



**MILLENNIUM
CHALLENGE
CORPORATION**

REDUCING POVERTY THROUGH GROWTH

CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

In accordance with section 608(b)(1) of the Millennium Challenge Act of 2003 (the “Act” Pub. L. 108-199, Division D), the Millennium Challenge Corporation (MCC) is submitting the enclosed report. On August 11, 2006, the list of candidate countries that are candidates for MCA assistance in FY2007 were transmitted to the appropriate Congressional committees. This report identifies the criteria and methodology that the Millennium Challenge Corporation (MCC) intends to use to determine which of these candidate countries will be eligible to be considered for MCA assistance in FY2007.

As required by the Act, the information contained in this report will also be published in the Federal Register. Consistent with Section 608 (c)(1) of the Act, there will be a thirty (30) day period following publication in the Federal Register during which the public can provide comments regarding the determination of eligible countries.

In accordance with Section 608 (c)(2) of the Act, members of MCC’s staff are available to meet with you to discuss the extent to which candidate countries meet the criteria contained in this report. If you or your staff would like to arrange a meeting, please contact Mackenzie Coon in Congressional and Public Affairs at (202) 521-3719. The attached report is being sent to Congress on September 8, 2006.

Sincerely,

Frances C. McNaught
Vice President
Congressional and Public Affairs

Enclosure:
As stated



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Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2007

SUMMARY

This report to Congress is provided in accordance with Section 608(b) of the Millennium Challenge Act of 2003, 22 U.S.C.A. §§7701, 7707(b) (the “Act”).

The Act authorizes the provision of Millennium Challenge Account (MCA) assistance to countries that enter into Compacts with the United States to support policies and programs that advance the prospects of such countries achieving lasting economic growth and poverty reduction. The Act requires the Millennium Challenge Corporation (MCC) to take a number of steps in determining the countries that, based on their demonstrated commitment to just and democratic governance, economic freedom and investing in their people and the opportunity to reduce poverty and generate economic growth in the country, will be eligible for MCA assistance during Fiscal Year 2007 (FY07). These steps include the submission of reports to the congressional committees specified in the Act and the publication of Notices in the Federal Register that identify:

1. the countries that are “candidate countries” for MCA assistance during FY07 based on their per-capita income levels and their eligibility to receive assistance under U.S. law, and countries that would be candidate countries but for specified legal prohibitions on assistance (Section 608(a) of the Act);
2. the criteria and methodology that the Board of Directors of MCC (the “Board”) will use to measure and evaluate the relative policy performance of the candidate countries consistent with the requirements of Section 607 of the Act in order to select “MCA eligible countries” from among the “candidate countries” (Section 608(b) of the Act); and
3. the list of countries determined by the Board to be “MCA eligible countries” for FY07, with justification for eligibility determination and selection for compact negotiation, including which of the MCA eligible countries the Board will seek to enter into MCA compacts (Section 608(d) of the Act).

This report sets out the criteria and methodology to be applied in determining eligibility for FY07 MCA assistance.

CHANGES TO THE CRITERIA AND METHODOLOGY FOR FY07

MCC has received constructive input on the indicators since the announcement of FY06's selection criteria and methodology. That input has been taken into account in creating the criteria and methodology for the selection of eligible countries for FY07.

NATURAL RESOURCE MANAGEMENT INDICATORS

In the FY06 report, MCC signaled interest in finding a better measure of a country's demonstrated commitment to "...economic policies that promote ...the sustainable management of natural resources." To that end, MCC launched a public process, spearheaded by Governor Whitman, to seek broad input from the academic community, public and private sector practitioners, researchers at think tanks and NGOs. We conducted extensive consultations, hosted several public meetings and researched over 120 potential natural resource indicators. In June 2005, at a large meeting of experts co-hosted by The Brookings Institution, MCC announced a public "call for ideas" to seek suggestions for an indicator. We also assembled a group of economists and natural resources management experts to help us evaluate the ideas we received. Eight ideas were evaluated, and two received high ratings from both the evaluators and MCC staff: a Natural Resources Management index from Columbia University's Center for International Earth Science Information Network (CIESIN) and the Yale Center for Environmental Law and Policy (YCLEP) and an Access to Land indicator from the International Fund for Agricultural Development (IFAD). As a result of technical consultations with experts in the environmental and land communities, MCC explored modifications to the original submissions and determined that the two indices, with some modifications, measure separate aspects of natural resources management and, thus taken together, represent a more comprehensive measurement of this criteria (as well as other criteria noted below).

