Guide to the MCC Indicators and the Selection Process for Fiscal Year 2012

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MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Contents

Part 1: Selection Process Overview

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Reducing Poverty Through Growth

The Millennium Challenge Corporation (MCC) is based on the principle that aid is most effective when it reinforces good governance, economic freedom, and investments in people that promote economic growth.

In making its determinations, MCC's Board of Directors 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.

MCC selects countries eligible to receive MCC funds through a rigorous evaluation process. This process uses third-party indicators to assess countries' policy environments and determine in which countries MC funding will 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 MCC Selection Process has four major steps:

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

Changes to the Criteria and Methodology for FY12

MCC reviews all of its indicators annually to ensure the best measures are being used and, from time to time, recommends changes or refinements if MCC identifies better indicators or improved sources of data. For FY12, MCC will implement a number of changes that modify the overall evaluation of candidate country performance.

While improvements to the selection criteria and methodology are critical, MCC is also mindful of the need to provide countries with a fairly stable set of policy criteria to meet, if MCC is to create significant incentives for reform. Therefore, for this year of transition, the Board of Directions will consider countries' performance based on two sets of criteria and methodologies in FY12: the revised criteria and methodology laid out here and an FY11 style system.

To learn more about the FY11 criteria and methodology, please see: *http://1.usa.gov/pPpx9b*.

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 MCC's selection of countries eligible for MCC assistance. For fiscal year 2012 (FY12), 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 less than or equal to $1,915; or

★ *Lower Middle Income Category:* Countries with a per capita income between $1,916 and $3,975.

Publication of MCC's Selection Criteria & Methodology

MCC submits a report to Congress describing the criteria and the methodology—including the indicators—that MCC's Board of Directors will use to select eligible countries. MCC holds a formal public comment period following publication of the report. For FY12, this report outlines a number of changes to the criteria and methodology.

Methodology

When evaluating countries for eligibility, the Board considers whether countries perform above the median score of their income peer group (either the Low Income Country group or the Lower Middle Income Country group) on at least half of the indicators. In addition, in order to be considered for eligibility, countries must score above the median on the *Control of Corruption* indicator, and above the threshold on either the *Political Rights* indicator or the *Civil Liberties* indicator.[1] Countries must meet a minimum standard of passing one indicator in each core category.

As this is the first year implementing a new methodology, the Board will also consider a country's performance using the methodology applied in fiscal year 2011.

Indicators

To evaluate policy performance, MCC uses, to the maximum extent possible, objective and quantifiable policy indicators in three broad policy core 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 2012 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)[2]
- ★ Investing in People
    - Immunization Rates (World Health Organization and UNICEF)
    - Public Expenditure on Health (World Health Organization)
    - Girls' Education (UNESCO)
        - ◊ Primary Education Completion (LICs)[3]
        - ◊ Secondary Education Enrolment (LMICs)[3]
    - Public Expenditure on Primary Education (UNESCO and national sources)
    - Child Health (CIESIN and YCELP)[4]

1 For the *Political Rights*, *Civil Liberties*, *Inflation*, and *Immunization* indicators, countries' performance is gauged against an absolute threshold, as opposed to a median score. The Immunization Rate threshold, however, applies to LMICs only. LICs are still assessed on a median system for this indicator.
2 Under the FY11 style criteria, MCC relies on Voice and Accountability (World Bank/Brookings Institution WGI) in place of Freedom of Information.
3 Under the FY11 style criteria, MCC relies exclusively on Girls Primary Education Completion for all countries.
4 Under the FY11 style criteria, MCC relies on this data combined into a single "Natural Resource Management" indicator.

  - Natural Resource Protection (CIESIN and YCELP)[4]
- ★ 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)[5]
  - Gender in the Economy (IFC)[5]

Supplemental Information

The Board may also consider contextual information to address gaps, time lags, measurement error, or other weaknesses in the indicators to assist in assessing whether a country shows benefit. For FY 2012, 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.

Publication of MCC Scorecards

Before the MCC Board meets to select compact-eligible countries, MCC will publish its country performance scorecards on its public website for all candidate countries and countries that would be candidates but for legal prohibitions. More information can be found at *www.mcc.gov/selection*.

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 five days after the determination. These countries are then eligible to begin developing compact proposals for MCC's consideration.

Selection of Threshold Program Countries

The MCC Board may also select countries to participate in the MCC Threshold Program. The Threshold Program is designed for countries that demonstrate a significant commitment to meeting the eligibility criteria but fall short in some policy areas. Threshold Program grants are smaller in scale than compact grants, and provide assistance for targeted policy reform efforts that address constraints to growth.

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

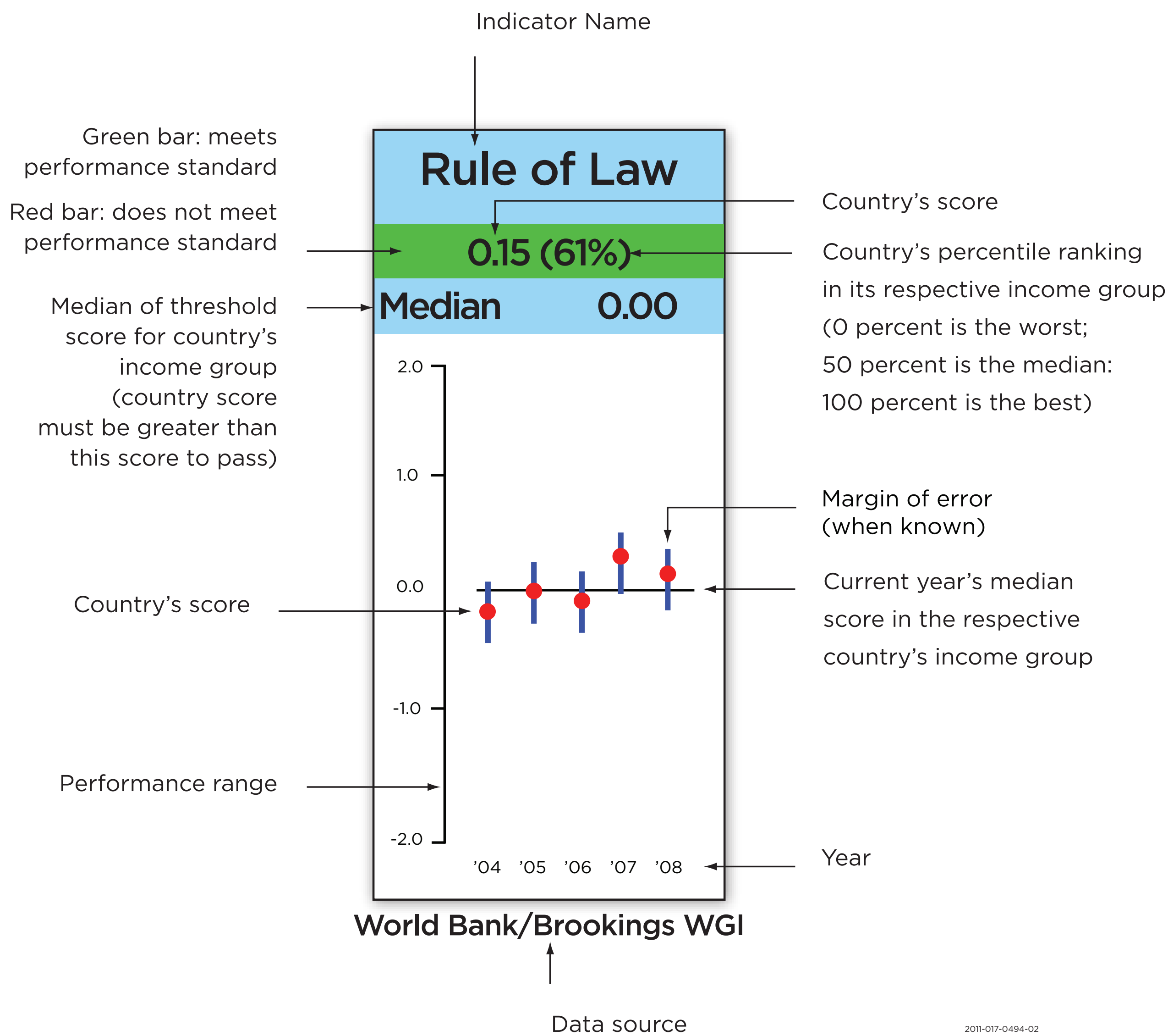
5 These do not appear in the FY11 style criteria.

Part 2: How to Read an Indicator Scorecard

Millennium Challenge Corporation
Reducing Poverty Through Growth

Reading The Scores—A Reference Guide

Each MCC candidate country receives a scorecard annually assessing performance in three policy categories: Ruling Justly; Investing in People; and Encouraging Economic Freedom.



Part 3:
Guide to the
MCC Indicators

MILLENNIUM
CHALLENGE CORPORATION
Reducing Poverty Through Growth

The Millennium Challenge Corporation (MCC) uses third-party indicators to identify countries with policy environments that will allow Millennium Challenge Account (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—using independent, third-party policy indicators. This is a guide to understanding and interpreting the indicators used by MCC in Fiscal Year 2012. It provides an overview of the policies measured by indicators, the relationship that these policies have to economic growth and poverty reduction, the methodologies used by the various indicator institutions to measure policy performance, descriptions of the underlying source(s) of data, and the contact information of the indicator institutions.

