

MILLENNIUM CHALLENGE CORPORATION

[MCC FR 13–06]

Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2014

AGENCY: Millennium Challenge Corporation.

ACTION: Notice.

SUMMARY: This report to Congress is provided in accordance with Section 608(b) of the Millennium Challenge Act of 2003, as amended, 22 U.S.C. 7707(b) (the “Act”).

Dated: September 16 2013.

Melvin F. Williams, Jr.,

VP/General Counsel and Corporate Secretary, Millennium Challenge Corporation.

Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2014

Summary

This report to Congress is provided in accordance with section 608(b) of the Millennium Challenge Act of 2003, as amended, 22 U.S.C. 7707(b) (the Act).

The Act authorizes the provision of Millennium Challenge Account (MCA) assistance to countries that enter into a Millennium Challenge Compact with the United States to support policies and programs that advance the progress of such countries in achieving lasting

economic growth and poverty reduction. The Act requires the Millennium Challenge Corporation (MCC) to take a number of steps in determining which countries will be selected as eligible for MCA compact assistance for fiscal year (FY) 2014 based on the countries’ demonstrated commitment to just and democratic governance, economic freedom, and investing in their people, as well as MCC’s opportunity to reduce poverty and generate economic growth in the country. These steps include the submission of reports to the congressional committees specified in the Act and publication of notices in the **Federal Register** that identify:

- The countries that are “candidate countries” for MCA assistance for FY 2014 based on per capita income levels and eligibility to receive assistance under U.S. law. This report identifies countries that would be candidate countries but for specified legal prohibitions on assistance (section 608(a) of the Act; 22 U.S.C. 7707(a));
- The criteria and methodology that MCC’s Board of Directors (Board) will use to measure and evaluate policy performance of the candidate countries consistent with the requirements of section 607 of the Act (22 U.S.C. 7706) in order to determine “eligible countries” from among the “candidate countries” (section 608(b) of the Act); and
- The list of countries determined by the Board to be “eligible countries” for FY 2014, with justification for eligibility determination and selection for compact

negotiation, including those eligible countries with which MCC will seek to enter into compacts (section 608(d) of the Act).

This report sets out the criteria and methodology to be applied in determining eligibility for FY 2014 MCA assistance.

Criteria and Methodology for FY 2014

The Board will base its selection of eligible countries on several factors, including:

- The country’s overall performance in the three broad policy categories of Ruling Justly, Encouraging Economic Freedom, and Investing in People;
- MCC’s opportunity to reduce poverty and generate economic growth in a country; and;
- The availability of MCC funds.

In addition, the Board will consider a country’s performance during implementation of a prior compact or threshold program, if applicable.

Section 607 of the Act requires that the Board’s determination of eligibility be based “to the maximum extent possible, upon objective and quantifiable indicators of a country’s demonstrated commitment” to the criteria set out in the Act.

Performance in Policy Categories

In FY 2014 the Board will use 20 indicators to assess the policy performance of individual countries. These indicators are grouped under the three policy categories listed in Table 1. A description of each indicator, including definitions and sources, can be found in Annex A.

TABLE 1

Ruling justly	Encouraging economic freedom	Investing in people
Political Rights Civil Liberties Freedom of Information Government Effectiveness Rule of Law Control of Corruption Sources: Freedom House FRINGE Special Open Net Initiative World Bank/Brookings	Fiscal Policy Inflation Regulatory Quality Trade Policy Gender in the Economy Land Rights and Access Access to Credit Business Start-Up Sources: IMF World Bank/Brookings Heritage Foundation IFC International Fund for Agricultural Development	Public Expenditure on Health. Total Public Expenditure on Primary Education. Natural Resource Protection. Immunization Rates. Girls’ Education: <ul style="list-style-type: none"> • Primary Completion Rate (LICs). • Secondary Education Enrollment (LMICs). Child Health. Sources: World Health Organization. UNICEF. UNESCO. National Sources. CIESIN/YCLEP.

