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Christopher A. Wray,
Director.

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MILLENNIUM CHALLENGE CORPORATION

[MCC FR 18–12]

Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance for Fiscal Year 2019

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 (Act). Section 608(a) of the Millennium Challenge Act of 2003 requires the Millennium Challenge Corporation to publish a report that identifies countries that are “candidate countries” for Millennium Challenge Account assistance during FY 2018. The report is set forth in full below.

Dated: September 13, 2018.

Jeanne M. Hauch,
Vice President/General Counsel and Corporate Secretary.

Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2019

Summary

In accordance with section 608(b)(2) of the Act (22 U.S.C. 7707(b)(2)), the Millennium Challenge Corporation (MCC) is submitting the enclosed report. This report identifies the criteria and methodology that MCC intends to use to determine which candidate countries may be eligible to be considered for assistance under the Act for fiscal year 2019.

Under section 608(c)(1) of the Act (22 U.S.C. 7707(c)(1)), MCC will, for a thirty-day period following publication, accept and consider public comment for purposes of determining eligible

countries under section 607 of the Act (22 U.S.C. 7706).

This document explains how the Board of Directors (Board) of the Millennium Challenge Corporation (MCC) will identify, evaluate, and select eligible countries for fiscal year (FY) 2019. The statutory basis for this report is set forth in Appendix A. Specifically, this document discusses the following:

- I. Which countries MCC will evaluate
- II. How the Board evaluates these countries
 - A. Overall
 - B. For selection of an eligible country for a first compact
 - C. For selection of an eligible country for a second or subsequent compact
 - D. For selection of an eligible country for a concurrent compact
 - E. For threshold program assistance
 - F. A note on potential transition to upper middle income country status after initial selection

I. Which countries are evaluated?

For scorecard evaluation purposes for FY 2019, MCC evaluates all candidate countries and statutorily-prohibited countries according to the following income groups:¹

- Countries whose gross national income (GNI) per capita is \$1,875 or less; and
- Countries whose GNI per capita is between \$1,876 and \$3,895.

Appendix B lists all candidate countries and statutorily-prohibited countries for scorecard evaluation purposes.

II. How does the Board evaluate these countries?

A. Overall Evaluation

The Board looks at three legislatively-mandated factors in its evaluation of any candidate country for compact eligibility: (1) Policy performance; (2) the opportunity to reduce poverty and generate economic growth; and (3) the availability of MCC funds.

¹ These income groups correspond to the definitions of low income countries and lower middle countries using the historic International Development Association (IDA) threshold published by the World Bank. MCC has used these categories to evaluate country performance since FY 2004. Our amended statute no longer uses those definitions for funding purposes, but we will continue to use them for evaluation purposes.

1. Policy Performance

Because of the importance of needing to evaluate a country’s policy performance and needing to do so in a comparable, cross-country way, the Board relies to the maximum extent possible upon the best-available objective and quantifiable indicators of policy performance. These indicators act as proxies of the country’s commitment to just and democratic governance, economic freedom, and investing in its people, as laid out in MCC’s founding legislation. Comprised of 20 third-party indicators in the categories of “encouraging economic freedom,” “investing in people,” and “ruling justly,” MCC “scorecards” are created for all candidate countries and statutorily-prohibited countries. To “pass” the indicators on the scorecard, the country must perform above the median *among its income group* (as defined above for scorecard evaluation purposes), except in the cases of inflation, political rights, civil liberties, and immunization rates (countries whose GNI per capita is between \$1,876 and \$3,895 only), where threshold scores have been established. In particular, the Board considers whether the country

- passed at least 10 of the 20 indicators, with at least one in each category,
- passed either the Political Rights or Civil Liberties indicator, and
- passed the Control of Corruption indicator.

While satisfaction of all three aspects means a country is termed to have “passed” the scorecard, the Board also considers whether the country performed “substantially worse” in any one policy category than it does on the scorecard overall. Appendix C describes all 20 indicators, their definitions, what is required to “pass,” their source, and their relationship to the legislative criteria.

