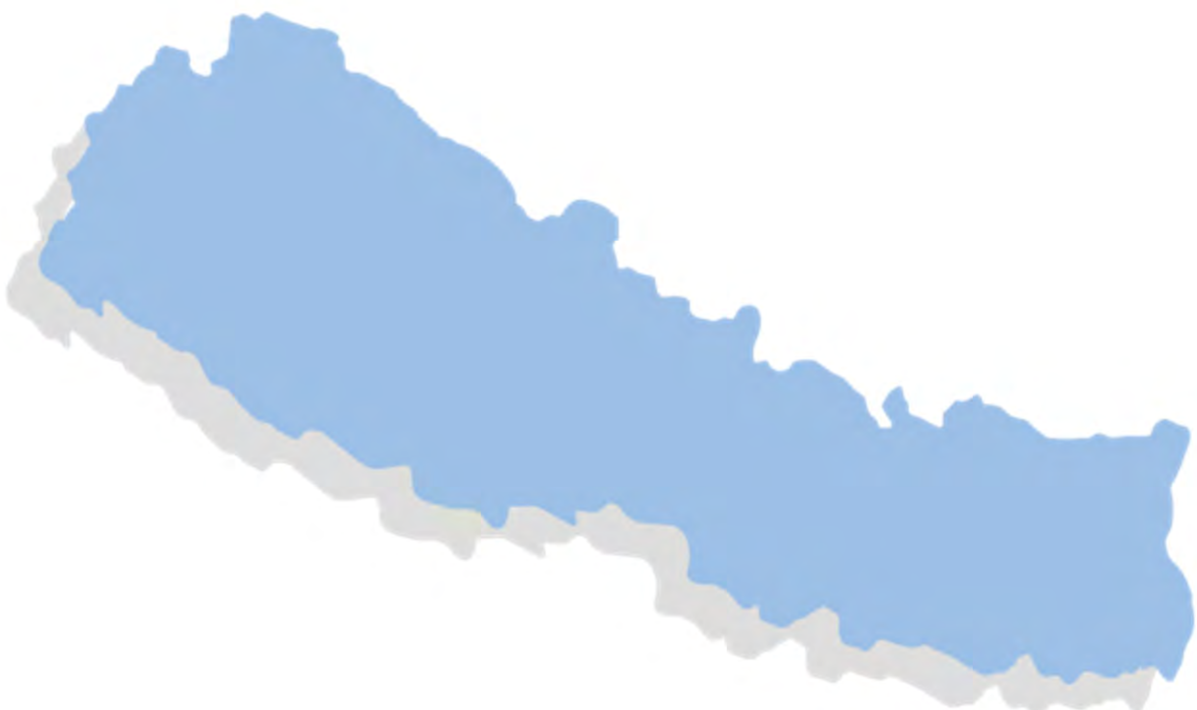
Nepal

Economic Recovery Assessment



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Economic Recovery Assessment

Sponsored by the Economic Growth office of USAID's Bureau for 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 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 programming priorities; and
- A convenient summary of the 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, 2006-2010, Nathan has developed a special Economic Recovery template for countries emerging from crisis.

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

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MAP OF NEPAL

Source: The UN Nepal Information Platform

HIGHLIGHTS OF NEPAL'S PERFORMANCE AND POTENTIAL PRIORITIES

Profile of Conflict and Recovery	A decade-long conflict between Maoist insurgents and Nepal's government ended in 2006 with the signing of a Comprehensive Peace Agreement. A Constituent Assembly was elected in 2008 to draft a new Constitution by May 28, 2010, but the deadline was missed because of disagreement over basics—the shape of the new state and its governance systems. The Constituent Assembly term has now been extended to May 28, 2011. Four years after the end of the insurgency—dramatic progress on its own terms—the peace process and political conditions are still highly unstable, with deadlock among political parties, regional and ethnic tensions, and ongoing threats of civil unrest and violence. Rapid achievement of political consensus is urgent and the absolute precondition for economic recovery.
Postconflict Economic Growth	Nepal is one the poorest countries in the world and the poorest in South Asia after Afghanistan. The decade-long conflict depressed annual growth to an average of 3.6 percent between fiscal years 2003–2007. Growth rates have recovered some (5.3 percent in fiscal 2008, 4.7 percent in fiscal 2009) but still better performance is needed to deliver the "peace dividend". Large remittance inflows have fueled consumption in otherwise dire economic conditions. Inadequate and inefficient investment has held back growth. Private investment must increase, but for this, political stability is essential.
Poverty and Inequality	The aggregate level of poverty decreased by more than 10 percentage points between 1995/96 and 2003/04, corroborating a decline in the Human Poverty Index in recent years. However, a significant proportion of the population is poor or near-poor and malnourished. Further, inequality in income levels has widened in the same period. The decline is poverty is also starkly lower for traditionally marginalized groups and for the Mid-West and Far-West Development Regions.
Economic Structure	Shares of agriculture, industry, and services in Nepal's GDP are 34 percent, 17 percent, and 50 percent, respectively; and in total labor force they are about 66 percent, 13 percent, and 20 percent, respectively. Agriculture is thus Nepal's dominant but least-productive sector: two-thirds of Nepal's labor force generates only one-third of total output. Structural transformation means increasing agricultural output while shifting workers out of agriculture to more productive industry and services. Investment and innovation to increase productivity in agriculture and create jobs in other sectors is key for both the short and long terms.
Demography and Environment	Nepal's diverse population is expanding rapidly (1.8 percent per year). Rural population density is high and rising. Urbanization is modest (17 percent) but growing. A 20 percent youth bulge creates pressure for jobs. Outmigration is very high (4.3 migrants per 1,000 population) and growing, albeit with a recent slowdown. Girls' education, health services, and workforce development are priorities. Deforestation, soil degradation, urban pollution, and climate change are Nepal's main environmental challenges.
Gender and Children	Significant gender equity progress has been made in recent years. Girls are enrolling in schools at all levels at greater numbers and more are completing primary education. Legal reforms now permit women more equal rights in inheriting property. Women are seated in Parliament in unprecedented numbers. Women's labor force participation is low, and skills development targeted to women may help change this. Child labor is common despite laws to the contrary. Ex–child soldiers and others affected by the conflict need special support. Legal enforcement of children's rights is required.
Economic Stabilization and Government Capacity	Despite the conflict, Nepal's macroeconomic management has been fairly stable. Revenue has increased in recent years to 15 percent of GDP, thanks to better administration and compliance and VAT receipts from remittance-based consumption increases. Indirect taxes are 69 percent and income taxes 31 percent of tax revenue. Government capacity constraints have hindered public capital expenditure, but with increasing recurrent expenditure, total spending is now 22 percent of GDP. The result: after grants, the fiscal deficit is 3.8 percent of GDP. Rapid money supply growth and supply side constraints have sharply accelerated inflation, to 13.2 percent in 2009. Sound and skillful fiscal and monetary management is the highest priority for postconflict recovery.
Business Environment	Nepal ranks 123rd of 183 countries in the World Bank's 2010 Doing Business indicators. Its business climate is characterized by high institutional and regulatory risk—eroded rule of law, corruption, and lack of accountability. In addition, excessive bureaucratic regulatory requirements hinder business

	operations, add to costs, and reduce competitiveness. Setting the rules of the game for economic governance is essential for recovery, beginning with a new constitution and restoration of law and order and political and administrative normalcy.
Financial Sector	Nepal's financial sector has boomed, with liberal bank licensing and rapid monetary expansion (M2 at 65 percent of GDP). Result: negative real interest rates and sharp increases in domestic credit to the private sector (45 percent of GDP). Finance for formal sector borrowers has not been a constraint. But asset bubbles are evident (in land and property) and recent M2 deceleration has squeezed liquidity, raising default risk. Nepal Rastra Bank has taken new prudential measures. Maintaining financial sector stability will be an urgent task for some time. Nepal's informal sector—the bulk of the rural economy—has little or no access to finance. Microfinance, while expanding rapidly, must continue to extend its networks and innovate in its product offerings (small agro-loans, insurance).
External Sector	Nepal's trade ratio is still relatively low (47 percent of GDP). Trade has been increasing, mainly on imports, as exports to India (largest trading partner) are stagnating. The trade deficit was 22 percent of GDP (fiscal 2009), with a surplus on the current account (4.3 percent) and international reserves at 6 months of imports. Remittances are the key for the Nepali economy, exploding to 171 percent of exports of goods and services (fiscal 2009). But with a recent remittance slowdown, reserves have begun to fall. A vigorous program to restore external balance is under way, including maintaining the Indian rupee exchange peg. Export diversification and FDI promotion are in order.
Economic Infrastructure	Power and transport (roads and air) make up Nepal's economic infrastructure. Electricity is a major constraint. Only a third of the population has power, and even those with power suffer frequent and prolonged outages. The road network is limited and in poor condition. Air transport is a bit better. Communications have been developing rapidly through private investment. Telephone density and Internet use have increased, but with ample room for more. Strengthening both infrastructure systems and institutions is urgent.
Health	Progress has been made in raising life expectancy and lowering the child mortality rate . But child malnutrition and maternal mortality rates are still high, driven in part by Nepal's food insecurity problems. About 89 percent of households have access to safe drinking water, but only 27 percent to improved sanitation. There is a wide disparity between urban and rural health indicators, signaling the need for improved health care service delivery, perhaps through community-based health management systems. Public health expenditure is high (5.5 percent of GDP), exceeding those of comparator economies.
Education	Education indicators are mixed. Primary completion rates have improved—thanks to increased public expenditure in primary education—but net primary enrollment rates have declined in total and for males (girls' rates have risen). Secondary enrollment rates are lower. Tertiary rates are relatively high and will rise with three new universities on stream. Education quality in average pupil-teacher ratio terms (38 pupils per teacher) suggests room for improvement. Community-managed schools have increased enrollment for disadvantaged groups.
Employment and Workforce	The labor force participation rate (72 percent) is fairly stable and is comparable to those of similar economies. With the labor force growing annually at 3.3 percent, Nepal's economy is hard pressed to create new jobs. Lack of opportunity and underemployment push workers to migrate abroad for better economic opportunities. Despite the need for employment, Nepal's rigid labor regulations pose significant obstacles to increased job creation. Reform is essential to Nepal's competitiveness and must be initiated with all stakeholders engaged.
Agriculture	Agriculture is central to Nepal's economy , especially to the rural poor. The sector is based on low-input, low-output subsistence farming, largely water-intensive cereals on small, mostly rainfed landholdings. Overall crop production has been increasing slowly (1.5 percent per year), but output is erratic and insufficient for the growing population. Food insecurity is serious. Land and labor productivity in agriculture is very low. Investment and innovation in crops, technology, infrastructure, markets, institutions, and policy, with both private and public sectors playing a part, are called for.

NEPAL: STRENGTHS AND WEAKNESSES—SELECTED INDICATORS

Indicators, by Topic	Strengths	Weaknesses
Profile of Conflict and Recovery		
Failed states index score		X
Postconflict Economic Growth		
Real GDP growth		X
Gross fixed investment		X
Investment productivity (Incremental capital output ratio, ICOR)		X
Poverty and Inequality		
Poverty headcount by national poverty line	X	
Human poverty index	X	
Income share of poorest 20% of population		X
Economic Structure		
Output structure, services value added	X	
Labor force structure, employment in services	X	
Output structure, industry value added		X
Demography and Environment		
Population growth rate		X
Youth bulge		X
Adult literacy rate		X
Gender and Children		
Female labor force participation rate		X
Girls’ primary completion rate	X	
Use of child soldiers		X
Economic Stabilization and Government Capacity		
Government revenue, excluding grants, as a percentage of GDP	X	
Inflation rate		X
Money supply growth		X
Business Environment		
Rule of law index		X
Ease of doing business ranking		X
Contracts enforcement (Time, procedures, cost)		X
Financial Sector		
Money supply, percent of GDP		X
Interest rate spread	X	

Indicators, by Topic	Strengths	Weaknesses
External Sector		
Current account balance, percent of GDP		X
Remittance receipts, percent of exports	X	
Gross international reserves, months of imports		X
Foreign direct investment, percent of GDP		X
Economic Infrastructure		
Number of electrical outages, average outages per month		X
Number of internet users, per 100 people	X	
Overall infrastructure quality		X
Health		
Life expectancy	X	
Access to improved water source	X	
Child malnutrition rate		X
Access to improved sanitation facilities		X
Education		
Net primary enrollment rate, boys and girls		X
Public expenditure on primary education	X	
Primary completion rate	X	
Employment and Workforce		
Unemployment rate		X
Rigidity of employment index		X
Agriculture		
Crop production index		X
Agriculture value added per worker		X

Note: This chart identifies selected indicators for which Nepal's performance is particularly strong or weak relative to benchmark standards (as explained in Appendix A). Details of the assessment are discussed in the text. The data supplement presented in Appendix B provides a full tabulation of the standard CAS indicators and international benchmarks examined for this report, along with technical notes on data sources and definitions.

1. Introduction

This report is one of a series of economic recovery 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 and postconflict economic recovery in designated host countries. The report draws on a variety of international data sources[1] and uses international benchmarking against reference group averages and statistical norms to identify major constraints, trends, and opportunities for strengthening growth and reducing poverty. For Nepal, the reference group benchmarks are the median values for low-income countries globally (designated as LI) and the median for low-income countries in Asia (designated as LI-Asia). In addition, we compare Nepal's performance to that of two other countries—Bangladesh and Tajikistan—each of which represents socioeconomic conditions broadly comparable to Nepal's.

Table 1-1
Comparator Country Selection

Nepal	Bangladesh	Tajikistan
• Low-income South Asian country • Small open economy • Landlocked and mountainous • Significant agricultural sector • Important overseas remittance flows • About 30% people below poverty line • Doing Business 2010 ranking: 123 • Postconflict society-economy	• Low-income South Asian country • Large open economy • Significant agriculture sector • About 40% people below poverty line • Doing Business 2010 ranking: 119 • History of civil unrest and government under emergency rule	• Low-income Central Asian country • Small open economy • Landlocked and mountainous • Significant agriculture sector • Important overseas remittance flows • About 50% people below poverty line • Doing Business 2010 ranking: 152 • Postconflict society-economy

METHODOLOGY

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, this economic recovery assessment is based on an examination of key economic, conflict, and social

[1] Sources include the World Bank, the International Monetary Fund, the Millennium Challenge Corporation, the United Nations (including the Millennium Development Goals database), the World Economic Forum, and host-country documents and data sources. This report reflects data available as of May 2010.

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

indicators, to see which are signaling problems. Some "blinking" indicators have clear implications, while others may require further study to investigate the problems more fully and identify appropriate courses for programmatic action.

The economic analysis in this assessment is organized around two mutually supportive goals of economic development: sustainable growth and poverty reduction.[3] In adapting our standard country analytic template to the circumstances of postconflict recovery, the report also takes into account a third basic goal: achieving sustained peace.[4] These three goals—growth, poverty reduction, and sustained peace—are influenced by many factors such as demographic composition, gender equity, the public provision of education and health services, job creation and workforce development (especially among youth), and agricultural development.

Broad-based growth is the most powerful instrument for poverty reduction. For countries experiencing conflict, such as Nepal, one must also consider the interaction between security conditions, economic growth, and poverty reduction. Open conflict or the risk of serious conflict can adversely affect growth and increase poverty. Countries affected by conflict are generally characterized by a lack of government capacity, minimal private sector activity, and weak or damaged infrastructure, which impair their ability to recover. Furthermore, the return and reintegration of refugees and internally displaced persons (IDPs) who fled the violence creates an immediate need for job creation and social services.

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

This assessment must be interpreted with care. A concise analysis of selected indicators cannot provide a definitive diagnosis of economic performance problems or simple answers to questions about programmatic priorities. Instead, the aim of the analysis is to spot signs of serious problems

[3] In USAID's white paper *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. See also USAID, *Economic Growth Strategy: Securing the Future*, and April 2008.

[4] This is consistent with lessons identified in USAID's *A Guide to Economic Growth in Post-Conflict Countries* September 2009.

affecting postconflict economic growth and recovery (subject to limits of data availability and quality) and offer insight into potential paths for USAID intervention, to complement on-the-ground knowledge and point the way toward in-depth studies. Many USAID missions have reported that the analysis provided here can be extremely helpful in the development of new strategic plans; the design of new programs; as a background resource for new staff, temporary duty assignments, and consultants; and for framing in-depth studies.

DATA QUALITY

The breadth and quality of economic data collected for Nepal are relatively good. The World Bank's Statistical Capacity indicator—which provides an evaluation of a country's statistical practice, data collection methodology, timeliness, and key indicator availability against criteria reflecting internationally recommended standards—releases annual scores for countries on a scale of 0 to 100 (higher scores indicating better capacity). Nepal's score of 72 percent in 2008 is better than all comparators except Tajikistan—LI-Asia (69.5 percent), LI (57.5 percent), Bangladesh (65 percent) and Tajikistan (77 percent). There is still room for improvement in data sources and collection methodologies for several statistics. For instance, a vital statistics registration system is only partially completed; the consumer price inflation base year is more than 10 years old; monthly statistics for key indicators such as the industrial production index and import/export prices are unavailable; and the national living standards survey is conducted at a roughly 10-year interval. Even so, data gathered from standard sources listed in the Technical Notes and supplemented by those from national sources have been sufficient to present and describe a comprehensive set of emerging trends and pertinent issues in Nepal's postconflict recovery.

REPORT ORGANIZATION

In lieu of an executive summary, the two tables that precede this main text present the highlights of our analysis. The first presents an overview of Nepal's performance in each technical area covered in the report; the second identifies specific indicators of strengths and weaknesses in those areas. The remainder of the report presents the most important results of our diagnostic analysis in three sections: Conflict and Economic Recovery; Private Sector Enabling Environment; and Pro-Poor Growth Environment. Table 1-2 summarizes the topical coverage. Appendix A briefly explains the criteria used in selecting indicators and the benchmarking methodology and provides the full set of indicators examined for this report.

Table 1-2
Topic Coverage

Conflict and Economic Recovery	Private Sector Enabling Environment	Pro-Poor Growth Environment
• Conflict risk status • Conflict and economic recovery • Poverty and inequality • Economic structure • Demography and environment • Gender and children	• Economic stabilization and government capacity • Business environment • Financial sector • External sector • Economic infrastructure	• Health • Education • Employment and workforce • Agriculture

2. Conflict and Economic Recovery

This section offers an overview of conditions and trends in postconflict recovery for Nepal. It reviews basic indicators and information on postconflict performance in Nepal's growth, poverty and inequality, economic structure, demographic and environmental conditions, and gender equity. Where postconflict recovery factors play a major role in defining economic circumstances and challenges, these impacts are highlighted.

CONFLICT RISK STATUS

Nepal's political situation is unfolding in the context of a 60-year struggle to transform a feudal Hindu monarchy into a modern democratic secular state. The most recent and bloodiest phase of this conflict has revolved around the conduct and aftermath of a violent, decade-long Maoist insurgency that killed more than 13,000 people as leftist rebels battled the government's police and army throughout the nation. In February 1996, a group now known as the United Communist Party of Nepal-Maoists (UCP-M) initiated an armed uprising against Nepal's monarchy and government. The Maoists, under the leadership of Pushpa Kamal Dahal—a.k.a. Prachanda—began by presenting government a list of 40 demands for a "People's Democracy"—demands related to "nationalism, democracy and livelihood," including abolition of royal privileges, land reform, and a popular assembly to draft a new constitution. Within a few days, the Maoists embarked on an armed "People's War," eventually gaining control of large portions of the countryside. In November 2006, after considerable death and destruction and several failed attempts at ceasefire and negotiation, government and the Maoists signed the Comprehensive Peace Agreement (CPA).

The CPA led to April 2008 elections for a Constituent Assembly, which serves as Nepal's constitution-drafting body and transitional Parliament. It also led to the end of the monarchy and declaration of Nepal as a federal democratic republic (May 28, 2008). To the surprise of many, in the elections for representatives to the Constituent Assembly, the Maoists won a plurality of seats (38 percent). Prachanda became prime minister of a Maoist-led coalition government, with Maoists holding key portfolios such as finance and defense. Prachanda's term was short-lived, however, as within nine months a dispute over the status of the Army Chief of Staff—Nepal's president Ram Baran Yadav's reinstated General Katawal after Prachanda had fired him—resulted in Prachanda and the other Maoists ministers resigning from the cabinet, and a new weak coalition of 22 political parties being formed to try to govern with the Maoists in opposition (May 2009). Exhibit 2-1 provides a more detailed chronology of Nepal's conflict history.

Exhibit 2-1

Nepal: A Chronology of Political Strife and Conflict

1768–1774. Prithvi Narayana Shah, ruler of Gorkha, conquers Malla kings of the Kathmandu valley and founds the Hindu kingdom of Nepal, a prosperous hub for India-Tibet trade. Three resource-rich Terai kingdoms are added to the realm, creating a powerful feudal state.

1846. Rana regime founded by Jung Bahadur Kunwar who marginalizes Shah kings but retains monarchy as a figurehead, and institutes conservative rule of hereditary Prime Ministers (Ranas) based on caste and class (Muluki Ain), alliance with Britain, and Nepal's isolation from the world.

1951. India-based pro-democracy Nepali Congress, supported by King Tribhuvan and newly independent India, force an end to Rana rule. Shah sovereignty is restored, with Shah ruling through governments made up of Nepali Congress (NC) politicians and deposed Ranas.

1955. Death of King Tribhuvan. His son, King Mahendra, ascends to throne.

1959 (February). A new constitution introduces a parliamentary government under the authority of the king. NC wins the parliamentary election. Democratic government is formed under B.P. Koirala.

1960. With dissent rising among elites harmed by the government's reforms, and with disarray in political parties, King Mahendra stages "royal coup": constitutional powers are invoked to dissolve Parliament, ban parties, and take control of government.

1962. The centralized, partyless Panchayat system is introduced: government through village and town assemblies under local autocracies, district assemblies under royal appointees, and an appointed national Parliament, all under the king's sovereign authority.

1972. Death of King Mahendra. His son, King Birendra, ascends throne.

1980. Student unrest and rioting in Kathmandu lead King Birendra to permit a national referendum on Panchayat system vs. multiparty democracy. Panchayat system wins, but a new, directly elected (nonparty) National Panchayat is included as well.

1980s. A decade of agitation for return to multiparty democracy, including bombings in Kathmandu in 1985, plus economic hardship caused by India's trade embargo begun in March 1989, culminates in the Jana Andolan (People's Movement) for democracy in winter of 1989.

1990. After violent protests with street deaths and thousands of arrests, in April 1990 King Birendra agrees to reinstitute constitution, with parliamentary government and elections. India lifts trade embargo in July.

1991 (May). NC wins a majority in first parliamentary elections under the new constitution, with G.P. Koirala as prime minister (PM).

1991–1994. The new government ushers in economic reform and liberalization: development of manufacturing, promotion of foreign direct investment and privatization, including financial sector and air transport, and creation of Nepal Stock Exchange. But party infighting and corruption undermine government progress.

1994 (November). NC defeated in general elections, leading to hung parliament and a coalition under Communist Party of Nepal-United Marxist Leninist (CPN-UML). The new government introduces innovative Aafno Gaun Afai Banau funding for Village Development Committees and grassroots governance. The coalition collapses within nine months. Five more unstable coalition governments follow in the five years to May 1999.

1996 (February). Communist Party of Nepal (Maoist) delivers government 40-point demand for "People's Democracy" (February 4), and then launches "People's War" (February 13) by attacking banks in Gorkha District and police posts in Rolpa and Rukum Districts, and by a bombing in Kathmandu. In next 10 years, insurgency/counter-insurgency actions spread to nearly all of Nepal's 75 districts and claim over 13,000 lives.

1999 (May). NC once again wins a majority in general elections and forms new government. Internal frictions and rivalries plus growing pressure of Maoist insurgency cause government to fall within 10 months (March 2000). Two other unstable NC governments follow in period to October 2002, each more weakened by increasing violence.

2001 (June 1). King Birendra Queen, Aishwarya and seven other members of royal family are massacred at Narayanhiti Palace, allegedly by Crown Prince Dipendra, who then shoots himself. After Dipendra dies, Birendra's elder brother Gyanendra becomes king (June 4).

2001 (August–November). Ceasefire agreed to by Maoists and government. Three rounds of peace talks are held. But Maoists call talks a failure (November 21), and resume war, escalating violence nationwide, including making first attacks on army. Government declares state of emergency (November 26) and army counterattacks. The number of deaths rises significantly.

2002 (May). NC's internal rivalries lead to conflict over extending state of emergency. PM Sher Bahadur Deuba dissolves Parliament, schedules November elections, and launches interim government. Economy is in severe decline amid violence and uncertainty.

2002 (October 4). King Gyanendra stages second "royal coup": dismisses Deuba and cabinet, cancels elections, and takes power, appointing government of PM Lokendra Bahadur Chand.

2003 (January-August). New ceasefire declared by government and Maoists. Two rounds of peace talks are held in April and May. Political parties withhold support amid street protests, and PM Lokendra Bahadur Chand is forced to resign (May 30). Over parties' opposition, the king names Surya Bahadur Thapa PM (June 4). Peace are held in talks in August, but Maoists withdraw (August 27) and end ceasefire. War escalates and estimated death toll surpasses the 10,000 mark.

Exhibit 2-1 continued

2004. Political parties and activist groups stage unrelenting opposition and mass rallies, and PM Thapa resigns. Formerly dismissed PM Deuba is reappointed PM by king (June). Insurgency rages and political-economic situation continues to decline. Meanwhile, Nepal joins the WTO (April).

2005 (February 1). King Gyanendra dismisses PM Deuba's government and declares a state of emergency, suspending all fundamental democratic rights. A 15-month period of direct rule by a Council of Ministers chaired by the king begins.

2005. Insurgency-counterinsurgency violence continues, but expanding dissent in Nepali civil society and political party opposition plus international pressure force the king to lift the state of emergency (April 30). Meeting in exile in India, seven parties agree to an alliance for peaceful restoration of democracy, with Maoists as allies (December).

2006 (April). Countrywide demonstrations, strikes and street violence take place in 19-day Jana Andolan II to protest royal rule and demand restoration of democracy. Action is encouraged and organized by Seven-Party Alliance (SPA) with Maoist support. King Gyanendra relents and reinstates Parliament (April 24). SPA creates new government with G.P. Koirala as PM. Ceasefire declared unilaterally by Maoists (April 26).

2006 (May-June). Government announces its ceasefire and plans for peace negotiation with Maoists (May 3). Parliament curtails King's political power. Peace talks begin, including direct talks between PM Koirala and Maoist leader Prachanda (June 16).

2006 (November 21). Ten-year insurgency ends with the government and Maoists signing a Comprehensive Peace Agreement (CPA). Under the agreement, Maoists will enter the transitional government, and both sides willaccept arms supervision by the special United Nations Mission in Nepal (UNMIN) and will support Constituent Assembly elections.

2007 (January 15). Interim parliament is constituted and approves an interim constitution. Maoists join the political mainstream, with 83 representatives in a 328-member Parliament and five ministers in the interim Council of Ministers. But the Constituent Assembly elections set for May are postponed to November and then to April 2008, after Maoists quit the government demanding the abolition of the monarchy. Parliament resolves that the Constituent Assembly, when seated, will end the monarchy, and the Maoists rejoin the government (December 23).

2007. Regional ethnic violence flares up, beginning in January, first in the southeast and then throughout the Terai, as Madhesi and various Janajati groups demand regional autonomy and oppose proportional representation in the interim constitution. Violent strikes and protests lead to deaths and casualties. Amendments are made to the interim constitution (March and June), but violence and regional agitation continue. Three bombs explode in Kathmandu (September).

2008 (January–February). Continuing unrest and violence by regional Terai groups, including bombs, kill dozens. Three Madhesi political groups form the United Democratic Madhesi Front (UDMF) to negotiate with SPA government and stage Terai protests (February 8). UDMF begins indefinite strike with curfews and disruption to government and business (February 13). After 16 days and over 50 deaths, UDMF and SPA government sign an agreement to end the protest and acknowledge Terai regional goals.

2008 (April 10). Nationwide elections are held for the Constituent Assembly. Maoists win 38 percent, followed by NC 19 percent, CPN-UML 19 percent, the Madhesi People's Rights Forum 9 percent. Over 20 other parties are represented.

2008 (May 28). The Constituent Assembly convenes and votes to make Nepal a federal democratic republic and create a president as the constitutional but mostly ceremonial head of state, ending the 240-year-old monarchy. the Constituent Assembly functions as Parliament, but its main mission is to draft a constitution by May 28, 2010.

2008 (July 23). The Constituent Assembly elects Ram Baran Yadav as Nepal's first president, to serve until the new constitution enters into force.

2008 (August 18). The Constituent Assembly elects Maoist leader Prachanda—Pushpa Kamal Dahal—– as PM. A Maoist-led power-sharing coalition is formed with CPN-UML and MPRF plus three smaller parties.

2009 (May 4). A continuing dispute about integrating a portion of over 20,000 Maoist fighters in UN cantonments into Nepal's army fuels the government's decision to fire Chief of Army Staff General Katawal. President Yadav vetoes the sacking. Prachanda resigns as PM and Maoists withdraw from government.

2009 (May 25). New coalition government is formed with the support of 22 of Constituent Assembly's 24 parties and with CPN-UML's Madhav Kumar Nepal as PM. Maoists are in opposition.

2009 (May–December). Waves of Maoist street demonstrations and rallies aim at destabilizing CPN-UML government, along with strikes and shutdowns by Maoist-affiliated unions and violence and intimidation by Maoist Young Communist League to disrupt economy. Maoists blockade Parliament building for nearly five months to obstruct government. Repeated rounds of talks among NC, CPN-UML, and Maoists (now United Communist Party of Nepal, UCP-M) on possible national unity government are inconclusive. Violence breaks out in Kailali District as landless, Maoist-backed laborers seize government forests and security forces retaliate, killing seven squatters (December). Maoists respond with a massive three-day national general strike.

2010 (January-April). High-Level Political Mechanism (HLPM) is formed, composed of leaders of NC, CPN-UML, and Maoists to smooth peace process and constitution drafting. Meetings are held, but participants' mutual mistrust continues the stalemate. Exclusion of Madhesi parties further complicates the process and fosters intermittent strikes, disruptions, and violence in Terai.

2010 (May 2-8). Maoists begin an indefinite nationwide general strike to bring down the government. Nepal is at a standstill, with violent clashes between Maoists and security forces. With the Constituent Assembly expiration looming, civil society stages huge demonstrations to protest the strike and force parties to negotiate. Maoists end the strike.