To assess policy performance of a particular candidate country, the Board will consider whether a country performs above the median of their

income peers or absolute threshold on at least half of the indicators; above the median on the Control of Corruption indicator; and above the absolute

threshold on either the Civil Liberties or Political Rights indicators. Indicators with absolute thresholds in lieu of a median include: (i) Inflation, on which

a country's inflation rate must be under a fixed ceiling of 15 percent; (ii) Immunization Rates (lower middle income countries (LMICs) only), on which an LMIC must have immunization coverage above 90 percent; (iii) Political Rights, on which countries must score above 17 out of 40; and (iv) Civil Liberties, on which countries must score above 25 out of 60. The Board will also consider whether a country performs substantially worse in any policy category than it does on the overall scorecard, and countries must meet a minimum standard of passing one indicator in each category. As outlined in Annex C, countries are

compared only to others in their same income category: Low income countries (LICs) or LMICs.

Considerations of Prior Compact Implementation

Countries that have completed their compact, or are within 18 months of compact completion, may be considered for eligibility for a subsequent compact. To determine eligibility for subsequent compacts, the Board will consider the country's policy performance using the methodology and criteria described above, as well as the country's track record of performance implementing its prior compact.

To assess implementation of a prior compact, the Board will consider the nature of the country's partnership with MCC; the degree to which the country has demonstrated a commitment and capacity to achieve program results; and the degree to which the country has implemented the compact in accordance with MCC's core policies and standards.

In FY 2014, the Board will assess countries on their performance on the prior compact through supplemental information covering the categories and issues shown in *Table 2*. A more detailed list of compact performance considerations and MCC reporting sources is provided in *Annex B*.

TABLE 2

Country partnership	Program results	Adherence to standards
Political Will Management Capacity Sources: Quarterly reporting Survey of MCC staff	Financial Results Project Results Target Achievements Sources: Indicator tracking tables Quarterly reporting Impact evaluations	Commitment to MCC Operational Guidelines and Policies. Audit Findings. Sources: Quarterly reporting. GAO Audits. Survey of MCC staff.

Similarly, the Board may consider a country's performance on a threshold program, including the nature of the country partnership with MCC, the government's commitment to MCC values and goals, and the progress towards threshold program development or implementation. To gather information on these topics, MCC looks to regular threshold program reporting, documentation of changes in timing or scope of a threshold program in implementation, a survey of involved MCC staff, and impact or performance evaluations (when available).

Other Considerations for the Board Supplementary Information

Consistent with the Act, the 20 policy performance indicators will be the predominant basis for determining which countries will be eligible for MCA assistance. However, the Board may exercise discretion when evaluating performance on the indicators and determining a final list of eligible countries. Where necessary, the Board also may take into account other quantitative and qualitative information (supplemental information) to determine whether a country performed satisfactorily in relation to its peers in a given income category. There are elements of the criteria set out in the Act for which there is either limited quantitative information, or no well-developed performance indicator. Until such data and/or indicators are

developed, the Board may rely on additional data and qualitative information to assess policy performance. For example, the State Department Human Rights Report contains qualitative information to make an assessment on a variety of criteria outlined by Congress, such as the rights of people with disabilities, the treatment of women and children, workers' rights, and human rights. Similarly, MCC may consult a variety of third party sources to better understand the domestic potential for private sector led investment and growth.

The Board may also consider whether supplemental information should be considered to make up for data gaps, lags, trends, or other weaknesses in particular indicators. For example, for additional information in the area of corruption, the Board may consider how a country is evaluated by supplemental sources like Transparency International's Corruption Perceptions Index, the Global Integrity Report, Open Government Partnership status, and the Extractive Industry Transparency Initiative, among others, as well as on the defined indicator.

Continuing Policy Performance

Partner countries that are developing or implementing a compact are expected to seek to maintain and improve policy performance. MCC recognizes that current partner countries may not meet the eligibility criteria from time to time

due to a number of factors, such as: (i) Changes in the peer group median; (ii) transition into a new income category (e.g., from LIC to LMIC categories); (iii) numerical declines in scores that are within the statistical margin of error; (iv) slight declines in policy performance; (v) revisions or corrections of data; (vi) introduction of new sub-data sources; or (vii) changes in the indicators used to measure performance. None of these factors alone signifies a significant policy reversal or warrants suspension or termination of eligibility and/or assistance.

