

The Fiscal Year 2010 Selection Process for MCA Eligible Countries

To select countries as eligible for Millennium Challenge Account Compact funding, MCC assesses the degree to which the political, social and economic conditions in a country promote broad-based sustainable economic growth. In making its determinations, MCC's Board of Directors considers three factors: performance on the policy criteria, the opportunity to reduce poverty and generate economic growth in the country, and the funds available to MCC. To assess policy performance, MCC uses third-party indicators to identify countries with policy environments that will allow Millennium Challenge Account funding to be effective in reducing poverty and promoting economic growth. MCC evaluates performance in three areas—Ruling Justly, Investing in People, and Encouraging Economic Freedom. The Selection Process has four major steps:

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

Identification of Candidate Countries

Candidate countries for the fiscal year are identified based on their per capita income. MCC submits a Report to Congress with a list of candidate countries prior to the selection of countries eligible for MCA assistance. For Fiscal Year 2010 (FY10), a "candidate country" must meet at least one of the following criteria and cannot be statutorily prohibited from receiving U.S. economic assistance:

- ★ *Low Income Category*: countries with a per capita income less than or equal to \$1,855; or
- ★ *Lower Middle Income Category*: countries with a per capita income greater than \$1,855 but less than or equal to \$3,855;

Publication of MCC's Selection Criteria & Methodology

MCC submits a Report to Congress describing the criteria and the methodology—including the indicators—which MCC's Board of Directors will use to select new countries as eligible for MCA assistance. MCC holds a 30-day formal public comment period following publication of the Report.

Methodology

The Board considers whether countries perform above the median in their income peer group (Low Income and Lower Middle Income) on at least half of the indicators in each of the three policy categories and above the median on the Control of Corruption indicator. A country may be determined ineligible if it performs substantially below average on any indicator (i.e. the bottom 25th percentile) and has not taken appropriate measures to address the shortcoming.

Indicators

To evaluate policy performance, MCC uses, to the maximum extent possible, objective and quantifiable policy indicators in three broad policy categories: Ruling Justly, Investing in People, and Encouraging Economic Freedom. MCC favors policy indicators developed by independent third party institutions that rely on objective, publicly available data and 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 17 indicators that will be used in Fiscal Year 2010 are:

Ruling Justly

- ★ Civil Liberties (Freedom House)
- ★ Political Rights (Freedom House)
- ★ Voice and Accountability (World Bank Institute)
- ★ Government Effectiveness (World Bank Institute)
- ★ Rule of Law (World Bank Institute)
- ★ Control of Corruption (World Bank Institute)

Investing in People

- ★ Immunization Rates (World Health Organization)
- ★ Public Expenditure on Health (World Health Organization)
- ★ Girls' Primary Education Completion Rate (UNESCO)
- ★ Public Expenditure on Primary Education (UNESCO and national sources)

- ★ Natural Resource Management (CIESIN and YCELP)

Encouraging Economic Freedom

- ★ Business Start-Up (IFC)
- ★ Land Rights and Access (IFAD and IFC)
- ★ Trade Policy (Heritage Foundation)
- ★ Regulatory Quality (World Bank Institute)
- ★ Inflation (IMF WEO)
- ★ Fiscal Policy (IMF country reports and national sources, cross-checked with IMF WEO)

Supplemental Information

The Board may also consider information to address gaps, time lags, measurement error, or other weaknesses in the indicators to assist in assessing whether MCC funds might reduce poverty and promote economic growth in a country. For FY 2010, supplemental sources may include: the disabilities component of the U.S. Department of State's Human Rights Report, Transparency International's Corruption Perceptions Index, and the Global Integrity Index, among other sources.

Publication of MCC Scorecards

Following the public comment period on the selection criteria and methodology, MCC will publish country performance "scorecards" on its website (www.mcc.gov) for all candidate countries and countries that would be candidates but for legal prohibitions.

Selection of Compact-Eligible Countries

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

Selection of Threshold Countries

The MCC Board may also select countries to participate in the Threshold Program. The Threshold Program is for countries that demonstrate a significant commitment to meeting the eligibility criteria but fall short in only some policy areas. Threshold funding provides assistance for targeted policy reform efforts. MCC's indicators help to identify opportunities for policy reform in countries selected to receive Threshold assistance.

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