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Country Analytical Support Project

Country Analytical Template

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Country Analytical Support Project

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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, is developing a standard methodology for producing analytical reports that will provide USAID missions and regional bureaus with a clear and concise analysis of economic growth performance for particular host countries. The aim is to help USAID officials gain a clear picture of the host economy, as an input into the identification of possible strategic priorities for Economic Growth program interventions. 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 the country reports. The CTO for this project is Yoon Lee. USAID missions and bureaus may seek assistance and funding for these activities by contacting Rita Aggarwal, USAID/EGAT/EG Activity Manager for the CAS project, at ragnarwal@usaid.gov.

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1. Introduction

EGAT/EG has engaged Nathan Associates to develop a Country Analytical Template, which is to serve as a standard tool for producing Country Analytical Reports (CARs).¹ The CARs will provide missions and bureaus with a concise and easily understandable presentation and diagnostic analysis of key economic and social indicators for selected countries. The aim is to help the missions gain a clear baseline picture of major issues relating to economic growth in the host economy, as an input into the identification of strategic priorities for EG programs. The template uses a comparative benchmarking methodology to highlight strategic issues, constraints, trends, and opportunities. The analysis is based on readily available data from the Agency's internal Economic and Social Database (ESDB)² and information from public internet sources. This paper describes the methodology, structure, and contents of the Template.

Given that the aim of the project is to improve strategic planning, it is important recognize that the Interim Guidance (IG) issued in December 2004 by Bureau for Program and Policy Coordination (PPC) has altered the strategic management process, relative to the system that was in place when the CAS contract was awarded.³ The IG aligns strategic plans more closely to the Agency's operational goals, its strategic budget guidance, and the budget cycle. The IG also streamlines the planning system by shifting "from elaborate strategies to program design, implementation and reporting." Missions will now produce brief Strategy Statements instead of long Strategic Plans replete with technical details.

Notwithstanding these changes, the Mission Strategy Statements still must identify Strategic Objectives (SOs), and these objectives are to be based on rationales that "demonstrate knowledge and understanding of the country context as well as the strategic options and choices" (IG, page 4). Thus, there remains a clear need to provide missions and bureaus with a concise and systematic overview of host-country economic performance, along with an assessment of the challenges and potential opportunities for strategic economic growth interventions. The Country

¹ This activity is funded through the Country Analytical Support (CAS) Task Order under SEGIR Macro I, The Task Order also calls on Nathan to produce at least 15 CARs using the template, and at least 10 sector or activity analyses for particular missions, to examine in more depth issues identified in the analytical reports.

² The ESDB is on the Agency's internal intranet. Certain components are also posted on the external website. The ESDB is compiled and maintained by the Development Information Service, under PPC/CDIE.

³ The final *Strategic Management – Interim Guidance* was issued on December 1, 2004.

Analytical Template is designed to meet that need, particularly for missions that do not have strong in-house capacity for economic analysis.

The remainder of the paper is organized as follows. Section 2 discusses the methodology for the template. Section 3 presents the structure of the template, including a brief explanation of each topic to be covered and a description of each indicator to be examined in producing the Country Analytical Reports. Appendix A provides a table showing the full set of template indicators, and detailed technical notes.

2. Methodology

This section discusses three methodological building blocks for the Country Analytical Template: the analytical framework for analyzing economic growth performance; the criteria for selecting a broad yet parsimonious set of performance indicators; and the methodology for comparative benchmarking to identify potential strategic priorities.

THE ANALYTICAL FRAMEWORK

The analysis for the country template is organized around the goals of transformational growth and poverty reduction.⁴ These goals are interrelated and mutually supportive. Rapid growth is undoubtedly the most powerful instrument for poverty reduction. At the same time, measures to enhance human development, reduce poverty, and lessen inequality help to underpin more rapid and sustainable growth. These interactions create the potential for a virtuous cycle of economic transformation and human development.

Standard growth theory shows that transformational growth requires high levels of investment in physical and human capital, and steady increases in productivity driven by advances in knowledge and technology, and by a long-term reallocation of resources to more productive activities. Increased investment and productivity are achieved by pursuing a strong enabling environment for private sector development, involving multiple elements: macroeconomic stability rooted in strong monetary and fiscal policies; a dependable legal and regulatory system, including secure contract and property rights and effective control of corruption; a sound and efficient financial system; openness to trade and investment; sustainable debt management; investment in education, health, and workforce skills; infrastructure development, including both physical infrastructure and information technology; and sustainable use of natural resources.

Although poverty reduction hinges primarily on sustaining rapid growth, the *character* of growth has an important influence on human development outcomes. In the medium to long term, the impact of growth on poverty depends on policies that create opportunities and build capabilities

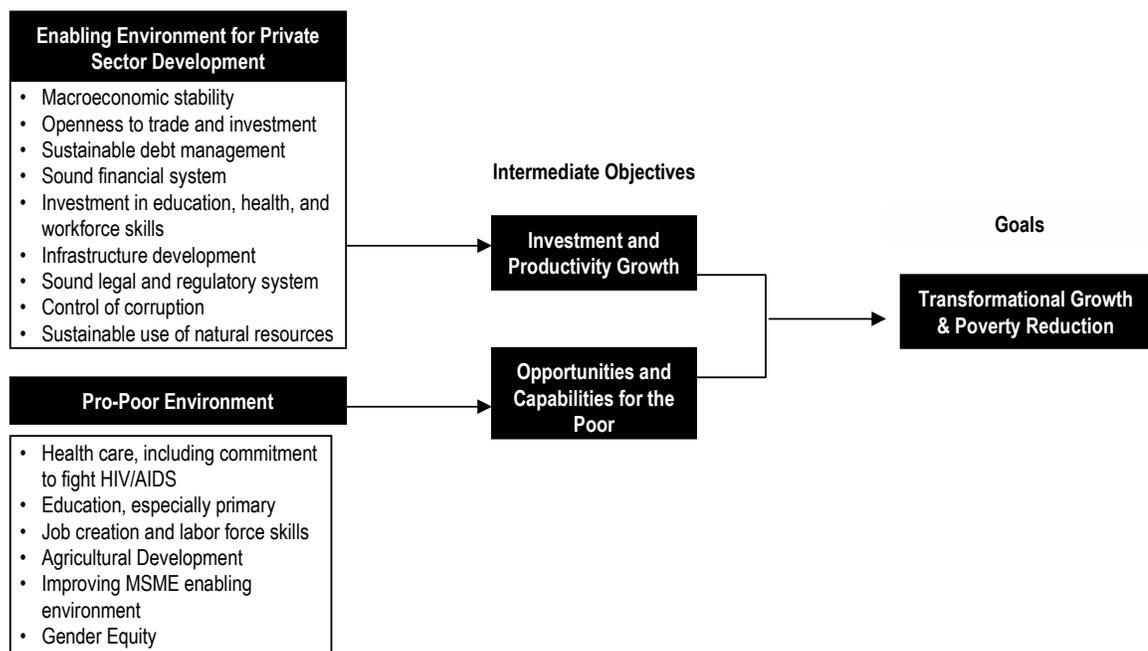
⁴ In USAID's White Paper on *U.S. Foreign Aid: Meeting the Challenges of the Twenty-first Century* (January 2004), transformational growth is a central strategic objective, both for its innate importance as a development goal, and because growth is the most powerful engine for poverty reduction.

for the poor.⁵ Here, too, many elements are involved, including: public provision of education and health services; job creation and workforce development; agricultural development (in countries where the poor depend predominantly on farming); dismantling legal and administrative barriers to micro and small enterprise development; and progress toward gender equity.

Figure 2-1 schematically summarizes the framework. On the basis of this approach, increased investment and productivity may be viewed as intermediate objectives for achieving transformational growth. Likewise, enhanced opportunities and capabilities for the poor are intermediate objectives for strengthening the impact of growth on poverty reduction. For presentational purposes, the template will be organized essentially along the lines indicated in the diagram. Note, however, that particular elements, such as investment in health and education, belong under both sets of intermediate objectives. Similarly, improvements in the legal and regulatory environment and control of corruption help to stimulate investment and productivity while improving conditions for the poor.

Figure 2-1

Schematic Summary of Analytical Framework



⁵ Analytically, we use the term “pro-poor environment” to refer to policy and institutional factors that contribute to outcomes that are above the regression line showing poverty reduction as a function of growth. 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 on economic growth programs. Also, it is difficult to find meaningful and readily available indicators of vulnerability to use in the template

INDICATOR SELECTION

In selecting suitable indicators, one must strike a balance between two competing requirements for the Country Analytical Template. On the one hand, diagnostic utility calls for comprehensive coverage and a detailed analysis. This requirement is served by including a large number of indicators in the template.⁶ On the other hand, the country reports have to be concise and accessible to ensure that bureau and mission staff, many of whom are not economists, can easily use the reports to gain a better understanding of critical strategic options for promoting broad-based economic growth. Accessibility is best served by using a parsimonious set of indicators covering the main issues relating to economic growth.

To produce country reports that will be relatively thorough and yet concise and easy to follow, the template distinguishes two levels of analysis. The first level identifies critical constraints by examining a limited number of *primary performance indicators*. These are used to answer the question: Is the country performing well or not? Level one indicators also include some descriptive variables for setting the context, such as the level of per capita income, the structure of the labor force, and the age dependency rate.

The second level of analysis examines a selected set of *diagnostic supporting indicators*. These indicators shed light on *why* performance is strong or weak. The supporting indicators reflect constraints or determinants of performance outcomes, or additional detail to help diagnose the problems. For example, if economic growth is low or negative (level one), the template turns to data on investment and productivity as diagnostic indicators (level two). Similarly, if a country performs poorly on educational achievement, as measured by the primary enrollment rate, one can examine determinants such as expenditure on primary education, and the pupil-teacher ratio. In practice, the distinction between level one and level two indicators is not always clear-cut. Also, discerning and broadly applicable diagnostic indicators are not readily available for some of the issues covered in the template.

Using this template architecture, the country reports will provide missions and bureaus with a concise overview of a limited number of easily understood socioeconomic indicators to highlight strategic issues, constraints, trends and opportunities for possible USAID interventions to promote economic growth. The template does not probe particular topics in depth. Where the analysis points to an issue of potential strategic importance—be it macroeconomic management, trade policy, financial markets, the legal and regulatory environment, agricultural development, or another specific focus area—then further sector studies may be needed to identify appropriate programmatic interventions based on more extensive data analysis and field work. The CAS project includes a provision for field studies of this sort to help missions and bureaus flesh out strategic priorities.

In essence, the approach is analogous to examining an automobile dashboard to see which gauges or warning lights are signaling problems. The implication of a blinking light is sometimes

⁶ It would be easy to come up with a long list of indicators, but the objective of the activity is to identify a readily manageable set of concise analysis of country performance. For example, Gallagher (2004) proposes 57 diagnostic indicators for a benchmarking assessment of tax systems, alone.

straightforward—such as the need to fill the fuel tank, when the indicator shows that the tank is low. In other cases, it is necessary to have a mechanic probe more deeply to assess the source of the trouble, and discern the best course of action.⁷

The selection of indicators has been guided by the following criteria:

- **Accessibility.** The indicators must be readily accessible through the Agency’s Economic and Social Database, public internet sites, or other available databases.
- **Coverage.** The selected indicators must be available for a large number of countries, including most USAID clients and comparators. Many potentially useful indicators have been excluded because of inadequate coverage.
- **Timeliness.** The template focuses on economic growth and poverty reduction, not short-term fluctuations. Hence, it is not necessary to have up-to-the-minute high-frequency data. Still, each indicator must be sufficiently timely to support an assessment of country performance that is useful to the missions. Most standard data sources, such as the World Bank’s World Development Indicators, are systematically out of date by a year or two. This lag is not a significant problem for computing international benchmarks, since group averages are not normally subject to substantial changes over short time frames. Even for a single country, data lags are not a problem for variables that do not usually change quickly, such as school enrollment rates. For macroeconomic variables, however, the use of older data may yield a misleading picture of conditions and trends, and inferences drawn from such data may be of little value to the missions. Hence, the template calls for the use of the most recent available data for the target country, to supplement standard international data sets, as appropriate.
- **Data quality.** One cannot be a purist about data quality in dealing with low- and middle-income countries. Technical problems abound. Nonetheless, some variables are distinctly less meaningful than others. For example, the national savings rate is a fundamental determinant of investment. But most developing countries compute savings as a residual in the national accounts. The savings rate is far less reliable than most macroeconomic indicators, and therefore excluded from the template. Recent international data on the size of the informal sector as a percentage of GDP⁸ is another potentially attractive indicator excluded from the template. The reason is that the figures are estimated indirectly, based on a methodology that does not provide a convincing measure of the variable in question. Also, the template minimizes the use of data based on subjective survey responses, such as scores from the World Economic Forum’s annual *Global Competitiveness Report*. Exceptions are made for some issues, such as corruption and infrastructure quality, where survey responses are the best measures available.
- **Diagnostic value.** Some indicators pass all of the previous tests but are not very useful for strategic programming. For example, the ratio of external debt to GDP is often used as an indicator of the debt burden. But for countries where most borrowing is on soft terms, the face

⁷ Sometimes, too, the problem is faulty wiring to the indicator – analogous here to faulty data.

⁸ Freidrich Schneider (2002), *Size and Measurement of the Informal Economy in 110 Countries Around the World*, Working Paper, Johannes Kepler University of Linz, Austria.

value of the debt is economically meaningless; a better indicator is the present value of debt service obligations relative to GDP. Another example is the use of kilometers of paved roads as an indicator of infrastructure. Even if one controls for country size and population density, paved surfaces are not necessarily an efficient option for secondary and tertiary roads in low-income countries.

- **Common use.** Preference is given to widely used measures such as the Millennium Development Goal (MDG) indicators, many of which are included as primary performance indicators.⁹ Similarly, the set of diagnostic indicators includes most of the economic variables used by the Millennium Challenge Corporation (MCC) to assess country eligibility for funding under the Millennium Challenge Account. Where there is a choice between a commonly used variable and an alternative that might be slightly better on technical grounds, preference is given to the former. For example, the template uses the net primary enrollment rate—an MDG indicator—instead of the gross enrollment rate, even though one can argue that the latter is more useful for assessing education performance in very poor countries.
- **Minimal redundancy.** To whittle the list of indicators to manageable proportions, the CAS team avoided indicators with overlapping information content. For example, the template uses the income or consumption share of the bottom quintile as the indicator for income inequality, and excludes another common variable, the Gini coefficient (which is more difficult for non-specialists to understand, and also less sensitive to changes).

In addition to identifying key indicators for evaluating and diagnosing growth performance, the template calls for providing a supplement to each CAR containing a full list of the indicators, a complete tabulation of the country data and international benchmarks (including variables not discussed directly in the text of the CAR) and detailed technical notes. For purposes of the present methodology paper, Appendix A contains the full list of variables and detailed technical notes.

Overall, the template includes 60 primary indicators and 40 supporting indicators, covering 15 topics. For brevity, the text of the CAR will focus on a subset of the indicators and benchmark results, depending on the issues that appear to be of most importance.

For any given country, certain indicators may not be available. Within the limited time frame allowed for producing CARs, an effort will be made to find alternative data sources. Otherwise, missing values will be excluded, and the analysis will focus on indicators that *are* available. In some cases the lack of data is in itself an important indicator of economic management problems. For some fragile or failed states, data problems may be so pervasive as to preclude the implementation of a meaningful Country Analytical Report using the present methodology.

⁹ See <http://www.developmentgoals.org/index.html>.

BENCHMARKING METHODOLOGY

Comparative benchmarking is the main tool used to evaluate each indicator. The benchmarking analysis draws on several criteria, rather than a single mechanical rule.

The starting point is the median value of the indicator for comparable countries in terms of income group *and* region, using the following classifications:

- ***Income Group.*** The analysis defines income groups adopted from the standard World Bank classifications, which are based on per capita Gross National Income (GNI) in U.S. dollars,¹⁰ measured at the latest three-year average exchange rate. For 2003, the income groups are

- Low income (\$765 or less),
- Lower middle income (\$766–\$3,035),
- Upper middle income (\$3,036–\$9,385), and
- High income (\$9,386 or more).

The vast majority of USAID countries fall in the low or lower middle income groups.

- ***Region.*** The classification defines seven geographic groupings based on USAID regional bureau divisions, with some disaggregation:

- ANE Bureau
 - Asia
 - Middle East and North Africa
- LAC Bureau
 - South America
 - Mexico, Central America and the Caribbean
- AFR Bureau
 - Sub-Saharan Africa
- E&E Bureau
 - Central and Eastern Europe
 - Former Soviet Republics

For added perspective, each variable is also examined against three other comparisons: (1) the global average for the respective income group; (2) corresponding indicator values for two comparator countries, as designated by the USAID mission in the target country; and (3) the average for the highest and lowest five countries globally. In cases where the intersection of income and regional groupings contains too few countries to produce a meaningful average, the key benchmark will be the worldwide income group.

¹⁰ GNI is what used to be called Gross National Product (GNP). GNI differs from GDP (Gross Domestic Product) in that it includes net factor income earned from abroad (factor payment inflows less outflows). The World Bank classifications convert local currency values to U.S. dollars using the World Bank Atlas method, which is based on a three-year average exchange rate.

For selected indicators, a second approach applies statistical regression analysis to establish an expected value benchmark, controlling for income and region.¹¹ This approach has three advantages. First, the expected value benchmark is customized to each country's specific level of income. Second, the comparison is independent of the exact choice of reference group, and the exact set of observations available within the reference group. Third, the methodology allows one to quantify the margin of error to establish a "normal band" for the target country's particular characteristics. An observed value falling outside the band on the side of poor performance signals a serious problem.¹²

Finally, as appropriate, country performance is judged in terms of absolute standards. For example, if a country has sustained inflation rate of 20 percent, this is a sign of serious economic mismanagement regardless of the regional comparison or regression results.

Most benchmark comparisons will be framed in terms of values for the latest year of data from readily available sources, including recent IMF statistical reports. Five-year trends are also examined,¹³ and taken fully into account when they shed important light on performance. In many cases the latest country data will be more recent than the latest benchmark data by a year or two, because the latter information is obtained from standard international data sources. This difference is not a problem, because group averages rarely exhibit much change over short periods of time. For variables that can change substantially from year to year, efforts will be made to obtain the latest country data from client missions, as an input into the analysis.

Figure 2-2 illustrates the benchmarking analysis using the example of gross fixed investment as a share of GDP in Malawi. The graphic "pod" includes a bar chart comparing Malawi's performance for the latest year against benchmark averages for low-income countries in sub-Saharan Africa, and low-income countries globally, as well as two comparator countries, in this case Uganda and Mozambique (selected for this purpose by the Malawi mission). For perspective, the pod also indicates the average for the top five and bottom five countries in the world for this indicator. In addition, the pod presents a five-year time series for Malawi, as well as the five year average value and the five-year growth trend (computed by fitting a trend regression line to the time-series data points). In this example, the data show starkly that the

¹¹ This is an OLS regression using cross-section data for all developing countries. For any indicator, Y , the regression takes the form: Y (or $\ln Y$, as relevant) = $a + b * \ln \text{PCI} + c * \text{Region} + e$ – where PCI is per capita income in PPP\$, Region is a set of 0-1 regional dummy variables, and e is a stochastic error term. Once estimates are obtained for parameters a , b and c , the "expected value" for any given country is computed by plugging in the country-specific values for PCI and Region. Where applicable, the regression also controls for population size, and petroleum exports (as a percentage of GDP).

¹² The template defines the "normal band" using a margin of error equal to 0.66 times the standard error of estimate for the regression (adjusted for heteroskedasticity, where necessary). With this value, 25% of 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.

¹³ The growth trend is computed by fitting a log-linear regression line through the data points for the latest five year period. 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.

investment rate in Malawi has been extremely low by all benchmark standards. Even if the average for low-income countries in Africa were equally low, the benchmarking analysis would identify the investment in rate as a serious deficiency in Malawi based on the absolute value being far too low to support rapid growth.

The standard procedure will be to benchmark and assess every indicator. Yet to write-up the full set of results would create an excessively long and cumbersome country report. Thus, the text of the CAR will focus on key issues, as revealed by the diagnostic analysis. The CAR will also have a concise front section that summarizes highlights of the analysis, reports the country's IMF program status, and lists in a "scorecard" the indicators showing major strengths and weaknesses, as revealed by the benchmarking analysis.¹⁴ A separate Data Supplement to each CAR will provide a complete list of the indicators, the full set of country and benchmark data, and detailed technical notes.

