



**Which Countries Make the FY2009 Corruption Cut?  
A Preview into Round 6 of Millennium Challenge Account Country Selection**

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Good governance is one of the foundational principles of the Millennium Challenge Corporation (MCC), so much so that it uses five of the World Bank Institute's (WBI) Global Governance Indicators each year to assess country performance and select countries eligible for funding. One of these indicators—the WBI's "control of corruption" indicator—is the only "hard" hurdle in the selection process, meaning that a country must pass it in order to become eligible.<sup>2</sup>

In August, the MCC issued its report on countries that are candidates for FY2009 eligibility based on their income level and lack of legal prohibitions.<sup>3</sup> The country candidate report officially kicks off the FY2009 selection round, which culminates in early December. In July, the WBI released its new Global Governance Indicators,<sup>4</sup> which will be used by the MCC in its FY2009 selection round. Together, the two reports provide a first glimpse into MCC candidate country performance.

This note focuses on the presentation and preliminary analysis of the country scores on the newly released control of corruption indicator because of its particular importance in the selection process. We will provide our annual analysis of the full set of MCA eligibility indicators in November when these data become available.

Table 1 reports the rankings for all low-income and lower-middle-income countries on the control of corruption indicator, ordered by their percentile rank. The new data are based on the same methodology as past years, but include two new sources<sup>5</sup> and a new subcomponent of a previously-used source.<sup>6</sup> As in past years, to pass the MCC hurdle, a country must score above the 50<sup>th</sup> percentile.

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<sup>2</sup> Exceptions to this rule were made in the original selection of Georgia in FY2004 and in maintaining eligibility in several other countries.

<sup>3</sup> Millennium Challenge Corporation, "Report on Countries that Are Candidates for Millennium Challenge Account Eligibility in Fiscal Year 2009 and Countries That Would Be Candidates but for Legal Prohibitions"

(<http://www.mcc.gov/documents/mcc-report-fy09-candidatecountry.pdf>)

<sup>4</sup> World Bank, "Governance Matters 2008: Worldwide Governance Indicators 1996-2007"

(<http://info.worldbank.org/governance/wgi/index.asp>)

<sup>5</sup> Vanderbilt University's Americas Barometer and the Institutional Profiles Database compiled by the French Ministry of the Economy, Industry and Employment and the Agence Francais de Developpement

<sup>6</sup> The Bertelsmann Transformation Index this year released subcomponents – such as assessments of corruption – which were previously part of broader indices.

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This year, there are several notable changes in the control of corruption scores. In the Lower-Income Country (LIC) group

- Philippines fails the corruption hurdle for the first time;
- Nicaragua also fails for the first time, scoring as the median country (a failing score);
- Honduras and Benin, countries with compacts under implementation, regain their passing score after failing last year;
- Timor-Leste continues a pattern of decline;
- Indonesia, a current Threshold program country, improves from the median in FY2008 to the 56<sup>th</sup> percentile;
- Rwanda, a Threshold program country, maintains its position after a significant leap last year to one of the top five countries with a score in the 97<sup>th</sup> percentile;
- Liberia, which is not currently MCA eligible, passes the corruption hurdle for the first time, and passes easily, landing in the 88<sup>th</sup> percentile.

In the Lower-Middle Income Country (LMIC) group

- Armenia and Ukraine fail for the second year by significant margins, reflecting the ongoing adjustment to graduation from the LIC income category and possible policy slippages;
- Georgia and Vanuatu both pass the control of corruption hurdle, despite graduating from the LIC to the LMIC category in FY2009.

Five currently compact-eligible countries—Nicaragua, Philippines and Timor-Leste in the LIC category, and Armenia and Ukraine in LMIC category—fail the control of corruption hard hurdle. Two of these countries—Nicaragua and Armenia—have compacts under implementation.

We delve into some of these cases below as a preview to the MCA Monitor's FY2009 selection round predictions paper coming this fall.

### **Lower-Income Countries (LICs)**

#### ***Indonesia***

Indonesia passes the control of corruption indicator for the first time, rising from the 50<sup>th</sup> percentile last year to the 56<sup>th</sup> percentile this year. Indonesia continues to demonstrate improvement in the governance indicators; this year is the third in which all of the Ruling Justly indicators scores are the same<sup>7</sup> or higher than the previous year. The score for control of corruption this year is particularly noteworthy, as Indonesia would have passed even if the median hurdle had not been lowered due to the removal of Cuba,<sup>8</sup> Georgia, and Vanuatu. Indonesia has another year left in its \$55 million threshold program, a major component of which focuses on corruption. The reduction of public corruption in the judiciary, development of pilot e-procurement systems, and support for the Anti-Corruption Commission components of

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<sup>7</sup> Only one of these indicators—Voice and Accountability, will remain in the same percentile. The remaining five others in the category will place Indonesia in higher percentiles.

