the FY2012 eligibility selection process.⁴

Tables 1 and 2 list control of corruption percentile rankings for low income countries (LICs) and lower middle income countries (LMICs). Tables 3 and 4 list LIC and LMIC scores for both the political rights and civil liberties indicators.

Key Findings

- Of the 60 low income countries, 30 pass the control of corruption hard hurdle and 34 pass the democratic rights hard hurdle. Twenty-two countries pass both hurdles.
- Of the 30 lower middle income countries, 15 pass the control of corruption hard hurdle and 23 pass the democratic rights hard hurdle. Fourteen countries pass both hurdles.
- Five of 24 compact countries fail the FY2012 control of corruption hard hurdle. Three—Armenia, Honduras, and Nicaragua—have completed compacts. Indonesia and the Philippines, both recent compact recipients, fall below the LMIC control of corruption median this year. No previous

4. See the MCC's Report on Countries That Are Candidates for Millennium Challenge Account Eligibility for Fiscal Year 2012 and Countries That Would Be Candidates but for Legal Prohibitions, August 2011; and the MCC's Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2012, September 2011.

- compact countries fail the democratic rights hard hurdle; however, one current compact country, Jordan, fails the democratic rights hard hurdle.
- Once again, income group shifts play a pivotal role in some countries' hard hurdle scores this year. Twelve countries moved into different income groups. The Philippines, which recently began implementation of a \$434 million compact, moved from LIC to LMIC status. Jordan also changed income categories, from LMIC to upper middle income country (UMIC) status, and thus moved out of MCC candidacy and scoring. Threshold country Timor-Leste moved down from LMIC to LIC, and newly threshold-eligible Tunisia graduated from LMIC to UMIC status.
 - The new democratic rights hard hurdle makes explicit a rule that the MCC board informally enforced during the annual selection process. Previously, most countries that gratuitously failed the “democracy” indicators (political rights, civil liberties, and voice & accountability) but passed the indicators test were not selected as compact-eligible by the board of directors. (Jordan is the only exception.) Rwanda, Vietnam, and The Gambia perennially fell into this category. This rule is now formalized in the new selection process, effectively rendering countries such as Rwanda, Vietnam, and The Gambia ineligible in the new system.
 - With the exception of the political rights indicator for LICs, the new system's absolute thresholds for the political rights and civil liberties indicators are uniformly lower than the medians of the old system.⁵ One LIC, Burkina Faso, passes the political rights indicator under the old system but fails under the new system with a score of 17. Three LMICs (Bhutan, Georgia, and Guatemala) pass the political rights indicator under the new system and fail under the old system. Two LICs (Guinea-Bissau and Togo) and seven LMICs (Armenia, Fiji, Guatemala, Indonesia, Kosovo, Morocco, and Sri Lanka) pass the civil liberties indicator under the new system but fail under the old system.⁶

Highlights from the Low Income Category

- Bolivia, Burkina Faso, Kenya, Kyrgyz Republic, Papua New Guinea, Sierra Leone, and Timor-Leste post significant gains in their percentile

5. For the political rights indicator, the absolute threshold of 17 is higher than the LIC median of 16.5.

6. It is important to remember that there is not a democratic rights hard hurdle under the old system. These are simply illustrative comparisons between the two selection systems.

rankings. Benin, Haiti, India, Tajikistan, and Yemen post significant losses in their percentile rankings.⁷

- When FY2012 absolute scores are compared to FY2011 absolute scores, Bolivia, Kenya, Kyrgyz Republic, Papua New Guinea, Rwanda, and Sierra Leone post notable gains in their control of corruption scores. Afghanistan, Guinea, India, Mauritania, Senegal, and Sudan post notable losses in their control of corruption scores.⁸
- After failing the control of corruption hard hurdle for the past six years, Sierra Leone passes the indicator this year.
- The Central African Republic passes the control of corruption indicator for the first time; however, it falls short on both democratic rights indicators.

