Round Three of the MCA:
Which Countries Are Most Likely to Qualify in FY 2006?

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The Board of Directors of the Millennium Challenge Corporation (MCC) will meet on November 8th to select countries to be eligible to apply for funding during FY 2006. Several weeks ago the MCC announced the methodology that it will use to select this year's countries as well as a list of candidate countries eligible for selection. The list of candidate countries for the first time includes two separate groups: low-income countries (LICs) and lower middle-income countries (LMICs). On October 12th, the MCC released its data for each candidate country for the 16 indicators that will be used to determine qualification for FY 2006. It also released some new documentation on the rules and procedures it will use in analyzing the data.[2]

This note draws on the MCC's selection process and newly released data to explore which countries are most likely to be selected for FY 2006. The MCC Board has the power to use its discretion to select (or not select) countries based both on the publicly available 16 indicators as well as supplemental quantitative and qualitative country information. One year ago, the Board selected just 14 of the 24 countries that passed the indicators test for FY 2005, and chose two other countries (Georgia and Mozambique) that did not pass the tests. (A 17th country, Cape Verde, was selected for FY 2004 but not FY 2005). Hence this analysis represents our *forecast* of the countries most likely to be selected, not an official list of the countries that *will* be selected with certainty.

Our analysis has several highlights:

- 34 countries pass the basic indicators test for FY 2006, including 26 countries from the original LIC group and 8 from the new LMIC group. Although the Board is unlikely to select all of these countries, they are likely to choose more than the 17 they selected last year.
- Some of the new counties the Board seems most likely to select from the low-income group include Burkina Faso, East Timor, and Tanzania. Other possibilities include The Gambia and Uganda (each of which pass the test for the first time); and Guyana, Malawi, and Zambia

[1] This paper is an updated version of the paper released on October 17th, included updated data on Mozambique, as discussed on page four.

[2] To view MCC's selection criteria and methodology, see http://www.mcc.gov/about_us/congressional_reports/FY06_Criteria_Methodology.pdf; To access the FY 2006 candidate countries see http://www.mcc.gov/countries/candidate/FY06_candidate_report.pdf; FY 2006 data rules can be found on http://www.mcc.gov/countries/rankings/FY06_Data_Rules.pdf as well as the country rankings: http://www.mcc.gov/countries/rankings/index.shtml.

(which are very close to passing these tests). India also passes the tests for the first time, but is unlikely to be selected.

- It makes little sense for the United States to be considering providing grants to the new lower middle-income country group. These countries are three times richer than the low-income group on average, have access to other sources of financing, and for the most part have already graduated from other aid programs. In addition, even if the MCC is eventually going to consider the LMICs, it should not select any in FY2006. The budget for this year will be substantially less than the $5 billion that was anticipated when plans were made to include the LMICs, and the MCC does not yet have the staff or accumulated experience to expand to a new set of countries.
- The Board made too many exceptions in the qualifying process last year, choosing just three-fifths of the countries that passed the tests. This element of subjectivity is necessary, but extensive exceptions could undermine the credibility of the selection process. The Board should be much clearer in explaining its exceptions and consider adding new rules that it has been applying *de facto* (like a democracy criterion) that would minimize exceptions.

The MCC faces a growing challenge emanating from the combination of (a) the larger number of countries that pass the tests, (b) a budget for FY 2006 that will be far lower than the $5 billion originally promised by President Bush, and (c) the growing pressure on the MCC to fund larger programs in each country. We analyze that challenge and the options facing the Board in a separate companion note.[3] In this note we focus our attention on the basic data for country selection for FY 2006.

I. The Candidate Countries and the Selection Methodology

FY 2006 marks the first year that the MCC can select eligible countries from two distinct groups: a low-income country group and a lower middle-income country group. The LIC group consists of 81 countries with per capita income levels below $1,575. However, 12 of these countries are ineligible to receive U.S. foreign assistance and cannot be MCA candidate countries, leaving a pool of 69 low-income candidate countries. The LMIC group consists of 32 countries with incomes between $1,575 and $3,255.[4] Three of these countries are ineligible for US foreign assistance, leaving a pool of 29 candidate countries.[5] Note that South Africa, Belize, Turkey, Equatorial Guinea and Russia will not be candidate countries because their 2004 per capita income levels are higher than the program ceiling.

In order to pass the indicators test, a country must score above the median in half of the indicators used in each of the three broad categories: investing in people, ruling justly and encouraging economic freedom. Additionally, the country must score better than the median on

[3] "The MCC Between a Rock and a Hard Place: More Countries, Less Money, and the Transformational Challenge", Center for Global Development (forthcoming).

[4] The $1,575 income ceiling is based on the World Bank's historical definition of eligibility for International Development Association (IDA) financing, and the $3,255 ceiling is based on the Bank's upper limit for classifying countries as "lower middle income." This comes from MCC's candidate criteria document for FY 2006, which can be accessed at http://www.mcc.gov/countries/candidate/FY06_candidate_report.pdf.

[5] The 12 LICs ineligible for US foreign assistance are Burma, Burundi, Cambodia, the Central African Republic, Cote d'Ivoire, Cuba, North Korea, Somalia, Sudan, Syria, Uzbekistan and Zimbabwe. The three ineligible LMICs are Bosnia and Herzegovina, Iran, and Serbia and Montenegro

corruption, one of the ruling justly indicators. To pass the inflation indicator, a country's inflation rate must be under 15%, rather than the median.

There are three modest changes to the process this year, two involving indicators and one involving measurement of the median. The MCC has (1) dropped the "Country Credit Rating" in the economic freedom category and substituted a new indicator on the "Cost of Starting a Business;" (2) changed the rules to allow some median scores to count as passing scores under certain circumstances, and (3) adopted a slightly altered scale for the trade policy indicator. These changes, which are discussed in the Appendix, have little impact on this year's results, although they could in future years.

The MCC Board takes the data on each of the quantifiable indicators as the main determinants of a country's qualification status, but also reserves the right to amend the list by taking into account supplemental quantitative or qualitative information to "determine whether a country performed satisfactorily in relation to its peers in a given category."[6] MCC selection procedures state that the indicator methodology will be the primary basis for country selection, but that the Board may also "exercise discretion in evaluating and translating the indicators into a final list of eligible countries. In this respect, the Board may also consider whether any adjustments should be made for data gaps, lags, trends, or other weaknesses in particular indicators." Furthermore, "the Board may deem a country ineligible if it performs substantially below the median on any indicator and has not taken appropriate measures to address this shortcoming."[7]

II. Low Income Countries

A. Countries that Pass the Indicators Test

The first column of Table 1 lists those countries in the low income group that pass the indicators test for FY 2006, along with countries that narrowly fail. The second column lists those countries we feel the Board is most likely to actually select, as well as several borderline countries. Table 2 provides data on each of the 16 indicators for each of the 69 countries. The median score for each indicator is listed at the top of the page.