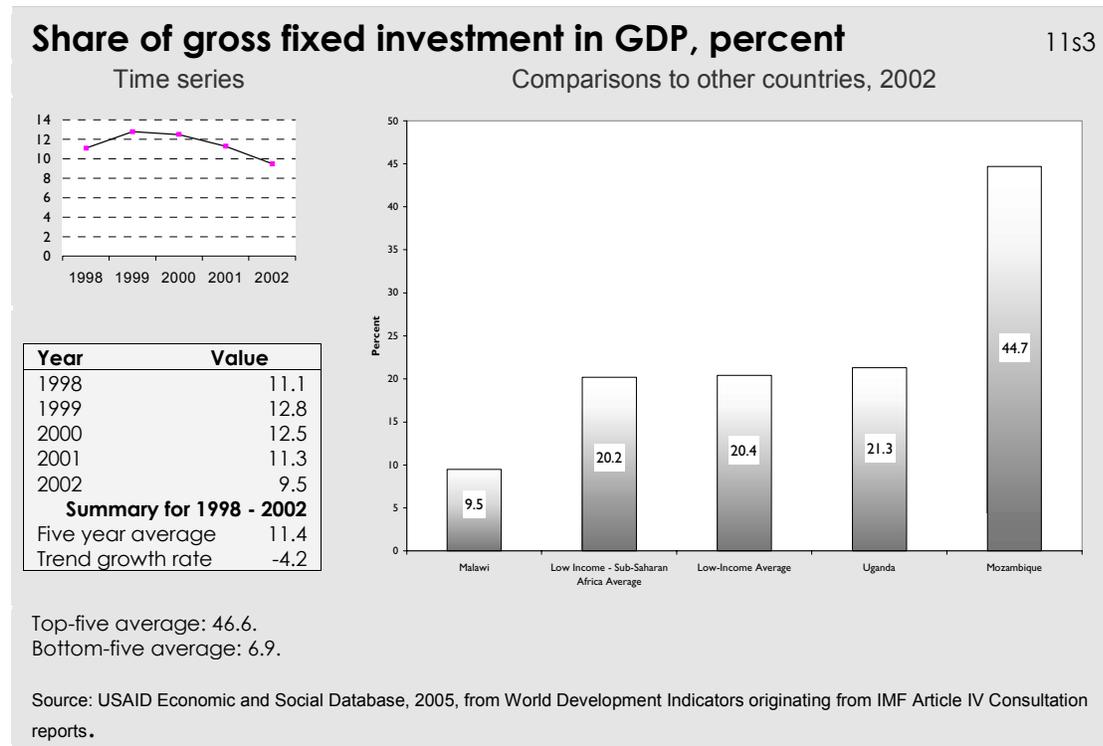
Although the country reports will focus on data analysis, the interpretations will be informed by an examination of other background documents, such as recent IMF and World Bank reports. This phase of the analysis will be very limited, however, due to time constraints imposed by the activity budget.

As indicated earlier, the purpose of the CAR exercise is to provide missions and bureaus with a concise and systematic assessment of challenges and potential opportunities for strategic economic growth interventions. However, the diagnostic analysis must be interpreted with caution. Indeed, the term "diagnostic" may be misleading if the medical analogy suggests that the findings will reveal clear economic pathologies and required treatments. What the CARs *will* do is clarify a variety of socio-economic facts relating to economic growth performance, and identify major problems (within the limits of data availability and accuracy). They *will not* provide pat answers to strategic programming questions. On-the-ground knowledge and further in-depth (level 3) studies are required to supplement the broad analytical review in the CAR.

¹⁴ This is an adaptation of the National Competitiveness Balance Sheet used by the World Economic Forum to highlight major findings of the benchmarking analysis in the *Global Competitiveness Reports*.

Figure 2-2

Sample Benchmarking Presentation, for Malawi



3. The Diagnostic Indicators

This section presents details of the template, by topic. As shown in Table 3-1, the topics are organized under three headings, based on the analytical framework presented above: Overview of the Economy, Private Sector Enabling Environment, and Pro-Poor Growth Environment. These categories are useful for presentational rather than analytical purposes, because some topics could easily be classified under more than one heading. Each Country Analytical Report will include a full presentation of the overview section, and then focus on topics that appear from the benchmarking analysis to be most important as possible programmatic priorities.

Table 3-1
Organization of the Template

Overview of the Economy	Private Sector Enabling Environment	Pro-Poor Policy Environment
Growth Performance	Fiscal and Monetary Policy	Health
Poverty and Inequality	Business Environment	Education
Economic Structure	Financial Sector	Employment and Workforce
Demography and Environment	External Sector	Agriculture
Gender	Economic Infrastructure	
	Science and Technology	

The broad coverage of the template dictates the use of a limited number of indicators for each topic. Tables 3-2, 3-3, and 3-4 summarize the primary performance indicators, by topic, for the three main sections of the template. Table 3-5 provides an indicative match-up of the various template topics to the program components in USAID’s Strategic Management guidelines.¹⁵

The discussion below briefly introduces each topic, explains the reason for its inclusion in the template, and lists the corresponding indicators used for the diagnostic analysis. A short

¹⁵ There is no separate section for Economic Governance because this concept spans many of the other topics. Economic governance indicators are therefore covered in various sections of the template. To be more specific, USAID’s *Strategic Management -- Interim Guidance* defines economic governance to include “microeconomic and macroeconomic policy and institutional frameworks and operations for economic stability, efficiency, and growth.” This encompasses fiscal and monetary management, trade and exchange rate policy, legal and regulatory systems affecting the business environment, infrastructure quality, and budget allocations, among other things.

description is then given for each indicator, including the source, and a note on its relevance for analyzing country performance and identifying programmatic priorities. Appendix A provides a full list of indicators for the template and more complete technical notes.

Table 3-2

Overview of the Economy—18 Primary Indicators

Growth Performance	Poverty and Inequality	Economic Structure	Demography and Environment	Gender
<ul style="list-style-type: none"> • Per capita GDP, current US\$ • Per capita GDP, PPP\$ • Real GDP growth 	<ul style="list-style-type: none"> • Income share held by lowest 20% of households • Population living on less than \$1 PPP per day (%) • Population below national poverty line (%) • Human Poverty Index (HPI) • PRSP Status 	<ul style="list-style-type: none"> • Output structure • Labor force structure 	<ul style="list-style-type: none"> • Population size and growth • Age dependency rate • Urbanization rate • Adult literacy rate • Environmental sustainability index 	<ul style="list-style-type: none"> • Ratio of male to female life expectancy • Ratio of male to female adult literacy rate • Ratio of male to female gross enrollment rate (all education levels)

Table 3-3

Private Sector Enabling Environment—29 Primary Indicators

Fiscal and Monetary Policy	Business Environment	Financial Sector	External Sector	Economic Infrastructure	Science and Technology
<ul style="list-style-type: none"> • Overall budget balance, incl. grants, % GDP • Government expenditure, % GDP • Government revenue, excl. grants, % GDP • Inflation • Money supply growth 	<ul style="list-style-type: none"> • Corruption Perception Index • Doing Business composite index • Rule of Law Index • Regulatory Quality Index 	<ul style="list-style-type: none"> • Ratio of broad money (M2) to GDP • Interest rate spread • Domestic credit to private sector, % GDP • Real interest rate • Stock market capitalization, % GDP 	<ul style="list-style-type: none"> • Trade as % GDP • Export growth, goods and Services • Workers' Remittances, % exports • Current Account Balance % GDP • Aid as % GNI • Gross Private Capital Flows, % of GDP • FDI, % GDP • Present value of debt, % GNI • Debt Service Ratio, % exports • Gross international reserves, months of imports 	<ul style="list-style-type: none"> • Overall Infrastructure Quality • Telephone Density • Internet users per 1000 people 	<ul style="list-style-type: none"> • Patent applications filed by residents • Expenditure on R&D, % GNI • FDI Technology Transfer Index

Table 3-4*Pro-Poor Growth Environment—12 Primary Indicators*

Health	Education	Employment and Workforce	Agriculture
<ul style="list-style-type: none"> • Life expectancy at birth • Maternal mortality rate • HIV prevalence rate 	<ul style="list-style-type: none"> • Net primary enrollment ratio • Persistence in school to grade 5 • Youth literacy rate 	<ul style="list-style-type: none"> • Size and growth of labor force • Labor force participation rate • Unemployment rate 	<ul style="list-style-type: none"> • Growth in agricultural value added • Agricultural value added per worker • Cereal yield

Table 3-5*Indicative Links to USAID Program Components*

Topic	USAID Program Component
OVERVIEW OF THE ECONOMY	
Growth Performance	2 - Improve economic policy and governance 3 - Increase private sector growth
Economic Structure	6 - Increase agricultural productivity 1 - Increase participation in global trade and investment
Demography and Environment	19 - Support family planning programs 8 - Improve sustainable management of natural resources and biodiversity conservation
Poverty and Inequality	7- Protect and increase assets and livelihoods of the poor
Gender	Cross-cutting
PRIVATE SECTOR ENABLING ENVIRONMENT	
Fiscal and Monetary Policy	2 - Improve economic policy and governance
Financial Sector	4 - Strengthen financial sector's contribution to economic growth
External Sector	1 - Increase participation in global trade and investment 3 - Increase private sector growth
Institutional Environment	3 - Increase private sector growth 21- Improve justice sector/legal framework 28- Promote and support anti-corruption reforms
Economic Infrastructure	5 - Expand and improve access to economic and social infrastructure
Science and Technology	1 - Increase participation in global trade and investment 12- Improve institutions of higher education 13- Improve quality of workforce
PRO-POOR GROWTH ENVIRONMENT	
Health	10 - Improve access to clean water and sanitation 14 - Reduce transmission and impact of AIDS 15 - Prevent and control infectious diseases of major importance 16 - Reduce non-communicable diseases and injuries 17 - Improve child survival, health, and nutrition 18- Improve maternal health and nutrition

Topic	USAID Program Component
	20- Build health systems' capacity
Education	11- Improve the quality of basic education 12- Improve institutions of higher education
Employment and Workforce	13- Improve quality of workforce 7 - Protect and increase assets and livelihoods of the poor
Agriculture	6 - Increase agricultural productivity 7 - Protect and increase assets and livelihoods of the poor

OVERVIEW OF THE ECONOMY

The first part of each country study will provide background information on the country's growth performance, economic structure, demographic and environmental conditions, poverty and inequality, and gender equity. Some of these indicators are descriptive rather than diagnostic, and set the context for the performance analysis.

Growth Performance

The principal indicators of growth performance are per capita GDP, which reflects long-term performance, and the economic growth rate over the past five years. These two variables provide the broadest signal of whether economic policies and institutions provide a sound basis for economic development and poverty reduction. The supporting indicators measure basic supply-side building blocks of economic growth: investment and productivity. Other basic growth drivers, notably human capital investment, and science and technology, are covered in later sections.

Primary Indicators

Per Capita GDP, in Current U.S. dollars (Source: IMF World Economic Outlook online database). This variable shows the total value added from productive activities, relative to the size of the population. Per capita GDP is widely used to gauge overall poverty or affluence. Low levels of per capita GDP reflect a long history of poor growth performance, suggesting a chronically poor investment climate, weak development of human resources, and weak incentives for productivity growth and innovation. Per capita GDP provides a close approximation to per capita *income*, but the two differ in the treatment of net factor income, which takes into account income earned by residents from activities outside the economy, and income produced in the economy that accrues to non-residents. Net factor income (which may be positive or negative) is part of Gross National Income, but not GDP.

Changes over time in the dollar value of per capita GDP must be interpreted carefully, because they may reflect changes in the exchange rate rather than changes in real economic activity. For example, a devaluation (that is not matched by domestic inflation) will reduce per capita GDP in U.S. dollar terms even if domestic production per capita remains unchanged. Cross-country comparisons are also problematic, because the indicator does not reflect the relative purchasing

power of the local currency vis-à-vis the U.S. dollar. The next indicator compensates for these problems, so it is preferred on technical grounds.

Per Capita GDP, in Purchasing Power Parity Dollars (Source: IMF World Economic Outlook online database). This indicator converts local currency measures of per capita GDP into U.S. dollars using an estimate of the relative purchasing power of respective currencies, rather than the prevailing market exchange rate. This is called the purchasing power parity (PPP) conversion. Similar to the previous indicator, this one measures the volume of economic activity relative to the size of the population, and provides a close approximation to per capita income. Because the PPP measure eliminates the effect of exchange rate movements, it is more informative than the previous indicator for gauging trends and for cross-country comparisons of economic prosperity.

Real GDP Growth (Source: IMF World Economic Outlook online database). The GDP is the total value of goods and services produced by an economy. Measured at constant domestic prices, changes in GDP reflect changes in real output. The growth rate of real GDP is therefore a primary indicator of improvements (or lack of same) in the strength of the economy. If GDP growth exceeds population growth, then per capita income is rising and the country is improving its potential to reduce poverty and increase prosperity. Tangible medium-run improvements in living standards generally require a sustained increase in per capita GDP of 3 percent per year or more. The relationship between growth and poverty reduction depends on changes in the distribution of income (covered below), but as a rule, incomes for the poor rise in line with overall GDP growth. Most social indicators also tend to improve with real per capita GDP. A low average rate of growth suggest that a country's policies and institutional structures are failing to stimulate adequate levels of investment, productivity, or job creation.

Supporting indicators

Growth of Labor Productivity (Source: Estimated using GDP data from the IMF World Economic Outlook online database and demographic data from the World Bank's World Development Indicators). Labor productivity is defined here as the ratio of GDP (in constant prices) to the size of the working age population, which is the age group 15 to 64. Many studies measure labor productivity by output per worker, or per work-hour. The template uses the working age population instead as the denominator because many countries do not have data on employment or work hours. Furthermore, in development terms, a low rate of labor force participation can itself be a major productivity issue, if it means that large groups such as women lack employment opportunities.

Growth in labor productivity is driven by capital investment, improvements in the quality of the labor force through investments in health, education, and training, introduction of new technologies, reallocation of labor to sectors with higher productivity, structural changes driven by international trade, and a competitive market environment, which stimulates innovation. Slow or negative growth in labor productivity signals that the country is failing to mobilize these drivers.

Investment Productivity—Incremental Capital-Output Ratio (ICOR) (Source: Latest country data computed from IMF Article IV Consultation Reports; international benchmark data computed from World Development Indicators). The ICOR is a simple and convenient gauge of investment productivity. The indicator shows the quantity of capital investment per unit of additional output: $\Delta K/\Delta GDP$. An ICOR value above 7 indicates that a large amount of investment is needed to produce an extra unit of output; this is a sign that the productivity of new capital is low, and capital formation inefficient. A value of 4 or less indicates efficient investment.

The ICOR is computed as a ratio, with the numerator being the share of fixed investment in GDP, and the denominator being the rate of GDP growth. To minimize noise from short-term fluctuations in GDP, each component of the calculation is calculated as a five-year average. Low capital productivity may suggest, among other things, that policies such as tax incentives, subsidies, financial interventions, or trade protection, are creating incentives for inefficient or highly capital-intensive investments.

Gross Fixed Investment, Percentage of GDP (Source: IMF Article IV Consultation Reports for latest country data; World Development Indicators for international comparison data). Gross fixed investment is the total domestic expenditure on fixed assets (buildings, machinery, equipment, infrastructure), including replacement of depreciated assets, by both the private sector and the government. Fixed investment is a leading indicator of economic growth, because it entails an increase in the productive capital stock, improvements in the infrastructure, and often new technology—all essential elements of a strong enabling environment. A gross investment rate below 20 percent is a sign that the economy is not capable of sustaining rapid economic growth.

Gross Fixed Private Investment, Percentage of GDP (Source: IMF Article IV Consultation Reports, for latest country data; World Development Indicators, for international comparison data.) The ratio of *private* investment to GDP is a critical determinant of growth because the private sector is the engine of growth in a market economy. Moreover, private investment decisions reflect confidence in the economy, because they are based on expectations of future sales, profits, interest rates, and exchange rates. A private investment ratio of less than 15 percent signals weak prospects for growth and job creation, suggesting the need to focus aid interventions on improvements in the business enabling environment (covered in detail below).

Poverty and Inequality

Widespread poverty and income inequality are multidimensional conditions related to lack of education, health, income and employment opportunities, and security. High rates of poverty and inequality tend to impede broad-based transformational growth. International experience shows that the impact of rapid growth on poverty reduction varies substantially across countries, indicating that the pattern of growth can be as important as the growth rate itself. The international community has recognized the central importance of poverty reduction in donor programming by defining the first Millennium Development Goal as a reduction in absolute poverty by half between 1990 and 2015, rather than focusing on growth targets alone.

Primary Indicators

Income Share, Poorest 20% (Source: World Development Indicators). The income share accruing to the poorest quintile of households is a widely used measure of inequality. The indicator is derived from household survey data, which are compiled infrequently in most developing countries. Hence, much of the information is not fully up to date, but income distribution statistics do not usually show much variation over short periods of time (unlike poverty data). Also, the data often refer to consumption shares rather than income shares, but this difference is not likely to be distort the basic picture since household saving (the difference between income and consumption) is very low in most developing countries. An unusually low share of income for the poorest 20%, relative to benchmark standards, suggests that income gains from growth are heavily skewed toward the non-poor. Programs to improve productive capabilities and opportunities for the poor may be indicated, to improve the distributive impact of growth.

Percentage of Population Living on Less Than \$1PPP per Day (Source: World Development Indicators). This common international indicator of absolute poverty is defined as the proportion of the population living on less than one dollar per day, in constant prices, with a conversion to dollars based on purchasing power parity rather than nominal exchange rates. This is the main indicator used by the UN to assess progress toward the Millennium Development Goal number one: halving the poverty rate by 2015, relative to 1990 levels.

Poverty Headcount, National Poverty Line (Source: World Development Indicators). The poverty headcount measures the proportion of the population living below the poverty line, as determined by national standards. This measure often gives results that differ widely from the headcount obtained from the international standard of \$1PPP per person per day. In many low-income countries, the national poverty line is defined by a minimum nutritional criterion, and computed from nationally representative household surveys. Since the definitions vary across countries, this indicator is less useful for benchmarking. In absolute terms, however, this indicator provides a better measure of the extent of poverty than the somewhat arbitrary PPP standard for very poor countries. It is also the most useful measure of relative poverty in countries where income levels for most disadvantaged groups are well above \$1 or \$2 per day in PPP terms.

Human Poverty Index (Source: UNDP-Human Development Report). The human poverty index is a composite indicator of poverty, including vulnerability to early death (measured by the probability of not surviving to age 40); exclusion from knowledge (measured by adult illiteracy); and deprivation in standard of living (measured by lack of access to improved water sources and child malnutrition). This provides an alternative international measure of poverty based on deprivation, rather than income or consumption.

PRSP Status (Source: IMF and World Bank PRSP websites). This is a yes/no variable showing whether the country in question has completed a Poverty Reduction Strategy Paper (PRSP), or an Interim PRSP. The PRSPs are country-driven strategic planning documents analyzing poverty conditions and establishing medium-term priorities for macroeconomic, structural, and social reforms, programs, and policies to promote rapid and sustainable poverty reduction and economic growth. Interim PRSPs are documents that only partially satisfy the criteria established by the

IMF and the World Bank for a full PRSP. The World Bank and Fund introduced PRSPs in 1999 to ensure host-country ownership of poverty-reduction programs. According to a recent World Bank evaluation study, the presence of a PRSP is a proxy for good governance and serious concern with pro-poor development programs. In principle, PRSPs and IPRSPs are intended to be used by donors as well as host governments as the basis for defining strategic priorities.

Supporting Indicators

Poverty Gap at \$1 PPP per Day (Source: World Development Indicators). The poverty gap at \$1 PPP per day is another Millennium Development Goal indicator. It is the product of the poverty headcount and the average depth of poverty, where depth refers to the extent to which the average level of income among poor households falls short of the \$1 PPP threshold. This indicator adds an important dimension of detail to the standard \$1 PPP per day head count, in that it also both the number of poor, and the severity of their poverty. The aggregate poverty gap gives an idea of the amount of resources needed, per capita, to raise the whole population to the \$1 PPP line. If this gap is large relative to benchmark countries, then a greater effort is needed in to reach the Millennium Development Goal of reducing poverty by one half by 2015.

Population Below Minimum Dietary Energy Consumption (Source: FAO on-line database). This is also an MDG indicator, used to assess progress towards Target 2: halving hunger by 2015. The indicator is a direct measure of the proportion of the population unable to obtain a level of dietary energy consumption needed to survive. This is an important dimension of poverty, since under-nourishment seriously affects labor productivity and earning capacity. The hunger indicator can be used to identify strategic requirements in a variety of areas, such as agricultural development, distribution infrastructure, basic education, and social safety nets.

Economic Structure

This section of the Country Analytical Template provides background information about the structure of the economy, as context for the analysis of other topics. The section focuses on the broad structure of output and the labor force, including a comparison of the two.

Primary Indicators

Output Structure (Source: World Development Indicators). The output structure is comprised of value added by major economic sector (agriculture, industry, and services), expressed as percentages of GDP. The indicator highlights the economic activities that contribute the most value to the economy. The time series shows structural changes that are underway. For example, an increasing ratio of industrial value added to GDP indicates that manufacturing, mining, and utilities industries (jointly) are growing more rapidly than the rest of the economy, and thus serving as leading sectors. In this case, USAID may wish to pursue trade competitiveness initiatives to further enhance industrial productivity through exports. In the medium to long run, developing countries experience a declining share of agriculture; lack of evidence to this effect suggests that the policy environment is not supporting structural transformation.