The mandatory passing of either the Political Rights or Civil Liberties indicators is called the Democratic Rights “hard hurdle” on the scorecard, while the mandatory passing of the Control of Corruption indicator is called the Control of Corruption “hard hurdle.” Not passing either “hard hurdle” results in not passing the scorecard overall, regardless of whether

at least 10 of the 20 other indicators are passed.

- *Democratic Rights “hard hurdle”*: This hurdle sets a minimum bar for democratic rights below which the Board will not consider a country for eligibility. Requiring that a country pass *either* the Political Rights *or* Civil Liberties indicator creates a democratic incentive for countries, recognizes the importance democracy plays in driving poverty-reducing economic growth, and holds MCC accountable to working with the best governed, poorest countries. When a candidate country is only passing one of the two indicators comprising the hurdle (instead of both), the Board will also closely examine why it is not passing the other indicator to understand what the score implies for the broader democratic environment and trajectory of the country. This examination will include consultation with both local and international civil society experts, among others.

- *Control of Corruption “hard hurdle”*: Corruption in any country is an unacceptable tax on economic growth and an obstacle to the private sector investment needed to reduce poverty. Accordingly, MCC seeks out partner countries that are committed to combatting corruption. It is for this reason that MCC also has the Control of Corruption “hard hurdle,” which helps ensure that MCC is working with countries where there is relatively strong performance in controlling corruption. Requiring the passage of the indicator provides an incentive for countries to demonstrate a clear commitment to controlling corruption, and allows MCC to better understand the issue by seeing how the country performs relative to its peers and over time.

Together, the 20 policy performance indicators are the predominant basis for determining which eligible countries will be selected for MCC assistance, and the Board expects a country to be passing its scorecard at the point the Board decides to select the country for either a first or second/subsequent compact. However, the Board also recognizes that even the best-available data has inherent challenges. For example, data gaps, real-time events versus data lags, the absence of narratives and nuanced detail, and other similar weaknesses affect each of these indicators. In such instances, the Board uses its judgment to interpret policy performance as measured by the scorecards. The Board may also consult other sources of information to further enhance its understanding of a given country’s policy performance beyond the issues on the scorecard (*e.g.*, specific

policy issues related to trade, the treatment of civil society, other U.S. aid programs, financial sector performance, and security/foreign policy issues). The Board uses its judgment on how best to weigh such information in assessing overall policy performance.

2. The Opportunity To Reduce Poverty and Generate Economic Growth

The Board also consults other sources of qualitative and quantitative information to have a more detailed view of the opportunity to reduce poverty and generate economic growth in a country.

While the Board considers a range of other information sources depending on the country, specific areas of attention typically include better understanding the issues on, trends in, and trajectory of

- the state of democratic and human rights (especially of vulnerable groups²);
- the perspective of civil society on salient governance issues;
- the control of corruption and rule of law;
- the potential for the private sector (both local and foreign) to lead investment and growth;
- the levels of poverty within a country; and
- the country’s institutional capacity.

Where applicable, the Board also considers MCC’s own experience and ability to reduce poverty and generate economic growth in a given country—such as considering MCC’s core skills versus the country’s needs, and capacity within MCC to work with a country.

This information provides greater clarity on the likelihood that MCC programs will have an appreciable impact on reducing poverty and generating economic growth in a given country. The Board has used such information both to decline to select countries that are otherwise passing their scorecards, as well as to better understand when a country’s performance on a particular indicator may not be up to date or is about to change. More details on this subject (sometimes referred to as “supplemental information”) can be found on MCC’s website.

3. The Availability of MCC Funds

The final factor that the Board must consider when evaluating countries is the funding available. The agency’s allocation of its budget is constrained, and often specifically limited, by

² For example, women; children; lesbian, gay, bisexual, and transgender individuals; people with disabilities; and workers.

provisions in the authorizing legislation and appropriations acts. MCC has a continuous pipeline of countries in compact development, compact implementation, and compact closure, as well as threshold programs. Consequently, the Board factors in the overall portfolio picture when making its selection decisions given the funding available for each of the agency’s planned or existing programs.

* * * * *

The following subsections describe how each of these three legislatively-mandated factors are applied with regard to the selection situations the Board encounters each December: Selection of countries for a compact, selection of countries for a second or subsequent compact, selection of countries for the threshold program, and selection of countries for a concurrent compact. Thereafter, a note is included on issues for consideration for countries that might transition to upper middle income country status after initial selection.

