

MILLENNIUM CHALLENGE CORPORATION
PRINCIPLES*into***PRACTICE**

Country Selectivity

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MILLENNIUM
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The Millennium Challenge Corporation's mandate is to reduce poverty through economic growth. MCC works with a select number of developing countries that demonstrate a commitment to good governance and sound economic and social policies where the opportunity for economic growth and poverty reduction is greatest. MCC's model reflects a set of principles that the United States—and many other donors and advocates—agree are required for development assistance to work well: country ownership, an evidence-based approach, focus on results, and transparency.

MCC's Principles into Practice series offers a frank look at what it takes to apply these principles in day-to-day operations. MCC hopes that capturing and sharing the experiences will help MCC and others learn and do better. Country Selectivity is the seventh paper in the Principles into Practice series available at <http://www.mcc.gov/pages/results/principlesintopractice>.

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In Principle: Country Selectivity

MCC was created in 2004 to work with a select number of developing countries that demonstrate a commitment to good governance and sound economic and social policies, where the opportunity for economic growth and poverty reduction is greatest. MCC's founders in the Bush Administration and Republicans and Democrats on Capitol Hill embraced the idea that MCC would work in a new way with a small, select group of countries. Put simply, MCC was built on the idea that working with a limited number of well-governed poor countries could get a bigger bang for the U.S. development buck.

MCC's *authorizing legislation* requires the agency to work primarily in low income countries but allows MCC to spend up to a quarter of its resources in lower middle income countries. The law also mandates MCC's Board of Directors to select partner countries based "to the maximum extent possible, upon objective and quantifiable indicators" of a country's demonstrated commitment to just and democratic governance, economic freedom and investments in people.

MCC is the only donor agency in the world to base country selection so heavily—and so transparently—on publicly available third-party policy performance data. When MCC founders first proposed this approach, people wondered: Could it be done? Would the data tell MCC anything useful about countries? Could the policy data guide where the U.S. Government would invest billions of dollars of development assistance? Would the data-driven approach help pick countries based on policy performance rather than political interests? Could the poorest countries meet such high standards? The answer to all of these questions has proven to be yes.

This Principles into Practice paper, released as MCC marks its 10th anniversary, looks back on a decade of MCC experience creating and using a data-driven process to select partner countries, and shares what MCC has learned in two parts:

- 1. MCC's Country Selection System Works.** Policy performance data can be used to select MCC partner countries, focus attention on policies that matter for advancing MCC's poverty reduction through economic growth mission and inspire policy reform (even before spending money).
- 2. What Makes MCC's Country Selection System Work.** MCC's country selection system works because it's public; it's built on a research-driven technical and mathematical foundation; is simple, accessible and actionable; there is a way to select—and remove—countries; and it adapts to stay current and cutting-edge.

In Practice: How MCC's Country Selection Works

Every year, MCC's Board of Directors uses an evidence-based process to select the most well-governed poor countries as eligible for assistance.¹ By law, MCC works with low income and lower middle income countries. The Board considers three elements when selecting from among these countries:

- ★ A country's policy performance;
- ★ The opportunity to reduce poverty through economic growth; and
- ★ The funding available to MCC.

Policy performance is based first and foremost on annual MCC scorecards, which include 20 indicators from publicly available, third-party policy performance data sets. The indicators serve as the best available proxies to evaluate policy performance across countries in the three areas outlined in MCC's authorizing legislation: ruling justly, investing in people and encouraging economic freedom.

MCC's selection process has four major steps:

1. Identify candidate countries;
2. Publish MCC selection criteria and methodology;
3. Issue MCC scorecards; and
4. Select countries eligible for MCC assistance.

Once selected, if MCC partner countries demonstrate a pattern of action inconsistent with MCC's selection criteria, MCC's Board can suspend or terminate programs.

Identify Candidate Countries

MCC works with poor countries, defined in MCC's authorizing legislation as low income and lower middle income countries, based on the World Bank's GNI per capita

¹ MCC's Board of Directors consists of five government officials—the U.S. Secretary of State, the Secretary of the U.S. Treasury, the U.S. Trade Representative, the U.S. Agency for International Development's Administrator and MCC's Chief Executive Officer—and four private sector members appointed by the U.S. President with the advice and consent of the U.S. Senate.

estimates (Atlas method)². Based on the parameters defined by MCC’s statute, the fiscal year 2014 income categories were defined as follows:

- ★ Low income category: countries with a per capita income among the poorest 75 countries;
- ★ Lower middle income category: countries with a per capita income above the poorest 75 countries but below \$4,085.

Ninety days before MCC’s Board selects countries as eligible for assistance, MCC publishes a Candidate Country Report, which identifies countries categorized as low income and lower middle income according to the World Bank estimates as candidates for MCC consideration (this usually happens each September). The annual Candidate Country Report also lists countries that are statutorily prohibited from receiving any U.S. assistance, including from MCC.

Box 1: **MCC FY 2014 Indicators**

Ruling Justly

Civil liberties: Freedom House

Political rights: Freedom House

Control of corruption: World Bank/Brookings Institution World Governance Indicators

Government effectiveness: World Bank/Brookings Institution World Governance Indicators

Rule of law: World Bank/Brookings Institution World Governance Indicators

Freedom of information: Freedom House, Fringe Special, Open Net Initiative

Investing in People

Immunization rates: World Health Organization and United Nations Children’s Fund (UNICEF)

Public expenditure on health: World Health Organization

Girls’ education: United Nations Educational, Scientific and Cultural Organization (UNESCO)

Primary education completion (Low Income Countries)

Secondary education enrollment (Lower Middle Income Countries)

Public expenditure on primary education: United Nations Educational, Scientific and Cultural Organization (UNESCO) and national sources

Child health: Columbia University’s Center for International Earth Science Information Network and the Yale Center for Environmental Law and Policy (CIESIN and YCELP)

Natural resource protection: Columbia University’s Center for International Earth Science Information Network and the Yale Center for Environmental Law and Policy (CIESIN and YCELP)

Encouraging Economic Freedom

Business start-up: International Finance Corporation (IFC)

Land rights and access: International Fund for Agricultural Development (IFAD) and the International Finance Corporation (IFC)

Trade policy: Heritage Foundation

Regulatory quality: World Bank/Brookings Institution World Governance Indicators

Inflation: International Monetary Fund World Economic Outlook Database (IMF WEO)

Fiscal policy: International Monetary Fund World Economic Outlook Database (IMF WEO)

Access to credit: International Finance Corporation (IFC)

Gender in the economy: International Finance Corporation (IFC)

² MCC’s authorizing legislation says countries are eligible for assistance if the per capita income of the country is equal to or less than the historical ceiling of the International Development Association for the fiscal year involved, as defined by the International Bank for Reconstruction and Development and is not otherwise ineligible for U.S. economic assistance.

Publish MCC Selection Criteria and Methodology

MCC's Board of Directors approves—and submits to Congress—an annual *Selection Criteria and Methodology Report* that outlines how MCC will evaluate policy performance (published 60 days prior to country selection decisions). It identifies the indicators and the decision rules and is subject to a formal public comment period as well as Board approval. The criteria and methodology used to select countries changes little from year to year. (See Box 1 for a list of MCC's FY 2014 indicators.)

To guide country selection decisions, the Board considers whether a country “passes” the MCC scorecards. To pass, a country must perform:

- ★ Above the median score of their income peer group (either the low or lower middle income country group) on at least half of the policy performance indicators overall;
- ★ Above the median on the control of corruption indicator;
- ★ Above the threshold on either the political rights or civil liberties indicators (the democratic rights indicators); and
- ★ Above the median or threshold for at least one indicator in each category (ruling justly, investing in people and encouraging economic freedom).

The Board also considers supplemental information to address gaps, time lags, measurement errors, or other weaknesses in the indicators.

Issue MCC Scorecards

Every November, MCC releases its annual scorebook, which lists how low income and low middle income countries performed on the 20 indicators. A sample MCC scorecard is included on page 7 and indicates a country's relative score, whether or not the score is above (green) or below (red) the performance standard, scores over time, and margins of error. The scorecards allow the Board—and the public—to see whether a country passes the MCC scorecards and how a country performs relative to its income peers well before MCC country selection decisions are made.

Select Countries Eligible for MCC Assistance

The scorecard is the first and primary piece of evidence the Board uses to select countries as eligible for MCC assistance. However, the Board is required, by law, to consider overall policy performance, the opportunity to reduce poverty through growth and available resources in a given fiscal year. If the Board is considering a country that has

Box 2: Sample MCC Scorecard

Ghana FY14

Population: 25,366,000

GNI/Cap: \$1,550 (LIC)