May 28, 2010. With the Constituent Assembly's two-year term expiring at midnight and the new constitution still unfinished, Maoists, UCP-UML, and NC sign a 3-point agreement to extend the assembly's term by one year, work together to complete the peace process and constitution drafting, and have PM Nepal resign to "pave the way" for a new government. The Assembly passes the measure. PM Nepal resigns (30 June) but unsettled issues remain and disputes continue.

Since then, with this 22-party coalition still in power, the Maoists have conducted demonstrations, street protests, general strikes, and a five-month blockade of Parliament to obstruct and destabilize government. To increase the pressure, Maoist-affiliated unions have also staged repeated labor actions and shutdowns, and the Maoist Young Communist League has used force and intimidation to frighten opponents and disrupt the economy. Moreover, in addition to Maoist disputes with government, the insurgency and the unsettled postconflict environment have heightened other social and political tensions. In particular, a number of ethnic and other groups in the Terai, Nepal's southern plains, have become very aggressive in demanding regional autonomy and increased representation in the Constituent Assembly, public service, and other institutions. In 2007 and 2008, such groups—the United Democratic Madhesi Front (UDMF) and others—initiated protests, strikes, and shutdowns that often turned violent and led to several deaths. Although tensions have abated, many grievances remain and are continuing flashpoints.

Nearly four years after the insurgency's end, Nepal's peace process and postconflict conditions are still highly unstable, with many basic issues unresolved. Disagreement on the fundamentals of the new constitution—to have been drafted by May 28, 2010, but still unfinished (Exhibit 2-2)—and on terms for integrating 20,000 Maoist combatants into the Nepali Army, plus a political stalemate between Maoists and the government, and continuing ethnic and regional pressures, make for an unpredictable situation.

Exhibit 2-2
Constituent Assembly: The Tasks Ahead

A draft of the new Constitution has not been finalized in the past 24 months because the Constituent Assembly has failed to reach consensus on fundamental questions that will shape Nepal's future:

Shape of new restructured state. The interim constitution calls for a restructuring of the state as a precursor to federalism. Given Nepal's ethnic, ecological, cultural, linguistic, religious, and economic diversity, the benefits of restructuring by these variables have been debated. Another proposal is to adopt the current development regions as the new provinces. Different groups have suggested many different provincial divisions. The Maoist-backed proposal is for a 14-province state divided on the basis of ethnicity. Restructuring now links closely with ethnic autonomy and increasingly threatens to stir communal violence.

Design of governance system. Disagreements exist about the form of governance to be adopted—parliamentary, electoral, and judicial. For instance, the Constituent Assembly is divided on if Nepal should adopt a multiparty parliamentary government with a unitary-centralized structure or a decentralized structure and whether power sharing with federal provinces is feasible. Whether the judiciary should be independent or placed under the purview of the Parliament is also argued.

Debate also focuses on whether the new political system will be led by an elected prime minister (following India and Britain's examples), directly elected president, or an executive prime minister with a ceremonial president.

Integration of People's Liberation Army (PLA) fighters. The process of rehabilitation, management, and integration of the Maoist fighters into the Nepal Army has polarized the political parties, which interpret the Comprehensive Peace Agreement and its weapons management program in starkly different terms. Discussions on the number of PLA fighters to be integrated and reconciliation of the hierarchy of PLA fighters by rank into the Nepal Army remain unresolved. The constitution requires one single national Army, and the drafting of the new constitution cannot be completed until consolidation of the two (formerly enemy) forces has been reached.

Several other issues remain unresolved: land reform and related compensation, the adoption of one or more official languages, and details of affirmative action for traditionally marginalized groups will be important considerations. The drafting of the constitution is the biggest hurdle for Nepal at the present time, beyond which implementation challenges will abound as constitutional rights are translated into institutional, regulatory, and judicial practices.

The run-up to the recent extension of the Constituent Assembly's term exemplifies the dynamics and risks involved: a massive six-day nationwide general strike called by the Maoists in early May to try to bring down the government, sporadic violence, spontaneous civil society demonstrations in support of the peace process and political consensus, and finally, at midnight of the May 28 deadline, agreement to give the Constituent Assembly another year to complete its work.

Table 2-1

Failed States Index: Ranking by Indicators of Instability,2006–2009, and Change from 2006

Instability Indicator	Scale of 1 (best) to 10 (worst)				
	2009	2008	2007	2006	Change 2006–2009 (points)
Social					
Mounting demographic pressures	8.3	8.1	8.1	8.5	-0.2
Massive movement of refugees or IDPs	6.8	5.5	5.2	4.8	+2.0
Legacy of vengeance-seeking, group grievance, or group paranoia	8.7	9.0	8.9	9.2	-0.5
Chronic and sustained human flight	6.0	6.1	6.1	6.0	no change
Economic					
Uneven economic development along group lines	9.3	9.2	9.2	9.2	+0.1
Sharp and/or severe economic decline	8.5	8.2	8.2	8.5	no change
Political and Military					
Criminalization and/or de-legitimization of the state	8.0	8.3	8.5	9.2	-1.2
Progressive deterioration of public services	7.4	7.0	6.6	6.2	+1.2
Suspension or arbitrary application of human rights	8.7	8.8	8.8	9.1	-0.4
Security apparatus operates as a "state within a state"	8.1	8.5	8.3	9.0	-0.9
Rise of factionalized elites	8.4	8.3	8.5	9.0	-0.6
Intervention of other states or external political actors	7.2	7.2	7.2	6.7	+0.5
Total FSI score	95.4	94.2	93.6	95.4	no change

Social Indicators

Of the four FSI social indicators, two show slight improvement between the 2006 CPA year and 2009, one is unchanged, and one suggests significant deterioration. The most seriously worsening indicator is Nepal's score for refugees and IDPs, which has declined every year since 2006. The sharpest movement in this indicator occurred between 2008 and 2009, reflecting violent protests that took place after U.S. efforts to resettle Bhutanese refugees in March 2008.[5] In general, since 2006, Nepalese displaced by the insurgency have gone back to their villages, but ongoing political unrest, Maoist dominance, and a lack of economic opportunity in the rural economy may

[5] Nepal: US Offer to Resettle Bhutanese Refugees Sparks Tensions, Human Rights Watch, May 17, 2007. http://www.hrw.org/en/news/2007/05/16/nepal-us-offer-resettle-bhutanese-refugees-sparks-tensions.

still be discouraging many IDPs from returning to home districts. As for improving indicators, Nepal's score for group grievance improved between 2006 and 2009, no doubt thanks to efforts to make the Constituent Assembly more inclusive and responses to redress regional grievances such as the eight-point accord between government and the UDMF. Nepal's scores on demographic pressures also improved marginally between 2006 and 2009, perhaps reflecting a slightly declining population growth rate (see Demogrraphy and the Environment, p. 21). Finally, Nepal's score for human flight showed no change between 2006 and 2009, mirroring sustained outmigration. The slight improvement in this indicator from 2008 to 2009 is likely a temporary interannual slowdown in outmigration due to the global economic downturn rather than a decreasing trend in foreign employment (see Employment and Workforce, p. 57).

Economic Indicators

Nepal is one of the poorest and least-developed countries in the world, ranking 144th out of 182 countries on the 2009 UN Human Development Index. Nepal's FSI score for uneven development worsened slightly in 2009. The 2009 score for this indicator—"uneven economic development along group lines"—is Nepal's single worst showing among all indicators for the entire 2006–2009 reporting period. It reflects considerable class and gender inequality, as well lagging economic development opportunity and activity in the poorest and most remote regions of the country—the Mid- and Far-Western Development Regions (see Poverty and Inequality, p. 15). Nepal's 2009 score for economic decline eroded slightly from the 2008 level, as drought and delayed monsoons, among other factors, resulted in an interannual decline in the GDP growth rate (see conflict and Economic Growth, p. 11).

Political and Military Indicators

Among political and military indicators, four improved and two worsened between 2006 and 2009—but all are unfavorable in absolute terms.

FSI indicators pertaining to legitimacy of the state and to state security apparatus showed the greatest improvement. For legitimacy of the state, the improvement probably derives from the signing of the CPA, the transition—albeit uneven—to the Constituent Assembly, and the launch of the constitution-writing process. Modest improvement in the factionalized-elites indicator may also reflect the same factors. Improvement in the score relating to the security apparatus probably arises from an easing in the most aggressive state security actions after the end of the insurgency in 2006. The worsening in this indicator in 2008, however, may denote an increase in strong security measures related to the armed ethnic protests in Nepal's southeast in 2007 and 2008.[6] Slight improvement in the human rights–related score may correlate to some degree with this security indicator, but there is no question that Nepal's human rights conditions remain poor, with many serious violations reported: impunity for human rights violators, threats against the media, arbitrary arrests, extortions, and lengthy pretrial detentions. Trafficking of women and children

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[6] http://www.nepalcaportal.org/EN/ca-election/.

and violence against women also remain serious problems.[7] Hence, for 2009, the human rights score continues to be among Nepal's least favorable.

As for Nepal's two worsening political-military indicators, the score for public services deteriorated the most between 2006 and 2009—perhaps signaling rising frustration over an undelivered peace dividend in food security, infrastructure, and health care. Public disenchantment with the political stalemate erupted on May 7 into spontaneous civil society peace rallies demanding that the political parties negotiate consensus. The score for external intervention also eroded modestly, probably as a function of Nepal's continuing heavy dependence on foreign aid, as well as the impact of outsiders—especially India, but also China and the West—on Nepal's political and economic affairs.

CONFLICT AND ECONOMIC GROWTH

Conflict has a profoundly negative impact on economic performance (Exhibit 2-3). The decade-long insurgency in Nepal—one of the world's poorest countries and the poorest in South Asia after Afghanistan—has been immensely detrimental to the nation's growth. The Asian Development Bank (ADB) estimated that, owing to decreased development expenditure, the economic cost of continued conflict in Nepal over a five-year period could be equivalent to forgone growth of 1.7 percent to 2.1 percent of GDP per year.[8] Development expenditure is estimated to have declined by two-thirds between 1990 and 2007.[9] Whatever the ultimate cost, there is no doubt that the conflict's economic impact has been severe in terms of lost human capital, destroyed and damaged infrastructure, eroded institutions, depressed economic activity, and retarded growth.

As for the future, and climate risk aside, continuing political strife and sporadic civil unrest—plus emerging macroeconomic management challenges (see Economic Stabilization and Government Capacity, p. 29; and External Sector, p. 41)—threaten economic activity and immediate growth prospects. Consequently, the IMF forecasts Nepal's growth to retreat to 3 percent in fiscal 2010—though with a possible rise again to 4 percent in fiscal 2011, assuming the political situation and macro imbalances can be stabilized.[10] The ADB's forecast is a bit more optimistic—3.5 percent in fiscal 2010 and 4.5 percent in fiscal 2011—but still a retreat from the past two years.[11]

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[7] Nepal, State Department Human Rights Report, 3/11/2009. Available online at http://www.state.gov/g/drl/rls/hrrpt/2009/sca/136091.htm.

[8] Asian Development Bank, *Measuring the Economic Costs of Conflict*, Working Paper Series No. 2, Nepal Resident Mission, June 2005.

[9] Asian Development Bank (ADB), Department of International Development (DFID), and International Labour Organization (ILO), *Nepal Critical Development Constraints*, 2009, 31-33.

[10] IMF, Nepal: 2010 Article IV Consultation and Request for Disbursement Under the Rapid Cride Facility – Staff Report, IMF Country Report No. 10/185 (July 2010), p. 30.

[11] Asian Development Bank, *Asian Development Outlook 2010: Macroeconomic Management Beyond the Crisis*, 2010, p. 263.

Exhibit 2-3
Conflict and Economic Growth

Conflict is a major deterrent to economic growth. According to one influential study, civil war reduces a country's GDP per capita at a rate of 2.2 percent per year relative to a projected without-conflict baseline trend.[12] Of course, by destroying lives and property, conflict directly reduces productivity and performance. Indirectly, conflicts undermine economic growth by diverting resources to military activities at the expense of productive investment in physical and human capital. Conflict also disrupts essential public services, impairs fiscal and administrative capacity for postwar recovery, and leaves a legacy of debt to encumber future budgets.[13] The relationship between conflict and growth works in the opposite direction, too, as poor economic performance accentuates the risk of violence and complicates efforts to achieve political reconciliation.[14] Given the interdependence of growth and conflict, progress toward political stability in Nepal is intimately tied to progress in revitalizing the economy, creating jobs for a youthful workforce, and improving standards of living in all regions for all Nepalis.

Indeed, in the five years between fiscal 2003 and fiscal 2007, Nepal's real growth rate averaged just 3.6 percent per year, compared to an average of 5.2 percent annually in the five years preceding the eruption of the Maoist insurgency in 1996.[15] Over the past two postconflict years, growth rates have begun to recover. In fiscal 2008, buoyed by adequate rainfall and increased remittance flows, and no doubt by progress in getting the Constituent Assembly under way, GDP picked up and expanded by 5.3 percent. In fiscal 2009 growth was better, at 4.7 percent, which is a bit slower than in the previous year as a result of prolonged winter droughts and delayed monsoons but certainly superior to average rates during the conflict. In addition to the postconflict growth acceleration demonstrated in fiscal 2008 and fiscal 2009, these rates also underscore the importance of the weather to Nepal's economic performance: as an economy heavily dependent on subsistence rain-fed agriculture, output is perennially susceptible to exogenous climate shocks—drought, floods, and irregular rainfall. Growth performance is therefore highly erratic. Despite the improvement in these postconflict growth rates, the best in several years for Nepal, the rates still fall short of GDP increases for all comparators at the same point: the LI-Asia median, at 7.6 percent; the LI median, at 6.2 percent; Bangladesh, at 6.2 percent; and Tajikistan, 7.9 percent (Figure 2-1). Nepal is still the slowest-growing economy in South Asia (except Afghanistan).

[12] Paul Collier, *On the Economic Consequences of Civil War*, Oxford Economic Papers 51 (1999), 168-83.

[13] Daniel Mejia, *Conflict and Economic Growth: A Survey of the Theoretical Links*, Webpondo, September 2004. http://www.webpondo.org/filesoctdic2004/conflict_growth.pdf.

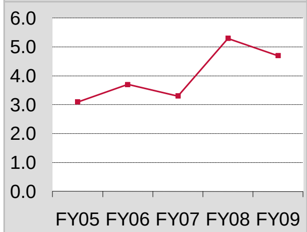
[14] Paul Collier, *The Bottom Billion: Why the Poorest Countries Are Failing and What Can Be Done About It*, London: Oxford University Press, 2007, 32–36.

[15] Nepal's fiscal year runs from July 16 through July 15.

Figure 2-1
Real GDP Growth, Percent Change

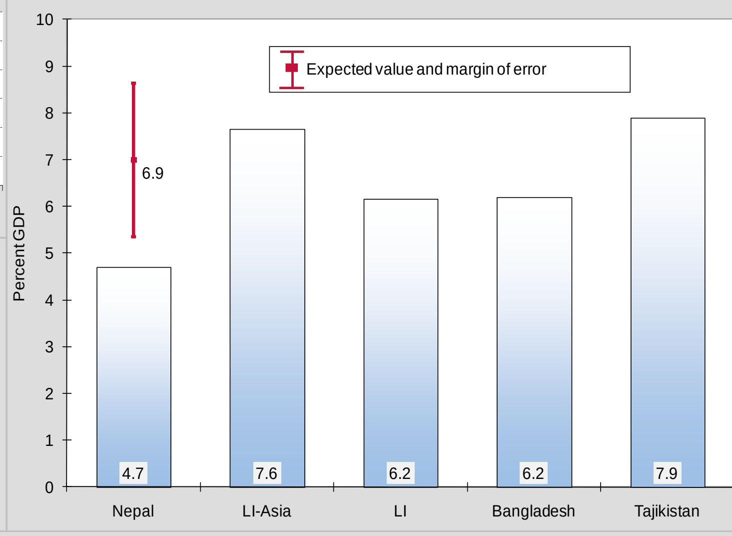
Despite improvement in the past two years, Nepal's economic growth rate is still nearly the slowest in South Asia and below that of all comparators.

Time Series

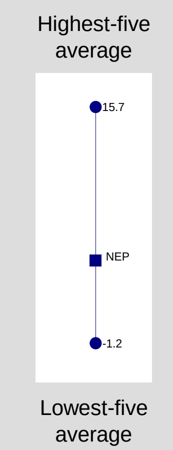


Year	Value
FY2005	3.1
FY2006	3.7
FY2007	3.3
FY2008	5.3
FY2009	4.7
Summary for FY05-FY09	
Five-year average	4.0
Trend growth rate	.

Comparison to Other Countries, Most Recent Year



Global Standing



Source: ADB Asian Development Outlook 2010; IMF World Economic Outlook (April 2010) CAS code: 12P2

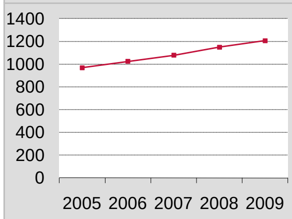
Nepal will need much faster growth to deliver a peace dividend and begin catching up to its South Asian neighbors. In 2009, Nepal's per capita GDP on an international dollar purchasing power parity (PPP) basis was estimated at \$1,205—lower than all South Asian countries except Afghanistan (\$935). This GDP was slightly above the LI median (\$1,054) but below the LI-Asia median (\$1,575) and the figures for Bangladesh (\$1,465) and Tajikistan (\$2,104) as well (Figure 2-2). Nepal's current per capita GDP—and its 24 percent rise above the 2005 level (\$969)—owes much to remittances from overseas workers. Conflict and lack of economic opportunity have encouraged outmigration by young Nepali workers, mostly males. The cash remittances they send home have benefited the economy greatly in recent years by fueling domestic consumption. As remittance receipts increased—from about \$800 million in 2004 to \$2.7 billion in 2009 (see External Sector)—private consumption swelled to about 79.2 percent of GDP in fiscal 2009 and continues to drive the economy from the demand side.[16]

[16] Ibid, p. 182.

Figure 2-2
Per Capita GDP (in PPP terms)

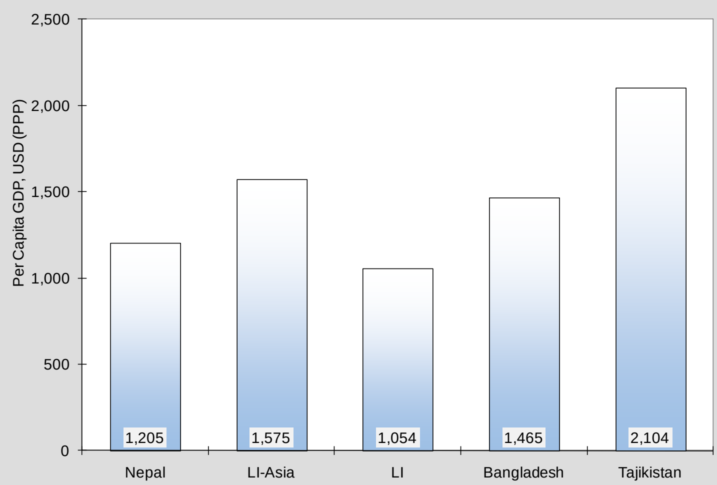
Nepal's low GDP per capita makes it one of the poorest countries in the world.

Time Series

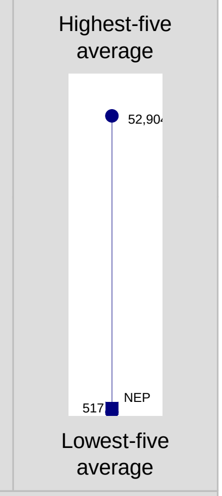


Year	Value
2005	969
2006	1,024
2007	1,078
2008	1,149
2009	1,205
Summary for 2005-2009	
Five-year average	1,085
Trend growth rate	5.5

Comparison to Other Countries, Most Recent Year



Global Standing



Source: IMF World Economic Outlook (April 2010 CAS code: 12P1

On the supply side, growth has been constrained by stagnant investment. Gross fixed investment remained flat between fiscal 2004 and fiscal 2009, averaging about 21 percent of GDP, lower than the LI-Asia median of 28.1 percent and Bangladesh's 24.2 percent, but comparable to Tajikistan's 19.3 percent (2008). A significant proportion of Nepal's investment has been directed to relatively nonproductive activities (such as real estate), and investment efficiency is low. Nepal's incremental capital-output ratio (ICOR)—a measure of investment productivity—is fairly high at 5.1 (2008). (A higher value for the ICOR indicates lower investment productivity.) To put this in perspective, in Nepal, $5.10 of capital investment has been required to achieve an extra dollar of output—whereas the median for both LI-Asia and LI is $4.20; for Bangladesh, $3.90; and for Tajikistan, $2.00. The depressed volume and inefficiency of investment—owing to Nepal's fragile political climate, poor infrastructure, and weak economic, business, and regulatory environment—have created a vicious circle of slow growth undermining economic prospects, which then discourages investment and risk-taking and retards growth even further.

Economic Growth: Potential Postconflict Recovery Priorities

- Rapid economic growth is needed to drive Nepal's recovery from conflict and provide Nepalis with a peace dividend that will help avoid return to conflict. Creating conditions for *rapid job creation* through *increased and more efficient investment* are immediate priorities.
- Sound *macroeconomic management* to correct internal and external imbalances (see Economic Stabilization and Government Capacity and External Sector) is essential to establish an environment favorable to investment and all other productive activity, jobs, and poverty reduction.
- Rapid resolution of peace process issues and finalization and *promulgation of a new constitution* are urgently needed to

achieve predictability and build confidence in the business community and civil society.

- Vigorous efforts to encourage ***private sector investment in productive sectors*** are required, and these will depend—beyond the factors above—on enhancing the business climate, including regulatory reform, tax and trade policy reform, and labor market reform.
- Given agriculture's importance, raising ***agricultural production and productivity*** must be a special priority in economic growth policy, with a concentration on building broad-based, efficient, and inclusive commercial channels and market systems that can increase incomes in the rural economy—a part of the peace dividend.
- Remittance inflows can not only serve consumption, but can also be a significant source of private investment. Innovative approaches are called for to help attract and channel ***remittance savings*** as a source of private capital for productive economic activity. The recently announced Infrastructure Development Bonds, designed to be an investment vehicle for overseas workers, is a useful step in this direction.
- Effective organization and management of ***high-impact public sector investment*** programs directed at easing strategic infrastructure bottlenecks (power, transport, and irrigation) will help generate immediate employment and lay the foundation for long-term growth.

POVERTY AND INEQUALITY

Poverty is nuanced and multidimensional in Nepal—deeply rooted in socioeconomic and political isolation based on geographic, religious, gender, caste, and/or ethnic exclusion. A large proportion of the Nepali population lives in conditions defined by a lack of some of the basic ingredients of human welfare and dignity—health, education, public and personal security, income, and employment opportunities. Nepal's Maoist insurgency germinated in this widespread poverty, high inequality, and social exclusion, all of which have motivated sectarian grievances, political instability, and civil strife.

Between the Nepal Living Standards Surveys (NLSS) in 1995/96 and 2003/04 (the most recent), the incidence of poverty relative to the national poverty line declined by more than 10 percentage points, from 41.7 percent of the population below the national poverty line to 30.8 percent. This statistic compares well to the figures for both Bangladesh, with 40 percent of the population below the national poverty line, and Tajikistan, with 53.5 percent (2007) below the national poverty line. It also speaks to Nepal's outstanding performance in poverty reduction, even during a period of escalating conflict. The declining poverty trend corroborates Nepal's improvement in the Human Poverty Index (HPI), which measures deprivation in economic and noneconomic measures of poverty—such as access to safe water, health services, and nutrition— on a scale from 0 for absence of deprivation to 100 for universal deprivation. Nepal's HPI score decreased from 38.7 in 2003 to 32.1 in 2007, comparing well with the regional medians—LI-Asia at 34.7 and LI at 38.4—and with Bangladesh's 36.1 score. But Tajikistan, with an HPI of 18.2, may still serve as Nepal's aspirational comparator (Figure 2-3).

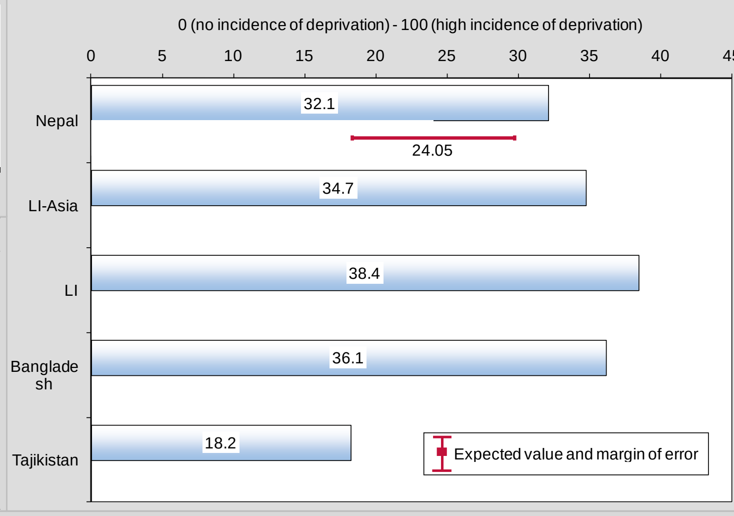
Figure 2-3
Human Poverty Index

Improving HPI masks a nuanced poverty picture with significant differences by region, gender, and ethnic and caste groups.

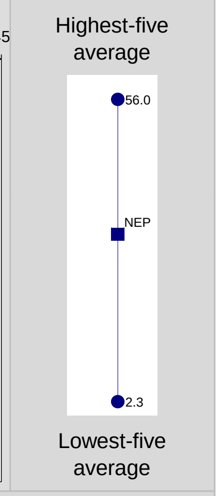
Time Series

Year	Value
2003	38.7
2004	38.1
2005	.
2006	38.1
2007	32.1
Summary for 2003-2007	
Five-year average	.
Trend growth rate	.

Comparison to Other Countries, Most Recent Year



Global Standing



Source: UNDP Human Development Reports, 2005-2009 CAS code: 13P4

Improvement in these aggregate measures of poverty—which derive in large part from increased outmigration and remittance inflows and possibly modest moves toward agricultural diversification—are welcome, but the situation is still far from acceptable. More than half the population (55.1 percent) lived on less than $1.25 (PPP) per day in 2004. This figure indicates that about a quarter of Nepalis are near-poor—above the consumption-based national poverty line but below $1.25 PPP. Furthermore, overall poverty reduction has not translated into improvement in basic indicators of individual welfare, such as hunger. About 15 percent of the population lives with daily dietary energy consumption below the minimum. While this indicator is better for Nepal than all comparators—LI-Asia (25.5 percent), Bangladesh (27 percent), and Tajikistan (34 percent)—food insecurity is still an enormous problem. The World Food Program ranks Nepal 55th out of 84 developing countries on its global hunger index (GHI) and categorizes Nepal's situation, which earns a GHI score of 19.8, as "alarming".[17] The situation is especially dire in the Mid-Western and Far-Western Development Regions, whose food insecurity problems are on a par with those of the Democratic Republic of Congo and Ethiopia, respectively. The share of landless households—another measure of poverty for the agrarian Nepali economy—increased between 1995/96 to 2003/04 by 5 percentage points to 23 percent of all households. Among households that own land, average holding size decreased from 0.88 ha to 0.66 ha between 1995 and 2003; and one-third of cultivated land area is held by 7.5 percent of rural households.

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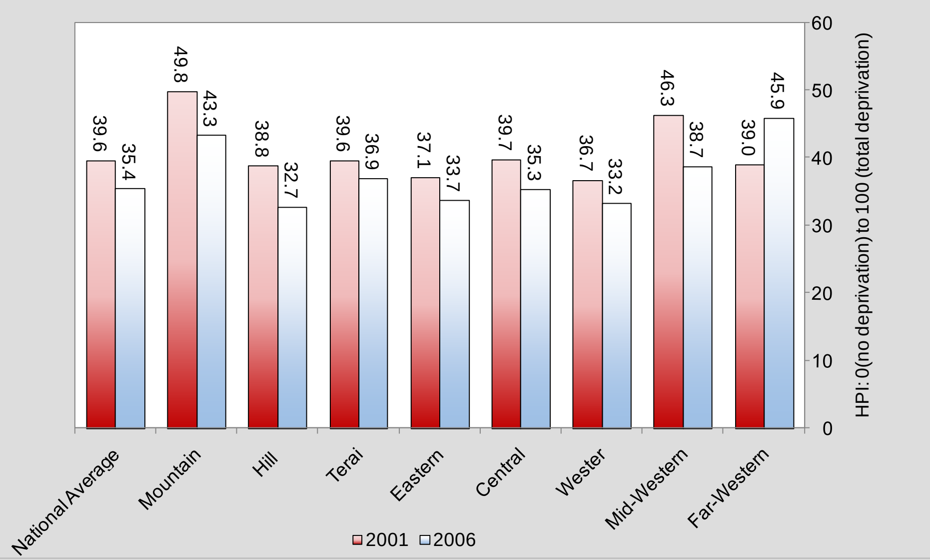
[17] International Food Policy Research Institute's calculations of the Global Hunger Index for 2009, at http://www.ifpri.org/sites/ default/files/publications/ghi09.pdf, p.13.

Aggregate measures of poverty also mask another, deeper, problem—large and widening inequality. Between 1995/96 and 2003/04, when the average poverty rate declined, the Gini coefficient rose from 0.34 to 0.41, signaling a widening income gap. In 2004, the poorest 20 percent of the population shared just 6.1 percent of total income, a rate that is low even compared to the lackluster performances of Bangladesh (9.4 percent) and Tajikistan (7.8 percent). Income disparity by location, caste, gender, and ethnicity is also prevalent. For instance, although the incidence of poverty declined in all development regions between the two NLSS periods, the Mid- and Far-Western Development Regions—the two most rural and most remote—still have poverty headcount ratios of 44.8 percent and 41 percent respectively, far above the national average. Moreover, 34.6 percent of Nepal's rural population was below the national poverty line in 2003/04, compared to just 9.6 percent in urban areas. The incidence of poverty among Newars (14 percent) and Brahman/Chhetri (18 percent) is significantly below those for Dalits (46 percent), Muslims (41 percent) and Hill Janajatis (44 percent). The reduction in overall poverty during the two recent NLSS periods represents a disproportionate decline in poverty rates for different groups—46 percent or 15.7 percentage points among Brahman and Chhetris and at least 20 percent for all ethnic groups save Muslims (6 percent or 2.4 percentage points) and Hill Janajatis (10 percent or 4.7 percentage points).[18] HPI scores also varied significantly by location: scores for mountainous regions and many hill regions tend to be consistently much higher than the national average (Figure 2-4).

Figure 2-4
HPI by Location

Differences in HPI are stark among development regions and ecological zones.