B. Evaluation for Selection of Eligible Countries for a First Compact

When selecting eligible countries for a compact, the Board looks at all three legislatively-mandated aspects described in the previous section: (1) Policy performance, first and foremost as measured by the scorecards and bolstered through additional information (as described in the previous section); (2) the opportunity to reduce poverty and generate economic growth, examined through the use of other supporting information (as described in the previous section); and (3) the funding available.

At a minimum, the Board considers whether the country passes its scorecard. It also examines supporting evidence that the country’s commitment to just and democratic governance, economic freedom, and investing in its people is on a sound footing and performance is on a positive trajectory (especially on the “hard hurdles” of Democratic Rights and Control of Corruption, as described in the previous section), and that MCC has funding to support a meaningful compact with that country. Where applicable, previous threshold program information is also considered. The Board then weighs the information described above across each of the three dimensions.

The approach described above is then applied in any additional years of selection of a country to continue to develop a first compact, with the added benefit of having cumulative scorecards, cumulative records of policy performance, and other accumulated

supporting information to determine the overall pattern of performance over the emerging multi-year trajectory.

C. Evaluation for Selection of Eligible Countries for a Second or Subsequent Compact

Section 609(l) of the Millennium Challenge Act of 2003, as amended, specifically authorizes MCC to enter into “one or more subsequent Compacts.” MCC does not consider the eligibility of a country for a subsequent compact, however, before the country has completed its compact or is within 18 months of completion, (e.g., a second compact if it has completed or is within 18 months of completing its first compact). Selection for a subsequent compact is not automatic and is intended only for countries that (1) exhibit successful performance on their previous compact; (2) exhibit improved scorecard policy performance during the partnership; and (3) exhibit a continued commitment to further their sector reform efforts in any subsequent partnership. As a result, the Board has an even higher standard when selecting countries for subsequent compacts.

1. Successful Implementation of the Previous Compact

To evaluate the degree of success of the previous compact, the Board examines whether there is clear evidence of success within the budget and time limits of the compact, in particular by looking at three aspects:

- *The degree to which there is evidence of strong political will and management capacity:* Is the partnership characterized by the country ensuring that both policy reforms and the compact program itself are both being implemented to the best ability that the country can deliver.
- *The degree to which the country has exhibited commitment and capacity to achieve program results:* Are the financial and project results being achieved; to what degree is the country committing its own resources to ensure the compact is a success; to what extent is the private sector engaged (if relevant); and other compact-specific issues.

- *The degree to which the country has implemented the compact in accordance with MCC’s core policies and standards:* That is, is the country adhering to MCC’s policies and procedures, including in critical areas such as remediating unresolved fraud and corruption and abuse or misuse of funds issues; procurement; and monitoring and evaluation?

Details on the specific types of information examined (and sources

used) in each of the three areas are provided in Appendix D. Overall, the Board is looking for evidence that the previous compact will be completed or has been completed successfully, on time and on budget, and that there is a commitment to continued, robust reform going forward.

2. Improved Scorecard Policy Performance

Beyond successful implementation of the previous compact, the Board expects the country to have improved its overall scorecard policy performance during the partnership, and to pass the scorecard in the year of selection for the subsequent compact. The Board focuses on the following:

- The overall scorecard pass/fail rate over time, what this suggests about underlying policy performance, as well as an examination of the underlying reasons;
- The progress over time on policy areas measured by both hard-hurdle indicators—Democratic Rights and Control of Corruption—including an examination of the underlying reasons; and
- Other indicator trajectories as deemed relevant by the Board.

In all cases, while the Board expects the country to be passing its scorecard, other sources of information are examined to understand the nuance and reasons behind scorecard or indicator performance over time, including any real-time updates, methodological changes within the indicators themselves, shifts in the relevant candidate pool, or alternative policy performance perspectives (such as gleaned through consultations with civil society and related stakeholders). Other sources of information are also consulted to look at policy performance over time in areas not covered by the scorecard, but that are deemed important by the Board (such as trade, foreign policy concerns, etc.).

