



Which Countries Pass the FY2011 Corruption Indicator? A Preview into Round 8 of the Millennium Challenge Corporation's Country Selection

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The Millennium Challenge Corporation (MCC) provides U.S. development assistance to well-governed poor countries around the world. As part of eligibility determination, countries are measured in relation to their income-level peers on 17 indicators in 3 categories: ruling justly, encouraging economic freedom, and investing in people. The control of corruption indicator in the ruling justly category is the only "hard hurdle" to compact eligibility, meaning a country must score above the median to be eligible for compact assistance.

This note offers a preliminary analysis of country scores on the FY2011 control of corruption indicator. Control of corruption is measured through the World Bank / Brookings Institution Worldwide Governance Indicators (WGI).² In September, the WBI released the 2010 Worldwide Governance Indicators with two changes to source data for the control of corruption indicator. The Business Environment Risk Intelligence (BRI) and Gray Area Dynamics measures produced by Cerebus Corporate Intelligence (GAD) were dropped as data sources for the corruption indicator because of infrequent and inconsistent data updates.³

The corruption scores, examined in tandem with the MCC's recently released reports on FY2011 candidate countries and selection criteria and methodology,^{5,6} offer initial insights into the upcoming FY2011 eligibility selection process.

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² Worldwide Governance Indicators: 1996-2009. <http://info.worldbank.org/governance/wgi/resources.htm>

³ The Worldwide Governance Indicators, 2010 Update: Changes to Source Data, September 2010. <http://info.worldbank.org/governance/wgi/pdf/WGI2010SourceDataRevisions.pdf>

⁵ MCC Report on Countries that are Candidates for Millennium Challenge Account Eligibility for Fiscal Year 2011 and Countries that would be Candidates but for Legal Prohibitions, August 2010. <http://www.mcc.gov/documents/reports/report-2010001036301-candidate-country-report.pdf>.

⁶ MCC Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance for Fiscal Year 2011, September 2010. <http://www.mcc.gov/documents/reports/report-2010001039502-selection-criteria-and-methodology.pdf>.

Tables 1 and 2 list percentile rankings on the control of corruption indicator for all low income (LIC) and lower middle income countries (LMIC). To pass the control of corruption indicator, a country must score above the median (50th percentile) in its income bracket.

Key Findings:

- Two of nineteen countries with signed compacts in force (Armenia and Mongolia) fail the FY2011 control of corruption indicator. Honduras, which recently completed its first compact, also fails the corruption indicator.
- While not as significant as in FY2010, income group shifts play a pivotal role for the Philippines and Albania. After moving into the LMIC category in FY2010, **the Philippines** returns to the LIC category (and a less difficult peer group with lower medians) this year. In the midst of a Stage II threshold program, **Albania** graduates into the upper middle income category and out of future MCC candidacy.

Highlights from the low income category:

- Bangladesh, The Gambia, Mauritania, Niger, the Philippines, and Vietnam post notable gains in their percentile rankings.⁷
- Benin, Bolivia, Mongolia, Pakistan, and Yemen post notable losses in their percentile rankings.
- **Honduras** fails for the second year in a row, scoring in the 45th percentile on control of corruption. Honduras completed its first compact program in September 2010.
- Falling to the median, **Mongolia** fails the control of corruption indicator for the first time this year. Mongolia is currently in its third year of compact implementation.
- After failing for the past two years, **Nicaragua** inches across the median for the control of corruption indicator with a ranking in the 52nd percentile. Nicaragua is in the final year of its MCC compact.

Highlights from the lower middle income category:

- Micronesia posts notable gains in its percentile ranking.
- Indonesia and Ukraine post notable losses in their percentile rankings.
- **Egypt** graduates into the LMIC category this year and, for the first time ever, fails the corruption indicator with a 48th percentile ranking.

Below we delve into several country cases as a preview to the MCA Monitor's forthcoming FY2011 selection round predictions paper.

⁷ For this paper, we define "notable" as a gain or loss of 15 or more percentage points in relation to FY2010's control of corruption percentile ranking.