MCC favors indicators that:

1. are developed by an independent third party,
2. utilize an analytically-rigorous methodology and objective, high-quality data,
3. are publicly available,
4. have broad country-coverage,
5. are comparable across countries,
6. have a clear theoretical or empirical link to economic growth and poverty reduction,
7. are policy-linked, i.e. measure factors that governments can influence, and
8. have appropriate consistency in results from year to year.

For general questions about the application of these indicators, please contact the MCC's Development Policy Division at *DevelopmentPolicy@mcc.gov*.

Ruling Justly Category

The six indicators in this category measure just and democratic governance by assessing, among other things, a country's demonstrated commitment to promote political pluralism, equality, and the rule of law; respect human and civil rights, including the rights of people with disabilities; protect private property rights; encourage transparency and accountability of government; and combat corruption.

Political Rights Indicator

This indicator measures country performance on the quality of the electoral process, political pluralism and participation, government corruption and transparency, and fair political treatment of ethnic groups.

Countries are rated on the following factors:

★ free and fair executive and legislative elections; fair polling; honest tabulation of ballots;

★ fair electoral laws; equal campaigning opportunities;

★ the right to organize in different political parties and political groupings; the openness of the political system to the rise and fall of competing political parties and groupings;

- ★ the existence of a significant opposition vote; the existence of a de facto opposition power, and a realistic possibility for the opposition to increase its support or gain power through elections;
- ★ the participation of cultural, ethnic, religious, or other minority groups in political life;
- ★ freedom from domination by the military, foreign powers, totalitarian parties, religious hierarchies, economic oligarchies, or any other powerful group in making personal political choices; and
- ★ the openness, transparency, and accountability of the government to its constituents between elections; freedom from pervasive government corruption; government policies that reflect the will of the people.

Relationship to Growth and Poverty Reduction

Although the relationship between democracy and economic growth is complex, research suggests that the institutional structures of democracy can promote growth by increasing policy stability, cultivating higher rates of human capital accumulation, reducing levels of income inequality and corruption, and encouraging higher rates of investment.[1] The links between political rights and poverty reduction are similarly complicated, but there is evidence that democratic institutions are better at reducing economic volatility and provide a more consistent approach to poverty reduction than do autocratic regimes.[2] Research also links the incentive structure of democratic institutions with outcomes favorable for the poor.[3]

Source

Freedom House, *http://www.freedomhouse.org*. Questions regarding this indicator may be directed to *info@freedomhouse.org* or +1 (212) 514-8040.

Methodology

A team of expert analysts and scholars evaluate countries on a 40-point scale – with 40 representing "most free" and 0 representing "least free." The Political Rights indicator is based on a 10 question checklist grouped into the three subcategories: Electoral Process (3 questions), Political Pluralism and Participation (4 questions), and Functioning of Government (3 questions). Points are awarded to each question on a scale of 0 to 4, where 0 points represents the fewest rights and 4 represents the most rights. The highest number of points that can be awarded to the Political Rights checklist is 40 (or a total of up to 4 points for each of the 10 questions). The full list of questions included in Freedom House's methodology may be found at: *http://www.freedomhouse.org/template.cfm?page=351&ana_page=364&year=2010*

In consultation with Freedom House, MCC considers countries with scores above 17 to be passing this indicator.

Civil Liberties Indicator

This indicator measures country performance on freedom of expression and belief, associational and organizational rights, rule of law and human rights, personal autonomy, individual and economic rights, and the independence of the judiciary.

Countries are rated on the following factors:

- ★ freedom of cultural expression, religious institutions and expression, and academia;

- ★ freedom of assembly and demonstration, of political organization and professional organization, and collective bargaining;
- ★ independence of the media and the judiciary;
- ★ freedom from economic exploitation;
- ★ protection from police terror, unjustified imprisonment, exile, and torture;
- ★ the existence of rule of law, personal property rights, and equal treatment under the law;
- ★ freedom from indoctrination and excessive dependency on the state; and
- ★ equality of opportunity;
- ★ freedom to choose where to travel, reside, and work;
- ★ freedom to select a marriage partner and determine whether or how many children to have; and
- ★ the existence of a legal framework to grant asylum or refugee status in accordance with international and regional conventions and system for refugee protection.

Relationship to Growth and Poverty Reduction

Studies show that an expansion of civil liberties can promote economic growth by reducing social conflict, removing legal impediments to participation in the economy, encouraging adherence to the rule of law, enhancing protection of property rights, increasing economic rates of return on government projects, and reducing the risk of project failure.[4] Additional research has shown that civil liberties have a positive effect on domestic investment and productivity, increase the success of investments by international actors, enhance economic freedoms, and can bolster growth through the freedom of mobility for individuals.[5]

Source

Freedom House, *http:/www./freedomhouse.org*. Questions regarding this indicator may be directed to *info@freedomhouse.org* or +1 (212) 514-8040.

Methodology

A team of expert analysts and scholars evaluate countries on a 60-point scale – with 60 representing "most free" and 0 representing "least free." The Civil Liberties indicator is based on a 15 question checklist grouped into four subcategories: Freedom of Expression and Belief (4 questions), Associational and Organizational Rights (3 questions), Rule of Law (4 questions), and Personal Autonomy and Individual Rights (4 questions). Points are awarded to each question on a scale of 0 to 4, where 0 points represents the fewest liberties and 4 represents the most liberties. The highest number of points that can be awarded to the Civil Liberties checklist is 60 (or a total of up to 4 points for each of the 15 questions). The full list of questions included in Freedom House's methodology may be found at: *http://www.freedomhouse.org/template.cfm?page=351&ana_page=364&year=2010*

In consultation with Freedom House, MCC considers countries with scores above 25 to be passing this indicator.

Control of Corruption Indicator

This indicator measures the extent to which public power is exercised for private grain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. It also measures the strength and effectiveness of a country's policy and institutional framework to prevent and combat corruption.

Countries are evaluated on the following factors:

★ The prevalence of grand corruption and petty corruption at all levels of government;

★ The effect of corruption on the "attractiveness" of a country as a place to do business;

★ The frequency of "irregular payments" associated with import and export permits, public contracts, public utilities, tax assessments, and judicial decisions;

★ Nepotism, cronyism and patronage in the civil service;

★ The estimated cost of bribery as a share of a company's annual sales;

★ The perceived involvement of elected officials, border officials, tax officials, judges, and magistrates in corruption;

★ The strength and effectiveness of a government's anti-corruption laws, policies, and institutions;

★ Public trust in the financial honesty of politicians;

★ The extent to which:

   * processes are put in place for accountability and transparency in decision-making and disclosure of information at the local level;
   * government authorities monitor the prevalence of corruption and implement sanctions transparently;
   * conflict of interest and ethics rules for public servants are observed and enforced;
   * the income and asset declarations of public officials are subject to verification and open to public and media scrutiny;
   * senior government officials are immune from prosecution under the law for malfeasance;
   * the government provides victims of corruption with adequate mechanisms to pursue their rights;
   * the tax administrator implements effective internal audit systems to ensure the accountability of tax collection;
   * the executive budget-making process is comprehensive and transparent and subject to meaningful legislative review and scrutiny;
   * the government ensures transparency, open-bidding, and effective competition in the awarding of government contracts;
   * there are legal and functional protections for whistleblowers, anti-corruption activists, and investigators;
   * allegations of corruption at the national and local level are thoroughly investigated and prosecuted without prejudice;
   *

* government is free from excessive bureaucratic regulations, registration requirements, and/or other controls that increase opportunities for corruption;
* citizens have a legal right to information about government operations and can obtain government documents at a nominal cost.

Relationship to Growth and Poverty Reduction

Corruption hinders economic growth by increasing costs, lowering productivity, discouraging investment, reducing confidence in public institutions, limiting the development of small and medium-sized enterprises, weakening systems of public financial management, and undermining investments in health and education.[6] Corruption can also increase poverty by slowing economic growth, skewing government expenditure in favor of the rich and well-connected, concentrating public investment in unproductive projects, promoting a more regressive tax system, siphoning funds away from essential public services, adding a higher level of risk to the investment decisions of low-income individuals, and reinforcing patterns of unequal asset ownership, thereby limiting the ability of the poor to borrow and increase their income.[7]

Source

Worldwide Governance Indicators (WGI) from the World Bank/Brookings Institution, *http://www.govindicators.org*. Questions regarding this indicator may be directed to *wgi@worldbank.org* or +1 (202) 473-4557.

Methodology

The indicator is an index combining up to 21 different assessments and surveys, depending on availability, each of which receives a different weight, depending on its estimated precision and country coverage. The Control of Corruption indicator draws on data, as applicable, from the *Country Policy and Institutional Assessments* of the World Bank, the Asian Development Bank and the African Development Bank, the *Afrobarometer* Survey, the World Bank's *Business Environment and Enterprise Performance Survey*, the Bertelsmann Foundation's *Bertelsmann Transformation Index*, Freedom House's *Nations in Transit* and *Countries at the Crossroads* reports, Global Insight's *Business Conditions and Risk Indicators*, the Economist Intelligence Unit's *Country Risk Service*, Transparency International's *Global Corruption Barometer* survey, the World Economic Forum's *Global Competitiveness Report*, Global Integrity's *Global Integrity Index*, the Gallup *World Poll*, the International Fund for Agricultural Development's *Rural Sector Performance Assessments*, the French Government's *Institutional Profiles Database*, the *Latinobarometro* Survey, Political Economic Risk Consultancy's *Corruption in Asia*, Political Risk Service's *International Country Risk Guide*, Vanderbilt University *Americas Barometer* Survey, the Institute for Management and Development's *World Competitiveness Yearbook*.

