

Yemen Gap Analysis
Monitoring Country Progress Team, Europe & Eurasia Bureau, USAID
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Introduction. This analysis draws on the Monitoring Country Progress (MCP) system developed by the Europe & Eurasia Bureau of USAID. MCP is an empirical system which standardizes data on a 1 to 5 scale to facilitate cross-country and time series comparisons, and aggregation and disaggregation. It is also a visual system, and employs various visual tools in addition to tables and text to facilitate analysis and interpretation to a wider audience.

Five indices provide the core of the analysis: (1) economic reforms; (2) democratic reforms; (3) macro-economic performance; (4) human capital; and (5) peace and security. The analysis builds on an earlier effort applied to the Middle East region (e.g., Gap Analysis of Iraq, October 2008). The data for Yemen were updated; the data for the comparison countries have not been updated. The bird's eye view of progress is provided first in cross-country scatter plots which aggregate the indices. The subsequent "spider" charts provide a more detailed analysis of the status of the components of the indices. We also look deeper into some of the trends over time, as well as some of the Yemen-specific challenges (for example, poverty and demography, gender disparities, natural resource constraints, and global economic integration). All of the figures are found at the end of the narrative. *Appendix A* provides the primary data tables. *Appendix B* elaborates on the indicator definitions, data sources, and indicator rating scales (i.e., the conversions from the raw data to the 1 to 5 scale).

The Bird's Eye View. *Figure 1* looks at economic and democratic reforms in Yemen compared to other countries in the Middle East. It includes two time periods in the case of Yemen. Yemen lags considerably in economic and democratic reforms by Middle East standards. Yemen's progress in economic and democratic reforms is comparable to progress in Iran. Of all the Middle East countries, only Libya lags notably more than does Yemen in democratic reforms. In economic reforms, only Iraq, Syria, and West Bank/Gaza lag behind Yemen. From 2007 to 2009, Yemen witnessed backsliding in democratic reforms, and on balance, little change in economic reforms.

Figure 2 shows Yemen lagging considerably behind all of the Middle East countries in human capital, and lagging behind all of the Middle East countries except West Bank/Gaza and Iraq in macro-economic performance. In that (dismal) context, it also shows modest gains in both dimensions in Yemen from 2006 to 2009.

Figure 3 compares Yemen on peace and security and governing justly and democratically (or democratic reforms) with other countries in the world, in the Middle East and elsewhere. By these measures, there are a handful of countries which are less peaceful and secure and/or less democratic than Yemen. This includes Sudan, Iraq, Afghanistan, Iran, Burma, Somalia, Ivory Coast, and Pakistan. Yemen's profile on these two dimensions is roughly comparable to that of China, Venezuela, and Haiti. *Figure 4* provides another look at a cross-country comparison of peace & security in the world.

The Development Dimensions Disaggregated. Economic reforms in Yemen are disaggregated in *Figure 5*; comparisons of progress in 2007 vs. 2008-2009 are provided. The greater is the shaded area, the greater is the progress. A “5” represents the most advanced standards worldwide; a “1” represents the least advanced standards in the Middle East. *Figure 6* compares economic reform progress in Yemen along the five dimensions with the Middle East average on these dimensions. Yemen trails notably behind all the economic reform dimensions relative to Middle East standards except for trade liberalization. In this relatively short time period, from 2007 to 2009, progress on balance was minimal if any, some deterioration in the budget balance, some progress in trade liberalization.

Similarly, Yemen’s profile in democratic reforms is provided in *Figures 7* and *8*. Yemen trails notably in three of the five democratization dimensions (anti-corruption efforts, rule of law, and independent media development) by Middle East standards, and is roughly comparable to such standards in two dimensions (political rights and civil liberties). In all but civil liberties, Yemen has regressed since 2007.

Macro-economic Performance (*Figures 9* and *10*). Yemen lags considerably by Middle East standards across the elements of macro-economic performance with the salient exception of our measure of energy security. Energy security here is defined as a combination of energy efficiency (output per unit of energy use) and energy dependency (net energy imports as % of energy use). (*Figure 18* shows Yemen’s progress on both of these dimensions). Yemen scores well on both dimensions; i.e., at a level of energy efficiency which exceeds the global average (of 5.8), and highly energy independent given that it is a significant energy exporter. The very substantial caveat in this indicator in this instance is that Yemen is presumably rapidly drawing down its oil reserves; this static indicator fails to capture that element of energy insecurity.

The overall economic performance profile of Yemen’s economy is one which has barely grown on a per capita basis, where the meager gains are very unequally distributed and have yet generated significant environmental costs; it is an economy poorly integrated into the world economy, and one which is characterized by a very rudimentary financial sector.

Human Capital (*Figures 11* and *12*). Human capital in Yemen trails far behind the Middle East standards in all the dimensions measured except the magnitude of government expenditures on health and education as a percent of GDP. Yemen is a very poor country with considerable challenges in health (including relatively high under-five mortality rates and low life expectancy) and in education (including very low literacy rate and enrollment rates). The literacy rate has increased slightly since 2006 and the under-five mortality rate has decreased slightly since then.

Peace and Security (*Figure 13*). Yemen lags uniformly across the dimensions of peace and security, though it lags the most in counter-terrorism, combating weapons of mass destruction, and stabilization and security sector reforms.

Some Trends over Time (*Figures 14-17*). Democratic freedoms in 2009 (latest year of data available) in Yemen were fewer than they have been in all the years since the mid-1970s with the exception of 2001 (*Figure 14*). The perception of corruption in Yemen is that it is rampant and has steadily, albeit moderately worsened in recent years, since 2005 (*Figure 15*). Governance in Yemen deteriorated in

2009 to a level approaching the institutional capacity of governance in Iraq in recent years (*Figure 16*). Yemen's business environment is problematic, though has shown little change, progress or deterioration, since at least 2005 (*Figure 17*).

Other Key Challenges Confronted by Yemen (Figures 19-23). Yemen is a very poor country by Middle East standards and global standards. Forty-three percent of Yemen's children are malnourished; the Middle East and North Africa average is closer to 10% (*Figure 19*). About 65% of the population in Yemen has access to improved water; almost 90% of the population in the Middle East and North Africa region has such access. Less than 50% of the population in Yemen has access to improved sanitation vs. over 70% in the Middle East and North Africa region overall. The percentage of the youth population in the Middle East region is high (30% of the population is 14 years or less); in Yemen, it is higher still, 44%.

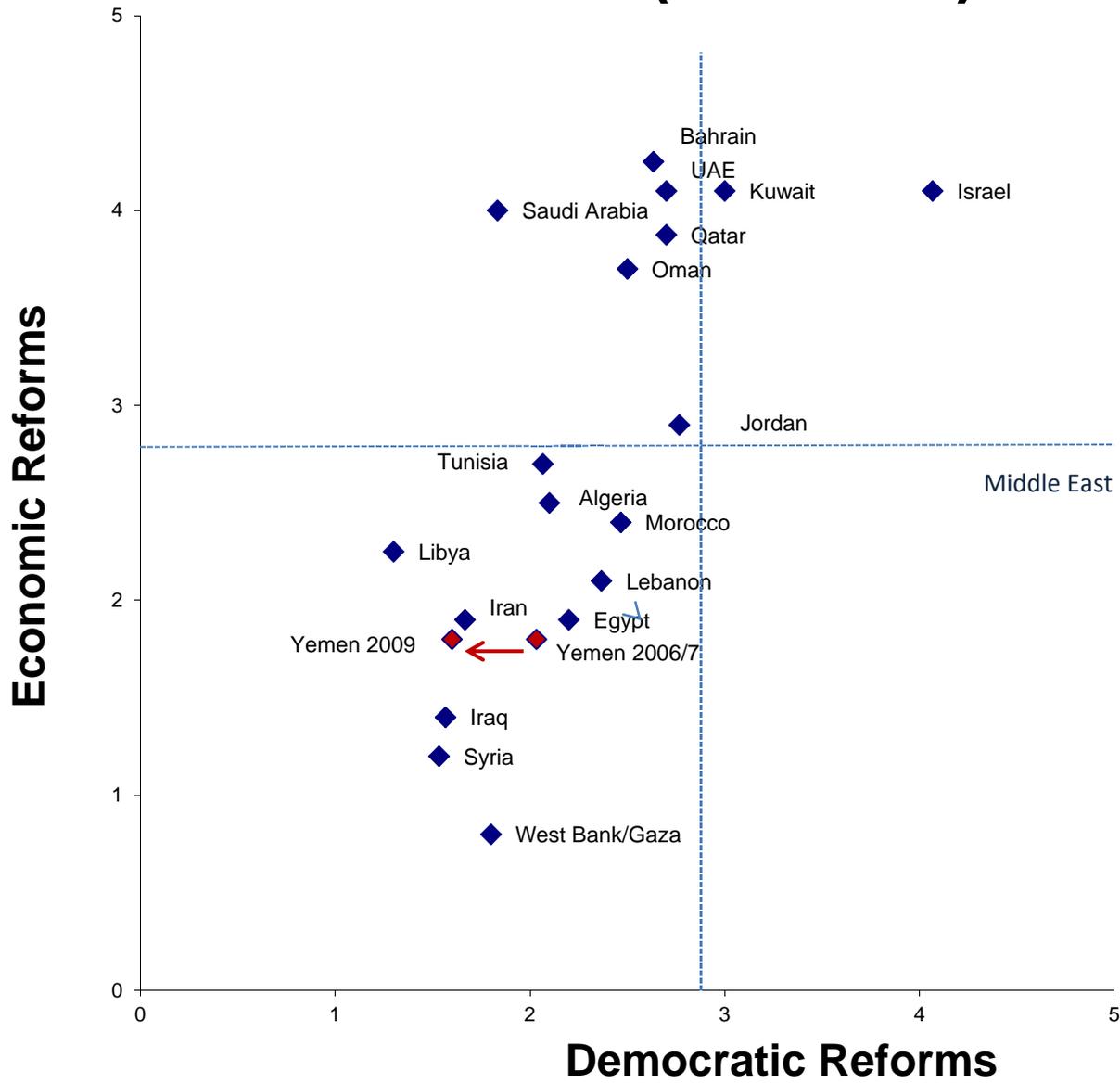
Gender disparities in Yemen are substantial (*Figure 20*). Female adult literacy is half the male rate, 35% vs. 73%. Tertiary enrollment is very low for both males and females in Yemen, though much lower for females. The disparities in the proportion of the populations engaged in economic activity are also striking. Almost 80% of the male adult population is engaged in economic activity; only 30% of the female adult population is similarly engaged.

Natural resource constraints in Yemen are significant (*Figures 21 and 22*). Less than 3% of Yemen's land is arable; in the Middle East overall it is closer to 6%; in Sub-Saharan Africa, 8%; Western Europe 25% and South Asia over 40%. Ninety four cubic meters of fresh water are available per capita in Yemen. This compares to 715 meters per capita in the Middle East; 1,200 meters in South Asia; 3,000 meters in Western Europe; and almost 5,000 meters per capita in Sub-Saharan Africa.

Finally, Yemen's economy is poorly integrated into the global economy (*Figure 23*). Over 90% of its exports are concentrated in fuel. Yemen is highly dependent on food imports; 25% of imports are food. Yemen's economy and society remain very isolated on some dimensions. One example is internet usage. Less than 2% of the population in Yemen has access to the internet. This compares to the Middle East average of 19% and Western Europe average of 63%. Even Sub-Saharan Africa has a notably higher internet usage than does Yemen, close to 7% of the population on average.

Figure 1

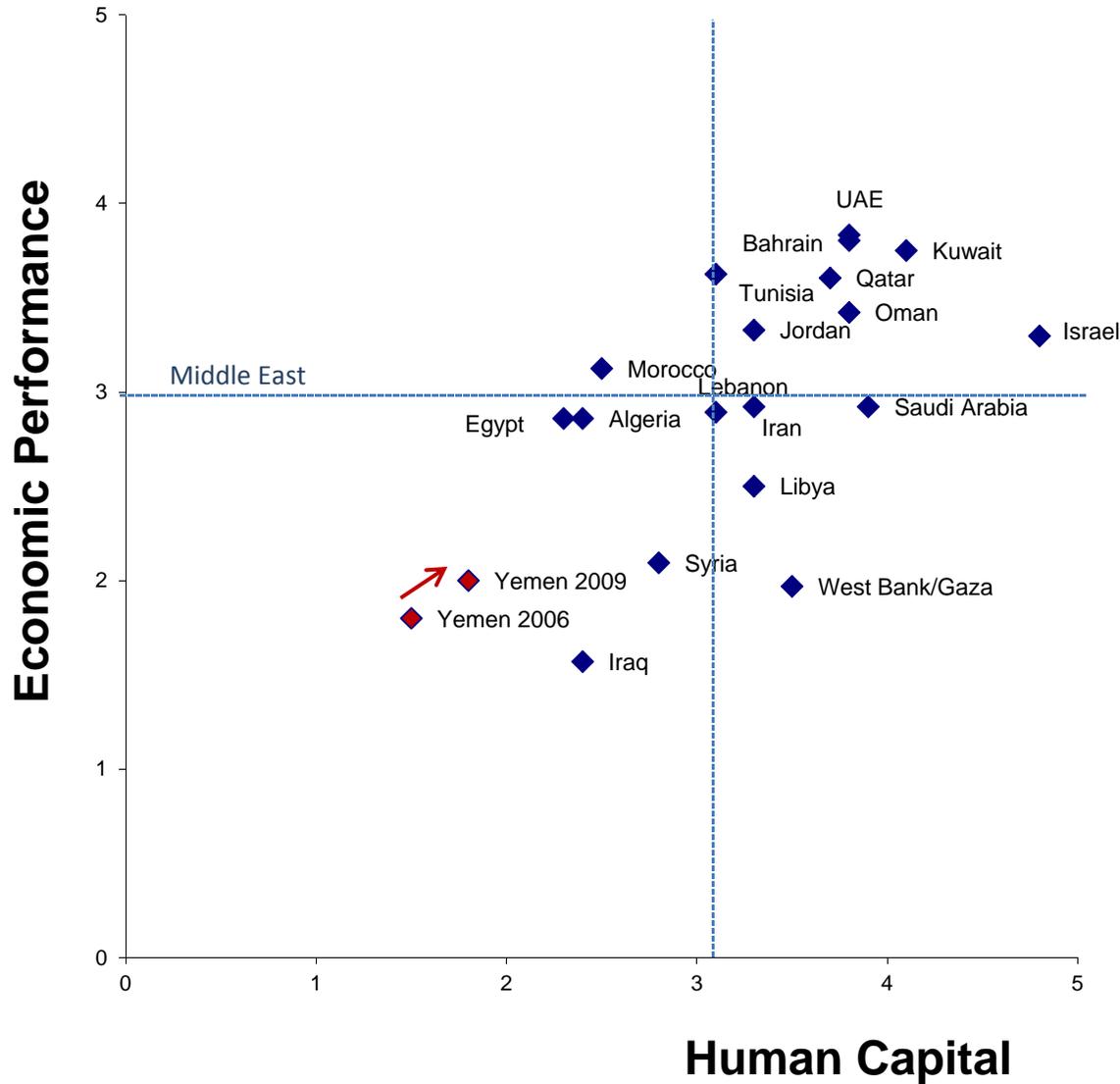
Economic and Democratic Reforms In The Middle East (2006-2009)



Ratings are based on a scale from 1 to 5, with 5 representing the most advanced worldwide. USAID, drawing from World Bank, *Governance Matters* (2009 and earlier) ; *Doing Business 2010* and earlier, *World Development Indicators* (2009 and earlier); Freedom House, *Freedom in the World* (2009 and earlier) and *Freedom of the Press* (2009 and earlier); and the Heritage Foundation, *Index of Economic Freedom* (2009 and earlier).

Figure 2

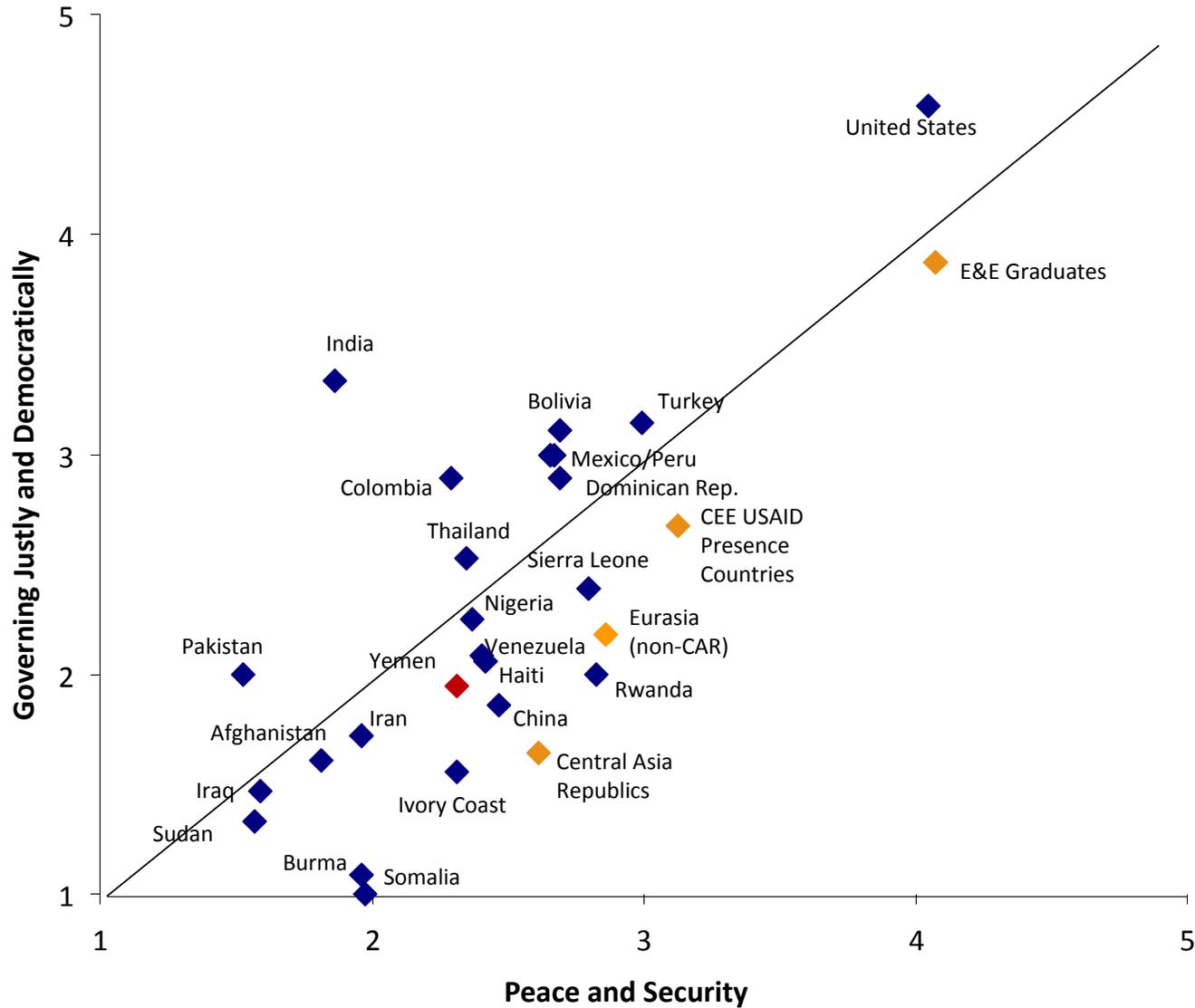
Economic Performance and Human Capital In The Middle East (2007-2009)



Ratings are based on a 1 to 5 scale, with 5 representing the most advanced worldwide. World Bank, *World Development Indicators* (2009 and earlier), United Nations, *State of the World's Children*, (2009 and earlier), and UNDP, *Human Development Report* (2009 and earlier).