However, countries that demonstrate a significant policy reversal may be issued a warning or face suspension or termination of eligibility and/or assistance. According to the Act, "[a]fter consultation with the Board, the Chief Executive Officer may suspend or terminate assistance in whole or in part for a country or entity ... if ... the country or entity has engaged in a pattern of actions inconsistent with the criteria used to determine the eligibility of the country or entity" Consistent with the Act and MCC's Policy on Suspension and Termination, this pattern of actions does not need to be captured in the indicators for MCC to take action.

Relationship to Legislative Criteria

Within each policy category, the Act sets out a number of specific selection criteria. As indicated in Table 1, a set of

objective and quantifiable policy indicators is used to inform eligibility decisions for MCA assistance and to measure the relative performance by candidate countries against these criteria. The Board's approach to determining eligibility ensures that performance against each of these criteria is assessed by at least one of the objective indicators. Most are addressed by multiple indicators. The specific indicators appear in parentheses next to the corresponding criterion set out in the Act.

Section 607(b)(1): Just and democratic governance, including a demonstrated commitment to—

(A) Promote political pluralism, equality and the rule of law (Political Rights, Civil Liberties, Rule of Law, and Gender in the Economy);

(B) respect human and civil rights, including the rights of people with disabilities (Political Rights, Civil Liberties, and Freedom of Information);

(C) protect private property rights (Civil Liberties, Regulatory Quality, Rule of Law, and Land Rights and Access);

(D) encourage transparency and accountability of government (Political Rights, Civil Liberties, Freedom of Information, Control of Corruption, Rule of Law, and Government Effectiveness); and

(E) combat corruption (Political Rights, Civil Liberties, Rule of Law, Freedom of Information, and Control of Corruption);

Section 607(b)(2): Economic freedom, including a demonstrated commitment to economic policies that—

(A) Encourage citizens and firms to participate in global trade and international capital markets (Fiscal Policy, Inflation, Trade Policy, and Regulatory Quality);

(B) promote private sector growth (Inflation, Business Start-Up, Fiscal Policy, Land Rights and Access, Access to Credit, Gender in the Economy, and Regulatory Quality);

(C) strengthen market forces in the economy (Fiscal Policy, Inflation, Trade Policy, Business Start-Up, Land Rights and Access, Access to Credit, and Regulatory Quality); and

(D) respect worker rights, including the right to form labor unions (Civil Liberties and Gender in the Economy); and

Section 607(b)(3): Investments in the people of such country, particularly women and children, including programs that—

(A) Promote broad-based primary education (Girls' Primary Completion Rate, Girls' Secondary Education

Enrollment Rate, and Total Public Expenditure on Primary Education);

(B) strengthen and build capacity to provide quality public health and reduce child mortality (Immunization Rates, Public Expenditure on Health, and Child Health); and

(C) promote the protection of biodiversity and the transparent and sustainable management and use of natural resources (Natural Resource Protection).

Annex A

Indicator Definitions

The following indicators will be used to measure candidate countries' demonstrated commitment to the criteria found in section 607(b) of the Act. The indicators are intended to assess the degree to which the political and economic conditions in a country serve to promote broad-based sustainable economic growth and reduction of poverty and thus provide a sound environment for the use of MCA funds. The indicators are not goals in themselves; rather, they are proxy measures of policies that are linked to broad-based sustainable economic growth. The indicators were selected based on (i) their relationship to economic growth and poverty reduction; (ii) the number of countries they cover; (iii) transparency and availability; and (iv) relative soundness and objectivity. Where possible, the indicators are developed by independent sources. Listed below is a brief summary of the indicators (a detailed rationale for the adoption of these indicators can be found in the Public Guide to the Indicators on MCC's public Web site at www.mcc.gov):

Ruling Justly

1. *Political Rights*: Independent experts rate countries on the prevalence of free and fair elections of officials with real power; the ability of citizens to form political parties that may compete fairly in elections; freedom from domination by the military, foreign powers, totalitarian parties, religious hierarchies and economic oligarchies; and the political rights of minority groups, among other things. Source: Freedom House

2. *Civil Liberties*: Independent experts rate countries on freedom of expression; association and organizational rights; rule of law and human rights; and personal autonomy and economic rights, among other things. Source: Freedom House