Government Effectiveness Indicator

This indicator measures the quality of public services, the quality of the civil service and its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to its stated policies.

Countries are evaluated on the following factors:

- ★ competence of civil service; effective implementation of government decisions; public service vulnerability to political pressure;
- ★ ability to manage political alternations without drastic policy changes or interruptions in government services;
- ★ flexibility, learning, and innovation within the political leadership; ability to coordinate conflicting objectives into coherent policies;
- ★ the extent to which the political leadership sets and maintains strategic priorities and the government effectively implements reforms;
- ★ the efficiency of revenue mobilization and budget management;
- ★ the quality of transportation infrastructure, telecommunications, electricity supply, public health care provision, and public schools; the availability of online government services;
- ★ policy consistency; the extent to which government commitments are honored by new governments;
- ★ prevalence of red tape; the degree to which bureaucratic delays hinder business activity;
- ★ existence of a taxpayer service and information program, and an efficient and effective appeals mechanism;
- ★ the extent to which:
    - * effective coordination mechanisms ensure policy consistency across departmental boundaries, and administrative structures are organized along functional lines with little duplication;
    - * the business processes of government agencies are regularly reviewed to ensure efficiency of decision making and implementation;
    - * hiring and promotion within the government is based on merit and performance, and ethical standards prevail;
    - * the government wage bill is sustainable and does not crowd out spending required for public services; pay and benefit levels do not deter talented people from entering the public sector; flexibility (that is not abused) exists to pay more attractive wages in hard-to-fill positions;
    - * government revenues are generated by low-distortion taxes; import tariffs are low and relatively uniform, export rebate or duty drawbacks are functional; the tax base is broad and free of arbitrary exemptions; tax administration is effective and rule-based; and tax administration and compliance costs are low;
    - * policies and priorities are linked to the budget; multi-year expenditure projections are integrated into the budget formulation process, and reflect explicit costing of the implications of new policy initiatives; the budget is formulated through systematic consultations with spending ministries and the legislature, adhering to a fixed budget calendar; the budget classification system is comprehensive and consistent with international standards; and off-budget expenditures are kept to a minimum and handled transparently;
    - * the budget is implemented as planned, and actual expenditures deviate only slightly from planned levels;
    - * budget monitoring occurs throughout the year based on well functioning management information systems; reconciliation of banking and fiscal records is practiced comprehensively, properly, and in a timely way;

* in-year fiscal reports and public accounts are prepared promptly and regularly and provide full and accurate data; the extent to which accounts are audited in a timely, professional and comprehensive manner, and appropriate action is taken on budget reports and audit findings.

Relationship to Growth and Poverty Reduction

Countries with more effective governments tend to achieve higher levels of economic growth by obtaining better credit ratings and attracting more investment, offering higher quality public services and encouraging higher levels of human capital accumulation, putting foreign aid resources to better use, accelerating technological innovation, and increasing the productivity of government spending.[8] Efficiency in the delivery of public services also has a direct impact on poverty.[9] On average, countries with more effective governments have better educational systems and more efficient health care.[10] There is evidence that countries with independent, meritocratic bureaucracies do a better job of vaccinating children, protecting the most vulnerable members of society, reducing child mortality, and curbing environmental degradation.[11] Countries with a meritocratic civil service also tend to have lower levels of corruption.[12]

Source

Worldwide Governance Indicators (WGI) from the World Bank/Brookings Institution, *http://www.govindicators.org*. Questions regarding this indicator may be directed to *wgi@worldbank.org* or +1 (202) 473-4557.

Methodology

The indicator is an index combining up to 15 different assessments and surveys, depending on availability, each of which receives a different weight, depending on its estimated precision and country coverage. The Government Effectiveness indicator draws on data, as applicable, from the *Country Policy and Institutional Assessments* of the World Bank, the African Development Bank and the Asian Development Bank, the *Afrobarometer Survey*, the World Bank's *Business Environment and Enterprise Performance Survey*, the Bertelsmann Foundation's *Bertelsmann Transformation Index*, Global Insight's *Business Conditions and Risk Indicators*, the Economist Intelligence Unit's *Country Risk Service*, the World Economic Forum's *Global Competitiveness Report*, the Gallup *World Poll*, the International Fund for Agricultural Development's *Rural Sector Performance Assessments*, the French Government's *Institutional Profiles Database*, the *Latinobarometro* Survey, Political Risk Service's *International Country Risk Guide*, Institute for Management and Development's *World Competitiveness Yearbook*.

Rule of Law Indicator

This indicator measures the extent to which individuals and firms have confidence in and abide by the rules of society; in particular, it measures the functioning and independence of the judiciary, including the police, the protection of property rights, the quality of contract enforcement, as well as the likelihood of crime and violence.

Countries are evaluated on the following factors:

★ public confidence in the police force and judicial system; popular observance of the law; a tradition of law and order; strength and impartiality of the legal system;

- ★ prevalence of petty crime, violent crime, and organized crime; foreign kidnappings; economic impact of crime on local businesses; prevalence of human trafficking; government commitment to combating human trafficking;
- ★ the extent to which a well-functioning and accountable police force protects citizens and their property from crime and violence; when serious crimes do occur, the extent to which they are reported to the police and investigated;
- ★ security of private property rights; protection of intellectual property; the accuracy and integrity of the property registry; whether citizens are protected from arbitrary and/or unjust deprivation of property;
- ★ the enforceability of private contracts and government contracts;
- ★ the existence of an institutional, legal, and market framework for secure land tenure; equal access to land among men and women; effective management of common property resources; equitable user-rights over water resources for agriculture and local participation in the management of water resources;
- ★ the prevalence of tax evasion and insider trading; size of the informal economy;
- ★ independence, effectiveness, predictability, and integrity of the judiciary; compliance with court rulings; legal recourse for challenging government actions; ability to sue the government through independent and impartial courts; willingness of citizens to accept legal adjudication over physical and illegal measures; government compliance with judicial decisions, which are not subject to change except through established procedures for judicial review;
- ★ the independence of prosecutors from political direction and control;
- ★ the existence of effective and democratic civilian state control of the police, military, and internal security forces through the judicial, legislative, and executive branches; the police, military, and internal security services respect human rights and are held accountable for any abuses of power;
- ★ impartiality and nondiscrimination in the administration of justice; citizens are given a fair, public, and timely hearing by a competent, independent, and impartial tribunal; citizens have the right to independent counsel and those charged with serious felonies are provided access to independent counsel when it is beyond their means; low-cost means are available for pursuing small claims; citizens can pursue claims against the state without fear of retaliation;
- ★ protection of judges and magistrates from interference by the executive and legislative branches; judges are appointed, promoted, and dismissed in a fair and unbiased manner; judges are appropriately trained to carry out justice in a fair and unbiased manner; members of the national-level judiciary must give reasons for their decisions; existence of a judicial ombudsman (or equivalent agency or mechanism) that can initiate investigations and impose penalties on offenders;
- ★ law enforcement agencies are protected from political interference and have sufficient budgets to carry out their mandates; appointments to law enforcement agencies are made according to professional criteria; law enforcement officials are not immune from criminal proceedings;
- ★ the existence of an independent reporting mechanism for citizens to complain about police actions; timeliness of government response to citizen complaints about police actions.

Relationship to Growth and Poverty Reduction

Judicial independence is strongly linked to growth as it promotes a stable investment environment.[13] On average, business environments characterized by consistent policies and credible rules, such as secure property rights and contract enforceability, create higher levels of investment and growth.[14] Secure property rights and contract enforceability also have a positive impact on poverty by granting citizens secure rights to their own assets.[15] People who do not have the resources or the connections to protect their rights informally are usually the ones who are most in need of formal protection of their rights through efficient legal systems.[16]

Source

Worldwide Governance Indicators (WGI) from the World Bank/Brookings Institution, *http://www.govindicators.org*. Questions regarding this indicator may be directed to *wgi@worldbank.org* or +1 (202) 473-4557.

Methodology

The indicator is an index combining up to 22 different assessments and surveys, depending on availability, each of which receives a different weight, depending on its estimated precision and country coverage. The Rule of Law indicator draws on data, as applicable, from the *Country Policy and Institutional Assessments* of the World Bank, the African Development Bank, and the Asian Development Bank, the *Afrobarometer* Survey, the World Bank's *Business Environment and Enterprise Performance Survey*, the Bertelsmann Foundation's *Bertelsmann Transformation Index*, Freedom House's *Nations in Transit* and *Countries at the Crossroads* reports, Global Insight's *Business Conditions and Risk Indicators*, the Economist Intelligence Unit's *Country Risk Service*, the World Economic Forum's *Global Competitiveness Report*, Global Integrity's *Global Integrity Index*, the Gallup *World Poll*, the Heritage Foundation's *Index of Economic Freedom*, Cingranelli-Richards' *Human Rights Database*, the International Fund for Agricultural Development's *Rural Sector Performance Assessments*, the French Government's *Institutional Profiles Database*, the *Latinobarometro* Survey, Political Risk Service's *International Country Risk Guide*, the United States State Department's *Trafficking in Persons Report*, Vanderbilt University's *Americas Barometer*, Institute for Management and Development's *World Competitiveness Yearbook*.