Figure 3

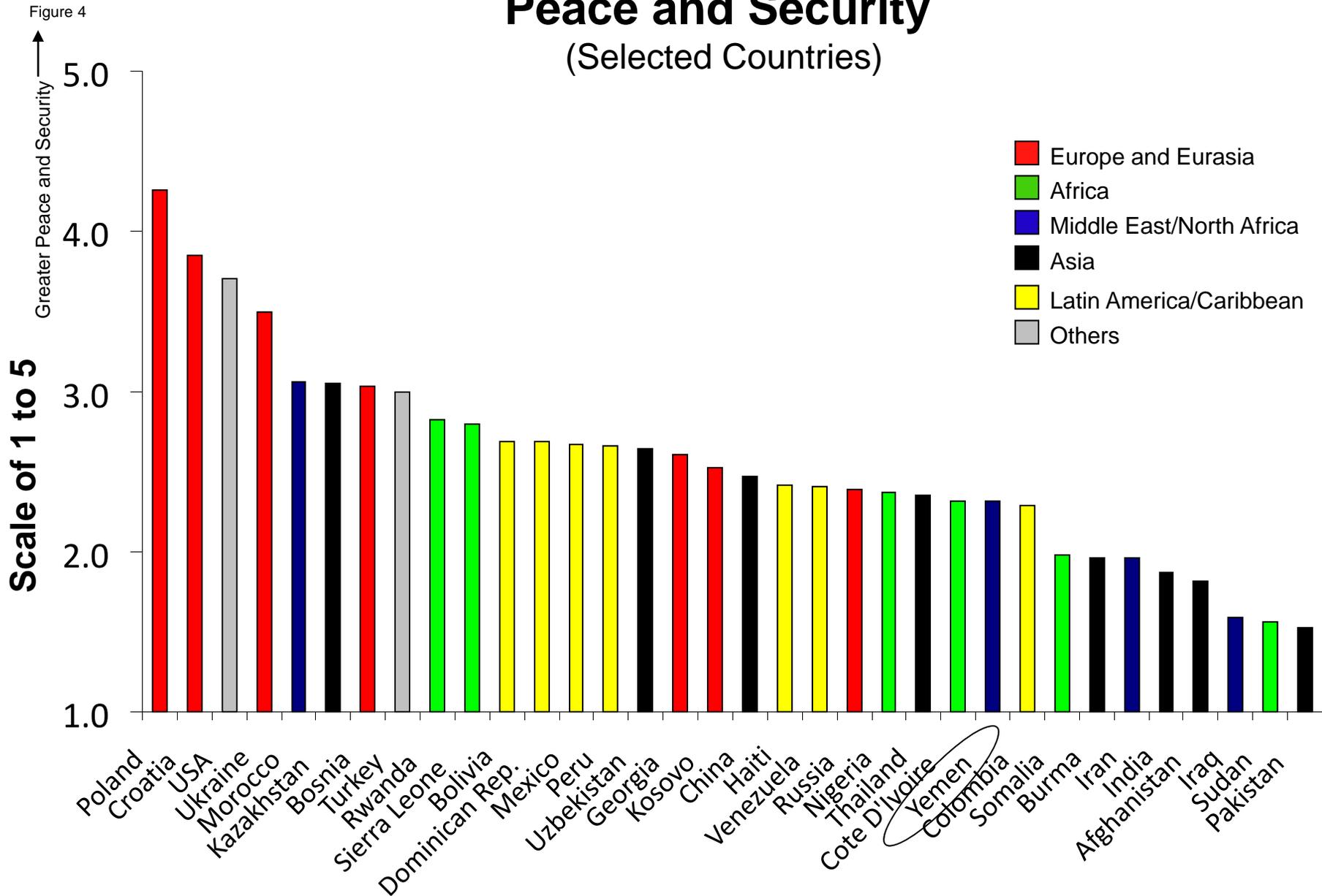
Peace and Security vs. Governing Justly and Democratically



US State Department; Foreign Policy Magazine and the Fund for Peace; World Bank; US Commerce Department; Binghamton University; UNICEF; A.T. Kearney/Foreign Policy Magazine; UNODC; USTR; George Mason University; USAID/CMM; World Bank Institute, *Governance Matters Indicators* (2007); World Bank, Freedom House, *Freedom in the World* 2008, and *Freedom of the Press* 2008.

Peace and Security

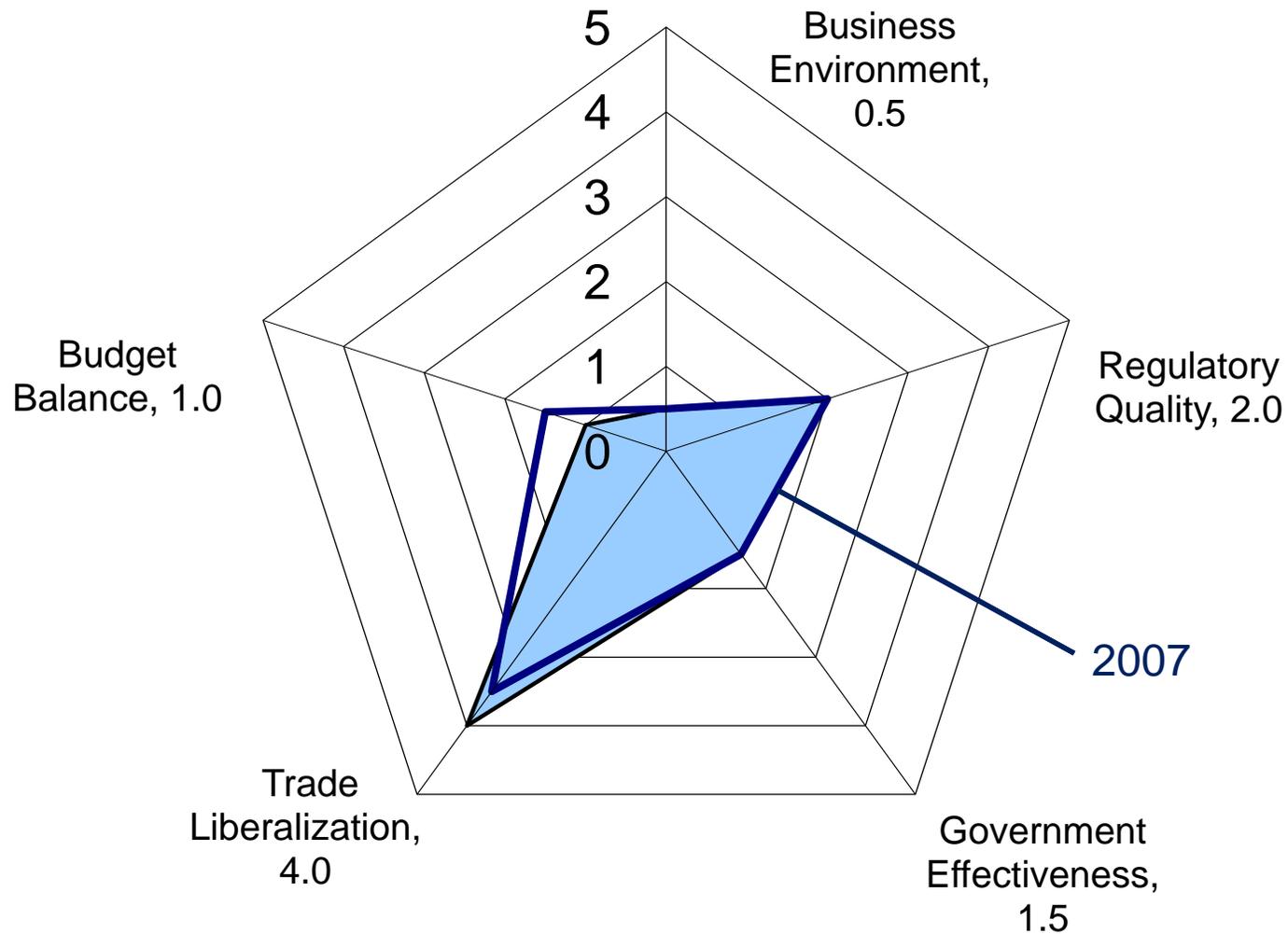
(Selected Countries)



US State Department, *Country Reports on Terrorism* (2008); National Counterterrorism Center, (2007-2008); Foreign Policy Magazine and the Fund for Peace, *Failed States Index* (2008); World Bank Institute, *Governance Matters Indicators* (2008); US Commerce Department, *Export Control Policy*, (2008.) US State Department, *Export Control/Border Security Assessment* (2008) Binghamton University, Cingranelli-Richards *Human Rights Dataset*, (2007); UNICEF *TransMONEE* (2003-2004); World Bank, *World Development Indicators* (2008); A.T. Kearney/Foreign Policy Magazine, *Globalization Index* (2007) UNODC, *World Drug Report*, (2008) ; US Department of State, *Trafficking in Persons Report* (2008); USTR *Special 301 Report* (2008) ;US Department of State, *International Narcotics Control Strategy Report* (2008); Center for Global Policy, George Mason University, *Political Instability Task Force* (2006-08) USAID/DCHA/CMM *Instability Alert List* (2009).

Figure 5

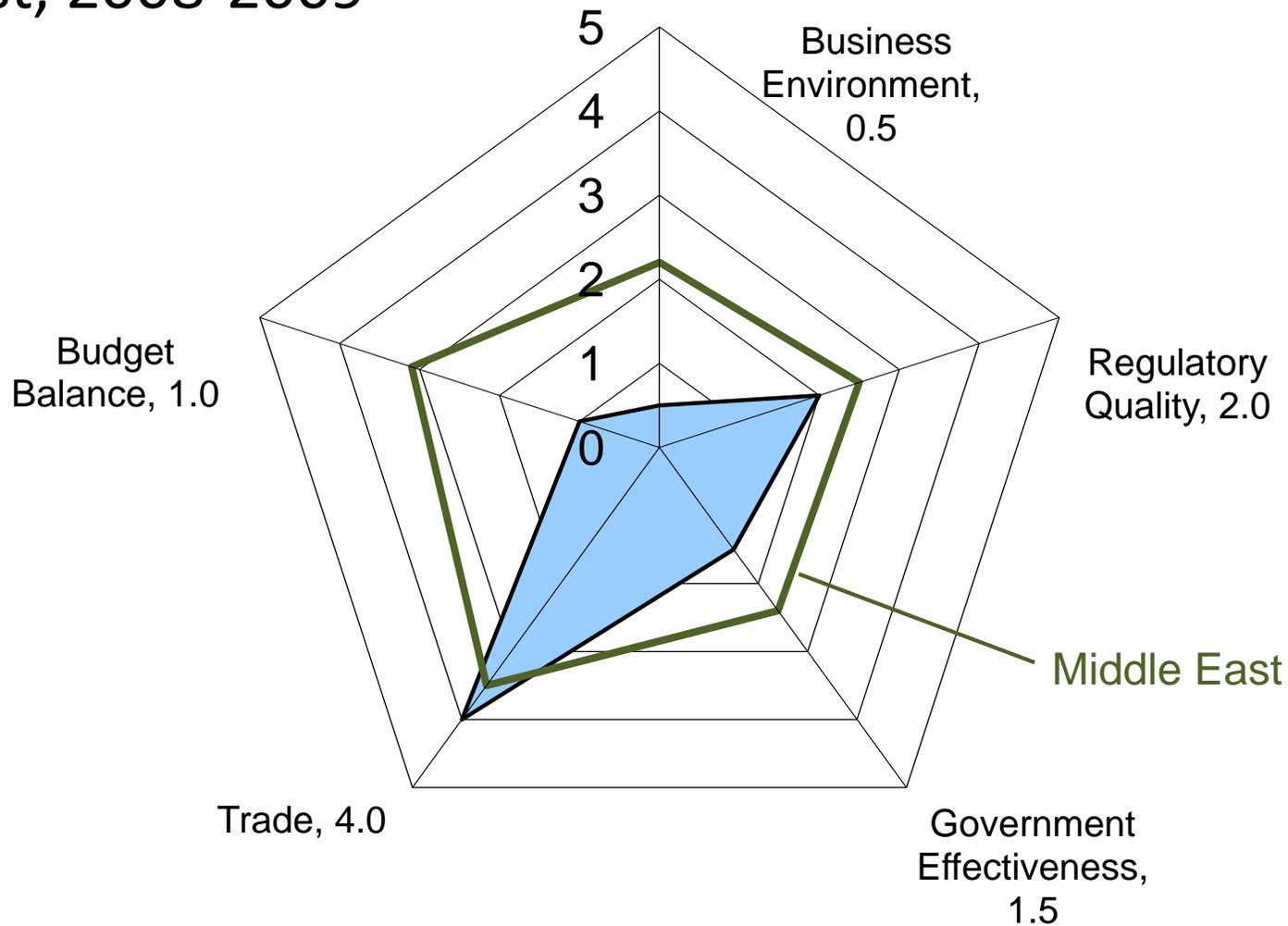
Economic Reforms in Yemen, 2007 vs. 2009



Ratings are based on a scale from 1 to 5, with 5 representing the most advanced. USAID, drawing from World Bank, *World Development Indicators* (2009 and earlier); *Governance Matters Indicators* (2009 and earlier); *Doing Business 2010* (and earlier); Heritage Foundation, *Index of Economic Freedom* (2009 and earlier).

Figure 6

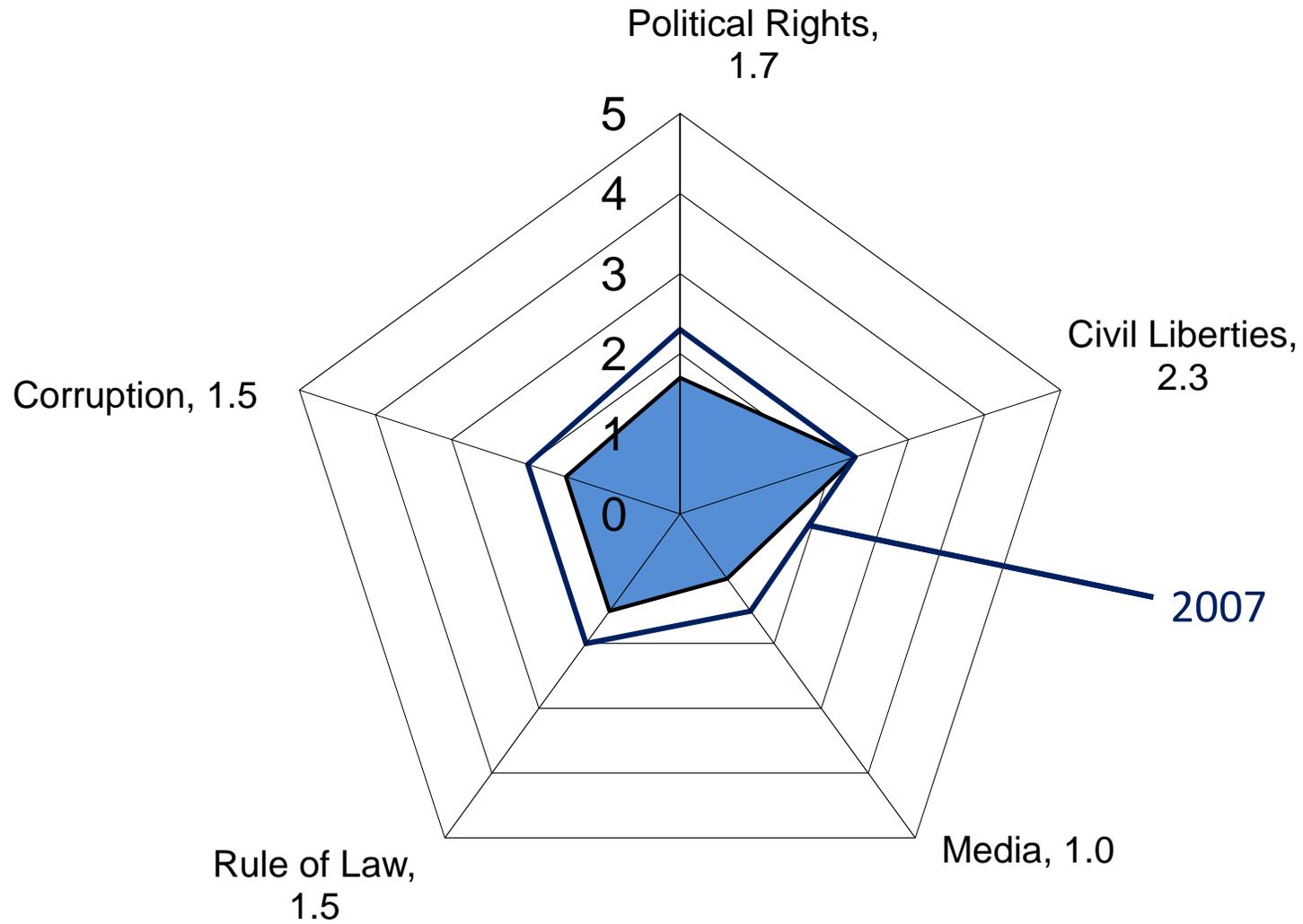
Economic Reforms in Yemen Compared to Middle East, 2008-2009



Ratings are based on a scale from 1 to 5, with 5 representing the most advanced. USAID, drawing from World Bank, *World Development Indicators* (2009 and earlier); *Governance Matters Indicators* (2009 and earlier); *Doing Business 2010* (and earlier); Heritage Foundation, *Index of Economic Freedom* (2009 and earlier); CIA, *World Factbook*.

Figure 7

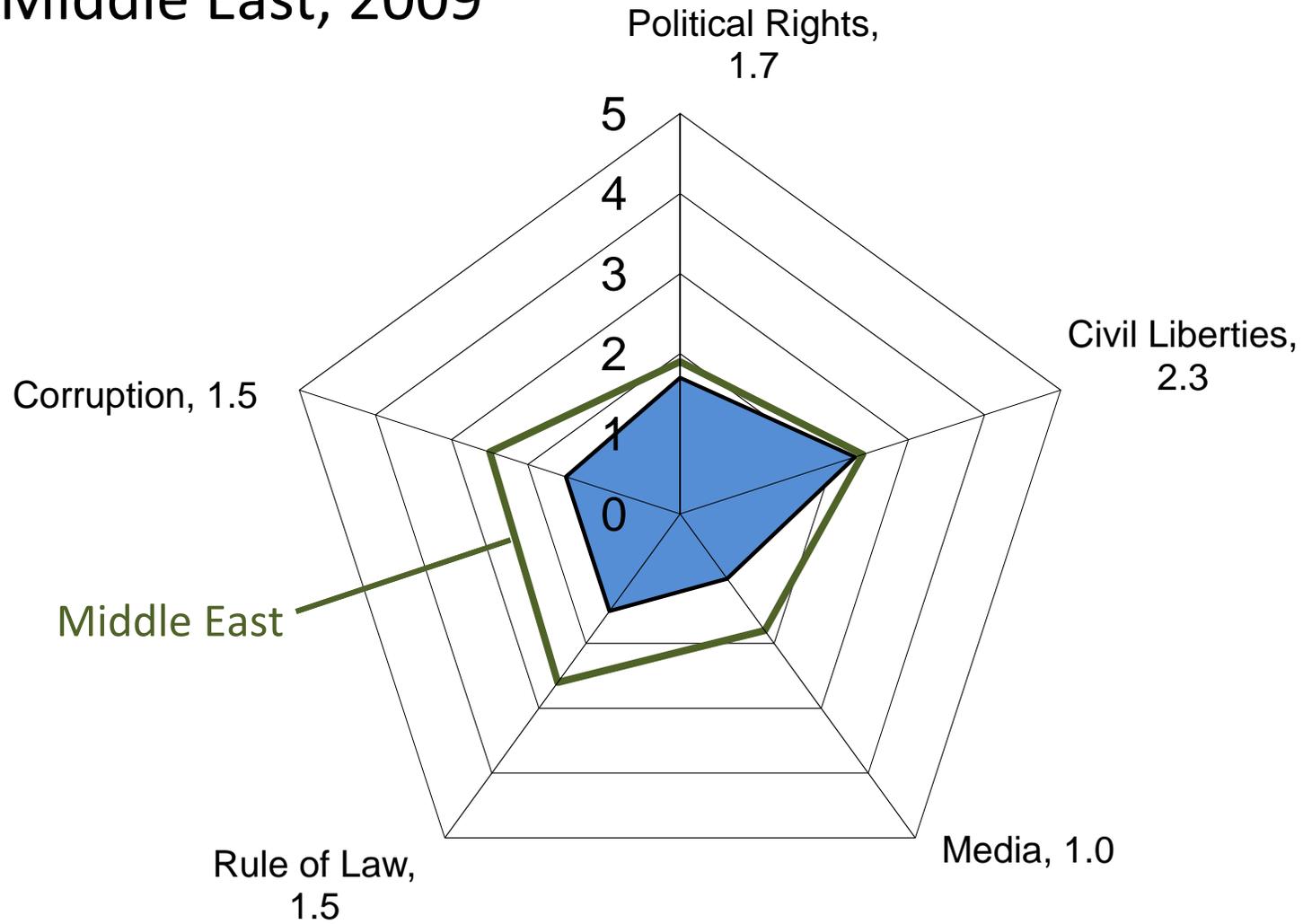
Democratic Reforms in Yemen, 2007 vs. 2009



Ratings are based on a scale from 1 to 5, with 5 representing the most advanced. USAID, drawing from World Bank Institute, *Governance Matters Indicators* (2009 and earlier) and Freedom House, *Freedom in the World and Freedom of the Press* (2009 and earlier).