Highlights from the Lower Middle Income Category

- Swaziland and Tonga post significant gains in their percentile rankings. Guyana and the Philippines post significant losses in their percentile rankings.⁹
- Angola, Georgia, Morocco, and Tonga post notable gains in their absolute control of corruption scores. Armenia, Egypt, and Fiji post notable losses in their absolute control of corruption scores.¹⁰
- After failing for seven years, Tonga passes the control of corruption indicator for the first time as a LMIC.
- Guyana transitions from the LIC to the LMIC category this year and fails the control of corruption hard hurdle for the first time.

Below we look at several individual country cases as a preview to the MCA Monitor's upcoming FY2012 selection process analysis.

7. Here "significant" is defined as a gain or loss of 10 or more percentage points relative to a country's FY2011 control of corruption percentile ranking.

8. Here "notable" is defined as a gain or loss of 0.1 or more in a country's absolute WGI control of corruption score relative to its FY2011 control of corruption absolute score.

9. See footnote 7.

10. See footnote 8.

Low Income Countries

Ghana

Ghana continues to perform well on the indicators, easily passing both the control of corruption indicator with a score in the 97th percentile and the democratic rights hard hurdle with a score of 37 on the political rights indicator and 47 on the civil liberties indicator. Ghana is less than four months away from completing its first compact worth \$547 million. In FY2011, Ghana was selected as compact-eligible and is developing its second compact.

Honduras

For the third year in a row, Honduras falls just short of the control of corruption median, scoring in the 47th percentile. This score is, however, well within the LIC median country's confidence interval, meaning that Honduras' 47th percentile rank is statistically indistinguishable from a passing score just above the median. Honduras passes both the political rights and civil liberties indicators and easily passes the democratic rights hard hurdle. Honduras has the distinction of being the first country to successfully complete a five-year compact; the compact closed in September 2010.

Nicaragua

Nicaragua continues its trend of bouncing around the control of corruption median, falling just below the median this year after passing last year. Nicaragua fails the control of corruption indicator with a rank in the 49th percentile, but, as with Honduras, this score is statistically indistinguishable from a passing score just above the median. Nicaragua easily passes the democratic rights hurdle. Nicaragua completed its five-year, \$113.5 million compact on May 26, 2011. (Nicaragua was originally awarded a \$175 million grant, but the MCC board reduced the compact's scope because of political events in 2009 that were inconsistent with MCC governance criteria.)

Rwanda

Though it passes the control of corruption indicator (scoring in the 100th percentile), Rwanda fails the democratic rights hard hurdle. It scores 8 on the political rights indicator and 19 on the civil liberties indicator. Rwanda is in the final months of implementing a \$24.7 million threshold program focused on

strengthening the judicial sector and civic participation, and promoting civil rights and liberties.

Timor-Leste

Despite moving from the LMIC to the LIC category with a lower median, Timor-Leste continues to fail the control of corruption indicator with a rank in the 42nd percentile. It easily passes the democratic rights hard hurdle. Timor-Leste is in the early stages of implementing a \$10 million threshold program focused on making anticorruption institutions and actors more effective.

Zambia

Zambia easily passes both the control of corruption hard hurdle and the democratic rights indicators. Zambia is in the final stages of developing its first compact. The proposed \$350 million compact is expected to focus on an urban water, sewage, and drainage project and ecotourism promotion.

Lower Middle Income Countries

Armenia

For the fifth year in a row, Armenia fails the control of corruption indicator, ranking in the 34th percentile. It passes the democratic rights hard hurdle by passing the civil liberties indicator with a score of 28, but it does fail the political rights indicator. Armenia completed its first compact in September 2011. The \$236 million, five-year grant focused on promoting agribusiness through infrastructure and irrigation investments.

Cape Verde

Cape Verde easily passes both the control of corruption hard hurdle (ranking in the 97th percentile) and both democratic rights indicators. Cape Verde finished its first \$110, five-year compact in October 2010, and the MCC board selected it as eligible for a second compact in FY2010. It is developing a second compact in the \$50–70 million range.

Georgia

Georgia easily passes both the control of corruption hard hurdle (ranking in the 76th percentile) and both democratic rights indicators. Georgia completed its first compact worth \$395 million in April 2011 and was made eligible for a second compact in FY2011. The MCC expects Georgia to submit a second compact in the range of \$100–150 million.