Source: Nepal Human Development Report, 2009 CAS code: Not a standard CAS indicator

[18] United Nations Development Programme (UNDP), *Nepal Human Development Report 2009.*

Poverty and Inequality: Potential Postconflict Recovery Priorities

Poverty, inequality and a lack of economic opportunity pose the greatest threats to Nepal's economic and political future. Nepal will need to incorporate the ***diverse population groups*** that define the Nepali identity into its economy and society and make ***poverty reduction*** a central development goal. Visible progress on such inclusiveness will help ease grievances that can derail postconflict recovery.

- Social and economic inclusion in all development and economic strategies is key to addressing the root causes of poverty. Basic ***public service delivery*** (health care, roads, schools.) is needed in traditionally isolated and disadvantaged communities.
- To address the symptoms of poverty in the short term, food insecurity must be addressed by increasing ***agricultural productivity and access to food*** for the poorest communities. The poor are also disproportionately involved in agricultural activities. Hence, poverty reduction programs must focus on the agriculture sector.
- Incentives for service and industry—such as ***rural small and medium enterprises (SMEs) and small and medium industries (SMIs) in agribusiness and tourism***—to operate not just in larger cities but also in more rural zones of Nepal will promote job creation for the rural poor.
- For traditionally marginalized groups (Dalits, Janajatis, women, the populations in the Mid- and Far-West Development regions), there is a need for ***targeted poverty alleviation programs***, including opportunities for employment, education, and health care.
- The creation of a federal structure with devolution of power provides a window of opportunity for devising new, inclusive, decentralized approaches to poverty reduction, including ***effective local governance mechanisms*** at the village and district levels and THE expansion of community-managed social safety nets and social services.

ECONOMIC STRUCTURE

Nepal is a low-income, largely rural and agrarian society. Agriculture (including forestry) is the mainstay of the Nepali economy—employing almost two-thirds of the labor force and contributing one-third of the country's total output (see Agriculture). Although agricultural sector value added has been increasing modestly in real terms—about 3 percent per year since fiscal 2001—this rate of growth is slightly lower than that of the overall economy in the same period. Agriculture's share of Nepal's total value added has therefore been declining slowly —from 37.2 percent of GDP in 2004 to 33.7 percent in 2008. At this level, Nepal is almost exactly at the median for LI-Asia (33.4 percent) and LI economies (32 percent) but considerably above the shares for Bangladesh (19 percent) and Tajikistan (18 percent).

Industry's share of Nepal's total value added—already low in relative terms—is declining, which is contrary to what is expected in the development process. Total industry output has been increasing very slowly in this decade (at about 2.5 percent annually in real terms since fiscal 2001), but at lower rates than overall GDP growth (3.6 percent), which means that its share in overall GDP is shrinking—from 17.9 percent of GDP in 2004 to 16.7 percent in 2008. Industry shares of GDP for comparators are well above this level: the medians for LI-Asia and LI were 27.4 percent and 24.9 percent, respectively; in Bangladesh, the share was 28.5 percent, and in Tajikistan, 22.9 percent.

Three factors are behind industry's limited role in Nepal's economic structure. First, private sector industrial development is relatively new for Nepal. Much of modern private Nepali industry has taken root only recently—in the early 1990s, with economic liberalization. Second, in recent years several developments have combined to constrain industrial growth. Manufacturing and construction account for the bulk of Nepal's industry sector activity. Construction has been robust, but manufacturing has suffered, first during the insurgency and then in the postconflict period through frequent *bandhs* (forced shutdowns of commerce) and strikes, continuing electrical outages, and disruptions in transport. All of this has weakened an already small and fragile industrial sector even more. Two leading manufacturing export industries—carpets and garments—have been hurt by other events as well. The carpet industry is still recovering from reports of child labor and exploitation in the late 1990s, and the garment industry is struggling to compete in global markets after the Multi-Fiber Agreement's 2005 quota phase-out. And finally, Nepal's industry sector continues to grapple with labor market rigidity (see Employment and Workforce), which is aggravated by often politically motivated postconflict labor unrest.

Services now account for about one-half of Nepal's total value added, and this share has been growing. Output of the services sector—wholesale and retail trade; hotels and restaurants; transport and communications; government; financial services; real estate; education, health care, and other personal services—has increased in real terms by about 4.7 percent per year since fiscal 2001, well above the rate of growth of total GDP. The services sector's proportion of total value added thus rose by nearly 5 percentage points between 2004 and 2008, from 45 percent of GDP to 49.6 percent. Rapid and continuing expansion of the banking sector (see Financial Sector), burgeoning wholesale and retail trade, and a buoyant real estate market—particularly in and around the Kathmandu valley—have played significant roles in services sector expansion. Tourism, strategic for Nepal given Nepal's unique ecological and cultural offerings and tourism's potential for boosting development in rural areas, has shown encouraging postconflict recovery. In 2002, the peak conflict year, only 275,000 tourist arrivals were reported, the fewest since 1990, but by 2008 arrivals had reached just over 500,000,with tourism-generated foreign exchange earnings rising by 94 percent in the same period.[19] As a result of this sectoral growth, the services sector share of Nepal's GDP now exceeds the medians for LI-Asia (39.6 percent) and LI (44.6 percent), though it still trails Bangladesh (52.5 percent) and Tajikistan (59 percent).

The structure of the labor force by sector provides an important counterpoint to the structure of output by sector (Figure 2-5). In 2001, the most recent year for which data are available, agriculture accounted for about 66 percent of Nepal's total labor force, industry accounted for about 13 percent, and services for about 21 percent. Output shares for agriculture, industry, and services are, by contrast, about 34 percent, 17 percent, and 50 percent, respectively. Comparing the two profiles underscores the productivity challenge that Nepal faces: agriculture, the least productive sector, uses two-thirds of the labor force to generate one-third of GDP, while services, Nepal's most productive sector, engages one-fifth of the labor force to produce one-half of output. Industry is in between, with each industry sector worker twice as productive as each worker in agriculture but only half as productive as each worker in services.

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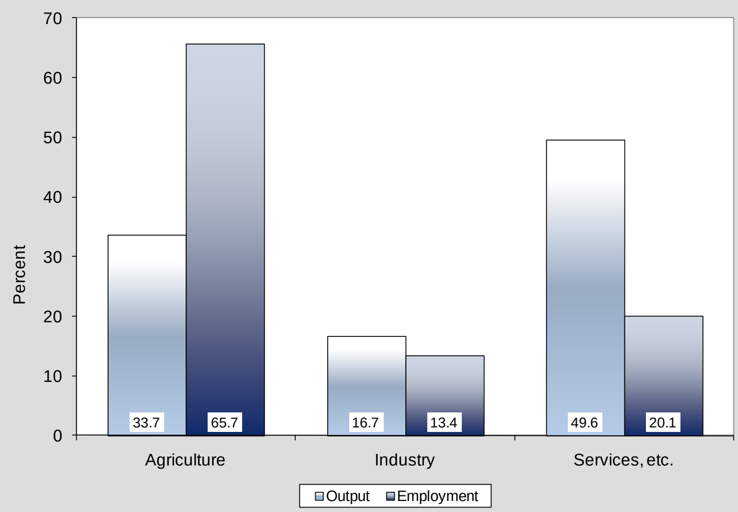
[19] Ministry of Finance, Economic Survey 2008/09, Table 8.15 and Table 8.18.

Poor productivity in agriculture is a function of outdated agro-technologies, inadequate irrigation, and stagnant subsistence farming systems untied to commercial incentives and opportunities—in short, lack of innovation and investment in the sector. Nepal's highest-priority task in terms of economic structure is to raise agricultural productivity: to generate far greater output with far fewer workers, and thus meet the nation's needs for food and fiber while enabling more farm laborers to shift into more productive services and occupations. Such a structural transformation is the essence of Nepal's long-range development process. In the postconflict context, public investment in infrastructure and training and private investment in technology, equipment, and facilities are urgently needed to set the process in motion.

Figure 2-5
Structure of Output and Employment by Sector

Agriculture is Nepal's largest employer but its least productive sector—the services sector is the most productive.

Output / Employment Structure



Source: World Development Indicators, 2010 CAS Code: 14P1a-c; 14P2a-c

Economic Structure: Potential Postconflict Recovery Priorities

Economic development in Nepal requires a sustained process of ***structural transformation*** that shifts labor from the low-productivity agricultural sector to the services and industrial sectors. In the postconflict world, such structural transformation must be ***inclusive***, providing new opportunities for training, employment, and investment that are broad-based to avoid reinforcing social and economic gaps that can intensify grievances and disaffection.

- As the largest employment sector, greater ***investment in agriculture***—modern technology, inputs, practices, irrigation, equipment, and market systems—is essential in the short run to begin increasing productivity. This will have an immediate and tangible impact on the rural population in terms of increased output and incomes.
- Increased ***public investment in infrastructure*** rehabilitation and expansion, ***private investment in industry and services*** facilities and systems, and ***public-private investment in workforce development*** are crucial to build capacity and create employment opportunities to absorb labor as it shifts out of agriculture.

- Much industry and services sector growth can be targeted to the rural economy through development of rural *microenterprises, SMEs and SMIs* that support the agricultural sector (agro-processing, forest products enterprise, marketing services) and nonagricultural activities (community-based tourism, micro-hydropower, transport).
- Nepal's economic powerhouse neighbors—*India and China*, the fastest-growing economies in the world—can become engines for structural transformation of the domestic economy. Finding ways to create stronger and more extensive value chains linked to the markets of these vibrant economies should be Nepal's top priority in the short, medium, and long terms.
- Value chain–building should incorporate opportunities to establish linkages for *microenterprise, SMEs, and SMIs* to become suppliers in agricultural and nonagricultural sectors alike. Support for training, technology, and finance are required.

DEMOGRAPHY AND ENVIRONMENT

Nepal's population of about 28.8 million (2008) is roughly comparable to the LI-Asia median of 25.9 million people but more than double the LI median (12.1 million) and four times the size of Tajikistan's population (6.8 million). Bangladesh's population of 160 million is massively larger. For a relatively small population, Nepal is enormously diverse: a multidimensional mosaic of people identified by caste and ethnicity—103 castes and ethnic groups alone[20]—and by religion, gender, and location. *Brahmins*, *Chhetris* and *Newars* generally constitute the privileged, more affluent communities in Nepali society and are usually characterized by higher educational attainment and better human welfare indicators. *Dalits* and *Janajatis* are, respectively, disadvantaged castes and indigenous ethnic minorities, both traditionally deprived of economic opportunity and oppressed under feudal social structures. A distinction is also often made between *Madhesis* on the one hand and *Pahadiyas* or *Parbatiyas* on the other—the former inhabiting the Terai belt and the latter originating in the hills. These and other distinctions such as dialect and religion create the multitude of groups that make up the Nepali population.

With an estimated current rate of increase of 1.8 percent per year, Nepal's population is expanding rapidly. This population growth rate compares to Bangladesh's growth rate of 1.4 percent per year and to the 1.6 percent rate of increase for Tajikistan and the LI-Asia median (Figure 2-6). Among comparators, only the LI median is higher: 2.6 percent. Rural population density—measured by people per square kilometer of arable land—is high and increasing in Nepal, from 944 persons in 2003 to 999 persons in 2007, significantly above all comparators but below Bangladesh's 1,452 people per sq km. Nepal is a rural society: the share of people living in urban areas is still modest, albeit rising—from 15.3 percent in 2004 to 17.2 percent in 2008.

Rapid population growth translates into a large youth bulge—a sizable share of the population aged between 15 and 24 years of age, which raises the need for job creation and social service delivery. For Nepal, the youth bulge amounted to about 21.4 percent, higher than the youth bulge in Bangladesh at 18.4 percent but below that of Tajikistan at 22.6 percent. Current rates of population growth suggest that this number may increase significantly, intensifying the pressure on the economy to generate more jobs. Indeed, in recent years, the levels of youth migration

[20] UNDP, *Nepal Human Development Report 2009*, p. 34.

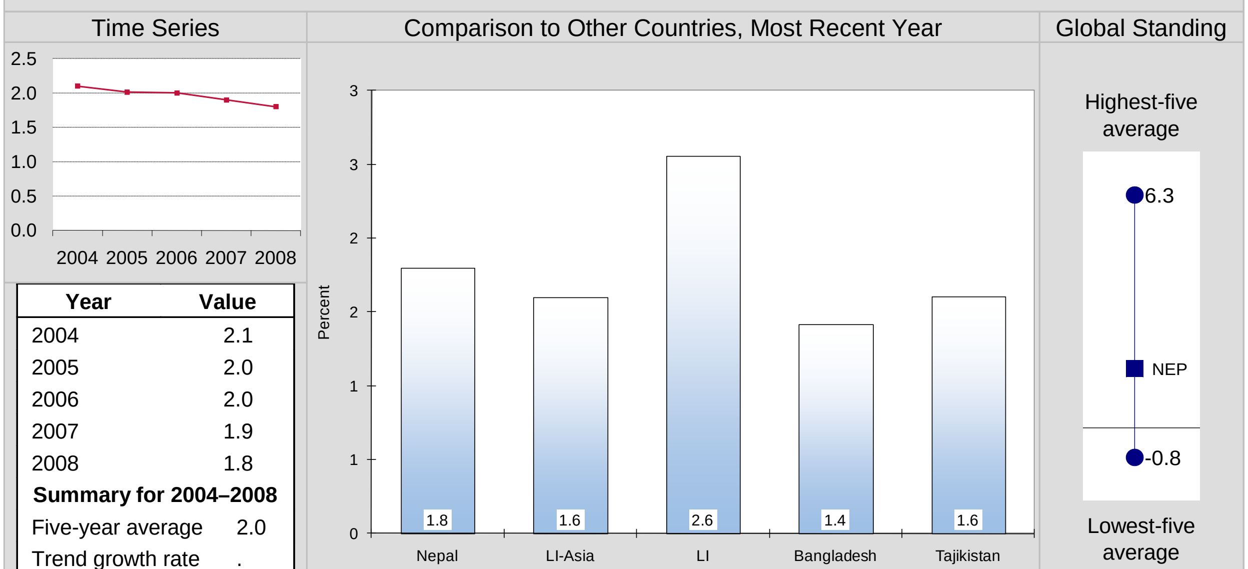
overseas—mostly young males fleeing the conflict—to Qatar, Malaysia, Saudi Arabia, and India have been unprecedented. Between 2005 and 2009 Nepal's average net migration was 4.3 persons per 1,000 population, compared to just 2.5 persons in Bangladesh, 1.3 persons in Tajikistan, and the LI median of 0.4 persons (Figure2-7). Recent declines in reported rates of outmigration—3.4 persons per thousand in 2009—are likely a function of the global recession. Of course, the permeable border between India and Nepal offers opportunities for foreign employment closer to home. India is believed to host at least 1 million Nepali migrant workers,[21] many undocumented, so that Nepal's actual outmigration is probably even higher than official rates.

Nepali labor migrants generally tend to land low-skilled jobs overseas (such as in construction or the hospitality industry), largely because of low levels of education or other skills attainment. This is consistent with the fact that only a little more than half the Nepali population (57.9 percent) is literate. Individuals who can simply read and write their `names in Nepali are counted in this figure, so that a much lower proportion of the population is actually fully literate. The reported rate for Nepal is comparable to the adult literacy rate in Bangladesh (55 percent) but much lower than the LI median of 65 percent or Tajikistan's impressive 99.7 percent.

Figure 2-6

Population Growth, Annual Percent Change

Population growth, declining but still high, generates demographic pressure for increased employment and social services.



Year	Value
2004	2.1
2005	2.0
2006	2.0
2007	1.9
2008	1.8
Summary for 2004–2008	
Five-year average	2.0
Trend growth rate	.

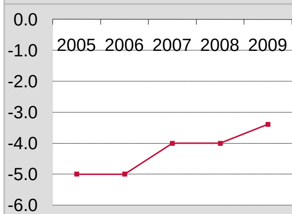
Source: World Development Indicators, 2010 CAS code: 15P5b

[21] Dev Raj Dahal, Nepal: Migration and Development in South Asia, Telegraphnepal.com, December 19, 2009: http://telegraphnepal.com/news_det.php?news_id=6846

Figure 2-7
Net Migration per 1,000 People

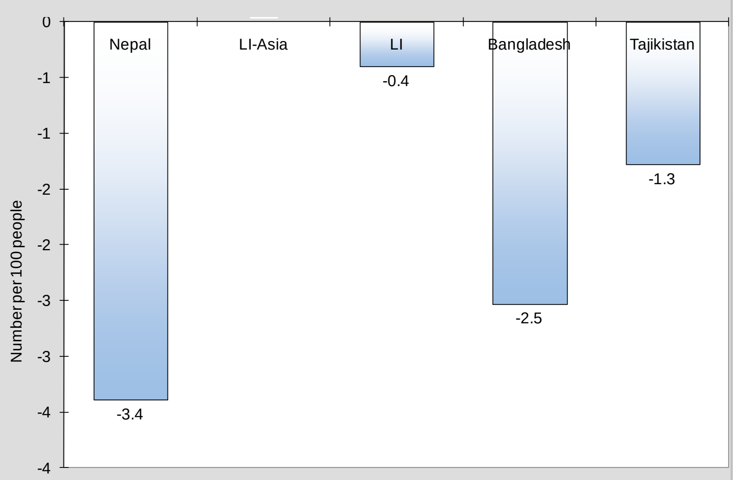
Nepal's rate of outmigration is extremely high, even with some recent slowdown due to global recession.

Time Series



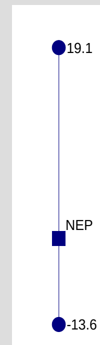
Year	Value
2005	-5.0
2006	-5.0
2007	-4.0
2008	-4.0
2009	-3.4
Summary for 2005-2009	
Five-year average	-4.3
Trend growth rate	10.0

Comparison to Other Countries, Most Recent Year



Global Standing

Highest-five average



Lowest-five average

Source: U.S. Census International Database, 2010; CIA World Factbook, 2010 CAS code: 15S2
The negative net migration figures reflect out-migration; the more negative the number, the more the number of outmigrants.

For a country of its size, Nepal has a remarkably varied environment, with a range of bioclimatic zones and an abundant endowment of water resources. But deforestation and the resultant soil erosion, land degradation, and water resource contamination, as well as lax management of solid wastes and the effect of global warming on Nepal's glaciers are causes for grave concern. Deforestation poses an imminent threat because 87 percent of energy consumption—for cooking and heating—is supplied by firewood.[22] Cattle overgrazing accentuates the problem. Inappropriate uses of agro-chemicals, demographic pressure, and overuse of landholdings have caused land degradation, directly hurting agricultural productivity. Urban areas suffer from air, water, and noise pollution—with increasing vehicular and industrial emissions, limited roadways, and grossly inadequate waste management systems. Air pollution in Kathmandu is one of the worst among Asian countries. The average PM 10 count concentration—a measure of the particulate matter content in the air—was 173 ug per cu m in 2007, far above the National Ambient Air Quality Standard of 100 ug per cu m and the World Health Organization's standard of 50 ug per cu m.[23]

Environmental concerns encompass the Himalayas as well. *National Geographic* magazine estimates that because of global warming, glaciers on Mt. Everest have retreated three miles since 1953.[24] Nepal has eight of the world's 10 highest mountain peaks, whose snow and ice mass are

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[22] WWF:http://wwfnepal.org/our_solutions/conservation_nepal/tal/area/threats/deforestation/

[23] Lost in the Smog, *Nepali Times*, 30 April–6 May 2010: http://nepalitimes.com /issue/2010/04/30/Nation/17035

[24] The year Tenzing Norgay and Edmund Hilary first scaled its peak.

sources of water for some of South Asia's major rivers, and has been especially alert to the risks and potential losses from global climate change. For this reason, in December 2009, the government held a Cabinet meeting at Everest Base Camp to raise awareness about the effects of climate change on Himalayan glaciers, and is leading the Mountain Alliance Initiative for Climate Change with other least-developed countries to push for saving the Himalayas from further glacier melt.

Demography and Environment: Potential Postconflict Recovery Priorities

The greatest demographic threat to Nepal—postconflict and long term—is rapid population increase, which puts pressure on the economy for jobs and delivery of public goods and services. With Nepal's diverse population and array of disadvantaged groups, failure to meet expectations in either area, and to do so in an inclusive way, poses ***risks for relapse into conflict*** based on ethnic and regional grievances.

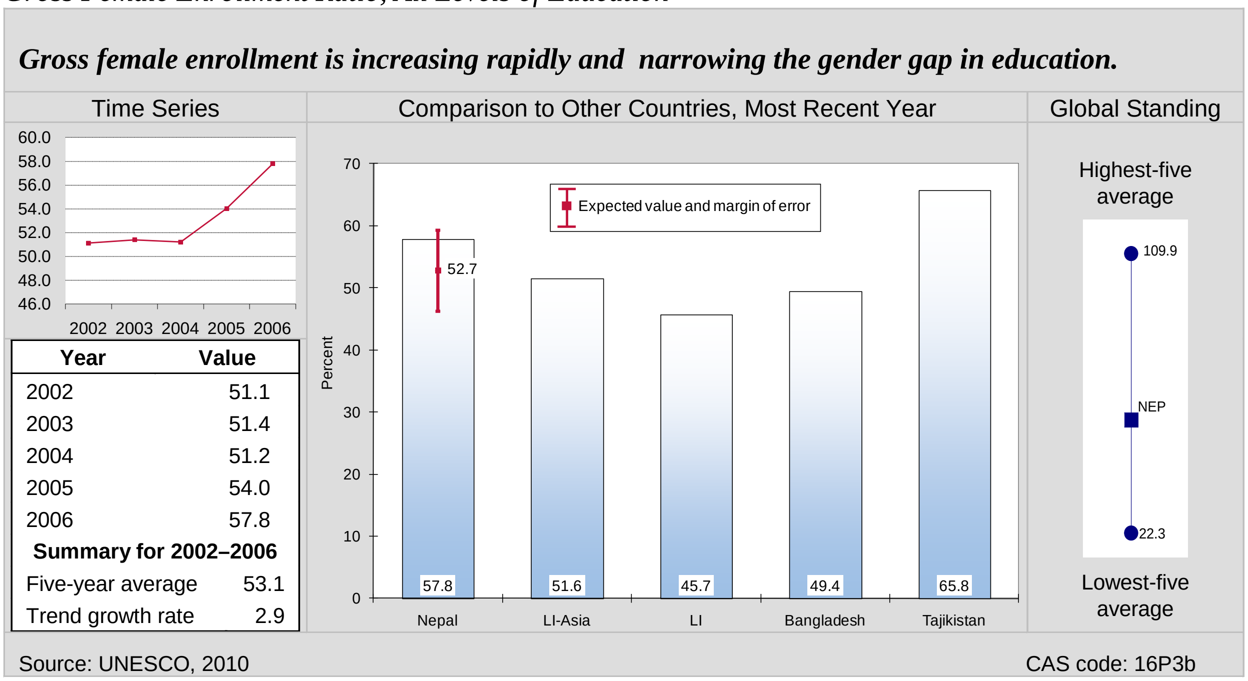
- For long-term durable peace and effective use of the economic potential of all Nepali citizens, Nepal's new constitution must ensure ***equal rights and liberties*** for the nation's diverse ethnic and caste groups.
- Large numbers of youthful labor market entrants create a pressing need for job creation. Youth ***workforce development*** is a short-term priority for employment at home and abroad. In the long term, opportunities for better and broad-based education will be needed to produce skilled human capital to support private sector development as Nepal's engine of growth.
- Measures needed to contain and reduce rapid population growth are crucial and are likely to revolve around continued expansion of ***education for girls and women*** and reliable ***health and family planning*** services.
- Environmental degradation poses a dire threat to agricultural production as well as to human welfare. Deforestation and soil erosion are major problems in Nepal that need to be systematically addressed through ***innovative conservation and resource management*** with the participation of local governments and communities, including forest user groups, farmer groups and cooperatives, and water user groups. Such programs may bring job creation benefits as well as environmental protection.

GENDER AND CHILDREN

Nepal's patriarchal social construct has historically denied women opportunities for education, employment, health care, economic independence, and political decision making. Poor women from disadvantaged groups have been especially marginalized on the basis not only of gender but also of ethnicity, caste, and poverty. As a signatory to several international commitments on gender equality—Convention on the Elimination of All Forms of Discrimination against Women, the Beijing Platform for Action, and others—Nepal has made progress in narrowing the gender gap on several fronts despite the decade-long conflict. Nevertheless, gender inequality persists.

Female life expectancy at birth—an overall indicator of female well-being—has been improving in Nepal, from about 62 years in 2003 to 67 years in 2007. This compares to a male life expectancy of 66 years. Nepal's figure is on par with average life expectancy for Bangladeshi women (67 years) and Tajiki women (69 years) and is significantly better than the LI median (56 years). The difference in female and male life expectancy in Nepal is in favor of women by a little over one year—comparable to the difference in Bangladesh and Tajikistan. In developed countries, the difference is typically three years or more. Progress for Nepali women is also evident in education. Gross female educational enrollment rates for all levels of education have increased from 51.1 percent in 2001 to 57.8 percent in 2006, with the gender gap narrowing by more than 6 percentage points during this period (Figure 2-8). A similar trend is evident for girls' primary completion rates, which increased from 65 percent in 2004 to 77.5 percent in 2008—compared to men's primary completion rates of 76.7 percent and 78.8 percent in the same years. The gender gap narrowed by more than 6 percentage points during this period—suggesting girls' increased participation in educational opportunities.

Figure 2-8
Gross Female Enrollment Ratio, All Levels of Education



Year	Value
2002	51.1
2003	51.4
2004	51.2
2005	54.0
2006	57.8
Summary for 2002–2006	
Five-year average	53.1
Trend growth rate	2.9

Source: UNESCO, 2010 CAS code: 16P3b

Important recent reforms suggest that a concerted effort is being made to establish greater gender equity. Legislation passed by Parliament in 2002 entitles an unmarried woman to inherit parental property and gives a married woman equal right to her spouse's property immediately after marriage, overturning previous legal provisions. Another landmark affirmative action for gender equity concerns political participation: the rules of the Constituent Assembly mandated 33 percent women's representation in the 2008 total of 601 seats. Consequently, Nepal's score on the Gender Empowerment Measure—an index developed by the UNDP that assesses gender equality in political participation, economic participation, and power over economic resources—improved markedly, from a value of 0.486 in 2006 to that of 0.581 in 2008, largely because of women's increased political participation.[25] Nepal's value is nearly double the GEM value of 0.264 for Bangladesh (the sole country among our comparators for which data are available).

Despite these encouraging recent trends, gender inequity is far from eliminated. Although gender gaps in primary completion and gross enrollment rates have narrowed, with increases in

[25] UNDP, *Nepal Human Development Report*, UNDP Nepal, 2009, 40.

education levels above primary school, these gaps steadily widen.[26] And improvement in education attainment for girls has yet to translate into a commensurate improvement in employment. In 2008, 63.2 percent of women participated in the labor force, compared to 75.7 percent of men. Although this is an improvement over the 2004 female participation rate of 61.3 percent, the transformation has been gradual and the gender gap is far wider for employment than for education. Women that are employed face discriminatory wage structures and unequal access to earned income: they earn half of men's (PPP) income and three-fourths of men's wages.[27] Furthermore, the UN Gender Development Index points to significantly worse conditions for women in certain zones, particularly in such subregions as the Mid-and Far Western Hills and Mountains and the Central and Western Mountains .[28]

Gender inequity in Nepal is rooted in a traditional ideology that regards girls as *paraiyah* (belonging to another): investing in them is less beneficial than investing in male children. This ideology restricts girls' access to health care, education, and economic opportunity. Nepali women's subpar socioeconomic status also makes them vulnerable to other kinds of oppression, such as early marriage, dowry-related assault, trafficking to India, polygamy, and domestic violence. Although improvements in aggregate measures of education and health are visible, the cultural mindset and layers of social practices that discriminate against women have to change over time for gender equity to be attained in Nepal.

Children's rights are often neglected and were frequently violated during the conflict, with children being recruited into militias. Nearly 27 percent—about 1.7 million—of children between the ages of 5 and 14 were working in Nepal in 1997—mostly as unpaid family members or as bonded laborers in agriculture.[29] Some estimates put the number as high as 2.6 million children—many working in conditions that the International Labour Organisation (ILO) has characterized as "the worst form of child labor."[30] Child workers represent 20 percent of the total labor force, and an estimated 60 percent of Nepali child workers are girls.[31] Industries that require hand weaving, brick-molding, glass-cutting, agricultural tasks, and the like are notorious for using child labor. Cities have a large proportion of children working as domestic workers. Trafficking of women and children across the porous Indian border for economic or sexual exploitation is prevalent—between 7,000 and 10,000 girls between the ages of 9 and 16 are trafficked each year into India.[32] During the peak periods of the insurgency, anecdotal reports have suggested the use of children as active combatants, human shields, and in other military roles. In 2006 alone, it has been estimated

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[26] UNFPA, *Gender Equality and Empower of Women in Nepal*, 2007, 1

[27] Ibid, 73.

[28] UNDP, *Nepal Human Development Report 2009*, pp. 36–37.

[29] ILO, Subregional Information System on Child Labor, http://www.ilo.int/legacy/english/regions/asro/newdelhi/ipec/responses/nepal/index.htm (accessed May 13, 2010).

[30] Youth Advocate Program International, *Child Labor in Nepal*, Washington D,C., 1.

[31] A.R.C. Worldwide Trust Volunteer, *Child Labor in Nepal: A brief overview*, 3. http://www.arc-worldwide.org/downloads/Child%20Labour%20in%20Nepal%20-%20Summary%20Report.pdf .

[32] Tim McGirk, *Nepal's Lost Daughters, India's soiled goods* Nepal/India:News, 27 January 1997.

that up to 2,000 children may have been recruited into militias. Exploitation of children is prohibited by law, but enforcement is minimal. All of these abusive practices not only affect the health and well-being of the children involved, but also deprive the nation of well-educated, productive human capital for the future.

Gender and Children: Potential Postconflict Recovery Priorities

Gender disparities inhibit economic growth by limiting a nation's ***full productive capacity***. Violations of children's rights debilitate a nation's future by denying its children ***normal development***, including health care, education, and a well-rounded childhood.