3. A Commitment to Further Sector Reform

The Board expects that subsequent compacts will endeavor to tackle deeper policy reforms necessary to unlock an identified constraint to growth. Consequently, the Board considers its own experience during the previous compact in considering how committed the country is to reducing poverty and increasing economic growth, and therefore tries to gauge the country’s commitment for further sector reform should it be selected for a subsequent compact. This includes the following:

- Assessing the country’s delivery of policy reform during the previous compact (as described above);
- Assessing expectations of the country’s ability and willingness to continue embarking on sector policy reform in a subsequent compact;
- Examining both other sources of information that describe the nature of the opportunity to reduce poverty and generate growth (as outlined in A.2 above), and the relative success of the previous compact overall, as already discussed; and
- Finally, considering how well funding can be leveraged for impact, given the country’s experience in the previous compact.

* * * * *

Through this overall approach to selection for a subsequent compact, the Board applies the three legislatively mandated evaluation criteria (policy performance, the opportunity to reduce poverty and generate economic growth, and the funding available) in a way that rests critically on deeply assessing the previous partnership from a compact success standpoint, a commitment to improved scorecard policy performance standpoint, and a commitment to continued sector policy reform standpoint. The Board then weighs all of the information described above in making its decision.

The approach described above is then applied in any additional years of selection necessary as the country continues to develop the subsequent compact, with the added benefit of having further detail on previous compact implementation, cumulative scorecards, records of policy performance, and other accumulated supporting information to determine the overall pattern of performance over the resulting multi-year trajectory.

D. Evaluation for Concurrent Compacts

Section 609(k) of the Millennium Challenge Act of 2003, as amended, authorizes MCC to enter into one additional concurrent compact with a country if one or both of the compacts with the country is for the purpose of regional economic integration, increased regional trade, or cross-border collaborations.

The fundamental criteria and process for the selection of countries for such compacts will remain the same as those for the selection of countries for non-concurrent compacts: Countries will continue to be evaluated and selected individually, as described in sections II.A, II.B, II.C, and II.F.

Section 609(k) also requires as a precondition for a concurrent compact that the Board determine that the

country is making “considerable and demonstrable progress in implementing the terms of the existing Compact and supplementary agreements thereto.” This new statutory requirement is fully consistent with prior Board practice regarding the selection of a country for a non-concurrent compact. For a country where a concurrent compact is contemplated, the Board will take into account whether there is clear evidence of success, as relevant to the phase of the current compact. Among other information, the Board will examine the evaluation criteria described in Section II.C.1 above, notably:

- The degree to which there is evidence of strong political will and management capacity;
- The degree to which the country has exhibited 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 addition to providing information to the Board so it can make its determination regarding the country’s progress in implementing its current compact, MCC will provide the Board with additional information relating to the potential for regional economic integration, increased regional trade, or cross-border collaborations for any country being considered for a concurrent compact. This information may include items such as the following:

- The current state of a country’s regional integration, such as common financial and political dialogue frameworks, integration of productive value chains, and cross-border flows of people, goods, and services.
- The current and potential level of trade between a country and its neighbors, including analysis of trade flows and unexploited potential for trade, and an assessment of the extent and significance of tariff and non-tariff barriers, including information regarding the patterns of trade.
- The potential gains from cross-border cooperation between a country and its neighbors to alleviate bilateral and regional bottlenecks to economic growth and poverty reduction, such as through physical infrastructure or coordinated policy and institutional reforms.

The Board can then weigh the information as a whole—the fundamental selection factors described in sections II.A, II.B, II.C, and II.F, the information regarding implementation of the current compact, and any additional relevant information regarding potential regional

integration—to determine whether or not to direct MCC to seek to enter into a concurrent compact with the country.

E. Evaluation for Threshold Program Assistance

The Board may also evaluate countries for participation in the threshold program. The threshold program provides assistance to candidate countries that exhibit a significant commitment to meeting the criteria described in the previous subsections, but fail to meet such requirements. Specifically, in examining the policy performance, the opportunity to reduce poverty and generate economic growth, and the funding available, the Board will consider whether a country that potentially qualifies for threshold program assistance appears to be on a trajectory to becoming viable for compact eligibility in the medium term.