To measure the sustainable management of natural resources for FY07, MCC has added the Natural Resources Management index and a Land Rights and Access index (IFAD's Access to Land indicator combined with the International Finance Corporation's (IFC's) Time and Cost of Property Registration indicators) as sources of supplemental information. MCC's Board will consider later this year incorporating natural resource management indicators as part of the formal selection matrix for the FY08 selection process. MCC strives for transparency and continuity between years in our selection process and the indicators in order to maximize the incentive effect of the country selection process. The addition of two new indicators is a significant modification of the overall evaluation of candidate country performance. By using these indicators as supplemental information for FY07, with full consideration later this year of formal adoption as selection indicators for FY08, MCC will provide notice to countries of their performance and an opportunity to learn how they are being measured. MCC will engage countries in a dialogue about performance and potential reforms in these areas and will encourage countries to seek feedback from the institutions that produce these indicators.

It is important to recognize that all of MCC's indicators have limitations, including these two additional indicators. For example, the Eco-Region Protection indicator described below attempts to measure the breadth and comprehensiveness of a government's commitment to habitat preservation and biodiversity protection but does not measure the effectiveness of such

efforts. Therefore, MCC will continue to review these indicators and explore potential improvements that more effectively measure a government's commitment to sustainable natural resource management.

Natural Resources Management Index

CIESIN and YCLEP's composite measure of environmental health and environmental protection is made up of four indicators described below.

- **Eco-Region Protection:** Produced by CIESIN, this component assesses whether countries are protecting at least 10 percent of all their biomes (e.g., deserts, tropical rainforests, grasslands, savannas and tundra). It is designed to capture the comprehensiveness of a government's commitment to habitat preservation and biodiversity protection. The World Wildlife Fund provides the underlying biome data, and the United Nations Environment Program World Conservation Monitoring Center – in partnership with the IUCN World Commission on Protected Areas and the World Database on Protected Areas Consortium – provide the underlying data on protected areas.
- **Access to Improved Water:** Produced by the World Health Organization (WHO) and the United Nations Children's Fund (UNICEF), this component measures the percentage of the population with access to at least 20 liters of water per person per day from an “improved” source (household connections, public standpipes, boreholes, protected dug wells, protected springs and rainwater collection) within one kilometer of the user's dwelling.
- **Access to Improved Sanitation:** Produced by the WHO and UNICEF, this component measures the percentage of the population with access to facilities that hygienically separate human excreta from human, animal and insect contact. Such facilities include sewers or septic tanks, pour-flush latrines and simple pit or ventilated improved pit latrines, provided that they are not public.
- **Child Mortality (Ages 1-4):** Produced by the Population Division of the United Nations Department of Economic and Social Affairs, this indicator measures the probability of a child dying between the ages of 1 and 4. Since the underlying causes of child mortality among 1-4 year olds are predominantly environmental, this indicator is considered to be an excellent proxy for environmental conditions.

Why it matters

Eco-region protection is important for sustainable economic growth and poverty reduction because ecosystems provide essential services such as clean water, fresh air, healthy soils, livable climates and wild foods that underpin human welfare. The establishment of “protected areas” constitutes a proven approach to preserving ecosystems. Studies show that, in the absence of a well-managed protected areas system, the environment inside and outside of protected areas tends to deteriorate. In addition, protected areas can generate a significant amount of income by providing opportunities for investments in tourism and bio-prospecting, generating debt relief through debt-for-nature swaps and carbon credit arrangements, and attracting international

conservation investments. Weak protection of ecosystems has a particularly damaging effect on poor people since they rely directly upon the resource base for food, fiber, fuel, shelter and water. The benefit-to-cost ratio of effective conservation of wild areas is estimated to exceed 100:1.

Lack of access to clean water and sanitation services are two of the most important environmental threats to human health in the developing world. Every year, roughly 1.7 million lives and 54.2 million “life-years” are lost to unsafe water and inadequate sanitation, and poor people disproportionately bear this burden. Access to these clean water and sanitation services affects economic growth and poverty reduction directly through the channels of improved health and higher total factor productivity. Lack of access to these basic services affects labor productivity by spreading diseases such as dengue, hepatitis A and E, cholera, dysentery and diarrheal diseases; encouraging the spread of malaria-infected mosquitoes; and making it difficult for people to retain food and nutrients. Poor people (disproportionately women and children) also spend a significant number of daylight hours fetching water, which further lowers levels of labor productivity. In addition, women and older children lose millions of working days caring for family members afflicted by water-borne diseases.

