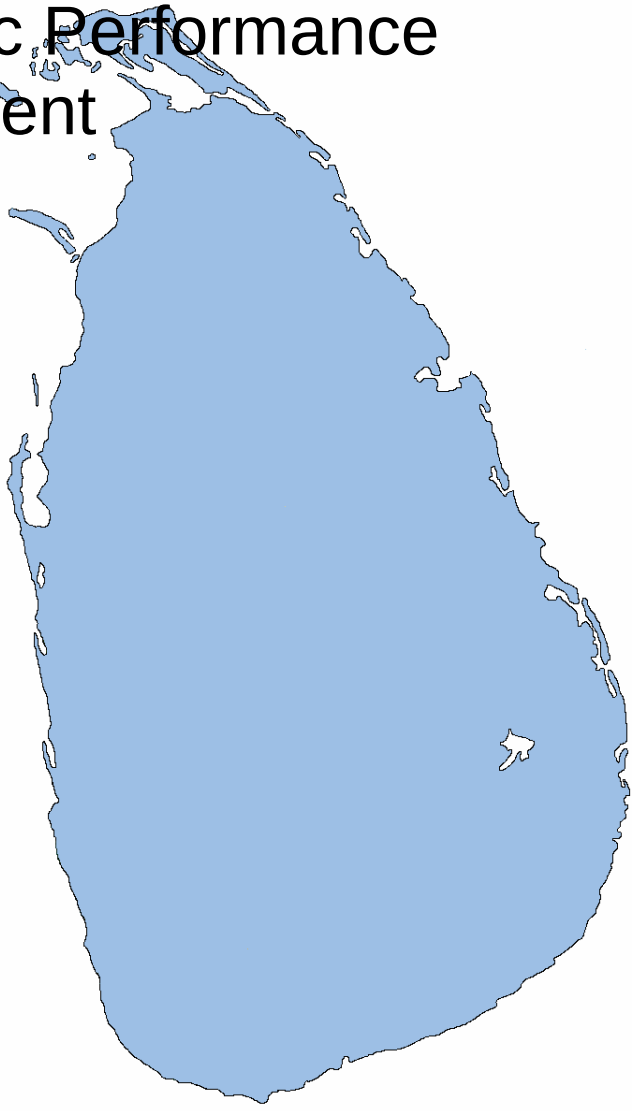
Sri Lanka

Economic Performance Assessment



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Economic Performance Assessment

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Sponsored by the Economic Growth office of USAID's Bureau of Economic Growth, Agriculture and Trade (EGAT), under Contract No. PCE-I-00-00-00013-00, Task Order 004, the Country Analytical Support (CAS) Project, 2004-2006, Nathan Associates Inc. developed a standard methodology for producing analytical reports to provide a clear and concise evaluation of economic growth performance in designated countries receiving USAID assistance. The reports are tailored to meet the needs of USAID missions and regional bureaus for country-specific analysis. Each report contains:

- A synthesis of key data indicators drawn from numerous sources, including the World Bank, the International Monetary Fund, the Millennium Challenge Corporation, the United Nations, other international data sets, and accessible host-country documents and data sources;
- International benchmarking to assess country performance in comparison to similar countries, groups of countries, and predicted values based on international data;
- An easy-to-read analytic narrative that highlights areas in which a country's performance is particularly strong or weak, to assist in the identification of future programming priorities.
- A convenient summary of the main findings, in the form of a Highlights Table and a Performance Scorecard (in lieu of an Executive Summary)

Under Contract No. GEG-I-00-04-00002-00, Task Order 004, 2006-2008, Nathan Associates continues to provide support to the EGAT Bureau by producing analytical reports evaluating economic growth performance in designated host countries. Through the same task order, Nathan is also developing a special template for countries emerging from crisis, assessing data issues in countries with large gaps in their data; conducting in-depth sector reviews based on the diagnostic analysis in the country reports; and providing other analytical support to the EGAT Bureau.

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Subject to EGAT consent, electronic copies of reports and materials relating to the CAS project are available at www.nathaninc.com. For further information or hard copies of CAS publications, please contact

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HIGHLIGHTS OF SRI LANKA'S PERFORMANCE

Economic Growth	Economic growth has averaged 5.4 percent since 1990, but the gains are heavily concentrated in the Western Province, which accounts for half of GDP. The recent growth acceleration is unlikely to be sustained because of inadequate investment and productivity, problems accentuated by conflict.
Poverty	Sri Lanka performs well on broad poverty indicators that include health and social welfare. Yet poverty reduction has been slow and uneven, with a poverty rate of 24.7 percent in rural areas and 30 percent on the estates, compared to 7.9 percent in urban areas.
Economic Structure	Agriculture produces just over one-sixth of GDP, while employing nearly one-third of the labor force. Agriculture's share of GDP has declined steadily, while the share in services has risen, to nearly 56 percent of GDP in 2005.
Demography and Environment	Moderate population growth and a relatively low age dependency rate favor economic and human development. The most pressing environmental problems are water stress and water pollution.
Gender	Gender equity is excellent in education and health, but not labor force participation, indicating that women have fewer opportunities to fulfill their productive potential.
Fiscal and Monetary Policy	Macroeconomic stability is at risk. Inflation rate has risen above 15 percent, fed by rapid money supply growth and an unsustainably large budget deficit. These factors indicate a considerable risk of serious macroeconomic problems ahead.
Conflict Status	Sri Lanka's score for 2006 on the Failed States Index falls in the "critical" category. Large regional disparities and high youth unemployment are major grievance factors fueling sectarian tensions and conflict support.
Business Environment	The institutional environment for doing business is mixed. Major problems include the time to enforce a contract, the perceived cost of terrorism, and rising corruption. The conflict is severely impairing business activity in the North and East.
Financial Sector	Credit to the private sector is growing rapidly. However, real interest rates are low or negative, inviting a costly misallocation of resources. The stock market remains small relative to GDP, and bond markets are undeveloped.
External Sector	Exports continue to grow at a respectable rate despite the ending of the Multifiber Agreement in 2005. Remittances have grown even faster, amounting to 24.3 percent of export earnings in 2005. However, inflation has appreciated the real exchange rate, which threatens competitiveness. Inflows of foreign investment, 1 percent of GDP in 2005, have been hampered by the conflict and by problems with the investment climate.
Economic Infrastructure	Overall infrastructure quality falls well short of the regional benchmarks. There are serious problems with the roads, electricity supplies, and railroads. However, indications are that the telecommunications sector is growing significantly, with numbers for fixed and cellular subscribers increasing from 165 per 1000 people in 2004 to 236 in 2005.
Science and Technology	Sri Lanka's intellectual capital is very good for a lower-middle-income country, but low levels of innovation may be linked to weak protection for intellectual property.
Health	High life expectancy, low maternal mortality, and high access to improved sanitation reflect Sri Lanka's tradition of health quality. However, high levels of child malnutrition persist, and government spending on health is relatively low (1.7 percent of GDP in 2005).
Education	Sri Lanka's commitment to social welfare is also evident in its excellent performance on all of the education indicators. However, low government spending on education (0.8 percent of GDP on primary education in 2005) may be jeopardizing future achievements.
Employment and Workforce	The cost and difficulty of firing workers is extremely high; this rigidity seriously hinders investment and job creation. Regional disparities in unemployment and labor force participation are a source of disaffection and ethnic tension.
Agriculture	Despite high cereal yields per hectare of land, agriculture is characterized by low labor productivity and poor long-term growth performance.

Note: The methodology used for diagnostic benchmarking is explained in the Appendix.

SRI LANKA: NOTABLE STRENGTHS AND WEAKNESSES—SELECTED INDICATORS

Indicators, by topic	Notable Strengths	Notable Weaknesses
Growth Performance		
Real GDP growth (%)	x	
Investment efficiency: incremental capital-output ratio		x
Share of gross fixed investment in GDP (%)	x	
Poverty and Inequality		
Human poverty index	x	
Income share of the bottom 20% of households		x
Demography and Environment		
Age Dependency Rate	x	
Gender		
Ratio of male to female gross enrollment rates, all levels	x	
Conflict Status		
Failed States Index		x
Regional income disparities		x
Youth unemployment rate		x
Fiscal and Monetary Policy		
Inflation rate (%)		x
Budget deficit, including grants (%GDP)		x
Government expenditure (%GDP)		x
Government revenue (%GDP)		x
Growth in broad money supply (%)		x
Business Environment		
Corruption perceptions index		x
Procedures to start a business		x
Financial Sector		
Real interest rate		x
Stock market capitalization		x
External Sector		
Trade, imports plus exports, % of GDP		x
Remittance receipts, % of exports	x	
Foreign Direct Investment, % of GDP		x

Indicators, by topic	Notable Strengths	Notable Weaknesses
Real Effective Exchange Rate		x
Economic Infrastructure		
Overall quality of infrastructure index		x
Internet users (per 1,000 people)		x
Health		
Life Expectancy at birth	x	
Maternal mortality rate (deaths per 100,000)	x	
Prevalence of child malnutrition, weight for age		x
Education		
Net primary enrollment rate (%)	x	
Persistence in school to grade 5 (%)	x	
Youth literacy rate (%)	x	
Employment and Workforce		
Rigidity of employment index		x
Agriculture		
Agriculture value added per worker (constant 2000 US$)		x
Growth in agricultural value added		x
Cereal yield	x	

The chart identifies selective indicators for which Sri Lanka's performance is particularly strong or weak relative to benchmark standards, as explained in the appendix. Details are discussed in the text. The Data Supplement presents a full tabulation of the data and international benchmarks examined for this report, along with technical notes on the data sources and definitions. .

1. Introduction

This report is one of a series of economic performance assessments prepared for the EGAT Bureau to provide USAID missions and regional bureaus with a concise evaluation of key indicators covering a broad range of issues relating to economic growth performance in designated host countries. The report draws on a variety of international data sources[1] and uses international benchmarking against reference group averages, comparator countries, and statistical norms to identify major constraints, trends, and opportunities for strengthening growth and reducing poverty. This study uses Thailand and Philippines as comparators, because they are also lower-middle-income Asian countries that face longstanding (though less intense) regional insurgencies.

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

The analysis is organized around two mutually supportive goals: transformational growth and poverty reduction.[3] Rapid and broad-based growth is the most powerful instrument for poverty reduction. At the same time, programs to reduce poverty and lessen inequality can help to underpin rapid and sustainable growth. These interactions can create a virtuous cycle of economic transformation and human development.

Transformational growth requires a high level of investment and rising productivity. This is achieved by establishing a strong ***enabling environment for private sector development***, involving multiple elements: macroeconomic stability; a sound legal and regulatory system,

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[1] Sources include the most recent data from the World Bank, the International Monetary Fund, the Millennium Challenge Corporation, the United Nations (including the Millennium Development Goals database), the World Economic Forum, other international data sets, and accessible host-country documents and data sources. This report reflects data available at the end of September, 2006.

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

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

including secure contract and property rights; 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; and sustainable use of natural resources.

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

In countries such as Sri Lanka that have been plagued by conflict, there is also a critical interaction between security conditions and economic performance. Overt conflict, or even the risk of serious conflict, can adversely affect growth; conversely, an end to the conflict should deliver a peace dividend. In addition to conflict affecting the economy, economic conditions can also exacerbate or help to ameliorate security problems. Thus, it is essential to view economic performance in Sri Lanka through a conflict lens. Accordingly, this report includes a special section on conflict risk; we also assess signs of how conflict may be affecting economic performance throughout the paper.

The present evaluation must be interpreted with care. A concise analysis of selected indicators cannot provide a definitive diagnosis of economic performance problems, nor simple answers to questions about programmatic priorities. Instead, the aim of the analysis is to spot signs of serious problems affecting economic growth, subject to limits of data availability and quality. The results should provide insight about potential paths for USAID intervention, to complement on-the-ground knowledge and further in-depth studies.

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

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

Table 1-1
Topic Coverage

Overview of the Economy	Conflict Status	Private Sector Enabling Environment	Pro-Poor Growth Environment
• Growth Performance • Poverty and Inequality • Economic Structure • Demographic and Environmental Conditions • Gender	• Conflict Assessment • Economic Impact of the Conflict	• Fiscal and Monetary Policy • Business Environment • Financial Sector • External Sector • Economic Infrastructure • Science and Technology	• Health • Education • Employment and Workforce • Agriculture

2. Overview of the Economy

This section reviews basic information on Sri Lanka's macroeconomic performance, poverty and inequality, economic structure, demographic and environmental conditions, and indicators of gender equity. Some of the indicators cited here are descriptive rather than analytical and are included to provide context for the performance analysis.[1]

GROWTH PERFORMANCE

Sri Lanka has achieved very good aggregate growth performance, despite more than two decades of conflict; the gains, however, have been inequitably distributed. Since 1990, real GDP has grown by nearly 5 percent per year. Between 2002 and 2005, with a ceasefire in place, the growth rate averaged 5.8 percent. As a result, per capita GDP rose from under US$500 in 1990 to an estimated US$1,200 in 2006. In constant-price terms, average incomes increased by two-thirds during this time frame (Figure 2-1).[2] Indeed, growth accelerated to 7.9 percent in the first half of 2006, stimulated by post-tsunami reconstruction spending and expansionary monetary and fiscal policies. If this high rate could be sustained, and more equitably distributed, the result would be an economic transformation in the medium term with rapid poverty reduction and widespread gains in living standards.

The problem is that the rapid growth scenario is not supported by economic fundamentals. First, investment productivity is relatively low. A simple way to measure this is by examining the incremental capital-output ratio (ICOR), which shows the amount of investment needed per unit of extra output; a high ICOR indicates low efficiency. For Sri Lanka, the ICOR averaged 5.9 for the period 2001–2005. This is well above the benchmarks of 4.8 for lower-middle-income countries in Asia (LMI-Asia), 4.8 for Thailand, and 4.6 for Philippines (Figure 2-2). In fact, countries where capital is used most productively typically have an ICOR of 4 or less.

Second, the investment rate, although growing in the past few years, has to be much higher to sustain 8 percent growth. In 2005, gross fixed investment amounted to 26.4 percent of GDP. This compares well to the regression benchmark of 23.9 percent, the average of 23.1 percent for LMI-Asia and recent figures of 24.0 percent and 18.1 percent for Thailand and the Philippines. However, an investment rate of 30 percent or more is needed to sustain the high growth rates experienced in other industrializing Asian nations.

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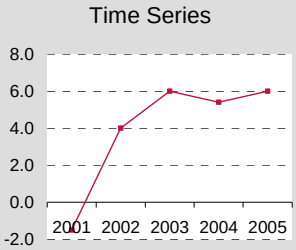
[1] The Data Supplement provides a full tabulation of the data for Sri Lanka and the international benchmarks, including indicators not discussed in the text, as well as technical notes for each indicator.

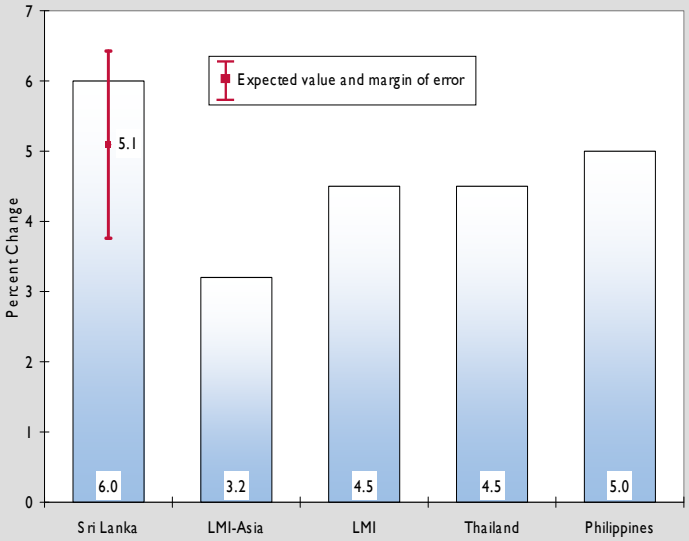
[2] IMF, World Economic Outlook database, September 2006.

Figure 2-1
Real GDP Growth, Percent

The growth rate is respectable but not high enough to achieve rapid improvements in living standards.



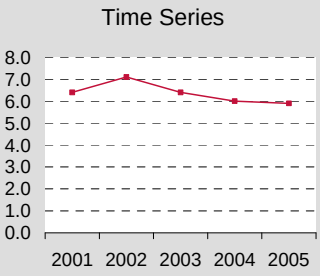
Year	Value
2001	-1.5
2002	4.0
2003	6.0
2004	5.4
2005	6.0
Summary for 2001– 2005	
Five-year average	4.0
Trend growth rate	N/A



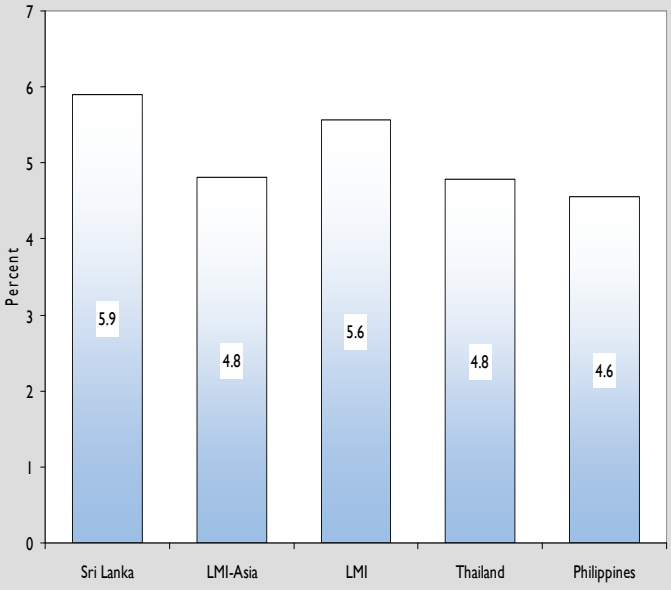
Source: World Economic Outlook database CAS Code: 11p3

Figure 2-2
Incremental Capital-Output Ratio (Five-year Moving Average)

Investment has been inefficient—approximately $6 of capital is needed per $1 of extra output.



Year	Value
2001	6.4
2002	7.1
2003	6.4
2004	6.0
2005	5.9
Summary for 2001–2005	
Five-year average	N/A
Trend growth rate	N/A



Source: World Development Indicators 2006 CAS Code: 11S2

Later sections show that the key constraints on investment and capital productivity include problems with the infrastructure, the financial system, the tax system, and the business environment. Also, the impact of the internal conflict should not be underestimated. Even though growth has been fairly strong through most of the conflict period, an effective peace agreement is likely to deliver important growth benefits by reducing uncertainty for investors, freeing fiscal resources for spending on critical public goods and services, and reconnecting major areas of the country to the development process. Moreover, before the war, Sri Lanka had thriving tourism, agriculture, and fishing and commerce in the north and east. Peace and reconstruction would likely transform this region into a major growth pole, with benefits for the whole nation.

Another critical problem with growth performance in Sri Lanka is that the gains have been marked by a stark urban bias and sharp regional imbalances. The World Bank estimates that the growth rate averaged just 2.3 percent per year outside the Western Province from 1996 through 2004, and that Western Province accounted for over 50 percent of GDP at the end of that period, up from just 40 percent in 1990.[3] As a result, the aggregate rise in per capita income has translated into a very modest reduction in poverty over the past two decades. Furthermore, regional imbalances have been a major source of grievance since the onset of the separatist conflict in the north and east, and have been exacerbated by the conflict. These issues are discussed more fully below.

POVERTY AND INEQUALITY

Sri Lanka's traditional commitment to equity and social justice is reflected in the country's performance on the UNDP's Human Poverty Index. This index measures the prevalence of deprivation in terms of life expectancy, literacy, access to safe water, and child nutrition. With a score of 18 in the 2005 *Human Development Report*, Sri Lanka ranked 42nd out of 103 developing countries. This is exceptionally good for a lower-middle-income country. Indeed, the extent of deprivation falls below the normal range predicted by our regression estimate for a country with Sri Lanka's characteristics.

The official poverty line in 2002 in Sri Lanka was Rs. 1,423 per month (just under US$15.00 at 2002 exchange rates), based on the spending needed to obtain minimum basic needs, including a nutritional intake of 2,030 kilocalories per person. On this basis, 22.7 percent of the population is impoverished. This is better than the regression benchmark of 27.4 percent and exhibits a notable decline from the previous household survey in 1996, when the poverty headcount was 28.8 percent; it is also slightly better than the estimated 2003 poverty rate in the Philippines (30 percent),[4] but far worse than Thailand's 9.8 percent in 2002.[5] Although the overall poverty rate is not high by benchmark standards, it is still troubling that nearly one-fourth of the

[3] World Bank, Sri Lanka: Growth Opportunities in Lagging Regions – Concept Note, September 12, 2006, p. 3. The 1990 figure is from Ambar Narayan and Nobuo Yoshida, Poverty in Sri Lanka: the Impact of Growth with Rising Inequality, World Bank PREM Report No. SASPR-8, July, 2005, p. 4.

[4] National Statistical Coordination Board, the Philippines, based on the 2003 Family Income Expenditure Survey (FIES).

[5] UNDP, MDG-Plus: a Case Study of Thailand, 2005, 4.

population cannot afford adequate nutrition. This deprivation has serious consequences for labor productivity and earning capacity as well as children's learning capabilities.

Even more troubling, national figures for the Human Poverty Index and the poverty rate obscure the extent of poverty outside the major urban centers. A disaggregation of data from the 2002 household survey shows a poverty rate of 24.7 percent in rural areas and 30 percent on the estates, compared to just 7.9 percent in urban areas. The household survey also reports an average monthly income in urban areas of Rs. 22,420, nearly double the average income in rural areas (Rs. 11,712) and triple that on estates (Rs. 7,303). With these numbers, it is surprising that rural to urban migration—an instrumental part of the development process—is not more prevalent.

Regional disparities are also stark. Western Province is by far the most prosperous region, with a median income of Rs. 12,000 per month. In the other provinces, median incomes ranged from 52 percent to 65 percent of the level in Western Province.[6] Earning levels are inextricably linked to economic infrastructure, as the poorest provinces, Sabaragamuwa and Uva, are in mountainous regions with little or no market access and scant economic opportunity.

Also, the 2002 household survey results show a very low share of income accruing to the bottom quintile of households: just 4.8 percent.[7] This is below the normal range predicted by the benchmark regression (6.1 to 7.9 percent), and just over half the 8.7 percent for the five most equitable countries in the world. By comparison, the bottom quintile of households obtained just 5.4 percent of income in the Philippines and 6.3 percent in Thailand. Historical HIES data further substantiate the problem of inequality in Sri Lanka. They show that the Gini coefficient (a composite measure of inequality) was virtually unchanged in 2002 (at 0.47) from the previous survey in 1995/96 (0.46).[8]

Sri Lanka completed its first Poverty Reduction Strategy Paper (PRSP), Regaining Sri Lanka, in December 2002. A blueprint for private sector–led economic growth, this document quickly became obsolete, when the 2004 elections led to a change in government. At a national development forum in May 2005, the government presented a draft of a new poverty reduction strategy that places greater emphasis on regional inequality and opportunities for the poor.[9] Furthermore, the MCA Compact proposal in July 2005 mentions that a new PRSP would soon be released, but this has not yet occurred.

ECONOMIC STRUCTURE

Looking at the broad structure of output, the share of GDP originating in agriculture has declined in the past five years from almost 21 percent in 2001 to just over 17 percent in 2005. The share of industry has been steady at about 26–27 percent, while the share in services rose from 53 percent

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[6] Department of Census and Statistics, HIES 2002, Preliminary Report, 2004, 9. Data for the Northern and Eastern provinces are lacking.

[7] Ibid., p. 11

[8] Ibid. Historical Table H1. Indeed, the Gini measure of inequality in 2002 was virtually the same as in 1985/86 (0.46), though somewhat higher than in 1990/91 and 1980/81 (both 0.43).

[9] Sri Lanka: New Development Strategy, May 2005.

to nearly 56 percent between 2001 and 2005. Both the shares in agriculture and industry are below the regression benchmarks of 20.1 percent and 30.8 percent, respectively. Hence, the share in services is relatively high; indeed this share is well above the LMI-Asia average of 43.6 percent. Sri Lanka depends more on agriculture and less on industry than does the Philippines, where the respective shares are 13.6 percent and 32.5 percent; both countries have similar shares in the service sector. Neither, however, has matched Thailand, where the share in GDP of agriculture is down to 10.1 percent, while industry's share has risen to 43.5 percent.

Agriculture's share of employment has been declining as well, from 35.1 percent of the total in 2001 to 30.7 percent in 2005. The share of employment in industry was steady, between 23 percent and 25 percent, while the share in services climbed from 36.7 percent in 2001 to 44.8 percent in 2005. Comparing the output and employment structures, one sees that labor productivity is very low in agriculture, where nearly a third of the workers are engaged in producing just one-sixth of the country's added value (Figure 2-3). On this basis, labor is most productive in the service sector, which is led by the communications industry.[10] The large differentials in productivity indicate an inefficient allocation of labor. The time trend shows, however, that a transformation is occurring, with workers moving to pursuits outside agriculture with higher productivity. This process is an important source of growth, yielding gains in national productivity and average living standards.