- In the short run, rehabilitation of children and women affected by the conflict or other violence must be high priority. Abused women and children require ***training and special support*** to facilitate reintegration into normal economic and social systems.
- In the medium and long terms, stronger legislation, regulation, and action will be necessary. This will involve ***enforcement of child labor laws*** to prohibit exploitation of children for economic benefit. Similarly, ***constitutional gaps in ensuring women's equality*** (e.g., lack of citizenship rights for children without a father's name born to Nepali mothers), will have to be filled.
- Momentum gained through recent improvement in female educational attainment must be sustained and used to advantage. In the short term, ***targeted skill development training and literacy classes for women*** can help improve women's labor force participation in the formal economy.
- Many ***discriminatory practices against women*** lack legal means of resolve—e.g., workplace harassment—and must be recognized in judicial systems and procedures.
- Because gender inequity is entrenched in Nepal's sociocultural fabric, ***public awareness campaigns for gender equity*** are needed to highlight the negative impacts of gender discrimination and limitations on female access to economic opportunity and to change attitudes in Nepal.

3. Private Sector Enabling Environment

This section reviews indicators of the enabling environment for encouraging rapid and efficient growth of the private sector, including fiscal and monetary policy, the institutional environment for doing business, development of the financial sector, global integration, and economic infrastructure. Private sector development is essential for encouraging and supporting rapid and efficient growth. International experience shows that in conflict and postconflict economies, enabling environments tend to be weak, with rigid and outdated institutions, policies, and practices. Enabling environment reform is therefore typically in order for economic expansion to take hold and recovery to advance. Caution in the sequencing of policies is merited because the elimination of state-supported enterprises, for instance, can trigger violence on the part of people facing unemployment or exacerbate social inequalities at the root of the conflict.

ECONOMIC STABILIZATION AND GOVERNMENT CAPACITY

Fiscal and monetary policies are key instruments for creating a stable macroeconomic environment for private sector development. Hence, a main concern in a fragile postconflict economy is to ensure that the government has the capacity to maintain a sustainable fiscal balance and formulate prudent monetary policies in order to achieve low and stable inflation, while also laying the foundation for rapid growth and poverty reduction. Throughout the recent political turmoil, Nepal's fiscal and monetary policies remained relatively sound, but inflation and stagnant capital expenditure are cause for concern.

Total government revenue, excluding grants, has steadily increased in recent years, from 11.1 percent of GDP in fiscal 2006 to 14.8 percent in fiscal 2009. This places Nepal higher in revenue effort than the LI median (12.8 percent) or Bangladesh (10.4 percent) but still significantly below Tajikistans and its 21.6 percent of GDP in 2007 (Figure 3-1). Revenue from taxes made up 85 percent of government receipts. Indirect taxes—value added tax (VAT), of 47 percent of tax revenue plus external trade–related taxes of 22 percent—account for 69 percent of total tax revenue, and income taxes for 31 percent.[33] Revenue administration reform in income tax and VAT collection, as well as increases in VAT collection from remittance-induced consumption and growth in imports, including high-end vehicles, have contributed to the higher tax receipts. Furthermore, the government's program to increase income tax compliance with implementation

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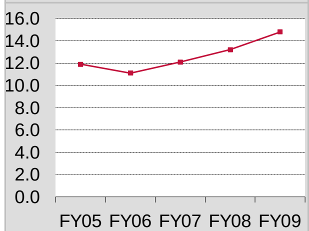
[33] Nepal Rasta Bank, *Economic Report 2008/09,* table 22.

of the Voluntary Disclosure of Income Scheme (VDIS) has generated greater-than-expected income tax revenue in the past few years. Government revenue is anticipated to rise further in fiscal 2010, to over 16.3 percent of GDP.

Figure 3-1
Government Revenue Excluding Grants, Percent GDP

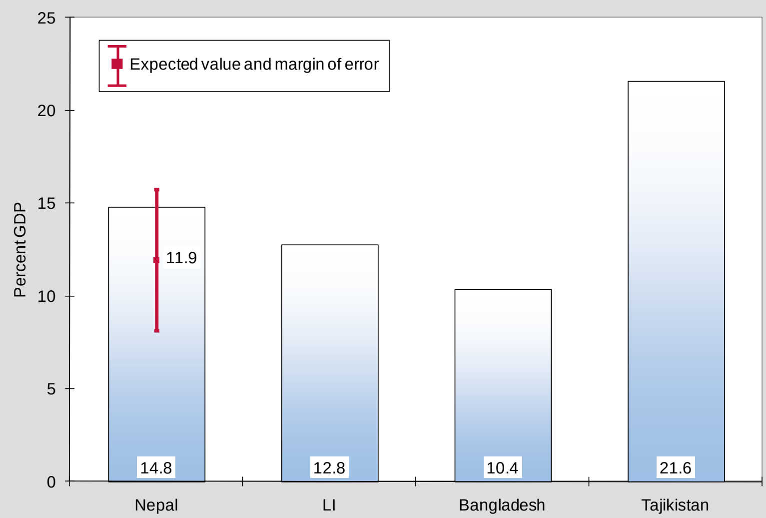
Government has been successfully increasing revenue receipts, but there is still room for improvement.

Time Series



Fiscal Year	Value
2005	11.9
2006	11.1
2007	12.1
2008	13.2
2009	14.8
Summary for 2004/05–2008/09	
Five-year average	12.6
Trend growth rate	6.1

Comparison to Other Countries, Most Recent Year



Source: Nepal Rastra Bank, Macroeconomic Indicators of Nepal, July 2010; IMF Article IV Reviews
CAS code: 21P3

Government spending for fiscal 2009 stood at 22.2 percent of GDP—an increase of more than 5 percentage points since fiscal 2006. Government expenditure is now 8.1 percentage points higher in Nepal than in Bangladesh but still 5.6 percentage points less than in Tajikistan. The increase is due largely to an increase in recurrent expenditure. Partly in response to political considerations, the government increased public service salaries in fiscal 2009, and this helped boost recurrent expenditure by nearly 60 percent over fiscal 2007 rates to a share in overall government spending of nearly 63 percent.[34]

Increased spending for health, education, and social safety nets has also been an important factor in the growth of public expenditure. Recorded capital expenditure has also risen significantly during the postconflict period—by about 83 percent—so that it now accounts for 37.3 percent of total government expenditure. But each year, recorded capital expenditure still significantly lags behind budgeted totals: in fiscal 2009 it was about 20.5 percent below budget. The failure to meet capital expenditure targets in recent years reveals the government's lack of capacity for budget execution—particularly for much-needed public spending on infrastructure. Also, much of the

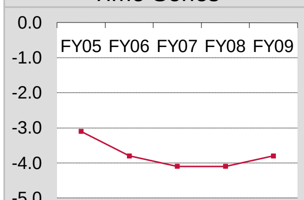
[34] Ibid, pp. 22-23 for data on recurrent and capital expenditure trends.

content of the capital program may in fact be something other than capital expenditure: about one-fifth in effect represents subsidies and transfers to the loss-making Nepal Electric Authority and Nepal Oil Corporation. Another major share of budgeted capital expenditure also flows in grant transfers to local government and possibly supports recurrent spending at that level.[35] Hence, questions arise regarding both the efficiency and the effectiveness of the capital expenditure program. Improving the situation is a high priority, and the recent restoration of a medium-term expenditure framework (MTEF) may help do so.

Figure 3-2
Overall Government Budget Balance, Including Grants, Percent of GDP

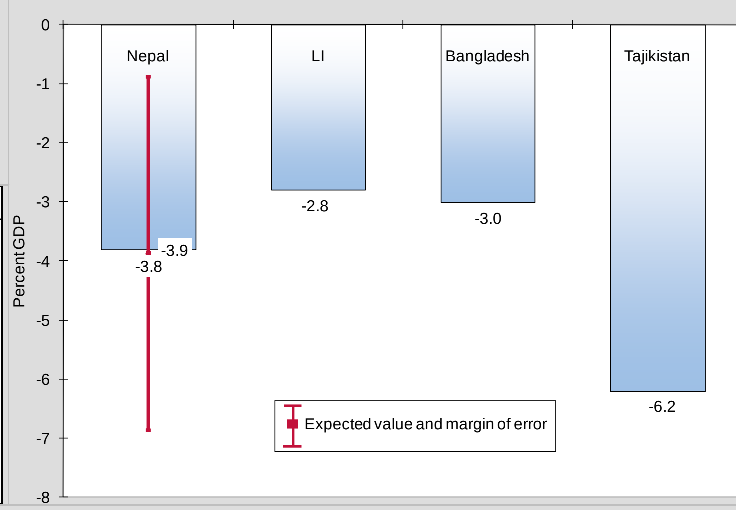
The government's budget deficits have been a roughly constant share of GDP in recent years; continued careful management is required.

Time Series



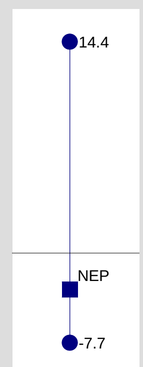
Fiscal Year	Value
2005	-3.1
2006	-3.8
2007	-4.1
2008	-4.1
2009	-3.8
Summary for 2004/05–2008/09	
Five-year average	-3.8
Trend growth rate	-4.8

Comparison to Other Countries, Most Recent Year



Global Standing

Highest-five average



Lowest-five average

Source: Nepal Rastra Bank, Macroeconomic Indicators, July 2009; World Development Indicators, 2010 CAS code: 21S1

In fiscal 2009, the government budget balance including grants was a deficit of 3.8 percent of GDP (Figure 3-2). This is essentially where the deficit has been throughout the postconflict period: a modest improvement over fiscal 2008 and fiscal 2007 (4.1 percent of GDP) and equivalent to the fiscal 2006 level. Nepal's budget deficit is below Tajikistan's 6.2 percent but above the deficits of other comparators: Bangladesh at 3.0 percent and the median for LI countries of 2.8 percent. Strong revenue mobilization and large-scale foreign aid flows have helped keep Nepal's deficit in its present range. Since the end of the insurgency and the signing of the Comprehensive Peace Agreement, the value of foreign grants to Nepal has increased by nearly 120 percent, from NRs 15.8 billion in fiscal 2007 to over NRs 34.5 billion in fiscal 2009. Overall, with the prospective slowdown in GDP (see Conflict and Economic Growth) and the need to maintain external balance (see External Sector), prudent fiscal management is called for to control future deficits.

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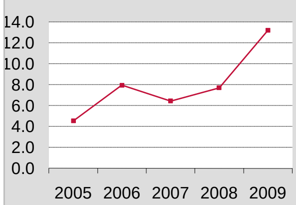
[35] World Bank, Nepal Economic Update April 2010, p. 12.

On the monetary side, inflation surged dramatically in the past three years, from 6.4 percent in fiscal 2007 to 13.2 percent in fiscal 2009. A spike of 5.5 points in the rate occurred between fiscal 2008 and fiscal 2009. At this level, Nepal's inflation rate is well above the medians for LI-Asia (8 percent) and for LI (10.6 percent) and also exceeds Bangladesh's 7.7 percent. Inflation in Tajikistan is however higher: 20.4 percent (Figure 3-3).

Figure 3-3
Inflation Rate

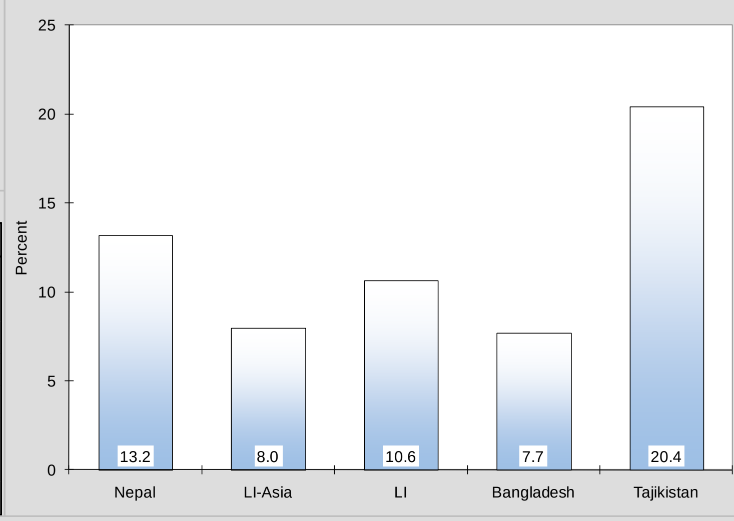
Inflation is now in the double digits because of upward pressure on prices from both the demand and supply sides.

Time Series



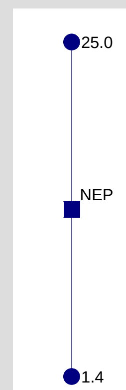
Year	Value
2005	4.5
2006	8.0
2007	6.4
2008	7.7
2009	13.2
Summary for 2005–2009	
Five-year average	8.0
Trend growth rate	21.0

Comparison to Other Countries, Most Recent Year



Global Standing

Highest-five average



Lowest-five average

Source: Asian Development Outlook, 2010 CAS code: 21P5

A range of factors has elevated inflation. First, a huge increase in the flow of remittances occurred between 2007 and 2009—from $1.4 billion to $2.7 billion. The surge in net foreign assets that this represents, with little sterilization by Nepal Rastra Bank, led to a powerful acceleration in money supply growth, and M2 exploded by 60 percent between mid-2007 and mid-2009, fueling a huge boost in demand. At the same time, on the supply side, several factors also led to upward pressure on prices: failure of any downward adjustment in transportation costs to match declining oil prices, a long winter drought that limited food production, and *bandhs* and political strikes that caused supply disruptions. Inflationary pressure was especially severe for food prices (see Agriculture), with extreme consequences for the poor and food insecure. Although there is evidence of recent deceleration in the rate of growth of the money supply (see Financial Sector), reducing inflation will continue to be a high priority in near-term macroeconomic management to ensure stability, including maintenance of the exchange rate peg to the Indian rupee that is Nepal's nominal anchor (see External Sector).

The World Bank Institute's Government Effectiveness Index measures the quality of a nation's public and civil service, the degree of public sector independence from political pressure, the quality of policy formulation, and the credibility of government commitment. According to this index—which ranges from -2.5 for very poor to +2.5 for excellent—Nepal's public sector effectiveness has improved steadily, from -0.86 in 2005 to -0.75 in 2008. This score is superior to the shared LI-Asia and LI median of -0.84, Bangladesh's -0.77, and Tajikistan's -0.88 but is still well below the zero mean value. Progress on completing Constituent Assembly tasks (see Conflict and Economic Recovery) and skillful macroeconomic management will determine the pattern of future rankings.

Economic Stabilization and Government Capacity: Potential Postconflict Recovery Priorities

Macroeconomic stability is the necessary overarching condition for both Nepal's postconflict recovery and longer-term growth and development. Under postconflict conditions, the challenge for the Government of Nepal is to increase capital investment and recurrent expenditure on critical infrastructure and social services while reining in inflationary pressure.

- Continuity in Nepal's *sound and skillful macroeconomic management* is the highest near-term economic stabilization priority. This will require maintaining internal and external balance by carefully managing Nepal's fiscal position and balance of payments. To do so, inflation must be arrested, but critical expenditure on peace dividend–oriented social sectors—health, education, and safety net—must also be maintained, as well as strategic infrastructure investments. A slowdown in GDP growth in the next couple of years will complicate the task.
- Lack of political consensus has stalled full structural reform, but some initiatives are in place and should be continued. On the expenditure side, these include full use of the Medium-Term Economic Framework to help *reinforce public expenditure management*, including improvement in the efficiency and the effectiveness of public sector capital expenditure programs. The goal will be to strengthen government's capacity for budget planning and execution at all levels.
- On the revenue side, structural adjustment measures are also underway but can be intensified with the achievement of a general political consensus. The implementation of programs to strengthen *revenue administration* for both direct and indirect taxation should be reinforced and extended. There is also a need to reexamine and reevaluate Nepal's tax policy now to begin building a solid foundation for long-term revenue mobilization while ensuring business competitiveness.
- The new constitution will set out the *economic framework of the new federal Nepal*. This will give rise to a host of issues affecting macroeconomic management and stability: fiscal decentralization, center–province fiscal relationships and cooperation, and new local government structures and functions in taxation and economic governance. Careful planning of these economic management questions and meeting best-practice requirements can begin immediately.

BUSINESS ENVIRONMENT

A primary institutional impediment to growth in most postconflict countries is poor governance, including rampant corruption, weak private sector infrastructure, and an ineffective judicial and regulatory framework. At present, under the stress of insurgency and the political uncertainties of recent years, these elements of governance have eroded or have been neglected as attention has shifted to other priorities. But fostering a more favorable institutional environment for business must be a clear and consistent objective for Nepal at all times. The rise in business confidence that such an environment generates can unleash a surge in private investment, innovation, production, and employment to help jump-start the economy in immediate postconflict reconstruction and recovery. And, over the medium to long terms, the predictable and accountable regulatory and institutional framework that characterizes such a business environment is a precondition for sustained, private sector–led growth.

The World Bank Institute compiles a series of indexes that assess the extent to which a country's operating environment is perceived to foster sound governance. These indexes range from -2.5 for very poor performance to 2.5 for excellent performance. For instance, the Rule of Law Index, which measures the extent to which agents have confidence in and abide by the rules of society, stood at -0.76 for Nepal in 2008. The scores for Bangladesh, Tajikistan, and the LI and LI-Asia medians were -0.70, -1.12, -0.96, and -0.94, respectively. Although Nepal's score is somewhat better than that of all comparators except Bangladesh, the direction of the trend in this score is important. For Nepal, the 2008 Rule of Law score denotes an erosion of public confidence, because it is worse than its 2004 score of 0.69—*before* the 2006 Comprehensive Peace Agreement (CPA) when the conflict was raging. An unending series of *bandhs* called by groups affiliated with different political parties, reported extortion, an upsurge in reported homicides, and widespread vandalism have created a sense of disarray in the post-CPA period.

Similarly, the WBI's Control of Corruption Index—an aggregate measure of the extent to which public power is used for private gain and of "capture" of the state by elites and private interests—points to corruption as a significant constraint to doing business in Nepal. The index averaged -0.67 in the past five years—marginally better than all comparators (LI-Asia median, -1.15; LI median, -0.78; Bangladesh, -1.10; and Tajikistan, -0.99), but significantly below the zero value of the global mean. The Commission for the Investigation of Abuse of Authority (CIAA), empowered as an apex body to investigate cases of abuse of authority by the 2007 Interim Constitution, has perhaps helped soften public perception of corruption to a modest degree. Although several cases have been tried, CIAA will need to increase vigilance and strengthen enforcement to be more effective.

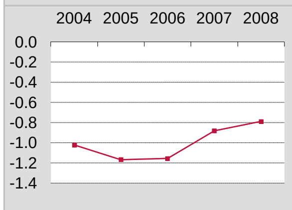
The Voice and Accountability index—which assesses the government's capacity to transfer power in a legitimate manner and offer civil liberties and political rights—has, however, improved steadily in the postconflict period. Even though this index is still highly negative in absolute terms, it has moved from -1.02 in 2004 to -0.79 in 2008. Nepal's score compares favorably to the medians for LI-Asia (-1.19) and LI (-0.83), and to Tajikistan's score (-1.32). Only Bangladesh's score (-0.61) is a bit better (Figure 3-4). Improvement in the index dates from 2006, possibly reflecting acknowledgement of a relatively inclusive Constituent Assembly with greater representation of women and disadvantaged groups.

Businesses are affected not only by the institutional environment but also by regulatory and compliance requirements. Red tape and delays add to business costs and discourage formal business registration. The World Bank's latest Doing Business indicators rate 183 countries on the ease of regulatory compliance across 10 stages of doing business. Nepal ranks 123rd out of 183 countries on the 2010 Ease of Doing Business scale. Although this ranking is comparable to Bangladesh's (119), and better than Tajikistan's (152) and the LI-Asia and LI medians (133 and 153, respectively), it still signals an inefficient and rigid business climate. This is a deterrent to investment—domestic investment is stagnant (see Conflict and Economic Growth) and foreign investment is virtually nonexistent (see External Sector). Nepal's ranking is relatively strong on only one Doing Business indicator: registering property. In several phases of business regulation, Nepal's rankings are particularly poor: trading across borders (161st), employing workers (148th), dealing with construction permits (131st), paying taxes (124th), and enforcing contracts (122nd) (Table 3-1).

Figure 3-4
Voice and Accountability Index

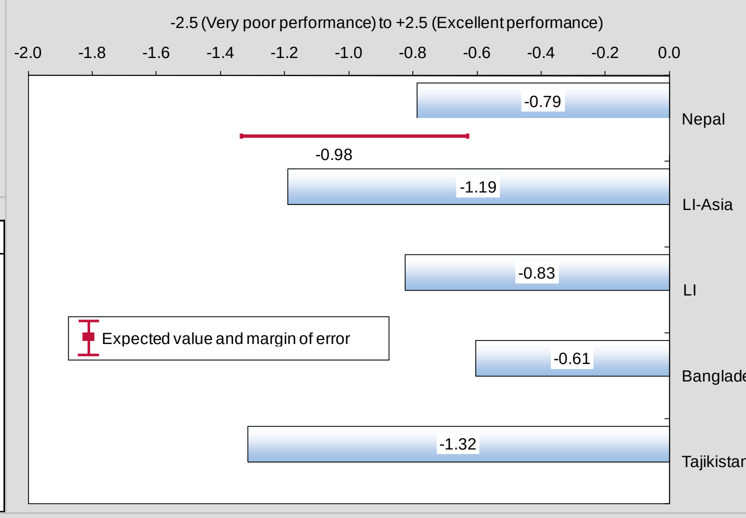
Civil liberties and the political rights of ethnic minorities are prominent in Constituent Assembly deliberations, which boosts Nepal's Voice and Accountability Index.

Time Series

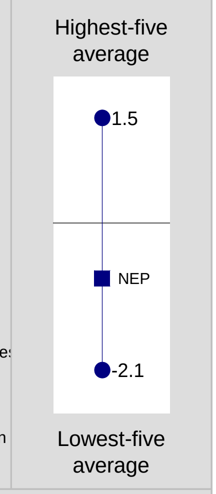


Year	Value
2004	-1.02
2005	-1.17
2006	-1.16
2007	-0.88
2008	-0.79
Summary for 2004–2008	
Five-year average	-1.0
Trend growth rate	8.0

Comparison to Other Countries, Most Recent Year



Global Standing



Source: World Bank Institute, Governance Indicators CAS code: 22P3

Table 3-1
World Bank Doing Business Indicator Rankings, 2010

Doing Business Indicator	Nepal	Bangladesh	Tajikistan
Ease of Doing Business	123	119	152
Starting a business	87	98	143
Dealing with Construction Permits	131	118	177
Employing Workers	148	124	143
Registering Property	26	176	78
Getting Credit	113	71	167
Protecting Investors	73	20	73
Paying Taxes	124	89	162
Trading Across Borders	161	107	179
Enforcing Contracts	122	180	39
Closing a Business	105	108	100

For example, according to Doing Business data, exporting from and importing to Nepal cost $1,764 and $1,825 per container, respectively. This compares to Bangladesh's costs of $970 for export and $1,375 for import. Nepal's high costs of exporting and importing are in large measure a function of an uncompetitive transport cost structure—owing in part to Nepal's landlocked nature, to be sure, but in the postconflict years considerably worsened as well by frequent *bandhs* and *chakka jams* (willful obstructions to transport and traffic) and the anticompetitive actions of an influential transport syndicate. Similarly, the compliance costs of paying taxes are heavy—businesses spend 338 hours making 34 tax payments every year. This cost compares with poorly with the compliance costs in Bangladesh (302 hours and 21 payments) and Tajikistan (224 hours and 54 payments). Contracts enforcement poses another significant constraint. It takes an average of 735 days, 39 procedures, and a cost of 26.8 percent of the claim to enforce a contract in Nepal. This compares to the LI-Asia median of 589 days, 42 procedures, and 30.9 percent; Tajikistan's 430 days, 34 procedures, and 25.5 percent; and Bangladesh's 1,442 days, 41 procedures, and 63.3 percent. No major reform to improve time, procedures, or costs for enforcing contracts has been implemented in the past five years. (Another major business constraint, rigid labor laws, is treated in Employment and Workforce.)

Business Environment: Potential Postconflict Recovery Priorities

- A settled and predictable set of ***"rules of the game" for economic governance***, including institutional accountability, is essential to build business confidence both in the postconflict period and for long-term growth and development. Only with this stable and efficient business environment in place will the private sector begin to innovate and invest. To address major institutional inefficiencies—excessive bureaucracy and , corruption—will require concerted effort on the part of government and the private sector in institution building and capacity development and in understanding the incentives and political economy of reform.
- The most urgent needs are political consensus and the will for institutional reform. Political instability and uncertainty add to business risks. Therefore, a ***rapid conclusion to the peace process*** culminating in the new constitution and a clear outline for the institutional structure of the new federal Nepal is the highest priority.
- Restoration of ***law and order and establishment of political and administrative normalcy*** are also urgent, so that the legitimacy of institutions and laws and regulations are acknowledged by all and enforced by the proper authorities. Capacity building in police, courts, and other parts of public service, as well as civil education about new rights and obligations of citizens and the institutions that work for them, will be required, with a particular focus on combating corruption at all levels.
- Measures to reinforce the momentum for ***political, social, and economic inclusiveness***, begun in the postconflict period, need to be continued and extended. Such measures will address the need to create opportunities through inclusive law, regulation, and practice for women and all disadvantaged groups to participate fully in the civic and economic life of the new Nepal, and for institutions to be accountable to them. Such measures will also deal with the need to build capacity among women and disadvantaged groups to take advantage of opportunities for participation.
- Thorough ***reform of business regulations, institutions, and procedures*** needs to be initiated, with an eye toward reducing regulatory and institutional risk for business and enhancing competitiveness and productivity. Given present indicators of regulatory performance, trade-related operations, including customs administration, labor markets, contract enforcement, permitting and licensing, and tax administration may be areas where reform can be immediately applied.
- The regulatory reform process could address the ***special requirements of agriculture and industry*** in order to begin raising efficiency in these sectors as soon as possible. To understand the most immediate needs and the best way forward, public-private partnerships can be created in these sectors to set the reform agenda through dialogue and cooperation. Technical assistance might help demonstrate best practice for reform as well as cost-benefit analysis to prioritize and sequence reform initiatives for optimal outcomes.

FINANCIAL SECTOR

In a fragile postconflict environment, financial sector development is fundamental to the resumption of normal economic activity. A well-functioning financial system furnishes the means of payment for all monetary transactions; mobilizes savings; finances business operations, investment, and major household expenditures, particularly for housing; and allocates financial resources productively, fostering entrepreneurship and improving risk management. Financial services activity has expanded significantly in Nepal in recent years as lending has boomed, especially in land and property. But with some tightening of liquidity conditions as a result of the global recession, the sector's vulnerabilities are emerging. Careful management is required in the next couple of years to maintain the financial sector stability that undergirds investment and economic growth, the peace dividend expected by Nepal's citizens.

Financial institutions now hold over 90 percent of all assets and liabilities in Nepal's financial sector, and contractual savings institutions (including insurance companies) hold just under 10 percent of such assets and liabilities.[36] The number of financial institutions—including commercial banks, development banks, finance companies, microcredit development banks, financial cooperatives, and financial intermediary NGOs (FINGOs)—plus insurance companies has been growing rapidly, from 151 in mid-2000 to 280 as of January 2010.[37] Banks, however, dominate the financial sector and account for 58 percent of total assets and liabilities. Expansion of the financial sector has been fostered by liberal licensing polices and accommodative monetary conditions. As noted in Economic Stabilization and Government Capacity, broad money (M2) for Nepal has increased very sharply over the past few years. By fiscal 2009 it had reached 65 percent of GDP, up from about 58 percent only five years earlier (Figure 3-5). At this level, Nepal's M2 as a proportion of GDP far exceeds that of comparators—the medians for LI-Asia and LI are only about 37 percent and 26 percent, respectively, while for Bangladesh the ratio is 56 percent and for Tajikistan 18 percent. This rapid increase in money supply has been a function of massive remittance flows.

In the financial sector, such monetary expansion has had important consequences. First, the inflation it has fueled has meant that real interest rates have been depressed, declining to about 1 percent or less from 2006 and turning negative in the past couple years as inflation climbed sharply. Nepal's real interest rates have been significantly lower than those of comparators. In 2008, for example, with Nepal's real rates at zero or negative, median real interest rates were 9.2 percent for LI-Asia and 10.4 percent for LI, and Bangladesh's real rate was 7 percent. Only Tajikistan—with annual inflation running over 20 percent—had a negative real interest rate (-3.1 percent).

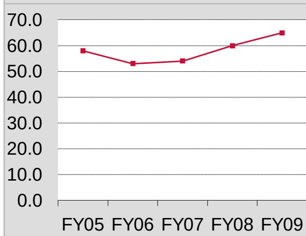
[36] Nepal Rastra Bank, Economic Report, 2008/2009, p. 54.

[37] Nepal Rastra Bank, Quarterly Economic Bulletin, Volume 45, Mid-October 2009–Mid-January 2010, Table 37, p. 47.

Figure 3-5
Money Supply (M2), Percent GDP

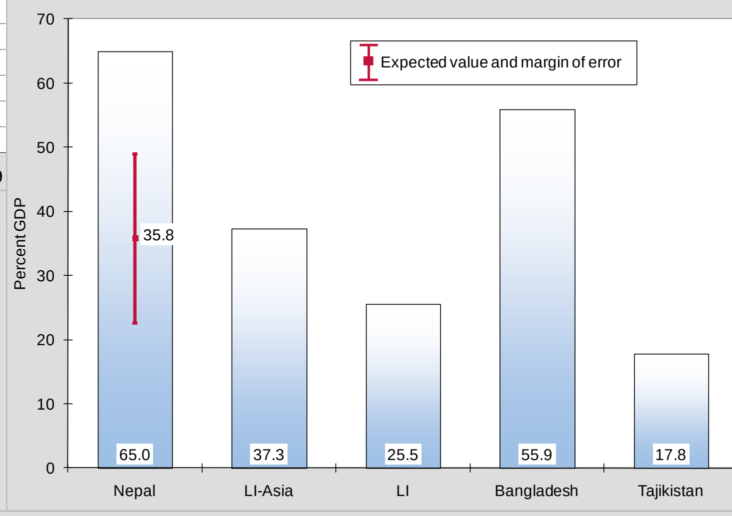
Money supply has increased rapidly, reflecting expansion of domestic credit and creating a complex macroeconomic management challenge.

