

**ԿՈՎԿԱՍՅԱՆ ԵՐԿՐՆԵՐԻ
ՀՄԿ ՉՈՒՅՄԱՆԻՇՆԵՐԸ**

**SOUTH CAUCASUS
PERFORMANCE ON MCC INDICES**

ՀԱՄԱՌՈՑ ԱԿՏԱՐԿ

ՓԵՏՐՎԱՐ 2008

This Policy Brief analyzes accomplishment of South Caucasus countries on MCC 17 indices in strengthening of good governance, economic freedom and investing in people – the preconditions for steady and prosperous economic development. The analysis for consequent three

years 2006, 2007 and 2008, clearly shows the current situation and accomplishments of categories. It will be worth to mention that Azerbaijan is still not eligible for MCC funding. Armenia and Georgia receive assistance under MCC program. The analysis and comparison will

be based on the country scorecard assessment, which all these countries receive annually assessing their performance in three policy categories - ruling justly, investing in people and economic freedom.

GENERAL OVERVIEW

The Millennium Challenge Corporation (MCC) is a United States Government corporation designed to work in the poorest countries all over the world. Established in 2004, MCC is based on the principle that aid is most effective when it strengthens good governance, economic freedom and investments in people. MCC's mission is to reduce global poverty through the promotion of sustainable economic growth.

Before a country can become eligible to receive assistance, MCC looks at their performance on 17 independent and transparent policy indicators (natural resource management and land rights and access indicators have been introduced since 2007).

Overseen by a Board of Directors, which is composed of the US Secretary of State, the US Secretary of Treasury, the US Trade Representative, the USAID Administrator, the MCC CEO and four public members appointed by the US President with the advice and consent of the US Senate,

Low Income Country and Low Middle Income Country

Low Income Countries are the countries whose GNI (Gross National Income) is equal or less than \$1,735. Low Middle Income Countries must have GNI between \$1,736 and \$3,595. The importance of distinction between low income countries (LIC) and lower middle income countries (LMIC) is determined by the federal law, according to which only 25% of Millennium Challenge Compact assistance in any given year may be invested in compacts for LMIC countries. This funding cap was included in the law that established the MCC to ensure that a majority of the funding would be reserved for the

MCC is responsible for the control of the Millennium Challenge Account (MCA)¹, which receives funds allocated by US Congress every year. Table depicted below lists 17 indicators determining country eligibility for MCC program assistance.

world's poorest countries. Consequently, South Caucasus countries scattered in the following income categories: Armenia (GNI/Cap. \$1,930) and Azerbaijan (GNI/Cap. \$1,850) fall in LMIC category, whereas Georgia (GNI/Cap. \$1,560) in LIC.

Table 1: 17 Indicators

| INDICATOR | CATEGORY | SOURCE |
|--|---------------------|--|
| Civil Liberties | Ruling Justly | Freedom House ² |
| Political Rights | Ruling Justly | Freedom House |
| Voice and Accountability | Ruling Justly | World Bank Institute ³ |
| Government Effectiveness | Ruling Justly | World Bank Institute |
| Rule of Law | Ruling Justly | World Bank Institute |
| Control of Corruption | Ruling Justly | World Bank Institute |
| Immunization Rates | Investing in People | World Health Organization ⁴ |
| Health Expenditure | Investing in People | World Health Organization ⁵ |
| Girls' Primary Education Completion Rate | Investing in People | UNESCO ⁶ |
| Primary Education Expenditure | Investing in People | UNESCO/National Sources |
| Natural Resource Management | Investing in People | CIESIN/Yale ⁷ |
| Business Start Up | Economic Freedom | IFC ⁸ |
| Inflation | Economic Freedom | IMF WEO ⁹ |
| Trade Policy | Economic Freedom | Heritage Foundation ¹⁰ |
| Regulatory Quality | Economic Freedom | World Bank Institute |
| Fiscal Policy | Economic Freedom | National Sources/IMF WEO |
| Land Rights and Access | Economic Freedom | IFAD ¹¹ /IFC |

Ruling Justly

☞ Civil Liberties - a panel of experts rates countries on freedom of expression, association and organizational rights, rule of law and human rights, personal autonomy and economic rights

