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Consulting
Assistance on
Economic Reform

Discussion Papers

The aim of the Consulting Assistance on Economic Reform (CAER) project is to help developing nations design, implement, monitor, and evaluate economic policy reforms. The contract is with a consortium led by Harvard Institute for International Development (HIID). Funded by the U.S. Agency for International Development (Contract PDC-0095-Z-00-9053-00), it gives A.I.D.'s missions and Washington offices access to economists and other social scientists with extensive practical experience who are highly regarded within their professional disciplines. Some of the CAER work generates results of interest to a broad audience. The CAER Discussion Papers series provides a convenient and consistent form in which to share these results.

Evaluation of Performance Measurement Systems for Use in Allocating Development Assistance

Including Annexes I-IX

Elliot Berg
Scott Simons
Ann McDermott
Molly Phee

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Development Alternatives, Inc.

The views and interpretations in these papers are those of the authors and should not be attributed to the Agency for International Development, the Harvard Institute for International Development, or CAER subcontractors.

For information contact:
CAER Project Administrator
Harvard Institute for International Development
One Eliot Street
Cambridge, MA 02138, USA
Tel: (617) 495-9776 FAX: (617) 495-0527

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INTRODUCTION

OBJECTIVE OF THE STUDY

This report summarizes the findings and recommendations of the Policy Performance Measures task, ordered under an amendment to the contract Consulting Assistance for Economic Reform. Development Alternatives, Inc. (DAI) was asked by the Agency for International Development (A.I.D.) to design a questionnaire and a collection methodology for measuring and comparing the economic policy performance and political policy performance of developing country governments. Within A.I.D., the task was sponsored by the then Bureau for Program and Policy Coordination, Office of Economic Affairs (PPC/EA), in conjunction with the Office of Women in Development (PPC/WID) and the Office of Development Planning of the then Bureau for Europe and the Near East (ENE/DP).[1]

The motivation for the Policy Performance Measures task lies in the growing interest of A.I.D., Congress, and the Office of Management and Budget in developing a direct and explicit relationship between policy performance and economic assistance. To strengthen links between policy performance and economic assistance, A.I.D. recognizes that it must have a technique for comparing performance across countries and measuring performance within a country through time. The objective of the task was to design a set of transparent and replicable indicators that could be collected on a regular basis as part of the annual budget preparation of USAID missions.

The DAI performance measures are designed to complement the ongoing policy performance-based budgeting activities of A.I.D.'s regional bureaus. In those regional bureaus that lack a performance-based budgeting system — Asia, Europe, and the Near East — the DAI indicators provide a strong starting point. DAI's system contains more indicators than the existing regional systems and incorporates many measures found in those systems. Although the DAI system has a somewhat different focus — on policy only — and a worldwide scope, it is hoped that the regional bureaus will draw from the DAI list of indicators to supplement their systems. Although not a formal research project, the DAI task was also designed to study methodological issues that arise in policy performance measurement, particularly the value of field data collection and the use of qualitative measures.

SCOPE OF WORK

This task order follows up on an earlier indicators study conducted by the Harvard Institute for International Development (HIID) and DAI. That study, done in 1989-1990, identified a set of economic and political indicators for A.I.D.'s then Bureau for Asia and the Near East. The objective of the earlier work was defined more narrowly than the current task. For the HIID/DAI study, indicator selection was constrained to include only those measures for which data were published annually and available from sources in Washington. Six research teams prepared background reports on six areas identified by PPC

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[1] During most of the life of this project, there were four regional bureaus in A.I.D.: Africa, Asia and Private Enterprise, Europe and the Near East, and Latin America and the Caribbean. Effective May 15, 1991, there are five regional bureaus: Africa, Asia, Europe, Latin America and the Caribbean, and the Near East.

as core concerns. Their summary report stressed that by limiting indicator selection to annually published data, valuable information readily available in the field was ignored. The report recommended relaxing the selection constraints and examining additional indicators for which data might not be available annually or might be available only in-country.

The follow-up DAI task was to conduct a pilot study under these more flexible conditions. The scope of work specified five major subtasks:

- Prepare a draft questionnaire of indicators and a draft collection manual. The questionnaire was to be developed with no a priori constraints on content or approach. The collection manual was to be designed for use by nonspecialists;

- Field-test the draft questionnaire in three countries that represent three of the then four A.I.D. regional bureaus;

- Revise the indicators and manual in light of the results of the field tests and discussions with the Project Steering Committee;

- Evaluate the measurement process; and

- As a separate subproject, collect data on selected indicators identified in the HIID/DAI work and on several new, more subjective indicators developed by DAI for all of the ENE countries.

The scope of work explicitly encouraged DAI to explore methods for incorporating qualitative data into the measures. In addition, DAI was to focus on identifying policies that establish differential constraints or opportunities by gender or ethnic group — for instance, in ownership rights or labor policies — that result in differences in the allocation of resources.

APPROACH

The task order stated that the indicators should focus on the policy performance of developing country governments. The economic policy performance indicators were to measure the extent to which government policies and practices encourage full and efficient use of a nation's resources. Political policy performance indicators were to measure the extent that government policies and practices promote democratic pluralism.

Before choosing the indicators, DAI settled on 10 core subject areas — six economic and four political — which contain 34 indicators. These core areas encompass the key issues in assessing the extent to which a government's policy framework promotes full and efficient use of national resources and democratic pluralism. The 10 core areas are:

Economic Policies

- Competitive Markets
- International Openness

- Macroeconomic Framework
- Business Climate
- Human Capital Development
- Environmental Policy Framework

Political Policies

- Protection of Civil and Political Rights
- Freedom of Information
- Freedom of Association and Activity
- Participation in Government

These core concerns differ from those that shaped the earlier HIID/DAI effort.[2] DAI has introduced a new focus on competitive markets and the macroeconomic policy framework. In addition, it has added environmental policy framework as a core concern, to capture the impact of government policies on that sector.

The instructions for the political indicators differed substantially from those of the earlier task. HIID/DAI considered only indicators that responded to the categories of voice, choice, and governance. These categories were derived from the ANE bureau's planning document, "Democratic Pluralism Initiative." The purpose of that document was to provide ANE with potential projects. DAI's purpose was not to assist in targeting donor assistance, but to design indicators of democratic pluralism. Both the project team and the Steering Committee agreed that the categories of voice, choice, and governance were not appropriate for current purposes. The contradictions are most apparent in the governance category, which suggests a concern about a government's efficiency and effectiveness. This concern, although important to A.I.D., is not necessarily a by-product of a democratic government — a fact familiar to the authors of *The Federalist Papers*.[3]

After DAI chose its core concerns, it identified specific indicators that would give meaningful information on policy conditions in each core area. When selecting indicators in each concern, DAI examined a wide variety of sources in Washington and in the field. For the first stage of the search, DAI culled indicators from the HIID/DAI study and from the performance measuring systems used by the Bureaus for Latin America and the Caribbean (LAC) and for Africa (AFR). New indicators were also developed and refined in meetings with the Project Steering Committee and through field testing.

The final indicators estimate performance in the core areas either through a limited number of objective measures — for example, real interest rates and the gap between formal and informal rates as a proxy for the efficiency of capital markets — or through a short questionnaire with an accompanying

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[2] The core concerns identified in the initial report were civil liberties and political pluralism; economic freedom and the regulatory and policy climate for local investment; international trade openness; equity of the policy framework; institutional, regulatory, and policy climate for foreign investment; and legal and institutional means for resolving important bilateral disputes.

[3] An expanded discussion of this issue is in HIID/DAI, "Indicators of Open Markets and Open Societies," pp. 15, 29-30.

scale for use in rating overall performance. For example, in the core area Business Climate, questions on licensing, customs, limits to foreign ownership, and other related issues guide the scoring of the overall climate.

A final set of indicators is submitted as Annex I to this report. Annex II is a user guide, and Annex III contains a list of indicators considered but ultimately cut from the final questionnaire; the list is substantial. Throughout the indicator development process, the project team was keenly aware of the trade-off between additional information and additional collection costs for A.I.D. posed by each new indicator. In the course of testing, some measures were rejected simply because of the time involved in their collection. Other indicators were rejected when no satisfactory method for standardizing responses was found or when better measures — measures more directly tied to policy performance — were identified. For instance, although the share of bank lending going to women would be a valuable indicator of the role of women in capital markets, it was rejected for the team's purposes for two reasons: it is difficult to find data in this area, and the share of bank lending is a less direct indicator of policies affecting female borrowers than the indicator of restrictions in access to capital (an indicator that the DAI project team developed).

After the first draft set of indicators was reviewed by the Project Steering Committee and modified to reflect the committee's comments, the draft questionnaire was field-tested in Tanzania, Tunisia, and Guatemala. Annex IV lists members of the Project Steering Committee.

All three field tests followed the same methodology. Trip reports are submitted as Annexes V, VI, and VII. In brief, the team's approach followed these steps:

- First, the team identified how much information could be found within the USAID missions. The first two days of a visit were spent collecting documents from the mission and interviewing relevant mission staff. Because of the variety of fields covered in the questionnaire, team members spoke to mission staff on the subjects of economics, the private sector, agriculture, natural resources and the environment, urban services, education, health and nutrition, and democracy. Some interviews were short and focused entirely on locating data sources. Others were more substantial. Team members solicited guidance from mission personnel on other sources of data and local contacts.

- Next, the team sought further information, including unpublished data, published data that had not been obtained by the USAID missions, and subjective information from informed sources; for this information, the team contacted people recommended by the mission or known by the team members.

- Because of uncertainty over the appropriateness of having A.I.D. consultants collect political data, the project team limited its political interviews to USAID mission and U.S. Embassy staff and to local personal contacts of team members.

For the first two trips, two members of the DAI team completed the draft questionnaire in eight working days per country. For the final trip, one member of the team was able to complete the questionnaire within six days. The process became quicker because of a reduction in the number of indicators, the team's familiarity with the task, and the extensive base of economic data managed by the Guatemala mission economist.

BACKGROUND CONCEPTUAL AND DATA ISSUES

The DAI indicators task benefited greatly from the HIID/DAI work that immediately preceded it. HIID/DAI's final report, "Indicators of Open Markets and Open Societies," issued July 1990, contains valuable insights on the challenges of measuring policy performance in an objective and consistent fashion. The DAI team's findings on this task substantiate much of the argument of the HIID/DAI group. Here the team reiterates those findings that remain relevant and supplements them with its own findings. The team offers this discussion not to discourage A.I.D. and other supporters of performance-based budgeting, but so that reviewers of this work will not underestimate the fundamental and probably insurmountable challenges to establishing a meaningful and objective performance rating system for A.I.D.-assisted countries.

Country Ranking Poses Major Conceptual Problems

First, weighting of indicators to establish an overall country ranking entails foreign policy judgments and is inherently subjective. Rank ordering of the resulting country scores may produce tidy presentations of complex data, but it also promotes a spurious sense of specificity that can be dangerously misleading. In the discussion of weighting, this report will show how different weighting scenarios result in different ranks. The weights used in those scenarios are for illustrative purposes only; they are not recommendations. Weights should ultimately represent the relative value that the U.S. government attaches to each core concern. A.I.D. will need to make decisions about the relative importance of business climate, human capital investment, and participation in government. Similarly, weights must be attached to each indicator within the core concerns, requiring additional assessments of relative importance.

Another basic conceptual issue that can be resolved only by A.I.D. is whether to focus on level of performance or change in level of performance. If A.I.D. decides to incorporate change into its assessments, it will need to develop an approach to working with rates of change. Measures of rates of change are difficult to compare among countries because rates of change from noncomparable baseline situations may lead to unwarranted conclusions about relative performance. In general, countries starting from a "good" base will compare poorly with countries starting from a "bad" base. For instance, if Tanzania were to reduce by 50 percent the differential that existed in November 1990 between its market and bank exchange rates, a black market premium of 38 percent would still exist. But if Tunisia or Guatemala does nothing to reduce the current premium of 2-5 percent offered on the black market, it would be penalized by any comparison of rates of change even though its status quo remains substantially better than that of Tanzania. The paper discusses level versus change measurement in greater detail in the section on weighting.

Indicators Offer at Best a Partial Explanation

Any collection of indicators is subject to the criticism that it offers only a partial picture of performance within a given core area. When confronted with the choices that another group has made, anyone will see gaps and failures. A good example of this is that DAI team meetings with the Project Steering Committee frequently became bogged down in disputes over the relative merits of one measure over another. Clearly, choices have been made and other choices might have been equally valid. The DAI team's bias was toward more rather than fewer indicators, to incorporate a wider representation of

performance than could be developed with a smaller set. Nonetheless, the questionnaire — actually, any questionnaire — is open to charges of selectivity and bias. In addition, the lack of adequate data on issues that would have been of direct relevance to the team's efforts — for instance, government expenditure on rural roads or agricultural research — forced the team to choose other, less precise indicators for which data were available.

Concentrating Incremental Resources on the Best Performers May Not Yield the Greatest Impact

This finding follows the previous discussion about focusing on level or change of policy performance. During the course of the DAI task, there was never a consensus within A.I.D. on whether the policy objective is to reward returning prodigal sons or whether it should instead focus on identifying the current strong performers. Although PPC has usually asserted that it wants the indicators to be able to do both, those regional bureaus that have established country performance measurement systems, AFR and LAC, do not measure change. The issue is one of the marginal impact of resources: Do A.I.D. resources have greater impact on productivity in an economy already performing well, or in one newly committed to an ambitious and, over the short term, costly reform program? The answer is not clear; the team believes further study would be useful. In the meantime, the team has included a measure of change in the questionnaire to put the issue in front of PPC and the regional bureaus. The team recognizes that although change is not an explicit part of the current systems, the bureaus do follow a more flexible approach to funding that can take progress into account. Nonetheless, it might be useful to make explicit the importance attached to progress.

Difficulty of Disentangling Policy from Other Sources of Change

If a country proposes cuts to reduce its budget deficit, but a coincident export boom results in windfall export tax revenues, any subsequent measure of budget deficit will reflect the combined effect of these two unrelated events. The implication for performance budgeting is that countries may be rewarded or punished for events completely unrelated to government policies.

Field Data are of Uncertain Quality and Comparability

One of the major benefits of relying exclusively on information published in Washington, by the International Monetary Fund, for instance, is that, although data are frequently one to two years old and certainly still contain inaccuracies, to a large extent they have been standardized. By collecting data in the field to avoid publication delays, the burden of standardization falls to A.I.D. and its missions. Data comparability issues cannot be minimized as a result of nonuniform definitions of many standard measures — for example, budget deficits often depend on accounting conventions, and net primary enrollment figures depend on local conventions about the age of the primary school cohort. To the extent possible, the DAI team has defined its indicators precisely, so that mission personnel faced with a choice of measures will know which to choose. Rather than focus too much on the precision of measures, the team recommends that A.I.D. establish broad ranges for scoring the performance of each indicator.

Annual Changes of Most Indicators are Not Likely to be Significant

Particularly in the business climate, environmental policy framework, and political core concerns, change will be irregular and incremental. On the other hand, many, but not all, of the economic indicators are likely to fluctuate. The implication for data collection efforts if the DAI system is adopted is that once baseline data have been collected, annual updates will be straightforward for a large percentage of the proposed indicators, and collection efforts can focus on those indicators that experience more frequent change.

Annual Performance Appraisals are Worthwhile

The HIID/DAI report noted that annual performance appraisals would be expensive. The team would comment that since these activities are already under way in some bureaus, the question is moot. It is more important at this point to ensure that the activity results in meaningful information. The LAC and AFR bureaus are satisfied with the systems now in place; the Bureaus for Europe and the Near East (ENE) and for Asia and Private Enterprise (APRE) are still developing their own systems. If any bureau decides to adopt the DAI system, the average annual collection costs should not be greater than those now incurred by LAC. Because of the static nature of many of the DAI indicators, once a baseline is established, the system's annual updating should be no more costly than current indicator activities.

USEFULNESS OF INDICATOR ACTIVITIES AND OF THE DAI STUDY

There are fundamental drawbacks inherent in any attempt to encapsulate a country's economic and political policy performance in a few, imperfect indicators. Nonetheless, the team recognizes the value of such a process to A.I.D. as a tool in its budgeting process. No one advocates that indicators alone should dictate country budget allocations. Other factors — such as the strategic importance of a country, size of the economy, and existing mission activities — are important. But as one factor in the budget allocation effort, performance indicators can make a useful contribution; they give a better sense of the policy environment than judgments based wholly on intuition. To the extent that A.I.D. chooses to reward countries with policy environments that promote economic growth and political pluralism, the availability of carefully considered indicators will assist that process.

DAI's task of designing and testing a broad range of indicators and data collection approaches has contributed to the development of A.I.D.'s policy performance measurement effort. Benefits from this task include:

- The Project Steering Committee, composed primarily of economists and political officers from A.I.D.'s regional bureaus, PPC/EA, PPC/WID, and the State Department, provided a much-needed forum for the many groups within A.I.D. that wrestle with country performance measurement.[4] Although debate on this issue will likely continue for some time, the animated discussions provoked by the DAI team's proposed measures have added momentum to internal debate and consensus-building that will help A.I.D. develop a coherent and consistent stance toward performance budgeting.

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[4] Members of the committee and participants in committee meetings are listed in Annex IV.

- The DAI effort has already resulted in changes in the ongoing indicator activities of the LAC and Africa bureaus. The LAC bureau, for example, has adopted DAI's approach of a scaled questionnaire for the topics that are most difficult to measure, namely business climate and environmental policy framework. Some questions the bureau uses in this year's performance budgeting exercise are drawn from the DAI team's questionnaires. The AFR bureau has added new measures to its indicator system of the quality of the political and governance system, and government commitment to equity.

- Inclusion of data collected in the field, both objective and subjective, added considerably to the timeliness and usefulness of the measures. DAI's findings on this subject are discussed in the section on sources, below.

- The addition of subjective indicators allowed the team to focus more closely on policy issues instead of outcomes.

- Development of questionnaires in environment and political policy brings those two important fields into the policy performance measurement arena in a form that is more transparent and replicable than were previous approaches.

- Field-testing of indicators was a valuable check to developing overambitious measures. It also generated insights on issues of data collection, control of subjectivity, and mission capabilities. Some of these insights are discussed below.

The predecessor task to this — the HIID/DAI study — was considerably restricted by its scope of work with respect to the sources and types of data it could explore. As a result, in spite of a thorough search, it yielded a limited set of measures of policy performance, frequently dated and imprecise. This DAI follow-on effort has benefited from the earlier work and from its own less-restrictive scope of work. The team believes that it has yielded a more useful set of measures. Although the DAI indicators are not the final word on the subject, they have pushed the state of the art further along and should make a useful contribution to the systems A.I.D. uses. The next section examines the options that exist for A.I.D. as it moves ahead with developing its policy performance measurement.

APPROACHES TO MEASURING COUNTRY PERFORMANCE

OBJECTIVES

Several approaches exist for measuring country performance. These include the approaches currently used by the regional bureaus of A.I.D., a set of indicators developed in Congress known as the Index of Economic Freedom, the United Nations Development Programme's (UNDP) Human Development Indicators, and the approach developed by DAI during this project. This section will discuss the salient features of each approach and identify key similarities and differences among them.

The approaches differ in their underlying objectives and in how they address conceptual issues. The objectives of each system define, to a large extent, the systems themselves. The DAI approach focuses on policy performance of governments, both economic and political. The indicators selected measure the extent that a government's economic policies promote full and efficient use of a country's resources, and the extent that its political policies promote democratic pluralism.

This emphasis on policy performance contrasts with elements of the performance systems used by the regional bureaus, including a focus on needs and outcomes. Policies, needs, and outcomes are all legitimate objectives on which to focus indicators, depending on the ultimate purpose of measurement. Because the AFR bureau chooses to tie its allocations to need, it includes an indicator of need — the child and infant mortality rate — in its system. The LAC bureau chooses to focus on overall country performance when setting its allocations. Because the objectives of the existing systems differ, they are not substitutes for one another. Examining the differences and similarities among the systems, however, has helped develop the DAI approach and will help refine the existing systems.

REVIEW OF APPROACHES

Each of A.I.D.'s four regional bureaus has developed a measurement system for performance-based budgeting. In use since 1979, the systems for the LAC and AFR bureaus have gone through several stages of development. Measurement systems for the ENE and the APRE bureaus are new and will change over the next few years as the bureaus reorganize. This section reviews the components of each bureau's measurement system, as well as the Index of Economic Freedom, the UNDP's Human Development Indicators, and the DAI system. Table 1 summarizes the indicators used in each of the systems.

Bureau for Latin America and the Caribbean (LAC)

The LAC bureau uses a system of country performance indicators for allocating the difference between country levels (AAPLs) and Minimum Carrying Costs. The indicator system has been used for budget allocations for two years, and continues to be refined to address problems in application and to incorporate new areas of interest, such as the environment. The set of indicators being used for FY 1993 focuses on policy performance in four core areas: economic performance, social performance, environmental performance, and democratic performance.

TABLE 1

COMPARISON OF INDICATOR SYSTEMS[a]

Aspect / System	DAI	LAC	AFR	ENE	IEF	HDI
COMPETITIVE MARKETS	Real Lending R. Real Savings R. Informal/ formal rate Restricts. on access Min wage/ informal w Labor Mkt flexibility Price Controls Price Distorts.	Market Pricing	Real Lending R. Ag Policy	Real Lending R. Real Savings R. Informal/ formal rate Min wage/ informal w Goods Prices controlled Ag Commod Prices controlled	Informal Sector Wage and Price controls Banking	
Total weight	N/A	5	11.4	N/A	N/A	N/A
INTERNATIONAL OPENNESS	Exchange Rate distortions Intl Reserves Trade Regime Export Innov. Restricts on foreign L Restricts on foreign K	Exchange Rate distortions Trade Regime	Exchange Rate distortions	Exchange Rate distortions Avg. Tariff with para-tariffs Avg. Tariff with NTMs Avg. Tariff w/out NTMs Means for Resolv. bilateral ec. disputes	Trade Policy Restricts. on investment and capital flows	
Total weight	N/A	15	8.3	N/A	N/A	N/A
MACRO-ECONOMIC POLICY FRAMEWORK	Overall Management Inflation Budget Deficit Credit Creation Size of State sector	Macro-economic reform Budget Deficit	Budget Deficit		Taxation Size of State	
Total weight	N/A	15	8.3	N/A	N/A	N/A
BUSINESS CLIMATE	Business Climate	Business Regulatory Envt		Licensing Climate for foreign invt	Property Rights Regulations	
Total weight	N/A	5	N/A	N/A	N/A	N/A

[a] The APRE system is too preliminary to present, but reportedly combines many of the indicators in the LAC and AFR systems.

TABLE 1 — continued

Aspect / System	DAI	LAC	AFR	ENE	IEF	HDI
HUMAN CAPITAL DEVELOPMENT	Primary enrollments Immunizations Child Mortality	Primary enrollments Immunizations Contraception	Primary Ed/Total ed. expends. Primary Health/ total health Contraception/ total health	Per capita Exp on health on education Health Exp/Total Ed. Exp/Total Female/Male enrollments: primary, secondary, tertiary		Adult literacy Years of schooling Life expectancy
Total weight	N/A	20	9.4	N/A	N/A	67
NEED			Population Child Mortality			Per capita income
Total weight	N/A	N/A	50.0	N/A	N/A	33
ENVIRONMENTAL POLICY FRAMEWORK	Environmental Policy Framework	Environmental Management				
Total weight	N/A	10	N/A	N/A	N/A	N/A
POLITICAL ENVIRONMENT	Legal Code Admin of Justice Freedom of Info Freedom of organization Freedom of indiv'l activs. Elections Representation Polit. Parties Decentralization	Political Rights Civil Liberties	Governance Democracy	Political Rights Civil Liberties		Human Freedom Index
Total weight	N/A	20	12.5	N/A	N/A	N/A

The procedure for rating countries in the LAC bureau begins in Washington, D.C. Available data for each country are used to draw up preliminary ratings. These ratings are then sent to each mission and the missions are encouraged to propose revisions based upon more current data and assessments. The proposed revisions are then reviewed and incorporated in final ratings prepared by A.I.D./Washington.

The first core area, economic performance, is measured using six indicators: the macroeconomic reform program, domestic financing of the government deficit, the differential between market and official exchange rates, the business regulatory environment, the trade regime, and controls in pricing of goods. The economic performance core area accounts for 50 percent of the total rating given to a country.

Social performance is the second core area and is intended to measure the country's commitment to broad-based development. This core area consists of three indicators of social services, which account for 20 percent of the country's rating. The social service indicators are elementary school enrollment, infant vaccination rates, and contraceptive prevalence.

The third core area is environmental management. The LAC bureau uses a scale variable based upon an assessment of each country's environmental and natural resource policies and institutions. A questionnaire is used to determine the existence and effectiveness of policies and institutions in areas such as forest management, agrochemical use, and watershed management. Environmental management accounts for 10 percent of the country's rating.

Commitment to democracy and human rights is the fourth core area. LAC uses the Freedom House Comparative Survey of political rights and civil liberties to rate countries in this area. The area of democratic policy accounts for 20 percent of the country's rating.

Bureau for Africa (AFR)

The AFR bureau uses its performance-based budgeting system to determine a set of indicative allocations for countries. This preliminary set is modified by considerations of political ramifications, staffing and management issues, and a desire to avoid radical budget changes each year. The system has been used in previous budget years, and has been revised to incorporate new issues and to deal with problems identified in system implementation. Rankings for the countries are determined by Washington-based bureau personnel.

Unlike systems used in other bureaus, the AFR bureau system does not consider only performance; it also accounts for differences among countries in size and need. Country performance is then given a 50-percent weight; need and size combine to provide an additional 50 percent. The indicator of need is child and infant mortality. Child and infant mortality is intended to represent poverty and quality of life more completely than a financial measure, such as per capita income.

For performance, the AFR system consists of three core areas: macroeconomic performance, equity, and political performance. Within the macroeconomic performance core area, there are three indicators: foreign exchange policy, measured by the ratio of black market to the official exchange rates; fiscal policy, measured by the overall government deficit; and monetary policy, measured by the real interest rate. The macroeconomic core area accounts for half the performance rating (25 percent of the total ranking).

The second core area, equity, comprises four indicators: agricultural policy, access to services in education, access to services in health, and access to services in family planning. The agricultural policy indicator is a subjective aggregated rating of policies in food prices, export prices, food marketing efficiency, and export marketing efficiency. The access-to-services indicators are measured by the share of budgets applied to the provision of primary services in education, health, and family planning. The four equity indicators comprise one quarter of the performance rating (12.5 percent of the total).

The third core area, political policy, has two indicators: governance and democratic pluralism. The governance indicator measures the degree of corruption in the public sector and the effectiveness of public administration. Democratic pluralism measures human rights performance, the rule of law, freedom of the press, the effectiveness of the electoral process, and the strength of pluralism in terms of devolution of political and economic power from the national government. Each is measured on a scale of 1-10, based on the judgment of the geographic desks. The political core area accounts for one quarter of the performance rating (12.5 percent of the total).

After determining performance ratings for each country, ratings are converted into percentages of total performance score for the region. Need and population ratings are similarly handled to reach a total need score.

Bureau for Europe and the Near East (ENE)

The ENE bureau is developing a performance-based budgeting system that draws from the HIID/DAI study that preceded this work. That study on indicators of open markets and open societies was contracted initially by the Asia/Near East Bureau, which sought a set of indicators derived from published data readily obtainable in Washington. For this year's budgeting exercise, indicators identified in the HIID/DAI study were supplemented with input from missions on topics for which information is difficult to obtain in Washington — for example, price controls. It is expected that the indicators and their collection will continue to evolve over the next few years. Baseline data on these indicators were collected by DAI as a part of this Policy Performance Measures Project.

Currently, six core areas comprise the ENE performance-based budgeting system: civil liberties and political pluralism, economic freedom and local investment climate, international trade openness, equity of the policy framework, policy climate for foreign investment, and means for resolving bilateral economic disputes.

For core area one, civil liberties and political pluralism, the bureau uses the annual Comparative Survey published by Freedom House.

Field missions collect information for core area two, economic freedom and local investment climate. Indicators focus on government intervention in capital, labor, and goods markets. Specific indicators include real and informal interest and wage rates, goods and commodity price controls, exchange rates distortions, land titling, and business licensing.

International trade openness, core area three, comprises three indicators compiled by UNCTAD. The indicators measure average tariff levels of countries, including paratariffs; average tariff levels, including nontariff measures; and average tariff levels, without nontariff measures.

Indicators in core area four, equity of the policy framework, measure per capita expenditure on health and education as a percentage of total government spending. Enrollments are reported for males and females at primary, secondary, and tertiary levels of education.

Climate for foreign investment, core area five, comprises 14 indicators of investment regulations and policies. Data for the indicators were drawn primarily from the State Department Investment Climate Statements for each country. When necessary, these reports were augmented with supplemental documentation. Indicators cover controls on ownership, currency exchange and repatriation, and labor; performance of the domestic economy and international trade; tax rates; security; stability; and other topics.

Core area six, means for resolving bilateral economic disputes, is a listing of major international agencies, conventions, and treaties to which ENE countries are signatories.

Bureau for Asia and Private Enterprise (APRE)

The APRE bureau is also in the early stages of developing a performance-based budgeting system. The former ANE and Private Enterprise bureaus, from which APRE and ENE were formed, had not established ongoing performance-based budgeting systems prior to reorganization. Since reorganization, APRE has been developing a set of indicators. Discussions with APRE staff indicate that the bureau is preparing a system that incorporates elements from the approaches used by the LAC and AFR bureaus.

Index of Economic Freedom

Congressional support is mounting for targeting U.S. assistance toward countries judged able to use aid most effectively. Congressional intent is most explicit in H.R. 2655, the International Cooperation Act of 1989, which proposes the first complete revision of the Foreign Assistance Act of 1961. The proposed legislation, based on a yearlong bipartisan review of the U.S. foreign assistance program, identifies four principal objectives of U.S. assistance: "economic growth, environmental sustainability, poverty alleviation, and democratic and economic pluralism." Specifically,

> Section 1102(g) states . . . that economic assistance should be concentrated in those countries in which macro-economic and sectoral policies are conducive to the effective implementation of foreign assistance programs and projects. Relevant sectoral policies to be considered include those affecting environment, natural resource management, poverty alleviation, and social and political pluralism, as well as those appropriate to stimulating broad based economic growth. The committee recognizes that assistance may be made available premised on a country's intention to modify its policies or otherwise strengthen its capabilities to use the assistance effectively and that a reasonable time interval may be required to ascertain the viability of those changes. The committee expects that the rationale for provision of assistance required as part of the annual congressional presentation materials will reflect a recipient country's ability to make effective use of that assistance.

The 1990 Foreign Operations appropriations legislation introduced an operational approach to the same issue through an amendment that encouraged A.I.D. and the Department of the Treasury to develop an Index of Economic Freedom (IEF) for countries receiving foreign assistance. The index measures

only the economic environment of recipient countries, ignoring environmental sustainability, poverty alleviation, and democratic and economic pluralism. Amendment No. 185 states that the index should be used to help allocate assistance funds to improve economic conditions, while retaining flexibility in the design and implementation of development programs and projects.

The Index of Economic Freedom consists of nine core areas, defined in the amendment: property rights, government regulations, informal sector activities, wage and price controls, tax policy, trade policy, restrictions on investment and capital flows, the size of the state sector, and banking regulations and policies. No precise indicators for calculating the index are included in the final text of the amendment. A previous amendment to the Senate version, the Mack Amendment (Amendment No. 3080), suggests indicators to be used in each core area, but this language was omitted from the final bill.

DAI has prepared a comparison of the proposed Index of Economic Freedom with the DAI system in Annex VI. Annex VI includes the texts of IEF amendments from the Foreign Operations appropriations legislation and the Senate version.

Human Development Indicators

For the last two years, the United Nations Development Programme (UNDP) has published a worldwide — 160 countries — country performance ranking system. The system is built on three factors: education, health, and purchasing power. The system is simple, transparent, and comprehensive. But, by focusing on a limited number of published indicators of human development, it severely limits its scope.

The Human Development Indicators (HDI) are published in the annual *Human Development Report*. The HDIs were initially presented as an alternative approach to the country ranking used in the World Bank's *World Development Report* that is based on per capita GDP. The HDIs are calculated by giving equal weights to education, health, and income. For 1991, education is measured by the adult literacy rate and mean years of schooling; health by life expectancy at birth; and income by the logarithm of per capita income (to reduce the bias of worldwide income disparities).[5] Data are then ranked to establish high and low scores. All country scores for each of the three indicators are scaled from zero to one. Scaled country scores are then averaged to establish the final rankings. The 1990 *Human Development Report* also included data on gender-based and urban-rural performance differentials within countries.

In 1991, the ranking system is somewhat more wide-ranging. Separate HDIs are presented for men and women in the 30 countries having enough information. HDIs that incorporate income distribution disparities are calculated for 53 countries. There is also a measure of change for the base HDI (for the period 1970 to 1985).

In addition, the report ranks 88 countries according to "human freedom." The indicator used is Charles Humana's *World Human Rights Guide*, which is Humana's assessment of the availability of 40 rights identified as basic human rights by the United Nations. The HIID/DAI report assesses the system. Its major drawbacks are that it is based on one person's reading of events in 89 countries; that it has been

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[5] The UNDP used the purchasing-power-adjusted GDP estimates developed in the multi-donor-funded International Price Comparison Project.

produced only twice (most recently in 1986); and that indicator scores are weighted according to Humana's assessment of overall contribution to respect for human rights. For example, freedom from slavery and freedom from extrajudicial killing are weighted four times more than freedom for political opposition and sexual equality. A positive attribute of the system is that individual indicator scores are published, thus increasing transparency of scoring. The guide is out of date; it was most recently updated in 1985. Moves toward greater freedom in the intervening six years have been noted with a directional arrow by the UNDP, but that updating is haphazard. For instance, there are no arrows indicating decrease in freedom, although instances of such have occurred.

DAI Indicators

The DAI indicators are designed solely for estimating the policy performance of developing country governments. Economic policy performance indicators measure the extent to which particular government policies and practices encourage full and efficient use of a nation's resources. Political policy indicators measure those government policies and practices that affect democratic pluralism.

The focus on indicators of economic and political policy performance is distinct from more general indicators of economic and political performance. The indicators the team has selected measure what governments do to promote economic efficiency and democratic pluralism. When confronted with a choice between two indicators, the team chose the one more directly linked to a government policy decision. Separating policy-induced change from change resulting from nonpolicy factors is difficult, if not impossible; the team has not been entirely successful in achieving this distinction. Although government policies will strongly influence overall economic and political performance, exogenous factors like world prices for traded goods and interest rates on external debt will also be important.

But the DAI definition of policy performance is much broader than just a government announcement of a policy. Because of the often marked difference between the policy framework on paper and its implementation, the indicators aim to capture both the existence of policies and the effectiveness of policies. Effectiveness is determined by the quality of a policy and the implementation of policies by the government. And implementation, in turn, is based on several factors, including the government's enforcement of the policy, the funds allocated to pursuing the policy, and the personnel responsible for implementation.

The DAI team's political performance indicators were designed to capture whether a government's structure and policies reflect the commonly held criteria of a democracy, including guarantees of rights and freedoms and the framework and practices that make those guarantees effective.

It is important to note what the indicators do not attempt to do. They were not designed as a diagnostic tool for use in programming assistance. The indicators offered provide baseline data on policy performance. The system is built on 10 core areas divided into two groups, economic policy core areas and political policy core areas. For economic policy, the core areas are competitive markets, international openness, macroeconomic policy framework, business climate, human capital investment, and environmental policy framework. For political policy, the core areas are protection of civil and political rights, freedom of information, freedom of association and activity, and participation in government.

Individual indicators were designed for collectibility and comparability to allow measurement of policy performance over time for each country. Data collected in the first year will serve as a baseline,

which can be compared to levels of performance at some later point in time. For the first three years of data collection, some estimate of the direction of change over the past three years should be made, but subsequent collection efforts should use data from previous questionnaires.

ISSUES AFFECTING THE DESIGN OF INDICATOR SYSTEMS

Several issues must be addressed when designing performance indicator systems. In this section, six issues are discussed: sources of data, the use of qualitative data, measuring changing policy performance, focusing on policies or outcomes, implementation issues, and weighting of indicators. Decisions concerning these issues will define the types of indicators to select for the system and how the system will be applied. This section concludes with a comparison of the DAI and the Freedom House indicators of democratic pluralism. Neither the APRE bureau's system nor the Index of Economic Freedom are discussed here, because issues of precise form and implementation have yet to be resolved. The Human Development Indicator approach is so different from DAI's system and the existing regional approaches that it is not included in the discussion below.

SOURCES OF DATA

Each indicator system has had to establish its mix of Washington data versus field-collected data. The existing regional bureau indicator systems rely on field data to varying degrees. For example, the LAC bureau solicits responses from field missions to country ratings originally determined in Washington. The ENE bureau cables missions for information on a subset of indicators, the data for which are unavailable in Washington. The AFR bureau system is based entirely on Washington data and the knowledge of Washington-based bureau personnel. The DAI indicators, in contrast, are designed to make extensive use of field data.

Advantages of obtaining information from the field are clear. They include greater timeliness of data and access to information and sources not available in Washington. Up-to-date policy data are frequently unavailable in Washington because many policies either cannot be proxied numerically or are so country-specific — for example, price controls — that they are not published internationally. The disadvantages of using field data are the time for and cost of obtaining information.

On balance, the DAI team found that field visits added greatly to the quantity and the quality of data. In addition, the data obtained during the field visits were more current than data reported in Washington. Field data sources included USAID mission personnel, government officials, representatives of international organizations, and private-sector business people.

Field data availability was not a problem for the DAI team. It was able to collect data for the primary set of indicators and for an alternative set being considered for inclusion in the questionnaire.

A second issue pertaining to sources of data is the role of USAID mission personnel in providing indicator data. A concern is that mission personnel have a high personal stake in the results when data are used for performance-based budgeting. Thus, their assessments, particularly of subjective information, may be biased. Poor scores on country performance can lead to reduced mission budgets, which could in turn reflect badly on mission personnel.