According to the data, 26 low-income countries pass the indicators test: 10 from sub-Saharan Africa (Benin, Burkina Faso, Ghana, Lesotho, Madagascar, Mali, Mozambique, Tanzania, The

[6] This is often important in the case of countries that are missing data in decisive indicators: Cape Verde, Micronesia Fed. Sts., Marshall Islands, Sao Tome and Principe, Suriname and Tuvalu are all examples of countries that fail only in categories where they are missing data on one or more indicators in that category. In such instances the Board takes supplementary information from other sources into account to compensate for the missing data.

[7] See http://www.mcc.gov/about_us/congressional_reports/FY06_Criteria_Methodology.pdf. The MCC defines "substantially below" the median as a score in the 25th percentile or below. This definition is obviously arbitrary, and fortunately, the MCC does not use it as a strict rule for eliminating countries. Using the 25th percentile means that exactly one quarter of countries is "substantially below" the median on any indicator, which is clearly not ideal. On some indicators, if all the scores are bunched very close to the median, it could be that no scores are really "substantially below;" and it is possible that with wide variance in the data more than 25% of the countries could be "substantially below." While "substantially below" can never be defined precisely, it would probably be better to start by using the standard deviation around the median, so that for instance all countries 1.5 standard deviations below the median could count as "substantially below." Whatever formula is used, it should remain a guideline rather than a strict rule.

Gambia and Uganda), 2 from North Africa (Egypt and Morocco), 9 from Asia (Armenia, Bhutan, China, East Timor, India, Mongolia, Philippines, Sri Lanka and Vietnam), 2 from the Pacific Islands (Kiribati and Vanuatu) and 3 from Latin America (Bolivia, Honduras and Nicaragua). Not all of these countries will be selected by the MCC.

Of the 17 countries chosen last year, 14 pass the indicators test this year. The status of the other three countries chosen last year is as follows:

- ***Georgia*** This year it again does not pass the tests, although its scores have improved (see below).
- ***Cape Verde*** was chosen in the original round for FY 2004. For FY 2005 and again in FY 2006, its per capita income is above the low-income ceiling, so it is a candidate in the lower-middle income group (as we shall see later, Cape Verde falls short of passing the tests in the lower-middle income group).
- ***Senegal*** passed the indicators test last year, but falls slightly short this year, barely missing one of the "investing in people" indicators.

Mozambique did not pass the indicators tests last year, but was still selected by the Board. This year it passes the tests, having improved in several key areas. Last year Mozambique failed to pass sufficient "investing in people" indicators and the corruption indicator; this year it passes both, including all six of the "ruling justly" indicators. Based on corrected inflation data,[8] it also passes 3 "economic freedom" indicators. Discussions for a compact with Mozambique are well under way.

Twelve countries pass the indicators that were not selected last year. Of these:

- Six also passed the tests last year but were not chosen: Bhutan, Burkina Faso, China, Egypt, the Philippines, and Vietnam;
- Six pass the tests this year for the first time: East Timor, The Gambia, India, Kiribati, Tanzania, and Uganda.

In addition, 8 countries pass sufficient total indicators but failed on corruption: Bangladesh, Georgia, Kenya, Moldova, Papua New Guinea, Paraguay, Solomon Islands and the Ukraine. Finally, 4 countries missed by one indicator: Rwanda, Sao Tome and Principe, Senegal and Zambia.

B. Countries Most Likely to Be Selected

The Board is likely to select again the 14 countries it chose last year that meet the indicators test for FY 2006: ***Armenia, Benin, Bolivia, Ghana, Honduras, Lesotho, Madagascar, Mali, Mongolia, Morocco, Mozambique, Nicaragua, Sri Lanka and Vanuatu.*** Armenia may be subject to discussion due to some political deterioration during the year (its "political rights" score deteriorated from a 4 to a 5, and its "voice and accountability" score fell to just above the median). The Board also seems likely to again choose ***Georgia*** for FY 2006. Georgia did not

[8] After releasing the first version of our paper, we discovered that the IMF's data on inflation for Mozambique, as reported by the MCC, was incorrect. Due to an incorrect entry in the IMF's *International Financial Statistics* for Mozambique's Consumer Price Index for August 2004, the inflation rate was calculated to be 28%. We reported this error to both the MCC and the IMF, and the correct inflation number is 7.3%.

pass the corruption indicator last year, and it again falls short this year, although it is closer. Overall it passes three more hurdles than it did last year. It signed its MCC compact in September.

Two countries that pass the indicators test for the first time this year are now strong candidates: ***Tanzania and East Timor***. Both were selected last year for the Threshold Program. This year, each country passes sufficient hurdles with plenty of room to spare. There may be some questions raised because each scores "substantially below" the median on one or more indicator, using the MCC's criterion of ranking below the 25^{th} percentile. Tanzania, however, does not score below the 20^{th} percentile on any indicator, and some of East Timor's low scores are due to the fact that it is a new country. None of these scores are extremely low, and several countries chosen by the Board have equally low scores on one or more indicator. Both countries have made substantial progress in recent years, and both would be good choices for the Board.

Burkina Faso, a Threshold Program country, was not chosen last year despite passing the necessary indicators. Apparently this was due to its poor performance in "days to start a business" (135 days), although other countries with similar low scores on other indicators were selected. This year Burkina Faso passes all three categories, and the number of days to start a business has dropped dramatically to 45 days. It passes 5 out of 6 in "ruling justly" (and equal to the median on the sixth); 3 of 4 in "investing in people;" and 3 out of 6 in "economic freedom" (and equal to the median on a fourth). While it falls well below the median on girls' primary school enrolment rate, this indicator has a strong income bias (in other words, the poorest countries tend to score at the low end), so Burkina's low score is at least partly due to its low income. Given its strong showing on the indicators and its large improvement on the number of days to start a business, it seems likely that the Board will select Burkina Faso for FY 2006.

Senegal is the only country that passed the indicators test and was selected last year that falls short on the indicators this year. However, we believe the Board is likely to choose Senegal again for FY 2006. It easily passes all six "ruling justly" indicators, and 4 of 6 "economic freedom" indicators. The problem is that this year it only passes 1 of 4 "investing in people" indicators. It falls just short on primary education spending, with 2.07% of GDP against a median of 2.14% of GDP. However, it does not fall substantially below the median on any indicator. Senegal has been a strong economic performer for several years, and there have been extensive discussions on its MCA compact. Thus, the Board is likely to select Senegal again for FY 2006.

C. Borderline Countries

The Gambia scores well on the indicators, easily passing sufficient hurdles. It does not score substantially below the median on any indicator. But questions linger about The Gambia's commitment to democracy, dating back to a 1994 coup when current President Yahya Jammeh overthrew a democratically elected government. Following elections in 2001, its "political rights" and "civil liberties" scores (as reported by Freedom House) have steadily improved from 7 and 5 in 2000 to 4 and 4 in 2004, surpassing the median in both cases. It is not clear how the Board will decide this case.