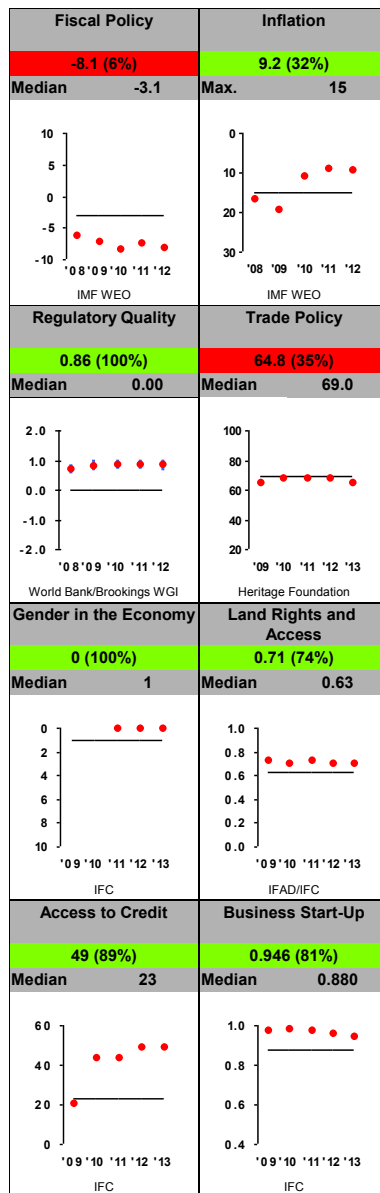
Control of Corruption

Democratic Rights

Pass Half Overall



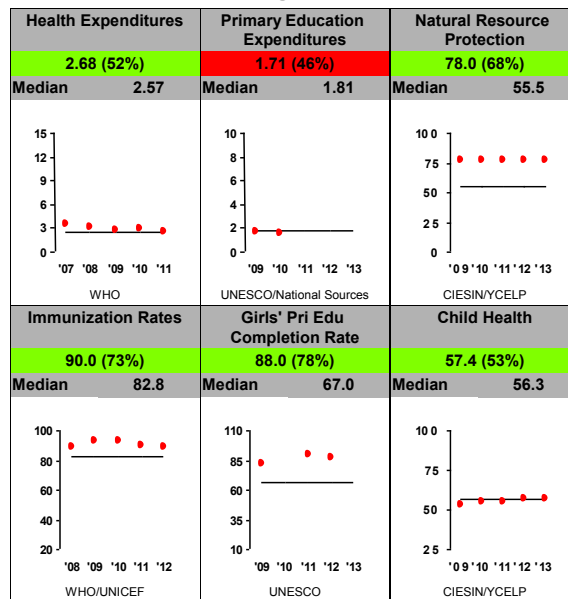
Economic Freedom



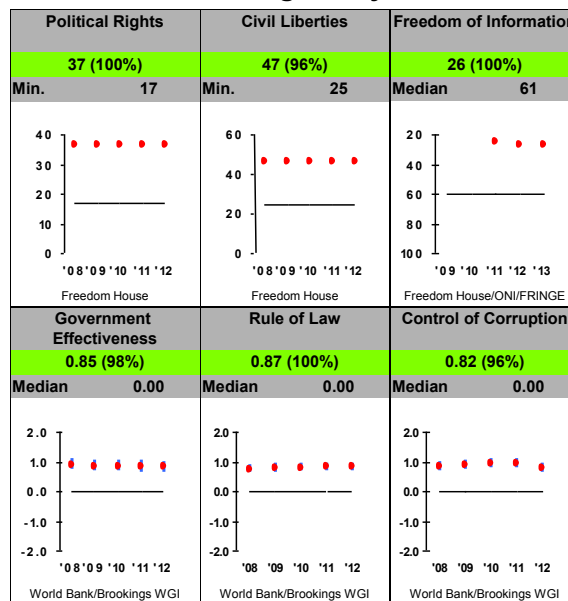
For more information regarding the Millennium Challenge Account Selection Process and these indicators, please consult MCC's website: www.mcc.gov/selection

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Investing in People



Ruling Justly



already had an MCC program, the Board also considers that country's performance while implementing that program.

Based on a country's performance and a thorough review of supplemental information, candidate countries may be selected to participate in one of two MCC programs:

- ★ **MCC's Compact Program** for countries that perform well on the selection criteria compared to their income-level peers (low income countries and lower middle income countries). Compact programs are five-year grants focused on economic growth and poverty reduction.
- ★ **MCC's Threshold Program** for countries that are close to meeting the selection criteria for compact eligibility and are firmly committed to improving their policy performance. Threshold Programs are smaller 2- to 3-year grants focused on policy reform. By law, MCC can only spend up to 5 percent of its annual appropriations for Threshold Programs.³

Suspension and Termination of MCC Assistance

Once the MCC Board of Directors selects a country as eligible for MCC assistance, MCC expects the country to maintain or improve policy performance. MCC monitors ongoing policy performance—on the indicators and supplemental information on current events and policy actions—during program implementation. In some cases, MCC works with partner countries to identify and encourage policy improvements.

If partner countries demonstrate a pattern of actions inconsistent with MCC's selection criteria, MCC's Board can *suspend or terminate* programs in part or in full.

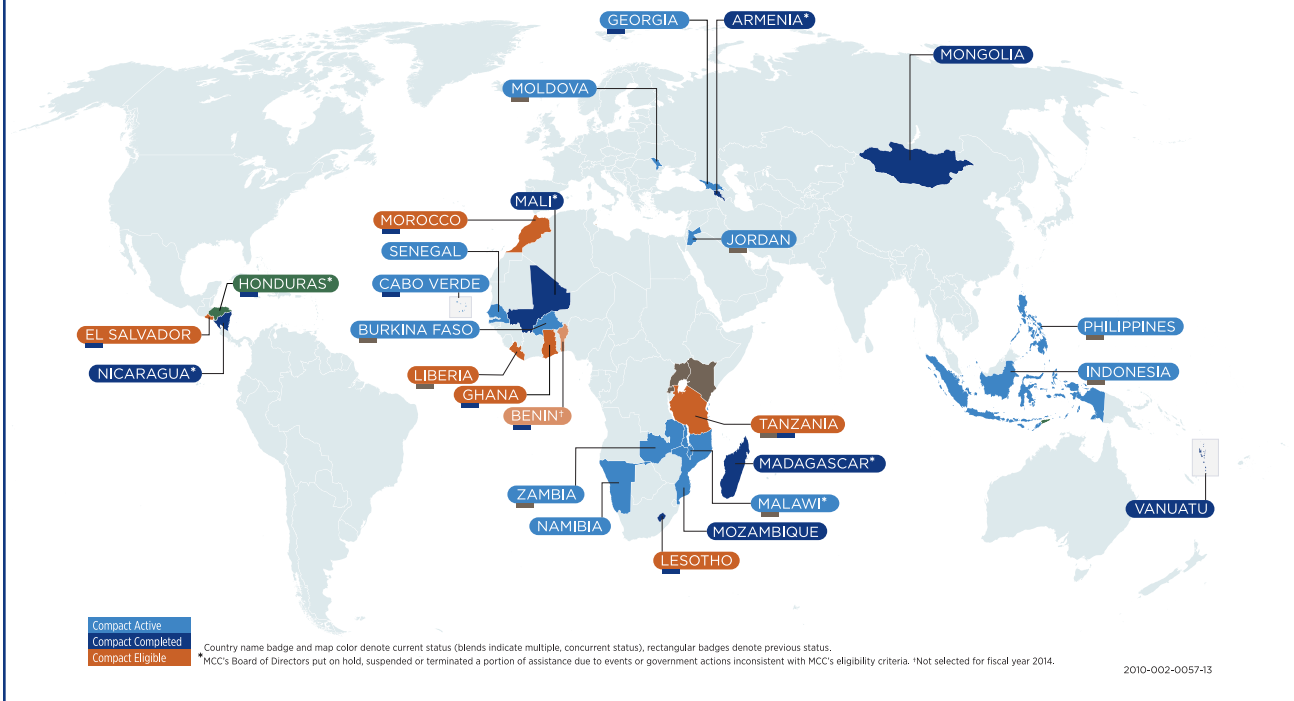
³ MCC's authorizing legislation limited Threshold Program funding to 10 percent of the amount appropriated in FY 2004. For FY 2005 through FY 2011, the specified limit was 10 percent. Since FY 2012, MCC appropriations acts have limited Threshold Program Funding to 5 percent. See the FY 2014 appropriations act for the most recent language: <http://beta.congress.gov/bill/113th-congress/house-bill/3547/text>.

Part I: MCC's Country Selection System Works

When MCC created its data-driven country selection process—including the identification of individual indicators and decisions rules—its public, comparative assessment of candidate countries' performance was groundbreaking. Many wondered: Could MCC create a system that works? Would the data tell MCC anything useful about countries? Could it guide how the U.S. Government would invest billions of dollars of development assistance? Would the data-driven approach allow the agency to pick countries based on policy performance rather than U.S. political interests? Could the poorest countries meet such high standards? The answer to all of these questions has proven to be yes.

MCC has allocated over \$9 billion of compact assistance to 25 countries in 10 years, based primarily on how these countries perform on MCC's scorecards. MCC's experience shows that if a data-driven selection system is seen as credible, a donor can use it to select countries, and other governments, officials, investors, and advocates will respect it and use it in their own ways.

Box 3: Compact and Compact-Eligible Countries

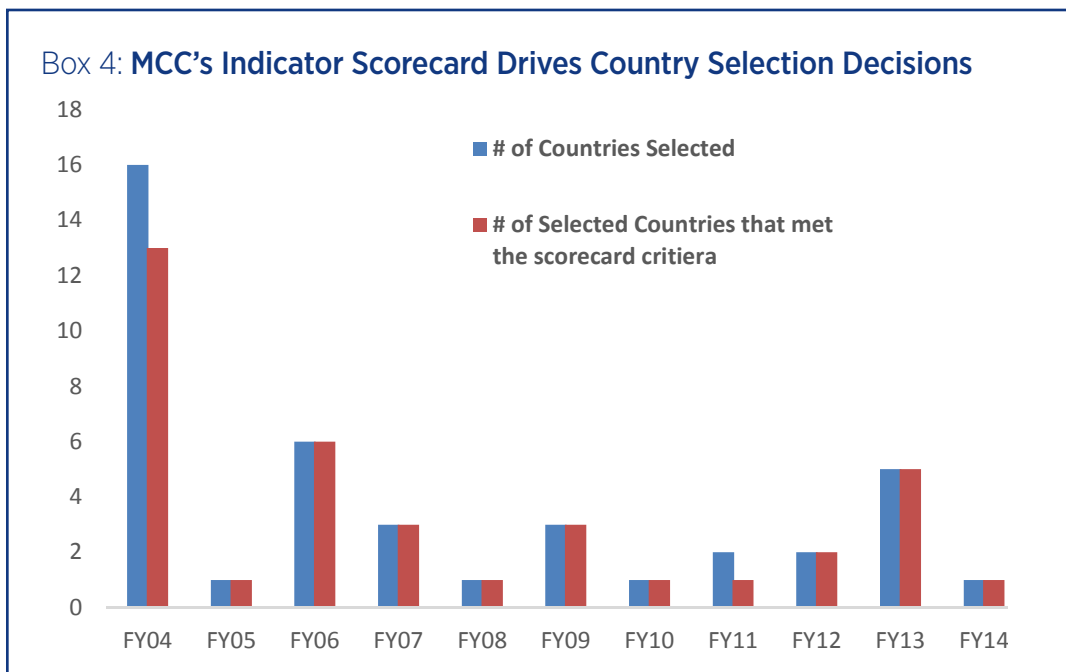


MCC’s country selection system works. Policy performance data can be used to select MCC partner countries, focus attention on policies that matter for advancing MCC’s poverty reduction through economic growth mission, and inspire policy reform, even before MCC spends any money in partner countries.