Low Income Countries

Honduras

For the second year in a row, Honduras fails the control of corruption indicator, ranking in the 45th percentile. Honduras was the first country to successfully complete its five-year MCC compact. (The compact officially ended September 29, 2010.) But failing the corruption indicator again this year could jeopardize Honduras's prospects for a second MCC compact.

Malawi

Malawi is developing its first MCC compact and increases its control of corruption percentile ranking 10 percentage points, scoring in the 79th percentile this year. Malawi is expected to reach a compact agreement with MCC in 2011 that would focus on reforming and revitalizing the energy sector.

Mongolia

For the first time in the MCC's history, Mongolia fails the control of corruption indicator. Mongolia has experienced a downward trend in corruption percentile ranking over the last five years, and this year is the median country with a 50th percentile ranking. While this means that Mongolia only barely fails, it dropped 16 percentile points from a 66th percentile ranking in FY2010. Mongolia has just begun its third year of implementing a \$285 million compact.

Nicaragua

Nicaragua has hovered around the median for the past three years and this year passes it with a 52nd percentile ranking. Nicaragua is in the final year of its five-year, \$113.5 million compact. (Nicaragua was originally awarded a \$175 million grant, but the MCC terminated the compact's Property Regularization Project and portions of the Transportation Project in July 2009 because of political events inconsistent with the criteria used by the MCC to determine eligibility for assistance.)

The Philippines

After moving into the LMIC category during FY2010, the Philippines returns to the LIC category this year which significantly bolsters its control of corruption ranking. The Philippines scored in the 47th percentile in FY2009, would have scored around the 55th percentile in FY2010 if measured in the LIC category, and now scores in the 60th percentile in FY2011. The Philippines signed a \$434 million compact agreement on September 23, 2010.

Zambia

Currently in compact development, Zambia maintains a high control of corruption rank, scoring in the 77th percentile this year. Zambia's compact development has thus far focused on improvements in the areas of infrastructure and investment climate.

Lower Middle Income Countries

Armenia

For the fourth year in a row, Armenia fails the control of corruption indicator. Armenia drops 5 percentage points to the 42nd percentile this year. Armenia has failed the control of corruption indicator since its graduation to the LMIC category in FY2008. It has just begun the fifth year of implementing a \$236 million compact focused on infrastructure, irrigation, and agribusiness.

Georgia

Georgia is six months away from completing its first MCC compact and passes the FY2011 control of corruption hurdle, ranking in the 68th percentile. Despite graduating to the LMIC category in FY2009, Georgia has squarely passed the control of corruption indicator since FY2007. Georgia's \$395 million compact is focused on enterprise development and regional infrastructure rehabilitation. Georgia is also a potential candidate for eligibility for a second MCC compact.

Indonesia

Indonesia drops a whopping 15 percentage points on the control of corruption indicator this year, scoring in just the 26th percentile. Indonesia graduated to the LMIC category in FY2010. It scored just below the median then, but it is close to significantly failing this year.⁸ This is especially critical as Indonesia is developing a compact with a large price tag (likely \$700–800 million). Initial constraints analyses have identified four possible areas on which the compact might focus, including weaknesses in governance and institutions, infrastructure, education, and environmental sustainability. However, it is important to note that Indonesia was selected as eligible in FY2009 as a LIC and thus, due to a recent MCC policy change, will also be considered against the LIC candidate pool for one more fiscal year.⁹ If compared to the LIC pool in FY2011, Indonesia would be above the median and pass control of corruption.

Paraguay

Paraguay significantly fails the control of corruption indicator, ranking in the 23rd percentile. Last year, Paraguay graduated into the LMIC category. Paraguay is currently implementing a \$30.3 million Stage II threshold program focused on anticorruption efforts.

Timor-Leste

Timor-Leste falls 11 percentage points, ranking in the 10th percentile in control of corruption. Timor-Leste graduated into the LMIC category in FY2010 and has substantially failed the control of corruption

⁸ A country is considered to be significantly failing an indicator if it scores at the 25th percentile or below.