Uganda will be a subject of close discussion for the Board. It scores well on the indicators, passing 5 of 6 in "ruling justly" (and equal to the median on the 6^{th}), 3 of 4 in "investing in people," and 4 of 6 in "economic freedom." It does not score substantially below the median on any indicator. This is an improvement over FY 2005, when Uganda was chosen for the Threshold Program after it passed 2 of 6 "ruling justly" and 2 of 4 "investing in people" indicators. Uganda has been a strong economic performer for many years, and it is generally thought to have used its aid reasonably effectively. However, many observers have raised questions about changes in the constitution that will allow the President to run for another term, and some donors have reduced their aid commitments. It is not clear which way the Board will lean in this case.

Guyana was not selected last year, despite the fact that it passed the indicators test, presumably because it was given a Tier III (lowest) ranking by the State Department in its 2004 Trafficking in Persons Report. However, its 2005 State Department ranking improved to Tier II. Unfortunately, its MCA scores deteriorated just slightly. It still passes all 6 "ruling justly" indicators and 2 of 4 "investing in people" indicators, but it only passes 2 of 4 "economic freedom" indicators. However, it scores exactly on the median on trade policy and just misses on "days to start a business" with a score of 46 against a median of 45.5. Its budget deficit is substantially larger than the median, but it is still smaller than those of Bolivia and Sri Lanka, both countries selected by the Board.

Malawi has shown strong improvement in several indicators. Remarkably, it passes all six "ruling justly" indicators and all four "investing in people" indicators, one of only three countries (with Bolivia and Mongolia) to do so. It only passes 2 of 4 "economic freedom" indicators, but it scores at the median on a third (trade policy) and just misses the hurdle on a fourth (inflation, partly due to recent increases in fuel prices). Its only low score is on the budget deficit (of similar magnitude to Bolivia and Sri Lanka), which is partly due to donor inflows that go through the budget that raise expenditures and then provide financing for the resulting larger budget deficit. (Five major donors provide budget support to Malawi through the "Common Approach to Budget Support;" it should not be penalized simply because it receives large budget support from these donors).

Zambia passes 5 of 6 "ruling justly" indicators (and just misses the sixth) and 4 of 5 "economic freedom" indicators, but just 1 of 4 "investing in people" indicators. However, it just barely misses the girls' primary education completion rate, with a score of 64% against a median of 64.4%. It does not score substantially below the median on any indicator, so its overall performance arguably is better than several of the countries selected last year by the Board.

D. Countries that Meet the Indicators Test But Are Unlikely to be Chosen

Egypt, Bhutan, China and Vietnam meet the indicators test this year, as they did last year when they were not selected. The MCC rationale for non-selection of these countries is that they scored "substantially below the average" on an indicator. But the more likely reason they were not chosen is that they are not democracies. Last year there were 8 non-democracies that passed the indicators tests,[9] but the Board only selected one (Morocco). As we have argued before, this

[9] These are Bhutan, China, Djibouti, Egypt, Mauritania, Morocco, Swaziland, and Vietnam.

is a perfectly legitimate reason to not choose a country, but if the Board deems these countries to be ineligible because they are not democracies, it should be explicit in stating so.

The Philippines meets the indicators test as well, passing 12 out of 16 indicators. It also passed the indicators test last year but failed to get selected due to concerns about its fiscal policy, even though its deficit is not substantially below the median. It also scores surprisingly low on health expenditures. But the big concern in the Philippines this year is growing political uncertainty, which is likely to lead the Board to not select it.

India passes sufficient indicators this year for the first time. From one perspective, India should be a perfect MCA candidate: it has more poor people than any other country in the world, its development policies have improved significantly, and it is the largest democracy in the world, located in a strategic region. But, unfortunately, the Board is likely to pass over India simply due to is size, as funds available to the MCC are unlikely to make a major impact in such a large country. This would be sadly ironic: the Board would not select a deserving country with hundreds of millions of people in poverty simply because the United States has not fully budgeted its own program. Some may also argue that India should not be selected because it has access to private capital flows. This argument has some merit, but if it is applied, it should also be applied to all countries in the lower-middle income group, as we discuss below.

Kiribati also passes, but it has a substantial budget deficit and thus scores poorly on the fiscal policy indicator. This figure, as with Malawi, reflects sizable donor flows that go directly through the budget, which should not be a major concern as these flows simultaneously raise the deficit (through increased expenditures) but also finance the deficit. Kiribati's immunization rate is also low. Yet, it performs better than Vanuatu or East Timor, both likely candidates.

III. Lower Middle Income Countries

A. Should the Board Select *Any* Lower-Middle Income Countries in FY 2006?

No, for two reasons. ***First, from a broad level, these countries should not be top candidates for aid financing***. The LMICs are more than *three times* richer than the LICs, on average.[10] While some still have many very poor people, poverty is not nearly as extensive as in the LICs. Moreover, the LMICs have access to other sources of financing: domestic saving is higher, tax revenue is higher, and almost all the LMICs have access to private capital inflows. All have graduated form World Bank aid programs (they borrow from IBRD, which is not aid), and most have graduated from other aid programs. One objective of the MCC is to help countries graduate from aid and move to private capital flows, so it makes little sense to provide grant financing to countries that have already done so. Aid – especially since amounts are limited – should be given to those countries that most urgently need assistance. Diverting funds away from the poorest countries and toward the lower middle-income countries is not a prudent allocation of funds.

[10] The average income in 2004 for the LMICs was $2,280 per person; for the LICs it was $617.

Second, if the MCC is going to include the LMICs at some point, FY2006 is a bad year to do so. The MCC does not have the money, the staff, or the accumulated experience to expand to the LMICs this year. The original plan for the MCC was that in its third year the budget would be $5 billion and it would consider the LMICs. Since funding will not be close to $5 billion (it appears it will be closer to one-third that level), it makes little sense to include the LMICs. Given the limited budget, it would be unfortunate if by including the LMICs, some of the deserving LICs received smaller compacts. On the margin, the MCC should not provide financing for the LMICs at the expense of smaller compacts for the LICs. Moreover, the MCC staff has been too small to deal with the original 17 countries. While the staff size is increasing, it is not yet large enough. Also, the staff is still putting in place operating procedures and accumulating experience from its first compacts. It should complete the process for the first 17 countries before it makes a major expansion to other countries.

The MCC's legislation stipulates that the Board must *consider* the LMICs for eligibility this year, but it does not stipulate that it must actually *select* any of them. ***The wisest course of action for the Board would be to not select any LMICs this year, and reconsider the situation in FY2007 when, hopefully, funding is closer to the originally envisaged level.***

B. Countries that Pass the Indicators Test

Nevertheless, assuming the Board decides to consider selecting some countries, we provide the following analysis. The first column of Table 3 lists the countries that pass the indicators in the lower middle-income group, along with the countries that just fall short of passing. Table 4 shows data on the 16 indicators for each of the 32 countries.