Policy Performance Data Drives MCC Country Selection Decisions

For 10 years, MCC has used its data-driven selection system to choose partner countries that perform better than their income peers in the areas of ruling justly, investing in people and encouraging economic freedom.

MCC’s Board of Directors has almost always selected countries that pass the MCC scorecard (See Box 4). Since 2004, MCC’s Board of Directors has made 41 unique selections for compact eligibility. In 37 of those cases, countries passed the scorecard at the time of selection. Three of the four exceptions (Bolivia, Georgia and Mozambique) occurred in the very first MCC Board meeting in 2004. In subsequent years, all three countries met the selection criteria, and the Board became stricter about adhering to the selection criteria. Since then, only one country that did not meet the scorecard criteria has been selected for compact assistance (Georgia in FY 2011).⁴



⁴ In FY 2011, the Board selected Georgia for a second compact, despite Georgia being one indicator away from meeting the criteria. Georgia failed the immunization rate indicator—and therefore the scorecard—due to a quarter delay in the procurement of the measles vaccine. The Board reviewed evidence that the procurement issue had been resolved and decided to select Georgia as eligible for assistance.

Each year, roughly 30 percent of countries pass the MCC scorecard. And more countries pass the scorecard than are selected in a given year. Some are excluded because policy performance is insufficient or because there are concerns about whether MCC can operate there effectively. Other times, countries are excluded based on a poor track record of working with MCC. And MCC's Board must also prioritize decisions based on how much funding is available.

Policy Performance Data Focuses Attention on MCC's Poverty Reduction through Economic Growth Mission

Among the goals of MCC's founders was to find a way to focus U.S. assistance on a singular mission in a specific set of countries: *poverty reduction through economic growth in the most well-governed poor countries*. MCC's focus allows it to use one clear selection process for all programs. But the transparent, country selection process also helps MCC stay true to its mission and mandate.

Unlike the State Department, the U.S. Agency for International Development (USAID) or the U.S. Treasury, MCC has one purpose and one set of countries with which it should work. MCC's country selection system does not need to incorporate different, or at times competing, objectives such as national security interests in frontline states like Iraq, Pakistan and Afghanistan or natural disasters like the earthquake in Haiti. MCC was designed to work specifically and solely on poverty reduction through economic growth and only in those countries with a track record of good policy performance. Over the past decade, MCC has worked in partnership with 25 countries to implement compacts. In comparison, USAID works in over 100 countries and the State Department has bilateral relationships with 180 countries.

MCC's approach to country selection—itsself codified in MCC's statute—reflects and communicates this singular purpose. It also is designed to allow the MCC Board to select only the best governed countries, with whom MCC will have a long-term economic partnership (MCC grants are five years in duration, but compact development and closure can extend these relationships to seven or more years).

The public, evidence-based nature of MCC's selection process also keeps the MCC Board focused on the agency's mission and mandate. It constrains the Board from making decisions that fall outside of this singular purpose. It allows anyone—developing country governments, citizens, the U.S. Congress, or taxpayers—to monitor the MCC selection process and see whether or not MCC is making decisions based on the best evidence of good policy performance and real opportunity to reduce poverty through economic growth.

Policy Performance Data Inspires Policy Reform (Even Before Spending Money)

MCC's public, indicator-based country selection process encourages policy reform, even before any money is spent. While MCC's investments are focused on a small, select group of partner countries, MCC's scorecards have an even bigger influence. They serve as a target around which countries seek to reform policies, strengthen institutions and improve data quality in order to boost performance on MCC's annual scorecards. Many call this the "MCC Effect."

Developing countries and other donors are often working to improve performance in many of the areas measured on MCC scorecards, such as boosting immunization rates and controlling corruption, so MCC must be careful not to claim all policy reforms are directly attributable to MCC's scorecard. However, there is a growing body of anecdotal and survey-based evidence showing the MCC Effect exists and can be linked to MCC's country selection process.

The MCC Effect in Day-to-Day Interactions

MCC sees the MCC Effect in a number of regular interactions with U.S. and developing country officials:

- ★ Governments and civil society organizations often contact MCC, U.S. embassies or indicator institutions (such as Freedom House or the International Finance Corporation) to express their interest in learning about MCC's selection process and their performance on the scorecard. MCC staff members have more than 50 meetings each year at the request of foreign governments, civil society organizations, donors, or other agencies that want to learn how countries perform on the MCC scorecards.
- ★ Diplomats from the State Department confirm that they regularly use the MCC scorecard to highlight specific strengths and weaknesses to foreign governments and to discuss how reform efforts could improve a country's chances for MCC assistance. Former Secretary of State Hillary Rodham Clinton asserted the role the MCC selection criteria play in conversations about reform: "When I say, 'You won't be eligible for an MCC compact if you don't do this,' it actually does open eyes and get attention."⁵
- ★ After initial meetings with diplomats or MCC staff, some governments establish interministerial committees to improve their scorecard performance. These committees often communicate with MCC and the indicator institutions, familiarize themselves with the technical details of each indicator and learn how they are assessed by

⁵ Former Secretary of State Hillary Rodham Clinton's remarks to the Millennium Challenge Corporation, November 27, 2012, <http://www.state.gov/secretary/20092013clinton/rm/2012/11/201097.htm>.

each indicator institution. They might prioritize indicators to focus on, determine plans for improving performance and ensure their plans are well integrated into the government's development strategy. They may also ensure the data on the scorecard is current.

The MCC Effect in Specific Countries

There are several country-specific examples—and citations—of MCC's scorecards influencing policy reform:

- ★ **Georgia:** Since the creation of MCC, Georgia catapulted from 112th place to 9th place on the International Finance Corporation's Ease of Doing Business Index. It overhauled tax and customs administration, business and property registration and its court system. Following the reforms, business registrations increased by 55 percent. In "Celebrating Reforms 2007: Doing Business Case Studies," the World Bank hails MCC as a catalyst for business-related reform in Georgia (as well as in **Burkina Faso, El Salvador and Malawi**).
- ★ **Niger:** Following Niger's selection for MCC Threshold Program eligibility in 2006, the Nigerien government formed an interministerial committee—headed by a former chief of staff to the prime minister—that worked with MCC and indicator institutions to improve policy performance and data quality. Even during periods of substantial domestic political change, including a coup and two changes in elected governments, the committee continued to operate. They established the Termit and Tin Toumma National Nature and Cultural Reserve (a protected area the size of Indiana) and reformed laws to allow men and women the same rights to pass citizenship onto their children and apply for passports.
- ★ **Honduras:** In 2008, the Government of Honduras publicly committed to an anti-corruption plan, established to address specific policy weaknesses identified by the MCC scorecard. In 2012, the Open Budget Initiative found that the Honduran government had improved budget transparency by increasing the public availability of important budget documents, including the executive's budget proposal, the mid-year budget review and the budget audit report. Also in 2012, the Public Expenditure and Financial Accountability assessment found significant improvements in public financial management in three areas: internal controls on expenditure, reporting on extra-budgetary funds and congressional scrutiny of budget and audit reports.
- ★ **Côte d'Ivoire:** In 2011, the Government of Côte d'Ivoire was working to reform its family code in order to ensure more gender equitable laws. When MCC added the gender in the economy indicator to its scorecard in November 2011, the Government of Côte d'Ivoire saw it as a helpful tool to guide their reform efforts. They asked MCC and the indicator institution—IFC's Women, Business, and the Law team—to help them better understand the inequalities that existed in their family code and how they could make reforms. In late 2012, the Government of

Côte d'Ivoire passed a new family code that gives women the same rights as men to choose where they live, apply for a passport, pursue a job or profession, and become head of household. All of these reforms were tied to suggestions from MCC and IFC. Côte d'Ivoire now passes MCC's gender in the economy indicator.

The MCC Effect in a Global Stakeholder Survey

Two researchers at the College of William and Mary used a survey-based approach to study the MCC Effect. In February 2013, Brad Parks and Zach Rice published a paper entitled “*Measuring the Policy Influence of the Millennium Challenge Corporation: A Survey Based Approach*.” In the paper and corresponding Center for Global Development *policy brief*, Parks and Rice share the results of a global survey of 640 MCC stakeholders and conclude that the MCC Effect exists, is more influential than any other measure and is stronger in some areas (control of corruption and fiscal policy) than others (health outcomes). They also find support for MCC's policy-performance selection criteria.

Parks and Rice say that while the survey itself is not definitive evidence of the influence of MCC's selection criteria, it captures the opinions and experiences of 640 development policymakers and practitioners from 100 low and lower middle income countries who are particularly knowledgeable about MCC's policy influence and impact. Survey respondents included heads of government, ministers, deputy ministers, and other senior officials from developing countries; U.S. ambassadors, USAID mission directors and MCC resident country directors; staff from institutions responsible for designing, implementing or evaluating MCC compacts or Threshold Programs; and members of civil society organizations and business associations.

The survey also found that some indicators sparked reform efforts more than others. Respondents said reform efforts were more likely to be linked to “actionable indicators” where reforms were most likely to have an immediate impact on the indicator scores (like business startup) than on indicators that reflect more long-term outcomes that move slowly, are updated infrequently and can be affected by things other than government action (like child health).

There is room for further research and analysis, but the growing body of anecdotal and survey-based evidence indicates MCC's approach to selecting countries inspires countries—and not just MCC partner countries—to improve their economic and social policies, before MCC spends a single dollar there.