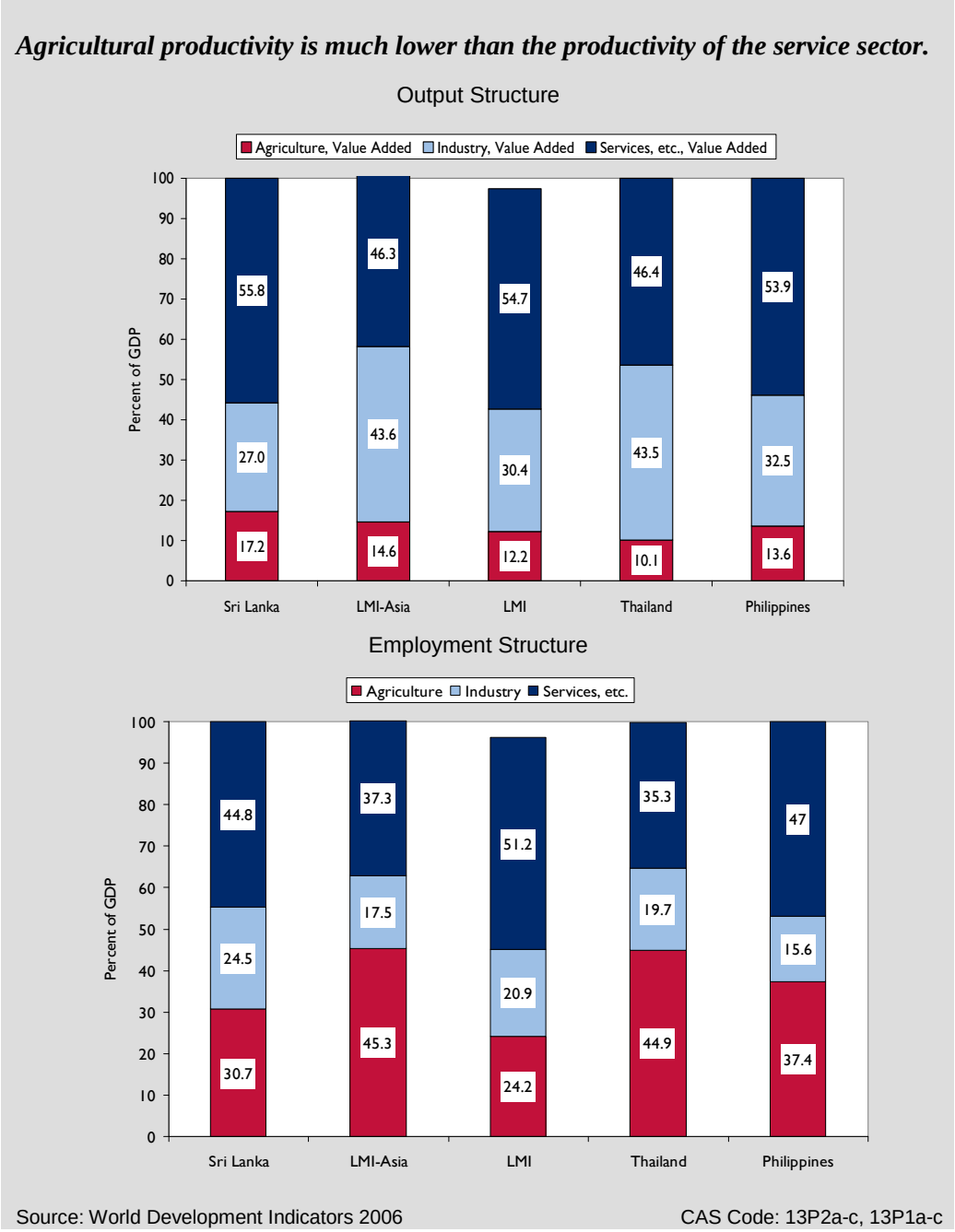
DEMOGRAPHY AND ENVIRONMENT

Sri Lanka's population of nearly 19.5 million (2004) has been increasing by 1.3 percent per year. The moderate pace of population growth translates into a relatively low age dependency rate of 0.46 for 2004, meaning that there are 46 dependents for every 100 working-age adults (Figure 2-4). This is well below the LMI-Asia average of 0.67 and the Philippines' 0.65, and comparable to Thailand's figure of 0.45. Moderate population growth and a low age dependency rate favor economic and human development by reducing the household consumption burden for income earners and easing the growth of demand for public services. These conditions also reduce the entry rate of job seekers in the labor market. With appropriate labor market policies (see Labor Market, below), the favorable demographic trend should make it easier to avoid youth unemployment, which can trigger conflict.

Although Colombo is a major metropolitan center, the nation's urbanization rate of 21.1 percent in 2004 is low relative to all the benchmarks. Despite an unusually rural population, the adult literacy rate is 90.7 percent. This is above the regression benchmark of 81.6 percent for a country with Sri Lanka's characteristics but well below the LMI-Asia average of 94.7 percent, and slightly under the rates of nearly 93 percent in Thailand and the Philippines.

[10] According to the Central Bank of Sri Lanka Annual Report 2005, the major service subsectors contributing to growth in recent years have been communications services, financial services, other business services, wholesale and retail trade, hotels, and restaurants. Due to the Tsunami, wholesale and retail trade, hotels, and restaurants growth lagged in 2005.

Figure 2-3
Output Structure and Employment Structure

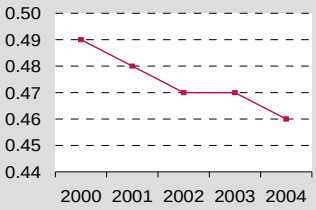


Demographic pressures and poverty are often sources of environmental stress. A recently developed Environmental Sustainability Index (ESI) scores countries on their ability to preserve environmental resources. On an upward scale of 0 to 100, Sri Lanka's score of 48.5 for 2005 was identical to the LMI-Asia average, very near to Thailand's score of 49.8, and considerably better than the score of 42.3 for the Philippines. The ESI components reveal, however, that Sri Lanka falls short in the category of Environmental Systems, with threats to biodiversity and diminishing access to potable ground water because of water stress and water pollution.

Figure 2-4
Age Dependency Rate

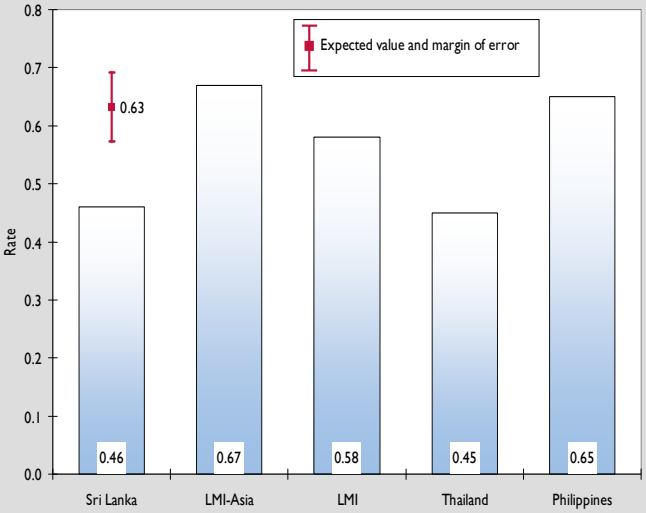
A low age dependency rate reduces the household burden on wage earners and the pressure for expanding public services.

Time Series

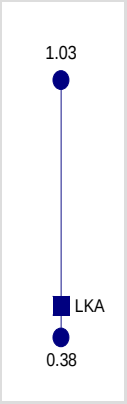


Year	Value
2000	0.49
2001	0.48
2002	0.47
2003	0.47
2004	0.46
Summary for 2000–2004	
Five-year average	0.5
Trend growth rate	-1.5

Comparisons to Other Countries, Most Recent Year



Global Standing



Source: World Development Indicators 2006

CAS Code: 14P2

GENDER

Gender equity enables faster economic growth by ensuring that the productive capacities of all citizens can be used to full extent. Sri Lanka performs very well on every basic indicator of gender equity. For example, the ratio of male to female life expectancy at birth was 0.93 in 2004. The margin by which women live longer than men, on average, essentially matches the LMI-Asia average of 0.94. Corresponding ratios for Thailand and the Philippines are 0.90 and 0.94. These figures reveal that women in Sri Lanka have good access to health care and nutrition (see Health, p. 37).

In Sri Lanka, the ratio of male to female gross enrollment rates, combining all levels of schooling, is 0.97; this is similar to the LMI-Asia average (0.99) and the values for Thailand (1.00) and the Philippines (0.96). A number below 1.0 indicates that the enrollment rate is actually higher for females than for males, presumably because men have more opportunity to join the labor force (see Employment and Workforce, p. 39). Still, it is an unmistakable sign of commitment to gender equity in education.

Gender disparities in the labor force, however, are acute (see Employment and Workforce, p. 39). Therefore, as women in Sri Lanka continue to cultivate education as much as their male counterparts, policymakers must focus commensurate attention to creating equitable opportunities for women in the workplace so that all Sri Lankans can fulfill their productive potential and contribute to national development.

3. Conflict and the Economy

Since 1983, Sri Lanka has experienced a nearly continual conflict between the Government of Sri Lanka and the Liberation Tigers of Tamil Eelam (LTTE). The conflict is estimated to have killed as many as 65,000 and displaced 1 million people. A ceasefire agreement signed in February 2002 created a hopeful opportunity for a peaceful resolution to the conflict. On paper, the ceasefire remains in place, but since April 2006, armed hostilities between the government and the LTTE have resumed, as have conflicts between LTTE factions.

We examined the conflict in Sri Lanka from an economic perspective, also taking into consideration some social factors that have contributed to the conflict. We use performance indicators that are presented elsewhere in the report as well as other indicators that specifically address conflict, including the Conflict Assessment System Tool (CAST), developed by the Fund for Peace (FFP) to assess the extent to which states are vulnerable to violent internal conflict and societal dysfunction.

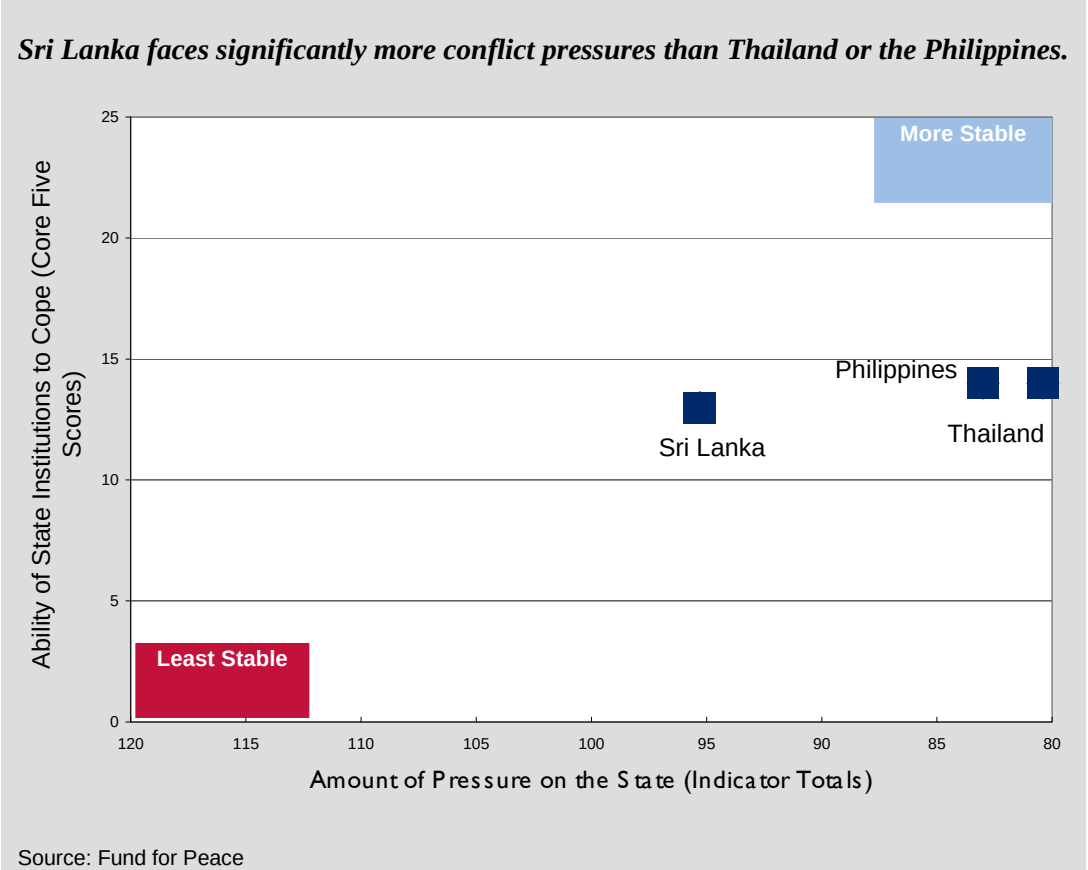
CONFLICT ASSESSMENT

CAST uses 12 social, economic, political, and military indicators to rank 148 countries in terms of risk. Each indicator is scored on a scale of 1–10 (with 10 being the worst) according to a computerized content analysis that processes thousands of news articles and documents from around the world on a daily basis and combines the results of this analysis with quantitative data. The overall CAST score—called the Failed State Index (FSI)—is an unweighted sum of the 12 indicator scores.[1] Higher scores represent greater risk, with 120 being the worst possible total. A score of 95 or higher falls into the category of "critical" danger. For this report, FFP analyzed data for the first nine months of 2006 for Sri Lanka[2] and the two comparator countries. Sri Lanka's score is 95.3, while Thailand's and the Philippines' scores are much lower, at 80.4 and 83.0, respectively (Figure 3.1).Furthermore, the result for Sri Lanka is worse than in 2002 and 2003, when the country's score was in the low 80s. The analysis shows a heightening of conflict risk in the past three years, with the key indicators highlighting some underlying problems.

[1] "The Failed States Index," *Foreign Policy*, July/August 2005.

[2] The Fund for Peace Sri Lanka 2006 Conflict Assessment is available upon request.

Figure 3-1
Failed States Index: Sri Lanka, Thailand, and the Philippines



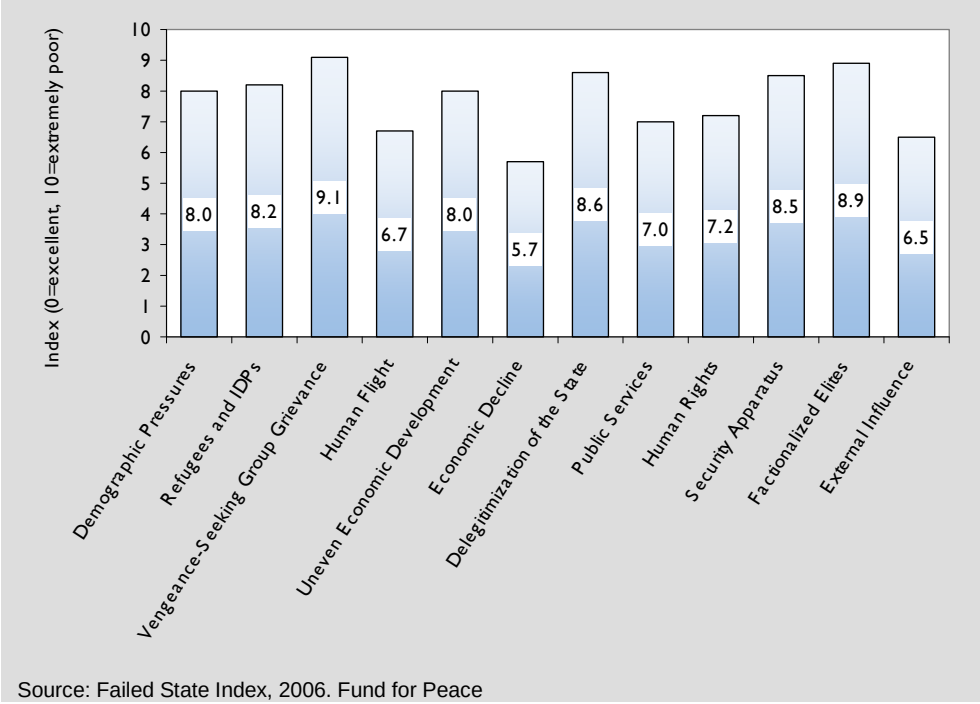
Source: Fund for Peace

Sri Lanka is not a failed state, despite the civil conflict. The state functions reasonably well. But it is also experiencing a tragic conflict, which in turn undermines efforts to promote more rapid and equitable economic development.

Some components of the FSI shed light on the sources of the conflict. Figure 3.2 shows Sri Lanka's score for each indicator. Among the four social indicators, the most serious problem is polarization along ethnic and religious lines. These sectarian tensions are evidenced by a Group Grievance rating of 8.5 (out of 10), up sharply from the low of 7.1 in 2003. Ethnicity[3] and religion provide the ideological and symbolic foundations for violence. The roots of this conflict go back to the 1950s, when the government tried to reverse what it saw as undue Tamil influence, for example by making Sinhala the only official language.

[3] The Buddhist Sinhalese make up 74 percent of the population, Sri Lankan Tamils account for 7 percent, Indian Tamils 5-6 percent, and Muslims 7 percent.

Figure 3-2
Sri Lanka Failed States Index 2006

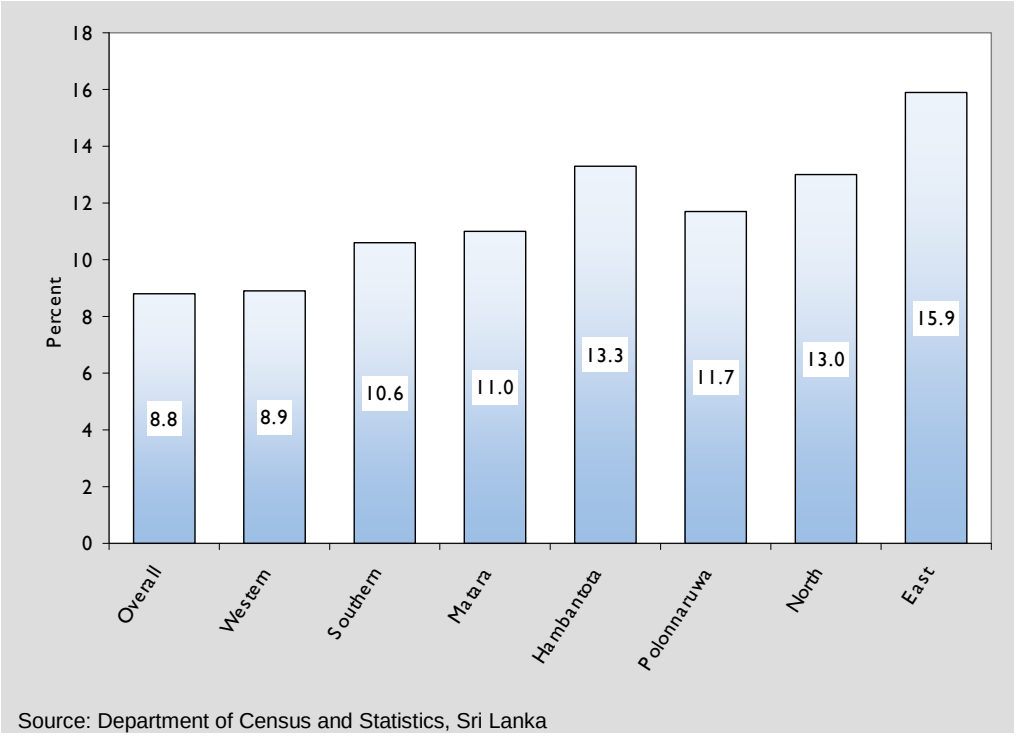


Source: Failed State Index, 2006. Fund for Peace

The conflict has been exacerbated by regional disparities in income and employment. A basic sign of the opportunity gap is the labor force participation rate. In 2004, the labor force consisted of only 33.8 percent of the working age population in the north, and 40.3 percent in the east; corresponding figures for the central, southern, and western provinces ranged from 48.0 percent to 54.8 percent.[4] Unemployment is also much higher in the north (13.0 percent) and east (15.9 percent) than the national average (8.8 percent). The unemployment rate is also well above the national average in strongholds of the leftist and Sinhala-nationalist Janatha Vimukti Peramuna (JVP) party, including the south (10.6 percent), Matara (11.0 percent), Hambantota (13.3 percent), and Polonnaruwa (11.7 percent) (Figure 3-3). In these disadvantaged regions, most of the unemployed are between 15 and 29 years old. Both the Tamil and Sinhala nationalist movements mobilize these young people by focusing on grievances about the lack of employment opportunities and economic disparity. Given the low opportunity cost in terms of income and employment, youth have little reason not to turn to the military as a way of life. This tendency polarizes communities, fuels conflict dynamics, and leads to greater instability.

[4] The labor force in Sri Lanka is defined as including anyone age 10 or over who is working or seeking work, including own-account workers in the informal sector and on family farms (Department of Census and Statistics. 2004. *Annual Report of the Sri Lanka Labour Force Survey.* Colombo, Sri Lanka. http://www.statistics.gov.lk/samplesurvey/annual%20report-20041.pdf).

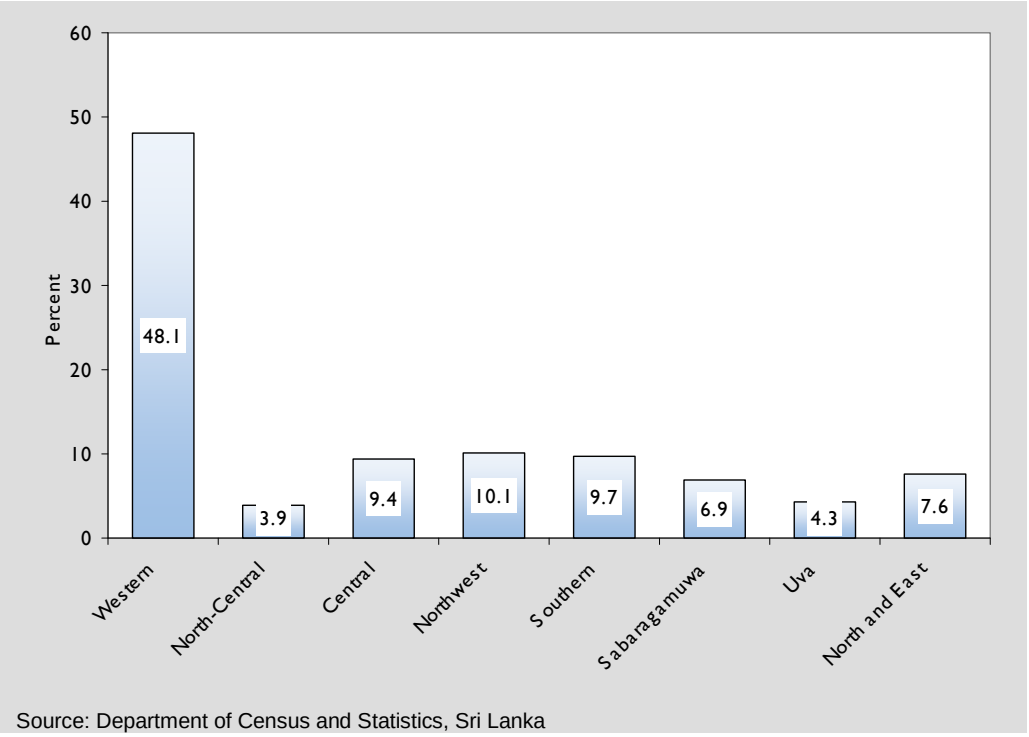
Figure 3-3
Unemployment by Province, 2004



Source: Department of Census and Statistics, Sri Lanka

Data for 2002 GDP by region and data from the 2002 household survey confirm the acute regional inequality. Fully 49.4 percent of GDP that year was concentrated in the Western province. The southern region generated 9.7 percent of GDP, whereas the east and north together accounted for just 7.6 percent (Figure 3-4).The geography of poverty is similar. The 2002 household survey results indicate that the incidence of poverty has declined to just 6 percent in Colombo and 11 percent in nearby Gampaha district, while remaining in the range of 20 to 37 percent in the rest of the country. The sharp disparities are attributable to major differences in the quality of infrastructure, the concentration of export processing zones in the west, and sluggish growth in agriculture, as well as disruptions and displacements caused by the conflict.

Figure 3-4
Percentage of GDP, by Province, 2002



Source: Department of Census and Statistics, Sri Lanka

Violent challenges to the state have been driven by a sense of exclusion and alienation in the economic periphery. In the south, unequal development between rural and urban areas has fed the politics of poverty as an effective tool for mobilizing Sinhala nationalist sentiments. As noted earlier, the poverty rate is 24.7 percent in rural areas, where most people dwell, compared to just 7.9 percent in urban areas. For those living on estates, mostly Indian Tamils, 30 percent struggle with incomes below the poverty line. There are also serious disparities between the developed areas around Colombo and more peripheral rural and dry-zone districts such as Anuradhapura, Hambantota, Pollanaruwa and Matara. The latter form the geographical core of JVP strength.

The perception of growing inequality is confirmed by the CAST indicators. The score for the uneven economic indicators increased to 8.2 in 2006 from 7.1and 7.2 in 2003 and 2004. Although the abrupt increase reflects heightened attention to economic disparities rather than a sudden change in conditions on the ground, the perception itself provides the basis for disaffection.

In addition, there is a perception that the state is not managing the economic disparity very well The indicator for Factionalized Elites has a value of 9.3, reflecting the fact that the government has taken a hard line against Tamils in the north and east and is unlikely to take action that will reduce this disparity. Other major problems are Legitimacy of the State (with a score of 8.4 in 2006) and Security Apparatus (9.2 in 2006). These indicators reflect the rise in violence since April 2006, bringing the country to the brink of renewed civil war.

Another remarkable factor is a jump to 7.1 in the 2005 score for external influence as a source of tension, from a very low 3.9 the previous year. This change is due to the interplay between factional tensions and donor support for relief and reconstruction following the December 2004

tsunami, which killed 60,000 people and displaced another half million.[5] In spite of initial hopes that the tsunami response would provide space to re-energize peace negotiations, it had the opposite effect of deepening political fault lines and undermining trust. This occurred because the government and the LTTE were unable to implement an agreement reached, after protracted negotiations, on modalities for distributing aid in LTTE-controlled areas. The government was unwilling to allow substantial amounts of aid to reach rebel hands, and many foreign governments could not work with the LTTE as a terrorist organization. Further, the JVP and the Buddhist clergy adamantly opposed any distribution of aid to the rebels.

ECONOMIC IMPACT OF CONFLICT

Although Sri Lanka has maintained a relatively high rate of growth and made some gains in poverty reduction, as described in Section 2, the conflict has impaired progress, for a number of reasons. First, the cost of coping with the conflict diverts fiscal resources from more productive uses such as investing in infrastructure, improving agricultural productivity, and other areas of need identified in this report. Second, without offsetting revenue gains, the military expenditure complicates efforts to manage the fiscal deficit, restrain money supply growth, and reduce inflation (see Fiscal and Monetary Policy, p. 21). These macroeconomic problems jeopardize growth and exacerbate poverty. Third, the conflict hampers domestic and foreign direct investment by creating uncertainty. This reduces not only the capital available for growth but also access to technology and management skills. Finally, conflict in the north and east has created a large population of internally displaced people, which places pressure on land resources, increases the need for humanitarian relief, and adds to the pool of unemployed.

WHAT CAN BE DONE?

In 2001, the southern electorate endorsed the moderate and pro-business platform of the United National Party (UNP), mainly in the hopes of easing their economic malaise, not as an endorsement of the peace process. When southern voters were asked to prioritize their concerns, they ranked economic issues highest: 48.2 percent identified the cost of living and 16.5 percent unemployment; ethnic conflict was the principal issue for only 18.8 percent of these voters.[6] These findings suggest that policies and programs to improve income opportunities can help to reduce disaffection and political tensions in rural areas of the south. Conditions are even more dire in the north and east, where the conflict has been concentrated, but it will be difficult to improve economic opportunities in these regions until the peace process is back on track.