The data reveal that 8 countries pass the indicators test, though not all will be selected. Two are from Asia and the Pacific (***Thailand*** and ***Samoa***), two from Latin America (***Brazil*** and ***El Salvador***), two from the Middle East (***Jordan*** and ***Tunisia***), one from Sub-Saharan Africa (***Namibia***), and one from Eastern Europe (***Bulgaria***). These countries have relatively high incomes, even among the LMIC countries. Brazil's average income is over $3,000 per capita, and all of these countries except Samoa have average incomes higher than $2,100.

Each of these countries scores "substantially below" the median on at least one indicator. For example, Brazil has the worst score by far on "days to start a business" and also scores poorly on the budget balance; Bulgaria scores poorly on primary school spending, and El Salvador and Jordan have large budget deficits. Tunisia and Jordan are unlikely to be chosen, as neither is a democracy, and Jordan already is one of the largest recipients of US foreign aid from other channels. If any countries are chosen from this group, perhaps Samoa, El Salvador, Namibia, and Thailand are the strongest candidates.

In addition, the Board is likely to select Cape Verde, which was originally selected in FY 2004 when it was in the LIC group, and signed a compact earlier this year. It easily passes all 6 "ruling justly indicators and 3 of 4 "investing in people" indicators. It only passes 2 of 6 "economic freedom" indicators, but that is mainly because the World Bank has no data for Cape Verde on costs to start a business and days to start a business.

IV. The Board's use of Discretion: Too Many Unexplained Exceptions?

We have long argued for and agreed with the idea that the MCC Board should exercise some discretion in selecting countries to be eligible to apply for MCA assistance. However, if the indicators are to continue to be meaningful, discretion should be the exception and not the norm. In FY 2005 there were 24 countries that passed the indicators test, but the Board selected just 14 of them, for an acceptance rate of just 58%. The Board provided very little explanation for these exceptions.

One of the great strengths of the MCA is the transparency and objectivity of the selection process, through which countries know why they were not selected and what they need to do to pass the tests. The large number of exceptions threatens to undermine the transparency and credibility of the selection process. If countries begin to believe that exceptions dominate the rules in the selection process, they will begin to dismiss the process altogether, or turn their attention to lobbying as the best means to be selected rather than passing the indicators.

Going forward, the Board should make fewer exceptions, and do a much better job of explaining exceptions when they occur. For example, so far the Board has implicitly applied a higher standard for democracy than the indicators process stipulates. Six of the ten exceptions for FY 2005 were non-democracies, and several of the non-democracies that make the standards this year are unlikely to be selected (e.g. Bhutan, China, Egypt, Vietnam, Jordan, and Tunisia). The only non-democracy chosen so far is Morocco. If the Board is in fact applying a democracy standard, the indicators process should be modified to incorporate it. One way to do so would be to add a criterion that countries must be above the median on voice and accountability in the same way they must be on control of corruption. Another alternative would be to require that countries must pass at least one of the three democracy indicators. Either of these rules would eliminate in a transparent way many of the exceptions the Board consistently has been making.

Table 1. Country Qualification Update for Low Income Countries

Countries that pass the indicators test

1 Armenia*
2 Benin*
3 Bhutan
4 Bolivia*
5 Burkina Faso[T]
6 China
7 East Timor[T]
8 Egypt
9 Gambia, The
10 Ghana*
11 Honduras**
12 India
13 Kiribati
14 Lesotho*
15 Madagascar**
16 Mali*
17 Mongolia*
18 Morocco*
19 Mozambique*
20 Nicaragua**
21 Philippines[T]
22 Sri Lanka*
23 Tanzania[T]
24 Uganda[T]
25 Vanuatu*
26 Vietnam

Pass if median counts as passing a hurdle

27 Guyana[T]
28 Malawi[T]

Eliminated by corruption

29 Bangladesh
30 Georgia**
31 Kenya[T]
32 Moldova
33 Papua New Guinea
34 Paraguay[T]
35 Solomon Islands
36 Ukraine

Missed by one indicator

37 Rwanda
38 Sao Tome and Principe[T]
39 Senegal*
40 Zambia[T]

Countries most likely to be selected

1 Armenia*
2 Benin*
3 Bolivia*
4 Burkina Faso[T]
5 East Timor[T]
6 Georgia**
7 Ghana*
8 Honduras**
9 Lesotho*
10 Madagascar**
11 Mali*
12 Mongolia*
13 Morocco*
14 Mozambique*
15 Nicaragua**
16 Senegal*
17 Sri Lanka*
18 Tanzania[T]
19 Vanuatu*

Borderline countries

20 Gambia, The
21 Guyana[T]
22 Malawi[T]
23 Uganda[T]
24 Zambia[T]

* Indicates that country has been previously selected in FY 2004 and/or FY 2005
** Indicates that country has signed a compact with the MCC
[T] Indicates that country has been previously selected for the MCA's Threshold program

Table 2. MCA Candidate Countries and the Indicators Test, FY 2006
Low Income Countries (LICs)