☞ Political Rights - prevalence of free and fair elections; 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 group

☞ Voice and Accountability - an index of surveys rates countries on the ability of their institutions' to protect civil liberties, the extent of citizen participation in government selection, and independent media

☞ Government Effectiveness - quality of public service provision, civil service competency and independence from political pressures, and the government's ability to plan and implement sound policies

☞ Rule of Law – public's confidence in and abides by rules of society; incidence of violent and non-violent crime; effectiveness and predict-ability of the judiciary; and the enforceability of contracts

☞ Control of Corruption - 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”

Investing in People

☞ Public Expenditure on Health - total expenditures by the government at all levels on health divided by the Gross Domestic Product (GDP)

☞ Immunization - the average of DPT3 (diphtheria, pertussis and tetanus) and measles immunization rates for the most recent year available

☞ Public Expenditure on Primary Education - total expenditures by government at all levels on primary education divided by GDP

☞ Girls' Primary Completion Rate - the

number of female students completing primary education divided by the population in the relevant age cohort

☞ Natural Resources Management - eco-region protection data, 2006 (1-4) child mortality data, 2004 water access data, and 2004 sanitation access data

Economic Freedom

☞ Business Start-Up - calculated as the average of two indicators from the IFC's: 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 influence business investment. One of their studies measures the cost of starting a new business as a percentage of per capita income) and days to start a business (the Private Sector Advisory Service of the World Bank Group works with local lawyers and other professionals to measure how many days it takes to open a new business)

☞ Inflation - the most recent 12-month change in consumer prices as reported in the International Monetary Fund's (IMF) International Financial Statistics or in another public forum by the relevant national monetary authorities. World Economic Outlook inflation data reflect annual percentage change averages for the year, not end-of-period data

☞ Fiscal Policy - overall budget deficit divided by GDP, averaged over a three-year period. The data is provided directly by the recipient government but is cross checked with other sources and made publicly available

☞ Trade Policy - a measure of a country's openness to international trade based on average tariff rates and non-tariff barriers to trade

☞ Regulatory Quality Rating - an index of surveys rates countries on the burden of regulations on business, price controls, the government's role in the economy, foreign investment regulation, and other related areas

☞ Land Right and Access - time and cost of property registration

Armenia, Azerbaijan and Georgia Performance Rates

Armenia

Regardless of the fact that Armenia is fall in the low middle income country category and has comparatively high GNI/Cap., in comparison with the previous year, performance of the indicators in 2008 were poorer, especially by ruling justly category. Thus, Table 2 presents indicators in percentage for 2006, 2007, and 2008.

Table 2: Performance of Armenia Indicators on 2006, 2007, and 2008

| INDICATORS | 2006 | 2007 | 2008 |
|-------------------------------------|--------|------|------|
| RULING JUSTLY | | | |
| Political Rights | 40-54% | 41% | 34% |
| Civil Liberties | 47-68% | 47% | 28% |
| Control Of Corruption | 75% | 69% | 31% |
| Government Effectiveness | 83% | 92% | 59% |
| Rule of Law | 71% | 79% | 47% |
| Voice and Accountability | 51% | 53% | 28% |
| INVESTING IN PEOPLE | | | |
| Immunization Rates | 78% | 79% | 38% |
| Health Expenditures | 39% | 19% | 3% |
| Primary Education Expenditures | 50% | 66% | 52% |
| Girl's Primary Education Completion | 98% | 98% | 40% |
| Natural Resources Management | - | 87% | 59% |
| ECONOMIC FREEDOM | | | |
| Regulatory Quality | 95% | 100% | 91% |
| Land Rights And Access | - | 98% | 100% |
| Business Start-Up | - | - | 84% |
| Cost of Starting a Business | 100% | 99% | - |
| Days to Start a Business | 86% | 85% | - |
| Trade Policy | 95-98% | 100% | 96% |
| Inflation | 99% | 99% | 86% |
| Fiscal Policy | 83% | 63% | 38% |

Table above presents assessment of performance of three policy categories: ruling justly, investing in people, and encouraging economic freedom. Left part of the table list indices of mentioned categories and right part talks about their performance that expressed in percent. In that way, it is obvious that there is negative trend by almost all categories. Ruling justly and investing in people categories as well as fiscal policy index in comparison with the previous years are decreased greatly.