Indonesia

Indonesia fails the control of corruption indicator for the third year in a row, scoring in the 31st percentile. Indonesia easily passes the democratic rights hard hurdle, scoring 30 on the political rights indicator and 35 on the civil liberties indicator. The MCC board recently conditionally approved a \$600 million compact with Indonesia that simultaneously focuses on development and natural resource stewardship. Indonesia transitioned from LIC to LMIC status in FY2009, which means that this is the third and final year that Indonesia can be considered against both the LMIC and LIC medians.¹¹ If compared to the FY2012 LIC pool, Indonesia would score just above the control of corruption median.

Paraguay

Paraguay fails the control of corruption hard hurdle for the eighth year in a row, scoring in the 28th percentile. It easily passes both of the democratic rights indicators. Paraguay completed its second threshold program in October 2011; the \$30 million program focused on anti-corruption efforts.

The Philippines

For the third year in a row, the Philippines transitions income groups. This year, it moves from the LIC to the LMIC category and a more difficult control of corruption median. The Philippines ranks in the 24th percentile in control of corruption. If it is considered against the FY2012 LIC pool, it still fails the control

11. The MCC “has adopted an approach to income category transition whereby the Board may consider the indicator performance of countries that transitioned from the LIC to the LMIC category both relative to their LMIC peers as well as in comparison to the current fiscal year’s LIC pool for a period of three years” (MCC’s *Report on the Criteria and Methodology in FY2012*, September 2011, p. 6).

of corruption indicator. The Philippines easily passes the democratic rights indicators. The Philippines' \$434 million compact entered into force in May 2011.

Upper Middle Income Countries

Jordan

This year, Jordan transitions from the LMIC category to the UMIC category and out of MCC candidacy. When compared to the LMIC median score, Jordan's score on control of corruption is well above the median, although it fails the democratic rights hard hurdle, scoring 10 on the political rights indicator and 24 on the civil liberties indicator. Jordan signed a five-year, \$275 million compact in October 2010 which focuses on increasing the supply of water to households and businesses.

Namibia

Namibia easily passes both the control of corruption and democratic rights hard hurdles when compared to LMIC medians. It scores 30 on the political rights indicator and 45 on the civil liberties indicator. Namibia is in the third year of implementing its five year, \$304 million compact.

Tunisia

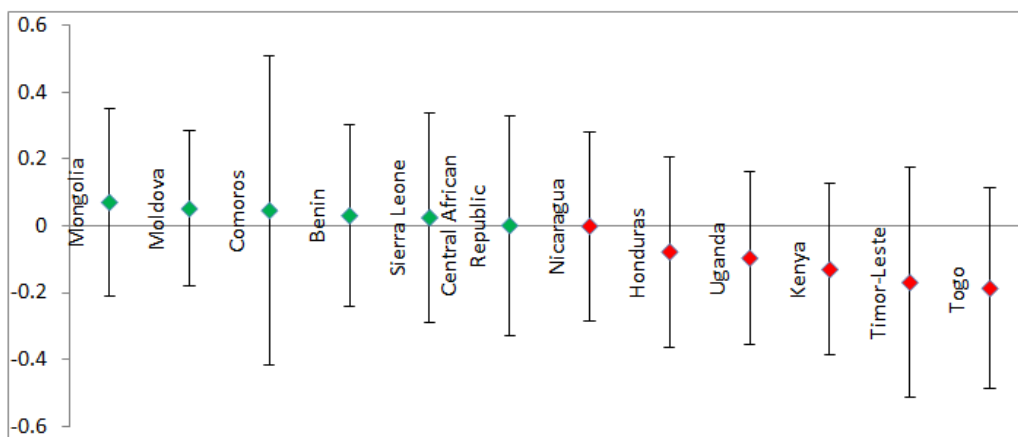
Tunisia easily passes the control of corruption indicator when compared to the LMIC median, but it fails the democratic rights hard hurdle. Tunisia scores 5 on the political rights indicator and 18 on the civil liberties indicator.¹² In September 2011, the MCC board selected Tunisia as eligible for a threshold program. Tunisia would be the first country to develop a threshold program under the newly revised threshold program scheme.

12. These indicator scores come from Freedom in the World 2011 and reflect the events of 2010, prior to Tunisia's revolution.