Labor Force Structure (Source: World Development Indicators). This indicator shows employment by major economic sector (agriculture, industry, and services) as a percentage of total employment. The time series representation indicates medium-term structural shifts in the labor market. A high concentration of employment in agriculture suggests that USAID might want to concentrate program activities in rural areas. Conversely, signs of a significant labor force shift from agriculture to industry indicates that USAID workforce programs should focus on industrial development and development of urban centers.

A *comparison* of the labor force structure and output structure provides an indication of relative levels of labor productivity in the three major sectors. For instance, if a high percentage of the labor force is in agriculture, but producing a low percentage of value added, then the average level of productivity in agriculture is very low. In such cases, USAID might focus on rural development programs to enhance productivity and income levels for the large rural labor force. Alternatively, the strategy might focus on accelerating structural transformation through urban development programs and improvements in rural-to-urban infrastructure.

Supporting Indicators

For this topic the template does not include supporting indicators.

Demography and Environment

Demographic factors have major effects on poverty, growth potential, labor markets, comparative advantage in trade, and the quality of public services. Population pressures are also closely related to environmental conditions. In the long run, careful management of environmental resources is a key factor to support sustainable development.

Primary Indicators

Population Size and Growth (Source: World Development Indicators). The population size is useful descriptive indicator, with several implications for economic growth programs. For example, countries with large populations tend to have a lower ratio of trade to GDP. More important, however, is the rate of population growth. In countries with rapid population growth, higher levels of GDP growth are needed to achieve a given improvement in per capita income. At the same time, rapid growth of the labor force leads to future production potential—and the need for rapid job creation. Population growth is also an important determinant of the demand for public services such as education and health. In countries with rapid population growth, donors may consider family planning support as a priority. For EGAT, the main concern is to take into account the implications of population growth for programs relating to poverty, employment creation, agricultural development, infrastructure planning, and pension programs, among other things.

Age Dependency Rate (Source: World Development Indicators). The age dependency rate is the ratio of population under 15 and over 64, to the working age population, age 15 to 64. Basically, it is the number of dependents per potential worker. The indicator can be divided into two

components, reflecting the youth dependency rate (number under 15, relative to the working age population) and the elderly dependency rate (number over age 64, relative to the working age population). A large population bulge under age 15 suggests an urgent need for programs to stimulate the creation of jobs and earning opportunities, and to cope with growing demand for secondary and higher education. A large and growing elderly population points towards a priority need for programs to strengthen health and social security systems. A short-term rise in the dependency rates may reflect high AIDS-related mortality rates (see health section), or large-scale emigration stemming from a poor policy environment.

Urbanization Rate (Source: World Development Indicators). This variable is defined as the proportion of a country's population living in cities and other designated urban areas, as a percentage of the total population. Urbanization trends, as seen in the time series data, are critical factors determining the need for donor programs aimed at urban development. These may include strategies for accelerating urban job creation, improving municipal government financing, or developing critical urban services. Perhaps the most important programmatic implications relate to urban infrastructure planning, including schools, hospitals, roads, water supplies, and sanitation.

Adult Literacy Rate (Source: World Development Indicators). This is defined as the percentage of people age 15 and above who can, with understanding, read and write a short, simple statement about every day life. Adult literacy reflects the cumulative effect of a lack of educational attainment in prior years. Declines usually occur slowly with turnover in the adult population, to the extent that the literacy rate of new entrants is greater than that of the generation passing away. Adult literacy programs with high outreach can reduce the rate more quickly, and thereby contribute to more rapid socioeconomic progress.¹⁶

Environmental Sustainability Index. (Source: Yale Center for Environmental Law and Policy, ESI website). This is a new composite index covering 22 subcategories including direct environmental variables such as air and water quality, biodiversity, and ecosystem stress, as well as socioeconomic and institutional variables such as natural resource management, population pressure, economic governance, and private sector responsiveness to environmental problems. While the overall index value is the simplest basis for benchmarking, an examination of the component scores is more important for gauging the environmental priorities for sustainable development in a particular country.

Supporting Indicators

For this topic the template does not include supporting diagnostic indicators, except for examination of the components of the Environment Sustainability Index.

¹⁶ The literacy rate of 15 to 24-year-olds is an MDG indicator of progress toward universal primary education. This is used as a performance indicator for the education section below.

Gender

The gender dimension of development programming addresses economic, social, political, and cultural attributes that differ between males and female. These considerations are a "cross-cutting" theme for all of USAID. Reducing gender inequality is essential to poverty elimination because women bear a disproportionate burden of lack of productive opportunities and lack of access to education and health services. Among the eight Millennium Development Goals, goal number three is gender equality and the empowerment of women. The central target is the elimination of gender disparity in primary and secondary education by 2005, and in all levels of education by 2015. Education alone, however, is insufficient to eliminate gender inequalities or empower women. Health programs that effectively serve women's needs, and opportunities to fully use education to obtain employment or participate in the political arena are also critical.

Primary Indicators

Ratio of Male to Female Life Expectancy (Source: UNDP, Human Development Indicators).

This indicator is defined as the ratio of the male life expectancy at birth to the female life expectancy. In every country with a high level of human development, females have a longer life expectancy than males, often by five years or more. Thus, in countries with more gender equity, the ratio is less than one. In many developing countries, however, the relationship is reversed and the gender ratio exceeds one. This a clear sign of serious disadvantages faced by women in obtaining health care, economic opportunities, and social empowerment.

Ratio of Male to Female Adult Literacy Rate (Source: UNDP, Human Development Indicators).

This indicator is defined as the ratio of adult male literacy to adult female literacy. In virtually every developing country the ratio is greater than one, and in some cases greater than two, reflecting the cumulative effect of profound gender differences in educational opportunities. Low female literacy is not only a serious problem in its own right; it is also a central constraint on economic development, because better educated women are more productive, have fewer children, and pass along better health and education to their children. They are less prone to fall victim to HIV/AIDS, and more capable of coping with economic shocks. A high value of this indicator suggests consideration of adult literacy programs for women, programs to improve educational opportunities for school-age females (the future adults), and programs to provide earning opportunities and social empowerment for illiterate women, not least including sustainable micro-finance programs.

Ratio of Male to Female Gross Enrollment Rate, All Levels of Education (Source: UNDP, Human Development Indicators). This indicator is the ratio of the gross enrollment rate for males to that of females. The gross enrollment rate is defined as the ratio of total enrollments in primary, secondary, and tertiary education, to the total school age population, assuming entry into the system at a normal age. A value for this ratio well above one indicates large gender disparities in current access to education. As with the previous indicator, this points to the need for programs focused on education for girls and young women, as well as programs to enhance earning opportunities and social empowerment for women who lack basic educational achievement.

Supporting Indicators

The template does not include supporting indicators for this overview topic.

PRIVATE SECTOR ENABLING ENVIRONMENT

This section of the template covers factors that are essential for encouraging and supporting rapid and efficient growth of the private sector, including fiscal and monetary policy, development of the financial sector, global integration, the institutional environment for doing business, the economic infrastructure, and capacity for science and technology. International experience over the past four decades has demonstrated that macroeconomic stability is a necessary (but not sufficient) condition for sustained economic growth. Effective 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 a central pillar of the enabling environment, because the external sector is a vital source of potential markets, modern inputs, technology, finance, and competitive pressures to stimulate efficient resource allocation and productivity growth. At the same time, the private sector cannot thrive without appropriate market-supporting institutions, including, above all, a brake on corruption. The dynamics of a market economy depend too on secure property rights, an effective judicial system for enforcing contracts, and a regulatory environment that does not impose undue barriers to doing businesses. A supportive institutional framework for economic growth must be accompanied by development of the physical infrastructure. Finally, developing countries increasingly need to develop the capacity to adapt and apply science and technology as a basis for attracting efficient investment, improving competitiveness, and stimulating rapid growth in productivity.

Some characteristics of the enabling environment are relatively easy to measure, such as macroeconomic policy. Others, such as the capacity for science and technology, are more difficult to capture with widely available indicators.

Fiscal and Monetary Policy

Fiscal and monetary policies are the key instruments for ensuring macroeconomic stability, a fulcrum for fostering efficient private investment. The main concerns are maintaining a sustainable fiscal balance and low and stable inflation. Stable inflation creates a price environment that is conducive to saving and investment. Moreover, avoiding high inflation benefits the poor, who are least able to hedge or protect themselves from erosion in value of their few assets and incomes. On these grounds, the Millennium Challenge Corporation includes the inflation rate as a basic indicator of Economic Freedom. Monetary policy is the direct determinant of inflation, but price instability is often driven by the financing of government deficits. Fiscal measures also determine the government's share of the economy and its contribution to saving and investment. The government budget must balance the need for critical services to support growth and poverty reduction, versus the need to avoid or minimize deficit financing that crowds out the private sector, raises real interest rates, and sparks inflation. The government budget is also the source of investment in public infrastructure. Finally, the fiscal balance has a large impact on debt dynamics and the current account balance.

Since fiscal and monetary conditions can vary substantially over time, the template analysis will take into account the five-year averages and trends as well as the latest values for variables in this section.

Primary Indicators

Overall Budget Balance, Including Grants, Percentage of GDP (Source: IMF Article IV Reviews for latest country data; World Development Indicators for benchmarking data). The overall budget balance is the difference between total revenue plus grants and total expenditure. The WDI database reports the budget balance for central government only. The overall budget balance shows the size of the central government's financing requirement, which must be met by borrowing from the domestic financial system or from foreign lenders. This borrowing can crowd out financing for the private sector, stimulate inflationary growth of the money supply, expand the external debt, or all three. A large and persistent deficit is therefore a serious concern because of these consequences, and because this condition is fiscally unsustainable. The Millennium Challenge Corporation uses this measure of fiscal responsibility as an indicator of government commitment to Ruling Justly.

Government Expenditure, Percentage of GDP (Source: IMF Article IV Reviews for latest country data; World Development Indicators for benchmark data). This indicator measures current and capital expenditures by the central government, as a percentage of GDP. High levels of government expenditure divert resources from the private sector either through taxation or the financial system. Conversely, unusually low levels may signal a lack of commitment to providing essential public goods and services to support private investment and poverty alleviation. Large increases in government spending often trigger macroeconomic instability. Thus, both the level and the change in this indicator are valuable indicators of the quality of fiscal management.

Government Revenue, Percentage of GDP (Source: IMF Article IV Reviews for latest country data; World Development Indicators for benchmark data). This variable measures the mobilization of tax receipts and government revenue from other sources such as mineral royalties and fees, relative to the size of the economy. An unusually low revenue ratio may be a sign of weak and corrupt institutions for economic governance, or lack of serious commitment to mobilizing resources for essential public services. Unusually high revenue figures can also be a problem, reflecting an excessively intrusive role of state in the economy. Either way, revenue problems suggest a need for assistance in budget planning, tax policy, and tax administration.

Inflation Rate (Source: IMF World Economic Outlook online database). This basic indicator of economic policy performance is defined as the annual percentage change the consumer price index (CPI). The inflation rate is a key gauge of price stability, and overall macroeconomic stability. Uncertainty about the purchasing power of the national currency can trigger a loss of confidence in economic policy management, potentially leading to lower saving and investment, capital flight, exchange rate instability, and a diversion of scarce resources into inflation hedges. The result is lower growth, with particularly adverse effects on the poor, who are least capable of coping with rising prices and economic uncertainty. High rates of inflation indicate serious problems with monetary and fiscal management.

Money Supply Growth (Source: IMF Article IV Reviews for latest country data; World Development Indicators for benchmark data). This variable is defined as the year to year percentage change in the supply of broad money (M2), which consists of currency in circulation plus deposits in the banking system, excluding those of the government. This is a central indicator of monetary policy management, because excess growth in the supply of money, relative to the rate of real economic growth, is the principal cause of high and sustained inflation. In many cases, rapid money supply growth is driven by central bank financing of government deficits. Rapid or unstable growth of the money supply may indicate the need for technical assistance to the Central Bank, or policy reform regarding legal and operational relations between the central bank and central government.

Supporting Indicators

Composition of Government Expenditure (Source: IMF Article IV Reviews for latest country data; World Development Indicators for benchmark data). The most widely available breakdown of government expenditure is by economic classification. This approach distinguishes current and capital expenditure, and a disaggregation of current expenditures into four categories: wages and salaries; interest payments; purchases of goods and services; and subsidies and transfers. (The functional allocation of expenditures on health and education are covered in the health and education sections of the template.) When total expenditure appears to be too high, the economic classification allows one to examine types of expenditure that may require special attention in budget programming. For example, the government may be facing an unusually high cost of wages and salaries due to a bloated civil service. Or interest payments may be creating a difficult fiscal burden. These details can point towards programmatic priorities for achieving fiscal stability.

Composition of Government Revenue (Source: IMF Article IV Reviews for latest country data; World Development Indicators for benchmark data). This indicator provides a breakdown of the main sources of domestic revenue: taxes on income, taxes on goods and services, taxes on international trade, and non-tax revenue. This information may be useful for diagnosing the source of revenue problems and identifying the need for assistance in tax policy and tax administration. For example, countries that depend heavily on trade taxes have a special need to diversify their revenue sources as a condition for trade liberalization.

Composition of Money Supply Growth (Source: IMF, Article IV Reviews). This indicator uses standard Monetary Survey data to disaggregate determinants of the change in broad money (M2) into five categories: net domestic credit to government; domestic credit to the private sector; domestic credit to non-financial public enterprises; changes in foreign exchange reserves; and other items net (the residual). In countries where inflation is a problem, this information reveals the sources of excess money growth. International benchmarking is not less important here than relative magnitudes of the components—particularly the extent to which credit to the government (“printing money”) is driving inflationary growth of the money supply. In addition to suggesting a need for technical support to improve monetary policy management, the analysis can also point to programmatic priorities such as the need for public enterprise reform, or for new approaches to exchange rate to reduce the monetary impact of foreign exchange movements.

Business Environment

This section examines indicators relating to the institutional foundations for doing business, which strongly influence prospects for the private sector to flourish. The primary institutional impediment to growth is corruption. Other key concerns relate to the efficiency and cost of the legal and regulatory system as it affects the business environment. Most of the indicators relating to the institutional environment are taken from the World Bank's influential *Doing Business* database. Poor performance on these indicators suggests that donors should consider prioritizing microeconomic interventions in civil service reform, legal and regulatory reform of commercial law, and development of institutional capacity to implement streamlined market-support systems.

Primary Indicators

Corruption Perception Index (Source: Transparency International). Transparency International's widely cited index is a subjective measure of perceptions of corruption, derived from surveys of business people and country analysts. Survey results are aggregated and rated on a scale of 1 (worst) to 10 (best), for each country. A score of 3 or less is regarded as indicating "rampant corruption," which can have a pervasive adverse effect on all aspects of governance. Corruption can undermine reforms, institutions, and regulatory frameworks. A low CPI score therefore signals major strategic problems for business development, though further analysis is needed to identify the specific forms and loci of corruption so that appropriate programmatic responses can be developed. Although the CPI is widely cited, it must be treated with caution in benchmarking because of its subjective nature, and the often large standard deviation of survey responses around the mean score. Low scores on the CPI suggest that anticorruption programs and policies are a critical concern for donor efforts to accelerate economic growth. Among other things, programs to reduce corruption can be pursued by dismantling unnecessary legal and regulatory constraints, and re-engineering necessary regulations to minimize the scope for discretion.

Doing Business Composite Index (Source: Computed from World Bank, *Doing Business* database). The Millennium Challenge Corporation (MCC) uses a single *Doing Business* indicator, time to start a business, as a proxy for a wide range of legal and administrative barriers to private sector development. This approach provides an incentive for governments to improve on this one issue, even if no progress is made in dealing with other business impediments. Rather than selecting one indicator as a proxy, the template uses a composite of the *Doing Business* scores. The composite is computed by first scaling the *Doing Business* indicators over a range from 1 (lowest) to 100 (highest), second, forming a composite average within each *Doing Business* category, and finally, taking a simple average across the respective business environment categories. For 2004, the categories are starting a business, hiring and firing workers, registering property, getting credit, protecting investors, enforcing contracts, and closing a business. A low score on the composite index implies that the country has major problems in a variety of institutional factors affecting the business environment.

Rule of Law Index (Source: World Bank Institute governance database). The Rule of Law Index is constructed by the World Bank Institute as a composite of various survey results on public confidence in the rule of law, the incidence of crime, the reliability of the judicial system, and the enforceability of contracts. The indicator therefore represents a broad gauge of the effectiveness

of the legal system and the rule of law. The index is defined such that the global mean is zero and the standard deviation is 1.0. For example, a score of -2.0 means that the country's composite score on various surveys is two standard deviations below the overall mean. This is an MCC indicator for the criterion of ruling justly. (The MCC data set uses values rescaled relative to the group of MCA eligible countries.)

Regulatory Quality Index (Source: World Bank Institute governance database). The Regulatory Quality Index is constructed by the World Bank Institute as a composite of various survey results on “the incidence of market unfriendly policies such as price controls or inadequate bank supervision, as well as perceptions of the burdens imposed by excessive regulation in areas such as foreign trade and business development.”¹⁷ The index is defined and computed in the same way as the previous one. This is an MCC indicator for the criterion of encouraging economic freedom. (The MCC data set uses values rescaled relative to the group of MCA eligible countries.)

Supporting Indicators

Time to Start a Business (Source: World Bank, Doing Business database). This variable measures the number of person-days required to register a simple limited liability company in an urban center. It reflects the extent of barriers faced by anyone wanting to set up business, be it a local entrepreneur or a foreign corporation. Low scores suggest the need for programmatic interventions to reform business laws and streamline business regulations to reduce the time, number of permits, and cost of starting a business. This variable is one of the MCC indicators for assessing government commitment to economic freedom.

Cost of Starting a Business (Source: World Bank, Doing Business database). This variable measures the legally required cost of starting a simple limited liability company, expressed as a percentage of GNI per capita (to normalize for the average ability to pay in each country). Coupled with the number of days and the number of procedures required to start a business, this indicator fills out the picture how the business regulatory environment facilitates or hinders business entry, a critical element of dynamic efficiency.

Procedures to Start a Business (Source: World Bank, Doing Business database). This indicator measures the number of procedural steps required to legalize a simple limited liability company. Together with the time and cost measures (above), it provides a picture of the relative complexity of the bureaucracy facing new business entrants in each country. Many OECD countries have between two and seven steps to register a business. At the low end of the spectrum are countries like Ukraine and Belarus that require 15 and 16 procedures, respectively.

Procedures to Enforce a Contract (Source: World Bank, Doing Business database). This indicator measures the number of procedures required to enforce recovery of a valid debt contract through the court system, excluding possible appeals. A procedure is defined as an interactive

¹⁷ Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi, *Governance Matters III*, World Bank, Revised Version April 5, 2004, p. 3.

step the company must undertake with external parties (government agencies, lawyers, notaries, etc) to proceed with the enforcement action. This variable provides information on the relative complexity and transparency of the judicial system for commercial law, and the cost of enforcing property rights. It complements data on the cost and complexity of registering a business by focusing on the role of the legal system.

Time to Enforce a Contract (Source: World Bank, Doing Business database). This indicator measures the minimum length of time (measured in days) required to enforce a contract through the court system, taking into account each step in the procedural process. It reflects the relative effectiveness and responsiveness of the judicial system, by showing the cost in time and effort of enforcing a contract. The more days that it takes to resolve such a contract dispute, the higher the cost and risk of operating a business.

Time to Register Property (Source: World Bank, Doing Business database). This indicator presents the number of days required to officially register the transfer of title for business property. The indicator also serves as reflection of the general level of bureaucracy and inefficiency of the regulatory environment. Difficulties in registering property can be a major obstacle to starting and expanding a business, and obtaining finance.

Procedures to Register Property (Source: World Bank, Doing Business database). This indicator presents the number of procedural steps required to register the transfer of title for business property. A procedure is defined as any step involving interaction between a company/individual and a third party that is necessary to complete the property registration process.

Rigidity of Employment Index (Source: World Bank, Doing Business database). This index is constructed as the average of three components: a Difficulty of Hiring index, a Rigidity of Hours index, and a Difficulty of Firing index. The World Bank compiles sub-indices from survey responses obtained from in-country specialists. A high value, both in absolute terms and relative to the benchmarks, suggests that the legal and regulatory environment is impeding job creation and labor reallocation. Labor market reforms are therefore indicated as a possible strategic priority. This is a difficult political issue, because labor unions typically resist any weakening of labor regulations, even if the rigidities stand in the way of job creation. Many officials, too, view burdensome regulations as essential for the protection of workers—without understanding the high indirect costs of lost investment, productivity, and job creation.

Financial Sector

The financial sector provides the “grease” to lubricate economic activities ranging from basic means of payment for monetary transactions, to complex schemes for financing investment and trade. The depth, stability, and quality of financial institutions is a fundamental mechanism for mobilizing saving, allocating financial resources, fostering entrepreneurship, and improving risk management. In countries where capital markets (stock and bond markets) are not well developed, the banking system dominates financial intermediation, accounting for the bulk of all savings and formal credit to the private sector. In many countries, other elements of the financial system are also important, such as pension funds, insurance companies, housing finance

institutions, and microfinance schemes. Unfortunately, it is difficult to find accessible and comparable international data on non-bank financial institutions, covering large numbers of developing countries. Hence, most of the financial indicators in the template refer to characteristics of the banking system.