Box 5: What the College of William and Mary's Survey of MCC's Policy Influence Found

- 92 percent of respondents believed MCC's eligibility criteria had an impact on reform in their country (ranging from "marginal impact to few important reform efforts" to "instrumental to many reform efforts")
- 67 governments were identified as having made policy reforms to improve performance of their country on at least one of the MCC eligibility indicators
- 80 percent of respondents agreed that MCC's eligibility criteria helped the government measure its own performance
- 78 percent agreed that it strengthened government resolve to implement reforms in specific policy areas
- 68 percent agreed it enabled civil society or journalists to more effectively advocate for reform

Part II: What Makes MCC's Country Selection System Work

MCC's country selection system works because of several, critical features: it's public; it's built on a research-driven technical and mathematical foundation; it's simple, accessible and actionable; there is a way to select—and remove—countries; and it adapts to stay current and cutting-edge. Below are details of how these elements are incorporated into MCC's selection system and why they matter.

1. It's Public

MCC's country selection system works above all because it is public. MCC's authorizing legislation requires MCC to select countries based to the maximum extent possible upon objective and quantifiable indicators of policy performance.

MCC led an open, consultative process to develop the first and later versions of the MCC scorecard and designed it to use and report on public, third-party data sources so that countries and citizens can see and understand how MCC selects partners and what countries can do to become eligible for assistance.

At all four stages of the selection process—identification of candidate countries, publication of selection criteria and methodology, issuing scorecards, and selecting countries—MCC reports and solicits public feedback. The construct of MCC's Board—with five governmental and four private sector members—also helps ensure an outside perspective is included in the highest levels of decision-making.

All of these mechanisms allow anyone—U.S. Government officials, the U.S. Congress, taxpayers, developing country governments, or citizens—to monitor MCC decisions and hold the agency accountable for making decisions based on the best evidence of good policy performance and opportunity to reduce poverty and promote economic growth.

MCC's open, evidence-based country selection process is one of the most widely recognized and influential features of MCC's transparent decision-making.

Box 6:

Publicly Available MCC Country Selection Documents

- Candidate Country Report
- Selection Criteria and Methodology Report
- Guide to the Indicators and Selection Process
- Guide to Supplemental Information Sheet
- Guide to the Compact Survey
- Eligible Country Report

2. It's Built on a Research-Driven Technical and Mathematical Foundation

A number of factors go into the design of MCC's indicators-based scorecard. MCC's approach to country selection is built on an independent, research-driven, technical and mathematical foundation. The parameters—using objective, quantifiable indicators to compare countries' policies related to ruling justly, investing in people and encouraging economic freedom—are codified in MCC's authorizing legislation. But MCC's selection of specific indicators and design of the scorecards continue to reflect the most rigorous methodology and sound links between the policies measured and the opportunity to promote economic growth and reduce poverty.

MCC incorporates the academic, technical and mathematical characteristics of a data-driven country selection process into several stages of its approach:

- ★ **Selecting indicators;**
- ★ **Managing data limitations;**
- ★ **Managing data and mathematic characteristics; and**
- ★ **Managing data behavior and changes over time.**

How MCC Selects Indicators

Since its founding, MCC has considered more than 200 indicators; a tenth have met MCC's objectives and have been incorporated into the scorecard.

These criteria make up the first cut when evaluating an indicator. If an indicator meets these criteria, MCC further explores the integrity and technical composition of the indicator to see whether the indicator measures what it claims, and can quantify the information in a way that distinguishes countries from one another. Scorecard indicators must:

- ★ **Measure what they claim to measure.** One of the most important criteria for any selection system—including MCC's—is ensuring the indicators are conceptually valid. For example, some stakeholders have urged MCC to measure a country's approach to human rights by counting the country's votes on resolutions about human rights in international and multilateral institutions. Is this a good proxy measure for a government's commitment to human rights? Given the potential for political influence, and the lack of

Box 7: How MCC Selects Indicators

To find an indicator that is a good fit for MCC's country selection process, MCC looks for indicators that:

- are developed by an independent third party;
- use an analytically rigorous methodology and objective and high-quality data;
- are publicly available;
- have broad country coverage;
- have a clear link to economic growth and poverty reduction;
- are policy-linked, i.e., measures factors that governments can influence; and
- have broad consistency in results from year to year.

accountability or enforcement, MCC does not use this measure. Instead, MCC uses data from Freedom House's Freedom in the World report to assess political rights and civil liberties. This expert assessment evaluates both the legal and operational framework for rights in each nation, uses a consistent methodology across countries and publishes detailed and transparent narratives about why countries are scored as they are. It is less likely to be influenced by politics than voting records and more likely to reflect the rights of people on the ground.

- ★ **Be quantified.** Amnesty International is known for its expertise on human rights but its reports are qualitative. Is there any way to code its reports in order to quantify its narratives? There are two indexes that do just that: the Cingranelli and Richards Human Rights Data Project (CIRI) and the Political Terror Scale (PTS). The CIRI codes Amnesty International's narratives on 15 different indicators, ranging from disappearances to torture. PTS gives countries two scores: one based on coding of Amnesty International's narratives and one based on U.S. State Department's Human Rights reports.
- ★ **Be useful.** While the CIRI and PTS indicators meet MCC's conceptual objectives, nearly all of the CIRI indicators are rated on a discrete scale from 0 to 2. Similarly, PTS rates countries on a discrete scale from 1 to 5. In both cases, the vast majority of low income and lower middle income countries fall into the middle categories. This allows for limited differentiation across countries. A lack of data distribution is just one of several technical details that can make a conceptually strong indicator a poor fit for a selection system. Insufficient country coverage, infrequent updates and inadequate quality control mechanisms can all make a dataset less desirable than it may first appear.

Given the difficulty in finding a human rights indicator that meets the needs of the MCC scorecard, MCC continues to use Freedom House's political rights and civil liberties indicators as proxy measures, while simultaneously gathering supplementary information on human rights for its Board of Directors.

MCC has also searched for indicators for access to housing, skilled birth attendants and measures of education quality. In each case, data limitations have prevented MCC from adding an indicator to its scorecard (although many of these topics do factor into the supplemental information the Board considers).

For each of the indicators MCC uses on its scorecard, MCC provides a detailed explanation of the indicator, its source and methodology as well as a robust explanation of the link between the indicators and economic growth and poverty reduction. MCC publishes this information annually in its *guide to the indicators and selection process*.

Managing Data Limitations

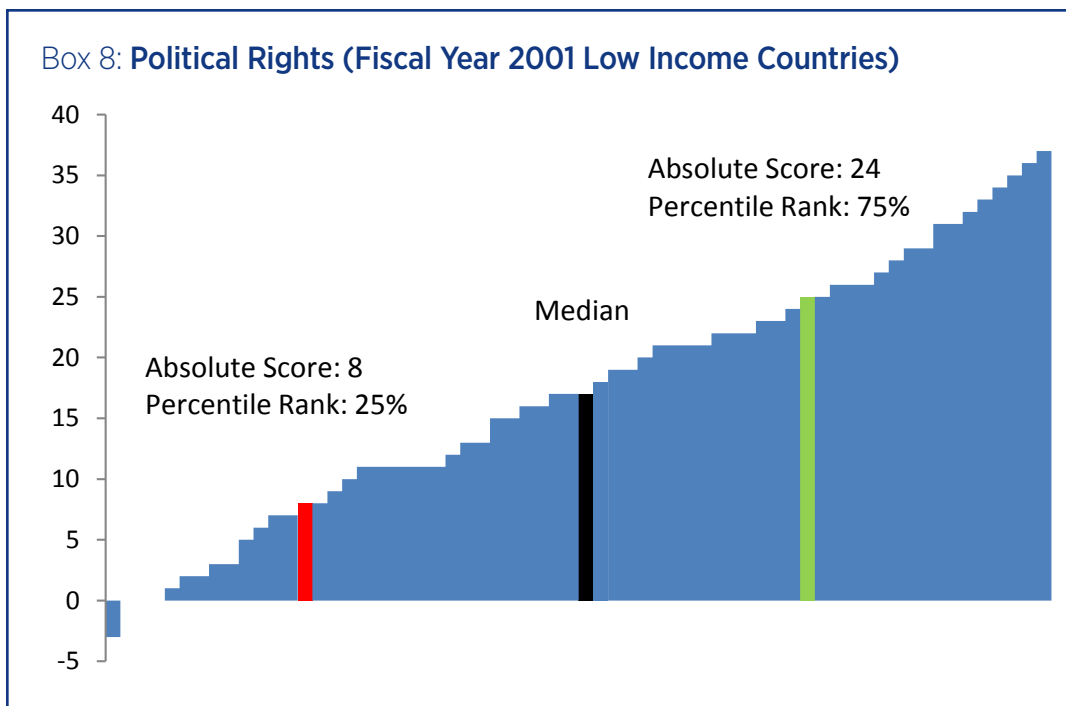
The most common—and ongoing—issues MCC encounters using a data-driven system include:

- ★ **Missing data:** There are relatively few data sources that cover every country in the world every year. Missing data provides a challenge to decision-makers. Should they assume countries with missing data would pass the indicators if the data were available? Assume they would not? Try to find identical or similar information from a secondary source? Disregard the indicator altogether for countries without data? MCC tries to adopt only indicators with nearly universal coverage but, in cases of missing data, countries are given an “n/a” and are categorized as not meeting the indicator criteria.
- ★ **Data lags:** It takes time for indicator institutions to gather, clean and publish data. Sometimes it takes up to one or two years. This means actions taken by a government today may not be reflected on the MCC scorecard for one or two years. It also means the current scorecard may be evaluating the policies and actions of a previous administration.
- ★ **Historical revisions:** Most health and education indicators require household survey data, which is time and resource intensive to gather. In the years between household surveys, indicator institutions use models to estimate yearly updates or simply pull previous years’ data forward. When new household data become available, they often reveal inaccuracies in the previous estimates, and all the historical data is revised accordingly. This poses a challenge to decision-makers. Should countries be punished when new data reveals lower performance than previously estimated, even though the countries’ policies and performance have not actually changed?
- ★ **Methodological changes:** Indicators methodologies change over time. Often they change for the better and make the data more robust and more accurate. Yet even when changes improve the quality of data available, changes still make it difficult to compare data year-on-year. This makes it difficult to assess trends over time.
- ★ **Data errors:** Data is collected, transcribed, entered into databases, and cleaned by humans. Humans make mistakes. All it takes is one missed update, one mistyped number or one misapplied formula to create errors in a dataset. Although the indicator institutions and MCC all apply data quality checks, errors do occur from time to time.