Figure 8

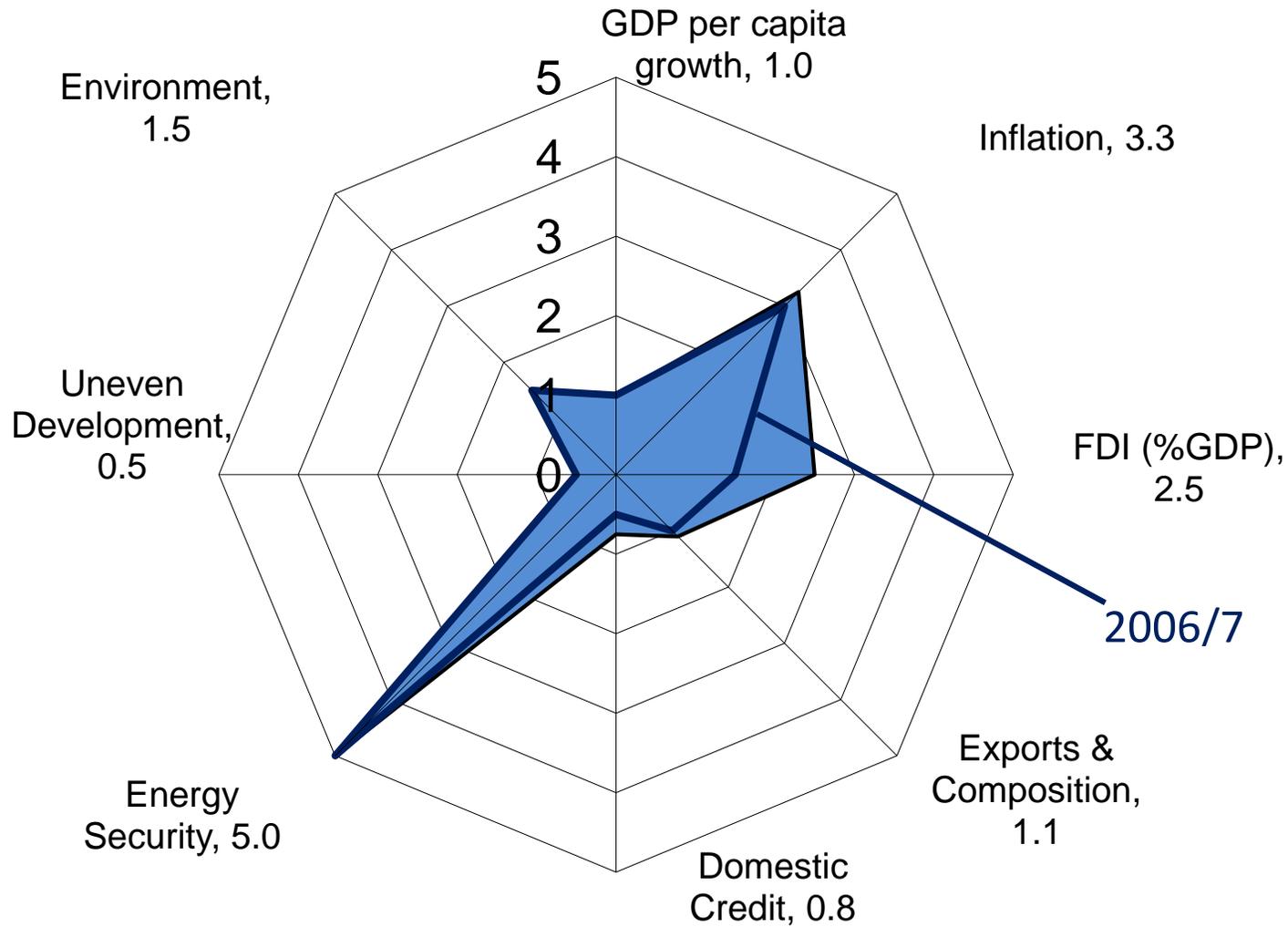
Democratic Reforms in Yemen Compared to Middle East, 2009



Ratings are based on a scale from 1 to 5, with 5 representing the most advanced. USAID, drawing from World Bank Institute, *Governance Matters Indicators* (2009 and earlier) and Freedom House, *Freedom in the World and Freedom of the Press* (2009 and earlier).

Figure 9

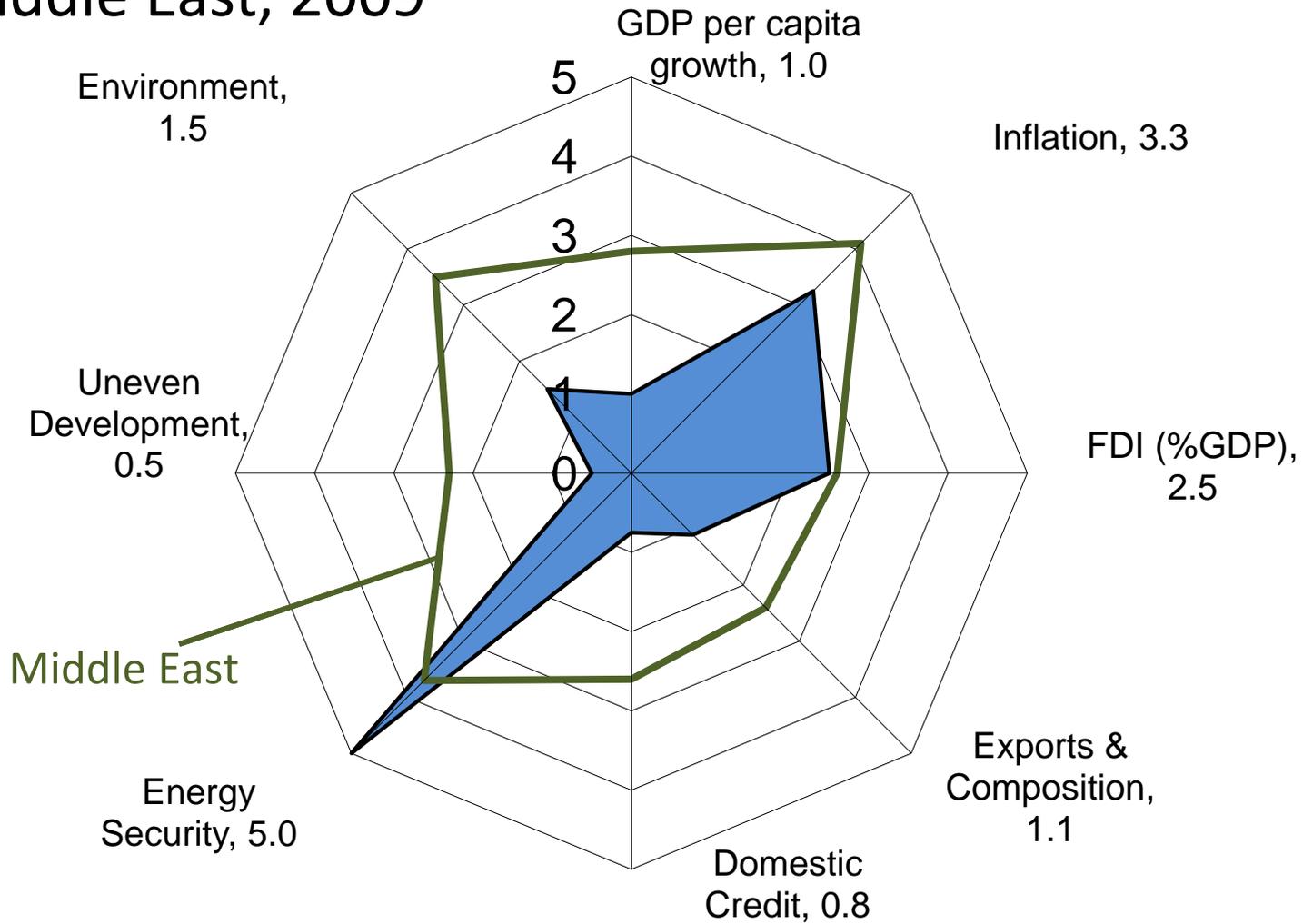
Economic Performance in Yemen, 2006/7 vs. 2008/9



Ratings are based on a scale from 1 to 5, with 5 representing the most advanced. USAID, drawing from World Bank, *World Development Indicators* (2009 and earlier); Fund for Peace, *Failed States Index* (2009 and earlier).

Figure 10

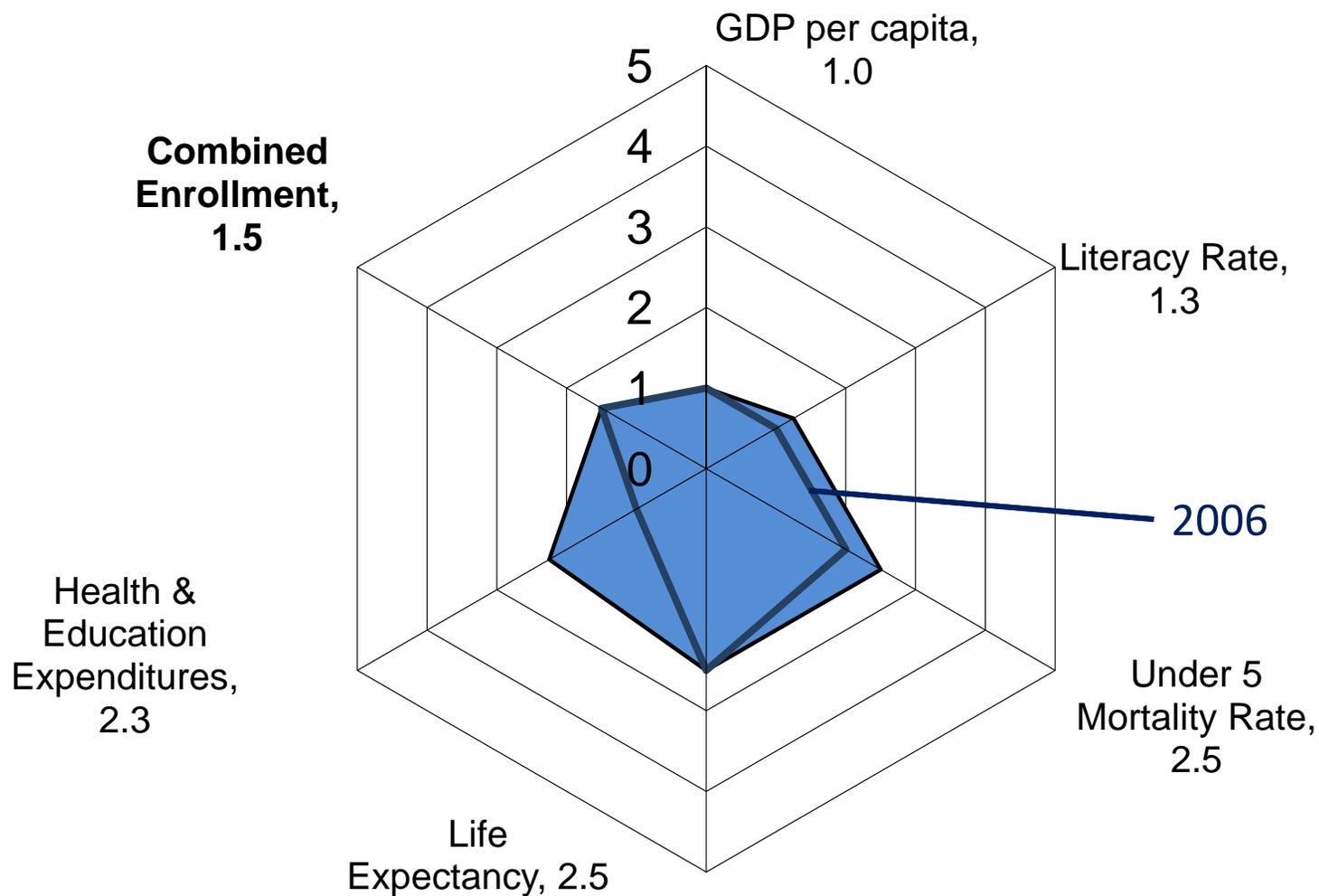
Economic Performance in Yemen Compared to Middle East, 2009



Ratings are based on a scale from 1 to 5, with 5 representing the most advanced. USAID, drawing from World Bank, *World Development Indicators* (2009 and earlier); Fund for Peace, *Failed States Index* (2009 and earlier); CIA, *Factbook*.

Figure 11

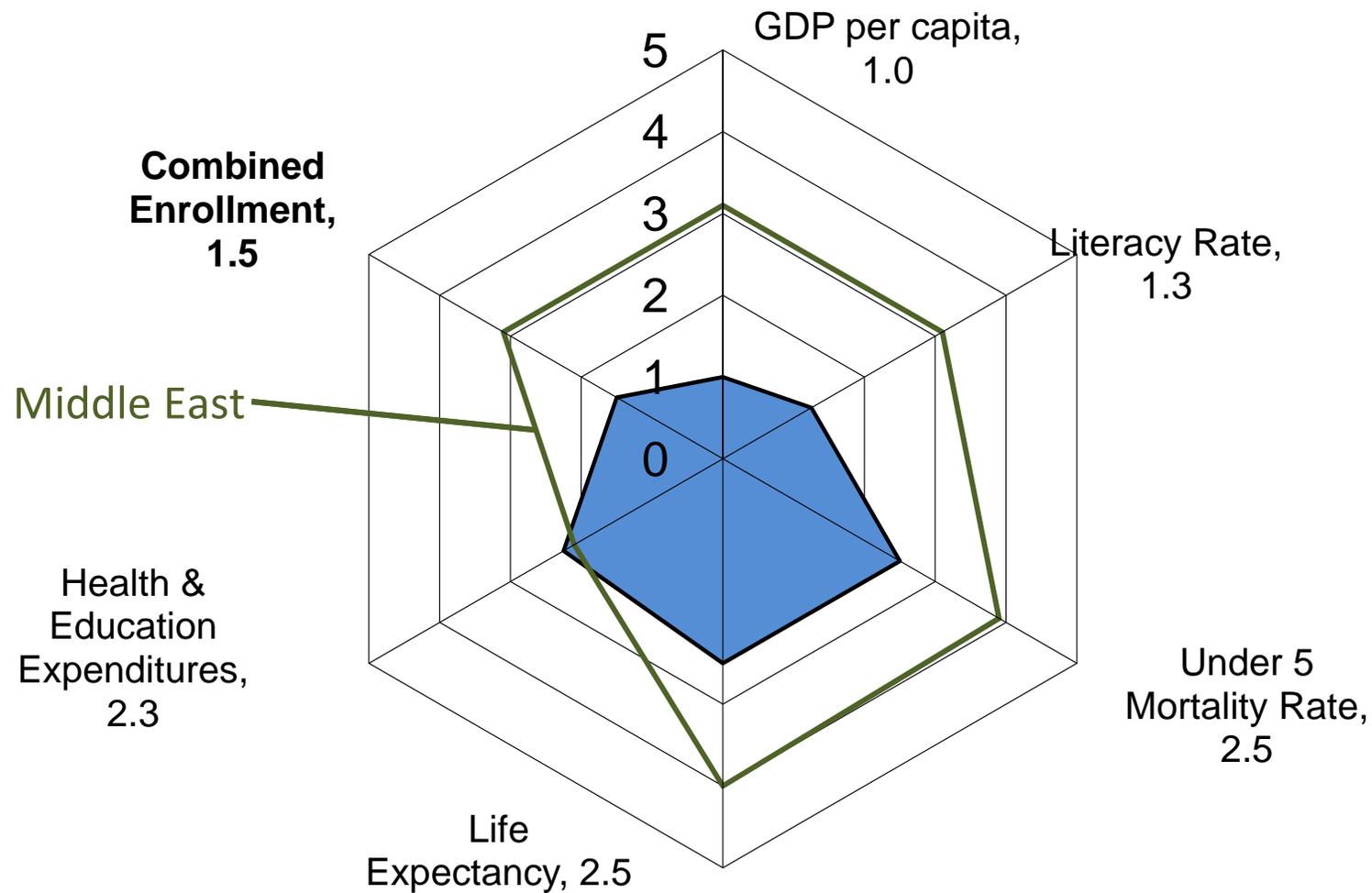
Human Capital in Yemen, 2006 vs. 2009



Ratings are based on a scale from 1 to 5, with 5 representing the most advanced. USAID, drawing from World Bank, *World Development Indicators* (2009 and earlier); UNICEF; UNDP, *Human Development Report* (2009 and earlier).

Figure 12

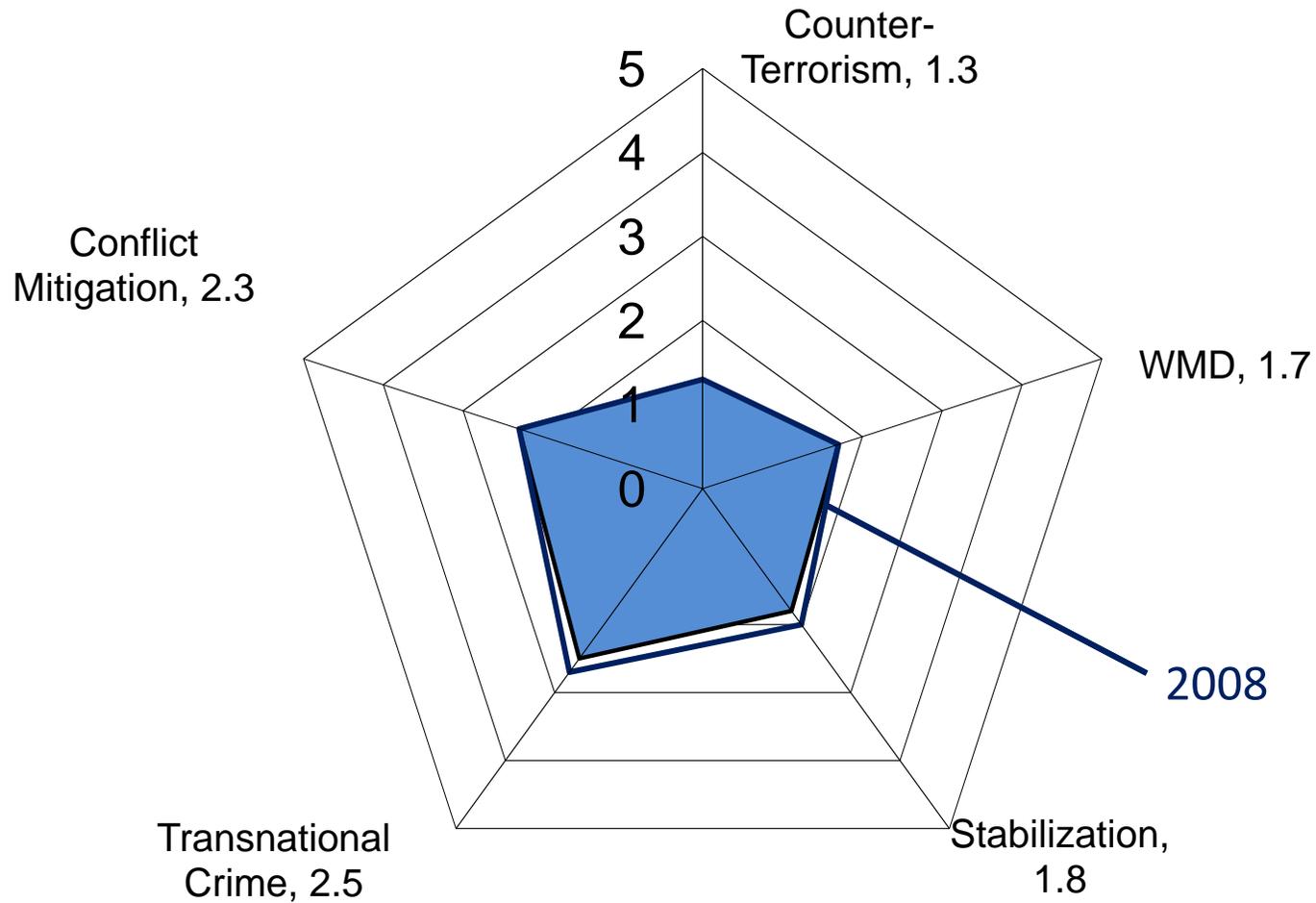
Human Capital in Yemen Compared to Middle East, 2009



Ratings are based on a scale from 1 to 5, with 5 representing the most advanced. USAID, drawing from World Bank, *World Development Indicators* (2009 and earlier); UNICEF; UNDP, *Human Development Report* (2009 and earlier).

Figure 13

Peace & Security in Yemen, 2008 vs. 2009



Ratings are based on a scale from 1 to 5, with 5 representing the most advanced. USAID, drawing from US State Department; Foreign Policy Magazine and the Fund for Peace; World Bank; US Commerce Department; Binghamton University; UNICEF; A.T. Kearney/Foreign Policy Magazine; UNODC; USTR; George Mason University.