A government’s commitment to reducing child mortality among 1-4 year-olds provides an excellent indication of its broader commitment to environmental health and environmental protection. Unlike *infant mortality*, the causes of child mortality among 1-4 year-olds are predominantly environmental. CIESIN and the YCLEP estimate that roughly 80 percent of all of the deaths in the 1-4 age cohort are attributable to three factors: (1) indoor air pollution; (2) unsafe water; and (3) unreliable sanitation. The direct economic impact of indoor air pollution and unsafe water and sanitation is staggering: 3.3 million lives and 92.7 million “life-years” are lost every year to these environmental health threats. Indoor air pollution, which is caused primarily by burning biomass, leads to acute respiratory infections (ARI), asthma, chronic obstructive pulmonary disease and a whole host of other health-related issues. Women and young children disproportionately bear this burden because they usually spend more time cooking and indoors. Yet with modest investments, these deaths and illnesses are completely preventable. Studies show that interventions such as dissemination of improved efficiency household stoves and public awareness campaigns about the importance of proper ventilation come at a very low cost and save lives. These interventions have also been shown to reduce unsustainable biomass harvesting.

Land Rights and Access Index

The Land Rights and Access Index is made up of three indicators:

- **Access to Land:** Produced by IFAD, this indicator assesses the extent to which the institutional, legal and market framework provides secure land tenure and equitable access to land in rural areas. It is made up of five subcomponents: (1) the extent to which the law guarantees secure tenure for land rights of the poor; (2) the extent to which the law guarantees secure land rights for women and other vulnerable groups; (3) the extent to which land is titled and registered; (4) the functioning of land markets; and (5) the extent to which

government policies contribute to the sustainable management of common property resources.

- **Days to Register Property:** Produced by the International Finance Corporation (IFC), this component measures how long it takes to register property in the capital city. The IFC records the full amount of time necessary when a business purchases land and a building, and to transfer the property title from the seller to the buyer so that the buyer can use the title for expanding business, as collateral in taking new loans, or, if necessary, to sell to another business.
- **Cost of Registering Property:** Produced by the IFC, this component measures the cost to register property as a percentage of the value of the property in the capital city. The IFC records all of the costs that are incurred when a business purchases land and a building to transfer the property title from the seller to the buyer, so that the buyer can use it for expanding his business, as collateral in taking new loans, or, if necessary, to sell it to another business.

Why it matters

Secure land tenure is a critical component of sustainable natural resource management because those who lack clear ownership or use rights to their land are less likely to make long-term investments in land productivity and more likely to make short-term decisions with negative environmental impacts such as deforestation. In Ghana, for example, there is evidence that farmers are significantly more likely to make long-term investments in land by planting trees when their land rights are secure. Conversely, insecure land tenure can contribute to severe land degradation by encouraging the mining of soil fertility and organic matter, slash-and-burn agriculture and encroachment into ecologically sensitive areas. Studies show that land tenure insecurity has accelerated deforestation and a range of other unsustainable natural resource management practices in Latin America, Africa and Asia.

In addition to cultivating a longer term perspective on land use, secure land tenure also eases the difficulty of establishing the systems of securitization that are necessary to deliver water and sanitation services; private companies and public utilities generally do not provide access to credit, water, sanitation, telephones or electricity unless the individuals requesting service possess a property title.

Secure and formal land tenure and efficient title registration services also play a central role in the economic growth process by giving people long-term incentives to invest and save their income, enhancing access to essential public services, allowing for more productive use of time and money than protecting land rights, facilitating use of land as collateral for loans and contributing to social stability and local governance. These improvements also favor growth that is “pro-poor” because the benefits generally accrue to those who have not possessed such rights in the past and who are affected even more by high property registration costs in time and money. Land policy reform can be particularly meaningful for women. Research shows that when women have secure access to land and are able to exercise control over land assets, their ability to earn income is enhanced, household spending on healthcare, nutritious foods and

children's education increase and human capital accumulation occurs at a faster rate. Women's ability to inherit and possess control rights to land also serves as a crucial social safety net.