3. *Freedom of Information*: Measures the legal and practical steps taken by a government to enable or allow information to move freely through society; this includes measures of press freedom, national freedom of information laws, and the extent to which a country is filtering internet content or tools. Source: Freedom House/FRINGE Special/Open Net Initiative

4. *Government Effectiveness*: An index of surveys and expert assessments that rate countries on the quality of public service provision; civil servants' competency and independence from political pressures; and the government's ability to plan and implement sound policies, among other

things. Source: Worldwide Governance Indicators (World Bank/Brookings)

5. *Rule of Law*: An index of surveys and expert assessments that rate countries on the extent to which the public has confidence in and abides by the rules of society; the incidence and impact of violent and nonviolent crime; the effectiveness, independence, and predictability of the judiciary; the protection of property rights; and the enforceability of contracts, among other things. Source: Worldwide Governance Indicators (World Bank/Brookings)

6. *Control of Corruption*: An index of surveys and expert assessments that rate countries on: "grand corruption" in the political arena; the frequency of petty corruption; the effects of corruption on the business environment; and the tendency of elites to engage in "state capture," among other things. Source: Worldwide Governance Indicators (World Bank/Brookings)

Encouraging Economic Freedom

1. *Fiscal Policy*: The overall budget balance divided by gross domestic product (GDP), averaged over a three-year period. The data for this measure comes primarily from IMF country reports or, where public IMF data are outdated or unavailable, are provided directly by the recipient government with input from U.S. missions in host countries. All data are cross-checked with the IMF's World Economic Outlook database to try to ensure consistency across countries and made publicly available. Source: International Monetary Fund Country Reports, National Governments, and the International Monetary Fund's World Economic Outlook Database

2. *Inflation*: The most recent average annual change in consumer prices. Source: The International Monetary Fund's World Economic Outlook Database

3. *Regulatory Quality*: An index of surveys and expert assessments that rate countries on the burden of regulations on business; price controls; the government's role in the economy; and foreign investment regulation, among other areas. Source: Worldwide Governance Indicators (World Bank/Brookings)

4. *Trade Policy*: A measure of a country's openness to international trade based on weighted average tariff rates and non-tariff barriers to trade. Source: The Heritage Foundation

5. *Gender in the Economy*: An index that measures the extent to which laws provide men and women equal capacity to generate income or participate in the economy, including the capacity to access institutions, get a job, register a business, sign a contract, open a bank account, choose where to live, and to travel freely. Source: International Finance Corporation

6. *Land Rights and Access*: An index that rates countries on the extent to which the institutional, legal, and market framework provide secure land tenure and equitable access to land in rural areas and the time and cost of property registration in urban and peri-urban areas. Source: The International Fund for Agricultural Development and the International Finance Corporation

7. *Access to Credit*: An index that rates countries on rules and practices affecting the

coverage, scope, and accessibility of credit information available through either a public credit registry or a private credit bureau; as well as legal rights in collateral laws and bankruptcy laws. Source: International Finance Corporation

8. *Business Start-Up*: An index that rates countries on 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. Source: International Finance Corporation

Investing in People

1. *Public Expenditure on Health*: Total expenditures on health by government at all levels divided by GDP. Source: The World Health Organization

2. *Total Public Expenditure on Primary Education*: Total expenditures on primary education by government at all levels divided by GDP. Source: The United Nations Educational, Scientific and Cultural Organization and National Governments

3. *Natural Resource Protection*: Assesses whether countries are protecting up to 17 percent of all their biomes (e.g., deserts, tropical rainforests, grasslands, savannas and tundra). Source: The Center for International

Earth Science Information Network and the Yale Center for Environmental Law and Policy

4. *Immunization Rates*: The average of DPT3 and measles immunization coverage rates for the most recent year available. Source: The World Health Organization and the United Nations Children's Fund