Figure 14

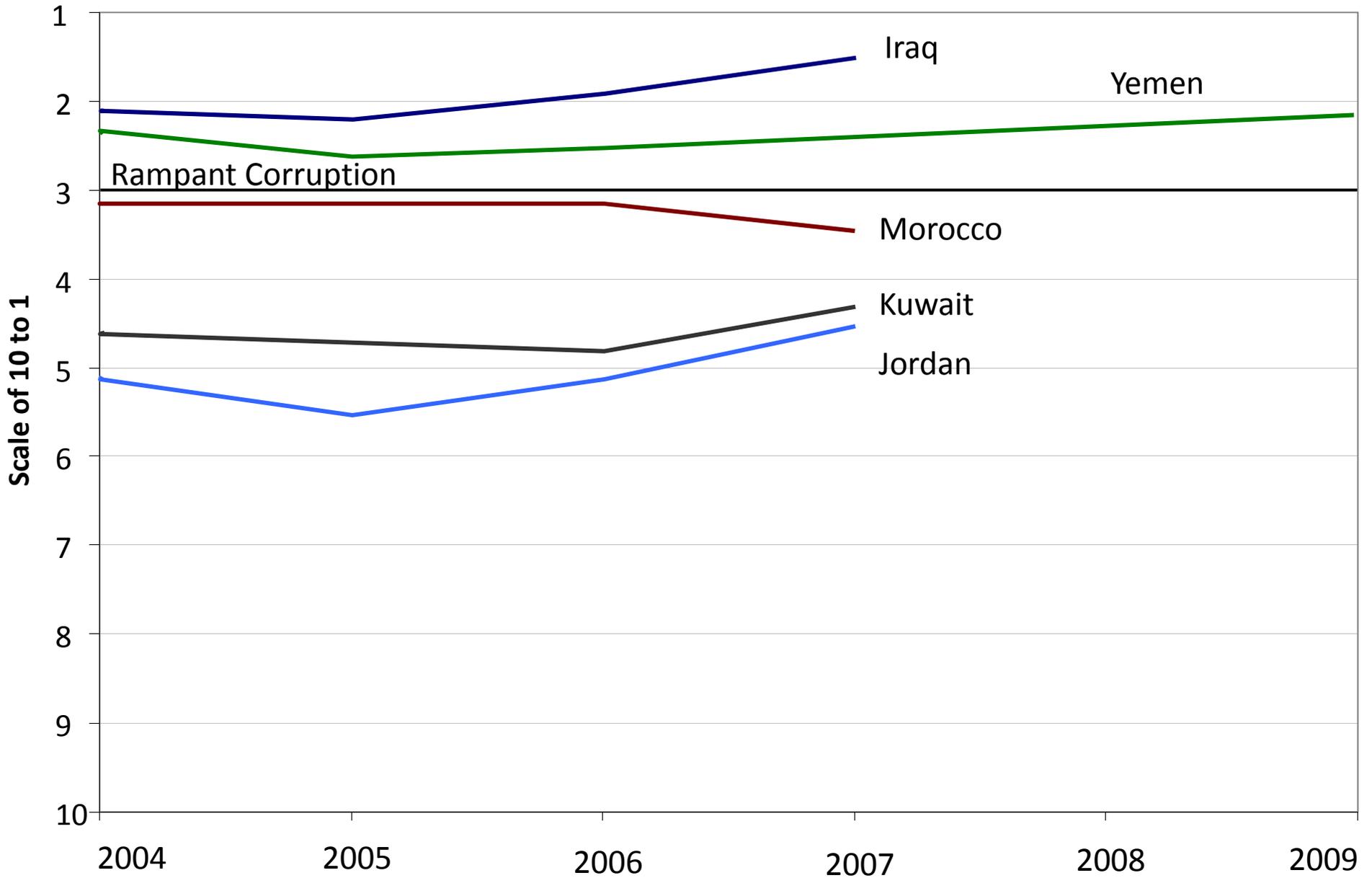
Democratic Freedoms



Ratings from 1 to 5, with 5 representing greatest democratic freedoms. This indicator is the average of 2 indices: political rights and civil liberties. USAID, drawing from Freedom House, *Freedom in the World 2008* and *Freedom of the Press 2008*. Data for Yemen prior to 1989 are four to one former Arab and former PDR.

Figure 15

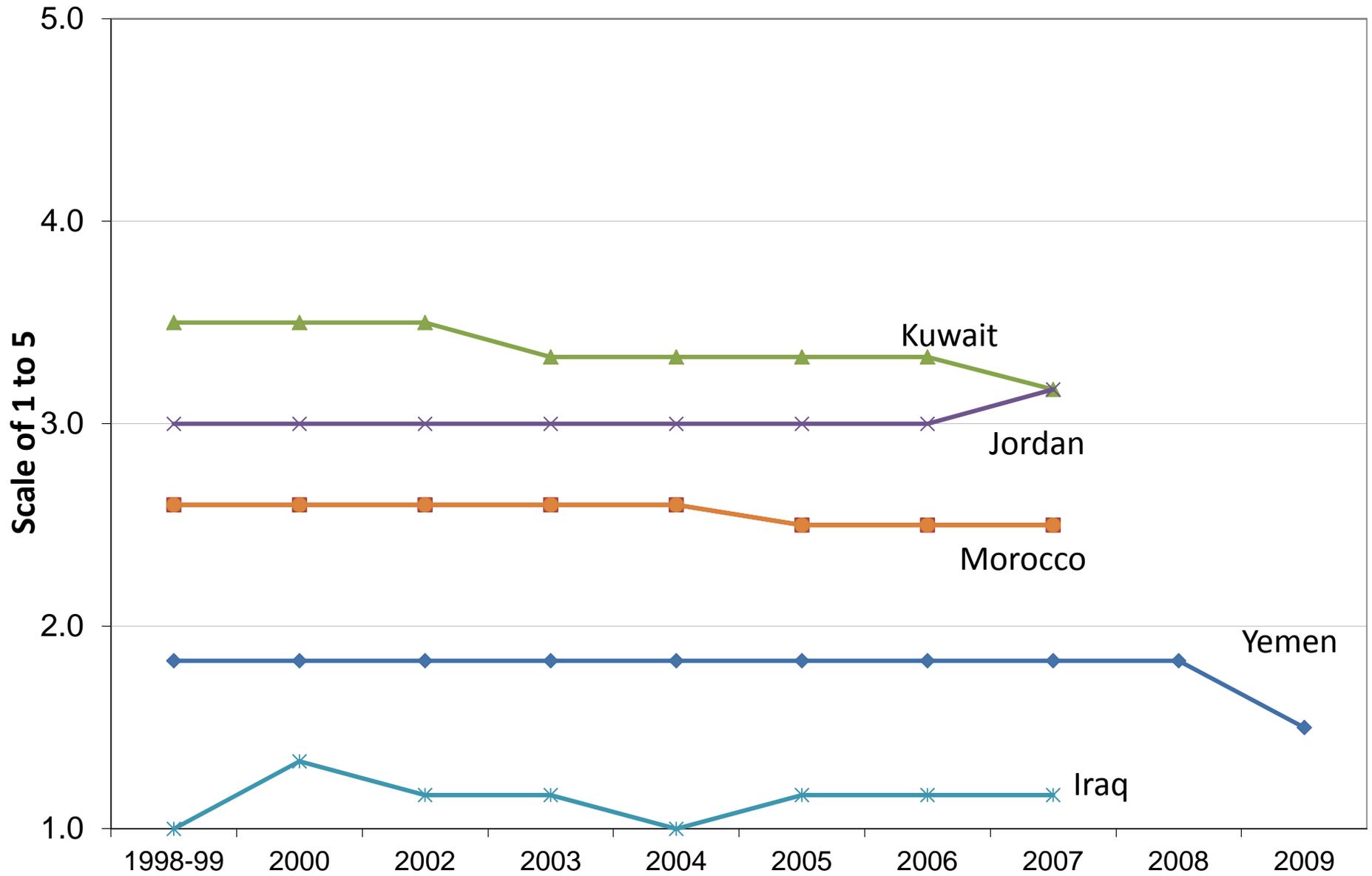
Corruption Perceptions Index



Transparency International, Corruption Perceptions Index (2009 and earlier). Ratings on a 1 to 10, with 1 representing most amount of corruption.

Figure 16

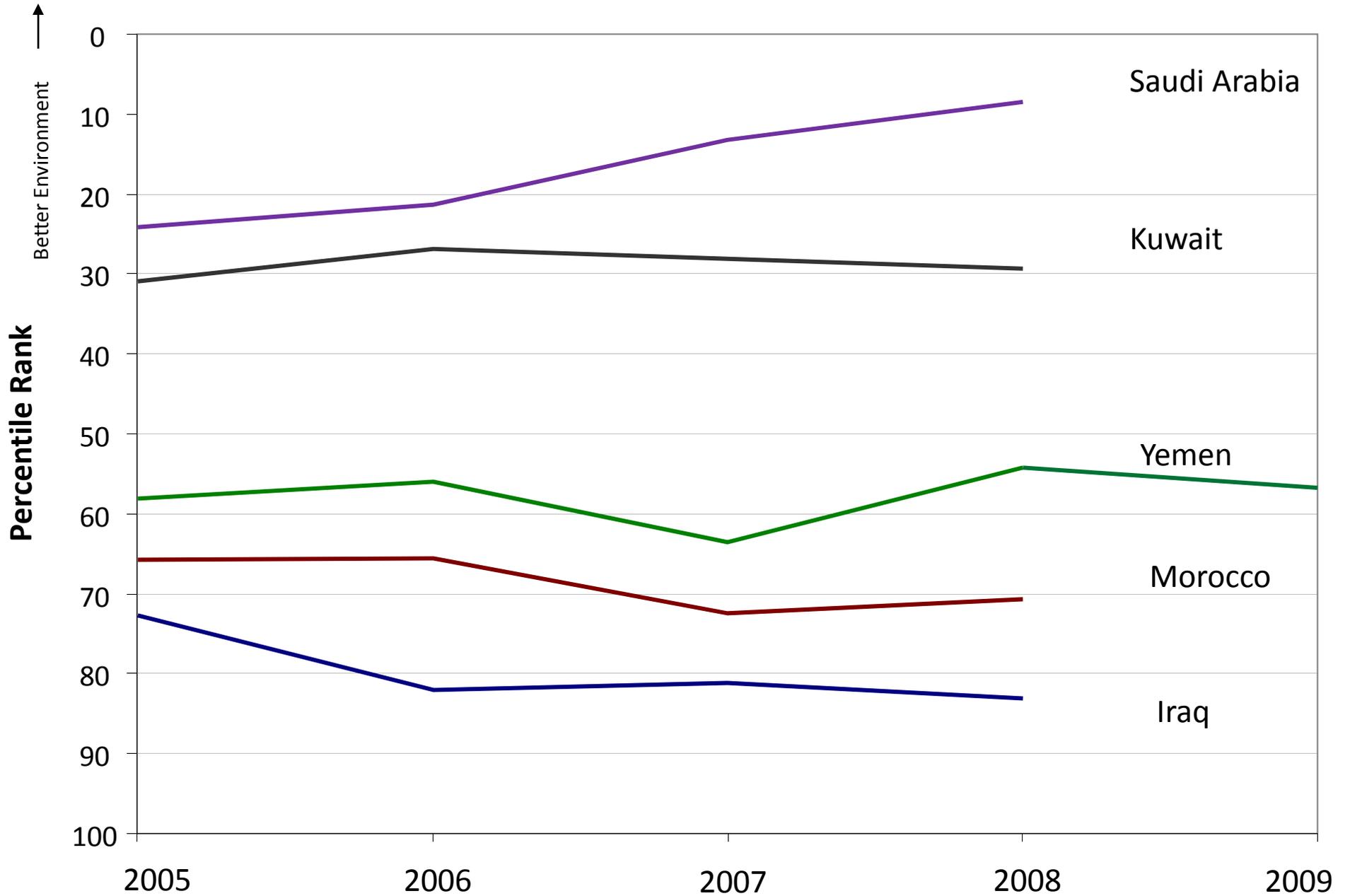
Institutions of Governance



Ratings are based on a scale from 0.5 to 5.0, with 5 representing the best score. World Bank Institute, *Governance Matters* (2009 and earlier). Average scores for Rule of Law, Control of Corruption, Government Effectiveness.

Figure 17

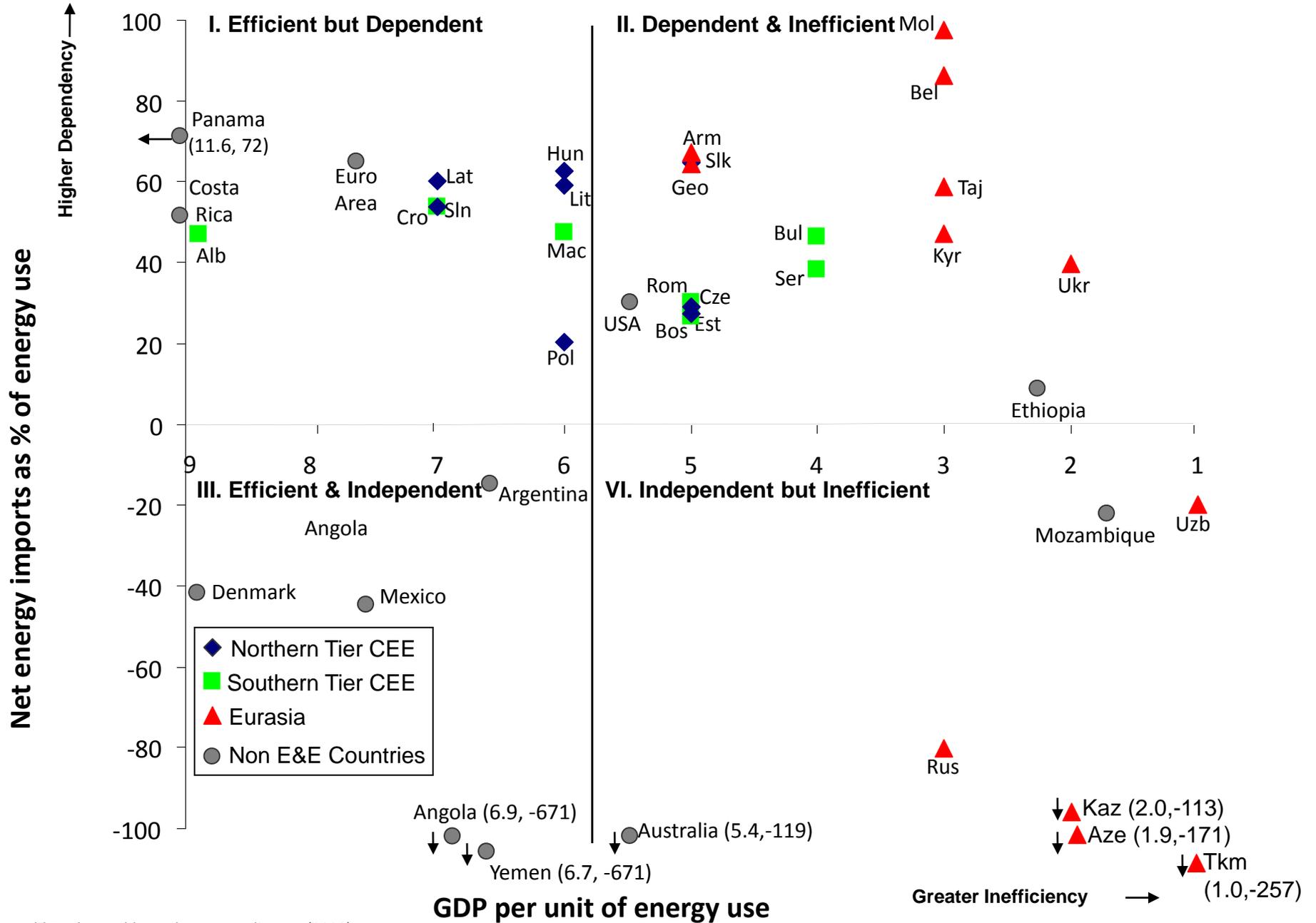
Business Environment



World Bank , *Doing Business 2010* (and earlier versions).

Figure 18

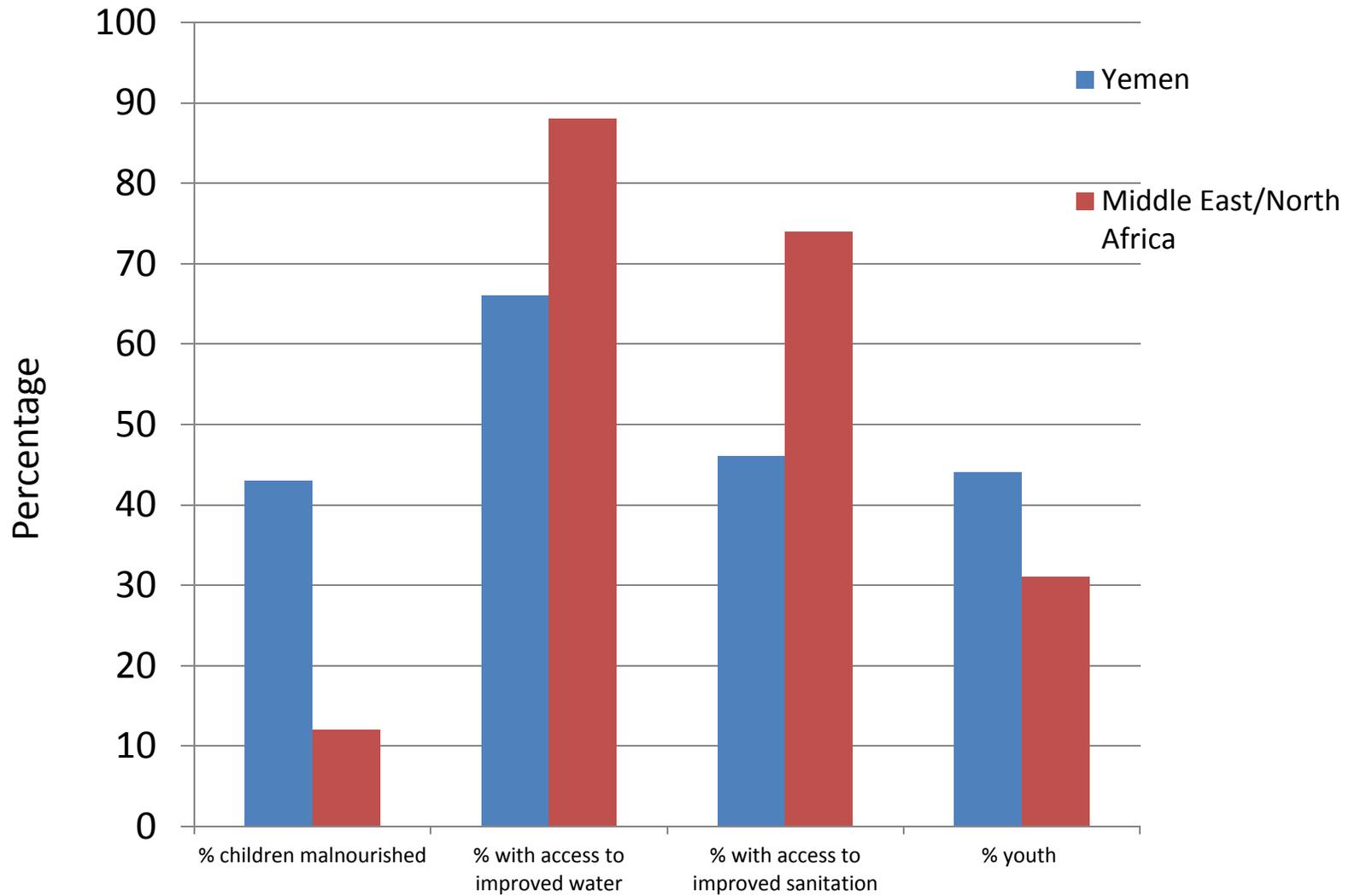
Energy Dependency and Efficiency



World Bank, *World Development Indicators* (2009).