Primary Indicators

Money Supply, percentage of GDP (Source: IMF Article IV Reviews for latest country data; World Development Indicators for benchmark data). The ratio of broad money to GDP is a principal indicator of the degree of monetization of the economy, and the size and depth of the banking system. Broad money (M2), consists of currency in circulation plus deposits in the banking system, excluding those of the government. This ratio is strongly correlated with the overall level of economic development. A high value relative to the benchmark standard implies that the banking system is widely used as a store of wealth and means of payment. A low value is a strong indicator of an underdeveloped financial sector and a large subsistence economy, which can help explain low rates of saving, inefficient patterns of investment, and poor growth performance. By implication, financial sector programs may be an important strategic objective for USAID interventions.

Domestic Credit to Private Sector, percentage GDP (Source: IMF Article IV Reviews for latest country data; World Development Indicators for benchmark data). The volume of bank credit to the private sector, relative to GDP, is a primary indicator of whether banks and other financial institutions are successfully mobilizing funds to finance the private sector business. A low value for this indicator, relative to benchmark standards, is a sign of a weak banking system as a whole, or a large diversion of financial resources to the public sector—or both.

Interest Rate Spread (Source: World Development Indicators). The interest rate spread is the difference between the average interest rate on loans to prime customers and the interest rate on deposits in the banking system. This indicator reflects the combined effect of five factors: innate lending risks due to structural characteristics of the economy; the cost of bad debts due to poor lending decisions, perhaps resulting from political pressures or corruption; uncertainties due to weak credit information systems or collateral mechanisms; market power in the banking system, reflecting a lack of effective competition in the financial markets; and high operating costs in intermediating deposits into loans. Relatively high values are a sign of serious inefficiencies in the banking system, or poor institutional foundations for the development of the financial markets.

Stock Market Capitalization, percentage of GDP (Source: World Development Indicators). This variable is defined as the market value (share price times number of shares outstanding) of all domestic shares listed on the country's stock exchange, as a percentage of GDP. It is a rough indicator of financial market development outside the banking system. For many low-income countries, the value is nearly zero, properly reflecting the lack of financial development. Likewise, a high value compared to benchmark standards indicates a relatively well developed capital market. The development of capital markets provides a source of financing for business investment and expansion. Equally important, capital markets create competition for the banking

system in serving the financial needs of blue-chip corporate clients, putting pressure on the banks to improve efficiency and seek broader markets. Thus, programs to develop capital markets—or to establish institutional foundations for capital market development, such as information systems and an appropriate legal framework—can be an important intervention for broadening and deepening the overall financial system.

Supporting Indicators

Real Interest Rate (Source: World Development Indicators). This variable measures the bank lending rate, after adjusting for inflation (using the GDP deflator). The importance of this adjustment can be seen by considering a simple example. If one borrows for one year at an interest rate of 20 percent in an environment with 30 percent inflation, the real value of repayments is 10 percent less than the amount received for the loan. The effective cost of borrowing is less than zero. In contrast, with 2 percent inflation, a 20 percent interest rate is a very high cost of borrowing, approximately 18 percent. Very high real interest rates are a serious impediment to business borrowing for anything other than rapid-turnover activities such as trading. A high cost of borrowing even for prime customers can be a sign of inefficiencies in the banking system, a high rate of non-performing loans, poor credit information systems, or lack of competition in the financial markets.

Legal Rights of Borrowers and Lenders (Source: World Bank, Doing Business database). This is a composite indicator reflecting scores on ten characteristics of national laws on collateral and bankruptcy. The variable ranges from 0 (worst) to 10 (best). Access to finance is cited in many countries as a leading constraint on private sector development, particularly for small and medium enterprises. The root problem is often not the banking system itself, but the legal framework for ensuring that loans can be recovered. Equally important, prospective borrowers are discouraged from seeking bank credit if adverse business outcomes might lead to enormous legal entanglements. Thus, a high score for this index indicates that the country's legal system is well suited for expanding access to credit, by providing legal protection for both borrowers (through clear insolvency provisions) and lenders (through clear foreclosure provisions). A low score suggests that the system of commercial laws and regulations may be a priority for donor intervention.

Cost to Create Collateral (Source: World Bank, Doing Business database). This indicator measures the total amount of stipulated payments for create a secure right to collateral assets and then registering the collateral for use in obtaining bank credit. The cost is estimated for a standardized business situation, and expressed as a percentage of per capita income. This way of normalizing the collateral cost is appropriate for considering problems of access to the banking system for small and medium enterprises. It is less relevant for large businesses, because even a high multiple of per capita income is of little consequence for large loans. Also, the Doing Business technical notes point out that a relatively low cost to create collateral may simply reflect the absence of a collateral registry system in some low-income countries. In this case, potential borrowers are excluded from the financial system by the lack of collateral registration, rather than the cost of registration. In conjunction with the previous variable, this indicator is a proxy for legal and institutional conditions for financial market development.

Country credit Rating (Source: Millennium Challenge Corporation). The MCC has adopted this variable as one of six indicators of country commitment to economic freedom. The rating used by the MCC is from *Institutional Investor Magazine*, which conducts a semi-annual survey of bankers and investment fund managers to gauge their perceptions of country default risk. This information provides a gauge of the country's susceptibility to a fiscal or external financial crisis, and its ability to attract external financing. These factors have an important effect on development of the financial system, and on the overall investment climate. A low value signals a need for development assistance to strengthen the financial system, improve fiscal and monetary management, and maintain a sustainable external balance.

External Sector: Trade, Capital Flows, Remittances

The revolution in transportation costs, telecommunications, and policy barriers to international transactions over the past 25 years has fueled global integration. Expansion in the international flow of goods, services, capital, technology, ideas, and people creates new opportunities for developing countries to boost growth and reduce poverty. Globalization also creates new challenges in the need for institutions, policies, and regulations to take full advantage of international markets; cost-effective approaches to cope with the adjustment costs; and systems for monitoring and mitigating associated risks.

This section of the template examines the extent to which the target country is taking advantage of integration opportunities, and the opportunities and challenges offered by the global economy. It is the longest section of the template, because the external sector has numerous subcomponents: trade; remittances; aid flows; capital flows; external debt; and international reserves. Performance in all of these dimensions depends not only on trade and investment policies, as such, but also many factors covered in other sections of the template, such as fiscal and monetary policy, the institutional framework, infrastructure, and workforce skills.

Primary Indicators

Trade in Goods and Services, Percentage of GDP. (IMF Article IV Reviews for latest country data; World Development Indicators for benchmark data). This indicator is defined as the value of imports plus exports (of goods and services) as a percentage of GDP. The trade ratio is widely used as a measure of integration into the world economy. Caution is needed, however, in interpreting this as an indicator of policy openness or competitiveness, because countries that are large or distant from major markets tend to have low ratios regardless of whether their policy regime is open or not. Similarly, small countries typically have a high trade ratio even with protectionist policies. Oil exporters also may have a high trade ratios despite a restrictive policy regime. As long as these factors are taken into account in the benchmarking,¹⁸ a relatively high

¹⁸ To take these factors into account, the CAS team attempted to distinguish *policy* openness by benchmarking the trade ratio against a *predicted value* derived from a regression that controls for size, GDP, distance from major markets (the “gravity” model), and oil exports. Model of this type are widely used to analyze bilateral trade flows. When specified in terms of aggregate trade flows, however, the

trade ratio indicates that the country is a strong performer in trade integration, whereas a low ratio suggests that the country is relatively closed. In the latter case, USAID may consider prioritizing programs to reduce impediments to trade and strengthen trade capacity, while mitigating the negative effects of trade liberalization on domestic industries.

Export Growth, Goods and Services (Source: IMF Article IV Reviews for latest country data; World Development Indicators for benchmark data). Year-on-year export growth is a basic dynamic measure of trade performance. This indicator can be defined in terms of current U.S. dollars or constant local currency units. The U.S. dollar measure shows changes in the purchasing power of export earnings in terms of the dominant currency for international trade, but the interpretation is complicated by movements in the exchange rate between the dollar, as well as dollar price inflation (though this has not been a serious issue in recent years.) Export growth in constant local currency units shows performance in volume terms, but does not measure actual foreign currency earnings, which may be affected by international price changes as well as volume. Comparing both figures allows one to distinguish between real volume growth and the effect of changes in exchange rates and prices. Sub-par export performance is a symptom of poor growth in volume, or declining export prices. Either way, the indicator would suggest a strategic need for programs to strengthen policies and institutions to enable the private sector to increase exports and diversify export composition or markets.

Worker's Remittances, percentage of exports (Source: IMF Article IV Reviews for latest country data; World Development Indicators for benchmark data). Remittances are funds sent home by nationals living and working in other countries, usually to family members in the country of origin. As migration has increased with globalization, remittances have become a critical source of foreign currency for many developing countries. In some cases, they approach or exceed export earnings, and are essential in supporting a sustainable current account balance. Where remittances are significant, USAID may consider designing interventions to reduce the cost of cash transfers and improve the developmental impact of these resources.

Current Account Balance, Percentage of GDP (Source: IMF Article IV Reviews for latest country data; World Development Indicators for benchmark data). The current account balance is the net inflow of foreign exchange resulting from cross-border current (as distinct from capital) transactions: that is, exports and imports of goods and services, net payments of factor incomes (including profits, royalties, and interest payments), and transfer payments (including remittances and official grants). A deficit needs to be financed by net capital inflows, or depletion of official foreign exchange reserves. Large, persistent, and growing deficits are a sign of chronic fiscal imbalances, problems with competitiveness, and a misaligned exchange rate. These conditions are often a harbinger of impending crises. Note, though, that low-income countries often run long-term current account deficits as a consequence of receiving net capital inflows in the form of foreign aid and foreign direct investment. In these circumstances a moderate current account

“gravity” variable was not statistically significant, and standard errors were too large to use the results for benchmarking.

deficit is not a problem as long as the inflows are sustainable over the medium term, and the debt dynamics manageable.

Aid, Percentage of GNI (Source: IMF Article IV Reviews for latest country data; World Development Indicators for benchmark data). This variable measures Official Development Assistance from OECD countries, and official aid from non-OECD countries, as a percentage of Gross National Income. It is a descriptive indicator of dependency on foreign aid inflows. The time series data show if aid dependency is rising or declining. In countries with particularly high ratios of aid to GNI, USAID might focus on strategic interventions to enhance revenue mobilization and develop mechanisms such as public–private partnerships, to tap private capital for government investment programs.

Gross Private Capital Inflows, percentage of GDP (Source: IMF Article IV Reviews for latest country data; World Development Indicators for benchmark data). This indicator is the sum of private capital inflows—foreign direct investment, portfolio investment, and debt flows (especially international bank loans or bond issues)—as a percentage of GDP. It can be interpreted as measuring a country’s policies toward integration with global capital markets; the ability to access external capital (country risk); the desirability of domestic assets to foreigners; and the willingness of public and private agents to use foreign debt or equity. A very low score may be attributable to any of these factors, but indicates overall that the economy is missing opportunities to leverage domestic resources by attracting private capital from abroad to augment growth. Programs to assist in capital market development, investment promotion, negotiating and implementing investment protection agreements, and building public sector capacity could be prioritized.

Foreign Direct Investment, Percentage of GDP (Source: IMF Article IV Reviews for latest country data; World Development Indicators for benchmark data). Foreign direct investment is a cross-border investment to acquire a lasting management interest in an enterprise. It includes the initial investment and reinvestment of earnings. The present indicator is a net figure that takes into account inward and outward FDI. Access to net inflows of FDI is one of the most important sources of financial leverage from the global economy, since FDI often brings not only capital but also technology, know-how, and access to global supply chains. Increasing a country’s attractiveness to foreign investors has been a major emphasis of USAID programming. Countries with low scores would be well served by programs to facilitate FDI, directly or indirectly, by addressing the basic factors that make an economy attractive to foreign investors.

Present Value of Debt, Percentage of GNI (Source: World Development Indicators). This indicator measures the aggregate present value of future debt service obligations. It is a far better measure than the nominal face value of external debt, since it takes into account timing and concessionality. Due to the time value of money, a million dollar loan at 2 percent interest due over 10 years is a far smaller liability than an equal loan at 10 percent interest due next month. The World Bank classifies as “severely indebted” countries with a present value of debt service greater than 80 percent of GNI. A high debt burden seriously constrains a country’s ability to finance development programs to improve the investment climate and reduce poverty. It also suggests a high degree of continued dependence on donor funding. In addition, large debt

obligations discourage investment by increasing country risk. Thus, this indicator can signal the importance of supporting debt reduction efforts, and improving the country's balance of payments prospects. This interpretation applies as well to the next indicator.

Debt Service Ratio (Source: IMF Article IV Reviews for latest country data; World Development Indicators for benchmark data). The debt service ratio is defined as the sum of interest and principal payments actually paid in a given year, expressed as percentage of exports of goods and services plus workers' remittances. The indicator measures the extent to which current export earnings are encumbered or offset by the cost of debt service. Along with other country risk measures, this indicator is used to assess the sustainability of a country's debt position, the burden of debt on the balance of payments, and the likelihood of a debt or balance-of-payments crisis.

Gross International Reserves, Months of Imports (Source: IMF Article IV Reviews for latest country data; World Development Indicators for benchmark data). This variable measures the stock of foreign exchange reserves in terms of the number of months of imports of goods and services covered. A crude rule of thumb is that reserves should be sufficient to cover no less than three months of imports, and preferably four or more. Lower reserve levels signal an urgent need for a balance of payment adjustment through macroeconomic policies or a devaluation of the exchange rate. This is an important indicator of the risk of a balance of payments crisis or debt default. USAID programs can be structured to strengthen government's international reserve management and improve the country's balance of payments position through policy and institutional reforms.

Supporting Indicators

Trade Policy Index (Source: Heritage Foundation, Index of Economic Freedom,). Restrictive trade policies are often the basic cause of poor trade performance. The trade policy index is a composite measure of the degree to which the government hinders the free flow of foreign commerce. The Heritage Foundation assigns scores based on a country's weighted average tariff rate, ranging from 1 (very low levels of protectionism) to 5 (very high levels). Major non-trade barriers or ample evidence of corruption in the custom services raises the score. In countries with high scores, USAID may consider prioritizing programs to support policy analysis of trade liberalization initiatives, and trade capacity building. This is an MCC indicator of government commitment to economic freedom.

Structure of Merchandise Exports (Source: World Development Indicators). This indicator shows the composition of merchandise exports by major commodity group: agriculture and raw materials, fuel, ores and metals, and manufactures. The time series data¹⁹ and benchmarking analysis can reveal shifts in the composition of exports and trends in competitiveness, suggesting

¹⁹ In cases where the data fluctuate considerably from year to year, three to five year averages will be examined.

the need for policies and programs to diversify exports or promote the growth of export from particular sectors, such as manufacturing.

Concentration of Exports (Source: ITC COMTRADE). This indicator shows the share of the top three export products, by 3-digit SITC category, in total merchandise exports. It supplements the previous indicator by providing information at the commodity/product level on the concentration of exports. A high percentage of the top three export products indicates high vulnerability to changes in the world market conditions or domestic supply conditions for a handful of products. This variable will help diagnose the need for aid programs to target export diversification and non-traditional export promotion programs.

Real Effective Exchange Rate (REER) (Source: IMF Article IV Review). The REER is an index number (base 1995=100) computed by the IMF to measure the change in a country's exchange rate vis-à-vis a trade-weighted average of major international currencies, adjusted for relative changes in respective price levels. The index is defined so that an *increase* indicates a real *appreciation* of the local currency—the opposite of the usual exchange rate measure. Thus, a rise in the REER indicates that the local currency is strengthening in real terms relative to a basket of major currencies. This can be due to an appreciation of the nominal exchange rate, or high inflation that is not matched by devaluation (or a combination of these factors). Basically, a rise in the REER means that domestic exports become less competitive in foreign markets, and imports more competitive in domestic markets. Conversely, a decline in the REER indicates a real depreciation relative to major currencies, with corresponding implications for export and import competitiveness. Changes in the REER help to explain trade and current account performance. The analysis can point to a focus on exchange rate policies, macroeconomic policies, and programs to restore competitiveness, such as reducing trade and investment impediments that increase domestic costs.

Net Barter Terms of Trade (Source: World Development Indicators). The net barter terms of trade is the ratio of an index of the world market price of a country's exports relative to an index of the world market price of its imports. A decline in the terms of trade shows that the average value of exports is declining in world markets, or the average price of imports is increasing. Either way, each unit of exports buys fewer imports. Changes in the terms of trade help the analyst understand how price trends are affecting trade performance. They may suggest the need for developing alternative exports, or policy and institutional reforms and technical support to make exports more competitive.

Inward FDI Potential Index (Source: UNCTAD). The Inward FDI Potential Index is an average of twelve factors relating to FDI attraction, including business infrastructure, educational attainment, and world market share in FDI-intensive sectors like autos and electronics. The index is normalized between zero and one, from lowest to highest potential. It is an imperfect measure in that the elements and weights are somewhat arbitrary. It is also a bit tautological, in that several elements basically measure pre-existing FDI—implicitly saying that if a country has FDI, it is attractive to FDI. The index can show whether poor FDI performance is based on the business environment, the sectoral composition of output, or external factors such as marketing efforts and perceptions. A low score suggests that one or more of the component factors could be

addressed as strategic priorities to improve FDI attractiveness, and investment attractiveness overall.

Economic Infrastructure

Physical infrastructure—transportation, communications, power, and more recently, information technology networks—is the backbone for improving competitiveness and expanding productive capacity and trade. For USAID, infrastructure projects went through a long period of disfavor. In the last few years, however, the importance of infrastructure issues has been rehabilitated. This attitude has been reflected in recent statements by Administrator Natsios, who has emphasized the importance of cutting edge technology infrastructure as well as traditional infrastructure like roads.

This is a difficult issue for which to compile meaningful indicators. Most international data are narrowly focused on particular types of infrastructure, and more aggregated measures are synthetic indices derived from subjective surveys. In addition, many of the readily available indicators, such as kilometers of paved roads or the volume of electricity production, have little diagnostic value because the appropriate levels differ widely according to country size and conditions. This section presents one broad index and a selection of detailed indicators to give a sense of quality and coverage of a country's infrastructure.

Primary Indicators

Overall Infrastructure Quality (Source: Global Competitiveness Report). This is the only available indicator of overall infrastructure quality to support business development. Respondents to the GCR surveys have ranked the infrastructure in their country on a scale of 1 to 7, where 1 indicates “poorly developed and inefficient,” and 7 indicates “among the best in the world.” In countries that score poorly on the overall infrastructure index, USAID may wish to pursue programs to improve the legal, regulatory, and policy framework for infrastructure development; strengthen infrastructure planning and capital budgeting; build capacity for potential providers, whether public, private, or non-profit; and create innovative programs to improve the quality of infrastructure services.

Telephone Density, Fixed Line and Mobile (Source: World Development Indicators). This telephone density indicator measures the number of telephone mainlines and mobile phone connections, per 1,000 people. Mobile phone service has been growing rapidly worldwide. Most countries have licensed multiple, competitive providers. In contrast, fixed lines in many countries are limited in coverage, with connections being difficult and costly to obtain. Fixed line and mobile phones are close substitutes, so the combined measure is the best benchmark for assessing the availability of basic communications infrastructure, which is essential for economic growth. Poor comparative scores suggest the need for regulatory reforms, increased competitiveness in telecommunications, and measures to expand private investment in the telecommunications industry.

Internet Users per 1,000 People (Source: International Telecommunications Union). The number of internet users per 1,000 people is a proxy for the availability of information technology infrastructure. The idea that internet technology allows developing countries to “leapfrog” up the technological ladder is probably overblown, but there is no doubt that IT can be used innovatively to accelerate development and address humanitarian needs in even the poorest economies. Low scores on this variable indicate a need and opportunity for aid programs to support a wide range of programs to develop the ITC sector, including regulatory reforms, IT training, expansion of ITC service networks (such as the Last Mile initiative), and enhancement of IT systems in the public service, ranging from schools and health centers to tax administration and public finance management.

Supporting Indicators

Telephone Cost, Average Local Call (Source: World Development Indicators). This variable measures the average cost of a three minute local call, in US\$ equivalent units. This is a very specific but high quality indicator, which is available for most countries. A high cost of local phone calls suggests general problems with the cost of infrastructure services, which reduces competitiveness and impairs the business environment. As with most variables in the template, a poor score on this measure requires further investigation to identify specific interventions, but costly phone service is a strong indication of the need for donor support in reforming the legal and regulatory framework for infrastructure services, and assisting with institutional capacity building for infrastructure planning and management.