The LAC bureau feels that its interactive method of drawing on mission input successfully limits mission bias. The team found information from mission personnel extremely valuable during each of its field visits. Mission personnel were familiar with potential sources of both quantitative and qualitative

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data. The foreign service national personnel were often the best sources of quantitative data and contacts in the local community, but their qualitative information was judged overoptimistic by the team.

A final issue is raised by A.I.D.'s collection of political data. For its field data collection, the DAI team relied on political foreign service officers, whose job responsibilities entail primarily political reporting. If A.I.D. is to be responsible for including political performance as a criterion for assistance, it should consider to what extent it wants to duplicate the State Department's political reporting, or whether more official coordination between the two organizations would be more efficient.

Recommendation:

The DAI team recommends that collection of field data be incorporated into indicator activities. Field data can be obtained through USAID missions or through trips specifically for collection of indicator data. A benefit of having mission personnel collect the indicators is that they then have a standard set of basic information to help in the fulfillment of their duties. If mission personnel are used, a review mechanism, such as that used by the LAC bureau, should be established to reduce bias and assure intercountry comparability. Alternately, data collection trips could be made by personnel in A.I.D./Washington (from regional bureau offices or PPC), by A.I.D. personnel in regional field offices, or by independent firms contracted by A.I.D. specifically for data collection.

The team also recommends that any collection system draw on the expertise of USAID mission staff, while checking the potential for bias. The framework of such a system is described in the final section of this report.

Finally, the team recommends that A.I.D. begin (or continue) discussions with the State Department on how best to coordinate political policy performance monitoring.

USE OF QUALITATIVE DATA

One major issue evaluated by DAI in this task is the advisability of including subjective information in performance measures. The use of qualitative data results in a number of advantages: the ability to draw on the experience and observations of experts and informed persons, the use of informed estimates for items when no objective quantitative data exist, and the ability to more closely characterize conditions in a core area rather than relying on what may be more distant proxies.

The use of subjective information also results in significant costs, particularly some loss of temporal and spatial comparability. And the use of subjective data creates methodological difficulties of incorporating qualitative data into a quantitative system. These include evaluation of qualitative data, replication of collection, and aggregation of qualitative data with other data. Further, the problem of bias is considerable when using qualitative data.

Each bureau's performance-based budgeting system makes use of subjective indicators to varying degrees. Subjective indicators make up more than half of the indicators used by LAC and DAI; the AFR and ENE bureaus rely more heavily on objective indicators. Each system uses only subjective indicators

for evaluating political policy and business climate. Human capital development is measured objectively in each system.

The DAI team experimented with several methods for incorporating qualitative data into its system. The final set of indicators contains two types of subjective indicators that use qualitative data: subjective proxy indicators and subjective questionnaire indicators. Subjective proxy indicators characterize one facet of a core area through a representative question whose answer is ranked on a fixed scale; a good example is the indicator of labor market flexibility. Subjective questionnaires consist of questions whose combined answers indicate the broad outline of policy performance in a given area. The political indicators are designed in this way, as are the indicators for business climate and environmental policy framework.

To collect information for the subjective indicators in the DAI system, data collectors are instructed to solicit answers from appropriate sources — for example, ministry personnel, nongovernmental organizations, local businesspeople, or other donors, depending on the specific issue. The information collected in the interviews is used to rate performance on a precisely-defined scale of 1-10. By standardizing the factors that determine each data-collector's assessment of a given measure and then tying the assessment to a fixed scale, the measures become more useful for comparative purposes.

A common problem with subjective indicators is that they can lack transparency and hence replicability. The DAI indicators incorporate several features that do not eliminate the problem but do add transparency. First, interview notes are recorded on the questionnaire form. Subsequent users of the indicators can refer to the questionnaire form if questions or problems arise. Second, the rating scales are tailored for each subjective indicator; each value on the scale has a specific meaning. Third, after completing the questionnaire indicators and assigning values, the interviewer describes in a short paragraph why the given value was selected; here, information not directly reflected in the prior listed information is reported.

Recommendation:

Though the problems associated with using qualitative data are considerable, the team believes that the payoff in terms of the greater range of measures that can be obtained is worth the effort. The team recommends continued use of subjective indicators with further efforts to refine their definitions and scales.

MEASURING CHANGING POLICY PERFORMANCE

The issue of measuring level of policy performance versus measuring change in policy performance is discussed in the introduction to this report and in the earlier HIID/DAI report. The issue is important because measuring levels is entirely different from measuring change. Country rankings prepared with the two approaches will yield substantially different orderings.

The way to measure change is another issue for consideration. Change can be measured in absolute terms or relative to current policy reform needs of the country. The latter is more subjective but may compensate for the bias against strong and steady performers. Although direction from Congress

is not yet definitive, current initiatives suggest considerable support for incorporating some measures of change in overall country ratings.

The indicator systems of the LAC and AFR bureaus focus on measuring level of policy performance at a point in time. Country ranks are based on performance and not on change in policies. The bureau considers that turnaround situations are readily observable and are addressed outside of the formal budgeting system. The DAI questionnaire collects data on level of policy performance and on direction of change over time. Change is rated on a five-point scale from -2 to +2. The ENE baseline data report that DAI prepared measures change on a three-point scale: positive, negative, and no change.

The advantage of including direction-of-change variables in the indicator questionnaires is that change data can be used immediately for performance-based budgeting. No baseline is required. In addition, its subjectivity allows the assessor flexibility in deciding whether to measure change relative to country-specific conditions or on an absolute scale. After baseline data are collected for each indicator, change can be measured more precisely in subsequent years as change in the level of policy performance compared to previous recorded levels.

Recommendation:

Both level of performance and change in performance should be accounted for in a formal way in performance-based budgeting decisions. A ranking based on level of performance alone principally rewards past performance at the expense of significant current policy reforms. But rankings based on change alone penalize countries that have made the difficult policy decisions in the past. A.I.D. should experiment with different relative weights for the two types of measures.

FOCUS ON POLICY OR OUTCOMES

One can visualize several stages on a continuum of initial needs and outcomes, and performance-based budgeting systems must choose what stage of the continuum they intend to measure. At one end lie the needs of a country that give rise to policies to address those needs. Next, policies are announced and adopted by the government. Then, governments must act to implement their adopted policies. Following are the effects of policies or policy outcomes. Finally, nonpolicy events, such as changes in world prices or other exogenous developments, alter conditions independent of domestic policies. So overall country performance has both policy and nonpolicy aspects.

The AFR bureau does not differentiate among conditions, policies, and outcomes; it measures all three in its system. The LAC bureau system sticks more closely to policy. The ENE system, as now conceived, also targets policy.

DAI's indicators focus on measuring the policy performance of A.I.D.-assisted countries. The DAI team tries to target its system so that the system measures government actions to create a policy environment that encourages full and efficient use of the country's resources and promotes democratic pluralism. This measurement is not always easy to accomplish. It also differentiates the DAI system from other systems.

Although the DAI system focuses on policy and policy implementation, many indicators spill over into policy outcomes. This problem arises because the narrower policy indicator is often not comparable across countries or is an inadequate proxy of conditions in a core area. For instance, the team uses the real interest rate as an indicator of competitiveness of markets. Measuring the interest rate is measuring a policy only when the government directly controls rates. When interest rates are freely determined, the indicator is measuring the outcome of the government policy not to control interest rates. Even when controls on interest rates are explicit — for example, rate caps or minimum rates — they are difficult to compare across countries.

Recommendation:

In spite of the difficulties, it is worthwhile to focus indicators on policy instead of outcomes. By focusing on policy performance in performance-based budgeting, aid allocations may promote policy formulation toward improving the economic and political environment.

IMPLEMENTATION ISSUES

The major implementation issues for indicators are: (1) how much time it will take to collect data, (2) who should collect it, and (3) how frequently the data should be updated.

The time required for collection depends less on the number of indicators than on their complexity and source. For example, the ENE indicators, although more numerous than those collected by LAC, can be collected more quickly. Except for a half dozen measures that require mission input — requiring two to three person-days per mission — the remaining information is gathered from published sources available in Washington. Washington data collection for the entire ENE region took 10 person-days.

The LAC system draws on a wider number of sources and requires research of secondary data sources, such as World Bank project documents, by bureau staff in Washington. The LAC bureau estimates that data collection for FY 1992 took two person-months in Washington, some of this time spent reworking a number of indicators. In addition, mission staff put in time to respond to the Washington ratings. Observations in the Guatemala mission — which had just received a score from Washington that was below its score of the previous year and that threatened to reduce its budget significantly — led the team to estimate that additional mission staff time is on the order of 10-15 person-days in countries that receive a low score. Because missions in countries with a high score will not invest much time modifying their rating and those in countries with midrange scores will spend less time than those with low scores, the team estimates the average cost of responding to the LAC ratings at 5-7 person-days per mission. In addition, time must be spent in Washington to verify and incorporate mission responses.

Annual collection of the information required for the full set of DAI indicators would certainly take more time than is currently spent by any of the bureaus. The number of indicators, their range, and their requirement for field interviews and field research add to the fixed cost of putting the system in place. The DAI team believes that after a one-year investment to establish baseline information, updates in subsequent years would be far less costly. Because many indicators measure policies that do not change frequently — such as differential access to credit, restrictions on foreign labor, and environmental policy framework — it would not be necessary to conduct a full-scale data collection effort annually.

Only those indicators that fluctuate — interest rates, inflation rates, and budget deficits — would require updating. At that time, any incremental changes in the more static measures also could be noted.

Perhaps the most delicate issue to resolve before establishing an indicator collection system is who should collect the data. Because country performance is tied to budget allocations, conflicts of interest arise on all sides.

The LAC bureau has established a system that requires bureau staff in Washington to take the first cut at rating each LAC country on all 11 indicators. The ratings are sent to the missions, which are encouraged to correct and update the information they receive. The LAC bureau staff then revise their ratings based on the mission data. This system impresses us as fair and effective. It addresses many problems inherent in indicator collection. By having the same people rate the entire region, subjectivity in scaling is reduced and intercountry comparability may be increased. Assuming that Washington is less biased than the individual missions, indicators may be assessed more realistically than they would be if they were set by missions. Because the LAC bureau has made the connection between country performance and budget allocations explicit, missions have a strong incentive to bias their rankings upwards. Additional costs of this system come in the form of increased tension between Washington and the missions. Accusations of bias and favoritism in ratings are heard. In addition, a mission receiving a low rating may spend an excessive amount of time trying to construct a case for a better rating.

This year, the ENE bureau relied primarily on published data available in Washington. A short list of questions on information that is not generally published — such as the gap between market and official interest rates — was sent to missions to supplement the material available here. Because there was no linkage between the information solicited from the missions and budget allocations, it seems unlikely that the numbers were biased in some direction. In future years, if the performance-budgeting link is made more explicit, it seems ill advised to continue to collect information directly from the mission unless some form of verification can be developed. As the team understands its system, the AFR bureau relies more on published data and does not send its ratings to the missions for feedback.

Recommendation:

Although the HIID/DAI study questioned whether indicator collection should be an annual event, the team's sense is that it must be. If the major interest in performance indicators continues to be their value as a budgeting tool, then indicators will need to be updated annually. As noted above, a database of the DAI indicators could be collected during the first year of their use. This database would just be updated in subsequent years. More detailed recommendations for implementation are in the Recommendations section of this paper.

APPROACHES TO WEIGHTING

As noted earlier, scaling and weighting of data are highly subjective policy decisions. Here the paper summarizes the approaches to weighting used for the various systems.

The regional bureaus use the following weighting systems:

- The LAC bureau divides its country performance scores into four areas with a combined maximum score of 100. Macroeconomic performance, with six underlying indicators, is worth 50 points; commitment to broad-based growth, comprised of three subindicators, has a maximum score of 20; sound environmental management has a maximum score of 10; and commitment to democracy and human rights, 20.

- The AFR bureau uses a more complex system designed to incorporate the level of need of its member countries. It collects data on nine performance variables, grouped under three headings; these measures account for half of a country's score. The child and infant mortality rate (CIMR) and country population are used as proxies for need; they account for the other half of each country's score. The nine performance variables are grouped under three headings that total 50: the three macroeconomic variables total 25 points; the two political variables are worth 12.5 points combined, as are the four equity variables. The AFR bureau converts the combined performance scores into a Z-score, which is subtracted from a number calculated to yield a ratio of 8:1 between the highest and lowest performance scores. The result of this subtraction is added to the product of the adjusted Z-score for the CIMR and the square root of the population. This approach gives equal weight to the combined need variables and the combined performance variables.

- ENE, APRE, and IEF have not established weighting systems.

To illustrate the impact of alternative weighting scenarios on relative country ranking, the team has used the field data collected in Tanzania, Tunisia, and Guatemala to create three scenarios based on the DAI indicators.

Before assigning weights to the core concerns, the team first scaled the indicator data, which combined constituted the core concerns. The scales used are found at the back of Annex I. By setting the scales, the team assigned weights to each individual measure. For example, there are eight measures under the heading of Competitive Markets: four pertaining to capital, two to labor, and two to goods markets. The scales for the measures were set so that the maximum scores in each market were roughly the same. The team tried to maintain this internal balance in all core areas made up of a number of unrelated indicators.

Table 2 illustrates the base case. Here, there are scores for both level and change. The change scores (+2, +1, 0, -1, -2) are the scores collected for this pilot study as a proxy for more precise change measures. Under the base case, 100 points were allotted to the economic policy framework: 30 points to competitive markets, 20 to international openness, 20 to the macroeconomic policy framework, and 10 each to business climate, human capital development, and environmental policy framework. For the political policy measures, 25 points are given to each of the four core areas for a total of 100 points. There is a maximum of 50 points for change in the economic section and 18 in the political. The base case shows how the countries rank when political and economic performance are given equal weight. The level and the change indicators are not integrated in the base case. Under this scenario, Guatemala's strong performance on the political indicators compensates for its low economic scores and gives it first rank for level of policy performance, followed by Tunisia and then Tanzania. The change indicators tell a completely different story; here, Tanzania is clearly the front-runner.

TABLE 2

WEIGHTING SYSTEMS — BASE CASE

	TANZANIA		TUNISIA		GUATEMALA	
	level	change	level	change	level	change
ECONOMICS						
real lending rate	2.5	1	2.5	1	0.0	-1
real savings rate	2.5	1	2.5	1	0.0	-1
informal/formal rate	0.5	1	0.5		0.0	1
restricts in access to capital	1.5	1	1.3	0	2.5	0
minimum wage/informal wage	4.0		1.0		1.0	1
labor market flexibility	4.8	1	0.6	1	4.2	0
CPI controls	5.0	2	1.0	1	5.0	2
price distortions	5.0	2	3.0	1	5.0	2
exchange rate distortion	1.6	0	4.0	1	3.2	1
international reserves	2.0	0	2.0	1	2.0	1
trade regime	3.5	2	1.5	1	4.0	1
export innovation	5.0	2	4.0	1	0.0	1
restricts on foreign labor	2.0	0	2.0	0	2.0	0
restricts on foreign capital	1.0	0	2.0	0	1.0	0
overall macroeconomic management	4.0 *	1	5.0 *	1	1.0	-1
inflation rate	0.8	1	1.6	1	0.4	-1
inflation forecast	0.0	-1	0.8	0	0.0	-1
budget deficit	4.0	1	2.0	0	2.0	-1
domestic credit	0.0	-2	1.5	0	1.5	0
civil servants	2.0 *	0	3.0 *	0	3.0	-1
business climate	4.0	1	4.0	1	7.0	1
education	2.0	-1	4.0	-1	2.0	0
immunization	2.0	1	2.0	0	0.0	-1
child mortality	0.5	1	1.5	0	2.0	0
environment	2.0	1	4.0	1	6.0	2
TOTAL ECONOMICS (max possible level = 100, maximum possible change = 50)	62.2	16	57.3	12	54.8	5
POLITICS						
legal code	5.0	0	3.8	0	8.8	0
administration of justice	3.8	0	6.3	-1	3.8	0
freedom of information	7.5	1	5.0	1	22.5	0
freedom of organizations	6.3	0	7.5	1	3.8	0
freedom of individual activities	7.5	1	7.5	0	8.8	0
elections	1.3	0	2.5	0	6.3	0
representation	0.0	0	2.5	0	2.5	1
political parties	0.0	0	1.9	0	5.6	0
decentralization	3.8	0	4.4	0	4.4	1
TOTAL POLITICS (max possible level = 100, maximum possible change = 18)	35.0	2	41.3	1	66.3	2
SUM	97.2	18	98.5	13	121.0	7
RANK — level	3		2		1	
— change		1		2		3

* This indicator was added after field testing had been completed. The score shown is an estimate.

Note: Numbers do not add because of rounding.

In Table 3, the team used a weighting system that replicates the measures of the LAC bureau. The political measures receive 20 of a total of 100 points, competitive markets gets 5 points, international openness 15, macroeconomic policy framework gets 25, business climate 5, human capital development gets 20, and environmental policy framework gets 10. Again, the change variables are held out of the scoring. This time Tunisia comes out ahead of Guatemala, and Tanzania remains third.

Table 4 illustrates what happens when the change indicators are incorporated into the overall scoring. Of a possible 100 points, change variables receive a maximum of 20 points as do political measures. The remaining 60 points are divided among the economic measures: 18-12-12-6-6-6. Here, Tanzania pulls into the lead, and Tunisia and Guatemala are effectively tied.

Recommendation:

Again, none of the above weighting scenarios are recommendations. The complex issues of weighting economic versus political indicators, level versus change indicators, and the various core areas one against another are policy decisions that deserve careful deliberation by A.I.D.

COMPARISON OF DAI POLITICAL POLICY INDICATORS AND FREEDOM HOUSE COMPARATIVE SURVEY

This discussion compares the political policy indicators developed by DAI with the Comparative Survey of Freedom prepared and published annually by Freedom House, a 50-year-old human rights advocacy group based in New York. The Comparative Survey, which ranks the political rights and civil liberties of 165 countries and 62 related territories, is used by the LAC and ENE bureaus in their performance-based budgeting systems. The following addresses the key differences and similarities.

Differences

DAI's scope of work states that political policy performance measures "be chosen for their effectiveness in measuring the extent to which the governance framework promotes democratic pluralism [within A.I.D. host countries]." This objective contrasts with that of the Freedom House survey, which is to evaluate comparatively "the state of freedom" among all countries in the world. Conceptually, the DAI indicators are designed to measure the democratic performance of developing country governments, whereas the Freedom House indicators are designed to measure the relative state of political and civil freedoms in all countries. In practice, the results are similar for most countries, though Freedom House measurements are affected by conditions outside the government framework, such as drug oligarchies in Colombia.

The two systems differ substantially in degree of transparency and replicability. Using a scaled questionnaire format, DAI selected 63 political policy questions, which are grouped into nine discrete indicators of four core policy areas. The specificity of the questions and the accompanying scales are designed to make explicit the criteria used by the respondent to arrive at an assessment. This format also requires the respondent to recorded a data log. Based upon the results of the questionnaire and guided by the scale, the respondent awards each of the nine indicators a score between 0 and 10 (in which 10 is the best).

TABLE 3

WEIGHTING SYSTEMS — LAC BUREAU ALLOCATION
(Weighted 5-15-25-5-20-10-20)

	TANZANIA level	TUNISIA level	GUATEMALA level
ECONOMICS			
Competitive Markets	4.3	2.1	3.0
International Openness	11.3	11.6	9.2
Macroeconomic Policy	13.5	17.4	9.9
Business Climate	2.0	2.0	3.5
Human Capital	9.0	15.0	8.0
Environment	2.0	4.0	6.0
SUBTOTAL — ECONOMICS (80%)	42.1	52.1	39.5
POLITICS			
SUBTOTAL — POLITICS (20%)	7.0	8.3	13.3
TOTAL	49.1	60.3	52.7
RANK	3	1	2

TABLE 4

WEIGHTING SYSTEMS — CHANGE SCENARIO
(Weighted 18-12-12-6-6-6-20-20)

	TANZANIA level	TUNISIA level	GUATEMALA level
ECONOMICS			
Competitive Markets	15.5	7.4	10.6
International Openness	9.1	9.3	7.3
Macro-economic Policy	6.5	8.3	4.7
Business Climate	2.4	2.4	4.2
Human Capital	2.7	4.5	2.4
Environment	1.2	2.4	3.6
SUBTOTAL — ECONOMICS (60%)	37.3	34.4	32.9
POLITICS			
SUBTOTAL — POLITICS (20%)	6.0	7.5	11.5
CHANGE			
SUBTOTAL — CHANGE (20%)	5.8	2.2	0.0
TOTAL	49.1	44.0	44.4
RANK	1	3	2

In contrast, Freedom House uses a 22-point checklist (9 for political rights, 13 for civil liberties). Each point is awarded a 0, 1, or 2, based on the determination of a Freedom House employee. These raw scores are averaged and compared against a 7-point scale (in which 1 is most free). Freedom House has established weights it uses to transfer the averaged raw scores to the primary scale.

Table 5 compares the results of DAI's field experience to the 1990 Freedom House rankings; the DAI scores (on a scale of 0-10) are rescaled to correspond to the Freedom House scores (on a scale of 1-7). Although the results of both systems are similar, the disaggregation of the components of political rights and civil liberties accomplished by the DAI indicators renders its results more transparent and informative. For example, Freedom House awards Tanzania and Tunisia 6 and 5, respectively, for political rights. Freedom House admits that differences of a point in either direction are not significant. In contrast, the four indicators that comprise DAI's core area Participation in Government clearly indicate the type and range of differences in political policy between the two governments. The DAI system also is easier to replicate, because its nine indicators serve as building blocks that describe how a summary score was achieved. Furthermore, the DAI system is less subjective, because it clearly defines the criteria to be used to make an award.

Similarities

Data sources and types for the two systems are similar. The DAI team conducted interviews with U.S. officials and with country nationals. The team also drew heavily on the State Department *Reports on Human Rights*, as well as other published sources. Similarly, Freedom House draws its data from country visits (10 in 1990); published sources; and a worldwide network of activists, journalists, and political figures.

Two issues bear on the objectivity or subjectivity of the data presented under both systems: what the sources are and who prepares the assessment. In Project Steering Committee meetings, A.I.D. officials raised the concern that U.S. officials might be biased in their reporting and analysis if the results were known to affect budgets. Both systems use the State Department *Reports on Human Rights*; these reports presumably are less biased than individual country officers. The use of consultants (in the case of DAI) or a nongovernment entity (in the case of Freedom House); the review of other available sources (for example, Amnesty International, Human Rights Watch, or news sources); and interviews and consultations with informed individuals, both within and outside a country, result in a consensus that reduces individual bias. Nonetheless, the variability of these sources leads to inconsistency and thus contributes to subjectivity. And the small number of assessors affects the credibility of the results.

A complicating bias for any investigation of human rights and political freedom is that, typically, the worse the situation, the more difficult the access to information. Greater subjectivity is inevitable when judgment is inhibited by a lack of complete information. For both systems, data assessments were performed by small groups of people: an eight-person team at Freedom House in 1990 and a two-member DAI project team. These small numbers are inherently subjective. The DAI indicators, however, attempt to reduce subjectivity by the use of a detailed questionnaire with descriptive scales and explicit identification of sources.

Both DAI and Freedom House measure the direction of change within a country. In addition, Freedom House, which has been conducting and publishing its survey since 1973, offers a 17-year historical record.

TABLE 5

POLITICAL POLICY INDICATORS
(1-7; 7 the worst)

	GUATEMALA	TANZANIA	TUNISIA
DAI			
PROTECTION OF CIVIL AND POLITICAL RIGHTS			
1 Legal Code	3	4	5
2 Administration of Justice	5	5	4
FREEDOM OF INFORMATION (3)	1	5	6
FREEDOM OF ASSOCIATION AND ACTIVITY			
4 Organization	5	4	3
5 Individual Activity	3	3	3
PARTICIPATION IN GOVERNMENT			
6 Elections	1	6	4
7 Representation	4	7	4
8 Political Parties	1	7	5
9 Decentralization	3	3	3
POLITICAL RIGHTS (avg 6-9)	2 (2.2)	6 (5.7)	4 (4.1)
CIVIL LIBERTIES (avg 1-5)	4 (3.3)	4 (4.3)	4 (4.2)
AVERAGE	2.9	5.0	4.1
FREEDOM HOUSE			
POLITICAL RIGHTS	3	6	5
CIVIL LIBERTIES	4	5	4
AVERAGE	3.5	5.5	4.5

Weighting, implicit in the identification of indicators, poses a problem for both systems. While most political theorists could reach a consensus on the characteristics of a democratic system, this agreement likely would fracture upon the attempt to favor one characteristic over another. For example, are elections more important than administration of justice or a free press? By how much? By disaggregating the components of political pluralism and reserving the responsibility of weighting each indicator to A.I.D., DAI has limited the bias of an assessor's judgment.

But no system — DAI, Freedom House, or any other — that attempts to quantify the political performance of a government will meet the challenge completely. The effort to compare political performance numerically among countries is even more dangerous. The complexity of each country's history, geographic location, resources, culture, and institutions skews the implied equality of a numeric measure.

Most important, both the DAI political policy indicators and the Freedom House Comparative Survey achieve comparable results in providing a survey of the political landscape. Although they measure the presence of the fundamental elements of a political democracy, especially societal guarantees of civil rights and freedom to participate in selecting leaders and influencing public policy and the conduct of public affairs, they do not supplant a sophisticated analysis of a government's structure, policies, and practices in democratic pluralism.

DAI POLICY PERFORMANCE INDICATORS: RECOMMENDATIONS

USE OF DAI INDICATORS

A.I.D. now possesses a half dozen valid approaches to performance-based budgeting, including the DAI system presented here. PPC requested that DAI develop a system that focuses on the extent to which the policy environment encourages full and efficient use of resources and promotes democratic pluralism. As a result, the DAI system does not include measures widely available and potentially of great importance in resource allocation and pluralism, such as need, population growth rates, and cultural traditions. PPC further requested that DAI's system put a priority on replicability and cross-country comparability, hence the team emphasizes exact sources as well as explicitness and detail of scaling. The indicators are also designed to use field data sources and qualitative information. Finally, PPC asked that DAI develop a system that could be used worldwide. This requirement had an impact on the DAI team's choice of questions in the issue-specific questionnaires. In spite of the significant differences in the policy issues faced by the regions in such areas as environmental policy framework and business climate, the DAI team has attempted to frame questions that are meaningful to all regions.

Each performance-based budgeting system was developed to meet a unique set of objectives and each faced unique constraints. For example, the performance-based budgeting systems, other than that of the DAI team, do not focus as narrowly on policy performance and most are designed as regional, not worldwide, systems. It is not PPC's intention that the DAI indicators supplant existing regional efforts. The way the DAI indicators will be used has not yet been fully defined. One role of the indicators is to supplement existing bureau systems. The DAI team has pilot-tested a variety of innovative indicators, as described in the previous section, and feels that those retained provide valuable information on a comprehensive range of topics. A second role would be to provide the base for a worldwide performance-based budgeting system for A.I.D. If A.I.D., whether as a result of the mandate of the May 1991 "Management Action Plan" or Congressional pressure, decides that a worldwide performance measurement system is needed, the DAI system's worldwide scope makes it closer to the ideal of such a system than any of the regional systems.

The Management Action Plan calls for establishment of a worldwide system of performance measurement by the end of 1991. It is not clear whether such a system would focus on program performance or policy performance. Another possible source of pressure for a worldwide policy performance measurement system is the Congress. If the Index of Economic Freedom continues to find supporters on Capitol Hill, the DAI team recommends that A.I.D. participate in both defining and designing the system. The system should be more flexible than the one outlined in the text of the Mack Amendment. Annex VIII explains how the DAI indicators could be reformatted to meet most of the requirements of the Index of Economic Freedom. The addition of a few nonpolicy measures — like number of private banks — would make the fit more exact.

If A.I.D. should decide and the Congress agree that a regional approach better meets A.I.D.'s needs, the team does not think that the existing systems should be replaced with the DAI system. Instead, DAI indicators can be used to revise regional systems, and regional bureaus — particularly those with underdeveloped systems — can continue to use DAI indicators as an input into their own systems, as LAC has done this year.

POLITICAL POLICY INDICATORS

Depending on how A.I.D. decides to use the political policy indicators, the team has two recommendations for their use. If A.I.D. decides that disaggregated indicators would prove useful as a diagnostic tool for assessing a government's progress in the major component areas of democracy, the team recommends that A.I.D. consider DAI's indicators as a useful first draft of such a system, subject to further input from the regional bureaus.[6]

If, however, A.I.D. decides to use the indicators to determine summary rankings, the DAI team recommends that its political indicators be replaced by the Freedom House measures. The team bases this recommendation on three factors:

- Surveys of political performance are by their nature subjective, and are plagued by problems of weighting, DAI's no less than those of Freedom House. The DAI political indicators have the advantage of being more transparent and less subjective than the Freedom House measures. To minimize these problems with the Freedom House measures, the team recommends that A.I.D. negotiate to obtain from Freedom House a list of sources for each country, its scored checklists for each country, and the numeric scales it uses to translate the scored checklists to the 7-point scale.

- Freedom House's 17 years of experience in conducting and publishing a comparative survey of political rights and civil liberties gives its ratings greater legitimacy than DAI's new and relatively untested system. If A.I.D. adopts a political rating system, it is possible that it will be called to defend its political scores before Congress. In such a situation, ratings by the nongovernmental and generally well-regarded Freedom House may be more readily acceptable.

- Use of the Freedom House survey would be cost-effective. Its Comparative Survey is published annually and is available to the public. Access to scored checklists, if possible, may add an extra cost, but the cost should be less than that of field research.

COLLECTION STRATEGY

If A.I.D. decides to adopt the DAI indicators as its basic system, data collection for the indicators should be conducted as a two-step process. The first step is a one-time major baseline data collection effort. The second step is annual updating on a much smaller scale. The baseline collection effort would be a one-time major expense because many of the field-collected indicators change infrequently, for example, labor market flexibility and environmental policy framework. The information collected would serve as a valuable database for missions. Indicator monitoring would subsequently become a mission responsibility. New information on these unchanging indicators would not be collected annually even with an annual performance-based budgeting system.

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[6] The political policy indicators have not benefited from a rigorous review by the regional representatives in the Project Steering Committee.

Several options exist for the collection of this baseline data. First, PPC could put together a team to undertake the collection effort. Second, regional bureau personnel, either Washington- or REDSO-based, could undertake the collection effort within their own regions. This strategy would have the benefit of using staff familiar with the countries reviewed. Third, a team of outside consultants could be hired to collect the data, thereby reducing the drain on A.I.D. staff resources and further reducing bias. The DAI team estimates that country assessments could be done in five or six person-days per country by staff well acquainted with the indicators and with mission cooperation.

Once this initial baseline data collection effort is complete, annual updates of the data would require roughly the level of effort now expended in the LAC region. The team recommends that the collection strategy now used in the LAC region be adopted for the updating effort. In this system, Washington personnel make the initial assessments but mission personnel are encouraged to update or propose revisions to the ratings. It is the best method the DAI team has found of reducing bias while incorporating timely and accurate information.

ANNEX I

POLICY PERFORMANCE MEASURES FOR A.I.D. RECIPIENT COUNTRIES: AN INDICATORS SYSTEM

ANNEX I

SECTION I: ECONOMIC POLICY

A. COMPETITIVE MARKETS

REAL INTEREST RATE

Indicator: Bank prime lending rate and bank passbook savings rate for period of most recent CPI estimate minus that CPI estimate.

Lending rate	___ - ___	=	___
Savings rate	___ - ___	=	___

Trend over past three years - lending ___
- saving ___

Source:

URBAN FORMAL SECTOR AND INFORMAL SECTOR LENDING RATES.

Indicator: Ratio of urban informal sector (open market) lending interest rates to urban formal sector (bank and official institution) rates. Obtain for a similar type of loan, for example, a $1,000 one year loan for a small/medium sized urban business.

Interest Ratio ___ /___

Trend over past three years - ratio ___

Source:

RESTRICTIONS IN ACCESS TO CAPITAL

Indicator: Scale variable from 0-10 measuring differential effects of legal restrictions on access to capital for women and individual ethnic groups:

10 = no differences;
8 = slight differences, but almost no effects;
6 = differences, light effect on access;
4 = differences, moderate effect on access;
2 = differences, severe effect on access;
0 = differences, prohibitive effects on access.

Scale value ___

Trend over the past three years ____

Source:

URBAN MINIMUM WAGE AND URBAN INFORMAL SECTOR UNSKILLED WAGE.

Indicator: Ratio of the urban minimum wage to an average urban informal sector unskilled wage (including standard benefits).

Wage Ratio ____ / ____

Trend over past three years - ratio ____

Source:

LABOR MARKET FLEXIBILITY.

Indicator: Scale variable from 0-10 measuring fairness and ease of hiring and firing private sector employees.

10 = formal sector employees have comprehensive, explicit, and fair employment rights which leave employers able to hire and fire as needed;
8 = formal sector employees have explicit and fair rights which significantly raise the financial costs of employers but overall low personnel costs allow them to hire and fire as needed;
6 = employee rights are explicit but put a significant burden on employers in terms of increasing the financial and time costs of hiring and firing;
4 = employee rights are explicit but put an excessive burden on employers in terms of increased financial and time costs of hiring and firing;
2 = there are prohibitive restrictions on hiring and firing, which, as a result, occur only infrequently.
0 = labor is effectively a fixed cost to employers

Scale value ____

Trend over past three years ____

Source:

PRICE AND MARKETING CONTROLS

Indicator: Weighted sum of goods in CPI and WPI market baskets subject to price controls. Goods are weighted by their share in the market baskets.

Weighted sum in CPI ____
Weighted sum in WPI ____

Trend over past three years - CPI ____
- WPI ____

Source:

Indicator: Average percentage difference between uncontrolled and controlled prices for major controlled goods. For numerator use absolute value of difference. For denominator use uncontrolled price. Weight each controlled good's shares in the CPI and the WPI. Use border prices for uncontrolled prices of tradeables, blackmarket prices for uncontrolled prices of non-tradeables.

Percentage ____

Trend over past three years ____

Source:

B. INTERNATIONAL OPENNESS

EXCHANGE RATE DISTORTION:

Indicator: Average percentage differential between market and official exchange rates for previous year. Where past policy performance has been unstable, annual average of past year is used. Current point estimate is used where there has been a recent shift to a credible and stable policy.

Percentage deviation ____ / ____

Trend over past three years - deviation ____

Source:

INTERNATIONAL RESERVES

Indicator: Change in total international reserves, including gold valued according to national practices, over past calendar year.

Percentage change ____

Trend over the past three years ____

Source:

TRADE REGIME:

Indicator: Scale variable, 10-8 if the trade-weighted average tariff (including stamp duties,

exchange surcharges, etc.) averages under 20 percent and are relatively uniform, 7-4 if tariffs average between 20 and 30 percent, 3-0 if tariffs average over 30 percent. Scores should be adjusted to reflect if tariffs vary significantly from the average and/or if quantitative restrictions, including export restrictions are significant.

Scale value ____

Trend over past three years ____

Source:

EXPORT INNOVATION:

Indicator: Growth in non-traditional exports. Calculate by first subtracting the sum of the value of goods that accounted for more than 1 percent of exports five years ago from the total value of exports that year. The difference is the non-traditional exports. Subtract that difference from the value (in real terms) of the same difference (total exports less the exports that five years ago accounted for more than 1 percent of total exports) for the most recent annual figures and divide by the difference from five years ago.

Growth ____

Trend over past three years ____

Source:

RESTRICTIONS ON FOREIGN LABOR

Indicator: Scale variable from 0-2 measuring effects of restrictions on the use of foreign labor:

2 = no or few restrictions, or restrictions not observed;
1 = authorization is difficult, but occurs regularly;
0 = authorization is extremely difficult and occurs rarely;

Scale value ____

Trend in past three years ____

Source:

RESTRICTIONS ON FOREIGN CAPITAL

Indicator: Scale variable from 0-2 measuring effects of restrictions on the use of foreign capital and profit repatriation:

2 = no or few restrictions, or restrictions not observed;
1 = there are limits to amount or share of capital or profit repatriation;

0 = repatriation is extremely difficult or prohibited;

Scale value ____

Trend in past three years ____

Source:

C. MACROECONOMIC POLICY FRAMEWORK

OVERALL MACROECONOMIC MANAGEMENT

Indicator: Scale variable measuring macroeconomic management during previous calendar year. Indicators score is the sum of ratings on the two scales below.

2 = Macro-economy well managed without IMF/IBRD assistance or country under SAL, SAF, or ESAF;
1 = Country has undertaken sectoral adjustment programs or government reform program is not IMF/IBRD supported;
0 = Country is poorly managed and has not undertaken IMF/IBRD-sponsored adjustment

3 = Country well managed and no IMF/IBRD program or has a SECAL, SAL, SAF, or ESAF and there have been no delays in tranche releases;
2 = Country has a SECAL, SAL, SAF or ESAF which has (have) seen minor delays in disbursement;
1 = Country has a SECAL, SAL, SAF or ESAF which has (have) seen significant delays in disbursement;
0 = Country has a SECAL, SAL, SAF, or ESAF which has (have) been suspended.

Sum ___ + ___ = ___

Trend ___

Source:

INFLATION

Indicator: Current estimated annual percentage change in GDP deflator.

Percentage ____

Trend over past three years ____

Source:

Indicator: Percentage deviation of most recent GDP deflator growth rate from announced target.

Deviation is measured as the ratio of the most recent rate to the predicted rate multiplied by 100.

Percentage ____

Trend over past three years ____

Source:

BUDGET DEFICIT:

Indicator: Consolidated public sector deficit (cash basis), including central bank losses, as percentage of GDP. Deficit is defined as in the IMF's International Financial Statistics - (expenditure plus lending minus repayments) minus (receipts and grants).

Percentage ____

Trend over past three years ____

Source:

DOMESTIC CREDIT CREATION:

Indicator: Percentage growth of total domestic credit in the financial system.

