Redefining MCC’s Candidate Pool:
Evaluating Alternative Approaches to Measuring Distribution of Poverty

The Millennium Challenge Corporation (MCC) works to reduce global poverty through economic growth. MCC chooses candidates for funding from low-income countries and lower-middle-income countries as determined by the World Bank’s gross national income (GNI) per capita thresholds for each category. This candidate pool is decreasing in size because many countries are growing out of the lower-middle-income threshold even though many of the world’s poorest people still live in those countries. MCC is interested in properly identifying poverty so that it can be sure it is engaging those countries where MCC assistance may have the greatest impact.

Our first recommendation is that MCC adopts a Grandfather Clause; this would allow a graduated country to be eligible for funding for five consecutive years or a similar period. The World Bank has used this approach, and the MCC has used a similar strategy in the past. A simulation shows that 18 countries will graduate from current MCC eligibility in the next 10 years. This alternative would allow more graduating countries to remain eligible for funding.

Our second recommendation is that MCC adds to its existing measures a poverty headcount ratio at $3.10 per day based on the international poverty line. We came to this recommendation after examining four different measures of poverty. The criteria of analyzing policy alternatives include comprehensiveness of the measure, conceptual fidelity, comparability of data, data quality, and political feasibility.

Under comprehensiveness, we examined the number of countries and the number of poor people newly added. Concept fidelity refers to whether the policy alternative is measuring poverty per se rather than relevant issues. Comparability examines for any cross-national measurement of poverty if the measurement is truly comparable. Data quality includes third-party verified data, frequency of update, and number of countries surveyed. Finally, feasibility means whether the policy option requires statutory changes and how likely the proposal will receive approval by the U.S. Congress.

The poverty headcount ratio will make upper-middle-income countries with 12 percent or more of their population living on less than $3.10 per day eligible for MCC’s assistance. It would add eight additional countries with 150 million poor people to MCC’s candidate pool. It directly measures poverty and is comparable because it uses the same baseline for comparison across countries. While all options require statutory changes, this approach is more conceptually similar to the status quo than other options, and so it appears moderately feasible.