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Montenegro

Economic Performance Assessment



March 2006

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Sponsored by the Economic Growth office of USAID's Bureau of Economic Growth, Agriculture and Trade (EGAT), and implemented by Nathan Associates Inc. under Contract No. PCE-I-00-00-00013-00, Task Order 004, the Country Analytical Support (CAS) Project, 2005-2006, has developed a standard methodology for producing analytical reports that provide a clear and concise evaluation of economic growth performance in certain countries. These reports are tailored to meet the needs of USAID missions and regional bureaus for country-specific analysis. Each report contains

- A synthesis of data drawn from numerous sources, including World Bank publications and other international data sets used by USAID for economic growth analysis, as well as accessible host-country data sources;
- International benchmarking to compare country performance to similar countries and groups of countries;
- An easy-to-read analytic narrative that highlights areas in which a country's performance is particularly strong or weak, thereby assisting in the identification of future programming priorities.

Under the CAS Project, Nathan Associates will also respond to mission requests for in-depth sector studies to examine more thoroughly particular issues identified by the data analysis in these country reports.

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Note

Though most international sources treat Serbia and Montenegro as a unit, it is important to recognize the heterogeneity of these two states within a state when designing policies that support economic growth and poverty reduction. This study therefore focuses on Montenegro independent of Serbia (data presented do not include Kosovo). Where possible, we use data for Montenegro or disaggregate the data for Montenegro from data on Serbia and Montenegro. Figures for Montenegro are not derived from standard sources for each indicator as listed in the technical notes. For this report, the data are also from the International Monetary Fund (IMF), Monstat, the Ministry of Education, the Ministry of Finance, the Central Bank of Montenegro, the Center for Enterprise and Economic Development (CEED), the Institute for Strategic Studies and Prognoses (ISSP), the Agency for Telecommunications, the Parliament of Montenegro, and the Statistical Office of Serbia and Montenegro. Details on indicator sources are in the data supplement. The authors would like to acknowledge the substantial contribution of the ISSP, based in Montenegro, in compiling data.

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HIGHLIGHTS OF MONTENEGRO'S PERFORMANCE, RELATIVE TO BENCHMARK STANDARDS

Economic Growth	Montenegro's macroeconomic performance has been mixed. Investment, productivity growth and real GDP growth are all low, the latter averaging only 2.1 percent annually over 2000-2004. Per capita GDP, in purchasing power parity dollars, increased by 6.1 percent from 2000 to 2004.
Poverty	Poverty head count by national poverty line is 12.2 percent, around half the regional average.
Gender	Montenegro performs well on gender indicators, with the ratios of male to female literacy and life expectancy near regional averages.
Fiscal and Monetary Policy	Montenegro has adopted the Euro as its official currency, effectively abandoning an independent monetary policy. This helped reduce the inflation rate to 3.2 percent for 2004. The fiscal deficit is within reasonable bounds but planned tax cuts may be unwise, especially when it is necessary to find funds for badly needed capital spending.
Business Environment	The regulatory environment has improved substantially in the past few years. Serbia and Montenegro was ranked as most improved by the World Bank's <i>Doing Business</i> report in 2006. But Montenegro needs to further reduce the length of time it takes to enforce a contract. Corruption and scant adherence to the rule of law continue to impede business operations.
Financial Sector	Domestic credit to the private sector has been growing rapidly, but remains low. The interest rate spread is high, pointing to inefficiencies in the financial sector.
External Sector	Montenegro has been integrating into the world economy and has been experiencing very rapid growth in exports and imports. While this is generally beneficial, persistent large external imbalances (i.e., the current account deficit) threaten economic stability and growth.
Economic Infrastructure	Lack of data on many infrastructure categories prevents comprehensive analysis. The telecommunications infrastructure is good and Internet use is growing rapidly.
Science and Technology	Serbia and Montenegro has had some success attracting new technology. The FDI and Technology Transfer Index score was 3.7 in 2004.
Health	Montenegro has a relatively good performance for indicators pertaining to public health. Life expectancy at birth is 73.1, maternal mortality is very low, and public health expenditure is 7.7 percent of GDP.
Education	Montenegrins meet primary education standards. The youth literacy rate is 99.4 percent. Increasing secondary education completion rates should be prioritized.
Employment and Workforce	Unemployment is a serious problem. The unemployment rate for 2004 was 22.6 percent, about 7 percentage points above the regional average. Lack of opportunities in the job market threatens social stability and the post-conflict transition.
Agriculture	Agricultural productivity is robust and negates concerns associated with food security.

Note: The standards used for the benchmarking analysis are explained in the Appendix.

NOTABLE STRENGTHS AND WEAKNESSES—SELECTED INDICATORS

Indicators, by topic	Strengths	Weaknesses
Growth Performance		
Real GDP growth rate (%)		✓
Share of gross fixed investment in GDP (%)		✓
Poverty and Inequality		
Poverty headcount by national poverty line	✓	
Demography and Environment		
Adult literacy rate (%)	✓	
Fiscal and Monetary Policy		
Inflation (%)	✓	
Business Environment		
Corruption perception index (Serbia and Montenegro)		✓
Procedures to enforce a contract	✓	
Procedures to register property		✓
Time to start a business	✓	
Financial Sector		
Domestic credit to private sector (% of GDP)		✓
Interest rate spread (% , deposit minus lending rate)		✓
Monetization (M2 as a % of GDP)		✓
Stock market capitalization (% of GDP)	✓	
External Sector		
Concentration of exports (top three exports, 3-digit SITC, % exports)		✓
Exports growth, goods and services (%)	✓	
Current account balance (% GDP)		✓
Economic Infrastructure		
Internet users per 1,000 inhabitants	✓	
Health		
Maternal mortality rate (per 100,000 live births)	✓	
Public health expenditure (percent GDP)	✓	
Education		
Net primary enrollment rate (total)	✓	
Youth literacy rate	✓	

Indicators, by topic	Strengths	Weaknesses
Employment and Workforce		
Labor force participation rate (total)		✓
Rigidity of employment index		✓
Unemployment rate		✓
Agriculture		
Crop production index	✓	

Note: This chart identifies selective indicators for which Montenegro's performance is particularly strong or weak relative to the benchmark standards; details are discussed in the text. A separate Data Supplement for Montenegro presents a full tabulation of the data examined for this report, including the international benchmark data, along with technical notes on the data sources and definitions.

1. Introduction

This paper is one of a series of Economic Performance Assessments prepared for the EGAT Bureau to provide USAID missions and regional bureaus with a concise evaluation of a broad range of indicators relating to economic growth performance in designated host countries. The report draws on a variety of international data sources¹ and uses international benchmarking to identify major constraints, trends, and opportunities for strengthening growth and reducing poverty.

The methodology used here is analogous to examining an automobile dashboard to see which gauges are signaling problems. Sometimes a blinking light has obvious implications—such as the need to fill the fuel tank. In other cases, it may be necessary to have a mechanic probe more deeply to assess the source of the trouble and discern the best course of action.² Similarly, the Economic Performance Assessment is based on an examination of key economic and social indicators, to see which ones are signaling problems. In some cases a “blinking” indicator has clear implications, while in other instances a detailed study may be needed to investigate the problems more fully and identify an appropriate course for programmatic action.

The analysis is organized around the mutually supportive goals of transformational growth and poverty reduction.³ Rapid and broad-based growth is the most powerful instrument for poverty reduction. At the same time, many measures aimed at reducing poverty and lessening inequality can help to underpin rapid and sustainable growth. These interactions create the potential for stimulating a virtuous cycle of economic transformation and human development.

Transformational growth requires a high level of investment and rising productivity. This is achieved by establishing a strong ***enabling environment for private sector development*** involving multiple elements: macroeconomic stability; a sound legal and regulatory system, including secure contract and property rights; effective control of corruption; a sound and efficient financial system; openness to trade and investment; sustainable debt management;

¹ Sources include the latest data from USAID’s internal Economic and Social Database (ESDB) and readily accessible public information sources. The ESDB is compiled and maintained by the Development Information Service (DIS), under PPC/CDIE. It is accessible to staff through the USAID intranet.

² Sometimes, too, the problem is faulty wiring to the indicator—analogous here to faulty data.

³ In USAID’s White Paper on *U.S. Foreign Aid: Meeting the Challenges of the Twenty-first Century* (January 2004), transformational growth is a central strategic objective, both for its innate importance as a development goal, and because growth is the most powerful engine for poverty reduction.

investment in education, health, and workforce skills; infrastructure development; and sustainable use of natural resources.

In turn, the impact of growth on poverty depends on policies and programs that create opportunities and build capabilities for the poor. We call this the *pro-poor growth environment*.⁴ Here, too, many elements are involved, including effective education and health systems, policies facilitating job creation, agricultural development (in countries where the poor depend predominantly on farming), dismantling barriers to micro and small enterprise development, and progress toward gender equity.

The present evaluation must be interpreted with caution because a concise analysis of this sort cannot provide a definitive diagnosis of economic problems or simple answers to questions about programmatic priorities. Instead, the aim of the analysis is to spot signs of economic growth problems based on a review of selected indicators, subject to limits of data availability and quality. The results should provide insight about potential paths for USAID intervention that complement on-the-ground knowledge and further in-depth studies.

The remainder of the report discusses the most important results of the diagnostic analysis, in three sections: Overview of the Economy; Private Sector Enabling Environment; and Pro-Poor Growth Environment. Table 1-1 summarizes the topic coverage. The appendix provides a brief explanation of the criteria used for selecting indicators, the benchmarking methodology, and a table presenting the full set of indicators examined for this report.

Table 1-1
Topic Coverage

Overview of the Economy	Private Sector Enabling Environment	Pro-Poor Growth Environment
<ul style="list-style-type: none"> • Growth Performance • Poverty and Inequality • Economic Structure • Demographic and Environmental Conditions • Gender 	<ul style="list-style-type: none"> • Fiscal and Monetary Policy • Business Environment • Financial sector • External sector • Economic Infrastructure • Science and Technology 	<ul style="list-style-type: none"> • Health • Education • Employment and Workforce • Agriculture

⁴ A comprehensive poverty reduction strategy also requires programs to reduce the *vulnerability* of the poor to natural and economic shocks. This aspect is not covered in the template since the focus is economic growth programs. In addition, it is difficult to find meaningful and readily available indicators of vulnerability to use in the template

2. Overview of the Economy

This section reviews basic information on Montenegro's macroeconomic performance, poverty and inequality, economic structure, demographic and environmental conditions, and indicators of gender equity.⁵ Some of the indicators cited here are descriptive rather than analytical, and are included to provide context for the performance analysis.

GROWTH PERFORMANCE

Montenegro's recent economic performance has been mixed. Economic growth was relatively slow following the military conflict in Yugoslavia in 1999; GDP increased an average of 2.1 percent in 2000–2004, a low rate for a transition country. In 2004, the economy expanded 3.7 percent, its fastest growth rate in five years but still far below GDP growth rates in comparator country groups, in Bulgaria, and in Romania (Figure 2-1). Measured in U.S. dollars, GDP was \$3,091 in 2004, which exceeded the lower middle-income Central and Eastern European countries⁶ (\$2,684) and Bulgaria (\$3,074), but not Romania (\$3,207). The doubling of per capita GDP from 1999 through 2004 reflected the dollar's depreciation against the Euro, Montenegro's official currency since 1999, rather than real growth. The country's adoption of the Euro was also largely responsible for the rapid decline of inflation to 3.2 percent from 1999 to 2004.

The lack of economic growth can be explained by low rates of capital investment and a lack of technological change. The share of fixed investment in GDP declined from 17.6 percent in 2000 to 15.3 percent in 2002 (Figure 2-2), substantially lower than in Bulgaria, Romania, and the comparator country groups. More important, the share is low in absolute terms and signals a serious problem for Montenegro's economic growth. Although data for growth in labor productivity was 4.7 percent for 2003, the large fluctuations during 2000–2001 suggest that the data should be treated with caution.

⁵ A separate Data Supplement provides a full tabulation of data for Montenegro and the international benchmarks, including indicators not discussed in the text, as well as technical notes for each indicator.

⁶ LMI CEEC henceforth.