Percentage ____

Trend over past three years ____

Source:

SIZE OF STATE SECTOR

Indicator: Civil servants in central government per 1,000 population.

Ratio ____

Trend over past three years ____

Source:

D. BUSINESS CLIMATE

Indicator: Scale variable measuring constraints to business activity:

10 = private investors permitted to operate efficiently within a reasonable and codified regulatory system;
8 = no constraints on paper, some implementation problems, but do not affect activity;
6 = government policy failures result in moderate constraints to efficient business operations or implementation is very poor;
4 = government implementation of policies result in significant constraints to efficient business operations;
2 = government policies result in severe constraints to efficient business operations;
0 = private sector is legally or effectively prohibited;

based on the following questionnaire:

1. Are there anti-competitive regulations protecting SOEs or privileged groups? Describe them. Are they enforced?

2. Are there effective patent and contract laws to protect foreign products? to protect local products? Are they enforced?

3. Does the government offer codified special concessions to new, large investors? Are there uncodified concessions?

4. What is rough order of magnitude for costs in time/effort/money of compliance to business licensing requirements?

5. How many days for a business to obtain a telephone?

6. What are the major import/export regulations? What is rough order of magnitude for costs in time/effort/money of compliance?

7. How much time/effort/money is involved in clearing customs for imports and exports (both inside and outside of free trade zones)?

8. Is corruption or harassment by officials a significant hindrance to economic efficiency?

9. Are foreign investors subject to local hiring requirements? local content requirements?

10. Are there __ minimum __ maximum limits on level of foreign ownership?

11. Can foreign investors own __urban __rural land?

12. Is there legal protection from expropriation? Does the country belong to MIGA? OPIC?

13. Is there a investment promotion association? Is it effective?

Scale value ____

Trend over past three years ____

Source:

E. HUMAN CAPITAL DEVELOPMENT

PRIMARY EDUCATION:

Indicator: Elementary school net enrollment rates

	Rates		Trend	
Total	____		____	
Male - Female.	____	____	____	____

Source:

BASIC HEALTH CARE:

Indicator: Average of vaccination coverage of children under one year of age for the four antigens used in the UNICEF universal child immunization program (tuberculosis, DPT, polio, and measles).

Percentage ____

Trend over past three years ____

Source:

Indicator: Under-five mortality rate (per 1,000 live births).

Rate ____

Trend over past three years ____

Source:

F. ENVIRONMENTAL POLICY FRAMEWORK

Indicator: Scale variable measuring the impact of government policies on environmental/natural resources management:

- 10 = policy framework does not inhibit efficient and sustainable environmental management; institutional framework is adequate and effective;
- 8 = policy framework slightly inhibits efficient and sustainable environmental management as a result of unintended negative consequences, adequate and generally effective institutional framework;
- 6 = there are policy failures that contribute to environmental degradation, institutional framework is adequate but not entirely effective;
- 4 = there are policy failures that result in significant environmental damage, institutional framework is generally weak and there are significant implementation problems;
- 2 = policy failures result in widespread environmental damage, institutions exist but are ineffective;
- 0 = extensive and irreparable environmental damage occurs uninhibited or promoted by government policies; institutions do not exist or are entirely ineffective;

based on the following questionnaire:

1. Are traditional tenure arrangements equitable and do they provide tenure security for smallholders? Are population pressures and migration threatening the viability of existing tenure arrangements? What is the policy for assigning land titles in rural areas? Do women as well as men have land use and/or ownership rights?

2. Are there titling requirements that threaten natural resources, e.g., is it necessary to clear natural cover from a specified portion of one's land to receive tenure?

3. Is forested land with regional or national externalities, e.g., major watersheds or nature reserves, titled? Is there a national park system? How effective is protection?

4. Do government policies -- such as investment incentives or tax policies -- take into account the scarcity value of forest, water, and soil resources?

5. Does the government extension office have a soil conservation program? Does the government encourage or promote reforestation? How effective are the programs?

6. Does the government require environmental impact assessments of all major public investments? Does it require environmental impact analyses for all major private investments?

7. Is there a fee for utility-supplied water? Is there a fee for water from the major irrigated water systems? If so, is water priced according to marginal cost pricing principles?

8. Are chemical pesticides or fertilizers subsidized? Is cattle ranching subsidized?

9. Does the government have emissions standards for industry? vehicles? Are they enforced?

10. Is there a nationwide program to educate the public on the value of environmental management and protection? What subjects does it cover? Is coverage nationwide? Does program target adults or children or both?

11. What is the existing institutional framework for dealing with environmental management issues? How are these tasks allocated among public sector agencies? Is there overlap or conflict of responsibilities? Are there private institutions involved in environmental management? Are they effective?

Scale value ____

Trend over past three years ____

Source:

SECTION II: POLITICAL POLICY

A. PROTECTION OF CIVIL AND POLITICAL RIGHTS

LEGAL CODE

Indicator: Scale variable measuring extent to which a government's legal code guarantees civil and political rights

- 10 = legal code guarantees basic freedoms and includes protective guarantees of minority groups and women
- 8 = legal code guarantees basic freedoms, with some minor omissions, and includes protective guarantees of minority groups and women
- 6 = legal code guarantees basic freedoms, with some minor omissions, and lacks protective guarantees of minority groups and women
- 4 = legal code lacks guarantees of some basic freedoms and lacks protective guarantees for certain groups
- 2 = legal code lacks guarantees of some basic freedoms and discriminates against some groups
- 0 = legal code lacks guarantees of basic freedoms and discrimination against certain groups

based on the following questionnaire:

1. Do national laws ensure that the following freedoms exist:

   freedom of speech?

   freedom of peaceable assembly?

   freedom of religion?

   freedom from unwarranted search and seizure?

   freedom from arrest and detention without cause?

2. Is there parity in national laws in their treatment of men and women, especially in matters of divorce, inheritance, and property rights?

3. Is there parity in the national laws in their treatment of ethnic and religious minorities, especially in matters of property rights and choice of residence? Do the national laws protect the rights of minorities?

Legal Code scale variable ____

Trend over past three years ____

Source:

ADMINISTRATION OF JUSTICE

Indicator: Scale variable measuring extent to which a government's framework and policies are effective in guaranteeing civil and political rights

- **10** = system and policies provide effective guarantee of civil and political rights
- **8** = isolated cases of ineffectiveness but system and policies are generally strong
- **6** = system and policies are well-designed and independent of outside influence but effectiveness is limited by lack of resources
- **4** = system and policies poorly designed and subject to abuse
- **2** = system and policies are highly vulnerable to political interventions and generally arbitrary in their treatment
- **0** = system and policies are entirely ineffective in guaranteeing civil and political rights

based on the following questionnaire:

1. Do adequate laws and processes exist for judicial selection? How effectively are they executed?

2. Have judges been removed from office by any means other than an election or conclusion of tenure?

3. Does the government provide the accused with access to legal counsel?

4. What is the average length of time between arrest and charge? between arrest and trial?

5. Is the government detaining any citizens without charge or trial?

6. Do the accused have the right to appeal?

7. Are trials and/or their proceedings open to the public?

8. Does the legal system contain mechanisms of conflict resolution, such as mediation, conciliation, and arbitration?

9. Does the government treatment of prisoners meet minimum international standards?

10. Do police undergo training in legal rights and in how to obtain evidence?

11. Are the police, military, and other government security forces subject to arrest, indictment, and imprisonment under the civilian judicial system?

12. Is the role of the military limited to external affairs?

13. Is corruption a significant hindrance to the equitable enforcement of national laws?

Administration of Justice scale value ____

Trend over past three years ____

Source:

B. FREEDOM OF INFORMATION

Indicator: Scale variable measuring the extent to which government polices promote freedom of information, especially freedom of the press.

10	=	citizens have reasonable access to independent media
8	=	media are allowed to operate freely but exercise some self-censorship
6	=	licensing and production are difficult but all media are permitted to enter
4	=	government permits some independent media to operate but censorship or self-censorship is the rule
2	=	government censors all domestic media, but allows international media to enter
0	=	government controls all media

based on the following questionnaire:

1. Print, television, and radio media: How many are independent? How many are government-owned? Does government media publish authentic opposition viewpoints?

2. Must publishers be licensed? Must journalists be licensed? Has the government suspended or revoked any licenses?

3. Are both independent and government-owned media subject to government censorship?

4. Are other published materials (academic, literary) subject to government censorship?

5. Do citizens have access to international media uncensored by the government?

6. Has the government <u>harassed</u> or <u>threatened</u> journalists for their activities?

7. Has the government <u>arrested</u> or <u>imprisoned</u> journalists for their activities?

8. Has the government closed down or banned any print or broadcast media?

Freedom of information scale value ____

Trend over past three years ____

Source:

C. FREEDOM OF ASSOCIATION AND ACTIVITY

ORGANIZATIONS

Indicator: Scale variable measuring degree to which government policies promote formation and activities of independent associations

- 10 = no inhibiting restrictions on formation and activities
- 8 = government regulates organizations, but does not intervene in their operations or harass their members
- 6 = government reserves right to close an organization which is seen as a threat, but otherwise does not intervene; occasional harassment of members
- 4 = organizations closely monitored by government, which may intervene if activities seen as a threat; harassment of members is common
- 2 = organizations are few, entirely under state control, and do not reflect desires of their members
- 0 = organizations are banned, sponsors are subject to arrest

based on the following questionnaire:

1. Are there any inhibiting government restrictions on forming or participating in labor unions, professional associations, student groups, non-governmental organizations, religious groups, or other voluntary organizations?

2. Has the government harassed or threatened members of labor unions, professional associations, student groups, non-governmental organizations, religious groups, or other voluntary organizations for their respective activities?

3. Has the government arrested or imprisoned members of labor unions, professional associations, student groups, non-governmental organizations, religious groups, or other voluntary organizations for their respective activities?

4. Has the government outlawed any associations, student groups, unions, organizations, or religious groups?

5. Does the government habitually close universities to quell dissent?

Organizations scale value ____

Trend over past three years ____

Source:

INDIVIDUAL ACTIVITY

Indicator: Scale variable measuring degree to which government policies promote freedom of individual activity, including religion, travel, and assembly

- 10 = no inhibiting restrictions on individual activity
- 8 = some regulation but not enough to affect activity
- 6 = individual activity inhibited in some significant manner, but overall situation is free
- 4 = individual activity inhibited in a number of areas, overall situation can be characterized as one of limited individual freedom
- 2 = government policies suppress most individual freedoms and individuals fear the government, but some freedoms may still be allowed
- 0 = individual freedoms are entirely suppressed

based on the following questionnaire:

1. Does the government restrict the travel of its citizens within the country?

2. Does the government restrict the travel of its citizens outside of the country?

3. Does the government restrict citizens from meeting or associating freely among themselves or with foreigners?

4. Does the government restrict citizens from freely speaking ethnic languages?

5. Does the government restrict the practice of any religion or harass members of any religion?

6. Does the government harass or threaten individuals because they are members of an ethnic group?

7. Has the government arrested or imprisoned individuals because they are members of an ethnic group?

8. Does the government restrict the free settlement of citizens (excluding national parks or other infeasible areas)? Has the government conducted any forced population transfers, expulsions, or resettlements?

Individual Activity scale value ____

Trend over past three years ____

Source:

D. PARTICIPATION IN GOVERNMENT

ELECTIONS

Indicator: Scale variable measuring extent to which government policies promote free and fair elections:

- **10** = government policy and implementation fully support free and fair elections
- **8** = government policies fully support free and fair elections; but significant irregularities in implementation occur (e.g., vote mishandling, biased registration);
- **6** = government policies limit the potential for free and fair elections (e.g., denial of the vote to women or minorities) or implementation is poor (e.g., shortage of polling places, lack of campaign funds, or media access for opposition)
- **4** = policies and implementation result in the government controlling the outcome of the vote, but campaign does serve as a forum for discussing important issues;
- **2** = elections are held, but are meaningless
- **0** = no elections

based on the following questionnaire:

1. Do laws exist for regulating and scheduling national elections? How effectively are they executed?

2. Is there universal adult suffrage?

3. Does the government have an effective system for registering voters?

4. Are all adult citizens eligible for public office?

5. Are the majority of elections contested?

6. Are all candidates afforded equal campaign opportunities?

7. Are ballots cast privately?

8. Do citizens have reasonable access to voting?

9. Are elections and the subsequent transfer of power free from fraud and violence?

Elections scale value ____

Trend over past three years ____

Source:

REPRESENTATION

Indicator: Scale variable measuring extent to which a government's structure and policies promote representation in government:

- 10 = Government offices, both elective and bureaucratic, are accessible to all citizens through regular, competitive processes
- 8 = Most government offices, both elective and bureaucratic, are accessible to all citizens through regular, competitive processes; some exceptions
- 6 = Executive not chosen by citizens through regularly scheduled, competitive elections; legislature and civil service accessible to all citizens through regular, competitive processes
- 4 = Executive not chosen by citizens through regularly scheduled, competitive elections; legislature chosen by citizens through regularly scheduled elections; civil service entry noncompetitive
- 2 = Executive not elected; legislature effectively unrepresentative; civil service entry noncompetitive
- 0 = Government offices not accessible to all citizens through regular, competitive processes

based on the following questionnaire:

1. Did the current executive achieve power through a free and fair election?

2. Did the current legislature achieve power through a free and fair election?

3. Is the term of office for the executive limited?

4. Are the terms of office for the legislature limited?

5. Can the executive dismiss or suspend the legislature? If so, has it done so?

6. Does the legislature hold real authority proportional to its representation, e.g., the power to tax, legislate, and conduct inquiries and investigations?

7. Are all adult citizens eligible to apply for the civil service? Is the process for entry into the civil service competitive?

8. Is the government significantly threatened by an armed insurrection?

Representation scale value ____

Trend over past three years ____

Source:

POLITICAL PARTIES

Indicator: Scale variable measuring the extent to which government policies promote participation in political parties:

- 10 = no inhibiting restrictions on party formation or membership
- 8 = parties face some restrictions (e.g., must have a certain number of members to get onto a ballot) but operate freely
- 6 = opposition parties face differential restrictions, their members are occasionally harassed
- 4 = opposition parties face severe restrictions, their members are harassed
- 2 = single party state by law, some range of views expressed within party, not all government officials are members
- 0 = single party state by law; no dissent permitted

based on the following questionnaire:

1. Does more than one viable political party exist?
2. Does the government restrict the formation of new political parties?
3. If there is just one authorized party, does the government allow full debate and participation within the party?
4. Do political parties follow an open system of choosing their representatives?
5. Has the government harassed or threatened any members of an opposition party?
6. Has the government arrested or imprisoned any members of an opposition party?

Political Parties scale value ____

Trend over past three years ____

Source:

DECENTRALIZATION

Indicator: Scale variable measuring the extent to which government policies promote decentralization of political authority

- 10 = local governments have authority and resources sufficient to meet their significant responsibilities
- 8 = local governments have authority and resources sufficient to meet their limited responsibilities
- 6 = local governments have authority but their effectiveness is limited by inadequate resources

4 = local governments have responsibilities with no authority and no resources
2 = local governments exist in form but with no responsibilities and no resources
0 = no decentralization

based on the following questionnaire:

1. Do laws exist for regulating and scheduling regional and local elections? How effectively are they executed?

2. Do regional and local authorities have the power to tax and allocate funds?

3. Do regional and local authorities have control or influence over governmental activities in their areas, such as development projects and police?

Decentralization scale value ____

Trend over past three years ____

Source:

ECONOMIC INDICATORS SCALING

COMPETITIVE MARKETS (30 points possible)

REAL LENDING AND BORROWING INTEREST RATES

2.5=real lending rate clearly positive / 1.25=near zero / 0=clearly negative
2.5=real savings rate clearly positive / 1.25=near zero / 0=clearly negative

INFORMAL/FORMAL INTEREST RATES - SHARE WEIGHTED

2.5=0-10% / 2=11-25% / 1.5=26-45% / 1=46-70% / 0.5=71-150% / 0=>150%

RESTRICTIONS IN ACCESS TO CAPITAL

Scale as in manual, multiply by 0.25

MINIMUM WAGE/INFORMAL WAGE - SHARE WEIGHTED

4=<0-10% / 3=11-25% / 2=26-40% / 1=41-60% / 0=>60%

LABOR MARKET FLEXIBILITY

Scale as in manual, multiply by 0.6

PRICE AND MARKETING CONTROLS

CPI: 5=0-10% / 4=11-20% / 3=21-35% / 2=36-50% / 1=51-75% / 0=>75%
price differences: 5=0-10% / 4=11-20% / 3=21-35% / 2=36-50% / 1=51-75% / 0=>75%

INTERNATIONAL OPENNESS (20 points possible)

EXCHANGE RATE DISTORTIONS

4=0 / 3.2=1-10% / 2.4=11-25% / 1.6=26-50% / 0.8=51-100% / 0=>100%

INTERNATIONAL RESERVES

2=>0 / 1.5=0-(-15%) / 1=(-16%)-(-30%) / 0.5=(-31%)-(-50%) / 0=>-50%

TRADE REGIME

scale as in manual, multiply by 0.5

EXPORT INNOVATION

5=>200% / 4=200-150% / 3=149-100% / 2=99-50% / 1=49-25% / 0=<25%

RESTRICTIONS ON FOREIGN LABOR

scale as in manual

RESTRICTIONS ON FOREIGN CAPITAL

scale as in manual

MACROECONOMIC POLICY FRAMEWORK (20 points possible)

OVERALL MACROECONOMIC MANAGEMENT

scale as in manual

INFLATION

RATE: 2=0-4% / 1.6=5-9% / 1.2=10=14% / 0.8=15-24% / 0.4=25-50% / 0=>50%
DEVIATION FROM TARGET: 1=less than target / 0.8=0-5% / 0.6=6-10% / 0.4=11-20% / 0.2=21-50% / 0=>50%

BUDGET DEFICIT

PERCENTAGE: 5=surplus / 4=0-1% / 3=1.1-2.5% / 2=2.6-4% / 1=4.1-6% / 0=>6%

DOMESTIC CREDIT CREATION

RATE: 2=negative-0% / 1.5=1-10% / 1=11-20% / 0.5=21-35% / 0=>35%

SIZE OF STATE SECTOR

CIVIL SERVANTS/1000: 5=<10 / 4=11-15 / 3=16-20 / 2=21-30 / 1=31-50 / 0=>50

BUSINESS CLIMATE (10 points possible)

scale as in manual

HUMAN CAPITAL DEVELOPMENT (10 points possible)

PRIMARY SCHOOL ENROLLMENT

5=90-100%,M/F spread<10% / 4=80-90%,M/F spread<10% / 3=70-80%,M/F spread<15% / 2=60-70%,M/F spread<20% / 1=50-60%,M/F spread<25%, 0=<50%,M/F spread>25%

IMMUNIZATIONS

2.5=90-100% / 2=80-90% / 1.5=70-80% / 1=60-70% / 0.5=50-60% / 0=<50%

CHILD MORTALITY

2.5=<50 / 2=50-80 / 1.5=81-120 / 1=121-170 / 0.5=171-220 / 0=>220

ENVIRONMENTAL MANAGEMENT (10 points possible)

scale as in manual

POLITICAL INDICATORS SCALING

PROTECTION OF CIVIL AND POLITICAL RIGHTS (25 points possible)

LEGAL CODE

scale as in manual, multiply by 1.25

ADMINISTRATION OF JUSTICE

scale as in manual, multiply by 1.25

FREEDOM OF INFORMATION (25 points possible)

scale as in manual, multiply by 2.5

FREEDOM OF ASSOCIATION AND ACTIVITY (25 points possible)

ORGANIZATIONS

scale as in manual, multiply by 1.25

INDIVIDUAL ACTIVITY

scale as in manual, multiply by 1.25

PARTICIPATION IN GOVERNMENT (25 points possible)

ELECTIONS

scale as in manual, multiply by 0.625

REPRESENTATION

scale as in manual, multiply by 0.625

POLITICAL PARTIES

scale as in manual, multiply by 0.625

DECENTRALIZATION

scale as in manual, multiply by 0.625

ANNEX II

POLICY PERFORMANCE MEASURES FOR A.I.D. RECIPIENT COUNTRIES: DAI USER MANUAL

ANNEX II

DAI USER MANUAL

INTRODUCTION

This manual is designed as a user guide to collection of the policy performance indicators presented in the accompanying questionnaire. It consists of a review of the conceptual issues that guided our design of the questionnaire, especially the identification of core policy areas. The manual also introduces and defines the relevance of each indicator selected, describes the types of indicators adopted, and identifies likely sources of data.

PURPOSE

Our intent is to provide a mechanism for estimating the policy performance of developing country governments. Economic policy performance indicators measure the extent to which particular government policies and practices encourage full and efficient use of a nation's resources. Political policy indicators measure government policies and practices that affect democratic pluralism.

The focus on indicators of economic and political policy performance is distinct from more general indicators of economic and political performance. The indicators we have selected measure what steps governments take to promote economic efficiency and democratic pluralism. When there was a choice between two indicators, we chose the one that is most directly linked to a policy decision by government. Separating policy-induced change from change resulting from non-policy factors is difficult, if not impossible. While government policies will strongly influence overall economic and political performance, exogenous factors, such as world prices for traded goods and interest rates on external debt, also will be important.

Another difficult issue is the extent to which policies provide greater benefits or constraints to certain groups according to gender, ethnicity, age, or other characteristics. This outcome is in part the product of the complex interplay of social, political, and economic factors that influence policy making and policy implementation. Recognizing the difficulty of demarcating and measuring these interactive factors, we have focused on explicit legal barriers to participation.

Thus, in selecting indicators of policy performance, we concentrate on factors directly under government control. We want to know if and how governments, through their policies, are impeding full and efficient resource use and democratic pluralism. Additionally, we want to recognize if policies are promoting full and efficient resource use and democratic pluralism.

But our definition of policy performance is broader than a government's announcement of a policy. Because of the often marked difference between the policy framework on paper and how it is implemented, the indicators aim to capture both the existence of policies and the effectiveness of policies. Effectiveness is determined by both the quality of a policy and the implementation of policies by the government. And implementation, in turn, is based on a number of factors, including the government's enforcement of the policy, the funds allocated to pursuing the policy, and the personnel responsible for implementation.

The indicators we offer provide baseline data on policy performance. Policy performance can then be measured over time for each country. Data collected this year will serve as a base-line which can be compared to levels of performance at some later point in time. For the first three years of data collection, some rough estimate of the direction of change over the past three years should be made, but subsequent collection efforts should use data from previous questionnaires. We have deliberately not focused solely on rates of change for two reasons. First, baseline performance should be an important criteria in budgeting decisions. Second, a base of data is needed to provide context for assessing change since historical data can be more difficult to obtain and to evaluate.

CORE AREAS

To select indicators of policy performance, we have taken the intermediate step of identifying core areas for both economic and political policies. Core areas are those areas where government policies can most affect economic and political performance. They also are those areas where governments most commonly intervene to affect the economy and politics.

Our procedure in selecting indicators was to first select a limited number of core areas which together give a meaningful and reasonably comprehensive picture of the available avenues for government economic and political policy. Second, we identified specific indicators designed to reveal meaningful information on policy conditions in these core areas. The indicators characterize conditions in the core areas through a limited number of objective proxy measures or through a more comprehensive series of questions.

The core areas for economic and political policies are listed below:

I. Economic Policy
   A. Competitive Markets
   B. International Openness
   C. Macroeconomic Policy Framework
   D. Business Climate
   E. Human Capital Investment
   F. Environmental Policy Framework

II. Political Policy
   A. Protection of Civil and Political rights
   B. Freedom of Information
   C. Freedom of Association and Activity
   D. Participation in Government

I. ECONOMIC POLICY

Competitive Markets

Competitive markets are essential for full and efficient use of a nation's resources. A market, in a broad sense, is characterized by reasonably free entry of buyers and sellers and prices that are determined by supply and demand.

Governments can inhibit this optimal outcome in a number of ways. They may fix the price of bank credit too low, or they may impose price controls on goods like food staples, telephone calls and electrical power. Or, they may pay farmers only a small fraction of the world price for their production. Governments can also set prices artificially high. This practice is most common in import-substituting industries where governments put up tariff barriers to protect the industry. Artificially high prices give false incentives to producers to shift into import-substituting industries, resulting in over-production. Policies that establish restrictions in access to labor markets and capital markets on the basis of gender or other characteristics prevent optimal resource allocation and result in efficiency losses.

Governments, of course, also have an important and positive role to play in markets in terms of providing a stable and open environment — through regulation, laws, and provision of infrastructure — that allows efficient market operations.

We focus here on government interventions in two types of markets: factor markets and product markets. In capital markets, the price (interest rates) may be kept low or capital directed to specified activities. In labor markets, governments may set the prices (wages, particularly the minimum wage) and often determine regulations for hiring and firing. In product markets, commodity trade can be controlled both in terms of prices set by the government and in allocation or marketing restrictions.

International Openness

Economies are judged to be "open" to the extent that labor and capital are allowed to enter and exit the economy freely in search of their most efficient use. Free factor movement is possible (1) when the domestic currency is allowed to settle to its market exchange rate vis-a-vis the major world currencies, (2) when the trade regime does not introduce major distortions in domestic prices, and (3) when foreign capital and labor flows are generally unrestricted.

Governments most commonly introduce distortions by supporting an overvalued exchange rate — which lowers the cost of imports and foreign debt payments — or by applying tariffs and quotas — which diverts consumption from imported to domestic sources. Tariffs and export duties are also important in countries with poorly developed tax collection capacities as the most easily collected source of tax revenue.

Macroeconomic Policy Framework

The chief macroeconomic policies under a government's control are its monetary and fiscal policies. A government has only a limited set of instruments with which to manage its macroeconomic policies. The main ones are government spending and, to some extent, revenue; interest rates and domestic credit creation; and exchange rate management. With these instruments, governments strive to create a stable environment conducive to investment and growth. Interventions motivated by any of a number of economic or non-economic goals, often in capital markets or foreign exchange markets, create inefficiencies in resource allocations throughout an economy. Mismanagement of these basic instruments undermines confidence in the government and in the economy. A government's management of the macroeconomic instruments determines, to a very large extent, how attractive that country will be to both foreign and domestic investors.

Business Climate

This core concern identifies some of the factors of a business climate that will influence domestic and foreign investment decisions by the private sector. Investment is necessary for growth and private investment can enhance the competitiveness and efficiency with which an economy operates. The factors considered in this section may not be sufficient to draw a foreign investor to a country; several studies show that size of the domestic markets, access to regional markets, or significant natural resources are of prime concern. Concerns over governance and political stability also come into play. In addition, economic policy factors, namely stability and relative freedom from distortion, strongly influence both domestic and foreign investment decisions.

Rather than focus on the overall attractiveness of the business investment climate, this core area focuses on government policies specifically targeted towards private investment — e.g., anti-competitive regulations, licensing requirements, import/export restrictions — how they are implemented, and whether they encourage or inhibit investment. Government policies and policy failures are not the whole story, but they can play an important role in changing the perceptions of investors either for or against domestic investment.

Human Capital Development

Countries invest to improve their future potential for economic growth by actively promoting access to basic education and health care for all segments of their populations. A substantial body of empirical evidence indicates that social returns to human capital investment exceed private returns and that both are quite high. Economic benefits to education are usually measured in terms of improved productivity and labor efficiency. For example, the high literacy rates in China and the Asian NICs are frequently mentioned as one of the contributing factors to their successful economic growth.

Private returns to primary education have been estimated to be as high as 43 percent in Africa, 31 percent in Asia, and 32 percent in Latin America.[1] The social returns from education are generally considered to be even higher. Benefits commonly attributed to female literacy are particularly notable. In addition to the benefits linked to higher productivity and incomes, quality of life is improved through reduced fertility, reduced infant mortality, lower school drop-out rates, improved family nutrition, and lower population growth.

Access to basic health care has a similar impact on productivity. Workers work longer and better. Children who have been immunized or who benefit from basic health care, will be stronger and more productive adults. Reduced child mortality reduces the incentive for large families and thus contributes to stabilizing population growth rates.

Environmental Policy Framework

This core concern focuses on the degree to which government policies encourage the efficient use of environmental resources. Governments have come under a good deal of criticism for failing to establish frameworks for efficient use of resources while at the same time supporting policies which

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[1] UNDP, Human Development Report, 1990.

actively undermine the goal of sustainable resource management. "Policy failures" result from (1) misguided interventions in well-functioning markets, (2) unsuccessful attempts to mitigate market failures that result in worse outcomes, or (3) failure to establish the foundations — secure property rights, contracts, etc. — for markets to function efficiently. The failure of markets to determine prices that reflect the scarcity value of environmental and natural resources provides the rationale for many environmental policy interventions. But, misguided government intervention, both inside and out of the natural resource sectors, have contributed a good deal to environmental degradation and thus threaten the long-term growth prospects of many countries. Not all policies with a negative effect on the environment are "environmental" policies. Exchange rates, the capital-output ratio, and interest rates may have greater impacts on environmental management that other, more targeted, policies. For example, Ghana's overvalued exchange rate in the 1970s and early 1980s undermined forest-product export profitability and limited the foreign exchange available for necessary inputs. Harvesting shifted from an export orientation towards fuelwood and low prices are blamed for contributing to overharvesting.

Governments may have a positive role to play in the natural resource sectors by promoting development of an institutional and policy framework to allow markets to operate optimally.

The questions in this section aim to establish the main avenues by which government policies promote or impede efficient use of natural and environmental resources. The questionnaire touches briefly on issues of land tenure, forest and soil management, utility pricing, input subsidization, emissions standards, education, and institutional framework.

II. POLITICAL POLICY

These indicators are designed to measure how well a government's structure, policies, and practices reflect the fundamental principle of democratic governance: political authority rests with the people. Simply put, all those affected by government decisions ought to have a voice in those decisions — both *which* decisions a government makes, and *what* those decisions are. A democratic system limits the coercive power of government authority by first placing power in the hands of citizens and then by fragmenting that power into competing centers of authority. The citizens of governments that espouse this fundamental principle regularly choose their representatives through an equitable electoral process. Democratic governments are characterized by an enumeration of specific government authority, a separation of government powers, accountability of government actions, and vigorous debate about government conduct. Furthermore, democratic governments encourage a plurality of nongovernment activity, ranging from religious to professional to individual.

Our indicators are grouped into four core areas that reflect government adherence to these basic principles of democracy. The four areas are divided into nine discrete indicators.

Protection of Civil and Political Rights

The two indicators in this core area, Legal Code and Administration of Justice, measure whether or not a government ensures basic human rights, both in principle and effectively through its judicial system. Civil and political rights protect the personal liberties of all groups of citizens, which are especially important to members of ethnic or religious minorities. Not only must a government guarantee these rights within its legal code, it must develop an independent judicial system capable of enforcing

them, as well as the related freedoms of information and association and activity. Laws, lawyers, and judges play a vital role in providing an equitable forum for redress of abuses and the application of justice free from discrimination on the basis of gender, ethnicity, and other factors.

Freedom of Information

This core area, its own indicator, records whether or not a government encourages the free exchange and expression of opinions. Media uninhibited by the chilling effects of repressive government policies are free to print and broadcast a robust exchange of viewpoints. In this setting, media serve as a critical check on and catalyst for government action by serving as fora for advocacy, dissent, deliberation, and education.

Freedom of Association and Activity

This core area consists of two indicators: Organizations and Individual Activity. A pluralism of diverse views is guaranteed by the right to form and participate in civic organizations, the right to espouse individual beliefs, and the right to determine the conduct of your personal life. Neither the government nor a majority should restrict personal liberty of either individuals or minority groups. Organizations also contribute to democratic governance by serving, like the media, as fora for advocacy, dissent, deliberation, and education.

Participation in Government

This core area measures whether or not a government is structured to ensure citizen participation by examining the mechanics of representation. The cornerstone of democracy, this area consists of four indicators: Elections, Representation, Political Parties[2], and Decentralization. They are designed to capture whether or not citizens have a meaningful voice in the political process.

Collectively, these indicators measure whether or not a government framework, practice, and policies promote the participation of both men and women as well as diverse national groups in the conduct of their government. The following section discusses the types of both economic and political policy indicators considered by DAI.

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[2] Though we use the common term "parties," this measure is designed to capture the existence of political organizations formed by a society as a forum for organized political opposition and debate. In cases where one party predominates, the questions are designed to elicit the degree of political opposition and debate that exists within that party.

TYPES OF INDICATORS

Proxy versus Questionnaire Indicators

The purpose of indicators is to concisely represent conditions in each of the core areas described above. Indicators characterize conditions in a core area by proxy, and are not intended to replace a more thorough analysis of the subject. The value of indicators is that information can be collected, assessed, and updated more rapidly and less expensively than information obtained from a series of exhaustive studies.

Ideally, several measures would capture all the relevant conditions in a core area. In fact, because many policies are important in each core area, proxies are by design only partial measures of relevant conditions. The task is to chose proxies that capture the most important aspects of the core area and that are relevant for the greatest number of countries. We use as proxies those policies that are of dominant importance for the core area.

Frequently, however, proxies do not adequately characterize the essential conditions in a core area. In some instances, a single proxy policy does not adequately capture the government's action in the core area. In other cases, policies may contradict one another. In these core areas, we have adopted a broader approach to designing an indicator. Rather than use a proxy, we ask a series of questions about policies and combine them to form an indicator. We use this questionnaire format because by asking a series of questions, we obtain more information, achieve greater transparency, and ensure replicability.

As much as possible, we have used a Yes/No construction to reduce subjectivity. We recommend that the person collecting the data also collect approximate numbers; this type of data will allow one to make intra-country comparisons and thus determine whether or not a government is consolidating democratic pluralism or backsliding. We also assume that the person collecting the data will record apposite answers. For example, in response to the question, "Does the government habitually close universities to quell dissent?," the person collecting the data will note if the government has *reopened* any universities. We refer to this as the questionnaire approach to obtaining indicators.

Subjective Information in Indicators

For the purposes of inter-country comparison, one should work primarily with objective, quantitative information to characterize each core area. Objective information avoids bias due to personal interpretations. In some cases, however, objective data are not available. In other cases, objective data do not capture enough about a core area. Thus, in some cases, we have selected indicators that incorporate subjective information. Subjective information has the advantage of drawing on the experience and expertise of selected informed persons. For instance, for our measure of the business climate, local representatives of the both the domestic and the export-oriented business communities should be contacted for their insights on the incentives and constraints they face in doing business.

Subjectivity actually enters the indicators in two ways: directly, through data collected in interviews, and indirectly, through the data collector's weighing and combining information to yield a scalar value for an indicator. Subjective information is directly collected in interviews with informed persons on issues outlined in our questions. This approach is used for topics too broad or too complex

to represent with a single objective indicator. Subjective weighing of information, which combines answers to yield an indicator value, is used in the questionnaire-type indicators. Weighing the information and assigning a scalar value may be performed in the missions or in Washington. To add transparency to the second step of scaling information in the questionnaire, we ask the person doing the scaling to write a brief paragraph describing why a certain value was assigned, e.g. what information in the questionnaire was most important.

Thus, with proxy and questionnaire approaches for indicators and objective and subjective information, we can classify four types of indicators, all of which are represented in our Field Manual: Proxy/Objective, Proxy/Subjective, Questionnaire/Objective, and Questionnaire/Subjective.

Proxy/Objective: This type of indicator is either a raw statistic which can be compared across countries and over time, e.g., the rate of inflation, or a scaled statistic, e.g., fiscal deficit as a percentage of GDP.

Proxy/Subjective: This type of indicator is an estimate by an informed source on an indicator for which a single objective statistic is not appropriate, e.g., labor market flexibility. Generally, we use a scale variable from 0-10 with a rating system describing what values on the scale represent. The data collector selects a value on the scale as an estimate of the indicator. The estimate may combine several types of information into a single number. Informed estimates may be used in place of objective information when data do not exist.

Questionnaire/Objective: This is a two step indicator. In the first step, a series of objective questions, often a sequence of "yes-no" questions, are asked to elicit a broad range of information about a core area. For the second step, answers to the specific questions are combined into a scale variable from 0-10 to characterize the core area on the whole. A good example is the questionnaire indicator "Administration of Justice". We call this an objective indicator because the questions in the questionnaire are objective questions, even though the second step of selecting a value for the scale variable is subjective.

Questionnaire/Subjective: This indicator is similar to the previous indicator except that the specific questions in the questionnaire elicit informed opinions or descriptions rather than objective data. We use this approach in the core concerns for environmental policy framework and business climate.

Most of the indicators used in the Field Manual are either of the Proxy/Objective type or the Questionnaire/Objective type. In fact, none of the questionnaire-type indicators is either purely objective or subjective. The specific questions in the questionnaire seek both kinds of information.

Indicators currently used by A.I.D.'s regional bureaus are included and are noted in the text with the bureau's designation in parentheses, e.g., (AFR, LAC).

Change Variables

As data for the indicators are collected over time, changes in policy performance will be evaluated for each country. In the first year of baseline data collection, however, no comparisons can be made. To get some sense of how policy performance has been changing in the years preceding the baseline period, we added a change indicator to be used in this first year only. The change indicator simply gives

a rough idea of the direction of change over the previous three year period. Where possible, the data collector should also obtain objective data for the previous three year period.

Change Indicator Values:

+2 = Strongly Positive,
+1 = Positive,
0 = Neutral,
-1 = Negative,
-2 = Strongly Negative.

TYPES AND SOURCES OF DATA

Objective or quantitative data for the policy performance indicators may be in currently available publications or compiled for later publication or compiled for other uses. Subjective or qualitative data will be in the form of estimates made by informed sources. The types and sources of data for the policy performance indicators are listed below:

I. Objective Data

A. Available in Washington in published form,
B. Available in Washington in prepublished or unpublished form,
C. Available in the field in published form,
D. Available in the field in prepublished or unpublished form,

II. Subjective Data

A. Estimates from AID or other U.S. Government in Washington,
B. Estimates from international organizations or other sources in Washington,
C. Estimates from AID mission or other U.S. Government in the field,
D. Estimates from international organizations in the field,
E. Estimates from private sources in the field,
F. Estimates from host government sources.