Quality of Infrastructure—Railroads, Ports, Air Transport, and Electricity (Source: Global Competitiveness Report). In addition to the overall infrastructure quality index discussed above, the GCR provides subjective survey response data for each of the above-named components of the physical infrastructure. For rail and port quality, respondents are asked to rate their country from 1 (underdeveloped) to 7 (as good as the world’s best). For air transport, a value of 1 indicates infrequent and inefficient service, while 7 is as above. For electricity a value of 1 indicates that the quality of electricity supply, in terms of interruptions and voltage fluctuations, is worse than most other countries; a 7 indicates that the country is the best in the world. Country coverage from this source is somewhat limited, but where the figures are available they provide a valuable supplement to the limited range of quantitative indicators on infrastructure development.

Science and Technology

Science and technology are central elements of a dynamic business environment, because advancements in knowledge are a primary source of increased productivity, efficiency, and innovation. Successful transformational development for low-income countries increasingly depends on establishing the institutional environment and technological capacity for acquiring technology from the global economy, adapting it to local circumstances, and protecting intellectual property rights. A lack of capacity to access and utilize advances in technology prevents an economy from leveraging the benefits of globalization. At the same time, countries must be able to apply and diffuse local, indigenous technologies effectively. For low-income

countries, appropriate local technologies are especially important for micro or small enterprises and agricultural development, key sectors for poverty reduction. While low-income countries are most in need of acquiring technology from the global economy, middle-income countries need to begin developing the capacity to produce technology to gain a competitive edge.

The indicators used for section of the template are far from satisfactory because of the limited coverage of pertinent international statistics. Most low-income countries lack even an indicator of tertiary enrollments in science and technology. The lack of data, itself, is a symptom of limited capacity in many countries to acquire, adapt, and apply science and technology for business development.

Primary Indicators

Patent Applications Filed by Residents (Source: World Development Indicators). This indicator measure the absolute number of patent applications filed in a given year by residents with a national patent office. The WDI database also reports patent applications filed by non-residents. The latter figures seem to reflect little more than the presence of automated systems for cross registering patents filed in other countries. The figure for patents by residents appears to provide a cleaner signal of local science and technology capacity. For many low-income countries, the number is near zero. This indicates an enormous need for science and technology education and training.

Expenditures for Research and Development, Percentage of GNI (Source: World Development Indicators). This variable measures current and capital expenditures on R&D, as a share of GNI. It provides information on resources devoted to R&D, and therefore the ability to create and apply technology and innovation. The indicator is applicable primarily for middle income countries supported.

FDI Technology Transfer Index (Source: Global Competitiveness Report). This is a subjective indicator based on a survey of executive's perceptions of the quality of FDI entering the country, as a source of new technology. The scores range from 1 (FDI brings little new technology) to 7 (FDI is an important source of new technology). Countries with low ranking may benefit from donor programs promoting investment in sectors that introduce new technology, including related workforce training, infrastructure development, and legal/regulatory reforms.

Supporting Indicators

No supporting indicators are available for this section of the template.

PRO-POOR GROWTH ENVIRONMENT

The third major section of the template addresses the relationship between growth and poverty reduction. Rapid growth is clearly the most powerful and dependable instrument for poverty reduction. Yet the link between growth and poverty reduction is not mechanical. In some countries, the structure of development allows incomes of poor households to grow more quickly

than overall per capita income, while in other countries growth ends up benefiting 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 by improving livelihoods, building assets, and enhancing mechanisms to cope with shocks. These characteristics are associated with programs to improve primary health and education, the creation of jobs and income opportunities, labor market skills, micro-finance, agricultural development (for countries with large and poor rural population), and gender equality.²⁰ Equally important, high or rising inequality may stoke social or political instability, which can weaken the climate for doing business and inhibit growth. Inequitable development also limits growth by constraining gains in productivity and increases in consumption demand for large segments of the population.

This section focuses on four major subjects related to the pro-poor structure of growth: health; education; employment and the workforce; and agricultural development.²¹

Health

Health is a central strategic objective for USAID, accounting for seven of the forty Program Components in the Agency's Interim Guidance on Strategic Management. These programs fall under the Global Health Bureau rather than under EGAT. Nonetheless, health programs are a major form of investment in human capital, and a significant determinant of economic growth and poverty reduction. An understanding of the health status of the population can influence the design of economic growth programs. Furthermore, EG teams may react to poor health indicators by considering possible *economic* interventions that contribute to better health outcomes. Examples include budget reforms to strengthen primary health care, infrastructure planning to expand access to clean water and sanitation, education programs to help families understand and avoid health problems, and programs to improve health by expanding income opportunities for the poor.

The importance of health for growth and poverty reduction is evident in the fact that two of the four variables used by the MCC to assess country eligibility in terms of Investing in People are health variables—immunization rates and health expenditures. Likewise, three of the United Nation's MDG goals relate directly to health—reduce child mortality, improve maternal health, and combat HIV/AIDS, malaria and other diseases. Hence, an analysis of economic growth performance and growth constraints would be incomplete without a review of basic health indicators.

²⁰ For purposes of economic growth programming, the template does not cover emergency relief.

²¹ Gender was covered in the overview section. The CAS team sought to include micro-finance as a separate topic but could not identify meaningful and widely available national performance indicators.

Primary Indicators

Life Expectancy at Birth (Source: World Development Indicators). Life expectancy at birth is defined as the number of years newborn infants would live, on average, given the prevailing age-specific mortality rates. Because the variable incorporates mortality risk at all ages, it is a primary indicator of overall health of the population. As such, it is the basic health component in the UNDP's Human Development Index. Life expectancy is also a strong and robust predictor of economic growth. In countries that are heavily afflicted with HIV/AIDS, life expectancy has plunged due to high mortality among young adults. In some cases life expectancy is now below 40 years, reversing decades of health progress—with major consequence for private sector development, the delivery of public services, growth, and poverty.

Maternal Mortality Rate (Source: United Nations Millennium Development Goals website). This variable is defined as the number of women who die during pregnancy and childbirth, per 1,000 live births, due to causes related to or aggravated by the pregnancy or its management. The MMR reflects the risk to mothers in child-bearing. This MMR is 30 times higher in developing countries, on average, than in developed ones. The MMR is influenced by socioeconomic conditions; female health and nutrition preceding pregnancy; the prevalence of complications in pregnancy and childbirth; and the availability and use of health care facilities, including prenatal and obstetric care. The UN uses the MMR as a Millennium Development Goal indicator for tracking progress towards improving maternal health (Goal 5).

HIV Prevalence (Source: UNAIDS website for most recent country data; World Development Indicators for group benchmark data). The HIV prevalence rate is the percentage of the population age 15-49 infected with HIV. In most developing countries, the figures are estimated from clinical data for women using pre-natal clinics. The death toll from AIDS is 3.1 million annually, and an estimated 40 million people are now infected with the virus (UNAIDS 2004). The associated economic burden is enormous—for families, communities, businesses, government budgets, and economies as a whole. Estimates suggest that when the prevalence of HIV/AIDS reaches 8 percent the cost in growth is estimated at about 1 percent a year. Millennium Development Goal number 7 calls for halting and beginning to reverse the spread of HIV/AIDS by 2015. Wherever possible, economic growth programs in high-prevalence countries should incorporate HIV/AIDS components, to complement the pure health focus of the PEPFAR program.

Supporting Indicators

Public Health Expenditure, % GDP (Source: Millennium Challenge Corporation for most recent country data; World Development Indicators for benchmarking data). This indicator is defined as recurrent and capital spending by government at all levels, as a percentage of GDP. This includes expenditure financed by external loans and grants, or social (or compulsory) health insurance programs. The MCC has adopted this definition as an indicator of country performance in Investing in People. However, the variable must be interpreted with caution. A country where total government spending is a small share of GDP may have a low value for this indicator even if the health share is relatively high. In addition, some low-income countries skew public health spending toward hospital services that mainly benefit better off urban groups. Nonetheless, a low

level of public health expenditure, compared to the benchmark standard, suggests that the government's fiscal management may be shortchanging critical health needs. If the country has a low value for this indicator and also for overall government expenditure as a percentage of GDP, then the priority may be to enhance domestic revenue mobilization, to finance essential public services.

Births Attended by Skilled Health Personnel (Source: World Development Indicators). This variable is defined as the percentage of deliveries attended by personnel trained to give supervision, care, and advice to women during pregnancy, labor, and the postpartum period. It indicates the effective provision of health care for pregnant women. The supervision of a physician, nurse or other professional with midwifery skill during delivery influences the mortality rates of mothers as well as infants. Along with the MMR, the UN uses this variable as a Millennium Development Goal indicator for progress toward improving maternal health (Goal 5).

Child Immunization Rate (Source: World Development Indicators). This indicator measures the percentage of children under one year who receive vaccination coverage for measles and DPT (diphtheria, pertussis, or whooping cough, and tetanus). Immunization programs are essential to the reduction of morbidity and mortality from major childhood infectious diseases. This is one of four variables used by the MCC to assess government commitment to Investing in People. The UN also uses the child immunization rate as an MDG indicator, but focuses on measles inoculation rather than measles plus DPT.

Access to Improved Water Source (Source: World Development Indicators). This indicator is defined as the percentage of population with reasonable access to an adequate amount of water from an improved source, such as a household connection, public standpipe, borehole, protected well or spring, or rainwater collection. Safe drinking water is essential to lowering the frequency of gastro-intestinal illnesses, which are major killers in many developing countries. Access to clean water is associated with higher levels of education and income, with causality running in both directions. Halving the proportion of people without sustainable access to safe water supplies is an MDG target for Ensuring Environmental Sustainability (Goal 7).

Access to Improved Sanitation (Source: World Development Indicators). This variable is defined as the percentage of population with adequate disposal facilities (private or shared, but not public) that effectively prevent human, animal, and insect contact with excreta. Along with access to safe water, adequate sanitation is essential for reducing exposure to a wide range of diseases, and improving health outcomes. Halving the proportion of people without access to improved sanitation is an MDG target for Ensuring Environmental Sustainability (Goal 7).

Prevalence of Child Malnutrition—Weight for Age (Source: World Development Indicators). This indicator measures the percentage of children under age five whose weight for age is more than two standard deviations below the median for the international reference population. Child malnutrition is major contributing factor to child mortality. Poorly nourished children are highly susceptible to disease and infection, and far more vulnerable when these threats strike. The prevalence of child malnutrition is a basic indicator of nutrition status. Low values suggest that

USAID should consider prioritizing economic programs to improve income opportunities for the poor, as well as food security and education programs for women.

Education

Like health, education is a fundamental investment in human capital, and a basic input for transformational growth and poverty reduction. By unlocking individual productive potential, upgrading the quality and adaptability of the workforce, and facilitating the adaptation or development of new technologies, education is key to development. Indeed, the accumulation of knowledge, as such, is a fundamental determinant of growth. Education—particularly primary schooling for girls—is also strongly associated with better family health and nutrition, greater opportunities for women, smaller family size, and other profound socioeconomic changes. Returns to secondary and higher education may be lower than those for primary schooling, but are still high. To escape the poverty trap, poor developing countries require not just a corps of literate workers, but also skilled managers, engineers, computer technicians, and professionals. To achieve these development outcomes, the quality of education is as important as the coverage. Unfortunately, the template is weak on indicators of school quality, as well as indicators of higher education.

USAID's new Strategic Management guidelines include three program components in education: improving the quality of basic education, improving institutions of higher education (including advanced technical institutions); and improving the quality of the workforce. Education is also highlighted in Millennium Development Goals 2 and 3: achieve universal primary education, and promote gender equality and empower women.

Primary Indicators

Net Primary Enrollment Rate – Female, Male, and Total (Source: World Development Indicators). This variable measures the proportion of the primary school age population (according to national regulations) enrolled in primary schools. The maximum net enrollment rate is 100 percent.²² A low net enrollment rate indicates that many school-age children are left behind because they never had the opportunity to attend, have dropped out, or have repeated grades. These problems are often a consequence of poverty, and forerunners of continued poverty in the next generation. The strategic response by USAID can focus either on education interventions, or poverty-oriented economic programs. This variable is one of the MDG indicators for tracking progress toward universal primary education (Goal 2).

Persistence to Grade 5—Female, Male and Total (Source: World Development Indicators) This variable measures the percentage of children who eventually reach grade 5 after entering the

²² In contrast, the commonly used *gross* enrollment rate takes total primary enrollments regardless of age as the numerator for the ratio. The gross rate in many countries exceeds 100 percent because many primary students exceed the normal age for this level of education because they had a late start, are repeating grades, or take time off.

primary school system. A low persistence rate indicates that many students who start primary school do not continue to the point where they achieve functional literacy and numeracy. This is a signal of serious inefficiency of the primary school program, which may be due to problems with the educational system itself, or socioeconomic factors that prevent children from continuing their schooling. If missions deem this problem to be a strategic priority for achieving more rapid economic growth, the appropriate response will depend on deeper analysis of the causes. The UN uses this variable to gauge progress toward the MDG goal of achieving universal completion of primary school. Hence, the target value is 100 percent for grade 5 persistence. The MCC uses a different variable—the primary completion rate for girls—as an indicator of country commitment to investing in people.²³

Youth Literacy Rate (Source: World Development Indicators). This variable is defined as the literacy rate among the population age 15–24. Literacy is defined by the UN as the ability to read and write a short simple statement about one’s everyday life, with comprehension. In contrast to the overall adult literacy rate (see Overview section), which represents the cumulative effect of decades of educational outcomes, the youth literacy rate reflects more recent performance in educating children. It also focuses attention on the basic educational achievement of new or recent entrants to the workforce, who will form the core of the future labor force. A very low score on youth literacy suggests limited prospects for transformational growth in the medium run. It also may affect the structure of donor interventions to promote private sector development.

Secondary Indicators

Expenditure on Primary Education, Percentage of GDP (Source: Millennium Challenge Corporation). The MCC uses this variable, which is defined as total expenditures on education by all levels of government, as a percentage of GDP, as an indicator of government commitment to Investing in People. The MCC obtains the data from national sources via U.S. embassies because the figures are not readily available from standard international statistical sources. Nonetheless, the MCC data set covers a sufficient number of countries for most applications of the template, including the benchmarking analysis. The template uses education expenditure as an indicator of educational quality. As with expenditure on health as a percentage of GDP, the figures must be interpreted with caution. Countries can have a small share of GDP devoted to primary education even though a large budget share is devoted to this purpose, if overall revenue and expenditure are low relative to GDP. Nonetheless, low public spending on education, compared to the benchmark standard, is a signal that the government may be shortchanging critical education needs in its public expenditure program.

Education Expenditure per Student, Percentage of GDP per capita—Primary, Secondary, and Tertiary (Source: World Development Indicators). In the WDI, the World Bank presents data on

²³ In one respect the primary completion rate may be a slightly better variable, because a full primary education is the foundation for general knowledge of science, health, citizenship, geography, and history, as well as literacy and numeracy. However, the completion rate measures the extent to which children complete primary school *on time*, rather than ever. In this regard, the persistence rate to grade 5 is a better indicator of attainment.

current public expenditure per pupil, at each level of schooling, as a percentage of GDP per capita. It would be preferable to have data on total public expenditure on education as a percentage of GDP, but this is not available. International comparisons of the education expenditure figures will show the financial commitment of the government to the education of each student, using per capita income as a gauge of ability to pay. Where the indicator is very low, relative to benchmarks, public financing per student is small relative to the country's ability to pay. Missions may interpret this as a sign that the budget program for education requires reconsideration. But a more careful study would be needed to substantiate the source of the low value. For example, it could be due to an unusually large influx of primary students, relative to the population, or poor revenue mobilization, rather than a low budget allocation.

Pupil-Teacher Ratio, Primary School (Source: World Development Indicators). This indicator is simply the number of pupils enrolled in primary school divided by the number of primary school teachers. Evidence of the link between class size and educational outcomes is far from clear-cut. Nonetheless, there is a presumption that small classes permit teachers to offer more individual attention to students, and thereby facilitate learning. Thus, the pupil-teacher ratio is widely used as a rough indicator of educational quality, and a measure of the country's commitment to primary education. For economic growth programs, a very high pupil-teacher ratio suggests the need for strengthening domestic resource mobilization and budget programming for training and hiring teachers.

Employment and the Workforce

The most important mechanism for delivering the benefits of growth to the poor is to provide more and better earning opportunities, whether in informal activities, self-employment, or formal jobs. The primary source of improved earning opportunity is growth in the demand for labor, and the creation of higher grade jobs through structural transformation. In addition, improvements in the *quality* of the workforce are critical to strategies for accelerating growth and enhancing competitiveness. On the demand side, labor market dynamics are driven largely by the quality of the business-enabling environment, as discussed in previous sections. Workforce development programs focus on the supply side, emphasizing improvements in the quality of labor and labor market institutions. Supply side priorities include programs and institutions (not least, public-private partnerships) to provide job-related education, skills and training, including programs to foster entrepreneurship. Labor market reforms are also vital to stimulate job creation, to improve the match between good jobs and qualified workers, and to facilitate labor reallocation to jobs with higher productivity. USAID programs in this area must also address workforce impacts of HIV/AIDS, and the development of small and medium enterprises.

Most developing countries do not compile or report detailed labor force statistics on a regular basis. Hence, coverage of this topic in the template is unavoidably sparse. Note that information about labor productivity differences across economic sectors has been examined in the Overview section on Economic Structure. The business environment section included a Doing Business index of Rigidity of Employment, which is highly relevant for the labor market analysis. Other indicators relating to the quality of the workforce are covered under education and health.

Primary Indicators

Size and Growth of the Labor Force (Source: World Development Indicators). The labor force is synonymous with the economically active population, which the ILO defines to include all persons who are furnishing labor for the production of goods and services during the specified time period, excluding homemaker services and unpaid informal workers. The labor force includes those with part-time jobs, and those seeking work. Specifics such as age restrictions differ by country. Combining the size of the labor force and the rate at which it is growing, one obtains a measure of the extent to which the economy has to be creating jobs or income opportunities to keep pace with the need for work. Countries that are passing through a demographic transition to lower fertility rates generally have many years in which the labor force continues to expand rapidly without a proportionate increase in the number of children. This decline in the age dependency rate (see population section, above) can be a powerful lever for improving per capita income. At the other end of the spectrum, very slow rates of labor force growth can be a drag on overall GDP growth.

Labor Force Participation Rate—Total, Male, Female (Source: Derived from World Development Indicators data). The labor force participation rate is the percentage of the working age population that is in the labor force, as defined above. This indicator is not reported directly in standard international data sources, but it can be calculated for many countries from data on the size of the labor force and the working age population. The participation rate shows the size of the pool of workers, relative to the adult population. Low values suggest that many people (often women) lack opportunities to seek gainful earning activities. The gender breakdown, where available, will pinpoint the extent of the problem of women's participation in the workforce, and the need for programs targeted at improving opportunities and capabilities for women. .

Unemployment Rate (Source: World Development Indicators). Technical details for this variable are country specific, but the standard definition of the unemployment rate is the percentage of workers in the labor force (as defined above) who do not have work *and* are seeking employment. This information is not available for many USAID host countries, but where the data can be obtained, the indicator is too important to leave out of the analysis. Lack of data may preclude benchmarking, but in any case, the analysis can be based on absolute values rather than relative comparative standards. In very poor countries, the unemployment rate is often very low because few workers can afford the luxury of not having at least an informal job while seeking employment. In this case, a low rate may not indicate strong labor market performance. But if the unemployment rate is very high, there is no ambiguity about the presence of a major structural mismatch between the supply and demand for labor. More detailed diagnosis would be required to establish the root causes, and the appropriate forms of intervention.

Supporting Indicators

The template does not include supporting diagnostic indicators for this topic.

Agricultural Development

In addition to being an important source of production, food supply, raw materials for agro-industry and services, and export earnings, agriculture has a special status in many developing countries as the major source of employment for a large fraction of the population, including subsistence livelihood for most of the poor. One of the major aims of transformational development is to shift labor and production out of traditional agriculture and into more productive activities, including off-farm rural enterprises or modern farming, as well as urban employment opportunities. But this is a long run process. In the medium run, programs that can improve productivity or market opportunities for the rural poor can have a major impact on poverty, and also contribute to per capita income.

Agricultural indicators must be used with caution. For example, the use of irrigation, fertilizer, pesticides, and machinery can play a pivotal role in driving agricultural growth, but the “right” mix of these inputs depends critically on local conditions. Efficient production techniques vary depending on factors such as climate, the relative abundance and cost of land, labor and capital, the type of crop being produced, the average farm size, and land tenure arrangements. Thus, indicators relating to the use of agricultural inputs are difficult to use for international comparisons.²⁴ The template therefore adopts a limited set of indicators focusing on production trends and productivity. Even the productivity measures must be interpreted with care, because the efficient proportions of labor, land, and capital per unit of output vary depending on relative costs.

Primary Indicators

Growth in Agricultural Value-Added (Source: World Development Indicators). This indicator measures the real annual growth rate for value added in the agricultural sector, in constant local currency units. It is the broadest measure of the extent to which agricultural production activity is increasing. It is to be expected that the growth rate in agriculture is often less than the overall growth rate for the economy, since a decline in the relative importance of this sector is a natural aspect of economic transformation. But a serious problem would be indicated if a large share of the labor force is dependent on agriculture, and the sector is growing very slowly relative to population growth. In this case, USAID may consider focusing on agricultural development as a strategic priority.