Figure 2-1. Real GDP Growth, percent

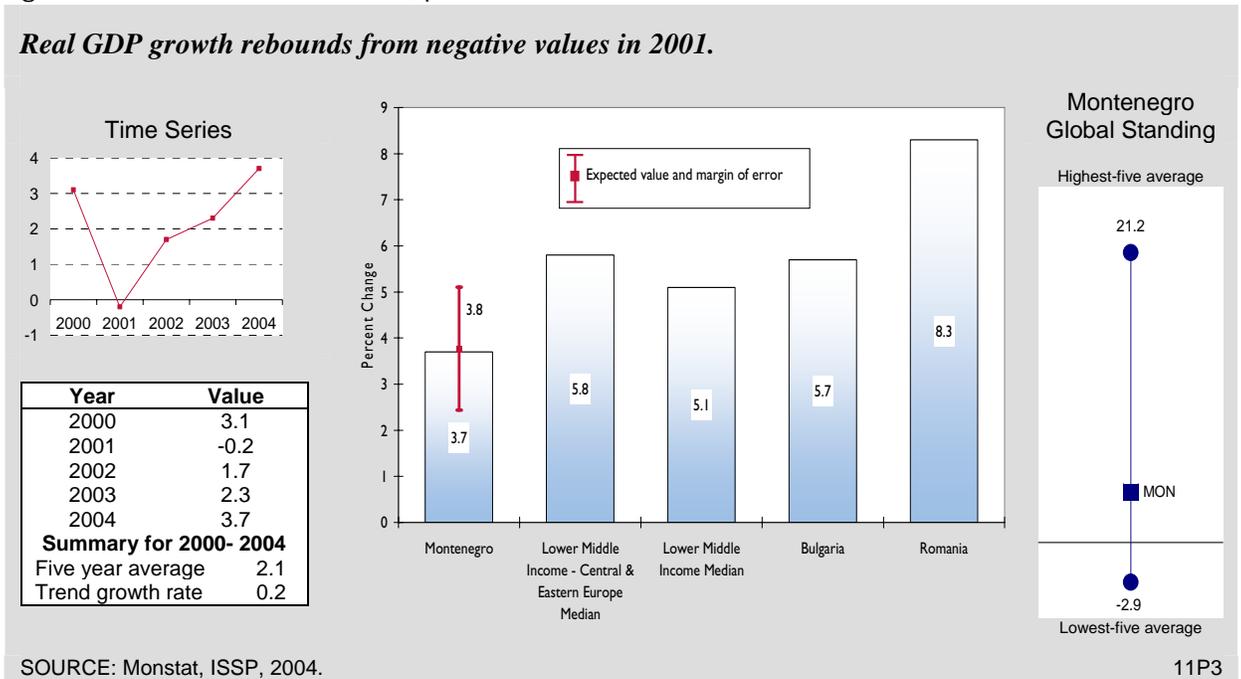
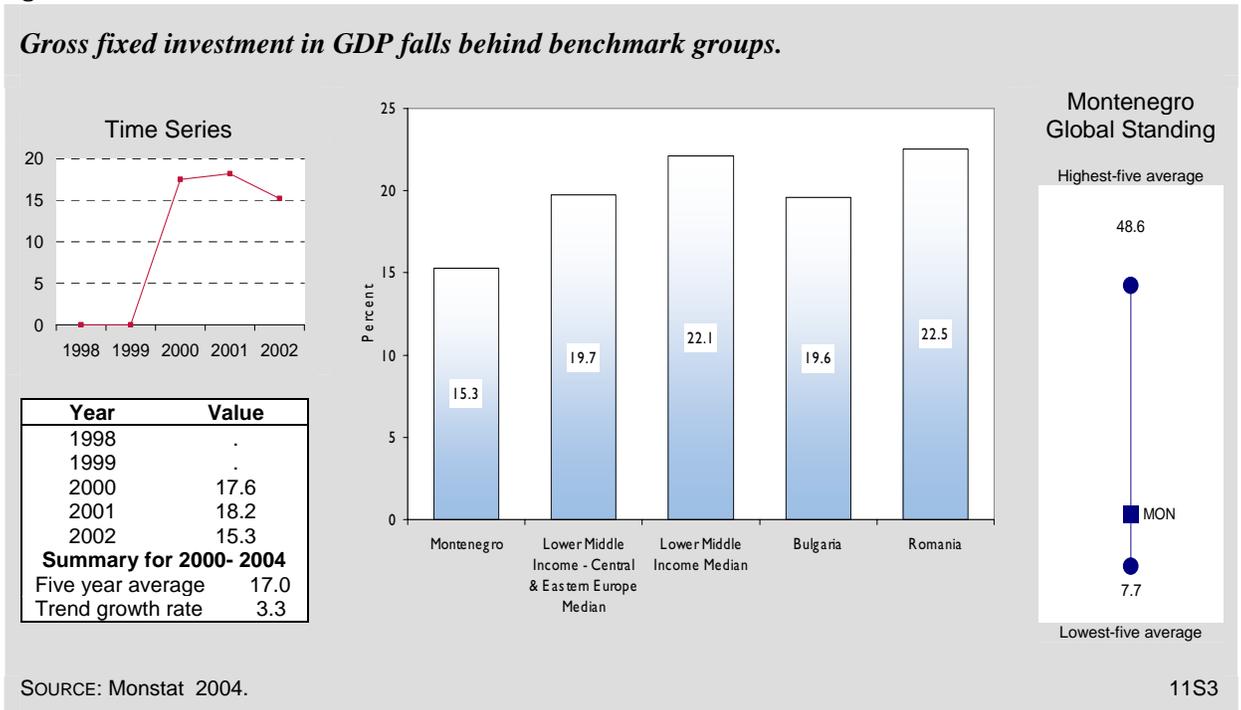


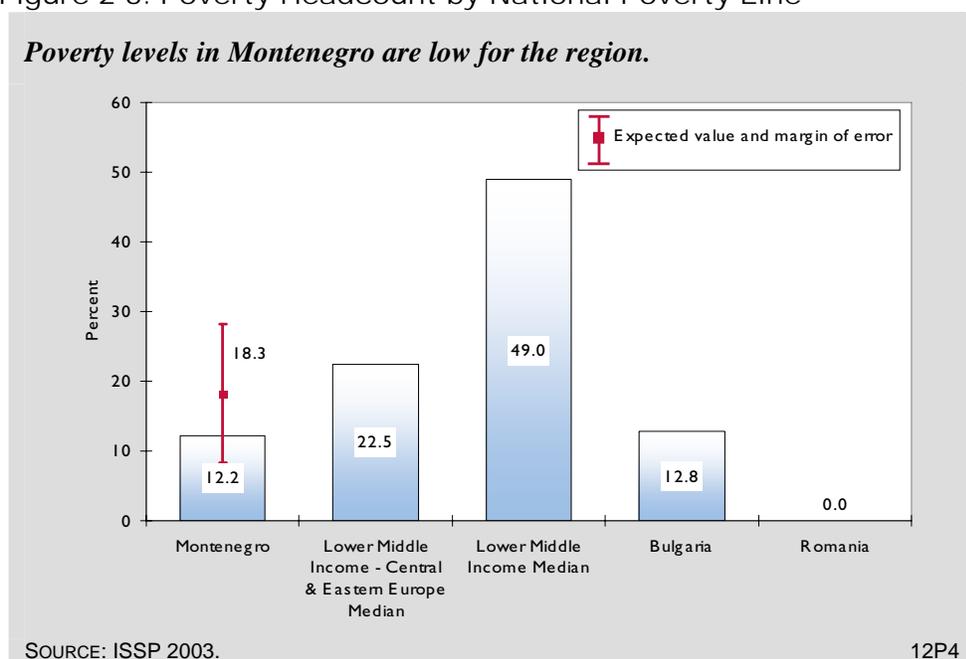
Figure 2-2. Gross Fixed Investment in GDP in Current Prices



POVERTY AND INEQUALITY

Few readily available poverty indicators exist for Montenegro.⁷ The poverty head count by national poverty line shows that 12.2 percent of the population lives below the poverty line. Although each country has its own poverty line and comparability is difficult, this is less than half the LMI CEEC average of 22.5 percent. Furthermore, the benchmark regression predicts that a country with Montenegro's characteristics should have a poverty head count of 18.3 percent. (Figure 2-3). While overall poverty rates may be low, important segments of the population remain vulnerable. For example, the uneducated are much more likely to fall into a cycle of poverty. According to the PRSP for Serbia and Montenegro, 30.8 percent of households headed by a person with an elementary education alone are poor, whereas only 7.8 percent of households headed by a person with a secondary education, partial or completed, are poor.⁸

Figure 2-3. Poverty Headcount by National Poverty Line



⁷ The lack of data for Serbia and Montenegro means that the following indicators are unavailable for this assessment: Human Poverty Index, income share accruing to the poorest 20 percent, percent population living on less than 1\$ PPP per day, percent population below minimum dietary energy consumption, and poverty gap at \$1 PPP a day.

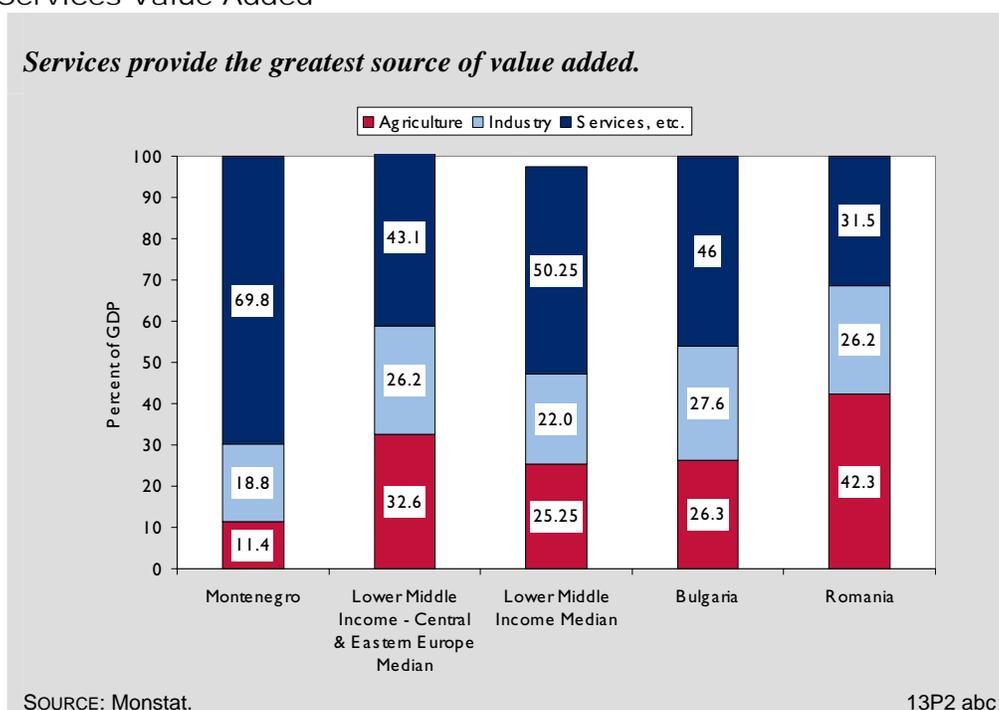
⁸ Internal poverty figures provided by the PRSP. Poverty Reduction Strategy Paper Montenegro November, 2003.

ECONOMIC STRUCTURE

Changes in Montenegro's employment structure in 2000–2004 were consistent with trends in countries experiencing market transformation. The share of services in employment increased markedly from 51.0 percent to 65.3 percent as the share of industry declined.⁹

Data on the structure of output show that services accounted for a substantially higher portion of value-added in Montenegro than in peer countries and country groups. In 2002, services represented 69.8 percent of Montenegrin value-added,¹⁰ much more than in the LMI CEEC, where services stood at 56.7 percent, or in Bulgaria (57.5) and Romania (52.5). The share of industry was only 18.8 percent, much lower than in the LMI CEEC (30.6 percent), Bulgaria (30.7 percent), or Romania (36.1 percent) (Figure 2-4).