INDICATORS

In this section of the User Manual, we present the indicators proposed for measuring policy performance in A.I.D. recipient countries. Indicators have been selected to characterize policy performance for each of the core areas identified above. Following a description of each indicator is a brief explanation of likely sources for data and the rationale behind our selection. We try to describe the advantages of the indicator and mention disadvantages. Many of our indicators are drawn from the indicator systems in current use or proposed by A.I.D.'s regional bureaus. We show these indicators with the bureaus name (ANE, LAC, AFR) in parentheses after the indicator. Note that ANE indicators are drawn from a set of indicators proposed in the former Asia/Near East Bureau.

SECTION I: ECONOMIC POLICY

A. COMPETITIVE MARKETS

REAL INTEREST RATE (ANE)

Indicator: Bank prime lending rate and bank passbook savings rate for period of most recent CPI estimate minus that CPI estimate.

Explanation: This information is generally available from the Central Bank.

Real interest rates are a proxy indicating the price of capital and thus whether the capital market can generate and efficiently allocate financial resources. Because government policy does not directly control inflation, real interest rates are not directly set by government policy. However, when the rates are excessively low or negative they usually reflect some policy intervention.[3] Positive real rates may or may not be efficient depending on the concurrent fiscal and exchange rate policies. The optimal real rate depends on the extent to which fiscal or exchange rate policies are at sustainable rates conducive to positive growth. The CPI is used to deflate bank rates as the most frequently updated measure of inflation.

URBAN FORMAL SECTOR AND INFORMAL SECTOR LENDING RATES

Indicator: Ratio of urban informal sector (open market) lending interest rates to urban formal sector (bank and official institution) rates. Obtain for a similar type of loan, for example, a $1,000 one year loan for a small/medium sized urban business.

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[3] We found an exception to this rule in Guatemala where in spite of fully liberalized interest rates, real rates remained negative due primarily to the private banking system's interest in providing low cost credit to bank owners, family, and friends.

Explanation: Informal sector lending rates are usually not published. They should be established through interviews with small businesses.

The ratio of informal to formal interest rates is a proxy indicating the degree of distortion in the capital market due to regulations on bank and institutional lending. In an efficient market, rates would be equal for two loans of equal risk. We expect a higher rate for many informal loans since they might not be made by commercial lenders, due either to small loan size or to borrowers lack of collateral. Advantages of this indicator are that the measure focuses directly on the source of distortion of capital allocations introduced by government lending restrictions. Disadvantages are that informal market rates are difficult to obtain and sometimes the same loans are not available in informal and formal markets. In addition, it would be useful to know the share of lending going through informal channels, but that information is generally unavailable.

RESTRICTIONS IN ACCESS TO CAPITAL

Indicator: Scale variable from 0-10 measuring differential effects of legal restrictions on access to capital for women and individual ethnic groups:

10 = no differences;
8 = slight differences, but almost no effects;
6 = differences, light effect on access;
4 = differences, moderate effect on access;
2 = differences, severe effect on access;
0 = differences, prohibitive effects on access.

Explanation: This information can be obtained from lending by-laws or, more simply, through lawyers, women or minority business owners, or donor representatives who focus on access issues.

This indicator measures the degree of restrictions for women and minorities in access to capital markets on the assumption that such access restrictions prevent optimal resource allocation and result in efficiency losses. Efficiency losses arise from both reduced supply of capital and misallocation of capital in the market. The indicator calls for both the existence of restrictions and the effects or implementation of these restrictions in the capital market. Restrictions may not be enforced and a low level of market activity may be for non-policy reasons. Non-credit policies, such as inheritance laws that limit property ownership and, thus, collateral should be considered in this measure.

URBAN MINIMUM WAGE AND URBAN INFORMAL SECTOR UNSKILLED WAGE.

Indicator: Ratio of the urban minimum wage to an average urban informal sector unskilled wage (including standard benefits).

Explanation: This indicator is found through interviews. Examples of jobs which can be found in both formal and informal employment include watchmen, truck drivers, and plantation workers. Try to monetize benefits — e.g., vacation time or pension contributions in the formal

sector, food and lodging in the informal sector. For informal sector wages try to get a rate for steady work as opposed to piece work.

The ratio of the minimum wage to informal sector unskilled wages is a proxy indicating the degree of distortion in the labor market introduced by minimum wage policies. Without minimum wages or with low minimum wages, supply of and demand for jobs will set wages to clear the labor market. High minimum wages raise the costs of employment, leading to employment rationing. Typically, informal labor markets arise outside the reach of government employment policies where residual demand and supply of labor clear at lower wage rates. When minimum wages do not introduce large distortions, informal sector unskilled wages are close to minimum wages or informal employment is negligible. Again, it would be useful to know the size of the informal labor market, but those data are generally difficult to obtain.

LABOR MARKET FLEXIBILITY

Indicator: Scale variable from 0-10 measuring fairness and ease of hiring and firing private sector employees.

- 10 = formal sector employees have comprehensive, explicit, and fair employment rights which leave employers able to hire and fire as needed;
- 8 = formal sector employees have explicit and fair rights which significantly raise the financial costs of employers but overall low personnel costs allow them to hire and fire as needed;
- 6 = employee rights are explicit but put a significant burden on employers in terms of increasing the financial and time costs of hiring and firing;
- 4 = employee rights are explicit but put an excessive burden on employers in terms of increased financial and time costs of hiring and firing;
- 2 = there are prohibitive restrictions on hiring and firing, which, as a result, occur only infrequently.
- 0 = labor is effectively a fixed cost to employers

Explanation: Obtain this information through interviews or from the Ministry of Labor.

Labor market flexibility is a proxy for the degree to which government regulations make labor a fixed cost to employers and prevent labor markets from operating efficiently. We measure here both the existence and the effectiveness of dismissal restrictions and employee rights, recognizing that there needs to be a balance between these two potentially conflicting goals. Dismissal restrictions or employee rights which are ineffective are equivalent to not having such restrictions.

PRICE AND MARKETING CONTROLS (LAC, AFR)

Indicator: Weighted sum of goods in CPI and WPI market baskets subject to price controls. Goods are weighted by their share in the market baskets.

Indicator: Average percentage difference between uncontrolled and controlled prices for major controlled goods. For numerator use absolute value of difference. For denominator use

uncontrolled price. Weight each controlled good's shares in the CPI and the WPI. Use border prices for uncontrolled prices of tradeables, blackmarket prices for uncontrolled prices of non-tradeables.

Explanation: CPI and WPI composition as well as some listing of price-controlled goods can usually be obtained from a Ministry of Economics or Commerce. These indicators are not meant to entail a major research effort, although clearly a good deal of work would be needed to calculate the second indicator with any precision. As an estimate of price differences due to marketing controls, choose the 3-4 most significant goods subject to controls and calculate their border or blackmarket prices. Average the 3-4 goods according to their weights in the CPI.

The first indicator, which measures the breadth of controls in product markets, is a proxy for the openness of product markets, while the second focuses on the depth of distortions. Governments often impose controls with justifications of ensuring "orderly" and "fair" markets and to correct for market failures. While correcting market failures may be an appropriate role for governments, often interventions are mismanaged and introduce new efficiency losses. Using the absolute value of the percentage difference in uncontrolled and controlled prices we measure the depth of price control, i.e., how strong each control is. Greater percentage differences increase distortions from efficient production and consumption decisions of producers and consumers. Despite their importance in many countries, agricultural input market distortions are not measured separately due to the difficulty of obtaining comparable measures.

B. INTERNATIONAL OPENNESS

EXCHANGE RATE DISTORTION: (LAC, AFR, ANE)

Indicator: Average percentage differential between market and official exchange rates for previous year. Then estimate the proportion of transactions at the official rate. Where past policy performance has been unstable, annual average of past year is used. Current point estimate is used where there has been a recent shift to a credible and stable policy.

Explanation: Market exchange rates are usually readily available from street money-changers. Interviews with local businesses can be used to substantiate rates.

The ratio of market to official exchange rates is a proxy for distortions in the price of foreign exchange which are introduced by artificially maintained exchange rates. Distorted rates promote misallocation of resources by changing relative prices of imports and exports and of tradeables versus non-tradeables. Some measure of the share of trade executed at the blackmarket rate would be valuable but is difficult to obtain.

INTERNATIONAL RESERVES

Indicator: Change in total international reserves, including gold valued according to national practices, over past calendar year.

Explanation: These data are readily available in IMF documents as well as most Central Bank publications.

Change in foreign reserve holdings is measured to flag reserve drawdowns reflecting unsustainable exchange rate or debt management policies.

TRADE REGIME: (LAC, ANE)

Indicator: Scale variable, 10-8 if the trade-weighted average tariff (including stamp duties, exchange surcharges, etc.) averages under 20 percent and are relatively uniform, 7-4 if tariffs average between 20 and 30 percent, 3-0 if tariffs average over 30 percent. Scores should be adjusted to reflect if tariffs vary significantly from the average and/or if quantitative restrictions, including export restrictions are significant.

Explanation: This is another indicator that would require an in-depth study to be calculated with any accuracy. Again, estimate. Tariff schedules are generally published and widely available as are taxes applied uniformly on exports or imports. Trade weighted average tariffs can be estimated by calculating the average rate for each significant import class (more than 1 percent of total imports) and the percent of imports going through that class.

Tariff and quota levels are proxies of openness of international trade. High tariffs and/or non-tariff measures change the relative prices of imports and domestic goods distorting incentives. Import prices rise suppressing consumption and stimulating production in domestic substitutes from the non-distorted levels. New consumption and production levels often fail to efficiently use domestic resources of the country and foreign resources available through trade.

EXPORT INNOVATION:

Indicator: Growth in non-traditional exports. Calculate by first subtracting the sum of the value of goods that accounted for more than 1 percent of exports five years ago from the total value of exports that year. The difference is the non-traditional exports. Subtract that difference from the value (in real terms) of the same difference (total exports less the exports that five years ago accounted for more than 1 percent of total exports) for the most recent annual figures and divide by the difference from five years ago.

Explanation: Export data are readily available from customs or Ministries of Economics or Commerce.

A key measure of the openness and efficiency of an economic environment is the degree to which entrepreneurs enter new sectors to pursue potentially profitable avenues. The performance of non-traditional exports over a period sufficiently long for them to develop can proxy the degree to which innovation is possible in the economy.

RESTRICTIONS ON FOREIGN LABOR

Indicator: Scale variable from 0-2 measuring effects of restrictions on the use of foreign labor:

2 = no or few restrictions, or restrictions not observed;
1 = authorization is difficult, but occurs regularly;
0 = authorization is extremely difficult and occurs rarely;

Explanation: Obtained through interviews or the State Department's "Investment Climate Statement" for the country.

Restrictions can range from explicit quotas to long delays in work permit issuance to skill requirements for foreign workers. These restrictions, if enforced, raise the costs of operations of foreign firms.

RESTRICTIONS ON FOREIGN CAPITAL

Indicator: Scale variable from 0-2 measuring effects of restrictions on the use of foreign capital and profit repatriation:

2 = no or few restrictions, or restrictions not observed;
1 = there are limits to amount or share of capital or profit repatriation;
0 = repatriation is extremely difficult or prohibited;

Explanation: Obtained through interviews with businesses, ministries of Finance or Commerce, or State Department "Investment Climate Statements".

Restrictions can take the form of limits on profit, capital, dividend, or salary repatriation; taxes on foreign exchange earnings; requirements to turn in foreign exchange earnings; or bans on foreign exchange accounts, whether domestic or foreign.

C. MACROECONOMIC POLICY FRAMEWORK

OVERALL MACROECONOMIC MANAGEMENT

Indicator: Scale variable measuring macroeconomic management during previous calendar year. Indicators score is the sum of ratings on the two scales below.

2 = Macro-economy well managed without IMF/IBRD assistance or country under SAL, SAF, or ESAF;
1 = Country has undertaken sectoral adjustment programs or government reform program is not IMF/IBRD supported;
0 = Country is poorly managed and has not undertaken IMF/IBRD-sponsored adjustment

3 = Country well managed and no IMF/IBRD program or has a SECAL, SAL, SAF, or ESAF and there have been no delays in tranche releases;
2 = Country has a SECAL, SAL, SAF or ESAF which has (have) seen minor delays in disbursement;
1 = Country has a SECAL, SAL, SAF or ESAF which has (have) seen significant delays in disbursement;
0 = Country has a SECAL, SAL, SAF, or ESAF which has (have) been suspended.

Explanation: Obtained from the World Bank

Many countries that have had difficulty maintaining a balanced macro-economy are receiving budgetary support from the IMF/World Bank in exchange for meeting explicit performance benchmarks. Country performance under these programs may indicate overall macroeconomic management performance. This indicator does not attempt to judge the value of IMF/World Bank programs that may be in place, but merely the scope of reform activity and whether the country is meeting IMF/IBRD expectations.

INFLATION (ANE)

Indicator: Current annual estimated percent change in GDP deflator.

Indicator: Percent deviation of most recent GDP deflator growth rate from announced target. Deviation is measured as the ratio of the most recent rate to the predicted rate multiplied by 100.

Explanation: The GDP deflator is widely available. Inflation targets generally come either from recent World Bank/IMF documents or the government planning agency. Do not use targets set more than one and one-half years in advance.

The ability to hit inflation targets gauges the quality of macroeconomic management by the government. High or unanticipated levels of inflation are disruptive to economic activity because they introduce uncertainty and risk under which effective planning is difficult. Efficiency losses from inflation arise both from errors made in forecasting future prices (so that decisions and resource allocations do not match eventual prices) and from costs incurred in trying to adjust to escape from the effects of inflation. Although, with perfect indexing the costs of anticipated inflation could theoretically be negligible, indexing is far from perfect in developing countries. To the extent that inflation is unanticipated, costs of inflation will rise. We choose the GDP deflator because it is the most broadly-based measure, showing annual price movements for all goods and services produced in the economy.

BUDGET DEFICIT: (LAC, ANE, AND AFR)

Indicator: Consolidated public sector deficit (cash basis), including central bank losses, as percent of GDP. Deficit is defined as in the IMF's International Financial Statistics - (expenditure plus lending minus repayments) minus (receipts and grants).

Explanation: Budget deficit information can be obtained from the IMF or from government planning agencies.

The overall budget deficit indicates the degree to which the government finances its activities out of current revenues. The size of the deficit indicates the degree of pressure that the government is putting on domestic and foreign capital markets and potentially on prices. Domestic financing of deficits can raise interest rates and crowd the private sector from credit markets. Domestic deficit financing by expansionary monetary policy is inflationary. Financing from foreign sources affects exchange rates and gives rise to future debt payments. Future debt payments may grow large relative to GDP whether they are foreign or domestic.

DOMESTIC CREDIT CREATION:

Indicator: Percent growth of total domestic credit in the financial system.

Explanation: Domestic credit growth is an indicator of inflationary pressure. It can be used as a complement to the inflation and the budget deficit indicators above. Domestic credit creation can either contribute to or dampen inflation. High domestic credit creation usually indicates a high baseline level of inflation or a level that will put pressure on the inflation rate. A low rate of domestic credit creation usually indicates a low baseline level of inflation or a contractionary policy to reduce inflation. Unlike the broader measure, inflation, which reflects many exogenous factors, domestic credit creation is more closely linked to government policy, particularly fiscal deficit financing patterns.

SIZE OF STATE SECTOR

Indicator: Civil servants in central government per 1,000 population.

Explanation: Often can be found in IMF country documents or in a Ministry of Plan.

This indicator is a quick and rough measure of the relative size of the public sector. While ghostworkers may distort this measure, the alternative we considered, assets of state-owned enterprises, is even more likely to rest on dubious data.

D. BUSINESS CLIMATE (LAC, ANE)

Indicator: Scale variable measuring constraints to business activity:

10 = private investors permitted to operate efficiently within a reasonable and codified regulatory system

8 = no constraints on paper, some implementation problems, but do not affect activity
6 = government policy failures result in moderate constraints to efficient business operations or implementation is very poor
4 = government implementation of policies result in significant constraints to efficient business operations
2 = government policies result in severe constraints to efficient business operations
0 = private sector is legally or effectively prohibited

based on the following questionnaire:

1. Are there anti-competitive regulations protecting SOEs or privileged groups? Describe them. Are they enforced?

2. Are there effective patent and contract laws to protect foreign products? to protect local products? Are they enforced?

3. Does the government offer codified special concessions to new, large investors? Are there uncodified concessions?

4. What is rough order of magnitude for costs in time/effort/money of compliance to business licensing requirements?

5. How many days for a business to obtain a telephone?

6. What are the major import/export regulations? What is rough order of magnitude for costs in time/effort/money of compliance?

7. How much time/effort/money is involved in clearing customs for imports and exports (both inside and outside of free trade zones)?

8. Is corruption or harassment by officials a significant hindrance to economic efficiency?

9. Are foreign investors subject to local hiring requirements? local content requirements?

10. Are there __ minimum __ maximum limits on level of foreign ownership?

11. Can foreign investors own __urban __rural land?

12. Is there legal protection from expropriation? Does the country belong to MIGA? OPIC?

13. Is there a investment promotion association? Is it effective?

Explanation: Data for this questionnaire are best obtained through interviews supplemented by information from the State Department's "Investment Climate Statement", issued biannually for most of the countries with which the U.S. has diplomatic relations.

Private sector business environment is determined by policies — rules and regulations — and their implementation. Inefficient policy implementation in the form of corruption and delays can add substantial costs in time and money to business operations and may determine whether or not an

investor chooses to work in a particular country. The questionnaire yields a rough picture of the business environment by establishing how a number of important areas operate. The questions address the availability and efficiency of necessary public services and infrastructure — customs, telephones, patent laws. Because many businesses are hamstrung by import/export regulations, particularly those which allocate scarce foreign exchange, there is an independent question on them. Policies which restrict foreign investors may be intended to further social goals — good examples are local hire or local content rules — or to add some discretionary authority as to which foreign investors are allowed into a market. All such requirements reduce the efficiency with which resources are allocated and thus impose a cost on the economy. Foreign investors have additional concerns which usually focus on capital repatriation and the perceived risk of nationalization or seizure of assets. The degree to which these concerns can be lessened, through sustained support for private investment or access to international foreign investment guarantee organizations, reduces investment risk and thus the rate of return needed to attract foreign investors. The questionnaire is not meant to be comprehensive; it ignores the macroeconomic and political factors which may outweigh individual business regulations.

E. HUMAN CAPITAL DEVELOPMENT

PRIMARY EDUCATION: (LAC)

Indicator: Elementary school net enrollment rates

Explanation: These data are usually readily obtainable from Ministries of Education, UNICEF, or USAID missions.

Studies show that the greatest returns to education come from primary education and basic literacy and numeracy. Breaking out enrollment data along male-female lines gives some indication as to whether all groups have equal access to education. Enrollment data are imperfect because, while they show the "breadth" of educational opportunity available to citizens, they do not address the issue of "depth" or educational quality. Quality is of equal importance but difficult to measure. Data are generally available on enrollments and do indicate access.

BASIC HEALTH CARE: (LAC)

Indicator: Average of vaccination coverage of children under one year of age for the four antigens used in the UNICEF universal child immunization program (tuberculosis, DPT, polio, and measles).

Indicator: Under-five mortality rate (per 1,000 live births).

Explanation: Data are available from Ministries of Health and/or UNICEF.

Immunization is used as a proxy for access to basic health care. The measure does not indicate whether their are other risks to children's health that are not being addressed through basic health care. The under-five child mortality rate indicates overall risk to children and general health standards. The rate does not indicate the source of high or low mortality rate. It could reflect

access to basic health care services, but it might also reflect parental education, poverty, or disease prevalence.

F. ENVIRONMENTAL POLICY FRAMEWORK

Indicator: Scale variable measuring the impact of government policies on environmental/natural resources management:

10 = policy framework does not inhibit efficient and sustainable environmental management; institutional framework is adequate and effective;
8 = policy framework slightly inhibits efficient and sustainable environmental management as a result of unintended negative consequences, adequate and generally effective institutional framework;
6 = there are policy failures that contribute to environmental degradation, institutional framework is adequate but not entirely effective;
4 = there are policy failures that result in significant environmental damage, institutional framework is generally weak and there are significant implementation problems;
2 = policy failures result in widespread environmental damage, institutions exist but are ineffective;
0 = extensive and irreparable environmental damage occurs uninhibited or promoted by government policies; institutions do not exist or are entirely ineffective;

based on the following questionnaire:

1. Are traditional tenure arrangements equitable and do they provide tenure security for smallholders? Are population pressures and migration threatening the viability of existing tenure arrangements? What is the policy for assigning land titles in rural areas? Do women as well as men have land use and/or ownership rights?

2. Are there titling requirements that threaten natural resources, e.g., is it necessary to clear natural cover from a specified portion of one's land to receive tenure?

3. Is forested land with regional or national externalities, e.g., major watersheds or nature reserves, titled? Is there a national park system? How effective is protection?

4. Do government policies — such as investment incentives or tax policies — take into account the scarcity value of forest, water, and soil resources?

5. Does the government extension office have a soil conservation program? Does the government encourage or promote reforestation? How effective are the programs?

6. Does the government require environmental impact assessments of all major public investments? Does it require environmental impact analyses for all major private investments?

7. Is there a fee for utility-supplied water? Is there a fee for water from the major irrigated water systems? If so, is water priced according to marginal cost pricing principles?

8. Are chemical pesticides or fertilizers subsidized? Is cattle ranching subsidized?

9. Does the government have emissions standards for industry? vehicles? Are they enforced?

10. Is there a nationwide program to educate the public on the value of environmental management and protection? What subjects does it cover? Is coverage nationwide? Does program target adults or children or both?

11. What is the existing institutional framework for dealing with environmental management issues? How are these tasks allocated among public sector agencies? Is there overlap or conflict of responsibilities? Are there private institutions involved in environmental management? Are they effective?

Explanation: Information can generally be found in Environmental Action Plans, if one has been prepared recently. Otherwise, Ministries of Agriculture, Natural Resources, and Industry should all be consulted. Donor perspectives are often useful here since donors may have more perspective on policy failures or non-"environmental" policies which may be effecting the environment.

These questions aim to establish the main avenues by which government policies promote or impede efficient use of natural and environmental resources. The questionnaire touches briefly on issues of land tenure, forest and soil management, utility pricing, input subsidization, emissions standards, education, and institutional framework.

Secure tenure is correlated with a reduced discount rate on proposed investments on land. Without secure tenure — whether legal or traditional — farmers may not undertake costly investments to prolong the fertility of their land or ensure its irrigation. Undeveloped land which is not titled is vulnerable to encroachment either by shifting cultivators or loggers. Many countries now find themselves in a difficult position as traditional tenure arrangements come apart before "formal" systems to assign titles can efficiently do so on a large scale. In the forestry sector, policies which under-value forest resources encourage unsustainable harvesting practices. Governments can support sustainable environmental management by requiring environmental impact studies for major investments. Setting aside land with public good aspects either in terms of its biodiversity value or its importance as a watershed is an appropriate and important role for governments. An effective soil conservation program for farmers may yield significant gains and is another appropriate area for government intervention.

In the water sector, governments and water users typically under-value the water they use, leading to over-consumption and waste. In the long run, water managers should charge users the average cost for water. Volumetric (marginal cost) pricing can be proxied by area-based irrigation charges or land taxes. The fertilizer and pesticide subsidy question is motivated by concerns that these subsidies encourage over-consumption leading to excessive run-off into water sources. Many developing countries have emission standards on their books, but enforcement is much less common. Sustainable environmental and natural resource management can only be achieved if all segments of the population, including small farmers and itinerant loggers, are educated in its benefits and costs. Environmental management is made easier in countries with a cadre of scientists and economists trained in this discipline.

SECTION II: POLITICAL POLICY

A. PROTECTION OF CIVIL AND POLITICAL RIGHTS

LEGAL CODE

Indicator: Scale variable measuring extent to which a government's legal code guarantees civil and political rights

10 = legal code guarantees basic freedoms and includes protective guarantees of minority groups and women
8 = legal code guarantees basic freedoms, with some minor omissions, and includes protective guarantees of minority groups and women
6 = legal code guarantees basic freedoms, with some minor omissions, and lacks protective guarantees of minority groups and women
4 = legal code lacks guarantees of some basic freedoms and lacks protective guarantees for certain groups
2 = legal code lacks guarantees of some basic freedoms and discriminates against some groups
0 = legal code lacks guarantees of basic freedoms and discrimination against certain groups

based on the following questionnaire:

1. Do national laws ensure that the following freedoms exist:

   freedom of speech?
   freedom of peaceable assembly?
   freedom of religion?
   freedom from unwarranted search and seizure?
   freedom from arrest and detention without cause?

2. Is there parity in national laws in their treatment of men and women, especially in matters of divorce, inheritance, and property rights?

3. Is there parity in the national laws in their treatment of ethnic and religious minorities, especially in matters of property rights and choice of residence? Do the national laws protect the rights of minorities?

Explanation: These questions are designed to determine whether or not a government guarantees in principle basic civil and political rights.

ADMINISTRATION OF JUSTICE

Indicator: Scale variable measuring extent to which a government's framework and policies are effective in guaranteeing civil and political rights

10 = system and policies provide effective guarantee of civil and political rights
8 = isolated cases of ineffectiveness but system and policies are generally strong
6 = system and policies are well-designed and independent of outside influence but effectiveness is limited by lack of resources
4 = system and policies poorly designed and subject to abuse
2 = system and policies are highly vulnerable to political interventions and generally arbitrary in their treatment
0 = system and policies are entirely ineffective in guaranteeing civil and political rights

based on the following questionnaire:

1. Do adequate laws and processes exist for judicial selection? How effectively are they executed?

2. Have judges been removed from office by any means other than an election or conclusion of tenure?

3. Does the government provide the accused with access to legal counsel?

4. What is the average length of time between arrest and charge? between arrest and trial?

5. Is the government detaining any citizens without charge or trial?

6. Do the accused have the right to appeal?

7. Are trials and/or their proceedings open to the public?

8. Does the legal system contain mechanisms of conflict resolution, such as mediation, conciliation, and arbitration?

9. Does the government treatment of prisoners meet minimum international standards?

10. Do police undergo training in legal rights and in how to obtain evidence?

11. Are the police, military, and other government security forces subject to arrest, indictment, and imprisonment under the civilian judicial system?

12. Is the role of the military limited to external affairs?

13. Is corruption a significant hindrance to the equitable enforcement of national laws?

Explanation: These questions are designed to elicit information about the equity and effectiveness of the government's judicial system in guaranteeing political and civil rights.

Specific questions about judicial selection and removal from office are designed to measure the independence of the judiciary from external control.

B. FREEDOM OF INFORMATION

Indicator: Scale variable measuring the extent to which government polices promote freedom of information, especially freedom of the press.

10 = citizens have reasonable access to independent media
8 = media are allowed to operate freely but exercise some self-censorship
6 = licensing and production are difficult but all media are permitted to enter
4 = government permits some independent media to operate but censorship or self-censorship is the rule
2 = government censors all domestic media, but allows international media to enter
0 = government controls all media

based on the following questionnaire:

1. Print, television, and radio media: How many are independent? How many are government-owned? Does government media publish authentic opposition viewpoints?

2. Must publishers be licensed? Must journalists be licensed? Has the government suspended or revoked any licenses?

3. Are both independent and government-owned media subject to government censorship?

4. Are other published materials (academic, literary) subject to government censorship?

5. Do citizens have access to international media uncensored by the government?

6. Has the government harassed or threatened journalists for their activities?

7. Has the government arrested or imprisoned journalists for their activities?

8. Has the government closed down or banned any print or broadcast media?

Explanation: These questions are designed to measure the degree to which alternate sources of information remain independent from and uncensored by the government.

C. FREEDOM OF ASSOCIATION AND ACTIVITY

ORGANIZATIONS

Indicator: Scale variable measuring degree to which government policies promote formation and activities of independent associations

10 = no inhibiting restrictions on formation and activities
8 = government regulates organizations, but does not intervene in their operations or harass their members
6 = government reserves right to close an organization which is seen as a threat, but otherwise does not intervene; occasional harassment of members
4 = organizations closely monitored by government, which may intervene if activities seen as a threat; harassment of members is common
2 = organizations are few, entirely under state control, and do not reflect desires of their members
0 = organizations are banned, sponsors are subject to arrest

based on the following questionnaire:

1. Are there any inhibiting government restrictions on forming or participating in labor unions, professional associations, student groups, non-governmental organizations, religious groups, or other voluntary organizations?

2. Has the government harassed or threatened members of labor unions, professional associations, student groups, non-governmental organizations, religious groups, or other voluntary organizations for their respective activities?

3. Has the government arrested or imprisoned members of labor unions, professional associations, student groups, non-governmental organizations, religious groups, or other voluntary organizations for their respective activities?

4. Has the government outlawed any associations, student groups, unions, organizations, or religious groups?

5. Does the government habitually close universities to quell dissent?

Explanation: These questions are designed to measure the ability of citizens to freely form and participate in representative civic organizations, including unions and religious organizations. They also measure whether or not these organizations have the freedom to exercise their right to publicly oppose government policies.

INDIVIDUAL ACTIVITY

Indicator: Scale variable measuring degree to which government policies promote freedom of individual activity, including religion, travel, and assembly

10 = no inhibiting restrictions on individual activity
8 = some regulation but not enough to affect activity
6 = individual activity inhibited in some significant manner, but overall situation is free
4 = individual activity inhibited in a number of areas, overall situation can be characterized as one of limited individual freedom
2 = government policies suppress most individual freedoms and individuals fear the government, but some freedoms may still be allowed
0 = individual freedoms are entirely suppressed

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based on the following questionnaire:

1. Does the government restrict the travel of its citizens within the country?

2. Does the government restrict the travel of its citizens outside of the country?

3. Does the government restrict citizens from meeting or associating freely among themselves or with foreigners?

4. Does the government restrict citizens from freely speaking ethnic languages?

5. Does the government restrict the practice of any religion or harass members of any religion?

6. Does the government harass or threaten individuals because they are members of an ethnic group?

7. Has the government arrested or imprisoned individuals because they are members of an ethnic group?

8. Does the government restrict the free settlement of citizens (excluding national parks or other infeasible areas)? Has the government conducted any forced population transfers, expulsions, or resettlements?

Explanation: These questions are designed to measure a citizen's ability to travel and associate freely. It also is designed to measure whether or not a member of an ethnic minority is free from persecution.

D. PARTICIPATION IN GOVERNMENT

ELECTIONS

Indicator: Scale variable measuring extent to which government policies promote free and fair elections:

10 = government policy and implementation fully support free and fair elections
8 = government policies fully support free and fair elections; but significant irregularities in implementation occur (e.g., vote mishandling, biased registration);
6 = government policies limit the potential for free and fair elections (e.g., denial of the vote to women or minorities) or implementation is poor (e.g., shortage of polling places, lack of campaign funds, or media access for opposition)
4 = policies and implementation result in the government controlling the outcome of the vote, but campaign does serve as a forum for discussing important issues;
2 = elections are held, but are meaningless
0 = no elections

based on the following questionnaire:

1. Do laws exist for regulating and scheduling national elections? How effectively are they executed?

2. Is there universal adult suffrage?

3. Does the government have an effective system for registering voters?

4. Are all adult citizens eligible for public office?

5. Are the majority of elections contested?

6. Are all candidates afforded equal campaign opportunities?

7. Are ballots cast privately?

8. Do citizens have reasonable access to voting?

9. Are elections and the subsequent transfer of power free from fraud and violence?

Explanation: These questions are designed to elicit information that measures the existence, equity, and effectiveness of a government's electoral process. They focus on general electoral procedures. Questions about local elections, which focus on the diffusion of power and local representation, are addressed in the indicator Decentralization.

REPRESENTATION

Indicator: Scale variable measuring extent to which a government's structure and policies promote representation in government:

10 = Government offices, both elective and bureaucratic, are accessible to all citizens through regular, competitive processes
8 = Most government offices, both elective and bureaucratic, are accessible to all citizens through regular, competitive processes; some exceptions
6 = Executive not chosen by citizens through regularly scheduled, competitive elections; legislature and civil service accessible to all citizens through regular, competitive processes
4 = Executive not chosen by citizens through regularly scheduled, competitive elections; legislature chosen by citizens through regularly scheduled elections; civil service entry noncompetitive
2 = Executive not elected; legislature effectively unrepresentative; civil service entry noncompetitive
0 = Government offices not accessible to all citizens through regular, competitive processes

based on the following questionnaire:

1. Did the current executive achieve power through a free and fair election?

2. Did the current legislature achieve power through a free and fair election?

3. Is the term of office for the executive limited?

4. Are the terms of office for the legislature limited?

5. Can the executive dismiss or suspend the legislature? If so, has it done so?

6. Does the legislature hold real authority proportional to its representation, e.g., the power to tax, legislate, and conduct inquiries and investigations?

7. Are all adult citizens eligible to apply for the civil service? Is the process for entry into the civil service competitive?

8. Is the government significantly threatened by an armed insurrection?

Explanation: These questions are designed to elicit information that determines whether or not the government truly is representative. Are all citizens allowed to compete for positions in the executive and legislative branches of government, through elections, and in the civil bureaucracy, through a competitive entrance process? How meaningful is the authority assigned to elected officials?

POLITICAL PARTIES

Indicator: Scale variable measuring the extent to which government policies promote participation in political parties:

10 = no inhibiting restrictions on party formation or membership
8 = parties face some restrictions (e.g., must have a certain number of members to get onto a ballot) but operate freely
6 = opposition parties face differential restrictions, their members are occasionally harassed
4 = opposition parties face severe restrictions, their members are harassed
2 = single party state by law, some range of views expressed within party, not all government officials are members
0 = single party state by law; no dissent permitted

based on the following questionnaire:

1. Does more than one viable political party exist?

2. Does the government restrict the formation of new political parties?

3. If there is just one authorized party, does the government allow full debate and participation within the party?

4. Do political parties follow an open system of choosing their representatives?

5. Has the government harassed or threatened any members of an opposition party?

6. Has the government arrested or imprisoned any members of an opposition party?

Explanation: These questions are designed to elicit information that determines whether or not the government permits the organization of opposing interests and whether or not the political parties are truly representative. Though we use the common term "parties," this measure is designed to capture the existence of political organizations formed by a society as a forum for organized political opposition and debate. In cases where one party predominates, the questions are designed to elicit the degree of political opposition and debate that exists within that party.

DECENTRALIZATION

Indicator: Scale variable measuring the extent to which government policies promote decentralization of political authority

10 = local governments have authority and resources sufficient to meet their significant responsibilities
8 = local governments have authority and resources sufficient to meet their limited responsibilities
6 = local governments have authority but their effectiveness is limited by inadequate resources
4 = local governments have responsibilities with no authority and no resources
2 = local governments exist in form but with no responsibilities and no resources
0 = no decentralization

based on the following questionnaire:

1. Do laws exist for regulating and scheduling regional and local elections? How effectively are they executed?

2. Do regional and local authorities have the power to tax and allocate funds?

3. Do regional and local authorities have control or influence over governmental activities in their areas, such as development projects and police?

Explanation: These questions are designed to determine whether or not political power is diffused throughout the state, thus encouraging greater participation and allowing more responsive representation. Decentralization is not an issue in certain very small states.

ANNEX III

ECONOMIC INDICATORS CONSIDERED AND OMITTED FROM QUESTIONNAIRE

ANNEX III

ECONOMIC INDICATORS CONSIDERED AND OMITTED FROM QUESTIONNAIRE[1]

INDICATOR	REASON
CAPITAL MARKETS:	
Proportion of lending and borrowing subject to restrictions	ND
Government borrowing rate/prime rate	R
Government borrowing/total credit	R
Number of financial instruments	NP
Number of financial institutions/branches	NP
Ease of obtaining credit	ND
Central bank lending/reserve requirements	R
Private investment (or savings)/GDP	ND, NP
LABOR MARKETS:	
Minimum wage/per capita GDP/260 days	ND, R
Labor mobility restrictions	NC
Fringe benefits	ND, NP
Government job guarantees to school leavers	NC
Restrictions in access to employment	ND
LAND MARKETS:	
Percent of land titled	R
Percent of urban (rural) land titled	ND
Percent of small holdings titled	ND
Ease of land titling/ease of land transfer	R
Land use restrictions - zoning	ND
Gender restrictions in access to land and land ownership	ND
PRODUCT MARKETS:	
Average stock/monthly turnover	NP
List of prohibitions on production and marketing	ND
Degree of price and marketing controls	ND, R

[1] ND = No Data
NP = Not Policy
NC = Not Comparable (across countries)
R = Replaced

INTERNATIONAL MARKETS:

Government revenue from trade	ND, NC
Average tariff levels, including para-tariffs and quotas	ND, NC

ACCESS TO ECONOMIC OPPORTUNITY:

Percent of total lending to small farmers	ND
Percent of total lending to women	ND
Rural access to formal credit	ND
Women employed in civil service	ND
Women employed/total labor force	ND
Spending for education/health as percent of GDP	ND
Contraceptive prevalence	R
AIDS campaign	NC
Adult literacy	R
Primary enrollments (rural/urban)	ND
Agricultural extension - coverage and quality	NC

MACROECONOMIC POLICY FRAMEWORK:

Government expenditure/GDP	R
Money supply growth	R
Composition of public spending	ND
Infrastructure budget	ND
Allocation of expenditure within sectors	ND
Expenditure on personnel/total recurrent budget	NC
Tax coverage	ND
Tax differentials between sectors	NC
Minimum and maximum tax rates and levels	NC
Price bias against agriculture	NP, ND
Number of State Owned Enterprises	NP
Value added by SOEs	ND
Subsidies to SOEs	ND

BUSINESS CLIMATE:

Private investment/GDP or /total	NC, NP
Private credit/GDP or /total	NC, NP
Constraints on private sector activity or start-up	ND
Ease of start-up, number of days and costs	R
Manufacturing innovation	NP
Patent law enforcement - theirs and ours	R

ENVIRONMENT:

Spending on environment programs and agencies/GDP	ND
Subsidies on energy prices	R

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Government finance of waste treatment facilities	R
Incentives for private investment in waste treatment	R
Government promotion of establishment of commercial fisheries	NC
Licensing of large-scale fishing businesses	NC
Establishment of sustainable harvest sizes	NC
Regulation of commercial catches	NC
Emission charges for industry and vehicles	R
Programs in the environmental sciences at the universities	R

OPENNESS OF ECONOMIC REGIME:

International dispute resolution	NC

FREEDOM OF RELIGION:

Government restrictions on the practice of religion	R
Children's right to be educated in religious institutions	R
Government restrictions on the activities of religious leaders	R
Government harassment or threats to citizens for practicing their religion	R
Government arrests or imprisonment of citizens for practicing their religion	R

PARTICIPATION IN POLITICAL PARTIES:

Restrictions on participation in one-party systems	NC
Leadership selection in one-party states	NC

ANNEX IV

DAI POLICY PERFORMANCE MEASURES — STEERING COMMITTEE PARTICIPANTS AND INVITEES

ANNEX IV

DAI POLICY PERFORMANCE MEASURES — STEERING COMMITTEE PARTICIPANTS AND INVITEES

A.I.D.