F. A Note on Potential Transition to Upper Middle Income Country (UMIC) Status After Initial Selection

Some candidate countries may have a high per capita income or a high growth rate that implies there is a chance they could transition to UMIC status during the life of an MCC partnership. In such cases, it is not possible to accurately predict when such a country may or may not transition to UMIC status.

Nonetheless, such countries may have more resources at their disposal for funding their own growth and poverty reduction strategies. As a result, in addition to using the regular selection criteria described in the previous sections, the Board will also use its discretion to assess both the need and the opportunity presented by partnering with such a country, in order to ensure that there is a higher bar for possible selection.

Specifically, if a candidate country with a high probability of transitioning to UMIC status is under consideration for selection, the Board will examine additional data and information related to the following:

- Whether the country faces significant challenges accessing other sources of development financing (such as international capital, domestic resources, and other donor assistance) and, if so, whether MCC grant financing would be an appropriate tool;
- Whether the nature of poverty in the country (for example, high inequality or poverty headcount ratios relative to peer countries) presents a clear and strategic opportunity for MCC to assist the country in reducing such poverty through projects that spur economic growth;

- Whether the country demonstrates particularly strong policy performance, including policies and actions that demonstrate a clear priority on poverty reduction; and

- Whether MCC can reasonably expect that the country would contribute a significant amount of funding to the compact.

These additional criteria would then be applied in any additional years of selection as the country continues to develop its compact. Should the country eventually transition to UMIC status during compact development, the country would no longer be a candidate country for that fiscal year. Consequently, continuing compact development beyond that point would then be at the Board’s discretion, and the compact would rely on funding from previous fiscal years from when the country was a candidate country.

Appendix A: Statutory Basis for This Report

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

Section 605 of the Act authorizes the provision of 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 MCC to take a number of steps in selecting countries for compact assistance for FY 2019 based on the countries’ demonstrated commitment to just and democratic governance, economic freedom, and investing in their people, MCC’s opportunity to reduce poverty and generate economic growth in the country, and the availability of funds. These steps include the submission of reports to the congressional committees specified in the Act and publication of information in the **Federal Register** that identify:

1. The countries that are “candidate countries” for assistance for FY 2019 based on per capita income levels and eligibility to receive assistance under U.S. law (section 608(a) of the Act; 22 U.S.C. 7707(a));
2. 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; 22 U.S.C. 7707(b)); and
3. The list of countries determined by the Board to be “eligible countries” for FY 2019, 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; 22 U.S.C. 7707(d)).

This report satisfies item 2 above.

Appendix B: Lists of All Candidate Countries and Statutorily-Prohibited Countries for Evaluation Purposes

Income Groups 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. 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 scorecard evaluation groups 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 historical IDA classifications for eligibility to categorize countries in two groups for purposes of FY 2019 scorecard comparisons:

- Countries with GNI per capita equal to or less than IDA's historical ceiling for eligibility (*i.e.*, \$1,875 for FY 2019); and
- Countries with GNI per capita above IDA's historical ceiling for eligibility but below the World Bank's upper middle income country threshold (*i.e.*, \$1,876 and \$3,895 for FY 2019).

The list of countries for FY 2019 scorecard assessments is set forth below:

Countries With GNI per Capita of \$1,875 or Less

1. Afghanistan
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, Democratic Republic of the
13. Congo, Republic of the
14. Côte d'Ivoire
15. Eritrea
16. Ethiopia
17. Gambia, The
18. Ghana
19. Guinea
20. Guinea-Bissau
21. Haiti
22. India
23. Kenya
24. Kyrgyzstan
25. Lesotho
26. Liberia
27. Madagascar
28. Malawi
29. Mali
30. Mauritania
31. Mozambique
32. Nepal
33. Niger
34. North Korea
35. Pakistan
36. Rwanda
37. São Tomé and Príncipe

38. Senegal
39. Sierra Leone
40. Somalia
41. South Sudan
42. Syria
43. Tajikistan
44. Tanzania
45. Timor-Leste
46. Togo
47. Uganda
48. Yemen
49. Zambia
50. Zimbabwe