Figure 2-4. Output Structure: Agriculture, Industry and Services Value Added



Given Montenegro's very small size, it is difficult to compare the development of its output structure to that of peer countries. The high share of services in value-added may be the result of more advanced economic development, of the country's historical relationship with landlocked Serbia as part of Yugoslavia, or an inability to specialize efficiently in more than a few sectors

⁹ It appears that employment data in Montenegro do not include self-employed (this is also true for Serbian labor statistics). As a result, the reported share of agriculture in employment—2.6 percent in 2004—may significantly underestimate actual employment. Therefore, the employment breakdown cannot be compared to the breakdown in comparator countries. In addition, the combination of reported employment statistics with output statistics exaggerates estimates of labor productivity in agriculture.

¹⁰ This high share of services is suspect, even though it can be partly explained by the role of the tourism sector.

(e.g., tourism, metal processing). Montenegro may benefit from international donor organizations' support in assessing its potential comparative advantages and options for economic diversification.

DEMOGRAPHY AND ENVIRONMENT¹¹

Montenegro's population has been rising slowly. In 2004, it was 621,000, up from 612,000 in 2000. Population growth has decelerated somewhat since the 1970s and the 1980s, possibly because of a falling birth rate. Nonetheless, this modest rate of population growth, an average of 0.3 percent annually over the 2000–2004 period, compares favorably with population declines in Bulgaria (0.6 percent) and Romania (0.3 percent).

The age dependency rate for Serbia and Montenegro together is 0.50, not very high in absolute terms, though higher than the rate of 0.44 found in both Bulgaria and Romania and 0.46 percent in the LMI CEECs. This ratio is expected to rise, however, as the population in Serbia and Montenegro ages rapidly; in 2002, the mean age was 40.2, an increase of more than five years compared to 1990. If the trend for Serbia and Montenegro is an accurate reflection of developments in Montenegro alone, the authorities need to prepare themselves for the financial costs associated with pensions and health care for the elderly.

Montenegro's adult literacy rate was 97.5 percent in 2002, about the same level found in Romania (97.3 percent). This rate is high compared to the lower middle income average (87.8 percent) yet on par with its neighbors with an LMI CEEC average of 97.9, one of the inherited benefits of the Communist era. The literacy rate is slightly lower than in Bulgaria (98.6 percent).

GENDER

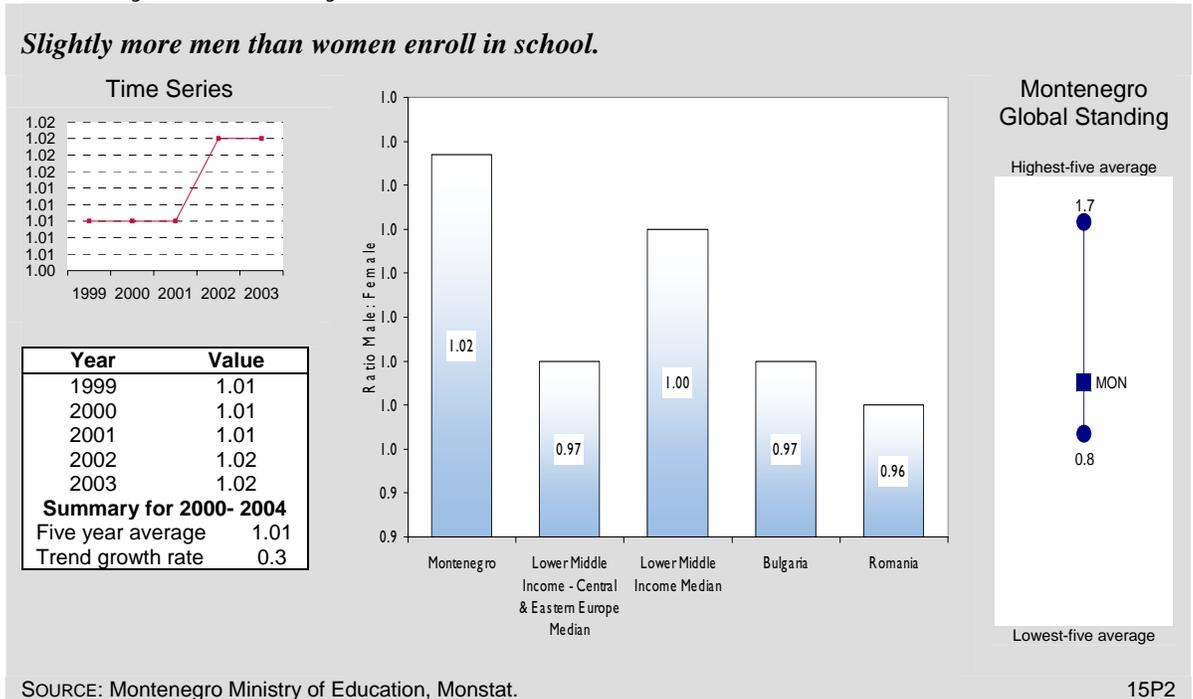
Gender equality contributes to pro-poor growth by using the productive capacities of all citizens and enabling the fulfillment of human potential. Montenegro performs well on gender disaggregated indicators for health and education which are proxy indicators for gender equality. In 2004, the ratio of male to female life expectancy at birth was 0.92, close to the LMI CEEC benchmark of 0.93 though slightly below the ratios of Romania and Bulgaria (0.90). Nonetheless, discrepancies in the provision of healthcare for women are not substantial.¹² The ratio of male to female adult literacy is 1.03,¹³ slightly above the ratio in Romania and the LMI CEEC average (1.02). Montenegro's ratio of male to female gross enrollment at all levels of education was 1.02 in 2003, whereas the LMI CEEC median and figures for Bulgaria and Romania are all below at 0.96-97. Programs that increase women's access to education increase gender equality, which is a prerequisite for pro-poor growth (Figure 2-5).

¹¹ The environmental sustainability index is not available for Montenegro or Serbia and Montenegro.

¹² The ratio in most OECD countries is between 0.89 and 0.95, with an average of about 0.93. Ratios below 0.89 indicate a problem with male life expectancy. Several transition countries have ratios below 0.8.

¹³ Rates are similar in Bulgaria (1.01) and Romania (1.02).

Figure 2-5. Ratio of Male to Female Gross Enrollment, Primary, Secondary, and Tertiary Schools



3. Private Sector Enabling Environment

This section reviews indicators for components of the enabling environment that encourage rapid and efficient growth of the private sector. Sound fiscal and monetary policies are essential for macroeconomic stability, which is a necessary (though not sufficient) condition for sustained growth. A dynamic market economy also depends on basic institutional foundations, including secure property rights, an effective system for enforcing contracts, and an efficient regulatory environment that does not impose undue barriers on business activities. Financial institutions play a major role in mobilizing and allocating saving, facilitating transactions, and creating instruments for risk management. Access to the global economy is another aspect of a good enabling environment, because the external sector is a source of potential markets, modern inputs, technology, and finance, as well as competitive pressure for efficiency and rising productivity. Equally important is development of the physical infrastructure to support production and trade. Finally, developing countries need to adapt and apply science and technology as a basis for attracting efficient investment, improving competitiveness, and stimulating productivity growth.

FISCAL AND MONETARY POLICY ¹⁴

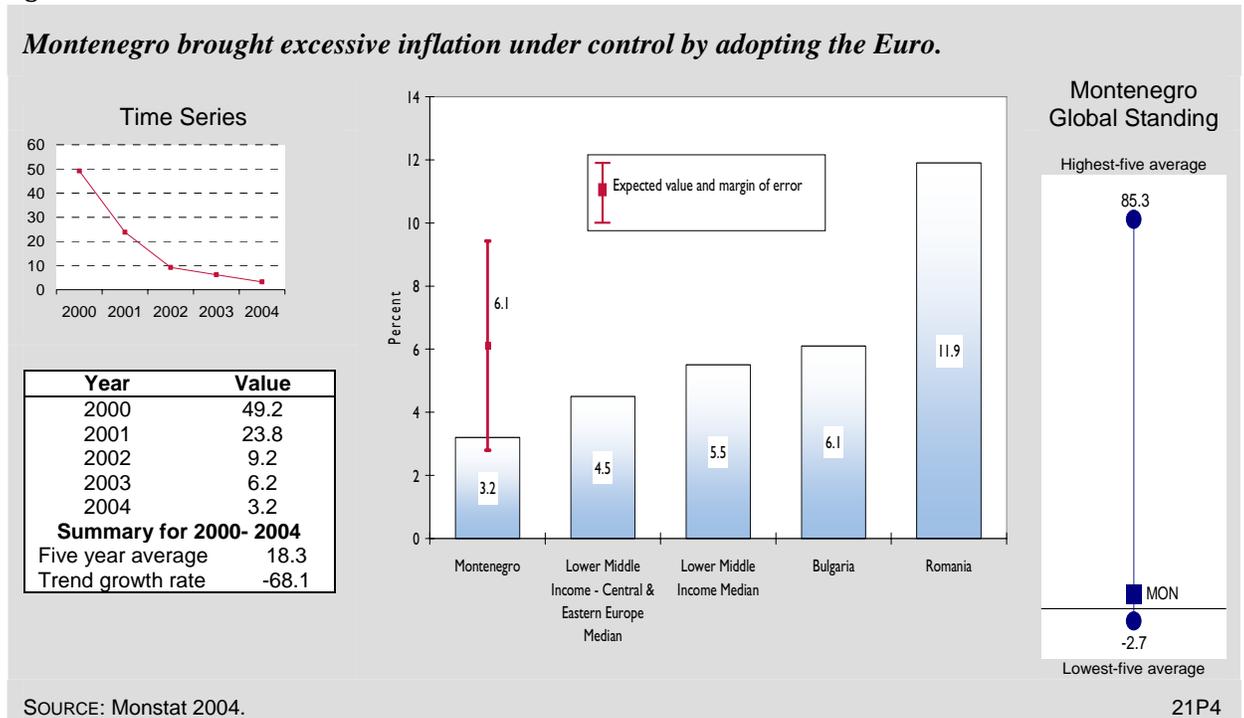
Montenegro adopted the Deutsch Mark as its official currency in 1999. When the Mark was replaced by the Euro, the latter became legal tender. Accordingly, inflation fell from almost 50 percent in 2000 to 3.2 percent in 2004, less than in the comparator country groups, Bulgaria, and Romania (Figure 3-1). At the same time, the use of the Euro as legal tender significantly limits the policy options of Montenegrin monetary authorities (as is the case with all countries that are party to the currency union.) In 2004, the money supply, which under these circumstances reflects net foreign reserves, increased 10.8 percent.

IMF Program Status for Serbia and Montenegro

An extended arrangement for US\$ 951.1 million was approved in May 2002. The Executive Board of the IMF completed its fifth review of Serbia and Montenegro's economic performance in June 2005 and enabled the release of US\$182.9 to bring the program disbursement to US\$ 859.7 million.

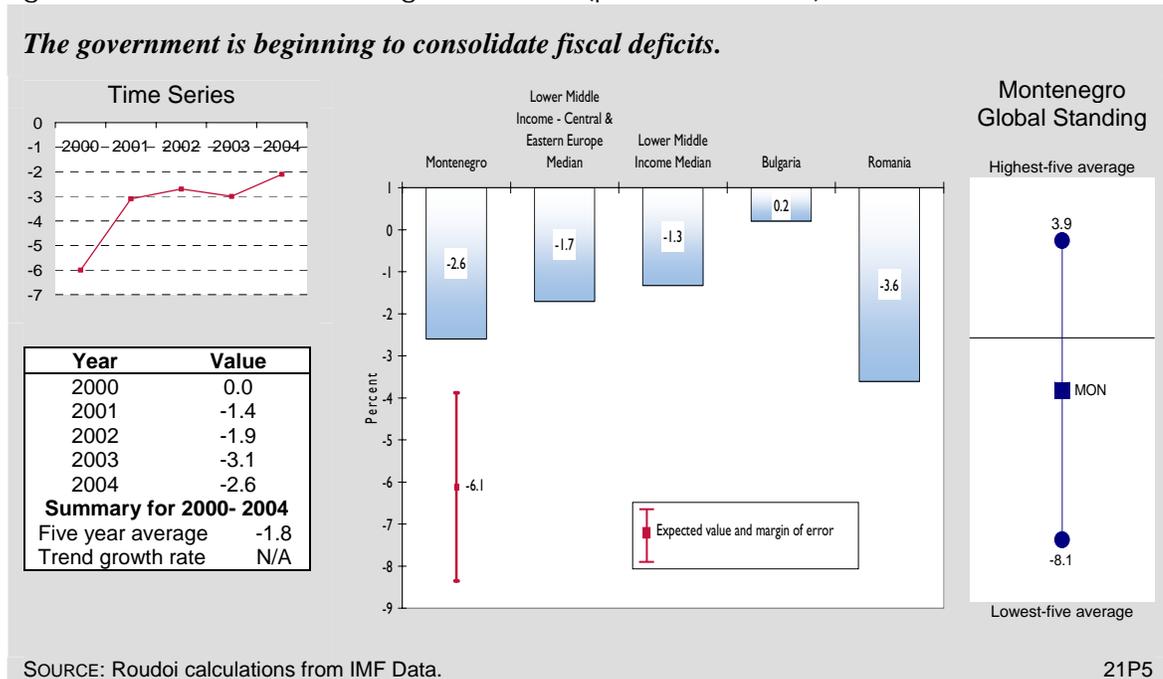
¹⁴ The World Development Indicators 2005 database has new categories for government finance statistics. As a result, the database has fiscal data for very few developing countries, and group medians for these fiscal variables are no longer meaningful because of the limited sample size. The international benchmarking analysis for fiscal indicators is therefore based on data from WDI 2004.