Freedom of Information Indicator

This indicator measures a government's commitment to enable or allow information to move freely in society. It is a composite index that includes a measure of press freedom; the status of national freedom of information laws; and a measure of internet filtering.

Relationship to Growth and Poverty Reduction

Governments play a role in information flows; they can restrict or facilitate information flows within countries or across borders. Many of the institutions (laws, regulations, codes of conduct) that governments design are created to manage the flow of information in an economy.[17] Countries with better information flows often have better quality governance and less corruption.[18] Higher transparency and access to information have been shown to increase investment inflows because they enhance an investor's knowledge of the behaviors and operations of institutions in a target economy; help reduce uncertainty about future changes in policies and administrative practices; and contribute data and perspectives on how best an investment project can be initiated and managed.[19] The right of access to information within government institutions also strengthens democratic accountability, promotes political participation of all, reduces governmental abuses, and leads to more effective allocation of national resources.[20]

Sources and Methodologies

1. Freedom House Press Freedom Index, *http://freedomhouse.org/template.cfm?page=16*. Questions regarding this indicator may be directed to *info@freedomhouse.org* or +1 (202) 296-5101.

   Freedom House's methodology: Countries are given a total score from 0 (best) to 100 (worst) on the basis of a set of 23 methodology questions divided into three subcategories: legal environment, political environment, and economic environment. The degree to which each country permits the free flow of news and information determines the classification of its media as "Free," "Partly Free," or "Not Free." Countries scoring 0 to 30 are regarded as having "Free" media; 31 to 60, "Partly Free" media; and 61 to 100, "Not Free" media. The ratings and reports included in *Freedom of the Press* cover events that took place between January 1 and December 31 of the previous year.

2. Fringe Special—Overview of All FOIA Laws, *http://bit.ly/oxlsnh*. Questions regarding this indicator may be directed to Roger Vleugels at *roger.vleugels@planet.nl* or 0031 6 2152 5790.

   Fringe Methodology: In this dataset the definition of a Freedom of Information Act (FOIA) is as follows: The FOIA must be a law in strict sense, it must include right to access information, this right has to be enforceable, and there must be complaint and appeal possibilities. Decrees are included if they meet the same minimum standards.

3. Open Net Initiative's *Global Internet Filtering Map* (specifically filtering of political content and of internet tools), http://map.opennet.net/filtering-IT.html. Questions regarding this indicator may be directed to contact@opennet.net or +1 (416) 946-8903.

   ONI Methodology: In order to identify and document internet filtering, ONI checks two lists of websites in each of the countries tested: a global list (constant for each country) and a local list (different for each country). The global list of websites is comprised principally of internationally relevant websites with English content. A separate local list is created for each of the countries tested; it includes Web sites related to the specific issues and context of the study country. In countries where Internet censorship has been reported, the local lists also include those sites that were alleged to have been blocked. These lists are samples and are not meant to be exhaustive.

The actual tests are run from within each country using specially designed software. Where appropriate, the tests are run from different locations to capture the differences in blocking behavior across ISPs and across multiple days and weeks to control for normal connectivity problems. Additional diagnostic work is performed to separate normal connectivity errors from intentional tampering.

Data Compilation Methodology: This indicator uses a country's score on Freedom House's Freedom of the Press index (Press) as the base. Countries base scores may improve based on data from the Overview of all Freedom of Information Laws (FOIA.) A country's score is improved by 2 points if they have a Freedom of Information law in process and by 4 points if they have Freedom of Information laws or regulations already enacted. Data from the Global Internet Filtering Map (Net) is used to penalize some countries base scores. A country's score is penalized 2 points for selective filtering of either political content or internet tools; 3 points for substantial filtering of either category; or 4 points for pervasive filtering of either category. This means a country that pervasively filters both political content and internet tools would receive a penalty of 8 points.

On this index, lower is better. Overall index scores are calculated as follows:

Press – FOIA+ Net = index score

Voice and Accountability Indicator

This index measures the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and media independence.

Countries are evaluated on the following factors:

- ★ the existence of free, fair, and regular elections; the independence and credibility of the electoral process, political competition and equal campaigning opportunities for all parties;
- ★ the existence of clear, established, and accepted constitutional mechanisms for the orderly transfer of power from one government to another;
- ★ the stability of democratic institutions;
- ★ responsiveness of the government to its constituents between elections;
- ★ freedom of speech, religion, assembly, association, and demonstration;
- ★ equality of opportunity; gender equality
- ★ freedom to choose where to travel, reside, and work;
- ★ freedom to select a marriage partner, and determine whether or how many children to have;
- ★ the existence of a legal framework to grant asylum or refugee status in accordance with international and regional conventions and system for refugee protection;
- ★ respect for minority groups; and protection of human rights;
- ★ the independence and quality of the media; the degree to which the government protects journalists from extra-legal intimidations, arbitrary arrest and detention, and physical violence, and conducts fair and expeditious investigation and prosecution when press freedom violations occur;
- ★ public confidence in the honesty of elections, public trust in Parliament, public satisfaction with democracy;
- ★ transparency of the business environment and government actions; the extent to which businesses are informed of developments in rules and policies and can express concerns;
- ★ the impact of legal political donations on public policy outcomes; the existence and enforcement of regulations to prevent undue influence of economically-privileged interests (e.g. campaign finance regulations);
- ★ the existence of an institutional forum for dialogue between the government and rural organizations; the degree to which the rural poor are able to enter into dialogue with government representatives and express their concerns and priorities
- ★ the degree to which:
    - * civic groups can testify, comment on, and influence pending government policy or regulation;
    - * NGOs are free from legal impediments from the state and from onerous registration requirements;

* funders of civic organizations and public policy institutes are free from state pressure;
* civil society activists are safe when working on corruption issues;
* citizens have access to public information (i.e. government records); government commitment to budget transparency; and
* the government has put in place a policy and legal framework to enable the rural poor to organize into autonomous groups, associations, or other forms of collective action, and to enable the free formation and operation of rural organizations

Relationship to Growth and Poverty Reduction

Improving public participation and democratic accountability can foster an environment conducive to economic growth by reducing corruption, constraining opportunistic and discretionary behavior, improving the efficiency and responsiveness of public institutions, expanding investor protections, encouraging political stability and social trust, and building respect for the rule of law and property rights.[21] Research also links the incentive structure of democratic institutions with outcomes favorable for the poor.[22] A large body of evidence suggests that the incentives created by the democratic interaction of citizens and state prompt, on average, higher investments in health and education, and thus higher levels of human capital accumulation.[23]

Source

Worldwide Governance Indicators (WGI) from the World Bank/Brookings Institution, *http://www.govindicators.org*. Questions regarding this indicator may be directed to *wgi@worldbank.org* or +1 (202) 473-4557.

Methodology

The indicator is an index combining up to 20 different assessments and surveys, depending on availability, each of which receives a different weight, depending on its estimated precision and country coverage. The Voice and Accountability indicator draws on data, as applicable, from the the *Afrobarometer Survey*, Bertelsmann Foundation's *Bertelsmann Transformation Index*, Freedom House's *Freedom in the World, Freedom of the Press*, and *Countries at the Crossroads* reports, the Economist Intelligence Unit's *Country Risk Service*, the World Economic Forum's *Global Competitiveness Report*, Global Integrity's *Global Integrity Index*, the Gallup *World Poll*, Cingranelli-Richards' *Human Rights Database*, the International Fund for Agricultural Development's *Rural Sector Performance Assessments*, the French Government's *Institutional Profiles Database*, the Institute for Empirical Research in Political Economy's *African Electoral Index,* the *Latinobarometro* Survey, International Research and Exchange Board's *Media Sustainability Index*, the International Budget Project's *Open Budget Index*, Political Risk Service's *International Country Risk Guide*, Reporters Without Borders' *Press Freedom Index*, Vanderbilt University *Americas Barometer* Survey, Institute for Management and Development's *World Competitiveness Yearbook*, Global Insight's *Business Conditions and Risk Indicators*.

Investing in People Category

The indicators in this category measure investments in people by assessing the extent to which governments are promoting broad-based primary education, strengthening capacity to provide quality public health, increasing child health, and promoting the protection of biodiversity.

Immunization Rates Indicator

This indicator measures a government's commitment to providing essential public health services and reducing child mortality.

