



**An MCA Scorecard:
Who Qualified, Who Did Not, and the MCC Board's Use of Discretion**

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May 2004**

On May 6, 2004 the Millennium Challenge Corporation (MCC) announced the selection of 16 countries to be eligible to apply for funding under the Millennium Challenge Account (MCA).¹ The MCC arrived at this list of countries both by applying its pre-announced quantitative selection process and through discretion on the part of its Board of Directors. This note compares the list of countries selected as eligible to apply for MCA funding with the list generated by a strict, objective application of the MCA indicators methodology without MCC Board discretion. It then briefly examines the seven cases in which the Board used its discretion to either include countries that did not meet the indicators test, or exclude countries that passed the tests. Although several of the discretionary cases appear justified, several are more questionable, particularly the exclusion of Guyana and the inclusion of Georgia.

1. Discretion in the Selection Process

The 16 countries selected include Armenia, Benin, Bolivia, Cape Verde, Georgia, Ghana, Honduras, Lesotho, Madagascar, Mali, Mongolia, Mozambique, Nicaragua, Senegal, Sri Lanka, and Vanuatu. Three of these countries did not pass the indicators methodology – Bolivia, Georgia, and Mozambique. Four other countries that passed the indicators test were not selected: Bhutan, Guyana, Mauritania, and Vietnam (see Table 1). Thus, the Board exercised discretion in seven cases. It is well within the Board's power to exercise this discretion: the MCC's official statement of its selection process states:

“The indicators methodology will be the predominate basis for determining which countries will be eligible for MCA assistance. In addition, the Board may exercise discretion in evaluating and translating the indicators into a final list of eligible countries. In this respect, the Board may also consider whether any adjustments should be made for data gaps, lags, trends, or other weaknesses in particular indicators. Likewise, the Board may deem a country ineligible if it performs substantially below average on any indicator and has not taken appropriate measures to address this shortcoming.”²

Given the transparent and objective selection process that is at the core of the MCA process, we should expect the Board to state clearly and publicly the reasons for adding or dropping countries from the list generated by the indicators process. To date they have not fully done so.

¹ See the press release announcing the countries at http://www.mcc.gov/Documents/PR_Eligible.pdf

² MCC. Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in FY 2004 available at http://www.mcc.gov/Documents/methodology_report.pdf

2. Countries Selected that Did Not Pass the Indicators Test

Three of the selected countries did not pass a strict application of the indicators criteria – Bolivia, Mozambique and Georgia. Among other weaknesses, each of these countries failed to score above the median on the “control of corruption” indicator, which is a firm requirement in the indicators methodology. The methodology states that in addition to the World Bank Institute’s corruption indicator (which is included among the 16 core indicators), the Board could refer to Transparency International’s (TI) Corruption Perceptions Index³ to more fully assess country corruption levels. TI ranked 133 countries around the world, including 37 of the 75 MCA candidate countries.

- **Bolivia** meets most MCA eligibility criteria, passing a total of 13 of the 16 indicators, except the requirement that it score *above* the median on “control of corruption.” Bolivia’s corruption score was exactly *equal* to the median, so it formally did not pass this test. It did not fare much better on the TI index, ranking 106th of the 133 countries in the ranking, and 21st of the 37 MCA countries (slightly below the median). We suspect that the Board took into account the fact that Bolivia passed so many of the indicators and was as close as possible to passing the corruption index. This seems like a sensible use of the Board’s discretion, but it should clarify its rationale.
- **Georgia** did not score as well on the indicators, passing only two of the six “ruling justly” indicators (one less than the three necessary to qualify), two of the four “investing in people” indicators, and three of the six “establishing economic freedom” indicators (the minimum number required). It also scores below the median on the “control of corruption” indicator. On the TI corruption index Georgia ranks 124th out of 133 countries, and 33rd of the 37 MCA countries. Apparently, the MCC Board wanted to support Georgia’s political transition and newly elected president, Mikhail Saakashvili. While this goal is certainly justifiable from a U.S. foreign policy perspective, it is not an appropriate use of MCA funds. ***It would have been much more appropriate to support Georgia with resources from the State Department’s Economic Support Fund (ESF) that is targeted for such purposes, instead of through the MCA that is aimed for countries with a demonstrated commitment to strong policies and institutions.*** Once the new government of Georgia demonstrates that commitment over a sufficient period of time (such that it appears in the indicators) U.S. support could shift from the ESF to the MCA.
- **Mozambique** meets MCA criteria in “ruling justly” and “economic freedom” but is below the median in all indicators in the “investing in people” category. It also scores below the median on “control of corruption.” On the TI corruption index, Mozambique scores 86th of the 133 total countries, and a very respectable 9th of the 37 MCA countries. In this case, apparently the Board also considered trends in data, and despite its low absolute levels of investment in education and health, Mozambique has been moving in a positive direction in these areas since the end of its civil war in 1992. Mozambique (along with several other countries) is handicapped by its extremely low income in passing the four “investing in people”