Figure 3-1. Inflation Rate



The budget deficit net of grants decreased from 0.0 percent in 2000 to 2.6 percent in 2004 (Figure 3-2).

Figure 3-2. Government Budget Balance (percent of GDP)



Comparing the size of Montenegro's central government with that of other countries is challenging because data on Montenegro do not include the cost of social security. Thus, the government sector as a percentage of GDP is below the figures for the LMI CEEC, Bulgaria, and Romania. This is so even though government expenditures and revenues rose significantly between 2000 and 2004. When the social security system is taken into account, the size of the government sector is substantial and could eclipse that of any other LMI CEE country

The IMF has strongly recommended that the Montenegrin authorities pursue structural fiscal reforms. Specific recommendations from the two Article IV reports released in 2005 urged authorities to pursue more substantial cuts in public expenditures, to implement planned reductions in public employment, and not to implement proposed tax cuts. One of the IMF's key recommendations is that the government increase capital investment without raising expenditures.

In general, Montenegro's monetary and fiscal situation appears favorable. At the same time, the trend of rising expenditures is cause for concern. Montenegro may benefit from the assistance of international donor organizations in fiscal management.

BUSINESS ENVIRONMENT

Institutionalized corruption poisons private sector development by impeding simple business transactions and handicapping businesses' ability to respond to the market. The Serbia and Montenegro's Corruption Perception Index score was 2.8 in 2005, a marginal improvement over its score of 2.7 in 2004.¹⁵ Although Serbia and Montenegro's score here is only slightly below the LMI CEEC average, performance on an absolute scale is more important—and by that measure corruption remains unacceptably high (Figure 3-3). The same is true for the rule of law. The country's Rule of Law Index score of -0.7¹⁶ shows the need for improvement both absolutely and relatively; it was below the LMI CEEC regional average of -0.3, as well as the scores of Bulgaria (0.1) and Romania (-0.2).

Montenegro has recently reduced the time and the number of procedures necessary to conduct regular business activities. Its *Doing Business* indicators are generally better than the LMI CEEC averages. Starting a business takes only 11 days in Montenegro versus an average of 39.5 days in LMI CEEC, 32 days in Bulgaria, and 28 days in Romania. Similarly, Montenegro is doing much better than comparator economies in number of procedures and time required to enforce a contract. For example, it takes 212 days to enforce a contract in Montenegro versus 362.5 days on average for LMI CEEC (Figure 3-4). Fourteen procedures are still required to register property, while Bulgaria requires 9 and Romania 8. The LMI CEEC average is 8 procedures.

¹⁵ The Corruption Perception Index scores corruption on a scale of 1 (worst) to 10 (best), with any score of 3 or below indicating "rampant corruption."

¹⁶ The Rule of Law Index is a composite of various surveys on public confidence in the rule of law, the incidence of crime, the reliability of the judicial system, and the enforceability of contracts. The global mean is defined as zero, with associated individual scores defined as standard deviations above or below. The index ranges from -2.5 (for poor performance) to 2.5 (for excellent performance).

Figure 3-3. Corruption Perception Index

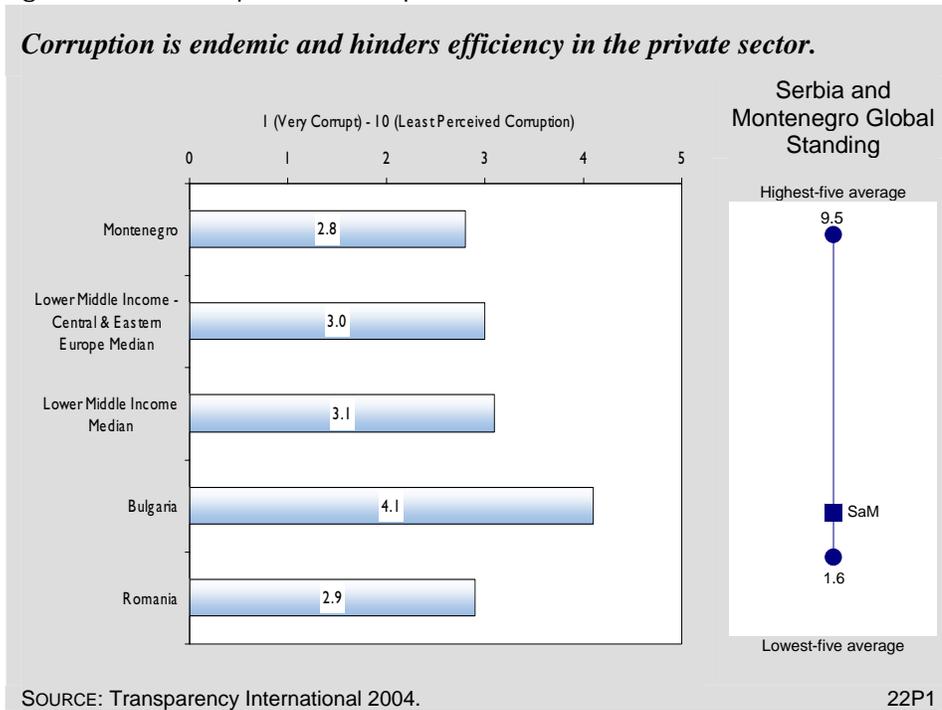
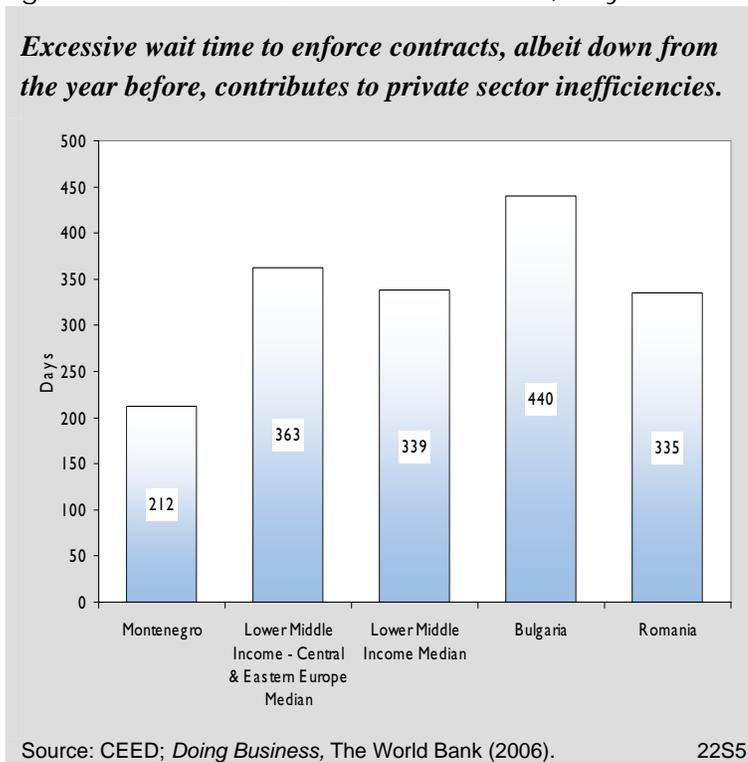


Figure 3-4. Time to Enforce a Contract, Days



While further reductions in the time and number of procedures necessary to effect business transactions are welcome, the primary focus needs to be legal and regulatory reforms that reduce corruption. This is essential if Montenegro is to take full advantage of its proximity to Western European markets and its competitive wage structure.

FINANCIAL SECTOR

Montenegro's financial sector performance is mixed. Credit levels are low and other indicators reveal substantial market inefficiencies. Domestic credit to the private sector more than doubled from 2002 to 2004, reaching 10.9 percent of GDP, but still substantially below average levels in the LMI CEEC (24.6 percent) and Bulgaria (27.6 percent), though on par with Romania (9.6 percent). Montenegro also performs poorly on another measure of financial development, the ratio of money supply to GDP. This was 35.5 percent in 2004; in benchmark countries it was over 40 percent.

Inefficiencies in the financial sector may be a factor in the low levels of credit and monetization and may be indirectly related to low investment. It is impossible to calculate real interest rates using average interest rates because the National Bank of Montenegro does not publish an average interest rate series. When maximum rates are used as a proxy, the economy seems to be characterized by high interest rate spreads and risk premia. In 2004, the maximum interest rate on both short-term and long-term loans was 36 percent. At the same time, the maximum interest rate on demand deposits was 4.0 percent and the maximum rate on term deposits was 11.0 percent and 8.0 percent for deposits in euros and other currencies, respectively.

In contrast to money and credit measures, Montenegro does well on stock market capitalization. Market capitalization surged from 2.1 percent of GDP in 1999 to 18.0 percent of GDP in 2004, roughly twice the average level in the LMI countries of Central and Eastern Europe as well as those in Bulgaria and Romania. This finding is particularly impressive given that substantial additional privatization of state-owned enterprises is possible.

Finally, the legal rights of borrowers and lenders index, measuring the degree to which collateral and bankruptcy laws facilitate lending, is 5.0 in Serbia and Montenegro, in the middle of the scale. This is a little higher in Bulgaria (6.0) and in the LMI CEECs (5.5).

These findings suggest that international donor organizations might help the Montenegrin authorities identify the causes of financial market inefficiencies and suggest remedies that would allow for a reduction in the interest rate spread and a further increase in domestic credit. Support for the acceleration of bank privatization, which has been strongly encouraged by the IMF, may be also beneficial.

EXTERNAL SECTOR

Fundamental changes in international commerce and finance, including lower transport costs, advances in telecommunications technology, and less onerous policy barriers, have fueled a rapid increase in global integration in the past 25 years. The international flow of goods and services, capital, technology, ideas, and people offers great opportunities for Montenegro to boost growth

and reduce poverty by stimulating productivity and efficiency, providing access to new markets and ideas, and expanding the range of consumer choice. Globalization also creates new challenges in the need for institutions, policies, and regulations to take full advantage of international markets, develop cost-effective approaches to cope with adjustment costs, and establish systems for monitoring and mitigating the associated risks. Montenegro has been rapidly integrating into the world economy over the past several years. While this has been generally beneficial, persistent external imbalances threaten the country's economic stability and future growth.

International Trade and the Current Account

Soaring exports and rapidly rising wages have stimulated demand in Montenegro. Growth in the export of goods and services averaged 23.6 from 2000–2004, substantially higher than the growth in real GDP. The subsequent rise in domestic demand spurred a surge in imports rather than domestic supply, and exports and current transfers compensated little for this influx, leading to wide gaps in the current account.

Montenegro's trade in goods and services increased markedly following the end of military conflict in Yugoslavia in 1999. In 2004, trade accounted for 100.1 percent of GDP, but the average for 2000–2004 was a much lower 89.5. Both figures, however, are well above that found in the LMI CEEC (78.0 percent for 2004) and Romania (71.6 percent for 2003), though less than in Bulgaria (116.2 percent for 2003). Taking into account that Montenegro is a small economy, the regression benchmark regression predicts the indicator to have a value of 109.5 indicating that there is room for improvement in trade performance.