Countries With GNI per Capita Between \$1,876 and \$3,895

1. Angola
2. Bolivia
3. Bhutan
4. Cabo Verde
5. Djibouti
6. Egypt
7. El Salvador
8. Eswatini (formerly Swaziland)
9. Georgia
10. Honduras
11. Indonesia
12. Kiribati
13. Kosovo
14. Laos
15. Micronesia, Federated States of
16. Moldova
17. Mongolia
18. Morocco
19. Nicaragua
20. Nigeria
21. Papua New Guinea
22. Philippines
23. Solomon Islands
24. Sri Lanka
25. Sudan
26. Tunisia
27. Ukraine
28. Uzbekistan
29. Vanuatu
30. Vietnam

Statutorily-Prohibited Countries

1. Bolivia
2. Burma
3. Cambodia
4. Eritrea
5. Nicaragua
6. North Korea
7. South Sudan
8. Sudan
9. Syria
10. Zimbabwe

Appendix C: 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 MCC 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.³ 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 website at www.mcc.gov).

Ruling Justly

1. *Political Rights*: Independent experts rate countries on the prevalence of free and fair electoral processes; political pluralism and participation of all stakeholders; government accountability and transparency; 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. Pass: Score must be above the minimum score of 17 out of 40. Source: *Freedom House*.

2. *Civil Liberties*: Independent experts rate countries on freedom of expression and belief; association and organizational rights; rule of law and human rights; and personal autonomy and economic rights, among other things. Pass: Score must be above the minimum score of 25 out of 60. 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 county is filtering internet content or tools. Pass: Score must be above the median score for the income group. Source: *Freedom House/Centre for Law and Democracy*.

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. Pass: Score must be above the median score for the income group. 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. Pass: Score must be above the median score for the income group. Source:

³ Special note on Kosovo: Since UN agencies do not currently publish data for Kosovo due to its non-recognition status, MCC is unable to source data directly from the UN for the six indicators that are constructed in all or in part from this data: Land Rights and Access, Health Expenditures, Primary Education Expenditures, Immunization Rates, Girls' Secondary Education Enrollment Rate, and Child Health. As result, MCC publishes data from UNKT (the UN Kosovo Team) in cases where UNKT uses comparable methodologies to their UN sister organizations. See <http://www.unkt.org/> for more information.

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. Pass: Score must be above the median score for the income group. Source: *Worldwide Governance Indicators (World Bank/Brookings).*

Encouraging Economic Freedom

1. *Fiscal Policy*: General government net lending/borrowing as a percent of gross domestic product (GDP), averaged over a three year period. Net lending/borrowing is calculated as revenue minus total expenditure. The data for this measure comes from the IMF's World Economic Outlook. Pass: Score must be above the median score for the income group. Source: *The International Monetary Fund's World Economic Outlook Database.*

2. *Inflation*: The most recent average annual change in consumer prices. Pass: Score must be 15 percent or less. 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. Pass: Score must be above the median score for the income group. 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. Pass: Score must be above the median score for the income group. 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 factors such as the capacity to access institutions, get a job, register a business, sign a contract, open a bank account, choose where to live, to travel freely, property rights protections, protections against domestic violence, and child marriage (among others). Pass: Score must be above the median score for the income group. 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. Pass: Score must be above the median score for the income group. 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. Pass: Score must be above the median score for the income group.

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. Pass: Score must be above the median score for the income group. Source: *International Finance Corporation.*

Investing in People

1. *Public Expenditure on Health*: Total current expenditures on health by government (excluding funding sourced from external donors) at all levels divided by GDP. Pass: Score must be above the median score for the income group. 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. Pass: Score must be above the median score for the income group. 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). Pass: Score must be above the median score for the income group. 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. Pass: Score must be above the median score for countries with a GNI/capita of \$1,875 or less and 90 percent or higher for countries with a GNI/capita between \$1,876 and \$3,895. 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). Countries with a GNI/capita of \$1,875 or less are assessed on this indicator. Pass: Score must be above the median score for the income group. 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. Countries with a GNI/capita between \$1,876 and \$3,895 are assessed on this indicator instead of Girls Primary Completion Rates. Pass: Score must be above the median score for the income group. 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. Pass: Score must be above the median score for the income group.