A Note on the Precision of the Control of Corruption Indicator

The control of corruption indicator, like other Worldwide Governance Institute (WGI) indicators (voice & accountability, government effectiveness, rule of law, and regulatory quality), is not directly measured; it is presented as a statistical estimate based on 21 data sources encompassing household, firm, and expert surveys. These estimates, like all statistical estimates, are measured with a level of uncertainty, presented by the WGI authors as standard errors. Using these standard errors, confidence intervals that encompass the range of likely true values can be calculated.

The graph below plots normalized FY2012 control of corruption scores, with 90 percent confidence intervals for low income countries around the median.¹³ Central African Republic is the lowest scoring country that passes while Nicaragua is the highest scoring country that fails. The confidence intervals are sufficiently wide to encompass not only the passing score of zero but also the



scores of all the other countries in the graph. This means that there is enough uncertainty in the estimates of control of corruption that the scores of the 12 countries below are statistically indistinguishable from each other. However the

13. The normalized score is the raw score less the median score of the income group.

The choice of 90 percent as a threshold is arbitrary, but is used by the WGI indicators' authors in their accompanying paper to compare scores between countries and over time.

Daniel Kaufmann, Aart Kraay, Massimo Mastruzzi, "The Worldwide Governance Indicators: Methodology and Analytical Issues," World Bank Policy Research Working Paper No. 5430, September 2010.

MCC's ranking system deems the six countries marked in green to have sufficiently low corruption levels to deserve passing the control of corruption indicator and the six marked in red too corrupt to warrant consideration.

A similar exercise is not possible with the political rights and civil liberties indicators because they are not statistical estimates. They must nonetheless be treated with a degree of skepticism since they are constructed from perceptions-based surveys, subject to variation and uncertainty. That makes the establishment of hard hurdle thresholds difficult to defend.

This note serves as a preview of the MCA Monitor's forthcoming FY2012 selection predictions paper. MCC's use of two selection processes will yield different groups of passers and failers, as is already evident from differing country outcomes on the FY2012 hard hurdles. However, two selection systems will only offer more information on a country's policy performance and will ultimately give the MCC the evidence it needs to choose the best group of well-governed, lower income countries with which to partner.

Table 1. Low Income Country Percentile Rankings on FY2012 Control of Corruption Indicator

Country	CoC Percentile Rank	Country	CoC Percentile Rank
Rwanda ^T	100%	Nicaragua ^{CC}	49%
Lesotho ^C	98%	Honduras ^{CC}	47%
Ghana ^{C, CD}	97%	Uganda	46%
Madagascar	95%	Kenya	44%
Djibouti	93%	Timor-Leste ^T	42%
Burkina Faso ^C	92%	Togo	41%
São Tomé and Príncipe	90%	Cameroon	39%
Mozambique ^C	88%	Bangladesh	37%
Malawi ^C	86%	Nigeria	36%
Eritrea	85%	Guinea-Bissau	34%
Solomon Islands	83%	Lao PDR	32%
Bolivia	81%	Kyrgyz Republic	31%
Tanzania ^C	80%	Burundi	29%
Liberia ^T	78%	Pakistan	27%
India	76%	Yemen	25%
The Gambia	75%	Papua New Guinea	24%
Zambia ^{CD}	73%	Cote d'Ivoire	22%
Vietnam	71%	Tajikistan	20%
Niger ^T	69%	Guinea	19%
Mali ^C	68%	Cambodia	17%
Senegal ^C	66%	Haiti	15%
Mauritania	64%	Uzbekistan	14%
Nepal	63%	Chad	12%
Ethiopia	61%	Sudan	10%
Mongolia ^C	59%	Korea, Dem. Rep.	8%
Moldova ^C	58%	Congo, Dem. Rep.	7%
Comoros	56%	Zimbabwe	5%
Benin ^{CC}	54%	Afghanistan	3%
Sierra Leone	53%	Myanmar	2%
Central African Republic	51%	Somalia	0%

^C Indicates country is receiving compact assistance.

^T Indicates country is receiving threshold assistance.

^{CD} Indicates country is developing a compact.

^{CC} Indicates country has completed a compact.