Montenegrin exports of goods and services soared by 176 percent over the 2000–2004 period. The export growth rate for 2004 was 34.8 percent, several times faster than in the comparator country groups, Bulgaria, and Romania (Figure 3-5). Exports of goods and services are concentrated in tourism and aluminum. In 2004, tourism accounted for 26.2 percent of exports and aluminum accounted for 25.4 percent and both sectors have been growing steadily and rapidly. High export concentration is to be expected in a small economy, but Montenegrin authorities still need to explore opportunities for export diversification.

Despite rapid export growth, imports still exceed exports substantially. In 2004, the current account deficit was 19.0 percent of GDP. A substantial portion of the trade deficit was covered with labor income, which increased 51.2 percent in 2004 and was 8.5 percent of GDP. In 2004, the trade deficit was 9.3 percent of GDP, an improvement with respect to the 24.5 percent gap in 2001, but higher than in comparator country groups, in Bulgaria, and in Romania (Figure 3-6). This current account deficit is not sustainable and is one of the most acute economic problems facing Montenegro.

The trade policy index for Montenegro alone is not available. The trade policy index for Serbia and Montenegro is low (4), though equal to that of comparable countries and country groups. Nonetheless, that the Montenegrin trade-to-GDP ratio is below predicted levels suggests that improvements in trade policy, combined with encouragement of domestic and foreign investment, might improve trade performance.

Figure 3-5. Growth in Exports of Goods and Services (percent)

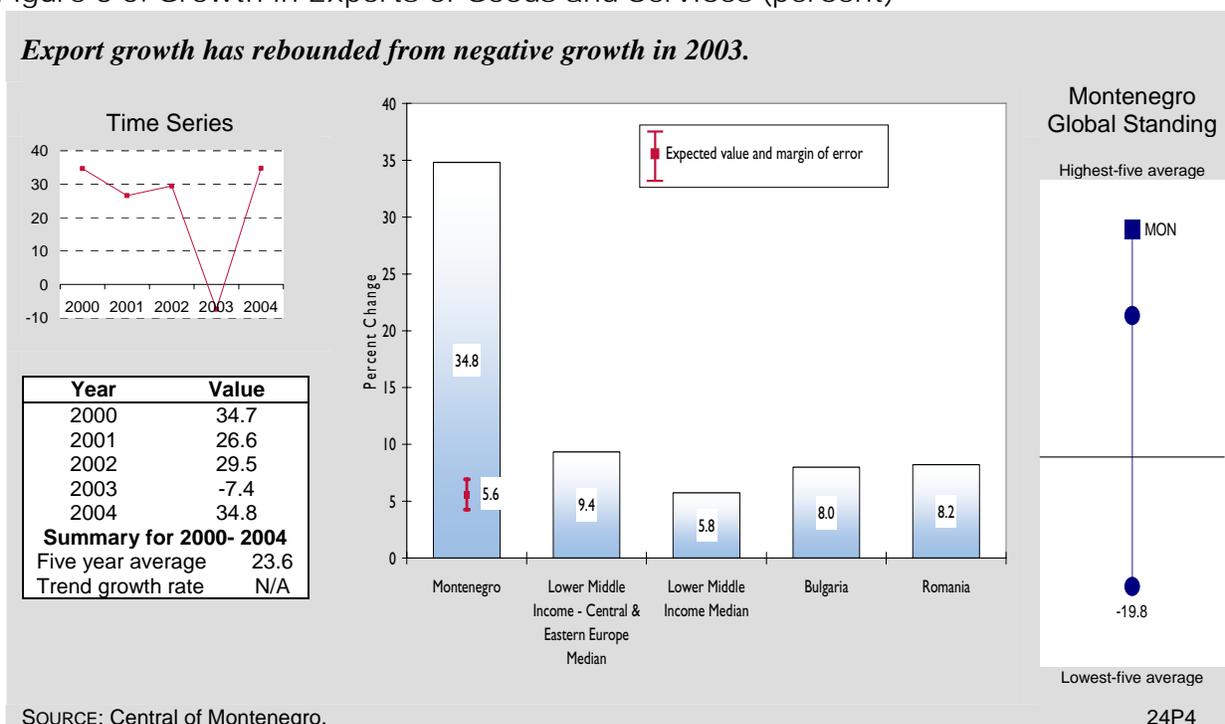
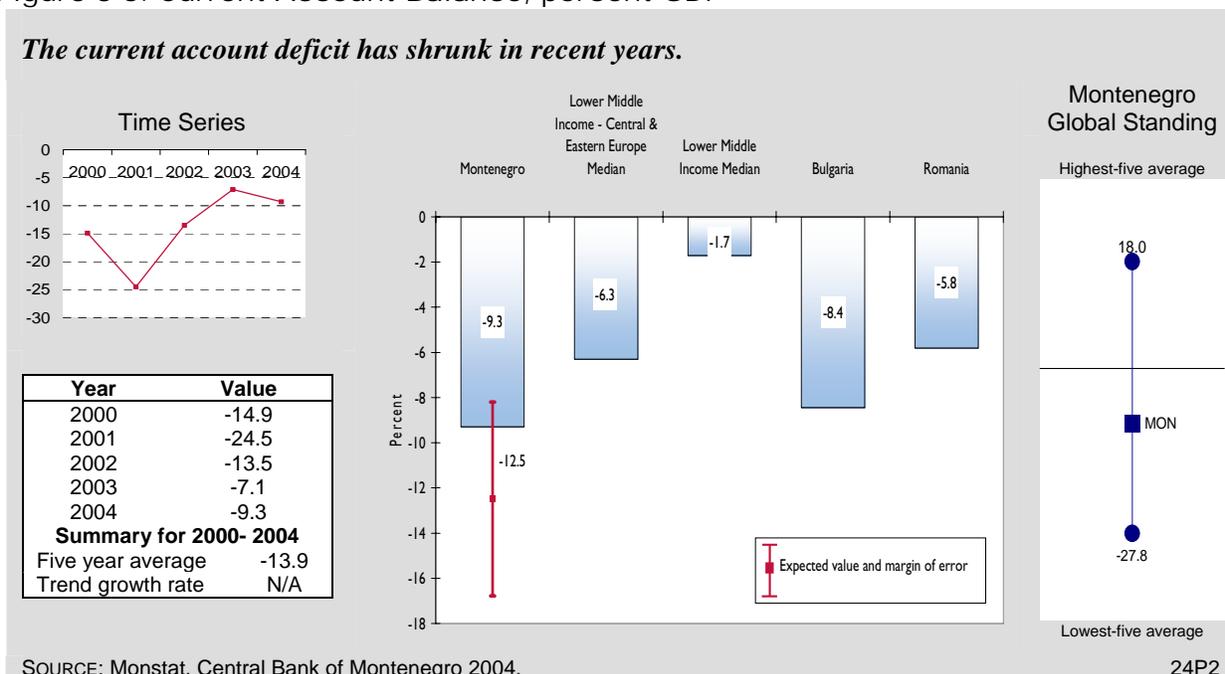


Figure 3-6. Current Account Balance, percent GDP



International Financing and External Debt

Labor income is the most significant source of Montenegro’s external financing, followed by private capital. Official transfers dropped in the most recent year for which data is available and are now a much less important means of financing the current account deficit; transfers declined

from an average of 12.3 percent of GNI over the 2000–2002 period to 6.4 percent in 2003. This is still substantially above the 3.6 percent averaged by the LMI CEECs and the 2.1 and 1.1 percent found in Bulgaria and Romania, respectively, which suggests that this level may decline further.

Most foreign capital inflows are loans; inflows of foreign direct investment (FDI) accounted for only 3.3 percent of GDP in 2004. While this performance is marginally better than that in the LMI CEEC (3.1 percent) and Romania (3.2 percent), it is less than the 7.2 percent recorded by Bulgaria and is a decline from much higher levels recorded in 2001 and 2002. While these figures should be treated with caution as they can fluctuate substantially from year to year because of large individual transactions and the pace of privatization, the current inflow of FDI in Montenegro is insufficient given the relatively low levels of domestic investment and the large current account deficit. Montenegro needs to cut its current account deficit and diversify the sources of external financing, primarily by attracting FDI.

The present value of external debt and the debt service ratio are not available for Montenegro so no analysis is possible using standard indicators. However, as in many developing countries, external debt sustainability is a macroeconomic concern that bears watching.

ECONOMIC INFRASTRUCTURE

A country's physical infrastructure—for transportation, communications, power, and information technology—is its backbone for strengthening competitiveness and expanding productive capacity. Data on the infrastructure of Serbia and Montenegro is not available from the *Global Competitiveness Report*, but USAID's recent Infrastructure Reform and Finance (IRF) Country Report presents the status of energy, water and sanitation, transport, and telecommunications infrastructure.¹⁷

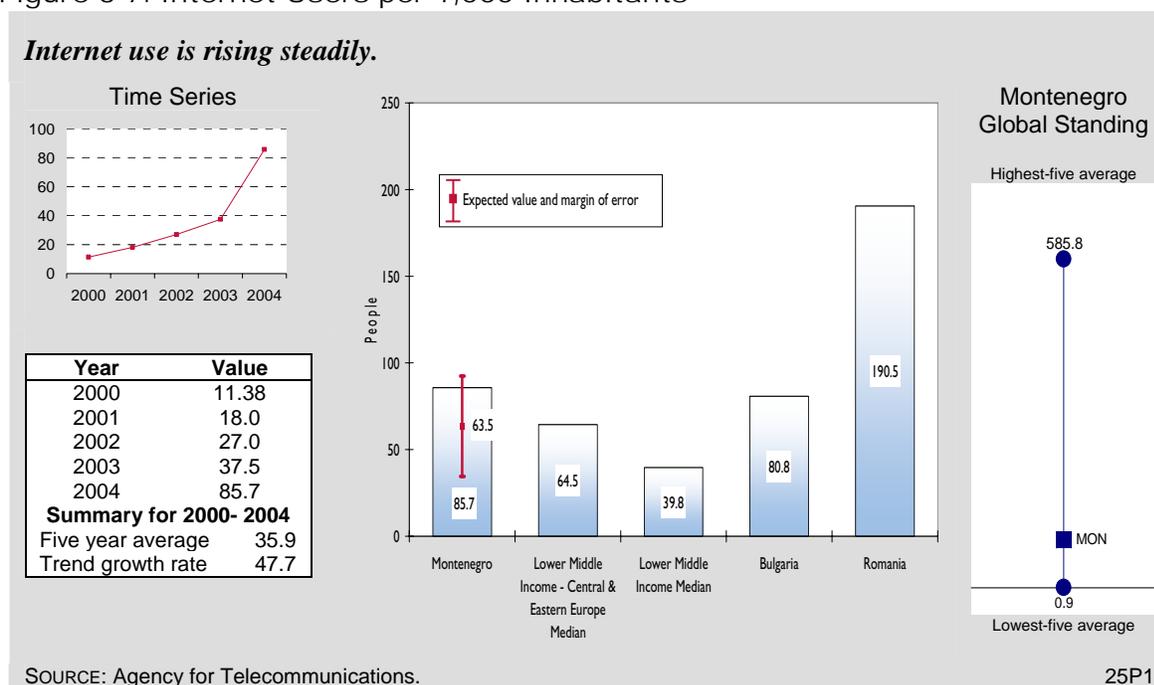
The report indicates that Montenegro needs to improve its energy and transportation infrastructure, while the telecommunications infrastructure is relatively good. Poor access to district-level heating or natural gas has given rise to wide use of electricity for heating and a very efficient national heating system. Montenegro's transportation infrastructure, while quite good, is deteriorating. The report recommends enhancing energy efficiency and improving transportation by revitalizing ports (particularly the Port of Bar) and restoring roads that connect Montenegro to its neighbors.

Good telecommunications infrastructure links markets globally and provides access to global markets. Montenegro does well on telecommunications indicators. Telephone density is above average—608 fixed line and mobile subscribers per 1,000 inhabitants, nearly double the regression benchmark figure of 339, and above the 523.6 found in both Romania and the average for LMI CEEC, though well below the level of 846.9 in Bulgaria. Montenegro's Internet use has grown rapidly in the last five years, jumping from 11.4 to 85.7 users per 1,000 inhabitants in 2004. The 2004 figure compares favorably to the regression benchmark of 63.5 and 64.5 for LIM

¹⁷ "Infrastructure Reform and Finance (IRF) Country Report: Serbia & Montenegro" Contract No. AFP-I-00-03-00035-00.