		Ruling Justly						Investing in People				Economic Freedom						Number of passed hurdles		
		Political Rights (1 to 7, 1=best)	Civil Liberties (1 to 7, 1=best)	Voice and Accountability (-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, %	Costs of Starting a Business, % of GNI	Inflation, %	3-Year Budget Balance, %	Trade Policy, (1.0 to 5.0, 1.0=best)	Regulatory Quality, (-2.5 to +2.5, +2.5=best)	Days to Start a Business	Ruling Justly	Investing in People	Economic Freedom
	Median	**5**	**4**	**0.00**	**0.00**	**0.00**	**0.00**	**64.4**	**2.14**	**1.89**	**80.5**	**88**	**15.0**	**-3.04**	**4.0**	**0.00**	**45.5**			
	Passing score	**<5**	**<5**	**>0.00**	**>0.00**	**>0.00**	**>0.00**	**>64.4**	**>2.14**	**>1.89**	**>80.5**	**<88**	**<15.0**	**>-3.04**	**<4.0**	**>0.00**	**<45.5**	**3**	**2**	**3**
	Substantially below	**7**	**6**	**-0.53**	**-0.39**	**-0.30**	**-0.19**	**43.8**	**1.22**	**0.93**	**66.0**	**160**	**20.0**	**-4.78**	**5.0**	**-0.56**	**73.3**			
	Countries that pass the indicators test																			
1	Armenia	5	4	0.03	0.47	0.28	0.31	108.1	2.14	1.53	91.5	6	-2.0	-1.07	2.0	0.65	25	5	2	6
2	Benin	2	2	0.99	0.42	0.39	0.50	36.8	3.34	1.89	84.0	191	3.0	-2.38	5.0	0.11	32	6	2	4
3	Bhutan	6	5	-0.49	0.67	1.13	1.53	45.7	5.95	3.42	88.0	11	4.5	-8.03	NA	0.60	62	3	3	3
4	Bolivia	3	3	0.68	0.18	0.30	0.07	99.1	5.86	3.27	87.0	155	5.4	-7.63	2.5	0.64	50	6	4	3
5	Burkina Faso	5	4	0.31	0.29	0.23	0.50	24.4	2.27	1.96	83.0	150	9.7	-4.01	4.0	0.34	45	5	3	3
6	China	7	6	-0.85	0.92	0.38	0.34	95.0	0.83	1.95	98.5	14	1.6	-2.85	4.5	0.15	48	3	3	4
7	East Timor	3	3	0.94	-0.40	0.26	0.55	NA	2.34	4.40	56.0	125	4.1	3.42	NA	0.17	92	5	2	3
8	Egypt, Arab Rep.	6	5	-0.36	0.61	0.83	0.64	89.6	NA	1.79	97.0	105	4.3	-2.47	4.5	0.02	34	3	2	4
9	Gambia, The	4	4	0.10	0.32	0.54	0.24	60.1	1.69	2.60	91.0	NA	3.4	-4.31	3.5	0.45	NA	6	2	3
10	Ghana	2	2	1.08	0.64	0.69	0.67	59.5	2.94	3.13	81.5	79	16.6	-3.61	3.5	0.32	81	6	3	3
11	Honduras	3	3	0.67	0.13	0.25	0.13	NA	2.35	3.29	89.5	64	8.9	-3.10	3.0	0.27	62	6	3	4
12	India	2	3	0.95	0.77	0.77	0.53	76.9	1.00	1.42	86.5	62	3.3	-9.71	5.0	0.01	71	6	2	3
13	Kiribati	1	1	1.55	0.20	1.10	0.82	NA	5.71	13.24	59.0	71	2.3	-21.33	NA	0.11	21	6	2	4
14	Lesotho	2	3	0.97	0.48	0.83	0.80	77.2	4.30	3.15	65.0	56	5.5	-0.08	2.5	0.34	92	6	3	5
15	Madagascar	3	3	0.75	0.38	0.56	0.69	47.8	2.47	2.19	86.5	54	22.0	-4.39	2.5	0.70	38	6	3	4
16	Mali	2	2	1.04	0.53	0.51	0.32	32.2	3.05	3.11	80.5	191	3.8	-3.52	3.0	0.34	42	6	2	4
17	Mongolia	2	2	1.14	0.35	1.04	0.34	110.9	4.96	4.11	97.5	6	17.6	-4.83	1.5	0.78	20	6	4	4
18	Morocco	5	4	0.13	0.78	0.81	0.83	71.5	2.64	1.38	96.0	12	2.4	-4.90	5.0	0.34	11	5	3	4
19	Mozambique	3	4	0.56	0.42	0.25	0.06	45.1	2.53	3.29	62.5	95	7.3	-5.86	3.5	0.31	153	6	2	3
20	Nicaragua	3	3	0.75	0.10	0.21	0.50	79.0	1.54	3.08	81.5	139	9.5	-3.57	2.0	0.45	42	6	3	4
21	Philippines	2	3	0.70	0.58	0.24	0.29	93.6	2.54	0.24	79.0	20	7.2	-4.20	2.5	0.54	48	6	2	4
22	Sri Lanka	3	3	0.53	0.54	0.83	0.68	95.2	0.84	1.74	96.5	10	10.8	-7.99	2.5	0.81	50	6	2	4
23	Tanzania	4	3	0.34	0.44	0.36	0.27	57.5	3.40	0.85	94.5	161	4.4	-1.79	5.0	0.05	35	6	2	4
24	Uganda	5	4	0.05	0.38	0.07	0.13	58.2	4.18	2.42	89.0	118	9.1	-3.78	3.0	0.67	36	5	3	4
25	Vanuatu	2	2	1.37	0.21	0.78	0.31	97.0	2.61	2.61	48.5	66	2.8	-1.58	NA	0.27	39	6	3	5
26	Vietnam	7	6	-0.85	0.50	0.27	0.11	94.8	1.66	1.70	96.5	51	7.2	-2.95	5.0	0.03	50	3	2	4
	Pass if median counts as passing a hurdle																			
27	Guyana	2	2	1.31	0.61	0.38	0.50	NA	3.69	1.60	89.5	101	4.5	-7.55	4.0	0.46	46	6	2	2
28	Malawi	4	4	0.19	0.00	0.57	0.02	68.8	2.52	4.91	84.5	140	15.6	-7.80	4.0	0.03	35	6	4	2
	Eliminated by corruption																			
29	Bangladesh	4	4	0.00	0.09	0.00	-0.24	75.7	1.00	0.90	96.0	81	6.6	-2.98	5.0	-0.55	35	3	2	4
30	Georgia	3	4	0.35	0.01	-0.01	-0.07	82.0	0.64	5.48	82.0	14	10.3	-1.23	3.5	-0.04	21	4	3	5
31	Kenya	3	3	0.35	0.00	-0.12	-0.05	69.5	3.71	1.59	73.0	48	11.8	-3.20	4.5	0.17	54	3	2	3
32	Moldova	3	4	0.22	0.09	0.20	-0.02	83.2	1.17	2.71	97.0	17	11.2	-0.32	2.5	0.11	30	5	3	6
33	Papua New Guinea	3	3	0.66	-0.20	0.04	-0.06	46.4	3.04	2.34	45.0	30	7.4	-2.53	NA	-0.04	56	4	2	3
34	Paraguay	3	3	0.45	-0.26	-0.24	-0.15	93.4	1.98	2.93	88.5	148	4.7	-0.51	3.0	-0.01	74	3	3	3
35	Solomon Islands	3	3	0.79	-0.95	-0.30	-0.38	NA	2.75	4.05	76.0	48	7.5	-1.20	NA	-0.87	35	3	2	4
36	Ukraine	4	3	0.07	0.14	0.03	-0.05	NA	1.92	3.29	99.0	11	14.8	-1.55	2.5	0.12	34	5	2	6
	Missed by one indicator																			
37	Rwanda	6	5	-0.41	0.25	-0.04	0.48	36.3	1.90	2.58	86.5	280	11.5	-1.54	3.0	0.18	21	2	2	5
38	Sao Tome and Principe	2	2	1.24	-0.08	0.31	0.19	66.0	2.03	13.65	95.0	97	12.8	-20.10	NA	0.13	192	5	3	2
39	Senegal	2	3	0.88	0.68	0.65	0.44	42.9	2.07	2.04	72.0	109	0.3	-1.41	3.5	0.29	57	6	1	4
40	Zambia	4	4	0.33	-0.03	0.32	0.10	64.0	1.47	1.38	87.5	18	19.3	-4.69	3.5	0.11	35	5	1	4

Note: The hurdle for the inflation indicator is 15 percent, and this is listed in the Median line. The cutoff for "substantially below" is 20 percent.