Agriculture Value Added per Worker (Source: World Development Indicators). This indicator is calculated as the value added in agriculture, measured in constant local currency units (at 1995 prices), divided by the labor force in agriculture. Value added is the value of agricultural output less purchases of intermediate goods by agricultural producers. International comparisons for this

²⁴Indicators that could be helpful in describing the sector and that are available from public sources include agricultural value added (% of GDP); irrigated land (% of cropland), agricultural machinery, tractors per 100 hectares of arable land; employment in agriculture (% of the labor force); and fertilizer consumption (plant nutrients used per unit of arable land). Spending in agricultural research and development/ agricultural value added can be obtained on a country by country basis, but not from any international source that could provide data for global benchmarking.

indicator are tricky because of differences in factor endowments. In some countries, it is efficient to use a large input of labor per unit of production, in which case output per worker will be relatively low. But extremely low or stagnant levels of productivity are signs of serious problems with agricultural development. In such cases, USAID may consider pursuing programs to boost agricultural productivity through agricultural research and outreach, technology innovation and transfer, agricultural policy analysis and reform, and support for agricultural education and training.

Cereal yield (Source: World Development Indicators). Cereal yield is another simple measure of agricultural productivity, focusing on the crops that are the main source of sustenance for most developing countries. (In countries where cereals are not an important food or cash crop, this indicator is not relevant.) The variable is measured by kilograms of cereal output per hectare of harvested land. Both the level and the growth trend are important for diagnostic purposes. Trends in yield take into account changes capital and labor intensity; use of fertilizer, pesticides, irrigation, and modern seed varieties; cultivation practices; and institutional determinants of production incentives, such as land tenure. In countries with low values, boosting cereal yields is both a development priority and an opportunity to improve income, nutrition, and food security. If a country ranks poorly by this measure, the mission may consider interventions to support cereal production, in addition to programs for improving agricultural productivity in general.

Supporting Indicators

Crop Production Index (Source: World Development Indicators). This variable captures trends in crop production (excluding fodder), taking into account both changes in productivity and in the area under cultivation. It is measured as an index showing the volume of crop production each year, relative to production in the base period 1989–1991 (which is defined as an index value equal to 100). As a broad indicator of changes in crop production and the volatility of harvests from year to year, this indicator can be helpful in signaling a strategic need for programs to improve crop production practices.

Livestock Production Index (Source: World Development Indicators). This is analogous to previous indicator, but with a focus on livestock rather than crop production. It is measured as an index showing livestock production for each year relative to the base period 1989–1991, which is defined as a value of 100. The time series provides a gauge of the growth in livestock production, and volatility in this subsector due to factors such as weather. The variable can be helpful to consider programs to improve production practices focused in this particular subsector.

Agricultural Policy Costs Index (Source: World Economic Forum, *Global Competitiveness Report*). This is a subjective perception variable, based on a survey of executives in each country, undertaken by the World Economic Forum. Survey respondents evaluate on a scale of 1 to 7 whether agricultural policy in their country (1) is excessively burdensome, or (7) balances all economic agents' interests. In countries where the score is low, missions may consider prioritizing support for agricultural policy analysis and reform. Further study would be required, however, to assess which aspects of sector policy need reform.

Appendix A. List of Indicators and Technical Notes

List of Indicators

OVERVIEW OF THE ECONOMY

GROWTH PERFORMANCE	Level	MDG/MCA/EcGov	CAS Code
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, % GDP	II		11S3
Gross fixed private investment, % GDP	II		11S4
POVERTY AND INEQUALITY			
Human poverty index	I		12P1
Income-share, poorest 20%	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

Notes: 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.

PRIVATE SECTOR ENABLING ENVIRONMENT

FISCAL AND MONETARY POLICY	Level	MDG/MCC /EcGov	CAS Code
Govt. expenditure, % GDP	I	EcGov	21P1
Govt. revenue, % GDP	I	EcGov	21P2
Growth in the money supply	I	EcGov	21P3
Inflation rate	I		21P4
Overall govt. budget balance, including grants, % GDP	I	EcGov	21P5
Composition of govt. expenditure	II		21S1
Composition of govt. revenue	II		21S2
Composition of money supply growth	II		21S3
BUSINESS ENVIRONMENT			
Corruption perception index	I	EcGov	22P1
Doing business composite index	I	EcGov	22P2
Rule of law index	I	MCA / EcGov	22P3
Regulatory quality index	I	MCA / EcGov	22P4
Cost of starting a business, % 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
Rigidity of employment index	II	EcGov	22S8
FINANCIAL SECTOR			
Domestic credit to private sector, % GDP	I		23P1
Interest rate spread	I		23P2
Money supply, % GDP	I		23P3
Stock market capitalization rate, % 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, % GNI	I		24P1
Current account balance, % GDP	I		24P2
Debt service ratio, % exports	I	MDG	24P3
Export growth of goods and services	I		24P4
Foreign direct investment, % GDP	I		24P5
Gross international reserves, months of imports	I	EcGov	24P6
Gross Private capital inflows, % GDP	I		24P7
Present value of debt, % GNI	I		24P8
Remittance receipts, % exports	I		24P9
Trade, % 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
SCIENCE AND TECHNOLOGY			
Expenditure for R&D, % GNI	I		26P1
FDI and technology transfer index	I		26P2
Patent applications filed by residents	I		26P3

PRO-POOR GROWTH ENVIRONMENT

HEALTH	Level	MDG/MCC /EcGov	CAS Code
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, % 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, % GDP	II	MCA/ EcGov	32S1
Expenditure per student, % GDP per capita – primary, secondary, and tertiary	II	EcGov	32S2
Pupil-teacher ratio, primary school	II		32S3
EMPLOYMENT & 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

Technical Notes

The following technical notes are intended to provide for each indicator a full, concise definition; the source; gaps in USAID country coverage; any significant data quality problems observed; and the CAS code number. Much of this information is taken directly from the original source.

GROWTH PERFORMANCE

Per capita GDP, current US dollars

Source: IMF World Economic Outlook database

<http://www.imf.org/external/pubs/ft/weo/2004/02/data/index.htm>

Definition: GDP per capita is gross domestic product divided by midyear population. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products.

Gaps: Available for most USAID countries.

CAS Code #11P2

Per capita GDP, purchasing power parity dollars

Source: IMF World Economic Outlook database

<http://www.imf.org/external/pubs/ft/weo/2004/02/data/index.htm>

Definition: This indicator adjusts per capita GDP measured in current U.S. dollars for differences in purchasing power across countries, by using the Purchasing Power Parity (PPP) exchange rate, an exchange rate derived from the perceived parity of the purchasing power of a currency in relation to another currency.

Gaps: Available for most USAID countries.

CAS Code #11P1

Real GDP growth

Source: World Development Indicators

(NY.GDP.MKTP.KD.ZG) for benchmark data; latest country data from IMF Article IV Review Reports available at

www.imf.org/external/np/sec/aiv/index.htm

Definition: Annual percentage growth rate of GDP at constant local currency prices. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.

Gaps: Available for most USAID countries.

CAS Code #11P3

Growth of labor productivity

Source: World Development Indicators. Estimated by calculating annual percentage change of the ratio of GDP (constant 1995 US\$) (NY.GDP.MKTP.KD) to the total population ages 15-64, (SP.POP.1564.TO).

Definition: Labor productivity is defined as the ratio of GDP in constant prices to the size of the working age population (defined as the population between ages 15 and 64 years by the World Bank). *Gaps:* Data available for most USAID countries.

CAS Code # 11S1

Investment productivity --incremental capital-output ratio (ICOR)

Source: Latest country data computed from IMF article IV Consultation Reports; international benchmark data computed from the World Development Indicators. It is the ratio of the five-year average of the share of fixed investment (NE.GDI.FTOT.ZS) and the five-year average of GDP growth (NY.GDP.MKTP.KD.ZG).

Definition: The ICOR is the ratio of the share of fixed investment in GDP to the growth rate of GDP, revealing the quantity of capital needed to increase output by one unit.

Gaps: Available for most USAID countries

CAS Code #11S2

Gross fixed investment, percentage of GDP

Source: IMF article IV Consultation Reports for latest country data; international benchmark from the World Development Indicators. (NE.GDI.FTOT.ZS)

Definition: Gross fixed investment is spending on replacing or adding to fixed assets (buildings, machinery, equipment and similar goods)

Gaps: Available for most USAID countries.

CAS Code # 11S3

Gross fixed private investment, percentage of GDP

Source: IMF Article IV Consultation Reports, for latest country data: World Development Indicators, for international comparison data. Estimating this

indicator involves two steps: first, the product of Capital expenditure (% of total expenditure) (GB.XPK.TOTL.ZS) and Expenditure, total (% of GDP) (GB.XPD.TOTL.GD.ZS) will estimate the share of government fixed investment in GDP. Next, subtracting this figure from Gross fixed capital formation (% of GDP) (NE.GDI.FTOT.ZS) will estimate the share of private gross fixed investment in GDP.

Gaps: Available for most USAID countries.

Data Quality: National statistics offices may have different methodologies for breaking down government budget expenditures into current and capital.

CAS Code #11S4

POVERTY AND INEQUALITY

Human poverty index

Source: UNDP- Human Development Report.

http://hdr.undp.org/reports/global/2004/pdf/hdr04_HD_L.pdf for 2004 edition; find updates at http://hdr.undp.org/reports/view_reports.cfm?type=1

Definition: The index measures the proportion of people not expected to meet target levels for given economic and quality of life indicators: (1) Percentage of people not expected to survive to age 40. (2) Percentage of adults who are illiterate. (3) Percentage of people who fail to attain a ‘decent living standard’ is subdivided into three (equally weighted) separate items: (a) Percentage of people without access to safe water, (b) Percentage of people without access to health services, and (c) Percentage of people with underweight children.

Gaps: Available for the majority USAID countries.

CAS Code #12P1

Income share held by lowest 20%

Source: World Development Indicators (SI.DST.FRST.20), World Bank staff estimates based on primary household survey data obtained from government statistical agencies and World Bank country departments. Alternate source: Country Poverty Reduction Strategy Paper

<http://www.imf.org/external/np/prsp/prsp.asp>

Definition: Share of income or consumption that accrues to the poorest quintile of the population.

Gaps: Available for most USAID countries, although data is several years old.

CAS Code # 12P2

Percentage of population living on less than \$1 PPP per day

Source: World Development Indicators, (SI.POV.DDAY), original data from National Surveys. Alternate source: Country Poverty Reduction Strategy Paper.

<http://www.imf.org/external/np/prsp/prsp.asp>

Definition: Population below \$1 a day is the percentage of the population living on less than \$1.08 a day at 1993 international prices. *Gaps:* Not available for about 21 USAID countries.

Data Quality: As a result of revisions in PPP exchange rates, poverty rates cannot be compared with poverty rates reported previously for individual countries. Poverty data originate from household survey questionnaires which can differ widely, and even similar surveys may not be strictly comparable because of difference in quality.

CAS Code #12P3

Population below minimum dietary energy consumption

Source: UN Millennium Indicators Database at

http://millenniumindicators.un.org/unsd/mi/mi_series_results.asp?rowId=566 based on FAO estimates.

Definition: Proportion of the population unable to obtain a level of dietary energy consumption needed to survive.

Gaps: Available for the majority of USAID countries.

CAS Code # 12S1

Poverty headcount, national poverty line

Source: World Development Indicators, (SI.POV.NAHC), original data from national surveys. Alternate source: Country Poverty Reduction Strategy Paper. <http://www.imf.org/external/np/prsp/prsp.asp>

Definition: The percentage of the population living below the national poverty line.

Gaps: Data unavailable for 55 USAID countries.

Data Quality: Measuring the percentage of people below the “national poverty line” has the major disadvantage of not allowing international comparisons. In some countries, the poverty line may be drawn at levels of income required to have only sufficient food or food plus other necessities and not an official poverty line. There are even problems in comparing poverty measures within the country between urban and rural areas. The cost of living is typically higher in urban areas, but the differences between the urban and rural poverty lines may not reflect the difference in cost of living.

CAS Code #12P4

PRSP Status

Source: World Bank/IMF. A list of countries with a Poverty Reduction Strategy Paper (PRSP) can be found at <http://www.imf.org/external/np/prsp/prsp.asp>

Definition: Yes or no variable showing whether a country has (or not) completed a PRSP (introduced by the WB and IMF to ensure host country ownership of poverty reduction programs).

Gaps: None

CAS Code #12P5

Poverty gap at \$1 PPP a day

Source: World Development Indicators, (SL.POV.GAPS), original data from national surveys. Alternate source: Country Poverty Reduction Strategy Paper. <http://www.imf.org/external/np/prsp/prsp.asp>

Definition: Poverty gap is the mean shortfall from the poverty line (counting the non-poor as having zero shortfall), expressed as a percentage of the poverty line. This measure reflects the depth of poverty as well as its incidence.

Gaps: Data is not available for about 24 USAID countries.

CAS Code #12S2

ECONOMIC STRUCTURE**Labor force structure**

Source: World Development Indicators (SL.AGR.EMPL.ZS), (SL.IND.EMPL.ZS), and (SL.SRV.EMPL.ZS). Alternate source: CIA World Fact Book <http://www.cia.gov/cia/publications/factbook/>

Definition: The labor force structure measures employment by major economic activity (agriculture, industry, and services) as a percentage of total employment.

Gaps: Unavailable for 58 USAID countries.

Data Quality: Employment data are compiled from many different sources and are therefore normally incomparable across countries. Moreover, national practices vary considerably.

CAS Code #13P1

Output structure

Source: World Development Indicators (NV.AGR.TOTL.ZS), (NV.IND.TOTL.ZS), and (NV.SRV.TETC.ZS).

Definition: The output structure is comprised of value added by major sectors of the economy (agriculture, industry and services) as a percentage of GDP. Value added is defined as the value of the gross output of producers less the value of intermediate goods and

services consumed in production, before taking account of the consumption of fixed capital in the production process.

Gaps: Unavailable for about 12 USAID countries.

Data Quality: Among the difficulties faced by compilers of national accounts is the extent of unreported economic activity in the informal or secondary economy. In developing countries a large share of agricultural output is either not exchanged (because it is consumed within the household) or not exchanged for money. Agricultural production often must be estimated indirectly, using a combination of methods involving estimates of inputs, yields, and area under cultivation. This approach sometimes leads to crude approximations that can differ from the true values over time and across crops for reasons other than climatic conditions or farming techniques. Ideally, industrial output should be measured through regular censuses and surveys of firms. But in most developing countries such surveys are infrequent, so earlier survey results must be extrapolated using an appropriate indicator.

CAS Code #13P2

DEMOGRAPHY AND ENVIRONMENT**Adult literacy rate**

Source: World Development Indicators; (SE.ADT.LITR.ZS) based on UNESCO calculations.

Definition: Percentage of people ages 15 and over who cannot, with understanding, read and write a short, simple statement about their daily life.

Gaps: Available for most USAID countries.

Data Quality: In practice, illiteracy is difficult to measure. To estimate illiteracy using such a definition requires census or survey measurements under controlled conditions. Many countries estimate the number of illiterate people from self-reported data, or by taking people with no schooling as illiterate.

CAS Code # 14P1

Age dependency rate

Source: World Development Indicators, (SP.POP.DPND).

Definition: The ratio of dependents (those younger than 15 and older than 64) to the working-age population, those ages 15-64.

Gaps: Available for most USAID countries.

CAS Code #14P2

Environmental sustainability index

Source: The Center for International Earth Science Information Network (CIESIN) at Columbia University, and Yale Center for Environmental Law

and Policy at Yale University. The 2005 index can be found at <http://www.yale.edu/esi/ESI2005.pdf>. For updates, please visit <http://www.yale.edu/esi/>

Definition: The ESI is a composite index integrating data sets tracking natural resource endowments, past and present pollution levels, environmental management efforts, and the capacity of a society to improve its environmental performance into 21 indicators of environmental sustainability.

Gaps: Available for most USAID countries.

CAS Code #13P3

Population size (in millions) and growth

Source: World Development Indicators (SP.POP.TOTL), and (SP.POP.GROW).

Definition: Total population counts all residents regardless of legal status or citizenship--except for refugees not permanently settled in the country of asylum, that are generally considered part of the population of their country of origin. Annual population growth rate is based on the de facto definition of population.

Gaps: Available for most USAID countries.

CAS Code # 14P4

Urbanization rate

Source: World Development Indicators, (SP.URB.TOTL.IN.ZS).

Definition: The midyear population of areas defined as urban in each country and reported to the United Nations as a percentage the total population of a country, including all residents regardless of legal status or citizenship.

Gaps: Available for most USAID countries.

Data Quality: The estimates are based on national definitions of what constitutes a city or metropolitan area; thus, cross-country comparisons should be made with caution.

CAS Code #14P5

GENDER

Ratio of male to female adult literacy rate

Source: Estimated from UNDP Human Development Indicators <http://hdr.undp.org/statistics/data/>

Definition: The ratio of adult male literacy to adult female literacy.

Gaps: Unavailable for about 20 USAID countries

CAS Code #15P1

Ratio of male to female gross enrollment rate, all levels of education

Source: Estimated from UNDP Human Development Indicators <http://hdr.undp.org/statistics/data/>

Definition: The ratio of the gross enrollment rate for males to that of females. The gross enrollment rate is the ratio of total enrollments in primary, secondary and tertiary education, to the total school age population for all three levels, assuming normal age of entry into the system and uninterrupted continuation to completion.

Gaps: Unavailable for about 20 USAID countries.

CAS Code # 15P2

Ratio of male to female life expectancy

Source: Estimated from UNDP Human Development Indicators <http://hdr.undp.org/statistics/data/>

Definition: Male to female ratio Life expectancy at birth (years), male, divided by the Life expectancy at birth (years), Female.

Gaps: Unavailable for about 20 USAID countries.

CAS Code #15P3

FISCAL AND MONETARY POLICY

Composition of government expenditure

Source: Constructed with IMF Article IV Reviews for latest country data www.imf.org/external/np/sec/aiv/index.htm; World Development Indicators for benchmarking data: Categories are (1) Subsidies and other current transfers (GB.XPC.TRFT.ZS), (2) Wages and salaries (GB.XPC.WAGE.ZS), (3) Interest payments (GB.XPC.INTP.ZS), (4) Goods and services expenditure (GB.XPC.GSRV.ZS), and (5) Capital expenditure (GB.XPK.TOTL.ZS), all as percentage of GDP. Original data from International Monetary Fund, Government Finance Statistics Yearbook and data files.

Definition: The central governments' expenditure broken down by categories: subsidies and other current transfers, wages and salaries, interest payments, goods and services expenditure, and capital expenditure.

Gaps: Available for about 30 USAID countries.

Data Quality: Many countries report their revenue in non-comparable categories.

CAS Code # 21S1

Composition of government revenue

Source: Constructed with IMF Article IV Reviews for latest country data www.imf.org/external/np/sec/aiv/index.htm; World Development Indicators for benchmarking data: categories are (1) Taxes on goods and services, (GB.TAX.GSRV.RV.ZS); (2) Taxes of

income, profits and capital gains (GB.TAX.YPKG.RV.ZS); (3) Social security taxes, (GB.TAX.SSEC.RV.ZS); (4) Taxes in international trade, (GB.TAX.INTT.RV.ZS); and (5) Non-tax revenue, (GB.NTX.TOTL.RV.ZS). www.imf.org/external/np/sec/aiv/index.htm can be used.

Definition: Breakdown of central government revenue sources per the following taxes on goods and services; taxes of income, profits and capital gains; social security taxes; taxes in international trade, non-tax revenue as a percentage of total revenue .

Gaps: Available for about 34 USAID countries.

Data Quality: Many countries report their revenue in non-comparable categories. There is no systematic method for taxing and reporting.

CAS Code # 21S2

Composition of money supply growth

Source: IMF Article IV Reviews

www.imf.org/external/np/sec/aiv/index.htm.

Estimated, using the annual change of (1) domestic credit to central government, (2) domestic credit to the private sector, (3) domestic credit to Non-financial Public Enterprises, (4) domestic credit to other financial institutions, (4) reserves and (5) other domestic credit; each divided by the annual change of the money supply. Money supply is M2.

Definition: Change in money supply (M2-growth) disaggregated into five categories domestic credit to central government, domestic credit to the private sector, domestic credit to non-financial public enterprises, domestic credit to other financial institutions, reserves, and other domestic credit.

Gaps: Data missing for about 6 USAID countries.

CAS Code # 21S3

Government expenditure, percentage of GDP

Source: IMF Article IV Reviews for latest country data www.imf.org/external/np/sec/aiv/index.htm;

World Development Indicators for benchmarking data (GB.XPD.TOTL.GD.ZS). Original data from the International Monetary Fund, Government Finance Statistics Yearbook, and World Bank estimates.

Definition: of total expenditure of the central government as a percent of GDP.

Gaps: Data available for about 70% of USAID countries.