5. *Girls Education*:

a. *Girls' Primary Completion Rate*: The number of female students enrolled in the last grade of primary education minus repeaters divided by the population in the relevant age cohort (gross intake ratio in the last grade of primary). LICs are assessed on this indicator. Source: United Nations Educational, Scientific and Cultural Organization

b. *Girls Secondary Enrollment Education*: The number of female pupils enrolled in lower secondary school, regardless of age, expressed as a percentage of the population of females in the theoretical age group for lower secondary education. LMICs will be assessed on this indicator instead of Girls Primary Completion Rates. Source: United Nations Educational, Scientific and Cultural Organization

6. *Child Health*: An index made up of three indicators: (i) access to improved water, (ii) access to improved sanitation, and (iii) child (ages 1–4) mortality. Source: The Center for International Earth Science Information Network and the Yale Center for Environmental Law and Policy

Annex B

Subsequent Compact Considerations

MCC reporting and data in the following chart are used to assess compact performance of MCC partners nearing the end of compact implementation. Some reporting used for assessment may contain sensitive information and adversely affect implementation or MCC-partner country relations. This information is for MCC's internal use and is not made public. However, key implementation information is summarized in compact status and results reports that are published quarterly on MCC's Web site under MCC country programs (www.mcc.gov/pages/countries) or monitoring and evaluation (<http://www.mcc.gov/pages/results/m-and-e>) Web pages.

Topic	MCC reporting/data source	Published documents
<p>Country Partnership Political Will</p> <ul style="list-style-type: none"> • Status of major conditions precedent • Program oversight/implementation <ul style="list-style-type: none"> ○ project restructures ○ partner response to MCA capacity issues • Political independence of MCA Management Capacity • Project management capacity • Project performance • Level of MCC intervention/oversight • Relative level of resources required 	<ul style="list-style-type: none"> • Quarterly implementation reporting • Quarterly results reporting • Survey of MCC staff 	<ul style="list-style-type: none"> • Quarterly results published as "Table of Key Performance Indicators" (available by country): http://go.usa.gov/jMcC. • Survey questions to be posted: http://1.usa.gov/PE0xCX.
<p>Program Results</p> <p>Financial Results</p> <ul style="list-style-type: none"> • Commitments • Disbursements <p>Project Results</p> <ul style="list-style-type: none"> • Output, outcome, objective targets • MCA commitment to 'focus on results' • MCA cooperation on impact evaluation • Percent complete for process/outputs • Relevant outcome data • Details behind target delays <p>Target Achievements</p>	<ul style="list-style-type: none"> • Indicator tracking tables • Quarterly financial reporting • Quarterly implementation reporting • Quarterly results reporting • Survey of MCC staff • Impact evaluations 	<ul style="list-style-type: none"> • Monitoring and Evaluation Plans (available by country): http://go.usa.gov/jMcC. • Quarterly Status Reports (available by country): http://1.usa.gov/NfEbcl. • Quarterly results published as "Table of Key Performance Indicators" (available by country): http://1.usa.gov/QoduNI. • Survey questions to be posted: http://1.usa.gov/PE0xCX.
<p>Adherence To Standards</p> <ul style="list-style-type: none"> • Procurement • Environmental and social • Fraud and corruption • Program closure • Monitoring and evaluation • All other legal provisions 	<ul style="list-style-type: none"> • Audits (GAO and OIG) • Quarterly implementation reporting • Survey of MCC staff 	<ul style="list-style-type: none"> • Published OIG and GAO Audits. • Survey questions to be posted: http://1.usa.gov/PE0xCX.
<p>Country Specific Sustainability</p> <ul style="list-style-type: none"> • Implementation entity • MCC investments <p>Role of private sector or other donors</p>	<ul style="list-style-type: none"> • Quarterly implementation reporting • Quarterly results reporting • Survey of MCC staff 	<ul style="list-style-type: none"> • Quarterly results published as "Table of Key Performance Indicators" (available by country): http://1.usa.gov/QoduNI. • Survey questions to be posted: http://1.usa.gov/PE0xCX.

Annex C**Income Classification for Scorecards**

Since MCC was created, it has relied on the World Bank's gross national income (GNI) per capita income data (Atlas method) and the historical ceiling for eligibility as set by the World Bank's International Development Association (IDA) to divide countries into two income categories for purposes of creating scorecards: LICs and LMICs. These categories are used to account for the income bias that occurs when countries with more per capita resources perform better than countries with fewer. Using the historical IDA eligibility ceiling for the scorecards ensures that the poorest countries compete with their income level peers and are not compared against countries with more resources to mobilize.