³ Transparency International Corruption Perceptions Index 2003 available at <http://www.transparency.org/cpi/2003/cpi2003.en.html>

indicators, which are more difficult for very poor countries to pass than the other indicators. Given Mozambique's very strong development record over the last ten years, its inclusion in the MCA seems justifiable. Nevertheless, the Board should make its reasons clear. (In addition, we simply note that Mozambique is the only country in the world eligible for both the MCA and the administration's Emergency Plan for AIDS Relief).

3. Countries that Passed the Indicators Test that Were Not Selected

Four countries passed the MCA indicators test, yet were not selected – Bhutan, Vietnam, Mauritania and Guyana. The MCC has given no public indication as to why these countries were excluded, but it is reasonable to speculate:

- **Bhutan, Vietnam and Mauritania** are the only three countries (of the countries that pass the indicators test) that score below the median on all three of the democracy-related indicators (political rights, civil liberties, and voice and accountability). In other words, these three countries are not considered by the international community to be democracies. By excluding these three countries from selection, the MCC seems to be sending a signal, and indeed setting a precedent, that it will be very difficult and unusual for non-democracies to be selected for the MCA, if any will be selected at all. *In effect, the Board implicitly has made democracy a “hard hurdle” for MCA eligibility.* While over the last two years there has been much public debate over the how democracy should be considered in MCA selection, the MCC did not make an explicit statement that it would use discretion against countries that are not considered democracies. At this point, we can only speculate that this was the Board's rationale. Clearly, given the importance of this issue, the Board should make public its rationale.
- **Guyana** successfully passed 13 of the 16 selection criteria and easily passed the corruption index, so it is not immediately obvious why it was excluded from MCA selection. (We also note that it was one of the 14 countries chosen for the administration's Emergency Plan for AIDS Relief). One explanation may be that it scores worst among the 75 countries in this year's pool of MCA candidate countries on the indicator for the 3-year budget deficit. As stated above, the MCC stated “the Board may deem a country ineligible if it performs substantially below average on any indicator and has not taken appropriate measures to address this shortcoming.” There may have been other non-economic factors at play as well. Given Guyana's high scores on the 16 indicators, the Board should more clearly explain its decision.

Table 1. MCA Qualifying Countries and Countries that Pass the Indicators Test

Qualifying countries announced by the MCC 5/6/04 ⁴	Countries that pass the MCA indicators test ⁵
<u>AFRICA</u> Benin Cape Verde Ghana Madagascar Lesotho Mali Mozambique Senegal	<u>AFRICA</u> Benin Cape Verde Ghana Madagascar Lesotho Mali Mauritania Senegal
<u>ASIA</u> Mongolia Sri Lanka Vanuatu	<u>ASIA</u> Bhutan Mongolia Sri Lanka Vanuatu Vietnam
<u>LATIN AMERICA</u> Bolivia Honduras Nicaragua	<u>LATIN AMERICA</u> Guyana Honduras Nicaragua
<u>EASTERN EUROPE/NIS</u> Armenia Georgia	<u>EASTERN EUROPE/NIS</u> Armenia

⁴ MCC Press Release: The Millennium Challenge Corporation Names Eligible Countries. May 6, 2004 available at http://www.mcc.gov/Documents/PR_Eligible.pdf

⁵ For an analysis, see Steve Radelet, "Which Countries are Most Likely to Qualify for the MCA? An Update using MCC Data." Center for Global Development. April 22, 2004 available at http://www.cgdev.org/docs/country_qualification_update_3_22_04.pdf