



The Fiscal Year 2013 Selection Process for MCA Eligible Countries

To select countries as eligible for Millennium Challenge Account (MCA) compact funding, the Millennium Challenge Corporation (MCC) assesses the degree to which the political, social, and economic conditions in a country promote broad-based sustainable economic growth. In making its determinations, MCC's Board of Directors ("the Board") considers three factors: performance on the defined policy criteria, the opportunity to reduce poverty and generate economic growth in the country, and the funds available to MCC. When considering a country for a subsequent compact, the Board also takes into consideration the country's track record of performance on implementing its prior compact. To assess implementation of a prior compact, the Board considers the nature of the country partnership with MCC, the degree to which the country has demonstrated a commitment and capacity to achieve program results, and the degree to which the country has implemented the compact in accordance with MCC's core policies and standards. To assess policy performance, MCC uses third-party indicators to identify countries with policy environments that will allow MCA funding to be effective in reducing poverty and promoting economic growth. MCC evaluates performance in three areas—Ruling Justly, Investing in People, and Encouraging Economic Freedom.

The Selection Process has four major steps:

1. Identification of Candidate Countries
2. Publication of MCC's Selection Criteria and Methodology
3. Publication of MCC Scorecards
4. Selection of Compact-Eligible and Threshold-Eligible Countries

Identification of Candidate Countries

Candidate countries for the fiscal year are identified based on their per capita income and whether they are legally eligible to receive U.S. economic assistance. MCC submits a report to Congress with a list of candidate countries prior to the selection of countries eligible for MCA assistance. For Fiscal Year 2013 (FY13), a "candidate country" must meet one of the following income criteria and cannot be statutorily ineligible to receive U.S. economic assistance under the Foreign Assistance Act or any other provision of law.

- ★ *Low Income Category*: countries with a per capita income among the poorest 75 countries; or
- ★ *Lower Middle Income Category*: countries with a per capita income above the poorest 75 countries but below \$4,035.

Publication of MCC's Selection Criteria & Methodology

MCC submits a report to Congress describing the criteria and the methodology—including the indicators—which MCC's Board of Directors will use to select countries as eligible for MCA assistance. MCC holds a formal public comment period following publication of the report.

Methodology

When evaluating countries for eligibility, the Board considers whether countries perform above the median score of their income peer group (either the Scorecard LIC group or the Scorecard LMIC group)¹ on at least half of the indicators overall, as well as above the median on the Control of Corruption indicator and above the threshold on either Political Rights or Civil Liberties (the Democratic Rights indicators.) For the Political Rights, Civil Liberties, Inflation, and Immunization indicators², countries performance is gauged against an absolute threshold as opposed to the median score. The Board also takes into consideration whether a country passes at least one indicator in each category (Ruling Justly, Investing in People, or Economic Freedoms.)

Indicators

To evaluate policy performance, MCC uses, to the maximum extent possible, objective and quantifiable policy indicators in three broad policy categories: Ruling Justly, Investing in People, and Encouraging Economic Freedom. MCC favors policy indicators developed by independent third party institutions that rely on objective, publicly available data and have an analytically rigorous methodology. MCC seeks indicators that have broad country coverage, cross-country comparability, and broad consistency in results from year to year. MCC also seeks indicators that are linked to economic growth, poverty reduction, and government policies. The indicators that will be used in Fiscal Year 2013 are:

- ★ Ruling Justly
 - * Civil Liberties (Freedom House)
 - * Political Rights (Freedom House)
 - * Control of Corruption (World Bank/Brookings Institution WGI)
 - * Government Effectiveness (World Bank/Brookings Institution WGI)
 - * Rule of Law (World Bank/Brookings Institution WGI)
 - * Freedom of Information (Freedom House / FRINGE Special/ Open Net Initiative)
- ★ Investing in People
 - * Immunization Rates (World Health Organization and UNICEF)
 - * Public Expenditure on Health (World Health Organization)
 - * Girls' Education (UNESCO)
 - ◇ Primary Education Completion (Scorecard LICs)
 - ◇ Secondary Education Enrolment (Scorecards LMICs)
 - * Public Expenditure on Primary Education (UNESCO and national sources)
 - * Child Health (CIESIN and YCELP)
 - * Natural Resource Protection (CIESIN and YCELP)
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¹ In Dec 2011, the definition of Low Income countries and Lower Middle Income countries changed for the purposes of the Candidate Country Report. This change brought greater stability to MCC's ability to work with its partner countries. However, in order to reduce income bias and instability in the annual eligibility scorecards, MCC continues to use the World Bank's historical ceiling for IDA eligibility to divide countries into assessment categories. In order to minimize confusion between these income categories, MCC is using the terms Scorecard LICs and Scorecard LMICs to describe the way countries are divided by the IDA historical ceiling for Scorecard purposes.

² The Immunization Rate threshold applies to Scorecard LMICs only. Scorecard LICs are still assessed on a median system for this indicator.

- ★ Encouraging Economic Freedom
 - * Business Start-Up (IFC)
 - * Land Rights and Access (IFAD and IFC)
 - * Trade Policy (Heritage Foundation)
 - * Regulatory Quality (World Bank/Brookings Institution WGI)
 - * Inflation (IMF WEO)
 - * Fiscal Policy (IMF WEO)
 - * Access to Credit (IFC)
 - * Gender in the Economy (IFC)

Supplemental Information

The Board may also consider information to address gaps, time lags, measurement error, or other weaknesses in the indicators to assist in assessing whether MCC funds might reduce poverty and promote economic growth in a country. For FY 2013, supplemental sources may include: the disabilities component of the U.S. Department of State’s Human Rights Report, and the Global Integrity Report, among other sources.

If the Board is considering a country that has either completed a compact, or will complete a compact shortly, then the Board also considers that country’s performance during the compact implementation window.

Publication of MCC Scorecards

Around a month before the MCC Board meets to select compact-eligible countries, MCC will publish country performance “scorecards” on its website (www.mcc.gov) for all candidate countries and countries that would be candidates but for legal prohibitions.

Selection of Compact-Eligible Countries

From the pool of candidate countries, the MCC Board selects compact-eligible countries according to the methodology described above and submits a report to Congress no later than 5 days after the determination. These countries are then eligible to begin developing compact proposals for MCC’s consideration.

Selection of Threshold Countries

The MCC Board may also select countries to participate in the Threshold Program. The Threshold Program is for countries that demonstrate a significant commitment to meeting the eligibility criteria but fall short in only some policy areas. Threshold funding provides assistance for targeted policy reform efforts that address constraints to growth in a country.

For more information on the MCA selection process, please refer to the Selection Criteria section of the MCC website (www.mcc.gov).