Table 2. Lower Middle Income Country Percentile Rankings on FY2012 Control of Corruption Indicator

Country	CoC Percentile Rank
Bhutan	100%
Cape Verde ^{CC, CD}	97%
Vanuatu ^{CC}	93%
Samoa	90%
Kiribati	86%
Belize	83%
Micronesia	79%
Georgia ^{CC, CD}	76%
Morocco ^C	72%
Swaziland	69%
El Salvador ^C	66%
Tuvalu	62%
Tonga	59%
Marshall Islands	55%
Sri Lanka	52%
Guatemala	48%
Egypt	45%
Guyana	41%
Kosovo	38%
Armenia ^{CC}	34%
Indonesia ^C	31%
Paraguay ^T	28%
The Philippines ^C	24%
Fiji	21%
Ukraine	17%
Syrian Arab Republic	14%
Congo, Rep.	10%
Iraq	7%
Angola	3%
Turkmenistan	0%

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Table 3. Low Income Country Performance on Democratic Rights Hard Hurdle

Note: A country must score above 17 on political rights or above 25 on civil liberties to pass the democratic rights hard hurdle.

PASS		
Country	Political Rights	Civil Liberties
Bangladesh	26	34
Benin ^{CC}	33	50
Bolivia	27	39
Burkina Faso ^C	17	36
Comoros	25	30
Ghana ^{C, CD}	37	47
Guinea-Bissau	18	27
Haiti	20	25
Honduras ^{CC}	19	33
India	34	42
Kenya	21	35
Lesotho ^C	29	41
Liberia ^T	24	34
Madagascar	7	32
Malawi ^C	26	34
Mali ^C	31	41
Moldova ^C	27	36
Mongolia ^C	35	50
Mozambique ^C	23	36
Nepal	20	28
Nicaragua ^{CC}	20	34
Niger ^T	12	30
Nigeria	19	29
Pakistan	20	24
Papua New Guinea	23	36
São Tomé and Príncipe	33	47
Senegal ^C	28	43
Sierra Leone	27	37
Solomon Islands	22	42
Tanzania ^C	28	36
Timor-Leste ^T	28	34
Togo	16	26
Uganda	15	30
Zambia ^{CD}	25	33

FAIL		
Country	Political Rights	Civil Liberties
Afghanistan	10	15
Burundi	13	22
Cambodia	9	20
Cameroon	7	16
Central African Republic	15	22
Chad	5	16
Congo, Dem. Rep.	7	22
Cote d'Ivoire	4	16
Djibouti	10	23
Eritrea	2	5
Ethiopia	8	13
The Gambia	15	23
Guinea	14	22
Korea, Dem. Rep.	0	1
Kyrgyz Republic	15	24
Lao PDR	0	12
Mauritania	11	23
Myanmar	3	5
Rwanda ^T	8	19
Somalia	0	1
Sudan	9	6
Tajikistan	8	18
Uzbekistan	0	4
Vietnam	2	18
Yemen	11	18
Zimbabwe	8	13

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Table 4. Lower Middle Income Country Performance on Democratic Rights Hard Hurdle

Note: A country must score above 17 on political rights or above 25 on civil liberties to pass the democratic rights hard hurdle.

PASS			FAIL		
Country	Political Rights	Civil Liberties	Country	Political Rights	Civil Liberties
Armenia ^{CC}	11	28	Angola	10	21
Belize	37	51	Congo, Rep.	11	10
Bhutan	20	24	Egypt	6	19
Cape Verde ^{CC,CD}	37	53	Iraq	13	13
El Salvador ^C	34	41	Swaziland	2	20
Fiji	7	30	Syrian Arab Republic	1	8
Georgia ^{CC,CD}	20	36	Turkmenistan	1	7
Guatemala	23	34			
Guyana	31	41			
Indonesia ^C	30	35			
Kiribati	36	55			
Kosovo	16	26			
Marshall Islands	36	55			
Micronesia	37	56			
Morocco ^C	14	28			
Paraguay ^T	28	36			
The Philippines ^C	25	36			
Samoa	32	49			
Sri Lanka	17	28			
Tonga	29	42			
Tuvalu	37	57			
Ukraine	27	40			
Vanuatu ^{CC}	32	48			

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