Scott Allen, AFR/DP
Don Harrison, AFR/DP
R. Stephen Brent, AFR/DP/PAB
Gray Cowan, AFR/MDI
Steve Hammink, AFR/PD

Mike Crosswell, APRE/SPEE
Mike Unger, APRE/SPEE
Thomas Nicastro, APRE/DR/TR
Richard Whitaker, APRE/DR/TR

Paul O'Farrell, ENE/DP
Roy Grohs, ENE/DP
Gerald Hyman, ENE/TR/DPI

Jim Fox, LAC/DP
Jim Walker, LAC/DP
Peter Seller, LAC/DP
William Schoux, LAC/DI
Helen Soos, LAC/DI
Maria Mamlouk, LAC/SAM

Edgar Ariza-Nino, PPC/WID
Mari Clark, PPC/WID
Philip Boyle, PPC/WID

Alan Batchelder, PPC/EA
Jerome La Pittus, PPC/EA

Jan Van der Veen, PPC/PDPR
Travis Horel, PPC/PDPR
Michael Morfit, PPC/PDPR

George Hill, PPC/PB

Pat Iseman, PPC/CDIE

Eric Chetwynd, S&T/HR/RD/RD

State

Thomas Engle, STATE/EB/IFD/ODF
Faquir Bagi, STATE/EB/PAS

Other

Michael Pillsbury, Congressional Staff

DAI

Elliot Berg
Ann McDermott
Molly Phee
Scott Simons

ANNEX V

TANZANIA TRIP REPORT

ANNEX V

TANZANIA AND TUNISIA TRIP REPORT

Development Alternatives (DAI) project team members Scott Simons and Ann McDermott conducted initial field testing of a draft manual of policy performance indicators in Dar es Salaam, Tanzania (November 18 - November 28) and Tunis, Tunisia (November 29 - December 8) to assess the ease of collection of data and the relevance of the proposed measures.

Development Alternatives (DAI), in conjunction with PPC/EA, PPC/WID, and ENE/DP is developing a set of measures of policy performance for which data can be readily collected to assist A.I.D. in making decisions regarding aid allocations. During the first two months of the project, the DAI project team prepared a draft manual of economic and political policy indicators. The manual was presented to the project Steering Committee in A.I.D./Washington, subjected to Washington "field testing", and modified to reflect comments received. PPC/EA then authorized initial field testing of the manual.

The team's technical approach was the same in both countries. Upon arrival, they briefed their USAID control officers on the project, the purpose of the field tests, and assistance needed from the missions. In Tanzania, the control officer was John Rose, Program Development Officer; in Tunisia, it was Robert Rucker, Economic Officer. In Tanzania, Mission Director Joseph Stepanek, Deputy Mission Director Joe Schlesinger, and FSN economist Daniel Ngowi also attended the briefing. Stepanek expressed strong doubts as to the potential value of the project given its apparent lack of ownership and ill-defined scope. In Tunisia, the initial briefing was also attended by FSN economist Mohamed Abassi and our reception was warmer. The team also conducted briefings of U.S. Embassy political officers to obtain information for the political indicators. The team met with Robert Bentley in Tanzania and with Janean Mann and Joann Kelly in Tunisia.

Both field tests began by reviewing documents in the possession of the missions and interviewing mission staff. The team then solicited guidance on other sources of data and recommended contacts in each country to track down the remaining data. Sources included unpublished data, published data that was not available in the USAID missions, and subjective information from informed sources. A list of persons interviewed in Tanzania and Tunisia is at the end of each completed field manual (this annex and Annex VII, which follows). In both countries, the project team was able to complete the draft manual within eight working days. Copies of the completed manuals were presented to the USAID control officers as part of the project team debriefing prior to departure and mission personnel were encouraged to contact their Bureaus in Washington with comments.

Outcomes

The project team was fortunate to receive substantial assistance from the USAID missions without which the task would not have been completed so quickly. The team was able to finish its work in three weeks instead of the budgeted four weeks because considerable information was available in the missions and because interviews were quickly arranged.

In general, the project team found that most of the measures in the draft field manual were readily obtainable. In both countries, the same items proved more difficult to collect; in particular, comprehensive data on price controls and disaggregated fiscal budget data. For the budget, the project team was unable to calculate rural versus urban allocations due to amalgamation of the budget data. Other breakdowns were available and were collected (preventative-curative health care, primary-secondary-university education, and infrastructure investment-maintenance) but these would not be suitable for cross-country comparisons due to definitional variations. In Tunisia, data collection was made more difficult by the fact that the detailed annual budget is published only in Arabic. Some information on price controls and their effectiveness were obtainable once the keepers of the data were identified. Again, the data were probably not comparable. Each of the subjective indicators (business climate, international capital and labor restrictions, and environment) required a number of interviews in order to establish a consensus position.

For political information, the project team relied primarily on the Country Reports on Human Rights Practices for 1989, supplemented by interviews with the U.S. Embassy Political Officers. Because the project team did not have State Department security clearances, they were not able to obtain drafts for the 1990 Country Reports but those drafts were quite advanced and probably would have been made available to USAID personnel.

Because of the relative ease with which the project team was able to collect the data, it seems reasonable to expect that the missions, with their existing knowledge of the countries and their readier access to information, could collect the information requested in several days of staff time. They could assemble much of the appropriate documents and subjective information in the course of on-going mission activities. After the original baseline data is collected, subsequent reporting will take even less time because conditions for some indicators will only change at discrete intervals and probably not annually (e.g., political system structure or environmental policies).

A comparison of data collected by the project team in-country and data compiled by A.I.D./Washington staff prior to the team's departure shows that more accurate and timely data can be collected in-country. A comparison of the subjective assessments of country performance made by FSNs and by American mission staff also shows notable differences. FSN assessments were generally more positive. If data are to be collected by missions for performance indicators, some account must be made for these differences in perspective.

Indicator-Specific Data

Indicator-specific information is included in the completed questionnaires that follow; that for Tanzania is in this annex, Tunisia's is in Annex VI.

TANZANIA

SECTION I: ECONOMIC POLICY

A. COMPETITIVE MARKETS

REAL INTEREST RATE (ANE).

Indicator: Bank prime lending rate less the GDP deflator.

Rate	**4.2%**
Trend over past three years	**+1**

Indicator: Bank savings rate for demand deposits less the Consumer Price Index.

Rate	**4.7%**
Trend over past three years	**+1**

Source: Nominal interest rates from Bank of Tanzania, Economic and Operations Report for the Year Ended 30 June, 1989, page 48, Table 9. For lending rate, average of short-term rates used. CPI from Bank of Tanzania, Economic Bulletin for the Quarter Ended 31 March, 1990, page 12, Table 2.4. Lending rate: 25.5 percent, Savings rate: 26 percent, CPI: 21.3 percent. (Note IMF, IFS 11/90 had 1988 rates only.)

FORMAL SECTOR AND INFORMAL SECTOR INTEREST RATES.

Indicator: Ratio of informal sector (open market) interest rates to formal sector (bank and official institution) interest rates. Obtain for a similar type of loan, for example, a $1,000 one year loan for a small/medium sized urban business.

Rate	**52/25.5**
Trend over past three years	**+1**

Source: The informal rate is the average of estimates obtained in interviews with private sector business people and consultants. Informal credit is reportedly available mainly within the Asian community.

RESTRICTIONS IN ACCESS TO CAPITAL

Indicator: Scale variable from 0-10 measuring effects of legal restrictions on access to capital for women and for minorities:

0 = no restrictions;
2 = restrictions, but almost no effects;
4 = restrictions, light effect on access;

6 = restrictions, moderate effect on access;
8 = restrictions, severe effect on access;
10 = restrictions, prohibitive effects on access.

Scale value 4

Trend in past three years ±1

Source: Interviews with government and banking officials and in the private sector. There are no overt restrictions on borrowing but borrowing by women is limited. New special credit window for women at the National Commercial Bank.

MINIMUM WAGE AND INFORMAL SECTOR UNSKILLED WAGE.

Indicator: Ratio of the minimum wage to informal sector unskilled wage.

Ratio ≤1

Trend over past three years —

Source: Interviews in the private sector and with international organizations (World Bank, ILO). Informal sector wages exceed the minimum wage, especially when accounting for benefits of food or lodging common with many informal jobs.

DISMISSAL RESTRICTIONS

Indicator: Scale variable from 0-10 on how stringent dismissal regulations are for private sector employees?

0 = no dismissal regulations,
2 = dismissal notice only or wages in lieu of notice - dismissals occur as needed by firms,
4 = dismissal notice plus termination benefits - dismissals occur as needed by firms,
6 = dismissal only with cause - dismissals occur but are difficult for firms,
8 = dismissal only with cause plus benefits - dismissals are costly and difficult but they occur when needed by firms,
10 = prohibitive restrictions due to cause and benefits - infrequent dismissals due to high cost and/or difficulty establishing cause.

Scale value private sector: 2
public sector: 8

Trend over past three years ±1

Source: Interview in the private sector and with international organizations (World Bank and ILO). Employers must clear outstanding arrears with employees. Dismissal with notice occurs in the private sector. Public sector dismissals are rare.

RESTRICTIONS IN ACCESS TO EMPLOYMENT

Indicator: Scale variable from 0-10 measuring effects of legal restrictions in access to employment for women and for minorities:

0 = no restrictions;
2 = restrictions, but almost no effects;
4 = restrictions, light effect on access;
6 = restrictions, moderate effect on access;
8 = restrictions, severe effect on access;
10 = restrictions, prohibitive effects on access.

Scale value	**3**
Trend in past three years	**+1**

Source: Interviews with government officials, with international organizations and the private sector. There are no restrictions which keep women or minorities out of any jobs. However, women are not permitted to work night shifts. Women are represented throughout the labor force, public and private. In the government, officials similar to affirmative action officers investigate any unequal treatment of women.

PRICE AND MARKETING CONTROLS.

Indicator: Percentage of total goods traded subject to price or marketing controls - value of goods controlled/total value of goods.

Percentage	**5%**
Trend over past three years	**+2**

Source: Bank of Tanzania, estimate by the Research Division. Based on percentage of the goods controlled in the basket of goods used to compute the Consumer Price Index.

Indicator: Average percentage difference between uncontrolled and controlled prices for major controlled goods. For numerator use absolute value of difference. For denominator use uncontrolled price. Weight by the value of trade in each good. Use border prices for uncontrolled prices.

Percentage	**small**
Trend over past three years	**+2**

Source: Same as above.

EXCHANGE RATE DISTORTION: (LAC,AFR)

Indicator: Average ratio of market to official exchange rates for previous calendar year.

Percentage	350/195.6
Trend over past three years	0

Source: Bank of Tanzania and interviews with curbside moneychangers. Current market rate TSh350/US$ based on conversations with money-changers near hotels. The official exchange rate is pegged at 195.6TSh/$ and had not changed for one year. The black market rate had been TSh250/$ immediately after the last rate adjustment. The FSN economist at the mission thought there would be another adjustment when the black market rate hits TSh375/$.

TRADE REGIME: (LAC)

Indicator: Scale variable, 10-8 if tariff rates average under 20 percent and quotas affect under 10 percent of imports, 7-4 if tariffs under 30 percent and quotas under 20 percent, 3-0 if tariffs over 30 percent and quotas over 20 percent.

Scale value	7
Trend over past three years	+2

Source: Information was obtained from the official publication of the Ministry of Finance which lists the appropriate tariff for each type of good. Trade-weighted average tariff is about 25 percent. According to the Principal Finance Management Officer of the Ministry of Finance, there are no quotas. One of the major achievements of the structural adjustment program has been simplification of the tariff system. There are just 4 tariff categories and a maximum tariff rate of 60 percent now compared to seven categories and a maximum rate of 100 percent in 1987.

TARIFF LEVELS, QUOTAS AND NON-TARIFF MEASURES:

Indicator: Trade weighted average rates including para-tariffs.

Rate	~25%
Trend over past three years	+2

Source: Same as above.

B. MACRO-ECONOMIC POLICY FRAMEWORK

INFLATION

Indicator: Percentage change in GDP deflator for previous year.

Percentage	**21.3%**
Trend over past three years	**+1**

Source: Bank of Tanzania, Economic Bulletin for the Quarter Ended 31 March, 1990, page 12, Table 2.4. Annual change in Consumer Price Index. There is no GDP deflator calculated in Tanzania.

DOMESTIC CREDIT GROWTH

Indicator: Net growth of domestic credit in the banking system.

Rate	**41.1%**
Trend over past three years	**-2**

Source: Bank of Tanzania, Economic Bulletin for the Quarter Ended 31 March, 1990, page 20, Table 4.1. Percentage change in net claims on government plus lending to non-government sectors.

BUDGET DEFICIT: (LAC, ANE, AND AFR)

Indicator: Fiscal deficit as percentage of GDP. Fiscal deficit defined as government expenditure less government receipts including donor assistance.

		1989/90	1990/91
Percentage	with donor assist.	0.9%	0.4%
	w/out donor assist	16.3%	18%
Trend over past three years:	with donor	+1	+1
	w/out donor	-2	-2

Source: Data from Daniel Ngowi, "An Analysis of the Impact of Donor Aid on the Macro Economic Targets of the Government of Tanzania," Table 1A (Ngowi is the FSN economist at the USAID mission). The Bank of Tanzania is cited as the source of data in the paper.

COMPOSITION OF PUBLIC SPENDING

Indicator: Shares of total public spending (investment and recurrent expenditures) going to (1) infrastructure, (2) education, (3) health, and (4) the military.

	Share		Trend
	89/90	90/91	
Infrastructure	1.9%	2.5%	-1

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Education	11%	9.7%	-1
Health	5.9%	6.6%	0
Military	7.6%	6.2%	+1

Source: UNICEF, Annual Report 1990, Table 3. Water and Electricity were used as a proxy for infrastructure. UNICEF claims to incorporate regional and local government budgets into its figures.

Indicator: Allocation of spending within the infrastructure, health, and education sectors

	Share	Trend
Infrastructure investment allocated to rural areas	~50%	___
Recurrent infrastructure investment allocated to operation & maintenance	___	___
Health expenditure allocated to rural areas	___	___
Health expenditure allocated to preventative medicine	5.9%	___
to hospitals	78.5%	___
Education expenditure allocated to		
Primary schools,	0.4%	___
Secondary schools,	15.5%	
Vocational schools.	___	___
Universities	31.5%	___
University stipends	4.1%	___
Education expenditure allocated to rural areas.	___	___

Source: 1990/1991 Budget for the Government of Tanzania. Figures were calculated by going line-by line through the main volume of the budget. Infrastructure in rural areas was proxied by the line item, "construction and maintenance of rural roads." "Preventive medicine" is a line item. For hospitals, line items for "hospitals" and "construction and maintenance of clinics" were added. Line items appear for each education level. Most primary education is financed at the local government level, thus the amount in the national budget is small. Separating rural and non-rural expenditure was not feasible for health and education expenditures in the budget. The budget is organized by region and personnel expenditure is a line item in each region.

C. BUSINESS CLIMATE

BUSINESS ENVIRONMENT IN PRIVATE SECTOR:

Indicator: Scale variable measuring constraints to business activity:

0 = private investors operate freely
2 = some constraints on paper, but do not affect activity
4 = slight constraints
6 = moderate constraints
8 = severe constraints
10 = private sector is legally or effectively prohibited

based on the following questionnaire:

1. Are there anti-competitive regulations protecting SOEs or privileged groups? Are they enforced?

   According to terms of new investment code, private investors can invest in all sectors of the economy except for infrastructure and banks. The code calls for joint ventures for iron/steel, machine tool, fertilizer and pesticide, and airline investments, but says exemptions can be negotiated.

2. Are there patent and contract laws to protect foreign products? to protect local products? Are they enforced?

   There are patent and contract laws and they seem to be enforced

3. Does the government offer codified special concessions to new, large investors? Are there uncodified concessions?

   The new investment code, introduced in 6/90, offers a 5 year tax holiday, remittance of up to 50 percent of foreign exchange earnings, and certain customs duties exemptions. There are more concessions for export-oriented investments and for investments in certain "Designated Special Growth Areas". Dodoma is the first such area.

4. What is rough order of magnitude for costs in time and money of compliance to business licensing requirements without making payoffs?

   Licensing has been substantially streamlined in the last year or so. It is estimated to take 1 to 2 weeks for a domestic firm if they have their paper work in order. It is unclear how long it would take for a new foreign firm since none have come in recently.

5. How many days for a business to obtain a telephone?

   Estimates range from 6 months to a year to impossible to $500.

6. What are the major import/export regulations? What is rough order of magnitude for costs in time and money in compliance without making payoffs?

   Importers need to put up 100 percent cash cover in advance. Given credit constraints, it is very difficult to do that. Importers and exporters need to register, nothing much. If all paper work in order, can be done in 1-2 weeks.

7. What is rough order of magnitude for customs delays?

   Average estimate is 2-3 weeks, but port operations are very corrupt, there is a lot of theft and under-the-table payments. Time can vary a lot.

8. Is corruption a significant hindrance to economic efficiency?

   Yes, there is corruption everywhere: in the ministries, in the investment promotion center, at the ports, at the banks. Payoffs are essential to operate.

Scale value	6
Trend over past three years	±2

Source: We initially spoke to Daniel Ngowi, FSN economist, and John Rose, Program Officer, at the mission. We also spoke to the Investment Promotion Center, U.S. Ambassador Dejarnette, and representatives from several private firms and consulting companies.

INTERNATIONAL CAPITAL AND LABOR RESTRICTIONS:

Indicator: Scale variable measuring restrictions for international capital and labor:

0 = no restrictions on foreign investment and workers
2 = some restrictions but do not affect activity
4 = slight restrictions
6 = moderate restrictions
8 = severe restrictions
10 = foreign investment and workers are legally or effectively prohibited

based on the following questionnaire:

1. Are there local hiring requirements?

   no

2. Are there local content requirements?

   no

3. Are there agreements on expatriate employment?

   Expatriates need a work permit, but obtaining one is not seen as a major impediment

4. Are there capital and profit repatriation restrictions?

   Yes, can repatriate only 50 percent of profit and some fixed percentage (unclear how much) of capital. Paperwork and delays reduce benefits

5. Are there __ minimum __ maximum limits on level of foreign ownership?

   No explicit limits, a domestic partner is encouraged

6. Can foreign investors own __urban __rural land?

   No. There is no private land ownership in Tanzania, all land is allocated by government officials. A foreigner can own improvements s/he makes to the land.

7. Is there legal protection from expropriation? Does the country belong to MIGA? OPIC?

   The constitution requires full compensation for expropriation. In practice, the values set have been low. But only a small number of expropriations have ever occurred. The Investment Promotion Center has submitted an application for Tanzanian membership in MIGA and is starting to work on the forms for OPIC.

8. Is foreign exchange allocated? Are mechanisms in place to assure foreign exchange availability?

   There is currently an open general license (OGL) system for foreign exchange. Approval is slow and arduous. Exporters are allowed to retain 50 percent of earnings for imports.

9. Is there a investment promotion association?

   Yes, it is new, government operated, has not done much yet, and the director is reportedly very corrupt.

Scale value	6
Trend over past three years	±2

Source: same as for Business Environment in Private Sector, above.

EXPORT INNOVATION:

Indicator: Growth in non-traditional exports. Non-traditional exports are those that each accounted for less than 1 percent of exports five years ago. After selecting the exports, measure their share of exports today. Subtract the summed share five years ago from the summed share today.

Percentage	850%
Trend over past three years	±2

Source: Board of External Trade, Export Earnings. Calculated by identifying traditional exports (accounting for more than 1 percent of total exports) and subtracting these exports out of total exports in 1985 (in US dollars). The residual value for non-traditional exports is $20.4 million. Then take those same traditional exports in 1989 (whether or not they were still worth more than

1 percent) and again subtract out the residual for the 1989 value of non-traditional exports ($173.5 million). Calculate the ratio of 1989 value/1985 value.

D. HUMAN CAPITAL DEVELOPMENT

PRIMARY EDUCATION:

Indicator: Elementary school net enrollment rates:

	Rates		Trend
Total	60		-1
Urban - Rural	—	—	—
Male - Female	60	60	-1

Source: UNICEF Annual Report, 1990, Table appearing as first two pages of Country Overview. 1989 data.

BASIC HEALTH CARE:

Indicator: Percentage of one-year-olds immunized against 4 major childhood diseases.

Percentage	>82%
Trend over past three years	+1

Source: UNICEF Annual Report, 1990, Table appearing as first two pages of Country Overview. 1988 data.

Indicator: Children under 5 mortality rate (per 1,000 live births).

Rate	176
Trend over past three years	+1

Source: UNICEF Annual Report, 1990, Table appearing as first two pages of Country Overview. 1988 data.

E. ENVIRONMENTAL MANAGEMENT

FORESTRY/SOIL MANAGEMENT

Indicator: Scale variable measuring the effectiveness of government forestry and soil management policies to enhance environmental/natural resources management

0 = policies fully support efficient environmental management; effective institutional framework
2 = policies support sustainable forestry and soil management practices, some policies may have unintended negative consequences, effective institutional framework
4 = there are policy failures which contribute slightly to environmental degradation, institutional framework is adequate
6 = there are numerous forestry and soil management policy failures which result in regionally specific environmental damage, institutional framework is adequate
8 = there are forestry and soil management policy failures resulting in widespread environmental damage, institutions exist but are ineffective
10 = forestry or soil management policies or the lack thereof are causing extensive and irreparable environmental damage; institutions do not exist or are entirely ineffective

based on the following questionnaire:

1. Do government policies to encourage or promote forestry -- investment incentives or tax policies -- take into account the scarcity value of forest resources?

   No, but the government plans to revise logging fees to bring them in line with the real value of forest resources (current fees were set in 1981). Forestry licensing is a local government responsibility and fees are an important source of local government revenue

2. Does the government extension office have a soil conservation program? How effective is program?

   The government agricultural extension service does not address soil conservation. There are a small number of regional forestry extension services (which will be expanded and increased) which act independently of agricultural extension.

3. Are energy prices subsidized?

   Oil prices are controlled but they are in line with international prices

4. Does the government encourage or promote reforestation? How effective is program?

   The government has legal responsibility for replanting logged areas but does not do it.

5. Does the government require environmental impact assessments of public or donor forestry or agriculture projects? Does it require environmental impact analyses for private investments in forestry or agriculture?

   No EIAs required for forest or agriculture projects (although most donors now require them). New private industrial investments must undergo an EIA. No mechanism to ensure obedience

6. Is there a national park system? How effective is protection?

   Yes, since 1896. The system is understaffed (1 person/76 km2 in parks, 1/120 km2 in reserves). Poaching for meat and ivory is widespread.

Scale value **8**

Trend over past three years **+1**

Source: see below

WATER AND SEWERAGE

Indicator: Scale variable measuring the effectiveness of government water and sewerage management policies to enhance environmental/natural resources management

0 = policies fully support efficient environmental management; effective institutional framework

2 = policies support efficient water and sewerage management, some policies may have unintended negative consequences, effective institutional framework

4 = there are policy failures which contribute slightly to overuse and abuse of water resources, institutional framework is adequate

6 = there are numerous water and sewerage policy failures which result in regionally specific overuse and abuse of water resources, institutional framework is adequate

8 = there are numerous water and sewerage policy failures resulting in widespread overuse and abuse of water resources, institutions exist but are ineffective

10 = water and sewerage policies or the lack thereof are causing extensive and irreparable damage to water resources; institutions do not exist or are entirely ineffective

based on the following questionnaire:

1. Is there a fee for utility-supplied water? If so, is it priced according to marginal cost pricing principles?

   There is a fee, but it is substantially below marginal costs.

2. Is there a fee for water from the major irrigated water systems? If so is it priced according to marginal cost pricing principles?

   No fee is charged, but users are expected to contribute labor and materials for maintenance

3. Does the government finance waste treatment facilities? Are there incentives for private investment?

   No, but there are waste standards. No mechanism for enforcement

4. Does the government require environmental impact assessments of public or donor irrigation projects? Does it require environmental impact analyses for private investments?

   No, but donors do

5. Are chemical pesticides or fertilizers subsidized?

   Not clear. Farmers must pay for both but stocks are donated.

6. Does the government promote establishment of commercial fisheries?

   yes

7. Do large-scale fishing businesses require a license? Has the government established sustainable harvest sizes? Does it regulate the catch?

   Yes, must be licensed but no, no idea what are sustainable harvest and no, catches are not regulated.

Scale value	7
Trend over past three years	+1

Source: see below

AIR QUALITY

Indicator: Scale variable measuring the effectiveness of government air quality standards to enhance environmental/natural resources management

- 0 = standards are implemented and fully support efficient environmental management; effective institutional framework
- 2 = policies support acceptable air quality levels, some policies may have unintended negative consequences, effective institutional framework
- 4 = there are implementation failures which contribute slightly to environmental degradation, institutional framework is adequate
- 6 = there are numerous implementation failures which result in regionally specific environmental damage, institutional framework is adequate
- 8 = there are numerous implementation failures resulting in widespread environmental damage, institutions exist but are ineffective
- 10 = air quality standards or the lack thereof are causing extensive and irreparable environmental damage; institutions do not exist or are entirely ineffective

based on the following questionnaire:

1. Does the government have emissions standards for industry? vehicles? Are they enforced?

   no standards

2. Are there emission charges for industry? vehicles? Are they collected?

   no charges

Scale value 10

Trend over past three years 0

Source: see below

LAND TENURE

Indicator: Scale variable measuring the effectiveness of government land tenure policies to enhance environmental/natural resources management

- 0 = policies fully support efficient environmental management; effective institutional framework
- 2 = policies support efficient tenure arrangements, some policies may have unintended negative consequences, effective institutional framework
- 4 = there are policy failures which contribute slightly to environmental degradation, institutional framework is adequate
- 6 = there are numerous tenure policy failures which result in regionally specific environmental damage, institutional framework is adequate
- 8 = there are numerous tenure policy failures resulting in widespread environmental damage, institutions exist but are ineffective
- 10 = tenure policies or the lack thereof are causing extensive and irreparable environmental damage; institutions do not exist or are entirely ineffective

based on the following questionnaire:

1. Are traditional tenure arrangements fairly secure or are population pressures and migration threatening their viability? If traditional tenure arrangements are losing or have lost their effectiveness has their been significant progress in assigning land titles in rural areas?

   Traditional tenure was officially abolished during Ujamaa. Power was transferred to Village Development Councils but traditional arrangements were still respected. According to constitution there is no private ownership of land. Government owns everything and must approve land use. Land that falls outside of village borders has been up for grabs. Are starting a process of village surveying as a first step to clarifying control Survey process is very slow.

2. Is forested land with regional or national externalities, e.g., major watersheds or nature reserves, titled?

   Since 1957, watersheds have been set aside as Forest Reserves, but there is not protection of reserves and they have not been surveyed in decades

3. What percentage of rural land is titled? What percentage was titled last year?

Scale value 8

Trend over past three years 0

Source: see below

ENVIRONMENTAL EDUCATION

Indicator: Scale variable measuring the effectiveness of government environmental education policies to enhance environmental/natural resources management

- 0 = policies fully support efficient environmental management; effective institutional framework
- 2 = policies support widespread and effective environmental education, effective institutional framework
- 4 = there are policy failures which limit effectiveness of educational program but program is basically good, institutional framework is adequate
- 6 = program exists but is patchy in its coverage, institutional framework is adequate
- 8 = program exists, but majority of rural residents are not exposed to it, institutions exist but are ineffective
- 10 = program does not exist or is entirely ineffective; institutions do not exist or are entirely ineffective

based on the following questionnaire:

1. Is there a nationwide program to educate the public on the value of environmental management and protection? What subjects does it cover? Is coverage nationwide? Does program target adults or children or both?

   there is currently no program

2. Does the national university have programs in the environmental sciences?

   There is a College of African Wildlife Management. Sokoine University, the major agricultural university, offers a degree program in forestry. There is a Forestry Training Institute and at the University of Dar es Salaam, one can get a B.Sc. in Wildlife Management

Scale value 7

Trend over past three years 0

Source: The same sources were used for all environmental questions: Roy Southworth, the World Bank's forestry expert; Fred Mpendazoe of the National Environmental Research Council, whose specialty is industrial waste; William Benat, FSN agricultural officer; and a number of donor and government reports related to developing a new environmental action plan. The Forestry Action Plan was particularly helpful.

SECTION II: POLITICAL POLICY

A. PROTECTION OF CIVIL AND POLITICAL RIGHTS

INDEPENDENT JUDICIARY

Indicator: Scale variable measuring extent to which government policies promote independence of the judiciary

10 = independent and effective judiciary
8 = isolated cases of judicial malfeasance but system is generally strong
6 = system is well-designed and independent of outside influence but effectiveness is limited by lack of resources, lack of regard for civil rights
4 = system is poorly designed and subject to abuse
2 = judiciary is highly vulnerable to political interventions and generally arbitrary in its treatment
0 = judiciary is an instrument of the state

based on the following questionnaire:

1. Do adequate laws and processes exist for judicial selection? How effectively are they executed?

   Judicial selection system is modelled on the British system. Judges are professional

2. Have judges been removed from office by any means other than an election or conclusion of tenure?

   Judges have been removed, more common is intimidation and bribery of judges

3. Does the government provide the accused with access to legal counsel?

   Yes, in cases of treason and murder. In principal is provided for the indigent, but not in practice due to costs

4. What is the average length of time between arrest and charge? between arrest and trial? Is the government detaining any citizens without charging them with a crime?

   Legally, should be charged within 24 hours, but there are exceptions. Time between arrest and trial can be 2-3 years with no possibility of bail except for white collar crimes.

5. Do the accused have the right to a jury trial?

   no, magistrates justice

6. Do the accused have the right to appeal?

   yes

7. Are trials and/or their proceedings open to the public?

   yes

8. Does the government treatment of prisoners meet minimum international standards?

   doubtful, there is some torture and conditions are generally quite bad.

9. Do police undergo training in legal rights and in how to obtain evidence?

   police go through a 60 day training program, it is not clear what is covered

10. Is corruption a significant hindrance to the equitable enforcement of national laws?

    yes, throughout the system

Independent Judiciary scale value	**3**
Trend over past three years	**0**

Source: see below

LEGAL CODE

Indicator: Scale variable measuring extent to which government policies promote codification of legal rights:

10 = legal code is comprehensive and equitable in its treatment of all groups
8 = legal code is comprehensive and equitable in its treatment of all groups, some serious lapses in implementation
6 = legal code is comprehensive but discriminates against certain groups, some serious lapses in implementation
4 = legal code guarantees some freedoms but discriminates against certain groups, some serious lapses in implementation
2 = legal code guarantees some freedoms but discriminates against certain groups, poor implementation affects all
0 = no legal guarantees

based on the following questionnaire:

1. Do national laws ensure that the following freedoms exist:
   freedom of speech?
   freedom of peaceable assembly?
   freedom of religion?

freedom from unwarranted search and seizure?

Legally, there is freedom of speech, religion, and unwarranted search and seizure. Any large gathering must obtain a permit prior to the event.

2. Is there parity in national laws in their treatment of men and women, especially in matters of divorce, inheritance, and property rights?

   No, in many regions women can not own or inherit property due to government concessions to customary or Islamic practices. Also, women can not own housing.

3. Is there parity in the national laws in their treatment of ethnic and religious minorities, especially in matters of property rights and choice of residence? Do the national laws protect the rights of minorities?

   yes, and enforcement is equitable

4. Does the legal system contain mechanisms of conflict resolution, including mediation, conciliation, and arbitration?

   there is arbitration

Legal Code scale variable 4

Trend over past three years 0

Source: see below

B. FREEDOM OF INFORMATION

Indicator: Scale variable measuring the extent to which government polices promote freedom of information

10 = all groups have free access to information
8 = all media are allowed to operate, but certain providers receive preferential treatment
6 = licensing and production are difficult but all media are permitted to enter, government has own media outlets
4 = government controls majority of media outlets, permits some independent media to operate
2 = government controls all domestic media, but allows international media to enter subject to censorship
0 = government controls all media

based on the following questionnaire:

1. Print, television, and radio media: How many are independent? How many are government-owned? Does government media publish authentic opposition viewpoints?

   There are four independent weeklies, all fairly new and struggling. Government owns printing presses and supplies newsprint so papers can be squeezed. The major Swahili and English language papers are government owned and do not publish opposition viewpoints. The only TV station is on Zanzibar, government-owned. All radio is government owned and opposition viewpoints are not broadcast

2. Must publishers be licensed? Must journalists be licensed? Has the government suspended or revoked any licenses?

   publishers must be licensed, it's not clear whether journalists must be also. Yes, the government has the right to suspend licenses at any time

3. Is independent media subject to government censorship?

   Censorship is not explicit, but there is self-censorship and any potentially troublesome publication may not be able to obtain newsprint

4. Are other published materials (academic, literary) subject to government censorship?

   there is not much publication going on due to the lack of funds, there is self-censorship

5. Do citizens have access to international media uncensored by the government?

   International media enters uncensored but is in short supply and very expensive

6. Has the government harassed or threatened journalists for their activities?

   yes

7. Has the government arrested or imprisoned journalists for their activities?

   no

Free of information scale value	**3**
Trend over past three years	**+1**

Source: see below

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C. FREEDOM OF ASSOCIATION AND ACTIVITY

PROFESSIONAL ORGANIZATIONS

Indicator: Scale variable measuring degree to which government policies promote formation and activities of independent professional associations

10 = no restrictions on formation and activities
8 = government regulates professional organizations, but does not intervene in their operations or harass their members
6 = government has right to close a professional organization which is seen as a threat, but otherwise does not intervene. Occasional harassment of members
4 = professional organizations are closely monitored by government. Government may intervene if activities seen as a threat. Harassment of members is common.
2 = professional organizations are few, entirely under state control, and do not reflect desires of their members
0 = professional organizations are banned, sponsors are subject to arrest

based on the following questionnaire:

1. Are there any government restrictions on forming or participating in labor unions, professional associations, student groups, non-governmental organizations, religious groups, or other voluntary organizations?

   Yes, there are restriction on forming or participating associations. There is only one labor union and it is a party instrument. All non-labor associations must be approved by the Ministry of Home Affairs.

2. Has the government harassed or threatened members of labor unions, professional associations, student groups, non-governmental organizations, religious groups, or other voluntary organizations for their respective activities?

   N/A

3. Has the government arrested or imprisoned members of labor unions, professional associations, student groups, non-governmental organizations, religious groups, or other voluntary organizations for their respective activities?

   N/A

4. Has the government outlawed any associations, unions, or organizations?

   N/A

5. Has the government closed any universities?

   university is closed fairly frequently. Current student demands are unreasonable (want to be paid minimum wage)

Professional Organizations scale value **5**

Trend over past three years **0**

Source: see below

INDIVIDUAL ACTIVITY

Indicator: Scale variable measuring degree to which government policies promote freedom of individual activity, including religion, travel, and association:

10 = no restrictions on individual activity
8 = some regulation but not enough to affect activity
6 = individual activity inhibited in some significant manner, but overall situation is free
4 = individual activity inhibited in a number of areas, overall situation can be characterized as one of limited individual freedom
2 = government policies suppress most individual freedoms and individuals fear the government, but some freedoms may still be allowed
0 = individual freedoms are entirely suppressed

based on the following questionnaire:

1. Does the government restrict the travel of its citizens within the country?

   Zanzibar restricts entry by other Tanzanians.

2. Does the government restrict the travel of its citizens outside of the country?

   Passports are difficult to obtain. Must also have a tax clearance, which can be difficult to get

3. Does the government restrict citizens from meeting or associating freely among themselves or with foreigners?

   Yes, laws prohibit the assembly of anything but registered associations.

4. Does the government restrict citizens from freely speaking ethnic languages?

   no

5. Does the government restrict the practice of any religion or harass members of any religion?

   no

6. Does the government restrict the free settlement of citizens (excluding national parks or other infeasible areas)? Has the government conducted any forced population transfers, expulsions, or resettlements?

   no and it accepts and cares for refugees from other countries

   Individual Activity scale value 6

   Trend over past three years +1

Source: see below

D. PARTICIPATION IN GOVERNMENT

ELECTIONS

Indicator: Scale variable measuring extent to which government policies promote free and fair elections:

10 = government policy and implementation fully support free and fair elections
8 = government policies fully support free and fair elections; but there are significant irregularities in implementation (e.g., vote mishandling, biased registration);
6 = there are policies which limit the potential for free and fair elections (e.g., denial of the vote to women or minorities) or implementation is poor (e.g., shortage of polling places, lack of campaign funds or media access for opposition)
4 = policies and implementation result in the government controlling the outcome of the vote, but campaign does serve as a forum for discussing important issues;
2 = elections are held, but are meaningless
0 = no elections

based on the following questionnaire:

1. Do laws exist for regulating and scheduling national elections? How effectively are they executed?

   Yes, elections are every five years; there were apparently many irregularities in the 10/90 vote.