Azerbaijan

Azerbaijan, the country that is not eligible for the MCC funding though its GNI/Cap. is higher than of Georgia, has the poorest performance of indicators. Table below presents indicators in percentage for 2006, 2007, and 2008.

Table 3 Performance of Indicators on 2006, 2007, and 2008

| INDICATORS | 2006 | 2007 | 2008 |
|-------------------------------------|--------|------|------|
| RULING JUSTLY | | | |
| Political Rights | 17-40% | 31% | 22% |
| Civil Liberties | 22-47% | 36% | 19% |
| Control Of Corruption | 25% | 36% | 6% |
| Government Effectiveness | 49% | 63% | 19% |
| Rule of Law | 50% | 50% | 13% |
| Voice and Accountability | 45% | 32% | 16% |
| INVESTING IN PEOPLE | | | |
| Immunization Rates | 88% | 87% | 59% |
| Health Expenditures | 29% | 6% | 0% |
| Primary Education Expenditures | 60% | 8% | 0% |
| Girl's Primary Education Completion | 95% | 85% | 32% |
| Natural Resources Management | - | 73% | 24% |
| ECONOMIC FREEDOM | | | |
| Regulatory Quality | 55% | 69% | 31% |
| Land Rights And Access | - | 95% | 96% |
| Business Start-Up | - | - | 71% |
| Cost of Starting a Business | 90% | 94% | - |
| Days to Start a Business | 10% | 38% | - |
| Trade Policy | 53-72% | 71% | 65% |
| Inflation | 21% | 38% | 17% |
| Fiscal Policy | 89% | 84% | 90% |

Table above presents assessment of performance of three policy categories: ruling justly, investing in people, and encouraging economic freedom. Left part of the table list indices of mentioned categories and right part talks about their performance that expressed in percent. In that way, it is obvious that there is negative trend by almost all categories. Ruling justly and investing in people categories as well as fiscal policy index in comparison with the previous years are decreased greatly.

Georgia

Georgia indicators performance is presented below in percentage for 2006, 2007, and 2008.

Table 4 Performance of Indicators on 2006, 2007, and 2008

| INDICATORS | 2006 | 2007 | 2008 |
|-------------------------------------|--------|------|------|
| RULING JUSTLY | | | |
| Political Rights | 67-85% | 63% | 69% |
| Civil Liberties | 47-68% | 72% | 74% |
| Control Of Corruption | 36% | 78% | 84% |
| Government Effectiveness | 53% | 77% | 93% |
| Rule of Law | 48% | 53% | 66% |
| Voice and Accountability | 70% | 67% | 78% |
| INVESTING IN PEOPLE | | | |
| Immunization Rates | 54% | 71% | 68% |
| Health Expenditures | 95% | 9% | 38% |
| Primary Education Expenditures | 8% | 0% | 3% |
| Girl's Primary Education Completion | 73% | 70% | 71% |
| Natural Resources Management | - | 83% | 84% |
| ECONOMIC FREEDOM | | | |
| Regulatory Quality | 46% | 65% | 89% |
| Land Rights And Access | - | 100% | 100% |
| Business Start-Up | - | - | 100% |
| Cost of Starting a Business | 87% | 92% | - |
| Days to Start a Business | 94% | 97% | - |
| Trade Policy | 53-72% | 60% | 69% |
| Inflation | 34% | 45% | 30% |
| Fiscal Policy | 80% | 77% | 73% |