Consultations with the land policy community have revealed that, while IFAD's indicator places great emphasis on equitable access to land in rural areas, it does not fully address the efficiency of the property rights system and urban property issues. Therefore, MCC will combine IFAD's indicator with the IFC's time and cost of property registration indicators. The IFC indicators are compiled by means of a rigorous process of consultation with local experts, cross-checking with official sources, government officials and relevant stakeholders to ensure the accuracy of the information that is collected. These indicators are highly actionable and target the urban and peri-urban commercial and residential property areas not measured by the IFAD indicator. Non-rural land use is certainly important for poverty-reducing economic growth, but the conversion of rural land to urban land is also important to sustainable natural resource management and sound land policy affects the quality of this process of land use change.

PLACEMENT OF THE NATURAL RESOURCE MANAGEMENT INDICES

While MCC's authorizing legislation outlines the natural resource management indicator as a measure of economic policy in the economic freedom category, and the proposed indicators meet that criterion, MCC is considering eventual placement of both indicators in the Investing in People category as potentially the most appropriate. Investing in people means, among other characteristics, investing in the assets required for a sustainable livelihood. The Natural Resources Management index measures whether governments are investing their resources in ways that will enable poor people, particularly poor women and children, to live healthy and productive lives. The Access to Improved Water, Access to Improved Sanitation and Child Mortality subcomponents of this index are also responsive to MCC's legislative mandate of measuring a government's commitment to reducing child mortality. Land is a crucial asset and a social safety net that poor people rely on to improve their well-being. By measuring whether governments are improving their laws, policies and administrative practices to make land access more secure, the Land Rights and Access index will help MCC identify countries that are committed to investing in the entrepreneurship of their people and empowering people to more fully harness their skills and talents to improve their livelihoods. Access to land often determines whether or not the poor can earn enough income to survive and invest in their own futures. It is also important to note that the Land Rights and Access index explicitly addresses the issue of gender equality and qualifies as a measure of a government's commitment to investing in women (as outlined in MCC's authorizing legislation). Gender inequality has been an important component of MCC Compact development, and equitable access to land in particular has shown itself to be essential if all members of society are to benefit from economic growth. MCC's use of a Land Rights and Access index is also responsive to the broader legislative mandate that MCC, in all of its activities, "take into account and assess the role of women and girls."

MODIFICATION OF INDICATOR SOURCES

Due to improvements in data quality and availability, MCC has made several source changes to the FY07 selection criteria. Rather than relying on multiple sources for its *Inflation* indicator,

MCC will rely exclusively on annual data reported in the International Monetary Fund's (IMF) World Economic Outlook (WEO) database. For *Public Expenditure on Health*, MCC will also substitute World Health Organization data for the data it has collected through national governments in previous years. Finally, for its *Public Expenditure on Primary Education* indicator, MCC will draw on the United Nations Educational, Scientific and Cultural Organization (UNESCO) as its primary source and self-reported data from national governments as a secondary source. Efforts are currently underway at UNESCO to improve country coverage, and MCC plans to discontinue use of self-reported country data as coverage expands.

POTENTIAL FUTURE CHANGES

MCC reviews all of its indicators annually to ensure the best measures are being used and may, from time to time, recommend changes or refinements if MCC identifies better indicators or improved sources of data. MCC takes into account public comments received on the previous year's criteria and methodology and consult with a broad range of experts in the development community and within the U.S. Government. In assessing new indicators, MCC favors those that: (1) are developed by an independent third party; (2) utilize objective, analytically rigorous and high-quality data; (3) are publicly available; (4) have broad country-coverage; (5) are comparable across countries; (6) have a clear theoretical or empirical link to economic growth and poverty reduction; (7) are policy-linked (i.e., measure factors that governments can influence within a two- to three-year horizon); and (8) have broad consistency in results from year to year. There have been numerous noteworthy improvements to data quality and availability to current indicators as a result of MCC's application of the indicators and the regular dialogue MCC has established with the indicator institutions.

In addition to the changes identified in this Report, MCC will explore additional changes to the indicators for the FY08 process. For example, in the FY06 Report, MCC signaled its interest in a more comprehensive measure of trade barriers. MCC has not yet identified a more comprehensive measure with good country coverage and which is publicly available, but several new indicators of tariff and non-tariff barriers are under development. The Heritage Foundation, for instance, plans to make significant revisions to its Trade Policy indicator in order to better account for non-tariff barriers such as quotas, voluntary export restraints, import bans, import and export taxes, import and export subsidies, import and export licensing requirements and the red tape involved with each stage of importing and exporting. MCC hopes that by highlighting our intention to look for better and more comprehensive indicators MCC will stimulate interest in improving the available data.