2. Is there universal adult suffrage?

   yes

3. Does the government have an effective system for registering voters?

   N/A

4. Are all adult citizens eligible for public office?

   No, to run must be a member of the CCM, the state party, and must be nominated by CCM leadership

5. Are the majority of elections contested?

   At the local level there is usually a choice between two members of the CCM. Contest hinges on what can promise in the way of benefits. Presidential vote is uncontested

6. Are all candidates afforded equal campaign opportunities?

   Yes, at the local level, if the contest does not attract the attention of Dar es Salaam, can often see fairly competitive races. The party leadership can influence outcomes.

7. Are ballots cast privately?

   yes

8. Do citizens have reasonable access to voting?

   N/A

9. If an election was held, was power transferred? Was it transferred to another party? Was it transferred in a timely and peaceful manner?

   national power was not transferred. There was some turnover at the local levels

Elections scale value	2
Trend over past three years	0

Source: see below

REPRESENTATION

Indicator: Scale variable measuring extent to which government policies promote representation in government:

10 = elected government represents citizens
8 = the executive and the legislature skirmish, sometimes at the expense of the popular will
6 = the executive and the legislature frequently pursue an independent agenda at the expense of the popular will
4 = the executive has a good deal of power over the legislature but cannot suspend it
2 = legislature is severely constrained in its actions and faces the threat of suspension
0 = no citizen participation

based on the following questionnaire:

1. Did the current executive achieve power through a free and fair election?

   no

2. Did the current legislature achieve power through a free and fair election?

   no

3. Is the term of office for the executive limited?

   no

4. Are the terms of office for the legislature limited?

   no

5. Can the executive dismiss or suspend the legislature? If so, has it done so?

   Yes, the executive can suspend and has suspended the legislature. The most recent case occurred in 1983/4 when the Parliament stood up to Nyerere, he dissolved it and then reconvened the same people as a "Committee of the Party" which could not offer the same resistance.

6. Does the legislature hold real authority proportional to its representation, e.g., the power to tax, legislate, and conduct inquiries and investigations?

   no, most such issues are decided by the executive

7. Is the role of the military limited to external affairs?

   The military is quite strong and is believed to have a veto over domestic political affairs.

Representation scale value 0

Trend over past three years 0

Source: see below

POLITICAL PARTIES

Indicator: Scale variable measuring the extent to which government policies promote participation in political parties:

10 = no restrictions on party formation or membership
8 = parties face some restrictions (e.g., must have a certain number of members to get onto a ballot) but operate freely

6 = opposition parties face differential restrictions, their members are occasionally harassed
4 = opposition parties face severe restrictions, their members are harassed
2 = single party state by law, some range of views expressed within party, not all government officials are members
0 = single party state by law, all government posts filled by party cadres

based on the following questionnaire:

1. Does more than one viable political party exist?

   no

2. Does the government restrict the formation of new political parties?

   yes, Tanzania is constitutionally a one-party state

3. Are there any restrictions (excluding age) on the membership of political parties?

   No, broad-based membership is encouraged

4. Do the existing political parties adhere to a primary system of electing representation?

   no, government appoints all nominees. In legislature, 75 percent of seats are contested through elections, the other 25 percent are simply appointed by government.

5. Has the government harassed or threatened any members of an opposition party?

   N/A

6. Has the government arrested or imprisoned any members of an opposition party?

   Recently, a few people distributed a pamphlet calling for a multi-party system. They were sent into internal exile

Political Parties scale value 0

Trend over past three years 0

Source: see below

DECENTRALIZATION

Indicator: Scale variable measuring the extent to which political authority is decentralized

10 = local governments have authority and resources sufficient to meet their (significant) responsibilities
8 = local governments have authority and resources sufficient to meet their limited responsibilities

6 = local governments have responsibilities but their effectiveness is limited by inadequate resources
4 = local governments have responsibilities with no authority and no resources
2 = local governments exist in form but with no functions and no authority
0 = no decentralization

based on the following questionnaire:

1. Do laws exist for regulating and scheduling regional and local elections? How effectively are they executed?

   There are regularly scheduled regional and local elections. There are lots of accusations of cheating

2. Do regional and local authorities have the power to tax and allocate funds?

   Local taxes go to the local Administrative Council, a Dar es Salaam-appointed arm of the party. They decide how to allocate. Local governments have another opportunity for funds through taxes on locally-produced goods (particularly logging)

3. Do regional and local authorities have control or influence over governmental activities in their areas, such as development projects and police?

   They try to influence outcomes; there is no formal mechanism

4. Is the government challenged by an armed insurrection?

   no

Decentralization scale value	6
Trend over past three years	0

Source: U.S. Embassy Political Officer, U.S. Ambassador, State Department Reports on Human Rights Practices in Tanzania for 1989, Economist Intelligence Unit's reports on Tanzania, local newspapers, and interview with an official in the Office of the President and several local business people. We used the Human Rights Report and the Economist Intelligence Unit for initial information concerning the political landscape. We then focused interviews in Tanzania on expanding on information in the print material (especially for decentralization, representation, freedom of association, and freedom of the press).

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INTERVIEW LIST - TANZANIA

USAID
Stepanek, Joseph - Mission Director
Rose, John - Program Officer
Schlesinger, Joe - Deputy Mission Director
Ngowi, Daniel - Assistant Economist
Benat, William - Assistant Agricultural Officer

U.S. Embassy
Dejarnette, ____ - Ambassador
Bentley, Robert - Political Officer

Agricultural Enterprising and Consulting Company, Ltd. (Agri-consult)
Kisege, Ben - Company Secretary

Bank of Tanzania
Dr. Kimea - Director of Research
Dr. Rashidi

Board of External Trade
Mwandoro, Mbaruk K. - Director General
Mr. Tawata - Director of Research
Mr. Lisso

Bureau of Statistics
Mr. Mbalilaki - Director
Mr. Kombe - Chief Statistician

Covell Mathews Partnership
Chavda, Gautam J. - Director
Noronha, Joseph I. - Director

Economic Research Bureau - University of Dar es Salaam
Bagachwa, Mboya - Labor Economist
Semboja, Joseph - economist

International Labor Organization
Mr. Gudim

Investment Promotion Center
_____ - Assistant to the Director

Lonrho Tanzania
_____ - Director

Ministry of Finance
Nkoma, J.S. - Principal Finance Management Officer

Ministry of Industry and Trade
Mtimila, M.M.S. - Director of Internal Trade
Kapya, B.J. - Director of External Trade

Mozan, Ltd.
Kaganda, Zainab L. - Managing Director

National Agricultural and Food Corporation
Shempemba, F.B.L. - Director of Planning and Operations

National Bank of Commerce
Mr. Muganjarra - Branch Manager

National Environmental Research Council
Mpendazoe, Fred - Industrial waste
_____ - Forestry

President's Office
Kigoda, Mokiwa - Assistant Director, Research and Policy
Kwayu, Eliseta - Economic Advisor to the President

Presidential Standing Committee on Parastatal Organization (SCOPO)
_____ - Director

Price Control Commission
Mr. Mongi - Commissioner of Prices

Tanzania Industrial Studies and Consulting Orgainzation (TISCO)
Kamuzora, E.L. - Director General
Msaki, J.J. - Director of Engineering

UNICEF
_____ - Manager, Annual Report

World Bank
Mans, Darius - Senior Resident Economist
Southworth, Roy - Forestry

ANNEX VI

TUNISIA TRIP REPORT

ANNEX VI

TUNISIA

SECTION I: ECONOMIC POLICY

A. COMPETITIVE MARKETS

REAL INTEREST RATE (ANE).

Indicator: Bank prime lending rate less the GDP deflator.

Rate	6.6%
Trend over past three years	+1

Indicator: Bank savings rate for demand deposits less the Consumer Price Index.

Rate	1.8%
Trend over past three years	+1

Source: Commercial lending and savings rates are fixed based on the money market rate; lending rates 3 percent higher and savings rates 2 percent lower. For money market rates, see Tunisian Central Bank, Statistiques Financieres, 9/90, Table VIII-1-A, Instruments de la politique monetaire et du credit. The money market rate was 10.375 percent in 8/90. GDP deflator and CPI estimates of the IMF were used. For the GDP deflator, the IMF forecast of 6.7 percent for 1990 was used (no 1990 IMF estimate was available). For CPI, the IMF estimate of 6.7 percent for 6/89 to 6/90 was used (which is below the 1990 IMF forecast of 7.4 percent).

FORMAL SECTOR AND INFORMAL SECTOR INTEREST RATES.

Indicator: Ratio of informal sector (open market) interest rates to formal sector (bank and official institution) interest rates. Obtain for a similar type of loan, for example, a $1,000 one year loan for a small/medium sized urban business.

Rate	(20 to 25%)/13.3
Trend over past three years	—

Source: Interviews with USAID mission economist and private sector development staff.

RESTRICTIONS IN ACCESS TO CAPITAL

Indicator: Scale variable from 0-10 measuring effects of legal restrictions on access to capital for women and for minorities:

0 = no restrictions;
2 = restrictions, but almost no effects;
4 = restrictions, light effect on access;
6 = restrictions, moderate effect on access;
8 = restrictions, severe effect on access;
10 = restrictions, prohibitive effects on access.

Scale value	5
Trend in past three years	0

Source: Interviews with mission economist and private sector development staff. It seems that the greatest restriction on lending is the interest rate ceiling which effectively blocks lending to riskier groups.

MINIMUM WAGE AND INFORMAL SECTOR UNSKILLED WAGE.

Indicator: Ratio of the minimum wage to informal sector unskilled wage.

Ratio	~1.5
Trend over past three years	–

Source: Minimum wage data were obtained from the Journal Officiel de la Republique. Estimates of informal sector wage levels were from the Institute of Finance and Development.

DISMISSAL RESTRICTIONS.

Indicator: Scale variable from 0-10 on how stringent dismissal regulations are for private sector employees?

0 = no dismissal regulations,
2 = dismissal notice only or wages in lieu of notice - dismissals occur as needed by firms,
4 = dismissal notice plus termination benefits - dismissals occur as needed by firms,
6 = dismissal only with cause - dismissals occur but are difficult for firms,
8 = dismissal only with cause plus benefits - dismissals are costly and difficult but they occur when needed by firms,
10 = prohibitive restrictions due to cause and benefits - infrequent dismissals due to high cost and/or difficulty establishing cause.

Scale value	9
Trend over past three years	+1

Source: Interviews with mission private sector development staff and Maghreb Alimentation. The former told us that it is absolutely impossible to lay off a worker. The latter let us know that it can be done, but the employer must usually pay a sizable settlement fee.

RESTRICTIONS IN ACCESS TO EMPLOYMENT

Indicator: Scale variable from 0-10 measuring effects of legal restrictions in access to employment for women and for minorities:

0 = no restrictions;
2 = restrictions, but almost no effects;
4 = restrictions, light effect on access;
6 = restrictions, moderate effect on access;
8 = restrictions, severe effect on access;
10 = restrictions, prohibitive effects on access.

Scale value	0
Trend in past three years	0

Source: Interviews with mission staff. Women could be found in all types of employment.

PRICE AND MARKETING CONTROLS.

Indicator: Percentage of total goods traded subject to price or marketing controls - value of goods controlled/total value of goods.

Percentage	manufactured goods	30%
	consumer goods	65%
Trend over past three years		±1

Source: Ministry of Economics and Finance, Prices and Economic Control Division, internal document: "Liberalisation des Regimes de Prix," 9/90.

Indicator: Average percentage difference between uncontrolled and controlled prices for major controlled goods. For numerator use absolute value of difference. For denominator use uncontrolled price. Weight by the value of trade in each good. Use border prices for uncontrolled prices.

Percentage	ag goods	11%
Trend over past three years		±1

Source: Average for major agricultural commodities based on estimates from the Ministry of Agriculture; Planning, Investment, and Agricultural Development Division.

EXCHANGE RATE DISTORTION: (LAC,AFR)

Indicator: Average ratio of market to official exchange rates for previous calendar year.

Percentage	1.23/1.25

Trend over past three years	±1

Source: USAID mission economist.

TRADE REGIME: (LAC)

Indicator: Scale variable, 10-8 if tariff rates average under 20 percent and quotas affect under 10 percent of imports, 7-4 if tariffs under 30 percent and quotas under 20 percent, 3-0 if tariffs over 30 percent and quotas over 20 percent.

Scale value	3
Trend over past three years	±1

Source: Data from the IMF Review Under Extended Arrangement, 4/90. Although there have been substantial improvements, 25 percent of import goods are still subject to quotas. The maximum tariff rate has been reduced to 41 percent, making the trade-weighted average tariff 27 percent.

TARIFF LEVELS, QUOTAS AND NON-TARIFF MEASURES:

Indicator: Trade weighted average rates including para-tariffs.

Rate	~27%
Trend over past three years	±2

Source: World Bank, Country Economic Memorandum.

B. MACRO-ECONOMIC POLICY FRAMEWORK

INFLATION

Indicator: Percentage change in GDP deflator for previous year.

	89	90
Percentage	7.4%	6.7%
Trend over past three years	±1	

Source: Data for 1990 from the IMF Review Under Extended Arrangement, 4/90. Data for 1989 from Statistiques Financieres, 9/90, Table XIX-1, Produit Interieur Brut par Branche d'Activite Economique.

DOMESTIC CREDIT GROWTH

Indicator: Net growth of domestic credit in the banking system.

Rate	9.2%
Trend over past three years	0

Source: Data from the IMF Review Under Extended Arrangement, 4/90, Table 5. Estimate for 1989.

BUDGET DEFICIT: (LAC, ANE, AND AFR)

Indicator: Fiscal deficit as percentage of GDP. Fiscal deficit defined as government expenditure less government receipts including donor assistance.

		1989
Percentage	with donor assist.	4.0%
	w/out donor assist	5.6
Trend over past three years	with donor	0
	w/out donor	-1

Source: Data from IMF, Review Under Extended Arrangement, 4/90, Table 3, Tunisia: Selected Economic and Financial Indicators

COMPOSITION OF PUBLIC SPENDING

Indicator: Shares of total public spending (investment and recurrent expenditures) going to (1) infrastructure, (2) education, (3) health, and (4) the military.

	Share 1990	Trend
Infrastructure	11.9%	___
Education	13.1%	___
Health	5.8%	___
Military	6.9%	___

Source: Journal Officiel de la Republique, annual publication of recurrent budget detail. Infrastructure figure is the sum of allocations for the Ministries of Housing and Equipment, Transport, and Communications. Rural water and irrigation are under the Ministry of Agriculture and are not included here. Allocations for military, health, and education spending are taken from the ministries of the same name.

Indicator: Allocation of spending within the infrastructure, health, and education sectors

	Share	Trend
Infrastructure investment allocated to rural areas	___	___

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Recurrent infrastructure investment allocated	___	___
to operation & maintenance	___	___
Health expenditure allocated to rural areas	___	___
Health expenditure allocated to preventative medicine	<13%	___
Education expenditure allocated to		
Primary schools,	38.1%	___
Secondary schools,	36.9%	___
Universities	25%	___
University stipends	5.6%	___
Education expenditure allocated to rural areas.	___	___

Source: It is not at all clear how valuable these data are. Part of the problem was that our visit coincided with the two weeks before the budget was to be submitted to the legislature. Also, the budget that gives breakdowns within ministries is published only in Arabic. The mission had good relations with the Director of the Human Resources Division of the Ministry of Plan (the ministry which prepares the budget). A project team member sat with some of its staff and tried to calculate the human resource data. Because the staff were pressed for time, they were not as patient as required to pull out this kind of detailed information. Because information (in Arabic) could not be confirmed by the team, we do not have much confidence in what we found. If this data were to be collected by the missions they could get an Foreign Service national to work on this. The information on infrastructure was not possible to get in the time allotted. A good deal of infrastructure investment is carried out through the national parastatals for gas and electricity and for water, the budgets for which are separate from the national budget. Recurrent budget expenditure is not centralized, rather, each ministry apparently keeps its own information. As in Tanzania, the project team could not come up with a workable method of defining "rural", so all of the expenditures to rural areas questions (except for roads) were not collected.

C. BUSINESS CLIMATE

BUSINESS ENVIRONMENT IN PRIVATE SECTOR:

Indicator: Scale variable measuring constraints to business activity:

0 = private investors operate freely
2 = some constraints on paper, but do not affect activity
4 = slight constraints
6 = moderate constraints
8 = severe constraints
10 = private sector is legally or effectively prohibited

based on the following questionnaire:

1. Are there anti-competitive regulations protecting SOEs or privileged groups? Are they enforced?

   Yes, there are enforced anti-competitive regulations. It is hard to get approval for a company that directly competes with a domestic parastatal. Some strategic sectors are closed off to private investment, e.g., electricity, oil, transport, chemicals, phosphates, and pepper.

2. Are there patent and contract laws to protect foreign products? to protect local products? Are they enforced?

   Yes, there are patent and contract laws to protect local and foreign products and they are enforced. Royalty fees are established on a case-by-case basis (1-10 percent). Foreign patents and trademarks are registered with a government office.

3. Does the government offer codified special concessions to new, large investors? Are there uncodified concessions?

   Yes, there are special concessions, particularly for companies which are targeted 100 percent for exports (in which case investors receive concessions much like those in a FTZ). Even if sell up to 20 percent of output on domestic market, can benefit from concessions with just a minor tax requirement.

4. What is rough order of magnitude for costs in time and money of compliance to business licensing requirements without making payoffs?

   Something between 7 days and 3 months. Seven days is the minimum for a simple investment with all of the required paper work at hand. Time for approval depends to a large extent on which ministry approval must go through. Time is much less than just a year or two ago.

5. How many days for a business to obtain a telephone?

   Tunis has no more phone lines. If locate in one of the new industrial zones, it may be possible to get one in just a week but the wait can easily take a year or more.

6. What are the major import/export regulations? What is rough order of magnitude for costs in time and money in compliance without making payoffs?

   Quotas are still important but most industrial goods come in freely. Exports are arranged easily

7. What is rough order of magnitude for customs delays?

   Customs itself rarely takes more than a week. There can be longer delays in things like unloading of shipments (port operations)

8. Is corruption a significant hindrance to economic efficiency?

no

Scale value **5**

Trend over past three years **±1**

Source: As in Tanzania, this information reflects interviews with a number of people. At the mission, Richard Rousseau and Rachid Nafti of the Private Sector Division provided insights. The embassy commercial and economic officers were helpful as were representatives of Tunisia's private sector from Citibank, the Tunisian-American Chamber of Commerce, Maghreb Alimentation, and Comete Engineering.

INTERNATIONAL CAPITAL AND LABOR RESTRICTIONS:

Indicator: Scale variable measuring restrictions for international capital and labor:

0 = no restrictions on foreign investment and workers
2 = some restrictions but do not affect activity
4 = slight restrictions
6 = moderate restrictions
8 = severe restrictions
10 = foreign investment and workers are legally or effectively prohibited

based on the following questionnaire:

1. Are there local hiring requirements?

   no

2. Are there local content requirements?

   no

3. Are there agreements on expatriate employment?

   Companies can bring in 4 expatriates without going through formalities. After that, must be able to prove that a job could not be done by a Tunisian to get work permit.

4. Are there capital and profit repatriation restrictions?

   Export-oriented foreign firms are allowed to repatriate all of their capital and any income from that capital.

5. Are there __ minimum __ maximum limits on level of foreign ownership?

   No

6. Can foreign investors own __urban __rural land?

Are not permitted to own farm land but can lease it for 40 years.

7. Is there legal protection from expropriation? Does the country belong to MIGA? OPIC?

   Yes, there is protection from expropriation and the country belongs to MIGA and OPIC. The Tunisian record is very good on this score.

8. Is foreign exchange allocated? Are mechanisms in place to assure foreign exchange availability?

   A Tunisian export firm is permitted to retain only a share of export earnings. Foreign firms have full access to foreign exchange

9. Is there a investment promotion association?

   Yes, it is considered to be inefficient and an obstacle to investors.

Scale value	**7**
Trend over past three years	**+1**

Source: same as for Business Environment in Private Sector, above.

EXPORT INNOVATION:

Indicator: Growth in non-traditional exports. Non-traditional exports are those that each accounted for less than 1 percent of exports five years ago. After selecting the exports, measure their share of exports today. Subtract the summed share five years ago from the summed share today.

Percentage	**161.3%**
Trend over past three years	**+1**

Source: "Annuaire Statistique de la Tunisie, 1985" and "Rapport Annuel", Banque Centrale de Tunisie, 1989. As in Tanzania. calculated by identifying exports that accounted for more than 1 percent of total exports in 1985 and subtracting out the residual value. Then taking those same exports in 1989 (whether or not they were still worth more than 1 percent) and again subtracting out the residual. The residual was deflated to 1985 dinars and the percentage increase was then calculated.

D. HUMAN CAPITAL DEVELOPMENT

PRIMARY EDUCATION:

Indicator: Elementary school net enrollment rates:

	Rates		Trend
Total	88.2		___
Urban - Rural	100.5	73.6	___
Male - Female.	93.9	82.3	___

Source: Data for 1989, taken from Ministry of Plan, "Statistiques de l'Enseignement Primaire,", 1989/90.

BASIC HEALTH CARE:

Indicator: Percentage of one-year olds immunized against 4 major childhood diseases.

Percentage	88%
Trend over past three years	___

Source: UNDP, Human Development Indicators, 1990. 1988 data.

Indicator: Children under 5 mortality rate (per 1,000 live births).

Rate	83
Trend over past three years	___

Source: UNDP, Human Development Indicators, 1990. 1988 data.

E. ENVIRONMENTAL MANAGEMENT

FORESTRY/SOIL MANAGEMENT

Indicator: Scale variable measuring the effectiveness of government forestry and soil management policies to enhance environmental/natural resources management

- 0 = policies fully support efficient environmental management; effective institutional framework
- 2 = policies support sustainable forestry and soil management practices, some policies may have unintended negative consequences, effective institutional framework
- 4 = there are policy failures which contribute slightly to environmental degradation, institutional framework is adequate
- 6 = there are numerous forestry and soil management policy failures which result in regionally specific environmental damage, institutional framework is adequate

8 = there are forestry and soil management policy failures resulting in widespread environmental damage, institutions exist but are ineffective

10 = forestry or soil management policies or the lack thereof are causing extensive and irreparable environmental damage; institutions do not exist or are entirely ineffective

based on the following questionnaire:

1. Do government policies to encourage or promote forestry -- investment incentives or tax policies -- take into account the scarcity value of forest resources?

   Logging is not a major industry in Tunisia but there are valuable stands of cork oak, licensing fees for which are undervalued

2. Does the government extension office have a soil conservation program? How effective is program?

   There are regional government-sponsored programs in soil conservation which focus on things such as minimum tillage, vegetative barriers, etc. The recent Environmental Action Plan calls for strengthening these programs.

3. Are energy prices subsidized?

   no

4. Does the government encourage or promote reforestation? How effective is program?

   government distributes free seedlings but replanting is insufficient

5. Does the government require environmental impact assessments of public or donor forestry or agriculture projects? Does it require environmental impact analyses for private investments in forestry or agriculture?

   no

6. Is there a national park system? How effective is protection?

   There is a national park system but protection is poor. Environmental Action Plan will try to strengthen

Scale value 6

Trend over past three years +1

Source: see below

WATER AND SEWERAGE

Indicator: Scale variable measuring the effectiveness of government water and sewerage management policies to enhance environmental/natural resources management

0 = policies fully support efficient environmental management; effective institutional framework
2 = policies support efficient water and sewerage management, some policies may have unintended negative consequences, effective institutional framework
4 = there are policy failures which contribute slightly to overuse and abuse of water resources, institutional framework is adequate
6 = there are numerous water and sewerage policy failures which result in regionally specific overuse and abuse of water resources, institutional framework is adequate
8 = there are numerous water and sewerage policy failures resulting in widespread overuse and abuse of water resources, institutions exist but are ineffective
10 = water and sewerage policies or the lack thereof are causing extensive and irreparable damage to water resources; institutions do not exist or are entirely ineffective

based on the following questionnaire:

1. Is there a fee for utility-supplied water? If so, is it priced according to marginal cost pricing principles?

   There is a fee, but it is substantially below marginal costs; a particularly damaging situation in a country that faces severe water shortages

2. Is there a fee for water from the major irrigated water systems? If so is it priced according to marginal cost pricing principles?

   There is currently a fee and are raising it (up 9 percent in real terms this year). Hope to have full price recovery by 1991-92.

3. Does the government finance waste treatment facilities? Are there incentives for private investment?

   yes, through ONAS, the government sewerage parastatal. There are no private sector incentives. Industries are "required" to install them, some do.

4. Does the government require environmental impact assessments of public or donor irrigation projects? Does it require environmental impact analyses for private investments?

   No, but donors do

5. Are chemical pesticides or fertilizers subsidized?

   slightly. Subsidy levels have been sharply reduced in recent years, are due to fall further.

6. Does the government promote establishment of commercial fisheries?

   N/A

7. Do large-scale fishing businesses require a license? Has the government established sustainable harvest sizes? Does it regulate the catch?

Yes, must be licensed for large-scale fishing and yes have some idea of what are sustainable yields. Government recently closed a major spawning ground to fishing. Tendency to over harvest in south. Stocks in North are quite strong

Scale value 8

Trend over past three years +1

Source: see below

AIR QUALITY

Indicator: Scale variable measuring the effectiveness of government air quality standards to enhance environmental/natural resources management

- 0 = standards are implemented and fully support efficient environmental management; effective institutional framework
- 2 = policies support acceptable air quality levels, some policies may have unintended negative consequences, effective institutional framework
- 4 = there are implementation failures which contribute slightly to environmental degradation, institutional framework is adequate
- 6 = there are numerous implementation failures which result in regionally specific environmental damage, institutional framework is adequate
- 8 = there are numerous implementation failures resulting in widespread environmental damage, institutions exist but are ineffective
- 10 = air quality standards or the lack thereof are causing extensive and irreparable environmental damage; institutions do not exist or are entirely ineffective

based on the following questionnaire:

1. Does the government have emissions standards for industry? vehicles? Are they enforced?

   no standards

2. Are there emission charges for industry? vehicles? Are they collected?

   no charges

Scale value 10

Trend over past three years 0

Source: see below

LAND TENURE

Indicator: Scale variable measuring the effectiveness of government land tenure policies to enhance environmental/natural resources management

0 = policies fully support efficient environmental management; effective institutional framework
2 = policies support efficient tenure arrangements, some policies may have unintended negative consequences, effective institutional framework
4 = there are policy failures which contribute slightly to environmental degradation, institutional framework is adequate
6 = there are numerous tenure policy failures which result in regionally specific environmental damage, institutional framework is adequate
8 = there are numerous tenure policy failures resulting in widespread environmental damage, institutions exist but are ineffective
10 = tenure policies or the lack thereof are causing extensive and irreparable environmental damage; institutions do not exist or are entirely ineffective

based on the following questionnaire:

1. Are traditional tenure arrangements fairly secure or are population pressures and migration threatening their viability? If traditional tenure arrangements are losing or have lost their effectiveness has their been significant progress in assigning land titles in rural areas?

   Currently, 62 percent of arable land is titled. Titling is moving forward very slowly. There is increasing fragmentation of untitled land

2. Is forested land with regional or national externalities, e.g., major watersheds or nature reserves, titled?

   Land with important externalities may be owned by private sector

3. What percentage of rural land is titled? What percentage was titled last year?

   No information was available, but titling is considered to be proceding slowly.

Scale value	5
Trend over past three years	0

Source: see below

ENVIRONMENTAL EDUCATION

Indicator: Scale variable measuring the effectiveness of government environmental education policies to enhance environmental/natural resources management

0 = policies fully support efficient environmental management; effective institutional framework
2 = policies support widespread and effective environmental education, effective institutional framework
4 = there are policy failures which limit effectiveness of educational program but program is basically good, institutional framework is adequate

6 = program exists but is patchy in its coverage, institutional framework is adequate
8 = program exists, but majority of rural residents are not exposed to it, institutions exist but are ineffective
10 = program does not exist or is entirely ineffective; institutions do not exist or are entirely ineffective

based on the following questionnaire:

1. Is there a nationwide program to educate the public on the value of environmental management and protection? What subjects does it cover? Is coverage nationwide? Does program target adults or children or both?

   there is currently no program but one should be introduced under the Environmental Action Plan

2. Does the national university have programs in the environmental sciences?

   There are programs in regional universities

Scale value	**2**
Trend over past three years	**+1**

Source: same sources were used for all environmental questions. Initial orientation (and the text of the Environmental Action Plan) was provided by Peter Delp, the mission's environmental officer. Additional information on land tenure, soil conservation, and forestry was provided by Salah Mahjoub, FSN Agricultural Assistant. Information on urban environmental issues (water/air) was provided by Doug Heisler and Fethi Kraiem of RHUDO and Roger Bismuth of Maghreb Alimentation.

SECTION II: POLITICAL POLICY

A. PROTECTION OF CIVIL AND POLITICAL RIGHTS

INDEPENDENT JUDICIARY

Indicator: Scale variable measuring extent to which government policies promote independence of the judiciary

10 = independent and effective judiciary
8 = isolated cases of judicial malfeasance but system is generally strong
6 = system is well-designed and independent of outside influence but effectiveness is limited by lack of resources, lack of regard for civil rights
4 = system is poorly designed and subject to abuse
2 = judiciary is highly vulnerable to political interventions and generally arbitrary in its treatment

0 = judiciary is an instrument of the state

based on the following questionnaire:

1. Do adequate laws and processes exist for judicial selection? How effectively are they executed?

   Judges are not the best and the brightest; they start as low level civil servants named, assigned, and tenured by the government. They can work their way up through the civil service ranks

2. Have judges been removed from office by any means other than an election or conclusion of tenure?

   No, judges are more likely to be transferred to isolated desert posts

3. Does the government provide the accused with access to legal counsel?

   No access to counsel prior to arraignment. Counsel present during arraignment. Legal assistance provided to indigent.

4. What is the average length of time between arrest and charge? between arrest and trial? Is the government detaining any citizens without charging them with a crime?

   Legally are required to charge someone w/in 4-10 days of arrest. This fairly generous amount of time allowed police to detain political opponents for 2-3 days w/out charge. Must be tried w/in 6 months of arrest. In cases of a felony, a judge can have the 6 month limit extended to up to 1 1/2 years

5. Do the accused have the right to a jury trial?

   no, magistrates justice

6. Do the accused have the right to appeal?

   In a civil court, yes, but not in a military tribunal. There are instances of non-military cases being referred to tribunal

7. Are trials and/or their proceedings open to the public?

   yes

8. Does the government treatment of prisoners meet minimum international standards?

   No, torture has always been a problem and in 1990 it has increased. There have been an average of 4 reported incidents per week in 1990.

9. Do police undergo training in legal rights and in how to obtain evidence?

   Yes, but training in rural areas is less demanding

10. Is corruption a significant hindrance to the equitable enforcement of national laws?

    no

Independent Judiciary scale value	**5**
Trend over past three years	**-1**

Source: see below

LEGAL CODE

Indicator: Scale variable measuring extent to which government policies promote codification of legal rights:

10 = legal code is comprehensive and equitable in its treatment of all groups
8 = legal code is comprehensive and equitable in its treatment of all groups, some serious lapses in implementation
6 = legal code is comprehensive but discriminates against certain groups, some serious lapses in implementation
4 = legal code guarantees some freedoms but discriminates against certain groups, some serious lapses in implementation
2 = legal code guarantees some freedoms but discriminates against certain groups, poor implementation affects all
0 = no legal guarantees

based on the following questionnaire:

1. Do national laws ensure that the following freedoms exist:
   freedom of speech?
   No, a professor was recently sentenced to a year in jail for defaming the President
   freedom of peaceable assembly?
   In Constitution, yes. But, need a permit and only legally registered groups c get a permit
   freedom of religion?
   Yes, but there is a state religion
   freedom from unwarranted search and seizure?
   Legally, searches require a warrant, arrests don't

2. Is there parity in national laws in their treatment of men and women, especially in matters of divorce, inheritance, and property rights?

   For the most part there is legal parity. An exception is that daughters inherit a smaller share than sons

3. Is there parity in the national laws in their treatment of ethnic and religious minorities, especially in matters of property rights and choice of residence? Do the national laws protect the rights of minorities?

   yes, government has defended Jews against persecution

4. Does the legal system contain mechanisms of conflict resolution, including mediation, conciliation, and arbitration?

   Yes

Legal Code scale variable	**3**
Trend over past three years	**0**

Source: see below

B. FREEDOM OF INFORMATION

Indicator: Scale variable measuring the extent to which government polices promote freedom of information

10 = all groups have free access to information
8 = all media are allowed to operate, but certain providers receive preferential treatment
6 = licensing and production are difficult but all media are permitted to enter, government has own media outlets
4 = government controls majority of media outlets, permits some independent media to operate
2 = government controls all domestic media, but allows international media to enter subject to censorship
0 = government controls all media

based on the following questionnaire:

1. Print, television, and radio media: How many are independent? How many are government-owned? Does government media publish authentic opposition viewpoints?

   Print: there are more independent media than state-owned but they face constant financial problems and have small readerships. State-owned print media do no publish opposition viewpoints
   TV: there is one state station with a wide viewership. It does not broadcast opposition viewpoints. During recent elections, opposition members were not allowed access, handicapping them significantly. European stations can be picked up. France's Antenne 2 has a formal broadcast agreement with Tunisia but its hours of broadcasting have been reduced, reportedly to limit hours of news coverage.

Radio: Local station is state-owned. It did allow opposition members to speak prior to the 4/89 elections. Can pick up foreign stations

2. Must publishers be licensed? Must journalists be licensed? Has the government suspended or revoked any licenses?

   publishers must be licensed, it's not clear whether journalists must be also. Yes, the government has the right to suspend licenses at any time. The most recent instance occurred when an opposition party paper was suspended for 3 months and its publisher put in jail

3. Is independent media subject to government censorship?

   Yes. All publications must pass through the Ministries of Information, the Interior, and Justice for approval. The right to censor is exercised

4. Are other published materials (academic, literary) subject to government censorship?

   Yes, a professor who published an article critical of the government was recently sentenced to 3 years

5. Do citizens have access to international media uncensored by the government?

   By and large it is uncontrolled and uncontrollable. There is the instance of the Antenne 2 cutbacks

6. Has the government harassed or threatened journalists for their activities?

   yes

7. Has the government arrested or imprisoned journalists for their activities?

   yes, see 2 above.

Freedom of information scale value	**2**
Trend over past three years	**+1**

Source: see below

C. FREEDOM OF ASSOCIATION AND ACTIVITY

PROFESSIONAL ORGANIZATIONS

Indicator: Scale variable measuring degree to which government policies promote formation and activities of independent professional associations

10 = no restrictions on formation and activities
8 = government regulates professional organizations, but does not intervene in their operations or harass their members
6 = government has right to close a professional organization which is seen as a threat, but otherwise does not intervene. Occasional harassment of members
4 = professional organizations are closely monitored by government. Government may intervene if activities seen as a threat. Harassment of members is common.
2 = professional organizations are few, entirely under state control, and do not reflect desires of their members
0 = professional organizations are banned, sponsors are subject to arrest

based on the following questionnaire:

1. Are there any government restrictions on forming or participating in labor unions, professional associations, student groups, non-governmental organizations, religious groups, or other voluntary organizations?

   Government must authorize associations. There are currently roughly 6,000 registered groups. An estimated 20 percent of workforce is unionized. The union umbrella group is the General Union of Tunisian Workers (UGTT). Although there were crackdowns on the UGTT's activities in 1985, the Union elected independent and strong leadership in 1989. Major strikes are unlikely because all affected member UGTT unions, not just the members in the enterprise to be struck, must approve the strike in advance. Wild-cat strikes do occur frequently and are not interfered with by the government.

2. Has the government harassed or threatened members of labor unions, professional associations, student groups, non-governmental organizations, religious groups, or other voluntary organizations for their respective activities?

   There is legal protection of workers for union activity. Members can appeal to Ministry of Social Affairs if fired or discriminated against.

3. Has the government arrested or imprisoned members of labor unions, professional associations, student groups, non-governmental organizations, religious groups, or other voluntary organizations for their respective activities?

   N/A

4. Has the government outlawed any associations, unions, or organizations?

   No. Government has allowed a Human Rights League to operate as well as the recently approved Democratic Women's Association

5. Has the government closed any universities?

   No. The government generally permits rallies and open criticism on campus. Government does monitor demonstrations and there have been some arrests.

Professional Organizations scale value 6

Trend over past three years **±1**

Source: see below

INDIVIDUAL ACTIVITY

Indicator: Scale variable measuring degree to which government policies promote freedom of individual activity, including religion, travel, and association:

10 = no restrictions on individual activity
8 = some regulation but not enough to affect activity
6 = individual activity inhibited in some significant manner, but overall situation is free
4 = individual activity inhibited in a number of areas, overall situation can be characterized as one of limited individual freedom
2 = government policies suppress most individual freedoms and individuals fear the government, but some freedoms may still be allowed
0 = individual freedoms are entirely suppressed

based on the following questionnaire:

1. Does the government restrict the travel of its citizens within the country?

   There are no restrictions but all citizens are required to carry an identity card. There are roadblocks to check for identity cards, some complain of being arbitrarily stopped and harassed. Islamists report monitoring of their movements within the country

2. Does the government restrict the travel of its citizens outside of the country?

   The Human Rights League has filed more than 100 cases with the Interior Ministry protesting suspension of passports

3. Does the government restrict citizens from meeting or associating freely among themselves or with foreigners?

   There is harassment of Islamists for meeting together.