Relationship to Growth and Poverty Reduction

The Immunization Rates indicator is widely regarded as a good proxy for the overall strength of a government's public health system.[24] It is designed to measure the extent to which governments are investing in the health and well-being of their citizens. Immunization programs can impact economic growth through their broader impact on health.[25] Healthy workers are more economically productive and more likely to save and invest; healthy children are more likely to reach higher levels of educational attainment; and healthy parents are better able to invest in the health and education of their children.[26] Immunization programs also increase labor productivity among the poor, reduce spending to cope with illnesses, and lower mortality and morbidity among the main income-earners in poor families.[27]

Source

The World Health Organization (WHO) and the United Nations Children's Fund (UNICEF), http://*www.who.int/immunization_monitoring/data/*. Questions regarding this indicator may be directed to *vaccines@who.int* or +41 22 791 2873.

Methodology

MCC uses the simple average of the national diphtheria-pertussis-tetanus (DPT3) vaccination rate and the measles (MCV) vaccination rate. The DPT3 immunization rate is measured as the number of children that have received their third dose of the diphtheria, pertussis (whooping cough), and tetanus toxoid vaccine divided by the target population: the number of children surviving their first year of life. The measles immunization rate is measured as the number of children that have received their first dose of a measles-containing vaccine divided by the number of children that have survived their first year of life.

To estimate national immunization coverage, WHO and UNICEF draw on two sources of empirical data: reports of vaccinations performed by service providers (administrative data) and surveys containing items on children's vaccination history (coverage surveys). Surveys are frequently used in conjunction with administrative data; in some instances—where administrative data differ substantially from survey results—surveys constitute the sole source of information on immunization coverage levels. There are a number of reasons survey data may be used over administrative data; for instance, in some cases, lack of precise information on the size of the target population (the denominator) can make immunization coverage difficult to estimate from administrative data alone. Estimates of the most likely true level of immunization coverage are based on the data available, consideration of potential biases, and contributions of local experts.

In consultation with the WHO, MCC considers lower-middle income countries with immunization coverage above 90% to be passing this indicator. Low income countries that score above the median are considered to be passing this indicator.

Health Expenditures Indicator

This indicator measures the government's commitment to investing in the health and well-being of its people.

Relationship to Growth and Poverty Reduction

MCC generally strives to measure outcomes rather than inputs, but health outcomes can be very slow to adjust to policy changes. Therefore, the Health Expenditures indicator is used to gauge the extent to which governments are making investments in the health and well-being of their citizens.[28] A large body of literature links improved health outcomes to economic growth and poverty reduction.[29] While the link between expenditures and outcomes is never automatic in any country, it is generally positive when expenditures are managed and executed efficiently.[30] Research suggests that increased spending on health, when coupled with good policies and good governance, can promote growth, reduce poverty, and trigger declines in infant, child, and maternal mortality.[31]

Source

World Health Organization (WHO), *http://www.who.int/nha/en/*. Questions regarding this indicator may be directed to *nhaweb@who.int*.

Methodology

This indicator measures general government health expenditure (GGHE) as a percentage of Gross Domestic Product (GDP). General government health expenditure includes outlays earmarked for health maintenance, restoration or enhancement of the health status of the population, paid for in cash or in kind by the following financing agents: central/federal, state/provincial/regional, and local/municipal authorities; extrabudgetary agencies, social security schemes; and parastatals. All can be financed through domestic funds or through external resources (mainly as grants passing through the government or loans channeled through the national budget). GGHE includes both recurrent and investment expenditures (including capital transfers) made during the year. The classification of the functions of government (COFOG) promoted by the United Nations, the International Monetary Fund (IMF), OECD and other institutions sets the boundaries for public outlays. Figures are originally estimated in million national currency units (million NCU) and in current prices. GDP data are primarily drawn from the United Nations National Accounts statistics.

Primary Education Expenditures Indicator

This indicator measures the government's commitment to investing in primary education.

Relationship to Growth and Poverty Reduction

While MCC generally strives to measure outcomes rather than inputs, educational outcome indicators can be very slow to adjust to policy changes, and adequate data on educational quality do not yet exist in a consistent manner across a large number of countries. Therefore, the Primary Education Expenditures indicator is used to gauge the extent to which governments are currently making investments in the education of their citizens. Research shows that, for given levels of quality, well-managed and well-executed government spending on primary education can improve educational attainment and increase economic growth.[32] There is also evidence that the returns to education to an economy as a whole are larger than the private returns.[33] Investments in basic education are also critical to poverty reduction. Research shows that regions that begin with higher levels of education generally see a larger poverty impact of economic growth.[34]

Source

The United National Educational, Scientific, and Cultural Organization (UNESCO) Institute for Statistics (UIS) is MCC's primary source of data, *http://www.uis.unesco.org*. UIS compiles primary education expenditure data from official responses to surveys and from reports provided by education authorities in each country. For countries that do not have recent data on file with UIS, MCC relies on Primary Education Expenditure data reported by national governments directly to MCC, as a secondary source. In its data request to candidate countries, MCC requests inclusion of all government expenditures, including sub-national expenditures (both current and capital) and the consolidated public sector (i.e. state-owned enterprises and semi-autonomous institutions), but exclusion of donor funds unless it is not possible to disaggregate them. All data are requested in current local currency (not a constant base year, not dollars). Questions regarding the UIS data may be directed to *survey@uis.unesco.org* or (514)-343-7752. Questions regarding the data reported by national governments can be directed to the Development Policy team at the Millennium Challenge Corporation, at *DevelopmentPolicy@mcc.gov*.

Methodology

UIS attempts to measure total current and capital expenditure on primary education at every level of administration—central, regional, and local. UIS data generally include subsidies for private education, but not foreign aid for primary education. UIS data may also exclude spending by religious schools, which plays a significant role in many developing countries.

In its data request to candidate countries, MCC asks that public expenditure on primary education be measured consistently with the IMF's definition of primary education expenditure in Government Finance Statistics (GFS Line 707), which in turn relies on the 1997 International Standard Classification of Education (ISCED-97). Government outlays on primary education include expenditures on services provided to individual pupils and students and expenditures on services provided on a collective basis. Primary education includes the administration, inspection, operation, or support of schools and other institutions providing primary education at ISCED-97 level 1. It also includes literacy programs for students too old for primary school.

Girls' Primary Education Completion Rate Indicator

This indicator measures a government's commitment to basic education for girls in terms of access, enrollment, and retention. MCC uses this indicator for low income countries only.

Relationship to Growth and Poverty Reduction

Universal basic education is an important determinant of economic growth and poverty reduction. Empirical research consistently shows a strong positive correlation between girls' primary education and accelerated economic growth, slower population growth, higher wages, increased agricultural yields, and increased labor productivity.35 A large body of literature also shows that increasing a mother's schooling has a large effect on her child's health, schooling, and adult productivity.[36] By one estimate, providing girls one extra year of education beyond the average can boost eventual wages by 10-20 percent.[37] The social benefits of female education are also demonstrated through lower fertility rates, higher immunization rates, decreased child and maternal mortality, reduced transmission of HIV, fewer cases of domestic violence, greater educational achievement by children, and increased female participation in government.[38]

Source

UNESCO's Institute for Statistics (UIS), *http://www.uis.unesco.org*. Questions regarding this indicator may be directed to *survey@uis.unesco.org* or +1 (514) 343-7752.

Methodology

The Girls' Primary Education Completion Rate indicator is measured as the gross intake ratio into the last grade of primary, a proxy for primary completion. This is measured as the total number of female students enrolled in the last grade of primary (regardless of age), minus the number of female students repeating the last grade of primary, divided by the total female population of the standard entrance age of the last grade of primary. The primary completion rate reflects the primary cycle as defined by the International Standard Classification of Education (ISCED), ranging from three or four years of primary education (in a very small number of countries) to five or six years (in most countries), to seven years (in a small number of countries). For the countries that changed their primary cycle, the most recent ISCED primary cycle is applied consistently to the whole series.

Girls' Secondary Education Enrolment Ratio Indicator

This indicator measures a government's commitment to secondary education for girls in terms of access, enrollment, and retention. MCC uses this indicator for lower middle income countries only.

Relationship to Growth and Poverty Reduction

Access to continued education beyond the primary level solidifies the benefits associated with girls' primary education. Secondary education for girls ensures they receive both the benefits of primary education and the additional benefits linked to further education. Empirical research consistently shows a strong positive correlation between girls' secondary education and faster economic growth, higher wages for women, slower population growth, and increased labor productivity.39 According to one estimate, a 1 percent increase in proportion of women enrolled in secondary school will generate a 0.3 percent growth in annual per-capita income.[40] A large body of literature also shows that increasing a mother's schooling has a large effect on her children's health, schooling, and adult productivity.[41] The social benefits of female education are also demonstrated through postponed marriage and pregnancy, lower fertility rates, decreased child and maternal mortality, reduced transmission of HIV, and greater educational achievement by children.[42]

Source

UNESCO's Institute for Statistics (UIS), *http://www.uis.unesco.org*. Questions regarding this indicator may be directed to *survey@uis.unesco.org* or +1 (514) 343-7752.

Methodology

The Girls' Secondary Education Enrolment Ratio indicator measures the number of female pupils enrolled in lower secondary school (regardless of age), expressed as a percentage of the total female population of the standard age of enrolment for lower secondary education. Lower secondary school is defined as a program typically designed to complete the development of basic skills and knowledge which began at the primary level. In many countries, the educational aim is to lay the foundation for lifelong learning and individual development. The programs at this level are usually on a subject-oriented pattern, requiring specialized teachers for each subject area. The end of this level often coincides with the end of compulsory education.

