

## **Summary of Comments Received regarding the Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in FY 2004**

On March 5, 2004, the Millennium Challenge Corporation (MCC) published a “Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in FY 2004.” For a 30-day period beginning March 5, 2004 and ending April 4, 2004 the MCC accepted public comment and received written comments from organizations, governments and individuals, including members of Congress. Most of the comments discussed the MCC eligibility criteria and methodology contained in the report. The MCC also received three comments in support of specific countries’ eligibility. The submissions generally voiced support for the MCC’s creation, mission and proposed selection procedures; however, several commentators proposed alterations to MCC’s proposed criteria definitions and methodology procedures. A few submissions provided comments on elements of the MCA process beyond selection criteria and methodology.

The MCC appreciates the useful and constructive input received.

### **Background on the Development of the Selection Process**

The criteria and selection methodology published in MCC’s March 5 report were developed through a rigorous process. Representatives from other donor countries, developing countries, non-governmental organizations (NGOs), universities, think tanks, the private sector, and other interested parties were consulted to gather their ideas. Ultimately, 16 indicators were selected based on their relationship to growth and poverty reduction, the number of countries they cover, their transparency and availability, and their relative soundness and objectivity. In addition to the 16 indicators, the MCC report to Congress on its selection methodology also details some additional information that may be considered by the Board in its selection of eligible countries.

### **Specific Comments and MCC Responses**

A number of comments requested that the data for three indicators (fiscal policy, public expenditure on health and public expenditure on education) be made public before country selection decisions and that the MCC verify data provided by countries against independent sources. The MCC has posted on its website indicator data for all candidate countries. The MCC will cross-check this data against information from other sources and welcomes comments by knowledgeable parties that believe any data is inaccurate.

Some comments voiced concern that excess weight was being placed on a single corruption indicator, World Bank Institute’s Control of Corruption rating. This comment has some merit, and as noted in the March 5 report, Transparency International’s Corruption Perception Index and additional country specific information gathered by our embassies will be provided to the Board.

One comment suggested that Rule of Law and Government Effectiveness indicators be shifted from the “Ruling Justly” to the “Economic Freedom” category. The Ruling Justly category is meant to measure a country’s commitment to political and human rights and democratic governance on the one hand and to assess the overall performance of the government in executing its responsibilities on the other hand. Both of these are components of governance, whereas Economic Freedom assesses macro and microeconomic economic policies, with an emphasis on economic opportunity.

One comment suggested the addition of a separate property rights indicator. Secure property rights are a vital pre-condition to the establishment of an investment climate conducive to economic growth, and are given considerable weight in the selection process. The Civil Liberties and Rule of Law indicators both directly assess whether property rights are secure.

We received a number of comments regarding gender issues. The MCC is using a variety of sources to measure a country’s policies that are fundamental to greater rights and opportunities for women. Specific examples include Freedom House’s assessment of Political Rights and Civil Liberties, which weighs women’s role in political and economic institutions. Information will also be provided to the Board on both the level and rate of change of girls’ enrollment rates to help assess a country’s performance in Investing in People. The Board may also draw on the State Department Human Rights report, which contains information on the treatment of women and children.

A few comments provided suggestions for considering how to measure economic policies that promote the sustainable management of natural resources. MCC staff will continue to consult experts within and outside the government to find a quantifiable, transparent and broadly applicable measurement of economic policies that promote the sustainable management of natural resources. Currently, such a measure does not exist. In the absence of such an measure, in FY 04 the MCC Board’s assessment of a country’s commitment to economic policies that promote private sector growth and the sustainable management of natural resources may make use of quantitative and qualitative information such as access to sanitation, deforestation, conservation of land and marine resources, land tenure institutions, and protection of threatened and endangered species.

One comment suggested an increased focus on worker’s rights and child labor practices. The Civil Liberties indicator directly addresses workers rights. In addition, the Voice and Accountability and Rule of Law indicators include workers’ freedom of expression, association and organizational rights. One of the best proxy indicators of child labor is the primary education completion rate — when countries work to get their children educated, they are at the same saving them from the poverty trap of child labor. The MCC Board may also draw upon supplemental material to inform them on this issue, including the Department of State’s Human Rights Report.

A few comments raised concerns that the selection process would or would not favor certain regions or income groups. The MCC has not set different standards for countries in different regions and does not believe this would be appropriate. The selection process

was carefully designed so that even the poorest countries can pass each category if they adopt growth-enabling policies. While there is a correlation between per capita income and some of the indicators, this is in part due to the fact that good performance on these indicators causes economic growth. Beginning in FY 2006, when the per capita income cap is raised to include lower middle-income countries, candidate countries will compete in two separate pools sorted by income.

Some of the comments indicate that there is some misunderstanding of what was in the March 5 report. For example, in determining the median, a comment suggested that the MCC include the 12 countries that meet the per capita and IDA requirements to be an MCA candidate but are ineligible to receive U.S. foreign assistance. In fact, MCC has done this already.

A number of comments provided suggestions for the expansion or modification of indicators in future years. The MCC will evaluate its criteria and indicators each year and be open to including new indicators that provide a better measure of whether a country has, as the statute states, demonstrated a commitment to “just and democratic governance, economic freedom, and investments in the peoples of such country, particularly women and children.” The selection process should be a dynamic and constantly improving one. There are a number of think tanks, academic institutions and development agencies that dedicate substantial financial resources to gathering and analyzing data related to a number of the criteria laid out in the legislation. The fact that the MCC Board will base its selection of eligible countries on objective and transparent indicators will provide an incentive for the development and refinement of measures of good policies. For example, MCC staff is currently exploring the possibility of using a broader set of the Doing Business indicators in addition to Days to Start a Business, and the MCC will consider in future years whether an absolute score rather than “above the median” is appropriate for some indicators in addition to inflation.