4. Does the government restrict citizens from freely speaking ethnic languages?

   no

5. Does the government restrict the practice of any religion or harass members of any religion?

   Islam is the state religion. Other religions are free to worship, but proselytizing is illegal (the Ba'hais have been barred). Jews are the largest religious minority. They are protected by the government, but nevertheless, most have chosen to leave

6. Does the government restrict the free settlement of citizens (excluding national parks or other infeasible areas)? Has the government conducted any forced population transfers, expulsions, or resettlements?

   no

   Individual Activity scale value 6

   Trend over past three years 0

Source: see below

D. PARTICIPATION IN GOVERNMENT

ELECTIONS

Indicator: Scale variable measuring extent to which government policies promote free and fair elections:

10 = government policy and implementation fully support free and fair elections
8 = government policies fully support free and fair elections; but there are significant irregularities in implementation (e.g., vote mishandling, biased registration);
6 = there are policies which limit the potential for free and fair elections (e.g., denial of the vote to women or minorities) or implementation is poor (e.g., shortage of polling places, lack of campaign funds or media access for opposition)
4 = policies and implementation result in the government controlling the outcome of the vote, but campaign does serve as a forum for discussing important issues;
2 = elections are held, but are meaningless
0 = no elections

based on the following questionnaire:

1. Do laws exist for regulating and scheduling national elections? How effectively are they executed?

   yes, but there are charges of government interference in the electoral process

2. Is there universal adult suffrage?

   yes

3. Does the government have an effective system for registering voters?

   In 1989 elections, roughly 1/3 of eligible voters were not electoral roles. Part of the problem is that there is little or no advance notification of registration drives and drives only last for a few days. Voting cards are issued after registration, in 1989, many in the opposition reported that they did not receive their voting cards until after the election.

4. Are all adult citizens eligible for public office?

   Yes. The only exception is the President who must be the child and the grandchild of Muslims

5. Are the majority of elections contested?

   Opposition parties have boycotted the most recent elections (national, municipal, and legislative).

6. Are all candidates afforded equal campaign opportunities?

   No, opposition candidates do not have access to government-owned media which are very influential (especially TV). This ban was the major reason for the opposition parties' boycotts of the elections

7. Are ballots cast privately?

   They are cast privately, but prior to casting must pick up color-coded ballots from public tables staffed by local ruling party members. In principal could pick up one of each ballot but there is definitely pressure to choose only the ruling party's ballot.

8. Do citizens have reasonable access to voting?

   yes

9. If an election was held, was power transferred? Was it transferred to another party? Was it transferred in a timely and peaceful manner?

   national power was not transferred. There was some turnover at the local levels (one municipal government is controlled by the opposition)

Elections scale value	**4**
Trend over past three years	**0**

Source: see below

REPRESENTATION

Indicator: Scale variable measuring extent to which government policies promote representation in government:

10 = elected government represents citizens
8 = the executive and the legislature skirmish, sometimes at the expense of the popular will
6 = the executive and the legislature frequently pursue an independent agenda at the expense of the popular will
4 = the executive has a good deal of power over the legislature but cannot suspend it

2 = legislature is severely constrained in its actions and faces the threat of suspension
0 = no citizen participation

based on the following questionnaire:

1. Did the current executive achieve power through a free and fair election?

   no

2. Did the current legislature achieve power through a free and fair election?

   No, opposition parties boycotted the legislative elections. Legislative elections are by party slate rather than by individual. A party must get 5 percent of the national vote to earn a seat.

3. Is the term of office for the executive limited?

   yes. Limit is three five year terms

4. Are the terms of office for the legislature limited?

   no

5. Can the executive dismiss or suspend the legislature? If so, has it done so?

   There have been no such suspensions. It is unclear whether the executive could do so if so chose. The legislature is not just a rubber-stamp. There are numerous examples of it altering legislation submitted by the executive.

6. Does the legislature hold real authority proportional to its representation, e.g., the power to tax, legislate, and conduct inquiries and investigations?

   no, most such issues are decided by the executive. Legislature can alter bills though.

7. Is the role of the military limited to external affairs?

   Yes

Representation scale value	4
Trend over past three years	0

Source: see below

POLITICAL PARTIES

Indicator: Scale variable measuring the extent to which government policies promote participation in political parties:

10 = no restrictions on party formation or membership
8 = parties face some restrictions (e.g., must have a certain number of members to get onto a ballot) but operate freely
6 = opposition parties face differential restrictions, their members are occasionally harassed
4 = opposition parties face severe restrictions, their members are harassed
2 = single party state by law, some range of views expressed within party, not all government officials are members
0 = single party state by law, all government posts filled by party cadres

based on the following questionnaire:

1. Does more than one viable political party exist?

   Yes, at the end of 1989 there were 7 authorized parties and 15 others which had applied for authorization. BUT, the major opposition party, an Islamist party which it is thought would have garnered roughly 18 percent of the vote in recent elections if it had been permitted to participate, has been barred due to a law prohibiting parties which claim to represent a religion, race, sex, or region. Parties also are not allowed to receive funds from overseas and it is suspected that the Islamist party is receiving such funds.

2. Does the government restrict the formation of new political parties?

   yes, see above

3. Are there any restrictions (excluding age) on the membership of political parties?

   no

4. Do the existing political parties adhere to a primary system of electing representation?

   no, the ruling party (RCD) operates by having local officials nominate candidates. Nominees are passed up the ranks. Central Party ultimately approves all nominees

5. Has the government harassed or threatened any members of an opposition party?

   Yes, most harassment is suffered by members of the unauthorized Islamist party. They report surveillance, job loss, telephone taps, etc.

6. Has the government arrested or imprisoned any members of an opposition party?

   After local elections in 1989, some opposition members were arrested. Political prisoners held since a coup attempt in 1986 were released in 1989. There are currently no known political prisoners.

Political Parties scale value 3

Trend over past three years 0

Source: see below

DECENTRALIZATION

Indicator: Scale variable measuring the extent to which political authority is decentralized

10 = local governments have authority and resources sufficient to meet their (significant) responsibilities
8 = local governments have authority and resources sufficient to meet their limited responsibilities
6 = local governments have responsibilities but their effectiveness is limited by inadequate resources
4 = local governments have responsibilities with no authority and no resources
2 = local governments exist in form but with no functions and no authority
0 = no decentralization

based on the following questionnaire:

1. Do laws exist for regulating and scheduling regional and local elections? How effectively are they executed?

   Governors are appointed. Municipal leaders are elected. Municipal elections seem to be well-regulated. An opposition party slate was recently elected in one such election

2. Do regional and local authorities have the power to tax and allocate funds?

   Yes, they have some such powers, but the majority of their budgets come from the central government. Smaller municipalities (all besides the largest 50-60) use a property tax to finance water, sewerage, and local secondary roads

3. Do regional and local authorities have control or influence over governmental activities in their areas, such as development projects and police?

   they have influence

4. Is the government challenged by an armed insurrection?

   no

Decentralization scale value	7
Trend over past three years	0

Source: A good deal of the political questions were answered before we even arrived on site. By drawing on the Tunisia report of the State Department's Country Reports on Human Rights Practices for 1989 and the most recent editions of the Economist Intelligence Unit's reports on Tunisia, we were able to get a rough idea of the political landscape. Our in-country data were collected from the Embassy Political Officer and her assistant. Our interviews with State Department officials focused on those issues which were not well addressed in the print material: decentralization, representation, freedom of association, and freedom of the press. Our goal was

more to fill in discrete information gaps than to gain an exhaustive understanding of the Tunisian political system in the theory that our questionnaire covered a sufficient range of issues that simply filling it in would yield an informative review. Additional information was garnered by reading between the lines of the French language party paper and speaking informally with Tunisian friends.

INTERVIEW LIST - TUNISIA

USAID
Rucker, Robert - Mission economist (Program Office)
Abassi, Mohamed - Program Office
Pelletreau, Pamela - Program Office
Pryor, Shirley - Agribusiness Office
Mahjoub, Salah - Agribusiness Office
Rousseau, Richard - Private Sector Division
Nafti, Rachid - Private Sector Division
Delp, Peter - Environmental Officer
Rassas, Cheri - APIP
Smith, Lane - RHUDO
Heisler, Douglas - RHUDO
Kraiem, Fethi - RHUDO

US Embassy
Mann, Jeanine - Political Officer
Kelly, Joann - Political Office
Glass, Robert - Economic Officer
Dribble, Elizabeth - Commercial Attache
Debedisco, C.A. - Commercial Office

Central Bank of Tunisia
Alewa, M. - library
El Hallah, M. - price controls

Citibank
Lalonde, Bradley - Manager

Comete Engineering
Meddeb, Rahdi

Institute of Finance and Development
Ferchiou, Ridha

Institute of Quantitative Economics
El Bessi, M.

Institut Superieur de Gestion
Redjeb, Mohamed Salah

Maghreb Alimentation
Bismuth, Roger - Director General

Ministry of Agriculture
Ben Amar, Badr - Deputy Director of Planning, Investment, and Agricultural Development

Ministry of Economics and Finance
Maklouf, Saladin - Director of Prices and Economic Control
Ben Frej, Mohamed
Tekaya, Racbid

Ministry of Plan
Kefi, Faiza - Director of Direction Generale des Ressources Humaines
Youzbachi, Moncef - Sous-Directeur for education
Beckay, Mlle - Sous-Directeur for health
Abdessatar, Hadj Tarieb - Directeur, Direction General (infrastructure invt)

National Institute of Statistics

Tunisian-American Chamber of Commerce
Barouni, M. Moncef - Chairman

ANNEX VII

GUATEMALA TRIP REPORT

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ANNEX VII

GUATEMALA TRIP REPORT

After a couple of postponements, the project field test in Guatemala was successfully conducted over the week of February 19-26, 1991. DAI project team member Ann McDermott conducted the test, assisted for a few days by local consultant, Edna de Bronson.

The same technical approach was used for this field test as was used in the earlier visits to Tanzania and Tunisia. The questionnaire used in Guatemala was somewhat modified from the earlier tests, reflecting both input from the project Steering Committee and the consultants' findings in the earlier pilot visits.

On the morning of the 19th, McDermott briefed mission economist David Hoelscher, the project control officer on the project. Hoelscher has been a critic of the existing LAC Bureau policy performance measures, arguing that they need a more coherent intellectual framework and may offer a "spurious specificity". He was supprtive of the motivation for the PPC/EA effort but seemed to feel that AID/Washington was still pursuing an unfruitful avenue. After discussing our project's findings to date, the briefing focused on identifying key contacts and data sources. Hoelscher maintains an excellent data base of economic data, thus McDermott was able to simply list most of her economic data needs and Hoelscher retrieved them over the course of the next few days. His primary sources are the Central Bank of Guatemala and the Ministry of Finance for monetary data and the Ministry of Economics for fiscal data. His sources are a mixture of bound material (also collected by the consultant and cited in the text) and weekly bulletins on such indicators as interest rates. This data base made the collection task of the DAI consultant much easier. Sources listed in the attached completed questionnaire as "mission data" refer to this data base.

Hoelscher also helped set up intitial appointments with other USAID personnel. As a result, interviews began that same day. The first two days of the visit were spent in culling through USAID documents, interviewing key personnel, and identifying other good sources of information outside of the mission. People to interview outside of USAID were identified through DAI contacts, mission contacts, and subsequent word of mouth. A list of interviews is at the end of this annex. McDermott's previous experience field testing of the questionnaire allowed her to accomplish her mission in one week. In her pre-departure debriefing of Hoelscher, she presented him with the completed questionnaire and urged him to contact LAC Bureau with comments.

Outcomes

In spite of no prior knowledge of the country, a significant language barrier, and no computer, the consultant had no difficulty collecting the information in the question within one week. Part of the credit should go to prior experience collecting this information. Also, the revised questionnaire is shorter and simpler than earlier versions.

The most difficult data to obtain were the data on informal sector prices. These questions were repeated over and over but noone was found who could offer authentic-sounding insights to the informal sector. The information collected is probably biased; all of the private sector interviews were with people

who were not convinced there was unemployment and were sure that people outside of the formal system were profitting from that position. Their statements flew in the face of reason and visual evidence, but the consultant's dependence on an upper middle class translator effectively prevented her from speaking with street vendors and taxi drivers for at least an anecdotal exploration of the informal sector.

Indicator-Specific Data

Indicator-specific information is in the completed questionnaire that follows.

GUATEMALA

SECTION I: ECONOMIC POLICY

A. COMPETITIVE MARKETS

REAL INTEREST RATE (ANE).

Indicator: Current bank prime lending rate and current bank savings rate minus current estimated annual percentage change in the GDP deflator.

Lending rate	21.2% - 39.9% =	-18.7%
Savings rate	13.6% - 39.9% =	-26.3%
Trend over past three years		-1

Source: mission data. Values were calculated by averaging lending rates and savings rates for December 1989, March, June, September, and December 1990. Rates used were the lowest in the ranges given as "lending rates" and "savings rates". These ranges usually spanned roughly six percentage points. The lowest rates in the range were considered [illegible] best proxies for preferred lending rates and small saver savings rates. Interest rates were [illegible]ly liberalized in August 1990. Commercial banks, thus, had the opportunity to adjust their [illegible] for inflation, but chose not to.

FORMAL SECTOR AND INFORMAL SECTOR INTEREST RATES.

Indicator: Ratio of informal sector (open market) interest rates to formal sector (bank and official institution) interest rates. Obtain for a similar type of loan, for example, a $1,000 one year loan for a small/medium sized urban business.

Ratio	~60 / 21.2
Trend over past three years	+1

Source: Interviews with Tsuji, Lamport, Monroy, and Santa Cruz. World Bank, "Guatemala: Financial Sector Report", July 1990. Most people interviewed did not think that a small business would resort to a moneylender. Credit is tight in Guatemala but apparently, with persistence, small start-up loans can be obtained from the commercial banks. Families are also frequently called upon for start-up loans. Moneylenders usually charge 5 percent or more per month (most people said 5 percent was the usual rate but with inflation running at 40 percent last year the rate might well have been adjusted). There are also "non-regulated financial intermediaries" which provide credit for consumer durables as well as credit cards, money market funds, and other financial services. Their rates are generally about 3 percent per month. It was not clear whether these monthly rates are compounded.

PRIVATE FINANCIAL INSTITUTIONS

Indicator: Assets of private formal sector financial institutions (banks, thrift institutions, and insurance companies) as a percentage of total formal financial sector assets.

	3/90
Percentage	87.9%
Trend over past three years	0

Source: Superintendencia de Bancos, "Boletin de Estadisticas Bancarias", first quarter 1990, Tables 4 and 23. For this calculation, the assets of CORFINA, a large state-owned finance company, were not included because CORFINA has been insolvent for a number of years and is currently under intervention. If its assets are included as part if the financial sector, the private sector share of assets falls to 76.3 percent.

PRIVATE SECTOR BORROWING

Indicator: Private sector share of new borrowing in most recent year.

Share	97%
Trend over past three years	+1

Source: Banco de Guatemala, "Evaluacion de la Actividad Economica durante 1990 y Perspectivas para 1991", Appendix Table 22.

MINIMUM WAGE AND INFORMAL SECTOR UNSKILLED WAGE.

Indicator: Ratio of the minimum wage to informal sector unskilled wage.

Ratio	Q5 to Q40 / Q10
Trend over past three years	+1

Source: Interviews with Kreiger, Lack, Monroy, Santa Cruz, Lamport, and Lamberti. In November 1990, the minimum wage was doubled to Q10 (roughly $2) per day. To this minimum wage, employers incur an additional 32 percent in taxes and fees (a "13th month", vacation pay, an indemnity, and social security payments). It was impossible to come to any conclusion on the comparative performance of wages for informal sector unskilled labor. Unskilled construction labor, petty traders, and artisans, for example, may earn less than the minimum wage. On the other hand, several sources reported a significant shortage of unskilled labor in the highlands. Maquillas, which provide on-the-job training, are reportedly sending out buses to round up workers. Starting salaries in most maquillas are now in the Q15-20 range. Unregulated hired agricultural workers in the highlands reportedly earn above the minimum wage. Daily wages in the lowland sugar plantations reportedly rose to Q42 per day during the most recent harvest.

LABOR MARKET FLEXIBILITY.

Indicator: Scale variable from 0-10 measuring fairness and ease of hiring and firing pivate sector employees.

10 = all formal sector employees have comprehensive, explicit, and fair employment rights which still leave employers able to hire and fire as needed;
8 = most formal sector employees have explicit and fair rights, employers can hire and fire as needed;
6 = employee rights are explicit but put a significant burden on employers in terms of increasing the costs of hiring and firing;
4 = employee rights are explicit but put an excessive burden on employers in terms of increased costs of hiring and firing;
2 = there are prohibitive restrictions on hiring and firing, which, as a result, occur only infrequently.
0 = labor is effectively a fixed cost to employers

Scale value 7

Trend over past three years 0

Source: Interviews with Lamport, Krieger, Lamberti, and Monroy. For every year an employee works, he or she is entitled to a one month indemnity payment if fired (in 1991, this indemnity has been doubled to two months per year). Indemnity payments are enforced. Employers have been taken to court and successfully prosecuted for non-payment. It becomes prohibitively expensive to lay off a long-time employee for economic reasons -- malfeasance or poor performance, if substantiated, are perfectly adequate reasons for laying someone off. There is an arbitration system for labor disputes. Although all employers complained about this indemnity, they did not seem to feel constrained in their hiring and firing practices. Employers figure labor costs with this 8 percent per month fee factored in.

RESTRICTIONS IN ACCESS TO EMPLOYMENT

Indicator: Scale variable from 0-10 measuring differential effects of legal restrictions in access to employment for women and for minorities:

10 = no differences;
8 = slight differences, but almost no effects;
6 = differences, light effect on access;
4 = differences, moderate effect on access;
2 = differences, severe effect on access;
0 = differences, prohibitive effects on access.

Scale value 10

Trend in past three years 0

Source: Interview with Aguilera. There are no legal restrictions.

PRICE AND MARKETING CONTROLS

Indicator: Number of goods in CPI and WPI market baskets subject to price or marketing controls. Goods are weighted by their share in the market baskets.

	1990
Weighted sum in CPI	7.15
Weighted sum in WPI	N/A
Trend over past three years	+2

Source: Ministry of Economics for data on controlled goods, mission data for CPI composition. 1990 was a transition year during which prices of a limited number (17) of consumer goods were controlled. Those price controls have been lifted in 1991. This situation compares sharply with the mid-1980s when roughly 400 goods were controlled. During 1990, prices of controlled goods were adjusted to keep up with inflation. Market price survey data showed that average market prices, even in low income areas, were consistently above control prices. Ministry of Economics officials said that control prices were not enforced. The most important price control was on sugar, which is domestically produced. Ministry officials explained that the price of sugar was controlled not to subsidize consumption, but rather to control the monopoly profits of the sugar marketing company. No wholesale price index was found.

Indicator: Average percentage difference between uncontrolled and controlled prices for major controlled goods. For numerator use absolute value of difference. For denominator use uncontrolled price. Weight by the value of trade in each good. Use border prices for uncontrolled prices.

Percentage	0-5%
Trend over past three years	+1

Source: Ministry of Economics

Indicator: Scale variable from 0-2 measuring degree of government control of the provision of essential agricultural inputs (fertilizers, pesticides, and tools).

2 = uncontrolled
1 = some controls
0 = highly controlled

Scale	2
Trend over past three years	+1

Source: Interview with Kline. USAID/ROCAP RENARM, "Guatemala Natural Resource Policy Inventory," April 1990. Agricultural inputs are distributed by both government extension agents and private agents. Many inputs are domestically produced but their import is allowed.

B. INTERNATIONAL OPENNESS

EXCHANGE RATE DISTORTION: (LAC, AFR)

Indicator: Average percentage differential between market and official exchange rate(s) for previous year weighted by proportion of transactions at the official rate. Where past policy performance has been unstable, annual average of past year is used. Current point estimate is used where there has been a recent shift to a credible and stable policy.

Percentage	102-105 / 100
Trend over past three years	+1

Source: mission estimate. Interviews with Morel, Lamberti. 1990 was a transition year for Guatemala's exchange rate management system; four different systems were used. There was no differential between the official and market exchange rates at the beginning of the year when the exchange rate floated freely. To slow the rapid devaluation of the quetzal, the government fixed the exchange rate within a sliding band. This system lasted from February to April and led to a good deal of speculation which drove up the free market premium for foreign exchange. A free float was reinstated in April. In May, an auction system was introduced which allocated funds according to the average bid price received. The gap between the market and the official rate widened sharply. In August, a Dutch auction system was introduced and the free market subsided again. By the end of the year there was no difference between the two rates. The 2-5 percent premium shown for the market rate is a rough estimate of the average deviation over the course of the year.

TRADE REGIME: (LAC)

Indicator: Scale variable, 10-8 if the trade-weighted average tariff (including stamp duties, exchange surcharges, etc.) averages under 20 percent and are relatively uniform, 7-4 if tariffs average between 20 and 30 percent, 3-0 if tariffs average over 30 percent. Scores shoud be adjusted to reflect if tariffs vary significantly from the average and/or if quantitative restrictions, including export restrictions are significant.

Scale value	8
Trend over past three years	+1

Source: tariff schedule printed in Diario de Centro America, January 25, 1991. Import data are from Banco de Guatemala, "Boletin Estadistico", first quarter 1990, Table 48a. As a proxy to the trade-weighted average tariff, the consultant calculated the average tariff for each of the commodity groups – as defined in the Central American Import Tariff Schedule – which accounted for at least one percent of Guatemala's imports in 1989.[1] The commodity group average tariffs were multiplied by each group's share of imports and summed to yield an average

[1] 1989 data are preliminary, but when the trade-weighted average was calculated using more reliable 1987 trade composition data, the figure was the same.

tariff of 12.75 percent. The unweighted mean of the current tariff schedule is 19.8 percent. The difference is due primarily to the high shares of the Mineral Products and the Chemicals commodity groups and the relatively low average tariffs (8 percent and 7.4 percent respectively). Only 80 percent of Guatemala's imports are covered under this tariff schedule. The rest, primarily luxury items and agricultural inputs, are subject to higher duties. There is a 4 percent tariff surcharge and a 7 percent V.A.T. added to all duties. Seventy nine items (6 percent of domestic production) are subject to some sort of import prohibition; there are cumbersome health and security inspection regulations on imports of goods representing roughly 30 percent of domestic production (agricultural produce in particular). In addition, about 61 export products -- including wood, skins, furs, and agricultural products -- are subject to export licensing or prohibition.

EXPORT INNOVATION:

Indicator: Growth in non-traditional exports. Calculate by subtracting the value of goods that accounted for more than 1 percent of exports five years ago from total exports five years ago and then subtracting out the value (in real terms) of those same goods from the most recent annual figures.

	1985-89
Growth	19%
Trend over past three years	+1

Source: Banco de Guatemala, "Boletin Estadistico", first quarter 1990, Table 45. Exports accounting for more than one percent of the value of export receipts in 1985 were bananas, cardamon, coffee, cotton, petroleum, and sugar. Export growth was measured in dollars and deflated by the U.S. GDP deflator. Opium was reportedly Guatemala's third largest export ($100 million) in 1989 but it was held out of this calculation.

RESTRICTIONS ON FOREIGN LABOR

Indicator: Scale variable from 0-2 measuring effects of restrictions on the use of foreign labor:

2 = no or few restrictions, or restrictions not observed;
1 = authorization is difficult, but occurs regularly;
0 = authorization is extremely difficult and occurs rarely;

Scale value	2
Trend in past three years	0

Source: Interviews with Lamberti, Kreiger, Morel

RESTRICTIONS ON FOREIGN CAPITAL

Indicator: Scale variable from 0-2 measuring effects of restrictions on the use of foreign capital and profit repatriation:

2 = no or few restrictions, or restrictions not observed;

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1 = there are limits to amount or share of capital or profit repatriation;
0 = repatriation is extremely difficult or prohibited;

Scale value 1

Trend in past three years 0

Source: Interviews with Lamberti, Morel. U.S. State Department, Investment Climate Statement, May 1990. In 1990, there were a number of instances when foreign exchange was not available for purposes approved by law – e.g., capital or profit repatriation. Exporters are required to turn in 100 percent of their foreign exchange earnings within 45 days of shipment. Dividends to foreign shareholders are taxed at 12.5 percent while dividends to local shareholders are untaxed. Under the current foreign exchange auction system, most exporters report that they have been able to obtain as much foreign exchange as needed. It is not clear whether the improved availability at the end of the year reflected regular seasonal fluctuations or improved management.

C. MACROECONOMIC POLICY FRAMEWORK

OVERALL MACROECONOMIC MANAGEMENT

Indicator: Scale variable measuring macroeconomic management.

2 = Macroeconomy well managed without IMF/IBRD assistance or country under SAL, SAF, or ESAF;
1 = Country has undertaken sectoral adjustment programs;
0 = Country is poorly managed and has not undertaken IMF/IBRD-sponsored adjustment

3 = Country well managed and no IMF/IBRD program or has a SECAL, SAL, SAF, or ESAF and there have been no delays in tranche releases;
2 = Country has a SECAL, SAL, SAF or ESAF which has (have) seen minor delays in disbursement;
1 = Country has a SECAL, SAL, SAF or ESAF which has (have) seen significant delays in disbursement;
0 = Country has a SECAL, SAL, SAF, or ESAF which has (have) been suspended.

Sum 0 + 1 = 1

Trend over past three years -1

Source: mission estimate. Economist Intelligence Unit Country Report, 4th quarter 1990. Guatemala's program with the IMF/IBRD was suspended in July 1990. It is expected to be reinstated by mid-year 1991.

INFLATION

Indicator: Current estimated annual percentage change in GDP deflator.

	1990
Percentage	39.9%
Trend over past three years	-1

Source: mission data

Indicator: Percentage deviation of most recent GDP deflator growth rate from announced target.

Percentage	57%
Trend over past three years	-1

Source: Banco de Guatemala, "Evaluacion de la Actividad Economica durante 1989 y Perspectivas para 1990", January 1990. The quetzal's massive devaluation, poorly controlled credit expansion, and the sharp increase in oil prices at the end of the year all combined to sharply push up inflation in 1990. The Bank of Guatemala was predicting CPI inflation of 26.1 percent in 1990 as opposed to the 41 percent actually experienced.

BUDGET DEFICIT: (LAC, ANE, AND AFR)

Indicator: Domestic financing of consolidated public sector deficit (commitments basis), including central bank losses, as percentage of GDP

	1990
Percentage	3.6%
Trend over past three years	-1

Source: mission data. Since 1987, the overall budget deficit has risen steadily from 3.5 percent of GDP to 4.3 percent. In addition, domestic financing of the deficit has also increased from 2.1 percent and now accounts for 83 percent of overall financing as compared to 60 percent in 1987.

SIZE OF STATE SECTOR

Indicator: Number and value of enterprises in which the government has at least a 50 percent share. Their output's share of GDP.

	1989
Number	38
Value	Q6.6 billion (~1/4 of GDP)
Share	8.1% (1988)
Trend over past three years	0

Source: Camera Empresarial de Guatemala, "Informe Sobre el Estudio de Mercado de Empresas del Sector Publico que Podrian ser Sujeto de Privatization", June 1990. "Value" shows the 1989 asset values of the 23 largest SOEs. The excluded SOEs are all quite small. "Share" shows the value of 1988 receipts for the 23 largest SOEs as a percentage of GDP.

Indicator: Civil servants per 1,000 population.

Ratio	16/1,000
Trend over past three years	-1

Source: mission data. In 1989, there were an estimated 149,000 civil servants, up from roughly 120,000 in 1985.

INCOME TAX SYSTEM

Indicator: Structure of income tax system: maximum rate, income at which maximum rate applies, and ratio of income at which maximum rate applies to per capita GDP.

Maximum rate	34%
Valid at: (income)	Q60,000/year
Income / per capita GDP	16.2
Trend over past three years	0

Source: mission data, Interview with Lamport. The system was last revised in 1987. Allowable personal deductions can go up to Q20,000. It is estimated that with these deductions only 3-5 percent of all workers pay taxes. Other estimates of tax collection go even lower.

D. BUSINESS CLIMATE

Indicator: Scale variable measuring constraints to business activity:

10 = private investors permitted to operate efficiently within a reasonable and codified regulatory system
8 = some constraints on paper, but do not affect activity
6 = government policies result in slight constraints to efficient business operations
4 = government policies result in moderate constraints to efficient business operations
2 = government policies result in severe constraints to efficient business operations
0 = private sector is legally or effectively prohibited

based on the following questionnaire:

1. Are there anti-competitive regulations protecting SOEs or privileged groups? Describe them. Are they enforced?

Guatemala generally supports private sector competition. Informal approval procedures restrict entry into banking, audit, insurance, and airlines. New foreign insurance companies are banned and audit companies are severely restricted in their activities. Foreign banks face strict capital and administrative requirements (but Citibank commenced operations in 1990) and foreign airlines are taxed at a high rate while the domestic airline Aviateca is not taxed.

2. Are there effective patent and contract laws to protect foreign products? to protect local products? Are they enforced?

   Laws are comprehensive and generally enforced. It takes 6-8 months to register a trademark, local patents take even longer. Trademark registrations are for ten years and are extendable. Guatemala belongs to WIPO. One problem area is textiles. There is a growing trade in counterfeit designer clothing using designs stolen from the maquillas.

3. Does the government offer codified special concessions to new, large investors? Are there uncodified concessions?

   There are concessions which vary according to a country's export orientation and reliance on domestic inputs. It can easily take 6-8 months to claim these benefits. There is a state-run FTZ and laws permitting development of private FTZs. Maquillas are catching on quickly. 100% exporters are exempt from customs duties amd other taxes on imported inputs and are exempt from all income taxes for 10 years. Exporters of traditional agricultural exports (coffee, cardamon) do not receive these incentives.

4. What is rough order of magnitude for costs in time/effort/money of compliance to business licensing requirements?

   Basic licensing takes a few days. There are long delays (on the order of 6 months to a year) if apply for OPIC coverage or for investment incentives.

5. How many days for a business to obtain a telephone?

   Numerous instances were cited in which it took 1 to 2 years to have a new line installed. If a business moves into existing office space, there will normally be two lines already installed. Users report that phone line quality has improved in the last five years.

6. What are the major import/export regulations? What is rough order of magnitude for costs in time/effort/money of compliance?

   Export licensing has been streamlined into a one-stop window which reportedly operates quite efficiently. It handles roughly 500 applications a day and most applicants get approval before COB. Getting foreign exchange is more complicated. It is allocated under a Dutch auction system and bidders are required to put up a 200% cash cover. All foreign exchange earnings must be turned in within 45 days.

7. How much time/effort/money is involved in clearing customs for imports and exports (both inside and outside of free trade zones)?

It takes roughly one day to clear customs at the airport; 1-3 days at the port. Customs agents are widely castigated as corrupt, but it sounds like corruption only enters into play when an importer wants to underpay duty charges. Then, he or she will be required to cut the customs agent in on the deal. If the importer pays the required duties in full (apparently an uncommon practice), there is no payoff.

8. Is corruption a significant hindrance to economic efficiency?

   See above. The "mordida" is well-established and factored by many into their business costs. Others insist that there is no real need for payoffs. Tax avoidance is widespread.

9. Are foreign investors subject to local hiring requirements? local content requirements?

   No.

10. Are there __ minimum __ maximum limits on level of foreign ownership?

    There are neither minimum nor maximum limits.

11. Can foreign investors own __urban __rural land?

    Foreigners can buy any land except that which fronts directly on the sea and riverbanks.

12. Is there legal protection from expropriation? Does the country belong to MIGA? OPIC?

    There is legal protection against expropriation which is considered to be a very low risk. OPIC is active but Guatemala does not belong to ICSID.

13. Is there a investment promotion association? Is it effective?

    The Investor Services Center was established in 1990 and is off to a rocky start. There are only two staff; the director does not speak English; and there is the impression that the Center is not serious.

Scale value	7
Trend over past three years	±1

Source: Interviews with Kreiger, Lack, Lamberti, Lamport, Monroy, Morel, and Santa Cruz. State Department, "Investment Climate Statement", May 1990.

E. HUMAN CAPITAL DEVELOPMENT

PRIMARY EDUCATION:

Indicator: Elementary school net enrollment rates:

	Rates 1988		Trend
Total	60.6		0
Urban - Rural	N/A	N/A	N/A
Male - Female.	61.7%	59.4%	0

Source: Interview with Diaz, trend data from World Bank, World Development Indicators, 1990.

BASIC HEALTH CARE:

Indicator: Average of vaccination coverage of children under one year of age for the four antigens used in the UNICEF universal child immunization program (tuberculosis, DPT, polio, and measles).

	1990
Percentage	35%
Trend over past three years	-1

Source: Ministry of Health data from Gorton.

Indicator: Under-five mortality rate (per 1,000 live births).

	1989
Rate	71.8
Trend over past three years	+1

Source: Guatemala National Institute of Statistics data from Gorton.

F. ENVIRONMENTAL MANAGEMENT

Indicator: Scale variable measuring the effectiveness of government policies to enhance environmental/natural resources management

10 = policies fully support efficient environmental management; adequate and effective institutional framework

8 = policies support sustainable environmental management practices, some policies may have unintended negative consequences, adequate and effective institutional framework

6 = there are policy failures which contribute slightly to environmental degradation, institutional framework is adequate but not entirely effective

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4 = there are numerous environmental management policy failures which result in regionally specific environmental damage, institutional framework is adequate but there are implementation problems

2 = there are environmental management policy failures resulting in widespread environmental damage, institutions exist but are ineffective

0 = environmental management policies or the lack thereof are causing extensive and irreparable environmental damage; institutions do not exist or are entirely ineffective

based on the following questionnaire:

1. Do traditional tenure arrangements remain secure or are population pressures and migration threatening their viability? If traditional tenure arrangements are losing or have lost their effectiveness has their been significant progress in assigning land titles in rural areas?

   In theory, all land is now under state or private title. There are overlapping claims to certain lands; public lands are not well patrolled and are exploited by shifting cultivators; private land belongs to individuals or communities. Community allocations are, for the most part, still clearly understood but allocations are increasingly fragmented and small due to population pressure.

2. Is forested land with regional or national externalities, e.g., major watersheds or nature reserves, titled?

   In the last few years, there has been a big surge in land set-asides by the government for parks. In 1985, just 6 areas had been set-aside, currently almost 1/3 of the country is protected and there are 33 proposed areas being considered. A 1989 law set watershed protection as a priority but there is no measurable progress in that direction. Watersheds are now held in both public and private hands.

3. Do government policies to encourage or promote forestry -- investment incentives or tax policies -- take into account the scarcity value of forest resources?

   A National Forestry Policy was introduced in 1990. It differs from earlier laws in that it establishes the regulatory framework to allow enforcement. Important issues (concession and licensing fees) have still not been resolved, but there is a real commitment to bringing fees in line with costs. Guatemala is looking to its neighbors, particularly Costa Rica, for costing guidelines. Instead of only offering licenses, the new logging policy permits concessions of 2-3 tree cycles. Stumpage taxes are now levied against the entire tree.

4. Does the government extension office have a soil conservation program? Does the government encourage or promote reforestation? How effective are the programs?

   Government extension services address soil and forestry issues but are underfunded and may not have much to offer (beside free seedlings). There are some successful examples at a localized level.

5. Does the government require environmental impact assessments of all major public investments? Does it require environmental impact analyses for all major private investments?

The government now requires environmental impact assessments for all major public and private investments. At least one private investment has been rejected on environemental grounds and several others (including a major oil exploration project) have been compelled to undertake major redesigns.

6. Is there a national park system? How effective is protection?

See 2, above. THere is a park system but it has grown much more quickly than the capacity for management. New programs promote development of sustainable forestry programs within designated areas in set-aside biospheres. In 1990, two NGOs purchased parks and are doing their own fundraising to finance protection. General park protection levels are low.

7. Is there a fee for utility-supplied water? Is there a fee for water from the major irrigated water systems? If so, is water priced according to marginal cost pricing principles?

There is a fee which was pretty close to cost at the beginning of 1990; 40 percent inflation reduced the fee, but it will be adjusted again. Irrigation is privately supplied and unregulated. Suppliers are rumored to charge quite high fees.

8. Are chemical pesticides or fertilizers subsidized?

No

9. Does the government have emissions standards for industry? vehicles? Are they enforced?

There are standards, but they are generally unenforced. Reportedly, if the agency in charge of enforcement receives a formal complaint it will act.

10. Is there a nationwide program to educate the public on the value of environmental management and protection? What subjects does it cover? Is coverage nationwide? Does program target adults or children or both?

Environmental issues are currently an expanding part of the primary curriculum. Just 60 percent of primary school age children are in school and children of shifting cultivators are probably not. There are many university programs in natural resource management. To date, no effort has been made to standardize curricula.

Scale value 6

Trend over past three years +2

Source: Interviews with Nakatsuma, Kline, and Tsuji. USAID/ROCAP RENARM, "Guatemala Natural Resource Policy Inventory", April 1990. USAID, "The Prospects for Commercial Land Market Financial Mechanisms in Guatemala", December 1990.

SECTION II: POLITICAL POLICY

A. PROTECTION OF CIVIL AND POLITICAL RIGHTS

INDEPENDENT JUDICIARY

Indicator: Scale variable measuring extent to which government policies promote independence of the judiciary

10 = independent and effective judiciary
8 = isolated cases of judicial malfeasance but system is generally strong
6 = system is well-designed and independent of outside influence but effectiveness is limited by lack of resources, lack of regard for civil rights
4 = system is poorly designed and subject to abuse
2 = judiciary is highly vulnerable to political interventions and generally arbitrary in its treatment
0 = judiciary is an instrument of the state

based on the following questionnaire:

1. Do adequate laws and processes exist for judicial selection? How effectively are they executed?

   The judicial selection process is adequate. Judges are chosen from a slate. Magistrates are chosen by Congress, Supreme Court judges are nominated one apiece by a number of important interest groups, such as the universities.

2. Have judges been removed from office by any means other than an election or conclusion of tenure?

   Judges have not been removed from office. THere are some good, independent judges but the majority are intimidated and ineffectual.

3. Does the government provide the accused with access to legal counsel?

   Yes, it does provide counsel. Frequently legal counsel for the indigent comes from law students (for whom such service is a required course)

4. What is the average length of time between arrest and charge? between arrest and trial? Is the government detaining any citizens without charging them with a crime?