CEEC. This level of use is similar to Bulgaria (80.8) though well below Romania (190.5). The rapid growth of Internet use in Montenegro between 1999 and 2004 suggests that Internet technology may be an additional source of comparative advantage for Montenegro. Foreign assistance that can leverage Montenegro's technological capabilities can act as a catalyst for private sector growth (Figure 3-7).

Figure 3-7. Internet Users per 1,000 Inhabitants



SCIENCE AND TECHNOLOGY

Science and technology are central to dynamic growth because technical knowledge is a driving force in productivity and competitiveness. Even for low-income countries, such as Montenegro, transformational development increasingly depends on acquiring technology from the global economy and adapting it to a country's level of development. A lack of capacity to acquire, adapt, and use technology prevents an economy from benefiting fully from globalization. Unfortunately, few international indicators of science and technology are available for judging performance in LMI developing countries. Hence, one must draw inferences from a very limited data set, proxies for other missing information.

Despite a low level of government expenditure on research and development, new technology is nascent in Serbia and Montenegro. Montenegro's expenditure on research and development is low—0.4 percent of GDP—but increasing from near zero several years ago. Serbia and Montenegro's research and development spending is roughly equivalent to that of Bulgaria (0.5 percent) and Romania (0.4 percent), as well as the average of LMI CEECs (0.4 percent). Residents filed 507 patent applications in 2002, well above the LMI CEEC average of 174, and between figures for Bulgaria (306) and Romania (1,486). The FDI and Technology Transfer

Index score of 3.7 for Serbia and Montenegro indicates that FDI is bringing in some new technology, but less than in other LMI CEECs (4.4), Bulgaria (4.4), and Romania (5.1).¹⁸ Investment promotion campaigns could augment Montenegro's limited success in attracting new technology by highlighting the country's educated workforce and proximity to industrial markets in Western Europe.

¹⁸ The FDI and Technology Transfer Index is on a scale from 1 (brings little new technology) to 7 (is an important source of new technology).

4. Pro-Poor Growth Environment

While rapid growth is the most powerful and dependable instrument for poverty reduction, the link between growth and poverty reduction is not mechanical. In some cases, income growth for poor households exceeds the overall rise in per capita income, while in other conditions growth benefits the non-poor far more than the poor. A pro-poor growth environment stems from policies and institutions that improve opportunities and capabilities for the poor, while reducing their vulnerabilities. Pro-poor growth is associated with improvements in primary health and education, the creation of jobs and income opportunities, the development of skills, micro-finance, agricultural development, and gender equality.¹⁹ This section focuses on four of these issues: health; education; employment and the workforce; and agricultural development.

HEALTH

The provision of basic health care is a major form of human capital investment and a significant determinant of growth and poverty reduction. Although health programs do not fall under the purview of the EGAT bureau, an understanding of health conditions can influence the design of EG interventions.

Montenegro has excellent performance for many indicators pertaining to public health. Life expectancy at birth is 73.1, above the statistically predicted figure of 70.4 (Figure 4-1). It also has a low maternal mortality rate of 22.7 per 100,000 births (2004), comparable to rates in many OECD countries, well below rates predicted by the benchmark regression (64.0), and below the regional average of 40.5. HIV prevalence, at 0.2 percent, is in line with the 0.1 percent found in the LMI CEECs, Bulgaria, and Romania. Montenegro's good performance is in part attributable to expenditures of 7.7 percent of GDP on public health, well above the 4.4 percent average expenditure in LMI CEECs, 4.5 percent in Bulgaria, and 4.2 percent in Romania.

Serbia and Montenegro fell short in access to improved sanitation, 87.0 percent, and potable water, 93.0 percent, in 2002. These figures are similar to regional averages but could be improved on an absolute scale. Water quality is a mounting problem in Montenegro. According to the IRF report, potable water is of poor quality, water shortages occur in the summer, and water treatment and sewerage (in some rural areas) are insufficient.

¹⁹ For purposes of economic growth programming, the template does not cover emergency relief.

Figure 4-1. Life Expectancy at Birth

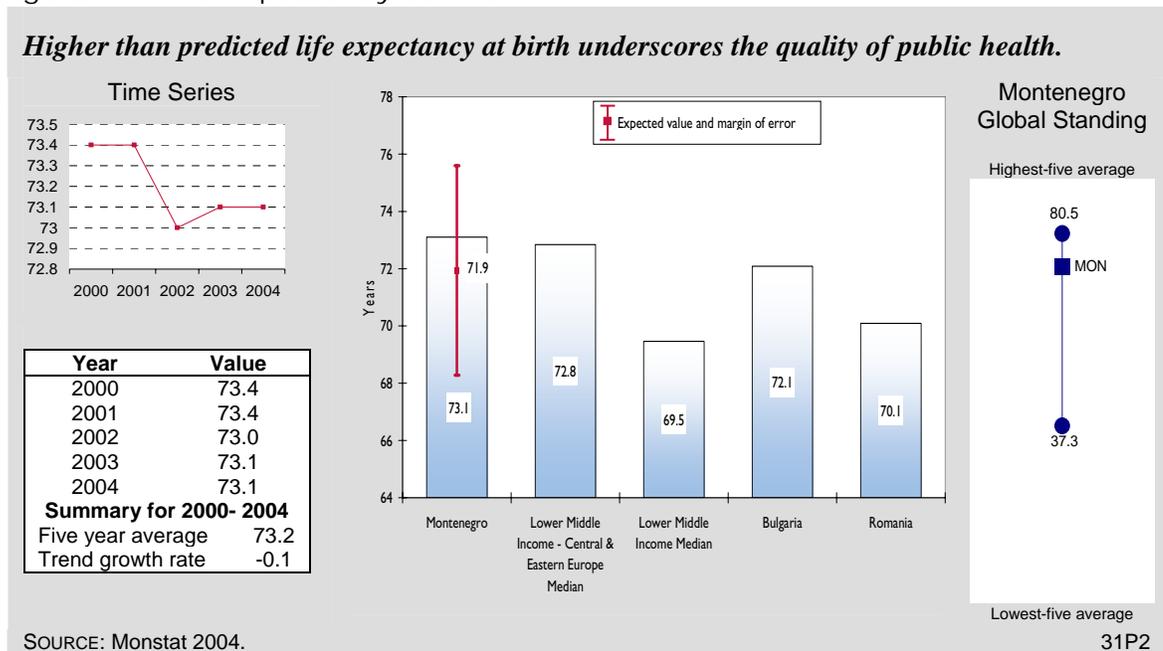
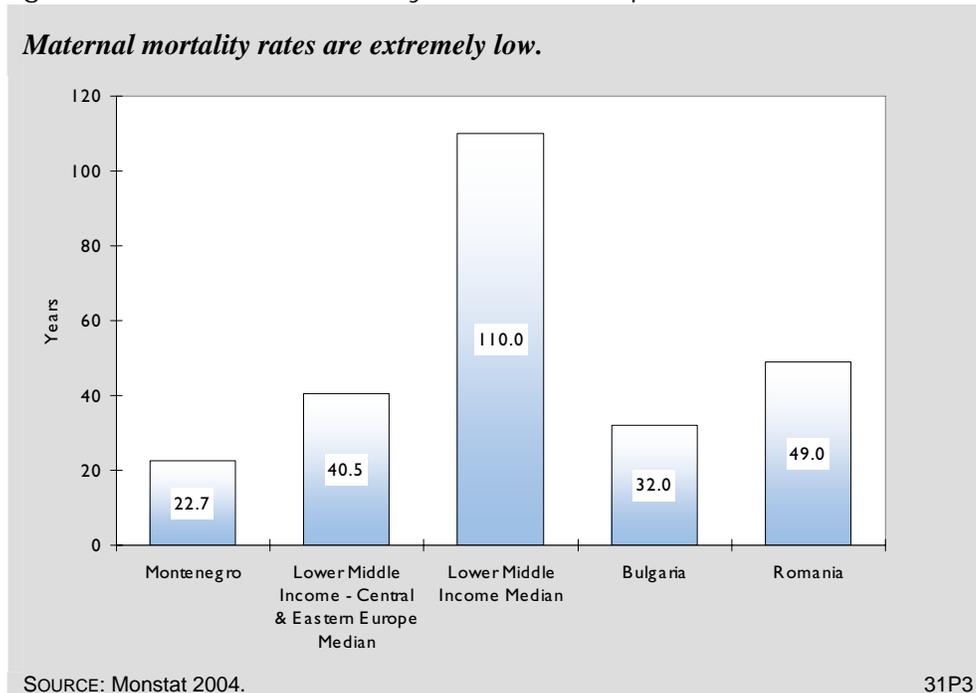


Figure 4-2. Maternal Mortality Rate, Deaths per 100,000 Live Births

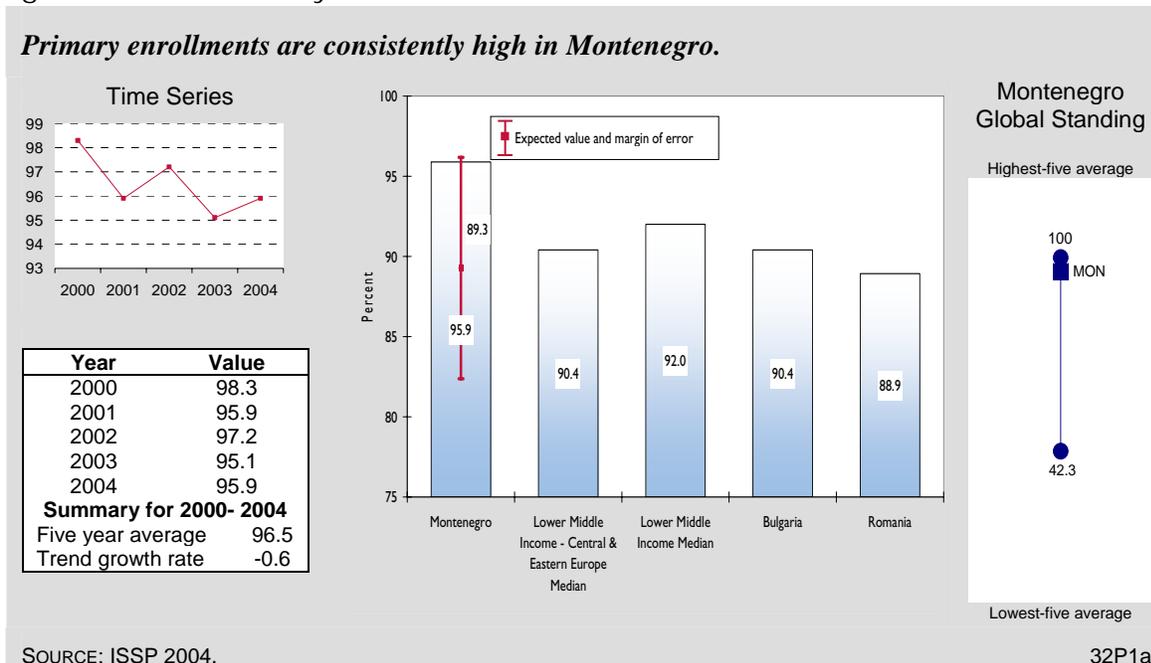


EDUCATION

One of Montenegro's most attractive economic assets is widespread attainment of basic education. Like many Central and Eastern European nations, Montenegro enjoys a high youth literacy rate—99.4 percent. Net primary enrollment rates are also high. In 2004, net primary enrollment was 95.9 percent, significantly higher than the LMI CEEC average of 90.4 as well as rates in Bulgaria and Romania (Figure 4-2). The net primary enrollment rates for females were

slightly higher than those of males. While it appears that Montenegrins by and large get a good head start, secondary school education is lagging—only 67.3 percent of secondary school aged Montenegrins attended school in 2003 according to the Institute for Strategic Studies and Prognoses (ISSP). Programming that supports secondary education, particularly in smaller cities and rural areas, would augment the workforce’s productive capacity and address urban-rural differences in poverty.