Child Health Indicator

This composite indicator measures a government's commitment to child health as measured by child mortality, the sound management of water resources and water systems, and proper sewage disposal and sanitary control.

Relationship to Growth and Poverty Reduction

Improving child health leads to a more productive and healthier workforce both presently and in the future. Inadequate water and sanitation is the second leading cause of child mortality; it kills more young children than AIDS, malaria, and measles combined.[43] Investment in children and child health—particularly during the first five years of age—can prevent learning disabilities and increase learning capacity, promote individual autonomy and family self-reliance, and raise efficiency of public expenditure.[44] Economic literature suggests that as child health increases and child mortality declines, fertility rates also decline.[45] Subsequently, human capital investment in each child increases, which results in a more stable, better educated, and healthier future workforce.[46] In addition, reducing fertility rates increases output per worker and leads to higher wages for women.[47]

Source

Columbia University's Center for International Earth Science Information Network (CIESIN) and the Yale Center for Environmental Law and Policy (YCELP), *http://sedac.ciesin.columbia.edu/es/mcc.html*. Questions regarding this indicator may be directed to *ciesin.info@ciesin.columbia.edu* or +1 (845) 365-8988.

Methodology

This index is calculated as the average of three, equally weighted indicators:

- Access to Improved Sanitation: Produced by WHO and UNICEF, this indicator measures the percentage of the population with access to facilities that hygienically separate human excreta from human, animal, and insect contact. Facilities such as flush/pour-flush to a piped system, septic tank or pit latrine; ventilated improved pit latrines; pit latrines with slabs; and composting toilets are considered improved sources, provided that they are not shared between two or more households.

- ★ Access to Improved Water: Produced by WHO and UNICEF, this indicator measures the percentage of the population with access to at least 20 liters of water per person per day from an improved source (household connections, public taps or standpipes, boreholes or tube wells, protected dug wells, protected springs, and rainwater collection) within one kilometer of the user's dwelling.
- ★ Child Mortality (Ages 1-4): Produced by the Population Division of the United Nations Department of Economic and Social Affairs, this indicator measures the probability of dying between turning 1 and turning 5.

Natural Resource Protection

This indicator measures a government's commitment to habitat preservation and biodiversity protection.

Relationship to Growth and Poverty Reduction

Environmental protection of biomes and the ecosystems within those biomes provides long-term economic growth by providing essential ecosystem goods and services such as fertile soil, climate regulation, clean air and water, renewable energy, and genetic diversity.[48] The appropriate management of ecosystems and the natural resources within those ecosystems promotes agricultural and non-agricultural productivity.[49] Some research suggests that economic growth will be increasingly difficult to sustain as the current population compromises or decimates the biomes that provide the natural resources that are essential to future development or sustenance.[50] Poor people pay the daily price of environmental degradation — in days of work lost to illness from water-borne diseases and in higher morbidity rates from pollution.[51]

Source

Columbia University's Center for International Earth Science Information Network (CIESIN) and the Yale Center for Environmental Law and Policy (YCELP), *http://sedac.ciesin.columbia.edu/es/mcc.html*. Questions regarding this indicator may be directed to *ciesin.info@ciesin.columbia.edu* or +1 (845) 365-8988.

Methodology

Developed by CIESIN, this indicator assesses whether a country is protecting at least 10% of all of its biomes (e.g. deserts, forests, grasslands, tundra, etc.). It is designed to capture the comprehensiveness of a government's commitment to habitat preservation and biodiversity protection. The World Wildlife Fund provides the underlying eco-region data, and the United Nations Environment Program World Conservation Monitoring Center — in partnership with the International Union for Conservation of Nature (IUCN) World Commission on Protected Areas and the World Database on Protected Areas Consortium — provides the underlying data on protected areas.

Encouraging Economic Freedom Category

The eight indicators in this category measure the extent to which a government encourages economic freedom by assessing, among other things, a country's demonstrated commitment to economic policies that: encourage individuals and firms to participate in global trade and international capital markets, promote private sector growth and the sustainable management of natural resources, protect private property rights, and strengthen market forces in the economy.

Regulatory Quality Indicator

This indicator measures the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.

Countries are evaluated on the following factors:

- ★ prevalence of regulations and administrative requirements that impose a burden on business; ease of starting and closing a new business; ease of registering property;
- ★ government intervention in the economy; the extent to which government subsidies keep uncompetitive industries alive;
- ★ labor market policies; employment law provides for flexibility in hiring and firing; wage and price controls;
- ★ the complexity and efficiency of the tax system; pro-investment tax policies;
- ★ trade policy; the height of tariffs barriers; the number of tariff bands; the stability of tariff rates; the extent to which non-tariff barriers are used; the transparency and predictability of the trade regime;
- ★ investment attractiveness; prevalence of bans or investment licensing requirements; financial regulations on foreign investment and capital; legal restrictions on ownership of business and equity by non-residents; foreign currency regulations; general uncertainty about regulation costs; legal regulation of financial institutions; the extent to which exchange rate policy hinders firm competitiveness;
- ★ extensiveness of legal rules and effectiveness of legal regulations in the banking and securities sectors; costs of uncertain rules, laws, or government policies;
- ★ the strength of the banking system; existence of barriers to entry in the banking sector; ease of access to capital markets; protection of domestic banks from foreign competition; whether interest rates are heavily-regulated; transfer costs associated with exporting capital;
- ★ participation of the private sector in infrastructure projects; dominance of state-owned enterprises; openness of public sector contracts to foreign investors; the extent of market competition; effectiveness of competition and anti-trust policies and legislation;
- ★ the existence of a policy, legal, and institutional framework that supports the development of a commercially-based, market-driven rural finance sector that is efficient, equitable, and accessible to low-income populations in rural areas;
- ★ the adoption of an appropriate policy, legal, and regulatory framework to support the emergence and development of an efficient private rural business sector; the establishment of simple, fast and transparent procedures for establishing private agri-businesses;
- ★ the existence of a policy, legal, and institutional framework that supports the development and liberalization of commercially-based agricultural markets (for inputs and produce) that operate in a

liberalized and private sector-led, functionally efficient and equitable manner, and that are accessible to small farmers

- ★ the extent to which:
    - * corporate governance laws encourage ownership and financial disclosure and protect shareholder rights, and are generally enforced;
    - * state intervention in the goods and land market is generally limited to regulation and/or legislation to smooth out market imperfections;
    - * the customs service is free of corruption, operates transparently, relies on risk management, processes duty collections, and refunds promptly;
    - * trade laws, regulations, and guidelines are published, simplified, and rationalized.

Relationship to Growth and Poverty Reduction

Improved regulatory quality can promote economic growth by creating effective and efficient incentives for the private sector. Conversely, burdensome regulations have a negative impact on economic performance through economic waste and decreased productivity.[52] Researchers at the International Finance Corporation argue that "improving from the worst…to the best…quartile of business regulations implies a 2.3 percentage point increase in average annual growth."[53] Good regulatory policies help the poor by creating opportunities for entrepreneurship, reducing opportunities for corruption, increasing the quality of public services, and improving the functioning of the housing, service, and labor markets on which they rely.[54]

Source

Worldwide Governance Indicators (WGI) from the World Bank/Brookings Institution, *http://www.govindicators.org*. Questions regarding this indicator may be directed to *wgi@worldbank.org* or +1 (202) 473-4557.

Methodology

This indicator is an index combining up to 14 different assessments and surveys, depending on availability, each of which receives a different weight, depending on its estimated precision and country coverage. The Regulatory Quality indicator draws on data, as applicable, from the *Country Policy and Institutional Assessments* of the World Bank, the African Development Bank, and the Asian Development Bank, the World Bank's *Business Environment and Enterprise Performance Survey*, Bertelsmann Foundation's *Bertelsmann Transformation Index*, Global Insight's *Business Conditions and Risk Indicators*, the European Bank for Reconstruction and Development's *Transition Report*, the Economist Intelligence Unit's *Country Risk Service*, the World Economic Forum's *Global Competitiveness Report*, the Heritage Foundation's *Index of Economic Freedom*, the International Fund for Agricultural Development's *Rural Sector Performance Assessments*, the French Government's *Institutional Profiles Database*, Political Risk Service's *International Country Risk Guide*, Institute for Management and Development's *World Competitiveness Yearbook*.

Land Rights and Access Indicator

This indicator evaluates whether and to what extent governments are investing in secure land tenure.

Relationship to Growth and Poverty Reduction

Secure land tenure plays a central role in the economic growth process by giving people long-term incentives to invest and save their income, enhancing access to essential public services, allowing for more productive use of time and money than protecting land rights, facilitating use of land as collateral for loans, and contributing to social stability and local governance.[55] Improvements in tenure security also favor growth that is "pro-poor" because the benefits generally accrue to those who have not possessed such rights in the past and those who are affected most by high property registration costs.[56] In addition, land policy reform can be particularly meaningful for women. Research shows that when women have secure access to land and are able to exercise control over land assets, their ability to earn income is enhanced, household spending on healthcare, nutritious foods, and children's education increases, and human capital accumulation occurs at a faster rate. Women's ability to inherit and possess control rights to land also serves as a crucial social safety net.[57]

Source

International Fund for Agricultural Development (IFAD), *http://www.ifad.org*, and International Finance Corporation (IFC), *http://www.doingbusiness.org*. Questions regarding the IFAD indicator may be directed to +39 06 545 92377. Questions regarding the IFC indicators may be directed to *doingbusiness@worldbank.org* or +1 (202) 473-5758.