<sup>8</sup> The World Bank places Cuba in the upper-middle-income group (\$3,706 to \$11,455) based on estimations of 2007 Gross National Income per capita (<http://siteresources.worldbank.org/DATASTATISTICS/Resources/GNIPC.pdf>).

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program, if well implemented and placed within a broader government reform program, would further impact the control of corruption indicator.

### *Liberia*

Liberia registered the largest improvement of any country this year in the control of corruption indicator, scoring in the 88<sup>th</sup> percentile among LICs. This is a significant improvement over last year's 45<sup>th</sup> percentile ranking and the 24<sup>th</sup> percentile ranking of the year before, and it reflects in part the inclusion of a new sub-indicator.<sup>9</sup> The Government of Liberia has introduced several concrete measures during the last few years aimed at reducing corruption, including establishing a Public Procurement Commission, introducing a Cash Management Committee to approve all expenditures, cracking down on customs fraud, and introducing new financial control mechanisms with the support of the international community.

### *Nicaragua*

Nicaragua will fail the corruption hard hurdle this year for the first time since it scores exactly at the median (considered a failing score by the MCC), but this outcome is unlikely to affect Nicaragua's eligibility this year for two reasons: First, scoring exactly at the median this year compared to just above the median last year (51%) cannot be viewed as a definitive indication of deterioration if one allows for some measurement error associated with these (and any) indicators.<sup>10</sup> Second, the very small drop in the indicator is likely due to a change in its composition rather than a decline in policy performance. Including a new underlying data source—Vanderbilt University's Americas Barometer,<sup>11</sup> a compilation of household surveys—ranks Nicaragua less favorably than other institutions such as the comparable survey source LatinoBarometer and lowers its aggregate score.<sup>12</sup>

### *The Philippines*

The Philippines fails the control of corruption indicator after passing it in each year since the inception of the MCC. Its score dropped sharply in the last two years—falling from the 76<sup>th</sup> percentile two years ago, to the 57<sup>th</sup> percentile last year, to the 47<sup>th</sup> percentile this year. This decline creates an awkward situation for the MCC for two reasons: First, the Philippines was declared eligible by the MCC Board just six months ago in a highly unusual out-of-cycle decision. The Board raised concerns over the fragility of the Philippines' control of corruption score during the regular FY2008 selection round, which now appear to have been justified. This new score will raise questions about the Philippines' eligibility just as it initiates compact development. Second, it raises questions about the efficacy of MCC Threshold Programs in

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<sup>9</sup> Since Liberia's control of corruption score contains relatively few sub-sources it is especially sensitive to the addition or subtraction of sub-scores. This year the addition of the Bertelsmann Transformation Index component scores in particular (along with Global Insight's increased sub-score) raised Liberia's aggregated indicator score.

<sup>10</sup> Nicaragua's decline from 2006 was deemed not statistically significant by the authors of the WGI who calculate known measurement error.

<sup>11</sup> This was one of two new sources this year—the other is the Institutional Profiles Database compiled by the French Ministry of the Economy, Industry and Employment and the Agence Francais de Developpement, in which Nicaragua is not one of the 85 countries included. A country's score is not affected when a data source does not have data for a particular sub-indicator.

<sup>12</sup> Since these are both perceptions-based indices, the less favorable ranking translates to a lower sub indicator score. The VAB is also weighted more heavily than the LB as an individual data score, thus having a greater impact on the aggregated indicator score.

making a measurable impact on the control of corruption indicator. The \$21 million Threshold Program in the Philippines, aimed primarily at fighting corruption, was approved on July 26, 2006 and will end November 21, 2008, coinciding with the weakening of the corruption score.

### ***Timor-Leste***

Timor-Leste fails the corruption hurdle for the second year in a row, falling from the 43<sup>rd</sup> percentile in FY2008 to the 39<sup>th</sup> percentile. However, several factors provide further context. Timor-Leste's sub-indicators are few, making the aggregate score particularly responsive to addition or subtraction of sub-scores. This year Timor-Leste only declined on one of the seven sources, but the lack of data from another source which ranked the country relatively highly last year also reduced the aggregate figure. These challenges in measurement and resulting volatility may affect Timor-Leste's eligibility status this year, which will be easier to discern upon review of multiple supplemental sources of information that the MCC utilizes to analyze the policy environment.<sup>13</sup>

### **Lower-Middle Income Countries (LMICs)**

Of note in the LMIC category, two countries (Georgia and Vanuatu) graduate into the LMIC pool and five countries (Belarus, Cuba, Fiji, Jamaica and Suriname) move out, resulting in a lower median score for FY2009.