Table 2 (cont'd). MCA Candidate Countries and the Indicators Test, FY 2006
Low Income Countries (LICs)

	Ruling Justly						Investing in People				Economic Freedom						Number of passed hurdles		
	Political Rights (1 to 7, 1=best)	Civil Liberties (1 to 7, 1=best)	Voice and Accountability (-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, %	Costs of Starting a Business, % of GNI	Inflation, %	3-Year Budget Balance, %	Trade Policy, (1.0 to 5.0, 1.0=best)	Regulatory Quality, (-2.5 to +2.5, +2.5=best)	Days to Start a Business	Ruling Justly	Investing in People	Economic Freedom
Median	**5**	**4**	**0.00**	**0.00**	**0.00**	**0.00**	**64.4**	**2.14**	**1.89**	**80.5**	**88**	**15.0**	**-3.04**	**4.0**	**0.00**	**45.5**			
Passing score	**<5**	**<5**	**>0.00**	**>0.00**	**>0.00**	**>0.00**	**>64.4**	**>2.14**	**>1.89**	**>80.5**	**<88**	**<15.0**	**>-3.04**	**<4.0**	**>0.00**	**<45.5**	**3**	**2**	**3**
Substantially below	**7**	**6**	**-0.53**	**-0.39**	**-0.30**	**-0.19**	**43.8**	**1.22**	**0.93**	**66.0**	**160**	**20.0**	**-4.78**	**5.0**	**-0.56**	**73.3**			
Missed by more than one																			
41 Afghanistan	5	6	-0.67	-0.43	-0.96	-0.48	NA	0.94	0.59	63.5	***53***	***13.0***	***0.82***	NA	-1.45	***7***	0	0	***4***
42 Angola	6	5	-0.33	-0.33	-0.48	-0.27	NA	0.31	***2.57***	61.5	643	21.6	-6.08	NA	-0.80	146	0	1	0
43 Azerbaijan	6	5	-0.29	0.00	***0.00***	-0.19	***104.5***	***2.48***	1.21	***97.0***	***13***	***13.5***	***-0.24***	***3.5***	***0.03***	115	0	***3***	***5***
44 Cameroon	6	6	-0.49	***0.17***	-0.15	***0.07***	***64.4***	0.92	0.67	68.5	173	***0.3***	***0.73***	5.0	-0.11	***37***	2	0	***3***
45 Chad	6	5	-0.40	-0.48	-0.30	-0.29	15.6	1.13	***2.72***	53.0	361	***-12.2***	-4.77	4.5	-0.25	75	0	1	1
46 Comoros	***4***	***4***	***0.54***	-0.64	-0.19	-0.30	50.9	1.22	0.64	74.5	NA	***4.3***	-3.95	NA	-0.46	NA	***3***	0	1
47 Congo, Dem. Rep.	6	6	-0.96	-0.60	-0.89	-0.47	29.8	0.19	0.12	64.0	503	26.4	-3.98	NA	-1.20	155	0	0	0
48 Congo, Rep.	5	***4***	-0.10	-0.36	-0.32	-0.18	56.4	***3.80***	1.74	66.0	289	***4.7***	***-0.80***	5.0	-0.56	67	1	1	2
49 Djibouti	5	5	-0.16	***0.05***	***0.24***	-0.10	31.6	***10.21***	***3.54***	62.0	NA	***3.0***	***-1.60***	5.0	-0.16	NA	2	***2***	2
50 Eritrea	7	6	-1.27	-0.24	***0.07***	***0.21***	32.7	***5.17***	***6.52***	80.0	129	21.4	-16.02	NA	-0.69	91	2	***2***	0
51 Ethiopia	5	5	-0.42	-0.15	-0.14	0.00	29.5	***2.40***	1.52	61.0	***65***	***3.0***	-7.40	5.0	-0.60	***32***	0	1	***3***
52 Guinea	6	5	-0.43	-0.12	-0.24	***0.03***	31.0	1.59	0.84	71.0	179	17.5	-4.22	4.5	-0.34	49	1	0	0
53 Guinea-Bissau	***4***	***4***	***0.07***	-0.44	-0.41	***0.14***	19.8	2.05	1.39	80.0	NA	***1.8***	-10.28	4.5	-0.26	NA	***4***	0	1
54 Haiti	7	6	-0.81	-1.09	-0.81	-0.64	NA	0.38	0.79	59.5	153	***12.6***	***-2.98***	***3.5***	-0.51	203	0	0	***3***
55 Indonesia	***3***	***4***	***0.25***	***0.45***	-0.06	-0.05	***106.7***	0.56	0.69	77.0	102	***8.3***	***-1.59***	***2.5***	***0.18***	151	***4***	1	***4***
56 Iraq	7	5	-1.02	-0.70	-1.11	-0.61	49.9	NA	0.25	***84.0***	***37***	NA	NA	NA	-1.19	77	0	1	1
57 Kyrgyz Republic	6	5	-0.37	-0.02	-0.18	-0.08	***91.4***	***4.00***	***2.05***	***99.0***	***10***	***5.1***	-4.83	***3.5***	***0.54***	***21***	0	***4***	***5***