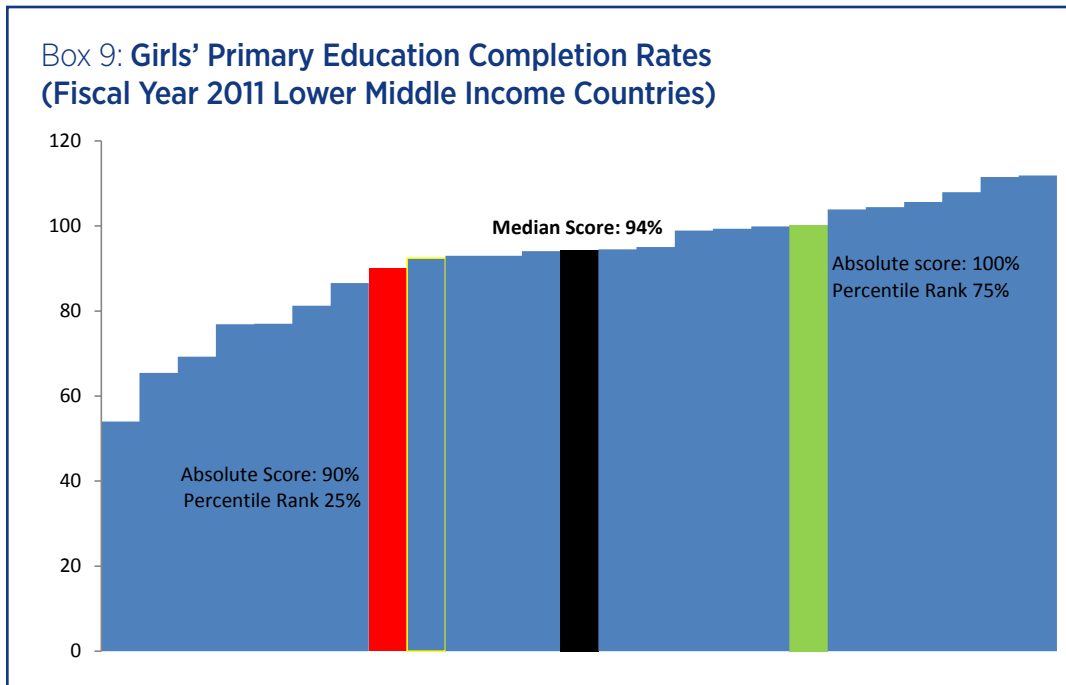
Managing Data and Mathematic Characteristics

While the limitations listed above tend to be relatively evident to data users, there are some technical and mechanical characteristics of data that also affect the selection system. These include:

- ★ **Data distribution:** In some indicators, data is distributed widely along the entire range of possible scores. Some countries perform very poorly, some perform very well and many are scattered across the range. In the political rights indicator (See Box 8) there is a large difference between a country that scores in the 25th percentile versus the 75th percentile. This distinction is more than visual; it really matters. A country that scores an 8 on political rights (25th percentile) is defined as “ruled by one-party or military dictatorships, religious hierarchies or autocrats” whereas a country that scores a 24 (75th percentile) has a government that “moderately protects almost all political rights.”



Compare this to the distribution for Girls' Primary Education Completion Rates for lower middle income countries (See Box 9). Most lower middle income countries have achieved relatively high levels of primary education completion for girls. As a result, there is limited distribution of the data: Most countries cluster together at the top of the range. In this case, the difference between performing in the bottom quartile and top quartile is very small.



In MCC's experience, most stakeholders rely on percentile rank (rather than scores) because they are easier to understand. The risk here is assuming that a country that performs in the 75th percentile vastly outperforms a country in the 25th percentile. Or that there has been a serious policy decline if a country drops from the 65th percentile to the 45th percentile. If there is a wide distribution of data (such as with political rights scores), these assumptions may be correct. However, if countries are clustered together as they are in Girls' Primary Education Completion rates, the differences may in fact be tiny and the changes may be little more than statistical noise.

One way to confront this challenge is to try to ensure datasets have a wide distribution and plenty of room for differentiation across countries. As one example, in 2011, MCC replaced the girls primary education completion rates indicator with the girls secondary education enrollment indicator for lower middle income countries, in part to address the limited distribution described above. In other cases where distribution remains more limited, MCC encourages stakeholders to examine both the percent rank and the underlying policy data.

- ★ **Margin of error:** Some data sources publish margins of error with their estimates. In some cases, these margins of error are statistical, such as in the Worldwide Governance Indicators. In other cases, confidence in the data may be indicated in a qualitative manner.
- ★ **Indicators and rankings:** When looking at MCC's scorecard, some data looks exactly as it does in its primary source. If the International Monetary Fund World Economic Outlook (IMF WEO) says the inflation rate in El Salvador was 3.6 percent in 2011, that is the exact number found on MCC's scorecard under the Inflation

indicator. Other data, however, is normalized or combined with other data before appearing on MCC's scorecard. MCC publishes transparent data notes each year to ensure anyone can replicate the normalization or aggregation process, but the data transformations are not necessarily intuitive.

Take, for example, the business start-up indicator. The business start-up indicator measures the days and costs to open a business. But what does the number .907 or .797 say about days and cost? How do these numbers relate to the IFC's ranking of starting a business? Why does Sierra Leone (ranked 76 on the IFC starting a business indicator) fail business start-up on the MCC scorecard when Cabo Verde (ranked 129 on the IFC starting a business indicator) passes?

Box 10: IFC's Method to Aggregate Starting a Business Rankings

In addition to days and cost to start a business, IFC also incorporates data on the number of procedures required to start a business and the paid-in-minimum capital requirements to start a business. When combining data across four sub-indicators (all on different scales), IFC does not use a maximum-minimum method to convert and combine the raw data. Instead it takes the percent rank of the country on each of these sub-indicators and then averages them into a single percent rank score. This single score is then used to rank all countries.

	IFC Rank	Average Percent Rank	Procedures (number)	% Rank	Time	% Rank	Cost (% of income per capita)	% Rank	Paid-in Min. Capital (% of income per capita)	% Rank
Cape Verde	129	0.43	8	0.41	11	0.67	14.9	0.44	34.2	0.19
Sierra Leone	76	0.62	6	0.70	12	0.65	80.4	0.13	0	1.00

The answer has to do with how MCC and IFC combine data on the time and cost to start a business. Because cost and time are measured on different scales (i.e., dollars versus days), a simple average of the two measures doesn't work. Instead, MCC converts these to comparable data points and then combines them using the maximum-minimum method. In Cabo Verde's case, this yields a business start-up index value of 0.967. When the same methodology is applied to Sierra Leone's days and costs, it gets a score of 0.852. Cabo Verde scores considerably better than Sierra Leone.

Meanwhile, the IFC uses both a more expansive dataset and a different methodology to combine the data. In addition to incorporating more data into its starting a business ranking, they also use a different methodology for combining the data into a single ranking (See Box 10).

MCC and IFC use two different methodologies to combine the same basic data. The resulting scores (in MCC's case) and ranks (in IFC's case) vary dramatically and lead policymakers and investors to pretty different conclusions. Should an entrepreneur trust MCC's business start-up indicator and open up shop in Cabo Verde? Or should she trust IFC's ranking and start her business in Sierra Leone? Ultimately, she is probably better off looking at the underlying data to make her decision.

MCC took this lesson to heart when examining potential indicators—and potential methods of combining data—during the 2011 review of the selection system. Every indicator considered for scorecard inclusion was subject to mathematical tests on data distribution and data volatility. In addition, MCC tested various methods to combine datasets for the new indicators, trying to keep the data as transparent and accessible as possible.

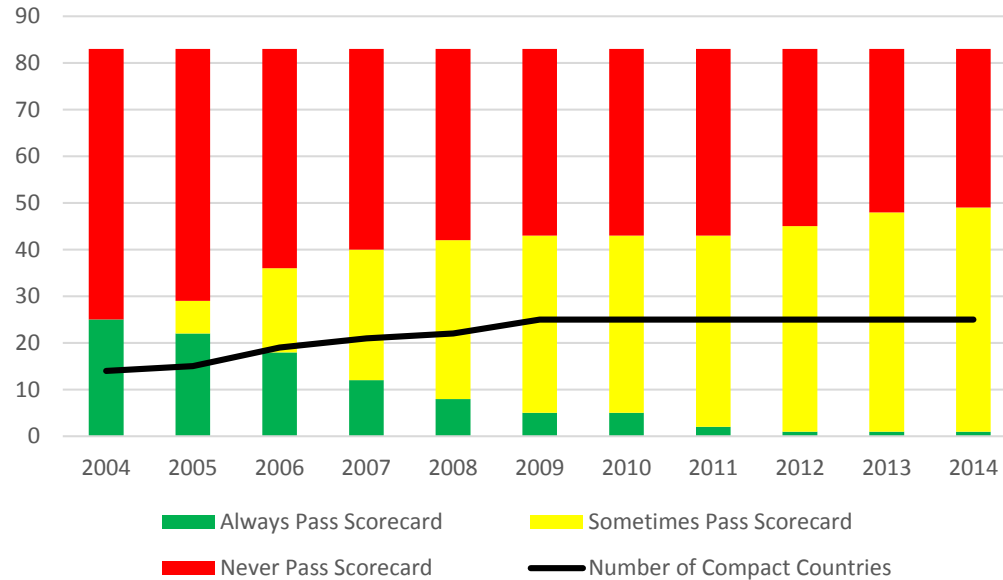
Managing Data Behavior and Changes Over Time

Many of the data challenges above exist on a yearly basis; others emerge after a system is used for several years. In the first year of MCC's scorecards, countries either passed the scorecard or did not. But in the following years, several countries that had previously passed failed and several countries that previously failed passed. What should MCC make of these changes? Did passing for the first time mean real reform had occurred? Did failing indicate policy declines? Were changes reflective of “noise” in the data or other changes in what and how MCC measured policy performance in the scorecards?