Criteria and Methodology

The Board will select eligible countries based on the following, among other factors: (1) their overall performance in relation to their peers in three broad policy categories – Ruling Justly, Encouraging Economic Freedom and Investing in People; and (2) the opportunity to reduce poverty and generate economic growth. 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. For FY07, there will be two groups of candidate countries – low-income countries and lower

middle-income countries. Low-income candidate countries refer to those countries that have a per capita income equal to or less than \$1,675 and are not ineligible to receive United States economic assistance under part I of the Foreign Assistance Act of 1961 by reason of the application of any provision of the Foreign Assistance Act or any other provision of law. Lower middle-income candidate countries are those that have a per capita income between \$1,676 - \$3,465 and are not ineligible to receive United States economic assistance.

The Board will make use of sixteen indicators to assess policy performance of individual countries (specific definitions of the indicators and their sources are set out in Annex A). These indicators are grouped for purposes of the FY07 assessment methodology under the three policy categories listed below.

Ruling Justly	Encouraging Economic Freedom	Investing in People
1. Civil Liberties 2. Political Rights 3. Voice and Accountability 4. Government Effectiveness 5. Rule of Law 6. Control of Corruption	1. Cost of Starting a Business 2. Inflation 3. Fiscal Policy 4. Trade Policy 5. Regulatory Quality 6. Days to Start a Business	1. Public Expenditure on Health 2. Public Expenditure on Primary Education 3. Immunization Rates (DPT3 and Measles) 4. Girls' Primary Education Completion

In making its determination of eligibility with respect to a particular candidate country, the Board will consider whether a country performs above the median in relation to its peers on at least half of the indicators in each of the three policy categories and above the median on the corruption indicator. One exception to this methodology is that the median is not used for the *Inflation* indicator. Instead, to pass the *Inflation* indicator a country's inflation rate needs to be under a fixed ceiling of 15 percent. The indicator methodology will be the predominant 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 the median on any indicator and has not taken appropriate measures to address this shortcoming.

Where necessary, the Board may also take into account other quantitative and qualitative information to determine whether a country performed satisfactorily in relation to its peers in a given category. As provided in the Act, the Chief Executive Officer's report to Congress setting out the list of eligible countries and identifying which of those countries the MCC will seek to enter into Compact negotiations with will include a justification for such eligibility determinations and selections for Compact negotiation.

There are elements of the criteria set out in the Act for which there is either limited quantitative information (e.g., rights of people with disabilities) or no well-developed performance indicator. Until such data and/or indicators are developed, the Board may rely on supplemental 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, worker rights and human rights. Similarly, as additional information in the area of

corruption, the Board may consider how a country scores on Transparency International's Corruption Perceptions Index as well as on the defined indicator.

Relationship to Legislative Criteria

Within each policy category, the Act sets out a number of specific selection criteria. As indicated above, a set of objective and quantifiable policy indicators is being used to establish eligibility for MCA assistance and 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 sixteen objective indicators. Most are addressed by multiple indicators. The specific indicators used to measure each of the criteria set out in the Act are listed below.

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

- (A) *promote political pluralism, equality and the rule of law;*
Indicators – Political Rights, Civil Liberties, Voice and Accountability and Rule of Law
- (B) *respect human and civil rights, including the rights of people with disabilities;*
Indicators – Political Rights and Civil Liberties
- (C) *protect private property rights;*
Indicators – Civil Liberties, Regulatory Quality, Rule of Law and Land Rights and Access
- (D) *encourage transparency and accountability of government; and*
Indicators – Political Rights, Civil Liberties, Voice and Accountability and Government Effectiveness
- (E) *combat corruption;*
Indicators – Civil Liberties 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;*
Indicators – Fiscal Policy, Inflation, Trade Policy and Regulatory Quality
- (B) *promote private sector growth and the sustainable management of natural resources;*
Indicators – Inflation, Days to Start a Business, Cost of Starting a Business, Fiscal Policy and Regulatory Quality
- (C) *strengthen market forces in the economy; and*
Indicators – Fiscal Policy, Inflation and Regulatory Quality

(D) respect worker rights, including the right to form labor unions;
Indicators – Civil Liberties and Voice and Accountability

Section 607(b)(3): Investments in the people of such country, particularly women and children, including programs that (A) promote broad-based primary education and (B) strengthen and build capacity to provide quality public health and reduce child mortality.