### ***Armenia***

In its second year in the LMIC country group, Armenia again fails the control of corruption indicator, falling from the 31<sup>st</sup> percentile in FY2008 to the 23<sup>rd</sup> percentile this year. Just as last year, its raw score would have passed in the LIC category but does not surmount the median in the LMIC group. Although last year Armenia's raw score improved from the prior year, this year its score declined below even its score two years ago. However, due to the standard error for the indicator, the decline does not necessarily indicate policy deterioration. Nevertheless, it may be difficult to continue to declare a country eligible that scores in the 23<sup>rd</sup> percentile on control of corruption. The MCC should continue its proactive and aggressive monitoring of events in Armenia—as it did with the elections this year—to evaluate policy deterioration and eligibility.

### ***Ukraine***

Ukraine, having graduated to an LMIC last year, again fails the control of corruption indicator, landing in the 20<sup>th</sup> percentile (up only slightly from 19<sup>th</sup> last year). Had it remained a LIC, it would have just passed. Like Armenia, Ukraine's raw score does not show improvement over the prior two years, but the decline is not greater than the standard error. Nevertheless, as with Armenia, it creates a difficult situation for the MCC to continue to name a country as eligible when its control of corruption score is so low in its comparator group. The Global Integrity Index, which the MCC utilizes as a supplemental source of information, notes in its 2007 ratings that Ukraine continues to struggle with government accountability and implementation of its legal frameworks to counter corruption despite free and fair elections.<sup>14</sup> Freedom House also

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<sup>13</sup> Including Transparency International's Corruption Perceptions Index (CPI), the State Department Human Rights Report and the Global Integrity Index.

<sup>14</sup> Global Integrity Index (<http://report.globalintegrity.org/globalindex/findings.cfm>)

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notes that corruption remains a problem, particularly in the energy sector. The MCC's Threshold Program focused on corruption is drawing to a close.

## Appendix 1 – Country Percentile Rankings on Control of Corruption

### Low Income Countries

Country	CC Percentile Rank	Country	CC Percentile Rank
Bhutan	100%	Philippines	47%
Kiribati	99%	Pakistan	46%
Rwanda	97%	Tajikistan	44%
Sri Lanka	96%	Syria	43%
Madagascar	94%	Niger	42%
		Central-African	
Ghana	93%	Republic	40%
Lesotho	92%	Timor-Leste	39%
India	90%	Cameroon	38%
Burkina Faso	89%	Kenya	36%
Liberia	88%	Uzbekistan	35%
Mali	86%	Paraguay	33%
Tanzania	85%	Togo	32%
Sao Tome and			
Principe	83%	Laos	31%
Djibouti	82%	Nigeria	29%
Benin	81%	Sierra Leone	28%
Bolivia	79%	Congo	26%
Mauritania	78%	Bangladesh	25%
Senegal	76%	Papua New Guinea	24%
Egypt	75%	Burundi	22%
Mozambique	74%	Cambodia	21%
Eritrea	72%	Kyrgyzstan	19%
Zambia	71%	Cote D'Ivoire	18%
Mongolia	69%	Guinea-Bissau	17%
Yemen	68%	Turkmenistan	15%
Solomon Islands	67%	Chad	14%
Guyana	65%	Sudan	13%
Nepal	64%	Zimbabwe	11%
Moldova	63%	Congo, Dem. Rep.	10%
Comoros	61%	Haiti	8%
Honduras	60%	Guinea	7%
Vietnam	58%	Iraq	6%
Ethiopia	57%	Myanmar	4%
Indonesia	56%	Afghanistan	3%
Malawi	54%	Korea, North	1%
Kosovo	53%	Somalia	0%
Uganda	51%		
Nicaragua	50%		
Gambia	49%		

## Appendix 1 – Country Percentile Rankings on Control of Corruption

### Lower Middle Income Countries

<b>Country</b>	<b>CC Percentile Rank</b>
Cape Verde	100%
Jordan	97%
Samoa	93%
Vanuatu	90%
Namibia	87%
Tunisia	83%
El Salvador	80%
Tuvalu	77%
Morocco	73%
Macedonia	70%
Colombia	67%
Georgia	63%
Peru	60%
Bosnia and Herzegovina	57%
Thailand	53%
Micronesia	50%
Swaziland	47%
Algeria	43%
Iran	40%
Albania	37%
Marshall Islands	33%
Dominican Republic	30%
China	27%
Armenia	23%
Ukraine	20%
Guatemala	17%
Maldives	13%
Ecuador	10%
Tonga	7%
Azerbaijan	3%
Angola	0%