Time Series

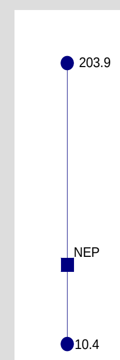


Fiscal Year	Value
2005	58
2006	53
2007	54
2008	60
2009	65
Summary for 2004/05–2008/09	
Five-year average	58.0
Trend growth rate	3.5

Comparison to Other Countries, Most Recent Year



Global Standing



Source: Calculated from Ministry of Finance Economic Survey August 2009 and Nepal Rastra Bank Quarterly Bulletin Vol.45

CAS code: 23P3

In addition, negative real rates have given Nepal's private sector firms strong incentive for borrowing, while at the same time intensifying competition among a rapidly growing number of banks and other financial institutions has provided strong incentive to lend. The result has been a vigorous rise in domestic credit to the private sector. Between fiscal 2005 and fiscal 2009, domestic credit to the private sector climbed from 33.4 percent of GDP to 45.4 percent. At this level, domestic credit to the private sector in Nepal far outstrips the medians of LI-Asia (22.7 percent of GDP) and LI (12.6 percent) and domestic credit in Bangladesh (39.5 percent) and Tajikistan (29 percent) as well (Figure 3-6).

The implications of these financial sector trends are several. First, the supply of credit, at least for the formal sector, has been plentiful in recent years, particularly in urban areas where most financial institutions are concentrated. For most of the period, banks and other financial institutions have been quite liquid, as well as relatively efficient in their financial intermediation role: the spread between average lending and borrowing rates has been under 6 percentage points and declining, and now stands at about 5.5 points. This is below or well below interest rate spreads of all comparators (LI-Asia median, 6.6 points; LI median, 12.3 points; Bangladesh, 6.7 points; and Tajikistan, 14.4 points). Access to credit therefore has not been a problem for Nepal's formal sector, largely urban-based firms. This fact is confirmed by the latest World Bank enterprise survey for Nepal, in which 39.1 percent of firms indicate that they have a credit line or loans with financial institutions—exceeding the South Asia regional average of 32.1 percent—

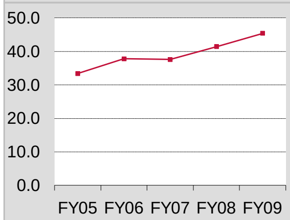
and only 5.3 percent of firms identify access to finance as a “major constraint”—very much below the South Asia average of 23.3 percent.[38]

Figure 3-6

Domestic Credit to the Private Sector, Percent GDP

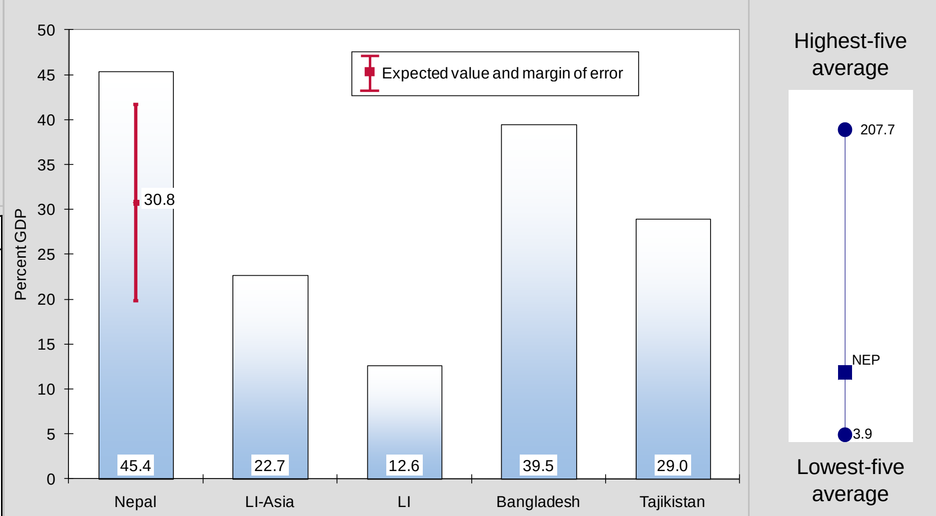
Fueled by rapid money supply growth and aggressive competition among banks, credit to the private sector has risen substantially.

Time Series



Fiscal Year	Value
2005	33.4
2006	37.8
2007	37.6
2008	41.4
2009	45.4
Summary for 2004/05–2008/09	
Five-year average	39.1
Trend growth rate	7.0

Comparison to Other Countries, Most Recent Year — Global Standing



Source: Nepal Rastra Bank, Macroeconomic Indicators of Nepal, July 2010; IMF Article IV Reviews CAS code: 23P1

Second, with the expansion of credit, the pattern of lending by sector has changed. Availability of finance and the Comprehensive Peace Agreement gave a major push to Nepal’s urban real estate market and sent prices skyrocketing—e.g., urban center commercial property prices rose six-fold.[39] Commercial bank lending for construction increased by 227 percent between fiscal 2006 and fiscal 2009, with loans to construction now accounting for over 11 percent of total commercial bank loans—behind the production sector (food processing and industry, 22 percent) and wholesale/retail (17 percent) but ahead of all other sectors, including agriculture (about 3 percent). And, with escalating real estate values, property has become an ever-increasing share of the collateral for credit, up to 61 percent by mid-2009.[40]

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[38]See Nepal Enterprise Survey at [http://www.enterprisesurveys.org/ExploreEconomies /?economyid=136&year=2009](http://www.enterprisesurveys.org/ExploreEconomies/?economyid=136&year=2009). This figure masks a disparity in access to finance between urban and rural areas. A wide variety of financial sector products and services is available to firms in urban areas, but in rural areas, even the most basic financial products and services are unavailable. Although microfinance institutions are expanding rapidly to bridge the gap, starkly disproportionate access to finance is a reality in Nepal.

[39] World Bank, Nepal Economic Update, April 2010, p. 10.

[40] Nepal Rastra Bank, *Quarterly Economic Bulletin, Volume 45,* Mid-October 2009-Mid January 2010, Tables 11, p. 18; and Table 12, p. 19.

Finally, rapid credit expansion plus a shift in lending patterns and associated asset bubbles create new and serious risks for the financial sector in the near term. Specifically, as money supply growth begins to decelerate with a drop in remittances (see External Sector), growth in deposits with commercial banks has also begun to decline—an expansion of about 5 percent for the six months to January 2010 compared to 13 percent for the same period a year ago. But at the same time, credit has continued to increase—12 percent growth for the six months to January 2010 compared to 11 percent for the six-month period to January 2009, so that loan-to-deposit ratios are now at their highest level (86 percent) in many years. The result has been a squeeze on liquidity for the banks and a rise in interest rates, with the interbank rate moving from 3.37 percent in January 2009 to 12.83 percent in January 2010.[41]

Although Nepal has made good progress on reducing nonperforming loans in recent years (now at 3.5 percent of total loan value), in the environment just described, the loan default risk intensifies, particularly among real estate speculators, posing the threat of failure among weaker and less-prudent financial institutions. Such failures could damage the health of the overall financial sector, at a time when an effective flow of credit for productive activities is most needed to finance investment and generate jobs in postconflict reconstruction and recovery. Recognizing these dangers, Nepal Rastra Bank recently introduced new prudential measures—a moratorium on bank licenses; limits on real estate lending, loan-to-value and credit-to-deposit ratios[42]—while also injecting liquidity into the system. But the task of containing risks that have built up and maintaining financial sector stability will be urgent and exacting for the foreseeable future.

Beyond these challenges, the financial sector faces another critical mission in the postconflict world: to bring formal financing to the largely unserved rural population. In the rural economy, the vast bulk of economic agents are informal sector farms and microenterprises, 93 percent of which are estimated to be outside the formal financial system.[43] Opening up access to formal credit to more of such farmers and microentrepreneurs needs to be part of the new, more inclusive, Nepal. Increasing the number of bank branches in rural districts can be part of the solution, although since the CPA, the greatest branch growth has taken place in the Kathmandu Valley. Technology will also help—mobile phone banking—but the principal thrust is likely to be building up the microfinance sector so that it reaches more borrowers, and especially borrowers disadvantaged by geography or socioeconomic exclusion, with more innovative products appropriate to agriculture and microenterprise (e.g., smallholder agro-loans, crop insurance, microinsurance). With peace in the countryside, microfinance institutions understand and are gearing up to seize opportunities to expand their operating networks, but extending service to remote zones (e.g., Karnali District) will be a continuing challenge.

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[41] Ibid, Table 6, p. 10; and Table 24, p, 40.

[42] International Monetary Fund, Government of Nepal and Nepal Rastra Bank Letter of Intent, May 13, 2010.

[43] ADB, Department of International Development (DFID), and ILO, *Nepal Critical Development Constraints*, 2009, p. 27.

Financial Sector: Potential Postconflict Recovery Priorities

- The importance of the financial sector in the postconflict context cannot be understated. For economic recovery and reconstruction to advance, ***resources must begin to flow to their most productive uses*** to stimulate investment, expand production, and generate employment. Given this imperative and the risks that the financial sector faces, the priorities are clear.
- In the near term, the overriding concern for policymakers will be to ***safeguard financial sector stability*** through a skillful program of liquidity and risk management. This means extending and refining tools already in place to help encourage needed adjustments to asset markets and credit growth while ensuring adequate and efficient financing for productive sectors.
- At the same time, Nepal Rastra Bank will redouble efforts to ***strengthen prudential supervision*** in the financial sector to identify, analyze, and mitigate potential risks among financial institutions in order to preserve the sector's overall health and reinforce the bank's capacity. Technical assistance resources may be useful to reinforce the bank's supervision capacity.
- Basic financial services—deposit-taking and lending—must ***expand to financially unserved rural areas*** in order to integrate more informal economic activities and actors into the formal economy. Both commercial banks and microfinance institutions can play a vital role in this postconflict task, not only by providing financial services but also by educating savers and borrowers on the sound use of finance in a modern economy. Innovative partnerships between commercial banks and microfinance institutions can help mitigate some of the high costs associated with expanding banking services to remote areas and can also transfer sound banking practices to smaller microfinance institutions.
- Over the medium term, several initiatives must be accomplished to ***develop Nepal's microfinance subsector***, among them design and delivery of innovative microfinance products and business models; reform and implementation of a modern legal and regulatory microfinance framework; and capacity building for retail microfinance providers to reach disadvantaged clients.
- Ongoing ***reform and restructuring programs for the undercapitalized state-owned banks*** (Nepal Bank Limited, Rastriya Banijya Bank) and planned ***divestiture for the Agricultural Development Bank*** must be completed, so that the former are fully solvent institutions, the latter has majority private ownership, and all operate according to international best practice.

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 trade integration over the past 30 years. Fragile postconflict states are often unable to take full advantage of these opportunities. For Nepal, strengthening linkages to international markets for goods, services, and capital—especially markets in its giant neighbors, India and China—to bolster trade and investment performance should be a prominent part of postconflict economic recovery. In evaluating progress in this task, among the most important external sector indicators to track are growth and diversity of exports, plus the ability to attract international aid and investment, reduce the debt burden, and expand international reserves as a measure of rising economic confidence and a cushion against shocks. On this basis, Nepal's picture is mixed, with serious external sector stresses emerging in an environment of global slowdown.

International Trade

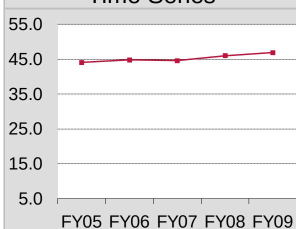
With accession to the WTO in 2004 and with a present average tariff of less than 9 percent, no import licensing, and no restriction on repatriation of invested funds, Nepal now has one of the most open trade regimes in South Asia.[44] But its trade ratio—the value of total exports plus imports to GDP—is still only 46.9 percent, significantly below the medians for LI-Asia and LI (84.8 percent and 70.5 percent, respectively) and the figure for Tajikistan (75 percent), and below Bangladesh's 47 percent ratio as well (Figure 3-7). In the past five years this ratio has barely increased, from 44.1 percent of GDP (fiscal 2005) to the current 46.9 percent (fiscal 2009). But within the trade ratio, the share of imports has surged: in the five years to fiscal 2009, imports expanded by over 90 percent, particularly in machinery and transport equipment and manufactured goods, which together now represent half of all Nepal's imports.[45] Remittance-funded purchases of consumer goods and vehicles may account for much of this surge.

Figure 3-7

Trade in Goods and Services, Percent GDP

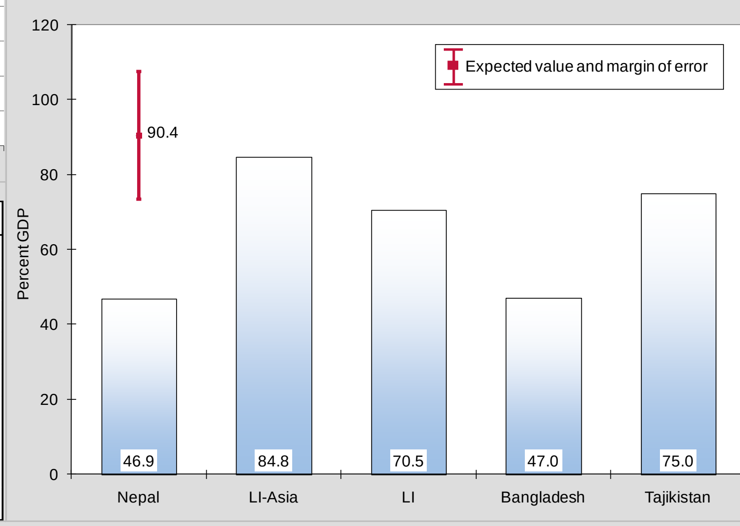
Trade is increasing, largely through rapid import growth, but the trade ratio is still relatively low.

Time Series

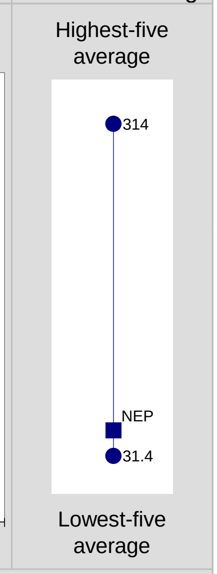


Year	Value
FY2005	44.1
FY2006	44.8
FY2007	44.6
FY2008	46.0
FY2009	46.9
Summary for 2004/05–2008/09	
Five-year average	45.3
Trend growth rate	1.5

Comparison to Other Countries, Most Recent Year



Global Standing



Source: Nepal Ministry of Finance, Economic Survey, 2008/09; IMF Article IV Reviews CAS code: 24S2

By contrast, the share of exports in the trade ratio has declined. In this period, exports grew by less than 15 percent in total, with virtually all the increase coming in food and live animals (about 28 percent of all exports), and with a small contraction in manufactured goods, Nepal's largest

[44] Institute for Policy Research and Development, *Trade and Investment Linkages in Nepal: Impact on Productivity and Exports and Need for Policy Coordination*, ARTNet Consultative Meeting on Trade and Investment Policy Coordination, 16-17 July 2007, Bangkok

[45] Nepal Rastra Bank, *Quarterly Economic Bulletin, Volume 45*, Mid-October 2009-Mid January 2010, Table 54, p. 77.

export category (42 percent of all exports).[46] In addition to the general drop-off in Nepal's garment exports at the end of the Multi-Fiber Agreement, trends in export trade to India have much to do with this outcome. Nepal's largest trading partner, India, now accounts for 58 percent of Nepal's total trade and 61 percent of Nepal's exports—although probably much more in reality, given informal flows across the long open border the two countries share. But recorded exports to India have barely budged in recent years and now stand at virtually the same level as in fiscal 2006. This stagnation is due at least in part to India's states imposing "other taxes and duties" on Nepal's exports, a barrier that is to be lifted in 2010 with the new Nepal-India trade treaty. In the meantime, the latest evidence shows that in the first half of the present fiscal year (2010), exports to India have in fact contracted since fiscal 2009.

With these import and export dynamics, the overall pattern is that in recent years Nepal's imports as a proportion of GDP have grown from 25.4 percent (fiscal 2005) to 29.6 percent (fiscal 2009), while exports as a share of GDP have shrunk, from 10 percent (fiscal 2005) to 7.0 percent (fiscal 2009). As a result, Nepal's trade deficit has grown steadily and stood at 22.6 percent of GDP for fiscal 2009.[47] On current account, however, Nepal has remained mostly in surplus. This is thanks to a rapidly increasing inflow of remittances from outmigrant workers (see Employment and Workforce). Indeed, remittance receipts as a percentage of exports exploded between fiscal 2005 and fiscal 2009, from equivalent to 76.2 percent of goods and services exports to 170.9 percent of such exports. Nepal's performance on this ratio is dramatically above that for all comparators: medians for LI-Asia (10.6 percent) and LI (12.0 percent) and ratios for Bangladesh (51.7 percent) and even Tajikistan (a strong 144.5 percent) (Figure 3-8). With these swelling remittances, Nepal has had an expansion of its current account surplus from 2.0 percent of GDP (fiscal 2005) to 4.3 percent (fiscal 2009)—in contrast with the current account deficits of its comparators: the LI-Asia median (3.3 percent), the LI median (6.4 percent), and Tajikistan (9.7 percent), and substantially above the Bangladesh surplus of 2.8 percent (Figure 3-9). Little wonder, then, that a slowdown in remittance growth—as at present (see below)—can be a serious external balance issue.

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[46] Ibid, Tables 55 and 56, pp. 78 and 76.

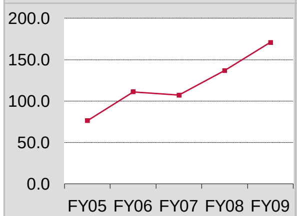
[47] Nepal Rastra Bank, Key Macroeconomic Indicators. http://red.nrb.org.np/publications/economic_bulletin/Macroeconomic_Indicators_of_Nepal--2009-07_%20(July_2009)_NEW.pdf

Figure 3-8

Remittance Receipts, Percent Export

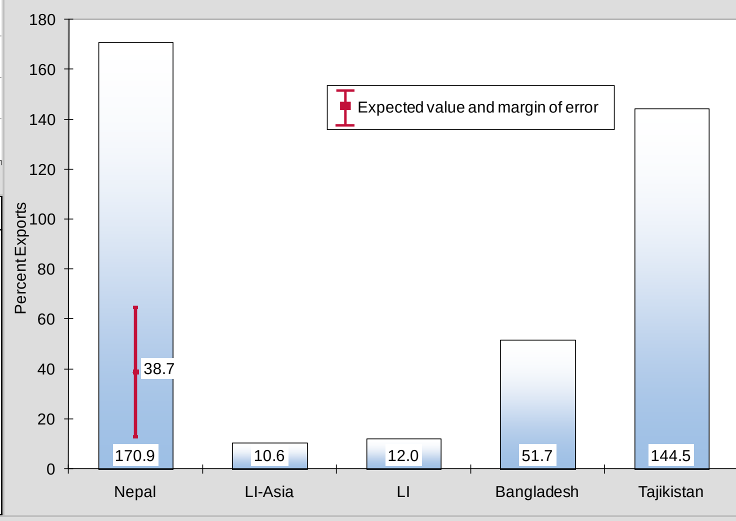
Remittance receipts have increased explosively for several years, but this trend may not last.

Time Series

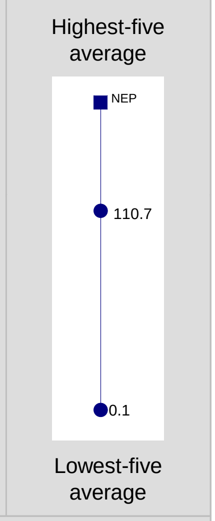


Fiscal Year	Value
2005	76.2
2006	111.1
2007	107.0
2008	136.9
2009	170.9
Summary for 2004/05–2008/09	
Five-year average	120.4
Trend growth rate	18.2

Comparison to Other Countries, Most Recent Year



Global Standing



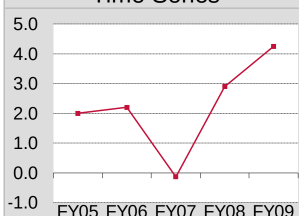
Source: Nepal Rastra Bank Quarterly Bulletin Vol.45; World Development Indicators, 2010 CAS code: 24P8

Figure 3-9

Current Account Balance, Percent GDP

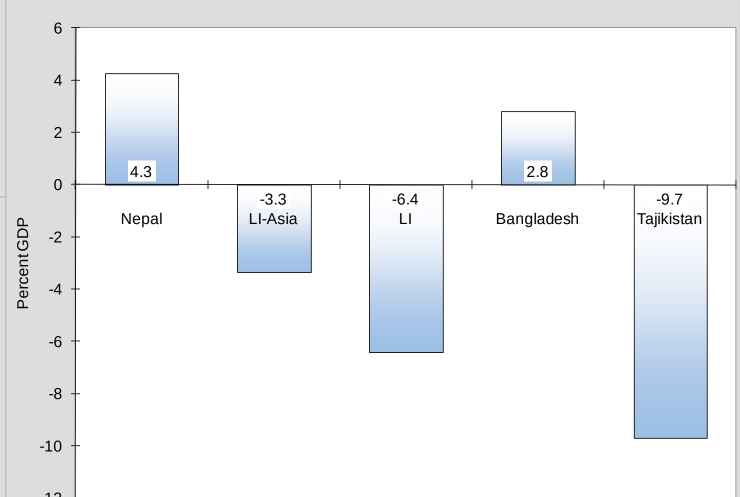
Current account shows a sizable surplus, thanks to remittance inflows.

Time Series

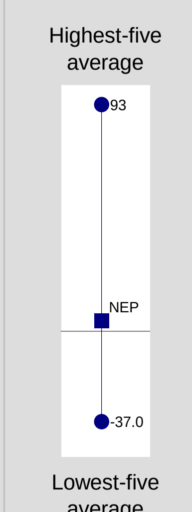


Year	Value
FY2005	2.0
FY2006	2.2
FY2007	-0.1
FY2008	2.9
FY2009	4.3
Summary for 2004/05–2008/09	
Five-year average	2.2
Trend growth rate	.

Comparison to Other Countries, Most Recent Year



Global Standing



Source: ADB Asian Development Outlook 2010; IMF Article IV Reviews CAS code: 24P2

External Financing and International Reserves

As the above picture makes clear, remittances are in effect Nepal's overwhelming source of external financing. Foreign assistance grants are not insignificant, amounting to about 3.6 percent of GDP, and foreign loans add up to another 1.1 percent, but Nepal's remittance flows made up 21.1 percent of GDP in fiscal 2009. Foreign direct investment (FDI), important for external financing in many economies, is virtually nonexistent in Nepal, deterred by the insurgency and the postconflict political uncertainties (see Business Environment) FDI makes up less than 0.2 percent of GDP in Nepal (fiscal 2009), while it makes up 1.2 percent Bangladesh, and 7.3 percent in Tajikistan, and medians of 3.7 percent in LI-Asia and 3.2 percent in all LI countries.

External debt is not a pressing concern for Nepal. With a present value of external debt at 20.8 percent of GNI, Nepal's debt burden is below that of most comparators—the LI-Asia median of 28.6 percent, the LI median of 22.4 percent, and Tajikistan's 23.4 percent—and close to Bangladesh's 19.5 percent. But Nepal's debt service is still a bit high: its ratio of debt service to export earnings amounted to 8.3 percent in fiscal 2009, above Bangladesh's debt service-to-export ratio for the same year (3.1 percent) and the medians for LI-Asia (5 percent) and LI (6.6 percent), but well below the ratio for Tajikistan of 13.9 percent.

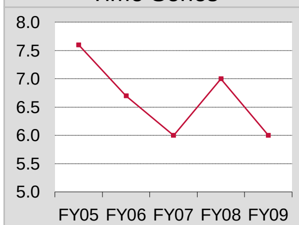
With remittances soaring, Nepal's international reserves built up rapidly, nearly doubling between fiscal 2005 and fiscal 2009, from $1.5 billion to $2.9 billion. At this level, even with the explosive growth in import volumes, reserves were still equal to about six months of Nepal's imports of goods and services, a comfortable standard (Figure 3-10). But July 2009 appears to have been a peak. Since then, international reserves have reversed trend, and in the eight months from July 2009 to March 2010, reportedly dwindled by $400 million to about $2.5 billion.

Figure 3-10

Gross International Reserves, Months of Imports

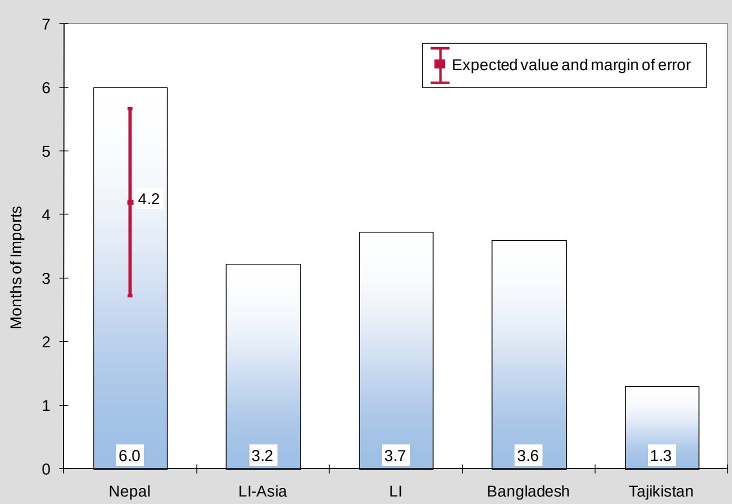
International reserves have been relatively high and import cover comfortable, even with surging import volumes—but this could change rapidly with a decline in remittances.

Time Series



Year	Value
FY2005	7.6
FY2006	6.7
FY2007	6.0
FY2008	7.0
FY2009	6.0
Summary for 2004/05-2008/09	
Five-year average	6.7
Trend growth rate	-4.3

Comparison to Other Countries, Most Recent Year



Source: Ministry of Finance Economic Survey 08/09; IMF Article IV Reviews CAS code: 24P6

Three factors seem to be involved.[48] First, because of the global recession, the number of workers departing for foreign employment has fallen off. This has caused the rate of growth of remittances to decelerate and even to contract by 13 percent in January–March 2010. Second, the trade deficit has worsened substantially. Exports have declined by 14 percent since fiscal 2009, including a 6 percent decrease in Nepal's exports to India and a 26 percent decrease in exports to all other countries. By end-January 2010, the trade deficit reached 28 percent of GDP. Nepal Rastra Bank and the IMF now project for the whole of fiscal 2010 a substantial deficit on current account—equivalent to 2.1 percent of GDP— the first for Nepal since fiscal 1998.[49] Given these adverse economic trends and the heightened tension of the run-up to the Constituent Assembly's May 28 expiration, a net capital outflow has taken place. With rising uncertainty, firms and households have taken advantage of the fixed exchange rate peg between the Nepali and Indian rupees to acquire assets in India.

These factors combined to produce a deficit on Nepal's balance of payments for the eight months to March 2010 and to create an abrupt outflow of reserves to finance the deficit. Nepal Rastra Bank and the Ministry of Finance moved swiftly to address these deteriorating conditions, including providing short-term liquidity and other measures to stabilize the financial sector (see Financial Sector), imposing some capital controls and accessing a $42 million loan under the IMF's Rapid Credit Facility. Managing this difficult situation will be Nepal's continuing external sector challenge for the near term and beyond.

Exchange Rate

Nepal's exchange rate policy is a central consideration in the external sector and indeed in the health of the whole economy. Since 1993 Nepal has maintained a fixed exchange rate of 1.6 Nepali rupees to 1 Indian rupee. Although questions are raised about the utility of the arrangement from time to time, Nepal continues to be strongly committed to the peg as a "key anchor for … economic stability."[50] The exchange peg clearly provides producers with a risk-mitigating mechanism to avoid trade uncertainties but also limits Nepal's monetary independence and ties exporters to the stronger Indian rupee—when the Indian rupee appreciates, as it has done recently, the Nepali rupee appreciates as well and Nepali exporters lose competitiveness. (The upward drift in Nepal's real effective exchange rate in the past five years underscores this trend.) This phenomenon is held to be integral to the sharp decline in Nepal's exports to markets other than India in the recent export contraction. And over the longer term, the peg presents Nepal with a constant need to try to match productivity gains in India in order not to lose its competitiveness.

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[48] IMF Press release. "Nepal: Letter of Intent" at http://www.imf.org/external/np/loi/2010/npl/051310.pdf

[49] IMF, Nepal: 2010 Article IV Consultation and Request for Disbursement Under the Rapid Credit Facility – Staff Report, IMF Country Report No. 10/185 (July 2010), p. 33.

[50] IMF Press release. "Nepal: Letter of Intent" at p. 3.

External Sector: Potential Postconflict Recovery Priorities

In postconflict recovery and for the long term as well, Nepal must concentrate on building ***private sector export competitiveness***. In its strategic location between two of the world's most vibrant economies—India and China—and with its unique ecological resource base, Nepal should have the potential to significantly expand exports. But for the very near term, handling the ***external sector's global recession-based challenges*** will be a constant preoccupation.

- ***Restoring external balance*** by reining in and reversing capital account deficits and effectively managing international reserves must be highest immediate external sector priority. A program to do so is already in course, and will be implemented in coordination with actions to manage fiscal deficits and achieve financial sector stabilization.
- At the same time public sector policymakers and private sector producers must redouble efforts to enhance competitiveness. This will entail action at several simultaneous levels. ***Export diversification in terms of products*** is one key initiative. More than a third of Nepal's merchandise exports are concentrated in garments, carpets, and iron or steel, so development of other export products—those in which Nepal can exploit a real competitive advantage (e.g., tea, nontimber forest products, tourism, and hydropower)—should be pursued aggressively.
- ***Export diversification in terms of markets*** is another critical initiative. Opportunities exist to enter and develop new markets in India and China for goods and services (e.g., agro-production and agro-industry; tourism), but market openings afforded by Nepal's multilateral trade agreements (WTO, SAFTA, SAARC, BIMSTEC) should be explored as well.
- Nepal must ***strengthen trade policy implementing institutions and trade facilitation agencies***. Ministry of Commerce and Supplies and others associated with trade promotion under the New Trade Policy 2009 will be one focus. Department of Customs and others associated with customs administration, standards, and sanitary-phytosanitary regulations will be another.
- The ***overall business climate for export-oriented investments and operations*** must be streamlined. This means pursuing reforms for the whole range of business environment issues plus power and transportation infrastructure bottlenecks. Special export processing zones oriented to China and India might be part of this initiative.
- FDI inflows, crucial for technology transfer, market linkages, and capital investments, depend on political stability. ***Encouraging foreign direct investment*** (without distorting incentives for domestic producers) can be a medium- to long-term target, perhaps with assistance to a new Board of Investment as an FDI-promoting body.