CAS Code # 21P1

Government revenue, percentage of GDP

Source: IMF Article IV Reviews for latest country data www.imf.org/external/np/sec/aiv/index.htm;

World Development Indicators for benchmarking data (GB.RVC.TOTL.GD.ZS). Original data from the

International Monetary Fund, Government Finance Statistics Yearbook and data file, and World Bank estimates.

Definition: Government revenue includes all revenue to the central government from taxes and non-repayable receipts (other than grants), measured as a share of GDP. Grants represent monetary aid going to the central government that has no repayment requirement.

Gaps: Data missing for about 24 USAID countries.

CAS Code # 21P2

Inflation rate

Source: IMF World Economic Outlook database

<http://www.imf.org/external/pubs/ft/weo/2004/02/data/index.htm>

Definition: Inflation as measured by the consumer price index reflects the annual percentage change in the cost to the average consumer of acquiring a fixed basket of goods and services that may be fixed or changed at specified intervals.

Gaps: Available for most USAID countries.

Data Quality: It should be noted that for many developing countries, figures for recent years are IMF staff estimates. Additionally, data for some countries are for fiscal years.

CAS Code #21P4

Money supply growth

Source: IMF Article IV Reviews for latest country data www.imf.org/external/np/sec/aiv/index.htm; World Development Indicators for benchmarking data (FM.LBL.MQMY.ZG). Original data from International Monetary Fund, International Financial Statistics, and World Bank estimates.

Definition: Percent change in money and near-money

Gaps: Data missing for about 8 USAID countries.

CAS Code #21P3

Overall budget balance, including grants, percentage of GDP

Source: IMF Article IV Reviews for latest country data www.imf.org/external/np/sec/aiv/index.htm;

World Development Indicators for benchmarking data, (GB.BAL.OVRL.GD.ZS). Original data from the International Monetary Fund, Government Finance Statistics Yearbook, and World Bank estimates.

Definition: The difference between central government's total revenue including official grants received, and total expenditure.

Gaps: Data missing for 23 USAID countries.

CAS Code # 21P5

BUSINESS ENVIRONMENT

Corruption perception index

Source: Transparency International

<http://www.transparency.org/cpi/2004/cpi2004.en.html>

Definition: Measure of perception of corruption derived from surveys of business people and country analysts.

Gaps: Data missing for about 11 USAID countries.

Data Quality: This indicator uses perception and opinions gathered from local businessmen as well as third-party experts and not hard empirical data; thus, the indicator is largely subjective making international comparisons difficult.

CAS Code # 22P1

Doing business composite index

Source: World Bank, Doing Business.

<http://rru.worldbank.org/DoingBusiness/>

Doing business composite index is estimated by scaling all the “Doing business” indicators from 0 (lowest in the world) to 100 (highest) and then taking a simple average of all the scaled indicators.

Definition: Index measuring the quality of a country’s business environment, composed of performance measures and indicators related to Starting a Business, Registering Property, Getting Credit; Protecting Investors; Enforcing Contracts and Closing a Business in a given country.

Gaps: Gaps in coverage of 10 USAID Countries.

CAS Code # 22P2

Rule of law index

Source: World Bank Institute;

<http://www.worldbank.org/wbi/governance/govdata2002/index.html>

Definition: The Rule of Law Index is an aggregation of various indicators which measure the extent to which agents have confidence in and abide by the rules of society. This indicator is based on the measurement of perceptions of the legal system, drawn from 12 separate data sources.

Gaps: Available for most USAID countries

Data Quality: This index is best used for relative comparisons between countries in a single year. It is difficult to use the index to track a country’s progress over time as the index does not compensate against a change in the world average and, as a result, changing world trends may skew results over time—for instance, if the world average decreases in a given year, a country whose score appears to increase may not actually have tangible improvements in their legal environment. Conditions could stay the same (or even

worsen) yet the country would show an improvement in its score as a result of the world average falling.

CAS Code #22P3

Regulatory Quality Index

Source: World Bank Institute.

<http://www.worldbank.org/wbi/governance/govdata2002/index.html>

Definition: The Regulatory Quality Index is an aggregation of various indicators which measure agents’ perception on the incidence of market unfriendly policies including price controls, inadequate bank supervision, excessive regulation in areas such as foreign trade and business development. The index is defined and computed in the same way as the previous one. This is an MCC indicator for the criterion of encouraging economic freedom. (The MCC data set uses values rescaled relative to the group of MCA eligible countries.)

Gaps: Available for most USAID countries

Data Quality: This index, as the previous one, is best used for relative comparisons between countries in a single year.

CAS Code #22P4

Cost to start a business; % of GNI per capita

Source: World Bank, Doing Business. Indicator is found under the Starting a Business category

<http://rru.worldbank.org/DoingBusiness/ExploreTopics/StartingBusiness/CompareAll.aspx>

Definition: Legally required cost to starting a simple limited liability company expressed as percentage of GNI per capita

Gaps: Data for about 10 USAID countries missing.

CAS Code #22S1

Procedures to enforce a contract

Source: World Bank, Doing Business. The indicator is found under the “Enforcing Contracts” category-

<http://rru.worldbank.org/DoingBusiness/ExploreTopics/EnforcingContracts/CompareAll.aspx>

Definition: Number of procedures required to enforce recovery of a valid debt contract through the court system (excluding any possible appeals. A procedure is defined as any interactive step the company must undertake with external parties (government agencies, lawyers, notaries, etc.) to proceed with the enforcement action.

Gaps: Gaps in coverage of 10 USAID Countries.

CAS Code # 22S2

Procedures to register property

Source: World Bank, Doing Business. The indicator is found under the “Registering Property” category-

<http://rru.worldbank.org/DoingBusiness/ExploreTopics/RegisteringProperty/CompareAll.aspx>

Definition: Number of procedures required to register the transfer of title for business property. A procedure is defined as any step involving interaction between a company/individual and a third party that is necessary to complete the property registration process.

Gaps: Gaps in coverage of 10 USAID countries.

CAS Code #22S3

Procedures to start a business

Source: World Bank, Doing Business. Indicator is found under the Starting a Business category

<http://rru.worldbank.org/DoingBusiness/ExploreTopics/StartingBusiness/CompareAll.aspx>

Definition: Number of procedural steps required to legalize a simple limited liability company.

Procedures are interactions of a company with external parties (government agencies, lawyers, auditors, notaries, and the like), including interactions required to obtain necessary permits and licenses and to complete all inscriptions, verifications, and notifications to start operations.

Gaps: Gaps in coverage of 10 USAID Countries.

CAS Code # 22S4

Time to enforce a contract

Source: World Bank, Doing Business. The indicator is found under the “Enforcing Contracts” category-

<http://rru.worldbank.org/DoingBusiness/ExploreTopics/EnforcingContracts/CompareAll.aspx>

Definition: Minimum length of time, measured in days, required to enforce a contract through the court system of a given country.

Gaps: Gaps in Coverage of 10 USAID Countries.

CAS Code # 22S5

Time to register property

Source: World Bank, Doing Business. The indicator is found under the “Registering Property” category-

<http://rru.worldbank.org/DoingBusiness/ExploreTopics/RegisteringProperty/CompareAll.aspx>

Definition: The time to register property covers the time required to accomplish the full sequence of procedures necessary to transfer the property title from the seller to the buyer when a business purchases land and a building in a peri-urban area of the country’s most populous city. Every required procedure is included whether it is the responsibility of the seller, the buyer, or where it is required to be completed by a third party on their behalf.

Gaps: Gaps in coverage of 10 USAID countries.

CAS Code #22S6

Time to start a business

Source: World Bank, Doing Business. Indicator is found under the Starting a Business category

<http://rru.worldbank.org/DoingBusiness/ExploreTopics/StartingBusiness/CompareAll.aspx>

Definition: Time to start a business is the time, measured in calendar days, needed to complete the required procedures for legally operating a business. If a procedure can be speeded up at additional cost, the fastest procedure, independent of cost, is chosen.

Gaps: Gaps in coverage of about 10 USAID Countries.

CAS Code #22S7

Rigidity of employment index

Source: World Bank, Doing Business in 2005. The Index can be found under the Hiring and Firing Category,

<http://rru.worldbank.org/DoingBusiness/ExploreTopics/HiringFiringWorkers/CompareAll.aspx>

Definition: A measure of labor market rigidity index constructed as the average of the Difficulty of Hiring Index, Rigidity of Hours Index and a Difficulty of firing Index.

Gaps: Unavailable for about 10 USAID countries

Data Quality: Sub-indices are compiled by the World Bank from survey responses by in-country specialists.

CAS Code # 22S8

FINANCIAL SECTOR

Cost to Create Collateral

Source: World Bank Doing Business. Indicator can be found under the “Getting Credit” category-

<http://rru.worldbank.org/DoingBusiness/ExploreTopics/GettingCredit/CompareAll.aspx>

Definition: The indicator assesses the cost of creating and registering collateral as a percentage of income per capita.

Gaps: Data missing for 10 USAID countries.

Data Quality: Countries without a collateral registry usually have lower costs, although the secured creditor is disadvantaged elsewhere because they are unable to notify other creditors of their right to the collateral through a registry.

CAS Code #23S1

Country credit rating

Source: Millennium Challenge Corporation. Original data comes from the Institutional Investor Magazine.

<http://www.mca.gov/countries/rankings/index.shtml>

Definition: Bankers' and fund managers' perception of the country's risk of default based on a semi-annual survey.

Gaps: Data missing for 35 USAID countries.

Data Quality: The indicator is subjective as it is based on an opinion poll.

CAS Code # 23S2

Domestic credit to private sector, percent of GDP

Source: IMF Article IV Reviews for latest country data; World Development Indicators for benchmarking data (FS.AST.PRVT.GD.ZS). Original data comes from International Monetary Fund, International Financial Statistics and data files, and World Bank estimates.

Definition: Domestic credit to private sector refers to financial resources provided to the private sector, such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable, that establish a claim for repayment. For some countries, these claims include credit to public enterprises.

Gaps: Data missing for about 6 USAID countries.

CAS Code # 23P1

Interest rate spread

Source: World Development Indicators (FR.INR.LNDP). Original data from International Monetary Fund, International Financial Statistics and data files.

Definition: The difference between the lending and borrowing interest rates charged by commercial or similar banks on domestic currency deposits.

Gaps: Data missing for 22 USAID countries.

CAS Code # 23P2

Legal rights of borrowers and lenders

Source: World Bank Doing Business. Indicator can be found under the "Getting Credit" category- <http://rru.worldbank.org/DoingBusiness/ExploreTopics/GettingCredit/CompareAll.aspx>

Definition: The index measures the degree to which collateral and bankruptcy laws facilitate lending. It is based on data collected through research of collateral and insolvency laws supported by the responses to a survey on secured transactions laws. It includes three aspects related to legal rights in bankruptcy, and seven aspects found in collateral law.

Gaps: About 10 USAID countries are not covered

CAS Code # 23S3

Money supply, percent of GDP

Source: World Development Indicators. FM.LBL.MOMY.GD.ZS Original data from International Monetary Fund, International Financial

Statistics and data files, and World Bank and OECD GDP estimates.

Definition: Money supply (M2), also called broad money, and is defined as non-bank private sector's holdings of notes, coins and demand deposits plus savings deposits and foreign currency deposits.

Gaps: Gaps in 8 USAID countries

Data Quality: In some countries M2 includes Certificates of Deposits (CDs), money market instruments, and/or treasury bills.

CAS Code # 23P3

Real interest rate

Source: World Development Indicators (FR.INR.RINR)

Definition: Real interest rate is the lending interest rate adjusted for inflation as measured by the GDP deflator.

Gaps: Available for most USAID countries

CAS Code # 24P4

Stock Market Capitalization Rate, % of GDP

Source: World Development Indicators (CM.MKT.LCAP.GD.ZS)

Definition: Market capitalization (also known as market value) is the share price times the number of shares outstanding, of all the domestic shares listed on the country's stock exchange, as a percentage of GDP.

Gaps: Available for less than twenty countries.

CAS Code # 23P4

EXTERNAL SECTOR

Aid as a percentage of GNI

Source: IMF Article IV Reviews for latest country data www.imf.org/external/np/sec/aiv/index.htm; World Development Indicators for benchmarking data (DT.ODA.ALLD.GN.ZS)

Definition: Official Development Assistance and official aid from non-OECD countries as a percentage of Gross National Income.

Gaps: For 2002, the indicator was unavailable for 6 USAID countries.

Data Quality: The data does not include aid given by recipient countries to other recipient countries.

Additionally, the data may not always be consistent with individual country's balance sheets, as the data are collected from donors and not recipients.

CAS Code #24P1

Concentration of exports

Source: ITC COMTRADE.

<http://www.intracem.org/tradstat/sitc3-3d/indexre.htm>

The indicator needs to be constructed by sorting a country's exports, at the SITC (Rev. 3) 3-digit level, aggregating the value for the top 3 product groups, and dividing by the country's total exports.

Definition: The percentage that the top three products disaggregated at the SITC (Rev. 3) 3-digit-level represent of a country's merchandise exports.

Gaps: Available for most countries

Data Quality: Trade data are never complete. Smuggling and non-reporting represent a serious problem in a number of countries. In addition, trade statistics, like any source of information, are not free of mistakes and omissions. For countries that do not report trade data to the United Nations, ITC uses partner country data, an approach referred to as mirror statistics. Mirror statistics are a second-best solution being better than having no data at all. At the same time, they have a number of shortcomings- they do not cover trade with other non-reporting countries; there is the problem of transshipments, which may hide the actual source of supply. Third, mirror statistics invert the reporting standards by valuing exports in c.i.f. terms (i.e. including transport cost and insurance) and imports in f.o.b. terms (excluding these items).

CAS Code # 24S1

Current Account Balance, percent of GDP

Source: IMF Article IV Reviews for latest country data www.imf.org/external/np/sec/aiv/index.htm; World Development Indicators for benchmarking data (BN.CAB.XOKA.GD.ZS), based on International Monetary Fund, Balance of Payments Statistics Yearbook and data files, and World Bank staff estimates, and World Bank and OECD GDP estimates.

Definition: Current account balance is the sum of net exports of goods, services, net income, and net current transfers. It is presented here as a percentage of a country's gross domestic product.

Gaps: Available for most countries.

CAS Code # 24P2

Debt service ratio

Source: IMF Article IV Reviews for latest country data www.imf.org/external/np/sec/aiv/index.htm; World Development Indicators for benchmarking data (DT.TDS.DECT.EX.ZS), Global Development Finance.

Definition: Total debt service is the sum of principal repayments and interest actually paid in foreign currency, goods, or services on long-term debt, interest paid on short-term debt, and repayments (repurchases and charges) to the IMF. Exports of goods and services include income and workers' remittances.

Gaps: Available for most USAID countries

Data Quality: See Data quality comments to the Present value of debt, percent of GNI regarding quality of debt data reported.

CAS Code # 24P3

Foreign Direct Investment, percent of GDP

Source: IMF Article IV Reviews for latest country data www.imf.org/external/np/sec/aiv/index.htm; World Development Indicators for benchmarking data (BX.KLT.DINV.DT.GD.ZS), based on International Monetary Fund, International Financial Statistics and Balance of Payments databases, World Bank, Global Development Finance, and World Bank and OECD GDP estimates.

Definition: Foreign direct investment is net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows in the reporting economy.

Gaps: Available for a majority of USAID countries

CAS Code #24P5

Gross international reserves, months of imports

Source: IMF Article IV Reviews for latest country data www.imf.org/external/np/sec/aiv/index.htm; World Development Indicators for benchmarking data, (FI.RES.TOTL.MO).

Definition: Gross international reserves comprise holdings of monetary gold, special drawing rights (SDRs), the reserve position of members in the International Monetary Fund (IMF), and holdings of foreign exchange under the control of monetary authorities. The indicator shows reserves expressed in terms of the number of months of imports of goods and services which could be paid for.

Gaps: Available for most USAID countries

CAS Code # 24P6

Gross Private Capital Flows, percent GDP

Source: IMF Article IV Reviews for latest country data www.imf.org/external/np/sec/aiv/index.htm; World Development Indicators for benchmarking data, (BG.KAC.FNEI.GD.ZS), based on International Monetary Fund, Balance of Payments database, and World Bank GDP estimates.

Definition: Gross private capital flows are the sum of the absolute values of direct, portfolio, and other investment inflows and outflows recorded in the balance of payments financial account, excluding changes in the assets and liabilities of monetary

authorities and general government. The indicator is calculated as a ratio to GDP in U.S. dollars.

Gaps: Data missing for about 30 USAID countries.

Data Quality: The indicators on gross capital flows are calculated from detailed accounts, since higher-level aggregates would result in smaller totals by netting out credits and debits. The comparability of the data between countries and over time is affected by the accuracy and completeness of balance of payments records and by their level of detail. Capital flows are converted to U.S. dollars at the International Monetary Fund's average official exchange rate for the year shown.

CAS Code #24P7

Exports growth, goods and services

Source: IMF Article IV Reviews for latest country data www.imf.org/external/np/sec/aiv/index.htm; World Development Indicators for benchmarking data (NE.EXP.GNFS.KD.ZG) based on World Bank national accounts data, and OECD National Accounts data files. Latest country data from IMF Article IV Review Reports available at www.imf.org/external/np/sec/aiv/index.htm

Definitions: Annual growth rate of exports of goods and services based on constant local currency. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude labor and property income (formerly called factor services) as well as transfer payments.

Gaps: Available for most countries.

CAS Code # 24P4

Inward FDI Potential Index

Source: UNCTAD. This indicator can be downloaded online at <http://www.unctad.org/Templates/WebFlyer.asp?intltemID=2471&lang=1>

Definition: The Inward FDI Potential Index captures several factors (apart from market size) expected to affect an economy's attractiveness to foreign investors. It is an average of the values (normalized to yield a score between zero, for the lowest scoring country, to one, for the highest) of 12 variables with no particular weights.

Gaps: Available for most USAID countries

CAS Code # 24S2

Net barter terms of trade

Source: World Development Indicators; TT.PRI.MRCH.XD.WD

Definition: Net barter terms of trade are calculated as the ratio of the export price index to the corresponding import price index measured relative to the base year 1995.

Gaps: Available for more than half of USAID countries

CAS Code # 24S3

Present value of debt, percent of GNI

Source: World Development Indicators, (DT.DOD.PVLX.GN.ZS), Global Development Finance.

Definition: Present value of debt is the sum of short-term external debt plus the discounted sum of total debt service payments due on public, publicly guaranteed, and private non-guaranteed long-term external debt over the life of existing loans.

Gaps: Available for a majority of USAID countries

Data Quality: The coverage, quality, and timeliness of debt data vary across countries. Coverage varies for both debt instruments and borrowers. With the widening spectrum of debt instruments and investors and the expansion of private non-guaranteed borrowing, comprehensive coverage of long-term external debt becomes more complex. Reporting countries differ in their capacity to monitor debt, especially private non-guaranteed debt. Even data on public and publicly guaranteed debt are affected by coverage and accuracy in reporting--again because of monitoring capacity and sometimes because of unwillingness to provide information. A key part often underreported is military debt. Because flow data are converted at annual average exchange rates and stock data at end-of-period exchange rates, year-to-year changes in debt outstanding and disbursed are sometimes not equal to net flows (disbursements less principal repayments); similarly, changes in debt outstanding, including un-disbursed debt, differ from commitments less repayments. Discrepancies are particularly significant when exchange rates have moved sharply during the year. Cancellations and re-scheduling of other liabilities into long-term public debt also contribute to the differences. Variations in reporting rescheduled debt also affect cross-country comparability. For example, rescheduling under the auspices of the Paris Club of official creditors may be subject to lags between the completion of the general rescheduling agreement and the completion of the specific, bilateral agreements that define the terms of the rescheduled debt.

CAS Code # 24P8

Real effective exchange rate (REER)

Source: IMF Article IV Reviews

www.imf.org/external/np/sec/aiv/index.htm;

Definition: Index number with base 1995=100, it is the nominal effective exchange rate (a measure of the value of a currency against a weighted average of several foreign currencies) divided by a price deflator or index of costs.

Gaps: Available for about 28 USAID countries only

Data Quality: Because of conceptual and data limitations, changes in real effective exchange rates should be interpreted with caution. Real effective exchange rates are derived by deflating a trade-weighted average of the nominal exchange rates that apply between trading partners. For most high-income countries the weights are based on trade in manufactured goods with other high-income countries in 1989-91, and an index of relative, normalized unit labor costs is used as the deflator. (Normalization smoothes a time series by removing short-term fluctuations while retaining changes of a large amplitude over the longer economic cycle.) For other countries the weights before 1990 take into account trade in manufactured and primary products in 1980-82, the weights from January 1990 onward take into account trade in 1988-90, and an index of relative changes in consumer prices is used as the deflator.

CAS Code # 24S4

Remittances receipts, percent of exports

Source: IMF Article IV Reviews for latest country data www.imf.org/external/np/sec/aiv/index.htm; World Development Indicators for benchmarking data. This indicator needs to be constructed from two data series, Worker's Remittances (receipts) (BX.TRF.PWKR.CD) divided by Exports of Goods and Services ((BX.GSR.GNFS.CD)

Definition: Workers' remittances are current transfers by migrants who are employed or intend to remain employed for more than a year in another economy in which they are considered residents.