Methodology

This composite indicator is calculated as the weighted average of three indicators. Access to Land is weighted 50% and Days and Cost to Register Property are each weighted 25%.

★ *Access to Land:* Produced by IFAD, this indicator assesses the extent to which the institutional, legal, and market framework provides secure land tenure and equitable access to land in rural areas. It is made up of five subcomponents: (1) the extent to which the law guarantees secure tenure for land rights of the poor; (2) the extent to which the law guarantees secure land rights for women and other vulnerable groups; (3) the extent to which land is titled and registered; (4) the functioning of land markets; and (5) the extent to which government policies contribute to the sustainable management of common property resources. IFAD's operational staff base their assessments on a questionnaire and guideposts identifying the basis of each scoring level, available at *http://www.ifad.org/gbdocs/gc/27/e/GC-27-L-6.pdf*.

★ *Days to Register Property:* Produced by the IFC, this indicator measures how long it takes to register property in a periurban zone. The IFC records the full amount of time necessary when a business purchases land and a building to transfer the property title from the seller to the buyer so that the buyer can use the title for expanding business, as collateral in taking new loans, or, if necessary, to sell to another business.

★ *Cost of Registering Property:* Produced by the IFC, this indicator measures the cost to register property in a periurban zone as a percentage of the value of the property. The IFC records all of the costs that are incurred when a business purchases land and a building to transfer the property title from the seller to the buyer, so that the buyer can use it for expanding his business, as collateral in taking new loans, or, if necessary, to sell it to another business.

To calculate the Days and Cost of Registering a Property indicators, local property lawyers, notaries and property registries provide information on procedures as well as the time and cost to complete each of them. To make the data comparable across countries, several assumptions about the parties to the transaction, the property and the procedures are used.

The parties (buyer and seller):

* Are limited liability companies.
* Are located in the periurban area of the country's most populous city.
* Are 100% domestically and privately owned.
* Have 50 employees each, all of whom are nationals.
* Perform general commercial activities.

The property:

* Has a value of 50 times income per capita. The sale price equals the value.
* Is fully owned by the seller.
* Has no mortgages attached and has been under the same ownership for the past 10 years.
* Is registered in the land registry or cadastre, or both, and is free of title disputes.
* Is located in a periurban commercial zone, and no rezoning is required.
* Consists of land and a building. The land area is 557.4 square meters (6,000 square feet). A 2-story warehouse of 929 square meters (10,000 square feet) is located on the land. The warehouse is 10 years old, is in good condition and complies with all safety standards, building codes and other legal requirements. The property of land and building will be transferred in its entirety.
* Will not be subject to renovations or additional building following the purchase.
* Has no trees, natural water sources, natural reserves or historical monuments of any kind.
* Will not be used for special purposes, and no special permits, such as for residential use, industrial plants, waste storage or certain types of agricultural activities, are required.
* Has no occupants (legal or illegal), and no other party holds a legal interest in it.

Access to Credit Indicator

This indicator measures the depth of available credit information and the effectiveness of collateral and bankruptcy laws in facilitating lending.

Relationship to Growth and Poverty Reduction

The ability to access affordable credit is a critical element of private sector led growth. Small businesses in particular often lack the initial capital to grow and expand. Credit allows members of the private sector to potentially increase their output, generate more profit, and create additional jobs. Visible credit information registries are vital because without credit sharing, lenders are not aware of borrowers' capacity and ability to repay their loans. This can lead to significant default rates, which drives up the perceived risk of lending and cost of capital.[58] Collateral laws that permit a broad definition of collateral help to eliminate "dead capital," which can help reduce interest rates and encourage greater loan volumes.

Source

International Finance Corporation (IFC), *http://www.doingbusiness.org*. Questions regarding this indicator may be directed to *doingbusiness@worldbank.org* or +1 (202) 473-5758.

Methodology

The Access to Credit composite indicator is calculated by taking the simple average of two IFC indicators, which are normalized and ranked on equivalent scales:

★ *Depth of Information:* The depth of credit information index measures rules and practices affecting the coverage, scope and accessibility of credit information available through either a public credit registry or a private credit bureau. A score of 1 is assigned for each of the following 6 features of the public credit registry or private credit bureau (or both):

  * Both positive credit information (for example, outstanding loan amounts and pattern of on-time repayments) and negative information (for example, late payments, number and amount of defaults and bankruptcies) are distributed.
  * Data on both firms and individuals are distributed.
  * Data from retailers and utility companies as well as financial institutions are distributed.
  * More than 2 years of historical data are distributed. Credit registries and bureaus that erase data on defaults as soon as they are repaid obtain a score of 0 for this indicator.
  * Data on loan amounts below 1% of income per capita are distributed. Note that a credit registry or bureau must have a minimum coverage of 1% of the adult population to score a 1 on this indicator.
  * By law, borrowers have the right to access their data in the largest credit registry or bureau in the economy.

The index ranges from 0 to 6, with higher values indicating the availability of more credit information, from either a public credit registry or a private credit bureau, to facilitate lending decisions. If the credit registry or bureau is not operational or has coverage of less than 0.1% of the adult population, the score on the depth of credit information index is 0.

★ *Strength of Legal Rights:* This component measures the extent to which bankruptcy and collateral laws protect the rights of borrowers and lenders to facilitate lending. It contains 8 aspects related to legal rights in collateral law and two aspects in bankruptcy law. A score of 1 is assigned for each of the following features of the laws:

  * Any business may use movable assets as collateral while keeping possession of the assets, and any financial institution may accept such assets as collateral.
  * The law allows a business to grant a nonpossessory security right in a single category of movable assets (such as accounts receivable or inventory), without requiring a specific description of the collateral.

* The law allows a business to grant a nonpossessory security right in substantially all its movable assets, without requiring a specific description of the collateral.
* A security right may extend to future or after-acquired assets and may extend automatically to the products, proceeds or replacements of the original assets.
* A general description of debts and obligations is permitted in the collateral agreements and in registration documents: all types of debts and obligations can be secured between the parties, and the collateral agreement can include a maximum amount for which the assets are encumbered.
* A collateral registry or registration institution is in operation, unified geographically and by asset type, with an electronic database indexed by debtors' names.
* Secured creditors are paid first (for example, before general tax claims and employee claims) when a debtor defaults outside an insolvency procedure.
* Secured creditors are paid first (for example, before general tax claims and employee claims) when a business is liquidated.
* Secured creditors are not subject to an automatic stay or moratorium on enforcement procedures when a debtor enters a court-supervised reorganization procedure.
* The law allows parties to agree in a collateral agreement that the lender may enforce its security right out of court.

The index ranges from 0 to 10, with higher scores indicating that collateral and bankruptcy laws are better designed to expand access to credit.

Business Start-Up Indicator

This indicator measures the time and cost of complying with all procedures officially required for an entrepreneur to start up and formally operate an industrial or commercial business.

Relationship to Growth and Poverty Reduction

The ability to start a business is important for encouraging entrepreneurship and economic growth.[59] Easing business entry into the formal economy can reduce unemployment, encourage investment, expand the tax base, help small entrepreneurs to access bank credit, allow workers to enjoy health insurance and pension benefits, and enable businesses to achieve economies of scale.[60] Research shows that formally registered businesses grow to more efficient sizes because they do not operate in fear of the authorities.[61] The International Finance Corporation has found that business start-up reforms "can add between a quarter and a half a percentage point to growth rates in the average developing economy."[62] Cost-related barriers to starting a business are particularly regressive in that they deny economic opportunities to the poor due to their low levels of liquid capital.[63]

Source

International Finance Corporation (IFC), *http://www.doingbusiness.org*. Questions regarding this indicator may be directed to *doingbusiness@worldbank.org* or +1 (202) 473-5758.

Methodology

The Business Start-Up composite indicator is calculated as the average of two indicators:

- *Days to Start a Business:* This component measures the number of calendar days it takes to comply with all procedures that are officially required for an entrepreneur to start up and formally operate an industrial or commercial business. These include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions for the company and employees with relevant authorities.
- *Cost of Starting a Business:* This component measures the cost of starting a business as a percentage of country's per capita income. The IFC records all procedures that are officially required for an entrepreneur to start up and formally operate an industrial or commercial business. These include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions for the company and employees with relevant authorities.

Local lawyers and other professionals examine specific regulations that impact the time and cost of opening a new business. The local lawyers and/or other professionals are instructed to record all generic procedures that are officially required for entrepreneur to start up an industrial or commercial business. These include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions with relevant authorities. After a study of laws, regulations and publicly available information on business entry, a detailed list of procedures, time, cost and paid-in minimum capital requirements is developed. Subsequently, local incorporation lawyers and government officials complete and verify the data on applicable procedures, the time and cost of complying with each procedure under normal circumstances and the paid-in minimum capital. On average four law firms participate in each country. Information is also collected on the sequence in which procedures are to be completed and whether procedures may be carried out simultaneously. It is assumed that any required information is readily available and that all government and non-government agencies involved in the start-up process function efficiently and without corruption. If answers by local experts differ, inquiries continue until the data are reconciled.