⁹ The MCC notes that it has "adopted an approach to income category transition whereby the Board may consider the indicator performance of countries that transitioned from the LIC to the LMIC category both relative to their LMIC peers, as well as in comparison to the current fiscal year's LIC pool for a period of three years." From the *MCC Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance for Fiscal Year 2011*, p. 3.

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indicator for the past two years. Timor-Leste just signed a \$10 million threshold program in May 2010. The program is aimed at increasing the effectiveness of anticorruption institutions and actors.

Upper Middle Income Countries

Albania

Albania graduates into the upper middle income category this year after passing the control of corruption indicator for the first time in FY2010. Albania is currently implementing a Stage II threshold program worth \$15.7 million. The program will institutionalize key reforms in public administration and judicial capacity building and support further anticorruption activities.

Table 1: Low Income Country Percentile Rankings on FY2011 Control of Corruption Indicator¹⁰

Country	CoC Percentile Rank	Country	CoC Percentile Rank
Lesotho ^C	100%	Mongolia ^C	50%
Rwanda ^T	98%	Central African Republic	48%
Ghana ^C	97%	Uganda	47%
Kiribati	95%	Honduras ^{CC}	45%
Madagascar	94%	Cameroon	44%
Djibouti	92%	Bangladesh	42%
India	90%	Sierra Leone	40%
Eritrea	89%	Yemen	39%
Solomon Islands	87%	Nigeria	37%
São Tomé and Príncipe ^T	85%	Togo	35%
Mozambique ^C	84%	Pakistan	34%
Tanzania ^C	82%	Tajikistan	32%
Burkina Faso ^C	81%	Kenya ^T	31%
Malawi ^{CD}	79%	Haiti	29%
Zambia ^{CD}	77%	Burundi	27%
Vietnam	76%	Guinea-Bissau	26%
Senegal ^C	74%	Laos	24%
Guyana	73%	Cote d'Ivoire	23%
The Gambia	71%	Cambodia	21%
Liberia ^T	69%	Congo, Rep.	19%
Benin ^C	68%	Kyrgyz Republic	18%
Niger	66%	Guinea	16%
Mauritania	65%	Sudan	15%
Mali ^C	63%	Uzbekistan	13%
Bolivia	61%	Chad	11%
The Philippines ^C	60%	Papua New Guinea	10%
Ethiopia	58%	Korea, Dem. Rep.	8%
Moldova ^C	56%	Congo, Dem. Rep.	6%
Nepal	55%	Zimbabwe	5%
Comoros	53%	Afghanistan	3%
Nicaragua ^C	52%	Somalia	2%
		Burma	0%

^C Indicates country is currently receiving compact assistance.

^T Indicates country is currently receiving threshold assistance.

^{CD} Indicates country is currently developing a compact agreement.

^{CC} Indicates country has completed a compact.

¹⁰ Low income countries have a gross national income per capita of equal to or less than \$1905.

Table 2: Lower Middle Income Country Percentile Rankings on FY2011 Control of Corruption Indicator¹²

Country	CoC Percentile Rank
Bhutan	100%
Cape Verde ^{CC, CD}	97%
Vanuatu ^C	94%
Jordan ^C	90%
Samoa	87%
Tunisia	84%
Belize	81%
Micronesia	77%
El Salvador ^C	74%
Tuvalu	71%
Georgia ^C	68%
Morocco ^C	65%
Thailand	61%
Swaziland	58%
Sri Lanka	55%
Marshall Islands	52%
Egypt	48%
China	45%
Armenia ^C	42%
Guatemala	39%
Kosovo	35%
Maldives	32%
Tonga	29%
Indonesia ^{CD}	26%
Paraguay ^T	23%
Ukraine	19%
Ecuador	16%
Syria	13%
Timor-Leste ^T	10%
Angola	6%
Iraq	3%
Turkmenistan	0%

C Indicates country is currently receiving compact assistance.

T Indicates country is currently receiving threshold assistance.

CD Indicates country is currently developing a compact agreement.

CC Indicates country has completed a compact.

¹² Lower middle income countries have a gross national income per capita between \$1906 and \$3945.