Figure 4-2. Net Primary Enrollment



EMPLOYMENT AND WORKFORCE

The unemployment rate fell from 32.7 percent in 2000 to 22.6 percent in 2004 and the labor force decreased at an annual average of 1.2 percent over the same period, roughly 26,000 workers. Given low economic growth rates, this likely reflects an absolute decline in the labor force rather than in unemployed people leaving the workforce.

Productive employment serves a society by providing livelihoods and insulating social cohesion. Lack of employment opportunities for large swathes of Montenegro’s labor force is a serious problem. The unemployment rate dropped substantially from 2000 to 2004, standing at 22.6 percent, but is still approximately 7 percentage points above the regional average (Figure 4-3). This rate is particularly high given that much of the drop is explained by declining and now low rates of labor force participation in Montenegro. Early retirements, post-transition, and aging populations have combined to produce lower rates generally. In 2004, the total labor force participation rate was 60.2 (for males 69.1 and for females, 51.5). This rate is significantly lower than that of the LMI CEEC mean, Bulgaria and Romania, all of which near 70 percent or higher. Montenegro’s rate was comparable to these levels as recently as 2000—71.5 percent. The 11.3 percentage point decrease is attributable to a precipitous decline in female participation rates, though this rate was erratic between 2000 and 2004, suggesting a “last hired, first fired”

syndrome for women in conjunction with the ebb and flow of economic conditions (Figures 4-4 and 4-5).

Figure 4-3. Unemployment Rate

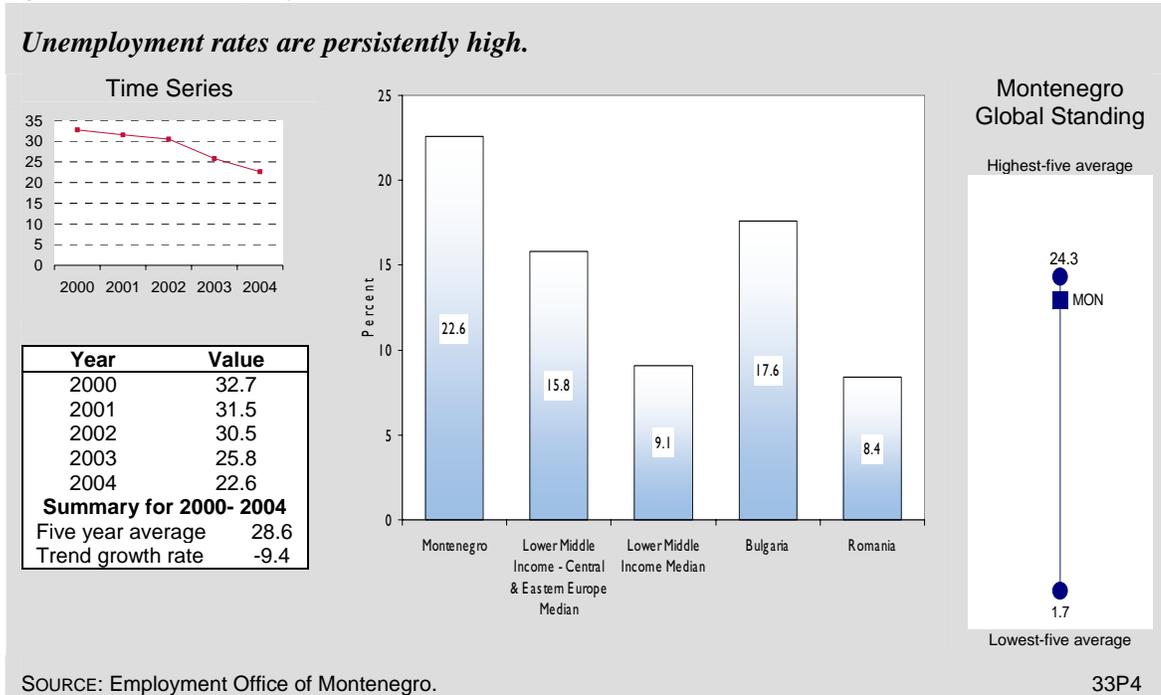


Figure 4-4. Female Labor Force Participation Rate

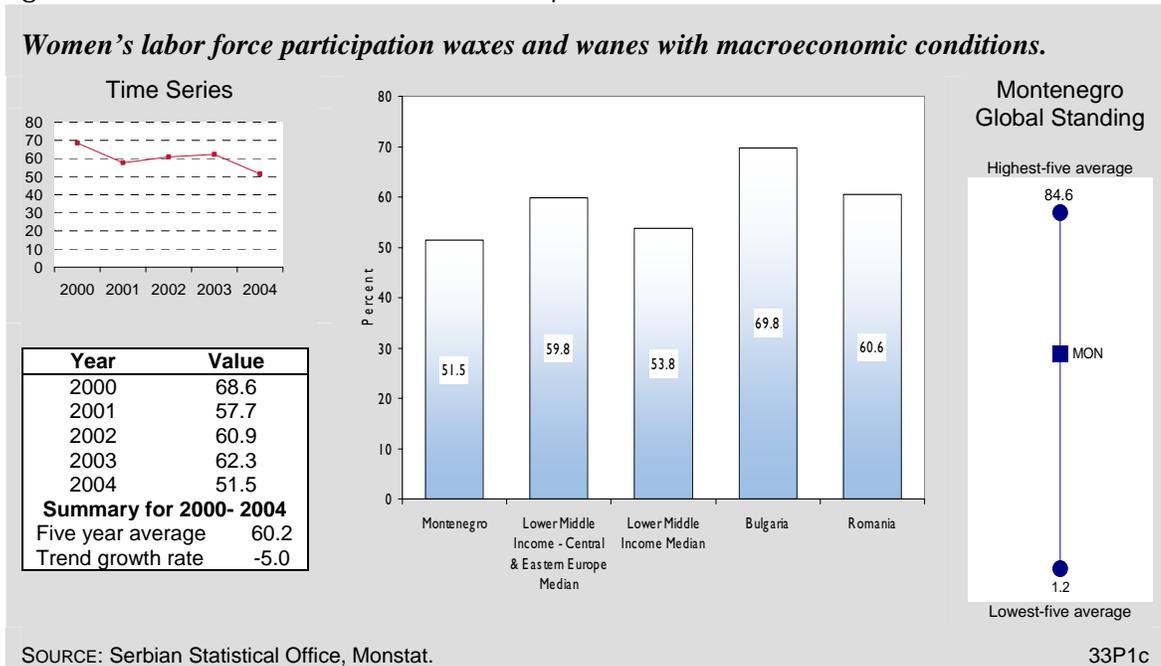
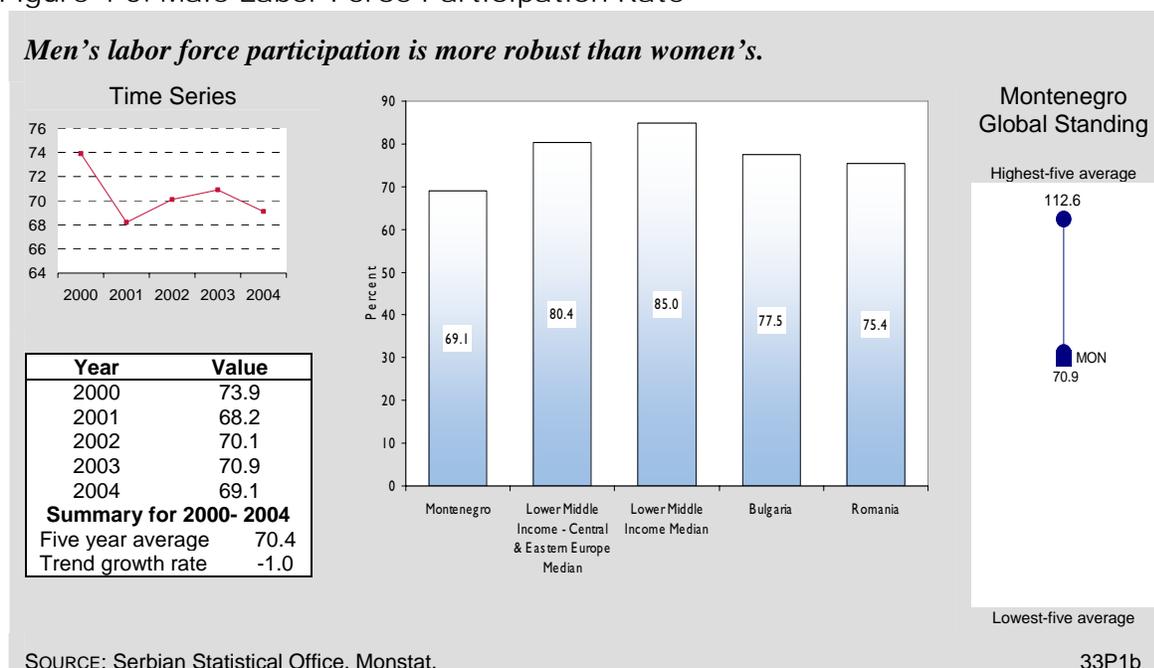


Figure 4-5. Male Labor Force Participation Rate



High unemployment rates and the lack of employment opportunities appear to be associated with slow growth, structural obstacles to investment and job creation, and lingering post-conflict effects. In addition, Serbia and Montenegro have a relatively rigid labor market, scoring 49.0 on the Rigidity of Employment Index, which gauges the liquidity of the labor market by determining the ease of hiring, firing, and requesting work hours beyond the standard work week. The score in LMI CEEC was on average 43.5²⁰ (Figure 4-6). Programs that emphasize job creation, especially those that target opportunities for women, will be helpful in remedying Montenegro's unemployment woes and increasing labor force participation rates.

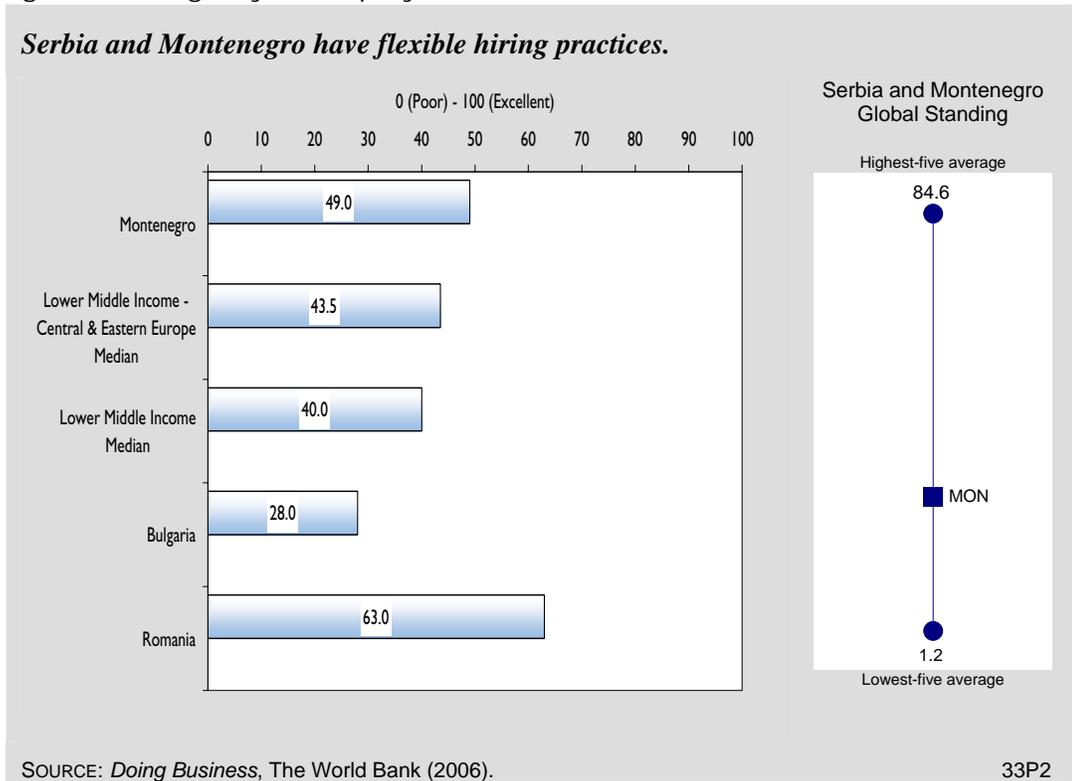
AGRICULTURE

Agricultural performance in Serbia and Montenegro meets domestic demand and is a source of export income. Agriculture accounts for about 20 percent of exports and output. The cereal yield is robust and consistent with regional averages: an average of 3,485 kilograms per hectare annually, compared to the regional average of 3,143 kilograms per hectare, and 3,543 in Bulgaria, though a little below yields in Romania (3,899). The livestock production index (94.5 in 2004, with 1999–2001 as the base) for Serbia and Montenegro is slightly worse than the average for LMI CEEC (105.0) and than Romania (119.1), but on par with Bulgaria (95.9). The Agricultural Policy Costs Index²¹ scores Montenegro 3.5. This median score reveals that agricultural policy is not excessively burdensome. Since agriculture accounts for a substantial share of industry in Montenegro, assistance in bringing processed agricultural goods to international standards could be an effective way to add value to the sector.

