



The Fiscal Year 2012 Selection Process for MCA Eligible Countries

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 Directors 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.

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.

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 Enrollment (LMICs)³
- * Public Expenditure on Primary Education (UNESCO and national sources)
- * Child Health (CIESIN and YCELP)⁴
- * 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)

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.

- * 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.