Figure 19

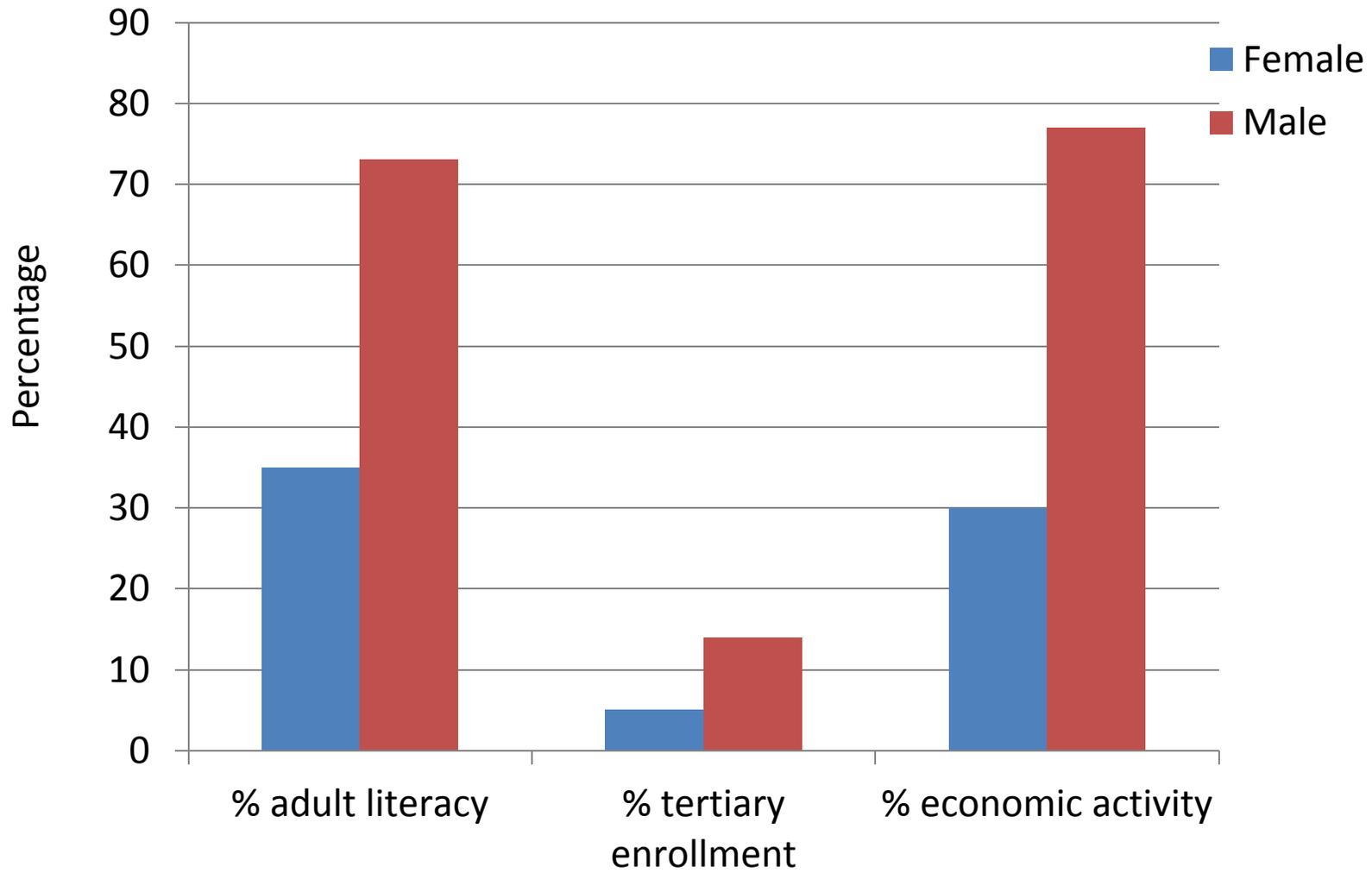
Poverty and Demography



Source: UNDP, Arab Human Development Report 2009.

Figure 20

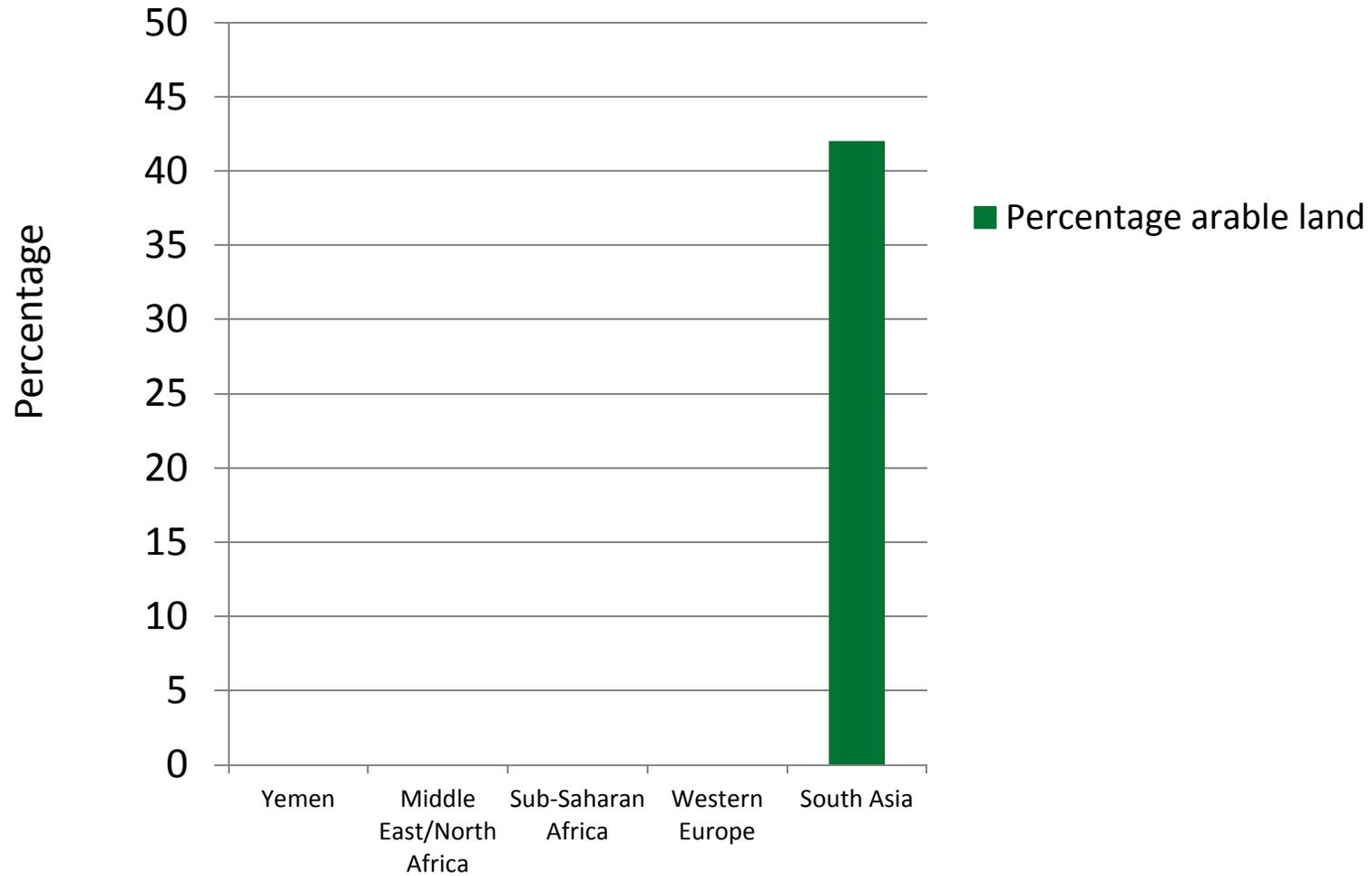
Gender Disparities in Yemen



Source: World Bank, *World Development Indicators* (2009).

Figure 21

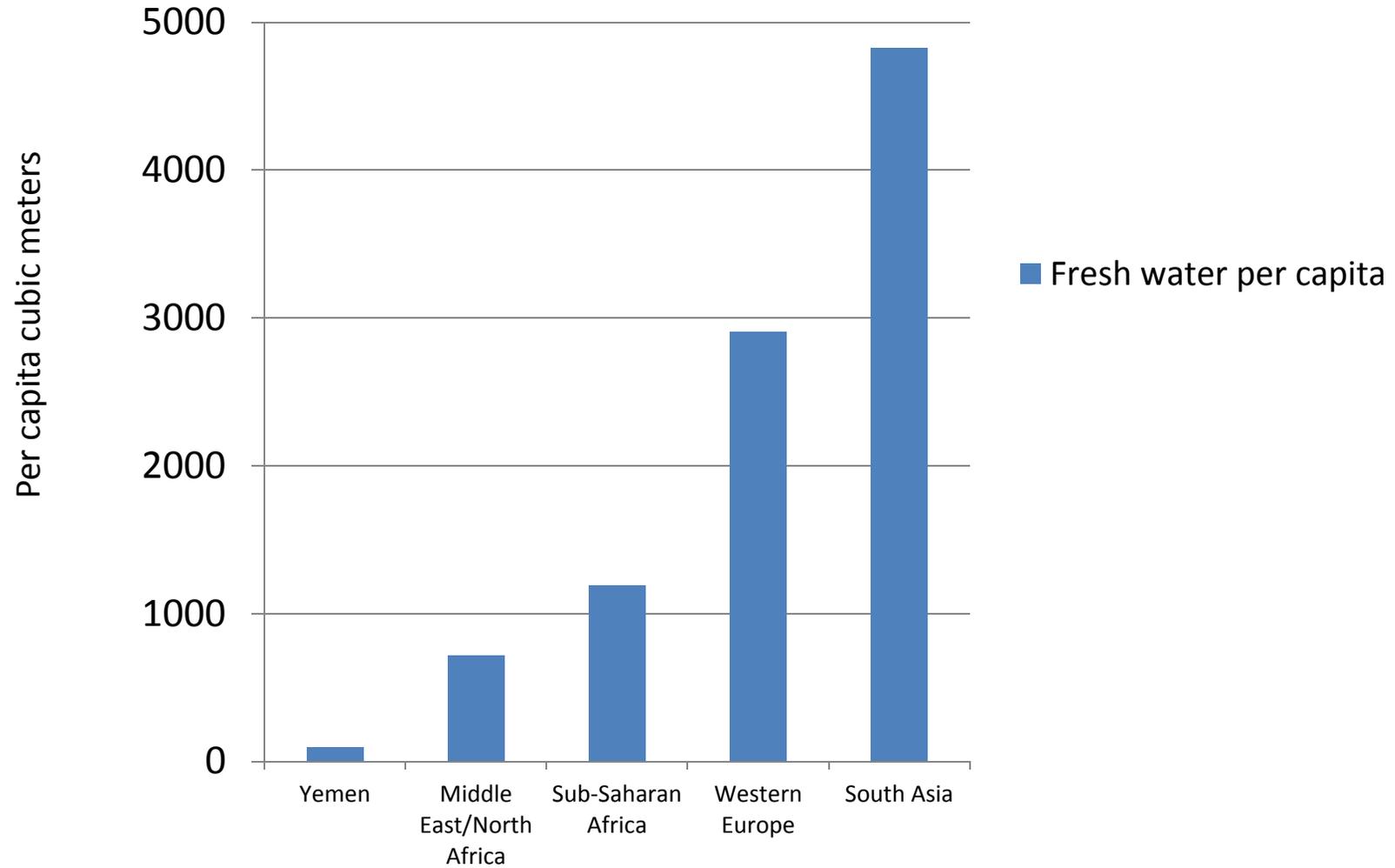
Natural Resource Constraints



Source: World Bank, *World Development Indicators* (2009).

Figure 22

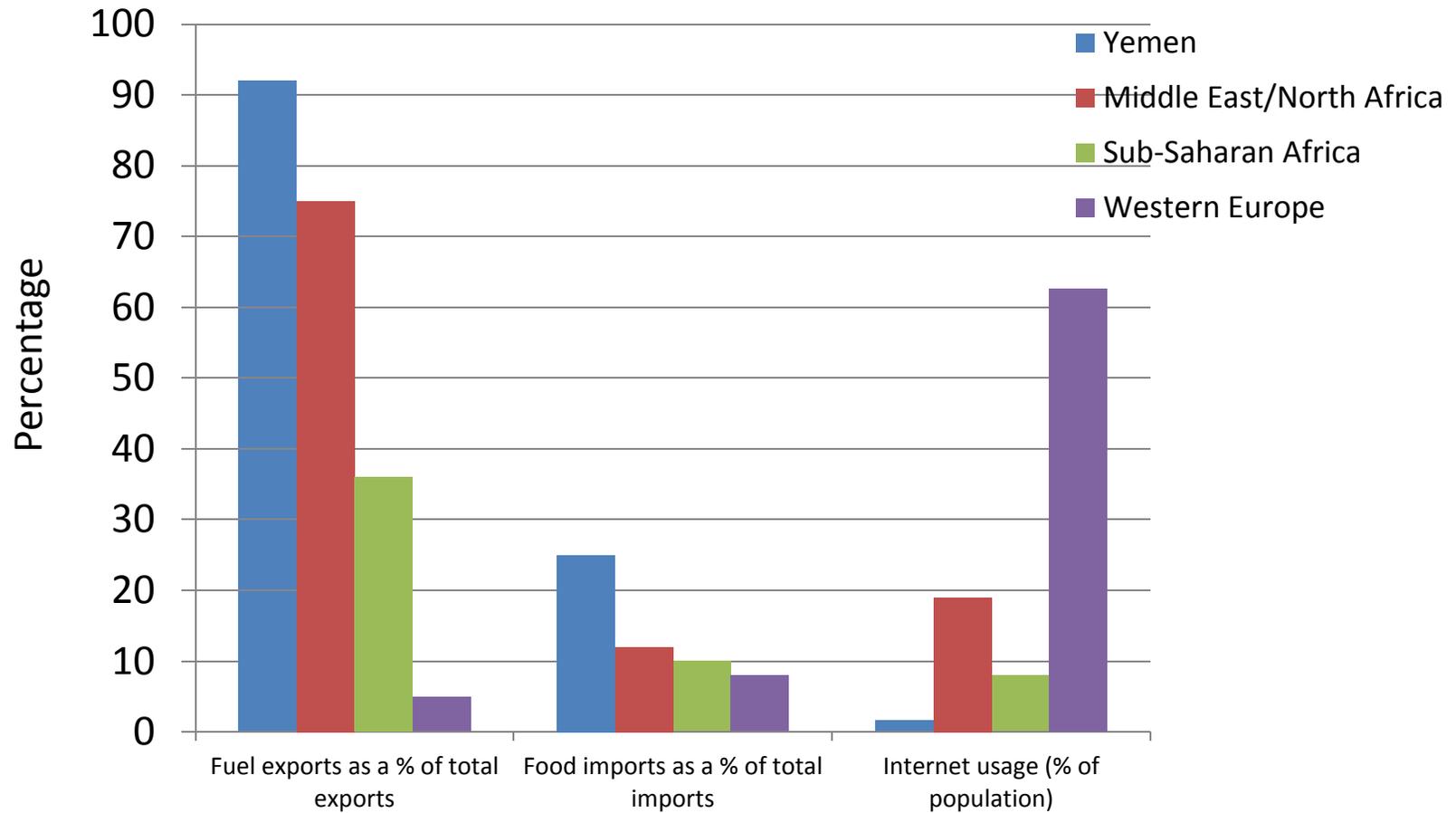
Natural Resource Constraints



Source: World Bank, *World Development Indicators* (2009).

Figure 23

Global Economic Integration



Source: World Bank, *World Development Indicators* (2009).

Appendix A
Monitoring Country Progress Yemen

Table 1: Economic Policy Reforms											
			Trade Freedom		Regulatory Quality (%)		Government Effectiveness (%)		Central Government Budget Balance		Economic Reforms
	2007	1 to 5	2007	1 to 5	2007.00	1 to 5	2007	1 to 5	2006	1 to 5	1 to 5
Bahrain	---	---	81	4.5	79.13	4.0	68.3	3.5	6.3	5.0	4.3
Israel	29	5.0	87	4.5	82.52	4.5	84.4	4.5	-1.6	2.0	4.1
Kuwait	40	4.0	81	4.5	61.17	3.5	62.6	3.5	8.2	5.0	4.1
Oman	49	4.0	84	4.5	70.39	4.0	66.8	3.5	0.8	2.5	3.7
Qatar	---	---	71	4.0	67.48	3.5	58.3	3.0	9.7	5.0	3.9
United Arab Emirates	68	3.0	80	4.5	71.84	4.0	79.2	4.0	15.7	5.0	4.1
Saudi Arabia	23	5.0	77	4.0	51.94	3.0	51.2	3.0	11.9	5.0	4.0
Jordan	80	2.0	75	4.0	62.14	3.5	64.9	3.5	-3.9	1.5	2.9
Tunisia	88	1.0	72	4.0	56.80	3.0	69.2	3.5	-2.8	2.0	2.7
Algeria	125	0.5	69	3.5	25.73	1.5	36.0	2.0	13.8	5.0	2.5
Morocco	129	0.5	63	3.5	50.97	3.0	54.5	3.0	-1.8	2.0	2.4
Lebanon	85	1.5	77	4.0	47.57	2.5	29.4	1.5	-8.5	1.0	2.1
Egypt	126	0.5	66	3.5	43.20	2.5	38.9	2.0	-5.8	1.0	1.9
Iran	135	0.5	57	3.0	3.88	0.5	23.7	1.5	3.3	4.0	1.9
Yemen 2005		0.5	59	2.0	-0.75	2.0	-0.9	2.0		1.0	1.5
Yemen 2007	113	0.5	66	3.5	26.00	2.0	18.0	1.5	-3.8	1.5	1.8
Yemen 2009	104	0.5	76	4.0	-0.60	2.0	-1.1	1.5	-5.4	1.0	1.8
Iraq	141	0.5	175 (WB)	0.5	7.28	0.5	1.9	0.5	10.0	5.0	1.4
Libya	---	---	40	2.0	17.48	1.0	12.3	1.0	35.8	5.0	2.3
Syria	137	0.5	54	3.0	10.19	0.5	16.1	1.0	-7.5	1.0	1.2
West Bank/Gaza	117	0.5	77 (WB)	2.0	6.80	0.5	9.5	0.5	-21.8	0.5	0.8
Middle East Average	89	2.1	---	3.5	42.09	2.5	42.2	2.4	3.1	3.1	2.7

Table 2: Democratic Reforms											
	Political Rights		Civil Liberties		Press Freedom		Rule of Law	Corruption		Democratic Reforms	
	2007	1 to 5	2007	1 to 5	2007	1 to 5	2007	1 to 5	2007	1 to 5	1 to 5
Israel	1.0	5.0	2.0	4.3	28	4.0	0.76	3.5	0.8	3.5	4.1
Kuwait	4.0	3.0	4.0	3.0	54	2.5	0.69	3.5	0.5	3.0	3.0
Jordan	5.0	2.3	4.0	3.0	63	2.0	0.51	3.5	0.3	3.0	2.8
United Arab Emirates	6.0	1.7	5.0	2.3	68	2.0	0.66	3.5	1.0	4.0	2.7
Oman	6.0	1.7	5.0	2.3	71	1.5	0.73	3.5	0.6	3.5	2.5
Morocco	5.0	2.3	4.0	3.0	64	2.0	-0.15	2.5	-0.2	2.5	2.5
Lebanon	5.0	2.3	4.0	3.0	55	2.5	-0.66	2.0	-0.7	2.0	2.4
Egypt	6.0	1.7	5.0	2.3	59	2.5	-0.13	2.5	-0.6	2.0	2.2
Algeria	6.0	1.7	5.0	2.3	62	2.0	-0.72	2.0	-0.5	2.5	2.1
Tunisia	7.0	1.0	5.0	2.3	81	1.0	0.32	3.0	0.1	3.0	2.1
Yemen 2005	5.0	2.3	5.0	2.3	76	1.5	-1.24	1.5	-0.8	2.0	1.9
Yemen 2007	5.0	2.3	5.0	2.3	78	1.5	-0.94	2.0	-0.6	2.0	2.0
Yemen 2009	6.0	1.7	5.0	2.3	80	1.0	-1.15	1.5	-1.0	1.5	1.6
Saudi Arabia	7.0	1.0	6.0	1.7	81	1.0	0.27	3.0	-0.1	2.5	1.8
West Bank/Gaza	6.0	1.7	5.0	2.3	84	1.0	-0.84	2.0	-0.8	2.0	1.8
Iran	6.0	1.7	6.0	1.7	85	1.0	-0.84	2.0	-0.6	2.0	1.7
Iraq	6.0	1.7	6.0	1.7	69	2.0	-1.89	1.0	-1.4	1.5	1.6
Syria	7.0	1.0	6.0	1.7	83	1.0	-0.55	2.0	-0.9	2.0	1.5
Libya	7.0	1.0	7.0	1.0	94	0.5	-0.62	2.0	-0.8	2.0	1.3
Middle East Average	5.6	2.0	4.9	2.4	70	1.8	-0.26	2.5	-0.3	2.5	2.2