58 Lao PDR	7	6	-0.86	-0.21	-0.42	-0.30	***69.3***	1.03	1.48	40.5	***15***	***7.0***	-4.40	4.0	-0.65	198	0	1	2
59 Liberia	5	***4***	-0.56	-1.05	-0.90	-0.01	10.2	1.90	1.43	36.5	NA	***14.2***	NA	NA	-1.23	NA	1	0	1
60 Mauritania	6	5	-0.48	***1.03***	***0.23***	***0.86***	40.6	1.45	***2.81***	67.0	144	15.7	-15.86	***3.5***	***0.64***	82	***3***	1	2
61 Nepal	5	5	-0.31	-0.09	***0.03***	***0.24***	***71.9***	1.85	0.93	76.5	***70***	***6.2***	***-2.40***	4.5	***0.00***	***21***	2	1	***4***
62 Niger	***3***	***3***	***0.57***	-0.06	-0.06	-0.03	20.1	***3.22***	1.74	68.0	465	***7.8***	***-2.76***	4.5	-0.03	***35***	***3***	1	***3***
63 Nigeria	***4***	***4***	***0.04***	-0.21	-0.59	-0.27	***73.0***	NA	0.66	39.0	***74***	16.3	***0.56***	5.0	-0.66	***43***	***3***	1	***3***
64 Pakistan	6	5	-0.62	***0.24***	***0.07***	-0.03	NA	0.54	0.29	66.0	***19***	***10.2***	***-2.46***	5.0	-0.43	***24***	2	0	***4***
65 Sierra Leone	***4***	***3***	***0.20***	-0.51	-0.25	-0.03	44.8	***2.16***	***2.62***	62.5	835	***11.1***	-7.21	5.0	-0.42	***26***	***3***	***2***	2
66 Tajikistan	6	5	-0.43	-0.24	-0.32	-0.27	***97.5***	0.79	0.40	***97.5***	NA	***7.1***	***-2.32***	***3.5***	-0.56	NA	0	***2***	***3***
67 Togo	6	5	-0.53	-0.50	-0.15	-0.08	63.4	1.73	0.92	70.5	218	***7.1***	***1.12***	***3.0***	-0.17	53	0	0	***3***
68 Turkmenistan	7	7	-1.21	-0.56	-0.57	-0.50	NA	NA	***3.04***	***97.0***	NA	***5.9***	***0.25***	5.0	-1.62	NA	0	***2***	2
69 Yemen, Rep.	5	5	-0.30	-0.03	-0.26	***0.00***	48.3	***6.84***	1.59	77.0	240	***12.5***	-3.59	4.5	-0.44	63	0	1	1
Eliminated for statutory reasons																			
70 Burma	7	7	-1.50	-0.76	-0.77	-0.64	***73.3***	0.64	0.41	80.0	NA	***3.8***	-4.31	5.0	-1.74	NA	0	1	1
71 Burundi	5	5	-0.45	-0.43	-0.64	-0.31	26.3	1.28	0.68	***80.5***	201	17.3	***-2.69***	NA	-0.75	***43***	0	0	2
72 Cambodia	6	5	-0.21	-0.06	-0.12	-0.12	***76.4***	0.17	0.96	***82.5***	276	***7.0***	-6.57	4.0	***0.35***	86	0	***2***	2
73 Central African Republic	6	5	-0.51	-0.84	-0.58	-0.52	NA	NA	0.26	60.0	212	***1.6***	***-2.70***	5.0	-0.68	***14***	0	0	***3***
74 Cote d'Ivoire	6	6	-0.78	-0.49	-0.57	-0.16	39.6	***3.17***	0.83	49.5	135	***4.6***	***-2.20***	4.0	-0.23	***45***	0	1	***3***
75 Cuba	7	7	-1.20	***0.34***	-0.26	***0.23***	***94.2***	***2.94***	***6.49***	***93.5***	NA	NA	NA	***3.5***	-1.21	NA	2	***4***	1
76 Korea, Dem. Rep.	7	7	-1.36	-0.87	-0.29	-0.62	NA	NA	***3.52***	***83.5***	NA	NA	NA	5.0	-1.45	NA	0	***2***	0
77 Somalia	6	7	-0.89	-1.51	-1.45	-0.74	NA	NA	1.16	35.0	NA	NA	NA	NA	-2.03	NA	0	0	0
78 Sudan	7	7	-1.12	-0.47	-0.74	-0.46	45.3	1.31	0.80	75.5	***68***	***8.4***	***0.43***	NA	-0.44	***38***	0	0	***4***
79 Syrian Arab Republic	7	7	-1.03	***0.09***	***0.46***	***0.10***	***84.7***	NA	***2.34***	***98.5***	***35***	***3.5***	-3.24	5.0	-0.61	47	***3***	***3***	2
80 Uzbekistan	7	6	-1.06	-0.23	-0.44	-0.36	***102.0***	***2.48***	***2.23***	***99.0***	***16***	***8.8***	***-0.64***	***2.5***	-1.50	***35***	0	***4***	***5***
81 Zimbabwe	7	6	-0.79	-0.39	-0.67	-0.16	***78.0***	***5.41***	***5.01***	***82.5***	1443	282.4	***-2.76***	4.0	-1.55	96	0	***4***	1
Number of countries for which data are available	81	81	81	81	81	81	67	73	81	81	70	77	76	64	81	70			