Indicators – Girls’ Primary Education Completion, Public Expenditure on Primary Education, Immunization Rates, Public Expenditure on Health

Where necessary the Board will also draw on supplemental data and qualitative information, including Natural Resources Management (CIESIN & YCLEP) and Land Rights and Access (IFAD and IFC) indices, the State Department’s Human Rights Report and Transparency International’s Corruption Perception’s Index.

Annex A: Indicator Definitions

The following 16 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 measure policies that are necessary conditions for a country to achieve broad-based sustainable economic growth. The indicators were selected based on their relationship to economic growth and poverty reduction, the number of countries they cover, their transparency and availability and their relative soundness and objectivity. Where possible, the indicators are developed by independent sources.

Ruling Justly

1. *Civil Liberties*: A panel of independent experts rates countries on: freedom of expression; association and organizational rights; rule of law and human rights; and personal autonomy and economic rights. Source: *Freedom House*
2. *Political Rights*: A panel of independent experts rates 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. Source: *Freedom House*
3. *Voice and Accountability*: An index of surveys that rates countries on: ability of institutions to protect civil liberties; the extent to which citizens of a country are able to participate in the selection of governments; and the independence of the media. Source: *World Bank Institute*
4. *Government Effectiveness*: An index of surveys that rates each country on: the quality of public service provision; civil services' competency and independence from political pressures; and the government's ability to plan and implement sound policies. Source: *World Bank Institute*
5. *Rule of Law*: An index of surveys that rates countries on: the extent to which the public has confidence in and abides by rules of society; incidence of violent and nonviolent crime; effectiveness and predictability of the judiciary; and the enforceability of contracts. Source: *World Bank Institute*
6. *Control of Corruption*: An index of surveys that rates countries on: the frequency of "additional payments to get things done;" the effects of corruption on the business environment; "grand corruption" in the political arena; and the tendency of elites to engage in "state capture." Source: *World Bank Institute*

Encouraging Economic Freedom

1. *Cost of Starting a Business:* The Private Sector Advisory Service of the World Bank Group works with local lawyers and other professionals to examine specific regulations that impact business investment. One of their studies measures the cost of starting a new business as a percentage of per capita income. Source: *World Bank Group*
2. *Inflation:* The most recent 12-month change in consumer prices as reported in the IMF's International Financial Statistics or in another public forum by the relevant national monetary authorities. Source: *The International Monetary Fund's World Economic Outlook (WEO) database*
3. *Fiscal Policy:* The overall budget deficit divided by GDP, averaged over a three-year period. The data for this measure is being provided directly by the recipient government and will be cross-checked with other sources and made publicly available to try to ensure consistency across countries. Source: *National Governments and the International Monetary Fund's World Economic Outlook (WEO) database*
4. *Days to Start a Business:* The Private Sector Advisory Service of the World Bank Group works with local lawyers and other professionals to examine specific regulations that impact business investment. One of their studies measures how many days it takes to open a new business. Source: *World Bank Group*
5. *Trade Policy:* A measure of a country's openness to international trade based on average tariff rates and nontariff barriers to trade. Source: *The Heritage Foundation's Index of Economic Freedom*
6. *Regulatory Quality:* An index of surveys that rates each country on: the burden of regulations on business; price controls; the government's role in the economy; foreign investment regulation; and many other areas. Source: *World Bank Institute*

Investing in People

1. *Public Expenditure on Health:* Total expenditures by government at all levels on health divided by GDP. Source: *The World Health Organization (WHO)*
2. *Immunization:* The average of DPT3 and measles immunization rates for the most recent year available. Source: *The World Health Organization (WHO)*
3. *Total Public Expenditure on Primary Education:* Total expenditures by government at all levels of primary education divided by GDP. Source: *The United Nations Educational, Scientific and Cultural Organization (UNESCO) and National Governments*
4. *Girls' Primary Completion Rate:* The number of female students completing primary education divided by the population in the relevant age cohort. Source: *World Bank and the United Nations Educational, Scientific and Cultural Organization (UNESCO)*