Table 3: Economic Performance

	GDP per capita		Inflation		FDI % GDP		Export Share & Composition	Domestic Credit	Energy Security		Uneven Development	Environmental Performance		Economic Performance	
	5 Yr Avg	1 to 5	3 Yr Avg	1 to 5	5 Yr Avg	1 to 5	2006	% GDP	2006	2006	2008	2008	2008	1 to 5	
	2002-06	1 to 5	2004-07	1 to 5	2002-06	1 to 5	1 to 5	2005-06	1 to 5	1 to 5	2008	1 to 5	2008	1 to 5	
UAE	3.2	3.5	---	---	---	---	4.5	61.0	3.5	3.5	5.5	5.0	64.0	3.0	3.8
Bahrain	3.8	4.0	2.3	5.0	4.6	3.5	2.6	52.4	3.0	3.5	5.0	5.0	---	---	3.8
Kuwait	3.7	4.0	2.8	5.0	0.0	1.0	4.5	63.1	3.5	4.0	6.1	5.0	64.5	3.0	3.8
Tunisia	3.6	4.0	3.4	4.5	4.3	3.5	3.0	65.1	4.0	4.5	7.2	1.0	78.1	4.5	3.6
Qatar	4.0	4.0	9.2	3.5	---	---	2.6	35.4	2.5	4.0	5.0	5.0	---	---	3.6
Oman	3.7	4.0	1.9	5.0	1.3	1.5	2.4	30.9	2.0	4.0	2.0	5.0	70.3	3.5	3.4
Jordan	3.7	4.0	4.4	4.5	9.9	4.0	3.1	98.0	4.5	1.5	7.5	1.0	76.5	4.0	3.3
Israel	1.3	1.5	1.0	5.0	4.1	3.5	3.4	89.6	4.5	3.0	7.5	1.0	79.6	4.5	3.3
Morocco	3.8	4.0	1.9	5.0	2.6	2.5	2.5	58.1	3.5	3.0	7.6	1.0	72.1	3.5	3.1
Iran	4.1	4.5	13.4	3.0	0.3	1.0	1.9	47.3	3.0	5.0	7.4	1.0	76.9	4.0	2.9
Saudi Arabia	2.3	2.5	1.1	5.0	-0.1	0.5	2.4	50.7	3.0	3.5	7.0	3.0	72.8	3.5	2.9
Lebanon	1.9	2.0	---	---	---	4.5	1.8	77.9	4.5	3.0	7.4	1.0	70.3	3.5	2.9
Algeria	3.5	3.5	2.6	5.0	1.3	1.5	1.9	12.5	1.0	5.0	7.3	1.0	77.0	4.0	2.9
Egypt	2.5	2.5	7.9	3.5	3.6	3.0	0.9	55.3	3.5	4.5	7.8	1.0	76.3	4.0	2.9
Libya	1.4	1.5	1.1	5.0	---	---	---	---	1.5	3.5	7.3	1.0	---	---	2.5
Syria	1.4	1.5	7.2	3.5	1.2	1.5	1.3	14.9	1.0	4.0	8.1	1.0	68.2	3.0	2.1
West Bank/Gaza	-2.0	1.0	3.2	4.5	---	---	1.4	8.0	1.0	---	---	---	---	---	2.0
Yemen 2005	1.3	1.5	11.9	2.5	0.2	1.0	1.0	6.9	0.5	---	9.0	0.5	---	---	1.2
Yemen 2006-07	0.7	1.0	15.1	3.0	1.1	1.5	1.0	6.9	0.5	5.0	8.8	0.5	49.7	1.5	1.8
Yemen 2009	0.6	1.0	10.2	3.3	2.9	2.5	1.1	7.2 (2008)	0.8	5.0	8.9	0.5	48.3	1.5	2.0
Iraq	1.5	2.0	38.0	0.5	1.2	1.5	2.6	5.0	0.5	4.0	8.5	1.0	53.9	1.5	1.6
Middle East Average	2.5	2.8	7.4	4.1	3.1	2.6	2.4	42.7	2.6	3.7	6.7	2.3	70.6	3.5	3.0

Table 3A: Energy Security

	Energy imports		GDP per unit of energy use		Energy Security
	net (% of energy use)		(PPP \$ per kg of oil equivalent)		
	2005		2005		1 to 5
Algeria	-403.5	5.0	6.0	5.0	5.0
Yemen 2005	-203.3	5.0	7.0	5.0	5.0
Yemen 2007	-128.8	5.0	7.0	5.0	5.0
Egypt	-24.0	5.0	5.0	4.0	4.5
Tunisia	20.9	4.0	8.0	5.0	4.5
Iraq	-212.2	5.0	4.0	3.0	4.0
Kuwait	-419.9	5.0	4.0	3.0	4.0
Oman	-326.8	5.0	4.0	3.0	4.0
Qatar	-390.7	5.0	4.0	3.0	4.0
Syria	-62.7	5.0	4.0	3.0	4.0
Bahrain	-98.5	5.0	3.0	2.0	3.5
Libya	-398.6	5.0	3.0	2.0	3.5
Saudi Arabia	-311.1	5.0	3.0	2.0	3.5
United Arab Emirates	-257.7	5.0	3.0	2.0	3.5
Israel	89.4	1.0	8.0	5.0	3.0
Lebanon	96.0	1.0	7.0	5.0	3.0
Morocco	92.9	1.0	8.0	5.0	3.0
Jordan	96.4	1.0	3.0	2.0	1.5
Iran	-87.0	5.0	---	---	---
Middle East Average	-157.9	4.1	5.1	3.6	3.8

Table 3B: Export Share & Composition

	Exports of goods and services (% of GDP)	Manufactures exports (% of merchandise exports)	High-technology exports (% of manufactured exports)	Export Share & Composition 1 to 5
Kuwait	67.7	4.5	---	4.5
United Arab Emirates	94.3	4.5	---	4.5
Israel	44.5	2.0	4.5	3.4
Jordan	54.6	3.0	4.5	3.1
Tunisia	54.4	3.0	---	3.0
Bahrain	72.9	4.5	0.5	2.6
Qatar	68.3	4.5	0.5	2.6
Iraq	---	4.5	0.5	2.6
Morocco	33.0	1.0	4.0	2.5
Oman	63.3	4.0	0.5	2.4
Yemen 2008	40.0	1.5	0.5	1.1
Saudi Arabia	62.2	4.0	0.5	2.4
Algeria	47.8	2.5	0.5	1.9
Iran	41.6	1.5	0.5	1.9
Lebanon	23.7	0.5	4.0	1.8
West Bank/Gaza	15.7	0.5	0.5	1.4
Syria	39.4	1.5	1.0	1.3
Egypt	29.9	1.0	0.5	0.9
Middle East Average	50.2	2.7	1.7	2.4

21.2

0.5

Table 4: Human Capital

	Under 5		Life		Combined		Literacy		Public Expenditure Health & Education		Income		Human	
	Mortality (per 1,000)	1 to 5	Expectancy (Years)	Enrollments		Literacy (%)	1 to 5	(% GDP)	1 to 5	Per Capita (PPP, \$)	1 to 5	Human Capital		
				2006	2005								2006.0	2005
	2006	1 to 5	2006.0	1 to 5	2005	1 to 5	2005	1 to 5	2004-2005	1 to 5	2007	1 to 5	1 to 5	
Israel	5	4.5	80.3	5.0	89.6	4.5	97	5.0	5.9	4.5	24097	5.0	4.8	
Kuwait	11	4.5	77.3	5.0		3.0	93	4.5	2.7	1.5	43551	5.0	4.1	
Saudi Arabia	25	4.0	72.2	4.0		3.5	83	3.0	4.7	3.5	22296	5.0	3.9	
Bahrain	10	4.5	75.2	4.5	74.9	4.5	87	3.5	2.5	1.5	33451	5.0	3.8	
Oman	12	4.5	75.0	4.5	76.0	2.5	81	3.0	3.4	2.0	20350	5.0	3.8	
					86.1									
UAE	8	4.5	78.3	5.0	67.1	59.9	1.5	89	4.0	1.6	0.5	33484	5.0	3.8
Qatar	21	4.0	75.0	4.5		3.5	89	4.0	2.4	1.0	70716	5.0	3.7	
West Bank/Gaza	22	4.0	72.9	4.0		4.0	92	4.5			3605	1.5	3.5	
Iran	34	3.5	70.2	3.5	77.7	3.0	82	3.0	4.7	3.5	9906	3.0	3.3	
Jordan	25	4.0	71.9	3.5	82.4	3.5	91	4.0	4.8	3.5	4628	1.5	3.3	
					72.8									
Libya	18	4.5	73.4	4.0	78.1	94.1	5.0	84	3.5	2.2	1.0	11622	3.5	3.3
Lebanon	30	3.5	71.5	3.5		4.0	87	3.5	3.2	2.0	9741	3.0	3.1	
Tunisia	23	4.0	73.5	4.0		3.5	74	2.0	4.9	3.5	6859	2.0	3.1	
Syria	14	4.5	73.6	4.0	84.6	2.0	81	3.0	2.1	1.0	4225	1.5	2.8	
Morocco	37	3.5	70.4	3.5	76.3	1.5	52	1.0	4.4	3.0	3915	1.5	2.5	
					64.8									
Algeria	38	3.5	71.7	3.5	58.5	73.7	3.0	70	1.5	2.6	1.5	6347	2.0	2.4
Iraq	46	3.0	69.6	3.5		2.0	1	2.0	3.1	2.0	3302	1.5	2.4	
Egypt	35	3.5	70.7	3.5		3.5	71	2.0	2.3	1.0	4953	1.5	2.3	
Yemen 2005	76	2.0	61.5	2.5	55.0	1.5	54	1.0			2189	1.0	1.6	
Yemen 2006	73	2.0	62.0	2.5	76.9	1.5	54	1.0	2.1	1.0	2264	1.0	1.5	
Yemen 2008-09	66	2.5	63.9	2.5	55.2	1.5	61	1.3	3.4	2.3	2793	1.0	1.8	
					54.4									
Middle East Average	28	3.8	72.3	3.9	72.9	3.1	76	3.0	3.3	2.1	16075	3.0	3.1	

Monitoring Country Progress Yemen Appendix B

Indicator Definitions

Economic Reforms

(1)Business environment. This indicator is an average rank of nine business environment areas measured in World Bank's *Doing Business*. Each of these nine areas in turn is an average ranking of a number of components: (1) *starting a business* averages the country rankings of procedures, days, cost and minimum capital requirement to register a business; (2) *dealing with construction permits* averages the country rankings of number of procedures to get a license, number of days to get it, and the cost; (3) *registering property* is an average rank based on procedures, time and cost to register property; (4) *access to credit* includes credit information availability and legal rights for borrowers and lenders; (5) *protecting investors* ranks the World Bank's disclosure index (which measures the extent to which businesses disclose ownership and financial information); (6) *paying taxes* includes number of payments per year; hours per year in dealing with taxes, and the total tax rate; (7) *trading across borders* includes the number of documents needed to trade, the time and cost involved in dealing with the bureaucracy; (8) *enforcing contracts* averages the country rankings on the procedures, time and cost to enforce an overdue payment through the courts; and (9) *closing a business* is an average rank of the time, cost, and recovery rate to close a business via bankruptcy.

(2)Regulatory quality. This indicator is from the World Bank Institute (*Governance Matters*) and is an index of surveys which attempts to measure 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.

(3)Government effectiveness. This indicator is also from the World Bank Institute (*Governance Matters*). It is an index of surveys that rates countries on the quality of public service provision, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government's commitment to policies.

(4)Central government budget balance. Central government revenues minus expenditures as a percent of GDP. Primary source is the World Bank's *World Development Indicators*.

(5) Trade Liberalization. This indicator from the Heritage Foundation, *Index of Economic Freedom*, attempts to measure the extent of a country's tariff and non-tariff barriers.

Democratic Reforms

(1)Political rights. This is a Freedom House indicator from its annual *Freedom in the World*. Political rights are rated by independent experts and include the extent to which elections (national and local) are free, fair, and competitive, the ability of citizens to form political parties, freedom from domination by the military, foreign power, totalitarian parties, religious hierarchies and economic oligarchies, and political rights of the minority groups. Two general criteria are used to rate progress: policy (the laws) and practice (the implementation of laws).

(2) Civil liberties. This is also from Freedom House's *Freedom in the World*. Independent experts rate on a 1 to 7 scale on freedom of expression, association and organizational rights, rule of law and human rights, and personal autonomy and economic rights. Two general criteria are used to rate progress: policy (the laws) and practice (the implementation of laws).

(3) Media freedom. This Freedom House indicator is assessed worldwide annually. Countries are scored on the basis of 23 questions divided into three subcategories: (1) legal environment (an examination of the laws and regulations that could influence media content and the government's inclination to use these laws and legal institutions to restrict the media's ability to operate); (2) political environment (an evaluation of the degree of political control over the content of news media); and (3) economic environment (an examination of the structure of media ownership; transparency and concentration of ownership; the costs of establishing media as well as of production and distribution; the selective withholding of advertising or subsidies by the state or other actors; the impact of corruption and bribery on content; and the extent to which the economic situation in a country impacts the development of the media).

(4) Rule of law. This World Bank Institute indicator is an index of surveys that rates countries on the extent to which the public has confidence in and abides by rules of society; incidence of violent and non-violent crime; effectiveness and predictability of the judiciary; and the enforceability of contracts.

(5) Control of corruption. From the World Bank Institute, this index of surveys rates countries on various forms of corruption, including petty and grand corruption and state capture (which is the private sector capturing the state by illegally influencing the implementation of laws).

Economic Performance

(1) GDP per capita growth. Five year average; World Bank, *World Development Indicators*.

(2) Inflation. Three-year average, Consumer price index; World Bank, *World Development Indicators*.

(3) External debt. As a percentage of GDP, most recent year available; World Bank, *World Development Indicators*.

(4) Foreign direct investment. Average net flows, as percent of GDP five year average; World Bank, *World Development Indicators*.

(5) Exports. This indicator combines the size of the export sector (export share of GDP) with the composition of exports (manufactured export as percent of total exports, and high-tech exports as percent of total exports); World Bank, *World Development Indicators*.

(6) Energy Security. Combines energy dependency (net energy imports as percent of energy use) with energy efficiency (GDP per unit of energy use); World Bank, *World Development Indicators*.

(7) Uneven development. Measures economic disparities between ethnic and religious groups. From the Fund for Peace's *Failed States Index*: attempts to measure "group-based

impoverishment as measured by poverty levels, infant mortality rates, educational levels; and the rise of communal nationalism based on real or perceived group inequalities.” The fund uses a conflict assessment system tool software which indexes and scans hundreds of thousands of open-source articles and reports; internal and external experts review the scores generated from the software to improve accuracy.

(8)Environment. An index of six components: (1) environmental health; (2) biodiversity and habitat; (3) sustainable energy; (4) air quality; (5) water resources; and (6) productive natural resources. From the Yale Center for Environmental Law & Policy and Columbia University Center for International Earth Science Information Network. *The Environmental Performance Index.*

(9) Domestic credit. As percent of GDP; World Bank, *World Development Indicators.*

Human Capital

(1)Unde- five mortality rate. Deaths of children under the age of five per 1,000 live births; UNDP, *Human Development Report.*

(2)Life expectancy. Number of years of life expectancy; UNDP, *Human Development Report.*

(3) Combined enrollment rates. From UNDP, *Human Development Report, 2005 data.*

(4)Literacy rate. Percentage of the population that is literate; UNDP, *Human Development Report.*

(5)Public expenditures on health and education. Government expenditures in health and education as percentage of GDP; World Bank, *World Development Indicators.*

(6)Per capita GDP . In purchasing power parity; World Bank, *World Development Indicators.*

Indicator Rating Scales

Ratings are based on a scale from 0.5 to 5, with 0.5 representing the poorest score worldwide and 5 representing the best score worldwide.

Economic Reform Ratings

(1) Business Environment

- 0.5: 95 or higher
- 1.0: 88 to 94
- 1.5: 81 to 87
- 2.0: 75 to 80
- 2.5: 69 to 74
- 3.0: 60 to 68
- 3.5: 50 to 59
- 4.0: 40 to 49
- 4.5: 30 to 39
- 5.0: less than 30

(2) Trade Liberalization

Trade Freedom, Heritage Foundation, *Index of Economic Freedom*

- 0.5: 1 to 9
- 1.0: 10 to 19
- 1.5: 20 to 29
- 2.0: 30 to 39
- 2.5: 40 to 49
- 3.0: 50 to 59
- 3.5: 60 to 69
- 4.0: 70 to 79
- 4.5: 80 to 89
- 5.0: 90 and over

Trading Across Borders, World Bank, *Doing Business*

(If Heritage data not available)

- 0.5: 95 or higher
- 1.0: 88 to 94
- 1.5: 81 to 87
- 2.0: 75 to 80
- 2.5: 69 to 74
- 3.0: 60 to 68
- 3.5: 50 to 59
- 4.0: 40 to 49
- 4.5: 30 to 39
- 5.0: less than 30

(3) Regulatory Quality

- 0.5: less than -2.0
- 1.0: -2.0 to <-1.5
- 1.5: -1.5 to <-1.0
- 2.0: -1.0 to <-0.5
- 2.5: -0.5 to <0.0
- 3.0: 0.0 to <0.5
- 3.5: 0.5 to <1.0
- 4.0: 1.0 to <1.5
- 4.5: 1.5 to <2.0
- 5.0: 2.0 or more

(4) Government Effectiveness

- 0.5: less than -2.0
- 1.0: -2.0 to <-1.5
- 1.5: -1.5 to <-1.0
- 2.0: -1.0 to <-0.5
- 2.5: -0.5 to <0.0
- 3.0: 0.0 to <0.5
- 3.5: 0.5 to <1.0
- 4.0: 1.0 to <1.5

4.5: 1.5 to <2.0
5.0: 2.0 or more

(5) Budget Balance

0.5: less than -10%
1.0: -10 to <-5
1.5: -5 to <-3
2.0: -3 to <-1
2.5: -1 to <1
3.0: 1 to <2
3.5: 2 to <3
4.0: 3 to <4
4.5: 4 to <5
5.0: 5% or more

Democratic Reform Ratings

(1) & (2) Political Rights & Civil Liberties

1.0: 7
1.7: 6
2.3: 5
3.0: 4
3.7: 3
4.3: 2
5.0: 1

(3) Media

0.5: 90 or more
1.0: 80-89
1.5: 70-79
2.0: 60-69
2.5: 50-59
3.0: 40-49
3.5: 30-39
4.0: 20-29
4.5: 10-19
5.0: less than 10

(4) Control of Corruption

0.5: less than -2.0
1.0: -2.0 to <-1.5
1.5: -1.5 to <-1.0
2.0: -1.0 to <-0.5
2.5: -0.5 to <0.0
3.0: 0.0 to <0.5
3.5: 0.5 to <1.0
4.0: 1.0 to <1.5
4.5: 1.5 to <2.0

5.0: 2.0 or more

(5) Rule of Law

0.5: less than -2.0

1.0: -2.0 to <-1.5

1.5: -1.5 to <-1.0

2.0: -1.0 to <-0.5

2.5: -0.5 to <0.0

3.0: 0.0 to <0.5

3.5: 0.5 to <1.0

4.0: 1.0 to <1.5

4.5: 1.5 to <2.0

5.0: 2.0 or more

Economic Performance Ratings

(1) Economic Growth

0.5: <0%

1.0: 0 to <1.0

1.5: 1.0 to <1.5

2.0: 1.5 to <2.0

2.5: 2.0 to <2.5

3.0: 2.5 to <3.0

3.5: 3.0 to <3.5

4.0: 3.5 to <4.0

4.5: 4.0 to <5.0

5.0: 5% or more

(2) FDI

0.5: <0%

1.0: 0 to <1.0

1.5: 1.0 to <2.0

2.0: 2.0 to <2.5

2.5: 2.5 to <3.0

3.0: 3.0 to <4.0

3.5: 4.0 to <5.0

4.0: 5.0 to <10.0

4.5: 10.0 to <15.0

5.0: 15.0 or more

(3) Inflation, 3-year average

0.5: 30% or more

1.0: 26 to <30

1.5: 22 to <26

2.0: 18 to <22

2.5: 14 to <18

3.0: 10 to <14

- 3.5: 7 to <10
- 4.0: 5 to <7
- 4.5: 3 to <5
- 5.0: <3%

(4) External Debt as % GDP

- 0.5: 90% or more
- 1.0: 85 to <90
- 1.5: 75 to <85
- 2.0: 65 to <75
- 2.5: 55 to <65
- 3.0: 45 to <55
- 3.5: 35 to <45
- 4.0: 25 to <35
- 4.5: 10 to <25
- 5.0: <10%

(5) Export Sector

(3a) Export share scale: "0.5": 25% or less; "1.0": greater than 25% to 37%; "1.5": >37-43%; "2.0": >43-46%; "2.5": >46-51%; "3.0": >51-58%; "3.5": >58-61%; "4.0": >61-66%; "4.5": >66-77%; "5.0": greater than 77%.

(3b) Manufactured exports to total exports scale: "0.5": 25% or less; "1.0": greater than 25% to 35%; "1.5": >35-40%; "2.0": >40-45%; "2.5": >45-50%; "3.0": >50-55%; "3.5": >55-65%; "4.0": >65-70%; "4.5": >70-75%; "5.0": greater than 75%.

(3c) High-tech exports as % of GDP: : "0.5": 2% or less; "1.0": 2% to >3%; "1.5": 3->4%; "2.0": 4->5%; "2.5": 5->6%; "3.0": 6->8%; "3.5": 8->10%; "4.0": >10->12%; "4.5": 12->20; "5.0": greater than 20%.

(6) Energy Security

Energy dependency (net energy imports as percent of energy use)

- 1: greater than 79%;
- 2: <59 to 79%;
- 3: <39 to 59%;
- 4: <10 to 39%;
- 5: less than or equal to 10%

Energy efficiency (GDP per unit of energy use)

- 1: less than 2.6;
- 2: > 2.6 to 3.5;
- 3: >3.5 to 5;
- 4: >5 to 6;
- 5: greater than 6.0

(7) Uneven Development

- 0.5: 8.6 to 10;
- 1.0: 7.7-8.5;

1.5: 7.1 to 8.4;
2.0: 6.6 to 7.0;
2.5: 6.2 to 6.5;
3.0: 5.7 to 6.1;
3.5: 4.9 to 5.6;
4.0: 4.0 to 4.8;
4.5: 3.1 to 3.9;
5.0: 0 to 3.0.