When MCC established its selection system in FY 2004, approximately 30 percent of low income or lower middle income countries passed the scorecard criteria. In the following years, a handful of countries moved above or below MCC's eligibility criteria. By FY 2007, the number of countries that consistently passed the scorecard had decreased from 25 to 12; by FY 2009, the number was down to 5; and by FY 2012, Lesotho became the only country in the world to pass MCC's scorecard every year. Similarly, new countries passed the scorecard for the first time every year. The pool of countries that *never* passed remains much larger and more consistent than the pool that *always* passed. More than 40 percent of low income or lower middle income countries have never passed MCC's scorecard.⁶

⁶ Data on volatility is pulled from the 83 countries that are low income or lower middle income in FY 2014.

Box 9: **Volatility Increases Over Time**



While there were a few cases of countries switching from passing or failing (or vice versa) based on sustained policy declines or improvements, most of the movement in the system stemmed from country graduation among income categories, the addition of new indicators and changes in indicator methodology and accuracy over time.

- ★ **Graduation from LIC to LMIC:** Every year several low income countries graduated into the lower middle income country cohort, and several lower middle income countries graduated out of the candidate pool. This means every year countries are compared to a slightly different cohort. LMICs have significantly more resources than LICs and often perform significantly better on the indicators, leading to higher medians on the LMIC scorecard. Even strong performers in the LIC cohort struggled to compete after they graduated to the LMIC cohort.
- ★ **New indicators:** In FY 2007, MCC added a natural resource management indicator to the investing in people category and required that countries pass three out of five indicators (instead of two out of four) in that category in order to pass the scorecard. This requirement proved difficult for countries to sustain over time for a number of reasons:
 - * Passing three out of five (60 percent) indicators is statistically more difficult than passing two out of four (50 percent.)
 - * Similarly, some of the indicators in this category had a relatively flat distribution of data (See Box 11). This means many countries are clustered around the median

and small changes in performance could result in countries moving from passing to failing or vice-versa.

- * Other indicators, such as health expenditures and primary education expenditures, were subject to frequent policy changes, as governments set new budgets every year.
- * The indicators in the investing in people category are subject to frequent data revisions (See Box 12).

Box 12: **Volatility and Immunization Rates**

The World Health Organization (WHO) releases annual immunization coverage estimates based on three sources of information: administrative data, government estimates and Demographic and Health (DHS) surveys. DHS surveys are recognized as the most accurate source but they only occur every several years. In the interim, WHO extrapolates based on previous DHS data, administrative data and government estimates. Every time new DHS data comes out, however, WHO historically revises its estimates. In FY 2010, these revisions had a significant impact on Burkina Faso. After passing MCC's scorecard for several years, new DHS data revealed Burkina Faso's immunization rates were 77 percent instead of the previously estimated 96.5 percent. The change meant that Burkina Faso no longer passed the indicator, which meant they no longer passed the investing in people category, which, in turn, meant they no longer passed the scorecard. MCC recognized that the failing scorecard was not the result of policy decline, however, and continued its partnership with Burkina Faso.

- ★ **Data revisions and methodological changes:** Because MCC relies on third-party data sources, MCC's scorecard is subject to the effects of external data revisions and methodological changes. This is most pronounced in MCC's indicators that are hard hurdles that countries must pass to be eligible. This is true for the control of corruption indicator, where changing what the country measures and how can change a country's score on that indicator and, in turn, whether it passes the entire selection criteria. Many of the factors affecting the accuracy of data over time are outlined in the previous sections on data limitations and characteristics, but can make the data move and appear unpredictable.

The World Governance Indicators' (WGI) control of corruption indicator is an index of up to 21 different sub-sources of data on corruption. Every year new sub-sources may be added or subtracted from a country's aggregate score. Every year, any one of the 21 sub-sources may change their methodologies or historically revise their data. In addition, there are actual performance changes in each of the 21 sub-sources, and it's common for several sub-sources to document improvements while others document declines in the same year. All of this increases the volatility and unpredictability on one of MCC's hard hurdles. Countries near the median are especially vulnerable to the changes and bumping just above or below the median for reasons unrelated to policy performance.

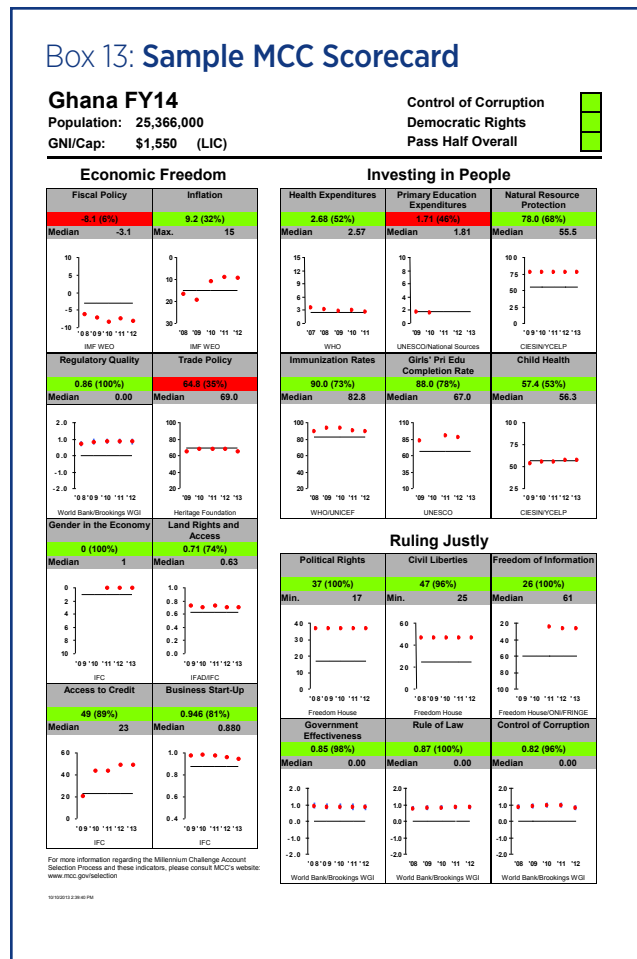
MCC is required by law to select countries based, to the maximum extent possible, on the policy performance indicators. But the MCC Board uses sound judgment to analyze what the scorecards do, and sometime don't, say. They consider supplemental information on a potential partner country's economic context, investment climate and capacity.⁷ And they must look at the overall policy performance in a country, the opportunity to reduce poverty through economic growth and prioritize annual spending.

3. It's Simple, Accessible and Actionable

While MCC's scorecards put a premium on technical rigor and methodological credibility, MCC has always intended to make the scorecards as simple, accessible and actionable as possible. (See Appendix 1: Designing a Selection System for a detailed explanation of the questions and decisions that go into creating a selection system.)

To **keep it simple**, MCC scorecards focus on just 20 indicators. All of the indicators are from third parties and publicly available. The indicators are selected to be correlated to economic growth, conceptually valid, comparable across countries, and regularly updated. MCC's annual scorecards explain not only the data sources and decision rules, but also put each country scorecard on a single page.

To **make it accessible**, MCC scorecards include 20 boxes corresponding to the 20 policy performance indicators. Each box lists the indicator name and source as well as a country's overall score—with red or green color coding to indicate whether it scores above or below the required threshold for MCC eligibility—as well as percentile ranking, median, five years of historical data, and a margin of error (when available). The scorecards now also include an “executive summary” illustrated at the top right of the page to summarize a country's performance against the overall criteria (i.e., does it pass more than half of the indicators overall, including control of corruption and either the political rights or civil liberties indicator).



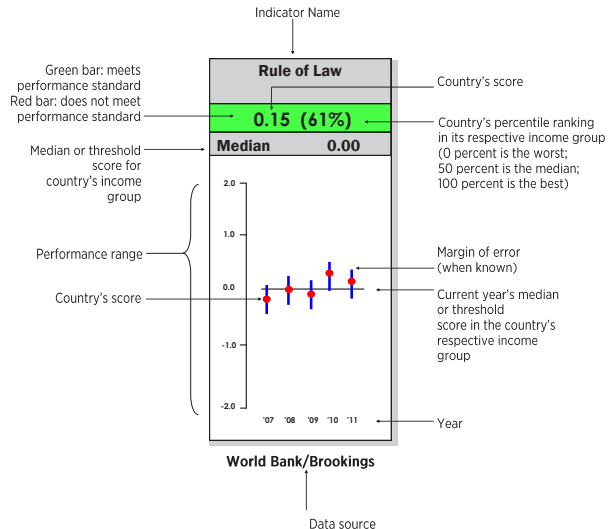
⁷ The types of supplemental information MCC and its Board take into consideration are listed in MCC's Guide to the Supplemental Information Sheet, <http://www.mcc.gov/documents/reports/report-2012001121001-fy13-selection-supplemental-info.pdf>.

Each indicator is selected *to be actionable*, showing clear steps a developing country government can take to influence the scores. While some indicators are more easily influenced than others (think days to start a business versus health outcomes), all are intended to be things a government can control and influence.

The MCC scorecards are a distinct and recognizable part of MCC's selection process. They clearly and publicly communicate the indicator scores, compare countries' performance to their income peers, identify policy areas where countries are relatively strong or weak, and identify which countries meet MCC's selection criteria.