ECONOMIC INFRASTRUCTURE

Efficient and dependable physical infrastructure, including energy, transportation and communications systems, is critical for postconflict recovery and sustained economic expansion. Inadequate infrastructure impedes reconstruction and retards economic and social development by raising the cost of production and service delivery and diminishing productivity and competitiveness. The recent insurgency has had a severe infrastructure cost for Nepal, estimated at $129.6 million in damages to infrastructure systems.[51] Furthermore, during the insurgency, diversion of financial resources to military and security needs meant a contraction of expenditure for infrastructure, not only in systems development but also for maintenance and expansion. The quality of Nepal's infrastructure—particularly electricity—has therefore deteriorated badly in recent years. In postconflict Nepal, rapid infrastructure development is critical not only to remove a bottleneck to long-term growth, but also to meet the expectations of citizens for a peace dividend in improved and extended infrastructure services to enhance well-being.

[51] Ibid

Power is a particularly serious infrastructure weakness for Nepal. The worsening quality of electricity supply is perceived to be especially alarming: the Global Competitiveness Report (GCR) scores for Nepal for quality of electricity supply, on a scale of 1 (poor) to 7 (excellent), plunged from 2.2 in 2003/04 to 1.3 in 2008/09. Similarly, in a 2008 enterprise survey conducted by the ILO, ADB, and Federation of Nepalese Chambers of Commerce and Industry (FNCCI), 82 percent of respondents cited a lack of affordable and dependable power as a constraint to business and 61 percent termed it a major or very serious constraint.[52] Nepal now has an electrification rate of 33 percent, leaving more than 18 million people without access to electricity. For those who have access, electrical outages are frequent—estimated at about 52 per month in Nepal, compared to about 102 in Bangladesh and 6 in Tajikistan. Although the average number of electrical outages is half that of Bangladesh, the average outage in Nepal lasts 12–16 hours per day during peak electric load shedding periods, compared to about 8–12 hours per day in Bangladesh. As a result, the average consumption level per connection in Nepal was about 46 percent that of India and 61 percent that of Bangladesh. This is in a country with the potential for economically viable hydropower production estimated at 42,000 MW, but with only 564 MW developed. Other alternative sources of energy—micro/mini-hydro, biogas, solar, and wind power—have been explored in several parts of the country to help advance rural electrification. But such efforts are still largely communal, and will require substantially more investment at regional and national levels to have a real impact on expanding countrywide electrification..

Low levels of electrification and frequent power cuts in Nepal are detrimental to the country's competitiveness, as businesses and manufacturing industries are forced to either increase their energy costs or scale back operations. It also means that the vast majority of rural residents have little or no access to electricity, although an effort is being made to encourage micro-hydro in particular, as well as other alternative renewable sources of power, including solar, wind and biogas.

Another major infrastructure constraint is transportation. Nepal's mountainous terrain makes development of road and rail networks especially challenging. It is estimated that one in three Nepalis faces at least a two-hour walk to reach the nearest all-season road, and that six of Nepal's 75 districts are unconnected to the national network. Some 60 percent of roads—including most rural roads—are impassible during the rainy season.[53] Currently, only about 38 percent of roads are blacktopped, and just 25 percent are gravel.[54] The majority of the roads are concentrated in the Terai plains, and a large proportion of the population in the hills relies on narrow seasonal foot trails. Road networks—mostly one-lane roads—do not have alternative routes and are prone to blockage due to accidents and landslides. The current GCR quality of road infrastructure index rates Nepal at 2.1, below all comparators (LI median, 2.6; Bangladesh, 2.9; and Tajikistan, 2.6).

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[52] Unless otherwise cited, data on power cited are drawn from ADB, /DFID, ILO, *Nepal Critical Development Constraints* 2009, pp. 31-36.

[53] World Bank news release "World Bank provides additional assistance to road sector (RAIDP) in Nepal" (May 17, 2010).

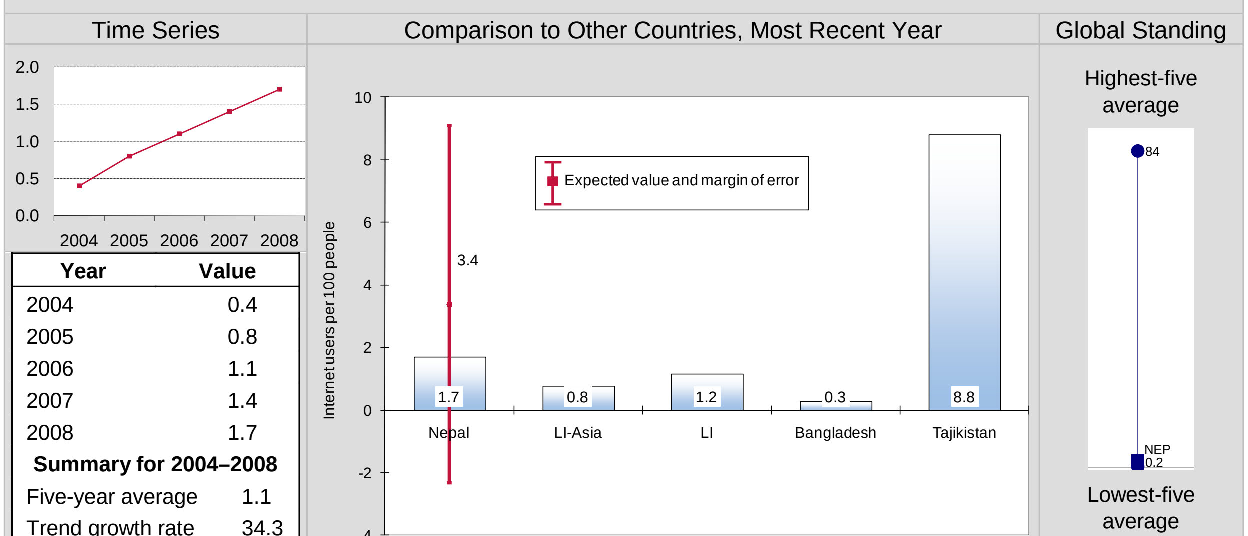
[54] Ibid.

During recent periods of extreme political tension, regular *bandhs* and *chakka jams* caused frequent and severe transportation delays and losses—and blocked access to the nearest and most utilized port for Nepal, Kolkata in India, as well as to Chittagong port in Bangladesh, only recently opened to Nepali shipments. Air transportation is Nepal's best infrastructure system, receiving a score of 3.5 on the GCR index for quality of air transportation infrastructure, essentially the same as for all comparators (LI median and Bangladesh 3.4; Tajikistan, 3.6). Nepal now has 19 operating airlines, whose services are essential to the strategic tourism industry and are also the only means of transporting food and supplies to some of the most remote parts of Nepal. There are 51 airports in Nepal, including one international airport in Kathmandu.[55] ADB programs are underway to upgrade and expand regional airports, again with the needs of the tourism industry in mind.

Communications infrastructure has seen rapid development in Nepal in the past decade. Telephone density—the number of fixed lines and mobile phones per 100 people—grew from just 2 in 2004 to 17.4 in 2008. While this is much below the density in Bangladesh (28.7) or Tajikistan (57.9), it still compares favorably with the medians for LI-Asia (12.8) and LI (13.9). Internet users have increased to 1.7 per 100 people in 2008, well above the medians for LI-Asia (0.8) and LI (1.2), and the rate for Bangladesh (0.3), but far below the rate in Tajikistan (8.8) (Figure 3-11). Growth in communications infrastructure is largely attributed to private sector initiative; investments totaled about $97 million between 2000 and 2005.[56]

Figure 3-11
Internet Users per 100 People

The number of Internet users, although increasing rapidly, still has potential to grow.



Year	Value
2004	0.4
2005	0.8
2006	1.1
2007	1.4
2008	1.7
Summary for 2004–2008	
Five-year average	1.1
Trend growth rate	34.3

Source: World Development Indicators, 2010 CAS code: 25S1

55 ADB,/DFID, ILO, *Nepal Critical Development Constraints* 2009, p. 40.

56 Ibid, p. 41.

Economic Infrastructure: Potential Postconflict Recovery Priorities

Nepal has two infrastructure objectives—to restore infrastructure damaged during the conflict and to expand infrastructure systems and services that are needed to facilitate increased economic activity. ***Public sector investment*** will have a leading role in infrastructure development, but there is much scope for ***public-private partnership*** as well, especially in the power sector. Immediate progress in infrastructure development is needed as a visible peace dividend, and for poverty alleviation.

- Electric power is the foremost infrastructure need because prolonged and frequent electrical outages during peak hours of the day directly hinder all forms of economic activity. Upgrading ***the electricity supply*** is an immediate priority. Expansion to unserved areas will require time, investment, and political will to break the inefficiency characterizing current hydropower development efforts. Improvement of the climate for domestic investment and FDI are central to progress in large-scale hydropower sector projects.
- Efficient transportation infrastructure is a foundation for expanding economic activity. Particularly crucial for building market linkages and for delivering social services is an ***improved road network***. Some major road construction will involve large-scale projects, especially in the north-south road network, and these can also generate job benefits. But in rural areas, much immediate road and bridge development can be organized within self-help, community-based projects financed by local government grants, donor resources, and NGO involvement. Because tourism is a leading economic sector for postconflict recovery, strategically ***upgraded regional air transport facilities***—airports and air service—are essential.
- ***Institutional strengthening for key organizations*** and programs delivering economic infrastructure services is a medium-term objective for both energy and transport. Strengthening efforts will include organizational development, capacity building, and policy analysis, including pricing, tariff, and subsidy policies. Implementation of long-standing plans to restructure and reform the power sector institutions and policies—Nepal Electricity Authority and Department of Electricity Development and others—is probably the first priority, but improving mechanisms for road maintenance funding and operations, including public-private partnership approaches, will also yield significant benefits.

4. Pro-Poor Growth Environment

This section reviews the conditions and performance in certain sectors crucial to poverty reduction. Rapid growth can be one of the most powerful and dependable means for reducing poverty and preventing relapse into conflict. But growth without development intensifies inequality and breeds hostility; thus pro-poor growth is a critical component of Nepal's postconflict reconstruction. A pro-poor growth environment stems from policies and institutions that improve opportunities for the poor while reducing their vulnerability by improving livelihoods, building assets, and enhancing mechanisms to cope with shocks. In fragile states and postconflict countries, however, these policies and institutions are often weak or nonexistent. Sustainable economic development hinges on the implementation of programs to improve primary health and education, create jobs, boost labor market skills, and develop agriculture.

HEALTH

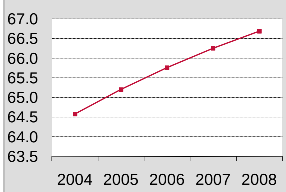
The provision of basic health services is a major form of human capital investment and a significant determinant of the effectiveness of economic growth and poverty reduction strategies. An understanding of the health status of a population can also influence the design of economic recovery interventions. Insecurity, curfews, and restrictions on movement interrupt the supply of drugs and services and hamper the coordination and provision of basic health care in regions suffering from conflict or continuing instability in postconflict conditions. In Nepal, despite the existence of health care volunteers and workers at the village level, the provision of health services is further complicated by isolation in hilly and mountainous regions, and the lack of road networks hinders the expansion of health care services. Nonetheless, the government is committed to improving health and meeting the Millennium Development Goals (MDGs) by 2015, many of which relate directly or indirectly to health.

Life expectancy at birth is commonly regarded as the best overall indicator of the health of a population. In Nepal, life expectancy was 66.7 years of age in 2008 and has improved steadily since 2004, when life expectancy was 64.6 years. The 2008 life expectancy is comparable to Bangladesh's 66.2 years, Tajikistan's 66.7 years, and the LI-Asia median of 64.3 years, and is significantly above the LI median of 56.4 years (Figure 4-1). The improvement in life expectancy can be attributed, in part, to Nepal's relatively high public health expenditure as a percentage of its GDP, reported to be about 5.5 percent (fiscal 2007). This is significantly above the level of all comparators—the LI-Asia median of 2.1 percent; the LI-Asia median of 1.7 percent; Bangladesh's 1.0 percent, and Tajikistan's 1.3 percent.

Figure 4-1
Life Expectancy

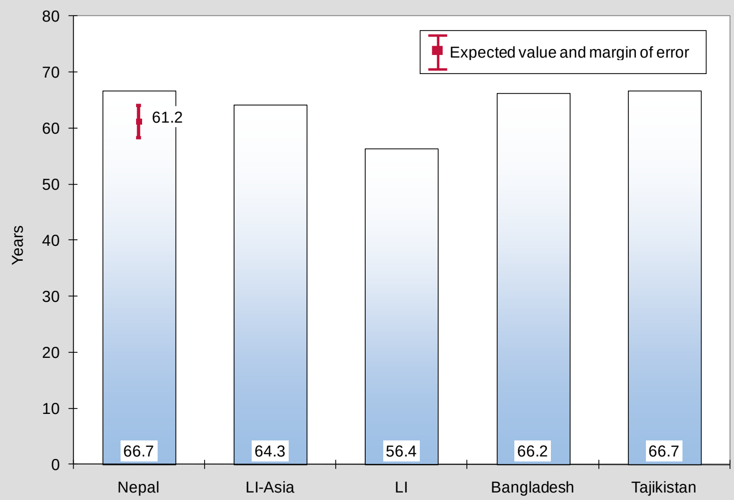
Average life expectancy has increased steadily, but remains low in absolute terms.

Time Series

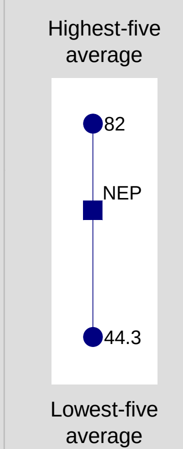


Year	Value
2004	64.6
2005	65.2
2006	65.8
2007	66.3
2008	66.7
Summary for 2004–2008	
Five-year average	65.7
Trend growth rate	0.8

Comparison to Other Countries, Most Recent Year



Global Standing



Source: World Development Indicators, 2010 CAS code: 31P3

Because Nepal has a large youth population, the health of children will especially influence the nation's future economic security and labor force productivity. Nepal's reported child mortality rate of 40.8 deaths per 1,000 live births in 2008 demonstrates clear progress made in this indicator in recent years—the figure in 2005 was 48.1 deaths —a positive trajectory similar to that for life expectancy. Notwithstanding such improvement in child mortality, other child health indicators, notably child nutrition, are less positive. Close to 40 percent of Nepali children are undernourished when measured in weight for age. This is significantly higher than the LI median of 26.3 percent and Tajikistan's 14.9 percent and similar to Bangladesh's 41.3 percent. The high child malnutrition rate is yet more evidence of Nepal's food insecurity problem, which must be addressed in an innovative and sustained manner for the overall health of the population to continue to improve. In the near term, efforts to improve child health care are likely to focus on better and more extensive delivery of preventive services and well-targeted nutritional supplements. Many of these services are being delivered through effective community-based and managed integrated health and nutrition networks aimed at children and increasingly active in all districts of Nepal.

The maternal mortality rate (MMR)—another important indicator of health status—is high for Nepal but improving. Aggregate maternal mortality appears to have declined sharply from 539 maternal deaths per 100,000 live births in 1996 to 281 deaths per 100,000 live births in 2006.[57]

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[57] Thomas C Tsai, Public Health and Peace Building in Nepal, *The Lancet*, August 15, 2009: http://www.thelancet.com/journals/lancet/article/PIIS0140-6736(09)61473-2/fulltext?_eventId=login. This MMR number is derived from a recent Nepal Ministry of Health and Population Demographic and Health Survey, and while the figure is subject to a wide confidence interval, informed observers believe that it is

Despite the improvement, Nepal's MMR is high in absolute terms—significantly higher than Tajikistan's 170 maternal deaths but below Bangladesh's 570 deaths per 100,000 live births. Women's limited access to maternal health care, particularly in rural areas, and chronic malnutrition contribute to the still relatively high MMR numbers. Moreover, Nepal's MMR statistic must be interpreted with caution. Because maternal mortality in remote villages is often undocumented, this statistic may well under-represent the actual MMR in Nepal. Furthermore, as with any national average, this figure masks significant disparity between urban and rural areas, and among the Terai, hill, and mountain zones of Nepal.

Finally, one critical means to achieving broad-based improvement in health status is expanding access to safe drinking water and sanitation facilities. Lack of such access gives rise to waterborne disease: according to the National Demographic and Health Survey of the Ministry of Health and Population, 10,500 children die annually in Nepal because of diarrhea caused mainly by inadequate access to safe water and sanitation.[58] In terms of access to improved water sources, Nepal's record is relatively good: 89 percent of the population, exceeding the medians for LI-Asia (80 percent) and LI (65 percent) and the rates for Bangladesh (80 percent) and Tajikistan (67 percent). But for sanitation, the situation is reversed: only 27 percent of Nepal's population has access to improved facilities, far below the medians for LI-Asia (33 percent) and LI (31 percent) and the rates for Bangladesh (36 percent) and Tajikistan (92 percent). For both water and sanitation, great differences exist between urban and rural populations—45 percent of Nepal's urban dwellers have improved sanitation facilities, while only 24 percent of rural people do.

Health: Potential Postconflict Recovery Priorities

Access to basic health care is fundamental to human well-being and essential for social productivity and economic growth. Sustained improvement in Nepal's health conditions will require commitment to ***significant health spending while ensuring the efficiency of public investments*** in health. Although progress may be complicated by postconflict political instability, all political parties recognize health's importance for development and for increasing government's legitimacy and political support.

- Better and more accessible health care is a widely anticipated part of the postconflict peace dividend. Given Nepal's starkly varying health status conditions by location, meeting these expectations will mean focusing on ***regional and district health posts and health subposts in the most disadvantaged districts*** as an immediate priority. This will involve extending the relatively new community-based health and nutrition management networks.
- Health care delivery networks are weak because of poor road and health facility infrastructure, isolated working conditions in remote districts, and lack of adequate and timely medical and surgical supplies. Strategic investment in ***infrastructure and logistics development*** can have major payoffs in improved health.
- An extremely worrisome issue is ***child malnutrition, which*** is tied up with Nepal's food security challenges. Combating food insecurity through a combination of market-based approaches for raising food output and income-earning

still real and durable. Hence, these numbers, rather than a significantly higher MMR reported in the World Development Indicator database (830 maternal deaths per 100,000 live births), have been adopted for the present analysis.

[58] From Nepal Ministry of Health and Population Demographic and Health Survey (2006) reported in http://www.wateraid.org/documents/plugin_documents/end_water_poverty_campaign_journey_in_nepal.pdf, p. 19.

opportunities for poor families, nutrition education, and stronger emergency food stock safety nets can make visible progress in the near to medium terms.

- Improvement in ***sanitation facilities in urban and rural areas*** can have a major near-term impact on health status, and this can constitute another part of the peace dividend. Community-level efforts engaging local government bodies and mobilizing public and private resources to improve sanitation facilities and raise awareness of sanitation issues will be a central focus.
- Upgrading the technical capacity of national health care systems will mean broad improvement in facilities and health care staff training. This medium- to long-term proposition may benefit from ***innovative public-private partnerships*** to mobilize the financial, institutional, and human resources required. The federal structure of the new Nepal may provide flexibility and incentives to develop such partnerships. Planning for innovation should begin now.

EDUCATION

Like health, education is a fundamental investment in human capital and a basic input for transformational growth and poverty reduction. Education—particularly primary school for girls—is strongly associated with better family health and nutrition, smaller family size, and other profound socioeconomic changes. Expanding education services in a fragile political environment can diminish grievances by reducing historic inequalities and fostering economic opportunities.

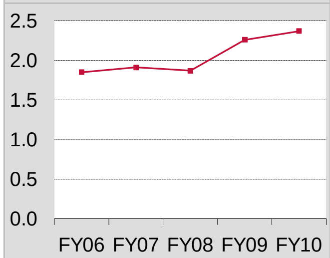
Educational indicators paint a mixed picture of Nepal. Although the net primary enrollment rate for girls has improved steadily, from 72.7 percent in 2003 to 74.2 percent in 2007, the rate for boys decreased from 84.3 percent to 77.9 percent between 2004 and 2007. The decline in boys' net primary enrollment is worrisome and has resulted in a decline in the aggregate net primary enrollment rate—from 78.1 percent in 2003 to 76.1 percent in 2007. Nepal's net primary enrollment rate is low in absolute terms and suggests that almost one-fourth of primary school age children are deprived of opportunities to enroll in school. Furthermore, net primary enrollment rates for Nepal are significantly below those of Bangladesh (90.5 percent for girls and 87.4 percent for boys) and Tajikistan (95.3 percent for girls and 99.0 percent for boys).

Despite the decreasing trend for the overall net primary enrollment rate for both boys and girls, the steadily increasing primary completion rate—which rose 7 percentage points between 2004 and 2008 to reach 78.2 percent—is encouraging. This increase suggests that although boys are lagging in primary enrollment in recent years, more of the children who do enroll—both boys and girls—tend to complete their primary education. This result may be attributable to some extent to the government's concerted effort to improve primary education, which is evident in heightened expenditure on primary education. Between fiscal 2005 and fiscal 2010, public expenditure on primary education increased from 1.9 percent of GDP to 2.4 percent. For fiscal 2010, Nepal's primary education expenditure performance significantly surpassed all comparators—the medians for LI-Asia (1.2 percent) and LI countries (1.7 percent); and the rates for Bangladesh (1.1 percent) and Tajikistan (0.9 percent)—and is a welcome evolution that should help close the large gap between the net primary enrollment rates of Nepal and the comparator countries (Figure 4-2).

Figure 4-2
Public Expenditure on Primary Education, Percent GDP

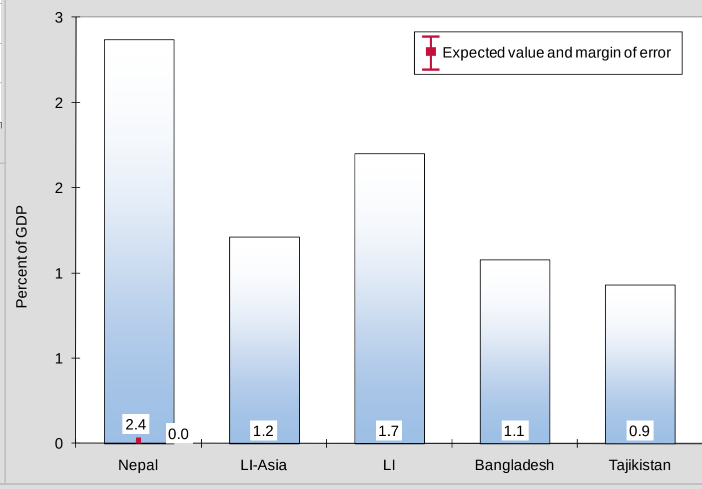
Government is making concerted efforts and investments to improve primary school education.

Time Series

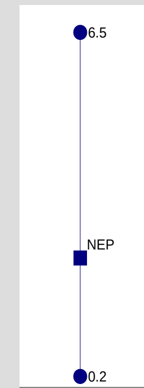


Year	Value
FY2006	1.85
FY2007	1.91
FY2008	1.87
FY2009	2.26
FY2010	2.37
Summary for FY2006-FY2010	
Five-year average	2.1
Trend growth rate	6.6

Comparison to Other Countries, Most Recent Year



Global Standing



Source: Millennium Challenge Corporation Country Scorecards, 2005-2010 CAS code: 32S1

Another variable in Nepal's improved primary completion rates may be the movement toward community management of schools, in which elected local committees accountable to parents run schools, and in the process also involve an array of stakeholders (women's groups, local government, parent-teacher groups). This is a recent and innovative thrust in Nepal's education sector. About 16 percent of public primary schools are now community managed, up from virtually none earlier in the decade, and experience seems to show that such schools significantly increase enrollment, especially for Dalit and Janajati children and for girls, and generally raise completion rates. Community-managed schools are an important part of the government's Education for All Program, designed to expand primary education, particularly among disadvantaged children.

For secondary and tertiary education, Nepal's net enrollment rates are low in absolute terms. For example, a little more than two-fifths of secondary school–aged children were enrolled in school in 2007. Although this compares well with the LI-Asia and LI medians (35.5 percent and 28.5 percent, respectively) and is roughly equal to Bangladesh's 41.5 percent, Tajikistan's strong 82.5 percent secondary school enrollment represents an ambitious goal for Nepal to strive for.

The gross tertiary enrollment rate for Nepal, although low at 11.3 percent, is still better than that of all comparators (the medians for LI-Asia, at 5.1 percent and for LI countries, at 2.3 percent; and Bangladesh's 7.0 percent) save Tajikistan's 20.2 percent. It is encouraging that the gross tertiary enrollment rate for Nepal has increased significantly: by more than 6 percentage points in just five years since 2003, when the rate was 4.9 percent. Nepal has six universities—Tribhuvan University, Nepal Sanskrit University, Kathmandu University, Pokhara University, Purbanchal University, and the Lumbini University. In May 2010, the Parliament unanimously approved three bills for the establishment of three more universities—Far Western University, Mid-Western University, and Agriculture and Forest Science University—which should encourage more Nepalese to enroll and attain a tertiary education.

Educational enrollment rates, public expenditure on education and various other indicators, however, may not reliably depict the quality of education offered. For example, reported youth literacy rates are reasonably high for Nepal – 80.8 percent of Nepali youth were literate in 2008, compared to 74.4 percent in Bangladesh and 77.8 percent for the LI median – but because definitions of literacy are highly variable among nations this is not a sign that Nepalis necessarily receive higher-quality instruction than Bangladeshis. Perhaps a better proxy for assessing the quality of education is the pupil-teacher ratio, which offers insight into the level of attention a teacher can devote to each student. In Nepal, the average pupil-teacher ratio in 2008 was about 38 pupils per teacher. Although this is better than the LI-Asia median (41 pupils), the LI median (45 pupils); and the ratio for Bangladesh (44 pupils), it compares badly with Tajikistan's ratio of about 23 students per teacher. Of course, again, national aggregate educational attainment indicators belie substantial regional and ethnic differences. According to the Department of Education 2003 statistics, the ratio of pupils to teachers was most favorable (lowest) in the Central and Western Development Regions and highest in the Mid-Western and Far Western Development Regions.

Education: Potential Postconflict Recovery Priorities

The government has been trying to ***improve and expand education infrastructure and services for equitable access*** to learning opportunities. Its Education for All program—National Plan of Action (2001–2015) and the Secondary Education Support Program (2003–2008), among others, are key mechanisms for achieving this goal, with assistance from the ADB, AusAID, DFID, and other donors. Such efforts will have to be supplemented with private sector investments in the most rural and remote parts of the country.

- As with health care, provision of education for remote and rural villages will require ***extending the nation's network of school and facilities infrastructure***. Many school buildings were reportedly destroyed in the conflict and will have to be rebuilt. Grants can be channeled to local government and communities for this purpose and have the benefit of creating local jobs.
- Another short-term priority is to provide ***equitable access to education for all ethnic, caste, and gender groups***. This will require public campaign programs, raising awareness, and providing marginalized communities with incentives to send their children to school instead of engaging them in work. Community-managed schools can have a major impact on increasing enrollment and completion rates among disadvantaged groups.
- In the short term, ***adult literacy programs and youth training after school*** may help to enhance average community educational attainment and enable participants to engage more productively in economic activities.
- A major challenge for rural schools is the ***retention of qualified teachers***. Staff training and professional development programs, salary or non-salary incentives, and other methods to retain teachers—especially in remote rural regions—will have to be devised.
- A large gap exists in the ***quality of education between private and public schools***. In the long term, the government cannot just provide school facilities but must also institute mechanisms to ensure that the quality of education is acceptable in all schools, both public and private. This will mean major teacher training and retraining efforts.

EMPLOYMENT AND WORKFORCE

The most important and immediate mechanism for delivering the benefits of growth to postconflict economies is to provide increased and enhanced earning opportunities, whether in informal activities, self-employment, or formal jobs. Unemployment and underemployment depress incomes, which limit effective demand, and in a vicious cycle, reduce economic activity. In Nepal, a lack of employment opportunities, particularly for youth, may fuel further civil unrest and has resulted in the migration of an increasing number of youths outside the country in search of jobs and economic possibilities. Job creation must therefore be a cornerstone to any sustained approach to Nepal's postconflict reconstruction as well as a longer-term economic development strategy to harness and optimize productive human capital.

Nepal's labor force participation rate in 2007 was reported to be 71.5 percent—the same as the LI-Asia median and similar to the LI median (71.7 percent), and to the rate for Bangladesh (70.6 percent), but higher than that of Tajikistan (65.8 percent in 2008). Based on a five-year trend, labor force participation has been stable, increasing only by about 0.25 percent annually. Within the labor force, the absence of regular labor force surveys makes pinning down the unemployment rate for Nepal difficult. In recent years, estimates have varied from a low of 8.8 percent (2001)[59] to as high as 46 percent (2008).[60] No matter what the rate of unemployment might be, there is consensus that underemployment—characterized by less than 20 hours of work per week—is widespread and persistent in Nepal. In 2003, about 15.4 percent of male workers and 25.7 percent of female workers were reported underemployed.[61] These numbers have serious implications. Between 2004 and 2008, the average annual growth rate of Nepal's labor force was relatively high: 3.1 percent and was 3.3 percent in the most recent reporting year (2008). This compares to the LI-Asia and LI medians of 2.4 percent and 3 percent, respectively, and to Bangladesh's 2.2 percent; it is exceeded only by Tajikistan's 3.8 percent (Figure 4-3).

With a large proportion of population entering the labor force each year—at least 300,000 new entrants annually—Nepal's economy is hard pressed to absorb these newcomers. Hence, the high rate of reported outmigrants for overseas employment. Outmigration began to grow very substantially with the rise in the insurgency, and has climbed very sharply since. Not counting at least one million labor migrants to India, Nepali outmigrants to the Middle East and elsewhere can be estimated to be roughly 270,000 workers at an annualized rate,[62] but data are admittedly very unreliable. However, there is evidence that the rate of outmigration is slowing (see Demography and Environment), which has grave implications for the stability of the economy (see External Sector).