No one should expect economic measures to transform the peace negotiations. Nonetheless, policies and programs that address regional grievances and create more hope for a better future may have a significant role to play in softening the constituency for conflict and strengthening the political basis for a settlement. Key points of entry include measures to stimulate rural

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[5] Sri Lanka Department of Census and Statistics

[6] Bastian, Sunil. 2005. *The Economic Agenda and the Peace Process,* in Goodhand, J., Klem, B. et al. *Aid, Conflict and Peacebuilding in Sri Lanka, 2000-2005.* A report prepared for the World Bank, DFID, the Netherlands Embassy, SIDA, and the Asia Foundation.

development, improve agricultural productivity, reduce youth unemployment, decrease corruption, and improve the environment for private initiative to thrive.

For example, the viability of smallholder paddy production has been gradually deteriorating for many years. As a result, the living conditions of households producing this staple crop have also deteriorated. Off-farm rural employment may provide a partial solution, but the solution is limited in areas on the economic periphery for younger workers without training and experience. Agricultural productivity, therefore, must increase, while the private sector must support job creation in economic centers and subcenters to absorb workers who migrate in search of productive work.

Especially important are targeted projects and affirmative action programs aimed at helping Tamils and other rural poor in areas under government control. To develop disenfranchised rural areas, the government needs to promote policies to diversify agriculture; facilitate value addition for agricultural products; enhance linkages to domestic and international markets; improve the environment for investment and business development; and invest in public infrastructure, especially roads, water, and sanitation. The basic objectives are to create economic opportunities and demonstrate that the government is working for the rural poor from all ethnic groups.

4. Private Sector Enabling Environment

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

FISCAL AND MONETARY POLICY

Fiscal and monetary policies are jeopardizing the sustainability of economic growth in Sri Lanka.[21] The clearest sign of a macroeconomic problem is inflation, which climbed to 10.6 percent in 2005 (Figure 4-1).[22] This is more than double the regression benchmark of 4.6 percent, and significantly higher than the inflation rates in Thailand and Philippines (4.5 percent and 7.6 percent, respectively). Moreover, inflation in 2006 will be higher still. According to the Central Bank, prices rose by 15.4 percent during the 12 months to September 2006.[23] Unless this trend is reversed quickly, high inflation threatens to drive nominal interest rates even higher, destabilize the rupee, augment investment risks, deepen poverty, trigger labor

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[21] In 2005, the World Bank's World Development Indicators (WDI) database adopted a new system (GFS 2001) for reporting fiscal data, although most developing countries use the old system (GFS 1986). Consequently, the WDI has recent fiscal data for only a few developing countries. The limited sample size distorts most group averages for WDI fiscal data. This section therefore uses comparisons based on absolute standards, or data from WDI 2004; more recent figures for Sri Lanka, Thailand, and the Philippines are drawn from country sources.

[22] Recent macroeconomic data are obtained from the Central Bank of Sri Lanka website.

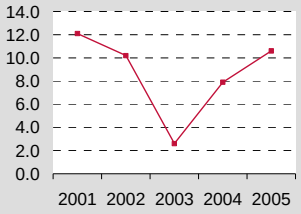
[23] CBSI, *Selected Economic Indicators*, October 13, 2006. This is the 12-month change in the Colombo Consumer Price Index. Other price indices show lower inflation rates, but nearly all are in double digits.

unrest, and accentuate strains on the political system. This list of possible, even probable, consequences illustrates the seriousness of the problem.

Figure 4-1
Inflation Rate

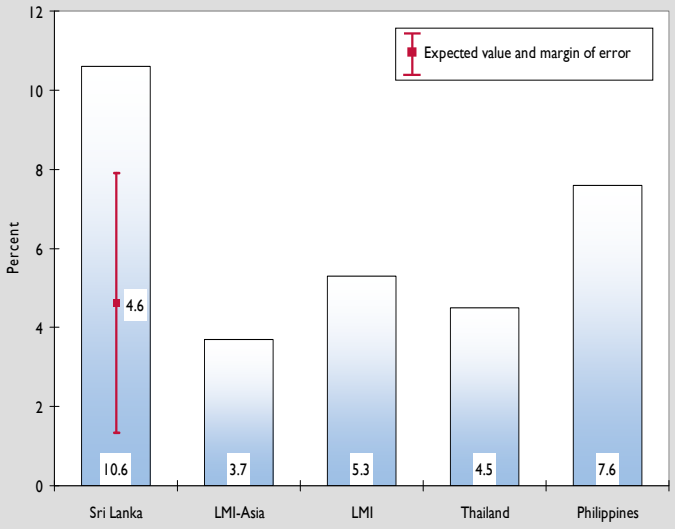
Inflation increased to 15.4 percent in the 12 months to September 2006. It may continue to increase because of expansionary fiscal and monetary policies.

Time Series

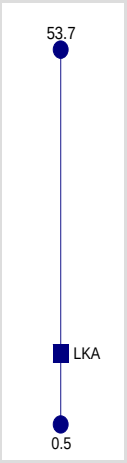


Year	Value
2001	12.1
2002	10.2
2003	2.6
2004	7.9
2005	10.6
Summary for 2001–2005	
Five-year average	8.7
Trend growth rate	-5.1

Comparisons to Other Countries, Most Recent Year



Global Standing



Source: IMF World Economic Outlook database, 2006

CAS Code: 21P4

Rising inflation is widely blamed on fuel and power price adjustments. Yet many countries have faced the same pressures without such high inflation. A more basic cause is weakness in fiscal and monetary policy.

The government's poor fiscal position is a major source of macroeconomic imbalance. In 2005, the budget deficit, including grants, was 8.7 percent of GDP.[24] This is almost four times the regression benchmark of 2.2 percent and much worse than recent budget outcomes in the Philippines and Thailand (Figure 4-2). For 2006, the government projected an even larger deficit, of 9.1 percent of GDP.[25]

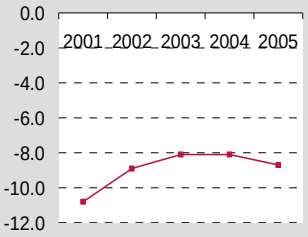
[24] Ibid. Excluding tsunami-related expenditure, the figure is 7.1 percent of GDP. Tsunami expenditure has been partially funded by the deferment (but not cancellation) of debt payments.

[25] Budget Speech 2006.

Figure 4-2
Government Budget Balance, Including Grants, Percent of GDP

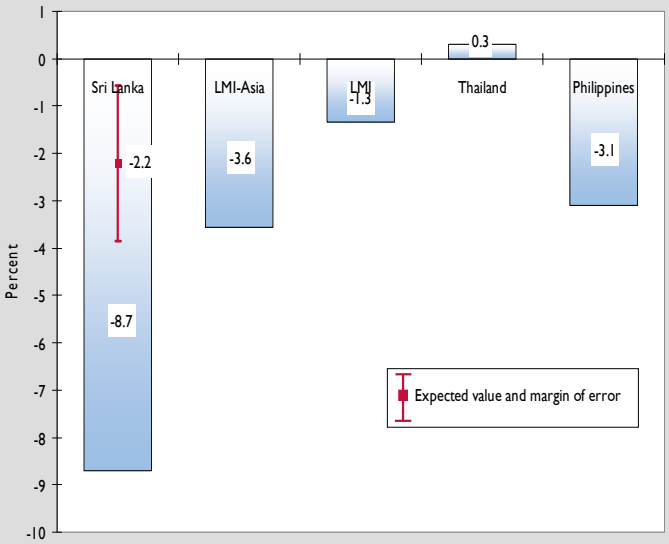
The fiscal deficit is unsustainably high.

Time Series

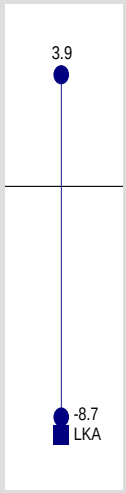


Year	Value
2001	-10.8
2002	-8.9
2003	-8.1
2004	-8.1
2005	-8.7
Summary for 2001–2005	
Five-year average	-8.9
Trend growth rate	N/A

Comparisons to Other Countries, Most Recent Year



Global Standing



Source: World Development Indicators 2006

CAS Code: 21P5

The budget deficit has been driven by relatively high expenditures and low revenues. In 2005, government expenditure absorbed 24.7 percent of GDP; this is well above the regression benchmark of 21.1 percent and the expenditure level in Thailand (17.3 percent), though on par with that of the Philippines (24.4 percent). The government's budget for 2006 projected a jump in spending to 26.9 percent of GDP. The budgeted increase in spending was driven mainly by higher subsidies aimed at equity objectives (often at the expense of efficiency), higher wages and salaries for civil servants, and rising interest payments, especially on domestic debt. The renewed conflict will impose further demands on the budget. After peaking at 6.0 percent of GDP in 1996, defense spending fell to 4.5 percent of GDP in 2000 and 2.7 percent in 2003. This trend is likely now to reverse, and defense spending will squeeze funds for other public services or make the deficit worse. The cost of deficit financing is already a huge burden. Interest payments accounted for an extraordinary 25.1 percent of total expenditures in 2005 and are at the brink of spiraling upward as a result of new borrowing, compounded by the impact of inflation on domestic interest rates and the value of the rupee. Interest costs are a fiscal wild card that could worsen the deficit and feed inflation (if interest costs are financed by printing money), or crowd out spending on infrastructure, poverty programs, health care, and education (if financed by domestic borrowing).

Furthermore, government revenues are relatively low. In 2005, revenue, excluding grants, amounted to 16.1 percent of GDP, nearly 6 percentage points below the regression benchmark of 21.9 percent. Low domestic revenue mobilization is exacerbated by the lack of progress on the peace accords, which reduces donors' willingness to provide aid. Indeed, grants accounted for only 1.9 percent of total revenue in 2005. The government has endeavored to increase revenue by broadening the tax base (for example, by introducing an economic service charge on businesses

and new import cesses) and strengthening tax administration; the 2006 budget, however, departs from good fiscal governance by increasing corporate and personal tax rates, introducing new import fees, and narrowing the tax base through new investment incentives. This is the opposite of best practice, which would be to lower tax rates while broadening the tax base.

A more direct source of inflationary pressure stems from monetary policy. Although the central bank has been leaning against the inflationary wind by raising interest rates, the money supply has increased by nearly 20 percent per year for the past two years. The Central Bank estimates a similar expansion in the money supply in 2006.[26] Although the growth in broad money supply is not far above the regression benchmark of 16.9 percent, it is far too fast for price stability, given the rate of real GDP growth and the uncertainties prevailing in the economy. Furthermore, rising inflation imposes a steep implicit tax on holding cash, which reduces the demand for cash balances. In the absence of tighter monetary policy, this fuels inflation. High inflation has also pushed the real interest rate on loans to prime customers to very low or negative levels (see Financial Sector, p. 26); one result is that the cost of credit no longer serves to screen out inefficient investments. This not only exacerbates the productivity problem it also stimulates the demand for credit. Borrowing by the private sector has been growing rapidly, accounting for 83.5 percent of the high rate of money supply growth in 2005.

IMF Program Status for Sri Lanka

In 2003, the IMF approved a Poverty Reduction and Growth Facility (PRGF) and an Extended Fund Facility (EFF) for Sri Lanka, but the support halted after the new Government in 2004 adopted policies departing from prior agreements with the Fund. Although the Fund provided post-tsunami emergency assistance in 2005, the Government is not currently pursuing an IMF program.

In summary, these fiscal and monetary imbalances, if not corrected quickly, may jeopardize the prospects for continued growth and possibly intensify political tension. Greater efforts are needed to increase revenue, while tax rates are lowered to foster investment and reduce tax evasion. Donors might consider technical support to the government for broadening the tax base and reforming tax laws a high priority. Assistance is also urgently needed to help the government improve the targeting of social expenditures and subsidies, provide public services more efficiently, and streamline the civil service. Moreover, the government needs to pay attention to debt sustainability to avert a potential macroeconomic meltdown.

BUSINESS ENVIRONMENT

Institutional barriers to doing business, including corruption in government, are critical determinants of private sector development and prospects for sustainable growth. Sri Lanka's current performance on these indicators is mixed, leaving much room for improvement.

The World Bank's composite index of Doing Business indicators places Sri Lanka 89th of 175 countries. For a lower-middle-income country, this is a good score. Most of the Doing Business indicators used for this report, including the number of procedures required to enforce a contract, register property, and start a business, are in line with international benchmarks, though there is

[26] Selected Economic Indicators bulletin for October 13, 2006.

still room for improvement. The most notable deficiency is that the enforcement of an illustrative contract takes an estimated 837 days, more than double the time needed in Thailand (425 days) and even far more than in the Philippines (600 days). The Doing Business report also shows that the time taken to start a business (as opposed to the number of steps required) is longer in Sri than elsewhere; it takes 50 days in Sri Lanka, compared to the LMI-Asia average of 39 days, and the 3 days in Thailand and 48 days in the Philippines.

Conflict risk is another important impediment to doing business in Sri Lanka, as revealed by the World Economic Forum's (WEF) annual survey of executive perceptions. The country receives a score of 2.6 (on a scale of 0 to 7) on the indicator for the business cost of terrorism, with lower numbers indicating higher cost. This suggests that businesses view the potential for terrorism in Sri Lanka to be a greater impediment than in Thailand and Philippines, where businesses gave ratings of 4.9 and 3.5, respectively. Survey questions about perceptions lack objectivity, but for investment decisions, perceptions often matter the most.

Corruption and governance are growing problems. Transparency International's Corruption Perceptions Index for Sri Lanka fell from 3.7 in 2002 to 3.1 in 2006 (on a scale of 0 to 10, with higher numbers indicating less corruption). This score is marginally better than the regression benchmark value of 3.0. Sri Lanka's score is not good, however, because a score of 3.0 is the threshold for categorizing corruption as rampant. Moreover, Sri Lanka's score shows a worrisome downward trend (Figure 4-3). Deterioration is also evident in the quality of governance, as is shown by the World Bank's indices for Rule of Law and Regulatory Quality.[27] On a scale of -2.5 to +2.5 (with a global mean of 0.0), Sri Lanka's score on Rule of Law has fallen from 0.2 in 2003 to 0.0 in 2005. This is similar to the LMI-Asia average of -0.1, and much better than the Philippines' poor showing of -0.5. The Regulatory Quality index also fell, from +0.1 in 2003 to -0.1 in 2005, which is slightly better than the LMI-Asia average of -0.3 but below the scores for Thailand and Philippines (0.4 and 0.0, respectively).

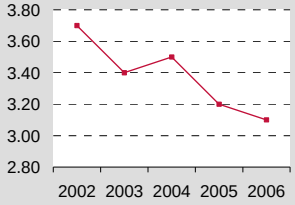
These observations indicate that Sri Lanka has a long way to go to establish a friendly business environment as an instrument for stimulating investment, productivity, and growth. Donors should consider supporting reforms to improve economic governance and reverse the negative trend toward corruption. Gaining a better understanding of urban–rural differences in the institutional environment for doing business and developing programs accordingly are also important.

[27] Both indices are used as selection criteria for MCA compact status, and both are green on the MCA Fiscal 2007 scorecard for Sri Lanka. For definitions, see technical notes in the Data Supplement.

Figure 4-3
Corruption Perception Index

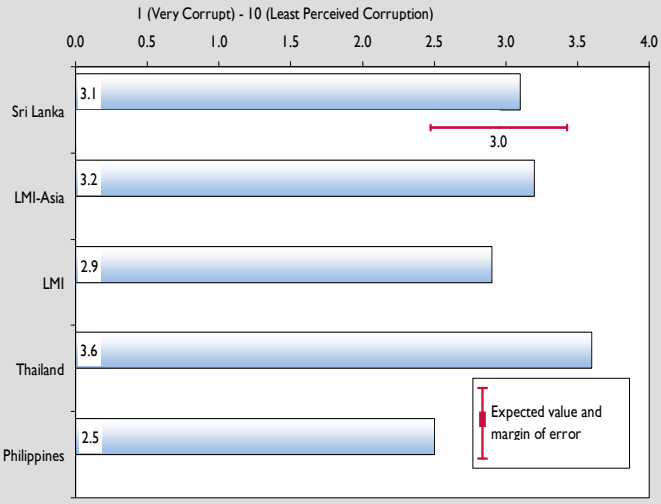
A falling CPI score indicates a perception of rising corruption.

Time Series

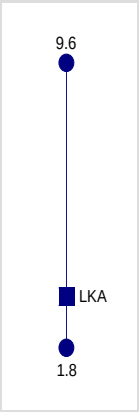


Year	Value
2002	3.7
2003	3.4
2004	3.5
2005	3.2
2006	3.1
Summary for 2002–2005	
Five-year average	3.5
Trend growth rate	-4.0

Comparisons to Other Countries, Most Recent Year



Global Standing



Source: Transparency International 2006

CAS Code: 22P1

FINANCIAL SECTOR

A sound and efficient financial sector is a key to mobilizing saving, fostering productive investment, and improving risk management. Basic indicators show that Sri Lanka's financial system is underdeveloped compared with those of other lower-middle-income countries. A simple indicator of banking sector development is the degree of monetary deepening, measured by the ratio of broad money (currency plus bank deposits) to GDP. In Sri Lanka this ratio has been steadily increasing, reaching 43.2 percent by 2005.[28] This is close to the regression benchmark value of 46.1 percent, but short of the values for Thailand and the Philippines (90.6 percent and 54.2 percent, respectively).

Another indicator of an active banking system, domestic credit to the private sector as a percentage of GDP, at first glance appears to be healthy. This ratio rose from 28.1 percent in 2001 to 32.6 percent in 2005. This is close to the average of 34.6 percent for LMI-Asia and the ratio of 34.8 percent for the Philippines, though still far below the 97.4 percent for Thailand. The rapid expansion of credit has been fueled at least in part, however, by the fact that *real* interest rates for prime borrowers fell to virtually zero in 2004 and became negative in 2005 and 2006 (Figure 4.4).[29] Because interest charges are tax deductible, and capital gains are tax free, businesses can borrow profitably even if they use the funds for unproductive purposes such as importing excess inventory. Thus, negative real interest rates encourage rapid growth in the

[28] Figures for 2005 in this section are obtained from the Central Bank of Sri Lanka website.

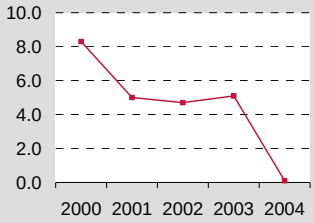
[29] The real interest rates for 2005 and 2006 are derived from data on the Central Bank website. The methodology is not fully consistent with numbers through 2004 from the latest World Development Indicators. Hence, Figure 4.4 only shows data through 2004.

demand for credit while creating a misallocation of financial resources. The government can restore positive real interest rates by cracking down on inflation (see Fiscal and Monetary Policy, above), or allowing nominal interest rates to rise more rapidly. The latter course of action, however, would seriously increase the government's already heavy burden of debt service.

Figure 4-4
Real Interest Rates (Lending Rate)

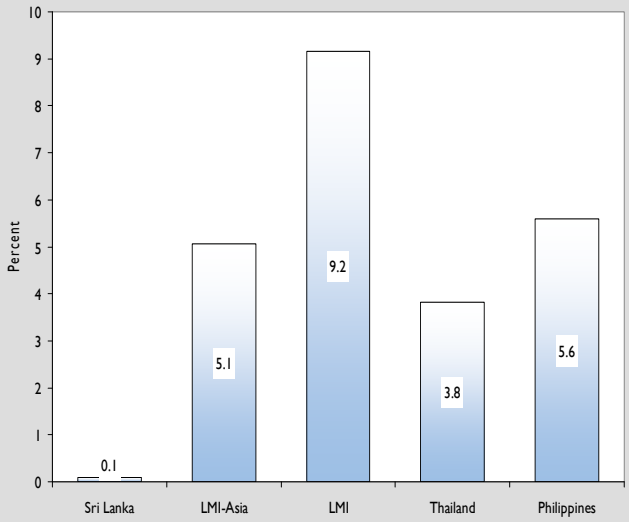
Very low or negative real interest rates hinder saving and financial intermediation while encouraging a highly inefficient allocation of credit.

Time Series

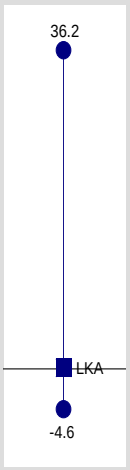


Year	Value
2000	8.3
2001	5.0
2002	4.7
2003	5.1
2004	0.1
Summary for 2000–2004	
Five-year average	4.6
Trend growth rate	-59.5

Comparisons to Other Countries, 2004



Global Standing



Source: World Development Indicators 2006

CAS Code: 23S4

In a 2004 report on the investment climate, the World Bank and the Asian Development Bank found that urban manufacturers consider the cost of finance a major constraint to investment. The information dates from a survey conducted in 2003, when real interest rates were still significantly positive. Moreover, small enterprises always face much higher interest rates. Rural enterprises identified both the cost and availability of finance as major constraints on investment. For a lower-middle-income country, Sri Lanka actually has an extensive system of rural finance, mainly through regional state banks, subsidized Samurdhi banks, and local credit cooperatives. International experience suggests that subsidized state-run systems hinder the development of self-sustaining microfinance institutions, which can only cover the high per-unit cost of servicing very small clients by charging relatively high interest rates.

Beyond the banking system, stock market capitalization is a primary indicator of financial development for emerging economies. Driven by bright economic prospects in the wake of the 2002 peace accord and pro-business reforms under the UNP government, the ratio of stock market capitalization to GDP tripled between 2001 and 2005 and peaked at 32 percent, before

falling to 24.7 percent at the end of 2005.[30] This heady growth was an unmistakable sign that investors viewed the peace process and the reform program as having a dramatically positive effect on the business environment. Even so, the capitalization ratio at the end of 2005 was still far short of the regression benchmark of 40.0 percent, as well as the values for Thailand (83.0 percent) and the Philippines (29.3 percent). Moreover, the stock market has been very volatile during the past year, reflecting reversals in both economic policy and security.

Although the stock market has gained strength, the market for corporate bonds remains undeveloped. This seriously limits the financing options for major enterprises. According to an IMF report in 2005,[31] substantial pools of longer-term financing are available through the Employee Provident Fund and National Savings Bank, but the funds are channeled into government securities. This arrangement provides a captive supply of financing to the government and inhibits the development of capital markets for private sector development.

In light of these findings, donors should be concerned about the relationship between inflation and interest rates as it affects prospects for sustainable growth. This observation underscores the importance of improvements in monetary and fiscal management. Policy reform is also required to facilitate the development of sustainable rural credit and microfinance systems, as well as an active bond market to broaden the menu of financing options for larger enterprises.

EXTERNAL SECTOR

Fundamental changes in international commerce and finance, including reduced transport costs, advances in telecommunications technology, and lower policy barriers, have fueled a rapid increase in global integration in the past 25 years. The international flow of goods and services, capital, technology, ideas, and people offers great opportunities for Sri Lanka to boost growth and reduce poverty by stimulating productivity and efficiency, providing access to new markets and ideas, and expanding the range of consumer choice. At the same time, globalization creates new challenges, including the need for reforms to take full advantage of international markets and cost-effective approaches to cope with the resulting adjustment costs and regional imbalances.

Sri Lanka began liberalizing trade in 1977, ushering in the era of accelerated but unevenly distributed growth. In the past five years, external sector performance has been favorable on a number of fronts: exports have been remarkably buoyant, the current account deficit has remained modest despite rising petroleum prices, and the burden of external debt service has declined. Yet significant structural weaknesses remain: steep import fees and cumbersome procedures hamper international trade; foreign direct investment is stagnant; and a real appreciation of the rupee is now undermining the competitiveness of exporters and import-competing businesses.

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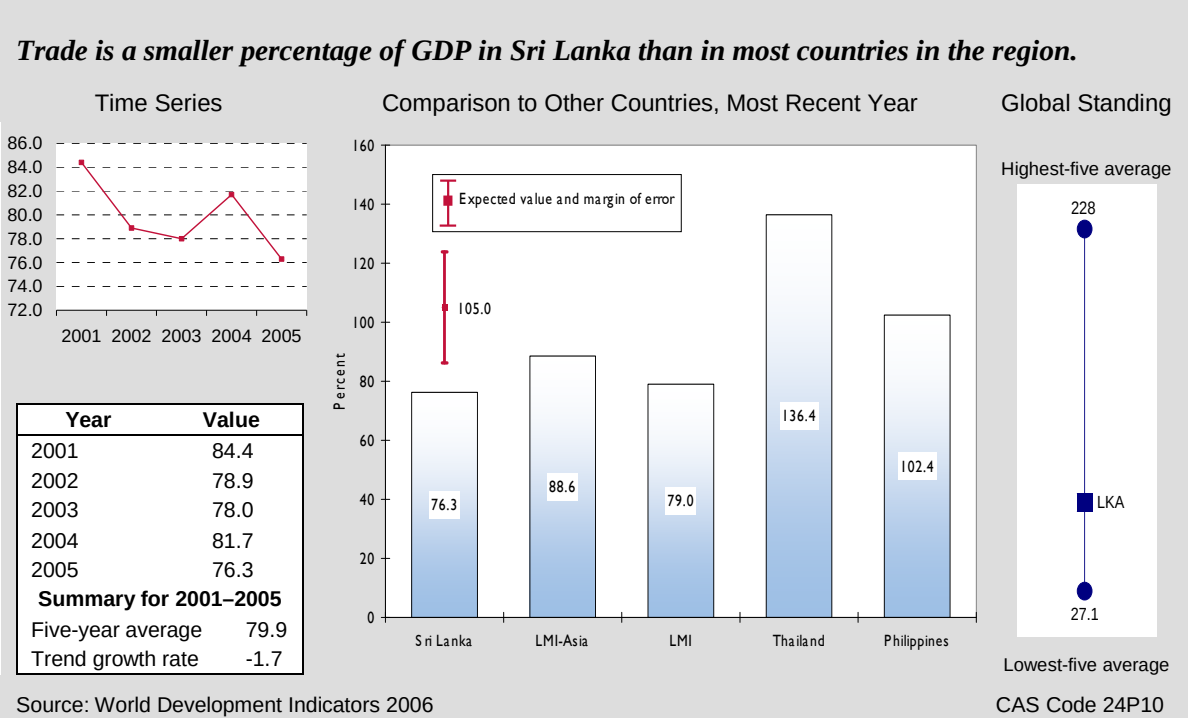
[30] Central Bank of Sri Lanka website.

[31] IMF, "High Interest Spreads in the Banking Sector," in *Sri Lanka: Selected Issues and Statistical Appendix*, June 30, 2005, 32–40.