(8) Environment

0.5: less than 40;
1.0: 40 to 47.9;
1.5: 48 to 51.9;
2.0: 52 to 65.9;
2.5: 56 to 60;
3.0: 60.1 to 64.9;
3.5: 65 to 65.4;
4.0: 65.5 to 78.5;
5.0: greater than 78.6

(9) Domestic credit as percent of GDP

0.5: less than 7%;
1.0: 7% to 15%;
1.5: 15% to 25%;
2.0: 25% to 35%;
2.5: 35% to 45%;
3.0: 46% to 55%;
3.5: 55% to 65%;
4.0: 65% to 75%;
4.5: 75% to 150%;
5.0: greater than 150%.

Human Capital Ratings

(1) GDP per capita, PPP

0.5: <\$1,000
1.0: 1,000 to <3,000
1.5: 3,000 to <5,000
2.0: 5,000 to <7,000
2.5: 7,000 to <9,000
3.0: 9,000 to <11,000
3.5: 11,000 to <13,000
4.0: 13,000 to <15,000
4.5: 15,000 to <17,000
5.0: \$17,000 or more

(2) Life expectancy

0.5: <45 years
1.0: 45 to <50
1.5: 50 to <55
2.0: 55 to <60
2.5: 60 to <64
3.0: 64 to <68
3.5: 68 to <72
4.0: 72 to <74
4.5: 74 to <76
5.0: 76 years or more

(3) Under-five mortality rate (U5MR)

0.5: 150 or greater
1.0: 100 to <150
1.5: 70 to <100
2.0: 55 to <70
2.5: 40 to <55
3.0: 30 to <40
3.5: 20 to <30
4.0: 10 to <20
4.5: 5 to <10
5.0: <5 deaths

(4) Literacy

0.5: less than 50%
1.0: 50 to <60
1.5: 60 to <70
2.0: 70 to <75
2.5: 75 to <80
3.0: 80 to <84
3.5: 84 to <88
4.0: 88 to <92
4.5: 92 to <95
5.0: 95% or more

(5) Combined School Enrollments

0.5: less than 39%;
1.0: 39 to 48;
1.5: 49 to 58;
2.0: 59 to 63;
2.5: 64 to 68;
3.0: 69 to 74;
3.5: 75 to 79;
4.0: 80 to 84;
4.5: 85 to 90;
5.0: greater than 90%.

(6) Public expenditure on Health & Education as percentage of GDP

- 0.5: <2.0%
- 1.0: 2.0 to <2.5
- 1.5: 2.5 to <3.0
- 2.0: 3.0 to <3.5
- 2.5: 3.5 to <4.0
- 3.0: 4.0 to <4.5
- 3.5: 4.5 to <5.0
- 4.0: 5.0 to <5.5
- 4.5: 5.5 to <6.0
- 5.0: 6.0% or greater

Peace and Security

The Peace and Security Index consists of six components and aligns with the six program areas of the DFA Framework.

- I. **Program Area: Counterterrorism.** Defined by the DFA Framework as expanding foreign partnerships and foreign partner capacities and strengthening global capabilities to prevent terrorists from acquiring or using resources for terrorism. Program elements include: denying terrorist sponsorship, support and sanctuary; de-legitimizing terrorist ideology; and strengthening governments' counterterrorism capabilities. USG programmatic activities under this program area include: terrorist interdiction programs at ports of entry; training in counterterrorism finance; public information campaigns against terrorist ideology; assisting nations in reporting bio-surveillance data to international and regional organizations; and training in anti-terrorism and bio-defense.

I (a) Denial of Terrorist Sponsorship and Sanctuary. This indicator is based on the country-level narratives contained in the US Department of State's (DOS) annual *Country Reports on Terrorism*. The reports' narrative summaries of terrorism in most of the world's countries are a publicly available, comprehensive global analysis that directly addresses the status of terrorism. Scores are calculated for each country based on the extent to which a country denies terrorist sponsorship support and sanctuary; and de-legitimizes terrorist ideology. These scores were provided by a five-person panel with representatives from the DOS Office of Anti-Terrorism Assistance (ATA); the DOS Office of the Coordinator for Counterterrorism (S/CT); and USAID's Bureau on Europe and Eurasia (USAID/E&E).

I (a) Government Capacity to Fight Terrorism. Score (1-5) on denial of terrorist sponsorship, support and sanctuary, and where relevant, the de-legitimization of terrorist ideology.

I (b). Government's Counterterrorism Capabilities. This indicator is also based on the country-level narratives contained in the DOS's annual *Country Reports on Terrorism*. Scores are calculated for each country based on the level of a country government's counterterrorism capability. This indicator measures the governance side of counterterrorism. If a country has a terrorist organization presence (either an indigenous threat or a threat to other countries) as noted by the report, a second score is averaged with the base score for counterterrorism capability. A terrorist organization with a significant capacity receives a "1," while an

organization with lesser capacity receives a “2.” Averaging a “1” or “2” terrorism presence rating with the base score usually serves to lower the overall indicator score. These scores were provided by a five-person panel with representatives from the DOS Office of Anti-Terrorism Assistance (ATA); the DOS Office of the Coordinator for Counterterrorism (S/CT); and USAID’s Bureau on Europe and Eurasia (USAID/E&E).

I (b) Government's Counterterrorism Capabilities. Base score (1-5) on government’s counterterrorism capability; occasionally modified by averaging with (1-2) score on terrorist organization presence.

I (c) Severity of Terrorism. Compiled from country terrorism statistics gathered by the National Counterterrorism Center (NCTC). Since 2004, the NCTC has been a part of the Office of the Director of National Intelligence. The unclassified Worldwide Incidents Tracking System (WITS) is a publicly available resource that supplies data for the annual report on terrorist incidents mandated by Congress. This indicator combines the total number of incidents of terrorism and victims of terrorism over a 15-month period (January 2008 to March 2009).

I (c) Severity of Terrorism. (total incidents plus total victims; Worldwide Incidents Tracking System, National Counterterrorism Center (2008 & 2009)):

- 1.0: 500 and up**
- 2.0: 100 to 499**
- 3.0: 10 to 99**
- 4.0: 4 to 9**
- 5.0: 3 or less**

I (d) Political Stability and Absence of Violence. From the World Bank Institute, *Governance Matters Indicators*. One of six aggregate indicators from Kauffman and Kraay of the World Bank Institute, *Political Stability and Absence of Violence* combines the results of several surveys (outlined below). Kauffman and Kraay compile ratings mostly from for-profit political risk companies. This aggregate indicator measures perceptions of the likelihood that the government in power will be destabilized or overthrown by possibly unconstitutional and/or violent means, including domestic violence and terrorism.

Sources used to construct this indicator:

- Business Environment Risk Intelligence Business Risk Service – Provides individual country risk reports. Also provides country ratings in Financial Ethics, Quality of Workforce; Mineral Extraction Risk; Labor Force Evaluation; and Government Proficiency.
- Global Risk Service; Business Conditions and Risk Indicators – both from Global Insight, a for-profit forecasting company providing economic, financial, and political coverage for clients in industry, finance, and government.
- Economist Intelligence Unit - Research and advisory firm providing country analysis and forecasting.
- World Economic Forum - International organization incorporated as a Swiss not-for-profit foundation, focused on developing a corporate governance system. It publishes the Global Competitiveness Report, a comprehensive assessment of the comparative strengths and weaknesses of national economies.

- Cingranelli-Richards (CIRI) Human Rights Dataset – Database contains standards-based quantitative information on government respect for 15 internationally recognized human rights for 195 countries, annually since 1981.
- iJET Country Security Risk Ratings - For profit firm providing security alerts on events and situations to travelers, expatriates and decision-makers to help them avoid or minimize risk and travel disruptions abroad.
- Institutional Profiles Database (CEPII) – French research firm focusing on international economics. Core research areas are trade, FDI, exchange rates, tax policy, etc.
- Merchant International Group Gray Area Dynamics - Strategic research and corporate intelligence company providing support services to corporate and private clients. It advises companies in the identification, evaluation and management of risks, weaknesses and threats.
- Political Risk Services International Country Risk Guide – PRS is a private firm focused on political risk analysis, using two methodology models, Political Risk Services and International Country Risk Guide and related products and services.
- Institute for Management & Development World Competitiveness Yearbook – Publication of a Swiss business school.

I (d) Political Stability and Absence of Violence. (World Bank Institute, Governance Matters Indicators):

1: 19 percentile or less

2: 20-39

3: 40-59

4: 60-79

5: 80-99 percentile

II. Program Area: Combating Weapons of Mass Destruction. Defined by the DFA Framework as strengthening the global community’s ability to safely destroy, store, apply safeguards to, and transport weapons of mass destruction (WMD) and secure related facilities and materials; control borders and territory to prevent illicit movement of WMD and related materials and technology and to prosecute and punish violators; prevent the proliferation of WMD and related materials, technology, and expertise to states or non-state actors of concern or to potential terrorists; comply fully with international obligations concerning arms control, nonproliferation, and WMD terrorism; deter and prevent WMD terrorism; and respond to a WMD terrorism event. Program elements include: Countering WMD Proliferation and Combating WMD Terrorism.

II (a) Chemical & Biological Weapons Control Status. This indicator uses the export control status of a country, designated by the Department of Commerce.¹ Under these regulations, US companies are required to get licenses to export militarily sensitive material to certain countries. Countries are grouped into categories according to several criteria. With regard to controlling the proliferation of chemical and biological weapons, two levels of export controls are in place as required by Commerce: a) CB 2 Controls--Licenses required (unless license exception applies) for exporting certain chemicals, software, equipment and technology to a country that is not member of the Australia Group organization with its common control lists of

¹ Export Administration Regulations 742.2 –“Proliferation of Chemical and Biological Weapons, License Requirements” (Commerce Department, Control Policy, September 2008.)

items related to chemical and biological weapons; b) CB 3 Controls--License required (unless license exception applies) to export certain medical products.²

Under this control regime, license applications are considered to determine whether the export or re-export by a US company would make a "material contribution to the design, development, production, stockpiling or use of chemical or biological weapons." If Commerce deems an export would make such a contribution, the license will be denied.

II (a) Chemical & Biological Weapons Control Status.

1.0: CB 2 and CB 3 controls in place

3.0: CB 3 controls only

5.0: No CB 2 or CB 3 controls in place

II (b) Nuclear Proliferation Control Status. Like II (a), this indicator reflects the status of countries as measured by US Department of Commerce export controls.³ Under these regulations, US companies are required to get licenses to "export items that could be of significance for nuclear explosive purposes if used for activities other than those authorized at the time of export or re-export." Countries are grouped into categories according to certain criteria. With regard to controlling of nuclear proliferation, two primary levels of export controls are in place as required by Commerce: a) NP 1 Controls--Licenses required (unless license exception applies) for exporting certain items that could be of significance for nuclear explosive purposes for countries which are not members of Nuclear Suppliers Group (NSG). NSG is a multinational body concerned with reducing nuclear proliferation by controlling the export and retransfer of nuclear materials; b) NP 2 Controls--Licenses required (unless license exception applies) to export certain items to "Group D: 2" countries, which are non-signatories or in violation of Nuclear Non-proliferation Treaty (NPT).

By identifying both signatories of the NPT and members of the NSG, this indicator serves as a proxy measure for commitment to the principles of nuclear non-proliferation.

II (b) Nuclear Proliferation Control Status.

1.0: NT 1 and NT 2 controls in place

3.0: NT 2 controls only

5.0: No NT 1 or NT 2 controls in place

II (c) Export Controls. This is based on the DOS/EXBS *Border Security Assessment*, a tool used by the DOS to analyze the state of a country's own protections against WMD. The assessment has been given to 64 countries by the DOS's Office of Export Control Cooperation in the Bureau for International Security and Non-Proliferation. While the global data set is limited, the assessment has been given to most of the E&E region. It is a relatively direct measure of the state of a country's border controls, a key component in the efforts to control WMD.

II (c) Export Controls. (DOS, Office of Export Control Cooperation, Bureau for International Security and Non-Proliferation). **Scores on a scale of 1 to 100:**

1.0: less than 20

2.0: 20 to 29

² CB 1 Controls apply to all countries but Canada.

³ Commerce Department, Control Policy, September 2008.

3.0: 30 to 59

4.0: 60 to 69

5.0: over 70

III. Program Area: Stabilization Operations and Security Sector Reform. Defined by DFA Framework as support for peacekeeping, humanitarian, coalition/multinational, and peace support operations. A host nation's security forces include military, paramilitary, law enforcement (including civilian police, specialized units, border security, and maritime security). Security sector reform activities are not limited to post-conflict situations. Program elements include: operations support (e.g., peacekeeping operations, responding to humanitarian crises, or coalition/multinational operations); disarmament, demobilization & reintegration (DDR); destruction and security of conventional weapons; explosive remnants of war; immediate protection of civilians in conflict; defense, military, and border security restructuring, reform, and operations; and law enforcement reform, restructuring, and operations.

III (a) Governance in the Security Sector: Assessment of five core state institution. This indicator comes from a methodological stage used by the Fund for Peace in compiling the *Failed States Index*. It attempts to measure the governance aspect of the security sector. This assessment helps determine the capacity of core institutions to manage the situation at hand or a state's "capacity to cope." According to Fund for Peace, for sustainable security, a state should have the following Core Five: 1) A competent domestic police force and corrections system; 2) An efficient and functioning civil service or professional bureaucracy; 3) An independent judicial system that works under the rule of law; 4) A professional and disciplined military accountable to a legitimate civilian government; 5) A strong executive/legislative leadership capable of national governance. Fund for Peace rates each of these institutions on a 1 to 5 scale. For all countries assessed, the five scores are averaged to provide a single 1 to 5 score.

III(a) Assessment of five core state institutions (Fund for Peace, *Failed States Index*): Average of 1-5 score across 5 components.

III (b) Human Rights: CIRI Physical Integrity Rights Index. Physical integrity rights are defined as the rights not to be tortured, summarily executed, disappeared, or imprisoned for political beliefs. The scores of these variables can be summed to form a statistically valid cumulative scale. It ranges from 1 (no government respect for these four rights) to 5 (full government respect for these four rights). Data are from the Cingranelli-Richards (CIRI) Human Rights Dataset, which contains standards-based quantitative information on government respect for human rights for 195 countries and has been issued annually since 1981. The dataset is replicable and has a detailed coding manual. At least two trained coders evaluate each variable for each country year. Reliability scores are available for each variable. The data set contains measures of government human rights practices, not human rights policies or overall human rights conditions (which may be affected by non-state actors).

The primary source of information about human rights practices is obtained from the annual United States Department of State's *Country Reports on Human Rights Practices* and Amnesty International's *Annual Report*. Both reports can be found online for recent years. If there are discrepancies between the two sources, CIRI coders are instructed to treat the Amnesty International evaluation as authoritative.

III(b) Human Rights (Cingranelli-Richards (CIRI) Human Rights Dataset, 2008; Binghamton University, coded State Department and Amnesty International reports). Physical Integrity

Index looks at Disappearances, Extra-Judicial Killings, Political Prisoners and Torture and scores on a 0 to 8 scale. 1 to 5 converted scores:

- 1: 1 or less**
- 2: 2 to 3**
- 3: 4 to 5**
- 4: 6 to 7**
- 5: 8**

III (c) Violent Crime –Homicide Rate per 100,000 Population. This indicator measures the recorded intentional homicide rate. It serves as a proxy indicator for domestic security environment. For Europe and Eurasia, data are drawn from UNICEF’s TransMONEE database. For the rest of the world, the primary source of data is the United Nations Office on Drugs and Crime (UNODC).

III(c) Violent Crime, homicides per 100,000 population. (UNICEF, Innocenti TransMONEE Database; United Nations Office on Drugs and Crime (UNODC)):

- 1: 10.0 or over**
- 2: 5.0--9.9**
- 3: 3.0--4.9**
- 4: 2.0--2.9**
- 5: less than 2.0**

III (d) Military Expenditures as Percentage of GDP. This indicator, available from the World Bank’s *World Development Indicators*, is used as a proxy for predicting future military action. NATO recommends spending 2% of GDP on defense for its members. Using a 2% threshold acknowledges that it is possible to spend too little on defense, e.g., a NATO country that is not “pulling its own weight” in the mutual defense alliance. Therefore, the indicator is initially scored for how much the military expenditure percentage deviates from the 2% threshold. After being converted to a 1 to 5 scale, countries are given a “freedom bonus” of 1 point if they are designated as “free” by Freedom House in its 2008 survey. The effort is to differentiate between democratic countries that might be penalized for spending too little on defense from authoritarian countries that might be spending too much. This benefits NATO countries such as Hungary, Lithuania and Slovakia, which are spending under 2% of GDP on their military, but have good records on democratization.

III (d) Military Expenditures as Percentage of GDP. (World Bank, *World Development Indicators*). **Deviation (+ or -) from 2% of GDP. Bonus of 1 additional point added after initial calculation for countries with a “free” designation from Freedom House.**

- 1: deviation equal to or greater than 3% of GDP**
- 2: deviation between 1% and 2.9%**
- 3: deviation between 0.4% and 0.9%**
- 4: deviation between 0.2% and 0.4%**
- 5: deviation less than 0.2% of GDP**

III (e) Peacekeeping. This indicator is a ranking of nations based on two sets of data: 1) peacekeeping financial contributions as a share of GDP; and 2) peacekeeping personnel as a share of population. The data are compiled by A.T. Kearney/Foreign Policy Magazine as one component of the Globalization Index. The rankings include 71 countries, which are ranked on

the 1-5 scale according to where they fall on the global ranking. The Globalization Index is published yearly and ranks countries by their global connectivity, integration and interdependence in the economic, social, technological, cultural, political, and ecological spheres.

III (e) Peacekeeping (A.T. Kearney/Foreign Policy Magazine).

1: 60--71

2: 45--59

3: 30--44

4: 15--29

5: 1--14

IV. Program Area: Counternarcotics. Defined by the DFA Framework as the combating of international narcotics production and trafficking; reduction of the cultivation and production of drugs; prevention of the resurgence of drug production; and limitation of the collateral effects of the drug trade through international drug control and demand reduction. Program elements include: eradication; alternative development and alternative livelihoods; interdiction; and drug demand reduction. Many of these program elements are relevant for a limited number of countries identified as drug production centers, none of which are in the E&E region. Instead, this index broadly captures narcotics demand through two indicators, IV (a) and IV (b); and narcotics supply through two indicators, IV(c) and IV (d).⁴

IV (a) Demand for Narcotics. This indicator averages the annual prevalence of the level of abuse of opiates, cocaine, cannabis, of amphetamines. The data are collected by the United Nations Office of Drugs and Crime (UNODC). Under the International Drug Conventions, member states are formally required to provide drug related information annually. UNODC has developed the Annual Reports Questionnaire (ARQ) to collect these data, which are incorporated into the annual *World Drug Report*.

The 2008 report is based primarily on data obtained from the ARQs returned by governments to UNODC over the June 2007 to May 2008 period. The data collected during this period normally refer to the drug situation in 2006. Sixty seven percent of countries returned a "Demand ARQ" to the UNODC, the questionnaire that contains the abuse data. Additionally, under the P&S Index the four categories of drugs are weighted so as to reflect the relative societal danger of opiates, which receive the highest weight; vs. cocaine and amphetamines, which receive an intermediate weight; vs. cannabis, which receives no additional weighting.

IV(a) Demand for Narcotics (UNODC, *World Drug Report 2008*). **Weighted average of scores (1-5) for abuse prevalence for four drugs:**

Opiates (Opiate score triple weighted)

1: > 1% of population

2: 0.5 - 1% of population

3: 0.3 - <0.5% of population

4: 0.1 - <0.3% of population

⁴ Money laundering, a key counternarcotics issue, is being captured in the Transnational Crime Index. While it could be argued that Counternarcotics is actually a subset of Transnational Crime, it is being treated separately here given the structure of the DFA Framework.

5: <0.1% of population

Cocaine (Cocaine score double weighted)

1: > 2% of population

2: 1.5 - 2% of population

3: 0.5 - <1.5% of population

4: 0.1 - <0.5% of population

5: <0.1% of population

Cannabis (Cannabis score un-weighted)

1: > 8% of population

2: 5 - 8% of population

3: 3 - <5% of population

4: 1 - <3% of population

5: <1% of population

Amphetamines (Amphetamine score double weighted)

1: > 1% of population

2: 0.5 - 1% of population

3: 0.3 - <0.5% of population

4: 0.1 - <0.3% of population

5: <0.1% of population

IV (b) Change in Demand for Narcotics. This indicator averages increases and declines in the annual prevalence of the level of abuse of opiates, cocaine, cannabis, amphetamines. The data are collected by the United Nations Office of Drugs and Crime (UNODC) through use of the Annual Reports Questionnaire (ARQ) and incorporated into the annual World Drug Report. The data refer to 2006 (or the latest year available). The determination of a "large increase," "some increase," "stable" usage, "some decline," and a "strong decline" were made by the UNODC and reported in the *World Drug Report*.

***IV(b) Change in Demand for Narcotics* (UNODC, World Drug Report 2008). Weighted average of scores (1-5) for change in use prevalence for four drugs:**

Opiates (Opiate score triple weighted.)

1: large increase

2: some increase

3: stable

4: some decline

5: strong decline

Cocaine (Cocaine score double weighted.)