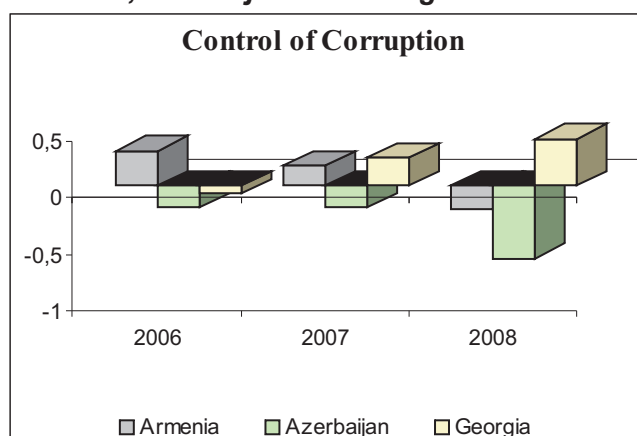
Table above presents assessment of performance of three policy categories: ruling justly, investing in people, and encouraging economic freedom. Left part of the table list indices of mentioned categories and right part talks about their performance that expressed in percent. However, in contrast to Armenia and Georgia, Ruling justly and Investing in people categories have positive trends whereas fiscal policy index in comparison with the previous years are decreased a little. Comparing to the previous years Georgia performance improves and has positive trends.

Although Armenia and Azerbaijan are in the Low Middle Income Country category and Georgia in Low Income Country one, Georgia is leading in the performance of indices for 2006-08.

The following is comparison of South Caucasus countries in *Rule of Law; Control of Corruption Voice and Accountability* indicators under the *Ruling justly* category.

The first chart shows the trends of control of corruption index in three countries of the South Caucasus. It looks at 2006, 2007 and 2008 figures clearly showing which country seems to fail in an attempt to curb corruption. The graphic explicitly shows that Armenia and Azerbaijan rates are inclined to go down whereas Georgia, being in the Low Income Countries category, improves its performance on this index. Moreover, vain endeavors of Armenia in curbing corruption rates starting from 2006 were unsuccessful. The same is with Azerbaijan, which attempts in curbing corruption were failed and starting from 2006 the situation became even worse. Yet, Georgia is the best in the efforts to combat corruption.

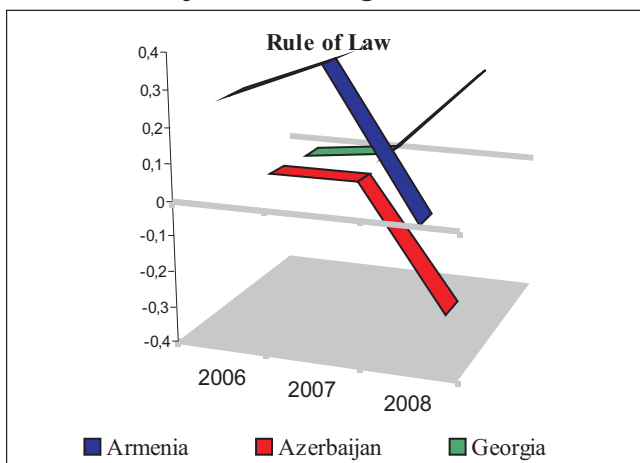
Figure 4: Control of Corruption for Armenia, Azerbaijan and Georgia



The chart explicitly shows the negative tendency of both Armenia and Azerbaijan in an attempt to control corruption that measure the extent to which public power is exercised for private gain. Yet Georgia is doing relatively well. Starting from 2006 Armenia's attempt to control of corruption is failed. For instance, in comparison with 2006, 2007 performance rate, in percentage, reduced by

55% and 2008 by 59%. However, interesting picture occurs in the comparison of the performance rate in 2007 declined by 8% over 2006 and in 2008 by 55% over 2007. According to the figures, performance rate of the control of corruption go from bad to worst in 2008. In that way, the efficiency of Armenia Anticorruption Strategy is on the doubt. Azerbaijan's performance was bad at the begging and the similar trend is noticed regardless of the existing Anticorruption Strategy. The figures are negative and in 2008 control of corruption index diminished by 76% over 2006. Georgia in that respect seems to be the only country in the South Caucasus, which Anticorruption Strategy works in reality, as the its performance rate constitute 84% in 2008. Rule of law that shows the public's confidence in and abides by rules of society, incidence of violent and non-violent crime, effectiveness and predict-ability of the judiciary as well as enforceability of contracts is the next index chosen for comparison. Thus, the chart below presents performance of Armenia, Georgia and Azerbaijan.