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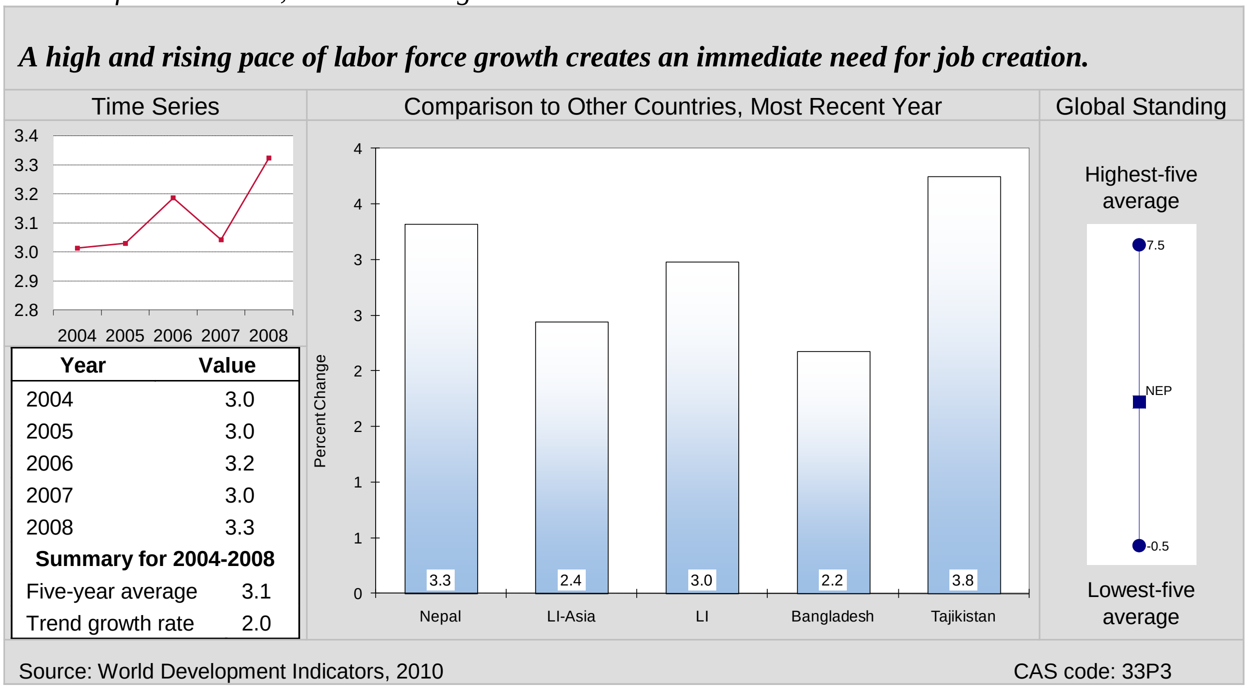
[59] World Bank, 2010: http://data.worldbank.org/country/nepal

[60] CIA World Factbook, 2010: https://www.cia.gov/library/publications/the-world-factbook/geos/np.html

[61] ADB, DFID, and ILO, *Nepal Critical Development Constraints*, 2009, p. 28.

[62] *República* newspaper (April 18, 2010) reports that in the nine months of fiscal 2009/2010, Department of Foreign Employment data show 202,795 workers left for overseas jobs, an 18.2 percent increase over the same period in the previous year. http://www.myrepublica.com/portal/printable_news.php?news_id=17630. Annualized, this is equivalent to about 270,000 workers.

Figure 4-3
Growth of Labor Force, Percent Change



Year	Value
2004	3.0
2005	3.0
2006	3.2
2007	3.0
2008	3.3
Summary for 2004-2008	
Five-year average	3.1
Trend growth rate	2.0

Despite the pressing need to expand employment at a pace faster than the rate of growth of the labor force, labor laws in Nepal incorporate some highly rigid provisions that significantly hinder job creation. Indeed, the World Bank's Rigidity of Employment Index—a measure of labor market rigidities in terms of difficulty of hiring and firing workers and in flexibility of regulations governing workweek hours, overtime and leave restrictions—scores Nepal at 46 compared to the LI-Asia median of 24, LI median of 31, Bangladesh's 28, and Tajikistan's 49 (The index ranges from 0 for minimum rigidity to 100 for maximum rigidity). (Figure 4-4) Specifically, Nepali businesses pay an average of 90 weeks of salary in redundancy costs to seasonal workers, who are required by law to be paid at 25 percent of full-time work during off-season periods, compared to the South Asian average of 75.8 weeks of salary.[63] Moreover, a lack of accountability and increasingly militant unionism, often with affiliations with political parties—among both workers and employers—aggravate the problem. Rigidity in labor regulations encourages informality in business operations, which depresses government tax revenue and disadvantages informal business by restricting their access to credit and other business development and ancillary services. The 2009 World Bank Enterprise Survey reports that over 90 percent of firms in Nepal begin operations without registration—an indicator of informality.[64]

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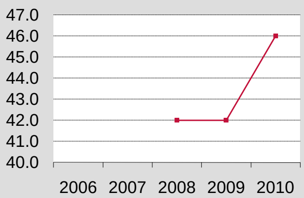
[63] World Bank, Doing Business 2010.

[64] http://www.enterprisesurveys.org/documents/EnterpriseSurveys/Reports/Nepal-2009.pdf, p.10.

Figure 4-4
Rigidity of Employment Index

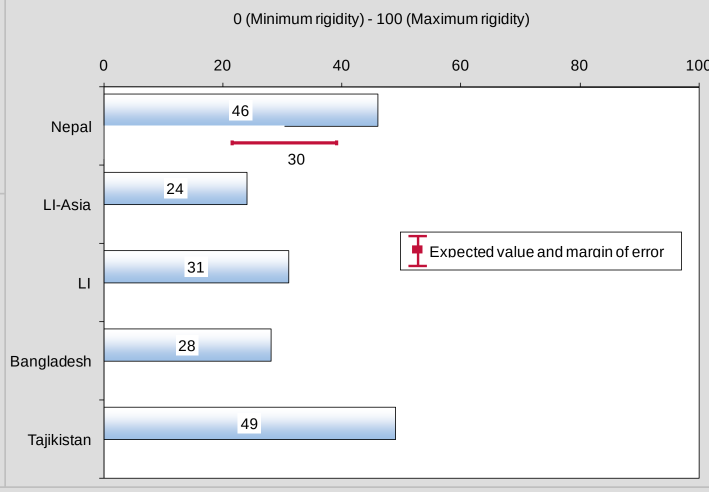
Rigid labor regulations are one of the primary bottlenecks to private sector development in Nepal.

Time Series



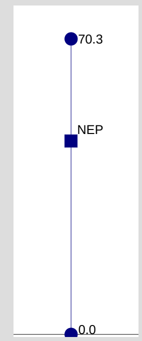
Year	Value
2006	.
2007	.
2008	42
2009	42
2010	46
Summary for 2006-2010	
Five-year average	.
Trend growth rate	.

Comparison to Other Countries, Most Recent Year



Global Standing

Highest-five average



Lowest-five average

Source: World Bank, Doing Business Indicators, 2005-2010 CAS code: 33P2

Moreover, in Nepal's volatile political environment, inflexible labor regulations have been a major factor in inflaming the poor state of industrial relations, leading to strikes and other labor actions. They have also been a huge disincentive for both management and labor unions to try to negotiate pragmatic solutions to investment, cost, and productivity problems that hold back competitiveness in the enterprise sector. Recognizing the disadvantages of such restrictive labor laws, the government is working with the ILO to revise and reform the legal and regulatory framework for labor. Such reforms will be important for creating a more favorable labor climate for Nepal and ultimately for accelerating private sector development and generating jobs and broad-based economic growth.

Labor and Workforce: Potential Postconflict Recovery Priorities

Providing *opportunities for employment and productive economic activity* for all Nepalis is the most certain way to ensure the nation's peaceful progress in postconflict recovery. With Nepal's growing population and a large proportion of youth, rapid job creation is essential—all the more so if the labor outmigration enters a sustained slowdown.

- The most pressing need for Nepal is *job creation for youth* to ensure social tranquility. Also, integration of ex-Maoist fighters into the Nepal Army or the regular workforce will be important to provide opportunities to those who were directly involved in armed conflict.
- In the interim environment where the private sector is hesitant to employ more workers, initiatives to *create large-scale mass employment* are a priority. Significant employment can be developed in rural areas through much-needed infrastructure projects and grant-funded local government and community-based programs.
- Because a large proportion of youth migrate overseas for employment, *workforce development programs* to upgrade skills may be worthy of immediate support. This can be productive for both labor outmigrants and Nepal's domestic workforce.

- In the long run however, Nepal's ***rigid labor laws and regulations*** that hinder increased private sector employment must be addressed. Reforms will have to be based on best practices and enlist the support of both labor and management stakeholders. Reform is extremely difficult in the present, highly charged political climate, but the reform process—analysis and dialogue—must be initiated as soon as possible and accelerated when the new constitution and structure of government are implemented.

AGRICULTURE

Nepal is a rural, agrarian society. Raising output and incomes in the agricultural sector is therefore fundamental to the nation's future, not only in terms of immediate postconflict recovery, but also for long-range development of the economy. Making agriculture more productive is especially crucial to creating pro-poor inclusive growth for Nepal: although agriculture generates about one-third of total value-added nationally and accounts for about two-thirds of total employment, in the poorer and more remote Mid-Western and Far-Western development regions, agriculture generates about one-half of value-added and three-quarters of employment. Moreover, agricultural activity is the lifeline of poor households generally, as about two-thirds of Nepal's poor are self-employed in agriculture and another 11 percent are agricultural wage earners.

Nepal has real agricultural potential. Endowed with ecological diversity, spanning the Himalayan mountain ranges bordering China on the north to the fertile plains of the Terai belt in the south, Nepal's agro-climatic environment is suitable for a range of cultivations—grain crops along the Terai belt, high-altitude Arabica coffee in the hills; specialty herbs, nonforest timber products and off-season vegetables and fruits in the hills and mountains; and specialty organic tea in the east. But achieving this potential in agriculture will be difficult: some constraints in the rural sector are systemic and longstanding, while others have been intensified by the economic disruptions of 10 years of insurgency, much of it waged in poor rural areas.

Most of Nepal's agriculture is near-subsistence. No more than about 15 percent of output is commercialized. Landholdings are typically small, on average about 0.8 ha, but almost half of Nepali farms are less than 0.5 ha.[65] Low input-low output farming systems are the typical pattern, with a concentration on water-intensive cereal crops: paddy rice, maize, and wheat, which together account for about 82 percent of the cultivated area. Potatoes, pulses, sugarcane, vegetables, and fruits are other crops, and subsistence livestock enterprise (dairy, poultry, sheep, and pigs) is also common. Pulses and spices are smallholder exports.

Agricultural sector output has been increasing slowly. The index of crop production (1999/2001 = 100) stood at 118 in fiscal 2008, indicating an expansion of output averaging about 1.5 percent per year over the past five years. This index value exceeded that of most comparators for the reporting year—the LI-Asia median (114), the LI median (108), and Bangladesh (114)—except Tajikistan (156). But production tends to be very volatile, because Nepal's agriculture is heavily dependent on rainfall—only about 44 percent of suitable land is irrigated—and because the farm

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[65] http://www.cbs.gov.np/Agriculture/Agricultural%20Monograph%20Final/Chapter02.pdf

sector regularly suffers droughts and floods. For example, after a relatively good crop in fiscal 2008, severe drought and unseasonal rains have depressed the production of rice, maize, and wheat, together about 35 percent of all output. Rice alone, Nepal's biggest crop, is expected to decline by 11 percent in fiscal 2010.[66]

A pace of agricultural growth that is below the rate of population increase and erratic harvests due to adverse weather events and heavy postharvest losses mean that Nepal suffers from chronic food deficits, particularly for the rice and the other grains that are staples of the diet. The result has been serious food price inflation in recent years—currently running at over 18 percent per year—and widespread food insecurity. Nepal now ranks 55th of 84 countries on the Global Hunger Index with a score of 19.8, a severity-of-hunger rating on the border between "serious" and "alarming" (Tajikistan, 18.5; Bangladesh, 24.7).[67] Moreover, sharp regional differences exist: over 22 percent of the population in the Mid-Westernand Far-Western Hills and Mountain Development Regions is food insecure, with 450,000 people judged "highly" or "severely" food insecure by the World Food Program.[68] Poor rural families are hardest hit by the situation and respond by selling livestock and other household assets, and outmigrating to urban areas and India for work.

The key to agricultural growth and easing food insecurity is to raise productivity. Present yields for rice (2.8 MT/ha) and for wheat (2.2 MT/ha) are low, well under Asian averages for these crops (rice: 6 MT/ha; and wheat, 4.3 MT/ha).[69] Nepal's value -added per agricultural worker—labor productivity in the sector—is now about $240 (2000 constant dollars) and has been stagnant for several years. This figure is slightly higher than the LI median ($237) but lower than the LI-Asia median ($314), and is only 57 percent and 44 percent of value added per agricultural worker in Bangladesh and Tajikistan, respectively (Figure 4-5). The reasons for poor land and labor productivity are well known: little use of improved seeds and other inputs; poor technology and management practices; lack of practical agricultural research and extension for small and marginal farmers; inadequate infrastructure (roads, communications, and irrigation); and isolation of subsistence farmers from functioning market systems, including credit, information, logistics, and standards. The conflict, which destroyed infrastructure, disrupted markets, and prompted many young agricultural workers to flee the countryside, has simply intensified the challenge of building productivity for Nepal's agriculture.

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66 World Bank, Nepal Economic Update (April 2010), p. 2.

67 International Food Policy Research Institute's calculations of the Global Hunger Index for 2009, http://www.ifpri.org/sites/ default/files/publications/ghi09.pdf, p. 13.

68 World Food Program, Nepal Food Security Situation, Issue 27, January–March 2010.

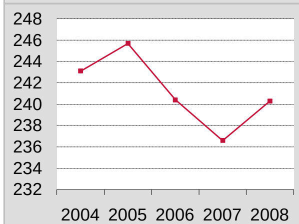
69 ADB, DFID, ILO, Nepal Critical Development Constraints (2009), p. 40.

Figure 4-5

Agriculture Value Added per Worker

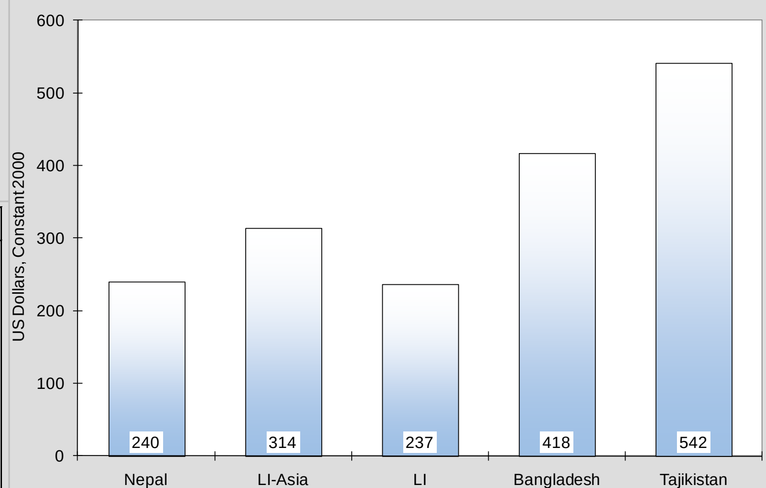
Improvements in technology, infrastructure and market systems are needed to raise Nepal's severely lagging agricultural productivity.

Time Series



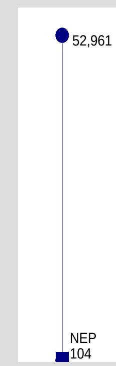
Year	Value
2004	243
2005	246
2006	240
2007	237
2008	240
Summary for 2004–2008	
Five-year average	241
Trend growth rate	-0.6

Comparison to Other Countries, Most Recent Year



Global Standing

Highest-five average



Lowest-five average

Source: World Bank, Doing Business Indicators, 2005-2010

CAS code: 34P1

Agriculture: Potential Postconflict Recovery Priorities

The difficulties of the sector notwithstanding, Nepal has clear opportunities for action that—properly executed—could begin to encourage the investment and innovation that is required to get agriculture moving. In the postconflict period, such actions should be undertaken on a variety of fronts, but targeted to the *geographical zones and populations most affected by the insurgency*. The immediate successes achieved would lay the foundation for agriculture's long-term growth.

- Diverse topology and varied agro-climatic zones provide comparative advantages to produce an array of *high-value crops*, including fruits, vegetables, spices, tea, and coffee, not to mention nontimber forest products such as medicinal plants and essential oils. These crops offer good possibilities for diversification away from grain staples.
- Proven *technology and infrastructure development* initiatives can begin to address productivity problems in agriculture. These include promotion of simple agricultural technologies accessible to small farmers—microirrigation, treadle pumps, and the like—plus community-based projects for rural roads, micro-hydro, and market facilities.
- Significant *export markets* exist in India, Bangladesh, and overseas for many of these high-value crops. Organization of the production and marketing of such items in dependable, high-quality commercial volumes that can meet sanitary-phytosanitary standards is the key, and finding ways to do so would rapidly begin to pay dividends.
- Strengthening *institutions for agriculture*, in both the private and public sectors and often in partnership, will stimulate output and efficiency. On the private side, this will include strengthening value chains with embedded supply of inputs, appropriate agro-credit products, and effective marketing organizations, and on the public side it will include building up research, extension, and training for small farmers
- Modernizing the *policy and regulatory framework* for agriculture will be necessary to reinforce incentives for productivity. Analysis and reform of agricultural trade policies, subsidy policies (e.g., fertilizer) and of regulatory measures concerning food quality and safety standards and the institutions to implement them are urgently called for.

Appendix A. CAS Methodology

CRITERIA FOR SELECTING INDICATORS

The economic recovery evaluation in this report balances the need for broad coverage and diagnostic value with the requirement of brevity and clarity. The analysis covers 15 topics related to economic growth 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 and which suggest priorities for USAID intervention. The table below provides a full list of indicators examined for this report. The data supplement in Appendix B contains the complete data set for Nepal, including data for benchmark comparisons, and technical notes for every indicator.

For each topic, our analysis begins with a screening of *primary performance indicators*. These Level I indicators are selected to address the questions: What are the factors affecting economic growth? What are the economic performance obstacles to peace? How intense is or was the conflict? How delicate is the situation? The primary indicators also include descriptive variables such as per capita income, structure of the labor force, and youth bulge.

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.[70] For example, if economic growth is poor, one can examine data on investment and disarmament and demobilization as diagnostic indicators. If life expectancy is low in a particular country, one can examine determinants such as access to improved sanitation or refugees and internally displaced persons per capita following the conflict.[71]

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

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[70] The distinction between *primary* and *diagnostic supporting indicators* is not always clear cut. In many cases, it is difficult to find readily available discerning and broadly applicable diagnostic indicators.

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

Millennium Challenge Corporation. Finally, redundancy is minimized. If two indicators provide similar information, preference is given to one that is easier to understand or that is most widely used. For example, both the Gini coefficient and the share of income accruing to the poorest 20 percent of households can be used to gauge income inequality. We use the income share because it is simpler and more sensitive to changes.

BENCHMARKING METHODOLGY

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 the country being assessed relative to the average for countries in the same income group and region—for Nepal, low-income countries in Asia.[72] Three other comparisons provide additional perspective: (1) the global average for the income group; (2) respective values for two comparator countries approved by the USAID mission; and (3) the average for the world's five best- and five worst-performing countries. 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.[73] In many cases, however, data limitations preclude time series analysis.

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.[74] This approach has three advantages. First, the benchmark is customized to the country's 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 characteristics similar to those of the country being assessed. An observed value falling outside this band on the side of poor performance signals a serious problem.[75] Finally, where relevant, the country's performance is weighed against absolute standards. For example, a double-digit inflation rate is a sign of macroeconomic problems, regardless of the regional comparisons or other benchmark results.

[72] Income groups as defined by the World Bank for 2008. For this study, the average is defined in terms of the median so that values are not distorted by outliers.

[73] 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 diverge from the underlying trend.

[74] 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 the Angola is computed by plugging in Angola-specific values for PCI and Region. Where applicable, the regression also controls for population size and petroleum exports (as a percentage of GDP).

[75] This report uses a margin of error of 0.68 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.

POSTCONFLICT CAS INDICATORS

Indicator	Level [a]	MDG, MCA, EcGov, CAS std [b]
Profile of Conflict and Recovery		
Failed State Index score	I	
Episode of significant violence, highest magnitude in previous 10 years	I	
Type of conflict, highest magnitude in previous 10 years	I	
Magnitude of societal-systemic impact, highest magnitude in previous 10 years	I	
Disarmament, demobilization and reintegration	II	
Human Rights Index	II	
Refugees and IDPs per capita	II	
Postconflict Economic Growth		
Per capita GDP, $PPP	I	CAS std, I
Real GDP growth	I	CAS std, I
Gross fixed investment, % GDP	II	CAS std, II
Poverty and Inequality		
Income share, poorest 20%	I	CAS std, I
Population living on less than $1.25 PPP per day	I	MDG; CAS std, I
Population living below national poverty line	I	MDG; CAS std, I
Human Poverty Index	I	
Population below minimum dietary energy consumption	II	MDG; CAS std, II
Economic Structure		
Output structure	I	CAS std, I
Labor force structure	I	CAS std, I
Adjusted savings: energy depletion, % GNI	II	
Adjusted savings: mineral depletion, % GNI	II	
Demography and Environment		
Adult literacy rate	I	CAS std, I
Youth dependency rate	I	CAS std, I
Youth bulge	I	
Environmental performance index	I	CAS std, I
Population growth rate	I	CAS std, I
Rural population density	I	
Percentage of population living in urban areas	I	CAS std, I
Frequency and scope of natural disasters	II	
Net migration rate	II	

Indicator	Level [a]	MDG, MCA, EcGov, CAS std [b]
Gender and Children		
Gender empowerment measure	I	
Girls' primary completion rate	I	MCA; CAS std, I
Gross enrollment rate, all levels of education, male and female	I	MDG; CAS std, I
Life expectancy, male and female	I	CAS std, I
Labor force participation rate, male and female	I	CAS std, I
Internally displaced females, per capita	II	
Use of child soldiers, government and political groups	II	
Economic Stabilization and Government Capacity		
Government Effectiveness Index	I	
Government expenditure, % GDP	I	EcGov; CAS std, I
Government revenue, % GDP	I	EcGov; CAS std, I
Money supply growth	I	EcGov; CAS std, I
Inflation rate	I	MCA; CAS std, I
Overall govt. budget balance, including grants, % GDP	II	MCA, EcGov; CAS std, I
Interest payments and total govt. expenditure	II	CAS std, II
Subsidies and other current transfers and total govt. expenditure	II	CAS std, II
Institutional capacity	II	
Business Environment		
Control of corruption index	I	CAS std, I
Rule of law index	I	MCA, EcGov; CAS std, I
Voice and accountability	I	
Ease of doing business rank	I	EcGov; CAS std, I
Time to start a business	II	MCA; EcGov; CAS st, II
Procedures to start a business	II	EcGov; CAS std, II
Cost of starting a business, % GNI	II	MCA; EcGov; CAS std, II
Time to enforce a contract	II	EcGov; CAS std, II
Procedures to enforce a contract	II	EcGov; CAS std, II
Cost to enforce a contract, % claim	II	
Time to register property	II	EcGov; CAS std, II
Financial Sector		
Domestic credit to private sector, % GDP	I	CAS std, I
Interest rate spread	I	CAS std, I
Money supply, % GDP	I	CAS std, I
Real Interest rate	II	CAS std, II
Banking sector default rates	II	

Indicator	Level [a]	MDG, MCA, EcGov, CAS std [b]
External Sector		
Aid , % GNI	I	CAS std, I
Current account balance, % GDP	I	CAS std, I
Debt service ratio, % exports	I	MDG; CAS std, I
Export growth of goods and services	I	CAS std, I
Foreign direct investment, % GDP	I	CAS std, I
Gross international reserves, months of imports	I	EcGov; CAS std, I
Present value of debt, % GNI	I	CAS std, I
Remittance receipts, % exports	I	CAS std, I
Concentration of exports	I	CAS std, II
Logistics Performance Index—customs	II	
Trade in goods and services, % GDP	II	CAS std, I
Real effective exchange rate (REER)	II	EcGov; CAS std, II
Country credit rating	II	
Economic Infrastructure		
Logistics Performance Index—infrastructure	I	
Number of electrical outages (per month)	I	
Telephone density, fixed line and mobile per 100	I	CAS std, I\
Internet users per 100 people	II	MDG; CAS std, I
Roads paved, % total roads	II	CAS std, II
Percentage of households with access to electricity	II	
Overall infrastructure quality	II	EcGov; CAS std, I
Quality of infrastructure— air, ports, railroads, electricity, and roads	II	CAS std, II
Health		
Child mortality rate (per 1,000 live births)	I	
Maternal mortality rate (per 100,000 live births)	I	MDG; CAS std, I
Life expectancy at birth	I	CAS std, I
HIV prevalence	II	CAS std, I
Access to improved sanitation	II	MDG; CAS std, II
Access to improved water source	II	MDG; CAS std, II
Prevalence of child malnutrition (weight for age)	II	CAS std, II
Public health expenditure, % GDP	II	MCA, EcGov; CAS std, II
Education		
Net primary enrollment rate	I	MDG; CAS std, I
Net secondary enrollment rate	I	CAS std, I
Gross tertiary enrollment rate	I	CAS std, I
Primary completion rate	I	MDG; CAS std, I
Youth literacy rate	I	CAS std, I
Education expenditure, primary, % GDP	II	MCA, EcGov; CAS std, II
Pupil-teacher ratio, primary school	II	CAS std, II

Indicator	Level [a]	MDG, MCA, EcGov, CAS std [b]
Employment and Workforce		
Labor force participation rate	I	CAS std, I
Rigidity of employment index	I	EcGov; CAS std, I
Economically active children, % children 7–14	I	CAS std, I
Unemployment rate, 15–24 year olds	I	
Informal sector employment, % labor force	II	
Agriculture		
Agriculture value added per worker	I	CAS std, I
Crop production index	II	EcGov; CAS, std, II
Agricultural export growth	II	CAS, std, II

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

b *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;
CAS std –Standard CAS template indicator for template version, December 2006.

Appendix B. Data Supplement

This 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.

		Conflict Conditions and Political Stability							
	Statistical Capacity Indicator, 0 (Doesn't meet criteria) - 100 (Meets all criteria)	**Failed States Index Score,**	**Episode of significant violence, highest magnitude in previous 10 years,**	**Type of conflict, highest magnitude in previous 10 years,**	**Magnitude of societal-systemic impact, highest magnitude in previous 10 years,**	**Disarmament, Demobilization and Reintegration,**	**Human Rights Index, 5 (best) - 25 (worst)**	**Refugee and IDPs per Capita,**	**Institutional Capacity, 1 (Worst) to 5 (Best)**
Indicator Number	**01P1**	**11P1**	**11P2**	**11P3b**	**11P4**	**11S1**	**11S2**	**11S3**	**11S4**
Nepal Data									
Latest Year (T)	*2008*	*2009*		*2006*	*2006*		*2008*	*2009*	*2009*
Value Year T	*72*	*95.4*	*1996-2006*	*CW*	*2.0*	*yes*	*4.0*	*0.6*	*10*
Value Year T-1	*76*	*94.2*					*4.0*		*10*
Value Year T-2	*78*	*93.6*					*5.0*		*11*
Value Year T-3	*76*	*95.4*					*5.0*		
Value Year T-4	*72*						*5.0*		
Average Value, 5 year	*74.8*						*4.6*		
Growth Trend	*0.0*						*-6.7*		
Benchmark Data									
Regression Benchmark	*65.8*								
Lower Bound	*59.4*								
Upper Bound	*72.2*								
Latest Year Bangladesh	*2008*	*2009*		*1992*	*1992*		*2008*		*2009*
Bangladesh Value Latest Year	*65*	*98.1*	*1975-1992*	*EW*	*2.0*	*no*	*4.0*		*8*
Latest Year Tajikistan	*2008*	*2009*		*1998*	*1998*		*2008*		*2009*
Tajikistan Value Latest Year	*77*	*90.3*	*1992-1998*	*CW*	*3.0*	*no*	*3.0*		*11*
LI - Asia	*69.5*	*96.2*					*4.0*		
LI	*57.5*	*91.8*					*3.0*		
High Five Avg.	*91.1*	*111.7*					*4.9*		
Low Five Avg.	*24.6*	*19.4*					*1.0*		

	Economic Growth				Poverty & Inequality				
	Per capita GDP (PPP), U.S. Dollars (PPP)	Real GDP Growth, Percent change	Gross Fixed Investment, Percent GDP	Investment Productivity, Incremental Capital-Output Ratio (ICOR), Ratio, Capital investment : GDP growth	Income Share, Poorest 20%, Percent	Population Living on Less Than $1.25 PPP per Day, Percent	Poverty Headcount, National Poverty Line, Percent	Human Poverty Index, 0 (no deprivation) - 100 (high deprivation)	Population Below Minimum Dietary Energy Consumption, Percent
Indicator Number	12P1	12P2	12S1	12S2	13P1	13P2	13P3	13P4	13S1
Nepal Data									
Latest Year (T)	*2009*	*FY2009*	*FY2009*	*2008*	*2004*	*2004*	*2004*	*2007*	*2004*
Value Year T	1,205	4.7	21.2	5.1	6.1	55.1	30.8	32.1	15.0
Value Year T-1	1,149	5.3	21.1	5.4				38.1	
Value Year T-2	1,078	3.3	20.4	6.4					17.0
Value Year T-3	1,024	3.7	20.7	5.9				38.1	
Value Year T-4	969	3.1	19.9	5.0				38.7	
Average Value, 5 year	1,085	4.0	20.7	5.6					
Growth Trend	5.5		1.4	-0.6					
Benchmark Data									
Regression Benchmark		7.0	25.2		7.6	44.9	44.2	24.0	29.2
Lower Bound		5.4	21.2		6.8	40.5	38.3	18.4	23.2
Upper Bound		8.6	29.2		8.3	49.3	50.1	29.7	35.1
Latest Year Bangladesh	*2009*	*2008*	*2008*	*2008*	*2005*	*2005*	*2005*	*2007*	*2004*
Bangladesh Value Latest Year	1,465	6.2	24.2	3.9	9.4	49.6	40.0	36.1	27.0
Latest Year Tajikistan	*2009*	*2008*	*2008*	*2008*	*2004*	*2004*	*2007*	*2007*	*2004*
Tajikistan Value Latest Year	2,104	7.9	19.3	2.0	7.8	21.5	53.5	18.2	34.0
LI - Asia	1,575	7.6	28.1	4.2				34.7	25.5
LI	1,054	6.2	20.9	4.2				38.4	33.0
High Five Avg.	52,904	15.7	47.9	112.5	10.0	57.8	58.8	56.0	67.0
Low Five Avg.	517	-1.2	8.8	-11.3	2.7	2.0	13.6	2.3	2.5