To make the data comparable across countries, several assumptions about the business and the procedures are used. The business:

- is a limited liability company; if there is more than one type of limited liability company in the country, the most popular limited liability form among domestic firms is chosen. Information on the most popular form is obtained from incorporation lawyers or the statistical office;
- operates in the country's most populous city;
- is 100% domestically owned and has five owners, none of whom is a legal entity;
- has start-up capital of 10 times income per capita, paid in cash;
- performs general industrial or commercial activities, such as the production or sale of products or services to the public; it does not perform foreign trade activities and does not handle products subject to a special tax regime, for example, liquor or tobacco; the business is not using heavily polluting production processes;
- leases the commercial plant and offices and is not a proprietor of real estate;
- does not qualify for investment incentives or any special benefits;
- has up to 50 employees one month after the commencement of operations, all of them nationals;

- ★ has a turnover at least 100 times income per capita; and
- ★ has a company deed 10 pages long.

It is assumed that the minimum time required per procedure is one calendar day. Time captures the median duration that incorporation lawyers indicate is necessary to complete a procedure. Although procedures may take place simultaneously, they cannot start on the same day (that is, simultaneous procedures start on consecutive days). A procedure is considered completed once the company has received the final document, such as the company registration certificate or tax number. If a procedure can be accelerated for an additional cost, the fastest procedure is chosen. It is assumed that the entrepreneur does not waste time and commits to completing each remaining procedure without delay. The time that the entrepreneur spends on gathering information is ignored. It is assumed that the entrepreneur is aware of all entry regulations and their sequence from the beginning.

The text of the company law, the commercial code and specific regulations and fee schedules are used as sources for calculating the cost of start-up. If there are conflicting sources and the laws are not clear, the most authoritative source is used. The constitution supersedes the company law, and the law prevails over regulations and decrees. If conflicting sources are of the same rank, the source indicating the most costly procedure is used, since an entrepreneur never second-guesses a government official. In the absence of fee schedules, a government officer's estimate is taken as an official source. In the absence of a government officer's estimate, estimates of incorporation lawyers are used. If several incorporation lawyers provide different estimates, the median reported value is applied. In all cases the cost excludes bribes.

Trade Policy Indicator

This indicator measures a country's openness to international trade based on average tariff rates and non-tariff barriers to trade. Countries are rated on the following factors:

- ★ Trade-weighted average tariff rate;
- ★ Non-tariff barriers (NTBs) including, but not limited to: import licenses; trade quotas; production subsidies; anti-dumping, countervailing, and safeguard measures; government procurement procedures; local content requirements; excessive marking and labeling requirements; export assistance; export taxes and tax concessions; and corruption in the customs service.

Relationship to Growth and Poverty Reduction

Trade openness can help to accelerate long run economic growth by allowing for greater economic specialization, encouraging investment and increasing productivity.[64] Greater international competition can also force domestic firms to be more efficient and reduce rent seeking and corrupt activities.[65] One study estimates that "open" economies on average register 2.2% higher economic growth than "closed" economies.[66] Although the relationship between trade openness and poverty reduction is complex, research suggests trade liberalization can improve the livelihoods and real incomes of the poor through the availability of lower-cost import items, increases in the relative wages of laborers, net increases in tariff revenues as a result of lower rates and higher volume, and insulation of the economy from negative exogenous shocks.[67]

Source

The Heritage Foundation, *http://www.heritage.org/research/features/index/index.cfm*. Questions regarding this indicator may be directed to *Anthony.Kim@heritage.org* or +1 (202) 608-6261.

Methodology

This indicator relies on the Heritage Foundation's Trade Freedom score which is a component of their annual *Index of Economic Freedom*. The indicator scale ranges from 0 to 100, where 0 represents the highest level of protectionism and 100 represents the lowest level of protectionism. The equation used to convert tariff rates and non-tariff barriers into this 0-100 percent scale is presented below:

$$\text{Trade Policy}_i = (\text{Tariff}_{max}\text{-Tariff}_i)/(\text{Tariff}_{max}\text{-Tariff}_{min}) - \text{NTB}_i$$

Trade Policyi represents the trade freedom in country i, Tariff_{max} and Tariff_{min} represent the upper and lower bounds (50 and zero percent respectively), and Tariffi represents the weighted average tariff rate in country *i*. The result is multiplied by 100 to convert it to a percentage. If applicable to country *i*, an NTB penalty of 5, 10, 15, or 20 percentage points is then subtracted from the base score, depending on the pervasiveness of NTBs.

In general, the Heritage Foundation uses the weighted average tariff rate (weighted by imports from the country's trading partners) as the tariff score. In the absence of weighted average applied tariff rate data, a country's average applied tariff rate is used. In the absence of average applied tariff rate data, the weighted average or the simple average of most favored nation tariff rates are used. In the very few cases where data on duties and customs revenues are not available, the authors rely on measures of international trade taxes. Data on tariffs and NTBs are obtained from the following sources in order of descending priority: the World Bank's *World Development Indicators and Data on Trade and Import Barriers: Trends in Average Tariff Rates for Developing and Industrial Countries*; the World Trade Organization's *Trade Policy Reviews*; the Office of the U.S. Trade Representative's *National Trade Estimate Report on Foreign Trade Barriers*, the World Bank's *Doing Business* report, the U.S. Department of Commerce's *Country Commercial Guide*, the Economist Intelligence Unit's *Country Reports, Country Profiles*, and *Country Commerce* data, and "official government publications of each country."

Inflation Indicator

This indicator measures the government's commitment to sound monetary policy.

Relationship to Growth and Poverty Reduction

Research shows that high levels of inflation are detrimental to long-run growth.[68] High inflation creates an environment of risk and uncertainty, drives down the rate of investment, and is often associated with distorted relative prices and tax incentives.[69] Inflation can also hinder financial market development and create incentives for corruption.[70] In addition, inflation often has a direct negative impact on the poor. When inflation is associated with swings in relative prices, it usually erodes real wages and distorts consumption decisions.[71]

Source

IMF World Economic Outlook (WEO) database, *http://www.imf.org/external/ns/cs.aspx?id=28*. Questions regarding this indicator may be directed to IMF country economists. See individual IMF country pages (*http://www.imf.org/external/country/index.htm*) for contact details.

Methodology

This indicator measures the most recent one-year change in consumer prices. The indicator reflects average annual percentage change for the year, not end-of-period data.

In keeping with economic research findings, MCC considers countries with inflation below 15 to be passing this indicator.

Fiscal Policy Indicator

This indicator measures the government's commitment to prudent fiscal management and private sector growth.

Relationship to Growth and Poverty Reduction

Unsustainable fiscal deficits can impact economic growth by raising expectations of inflation or exchange rate depreciation.[72] Fiscal deficits driven by current expenditures decrease national savings and put upward pressure on real interest rates, which can lead to a crowding out of private sector activity.[73] In addition, fiscal deficits either force governments to increase tax rates, reducing the capital available for domestic investment, or to increase the stock of public debt.[74] High and growing levels of public debt have also led to financial and macroeconomic instability in many countries.[75] Taken together, these factors decrease labor productivity and wages, thereby increasing poverty.[76]

Source

The IMF's World Economic Outlook (WEO) database, *http://www.imf.org/external/ns/cs.aspx?id=28*. Questions regarding this indicator may be directed to IMF country economists. See individual IMF country pages (*http://www.imf.org/external/country/index.htm*) for contact details.

Methodology

This indicator is general government net lending/borrowing as a percent of GDP, averaged over a three-year period. Net lending/borrowing is calculated as revenue minus total expenditure.

Gender in the Economy Indicator

This indicator measures the government's commitment to promoting gender equality by providing women and men with the same legal ability to interact with the private and public sector.

Relationship to Growth and Poverty Reduction

Studies show that legally sanctioned gender inequality has a significant negative impact on a country's economic growth because it prevents a large portion the population from fully participating in the economy.[77] When one gender receives fewer legal rights, both the country's potential labor force and potential pool of entrepreneurs decreases. When women are excluded from "male" jobs in the formal sector, an overcrowding occurs in the "female" informal job sector. This leads to a depression of wages for an otherwise productive group of workers.[78] Research shows that when women have access to employment, investment in children's health and education often increases, promoting higher levels of human capital.[79]

Source

Women Business and the Law, *http://wbl.worldbank.org/*. Questions regarding this indicator may be directed Questions regarding this indicator may be directed to *rru@worldbank.org*.

Methodology

This indicator combines 20 different assessments comparing women's legal capacity to that of men. When conducting the assessments it is assumed that women have reached the legal age of majority; are sane, competent, in good health, and without a criminal record; and where married, are involved in a monogamous relationship. The legal capacity to execute 10 economic activities is examined: get a job, register a business, sign a contract, open a bank account, choose where to live, get passports, travel domestically and abroad, pass on citizenship to their children, and become heads of households. For the purposes of this indicator, women have the same capacity as men if they are legally able to perform these activities in the same way as men. Women are considered to have less capacity to act if they have fewer rights than men in the areas examined.

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