1: large increase

2: some increase

3: stable

4: some decline

5: strong decline

Cannabis (Cannabis score un-weighted.)

1: large increase

2: some increase

3: stable

4: some decline

5: strong decline.

Amphetamines (Amphetamine score double weighted.)

- 1: large increase**
- 2: some increase**
- 3: stable**
- 4: some decline**
- 5: strong decline**

IV (c) Seizure of Illicit Narcotics. This indicator analyzes data from the UNODC online database on drug seizures. UNODC gathers information on illicit drug seizures worldwide, mainly drawn from the Annual Reports Questionnaire sent to all Member States, but also supplemented by other sources such as Interpol and UNODC Field Offices. The most recently reported year is used, usually 2006 but occasionally 2007. The information in the illicit drug seizure reports is updated every three months and is therefore more current than seizures data presented in the latest *World Drug Report*. In addition, seizures from a larger number of drugs are presented in these reports than are included in the *World Drug Report*. Seizures are combined into a single, derived unit of measurement (kilogram equivalents) that converts seizures reported in volume (liters) and units into their equivalent in kilograms⁵.

There are a couple of issues with this indicator worthy of consideration. First, there may be some countries where a lower than expected rate of seizures may be at least partially due to insufficient capacity and political will, and hence this indicator may fall well short of capturing the magnitude of drug production in such countries. For instance, Afghanistan reports a far lower rate of opiate seizures than Iran, despite Afghanistan being understood to be the world's largest producer of opium. In other words, it can be argued that a high rate (or an increasing rate) of seizures in a given country may be a positive indicator of law enforcement capacity. However, for the purpose of the P&S Index seizures are a proxy for the supply of narcotics in a given country. Issues of political will and law enforcement capacity are captured in the Interdiction indicator (IV (d)), which serves to ameliorate the paradox posed by the seizure indicator. Second, these data are not population-weighted. Hence, larger countries are more likely to score lower (or worse) on this measure, other things equal. In other words, the implicit assumption of this method is that absolute totals of seizures is a better measure of the magnitude of the global drug problem than weighting the seizures by country population; the countries with the largest (absolute) supply of drugs are the most problematic for the rest of the global community. This indicator does largely track with what the US State Department has identified as the 20 major drug transit or illicit producing countries⁶. No countries from the E&E region, which generally perform well on this indicator, are on the State Department list.

IV(c) Seizure of Illicit Narcotics* (UNODC, On-Line Database, 2008) **Average of scores (1-5) for four drugs:*

Opiates

- 1: Greater than 45,000 kg**
- 2: 1,000 – 45,000 kg**
- 3: 250 – <1,000 kg**
- 4: 100 – <250 kg**

⁵ To preserve the integrity of UNODC's unit of measurement methodology, the P&S index does not attempt to weight the seizure of different drugs, as it does in the demand indicators.

⁶ Listed in description of indicator 4d

5: Less than 100 kg

Cocaine

1: Greater than 1,000,000 kg

2: 100,000 – 1,000,000 kg

3: 1,000 – <100,000 kg

4: 10 – <1,000 kg

5: Less than 10 kg

Cannabis

1: Greater than 1,000,000 kg

2: 100,000 – 1,000,000 kg

3: 10,000 – <100,000 kg

4: 1,000 – <10,000 kg

5: Less than 1,000 kg

Amphetamines

1: Greater than 1,000 kg

2: 100 – 1,000 kg

3: 20 – <100 kg

4: 1– <20 kg

5: Less than 1 kg

IV (d) Narcotics Interdiction. This indicator measures three aspects of “interdiction” of narcotics. The source is the 2009 International Narcotics Control Strategy Report, (INCSR), an annual report by the Department of State to Congress, which describes the efforts of key countries to attack all aspects of the international drug trade in Calendar Year 2008. The estimates on illicit drug production presented in the INCSR represent the United States Government’s best effort to sketch the current dimensions of the international drug problem. If a country is designated in the report as a Major Illicit Drug Producing and/or Major Drug-Transit Country, (Afghanistan, The Bahamas, Bolivia, Brazil, Burma, Colombia, Dominican Republic, Ecuador, Guatemala, Haiti, India, Jamaica, Laos, Mexico, Nigeria, Pakistan, Panama, Paraguay, Peru, and Venezuela) the score for the entire interdiction indicator will be “1.”

For countries not designated a “major illicit drug producing country,” analysts at USAID/EE review the INCSR narratives and award a numerical score of 1 to 5, with 5 being the best and one the worst, to each of three sub-categories. The score is developed in consultation with specialists at State INL. The three sub-scores measure: 1) the extent to which drug production in a country is a problem for international counternarcotics efforts; 2) the extent to which a country serves as a drug transit route; and 3) the capacity of a country’s counternarcotics forces. The 1-5 scores for each of the three categories are averaged to provide a numerical indicator. The initial scores are then vetted within the USAID/EE/Program office for accuracy. A coding guide for this indicator is contained in Appendix VII.

IV (d) Interdiction of Illicit Narcotics. Average Score (1-5) of three elements:

1) Extent to which drug production in a country is a problem for international counternarcotics efforts;

2) Extent to which a country serves as a drug transit route;

3) Capacity of a country’s counternarcotics forces. Designated major drug transit or major illicit drug producing countries receive a “1” for the entire Interdiction indicator.

V. Program Area: Transnational Crime. Defined by the DFA Framework as minimizing the adverse effects of criminal activities on the United States and its citizens, particularly when these criminal activities involve cross-border connections or have cross-border affects. Program elements include: financial crimes and money laundering; intellectual property theft, corporate espionage and cyber security; trafficking-in-persons and migrant smuggling; and organized and gang-related crime.

V(a) Trafficking in Persons. This indicator draws from the annual *Trafficking in Persons Report*. The DOS is required by the Trafficking Victims Protection Act of 2000 to submit a report each year to the U.S. Congress on foreign governments' efforts to eliminate severe forms of trafficking in persons. A country that fails to make significant efforts to bring itself into compliance with the minimum standards for the elimination of trafficking in persons, as outlined in the TVPA, receives a "Tier 3" assessment. Such an assessment could trigger the withholding by the United States of non-humanitarian, non-trade-related foreign assistance.⁷ The TVPA defines "severe forms of trafficking" as: (1) sex trafficking in which a commercial sex act is induced by force, fraud, or coercion, or in which the person induced to perform such an act has not attained 18 years of age; or (2) the recruitment, harboring, transportation, provision, or obtaining of a person for labor or services, through the use of force, fraud, or coercion for the purpose of subjection to involuntary servitude, debt bondage, or slavery.

The DOS places each country included on the 2008 TIP Report into one of the three lists, described here as tiers, mandated by the TVPA. This placement is based more on the extent of government action to combat trafficking, rather than the size of the problem. The Department first evaluates whether the government fully complies with the TVPA's minimum standards for the elimination of trafficking. Governments that fully comply are placed in Tier 1. For other governments, the Department considers whether they are making significant efforts to bring themselves into compliance. Governments that are making significant efforts to meet the minimum standards are placed in Tier 2. Governments that do not fully comply with the minimum standards and are not making significant efforts to do so are placed in Tier 3. Finally, the TVPA created a "Special Watch List" of countries on the TIP Report that should receive special scrutiny.

***V(a) Trafficking in Persons* (DOS TIP Report)**

1.0: tier 3

2.0: tier 2w

3.0: tier 2

5.0: tier 1

V (b) Piracy of Intellectual Property Rights. This indicator borrows from the United States Trade Representative (USTR) "2008 Special 301 Report." The Special 301 Report, which focuses on the

⁷ A victim need not be physically transported from one location to another in order for the crime to fall within these definitions. The common denominator of trafficking scenarios is the use of force, fraud, or coercion to exploit a person for profit. A victim can be subjected to labor exploitation, sexual exploitation, or both. Labor exploitation includes traditional chattel slavery, forced labor, and debt bondage. Sexual exploitation typically includes abuse within the commercial sex industry. In other cases, victims are exploited in private homes by individuals who often demand sex as well as work. The use of force or coercion can be direct and violent or psychological. The TVPA lists three factors to be considered in determining whether a country should be in Tier 2 (or Tier 2 Watch List) or in Tier 3: (1) The extent to which the country is a country of origin, transit, or destination for severe forms of trafficking; (2) the extent to which the government of the country does not comply with the TVPA's minimum standards including, in particular, the extent of the government's trafficking-related corruption; and (3) the resources and capabilities of the government to address and eliminate severe forms of trafficking in persons.

“adequacy and effectiveness of intellectual property rights (IPR) protection by U.S. trading partners,” places forty-six countries on the Priority Watch List, Watch List, or the Section 301 monitoring list.

There are nine countries on this year’s Priority Watch List: China; Russia; Argentina; Chile; India; Israel; Pakistan; Thailand; and Venezuela. Countries on the Priority Watch List do not provide an adequate level of IPR protection or enforcement, or market access for persons relying on intellectual property protection, in absolute terms and/or relative to a range of factors such as their level of development. Thirty-six trading partners are on the lower level Watch List, meriting bilateral attention to address IPR problems: Algeria; Belarus; Bolivia; Brazil; Canada; Colombia; Costa Rica; Czech Republic; Dominican Republic; Ecuador; Egypt; Greece; Guatemala; Hungary; Indonesia; Italy; Jamaica; Kuwait; Lebanon; Malaysia; Mexico; Norway; Peru; Philippines; Poland; Republic of Korea; Romania; Saudi Arabia; Spain; Taiwan; Tajikistan; Turkey; Turkmenistan; Ukraine; Uzbekistan; and Vietnam.

V(b) Piracy of Intellectual Property Rights, level of priority ranges from none, low or high
(United States Trade Representative, *Special 301 Report, Intellectual Property*).

1.0: high priority

3.0: low priority

5.0: no priority

Countries on the “high priority” list do not provide an adequate level of IPR protection or enforcement, or market access for persons relying on intellectual property protection, in absolute terms and/or relative to a range of factors such as their level of development.

Countries on the lower level Watch List, merit bilateral attention to address IPR problems.

V(c) Money Laundering. This indicator uses classification found in the *International Narcotics Control Strategy Report (INCSR)*, released annually by the U.S. State Department Bureau of International Narcotics and Law Enforcement Affairs.

Every year, U.S. officials from agencies with anti-money laundering responsibilities meet to assess the money laundering situations in 200 jurisdictions. The review includes an assessment of the significance of financial transactions in the country’s financial institutions that involve proceeds of serious crime, steps taken or not taken to address financial crime and money laundering, each jurisdiction’s vulnerability to money laundering, the conformance of its laws and policies to international standards, the effectiveness with which the government has acted, and the government’s political will to take needed actions. The 2008 INCSR assigned priorities to jurisdictions using a classification system consisting of three differential categories titled Jurisdictions of Primary Concern, Jurisdictions of Concern, and Other Jurisdictions Monitored.

The “Jurisdictions of Primary Concern” are those jurisdictions that are identified pursuant to the INCSR reporting requirements as “major money laundering countries.” A major money laundering country is defined by statute as one “whose financial institutions engage in currency transactions involving significant amounts of proceeds from international narcotics trafficking.” All other countries and jurisdictions evaluated in the INCSR are separated into the two remaining groups, “Jurisdictions of Concern” and “Other Jurisdictions Monitored,” on the basis of a number of factors that may include: (1) whether the country’s financial institutions engage in transactions involving significant amounts of proceeds from serious crime; (2) the extent to

which the jurisdiction is or remains vulnerable to money laundering, notwithstanding its money laundering countermeasures, if any (an illustrative list of factors that may indicate vulnerability is provided below); (3) the nature and extent of the money laundering situation in each jurisdiction (for example, whether it involves drugs or other contraband); (4) the ways in which the United States regards the situation as having international ramifications; (5) the situation's impact on U.S. interests; (6) whether the jurisdiction has taken appropriate legislative actions to address specific problems; (7) whether there is a lack of licensing and oversight of offshore financial centers and businesses; (8) whether the jurisdiction's laws are being effectively implemented; and (9) where U.S. interests are involved, the degree of cooperation between the foreign government and U.S. government agencies. Finally, while jurisdictions in the "Other" category do not pose an immediate concern, "it will nevertheless be important to monitor their money laundering situations."

V(c) Money Laundering, major money laundering countries determined in State/INL

(International Narcotics Control Strategy Report (March 2008)):

1.0: country of "primary concern"

2.0: country of "concern"

3.0: country "monitored"

5.0: country not monitored

V(d). Criminalization and/or De-legitimization of the State. A component of the *Failed States Index*, as compiled by Foreign Policy Magazine and the Fund for Peace.⁸ This indicator attempts to measure the disappearance of basic state functions that serve the people, including failure to protect citizens from terrorism and violence and to provide essential services, such as health, education, sanitation, and public transportation. When a country scores poorly under *the Criminalization and/or De-legitimization of the State* indicator, it is characterized by massive and endemic corruption or profiteering by ruling elites. There is a resistance of ruling elites to transparency, accountability and political representation along with a widespread loss of popular confidence in state institutions and processes; e.g., widely boycotted or contested elections, mass public demonstrations, sustained civil disobedience, inability of the state to collect taxes, resistance to military conscription, or a rise of armed insurgencies. In such states, there may be a growth of crime syndicates linked to ruling elites.

V(d) Criminalization of State (Fund for Peace, *Failed States Index*):

0.5: 8.6 to 10

1.0: 7.7-8.5

1.5: 7.1 to 7.6

2.0: 6.2 to 7.0

3.0: 5.7 to 6.1

3.5: 4.9 to 5.6

4.0: 4.0 to 4.8

4.5: 3.1 to 3.9

5.0: 0 to 3.0

VI. Program Area: Conflict Mitigation. Defined by the DFA Framework as a reduction of the threat or impact of violent conflict and promotion of the peaceful resolution of differences,

⁸ See Indicator 5c for a detailed explanation of Failed States Index methodology.

mitigation of violence if it has already broken out, or establishment of a framework for peace and reconciliation. This is done by identifying the causes of conflict and instability; supporting early responses that address the causes and consequences of instability and conflict; and developing long lasting solutions to the problems that drive conflict. This includes support for processes and mechanisms for reconciliation and conflict mitigation no matter what the source of the conflict may be, though this may require integration with other elements. Program elements include conflict mitigation, peace and reconciliation processes, and preventive diplomacy.

VI(a) Conflict History - Years elapsed since last conflict or internal crisis. Based on information from the Political Instability Task Force (PITF). The PITF is a panel of scholars and methodologists originally formed in 1994. The unclassified project was commissioned by the CIA's Directorate of Intelligence. Its original, assigned task was to assess and explain the vulnerability of states around the world to political instability and state failure. Over the eleven-year course of its work, the Task Force has broadened its attention from the kind of extreme state failure that befell Somalia and the former Zaire in the early 1990s to include onsets of general political instability defined by outbreaks of revolutionary or ethnic war, adverse regime change, and genocide. The Task Force seeks to develop statistical models that can accurately assess countries' prospects for major political change and can identify key risk factors of interest to U.S. policymakers.

The PITF Web site is hosted by the Center for Global Policy at George Mason University. It lists comparative information on cases of total and partial state failure (i.e., periods of political instability) that began between 1955 and 2006 in independent countries with populations greater than 500,000 persons. The four types of events included are revolutionary wars, ethnic wars, adverse regime changes, and genocides. The list of state failure events (i.e., the PITF/State Failure "problem set") has been compiled from multiple sources and has been updated annually by researchers at the Center for Global Policy, George Mason University; and reviewed and revised with input from area and subject-matter specialists. Data on conflict history are taken from *PITF Table A-1: Historical State Conflicts, Crises, and Transitions, 1955-2006*, and, in a small number of cases, updated to reflect more recent events.

VI (a) Conflict History: Years elapsed since last conflict or internal crisis (Political Instability Task Force & George Mason University, 2006; updated yearly):

- 1: Conflict underway or ended within less than 1 year**
- 2: 1 to 10 years**
- 3: 11 to 20 years**
- 4: 21 to 50 years**
- 5: over 50 years**

VI(b) Instability. The risk of instability refers to the future likelihood that a country will experience a coup d'etat, a civil war, a government collapse, or some other destabilizing event that will hamper or entirely disrupt the government's ability to function. A range of factors relating to attributes of the state in the economic, political, social, and security domains drives the risk for future instability. Scores are based on rankings presented in the Peace and Conflict Instability Ledger, which is produced by the Center for International Development and Conflict

Management at the University of Maryland. Using the most recent data available, the rankings are based on a statistical estimation of the risk of instability in the period 2008-2010.

The Instability Alert List differs from similar rankings in that points are removed for countries categorized as “partial democracies,” which are considered at greater risk for instability than autocracies or full democracies. Repressive tactics adopted by autocratic governments often quell the sources of instability. Coherent and mature democracies possess the capacity to address group grievances and manage the competition between groups that vie for political power and other resources, thereby reducing risks of instability. Partial democracies typically possess neither of the qualities of full autocracies.

The indicators that make up the Instability Alert List include: Regime consistency (0=none 100=purely autocratic or democratic); Partial democracy – Yes/No; Economic openness (total trade/GDP, %); Infant mortality (deaths per 1000 births); Militarization (active troops per 10,000 population); Neighborhood conflict -- Yes/No.

VI (b) Instability. USAID DCHA/CMM Instability Alert List Instability Rankings (with estimates by University of Maryland):

1: 1--18

1.5: 19--36

2: 37--54

2.5: 55--72

3: 73--90

3.5: 91--108

4: 109--126

4.5: 127--144

5: 145--162

VI (c) Bad Neighborhood. Calculated for each country by taking the average Failed States Index scores for all of that country’s neighboring countries. The assumption behind this indicator is that countries bordering on failing states are more likely to be drawn into conflict.

The Failed States Index (FSI) is compiled by Foreign Policy Magazine and the Fund for Peace. Using twelve social, economic, political, and military indicators, they ranked 177 states in order of their vulnerability to violent internal conflict and societal deterioration. Using proprietary software, they examined more than 30,000 publicly available sources, collected from May to December annually, to form the basis of the index’s scores.

The authors of the index identify several attributes of a failing state. One of the most common is the loss of physical control of its territory or a monopoly on the legitimate use of force. Other attributes of state failure include the erosion of legitimate authority to make collective decisions, an inability to provide reasonable public services, and the inability to interact with other states as a full member of the international community. The twelve indicators cover a wide range of elements of the risk of state failure, such as extensive corruption and criminal behavior, inability to collect taxes or otherwise draw on citizen support, large-scale involuntary dislocation of the population, sharp economic decline, group-based inequality, institutionalized persecution or discrimination, severe demographic pressures, brain drain, and environmental decay. States can fail at varying rates through explosion, implosion, erosion, or invasion over different time periods.

The twelve indicators are:

- Chronic and Sustained Human Flight;
- Criminalization and/or De-legitimization of the State;
- Intervention of Other States or External Political Actors;
- Legacy of Vengeance-Seeking Group Grievance or Group Paranoia;
- Massive Movement of Refugees or Internally Displaced Persons creating Complex Humanitarian Emergencies;
- Mounting Demographic Pressures;
- Progressive Deterioration of Public Services;
- Rise of Factionalized Elites;
- Security Apparatus Operates as a "State Within a State;"
- Sharp and/or Severe Economic Decline;
- Suspension or Arbitrary Application of the Rule of Law and Widespread Violation of Human Rights; and
- Uneven Economic Development along Group Lines;

For each indicator in the FSI, the ratings are placed on a scale of zero to ten, with zero being the lowest intensity (most stable) and ten being the highest intensity (least stable). The total score is the sum of the twelve indicators and is on a scale of 0-120.

The FSI focuses primarily on “early warning and assessment” of internal conflicts. The FSI and its components are compiled with assistance of the Conflict Assessment System Tool (CAST), a Fund for Peace methodology employing a four-step trend-line analysis, consisting of: (1) rating twelve social, economic, political, and military indicators; (2) assessing the capabilities of five core state institutions considered essential for sustaining security; (3) identifying idiosyncratic factors and surprises; and (4) placing countries on a conflict map that shows the risk history of countries being analyzed. The data used in each index are collected from May to December of the preceding year. The proprietary CAST software indexed and scanned more than 30,000 open-source articles and reports using Boolean logic, which consists of key phrases designed to capture the variables measured. Full-text data are electronically gathered from a range of publicly available print, radio, television and internet sources from all over the world, including international and local media reports, essays, interviews, polling and survey data, government documents, independent studies from think tanks, NGOs and universities, and even corporate financial filings. The software determines the salience of the twelve indicators as well as hundreds of sub-indicators by calculating the number of “hits” as a proportion of the sample for a given time period. Quantitative data are also included, when available. Subject-matter experts then review each score for every country and indicator, as well as consult the original documents, when necessary, to ensure accuracy.

VI(c) *Bad Neighborhood.* (Fund for Peace, *Failed States Index*): **Average FSI scores of all bordering states.**

- 1: Bottom Quintile (1-36)**
- 2: 2nd Quintile (37-71)**
- 3: 3rd Quintile (72-106)**
- 4: 4th Quintile (107-141)**
- 5: Top Quintile**