Heads of state, ambassadors, foreign ministers, nongovernmental organizations, businesses, and academics look to the scorecards and use them for understanding not only what the scores mean for MCC eligibility, but also for other business investment decisions and advocacy efforts.

Box 14: How to Read a Scorecard



Box 15: What the details communicate

The **percent rank** helps stakeholders quickly understand how a country compares to its income level peers. This gives context to the more opaque scores. It is difficult to know just how corrupt a country is that scores 1.01 on the control of corruption indicator, but it is easy to understand that this country is in the 96th percentile of all low income countries.

The **median** (displayed as a straight, back line on the graph) shows a country's performance relative to its peers. Is the country above the line? Then, it passes the indicator. Below the line? It does not yet meet the indicator criteria.

The **historical data** shows trends over time. This is particularly useful in the investing in people category, where a number of countries have made steady progress on an issue but have not yet passed the indicator. The historical data can show progress. It's worth noting that as indicator institutions get more precise estimates each year, they may revise their historical data. The trend displayed on the scorecard is based on the current years' iterations of data, not simply adding one additional data point to previous years' estimates.

The **margin of error** illustrates uncertainty associated with the data, including statistical significance. These can be particularly relevant in some of the investing in people indicators as well as the control of corruption indicator. Historical trends and margins of error may be taken into account as supplemental information.

4. A Credible System Selects—And Removes—Countries

When most people think of country selection, they think about the decision to select a country as eligible for funding.⁸ Equally distinct for MCC is the point of exit: the system for suspending or terminating a partnership if the country shows a tangible pattern of actions inconsistent with the eligibility criteria.

Just as MCC's process for selecting countries as eligible for assistance is open and transparent, MCC is committed to being transparent about how and why MCC monitors ongoing country policy performance, the steps it can take with a country to get policies back on track and what conditions trigger a suspension or termination of assistance.

MCC's policy on suspension and termination has two parts: policy performance monitoring and then a calibrated response to promote policy improvement or, when warranted, suspend or terminate assistance.

★ **Policy performance monitoring:** MCC continuously monitors country policy performance, with concerns often arising when a country experiences precarious moments such as contentious elections or polarizing constitutional revisions. MCC's response typically falls into two categories:

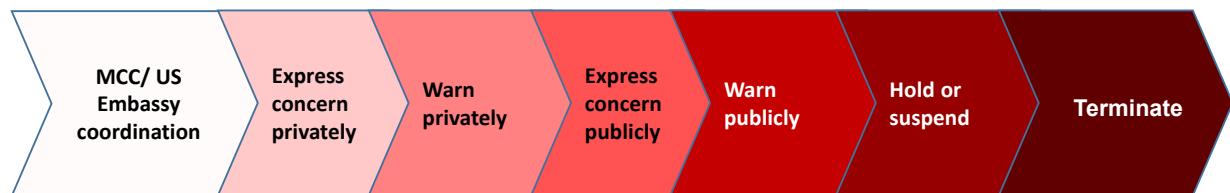
- * **Watch closely:** Rarely do incidences of policy concern result in the immediate suspension or termination of MCC's partnerships. MCC responds to significant *trends* of policy decline, not one-off cases of poor policy decisions. When significant events occur, MCC conducts a detailed indicator analysis, consults with third-party experts and seeks views from the State Department, U.S. Treasury Department and other U.S. Government agencies. Often, after such investigations, MCC finds that the event is an isolated incident of poor practice, rather than a pattern of actions inconsistent with MCC's selection criteria, or a departure from the level of policy performance when the country was initially selected. In such cases, MCC will wait and monitor to see if further events show a pattern of actions that represent real policy declines.
- * **Establish a "pattern of action:"** Occasionally, events transpire in one of MCC's partner countries where the agency must decide whether to take punitive measures and ultimately how best to encourage corrective actions. These decisions are not arbitrary. To determine whether a series of events constitutes an actual pattern of actions deemed inconsistent with the selection criteria, MCC consults the indicator institutions and issue- or country-specific experts to see if there is a deterioration from the policy practices observed at the time of initial selection. This is fair to the countries in question, and maintains MCC's credibility during the partnership by not shifting the goal posts. From the moment of selection,

⁸ MCC's Board makes annual selection decisions for newly eligible MCC partner countries and for countries that have already been selected as eligible for assistance but are still developing MCC compacts. Once a country has a signed MCC compact, the Board is not required to annually reselect the country.

MCC expects partner countries to maintain, and ideally improve, policy performance. When there is evidence to the contrary—an actual pattern of actions inconsistent with the selection criteria—MCC can credibly and clearly communicate the nature of an eligibility concern to partner countries.

- ★ **Calibrated response to promote policy improvement:** When MCC identifies an eligibility concern through the “pattern of action” assessment described above, MCC uses a spectrum of tools to work with the country to try and get the policies back on track (See Box 16). These responses might involve coordinating policy discussions with other U.S. Government agencies, such as the State Department or U.S. Trade Representative; raising concerns during private, bilateral meetings; publicly denouncing a partner country’s recent actions; or ultimately ending the partnership and cutting off assistance.

Box 16: MCC’s Calibrated Response to Promote Policy Improvement



While MCC’s suspension and termination process can be a way to punish countries, MCC’s primary goal is to create the right incentives for better policies. Deciding which tool to use when an eligibility concern arises requires MCC to consider a number of factors, such as:

- * **Determine the right response:** Most stakeholders view the threat of suspended or terminated assistance as the teeth behind MCC’s model; however, not all instances of policy concern are appropriate for such drastic measures. MCC programs do not lend themselves to easily being turned “on or off” to pursue short-term policy objectives, as they usually have only three to five years to complete implementation. Initial engagements with countries on policy concerns involve tools on the left side of the spectrum.
- * **Minimize damage:** Suspending or terminating a compact will have operational and political consequences, and the agency must consider the direct impact of the punitive measures pursued in the name of selectivity. The fact that MCC has suspended or terminated country programs, in part or as a whole, shows the agency taking its selection criteria seriously; however, there are significant second-order impacts that must be considered in MCC’s decision-making. For example, MCC’s decision to terminate its compact with Mali weighed the cost of closing out contracts as well as protecting and preserving U.S. taxpayer investments. This meant that for Mali’s airport project, MCC restored the runway to international safety standards, but sealed the terminal in its unfinished and unusable state.

In addition, for Mali's irrigation project, those individuals who were resettled received titles and were left land secure.

MCC's measured response to deteriorating policy performance in a partner country was most recently exemplified in the case of Malawi, the first compact country to transition successfully from the status of a suspended partner to a reinstated one (See Box 17).

MCC's willingness to respond to policy concerns, and in some cases suspend or terminate, a partner country's eligibility or assistance is a distinguishing characteristic of the agency's approach to country selectivity. By continuously monitoring country policy practices, MCC is well-positioned to provide country performance updates and recommendations to its Board of Directors. The country selection system—and the potential to remove a country—allows MCC to reward countries that continue to demonstrate their commitment to the selection criteria; create strong incentives for countries to focus on and improve policies; and prove what the agency means when it says it is selective about where it invests.

Box 17: Malawi: The fall and rise of a partnership

MCC's experience with Malawi illustrates how holding countries accountable for good governance does not always mean terminating assistance. In some instances, policy declines can contribute to and invigorate country-led policy reform, especially when there is political will to meet MCC's standards and preserve the partnership.

In July 2011, the \$350 million Malawi Compact was placed on hold because of MCC's concerns regarding the Malawian government's response to nationwide protests. Continued monitoring and engagement with the government in the face of negative trends in democratic governance did not successfully lead to country-led corrective action, and MCC's Board decided to suspend the compact in March 2012, with the possibility of termination in the near future.

When President Joyce Banda took office following the unexpected death of President Bingu wa Mutharika in April 2012, she immediately began to address the concerns that had led MCC to suspend. By June, MCC's monitoring of the situation revealed that the government had adopted new laws and was pursuing a new pattern of action indicating a renewed respect for human rights and a stronger, more sustainable economic policy.

In response, MCC's Board reinstated Malawi's compact, demonstrating that with political will, a country can restore compact eligibility and their partnership with MCC. This outcome would have been much more difficult to reach over the same time horizon if MCC had instead terminated assistance and stopped talking about the eligibility concerns with Malawi.

5. It Adapts to Stay Current and Cutting-Edge

MCC was the first—and remains the only—donor to rely so heavily on public, third-party data to determine where to allocate its development resources. At its inception in 2004, MCC’s scorecard methodology represented the most effective way to compare all developing countries’ performances in good governance, investing in people and economic freedom. The basic system remains unchanged, although new sources of data allow for a more accurate picture of which countries will make the best partners.

MCC reviews all of its indicators and methodology annually to ensure that best practices are followed and the best measures are used. If MCC identifies better indicators or improved sources of data, MCC recommends changes or refinements to the selection criteria.

When MCC created the indicators in 2004, there was not an adequate indicator to measure natural resource management. In 2005, MCC established a Natural Resource Working Group to begin a search for an appropriate indicator. MCC’s consultative process was commended for its breadth, transparency and level of technical input.⁹ In fiscal year 2008, MCC’s Board adopted two indicators to assess a country’s commitment to policies that promote natural resource management. This added a much-desired new component to the scorecards, but also resulted in significant changes to country scores.

In 2011, MCC conducted another major review of its selection criteria and methodology to address some of the lessons outlined above, to stay current with economic and policy literature and to take advantage of new and cutting-edge datasets. MCC reviewed more than 200 indicators, explored various methodologies and solicited input from technical experts across the U.S. Government, multilateral donors, NGOs, and think tanks. MCC convened an

Box 18: Refining the Tools of the Trade

In keeping with MCC’s commitment to aid effectiveness through the regular evaluation of its own practice, and based on MCC’s experience to date, MCC has made a number of important changes in how it considers selectivity. For example:

Defining poor: Every year, some countries “graduate” from the low income country to the lower middle income country category, without necessarily having a dramatic or immediate improvement in overall living standards for their population. Graduations have resulted in a substantially diminished low income category pool since MCC began, limiting the pool of poor but well-governed countries with which MCC can work. Working with the U.S. Congress, MCC revised its definition of candidate countries to allow MCC to continue to partner with poor, well-governed countries and reduce abrupt shifts in income category.