The arrested person must appear before a judge within 6 hours, but can then be held for investigation for up to 20 days before a formal charge is pressed. There are credible charges that security forces operate safehouses where indefinite detention and torture occur.

5. Do the accused have the right to a jury trial?

   No, it's magistrate's justice

6. Do the accused have the right to appeal?

   Appeal is automatic upon conviction

7. Are trials and/or their proceedings open to the public?

   Civilian trials are open to the public; military are not. Military personnel cannot be brought before civilian courts, effectively protecting them from human rights charges.

8. Does the government treatment of prisoners meet minimum international standards?

   In 1990, there were no verified reports of inhuman or cruel treatment of detainees in official police custody. Prisoners in safehouses are reportedly tortured and worse.

9. Do police undergo training in legal rights and in how to obtain evidence?

   Police receive limited training and may be illiterate. In rural areas, police are supplemented by supposedly volunteer civilian defense groups which receive even less training.

10. Is corruption a significant hindrance to the equitable enforcement of national laws?

    Yes, particularly at the appeals level. There have been one or two trials of individuals charged with human rights abuses. All convictions have been turned over on appeal. The judges are apparently corrupt and for sale.

Independent Judiciary scale value 3

Trend over past three years 0

Source: see below

LEGAL CODE

Indicator: Scale variable measuring extent to which government policies promote codification of legal rights:

10 = legal code is comprehensive and equitable in its treatment of all groups

8 = legal code is comprehensive and equitable in its treatment of all groups, some serious lapses in implementation
6 = legal code is comprehensive but discriminates against certain groups, some serious lapses in implementation
4 = legal code guarantees some freedoms but discriminates against certain groups, some serious lapses in implementation
2 = legal code guarantees some freedoms but discriminates against certain groups, poor implementation affects all
0 = no legal guarantees

based on the following questionnaire:

1. Do national laws ensure that the following freedoms exist:
   freedom of speech?
   freedom of peaceable assembly?
   freedom of religion?
   freedom from unwarranted search and seizure?

   Yes, yes, yes, and yes. These freedoms are generally respeceted. Exceptions, particularly in the case of the latter, do occur.

2. Is there parity in national laws in their treatment of men and women, especially in matters of divorce, inheritance, and property rights?

   Yes

3. Is there parity in the national laws in their treatment of ethnic and religious minorities, especially in matters of property rights and choice of residence? Do the national laws protect the rights of minorities?

   Yes

4. Does the legal system contain mechanisms of conflict resolution, including mediation, conciliation, and arbitration?

   Labor conflicts and investment disputes are submitted for arbitration. The system works adequately but slowly. Most disputes are settled extra-legally.

Legal Code scale variable	7
Trend over past three years	0

Source: see below

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B. FREEDOM OF INFORMATION

Indicator: Scale variable measuring the extent to which government polices promote freedom of information

10 = all groups have free access to information
8 = all media are allowed to operate, but certain providers receive preferential treatment
6 = licensing and production are difficult but all media are permitted to enter, government has own media outlets
4 = government controls majority of media outlets, permits some independent media to operate
2 = government controls all domestic media, but allows international media to enter subject to censorship
0 = government controls all media

based on the following questionnaire:

1. Print, television, and radio media: How many are independent? How many are government-owned? Does government media publish authentic opposition viewpoints?

   There are four major dailies, one is owned by an opposition party. THere are many media channels in which debate is real and lively. There are some taboo subjects (security force human rights abuses) but generally media are quite open.

2. Must publishers be licensed? Must journalists be licensed? Has the government suspended or revoked any licenses?

   Not clear whether publishers need to be licensed. THere is fairly ready entry and exit from the market. THere are two major press associations and journalists generally belong to one or the other.

3. Is independent media subject to government censorship?

   There is no official censorship, but some self-censorship, particularly with respect to human rights issues.

4. Are other published materials (academic, literary) subject to government censorship?

   No

5. Do citizens have access to international media uncensored by the government?

   Yes, the only barrier is cost.

6. Has the government harassed or threatened journalists for their activities?
   In 1990, two journalists were shot in Guatemala City but motive and sponsor remain unclear. Otherwise nothing.

7. Has the government arrested or imprisoned journalists for their activities?

   Not in 1990. An incident has occured in early 1991.

Freedom of information scale value 9

Trend over past three years 0

Source: see below

C. FREEDOM OF ASSOCIATION AND ACTIVITY

PROFESSIONAL ORGANIZATIONS

Indicator: Scale variable measuring degree to which government policies promote formation and activities of independent professional associations

10 = no restrictions on formation and activities
8 = government regulates professional organizations, but does not intervene in their operations or harass their members
6 = government has right to close a professional organization which is seen as a threat, but otherwise does not intervene. Occassional harassment of members
4 = professional organizations are closely monitored by government. Government may intervene if activities seen as a threat. Harassment of members is common.
2 = professional organizations are few, entirely under state control, and do not reflect desires of their members
0 = professional organizations are banned, sponsors are subject to arrest

based on the following questionnaire:

1. Are there any government restrictions on forming or participating in labor unions, professional associations, student groups, non-governmental organizations, religious groups, or other voluntary organizations?

   Legal association status is difficult to obtain. SOme applications have taken years to gain approval. In 1990, 29 new unions were approved (~8 percent of the work force is now unionized). Legal strikes are hard to arrange, but wildcats occur and are not punished.

2. Has the government harassed or threatened members of labor unions, professional associations, student groups, non-governmental organizations, religious groups, or other voluntary organizations for their respective activities?

THere have been extra-judicial killings, torture, and disappearances of, among others, human rights activists, unionists, indigenous people, and street children. Most such atrocities were attributed to either government security forces or government-sponsored civilian patrols. Victims are often labelled as guerilla sympathizers.

3. Has the government arrested or imprisoned members of labor unions, professional associations, student groups, non-governmental organizations, religious groups, or other voluntary organizations for their respective activities?

   There is no evidence of systematic targetting of unionists.

4. Has the government outlawed any associations, unions, or organizations?

   The 30-year old guerilla movement is organized as the Unidad Revolucionario Nacional Guatemalteca and is illegal.

5. Has the government closed any universities?

   Not in 1990.

Professional Organizations scale value 3

Trend over past three years 0

Source: see below

INDIVIDUAL ACTIVITY

Indicator: Scale variable measuring degree to which government policies promote freedom of individual activity, including religion, travel, and association:

10 = no restrictions on individual activity
8 = some regulation but not enough to affect activity
6 = individual activity inhibited in some significant manner, but overall situation is free
4 = individual activity inhibited in a number of areas, overall situation can be characterized as one of limited individual freedom
2 = government policies suppress most individual freedoms and individuals fear the government, but some freedoms may still be allowed
0 = individual freedoms are entirely suppressed

based on the following questionnaire:

1. Does the government restrict the travel of its citizens within the country?

   Generally not. The army restricts travel in a few areas near guerilla strongholds.

2. Does the government restrict the travel of its citizens outside of the country?

No, critics have been allowed to come and go freely.

3. Does the government restrict citizens from meeting or associating freely among themselves or with foreigners?

   Not unless they're planning armed revolution

4. Does the government restrict citizens from freely speaking ethnic languages?

   No. There are more than 20 indigenous languages in active use. Primary schools in indigenous areas are bilingual.

5. Does the government restrict the practice of any religion or harass members of any religion?

   No restrictions or harassment. Proselytizing is allowed.

6. Does the government restrict the free settlement of citizens (excluding national parks or other infeasible areas)? Has the government conducted any forced population transfers, expulsions, or resettlements?

   There is no forced settlement program, but there is a policy encouraging voluntary resettlement from the highlands to the forested region in the North.

Individual Activity scale value	7
Trend over past three years	0

Source: see below

D. PARTICIPATION IN GOVERNMENT

ELECTIONS

Indicator: Scale variable measuring extent to which government policies promote free and fair elections:

10 = government policy and implementation fully support free and fair elections
8 = government policies fully support free and fair elections; but there are significant irregularities in implementation (e.g., vote mishandling, biased registration);
6 = there are policies which limit the potential for free and fair elections (e.g., denial of the vote to women or minorities) or implementation is poor (e.g., shortage of polling places, lack of campaign funds or media access for opposition)
4 = policies and implementation result in the government controlling the outcome of the vote, but campaign does serve as a forum for discussing important issues;
2 = elections are held, but are meaningless
0 = no elections

based on the following questionnaire:

1. Do laws exist for regulating and scheduling national elections? How effectively are they executed?

   Elections are very well run. The Supreme Electoral Tribunal is considered to be uncorruptible. There were many observers at the 1990 elections and there were no reported irregularities.

2. Is there universal adult suffrage?

   Yes, there is sufferage for all citizens over 18. Turnout was low for the 1990 elections (56%).

3. Does the government have an effective system for registering voters?

   Registration for the 1990 elections began in 1988 and was considered effective.

4. Are all adult citizens eligible for public office?

   Yes, except for advocates of armed revolution.

5. Are the majority of elections contested?

   Yes, the two largest parties each put up candidates in at least 80 percent of the recent municipal elections. Other parties fielded candidates in a smaller percentage of elections.

6. Are all candidates afforded equal campaign opportunities?

   All candidates have access to media. 1990's presidential debates were widely covered. Rallies were held without interference.

7. Are ballots cast privately?

   Yes

8. Do citizens have reasonable access to voting?

   Yes

9. If an election was held, was power transferred? Was it transferred to another party? Was it transferred in a timely and peaceful manner?

   Power was transferred to another party in a timely and peaceful manner. It was the first democratic transition in more than 30 years.

Elections scale value	**10**
Trend over past three years	**0**

Source: see below

REPRESENTATION

Indicator: Scale variable measuring extent to which government policies promote representation in government:

10 = elected government represents citizens
8 = the executive and the legislature skirmish, sometimes at the expense of the popular will
6 = the executive and the legislature frequently pursue an independent agenda at the expense of the popular will
4 = the executive has a good deal of power over the legislature but cannot suspend it
2 = legislature is severely constrained in its actions and faces the threat of suspension
0 = no citizen participation

based on the following questionnaire:

1. Did the current executive achieve power through a free and fair election?

   Yes

2. Did the current legislature achieve power through a free and fair election?

   Yes

3. Is the term of office for the executive limited?

   Yes, one term of five years

4. Are the terms of office for the legislature limited?

   Yes, two terms of five years

5. Can the executive dismiss or suspend the legislature? If so, has it done so?

   It was not clear if the executive has authority to suspend the legislature. It has not done so in the five years that the legislature has existed.

6. Does the legislature hold real authority proportional to its representation, e.g., the power to tax, legislate, and conduct inquiries and investigations?

   The Congress could potentially have a real authority. It is young and during the previous presidency was controlled by the president's party. The Congress elected in November 1990 is more diverse politically and more impressive individually.

7. Is the role of the military limited to external affairs?

No, the military is responsible for countering the ongoing guerilla war. The military has frequently abused civilian populations suspected of participating in guerilla activities or sympathizing with their cause.

Representation scale value 4

Trend over past three years ±1

Source: see below

POLITICAL PARTIES

Indicator: Scale variable measuring the extent to which government policies promote participation in political parties:

10 = no restrictions on party formation or membership
8 = parties face some restrictions (e.g., must have a certain number of members to get onto a ballot) but operate freely
6 = opposition parties face differential restrictions, their members are occassionally harassed
4 = opposition parties face severe restrictions, their members are harassed
2 = single party state by law, some range of views expressed within party, not all government officials are members
0 = single party state by law, all government posts filled by party cadres

based on the following questionnaire:

1. Does more than one viable political party exist?

   Yes, there are twenty registered and most ran presidential candidates. Parties tend to be structured around personalities rather than ideology. Party ideologies vary narrowly from center to right.

2. Does the government restrict the formation of new political parties?

   A party can't advocate armed revolution

3. Are there any restrictions (excluding age) on the membership of political parties?

   No

4. Do the existing political parties adhere to a primary system of electing representation?

   No. Money and power move people ahead within the parties. Only 2 or 3 parties have any significant grassroots organization.

5. Has the government harassed or threatened any members of an opposition party?

   No more than members of the opposition harassed and threatened the government.

6. Has the government arrested or imprisoned any members of an opposition party?

   No

   Political Parties scale value 2

   Trend over past three years 0

Source: see below

DECENTRALIZATION

Indicator: Scale variable measuring the extent to which political authority is decentralized

10 = local governments have authority and resources sufficient to meet their (significant) responsibilities
8 = local governments have authority and resources sufficient to meet their limited responsibilities
6 = local governments have responsibilities but their effectiveness is limited by inadequate resources
4 = local governments have responsibilities with no authority and no resources
2 = local governments exist in form but with no functions and no authority
0 = no decentralization

based on the following questionnaire:

1. Do laws exist for regulating and scheduling regional and local elections? How effectively are they executed?

   Yes, laws exist and are well-executed. Towns with a population over 20,000 have elections every 5 years; those with populations below 20.000, every 2 1/2 years.

2. Do regional and local authorities have the power to tax and allocate funds?

   Municipalities are, by and large, glutted with money from the central government. The 1985 Constitution stipulates than 8 percent of federal spending go directly to the municipalities. They decide how the funds are spent. Many municipalities are underprepared for managing such large sums.

3. Do regional and local authorities have control or influence over governmental activities in their areas, such as development projects and police?

   Generally not. THe largest source of complaints is the forced recruitment of young men into the ostensibly volunteer civil defense committees.

4. Is the government challenged by an armed insurrection?

Yes, a leftist guerilla war has been going on for 30 years now and continues to be a strong presence, particularly in certain regions. Talks between the government and the guerillas were initiated in 1990 but broke down.

Decentralization scale value	7
Trend over past three years	±1

Source: Interviews with Aguilera, Arellano, and Tonkin. U.S. State Department's Country Reports on Human Rights Practices for 1990, Guatemala chapter. Economist Intelligence Unit Country Report - Guatemala, 4th quarter 1990. The questionnaire did not directly address the possibility of systematic abuse of human rights; including torture, disappearances, and murder; by government forces. The consultant introduces the subject into the write-ups on professional organizations and on the judiciary but it could also be appropriate in the discussion of individual activity. The scales established for both the professional organization and the independent judiciary measures do not capture the possibility of government-sanctioned human rights abuses. The consultant lowered the scores for these two indicators from what is called for by the scales in order to in some way incorporate these abuses.

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INTERVIEW LIST - GUATEMALA

USAID
Hoelscher, David - Economics Officer
Aguilera, Carmen - Administrator, Administration of Justice Project
Arellano, Hilda - Director, Democratic Initiatives
Diaz, Julio - Education Office
Gorton, Lynn - Health Office
Kline, Keith - PSC, Environment and Natural Resources Office
Nakatsuma, Alfred - Environmental Officer

U.S. Embassy
Alvarez, Carlos - Economics Office
Hart, Shirley - Economics Office
Tonkin, Tom - Political Officer

Alamsa (Alfredo Lamport, SA, a diversified large conglomerate)
Lamport, Pedro Miguel - Director General (ex-member of the Monetary Board)

Bank of Guatemala

BELGUASA (a consulting firm, specializing in workshops and conventions)
Morel, Marcelline - President

Camara Empresarial de Guatemala
Lack, Stephen - Advisor

Fondacion del Centavo (NGO promoting smallholder land purchases)
Tsuji, Rodney - Advisor

Gremial de Exportadores de Productos no Tradicionales
Lamberti, Gerald - Advisor
Santa Cruz Rubi, Ricardo - Executive Director, Agricultural Research Fund

Guillermo Monroy y Hijos (diversified, medium-sized import/export firm)
Monroy, Fernando - General Manager

Ministry of the Economy
Evans del Cid, Oscar Eduardo - Director General of Commerce
Solares Guzman, Jose Raul - Economic Policy Directorate

Productos Alimenticios Guatemalteca (bakery products for local market)
Kreiger, Michael - General Manager

ANNEX VIII

INDEX OF ECONOMIC FREEDOM

ANNEX VIII

INDEX OF ECONOMIC FREEDOM

As federal budgets have tightened in recent years, pressure for clear and objective expenditure justifications has increased. The "Index of Economic Freedom," successfully introduced as an amendment to the 1990 Foreign Appropriations bill by Senator Connie Mack (R., Fla.), is a legislative initiative aimed at increasing the transparency of U.S. foreign assistance allocations. As proposed, the amendment would require A.I.D. to annually rate each of its recipient countries according to a scale that measures performance in nine areas deemed crucial to economic freedom. This annex reviews the status of the Mack Amendment and shows how the proposed DAI policy performance measures could be adapted to respond to any future Congressional request for the data identified in the Mack Amendment.

Status

Introduced for the first time in 1989 as an amendment to the Foreign Assistance bill, the Index of Economic Freedom (IEF) was approved by the Senate Foreign Relations Committee in October 1990. But because this authorizing legislation was not passed by the Senate (no Foreign Assistance bill has been approved by Congress since 1985), the committee approval of the Mack Amendment had no practical implications.

Senator Mack subsequently introduced an amendment with the same language (Index of Economic Freedom) to the Foreign Appropriations bill. He offered this amendment on the Senate floor and it was accepted. The language of the amendment, however, was altered in conference. The text of the conference report "encourages" A.I.D. to seriously consider developing an index along the lines of the IEF, to be used in foreign assistance allocation decisions and to promote improvements in economic conditions. Interviews with congressional staff indicate that A.I.D. is expected to have a system in place and operational for the FY 1993 budget cycle. Full texts of both the Mack Amendment and the relevant portion of the conference report are submitted as Attachment 1 of this annex.

Comparison

The IEF consists of nine "core concerns," to use the language of the Policy Performance Measures project, which are:

- property rights
- regulations
- informal sector
- wage and price controls
- taxation
- trade policy
- restrictions on investment and capital flows
- size of state sector
- banking

Each core concern includes specific indicators, both objective and subjective.

The focus of the IEF is somewhat different than that of the DAI Policy Performance Measures. The index examines not only effects directly linked to government policies, but the overall environment for economic freedom. The IEF does not include measures of human capital development, environmental policy framework, or political policy. In spite of the different focus of the Policy Performance Measures effort, the two sets of measures overlap, especially in the area of economic policy. The rest of this appendix maps out the relationship between the two systems. The discussion is built around the structure of the IEF.

CORE CONCERNS

Property Rights

IEF Language: "The extent to which poor or landless individuals are illegally or otherwise artificially constrained from acquiring land or other forms of property or are unable to gain secure legal title to land, the degree to which laws and an independent judiciary protect private property and enforce contracts for individuals against the government, the extent of nationalization of and the state's power to nationalize private property, and the degree of access of private parties to the judicial system."

Corresponding Policy Performance Measures:

1. Are traditional tenure arrangements equitable and do they provide tenure security for smallholders? Are population pressures and migration threatening the viability of existing tenure arrangements? What is the policy for assigning land titles in rural areas? Do women as well as men have land use and/or ownership rights?

2. Are there effective patent and contract laws to protect foreign products? to protect local products? Are they enforced?

3. Is there parity in national laws in their treatment of men and women, especially in matters of divorce, inheritance, and property rights?

4. Is there parity in the national laws in their treatment of ethnic and religious minorities, especially in matters of property rights and choice of residence? Do the national laws protect the rights of minorities?

5. Is there legal protection from expropriation? Does the country belong to MIGA? OPIC?

6. Does the legal system contain mechanisms of conflict resolution, such as mediation, conciliation, and arbitration?

Regulations

IEF Language: "The difficulty and costliness of securing a business license, regulations which inherently favor established business at the expense of newcomers, and limitations on the freedom

and ability of citizens to establish businesses or add prohibitive costs or additional risks to maintaining such businesses [sic]."

Corresponding Policy Performance Measures:

1. What is rough order of magnitude for costs in time/effort/money of compliance to business licensing requirements?

2. Are there anti-competitive regulations protecting SOEs or privileged groups? Describe them. Are they enforced?

3. Does the government offer codified special concessions to new, large investors? Are there uncodified concessions?

4. How many days for a business to obtain a telephone?

5. What are the major import/export regulations? What is rough order of magnitude for costs in time/effort/money of compliance?

6. How much time/effort/money is involved in clearing customs for imports and exports (both inside and outside of free trade zones)?

7. Is corruption or harassment by officials a significant hindrance to economic efficiency?

Informal Sector

IEF Language: "The extent to which government policies force economic activity into nominally illegal informal sectors where otherwise legal activities are conducted outside of government regulations and requirements, and the extent to which those policies discourage the development of locally controlled non-governmental institutions."

Corresponding Policy Performance Measures:

1. Ratio of urban informal sector (open market) lending interest rates to urban formal sector (bank and official institution) rates. Obtain for a similar type of loan, for example, a $1,000 one year loan for a small/medium sized urban business.

2. Ratio of the urban minimum wage to an average urban informal sector unskilled wage (including standard benefits).

3. Scale variable from 0-10 measuring fairness and ease of hiring and firing private sector employees.

4. Number of goods in CPI and WPI market baskets subject to price or marketing controls. Goods are weighted by their share in the market baskets.

5. Average percentage differential between market and official exchange rate(s) for previous year weighted by proportion of transactions at the official rate. Where past policy

performance has been unstable, annual average of past year is used. Current point estimate is used where there has been a recent shift to a credible and stable policy.

6. Scale variable measuring trade-weighted average tariff and significance of quantitative restrictions.

7. Are there any inhibiting government restrictions on forming or participating in labor unions, professional associations, student groups, non-governmental organizations, religious groups, or other voluntary organizations?

8. Has the government harassed or threatened members of labor unions, professional associations, student groups, non-governmental organizations, religious groups, or other voluntary organizations for their respective activities?

9. Has the government arrested or imprisoned members of labor unions, professional associations, student groups, non-governmental organizations, religious groups, or other voluntary organizations for their respective activities?

10. Has the government outlawed any associations, student groups, unions, organizations, or religious groups?

Wage and Price Controls

IEF Language: "The identity of industries or goods which are subject to government mandated wages or prices, the value of goods sold wholesale or retail subject to price controls, the degree to which private farmers are forced to sell produce at government established prices, and the degree to which farmers are not allowed to profit from the real market price of their products."

Corresponding Policy Performance Measures:

1. Number of goods in CPI and WPI market baskets subject to price or marketing controls. Goods are weighted by their share in the market baskets.

2. Average percentage difference between uncontrolled and controlled prices for major controlled goods. For numerator use absolute value of difference. For denominator use uncontrolled price. Weight by the value of trade in each good. Use border prices for uncontrolled prices.

Taxation

IEF Language: "The highest rate of taxation, the income level at which this rate takes effect, the relationship between per capita income and the level at which the highest rate of taxation takes effect, rate of the value-added tax, the level of taxation on assets, and the rate of monetary inflation."

Corresponding Policy Performance Measures:

1. Current estimated annual percentage change in GDP deflator.

2. Percentage deviation of most recent GDP deflator growth rate from announced target.

3. Percentage growth of total domestic credit in the financial system.

Trade Policy

IEF Language: "Customs duty rates, quantitives [sic] restrictions on imports, import quotas, import prohibitions, foreign exchange availability for those engaged in international trade, export taxes, restrictive export practices, market-distorting export incentives such as subsidies, import licenses, and country-of-origin restrictions."

Corresponding Policy Performance Measures:

1. Scale variable measuring trade-weighted average tariff and significance of quantitative restrictions.

2. What are the major import/export regulations? What is rough order of magnitude for costs in time/effort/money of compliance?

Restrictions on Investment and Capital Flows

IEF Language: "Limitations on foreign investment and foreign ownership, limits on repatriation of principal and profits for foreign investors, and restrictions on removal of foreign or domestic capital from the home country."

Corresponding Policy Performance Measures:

1. Are foreign investors subject to local hiring requirements? local content requirements?

2. Are there __ minimum __ maximum limits on level of foreign ownership?

3. Can foreign investors own __urban __rural land?

4. Scale variable measuring effects of restrictions on the use of foreign capital and profit repatriation.

Size of State Sector

IEF Language: "Value of industries owned by the government, percentage of GNP produced by state-owned industries, prohibitions on private economic activities in certain sectors and the value of the state sector assets."

Corresponding Policy Performance Measures:

1. Civil servants per 1,000 population.

2. Are there anti-competitive regulations protecting SOEs or privileged groups? Describe them. Are they enforced?

Banking

IEF Language: "Degree of government ownership of banking sector, private citizens rights to own and operate banks and citizens access to private sources of credit."

Corresponding Policy Performance Measures:

1. Ratio of informal sector (open market) interest rates to formal sector (bank and official institution) interest rates. Obtain for a similar type of loan, for example, a $1,000 one year loan for a small/medium sized urban business.

In addition, the DAI Project Team tested some indicators which, in certain cases, respond more directly to the IEF core concerns. These measures were excluded from the final DAI indicators questionnaire because they indicated outcomes rather than policy performance. Nevertheless, the following measures were collectable and could easily be included in the Policy Performance Measures questionnaire:

Wage and Price Controls

- Scale variable from 0-2 measuring degree of government control of the provision of essential agricultural inputs (fertilizers, pesticides, and tools).

Taxation

- Structure of income tax system: maximum rate, income at which maximum rate applies, and ratio of income at which maximum rate applies to per capita GDP.

Size of State Sector

- Number and value of enterprises in which the government has at least a 50 percent share. Their output's share of GDP.

Banking

- Assets of private formal sector financial institutions (banks, thrift institutions, and insurance companies) as a percentage of total formal financial sector assets.

- Private sector share of new borrowing in most recent year.

TEXT OF "MACK AMENDMENT"

AMENDMENT NO. 3080

Mr. KASTEN. Mr. President, I send an amendment to the desk on behalf of Senator MACK and ask for its immediate consideration.

The PRESIDING OFFICER. The clerk will report.

The assistant legislative clerk read as follows:

The Senator from Wisconsin [Mr. KASTEN], for Mr. MACK, proposes an amendment numbered 3080.

Mr. KASTEN. Mr. President, I ask unanimous consent that reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

The Foreign Assistance Act of 1961 is amended by adding at the end thereof the following new section:

"SEC. 671. INDEX OF ECONOMIC FREEDOM.—(a) DEVELOPMENT OF INDEX.—Not later than six months after the date of enactment of this section, the Administrator of the Agency for International Development, in consultation with the Secretary of the Treasury and private indigenous institutions in less developed countries, shall develop a system for evaluating, on a country-by-country basis, the economic freedom and opportunities of individuals in countries eligible for assistance under part I of the Foreign Assistance Act of 1961. Such system shall be referred to as the 'Index of Economic Freedom' (hereafter in this section referred to as the 'Index').

"(b) EXTENSION OF TIME.—The President may extend the date by which the Index is required to be developed by an additional ninety days if he determines that the period specified under subsection (a) for the development of the Index is inadequate.

"(c) FACTORS EVALUATED BY THE INDEX.—The Index shall assign a numerical rating for each of the following factors based on the degree to which each such factor reflects the degree of economic freedom and opportunity in a country and other relevant economic factors:

"(1) PROPERTY RIGHTS.—The extent to which poor or landless individuals are illegally or otherwise artificially constrained from acquiring land or other forms of property or are unable to gain secure legal title to land, the degree to which laws and an independent judiciary protect private property and enforce contracts for individuals against the government, the extent of nationalization of property and the state's power to nationalize private property, and the degree of access of private parties to the judicial system.

"(2) REGULATIONS.—The difficulty and costliness of securing a business license, regulations which inherently favor established business at the expense of newcomers, and limitations on the freedom and ability of citizens to establish businesses or add prohibitive costs or additional risks to maintaining such businesses.

"(3) INFORMAL SECTOR.—The extent to which government policies force economic activity into nominally illegal informal sectors where otherwise legal activities are conducted outside of government regulations and requirements, and the extent to which these policies discourage the development of locally controlled non-governmental institutions.

"(4) WAGE AND PRICE CONTROLS.—The identity of industries or goods which are subject to government mandated wages or prices, the value of goods sold wholesale and retail subject to price controls, the degree to which private farmers are forced to sell produce at government established prices, and the degree to which farmers are not allowed to profit from the real market price of their products.

"(5) TAXATION.—The highest rate of taxation, the income level at which this rate takes effect, the relationship between per-capita income and the level at which the highest rate of taxation takes effect, rate of the value added tax (VAT), the level of taxation on assets, and the rate of monetary inflation.

"(6) TRADE POLICY.—Customs duty rates, quantitives restrictions on imports, import quotas, import prohibitions, foreign exchange availability for those engaged in international trade, export taxes, restrictive export practices, market-distorting export incentives such as subsidies, import licenses, and country-of-origin restrictions.

"(7) RESTRICTIONS ON INVESTMENT AND CAPITAL FLOWS.—Limitations on foreign investment and foreign ownership, limits on repatriation of principal and profits for foreign investors, and restrictions on removal of foreign or domestic capital from the home country.

"(8) SIZE OF STATE SECTOR.—Value of industries owned by the government, percentage of GNP produced by state-owned industries, prohibitions on private economic activities in certain sectors and the value of the state sector assets.

"(9) BANKING.—Degree of government ownership of banking sector, private citizens rights to own and operate banks and citizens' access to private sources of credit.

"(d) REPORT.—Beginning two years after the date of enactment of this section, and every twelve months thereafter, the Administrator shall apply the Index to each country which is eligible for assistance under part I of the Foreign Assistance Act of 1961 on that date and, based upon such evaluation, shall submit to the Speaker of the House of Representatives and the chairman of the Committee on Foreign Relations of the Senate a report setting forth the findings of that evaluation. In making that evaluation, the Administrator shall rely, to the maximum extent practicable, on data sup-

plied by private indigenous institutions in less developed countries.

"(2) the annual congressional presentation materials for foreign assistance shall include, for each country for which assistance is proposed, the corresponding data from the latest report submitted under paragraph (1).

"(e) DETERMINATION OF COUNTRIES ELIGIBLE FOR UNITED STATES SUPPORT.—Beginning two years after the date of enactment of this section, no assistance, financing, guaranty, insurance, or reinsurance may be extended under part I of this Act (other than chapters 8 and 9 relating to international narcotics control and disaster assistance), with respect to a foreign country unless the advisability of furnishing support for that country has been considered, in light of the data on that country contained in the latest report submitted under subsection (d).

"(f) USE OF INDEX TO EVALUATE COUNTRIES RECEIVING UNITED STATES ASSISTANCE.—In furnishing development assistance under chapter 1 of part I of this Act, the Administrator shall use the Index to promote improvements in the underlying economic conditions evaluated by the Index while retaining flexibility in designing and implementing development programs and projects. The Administrator shall use the Index as a basis for evaluating the direction of policy changes in less developed countries and as a basis for evaluating specific projects and programs assisted by the Agency for International Development.".

Mr. MACK. Mr. President, this provision has been incorporated by the Foreign Relations Committee in two bills, the foreign assistance authorization bill, and the Peace Corps authorization.

Since neither bill is likely to come to the floor, I am offering this provision, the Index of Economic Freedom to this bill.

This is a noncontroversial measure that had no opposition in our committee. It is essentially a reporting requirement and authorizes no new spending within the bill.

Its purpose is to require the Agency for International Development to develop a system for evaluating the economic freedom and opportunities of individuals in countries receiving U.S. assistance.

All across the world today, nations are recognizing that free markets and property rights are the key to economic growth and the alleviation of poverty.

All the foreign aid in the world will not help a nation that is stifling the economic freedom of its people. The purpose of this amendment is simply to find out how nations we assist are progressing on the road to economic freedom so that we can better help these countries help themselves.

I understand that in just the past month AID has contracted a pilot study of economic policies in 12 countries along the lines of this amendment. This amendment would, in effect, encourage AID to expand and develop this worthy effort.

I urge adoption of the amendment.

Mr. KASTEN. Mr. President, this amendment has to do with a foreign policy economics statement.

The PRESIDING OFFICER. Is there further debate on the amendment? If there be no further amendment, the question is on agreeing to the amendment of the Senator from Florida.

The amendment (No. 3080) was agreed to.

Mr. KASTEN. Mr. President, I move to reconsider the vote by which the amendment was agreed to.

Mr. FORD. I move to lay that motion on the table.

The motion to lay on the table was agreed to.

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101st Congress 2d Session | HOUSE OF REPRESENTATIVES | Report 101-968

MAKING APPROPRIATIONS FOR FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1991, AND FOR OTHER PURPOSES

October 27, 1990.—Ordered to be printed

Mr. Obey, from the committee of conference, submitted the following

CONFERENCE REPORT

[To accompany H.R. 5114]

PAGE 71

INDEX OF ECONOMIC FREEDOM

Amendment No. 185: Deletes Senate language related to the development of a system of country-by-country evaluation.

While the conferees have agreed not to include bill language as recommended by the Senate establishing an index of economic freedom, they nonetheless encourage the Agency for International Development and the Department of the Treasury to seriously consider developing such an index.

As enumerated in the Senate legislation, the index should include such factors as property rights, government regulations, activities of the so-called "informal sector", wage and price controls, tax policy, trade policy, restrictions on investment and capital flows, the size of the state sector, and banking regulations and policies.

The conferees are generally supportive of the proposition that such an index should be utilized to help evaluate which countries should receive foreign assistance. Perhaps more important, such an index would be useful to promote improvements in economic conditions while retaining flexibility in designing and implementing development programs and projects.

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ANNEX IX

SCOPE OF WORK

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CAER TASK ORDER #9
Contract #PDC-0095-Z-00-9053-00

August 29, 1990

TO: HIID, Lester E. Gordon, CAER Project Manager

THRU: AAA/PPC/EA, Jerome R. La Pittus

FROM: PPC/EA, Alan B. Batchelder, CAER Project Officer

SUBJECT: Designing Practical Ways to Measure Economic and Political Policy Performance of Developing Nations

Objective

PPC needs help in designing a set of measures of policy-performance for which data can be collected that will help A.I.D. staff to make decisions regarding allocation of U.S. economic assistance. The measures should permit comparisons within a country and comparisons among countries. The measures should assist A.I.D. in deciding priorities and timing of policy reform. PPC also needs help in designing and in implementing a strategy for collecting measurement data.

Scope of Work

The contractor will design a set of measures of the policy performance of the governments of individual developing countries and will prepare a guidance manual for the preparation, by A.I.D. staff, of these policy performance measures. The measures will be designed to appraise the quality of the policies and practices that government decision makers control and that influence decisions about the use of each nation's resources and about the exercise of political rights.

The contractor's work will proceed in three phases: (a) preparation of a draft set of measures and a draft guidance manual; b) following the draft guidance manual to produce policy-performance measurement data for each of three countries, chosen in consultation with A.I.D. staff, and c) revision of the measures and the draft guidance manual, together with preparation of an evaluation of the entire measurement process.

The primary criterion for choosing economic policy-performance measures should be that they measure policies and practices that determine the extent to which other decision makers are encouraged to make full and efficient use of a nation's resources. The underlying assumption is that efficient resource allocation will help promote broad-based sustainable growth with full employment and equitable income distribution.

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Among the measures chosen, some should relate to gender and other invidious discrimination that inhibits efficient use and proportionate reward of national resources. The contractor should consider the use of economic and political policy performance measures in whatever areas it finds to be important. Among those areas should be: civil liberties and political pluralism; economic freedom/regulatory and policy climate for local investment; international trade openness; equity of the policy framework; institutional, regulatory and policy climate for foreign investment; and legal and institutional means for resolving important bilateral economic disputes between countries.

In addition, as a follow-up to the 9 August, 1990, HIID study, "Indicators of Open Markets and Open Societies," the contractor will provide baseline data for Yemen (combined or both separately), Jordan, Morocco, Tunisia, Egypt, Pakistan, Philippines, Israel, and Oman. To the extent possible, baseline data should also be compiled for Poland, Hungary, Czechoslovakia, and Yugoslavia.[1]

Issues to be Explored

Possible sources of information to examine should include: a) field missions, b) individual consultants and contractors, c) officers in the State Department, and d) officers in other U.S. Government agencies.

In the evaluation system, the contractor should examine the following data sources for inclusion: a) A.I.D., b) international organizations, c) commercial publications, and d) professional data services.

The contractor should explore methods for, and the desirability of, including qualitative data in the measurement system. This exploration should include the possibility of soliciting and using judgments made by a critical mass of individuals who do not have a stake in the outcome.

The contractor should examine the possibility that, when these measures are used as the basis for performance-based budgeting, some or all countries should be evaluated only once every three years. In that case one-third of the countries could be evaluated each year with the evaluation process for these countries staggered over the year.

The contractor will work with PPC staff to establish a steering group, comprising representatives of PPC/EA, PPC/WID, and other concerned A.I.D. and State Department offices, to help in the process of developing an appropriate measurement process. A

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contractor representative will meet with this group, at least once a month, to discuss progress, problems, and methodology.

Personnel: The contractor will provide experts with skills appropriate to the work to be done.

Deliverables:
1. A draft set of measurement criteria and a draft guidance manual for preparing measurement data. By October tenth 1990.

2. Baseline data for the latest time period available for the Asian and European countries cited above and/or covered in the HIID/DAI Report. By February first 1991.

3. The draft final report of measures and guidance manual to PPC/EA before February seventh 1991.

4. Measurement data, consistent with the draft guidance manual, for the three case-study countries. By February seventh, 1991[1].

5. A final set of measures and a final guidance manual. By March seventh, 1991.

BUDGET: All expenses incurred will be within the contract budget. The total estimated expense under this task order is as given on the following page.

Alan B. Batchelder, Project Officer

Clearance:
AAA/PPC/EA:J. LA Pittus_____

1. The baseline data are to be provided for calendar year 1990, and for change between 1985 and 1990, for each of the indicators identified in the 1990 HIID/DAI Open Markets/Open Societies Final Report to the Asia Near East Bureau. This exercise will include the collection of data for the indicators recommended for use in the HIID/DAI report. (Where AID Mission input is essential, the contractor may request AID/Washington assistance in gathering a limited amount of information from the field via cable or other means.) For the policy area of "Means of Resolving International Disputes," the contactor will provide a list of international conventions to which each country is a signatory or of

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institutions of which it is a member, as suggested in the HIID/DAI report.