Note: The hurdle for the inflation indicator is 15 percent, and this is listed in the Median line. The cutoff for "substantially below" is 20 percent.

Table 3. Country Qualification Update for Lower Middle Income Countries

Countries that pass the indicators test		Countries most likely to be selected	
1	Brazil	1	Cape Verde**
2	Bulgaria	2	El Salvador
3	El Salvador	3	Namibia
4	Jordan	4	Samoa
5	Namibia	5	Thailand
6	Samoa		
7	Thailand		
8	Tunisia		
Missed by one indicator			
9	Cape Verde**		
10	Maldives		
11	Micronesia, Fed. Sts.		
12	Romania		

* Indicates that country has been previously selected in FY 2004 and/or FY 2005
** Indicates that country has signed a compact with the MCC
T Indicates that country has been previously selected for the MCA's Threshold program

Table 4. MCA Candidate Countries and the Indicators Test, FY 2006
Lower Middle Income Countries (LMICs)

	Ruling Justly						Investing in People				Economic Freedom						Number of passed hurdles		
	Political Rights (1 to 7, 1=best)	Civil Liberties (1 to 7, 1=best)	Voice and Accountability (-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, %	Costs of Starting a Business, % of GNI	Inflation, %	3-Year Budget Balance, %	Trade Policy, (1.0 to 5.0, 1.0=best)	Regulatory Quality, (-2.5 to +2.5, +2.5=best)	Days to Start a Business	Ruling Justly	Investing in People	Economic Freedom
Median	3	3	0.00	0.00	0.00	-0.04	98.1	2.31	3.22	90.5	21	15.0	-2.02	3.5	0.00	39.5			
Passing score	<3	<3	>0.00	>0.00	>0.00	>-0.04	>98.1	>2.31	>3.22	>90.5	<21	<15.0	>-2.02	<4.0	>0.00	<39.5	3	2	3
Substantially below	5	5	-0.60	-0.30	-0.39	-0.30	91.5	1.46	2.13	76.0	31	20.0	-3.51	4.5	-0.43	57.5			
Countries that pass the indicators test																			
1 Brazil	2	3	0.26	0.31	0.12	0.25	114.2	2.01	5.07	97.5	10	6.0	-4.12	3.5	0.28	152	5	3	4
2 Bulgaria	1	2	0.50	0.21	0.38	0.36	96.2	0.86	4.30	95.0	10	5.0	0.24	2	0.70	32	6	2	6
3 El Salvador	2	3	0.19	0.06	-0.01	0.00	86.2	1.87	4.14	91.5	118	4.2	-3.73	2	0.66	40	4	2	3
4 Jordan	5	4	-0.75	0.51	0.63	0.75	98.6	3.63	3.36	97.0	46	3.0	-3.70	4	0.22	36	3	4	3
5 Namibia	2	3	0.40	0.57	0.55	0.58	94.4	5.36	3.26	75.5	19	5.4	-4.63	2.5	0.55	95	5	2	4
6 Samoa	2	2	0.62	0.37	0.95	0.44	107.9	0.77	3.65	34.0	19	1.0	-1.62	NA	0.49	68	6	2	4
7 Thailand	2	3	0.17	0.67	0.28	0.14	86.8	3.79	1.29	97.0	6	5.6	-0.74	3.5	0.09	33	5	2	6
8 Tunisia	6	5	-1.18	0.85	0.57	0.68	101.6	5.05	1.80	96.0	10	1.9	-2.78	5	-0.13	14	3	3	3
Missed by one indicator																			
9 Cape Verde	1	1	0.72	0.09	0.59	0.70	105.4	3.37	3.28	72.0	NA	0.6	-2.87	5	0.36	NA	6	3	2
10 Maldives	6	5	-1.14	0.75	-0.24	0.52	NA	8.88	6.91	96.5	12	4.9	-3.65	NA	0.10	12	2	3	4
11 Micronesia, Fed. Sts.	1	1	0.94	-0.05	0.73	0.09	NA	2.88	5.73	81.5	28	NA	NA	NA	0.13	36	5	2	2
12 Romania	3	2	0.29	0.14	0.15	0.14	89.2	1.08	3.30	48.5	5	8.8	-2.02	3	0.04	11	5	1	5
Missed by more than one																			
13 Albania	3	3	-0.05	-0.07	-0.47	-0.32	99.7	1.73	2.58	96.5	31	2.9	-5.29	4	0.02	41	0	2	2
14 Algeria	6	5	-0.99	-0.18	-0.40	-0.10	94.9	3.40	3.18	83.5	25	2.8	3.34	5	-0.83	26	0	1	3
15 Belarus	7	6	-1.61	-0.65	-0.98	-0.51	98.2	0.03	0.66	99.0	23	9.9	-1.29	3.5	-1.69	79	0	2	3
16 Colombia	4	4	-0.55	0.11	-0.37	0.23	90.5	2.18	8.10	44.5	25	4.9	-3.37	4	-0.02	43	2	1	1
17 Dominican Republic	2	2	0.20	-0.18	-0.21	-0.10	97.1	0.97	2.06	71.0	31	4.3	-3.27	4	-0.18	75	3	0	1
18 Ecuador	3	3	-0.26	-0.56	-0.38	-0.35	100.3	1.48	1.31	94.5	38	3.0	1.66	4	-0.50	69	0	2	2
19 Fiji	4	3	0.08	-0.29	0.14	0.26	103.5	2.52	2.87	66.5	28	2.1	-5.44	4	-0.26	46	3	2	1
20 Guatemala	4	4	-0.47	-0.59	-0.63	-0.34	62.5	1.37	1.14	95.0	58	8.7	-1.03	3	0.03	39	0	1	5
21 Jamaica	2	3	0.46	0.41	0.01	-0.13	85.4	1.65	2.07	78.5	8	18.2	-7.45	3.5	0.25	9	4	0	4
22 Kazakhstan	6	5	-1.29	-0.34	-0.65	-0.71	109.9	2.38	2.78	90.5	9	8.2	2.50	3.5	-0.79	24	0	2	5
23 Macedonia, FYR	3	3	-0.09	0.11	-0.11	-0.12	102.0	NA	5.76	95.0	11	-0.8	-1.75	4.5	-0.09	48	1	3	3
24 Marshall Islands	1	1	1.07	-0.18	0.22	-0.45	NA	9.94	14.59	67.0	27	NA	10.46	NA	-0.46	22	4	2	2
25 Peru	2	3	-0.11	-0.30	-0.30	0.04	97.9	1.44	1.31	90.0	38	1.2	-1.69	4.5	0.27	102	2	0	3
26 Suriname	1	2	0.52	0.05	0.08	0.76	NA	6.20	2.15	85.5	NA	9.4	-2.83	4	-0.42	NA	6	1	1
27 Swaziland	7	5	-1.52	-0.32	-0.62	-0.56	77.4	2.48	2.33	76.5	NA	3.1	-3.37	2.5	-0.26	NA	0	1	2
28 Tonga	5	3	-0.43	-0.45	0.22	-0.29	108.3	2.31	2.94	99.0	12	8.0	-1.13	NA	-0.33	32	1	2	4
29 Tuvalu	1	1	0.87	-0.51	1.09	-0.39	NA	5.29	7.01	NA	NA	NA	16.76	NA	0.86	NA	4	2	2
Eliminated for statutory reasons																			
30 Bosnia and Herzegovina	4	3	-0.21	-0.26	-0.43	-0.14	NA	2.67	4.58	86.0	41	0.8	-1.42	3	-0.57	54	0	2	3
31 Iran, Islamic Rep.	6	6	-1.44	-0.37	-0.50	-0.19	104.4	1.17	2.87	97.5	6	13.7	0.22	2.5	-1.23	47	0	2	4
32 Serbia and Montenegro	3	2	0.05	0.07	-0.39	-0.08	95.7	1.80	6.17	96.5	6	9.5	-2.63	NA	-0.62	15	3	2	3
Number of countries for which data are available	32	32	32	32	32	32	26	31	32	31	28	29	31	25	32	28			

Note: The hurdle for the inflation indicator is 15 percent, and this is listed in the Median line. The cutoff for "substantially below" is 20 percent.

Appendix: Changes to the FY 2006 Selection Process

The MCC has made three modest changes to the FY 2006 selection process:

1. The MCC has dropped the "Country Credit Rating" in the economic freedom category and substituted the "Cost of Starting a Business." The latter comes from the same World Bank database that supplies another one of the indicators, "Days to Start a Business." This change has the advantage of giving countries a much clearer idea of what they must change in order to qualify because the criteria for the "Costs of Starting a Business" indicator are much more specific than for the "Country Credit Rating." The flip side is that by being so specific, a country can improve in this one area while the rest of its investment climate remains weak. While specificity has its merits, an overall move to more specific indicators runs the danger that they will not capture the broader policy environment. In practical terms, this change made very little difference this year in the list of qualifying countries.

2. There has been a small problem of "bunching" around the median for three of the indicators that are measured on a discrete scale (i.e., 1, 2, 3, without decimals) as opposed to a continuous scale (where indicators can take on decimal values). This involves the civil liberties and political rights indicators (measured on a 1-7 scale) and the trade policy indicator (measured on a 1-5 scale). For most indicators, the choice of median as hurdle means that roughly half of the countries pass the indicator. However, because of the discrete scale, with these three indicators many countries fall exactly on the median, so that more than half of countries do not pass – sometimes far more than half.

   This year, under some circumstances, the MCC will count the median as a passing score. They will examine the percentile range covered by the median score (e.g., form the 42nd to the 60th percentile). The new rule is that "when the average of the range exceeds 50%, MCC treats the median as a passing score. If the average of that range is equal to or less than 50%, MCC treats the median as a failing score." Thus if the median score covers the 42nd to the 60th percentile, the average of the range is the 51st percentile, so all median scores would count as passing. If the median covers the 38th percentile to the 56th, the average is the 47th percentile, so the median score would not constitute a passing grade. This change is a step in the right direction, although there are still some problems with bunching on these indicators.

3. The trade policy index, drawn from the Heritage Foundation, now has 9 possible values rather than five. The index is still measured on a scale of 1-5, but scores of 1.5, 2.5, 3.5, and 4.5 are now allowed. As a result there is less "bunching" at the median. The MCC continues to search for stronger alternatives to this index.