Defining well-governed: As part of MCC’s constant learning and desire to improve when possible, MCC led a consultative process that resulted in MCC’s adoption of a new natural resource management indicator. MCC also conducted a review of the selection criteria and methodology as a whole in 2011, and applied several changes during the fiscal year 2012 selection cycle, including adding a democratic rights hard hurdle and adopting three new indicators: freedom of information, access to credit and gender in the economy.

⁹ Adding Natural Resource Indicators: An Opportunity to Strengthen the MCA Eligibility Process, Steve Radelet, Sarah Rose and Sheila Herrling, Center for Global Development, November 7, 2006, http://www.cgdev.org/doc/mca%20monitor/natural_resource_note_up.pdf.

extensive consultation process, including numerous meetings and conversations with technical experts and major stakeholders. MCC updated its system to incorporate new research, new indicators and new hurdles but keep the same selectivity.

- ★ **New Research:** A great deal of economic literature of the past decade focuses on the idea that there is no single recipe for economic growth. Every country has its own priorities for political and economic reform. Recognizing that, MCC changed the requirements that countries pass three indicators per category and instead required that countries pass half the indicators overall.

This change also allows for more meaningful policy reform efforts from countries competing for MCC eligibility. Under the old system, countries had to focus their reform effort on whichever category and specific indicator prevented them from passing the scorecard. In Cabo Verde, for example, all reform efforts needed to be focused on investing in people because this was the category Cabo Verde did not pass. Despite excellent performance in the ruling justly and encouraging economic freedom indicators, Cabo Verde did not pass three out of five investing in people indicators on the old scorecard, putting Cabo Verde's chances for a second compact at risk. Adding to this problem, the medians for lower middle income countries in health and education indicators were very high. In FY 2011, Cabo Verde confirmed that 87 percent of girls completed primary education, yet they did not pass either of these indicators due to very high medians. Therefore, any policy reform dialogue between MCC and the Government of Cabo Verde focused on getting the last 13 percent of girls through primary education, regardless of other policy issues or constraints to economic growth. Under the new system, countries can determine which policy reforms are most aligned with their own growth or poverty reduction strategies.

While countries still have slight improvements or declines on an indicator, these changes are less likely to drive overall scorecard performance.

- ★ **New Indicators:** MCC explored more than 200 indicators, ultimately adopting three new ones into the scorecard. Taking advantage of new and innovative data in the policy world, MCC added indicators to measure freedom of information, gender in the economy and access to credit.

In adding the freedom of information indicator, MCC incorporated new and important policy areas into the scorecard, namely, freedom of the press, the public's legal right to access information and whether the government filters Internet content. When MCC was established in 2004, no dataset existed that measured Internet filtering. The establishment of Open Net Initiative's Internet filtering data allowed MCC to evolve and update its scorecard to incorporate modern issues related to information flow.

Similarly, the gender in the economy indicator allowed MCC to further an important policy and economic goal: ensuring women have the same right as men to participate in economic activities. Given MCC's model of poverty reduction through economic growth, it is vital that women be active participants in the economy and reap the benefits of economic growth. The data informing this indicator comes from IFC's Women,

Business, and the Law report, and it represents an important and innovative dataset that did not exist when MCC was founded.

- ★ **New Hurdles:** MCC also added a new hard hurdle on democratic rights in order to be more explicit about the importance the Board puts on political rights and civil liberties. Previously, the scorecard criteria required countries to pass three out of six ruling justly indicators to be considered for a compact. A number of countries regularly passed the three government efficiency indicators in the ruling justly category (government effectiveness, rule of law and control of corruption) but did not pass the three democratic rights indicators (political rights, civil liberties or voice and accountability). These countries—including Vietnam, Thailand and Rwanda—technically passed the old scorecard criteria, but the Board routinely chose not to select them for compact assistance. Where MCC suspended or terminated compacts, it was often in response to democratic rights concerns: coups, problematic elections or human rights violations. This increased the Board’s attention to the democratic rights indicators as critically important for MCC partner countries. The new scorecard includes a democratic rights hard hurdle that requires countries to perform above the threshold for either the political rights or civil liberties indicators to be considered passing the scorecard. The new democratic rights hard hurdle aligns the scorecard criteria with the Board’s revealed preference and practice, mitigates the risks associated with working in less democratic countries and further encourages democratic policy reforms.
- ★ **Same Selectivity:** When MCC changed its system, it wanted to ensure that it didn’t lower its standards on countries’ policy performance. By adding the democratic rights hurdle, MCC reduced the number of countries that could pass the scorecard. Eight countries passed the previous scorecard at least once, but no longer meet the more stringent democratic rights requirements.¹⁰ By raising the standards for democratic rights, MCC increased the selectivity of its system. On the other hand, two countries passed the scorecard for the first time in FY 2012 as a result of the new criteria regarding “passing half the indicators overall” rather than half in each category.¹¹ The changes to the scorecard maintained MCC’s emphasis on selectivity and strengthened the system.

Regular review and thoughtfully considered changes to adapt a selection system and keep it current and cutting-edge are absolutely necessary to ensure the system keeps working to select countries, focus on economic growth and poverty reduction and inspire policy reform.

MCC’s founders had also hoped that MCC’s indicators-based selection system would inspire development policy researchers and practitioners to develop more and better data. Today, the demand for development data is on the rise. The U.S. Global Development Policy puts a premium on using data and evidence to be more selective

¹⁰ Vietnam, Egypt, Rwanda, Gambia, Mauritania, Djibouti, Swaziland, and Syria all passed the old scorecard at least once, but do not meet the criteria to pass the democratic rights hurdle.

¹¹ Niger and São Tomé and Príncipe.

about where the entire U.S. Government invests development dollars. The open government movement is global and demand for public data on budgets and policymaking is growing and supported by efforts like the Open Government Partnership. The demand seems higher than it has ever been, but the supply is slow to catch up. Cross-country, comparable, regularly updated, and analytically rigorous development data is still lagging. MCC hopes that continuing to use and adapt the MCC scorecard can inspire the creation of more and better data for development decision-making.

Conclusion

MCC's 10 years of using public, third-party data to guide MCC's country selection process has proven it can be done. It works. Senior policymakers can use data to guide where and how it invests scarce U.S. development resources, support governments that are taking the right steps toward poverty reduction and economic growth and inspire governments to improve social and economic policies, even before spending money.

MCC's pioneering country selection system holds both foreign governments and the U.S. Government accountable to MCC's mission and mandate of reducing poverty through economic growth in well-governed poor countries. And the MCC scorecards are increasingly cited as tools that inform business investments and guide civil society advocacy.

MCC knows that its country selectivity system works because it is public; is built on a research-driven technical and mathematical foundation; is simple, accessible and actionable; includes a way to select—and remove—countries; and adapts to stay current and cutting-edge.

But MCC also knows that the world has changed since the agency was created in 2004; economic growth and poverty reduction data and research are changing alongside it. MCC's scorecard continues to incorporate the best new policy performance data but MCC and others are hungry for more specific, actionable measures of country governments' policy performance.

The United Nations-coordinated effort to establish the next round of global development goals already includes discussion of a development data revolution and how a possible governance-related development goal should best be measured. And some corporate executives have called for a data-based integrity screen to help guide investment decisions. The growing chorus of development and business leaders calling for useful development policy data could create momentum needed to make dramatic improvements in the type and usefulness of development data.

The lessons shared here aim to spur even more learning and the creation of better tools so MCC and development colleagues can continue to use data to drive smarter development decisions.

Appendix 1: Designing a Selection System

- ★ Define the objectives of your selection system
 - * Who are your potential beneficiaries (countries, regions, individuals)?
 - * Is your objective to select beneficiaries based on merit, need, strategic importance, or some other consideration?
 - * Who or what are your comparators (regional, income peers, changes over time)?
 - * Is creating incentives important to meeting the objectives?
 - * Is transparency important to meeting the objectives?
 - * How frequently will decision points occur? What does this mean for data updates?
- ★ Select indicators based on objectives
 - * Will you use third-party data or create a new dataset using internal data or assessments?
 - * Will you use subjective data, objective data or a combination of the two?
 - * Will your indicators be descriptive or normative?
 - * Is the indicator actionable? (If incentivizing reform is a priority, this is a vital consideration.)
 - * Will your focus be primarily on inputs, outputs, outcomes, or a combination?
- ★ Ensure the integrity of the indicators
 - * - Is the indicator conceptually valid? Does it measure what it claims to measure?
 - * - Is the indicator methodology valid?
 - * - What systems are in place to ensure quality control of the data?
- ★ Consider technical details related to the indicators
 - * How many countries does the data cover?
 - * How often is the data updated? Are updates comprised of new data or is old data pulled forward? Are new estimates based on modeling?
 - * Is the data publically available?
- ★ Establish selection rules to meet objectives
 - * Will you reward absolute performance or progress over time?

- * Will your thresholds for “passing” be based on absolute levels or relative performance?
- * Will all indicators be weighted equally? Will you have “hard hurdles?”
- * What are the criteria for “passing” the selection system?
- * How difficult should it be to pass the system?
- * Is it the system automatic or the first (or primary) input to inform decisions?
- ★ If the system is not automatic, how will decision-makers use the system?
 - * How will decision-makers account for data limitations (i.e., missing data, data revisions, data lags)?
 - * How much additional context will decision-makers take into consideration (i.e., moving medians, countries moving across income categories, real time events)?
 - * What types of additional or supplemental information will inform decisions?
- ★ Determine how data will be visually represented
 - * What type of information should be presented (i.e., absolute data, percentile ranks, historical data, margins of error, data distribution)?
 - * What amount of information should be presented?
 - * Do your visuals guide the audience to certain interpretations?