Gaps: Available for more than half of USAID countries.

CAS Code # 24P9

Structure of merchandise exports

Source: World Development Indicators. Four data series are used: Agricultural raw materials exports (% of merchandise exports) (TX.VAL.AGRI.ZS.UN); Manufactures exports (% of merchandise exports) (TX.VAL.MANF.ZS.UN); Ores and metals exports (% of merchandise exports) (TX.VAL.MMTL.ZS.UN); Fuel exports (% of merchandise exports) (TX.VAL.FUEL.ZS.UN). The indicator is presented at two points time. To smooth

out year-to-year fluctuations, two 3 year-averages, i.e. 1995-1997 and 2000-2002 are presented.

Definition: Composition of merchandise exports by major commodity group- agricultural raw materials; fuels; ores and metals; and manufactures.

Gaps: Available for most countries

Data Quality: The classification of commodity groups is based on the Standard International Trade Classification (SITC) revision 1. Most countries now report using later revisions of the SITC or the Harmonized System. Concordance tables are used to convert data reported in one system of nomenclature to another. The conversion process may introduce some errors of classification, but conversions from later to early systems are generally reliable. Shares may not sum to 100 percent because of unclassified trade.

CAS Code # 24S5

Trade in goods and services, as a percentage of GDP

Source: IMF Article IV Reviews for latest country data www.imf.org/external/np/sec/aiv/index.htm; World Development Indicators for benchmarking data (NE.TRD.GNFS.ZS)

Definition: The sum of exports and imports of goods and services divided by the value of GDP in current U.S. dollars.

Gaps: Data for 8 USAID countries missing.

CAS Code # 24P10

Trade Policy Index

Source: Index of Economic Freedom, Heritage Foundation. The Trade Policy Score is one of the components of the Index of Economic Freedom. Both indicators can be found on-line at <http://www.heritage.org/research/features/index/downloads.cfm>

Definition: The trade policy score is given by the index authors based on a country's weighted average tariff rate (weighted by imports from the country's trading partners), non-tariff barriers, and corruption in the custom service. It measures the degree to which government hinders the free flow of foreign commerce.

Gaps: Available for most countries

Data Quality: The trade policy score is subjective, since Heritage professionals assign scores to each country. Further, they do not always grade trade policy based on consistent, comparable data for each country (for example, when a country's average tariff rate is not available, their authors based their grading on the revenue raised from tariffs and duties as a percentage of total imports of goods). Indeed, countries do not

report simple or weighted average tariff rates every year.

CAS Code # 24S6

ECONOMIC INFRASTRUCTURE

Internet users per 1000 people

Source: International Telecommunication Union-ITU report and database.

Definition: Internet users are defined as those with access to the world-wide network

Gaps: Available for most USAID countries.

CAS Code # 25P1

Overall Infrastructure Quality

Source: Global Competitiveness Report 2004-2005, World Economic Forum. The indicator can be found in the Data Tables, Section V. General Infrastructure; 5.01.

Definition: Executive's perceptions of general infrastructure in their respective country. Executives grade, on a scale from 1 to 7, whether general infrastructure in their country is (1) poorly developed, or (7) among the best in the world.

Gaps: The GCR includes about 50 USAID countries

Data Quality: Comparisons between countries are difficult, since the data is based on executive perceptions.

CAS Code # 25P2

Telephone density, fixed line and mobile

Source: World Development Indicators (IT.TEL.TOTL.P3)

Definition: Sum of telephone mainlines and mobile phones per 1000 people and mobile phones per 1000 people fixed lines represent telephone mainlines connected to the public switched telephone network. Mobile phone subscribers refer to users of cellular based technology with access to the public switched telephone network.

Gaps: Available for most USAID countries.

CAS Code #25P3

Quality of infrastructure - railroads, ports, air transport and electricity

Source: Global Competitiveness Report 2004-2005, World Economic Forum. The indicators can be found in the Data Tables, Section V. General Infrastructure; 5.02, 5.03, 5.04, and 5.05 for Railroad, Port; Air Transport, and Electricity, respectively.

Definitions: Executive's perceptions of whether Executive's perceptions of whether: infrastructure in their country is 1 as underdeveloped or 7 as extensive and efficient as the world's best.

Gaps: Approximately, 40 USAID countries are missing in the GCR Executive Opinion Survey.

Data Quality: Comparisons between countries are difficult, since the data is based on executive perceptions.

CAS Code #25S1

Telephone cost, average local call

Source: World Development Indicators (IT.MLT.CLCL.CD)

Definition: Cost of local call is the cost of a three-minute, peak rate, fixed line call within the same exchange area using the subscriber's equipment (that is, not from a public phone).

Gaps: Data missing for 4 USAID countries.

CAS Code #25S2

SCIENCE AND TECHNOLOGY

Expenditure in Research and Development, percent of GNI

Source: World Development Indicators; Estimated by multiplying Expenditure in Research and Development as a percent of GDP (GB.XPD.RSDV.GD.ZS) times GDP (current LCU) (NY.GDP.MKTP.CN) and then dividing by GNI (current LCU) (NY.GNP.MKTP.CN).

Definition: Expenditures for research and development are current and capital expenditures (both public and private) on creative, systematic activity that increases the stock of knowledge. Included are fundamental and applied research and experimental development work leading to new devices, products, or processes.

Gaps: Available for approximately 50% of USAID countries

CAS Code #26P1

FDI technology transfer index

Source: Global Competitiveness Report 2004-2005, World Economic Forum. The indicator can be found in the Data Tables, Section III. Technology: Innovation and Diffusion; 3.04.

Definition: Executive's perceptions of FDI as a source of new technology for the country. Executives grade, on a scale from 1 to 7, whether foreign direct investment in their country (1) brings little new technology, or (7) is an important source of new technology.

Gaps: Approximately, 40 USAID countries are missing in the GCR Executive Opinion Survey.

Data Quality: Comparisons between countries are difficult, since the data is based on executive perceptions.

CAS Code # 26P2

Patent applications filed, residents

Source: World Development Indicators (IP.PAT.RESD) based on WIPO

Definition: Applications filed by residents with a national patent office for exclusive rights for an invention—a product or process that provides a new way of doing something or offers a new technical solution to a problem. A patent provides protection for the invention to the owner of the patent for a limited period, generally 20 years. *Gaps:* About 80% coverage

CAS Code #26P3

HEALTH

HIV prevalence rate

Source: UNAIDS

<http://www.unaids.org/Unaids/EN/Resources/epidemiology.asp> for most recent country data, World Development Indicators for group benchmark data.

Definition: Percentage of people ages 15-49 who are infected with HIV.

Gaps: Available for most USAID countries

Data Quality: UNAIDS/WHO estimates are based on all available data, including surveys of pregnant women, population-based surveys such as household surveys conducted by Kenya, Mali, Zambia and Zimbabwe, as well as other surveillance information. UNAIDS views such information as complementary and useful in helping to estimate the number of people living with HIV in a country. HIV estimates - whether they are based on household surveys or surveys of pregnant women - need to be assessed critically as the epidemic evolves. Achieving 100% certainty about the numbers of people living with HIV globally, for example, would require repeatedly testing every person in the world for HIV—which is logistically impossible.

CAS Code # 31P1

Life expectancy at birth

Source: World Development Indicators, (SP.DYN.LE00.IN)

Definition: Life expectancy at birth indicates the number of years a newborn infant would live on average if prevailing patterns of mortality at the time of its birth were to stay the same throughout its life.

Gaps: Available for most USAID countries.

Data Quality: Life expectancy at birth are general estimates based on vital registration or the most recent census or survey available, extrapolations based on outdated surveys may not be reliable for monitoring changes in health status or for comparative analytical work.

CAS Code # 31P2

Maternal mortality rate

Source: UN Millennium Indicators Database, http://millenniumindicators.un.org/unsd/mi/mi_series_results.asp?rowId=553 based on WHO, UNICEF and UNFPA.

Definition: The number of women who die during pregnancy and childbirth, per 1,000 live births.

Gaps: Available for most USAID countries.

Data Quality: Maternal mortality ratios are generally of unknown reliability. Household surveys attempt to measure maternal mortality by asking respondents about survivorships of sisters. The estimates that are produced pertain to 12 years or so before the survey, making them unsuitable for monitoring recent changes or observing the impact of observations. Additionally, measurement of maternal mortality is subject to many types of error.

CAS Code # 31P3

Access to improved sanitation

Source: World Development Indicators, (SH.STA.ACSN)

Definition: Percentage of population with at least adequate excreta disposal facilities (private or shared, but not public) that can effectively prevent human, animal, and insect contact with excreta.

Gaps: Available for most USAID countries

Data Quality: The coverage rates are based on service users on the facilities their households use, rather than on information service providers who may include nonfunctioning systems—therefore somewhat reliable.

CAS Code #31S1

Access to improved water source

Source: World Bank, World Development Indicators, (SH.H2O.SAFE.ZS)

Definition: Percentage of population with reasonable access to an adequate amount of water from an improved source, such as a household connection, public standpipe, borehole, protected well or spring, or rain water collection.

Gaps: Available for most USAID countries

Data Quality: Access to drinking water from an improved source does not ensure that the water is adequate or safe, as these characteristic are not tested at the time of the surveys.

CAS Code # 31S2

Births attended by skilled health personnel

Source: World Development Indicators, (SH.STA.BRTC.ZS)

Definition: Percentage of deliveries attended by personnel trained to give the necessary supervision, care, and advice to women during pregnancy, labor, and the postpartum period, to conduct interviews on their own, and to care for newborns.

Gaps: Available for most USAID countries

Data Quality: Data may not reflect improvements in maternal health because information systems are often weak, maternal deaths are underreported and rates of maternal mortality are difficult to measure.

CAS Code # 31S3

Child immunization rate

Source: World Development Indicators, estimated by adding two data series: Immunization, DPT (% of children ages 12-23 months) (SH.IMM.IDPT) and Immunization, measles (% of children ages 12-23 months) (SH.IMM.MEAS)

Definition: Percentage of children under one year receiving vaccination coverage for four diseases—measles and diphtheria, pertussis (whooping cough), and tetanus (DDPT).

Gaps: Available for most USAID countries.

CAS Code #31S4

Prevalence of child malnutrition, weight for age

Source: World Development Indicators, (SH.STA.MALN.ZS)

Definition: Percentage of children under five whose weight for age is less than minus two standard deviations from the median for the international reference population ages 0-59 months.

Gaps: Available for most USAID countries

CAS Code # 31S5

Public health expenditure, percent of GDP

Source: World Development Indicators, (SH.XPD.TOTL.ZS)

Definition: Total health expenditure is the sum of public and private health expenditures. It covers the provision of health services (preventive and curative), family planning activities, nutrition activities, and emergency aid designated for health but does not include provision of water and sanitation.

Gaps: Available for most USAID countries

Data Quality: The absence of consistent national accounting systems makes it difficult for cross country comparisons—records of out of pocket expenditures

are often lacking and data on spending is often not aggregated and difficult to compile.

CAS Code #31S6

EDUCATION

Net primary enrollment rate - female, male and total

Source: UNESCO Institute for Statistics,

<http://stats.uis.unesco.org/ReportFolders/reportfolders.aspx>

Definition: The proportion of the population of the official age for primary, secondary or tertiary education according to national regulations who are enrolled in primary schools. Primary education provides children with basic reading, writing, and mathematics skills along with an elementary understanding of such subjects as history, geography, natural science, social science, art, and music.

Gaps: None

Data Quality: Enrollment ratios are a useful measure of participation in education, but they may also have significant limitations—being based in date collected during annual school surveys, which are typically conducted at the beginning of the school year, do not reflect actual rates of attendance or dropouts during the school year. And school administrators may report exaggerated enrollments as often the number of teachers paid by the government is related to the number of pupils enrolled. Net enrollment ratios provide a better indicator of a school system's efficiency, but does not measure the quality of the education provided. Net enrolment ratio is more precise than gross enrollment ratio for assessing the level of participation in primary education. If data on enrolment and population by single years of age are available, the concept can be extended to derive age-specific enrolment ratios and school life expectancy.

CAS Code # 32P1

Persistence to grade 5 - female, male, and total

Source: World Development Indicators, (SE.PRM.PRS5.FE.ZS); (SE.PRM.PRS5.MA.ZS); and (SE.PRM.PRS5.ZS).

Definition: The estimated female, male and total proportion of the population entering primary school who reach grade 5

Gaps: Available for most USAID countries

CAS Code # 32P2

Youth literacy rate

Source: World Development Indicators, SE.ADT.1524.LT.ZS)

Definition: The percent of people ages 15-24 who can, with understanding, read and write a short, simple statement on their everyday life.

Gaps: Available for about half of USAID countries.

Data Quality: Statistics are out of date 2-3 years.

CAS Code #32P3

Expenditure on primary education, percent GDP

Source: Millennium Challenge Corporation

<http://www.mca.gov/countries/rankings/index.shtml>

Definition: Total expenditures on education by all levels of government.

Gaps: Available for about 70% of USAID countries.

Data Quality: The MCC obtains the data from national sources via US embassies, because the figures are not readily available from standard international statistical resources.

CAS Code #32S1

Educational expenditure per student, percentage GDP per capita -Primary, Secondary and Tertiary

Source: World Development Indicators, (SE.XPD.PRIM.PC.ZS); (SE.XPD.SECO.PC.ZS); (SE.XPD.TERT.PC.ZS)

Definition: Public expenditure per student (primary, secondary or tertiary) is the public current spending on education divided by the total number of students by level, as a percentage of GDP per capita.

Gaps: Available for most USAID countries

Data Quality: For a variety of reasons, education statistics generally fail to provide a complete and accurate picture of a country's education system and should be interpreted with caution. Statistics are out of date by two or three years. The data on education spending in the table refer solely to public spending—government spending on public spending generally excludes spending by religious schools, and spending by religious schools, which play a significant role in many developing countries. Data for some countries and for some years refer to spending by the ministry of education only.

CAS Code # 32S2

Pupil-teacher ratio, primary school

Source: World Development Indicators; SE.PRM.ENRL.TC.ZS)

Definition: Primary school pupil-teacher ratio is the number of pupils enrolled in primary school divided by the number of primary school teachers (regardless of their teaching assignment).

Gaps: Available for most USAID countries

Data Quality: The comparability of pupil-teacher ratios across countries is affected by the definition of

teachers, by whether teachers are assigned non-teaching duties, and by differences in class size by grade and in the number of hours taught. The indicator does not take into account differences in teachers' academic qualifications, pedagogical training, professional experience and status, teaching methods, teaching materials and variations in classroom conditions -- all factors that could also affect the quality of teaching/learning and pupil performance.

CAS Code # 32S3

EMPLOYMENT AND WORKFORCE

Labor force participation rate – total, male, female

Source: Derived from World Development Indicators.

For the female labor force participation rate:

Population ages 15-64, female (SP.POP.1564.FE.IN)

as a percentage of the female labor force -- which is calculated by multiplying Labor force, female (% of total labor force) (SL.TLF.TOTL.FE.ZS), in ratio

terms, by labor force, total (SL.TLF.TOTL.IN). For

the male labor force participation rate: Population ages

15-64, male (SP.POP.1564.MA.IN) as a percentage of

the male labor force -- which is labor force, total

(SL.TLF.TOTL.IN) minus female labor force, as

derived above. For the total labor force participation

rate: Population ages 15-64, total (SP.POP.1564.TO)

as a percentage of Labor force, total

(SL.TLF.TOTL.IN).

Definition: The percentage of the working age population that is in the labor force. The labor force comprises people who meet the International Labour Organization definition of the economically active population: all people who supply labor for the production of goods and services during a specified period. It includes both the employed and the unemployed.

Gaps: Available for most USAID countries

CAS Code #33P1

Size and growth of the labor force

Source: World Bank Development Indicators;

(SL.TLF.TOTL.IN); and annual percentage change.

Definition: Magnitude of the labor supply, and annual

percent change. Labor force comprises people who

meet the International Labour Organization definition

of the economically active population: all people who

supply labor for the production of goods and services

during a specified period. It includes both the

employed and the unemployed. While national

practices vary in the treatment of such groups as the

armed forces and seasonal or part-time workers, in

general the labor force includes the armed forces, the

unemployed, and first-time job-seekers, but excludes

homemakers and other unpaid caregivers and workers in the informal sector.

Gaps: Available for most USAID countries.

CAS Code #33P3

Unemployment rate

Source: World Development Indicators, (SL.UEM.TOTL.ZS)

Definition: Percentage of labor force that is currently unemployed

Gaps: Gaps in data in 26 USAID countries.

Data Quality: Technical details are country specific-making international comparisons impossible.

CAS Code # 33P4

AGRICULTURE

Agriculture value added per worker

Source: World Development Indicators (EA.PRD.AGRI.KD) derived from World Bank national accounts files and Food and Agriculture Organization, Production Yearbook and data files.

Definition: Agriculture value added per worker is a measure of agricultural productivity. Value added in agriculture measures the output of the agricultural sector (ISIC divisions 1-5) less the value of intermediate inputs. Agriculture comprises value added from forestry, hunting, and fishing as well as cultivation of crops and livestock production. Data are in constant 1995 U.S. dollars.

Gaps: Measure available for most USAID countries

CAS Code # 34P1

Cereal yield

Source: World Development Indicators (EA.PRD.AGRI.KD) based on Food and Agriculture Organization (FAO), Production Yearbook and data files.

Definition: Cereal yield, measured as kilograms per hectare of harvested land, includes wheat, rice, maize, barley, oats, rye, millet, sorghum, buckwheat, and mixed grains. Production data on cereals relate to crops harvested for dry grain only. Cereal crops harvested for hay or harvested green for food, feed, or silage and those used for grazing are excluded.

Gaps: Most USAID countries covered

Data Quality: Data on cereal yield may be affected by a variety of reporting and timing differences. The FAO allocates production data to the calendar year in which the bulk of the harvest took place. But most of a crop harvested near the end of a year will be used in the following year. Cereal crops harvested for hay or harvested green for food, feed, or silage, and those

used for grazing, are generally excluded. But millet and sorghum, which are grown as feed for livestock and poultry in Europe and North America, are used as food in Africa, Asia, and countries of the former Soviet Union. So some cereal crops are excluded from the data for some countries and included elsewhere, depending on their use.

CAS Code # 34P2

Growth in agricultural value added

Source: IMF Article IV Reviews for latest country data www.imf.org/external/np/sec/aiv/index.htm; World Development Indicators for benchmarking data(NV.AGR.TOTL.KD.ZG)

Definition: Annual growth rate for agricultural value added based on constant local currency. Aggregates are based on constant 1995 U.S. dollars. Value added is the net output of a sector after adding up all outputs and subtracting intermediate inputs. It is calculated without making deductions for depreciation of fabricated assets or depletion and degradation of natural resources.

Gaps: None

CAS Code # 34P3

Agricultural policy costs index

Source: Global Competitiveness Report 2004-2005, World Economic Forum. The indicator can be found in the Data Tables, Section II. Macroeconomic Environment; 2.20.

Definition: Executive's perceptions of whether the cost of agricultural policy in a given country is 1= excessively burdensome or 7= balances all economic agents' interests.

Gaps: Approximately, 50 USAID countries are covered in the GCR Executives Opinion Survey.

Data Quality: Comparisons between countries are difficult, since the data is based on executive perceptions.

CAS Code # 34S1

Crop production index

Source: World Development Indicators (AG.PRD.CROP.XD) based on FAO

Definition: Crop production index shows agricultural production for each year relative to the base period 1989-91. It includes all crops except fodder crops.

Gaps: Most USAID countries covered

Data Quality: Regional and income group aggregates for the FAO's production indexes are calculated from the underlying values in international dollars, normalized to the base period 1989-91. The FAO obtains data from official and semiofficial reports of crop yields, area under production, and livestock

numbers. If data are not available, the FAO makes estimates. The FAO's indexes may differ from other sources because of differences in coverage, weights, concepts, time periods, calculation methods, and use of international prices. To ease cross-country comparisons, the FAO uses international commodity prices to value production. These prices, expressed in international dollars (equivalent in purchasing power to the U.S. dollar), are derived using a Geary-Khamis formula applied to agricultural outputs. This method assigns a single price to each commodity so that, for example, one metric ton of wheat has the same price regardless of where it was produced. The use of international prices eliminates fluctuations in the value of output due to transitory movements of nominal exchange rates unrelated to the purchasing power of the domestic currency.

Gaps: None

CAS Code # 34S2

Livestock Production index

Source: World Development Indicators (AG.PRD.LVSK.XD) based on FAO

Definition: Livestock production index shows livestock production for each year relative to the base period 1989-91. It includes meat and milk from all sources, dairy products such as cheese, and eggs, honey, raw silk, wool, and hides and skins.

Gaps: Most USAID countries covered.

Data Quality: See comments on Crop Production Index

CAS Code # 34S3