International Trade and the Current Account Balance

Three decades after discarding the closed-economy model of development, Sri Lanka is still less active in international trade than many similar countries. In 2005, trade flows (imports plus exports of goods and services) equaled 76.3 percent of GDP. This is below the normal range for a country with Sri Lanka's characteristics as estimated by the benchmark regression (Figure 4-5). It is also far lower than the figures for Thailand (136.4 percent in 2004, the most recent year available) and the Philippines (102.4 percent in 2004). Moreover, trade as a percentage of GDP fell during the period 2001 to 2005, with the exception of a slight upturn in 2004.

Figure 4-5
Trade in Goods and Services, Percent of GDP



The comparatively low share of foreign trade in GDP suggests that more measures to enhance openness are needed to stimulate trade, investment, and productivity. Import barriers are a particular concern. Tariffs for most products range from 0 to 28 percent, but the government also levies a 10 percent surcharge on all dutiable imports and an additional levy of 10–20 percent on "nonessential" goods. The Office of the United States Trade Representative found that these charges amount to over 48 percent of the value of most imports of finished goods.[32] In addition, the Central Bank recently announced a 50 percent "margin deposit" for imports of nonessential goods, to limit bank credit to importers.[33] These barriers create extremely high levels of effective

[32] Office of the U.S. Trade Representative. "Sri Lanka." *2006 National Trade Estimate Report on Foreign Trade Barriers*, 600–01.

[33] "Sri Lanka Slaps Limits on Non-Essential Imports to Curb Credit Growth. *Lanka Business Online*, October 20, 2006.

protection that shield inefficient local producers while drawing resources away from other investments, including export activities. This is not a formula for rapid, sustainable growth.

Cumbersome import and export procedures also impair integration with world markets. The World Bank's *Doing Business in 2007* ranked Sri Lanka 99th among 175 economies for ease of trading across borders. The bank's estimates of the time needed to complete export and import procedures are 25 and 27 days, respectively. This suggests that trade procedures in Sri Lanka are somewhat more of an impediment than in the Philippines (18 days to export and 20 to import) or Thailand (24 days to export and 22 days to import). All of these countries, however, are far off the mark set by regional leaders such as Hong Kong (6 days to export and 5 to import) and Singapore (6 days to export and 3 days to import).

Despite the constraints, exports grew in U.S. dollar terms by 7.8 percent in 2004 and 7.5 percent in 2005. This is moderately good performance, but well below that of Thailand (9.6 percent growth in 2004) and the Philippines (14.1 percent growth in 2004). It is much better, however, than many observers expected in light of the January 2005 phaseout of global textile and apparel quotas. Indeed, some observers feared a collapse of the garment sector because of intensified competition from lower-cost producers. Yet provisional statistics from the Central Bank show a small *increase* in the dollar value of textile and apparel exports in 2005. Exports of tea and rubber products also grew in 2005, with higher prices magnifying the gains. These three products accounted for 41.7 percent of exports in 2004. This degree of export concentration indicates that Sri Lanka is vulnerable to specific market shocks, such as cyclical downturns in demand for garments or shifts in the world price for key commodities. Further diversification would provide a more resilient foundation for growth.

Another potential source of foreign exchange is tourism. This sector, however, has been constrained by the persistent conflict. Tourism barely survived during the 1980s and 1990s in Sri Lanka, while flourishing in other Asian countries. In 2001, tourism contributed less than 5 percent of Sri Lanka's export revenues, compared to 10 percent for Thailand.[34] Tourist arrivals jumped by nearly 70 percent between 2001 and 2004,[35] in the wake of the February 2002 ceasefire agreement—a strong sign that the sector could flourish with a durable peace.

Sri Lanka has run a low but persistent current account deficit in recent years. The deficit rose from 1.1 percent of GDP in 2001 to 3.0 percent in 2004, then fell back to 2.4 percent in 2005. The improvement in 2005 occurred despite a widening of the trade deficit. A jump in official transfers for post-tsunami assistance, and an increase in remittances, the other two main components of the current account balance, offset the deterioration in the trade account. Remittances from Sri Lankans overseas—primarily from unskilled laborers in the Middle East—rose by more than half from 2001 to 2005, reaching US$1.9 billion (Figure 4-6). Remittances financed more than 75 percent of the trade deficit in 2005 and amounted to 24.3 percent of the value of exports. In

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http://www.lankabusinessonline.com/fullstory.php?newsID=477098312&no_view=1&SEARCH_TERM=1, accessed October 25, 2006.

[34] World Bank. Sri Lanka: Improving the Rural and Urban Investment Climate, 66-67.

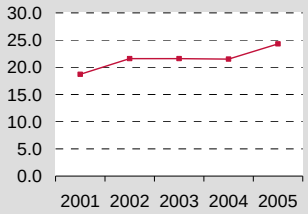
[35] Central Bank of Sri Lanka Annual Report – 2005, p. 89.

light of the increasing importance of remittances, policymakers should seek to improve the security and efficiency of cash transfer mechanisms and develop programs to channel a larger share into productive investments. The government's introduction of Nation Building Bonds is a step in this direction,[36] but the primary target should be to finance private investment.

Figure 4-6
Workers' Remittances, Percent of Exports

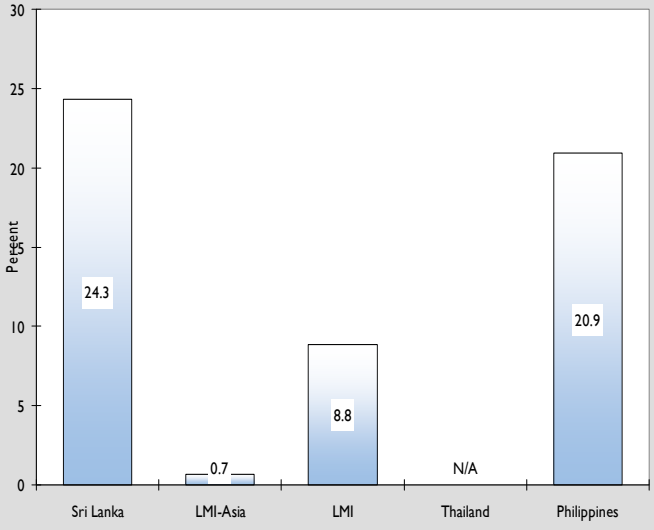
Workers' remittances have increased significantly since 2001, and particularly since the December 2004 tsunami.

Time Series

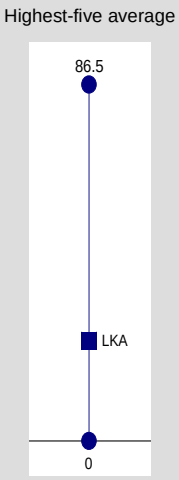


Year	Value
2001	18.7
2002	21.6
2003	21.6
2004	21.5
2005	24.3
Summary for 2001–2005	
Five-year average	21.5
Trend growth rate	5.3

Comparisons to other countries, most recent year



Global Standing



Source: World Development Indicators 2006

CAS Code: 24P9

Foreign Investment, External Debt, and the Exchange Rate

Foreign direct investment (FDI) can catalyze productivity gains by transferring technology, developing human capital, and enhancing competition. FDI flows into Sri Lanka totaled 1.0 percent of GDP in 2005,[37] slightly less than the 1.1 percent in 2001, before the ceasefire. The ratio of FDI to GDP is slightly higher than in Thailand (0.9 percent) or the Philippines (0.6 percent). Sri Lanka's rate, however, trails the LMI-Asia average of 1.3 percent, as well as the global LMI average of 2.1 percent and the regression benchmark of 2.2 percent.

An index of Inward FDI Potential compiled by UNCTAD suggests that the climate for attracting FDI is weak and deteriorating. On a scale of 0 (poorest) to 1 (best),[38] Sri Lanka's score of 0.115

[36] Ibid., 89 (for remittance totals and information on Nation Building Bonds).

[37] 2005 FDI figure ($272 million) from 2005 Central Bank Annual Report; 2005 GDP ($23,478,920,000) from World Development Indicators.

[38] UNCTAD, http://www.unctad.org/sections/dite_dir/docs/Potential_Index_2002-2004_en.pdf , accessed October 23, 2006. Inward FDI Potential Index scores are three-year moving averages. UNCTAD

for 2003 (latest year available) was well under the LMI-Asia average of 0.21 and the scores for Thailand (0.22) and the Philippines (0.21).[39] The 2005 Central Bank Annual Report states that "the government intends to attract more investment in the future, by identifying potential investors and encouraging them through various incentives,"[40] but the poor UNCTAD Index scores indicate that the top priority should be to improve the investment climate. In addition, as the World Bank's 2004 *Investment Climate Assessment* notes, "Achieving a permanent peace is undoubtedly the most important step Sri Lanka can take toward improving its investment climate."[41]

Our fiscal analysis showed that government debt is worryingly high. Even so, the country is not overly burdened by borrowing from abroad. The ratio of external debt service to export earnings declined from a moderate 11.6 percent in 2004 to a low 7.9 percent in 2005.[42] Contributing factors included a post-tsunami moratorium on Paris Club debt, combined with a rise in export earnings. Sri Lanka's external debt had a present value of 50.4 percent of GNI in 2004; while this exceeds the regression benchmark of 44.4 percent, it is not an alarming figure.

More problematic is the recent appreciation of the real effective exchange rate (REER), which threatens the competitiveness of domestic industries. After depreciating in real terms between 2002 and 2004, the rupee reversed course sharply in 2005. Using an index equaling 100 in 1995, the REER rose from 93.5 in August 2004 to 109.5 in August 2006, a jump of 17 percent in two years (Figure 4-7). This occurred because accelerating inflation has not been matched by an equal devaluation of the currency. Real appreciation of the rupee is reducing the competitiveness of Sri Lankan exports, as well as products sold locally in competition against imports. Export sectors that depend heavily on local inputs (e.g., processed rubber products) stand to suffer the most, while sectors with a high import content (e.g., apparel) are least affected. For producers in the domestic market, the government's decision to introduce new import barriers acts as a shield against import competition, but at the expense of breeding inefficiency and creating greater incentives for corruption. Solving the basic problem requires either a rapid reduction in the inflation rate or a faster devaluation of the rupee.

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names the scores based on the final year of scores; this report uses the middle year. Thus, the average for 2002–2004 is called the "2004 score" by UNCTAD and the "2003 score" in this report.

[39] UNCTAD. World Investment Report 2006: FDI from Developing and Transition Economies: Implications for Development, 278.

[40] Central Bank of Sri Lanka Annual Report 2005, 79.

[41] Ibid, 11.

[42] Ibid, 96. The Central Bank's reported debt service ratio for 2004 differs from the figure that appears in the World Development Indicators (8.51 percent).

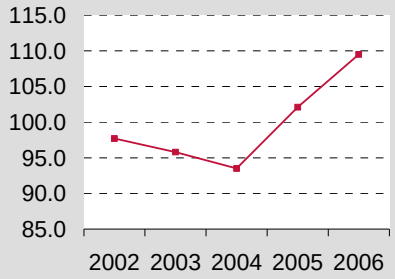
Figure 4-7
Real Effective Exchange Rate Index (2000=100)

The rupee depreciated in real terms between 2002 and 2004 but appreciated sharply in 2005 and 2006.

Time Series

Year	Value
2002	97.7
2003	95.8
2004	93.5
2005	102.1
2006	109.5
Summary for 2002–2006	
Five-year average	99.7
Trend growth rate	3.0

Time Series



Source: Central Bank of Sri Lanka 2006 CAS Code: 24S4

Foreign currency reserves also reversed course in 2005: after dropping from 3.5 months of import cover in 2003 to an alarmingly low 2.8 months in 2004, reserves rebounded to 3.4 months last year. This is still much lower, though, than the LMI-Asia average of 4.7 months or the regression benchmark of 4.8 months. The Central Bank attributes the increase in reserves to foreign currency loans from local and foreign commercial banks, the Paris Club debt repayment moratorium, tsunami-related donor support, and a large Asian Development Bank program loan.[43] The singular nature of the debt service moratorium and the tsunami-related inflows suggests that reserves could return to lower levels in the absence of such conditions.

ECONOMIC INFRASTRUCTURE

Infrastructure for transportation, communications, power, and information technology is necessary to improve competitiveness and expand productive capacity. For Sri Lanka, infrastructure quality indicators generally lag behind the benchmarks. For example, on the World Economic Forum's index of Overall Infrastructure Quality, (an ascending scale of 1 to 7), Sri Lanka's score for 2006 of 3.0 falls short of the LMI-Asia average of 3.5, and far below Thailand (5.0), though better than the Philippines (2.7). This index is derived from a survey of business perceptions in each country.

According to other World Economic Forum infrastructure scores, Sri Lanka, with a score of 3.7, is on par with the LMI-Asia average for port quality (3.6). Thailand gets a much better score of 4.7, while the Philippines lags behind at 2.7. The port of Colombo is widely regarded as a strength in the nation's infrastructure. For the quality of electricity services, Sri Lanka also appears to be doing reasonably well: its score of 3.7 is marginally higher than the LMI-Asia average of 3.6, with both figures in the midrange globally. This is an anomalous result, however, considering that the cost of electricity in Sri Lanka is high, urban services are erratic, and rural connectivity is poor. In fact, the 2004 World Bank/Asian Development Bank *Investment Climate*

[43] Ibid., 95.

Assessment finds that electricity is the number one constraint on urban manufacturing: "[W]here electricity is available, the cost is high and supply unreliable, exposing firms to frequent outages and raising their production costs."[44]

On railroad infrastructure quality, Sri Lanka performs dismally compared to the benchmarks. The country's score of 2.5 is well below the LMI average of 3.2. Rail now accounts for only 5 percent of freight transportation in Sri Lanka.[45] The combination of prolonged conflict and inadequate financial resources for maintenance has rendered the rail system unreliable and unprofitable. This has forced most commercial transporters to use roads, which are also in disrepair and ill equipped to handle the volume of traffic. Indeed, nearly 90 percent of the country's paved roads are in poor condition because of lack of maintenance, making transportation the biggest constraint on rural enterprises.[46] Because most of the country's agricultural exports and many manufactures originate outside Colombo, improved transportation infrastructure is critical for export competitiveness and for improving the access of rural communities to markets for both inputs and outputs. For air transportation, Sri Lanka's score of 4.1 is slightly above the LMI-Asia average of 3.7.

Despite the government's e-Sri Lanka initiative, Internet coverage remains low, especially in rural areas. Coverage has increased in recent years, albeit more slowly than elsewhere in the world, from 6.6 users per 1,000 people in 2000 to 14.5 in 2004. By comparison, the regression benchmark is 47.9 users per 1,000, and the LMI-Asia average is 44.2. Sri Lanka is clearly underperforming by a large margin in adopting information technology (Figure 4-8). Teledensity is better, but also growing more slowly than in many other countries of the region. The density rate, measured as the number of fixed plus mobile subscribers per 1,000 people, rose from 61.9 in 1999 to 164.9 in 2004, and reached 236 in 2005.[47] Although this is significant growth, it is just one-third the level in Thailand (499.1) and less than half that of the Philippines (310.7).

In general, the indicators available show that Sri Lanka's infrastructure seriously constrains investment, creates a drag on competitiveness, and significantly impedes development outside the Western Province. Meanwhile, the government's precarious fiscal situation imposes stringent limits on infrastructure investment. The problem is compounded by constraints on the flow of foreign aid because of the conflict and backpedaling on market-oriented reforms. The government must channel more resources urgently and more efficiently to infrastructure development, without resorting to excessive deficit spending that could trigger a macroeconomic crisis. This requires, above all, a peace agreement. But the government also needs to reevaluate its fiscal priorities, reconsider the direction of reforms to stimulate aid flows, and soften its position on private sector participation to tap more private capital for infrastructure investments.

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[44] World Bank/Asian Development Bank, Investment Climate Assessment, 2004, p. E-II.

[45] World Bank, Sri Lanka Transport Sector Overview, 2004.

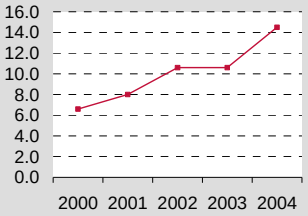
[46] World Bank/Asian Development Bank, Investment Climate Assessment, 2004, p. E-III.

[47] The figure for 2005 is from the Annual Report of the Central Bank of Sri Lanka.

Figure 4-8
Internet Users per 1,000 People

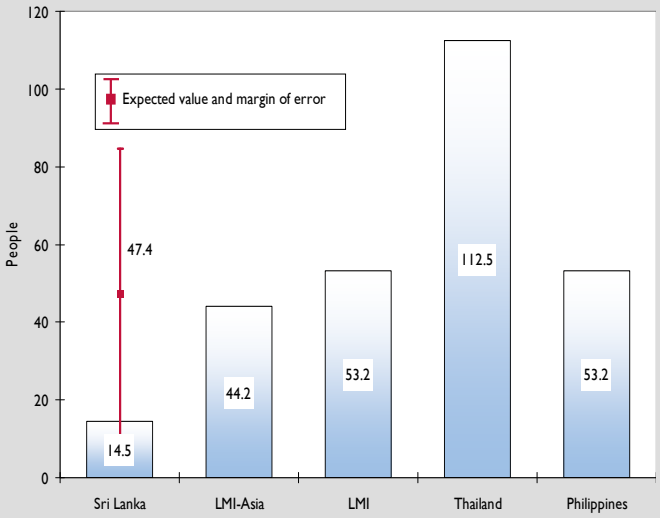
Though increasing, Internet connectivity is still extremely low, compromising Sri Lanka's competitiveness.

Time Series



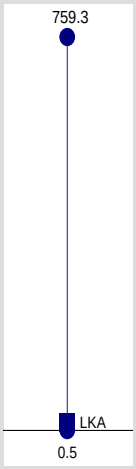
Year	Value
2000	6.6
2001	8.0
2002	10.6
2003	10.6
2004	14.5
Summary for 2000–2004	
Five-year average	10.0
Trend growth rate	20.5

Comparisons to other Countries, Most Recent Year



Global Standing

Highest-five average



Lowest-five average

Source: Global Competitiveness Report 2006

CAS Code: 25P1

SCIENCE AND TECHNOLOGY

Science and technology are central elements of a dynamic business environment and a driving force behind increased productivity and competitiveness. Even for low and lower-middle income countries, transformational development depends on acquiring and adapting technology from the global economy. Lack of capacity to access and utilize technology prevents an economy from leveraging the benefits of globalization. Unfortunately, few international indicators are available for judging performance in low and lower-middle income countries. Hence, one must draw inferences from a very limited set of proxies.

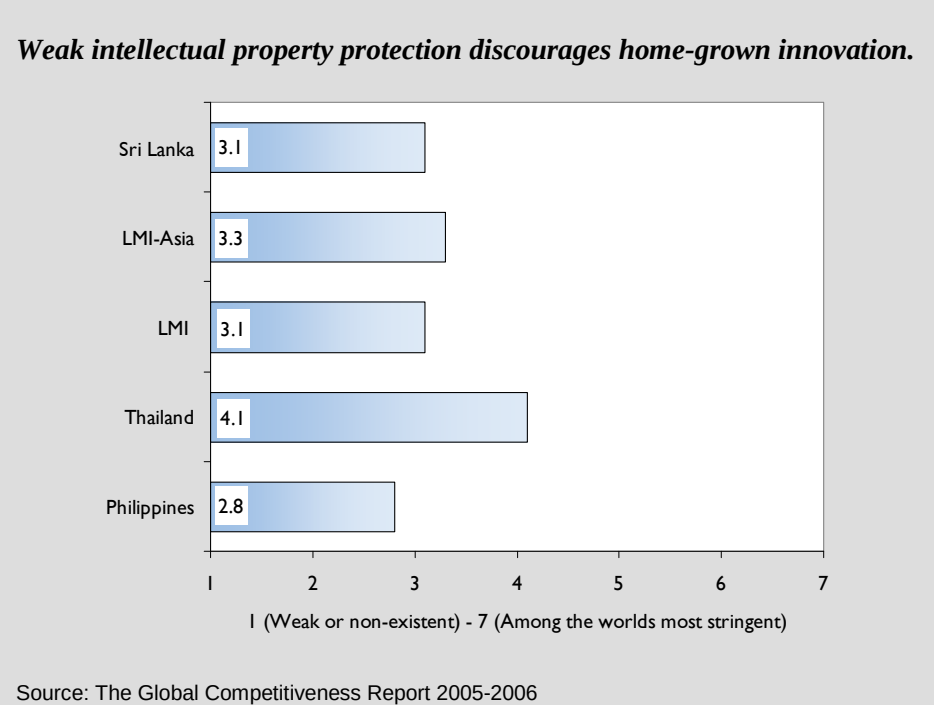
Indicators for Sri Lanka show that the country's science and technology capability is about average for its level of development. The World Economic Forum's FDI Technology Transfer Index gauges executive perceptions of the quality of FDI entering the country as a source of new technology. Sri Lanka scores 5.3 on an ascending scale of 1 to 7. This is slightly above the LMI-Asia average of 4.7 and on par with Thailand's score (5.4) and the Philippines score (5.0). For perspective, the average for the top five performers globally is 5.9. Although FDI is a major source of new technology, other indicators show that science and technology in Sri Lanka benefit also from homegrown resources. On a scale of 1 to 7, the WEF records a score of 4.5 for Sri Lanka on perceived availability of scientists and engineers. This exceeds the scores for the Philippines (3.9) and Thailand (4.4). The highest-ranking country on this index is Sri Lanka's dynamic neighbor, India, with a score of 6.4.

Sri Lanka's science and engineering community, however, is in the early stages of technical achievement. The National Science Foundation in the United States reports that Sri Lankans

produced only 5.5 science and engineering articles per million inhabitants between 2000 and 2003. For perspective, the OECD average is 489.8, whereas the figure for Thailand is 14.2. The Philippines trails with just 2.2 articles per million inhabitants. Although Sri Lanka's intellectual capital is good for a lower-middle-income country, low innovation may be linked to poor protection for intellectual property. In the WEF ratings (from 1 to 7), intellectual property rights protection in Sri Lanka obtains a score of 3.1, more than a full point below Thailand's score (4.9) and slightly above that of the Philippines (2.8) (Figure 4.9).

Figure 4-9

Intellectual Property Protection Index, Comparisons to Other Countries, Most Recent Year



Source: The Global Competitiveness Report 2005-2006

Science and technology education linked to productive employment is one of the best investments for driving growth. Thus, donor programs in workforce development can have a high payoff in the long term, particularly programs to stimulate sustainable institutional development in this area. Programs are also needed to enhance the demand for science and technology skills and to foster more skill-intensive investment, through reforms to improve the business environment.

5. Pro-Poor Growth Environment

Rapid growth is the most powerful and dependable instrument for poverty reduction, but the link from growth to poverty reduction is not mechanical. In some circumstances, income growth for poor households exceeds the overall rise in per capita income, while in other cases, the poor are left far behind. A pro-poor growth environment stems from policies and institutions that improve opportunities and capabilities for the poor while reducing their vulnerabilities. Pro-poor growth is associated with investment in primary health and education, the creation of jobs and income opportunities, the development of skills, microfinance, agricultural development (for countries such as Sri Lanka with large populations of rural poor), and gender equality. This section focuses on four of these issues: health, education, employment and the workforce, and agricultural development.

HEALTH

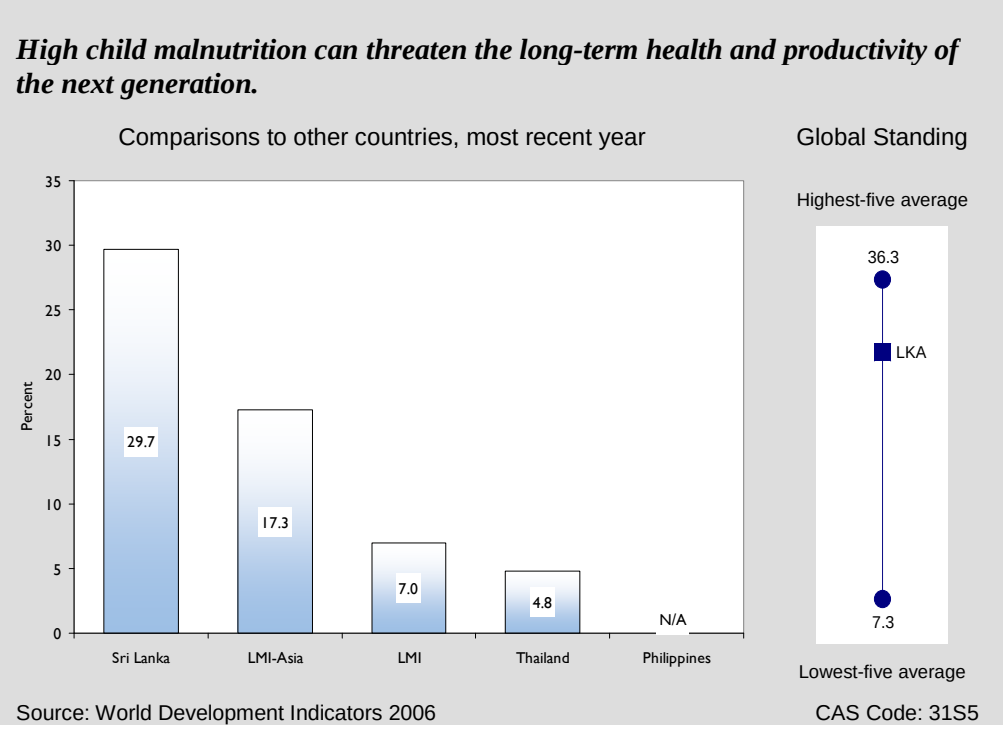
The provision of basic health service is a major form of investment in human capital, with benefits for growth and poverty reduction. Although health programs do not fall under the EGAT bureau, an understanding of health conditions can influence the design of economic growth interventions.

Sri Lanka has a well-established reputation for remarkably good public health conditions, despite fairly low levels of public expenditure. In 2005, public health spending accounted for just 1.7 percent of GDP, falling short of the MCC threshold of 1.9 percent for this indicator. By comparison, the LMI-Asia average is 3.1 percent of GDP. Thailand and the Philippines also have relatively low expenditure rates, at 2.0 percent and 1.1 percent of GDP, respectively. The funds are used well, however, because life expectancy is high (74.4 years, in 2004), and maternal mortality is low (92 per 100,000 live births, in 2000). Access to improved sanitation is also high (91 percent of the population, in 2002), providing important health benefits outside the realm of health programs, as such. HIV/AIDS is not a significant threat to public health, with a prevalence rate of 0.1 percent.