²⁰ On a scale of 1 (minimum rigidity) to 100 (maximum rigidity).

²¹ ISSP calculation using World Economic Forum Methodology. The Agricultural Policy Costs Index ranges from 1 (excessively burdensome) to 7 (balances all economic agents' interests).

Figure 4-6. Rigidity of Employment Index



Appendix

CRITERIA FOR SELECTING INDICATORS

The scope of the paper is constrained by the availability of suitable indicators. Indicators have been chosen to balance the need for broad coverage and diagnostic value, on the one hand, and the need for brevity and clarity, on the other. The analysis covers 15 EG-related topics, and just more than 100 variables. For the sake of brevity, the text highlights issues for which the “dashboard lights” appear to be signaling problems, which suggest possible priorities for USAID intervention. The following table lists all indicators examined for this report. A separate Data Supplement contains the complete data set for Montenegro, including data for the benchmark comparisons, and technical notes for every indicator.

For each topic, the analysis begins with a screening of *primary performance indicators*. These “level I” indicators are selected to answer the question: Is the country performing well or not in this area? The primary indicators include descriptive variables such as per capita income, the poverty head count, and the age dependency rate.

In areas of weak performance, the analysis proceeds to review a limited set of *diagnostic supporting indicators*. These “level II” indicators provide more details about the problem or shed light on *why* the primary indicators may be weak. For example, if economic growth is poor, one can examine data on investment and productivity as diagnostic indicators. If a country performs poorly on educational achievement, as measured by the youth literacy rate, one can examine determinants such as expenditure on primary education and the pupil-teacher ratio.¹

The indicators have been selected on the basis of several criteria. Each one must be accessible through USAID’s Economic and Social Database or convenient public sources, particularly on the Internet. The indicators must be available for a large number of countries, including most USAID client states. The data must be sufficiently timely to support an assessment of country performance that is suitable for strategic planning. Data quality is another consideration. For example, subjective survey responses are used only when actual measurements are not available. Aside from a few descriptive variables, the indicators must also be useful for diagnostic purposes. Preference is given to measures that are widely used, such as Millennium Development Goal indicators, or evaluation data used by the Millennium Challenge Corporation. Finally, an effort has been made to minimize redundancy. If different indicators provide similar information,

¹ Deeper analysis of the topic using more detailed data (level III) is beyond the scope of papers in this series.

preference is given to one that is simplest to understand. For example, both the Gini coefficient and the share of income accruing to the poorest 20 percent of households can be used to gauge income inequality. We use the income share because it is simpler, and more sensitive to changes.

BENCHMARKING METHODOLOGY

Comparative benchmarking is the main tool used to evaluate each indicator. The analysis draws on several criteria, rather than a single mechanical rule. The starting point is a comparison of performance in Montenegro relative to the average for countries in the same income group and region—in this case, lower middle-income (LMI) Central and Eastern European countries (LMI-CEEC).² For added perspective, three other comparisons are examined: (1) the global average for this income group; (2) respective values for two comparator countries selected by the Serbia and Montenegro mission (Bulgaria and Romania); and (3) the average for the five best and five worst performing countries globally. Most comparisons are framed in terms of values for the latest year of data from available sources. Five-year trends are also taken into account if they shed light on the performance assessment.³

For selected variables, a second source of benchmark values uses statistical regression analysis to establish an expected value for the indicator, controlling for income and regional effects.⁴ This approach has three advantages. First, the benchmark is customized to Montenegro's level of income. Second, the comparison does not depend on the exact choice of reference group. Third, the methodology allows one to quantify the margin of error and establish a "normal band" for a country with Montenegro's characteristics. An observed value falling outside this band on the side of poor performance signals a serious problem.⁵

Finally, where relevant, Montenegro's performance is weighed against absolute standards. For example, the corruption perception index for Serbia and Montenegro was 2.7 in 2004. Regardless of the regional comparisons or regression results, this is a sign of serious problems in economic governance.

² Income groups as defined by the World Bank for 2004. For this study, the average is defined in terms of the mean; future studies will use the median instead, because the values are not distorted by outliers.

³ The five-year trends are computed by fitting a log-linear regression line through the data points. The alternative of computing average growth from the end points produces aberrant results when one or both of those points diverges from the underlying trend.

⁴ This is a cross-sectional OLS regression using data for all developing countries. For any indicator, Y , the regression equation takes the form: Y (or $\ln Y$, as relevant) = $a + b * \ln \text{PCI} + c * \text{Region} + \text{error}$ —where PCI is per capita income in PPP\$, and Region is a set of 0-1 dummy variables indicating the region in which each country is located. Once estimates are obtained for the parameters a , b and c , the predicted value for Montenegro is computed by plugging in Montenegro-specific values for PCI and Region. Where applicable, the regression also controls for population size and petroleum exports (as a percentage of GDP).

⁵ This report uses a margin of error of 0.66 times the standard error of estimate (adjusted for heteroskedasticity, where appropriate). With this value, 25% of the observations should fall outside the normal range on the side of poor performance (and 25% on the side of good performance). Some regressions produce a very large standard error, giving a "normal band" that is too wide to provide a discerning test of good or bad performance.

INDICATORS

	Level	MDG/MCA/EcGov ^a	CAS Indicator Code
OVERVIEW OF THE ECONOMY			
Growth Performance			
Per capita GDP, \$PPP	I		11P1
Per capita GDP, current US\$	I		11P2
Real GDP growth	I		11P3
Growth of labor productivity	II		11S1
Investment Productivity - Incremental Capital-Output Ratio (ICOR)	II		11S2
Gross fixed investment, percent GDP	II		11S3
Gross fixed private investment, percent GDP	II		11S4
Poverty and Inequality			
Human poverty index	I		12P1
Income-share, poorest 20 percent	I		12P2
Population living on less than \$1 PPP per day	I	MDG	12P3
Poverty headcount, by national poverty line	I	MDG	12P4
PRSP Status	I	EcGov	12P5
Population below minimum dietary energy consumption	II	MDG	12S1
Poverty gap at \$1 PPP a day	II		12S2
Economic Structure			
Labor force structure	I		13P1
Output structure	I		13P2
Demography and Environment			
Adult literacy rate	I		14P1
Age dependency rate	I		14P2
Environmental sustainable index	I		14P3
Population size and growth	I		14P4
Urbanization rate	I		14P5
Gender			
Adult literacy rate, ratio of male to female	I	MDG	15P1
Gross enrollment rate, all levels, ratio of male to female,	I	MDG	15P2
Life expectancy at birth, ratio of male to female	I		15P3
PRIVATE SECTOR ENABLING ENVIRONMENT			
Fiscal and Monetary Policy			
Govt. expenditure, percent GDP	I	EcGov	21P1
Govt. revenue, percent GDP	I	EcGov	21P2
Growth in the money supply	I	EcGov	21P3
Inflation rate	I	MCA	21P4
Overall govt. budget balance, including grants, percent GDP	I	EcGov	21P5
Composition of govt. expenditure	II		21S1
Composition of govt. revenue	II		21S2
Composition of money supply growth	II		21S3

	Level	MDG/MCA/EcGov ^a	CAS Indicator Code
Business Environment			
Corruption perception index	I	EcGov	22P1
Doing business composite index	I	EcGov	22P2
Rule of law index	I	MCA / EcGov	22P3
Cost of starting a business, percent GNI per capita	II	EcGov	22S1
Procedures to enforce contract	II	EcGov	22S2
Procedures to register property	II	EcGov	22S3
Procedures to start a business	II	EcGov	22S4
Time to enforce a contract	II	EcGov	22S5
Time to register property	II	EcGov	22S6
Time to start a business	II	EcGov	22S7
Financial Sector			
Domestic credit to private sector, percent GDP	I		23P1
Interest rate spread	I		23P2
Money supply, percent GDP	I		23P3
Stock market capitalization rate, percent of GDP	I		23P4
Cost to create collateral	II		23S1
Country credit rating	II	MCA	23S2
Legal rights of borrowers and lenders index	II		23S3
Real Interest rate	I		23S4
External Sector			
Aid , percent GNI	I		24P1
Current account balance, percent GDP	I		24P2
Debt service ratio, percent exports	I	MDG	24P3
Export growth of goods and services	I		24P4
Foreign direct investment, percent GDP	I		24P5
Gross international reserves, months of imports	I	EcGov	24P6
Gross Private capital inflows, percent GDP	I		24P7
Present value of debt, percent GNI	I		24P8
Remittance receipts, percent exports	I		24P9
Trade, percent GDP	I		24P10
Concentration of Exports	II		24S1
Inward FDI Potential Index	II		24S2
Net barter terms of trade	II		24S3
Real effective exchange rate (REER)	II	EcGov	24S4
Structure of merchandise exports	II		24S5
Trade policy index	II	MCA / EcGov	24S6
Economic Infrastructure			
Internet users per 1000 people	I	MDG	25P1
Overall infrastructure quality	I	EcGov	25P2
Telephone density, fixed line and mobile	I	MDG	25P3
Quality of infrastructure – railroads, ports, air Transport, and electricity	II		25S1
Telephone cost, average local call	II		25S2

	Level	MDG/MCA/EcGov ^a	CAS Indicator Code
Science and Technology			
Expenditure for R&D, percent GNI	I		26P1
FDI and technology transfer index	I		26P2
Patent applications filed by residents	I		26P3
PRO-POOR GROWTH ENVIRONMENT			
Health			
HIV prevalence	I		31P1
Life expectancy at birth	I		31P2
Maternal mortality rate	I	MDG	31P3
Access to improved sanitation	II	MDG	31S1
Access to improved water source	II	MDG	31S2
Births attended by skilled health personnel	II	MDG	31S3
Child immunization rate	II		31S4
Prevalence of child malnutrition (weight for age)	II		31S5
Public health expenditure, percent GDP	II	EcGov	31S6
Education			
Net primary enrollment rate	I	MDG	32P1
Persistence in school to grade 5	I	MDG	32P2
Youth literacy rate	I		32P3
Education expenditure, primary, percent GDP	II	MCA/ EcGov	32S1
Expenditure per student, percent GDP per capita – primary, secondary, and tertiary	II	EcGov	32S2
Pupil-teacher ratio, primary school	II		32S3
Employment and Workforce			
Labor force participation rate, females, males, total	I		33P1
Rigidity of employment index	I	EcGov	33P2
Size and growth of the labor force	I		33P3
Unemployment rate	I		33P4
Agriculture			
Agriculture value added per worker	I		34P1
Cereal yield	I		34P2
Growth in agricultural value-added	I		34P3
Agricultural policy costs index	II	EcGov	34S1
Crop production index	II		34S2
Livestock production index	II		34S3

^a Level I = primary performance indicators, Level II = supporting diagnostic indicators

MDG = Millennium Development Goal indicator

MCA = Millennium Challenge Account indicator

EcGov = Major indicators of *Economic Governance*, which is defined in USAID's *Strategic Management Interim Guidance* to include "microeconomic and macroeconomic policy and institutional frameworks and operations for economic stability, efficiency, and growth." The term therefore encompasses indicators of fiscal and monetary management, trade and exchange rate policy, legal and regulatory systems affecting the business environment, infrastructure quality, and budget allocations.