Source: *The Center for International Earth Science Information Network and the Yale Center for Environmental Law and Policy.*

Relationship to Legislative Criteria

Within each policy category, the Act sets out a number of specific selection criteria. A set of objective and quantifiable policy indicators is used to inform eligibility decisions for 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*);

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

(F) the quality of the civil society enabling environment (*Civil Liberties, Freedom of Information, and Rule of Law*).

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*).

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*).

Appendix D: Subsequent and Concurrent Compact Considerations

MCC reporting and data in the following chart are used to assess compact performance

of MCC compact countries nearing the end of compact implementation (*i.e.*, within 18 months of compact end date), or for current MCC compact countries under consideration for a concurrent compact, where appropriate. 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 website under MCC country programs (<https://www.mcc.gov/where-we-work>) or monitoring and evaluation (<https://www.mcc.gov/our-impact/m-and-e>) web pages.

Topic	MCC reporting/data source	Published documents
COUNTRY PARTNERSHIP		
Political Will: <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 accountable entity capacity issues. • Political independence of the accountable entity. Management Capacity: <ul style="list-style-type: none"> • Project management capacity. • Project performance. • Level of MCC intervention/oversight. • Relative level of resources required. 	<ul style="list-style-type: none"> • <i>Quarterly implementation reporting.</i> • <i>Quarterly results reporting.</i> • <i>Survey of MCC staff.</i> 	<ul style="list-style-type: none"> • <i>Quarterly results published as "Table of Key Performance Indicators" (available by country): https://www.mcc.gov/our-impact/m-and-e.</i> • <i>Survey questions to be posted: https://www.mcc.gov/resources/doc/summary-compact-survey-summary-fy19.</i>
PROGRAM RESULTS		
Financial Results: <ul style="list-style-type: none"> • Commitments—including contributions to compact funding. • Disbursements. Project Results: <ul style="list-style-type: none"> • Output, outcome, objective targets. • Accountable entity commitment to 'focus on results'. • Accountable entity cooperation on impact evaluation. • Percent complete for process/outputs. • Relevant outcome data. • Details behind target delays. Target Achievements:	<ul style="list-style-type: none"> • <i>Indicator tracking tables.</i> • <i>Quarterly financial reporting.</i> • <i>Quarterly implementation reporting.</i> • <i>Quarterly results reporting.</i> • <i>Survey of MCC staff.</i> • <i>Impact evaluations.</i> 	<ul style="list-style-type: none"> • <i>Monitoring and Evaluation Plans (available by country): https://www.mcc.gov/our-impact/m-and-e.</i> • <i>Quarterly Status Reports (available by country): https://www.mcc.gov/our-impact/m-and-e.</i> • <i>Quarterly results published as "Table of Key Performance Indicators" (available by country): https://www.mcc.gov/our-impact/m-and-e.</i> • <i>Survey questions to be posted: https://www.mcc.gov/resources/doc/summary-compact-survey-summary-fy19.</i>
ADHERENCE TO STANDARDS		
<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"> • <i>Audits (GAO and OIG).</i> • <i>Quarterly implementation reporting.</i> • <i>Survey of MCC staff.</i> 	<ul style="list-style-type: none"> • <i>Published OIG and GAO audits.</i> • <i>Survey questions to be posted: https://www.mcc.gov/resources/doc/summary-compact-survey-summary-fy19.</i>
COUNTRY SPECIFIC		
Sustainability: <ul style="list-style-type: none"> • Implementation entity. • <i>MCC investments.</i> Role of private sector or other donors: <ul style="list-style-type: none"> • Other relevant investors/investments. • Other donors/programming. • Status of related reforms. • Trajectory of private sector involvement going forward. 	<ul style="list-style-type: none"> • <i>Quarterly implementation reporting.</i> • <i>Quarterly results reporting.</i> • <i>Survey of MCC staff.</i> 	<ul style="list-style-type: none"> • <i>Quarterly results published as "Table of Key Performance Indicators" (available by country): https://www.mcc.gov/our-impact/m-and-e.</i> • <i>Survey questions to be posted: https://www.mcc.gov/resources/doc/summary-compact-survey-summary-fy19.</i>