Despite excellent performance on many public health indicators, 29.7 percent of the children were malnourished (on the basis of weight for age) in 2000, a level startlingly higher than the LMI-Asia average of 17.3 percent, or Thailand's rate of 4.8 percent (Figure 5-1). The child immunization rate was at or near 99.0 percent from 2000 to 2003, before falling to 96.5 in 2004, indicating that efforts to prevent childhood disease may be slipping. Access to clean water is also a problem. In 2002 (latest year of data), 78.0 percent of the population had access to potable

water; this is below the LMI-Asia average of 84.5 percent, as well as the coverage in Thailand and the Philippines (both at 85.0 percent). The problem is pronounced in small towns and villages, where the World Bank estimates that only 40 percent have access to clean water. This vital health-related indicator reflects a lack of investment in water supplies in peripheral regions and conflict zones.

Figure 5-1
Prevalence of Child Malnutrition (Weight for Age)



In short, Sri Lanka deserves its reputation for triumph in public health, and yet important areas warrant attention, notably child malnutrition and clean water. The problems are most serious in poverty-stricken and conflict-prone regions. In this respect, the country's precarious fiscal position and escalating demands for military expenditure seriously impede progress. Donor support is therefore needed to deal with health deficiencies, in the interests of economic growth as well as social justice. In addition, the provision of better health services in areas vulnerable to conflict may help mitigate grievances and reduce tensions.

EDUCATION

Investment in human capital is a cornerstone for economic growth and development. Sri Lanka is unequivocally committed to universal primary education as well as widespread access to higher levels of schooling. As in the health sector, Sri Lanka's education indicators reveal laudable performance for a lower-middle-income country. UNESCO data show a net primary school enrollment rate of 97.1 for 2004, well above the regression benchmark (89.6) and the average for LMI-Asia (93.1). Gender-disaggregated statistics for 2003 show a negligible difference between the enrollment rates for males (98.4 percent) and females (98.8 percent). The enrollments are higher than in the Philippines (94.6 percent for females and 92.9 percent for males) and much

better than in Thailand (83.7 percent for females and 86.3 percent for males). Persistence in school to grade 5 is estimated at 96 percent for both boys and girls. This is far above the range predicted by the benchmark regression (72.6 percent to 86.6 percent). It is also much better than the average for LMI-Asia (91.5 percent). Moreover, according to the World Development Indicators, 2006, gross secondary school enrollment for both boys and girls was 80.1 percent, well above the 72.1 percent LMI mean and on par with enrollment in Thailand and the Philippines (85.2 percent and 83.9 percent respectively).

Even disparities across provinces are low, with primary school completion rates all falling between 97 percent and 93 percent.[1] It is remarkable to see such a high primary school completion rate in a largely rural economy with widespread poverty. One would expect financial pressures to draw children into the workforce at an early age to assist their parents in earning income. Hence, the numbers reflect Sri Lanka's strong commitment to ensuring that every child has the benefit of primary education, and a policy regime that supports this goal by providing tuition-free public schools, access to education within 3 kilometers from home, free school uniforms, subsidized transport to and from school, and enrollment drives at grade 1.[2]

WDI statistics show a slight decrease in the youth literacy rate between 2000 and 2004, from 96.8 percent to 95.6 percent. These figures are below the average for LMI-Asia (98.6). Sri Lanka should strive to reverse this trend.

The country's impressive education outcomes have been achieved with a very low level of central government expenditure on primary schooling. This spending amounts to just 0.8 percent of GDP, whereas the average for LMI-Asia is 1.7 percent. Low investment in primary education is a warning sign that Sri Lanka's fiscal constraints, including military spending, may be undermining the quality of primary education and impairing the prospects for future economic growth and equity.

EMPLOYMENT AND WORKFORCE

Between 2002 and 2004, the labor force grew at an average rate of more than 1.5 percent per year, compared to a population growth rate of 1.2 percent. Given the youthful population and low mortality rate in Sri Lanka, workers are entering the labor force in increasing numbers and staying longer. This has serious implications for job creation. To the extent that entrants to the labor force are not productively engaged, there are also ramifications for conflict and political instability.

In 2004, the labor force participation rate for males was 66.7 percent. For females, the rate was just 31.5 percent. Although gender equity is exemplary in education and other social indicators, these benefits do not translate into the job market. Despite similar levels of education, women are less likely to work than their male counterparts, and those who do are more likely to be confined to low-productivity agricultural activities or have limited earning potential in non-farm jobs.

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[1] World Bank, Attaining the Millennium Development Goals in Sri Lanka, 2005, 46.

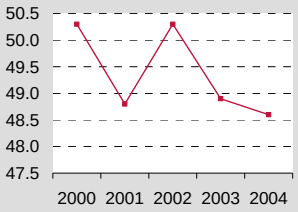
[2] World Bank, Attaining the Millennium Development Goals in Sri Lanka, 2005, p. 46.

These indicators point to untapped potential, as well as an inherent risk. The overall labor force participation rate (48.6 percent) is much lower for Sri Lanka than the average for other LMI countries in Asia (59.9 percent) and far below the regression benchmark (79.3 percent) (Figure 5-2).[3] Unsurprisingly, participation rates in the Northern and Eastern provinces are especially low (averaging 38 percent and 42 percent, respectively).[4]

Figure 5-2
Labor Force Participation Rate (total)

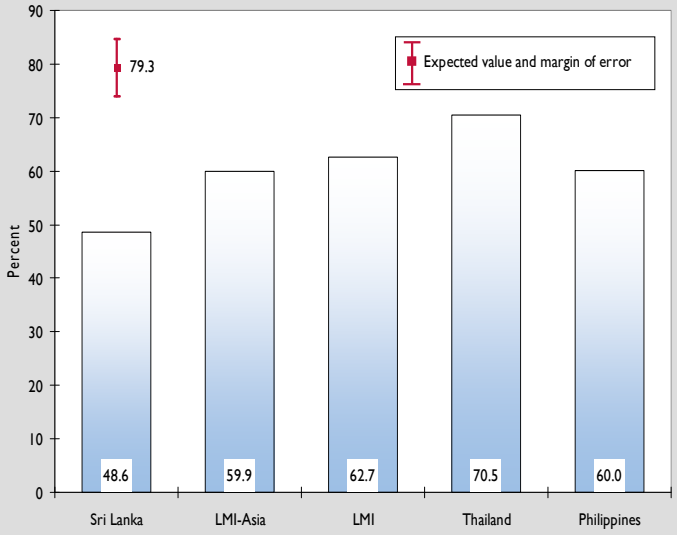
Low labor force participation by regional standards may reflect the conflict's drain on productive resources.

Time Series

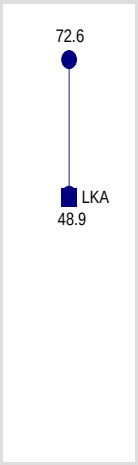


Year	Value
2000	50.3
2001	48.8
2002	50.3
2003	48.9
2004	48.6
Summary for 2000–2004	
Five-year average	67.6
Trend growth rate	-0.7

Comparisons to other Countries, Most Recent Year



Global Standing



Source: World Development Indicators 2006

CAS Code: 33P1a

For those who are in the labor force, unemployment is a persistent problem. The official unemployment rate in 2004 was 8.3 percent in 2004. Breaking this down by education level, the unemployment rate for those with less than a fifth-grade education was 5.4 percent. By contrast, the unemployment rate for those with advanced level education was 31.7 percent.[5] With regards to age groups, by far the highest rates of unemployment are for youth aged 15 to 19 (28.3 percent) and those aged 20 to 29 (19.2 percent). For all older age groups, unemployment is 4 percent or less. These statistics point to a major disconnect between the services provided by the education sector and the skill set required by potential employers.

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[3] The low labor force participation rates are partially due to the way the labor force is defined. In most countries total labor force is measured as those in the country between the ages of 15 and 65; in Sri Lanka it is measured as those between the ages of 10 and 65. Because Sri Lanka has a high secondary school enrollment rate, this definition greatly reduces the size of labor force participation.

[4] Department of Census and Statistics, *Report of the Sri Lanka Labour Force Survey*,2004, 3.

[5] Department of Census and Statistics, Annual Labor Force Survey, 2004. This is the source for all of the unemployment data in this paragraph.

Without adequate job opportunities, idle and disaffected workers are more easily drawn into the conflict. Employment creation should be a top priority throughout the island. Several times in the past few years, the civil service has absorbed university graduates unable to find work. This is an unsustainable answer to a pervasive problem; furthermore, the increased government payroll is a heavy burden on the budget. A more efficient response involves programs to develop marketable job skills, including basic training in information technology and better English, as well as vocational skills such as construction. Programs on the supply side of the labor market should be complemented by policy changes that increase the rate of job creation. For example, many tax incentives favor capital-intensive over labor-intensive investments. Suitable reforms can eliminate these implicit biases against job creation.

Labor market regulations severely impede job creation by making it much more costly and difficult for employers to commit to hiring new workers. The World Bank, in its Doing Business survey, compiles a Rigidity of Employment Index based on data relating to the ease of hiring and firing workers. On a scale of 0 to 100 (where 0 is least rigid), Sri Lanka scores 27, compared to an average of 18 for LMI-Asia. Closer examination of the index reveals that Sri Lanka has a best-possible score of 0 on the difficulty of hiring, while the difficulty in firing score is an astronomical 60. In the global ranking, the latter is exceeded by only a handful of nations with truly awful policy environments, such as Angola, Chad, and the Democratic Republic of Congo. Because Sri Lanka competes against regional counterparts for FDI and global counterparts in the export sector, this rigidity seriously hinders job creation, especially in the more innovative sectors of the economy. For example, the burden of being unable to fire an unproductive worker is far less burdensome for a tea plantation than for a small entrepreneurial IT firm. Dealing with these labor market rigidities is very difficult, however, because of the influence of Sri Lanka's 1,650 labor unions, which wield considerable political power.[6]

The fact that labor market rigidity impairs investment and job creation is an ironic side-effect of rules adopted to protect workers. For that reason, many governments view the idea of labor market reform as political suicide. Yet it is essential to promote more rapid expansion of productive work opportunities, especially for young job seekers. Experience in other countries suggests that donors may have a better chance of promoting labor market reforms through policy studies and dialogue to improve the public's understanding of the advantages to labor of expanding job opportunities made possible by a more competitive economy. In addition to seeking a reduction in labor market rigidities, donors should pursue programs that improve job skills and entrepreneurial skills.

AGRICULTURE

In the Economic Structure section, we saw that 34.3 percent of the labor force is engaged in agriculture, while generating only 17.8 percent of GDP. This implies that average labor productivity is low in agriculture compared to productivity in manufacturing and services. More direct data show that value added per worker in agriculture in Sri Lanka matches the average for LMI-Asia, at $745 (in constant 2000 prices); however, this gauge of productivity has increased at

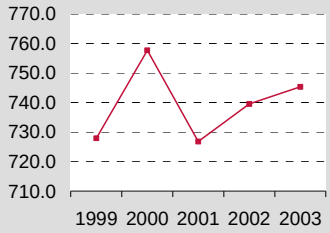
[6] US Department of State, Sri Lanka Background Notes, October 2006.

a lackluster rate of 0.4 percent per year for the past five years, far below the regression benchmark of 3.1 percent (Figure 5-3).

Figure 5-3
Agriculture Value Added per Worker (U.S. dollars)

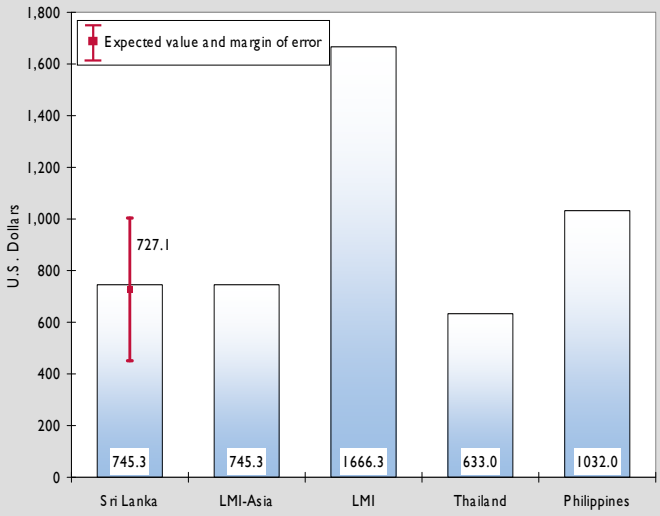
There is great potential for gains in agricultural productivity, including gains from a market-driven reallocation of resources to higher-value crops.

Time Series



Year	Value
1999	727.9
2000	757.7
2001	726.8
2002	739.5
2003	745.3
Summary for 1999–2003	
Five-year average	744.2
Trend growth rate	-0.4

Comparisons to Other Countries, Most Recent Year



Source: World Development Indicators 2006 CAS Code: 34P1

FAO data on agricultural production confirm that the sector has been far from dynamic. The FAO estimates an index of crop production that is defined to equal 100.0 in the base period 1989–1991. Using a five-year average for the period to 2004, to smooth out fluctuations, the index value of 99.0 for Sri Lanka shows that production is virtually unchanged from 15 years ago. Sluggish growth in crop production has been a drag on overall economic performance and a major constraint on poverty reduction.

Low growth in production does not mean that the yield is low. On the contrary, the FAO reports impressive cereal yields for Sri Lanka, averaging 3,438 kilograms per hectare in 2005. This is well above the LMI-Asia average of 2,804 kilograms per hectare and above the average yields in Thailand (2,723) and the Philippines (3,023). The very high level of land productivity (but not labor productivity) reflects the government's long-standing goal of self-sufficiency in rice production. This achievement, however, comes at a cost in the form of fertilizer subsidies, price supports, and import restrictions that drive up the price for consumers. These policies have succeeded in achieving their direct objective, but artificial support for paddy cultivation creates incentives that slow the diversification of agriculture into higher-value crops and therefore retard growth. In addition, fiscal subsidies and transfers impose a heavy burden on the budget, accounting for 1 out of 5 rupees of expenditure. Despite the subsidies, many irrigation systems

are poorly maintained or have limited coverage, leaving much of the sector dependent on rainfall. Thus, a drought in 2004 caused a 10 percent reduction in paddy output.[7]

Another indicator reinforces the view that the policy regime for agriculture is in need of reform. For 2006, Sri Lanka receives a score of 3.4 in the World Economic Forum's index of Agricultural Policy Cost, on a scale ranging from 1 (excessively burdensome) to 7 (well balanced). By this measure, agricultural policy in Sri Lanka is more burdensome than the average for LMI-Asia (4.1) and the policy regime in Thailand (4.4) and the Philippines (3.8). Because this is a survey measure of perception by business leaders, the low score shows that commercial farmers and agribusiness executives view government policy as inhibiting development of the sector.

Together, these indicators demonstrate a need for invigorating agriculture through reforms to strengthen the role of market signals, enhance the incentives for diversification, and improve the climate for efficient private investment in farm products and agribusiness. Other reasons for agriculture's lackluster performance include poorly operating extension services from the government; inadequate availability of high-yielding seed and planting materials; high post-harvest losses; difficulties with market access and storage; restrictions in the land market; and inefficient water management.[8]

Weak performance in agriculture is especially troubling in conjunction with the low rate of urbanization and widespread rural poverty in Sri Lanka. These characteristics suggest that the policy regime has worked against the grain of structural transformation and urbanization, which would be normal concomitants of rising productivity in agriculture.

Programmatically, donors can address these issues through a variety of approaches, such as supporting improvements in private-sector marketing channels for inputs and outputs, providing technical assistance in processing and marketing, facilitating reforms of the systems for land titling and water management, reducing distortionary import barriers, and—above all—improving the rural infrastructure.

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[7] Central Bank, Recent Economic Developments, 2004.

[8] Ibid.

Appendix. CAS Methodology

CRITERIA FOR SELECTING INDICATORS

The economic performance evaluation is designed to balance the need for broad coverage and diagnostic value, on the one hand, and the requirement of brevity and clarity, on the other. The analysis covers 15 economic growth–related topics, and just over 100 variables. For the sake of brevity, the write-up in the text highlights issues for which the "dashboard lights" appear to be signaling problems, which suggest possible priorities for USAID intervention. The accompanying table provides a full list of indicators examined for this report. The Data Supplement contains the complete data set for Sri Lanka, including data for the benchmark comparisons, and technical notes for every indicator.

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

When Level I indicators suggest weak performance, we review a limited set of *diagnostic supporting indicators*. These Level II indicators provide additional details, or shed light on *why* the primary indicators may be weak. For example, if economic growth is poor, one can examine data on investment and productivity as diagnostic indicators. If a country performs poorly on educational achievement, as measured by the youth literacy rate, one can examine determinants such as expenditure on primary education, and the pupil–teacher ratio.[1]

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

[1] Deeper analysis of the topic using more detailed data (Level III) is beyond the scope of this series.

accruing to the poorest 20 percent of households can be used to gauge income inequality. We use the income share because it is simpler and more sensitive to changes.

BENCHMARKING METHODOLOGY

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

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

Finally, where relevant, Sri Lanka's performance is weighed against absolute standards. For example, if the corruption perception index for a given country is below 3.0, this is a sign of serious economic governance problems, regardless of the regional comparisons or regression result.

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

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

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

[5] This report uses a margin of error of 0.66 times the standard error of estimate (adjusted for heteroskedasticity, where appropriate). With this value, 25 percent of the observations should fall outside the normal range on the side of poor performance (and 25 percent 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.

STANDARD CAS INDICATORS

Indicator	Level	MDG, MCA, or EcGov[a]
Growth Performance		
Per capita GDP, $PPP	I	
Per capita GDP, current US$	I	
Real GDP growth	I	
Growth of labor productivity	II	
Investment Productivity (Incremental Capital-Output Ratio [ICOR])	II	
Gross fixed investment, % GDP	II	
Gross fixed private investment, % GDP	II	
Poverty and Inequality		
Human poverty index	I	
Income-share, poorest 20%	I	
Population living on less than $1 PPP per day	I	MDG
Poverty headcount, by national poverty line	I	MDG
PRSP Status	I	EcGov
Population below minimum dietary energy consumption	II	MDG
Poverty gap at $1 PPP a day	II	
Economic Structure		
Labor force structure	I	
Output structure	I	
Demography and Environment		
Adult literacy rate	I	
Age dependency rate	I	
Environmental sustainable index	I	
Population size and growth	I	
Urbanization rate	I	
Gender		
Adult literacy rate, ratio of male to female	I	MDG
Gross enrollment rate, all levels, ratio of male to female,	I	MDG
Life expectancy at birth, ratio of male to female	I	
Fiscal and Monetary Policy		
Govt. expenditure, % GDP	I	EcGov
Govt. revenue, % GDP	I	EcGov
Growth in the money supply	I	EcGov
Inflation rate	I	MCA
Overall govt. budget balance, including grants, % GDP	I	EcGov

Indicator	Level	MDG, MCA, or EcGov[a]
Composition of govt. expenditure	II	
Composition of govt. revenue	II	
Composition of money supply growth	II	
Business Environment		
Corruption perception index	I	EcGov
Doing business composite index	I	EcGov
Rule of law index	I	MCA, EcGov
Cost of starting a business, % GNI per capita	II	EcGov
Procedures to enforce contract	II	EcGov
Procedures to register property	II	EcGov
Procedures to start a business	II	EcGov
Time to enforce a contract	II	EcGov
Time to register property	II	EcGov
Time to start a business	II	EcGov
Financial Sector		
Domestic credit to private sector, % GDP	I	
Interest rate spread	I	
Money supply, % GDP	I	
Stock market capitalization rate, % of GDP	I	
Cost to create collateral	II	
Country credit rating	II	MCA
Legal rights of borrowers and lenders index	II	
Real Interest rate	I	
External Sector		
Aid , % GNI	I	
Current account balance, % GDP	I	
Debt service ratio, % exports	I	MDG
Export growth of goods and services	I	
Foreign direct investment, % GDP	I	
Gross international reserves, months of imports	I	EcGov
Gross Private capital inflows, % GDP	I	
Present value of debt, % GNI	I	
Remittance receipts, % exports	I	
Trade, % GDP	I	
Concentration of Exports	II	
Inward FDI Potential Index	II	

Indicator	Level	MDG, MCA, or EcGov[a]
Net barter terms of trade	II	
Real effective exchange rate (REER)	II	EcGov
Structure of merchandise exports	II	
Trade policy index	II	MCA, EcGov
Economic Infrastructure		
Internet users per 1000 people	I	MDG
Overall infrastructure quality	I	EcGov
Telephone density, fixed line and mobile	I	MDG
Quality of infrastructure—railroads, ports, air transport, and electricity	II	
Telephone cost, average local call	II	
Science and Technology		
Expenditure for R&D, % GNI	I	
FDI and technology transfer index	I	
Patent applications filed by residents	I	
Health		
HIV prevalence	I	
Life expectancy at birth	I	
Maternal mortality rate	I	MDG
Access to improved sanitation	II	MDG
Access to improved water source	II	MDG
Births attended by skilled health personnel	II	MDG
Child immunization rate	II	
Prevalence of child malnutrition (weight for age)	II	
Public health expenditure, % GDP	II	EcGov
Education		
Net primary enrollment rate	I	MDG
Persistence in school to grade 5	I	MDG
Youth literacy rate	I	
Education expenditure, primary, % GDP	II	MCA, EcGov
Expenditure per student, % GDP per capita—primary, secondary, and tertiary	II	EcGov
Pupil-teacher ratio, primary school	II	
Employment and Workforce		
Labor force participation rate, females, males, total	I	
Rigidity of employment index	I	EcGov

Indicator	Level	MDG, MCA, or EcGov[a]
Size and growth of the labor force	I	
Unemployment rate	I	
Agriculture		
Agriculture value added per worker	I	
Cereal yield	I	
Growth in agricultural value-added	I	
Agricultural policy costs index	II	EcGov
Crop production index	II	
Livestock production index	II	

[a] *Level I = primary performance indicators, Level II = supporting diagnostic indicators*
MDG—Millennium Development Goal indicator
MCA—Millennium Challenge Account indicator
EcGov—Major indicators of economic governance, which is defined in USAID's Strategic Management Interim Guidance to include "microeconomic and macroeconomic policy and institutional frameworks and operations for economic stability, efficiency, and growth." The term therefore encompasses indicators of fiscal and monetary management, trade and exchange rate policy, legal and regulatory systems affecting the business environment, infrastructure quality, and budget allocations.

Sri Lanka
Data Supplement

Full Dataset: Sri Lanka and Benchmark Comparisons 1

Technical Notes 16

	Growth Performance						
	Per capita GDP, purchasing power parity Dollars	Per capita GDP, current U.S. Dollars	Real GDP growth	Growth of labor productivity	Investment productivity-incremental capital-output ratio (ICOR)	Share of gross fixed investment in GDP, current prices	Share of gross fixed private investment in GDP, current prices
Indicator Number	**11P1**	**11P2**	**11P3**	**11S1**	**11S2**	**11S3**	**11S4**
Sri Lanka Data							
Latest Year (T)	***2005***	***2005***	***2005***	***2004***	***2005***	***2005***	***2005***
Value Year T	4,384	1,200	6.0	4.1	5.9	26.4	21.1
Value Year T-1	4,097	1,031	5.4	4.3	6.0	25.0	22.8
Value Year T-2	3,829	949	6.0	2.0	6.4	22.0	19.8
Value Year T-3	3,582	870	4.0	1.2	7.1	20.9	19.1
Value Year T-4	3,435	841	-1.5	3.5	6.4	22.0	19.0
Average Value, 5 year	3,865	978	4.0	3.0	.	23.2	20.4
Growth Trend	6.4	9.2	.	17.3	.	5.6	3.9
Benchmark Data							
Regression Benchmark	.	.	5.1	.	.	23.9	.
Lower Bound	.	.	3.8	.	.	21.3	.
Upper Bound	.	.	6.4	.	.	26.5	.
Latest Year Thailand	***2005***	***2005***	***2005***	***2003***	***2003***	***2003***	***.***
Thailand Value Latest Year	8,368	2,659	4.5	5.8	4.8	24.0	.
Latest Year Philippines	***2005***	***2005***	***2005***	***2003***	***2003***	***2003***	***.***
Philippines Value Latest Year	4,923	1,168	5.0	1.8	4.6	18.1	.
LMI-Asia Average	6,193	1,504	3.2	2.5	4.8	23.1	.
LMI Average	5,323	2,298	4.5	1.8	5.6	22.3	.
High Five Avg.	45,202	58,939	12.9	14.1	70.2	48.6	.
Low Five Avg.	698	132	-1.2	-13.3	-302.9	7.7	.