Figure 5: Rule of Law for Armenia, Azerbaijan and Georgia 2006, 2007-2008



The same as with corruption control in Armenia and Azerbaijan performance on rule of law activities are not encouraging as well. Although starting from 2006 Armenia did positive steps acknowledging the equality of all before the law and highlights its importance, yet from 2007 these attempts were failed. And the same inferences can be applied to Azerbaijan with the exception of

that even in 2006 this index was below zero. In contrast to the fact that Georgia performance in 2006 was poor it could overcome its problems and starting from 2007 figures go up. Finally, Voice and Accountability index also presents very interesting picture:

Figure 6: Voice and Accountability for Armenia, Azerbaijan and Georgia 2006, 2007-2008



According to the data presented by the World Bank Institute, Armenia and Azerbaijan are the poorest on this activity whereas Georgia is at the best. Although Armenia and Georgia are in the separate income categories but their performance rate is quite different meaning that being in the low-income category in contrast to Armenia its performance is much better. Surely the burden and responsibilities of Low Income Countries and Low Middle Income Countries are different and heavier but the tendency and figures show that Georgia in better position, whereas Azerbaijan is poor on performance and remains the same pace.

ELIGIBLE or NOT?

The comparison of the countries performance on MCC indicators reveals the fact that two countries Armenia and Azerbaijan being in the different status have one key factor in common - poor performance. Therefore, the reasonable question arises concerning duration of MCC funding and whether Corporation should cease financing the countries that fail in the fulfillment of given scorecard during the MCC project. It is evident that Armenia's recent presidential elections will inevitably worsen country's performance in *Ruling justly* category. In that respect the MCC will face serious challenge as it is not clear from the MCC procedures how the Corporation will

The truth for Azerbaijan is that if it can conduct free and fair elections in accordance with democratic standards there is high likelihood of signing MCC Compact....

react to the continuously worsen country performance during the MCC project implementation period.

In case of Azerbaijan, again, even from now it is quite predictable that the forthcoming presidential election will worsen this country's performance. There is of course chance that Azerbaijan will be able to conduct free and fair elections in accordance with democratic standards. Then,

there is quite high probability of signing a Compact with MCC. However, such prognosis is rather fantastic. Moreover, poor performance rate and negative tendency by almost all indicators leave faint hope for such success.

Key influential factor on the situation with Georgia will be forthcoming parliamentary elections. Recent political tension,

brutal police operation against peaceful opposition rally seriously damaged country image. Still, Georgia remains the only country in the South Caucasus with high performance rate and vivid manifestation of *Ruling justly* category.

In Armenia MCC will face serious challenge, as it is not clear how the Corporation will react to the continuously deteriorating country performance during the project implementation period

However, the future parliamentary elections in this country will play major role and failure to meet international electoral standards can change dramatically country's performance.

The Social Policy and Development Center (SPDC)

The Social Policy and Development Center (SPDC) is a nonprofit, non-governmental organization established in 2004. It is an independent and critical voice that does not depend on government funding and is not affiliated with any political party.

The aim of the SPDC is to create a new physical and conceptual space with an explicit agenda to bring new and fresh thinking about social development. SPDC promotes social policy that creates new and better ways to meet needs, solve problems and build better communities with particular attention to the three core issues of poverty reduction, fighting corruption and social integration, in contributing to the creation of a community that enables the building of secure, just, free and harmonious society offering opportunities and higher standards of living for all. SPDC believes in the enduring need for strong social policy to fight poverty and corruption, ensure social and economic security and achieve social justice.

Notes

¹ For more information visit www.cspda.org and www.mcc.gov

² Available at www.freedomhouse.org

³ Available at www.govindicators.org

⁴ Available at

www.who.int/immunization_monitoring/data/

⁵ Available at www.who.int/nha/en/

⁶ Available at www.uis.unesco.org

⁷ Available at

www.sedac.ciesin.columbia.edu/es/mcc.html

⁸ Available at www.doingbusiness.org

⁹ Available at

www.imf.org/external/pubs/ft/weo/2006/02/data/index.aspx

¹⁰ Available at

www.heritage.org/research/features/index/

¹¹ Available at www.ifad.org

Relevant sources:

- ♦ Armenia Scorecard available at www.mcc.gov
- ♦ Azerbaijan Scorecard available at www.mcc.gov
- ♦ Georgia Scorecard available at www.mcc.gov
- ♦ 2007 Country Scorebook, MCC, 2008