MCC will continue to use the traditional income categories for eligibility to divide countries into two groups for FY 2014 scorecard comparisons:

- Scorecard LICs are countries with GNI per capita below IDA's historical ceiling for eligibility (\$1,965 for FY 2014).
- Scorecard LMICs are countries with GNI per capita above IDA's historical ceiling for eligibility but below the World Bank's upper middle income country threshold (\$1,966–\$4,085 for FY 2014).

The list of countries categorized as LICs and LMICs for the purpose of scorecard assessments can be found below.¹

Low Income Countries

(FY 2014 Scorecard)

1. Afghanistan

¹ In December 2011, a statutory change requested by the agency altered the way MCC must group countries in determining whether MCC's 25 percent LMIC funding cap applies. This change, designed to bring stability to the funding stream, affects how MCC funds countries selected as eligible and does not affect the way scorecards are created. For determining whether a country can be funded as an LMIC or LIC:

- The poorest 75 countries are now considered low income for the purposes of MCC funding. They are not limited by the 25 percent funding cap on LMICs.

- Countries with a GNI per capita above the poorest 75 but below the World Bank's upper middle income country threshold (\$4,035 in FY 2014) are considered LMICs for the purposes of MCC funding. By law, no more than 25 percent of all compact funds for a given fiscal year can be provided to these countries.

The FY 2014 Candidate Country Report lists LIC and LMIC countries based on this new definition and outlines which countries are subject to the 25 percent funding cap.

2. Bangladesh
3. Benin
4. Burkina Faso
5. Burma
6. Burundi
7. Cambodia
8. Cameroon
9. Central African Republic
10. Chad
11. Comoros
12. Congo, the Democratic Republic of
13. Cote d'Ivoire
14. Djibouti
15. Eritrea
16. Ethiopia
17. Gambia
18. Ghana
19. Guinea
20. Guinea-Bissau
21. Haiti
22. India
23. Kenya
24. Korea, Democratic People's Republic of
25. Kyrgyz Republic
26. Laos
27. Lesotho
28. Liberia
29. Madagascar
30. Malawi
31. Mali
32. Mauritania
33. Mozambique
34. Nepal
35. Nicaragua
36. Niger
37. Nigeria
38. Pakistan
39. Papua New Guinea
40. Rwanda
41. Sao Tome and Principe
42. Senegal
43. Sierra Leone
44. Solomon Islands
45. Somalia
46. South Sudan
47. Sudan
48. Tajikistan
49. Tanzania
50. Togo
51. Uganda
52. Uzbekistan
53. Vietnam
54. Yemen
55. Zambia
56. Zimbabwe

Lower Middle Income Countries

(FY 2014 Scorecard)

1. Armenia
2. Bhutan
3. Bolivia

4. Cape Verde
5. Congo, Republic of
6. Egypt
7. El Salvador
8. Georgia
9. Guatemala
10. Guyana
11. Honduras
12. Indonesia
13. Kiribati
14. Kosovo
15. Micronesia
16. Moldova
17. Mongolia
18. Morocco
19. Paraguay
20. Philippines
21. Samoa
22. Sri Lanka
23. Swaziland
24. Syria
25. Timor-Leste
26. Ukraine
27. Vanuatu

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MILLENNIUM CHALLENGE CORPORATION

[MCC FR 13–07]

Notice of Quarterly Report (April 1 2013–June 30, 2013)

AGENCY: Millennium Challenge Corporation.

SUMMARY: The Millennium Challenge Corporation (MCC) is reporting for the quarter April 1, 2013, through June 30, 2013, on assistance provided under section 605 of the Millennium Challenge Act of 2003 (22 U.S.C. 7701 *et seq.*), as amended (the Act), and on transfers or allocations of funds to other federal agencies under section 619(b) of the Act. The following report will be made available to the public by publication in the **Federal Register** and on the Internet Web site of the MCC (www.mcc.gov) in accordance with section 612(b) of the Act.

Dated: September 16, 2013.

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