	Poverty and Inequality						
	Human poverty index	Income share accruing to poorest 20%	Population (%) living on less than $1 PPP per day	Poverty headcount (%), by national poverty line	PRSP Status	Population (%) below minimum dietary energy consumption	Poverty gap at $1 PPP a day
Indicator Number	**12P1**	**12P2**	**12P3**	**12P4**	**12P5**	**12S1**	**12S2**
Sri Lanka Data							
Latest Year (T)	***2003***	***2002***	***2002***	***2002***	***2002***	***2003***	***2002***
Value Year T	18.0	4.8	5.5	22.7	Yes	22.0	0.8
Value Year T-1	18.2	.	.	.	.	25.0	.
Value Year T-2	18.3	.	7.6	.	.	.	1.5
Value Year T-3	.	.	.	.	.	.	.
Value Year T-4	.	.	.	.	.	.	.
Average Value, 5 year	.	.	.	.	.	.	.
Growth Trend	.	.	.	.	.	.	.
Benchmark Data							
Regression Benchmark	25.0	7.0	13.1	27.5	.	16.4	.
Lower Bound	19.3	6.2	5.8	19.3	.	8.4	.
Upper Bound	30.6	7.9	20.3	35.6	.	24.4	.
Latest Year Thailand	***2003***	***2002***	***2002***	***.***	***.***	***2001***	***2000***
Thailand Value Latest Year	12.8	6.3	2.0	.	.	19.0	0.5
Latest Year Philippines	***2003***	***2000***	***2000***	***.***	***.***	***2001***	***2000***
Philippines Value Latest Year	16.3	5.4	15.5	.	.	22.0	3.0
LMI-Asia Average	17.2	8.4	7.4	.	.	19.0	1.3
LMI Average	16.3	8.1	4.2	.	.	11.0	1.2
High Five Avg.	60.6	8.7	33.5	41.2	.	66.0	11.8
Low Five Avg.	4.1	5.9	2.0	37.1	.	3.0	0.5

	Economic Structure					
	Employment or labor force in agriculture, % total	Employment or labor force in industry, % total	Employment or labor force in services, % total	Output structure (agriculture, value added, % GDP)	Output structure (industry, value added, % GDP)	Output structure (services, etc., value added, % GDP)
Indicator Number	**13P1a**	**13P1b**	**13P1c**	**13P2a**	**13P2b**	**13P2c**
Sri Lanka Data						
Latest Year (T)	***2005***	***2005***	***2005***	***2005***	***2005***	***2005***
Value Year T	30.7	24.5	44.8	17.2	27.0	55.8
Value Year T-1	33.5	22.8	43.7	17.9	26.4	55.6
Value Year T-2	34.3	23.4	38.7	17.8	26.8	55.4
Value Year T-3	35.1	23.8	36.7	19.0	26.4	54.6
Value Year T-4	.	.	.	20.5	26.3	53.2
Average Value, 5 year	33.4	23.6	41.0	18.5	26.6	54.9
Growth Trend	-4.2	0.6	7.5	-4.0	0.5	1.1
Benchmark Data						
Regression Benchmark	.	.	.	21.1	30.8	.
Lower Bound	.	.	.	15.0	24.8	.
Upper Bound	.	.	.	27.1	36.8	.
Latest Year Thailand	***2003***	***2003***	***2003***	***2004***	***2004***	***2004***
Thailand Value Latest Year	44.9	19.7	35.3	10.1	43.5	46.4
Latest Year Philippines	***2001***	***2001***	***2001***	***2004***	***2004***	***2004***
Philippines Value Latest Year	37.4	15.6	47.0	13.6	32.5	53.9
LMI-Asia Average	45.3	17.5	37.3	14.6	43.6	46.3
LMI Average	24.2	20.9	51.2	12.2	30.4	54.7
High Five Avg.	41.5	37.1	72.8	56.0	66.2	77.7
Low Five Avg.	0.3	12.9	36.0	0.8	12.3	15.4

	Demography and Environment						Gender		
	Adult literacy rate	Age dependency rate	Environmental sustainability index	Population size (millions)	Population growth rate	Urbanization rate	Ratio of male to female - adult literacy rate	Ratio of male to female - gross enrollment rate, all levels	Ratio of male to female - life expectancy at birth
Indicator Number	**14P1**	**14P2**	**14P3**	**14P4a**	**14P4b**	**14P5**	**15P1**	**15P2**	**15P3**
Sri Lanka Data									
Latest Year (T)	***2003***	***2004***	***2005***	***2004***	***2004***	***2004***	***2004***	***2003***	***2004***
Value Year T	90.7	0.46	48.5	19.4	0.9	21.1	1.04	0.97	0.93
Value Year T-1	92.1	0.47	.	19.3	1.3	21.1	1.04	0.97	0.93
Value Year T-2	91.9	0.47	.	19.0	1.5	21.1	1.06	.	0.92
Value Year T-3	91.6	0.48	51.3	18.7	.	21.1	.	.	.
Value Year T-4	91.4	0.49	.	19.4	1.7	21.1	.	.	0.93
Average Value, 5 year	91.5	0.47	.	19.2	1.3	21.1	1.05	.	0.93
Growth Trend	-0.1	-1.46	.	1.1	.	-0.1	.	.	.
Benchmark Data									
Regression Benchmark	81.6	0.63	48.7	.	1.5	33.7	.	.	.
Lower Bound	72.6	0.57	45.0	.	1.1	24.5	.	.	.
Upper Bound	90.7	0.69	52.4	.	2.0	42.9	.	.	.
Latest Year Thailand	***2004***	***2004***	***2005***	***2004***	***2004***	***2004***	***2003***	***2003***	***2003***
Thailand Value Latest Year	92.7	0.45	49.8	63.7	0.9	32.2	1.05	1.00	0.90
Latest Year Philippines	***2004***	***2004***	***2005***	***2004***	***2004***	***2004***	***2003***	***2003***	***2003***
Philippines Value Latest Year	92.6	0.65	42.3	81.6	1.8	61.8	1.00	0.96	0.94
LMI-Asia Average	94.7	0.67	48.5	0.3	1.3	33.5	1.03	0.99	0.94
LMI Average	87.8	0.58	47.8	8.0	1.4	57.0	1.03	0.99	0.93
High Five Avg.	99.7	1.03	72.6	607.0	4.6	100.0	2.48	1.59	1.02
Low Five Avg.	35.7	0.38	32.6	0.0	-0.8	9.0	0.91	0.86	0.84

	Fiscal and Monetary Policy									
	Government expenditure, % GDP	Government revenue, % GDP	Growth in the broad money supply	Inflation rate	Budget Surplus/Deficit (% of GDP)	Composition of government expenditure (wages and salaries)	Composition of government expenditure (goods and services)	Composition of government expenditure (interest payments)	Composition of government expenditure (subsidies and other current transfers)	Composition of government expenditure (other expenditure)
Indicator Number	**21P1**	**21P2**	**21P3**	**21P4**	**21P5**	**21S1a**	**21S1b**	**21S1c**	**21S1d**	**21S1e**
Sri Lanka Data										
Latest Year (T)	***2005***	***2005***	***2005***	***2005***	***2005***	***2005***	***2005***	***2005***	***2005***	***2005***
Value Year T	24.7	16.1	19.1	10.6	-8.7	25.4	11.2	21.5	20.8	21.1
Value Year T-1	23.5	15.3	19.6	7.9	-8.2	22.3	12.2	25.1	22.1	18.3
Value Year T-2	24.0	15.9	15.3	2.6	-8.1	.	.	.	.	.
Value Year T-3	25.5	16.6	13.4	10.2	-8.9	.	.	.	.	.
Value Year T-4	27.5	16.7	13.6	12.1	-10.8	.	.	.	.	.
Average Value, 5 year	25.0	16.1	16.2	8.7	-8.9	.	.	.	.	.
Growth Trend	-2.9	-1.4	11.2	-5.1	.	.	.	.	.	.
Benchmark Data										
Regression Benchmark	21.0	21.8	16.9	4.6	-2.2	.	.	.	.	.
Lower Bound	17.0	17.6	8.4	1.3	-3.9	.	.	.	.	.
Upper Bound	25.1	26.1	25.4	7.9	-0.6	.	.	.	.	.
Latest Year Thailand	***2004***	***2004***	***2004***	***2005***	***2004***	***2003***	***2003***	***2003***	***2003***	***2003***
Thailand Value Latest Year	17.3	19.6	6.3	4.5	0.3	34.3	17.6	6.7	24.5	17.0
Latest Year Philippines	***2005***	***2004***	***2005***	***2005***	***2005***	**.**	**.**	**.**	**.**	**.**
Philippines Value Latest Year	24.4	14.8	14.1	7.6	-3.1	.	.	.	.	.
LMI-Asia Average	20.6	19.5	14.0	3.7	-3.6	.	.	.	.	.
LMI Average	18.4	18.8	14.4	5.3	-1.3	.	.	.	.	.
High Five Avg.	43.7	44.1	134.4	53.7	3.9	52.5	47.7	18.8	71.8	22.1
Low Five Avg.	12.1	8.6	-8.5	0.5	-8.1	6.2	6.0	1.9	2.6	0.3

	Fiscal and Monetary Policy (cont'd)										
	Composition of government revenue (Taxes of income, profits and capital gains)	Composition of governement revenue (Taxes on goods and services)	Composition of government revenue (Taxes on international trade)	Composition of government revenue (Other taxes)	Composition of government revenue (Non-Tax Revenue)	Grants (% of revenue)	Composition of money supply growth (Net credit to government)	Composition of money supply growth (Credit to the private sector)	Composition of money supply growth (Net credit to non-financial public enterprises)	Composition of money supply growth (Net foreign assets)	Composition of money supply growth (Other items, net)
Indicator Number	**21S2a**	**21S2b**	**21S2c**	**21S2d**	**21S2e**	**21S2f**	**21S3a**	**21S3b**	**21S3c**	**21S3d**	**21S3e**
Sri Lanka Data											
Latest Year (T)	***2005***	***2005***	***2005***	***2005***	***2005***	***2005***	***2005***	***2005***	***2005***	***2005***	***2005***
Value Year T	14.5	58.3	16.8	0.0	10.5	1.9	16.1	83.5	-15.0	21.1	-5.8
Value Year T-1	13.3	61.5	15.6	0.0	9.6	2.8	31.5	81.6	3.6	2.2	-18.8
Value Year T-2	.	.	.	.	.	.	-17.6	78.7	-7.1	59.3	-13.2
Value Year T-3	.	.	.	.	.	.	.	.	.	.	.
Value Year T-4	.	.	.	.	.	.	.	.	.	.	.
Average Value, 5 year	.	.	.	.	.	.	.	.	.	.	.
Growth Trend	.	.	.	.	.	.	.	.	.	.	.
Benchmark Data											
Regression Benchmark	.	.	.	.	.	.	.	.	.	.	.
Lower Bound	.	.	.	.	.	.	.	.	.	.	.
Upper Bound	.	.	.	.	.	.	.	.	.	.	.
Latest Year Thailand	***2003***	***2003***	***2003***	***2003***	***2003***	***.***	***.***	***.***	***.***	***.***	***.***
Thailand Value Latest Year	34.2	41.6	10.8	0.0	10.9	.	.	.	.	.	.
Latest Year Philippines	***.***	***.***	***.***	***.***	***.***	***.***	***.***	***.***	***.***	***.***	***.***
Philippines Value Latest Year	.	.	.	.	.	.	.	.	.	.	.
LMI-Asia Average	.	.	.	.	.	.	.	.	.	.	.
LMI Average	.	.	.	.	.	.	.	.	.	.	.
High Five Avg.	53.7	57.9	34.1	5.4	45.0	.	.	.	.	.	.
Low Five Avg.	3.3	5.0	0.5	0.0	0.5	.	.	.	.	.	.

	Business Environment										
	Corruption perception index	Doing business composite index	Rule of law index	Regulatory quality index	Cost of starting a business, % GNI per capita	Procedures to enforce a contract	Procedures to register property	Procedures to start a business	Time to enforce a contract	Time to register property	Time to start a business
Indicator Number	**22P1**	**22P2**	**22P3**	**22P4**	**22S1**	**22S2**	**22S3**	**22S4**	**22S5**	**22S6**	**22S7**
Sri Lanka Data											
Latest Year (T)	***2006***	***2006***	***2005***	***2005***	***2006***	***2006***	***2006***	***2006***	***2006***	***2006***	***2006***
Value Year T	3.1	89.0	0.00	-0.12	9.2	20	8	8	837	63	50
Value Year T-1	3.2	.	0.02	0.08	10.4	.	8	8	.	63	50
Value Year T-2	3.5	.	0.07	0.13	10.7	.	8	8	.	63	50
Value Year T-3	3.4	.	0.17	0.14	12.2	.	.	8	.	.	58
Value Year T-4	3.7	.	.	.	.	.	.	.	.	.	.
Average Value, 5 year	3.4	.	0.07	0.06	10.6	.	8	8	.	.	52
Growth Trend	-4.1	.	.	.	-8.4	.	.	0	.	.	-4.4
Benchmark Data											
Regression Benchmark	3.0	.	-0.54	.	.	.	.	.	.	.	.
Lower Bound	2.5	.	-0.82	.	.	.	.	.	.	.	.
Upper Bound	3.4	.	-0.26	.	.	.	.	.	.	.	.
Latest Year Thailand	***2005***	***2006***	***2005***	***2005***	***2006***	***2006***	***2006***	***2006***	***2006***	***2006***	***2006***
Thailand Value Latest Year	3.6	18.0	0.10	0.38	5.8	26	2	8	425	2	33
Latest Year Philippines	***2005***	***2006***	***2005***	***2005***	***2006***	***2006***	***2006***	***2006***	***2006***	***2006***	***2006***
Philippines Value Latest Year	2.5	126.0	-0.52	-0.02	18.7	25	8	11	600	33	48
LMI-Asia Average	3.2	.	-0.11	-0.33	20.3	.	4	8	.	45	39
LMI Average	2.9	.	-0.56	-0.34	25.3	.	7	11	.	52	45
High Five Avg.	9.6	82.5	1.98	1.88	777.9	65	16	17	1166	557	180
Low Five Avg.	1.8	41.8	-1.92	-2.29	0.4	13	2	2	51	2	4

	Financial Sector							External Sector			
	Domestic credit to private sector, % GDP	Interest rate spread, lending rate minus deposit rate	Money supply (M2), % GDP	Stock market capitalization rate, % GDP	Cost to create collateral	Country credit rating	Legal rights of borrowers and lenders index	Real interest rate	Aid, % GNI	Current account balance, % GDP	Debt service ratio, % exports
Indicator Number	**23P1**	**23P2**	**23P3**	**23P4**	**23S1**	**23S2**	**23S3**	**23S4**	**24P1**	**24P2**	**24P3**
Sri Lanka Data											
Latest Year (T)	***2005***	***2005***	***2005***	***2005***	***2004***	***2005***	***2005***	***2004***	***2004***	***2005***	***2004***
Value Year T	32.6	3.2	43.2	24.7	0.7	33.6	3.0	0.1	2.7	-2.4	8.5
Value Year T-1	31.6	4.4	38.8	18.8	.	.	3.0	5.1	3.7	-3.0	7.5
Value Year T-2	29.9	4.3	38.1	14.9	.	.	.	4.7	2.1	-0.4	9.8
Value Year T-3	28.6	4.0	37.0	10.2	.	.	.	5.0	2.0	-1.4	10.1
Value Year T-4	28.1	8.4	36.7	8.5	.	.	.	8.3	1.8	-1.1	10.3
Average Value, 5 year	30.2	4.9	38.8	15.4	.	.	.	4.6	2.5	-1.7	9.2
Growth Trend	4.0	-16.5	3.8	31.7	.	.	.	-59.5	15.1	.	-6.6
Benchmark Data											
Regression Benchmark	46.8	7.6	46.1	39.9	.	.	.	.	4.3	0.2	11.0
Lower Bound	31.2	5.0	32.2	16.7	.	.	.	.	-2.2	-4.6	5.9
Upper Bound	62.3	10.3	60.0	63.1	.	.	.	.	10.7	5.0	16.2
Latest Year Thailand	***2004***	***2004***	***2004***	***2004***	***2004***	***.***	***2005***	***2003***	***2004***	***2004***	***2004***
Thailand Value Latest Year	97.4	4.5	90.6	83.0	1.1	.	5.0	3.8	0.0	4.1	10.6
Latest Year Philippines	***2004***	***2004***	***2004***	***2004***	***2004***	***2005***	***2005***	***2003***	***2004***	***2004***	***2004***
Philippines Value Latest Year	34.8	3.9	54.2	29.3	8.3	44.9	3.0	5.6	0.5	2.5	20.9
LMI-Asia Average	34.6	4.7	46.5	33.2	1.1	33.6	5.0	5.1	3.7	3.2	7.5
LMI Average	24.6	7.1	40.4	18.1	10.0	28.8	5.0	9.2	1.8	-2.3	11.7
High Five Avg.	171.0	46.9	188.2	238.9	121.6	51.5	9.6	36.2	66.1	18.0	61.5
Low Five Avg.	1.6	1.0	4.8	1.0	0.0	9.4	0.6	-4.6	-0.3	-27.8	0.9

	External Sector (con't)						
	Exports growth, goods and services	Foreign direct investment, % GDP	Gross international reserves, months of imports	Private Capital Flows	Present value of debt, % GNI	Remittance receipts, % exports	Trade, % GDP
Indicator Number	**24P4**	**24P5**	**24P6**	**24P7**	**24P8**	**24P9**	**24P10**
Sri Lanka Data							
Latest Year (T)	***2005***	***2005***	***2005***	***2004***	***2004***	***2005***	***2005***
Value Year T	7.5	1.0	3.4	0.7	50.4	24.3	76.3
Value Year T-1	7.8	1.1	2.8	0.5	50.6	21.5	81.7
Value Year T-2	5.4	1.1	3.5	0.9	48.3	21.6	78.0
Value Year T-3	6.3	1.1	2.8	0.9	44.2	21.6	78.9
Value Year T-4	-5.3	1.1	2.2	0.7	44.5	18.7	84.4
Average Value, 5 year	4.3	1.1	2.9	0.7	47.6	21.5	79.9
Growth Trend	.	-1.7	9.5	-6.3	3.92	5.3	-1.7
Benchmark Data							
Regression Benchmark	11.4	2.2	4.8	.	44.4	.	105.0
Lower Bound	4.8	0.2	3.3	.	20.7	.	86.3
Upper Bound	18.1	4.1	6.2	.	68.1	.	123.8
Latest Year Thailand	***2004***	***2004***	***2004***	***2005***	***2004***	***.***	***2004***
Thailand Value Latest Year	9.6	0.9	5.3	0.1	35.2	.	136.4
Latest Year Philippines	***2004***	***2004***	***2004***	***2004***	***2004***	***2004***	***2004***
Philippines Value Latest Year	14.1	0.6	3.6	0.0	73.10	20.9	102.4
LMI-Asia Average	5.7	1.3	4.7	0.0	40.4	0.7	88.6
LMI Average	5.9	2.1	3.9	0.0	44.9	8.8	79.0
High Five Avg.	21.6	99.4	18.6	1.8	380.0	86.5	228.0
Low Five Avg.	-19.8	-0.4	0.3	0.0	9.1	0.0	27.1

	External Sector (cont'd)									
	Concentration of exports (top three exports, 3-digit SITC)	Inward FDI potential index	Net barter terms of trade (1995=100)	Real effective exchange rate index (2000=100)	Structure of merchandise exports (agricultural raw materials)	Structure of merchandise exports (fuel)	Structure of merchandise exports (manufactured goods)	Structure of merchandise exports (ores and metals)	Structure of merchandise exports (food)	Trade policy index
Indicator Number	**24S1**	**24S2**	**24S3**	**24S4**	**24S5a**	**24S5b**	**24S5c**	**24S5d**	**24S5e**	**24S6**
Sri Lanka Data										
Latest Year (T)	***2004***	***2003***	***2004***	***2006***	***2004***	***2004***	***2004***	***2004***	***2004***	***2006***
Value Year T	41.7	0.12	103.8	109.5	2.2	0.2	73.9	3.1	20.6	3.0
Value Year T-1	42.1	0.12	108.2	102.1	2.1	0.0	74.0	2.9	21.1	2.5
Value Year T-2	41.0	0.13	106.8	93.5	1.7	0.0	74.4	1.9	20.8	3.0
Value Year T-3	43.8	0.12	104.2	95.8	1.6	0.0	77.0	0.3	21.1	3.0
Value Year T-4	.	0.13	100.0	97.7	.	.	.	.	.	3.0
Average Value, 5 year	42.1	0.12	104.6	99.7	1.9	0.0	74.8	2.0	20.9	2.9
Growth Trend	-1.2	-2.37	1.1	3.0	12.6	141.5	-1.3	110.8	-0.5	-1.8
Benchmark Data										
Regression Benchmark	.	0.18	.	.	5.1	.	.	.	.	.
Lower Bound	.	0.16	.	.	-1.3	.	.	.	.	.
Upper Bound	.	0.20	.	.	11.5	.	.	.	.	.
Latest Year Thailand	***2003***	***2002***	***2002***	***.***	***2003***	***2003***	***2003***	***2003***	***2003***	***2005***
Thailand Value Latest Year	18.0	0.22	90.0	.	4.7	2.5	75.4	1.0	14.2	3.0
Latest Year Philippines	***.***	***2002***	***2002***	***.***	***2003***	***2003***	***2003***	***2003***	***2003***	***2005***
Philippines Value Latest Year	32.6	0.21	104.0	.	0.6	1.6	90.1	1.7	6.0	2.0
LMI-Asia Average	.	0.21	101.0	.	0.8	2.0	75.4	1.0	14.2	3.0
LMI Average	.	0.16	98.5	.	2.3	5.6	44.4	3.2	14.5	4.0
High Five Avg.	.	0.50	149.8	.	30.8	92.8	94.2	51.5	91.0	5.0
Low Five Avg.	.	0.06	71.8	.	0.0	0.0	2.6	0.0	0.5	1.0

	Economic Infrastructure							
	Internet users per 1000 people	Overall infrastructure quality index	Telephone density, fixed line and mobile, per 1000 people	Quality of infrastructure index - air transport	Quality of infrastructure index - ports	Quality of infrastructure index - railroads	Quality of infrastructure index - electricity	Telephone cost, average local call
Indicator Number	**25P1**	**25P2**	**25P3**	**25S1a**	**25S1b**	**25S1c**	**25S1d**	**25S2**
Sri Lanka Data								
Latest Year (T)	***2004***	***2006***	***2005***	***2006***	***2006***	***2006***	***2006***	***2003***
Value Year T	15	3.0	236	4.1	3.7	2.5	3.7	0.03
Value Year T-1	11	2.8	165	3.7	3.4	2.2	3.8	0.03
Value Year T-2	11	.	121	.	.	.	.	0.04
Value Year T-3	8	.	95	.	.	.	.	0.04
Value Year T-4	7	.	80	.	.	.	.	0.05
Average Value, 5 year	10	.	139	.	.	.	.	0.04
Growth Trend	20.5	.	31.2	.	.	.	.	-12.3
Benchmark Data								
Regression Benchmark	47	3.2	106	.	.	.	.	.
Lower Bound	10	2.7	61	.	.	.	.	.
Upper Bound	85	3.6	150	.	.	.	.	.
Latest Year Thailand	***2004***	***2006***	***2003***	***2006***	***2006***	***2006***	***2006***	***2003***
Thailand Value Latest Year	113	5.0	499	5.5	4.7	3.6	5.5	0.07
Latest Year Philippines	***2004***	***2006***	***2003***	***2006***	***2006***	***2006***	***2006***	***2003***
Philippines Value Latest Year	53	2.7	311	4.0	2.7	1.7	4.0	0.00
LMI-Asia Average	44	3.5	144	4.1	3.7	3.2	3.6	0.04
LMI Average	53	3.1	273	4.0	3.4	2.2	4.1	0.03
High Five Avg.	759	6.7	1686	6.7	6.6	6.5	6.9	0.41
Low Five Avg.	1	1.5	10	2.4	1.3	1.1	1.4	0.00

	Science and Technology			Health			
	Expenditure for R&D, % GDP	FDI technology transfer index	Patent applications filed by residents	HIV prevalence	Life expectancy at birth	Maternal mortality rate, per 100,000 live births	Access to improved sanitation
Indicator Number	**26P1**	**26P2**	**26P3**	**31P1**	**31P2**	**31P3**	**31S1**
Sri Lanka Data							
Latest Year (T)	***.***	***2006***	***.***	***2003***	***2004***	***2000***	***2002***
Value Year T	.	5.3	.	0.1	74	92.0	91.0
Value Year T-1	.	4.7	.	.	74	.	.
Value Year T-2	.	4.7	.	0.1	73.9	.	.
Value Year T-3	.	.	.	.	.	.	.
Value Year T-4	.	.	.	0.1	73.6	.	.
Average Value, 5 year	.	.	.	.	74.0	.	.
Growth Trend	.	.	.	.	.	.	.
Benchmark Data							
Regression Benchmark	.	4.7	.	.	67	172.1	.
Lower Bound	.	4.3	.	.	63	27.9	.
Upper Bound	.	5.1	.	.	71	316.4	.
Latest Year Thailand	***2002***	***2006***	***2000***	***2003***	***2004***	***2000***	***2002***
Thailand Value Latest Year	0.2	5.3	1,117	1.5	71	44.0	99.0
Latest Year Philippines	***.***	***2006***	***2002***	***2003***	***2004***	***2000***	***2002***
Philippines Value Latest Year	.	5.0	0	0.1	71	200.0	73.0
LMI-Asia Average	0.7	4.7	0	0.1	70	110.0	73.0
LMI Average	0.3	4.5	13	0.1	70	115.0	73.0
High Five Avg.	3.5	5.9	153,540	30.2	80	1,720.0	100.0
Low Five Avg.	0.1	3.3	0	0.1	37	1.8	8.0

	Health (Cont'd)					Education					
	Access to improved water source	Births attended by skilled health personnel	Child immunization rate	Prevalence of child malnutrition (weight for age)	Public health expenditure, % GDP	Net primary enrollment rate (total)	Net primary enrollment rate (female)	Net primary enrollment rate (male)	Persistence in school to grade 5 (total)	Persistence in school to grade 5 (female)	Persistence in school to grade 5 (male)
Indicator Number	**31S2**	**31S3**	**31S4**	**31S5**	**31S6**	**32P1a**	**32P1b**	**32P1c**	**32P2a**	**32P2b**	**32P2c**
Sri Lanka Data											
Latest Year (T)	***2002***	***2003***	***2004***	***2000***	***2005***	***2004***	***2003***	***2003***	***2000***	***.***	***.***
Value Year T	78.0	87.1	96.5	29.7	1.7	97.1	98.4	98.8	96.0	.	.
Value Year T-1	.	.	99.0	.	1.7	98.6	.	.	.	.	.
Value Year T-2	70.0	.	98.5	.	1.6	.	.	.	.	.	.
Value Year T-3	.	96.6	99.0	.	1.8	.	.	.	.	.	.
Value Year T-4	.	.	99.0	.	1.8	.	.	.	.	.	.
Average Value, 5 year	.	.	98.4	.	1.7	.	.	.	.	.	.
Growth Trend	.	.	-0.5	.	-1.0	.	.	.	.	.	.
Benchmark Data											
Regression Benchmark	.	65.8	.	.	.	89.6	.	.	79.6	.	.
Lower Bound	.	54.4	.	.	.	82.9	.	.	72.7	.	.
Upper Bound	.	77.1	.	.	.	96.2	.	.	86.6	.	.
Latest Year Thailand	***2002***	***2003***	***2003***	***2003***	***2003***	***2002***	***2002***	***2002***	***.***	***.***	***.***
Thailand Value Latest Year	85.0	69.0	5.8	4.8	2.0	85.0	83.7	86.3	.	.	.
Latest Year Philippines	***2002***	***2003***	***2003***	***.***	***2002***	***2002***	***2002***	***2002***	***2002***	***2002***	***2002***
Philippines Value Latest Year	85.0	60.0	79.5	.	1.1	93.7	94.6	92.9	76.0	80.2	72.2
LMI-Asia Average	84.5	69.0	92.5	17.3	3.1	93.1	93.6	93.0	91.5	92.1	90.0
LMI Average	85.0	69.0	92.5	7.0	3.2	92.4	92.6	92.9	77.8	77.7	79.5
High Five Avg.	100.0	.	99.0	36.3	8.7	100.0	100.0	100.0	99.2	99.8	99.3
Low Five Avg.	26.4	20.8	39.0	7.3	0.6	42.3	36.9	47.6	52.3	51.5	51.8

	Education (cont'd)						Employment and Workforce		
	Youth literacy rate	Education expenditure, primary, %GDP	Expenditure per student, % GDP per capita, primary	Expenditure per student, % GDP per capita, secondary	Expenditure per student, % GDP per capita, tertiary	Pupil-teacher ratio, primary school	Labor force participation rate (total)	Labor force participation rate (male)	Labor force participation rate (female)
Indicator Number	**32P3**	**32S1**	**32S2a**	**32S2b**	**32S2c**	**32S3**	**33P1a**	**33P1b**	**33P1c**
Sri Lanka Data									
Latest Year (T)	***2004***	***2005***	***.***	***.***	***.***	***2003***	***2004***	***2004***	***2004***
Value Year T	95.6	0.8	.	.	.	23.4	48.6	66.7	31.5
Value Year T-1	.	.	.	.	.	23.4	48.9	67.2	31
Value Year T-2	97.05	.	.	.	.	.	50.3	67.2	34
Value Year T-3	96.93	.	.	.	.	.	48.8	66.2	32
Value Year T-4	96.80	.	.	.	.	.	50.3	67.2	34
Average Value, 5 year	96.79	.	.	.	.	.	67.6	67.6	68
Growth Trend	.	.	.	.	.	.	-0.7	0.0	-1.6
Benchmark Data									
Regression Benchmark	89.3	.	.	.	.	.	79.3	.	.
Lower Bound	80.7	.	.	.	.	.	73.9	.	.
Upper Bound	98.0	.	.	.	.	.	84.6	.	.
Latest Year Thailand	***2000***	***.***	***2000***	***2000***	***2000***	***2001***	***2003***	***2002***	***2002***
Thailand Value Latest Year	97.98	.	16.5	11.7	33.0	19.1	70.5	81.0	65.0
Latest Year Philippines	***2000***	***2005***	***2,001***	***2001***	***2001***	***2001***	***2003***	***2002***	***2002***
Philippines Value Latest Year	95.1	2.8	12	9.3	13.8	35.4	60.0	82.0	53.0
LMI-Asia Average	98.6	1.7	13.2	9.7	128.2	21.7	59.9	81.0	52.0
LMI Average	96.8	2.3	11.5	14.8	35.5	20.8	62.7	76.0	44.0
High Five Avg.	99.8	5.5	31.3	46.9	344.3	65.5	72.6	92.2	83.8
Low Five Avg.	46.4	0.2	6.2	6.0	9.8	11.7	48.9	48.2	11.4

	Employment and Workforce (cont'd)				Agriculture					
	Rigidity of employment index	Size of labor force	Labor force growth rate	Unemployment rate	Agriculture value added per worker	Cereal yield	Growth in agricultural value-added	Agricultural policy costs index	Crop production index (1989-91=100)	Livestock production index (1989-91=100)
Indicator Number	**33P2**	**33P3a**	**33P3b**	**33P4**	**34P1**	**34P2**	**34P3**	**34S1**	**34S2**	**34S3**
Sri Lanka Data										
Latest Year (T)	***2006***	***2004***	***2004***	***2004***	***2003***	***2005***	***2004***	***2006***	***2004***	***2004***
Value Year T	27	8,274,059	1.9	8	745	3,438	-0.7	3.4	94.4	105.9
Value Year T-1	40	8,119,615	1.3	8	739	3,564	1.6	3.3	101.6	108.4
Value Year T-2	40	8,016,521	1.4	9	727	3,283	2.5	3.3	99.1	107.4
Value Year T-3	.	7,909,500	-3.1	8	758	3,405	-3.4	.	97.5	106.5
Value Year T-4	.	8,161,303	0.9	8	752	3,425	1.8	.	102.2	99.6
Average Value, 5 year	.	8,096,200	0.5	8	744	3,423	0.4	.	99.0	105.6
Growth Trend	.	0.5	.	2.4	-0.4	0.5	.	.	-1.2	1.4
Benchmark Data										
Regression Benchmark	34.6	.	2.1	.	727	.	3.1	.	.	.
Lower Bound	23.3	.	1.7	.	451	.	-1.2	.	.	.
Upper Bound	45.9	.	2.6	.	1,003	.	7.5	.	.	.
Latest Year Thailand	***2006***	***2004***	***2004***	***2004***	***2003***	***2005***	***2004***	***2006***	***2004***	***2004***
Thailand Value Latest Year	18	35,272,760	1.6	2	633	2,723	-4.8	4.4	105.3	89.3
Latest Year Philippines	***2006***	***2004***	***2004***	***2001***	***2003***	***2005***	***2004***	***2006***	***2004***	***2004***
Philippines Value Latest Year	39	35,921,660	3.8	10	1,032	3,023	5.1	3.8	109.5	123.2
LMI-Asia Average	18	34,604,380	5.3	9	745	2,804	2.5	4.1	105.1	102.9
LMI Average	41	4,061,858	18.1	9	1,666	2,441	2.8	3.5	106.3	103.4
High Five Avg.	85	316,912,650	.	24	40,135	7,775	22.0	5.3	134.9	145.5
Low Five Avg.	2	125,147	.	2	108	312	-13.4	2.4	69.5	78.3

Technical Notes

The following technical notes identify the source for each indicator, provide a concise definition, indicate the coverage of USAID countries, and comment on data quality where pertinent. For reference purposes, a CAS code is also given for each indicator. In many cases, the descriptive information is taken directly from the original sources, as cited.

GROWTH PERFORMANCE

Per capita GDP, current US dollars

Source: IMF World Economic Outlook database, updated every 6 months, at:

http://www.imf.org/external/ns/cs.aspx?id=28

Definition: GDP per capita is gross domestic product divided by midyear population. GDP is the sum of gross value added by all resident producers plus any product taxes, less 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.

Coverage: Data are available for about 85 USAID countries.

CAS Code #11P2

Per capita GDP, purchasing power parity dollars

Source: IMF World Economic Outlook database, updated every 6 months, at:

http://www.imf.org/external/ns/cs.aspx?id=28

Definition: This indicator adjusts per capita GDP measured in current U.S. dollars for differences in purchasing power, using an estimated exchange rate reflecting the purchasing power of the various local currencies.

Coverage: Data are available for about 85 USAID countries.

CAS Code #11P1

Real GDP growth

Source: IMF World Economic Outlook database, updated every 6 months; 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.

Coverage: Data are available for about 85 USAID countries.

CAS Code #11P3

Growth of labor productivity

Source: World Development Indicators, most recent publication. Estimated by calculating the annual percentage change of the ratio of GDP (constant 1995 US$) (NY.GDP.MKTP.KD) to the population age 15-64, which in turn is the product of the total population (SP.POP.TOTL) times the percentage of total population that is in this age group (SP.POP.1564.IN.ZS).

Definition: Labor productivity is defined here as the ratio of GDP (in constant prices) to the size of the working age population (ages 15 to 64 years). The more familiar calculation, based on employment, labor force, or work hours, is not used here because low participation or employment rates are themselves structural productivity problems; also, many low-income countries do not report data needed to compute these alternative measures of labor productivity.

Coverage: Data are available for about 85 USAID countries.

CAS Code # 11S1

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

Source: International benchmark data computed from World Development Indicators most recent publication year, based on the five-year average of the share of fixed investment (NE.GDI.FTOT.ZS) and the five-year average GDP growth (NY.GDP.MKTP.KD.ZG). Updated figures for the target country are computed from IMF article IV Consultation Reports.

Definition: The ICOR shows the amount of capital investment incurred per extra unit of output. A high value represents low investment productivity. The ICOR is calculated here as the ratio of (a) the investment share of GDP to (b) the growth rate of GDP, using five-year averages for both the numerator and denominator.

Coverage: Data are available for about 81 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, most recent publication series NE.GDI.FTOT.ZS.

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

Coverage: Data are available for about 84 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 2004, for international comparison data (explanation below). The estimation of this indicator involves taking the difference between gross fixed capital formation (% of GDP) (NE.GDI.FTOT.ZS) and government capital expenditure (% of GDP). The latter term is the product of government capital expenditure (% of total expenditure) (GB.XPK.TOTL.ZS) and total government expenditure (% of GDP) (GB.XPD.TOTL.GD.ZS).

Definition: This indicator measures gross fixed capital formation by non-government investors, including spending for replacement or net addition to fixed assets (buildings, machinery, equipment and similar goods).

Coverage: Available from World Development Indicators 2004 for about 38 USAID countries. Starting in 2005, WDI no longer reports government capital expenditure, which is

needed to compute this variable. The reason is that the World Bank has adopted a new system for Government Finance Statistics, which switches from reporting budget performance based on cash outlays and receipts, to a modified accrual accounting system in which government capital formation is a balance sheet entry, and only the consumption of fixed capital (that is, a depreciation allowance) is treated as an expense. The template will include this variable when the required data can be obtained from IMF Article IV Consultation Reports or national data sources. Group and regression benchmarks will be computed from WDI 2004 (since group averages tend to be relatively stable).

Data Quality: National statistics offices may have different methodologies for breaking down total government expenditure into current and capital components. In particular, the data on "development expenditure" in many countries includes elements of current expenditure.

CAS Code #11S4

POVERTY AND INEQUALITY

Human poverty index

Source: UNDP, Human Development Report.

http://hdr.undp.org/statistics/data/indicators.cfm?x=18&y=1&z=1 for most recent edition; updates may be found at http://hdr.undp.org/reports/view_reports.cfm?type=1

Definition: The index measures deprivation in terms of not meeting target levels for specified economic and quality of life indicators. Values are based on (1) percentage of people not expected to survive to age 40, (2) percentage of adults who are illiterate, and (3) percentage of people who fail to attain a 'decent living standard,' which 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 underweight children. The HPI ranges in value from 0 (for zero deprivation incidence) to 100 (for high deprivation incidence).

Coverage: Data are available for about 60 USAID countries.

CAS Code #12P1

Income share held by lowest 20%

Source: World Development Indicators, most recent publication series SI.DST.FRST.20. These are World Bank staff estimates based on primary household survey data obtained from government statistical agencies and World Bank country departments. Alternate source for target countries: Country Poverty Reduction Strategy Paper:

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

Definition: Share of total income or consumption accruing to the poorest quintile of the population.

Coverage: Data are available for about 59 USAID countries, if one goes back to 1997; for the period since 2000, data are available for about 35 USAID countries.

CAS Code # 12P2

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

Source: World Development Indicators, most recent publication series SI.POV.DDAY, original data from National Surveys. Alternate source for target countries: the country's Poverty Reduction Strategy Paper:

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

Definition: The indicator captures the percentage of the population living on less than $1.08 a day at 1993 international prices.

Coverage: Data are available for about 59 USAID countries going back to 1997; data for 2000 or later are available for about 35 USAID countries.

Data Quality: Poverty data originate from household survey questionnaires which can differ widely; 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/mdg/Data.aspx, based on FAO estimates.

Definition: Proportion of the population in a condition of undernourishment. The FAO defines undernourishment as the condition of people whose dietary energy consumption is continuously below a minimum dietary energy requirement for maintaining a healthy life and carrying out a light physical activity.

Coverage: Data are available for about 82 USAID countries.

CAS Code # 12S1

Poverty headcount, national poverty line

Source: World Development Indicators, most recent publication series SI.POV.NAHC. Alternate source: Country Poverty Reduction Strategy Paper (PRSP):

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

Definition: The percentage of the population living below the national poverty line. National estimates are based on population-weighted estimates from household surveys

Coverage: Data available for only 19 countries for 2000 or later; data are available for about 49 countries going back to 1997. For most target countries, data can be obtained from the PRSP.

Data Quality: Measuring the percentage of people below the "national poverty line" has the disadvantage of limiting international comparisons due to differences in the definition of the poverty line. Most lower income countries, however, determine the national poverty line by the level of consumption required to have a minimally sufficient food intake plus other basic necessities.

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).

Coverage: All countries having PRSPs are so indicated.

CAS Code #12P5

Poverty gap at $1 PPP a day

Source: World Development Indicators, most recent publication series SI.POV.GAPS, original data from national surveys. Alternate source: the country's Poverty Reduction Strategy Paper: http://www.imf.org/external/np/prsp/prsp.asp

Definition: The 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.

Coverage: Data are available for about 58 USAID countries going back to 1997; data for 2000 or later are available for about 32 USAID countries.

CAS Code #12S2

ECONOMIC STRUCTURE

Labor force or employment structure

Source: World Development Indicators, most recent publication series SL.AGR.EMPL.ZS for agriculture, series SL.IND.EMPL.ZS for industry, and series SL.SRV.EMPL.ZS for services. Alternate source: CIA World Fact Book . https://www.cia.gov/cia/publications/factbook/index.html.

Definition: Employment in each sector is the proportion of total employment recorded as working in that sector. Employees are people who work for a public or private employer and receive remuneration in wages, salary, commission, tips, piece rates, or pay in kind. Agriculture includes hunting, forestry, and fishing. Industry includes mining and quarrying (including oil production), manufacturing, electricity, gas and water, and construction. Services include wholesale and retail trade and restaurants and hotels; transport, storage, and communications; financing, insurance, real estate, and business services; and community, social, and personal services.

Coverage: Data are available for about 37 USAID countries. For most target countries, data can be obtained from PRSP.

Data Quality: Employment figures originate from International Labor Organization. Some countries report labor force structure instead of employment, thus the data must be checked carefully prior to making comparisons.

CAS Code #13P1

Output structure

Source: World Development Indicators, most recent publication series NV.AGR.TOTL.ZS for value added in agriculture as a percentage of GDP; series NV.IND.TOTL.ZS for the share of industry; and NV.SRV.TETC.ZS for the share of services.

Definition: The output structure is comprised of value added by major sectors of the economy (agriculture, industry, and services) as percentages of GDP, where value added is the net output of a sector after adding up all outputs and subtracting intermediate inputs. Value added is calculated without making deductions for depreciation of fabricated assets or depletion and degradation of natural resources. Agriculture includes forestry, hunting, and fishing, as well as cultivation of crops and livestock production. Industry includes manufacturing, mining, construction, electricity, water, and gas. Services include wholesale and retail trade (including hotels and restaurants), transport, and government, financial, professional, and personal services such as education, health care, and real estate services.

Coverage: Data are available for about 86 USAID countries.

Data Quality: A major difficulty in compiling national accounts is the extent of unreported activity in the informal 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. This production is estimated indirectly using estimates of inputs, yields, and area under cultivation. This approach can differ from the true values over time and across crops. Ideally, informal activity in industry and services should be measured through regular enterprise censuses and surveys. In most developing countries such surveys are infrequent, so prior survey results are extrapolated.

CAS Code #13P2

DEMOGRAPHY AND ENVIRONMENT

Adult literacy rate

Source: World Development Indicators, most recent publication series SE.ADT.LITR.ZS, based on UNESCO calculations.

Definition: Percentage of people ages 15 and over who can read and write a short-simple statement about their daily life.

Coverage: Data are available for about 66 USAID countries.

Data Quality: In practice, literacy is difficult to measure. A proper estimate 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, most recent publication series 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).

Coverage: Data are available for about 89 USAID countries.

CAS Code #14P2

Environmental Sustainability Index

Source: 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 is at http://www.yale.edu/esi/ESI2005.pdf. For updates: http://www.yale.edu/esi/ .

Definition: The index measures the likelihood that a country will be able to preserve valuable environmental resources effectively. It is a composite index integrating 76 data sets tracking natural resource endowments, pollution levels, environmental management efforts, and the capacity of a society to improve its environmental performance. The index values range from a low of 0 (for countries that are positioned poorly to maintain favorable environmental conditions into the future) to a high of 100 (for countries that are positioned very well to maintain favorable environmental conditions into the future); most scores cluster between 40 and 60.

Coverage: Data are available for about 83 USAID countries.

CAS Code #14P3

Population size (in millions) and growth

Source: World Development Indicators, most recent publication series SP.POP.TOTL for total population, and series SP.POP.GROW for the population growth rate.

Definition: Total population counts all residents regardless of legal status or citizenship--except refugees not permanently settled in the country of asylum. Annual population growth rate is based on the de facto definition of population.

Coverage: Data are available for about 88 USAID countries.

CAS Code # 14P4

Urbanization rate

Source: World Development Indicators, most recent publication series SP.URB.TOTL.IN.ZS.

Definition: Urban population is the share of the total population living in areas defined as urban in each country. The calculation considers all residents regardless of legal status or citizenship, except refugees.

Coverage: Data are available for about 86 USAID countries.

Data Quality: The estimates are based on national definitions of what constitutes an urban area; since these definitions vary greatly, cross-country comparisons should be made with caution.

CAS Code #14P5

GENDER

Adult literacy rate, ratio of male to female

Source: Computed from UNDP Human Development Indicators: http://hdr.undp.org/statistics/data/

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

Coverage: Data are available for about 74 USAID countries.

CAS Code #15P1

Gross enrollment rate, all levels of education, ratio of male to female

Source: Computed 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 students enrolled in primary, secondary, and tertiary levels of education, regardless of age, to the total school age population for all three levels, assuming normal age of entry into the system and uninterrupted continuation to completion.

Coverage: Data are available for about 83 USAID countries.

CAS Code # 15P2

Life expectancy, ratio of male to female

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

*Definition:T*he ratio of life expectancy at birth (years) for males, divided by the life expectancy at birth (years) for females. Life expectancy at birth indicates the number of years a newborn infant would live if current age-specific mortality were to stay the same throughout its life. The ratio shows the disparity in life expectancies between males and females.

Coverage: Data are available for about 85 USAID countries.

CAS Code #15P3

FISCAL AND MONETARY POLICY

In the World Development Indicators for 2005, the World Bank has adopted a new system for government budget statistics, switching from data based on cash outlays and receipts, to a system with revenues booked on receipt and expenses booked on accrual, in accordance with the IMF's *Government Financial Statistics Manual, 2001*. On the revenue side, the changes are minor, and comparisons to the old system may still be valid. There is a major change, however, in the reporting of capital outlays, which are now treated as balance sheet entries; only the annual capital consumption allowance (depreciation) is reported as an expense. Hence, the data on total *expense* is not comparable to the former data on total *expenditure*. In addition, WDI 2005 now provides data on the government's *cash surplus/deficit*; this differs from the previous concept of the *overall budget balance* by excluding net lending minus repayments (which are now a financing item under net acquisition of financial assets). Many countries do not use the new GFS system, so country coverage of fiscal data in WDI 2005 is quite limited. For these reasons, the template will continue to use some data from WDI 2004, along with new data from WDI 2005 data and subsequent WDI series, as appropriate.

Overall budget balance (including grants), or Cash surplus/deficit, as percentages of GDP

Source: For countries using the new GFS system (see explanation at the beginning of this section), benchmarking data on the government's cash surplus/deficit are obtained from World Development Indicators, most recent publication series GC.BAL.CASH.GD.ZS. For countries that are not yet using the new system, benchmarking data on the overall budget balance are obtained from WDI 2004, series GB.BAL.OVRL.GD.ZS. Latest country data is obtained from national data sources or from IMF Article IV Reviews:

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

Definition: The cash surplus/deficit is revenue (including grants) minus expenses, minus net acquisition of non-financial assets. This is close to the previous concept *overall budget balance*, differing only in that it excludes net lending (which is now treated as a financing item, under net acquisition of financial assets).

For countries that are not using the new GFS system, the template will continue to focus on the ***overall budget balance***, using data from the alternative sources indicated above. The overall budget deficit is defined as the difference between total revenue (including grants) and total expenditure.

Both concepts measure the central government's financing requirement, which must be met by domestic or foreign borrowing. As noted above, they differ in that the new cash surplus/deficit variable excludes net lending (which is usually a minor item).

Coverage: Data are available in WDI 2005 for 41 USAID countries.

CAS Code # 21P5

Composition of government expenditure (for countries not using GFS 2001 system)

Source: Benchmarking data are from World Development Indicators 2004. Country data constructed from national data sources or from IMF Article IV Consultative Reports: www.imf.org/external/np/sec/aiv/index.htm.

Definition: Central government expenditure, broken down using categories from WDI 2004: (1) subsidies and other current transfers, (2) wages and salaries, (3) interest payments, (4) goods and services expenditure, and (5) capital expenditure, all as a percent of total expenditure.

Coverage: Data are available for about 37 USAID countries from World Development Indicators 2004. As explained at the beginning of this section, WDI no longer reports government *expenditures* starting in 2005. The template will include this variable when the required data can be obtained from IMF Article IV Consultation Reports or national data sources for the target country and the comparison countries. Group. The group benchmarks will still be computed from WDI 2004 (since group averages tend to be relatively stable).

Data Quality: Many countries report their revenue in non-comparable categories. Budget data are compiled on a fiscal

year basis. If the fiscal year differs from the calendar year, then ratios to GDP may be calculated by interpolating budget data from two adjacent fiscal years.

CAS Code # 21S1

Composition of government expenses (for countries using GFS 2001 system)

Source: Group benchmarking data are from the World Development Indicators, most recent publication. Latest country data are constructed from national sources or from IMF Article IV Reports: www.imf.org/external/np/sec/aiv/index.htm.

Definition: WDI 2005 disaggregates central government expenses into five categories: compensation of employees, goods and services, interest payments, subsidies and other transfers, and other expenses. The expense in each category is expressed as a percentage of total expenses.

Coverage: Data are available for about 42 USAID countries from the World Development Indicators, most recent publication.

CAS Code # 21S1

Composition of government revenue

Source: The latest country and comparison country data is taken from national data sources or from IMF Article IV Reviews: www.imf.org/external/np/sec/aiv/index.htm. Benchmarking data are taken directly from WDI 2005 database: (1) taxes on goods and services (% of revenue), series GC.TAX.GSRV.RV.ZS; (2) taxes on income, profits and capital gains (% of revenue), series GC.TAX.YPKG.RV.ZS; (3) taxes on international trade (% of revenue), series GC.TAX.INTT.RV.ZS; (4) other taxes (% of revenue), series GC.TAX.OTHR.RV.ZS; (5) social contributions (% of revenue), series GC.REV.SOCL.ZS; and (6) grants and other revenue (% of revenue), series GC.REV.GOTR.ZS.

Definition: Breakdown of central government revenue sources by categories outlined above. Each source of revenue is expressed as a percentage of total revenue.

Coverage: Data are available from WDI 2005 for about 46 USAID countries.

Data Quality: Many countries report their revenue in non-comparable categories. If the fiscal year differs from the calendar year, then the ratios to GDP may be calculated by interpolating budget data from two adjacent fiscal years.

CAS Code # 21S2

Composition of money supply growth

Source: Constructed using or national data sources or IMF Article IV Reviews from:

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

Definition: Identifies the sources of the year to year change in the broad money supply (M2), disaggregated into five categories: (1) net credit to government, (2) credit to the private sector, (3) net credit to public enterprises, (4) net foreign assets (reserves), and (5) other items net. Each component is expressed as a percentage of the annual change (December to December) in M2.

Coverage: Data are available for about 86 USAID countries.

CAS Code # 21S3

Government expense, percentage of GDP (for countries using GFS 2001 system)

Source: Benchmarking data obtained from World Development Indicators, most recent publication series GC.XPN.TOTL.GD.ZS. Original source of WDI data is the International Monetary Fund, International Financial Statistics Yearbook, World Bank and OECD estimates. Latest country data obtained from national sources or from IMF Article IV Reviews: www.imf.org/external/np/sec/aiv/index.htm;

Definition: Expense is an accrued obligation to pay for operating activities of the government in providing goods and services. It includes compensation of employees (such as wages and salaries), interest and subsidies, grants, social benefits, and other expenses such as rent and dividends.[1]

Coverage: Data are available for about 42 USAID countries.

CAS Code # 21P1

Government expenditure, percentage of GDP (for countries not using GFS 2001 system)

Source: Benchmarking data obtained from World Development Indicators 2004, series GB.XPD.TOTL.GD.ZS.[2] Original source of WDI data is the International Monetary Fund, Government Finance Statistics Yearbook, and World Bank estimates. Latest country data are obtained from national sources or IMF Article IV Reports: www.imf.org/external/np/sec/aiv/index.htm.

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

Coverage: Data are available for about 41 USAID countries.

CAS Code # 21S2

Government revenue, excluding grants, percentage of GDP

Source: Latest country data obtained from national data sources or IMF Article IV Reviews: www.imf.org/external/np/sec/aiv/index.htm. Benchmarking data from World Development Indicators, most recent publication series GC.REV.XGRT.GD.ZS. Original source of WDI data is the International Monetary Fund, Government Finance Statistics Yearbook and data file, and World Bank estimates.

Definition: Revenue consists of cash receipts from taxes, social contributions, and other revenues such as fines, fees, rent, and income from property or sales. Grants are also a form of revenue but are excluded here to focus on domestic revenue mobilization.

Coverage: Data are available for about 47 USAID countries.

CAS Code # 21P2

Inflation rate

Source: IMF World Economic Outlook database, updated every 6 months, at:

http://www.imf.org/external/ns/cs.aspx?id=28

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

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[1] In the technical notes to WDI 2005, expense is defined as "cash payments." This is inconsistent with the original source, GFS, which defines expense on an accrual basis as indicated here.

[2] This variable is no longer available in WDI 2005.

Coverage: Data are available for about 85 USAID countries.

Data Quality: 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: Latest country data are from national data sources or from IMF Article IV Reviews: www.imf.org/external/np/sec/aiv/index.htm. Benchmarking data are from World Development Indicators, most recent publication, series FM.LBL.MQMY.ZG. Original source of WDI data is International Monetary Fund, International Financial Statistics, and World Bank estimates.

Definition: Average annual growth rate in the broad money supply, M2 (money plus quasi-money) measured as the change in end-of-year totals relative to the preceding year. M2 comprises the sum of currency outside banks, checking account deposits other than those of the central government, and the time, savings, and foreign currency deposits of resident sectors other than the central government. M2 corresponds to the sum of lines 34 and 35 in the International Monetary Fund's (IMF) International Financial Statistics (IFS).

Coverage: Data are available for about 81 USAID countries.

CAS Code #21P3

BUSINESS ENVIRONMENT

Corruption perception index

Source: Transparency International:

http://ww1.transparency.org/cpi/2005/dnld/media_pack_en.pdf .

Definition: Corruption Perceptions Index (CPI) is a composite index that ranks countries in terms of the degree to which corruption is perceived to exist among public officials and politicians. The index ranges from 1 (for most corruption) to 10 (for least corruption). Values below 3.0 are considered to indicate rampant corruption. This threshold is used in the template as an absolute benchmark standard.

Coverage: Data are available for about 79 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. Also standard errors are large. For both reasons, international comparisons are problematic, though widely used.

CAS Code # 22P1

Ease of doing business ranking

Source: World Bank, Doing Business Indictors http://rru.worldbank.org/DoingBusiness/

Definition: The ease of doing business index ranks economies from 1 to 155. The index is calculated as the ranking on the simple average of country percentile rankings on each of the 10 topics covered in Doing Business in 2006 – starting a business, dealing with licenses, hiring and firing, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and closing a business.

Coverage: Data are available for about 74 USAID countries.

CAS Code # 22P2

Rule of law index

Source: World Bank Institute,

http://www.worldbank.org/wbi/governance/govdata2002/index.html. This indicator is based on the perceptions of the legal system, drawn from 12 separate data sources.

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. Index ranges from -2.5 (for very poor performance) to +2.5 (for excellent performance).

Coverage: Data are available for nearly all USAID countries.

Data Quality: This index is best used with caution for relative comparisons between countries in a single year, because the standard errors are large. It is also difficult to use the index to track a country's progress over time because the index does not compensate for changes in the world average. 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.

CAS Code #22P3

Regulatory Quality Index

Source: World Bank Institute;

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

Definition: The regulatory quality index measures 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. It is computed from survey data from multiple sources. The index values range from -2.5 (for very poor performance) to +2.5 (for excellent performance).

This is also an MCC indicator, under the criterion of encouraging economic freedom. The MCC rescales the values as percentile rankings relative to the set of MCA eligible countries, ranging from a value from 0 (for very poor performance) to 100 (for excellent performance). Some country reports use the MCC scaling.

Gaps: Data are available for nearly all USAID countries.

Data Quality: This index is best used with caution for relative comparisons between countries in a single year, because the standard errors are large. It is also difficult to use the index to track a country's progress over time because the index does not compensate for changes in the world average. 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.

CAS Code #22P4

Cost to start a business, % of GNI per capita

Source: World Bank, Doing Business; 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.

Coverage: Data are available for about 74 USAID countries.

CAS Code #22S1

Procedures to enforce a contract

Source: World Bank, Doing Business; 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. Where a procedure is defined as any interactive step the company must undertake with the government agencies, lawyers, notaries, etc. to proceed with the enforcement action.

Coverage: Data are available for about 74 USAID countries.

CAS Code # 22S2

Procedures to register property

Source: World Bank, Doing Business; 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.

Coverage: Data are available for about 74 USAID countries.

CAS Code #22S3

Procedures to start a business

Source: World Bank, Doing Business; 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 the 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.

Coverage: Data are available for about 74 USAID countries.

CAS Code # 22S4

Time to enforce a contract

Source: World Bank, Doing Business; Enforcing Contracts category:

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

Definition: Minimum number of days required to enforce a contract through the court system.

Coverage: Data are available for about 74 USAID countries.

CAS Code # 22S5

Time to register property

Source: World Bank, Doing Business; Registering Property category:

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

Definition: The time required to accomplish the full sequence of procedures 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.

Coverage: Data are available for about 74 USAID countries.

CAS Code #22S6

Time to start a business

Source: World Bank, Doing Business; Starting a Business category:

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

Definition: 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.

Coverage: Data are available for about 74 USAID countries.

CAS Code #22S7

FINANCIAL SECTOR

Cost to Create Collateral

Source: World Bank Doing Business; 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.

Coverage: Data are available for about 74 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

Credit Information Index

Source: World Bank, Doing Business; Getting Credit Category:
http://www.doingbusiness.org/ExploreTopics/GettingCredit/Default.aspx?direction=asc&sort=2

Definition: The credit information index measures rules affecting the scope, accessibility and quality of credit information available through either public or private credit registries. The index ranges from 0 to 6, with higher values indicating the availability of more credit information, from either a public registry or a private bureau, to facilitate lending decisions.

Coverage: Data are available for about 74 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 or national data sources for latest country data; World Development Indicators, most recent publication series FS.AST.PRVT.GD.ZS for benchmarking data. The WDI data originate from the 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.

Coverage: Data are available for about 82 USAID countries.

CAS Code # 23P1

Interest rate spread

Source: World Development Indicators, most recent publication series FR.INR.LNDP. Original data from International Monetary Fund, International Financial Statistics and data files.

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

Coverage: Data are available for about 66 USAID countries.

CAS Code # 23P2

Legal rights of borrowers and lenders

Source: World Bank Doing Business; Getting Credit category:

http://rru.worldbank.org/DoingBusiness/ExploreTopics/GettingCredit/CompareAll.aspx. The index is based on data collected through research of collateral and insolvency laws supported by survey data on secured transactions laws.

Definition: The index measures the degree to which collateral and bankruptcy laws facilitate lending. Index ranges in value from 0 (for very poor performance) to 10 (for excellent performance). It includes three aspects related to legal rights in bankruptcy, and seven aspects found in collateral law.

Coverage: Data are available for about 74 USAID countries.

CAS Code # 23S3

Money supply, percent of GDP

Source: Latest country data obtained from national data sources or IMF Article IV Reviews:

www.imf.org/external/np/sec/aiv/index.htm. Benchmarking data from World Development Indicators, most recent publication series FM.LBL.MQMY.GD.ZS. WDI data originate 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. Ratio of M2 to GDP is calculated to assess the degree of monetization of an economy.

Coverage: Data are available for about 81 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, most recent publication series FR.INR.RINR.

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

Coverage: Data are available for about 68 USAID countries.

CAS Code # 23S4

Stock Market Capitalization Rate, % of GDP

Source: World Development Indicators, most recent publication, series CM.MKT.LCAP.GD.ZS.

Definition: The variable is defined as the market capitalization, also known as market value (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.

Coverage: Data are available for about 54 USAID countries.

CAS Code # 23P4

EXTERNAL SECTOR

Aid, % of GNI

Source: Latest country data obtained from national data sources or IMF Article IV Reviews:

www.imf.org/external/np/sec/aiv/index.htm. Benchmarking data from World Development Indicators, most recent publication series DT.ODA.ALLD.GN.ZS.

Definition: The indicator measures Official Development Assistance from OECD countries and official aid from non-OECD countries, as a percentage of the recipient's gross national income.

Coverage: Data are available for about 84 USAID countries.

Data Quality: Data does not include aid given by recipient countries to other recipient countries, and may not be consistent with the country's balance sheets, because data are collected from donors.

CAS Code #24P1

Concentration of exports

Source: Constructed with ITC COMTRADE data by aggregating the value for the top 3 export product groups (SITC Rev.3), and dividing by total exports. Raw data: http://www.intracen.org/tradstat/sitc3-3d/indexre.htm,

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

Coverage: Available for about 74 USAID countries.

Data Quality: Smuggling represents a serious problem in a number of countries. For countries that do not report trade data to the United Nations, ITC uses partner country data. There are a number of shortcomings with this approach: ITC does not cover trade with other non-reporting countries; trans-shipments may hide the actual source of supply; and reporting standards include transport cost and insurance in measuring exports but exclude these items when measuring imports.

CAS Code # 24S1

Current Account Balance, percent of GDP

Source: Latest country data from national data sources or IMF Article IV Reviews:

www.imf.org/external/np/sec/aiv/index.htm. Benchmarking data from World Development Indicators, most recent publication series 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.

Coverage: Data are available for about 79 USAID countries.

CAS Code # 24P2

Debt service ratio

Source: Latest country data obtained from national data sources or IMF Article IV Reviews:

www.imf.org/external/np/sec/aiv/index.htm. Benchmarking data from World Development Indicators, most recent

publication, series DT.TDS.DECT.EX.ZS, based on World Bank, Global Development Finance data.

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. Debt is considered as a percent of exports of goods and services, which includes income and workers' remittances.

Coverage: Data are available for about 77 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: Latest country data obtained from national data sources or IMF Article IV Reviews:

www.imf.org/external/np/sec/aiv/index.htm. Benchmarking data from World Development Indicators, most recent publication, series 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 the net inflow 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.

Coverage: Data are available for about 82 USAID countries.

CAS Code #24P5

Gross international reserves, months of imports

Source: Latest country data obtained from national data sources or IMF Article IV Reviews:

www.imf.org/external/np/sec/aiv/index.htm. Benchmarking data from World Development Indicators, most recent publication, series 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 expressed in terms of the number of months of imports of goods and services.

Coverage: Data are available for about 77 USAID countries.

CAS Code # 24P6

Private capital inflows, percent of GDP

Source: Latest country data obtained from national data sources or IMF Article IV Reviews:

www.imf.org/external/np/sec/aiv/index.htm. Benchmarking data derived from the International Financial Statistics (sum of lines 78BED and 78BGD, divided by GDP).

Definition: Net private capital inflows are the sum of the of direct and portfolio investment inflows recorded in the balance of payments financial account. The indicator is calculated as a ratio to GDP in U.S. dollars.

Coverage: Information on coverage is not easily accessible.

Data Quality: 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: Latest country data obtained from national data sources or IMF Article IV Reviews:

www.imf.org/external/np/sec/aiv/index.htm. Benchmarking data from World Development Indicators, most recent publication, series NE.EXP.GNFS.KD.ZG, based on World Bank national accounts data, and OECD National Accounts data files.

Definitions: Annual growth rate of exports of goods and services based on constant local currency units. Exports 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.

Coverage: Data are available for about 81 USAID countries.

CAS Code # 24P4

Inward FDI Potential Index

Source: UNCTAD. Indicator is available online at http://www.unctad.org/Templates/WebFlyer.asp?intItemID=2471&lang=1.

Definition: Inward FDI Potential Index measures an economy's attractiveness to foreign investors, capturing factors (apart from market size) that are expected to have an impact. The Index ranges in value from 0 (for very poor performance) to 1 (for excellent performance). It is an un-weighted average of the scores of 12 normalized economic and social variables.

Coverage: Data are available for about 77 USAID countries.

CAS Code # 24S2

Net barter terms of trade

Source: World Development Indicators, most recent publication, series 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 2000.

Coverage: Data are available for about 51 USAID countries.

CAS Code # 24S3

Present value of debt, percent of GNI

Source: World Development Indicators, most recent publication series DT.DOD.PVLX.GN.ZS, based on Global Development Finance data.

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. Indicator measures the value of debt relative to the GNI.

Coverage: Data are available for about 80 USAID countries.

Data Quality: The coverage, and quality of debt data vary widely across countries due to the wide spectrum of debt instruments, the unwillingness on the part of the government to provide information, and lack of capacity in reporting. Discrepancies are significant when the exchange rate fluctuations, debt cancellations and re-scheduling occur.

CAS Code # 24P8

Real effective exchange rate (REER)

Source: IMF Article IV Reviews:

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

Definition: The REER is an index number with base 1995=100, which measures the value of a currency against a weighted average of foreign currencies. It is calculated as the nominal effective exchange rate divided by a price deflator or index of costs. The IMF defines the REER so that an increase in the value represents a real appreciation of the home currency, and a decrease represents a real depreciation.

Coverage: Information on coverage is not easily accessible.

Data Quality: Changes in real effective exchange rates should be interpreted with caution. For many countries the weights from 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: Latest country data obtained from national data sources or IMF Article IV Reviews:

www.imf.org/external/np/sec/aiv/index.htm. Benchmarking data is obtained from World Development Indicators, most recent publication, It is constructed by dividing Worker's Remittances (receipts), series BX.TRF.PWKR.CD, by Exports of Goods and Services, series 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. The indicator is the ratio of remittances to exports.

Coverage: Data are available for about 74 USAID countries.

CAS Code # 24P9

Structure of merchandise exports

Source: World Development Indicators, most recent publication. Exports from five categories are used: Food exports series TX.VAL.FOOD.ZS.UN; Agricultural raw materials exports series TX.VAL.AGRI.ZS.UN; Manufactures exports series TX.VAL.MANF.ZS.UN; Ores and metals exports series TX.VAL.MMTL.ZS.UN; and Fuel exports series TX.VAL.FUEL.ZS.UN.

Definition: This indicator reflects the composition of merchandise exports by major commodity groups – food, agricultural raw materials, fuels, ores and metals, and manufactures.

Coverage: Data are available for about 78 USAID countries.

Data Quality: The classification of commodity groups follows the Standard International Trade Classification (SITC) revision 1, but most countries report using later revisions of the SITC. Tables are used to convert data reported in one system to another and this may introduce errors of classification. 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: Latest country data obtained from national data sources or IMF Article IV Reviews:

www.imf.org/external/np/sec/aiv/index.htm. Benchmarking data from World Development Indicators, most recent publication, series NE.TRD.GNFS.ZS.

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

Coverage: Data available for about 84 USAID countries.

CAS Code # 24P10

Trade Policy Index

Source: Index of Economic Freedom, Heritage Foundation. The Trade Policy Score (Index) is one of the components of the Index of Economic Freedom. The indices can be found at http://www.heritage.org/research/features/index/downloads.cfm.

Definition: The index measures the degree to which government hinders the free flow of foreign commerce based on a country's weighted average tariff rate (weighted by imports from the country's trading partners), with adjustments for non-tariff barriers and corruption in the custom service. The index ranges in value from 1 (for low levels of barriers to trade) to 5 (for high levels of barriers to trade).

Coverage: Data are available for about 83 USAID countries.

Data Quality: The index is subjective and at times inconsistent in its treatment of tariffs.

CAS Code # 24S6

ECONOMIC INFRASTRUCTURE

Internet users per 1,000 people

Source: World Development Indicators, most recent publication series IT.NET.USER.P3, derived from the International Telecommunication Union database.

Definition: Indicator quantifies the number of internet users, defined as those with access to the world-wide network, per 1,000 people.

Coverage: Data are available for about 88 USAID countries.

CAS Code # 25P1

Overall Infrastructure Quality

Source: Global Competitiveness Report 2005-2006, World Economic Forum. The indicator can be found in the Data Tables, Section V. General Infrastructure; 5.01.

Definition: The index measures executives' 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.

Coverage: Data are available for about 52 USAID countries.

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

CAS Code # 25P2

Telephone density, fixed line and mobile

Source: World Development Indicators, most recent publication series IT.TEL.TOTL.P3, derived from the International Telecommunication Union database..

Definition: The indicator is the sum of subscribers to telephone mainlines and mobile phones per 1,000 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.

Coverage: Data are available for about 88 USAID countries.

CAS Code #25P3

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

Source: Global Competitiveness Report 2005-2006, 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: The index measures executives' perceptions of general infrastructure in their respective country. Executives grade, on a scale from 1 to 7, whether railroads, ports, air transport, and electricity are (1) poorly developed, or (7) among the best in the world.

Coverage: Data are available for about 52 USAID countries.

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

CAS Code #25S1

Telephone cost, average local call

Source: World Development Indicators, most recent publication series IT.MLT.CLCL.CD, , derived from the International Telecommunication Union database.

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

Coverage: Data are available for about 82 USAID countries.

CAS Code #25S2

SCIENCE AND TECHNOLOGY

Expenditure in Research and Development, percent of GDP

Source: World Development Indicators, most recent publication, series GB.XPD.RSDV.GD.ZS, based on data from the UNESCO Institute of Statistics.

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.

Coverage: Data are available for about 26 USAID countries.

CAS Code #26P1

FDI technology transfer index

Source: Global Competitiveness Report 2005-2006, World Economic Forum. The indicator can be found in the Data Tables, Section III. Technology: Innovation and Diffusion; 3.04.

Definition: The index measures executives' 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.

Coverage: Data are available for about 52 USAID countries.

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

CAS Code # 26P2

Patent applications filed, by residents

Source: World Development Indicators, most recent publication series IP.PAT.RESD, based on WIPO data.

Definition: The indicator is the number of applications filed by host-country residents with the 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.

Coverage: Data are available for about 63 USAID countries.

CAS Code #26P3

HEALTH

HIV prevalence rate

Source: UNAIDS for most recent country data:

http://data.unaids.org/pub/GlobalReport/2006/2006_GR_ANN2_en.pdf. World Development Indicators, most recent publication for benchmark data, series SH.DYN.AIDS.ZS.

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

Coverage: Data are available for about 79 USAID countries.

Data Quality: UNAIDS/WHO estimates are based on all available data, including surveys of pregnant women, population-based surveys, household surveys conducted by Kenya, Mali, Zambia and Zimbabwe, as well as other surveillance information.

CAS Code # 31P1

Life expectancy at birth

Source: World Development Indicators, most recent publication, (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.

Coverage: Data are available for about 88 USAID countries.

Data Quality: Life expectancy at birth is estimated based on vital registration or the most recent census/survey. Extrapolations 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/mdg/Data.aspx based on WHO, UNICEF and UNFPA data.

Definition: The indicator is the number of women who die during pregnancy and childbirth, per 100,000 live births.

Coverage: Data are available for about 87 USAID countries.

Data Quality: Household surveys attempt to measure maternal mortality by asking respondents about survivorships of sisters. The estimates pertain to 12 years or so before the survey, making them unsuitable for monitoring recent changes.

CAS Code # 31P3

Access to improved sanitation

Source: World Development Indicators, most recent publication, series SH.STA.ACSN.

Definition: The indicator is the 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.

Coverage: Data are available for about 82 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 Development Indicators, most recent publication series SH.H2O.SAFE.ZS

Definition: The indicator is 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.

Coverage: Data are available for about 83 USAID countries.

Data Quality: Access to drinking water from an improved source does not ensure that the water is adequate or safe.

CAS Code # 31S2

Births attended by skilled health personnel

Source: World Development Indicators, most recent publication, series SH.STA.BRTC.ZS.

Definition: The indicator is 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.

Coverage: Data are available for about 62 USAID countries.

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

CAS Code # 31S3

Child immunization rate

Source: World Development Indicators, most recent publication, estimated by averaging two 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 (whopping cough), and tetanus (DDPT).

Coverage: Data are available for about 88 USAID countries.

CAS Code #31S4

Prevalence of child malnutrition, weight for age

Source: World Development Indicators, most recent publication, series SH.STA.MALN.ZS.

Definition: The indicator is based on percentage of children under five whose weight for age is more than minus two standard deviations below the median for the international reference population ages 0-59 months.

Coverage: Data are available for about 55 USAID countries.

CAS Code # 31S5

Public health expenditure, percent of GDP

Source: Latest data for host country is obtained from the MCC
http://www.mcc.gov/selection/scorecards/2007/index.php.

International benchmarking data from World Development Indicators, most recent publication, (SH.XPD.PUBL.ZS), based on World Health Organization, World Health Report and updates and from the OECD, supplemented by World Bank poverty assessments and country and sector studies.

Definition: Public health expenditure consists of recurrent and capital spending from government (central and local) budgets, external borrowings and grants (including donations from international agencies and nongovernmental organizations), and social (or compulsory) health insurance funds.

Coverage: Data are available for about 88 USAID countries.

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 indicator measures 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.

Coverage: Data are available for about 80 USAID countries.

Data Quality: Enrollment rates are based on data collected during annual school surveys, which are typically conducted at the beginning of the school year, and do not reflect actual rates of attendance during the school year. In addition, school administrators may report exaggerated enrollments as often teachers are paid proportional to the number of pupils enrolled. The indicator does not measure the quality of the education provided.

CAS Code # 32P1

Persistence to grade 5 – female, male, and total

Source: World Development Indicators, most recent publication series SE.PRM.PRS5.FE.ZS (female); SE.PRM.PRS5.MA.ZS (male); and SE.PRM.PRS5.ZS (total).

Definition: The indicator is an estimate of the proportion of the population entering primary school who reach grade 5, for female, male, and total students.

Coverage: Data are available for about 48 USAID countries.

CAS Code # 32P2

Youth literacy rate

Source: World Development Indicators, most recent publication, series SE.ADT.1524.LT.ZS.

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

Coverage: Data are available for about 67 USAID countries.

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

CAS Code #32P3

Expenditure on primary education, percent GDP

Source: Millennium Challenge Corporation
http://www.mcc.gov/selection/scorecards/2007/index.php

Definition: The indicator is the total expenditures on education by all levels of government, as a percent of GDP.

Coverage: Data are available for about 58 USAID countries.

Data Quality: The MCC obtains the data from national sources via US embassies.

CAS Code #32S1

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

Source: World Development Indicators, most recent publication series SE.XPD.PRIM.PC.ZS (primary); SE.XPD.SECO.PC.ZS (secondary); and SE.XPD.TERT.PC.ZS (tertiary).

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

Coverage: Data are available for about 50, 47, and 45 USAID countries (for primary, secondary, and tertiary expenditure, respectively).

Data Quality: Education statistics should be interpreted with caution because the data are out of date by 2 or 3 years; also, the statistics reflects solely public spending, generally excluding 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, most recent publication series 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).

Coverage: Data are available for about 76 USAID countries.

Data Quality: 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, but the precise computation differs depending on whether a particular country study uses the 2004 or 2005 and years subsequent WDI.

To calculate the *total* labor force participation rate using WDI 2004: the numerator is Labor force, total (SL.TLF.TOTL.IN), and the denominator is Population ages 15-64, total (SP.POP.1564.TO). Using WDI 2005 and subsequent years, the denominator is calculated as the total population (SP.POP.TOTL) times the percentage of the population in the age group 15-64 (SP.POP.1564.IN.ZS).

To calculate the *female* labor force participation rate using WDI 2004: the numerator is the Labor force, female (% of total labor force) (SL.TLF.TOTL.FE.ZS) times Labor force, total (SL.TLF.TOTL.IN); the denominator is simply Population ages 15-64, female (SP.POP.1564.FE.IN). Using WDI 2005, the denominator (female population, ages 15-64), can only be estimated by multiplying the total population (SP.POP.TOTL) times the percentage of the population ages 15-64 (SP.POP.1564.IN.ZS) times the percentage of females in the total population (SP.POP.TOTL.FE.ZS).

To calculate the *male* labor force participation rate using WDI 2004: the numerator is calculated by subtracting the female labor force, derived above, from the total labor force (SL.TLF.TOTL.IN). The denominator is Population ages 15-64, male (SP.POP.1564.MA.IN). Using WDI 2005 and subsequent years, the denominator is an estimated of the male population, ages 15-64, calculated as the total population (SP.POP.TOTL) times the percentage ages 15-64 (SP.POP.1564.IN.ZS) times the percentage of males in the total population, where the final factor is computed as 100 minus the percentage of females in the total population (SP.POP.TOTL.FE.ZS)..

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.

Coverage: Data are available for about 88 USAID countries.

CAS Code #33P1

Rigidity of employment index

Source: World Bank, Doing Business in 2007, Employing workers category: http://www.doingbusiness.org/ExploreTopics/EmployingWorkers/

Definition: Rigidity of employment index is a measure of labor market rigidity constructed as the average of the Difficulty of Hiring Index, Rigidity of Hours Index and a Difficulty of firing Index. Index ranges in value from 0 (minimum rigidity) to 100 (maximum rigidity).

Coverage: Data are available for about 74 USAID countries.

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

CAS Code # 33P2

Size and growth of the labor force

Source: Size of labor force from World Bank Development Indicators (SL.TLF.TOTL.IN); annual percentage change calculated from size data.

Definition: The indicator measures the size of the labor supply, and its annual percent change. Labor force comprises of people who meet the International Labour Organization definition of the economically active population: all people who are able to supply labor for the production of goods and services during a specified period, including both 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.

Coverage: Data are available for about 88 USAID countries.

CAS Code #33P3

Unemployment rate

Source: World Development Indicators, most recent publication series SL.UEM.TOTL.ZS.

Definition: The unemployment rate refers to the share of the labor force that is without work but available for and seeking employment. For this purpose, informal sector workers and own-account workers (including subsistence farmers) are counted as being employed.

Coverage: Data are available for about 50 USAID countries.

Data Quality: Definitions of labor force and unemployment differ by country, making international comparisons inaccurate.

CAS Code # 33P4

AGRICULTURE

Agriculture value added per worker

Source: World Development Indicators, most recent publication series 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 basic measure of labor productivity in agriculture. Value added in agriculture measures the output of the agricultural sector (ISIC divisions 1-5) – forestry, hunting, fishing, cultivation of crops, and livestock production – less the value of intermediate inputs. Data are in constant 1995 U.S. dollars.

Coverage: Data are available for about 80 USAID countries.

CAS Code # 34P1

Cereal yield

Source: World Development Indicators, most recent publication series AG.YLD.CREL.KG based on Food and Agriculture Organization (FAO), Production Yearbook and data files.

Definition: Cereal yield is 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.

Coverage: Data are available for about 84 USAID countries.

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: The latest country data are taken from national data sources or from IMF Article IV Reviews: www.imf.org/external/np/sec/aiv/index.htm. The benchmarking data are from World Development Indicators, most recent publication series NV.AGR.TOTL.KD.ZG

Definition: The indicator measures the annual growth rate for agricultural value added, in constant local currency. Regional group aggregates are based on constant 2000 U.S. dollars. Agriculture corresponds to ISIC divisions 1-5 and includes forestry, hunting, and fishing, as well as cultivation of crops and livestock production. 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.

Coverage: Data are available for about 84 USAID countries.

CAS Code # 34P3

Agricultural policy costs index

Source: Global Competitiveness Report 2005-2006, World Economic Forum. The indicator can be found in the Data Tables, Section II. Macroeconomic Environment; 2.20.

Definition: The index measures executives' perceptions of agricultural policy costs in their respective country. Executives grade, on a scale from 1 to 7, whether the cost of agricultural policy in a given country is (1) excessively burdensome, or (7) balances all economic agents' interests.

Coverage: Data are available for about 52 USAID countries.

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

CAS Code # 34S1

Crop production index

Source: World Development Indicators, most recent publication series AG.PRD.CROP.XD, based on FAO statistics.

Definition: Crop production index shows agricultural production for each year relative to the period 1999-2001 = 100. The index includes production of all crops except fodder crops. Regional and income group aggregates for the FAO's production indices are calculated from the underlying values in international dollars, normalized to the base period.

Coverage: Data are available for about 85 USAID countries.

Data Quality: Regional and income group aggregates for the FAO's production indices are calculated from the underlying values in international dollars, normalized to the base period 1999-2001. 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. To ease cross-country comparisons, the FAO uses international commodity prices to value production expressed in international dollars (equivalent in purchasing power to the U.S. dollar). 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.

Coverage: Data are available for about 85 USAID countries.

CAS Code # 34S2

Livestock Production index

Source: World Development Indicators, most recent publication series AG.PRD.LVSK.XD, based on FAO.

Definition: Livestock production index shows livestock production for each year relative to the base period 1999-2001 = 100. The index includes meat and milk from all sources, dairy products such as cheese, and eggs, honey, raw silk, wool, and hides and skins.

Coverage: Data are available for about 85 USAID countries.

Data Quality: See comments on the Crop Production Index.

CAS Code # 34S3