	Economic Structure					
	Output structure (Agriculture, value added), Percent GDP	**Output structure (Industry, value added), Percent GDP**	**Output structure (Services, etc., value added), Percent GDP**	**Labor Force Structure (Employment in agriculture), Percent**	**Labor Force Structure (Employment in industry), Percent**	**Labor Force Structure (Employment in services), Percent**
Indicator Number	**14P1a**	**14P1b**	**14P1c**	**14P2a**	**14P2b**	**14P2c**
Nepal Data						
Latest Year (T)	*2008*	*2008*	*2008*	*2001*	*2001*	*2001*
Value Year T	*33.7*	*16.7*	*49.6*	*65.7*	*13.4*	*20.1*
Value Year T-1	*33.5*	*17.1*	*49.4*			
Value Year T-2	*34.6*	*17.2*	*48.2*			
Value Year T-3	*36.3*	*17.7*	*46.0*			
Value Year T-4	*37.2*	*17.9*	*45.0*			
Average Value, 5 year	*35.1*	*17.3*	*47.6*			
Growth Trend	*-2.8*	*-1.7*	*2.7*			
Benchmark Data						
Regression Benchmark	*29.1*	*28.2*	*39.7*	*64.0*	*12.5*	*25.0*
Lower Bound	*24.7*	*23.2*	*34.0*	*57.6*	*10.2*	*19.1*
Upper Bound	*33.6*	*33*	*45.5*	*70.4*	*14.8*	*30.9*
Latest Year Bangladesh	*2008*	*2008*	*2008*	*2005*	*2005*	*2005*
Bangladesh Value Latest Year	*19.0*	*28.5*	*52.5*	*48.1*	*14.5*	*37.4*
Latest Year Tajikistan	*2008*	*2008*	*2008*	*2004*	*2004*	*2004*
Tajikistan Value Latest Year	*18.0*	*22.9*	*59.0*	*55.5*	*17.9*	*26.2*
LI - Asia	*33.4*	*27.4*	*39.6*			
LI	*32.0*	*24.9*	*44.6*			
High Five Avg.	*54.3*	*77.2*	*84.4*			*80.5*
Low Five Avg.	*0.3*	*9.8*	*18.1*			*24.3*

	Demography & Environment									
	Adult Literacy Rate, Percent	Youth Dependency Rate, Ratio Youth : Working Age Population	Youth Bulge, Percent 15-24 of total	Environmental Performance Index, 0 (Very poor performance) - 100 (Very good performance)	Population Size, Million	Population Growth, Annual percent change	Rural population density, Population per sq. km of arable land	Population Living in Urban Areas, Percent	Frequency of natural disasters, Disasters	Scope of natural disasters, People affected per 1,000 population
Indicator Number	**15P1**	**15P2**	**15P3**	**15P4**	**15P5a**	**15P5b**	**15P6**	**15P7**	**15S1a**	**15S1b**
Nepal Data										
Latest Year (T)	*2008*	*2008*	*2009*	*2010*	*2008*	*2008*	*2007*	*2008*	*2007*	*2007*
Value Year T	*57.9*	*63.3*	*21.4*	*68.2*	*28.8*	*1.8*	*999.0*	*17.2*	*1.0*	*222.5*
Value Year T-1		*65.0*	*21.0*		*28.2*	*1.9*	*986.0*	*16.8*	*0.0*	*0.0*
Value Year T-2		*66.6*	*20.7*	*72.1*	*27.8*	*2.0*	*972.5*	*16.3*	*0.0*	*0.0*
Value Year T-3		*68.1*	*20.4*		*27.2*	*2.0*	*958.4*	*15.8*	*1.0*	*294.1*
Value Year T-4		*69.5*	*20.1*	*60.2*	*26.7*	*2.1*	*943.8*	*15.3*	*0.0*	*0.0*
Average Value, 5 year		*66.5*	*20.7*		*27.7*	*2.0*	*971.9*	*16.3*	*0.4*	*103.3*
Growth Trend		*-2.4*	*1.5*		*1.9*		*1.4*	*3.0*		
Benchmark Data										
Regression Benchmark	*69.0*	*36.5*					*710.8*	*22.5*		
Lower Bound	*57.8*	*34.3*					*384.1*	*15.1*		
Upper Bound	*80.2*	*38.6*					*1,037.6*	*30.0*		
Latest Year Bangladesh	*2008*	*2008*	*2009*	*2010*	*2008*	*2008*	*2007*	*2008*	*2004*	*2004*
Bangladesh Value Latest Year	*55.0*	*50.0*	*18.4*	*44.8*	*160.0*	*1.4*	*1,451.6*	*27.1*	*1.0*	*2,250.0*
Latest Year Tajikistan	*2008*	*2008*	*2009*	*2010*	*2008*	*2008*	*2007*	*2008*	*2009*	*2009*
Tajikistan Value Latest Year	*99.7*	*63.9*	*22.6*	*51.3*	*6.8*	*1.6*	*697.0*	*26.5*	*1.0*	*0.0*
LI - Asia		*54.1*		*59.6*	*25.9*	*1.6*	*674.8*	*21.3*	*1.3*	*2.0*
LI	*65.0*	*78.2*		*55.4*	*12.1*	*2.6*	*377.5*	*30.8*	*1.3*	*63.3*
High Five Avg.	*99.8*	*96.2*	*24.5*	*89.1*	*631.7*	*6.3*	*6,147.6*	*100.0*	*16.3*	*22,027.8*
Low Five Avg.	*41.9*	*19.0*	*10.0*	*37.4*	*0.0*	*-0.8*	*6.7*	*12.5*	*0.0*	*0.0*

	Demography and Environment…			Gender & Children						
	Net migration rate, Migrants per 1,000 population	**Adjusted savings: Energy depletion, Percent GNI**	**Adjusted savings: Mineral depletion, Percent GNI**	**Gender Empowerment Measure**	**Primary Completion Rate, Male, Percent**	**Primary Completion Rate, Female, Percent**	**Gross Enrollment Ratio, All Levels of Education, Male, Percent**	**Gross Enrollment Ratio, All Levels of Education, Female, Percent**	**Life Expectancy, Male, Years**	**Life Expectancy, Female, Years**
Indicator Number	**15S2**	**15S3a**	**15S3b**	**16P1**	**16P2a**	**16P2b**	**16P3a**	**16P3b**	**16P4a**	**16P4b**
Nepal Data										
Latest Year (T)	*2009*	*2008*	*2008*	*2007*	*2008*	*2008*	*2006*	*2006*	*2007*	*2007*
Value Year T	*-3.4*	*0.0*	*0.0*	*0.486*	*78.8*	*77.5*	*63.1*	*57.8*	*65.6*	*66.9*
Value Year T-1	*-4.0*	*0.0*	*0.0*	*0.351*			*61.5*	*54.0*		
Value Year T-2	*-4.0*	*0.0*	*0.0*		*79.6*	*72.3*	*60.5*	*51.2*	*62.5*	*63.4*
Value Year T-3	*-5.0*	*0.0*	*0.0*		*79.6*	*69.5*	*62.0*	*51.4*	*62.1*	*62.9*
Value Year T-4	*-5.0*	*0.0*	*0.0*		*76.7*	*65.0*	*63.5*	*51.1*	*61.6*	*62.4*
Average Value, 5 year	*-4.3*	*0.0*	*0.0*				*62.1*	*53.1*		
Growth Trend	*10.0*						*-0.2*	*2.9*		
Benchmark Data										
Regression Benchmark	*0.5*			*0.379*			*59.3*	*52.7*	*60.0*	*62.7*
Lower Bound	*-7.8*			*0.338*			*54.1*	*46.2*	*56.9*	*59.7*
Upper Bound	*8.8*			*0.420*			*64.6*	*59.3*	*63.0*	*65.7*
Latest Year Bangladesh	*2009*	*2008*	*2008*	*2007*	*2006*	*2006*	*2007*	*2007*	*2007*	*2007*
Bangladesh Value Latest Year	*-2.5*	*4.0*	*0.0*	*0.264*	*54.1*	*58.6*	*48.0*	*49.4*	*64.7*	*66.7*
Latest Year Tajikistan	*2009*	*2008*	*2008*	*2007*	*2006*	*2006*	*2008*	*2008*	*2007*	*2007*
Tajikistan Value Latest Year	*-1.3*	*0.4*	*0.0*		*108.3*	*103.7*	*77.2*	*65.8*	*63.7*	*69.3*
LI - Asia	*0.0*	*0.0*	*0.0*		*74.4*	*66.2*	*58.5*	*51.6*	*62.1*	*62.9*
LI	*-0.4*	*0.0*	*0.0*		*58.5*	*47.6*	*55.7*	*45.7*	*53.5*	*55.8*
High Five Avg.	*19.1*	*75.2*	*15.4*	*0.895*	*124.0*	*122.3*	*103.0*	*109.9*	*79.1*	*84.5*
Low Five Avg.	*-13.6*	*0.0*	*0.0*	*0.257*	*34.4*	*21.6*	*31.6*	*22.3*	*42.0*	*42.6*

	Gender & Children…					
	Labor Force Participation Rate, Male, Percent	**Labor Force Participation Rate, Female, Percent**	**Economically Active Children, (Ages 7-14), Percent**	**Internally displaced females per capita,**	**Use of Child Soldiers - Government**	**Use of Child Soldiers - Political**
Indicator Number	**16P5a**	**16P5b**	**16P6**	**16S1**	**16S2a**	**16S2b**
Nepal Data						
Latest Year (T)	*2008*	*2008*				*2006*
Value Year T	*75.7*	*63.2*				*1,995.0*
Value Year T-1	*75.8*	*62.6*				
Value Year T-2	*75.9*	*62.1*				
Value Year T-3	*76.0*	*61.7*				
Value Year T-4	*76.1*	*61.3*				
Average Value, 5 year	*75.9*	*62.2*				
Growth Trend	*-0.1*	*0.8*				
Benchmark Data						
Regression Benchmark	*85.9*	*63.3*				
Lower Bound	*83.1*	*55.8*				
Upper Bound	*88.7*	*70.8*				
Latest Year Bangladesh	*2008*	*2008*	*2006*			
Bangladesh Value Latest Year	*84.0*	*58.3*	*16.2*			
Latest Year Tajikistan	*2008*	*2008*	*2005*			
Tajikistan Value Latest Year	*68.1*	*55.6*	*8.9*			
LI - Asia	*79.6*	*58.5*				
LI	*84.1*	*60.5*	*37.0*			
High Five Avg.	*91.3*	*86.5*	*52.5*			
Low Five Avg.	*55.4*	*17.8*	*5.2*			

	Economic Stabilization & Government Capacity						
	Government Effectiveness Index, -2.5 (Very poor performance) to +2.5 (Excellent performance)	**Government Expense, Percent GDP**	**Government Revenue, excluding grants, Percent GDP**	**Money Supply Growth, Percent change**	**Inflation Rate, Annual Percent**	**Overall Budget Balance, Including Grants, Percent GDP**	**Interest Payments/Total Government Expenditure, Percent**
Indicator Number	**21P1**	**21P2**	**21P3**	**21P4**	**21P5**	**21S1**	**21S2**
Nepal Data							
Latest Year (T)	*2008*	*FY2009*	*FY2009*	*FY2009*	*2009*	*FY2009*	*FY2008*
Value Year T	*-0.75*	*22.2*	*14.8*	*27.0*	*13.2*	*-3.8*	*1.0*
Value Year T-1	*-0.77*	*19.7*	*13.2*	*25.2*	*7.7*	*-4.1*	*1.0*
Value Year T-2	*-0.79*	*18.4*	*12.1*	*14.0*	*6.4*	*-4.1*	*1.0*
Value Year T-3	*-0.86*	*17.0*	*11.1*	*15.6*	*8.0*	*-3.8*	*2.0*
Value Year T-4	*-0.72*	*17.4*	*11.9*	*8.3*	*4.5*	*-3.1*	*2.0*
Average Value, 5 year	*-0.78*	*18.9*	*12.6*	*18.0*	*8.0*	*-3.8*	*1.4*
Growth Trend	*0.2*	*6.3*	*6.1*	*28.4*	*21.0*	*-4.8*	*-20.8*
Benchmark Data							
Regression Benchmark	*-0.74*		*11.9*	*28.1*	*245.5*	*-3.9*	
Lower Bound	*-0.98*		*8.1*	*20.1*	*-377.9*	*-6.9*	
Upper Bound	*-0.50*		*15.7*	*36.2*	*868.9*	*-0.9*	
Latest Year Bangladesh	*2008*	*FY2009*	*FY2009*	*2008*	*2008*	*FY2009*	
Bangladesh Value Latest Year	*-0.77*	*14.1*	*10.4*	*16.6*	*7.7*	*-3.0*	
Latest Year Tajikistan	*2008*	*2007*	*2007*	*2007*	*2008*	*2007*	
Tajikistan Value Latest Year	*-0.88*	*27.8*	*21.6*	*78.8*	*20.4*	*-6.2*	
LI - Asia	*-0.84*			*30.5*	*8.0*		
LI	*-0.84*		*12.8*	*19.6*	*10.6*	*-2.8*	
High Five Avg.	*2.20*			*4,219.4*	*25.0*	*14.4*	
Low Five Avg.	*-1.91*			*-0.2*	*1.4*	*-7.7*	

	Business Environment										
	Control of Corruption Index, -2.5 (Very poor performance) to +2.5 (Excellent performance)	Rule of Law Index, -2.5 (Very poor performance) to +2.5 (Excellent performance)	Voice and Accountability, -2.5 (Very poor performance) to +2.5 (Excellent performance)	Ease of Doing Business Index, Index Rank (1 - 183)	Time to Start a Business, Days	Procedures to Start a Business, Procedures	Cost of Starting a Business % GNI per Capita, Percent GNI per Capita	Time to Enforce a Contract, Days	Procedures to Enforce a Contract, Procedures	Cost to Enforce a Contract, Percent of claim	Time to Register Property, Days
Indicator Number	22P1	22P2	22P3	22P4	22S1	22S2	22S3	22S4	22S5	22S6	22S7
Nepal Data											
Latest Year (T)	2008	2008	2008	2010	2010	2010	2010	2010	2010	2010	2010
Value Year T	-0.68	-0.76	-0.79	123	31	7	53.6	735	39	26.8	5
Value Year T-1	-0.64	-0.66	-0.88	123	31	7	60.2	735	39	26.8	5
Value Year T-2	-0.68	-0.67	-1.16		31	7	73.9	735	39	26.8	5
Value Year T-3	-0.75	-0.87	-1.17		31	7	78.5	735	39	26.8	5
Value Year T-4	-0.62	-0.69	-1.02		31	7	69.9	735	39	26.8	5
Average Value, 5 year	-0.67	-0.73	-1.00		31	7	67.2	735	39	26.8	5
Growth Trend	-0.2	0.7	8.0		0.0	0.0	-8.0	0.0	0.0	0.0	0.0
Benchmark Data											
Regression Benchmark	-1.00	-0.90	-0.98	120.0	40.2	9.4	99.3	523	41	38.1	85
Lower Bound	-1.20	-1.15	-1.33	99.5	17.0	7.8	64.8	367.4	37.5	27.1	42.5
Upper Bound	-0.79	-0.66	-0.63	140.4	63.3	11.0	133.7	678.6	43.9	49.2	128.1
Latest Year Bangladesh	2008	2008	2008	2010	2010	2010	2010	2010	2010	2010	2010
Bangladesh Value Latest Year	-1.10	-0.70	-0.61	119	44	7	36.2	1,442	41	63.3	245
Latest Year Tajikistan	2008	2008	2008	2010	2010	2010	2010	2010	2010	2010	2010
Tajikistan Value Latest Year	-0.99	-1.12	-1.32	152	25	12	24.3	430	34	25.5	37
LI - Asia	-1.15	-0.96	-1.19	133	57	7	47.1	589	42	30.9	98
LI	-0.78	-0.94	-0.83	153	31	10	96.8	515	40	38.7	73
High Five Avg.	2.39	1.96	1.52	181	283	19	931.1	1,612	54	149.9	428
Low Five Avg.	-1.64	-2.01	-2.12	3	4	2	0.4	192	23	6.1	2

	Financial Sector				
	Domestic Credit to Private Sector, Percent GDP	Interest Rate Spread, Percent	Money Supply (M2), Percent GDP	Real Interest Rate, Percent	Banking sector default rates, Non-performing loan value : Total loan value
Indicator Number	23P1	23P2	23P3	23S1	23S2
Nepal Data					
Latest Year (T)	*FY2009*	*2009*	*FY2009*	*2007*	*2009*
Value Year T	45.4	5.5	65.0	0.3	3.5
Value Year T-1	41.4	5.6	60.0	0.9	6.1
Value Year T-2	37.6	5.8	54.0	1.5	10.6
Value Year T-3	37.8	5.8	53.0	4.2	13.2
Value Year T-4	33.4	5.9	58.0		18.8
Average Value, 5 year	39.1	5.7	58.0		10.4
Growth Trend	7.0	-1.6	3.5		-41.2
Benchmark Data					
Regression Benchmark	30.8	8.4	35.8	5.7	
Lower Bound	19.8	6.3	22.6	1.8	
Upper Bound	41.7	10.5	49.0	9.6	
Latest Year Bangladesh	*2008*	*2008*	*2008*	*2008*	
Bangladesh Value Latest Year	39.5	6.7	55.9	7.0	
Latest Year Tajikistan	*2007*	*2007*	*2008*	*2008*	
Tajikistan Value Latest Year	29.0	14.4	17.8	-3.1	
LI - Asia	22.7	6.6	37.3	9.2	
LI	12.6	12.3	25.5	10.4	
High Five Avg.	207.7	50.0	203.9	35.6	
Low Five Avg.	3.9	1.6	10.4	-20.7	

	External Sector												
	External Aid, Percent GNI	**Current Account Balance, Percent GDP**	**Debt Service ratio, Percent Exports**	**Exports Growth, Goods and Services, Percent change**	**Foreign Direct Investment, Percent GDP**	**Gross International Reserves, Months of Imports**	**Present Value of External Debt, Percent GNI**	**Remittance Receipts, Percent Exports**	**Concentration of Exports, Percent**	**Trade Logistics Performance Index - Customs,**	**Total Trade, Percent GDP**	**Real Effective Exchange Rate (REER), end-of-period, percent change**	**Country Credit Rating**
Indicator Number	**24P1**	**24P2**	**24P3**	**24P4**	**24P5**	**24P6**	**24P7**	**24P8**	**24P9**	**24S1**	**24S2**	**24S3**	**24S4**
Nepal Data													
Latest Year (T)	*FY2008*	*FY2009*	*2009*	*FY2009*	*2008*	*FY2009*	*2008*	*FY2009*	*2008*	*2010*	*FY2009*	*FY2009*	*2007*
Value Year T	*3.0*	*4.3*	*8.3*	*17.8*	*0.0*	*6.0*	*20.8*	*170.9*	*30.7*	*2.07*	*46.9*	*7.3*	*20.9*
Value Year T-1	*3.0*	*2.9*	*10.1*	*11.4*	*0.1*	*7.0*		*136.9*	*31.9*		*46.0*	*-4.3*	
Value Year T-2	*3.0*	*-0.1*	*10.1*	*6.4*	*-0.1*	*6.0*		*107.0*	*38.4*		*44.6*	*9.5*	
Value Year T-3	*4.0*	*2.2*	*9.3*	*2.3*	*0.0*	*6.7*		*111.1*	*37.1*	*1.83*	*44.8*	*1.4*	
Value Year T-4	*3.0*	*2.0*	*9.4*	*-4.0*	*0.0*	*7.6*		*76.2*	*40.4*		*44.1*	*7.0*	
Average Value, 5 year	*3.2*	*2.2*	*9.4*	*6.8*	*0.0*	*6.7*		*120.4*	*35.7*		*45.3*	*4.2*	
Growth Trend	*-2.9*		*-1.7*			*-4.3*		*18.2*	*-7.0*		*1.5*		
Benchmark Data													
Regression Benchmark	*5.8*		*4.4*	*18.5*	*2.6*	*4.2*	*36.9*	*38.7*	*49.3*	*2.08*	*90.4*		*25.7*
Lower Bound	*0.8*		*-1.2*	*9*	*0.0*	*2.7*	*12.6*	*12.9*	*39.3*	*1.93*	*73.4*		*20.4*
Upper Bound	*10.8*		*10.0*	*27.9*	*5*	*5.7*	*61.1*	*64.6*	*59.3*	*2.23*	*107.5*		*31.1*
Latest Year Bangladesh	*2007*	*2009*	*2009*	*FY2009*	*2008*	*FY2009*	*2008*	*FY2009*	*2008*	*2010*	*2008*		*2007*
Bangladesh Value Latest Year	*2.0*	*2.8*	*3.1*	*8.7*	*1.2*	*3.6*	*19.5*	*51.7*	*84.0*	*2.33*	*47.0*		*27.8*
Latest Year Tajikistan	*2007*	*2009*	*2009*	*2008*	*2008*	*2008*	*2007*	*2008*	*2008*	*2010*	*2008*		*2007*
Tajikistan Value Latest Year	*6.1*	*-9.7*	*13.9*	*1.8*	*7.3*	*1.3*	*23.4*	*144.5*	*88.0*	*1.90*	*75.0*		*12.5*
LI - Asia	*6.9*	*-3.3*	*5.0*	*11.7*	*3.7*	*3.2*	*28.6*	*10.6*	*31.3*	*2.04*	*84.8*		*21.8*
LI	*12.6*	*-6.4*	*6.6*	*7.3*	*3.2*	*3.7*	*22.4*	*12.0*	*60.8*	*2.14*	*70.5*		*21.4*
High Five Avg.	*53.8*	*92.8*	*32.9*	*34.0*	*84.7*		*212.7*	*110.7*	*97.5*	*3.92*	*314.2*		*95.7*
Low Five Avg.	*0.0*	*-37.0*	*1.2*	*-11.0*	*-2.8*		*3.8*	*0.1*	*7.3*	*1.55*	*31.4*		*8.5*

	Economic Infrastructure											
	Logistics Performance Index - Infrastructure, 1 (Poor) - 5 (Excellent)	**Number of Electrical Outages, Average Outages per Month**	**Telephone Density, Fixed Line and Mobile, Telephones per 100 people**	**Internet Users, Users per 100 people**	**Roads, Paved, Percent**	**Households with Access to Electricity, Percent**	**Overall Infrastructure Quality, 1 (Poor) - 7 (Excellent)**	**Quality of Infrastructure - Air Transport Infrastructure Index, 1 (Poor) - 7 (Excellent)**	**Quality of Infrastructure - Port Infrastructure Quality Index, 1 (Poor) - 7 (Excellent)**	**Quality of Infrastructure - Rail Development Index, 1 (Poor) - 7 (Excellent)**	**Quality of Infrastructure - Electricity Supply Index, 1 (Poor) - 7 (Excellent)**	**Quality of Infrastructure - Roads, 1 (Poor) - 7 (Excellent)**
Indicator Number	**25P1**	**25P2**	**25P3**	**25S1**	**25S2**	**25S3**	**25S4**	**25S5a**	**25S5b**	**25S5c**	**25S5d**	**25S5e**
Nepal Data												
Latest Year (T)	*2010*	*2009*	*2008*	*2008*	*2004*		*2008-09*	*2008-09*	*2008-09*	*2008-09*	*2008-09*	*2008-09*
Value Year T	*2.20*	*52.0*	*17.4*	*1.7*	*56.9*		*2.2*	*3.5*	*2.8*	*1.2*	*1.3*	*2.1*
Value Year T-1			*14.1*	*1.4*	*53.9*		*1.9*	*3.5*	*2.9*	*1.3*	*1.7*	*1.9*
Value Year T-2			*6.4*	*1.1*	*30.8*		*1.9*	*3.4*	*1.5*	*1.3*	*2.0*	*2.1*
Value Year T-3	*1.77*		*2.6*	*0.8*			*1.9*	*3.3*	*1.3*	*1.2*	*2.2*	
Value Year T-4			*2.0*	*0.4*								
Average Value, 5 year			*8.5*	*1.1*								
Growth Trend			*60.2*	*34.3*								
Benchmark Data												
Regression Benchmark	*2.27*			*3.4*	*41.3*		*2.4*	*3.5*	*2.4*	*2.1*	*2.7*	*2.5*
Lower Bound	*2.11*			*-2.3*	*26.3*		*1.9*	*3.0*	*1.9*	*1.8*	*2.2*	*2.0*
Upper Bound	*2.43*			*9.1*	*56.4*		*2.8*	*4.0*	*2.9*	*2.5*	*3.1*	*3.0*
Latest Year Bangladesh	*2010*	*2007*	*2008*	*2008*	*2003*		*2008-09*	*2008-09*	*2008-09*	*2008-09*	*2008-09*	*2008-09*
Bangladesh Value Latest Year	*2.74*	*101.6*	*28.7*	*0.3*	*9.5*		*2.5*	*3.4*	*3.0*	*2.3*	*1.8*	*2.9*
Latest Year Tajikistan	*2010*	*2008*	*2008*	*2008*			*2008-09*	*2008-09*	*2008-09*	*2008-09*	*2008-09*	*2008-09*
Tajikistan Value Latest Year	*2.35*	*6.3*	*57.9*	*8.8*			*3.2*	*3.6*	*1.9*	*3.3*	*1.8*	*2.6*
LI - Asia	*2.15*		*12.8*	*0.8*								
LI	*2.08*		*13.9*	*1.2*			*2.5*	*3.4*	*2.6*	*1.7*	*2.6*	*2.6*
High Five Avg.	*4.20*	*34.6*		*84.0*	*100.0*		*6.6*	*6.7*	*6.6*	*6.5*	*6.8*	*6.6*
Low Five Avg.	*1.47*	*1.0*		*0.2*	*9.4*		*1.8*	*2.5*	*1.6*	*1.1*	*1.6*	*1.6*

	Health							
	Child Mortality Rate, Deaths per 1,000 Live Births	Maternal Mortality Rate, Deaths per 100,000 live births	Life Expectancy at Birth, Years	HIV Prevalence, Percent	Access to Improved Sanitation, Percent	Access to Improved Water Source, Percent	Prevalence of Child Malnutrition, Weight for Age, Percent	Public Health Expenditure, Percent GDP
Indicator Number	**31P1**	**31P2**	**31P3**	**31S1**	**31S2**	**31S3**	**31S4**	**31S5**
Nepal Data								
Latest Year (T)	*2008*	*2005*	*2008*	*2007*	*2006*	*2006*	*2006*	*FY2007*
Value Year T	*40.8*	*830*	*66.7*	*0.5*	*27.0*	*89.0*	*38.8*	*5.5*
Value Year T-1	*43.1*		*66.3*	*0.5*				*5.2*
Value Year T-2	*45.6*		*65.8*	*0.5*				*4.6*
Value Year T-3	*48.1*		*65.2*	*0.5*				*4.4*
Value Year T-4			*64.6*	*0.5*				*4.4*
Average Value, 5 year			*65.7*	*0.5*				*4.8*
Growth Trend			*0.8*	*0.0*				*6.5*
Benchmark Data								
Regression Benchmark		*595.1*	*61.2*	*0.2*	*43.0*	*68.5*	*34.2*	*1.7*
Lower Bound		*468.6*	*58.4*	*-1.3*	*33.8*	*61.6*	*29.6*	*0.9*
Upper Bound		*721.6*	*64.1*	*1.8*	*52.1*	*75.3*	*38.9*	*2.5*
Latest Year Bangladesh		*2005*	*2008*		*2006*	*2006*	*2007*	*FY2010*
Bangladesh Value Latest Year		*570*	*66.2*		*36.0*	*80.0*	*41.3*	*1.0*
Latest Year Tajikistan		*2005*	*2008*	*2008*	*2006*	*2006*	*2005*	*FY2010*
Tajikistan Value Latest Year		*170*	*66.7*	*0.3*	*92.0*	*67.0*	*14.9*	*1.3*
LI - Asia		*570*	*64.3*		*33.0*	*80.0*		*1.7*
LI		*820*	*56.4*	*1.6*	*31.0*	*65.0*	*26.3*	*2.1*
High Five Avg.		*1,720*	*82.0*	*21.8*	*100.0*	*100.0*		*12.4*
Low Five Avg.		*3*	*44.3*	*0.1*	*8.4*	*35.0*		*0.7*

	Education								
	Net Primary Enrollment Rate, Total, Percent	**Net Primary Enrollment Rate, Female, Percent**	**Net Primary Enrollment Rate, Male, Percent**	**Net Secondary Enrollment Rate, Total, Percent**	**Gross Tertiary Enrollment Rate, Total, Percent**	**Primary Completion Rate, Total, Percent**	**Youth Literacy Rate, Percent**	**Expenditure on Primary Education, Percent GDP**	**Pupil-teacher Ratio, Primary School, Pupils per Teacher**
Indicator Number	**32P1a**	**32P1b**	**32P1c**	**32P2**	**32P3**	**32P4**	**32P5**	**32S1**	**32S2**
Nepal Data									
Latest Year (T)	*2007*	*2007*	*2007*	*2007*	*2007*	*2008*	*2008*	*FY2010*	*2008*
Value Year T	*76.1*	*74.2*	*77.9*	*42.0*	*11.3*	*78.2*	*80.8*	*2.4*	*37.8*
Value Year T-1							*79.3*	*2.3*	*40.0*
Value Year T-2						*75.5*		*1.9*	*39.7*
Value Year T-3	*79.2*	*73.8*	*84.3*		*5.6*	*74.6*		*1.9*	*35.8*
Value Year T-4	*78.1*	*72.7*	*83.1*		*4.9*	*71.2*		*1.9*	*35.7*
Average Value, 5 year								*2.1*	*37.8*
Growth Trend								*6.6*	*2.3*
Benchmark Data									
Regression Benchmark	*78.0*	*77.3*	*80.3*	*35.4*	*6.9*		*79.8*	*0.02*	*34.9*
Lower Bound	*71.6*	*70.5*	*74.3*	*27.1*	*0.1*		*70.5*	*0.01*	*30.6*
Upper Bound	*84.4*	*84.0*	*86.3*	*43.6*	*13.7*		*89.1*	*0.02*	*39.2*
Latest Year Bangladesh	*2004*	*2004*	*2004*	*2007*	*2007*	*2006*	*2008*	*FY2010*	*2008*
Bangladesh Value Latest Year	*88.9*	*90.5*	*87.4*	*41.5*	*7.0*	*57.5*	*74.4*	*1.1*	*43.7*
Latest Year Tajikistan	*2007*	*2007*	*2007*	*2008*	*2008*	*2008*	*2008*	*FY2009*	*2008*
Tajikistan Value Latest Year	*97.2*	*95.3*	*99.0*	*82.5*	*20.2*	*97.7*	*99.9*	*0.9*	*22.7*
LI - Asia				*35.5*	*5.1*	*70.4*		*1.2*	*41.2*
LI	*57.7*	*52.3*	*63.4*	*28.5*	*2.3*	*56.5*	*77.8*	*1.7*	*44.9*
High Five Avg.	*99.4*	*99.2*	*99.4*		*79.4*	*125.3*		*6.5*	*67.7*
Low Five Avg.	*41.4*	*36.0*	*46.7*		*0.6*	*26.4*		*0.2*	*10.5*

	Employment & Workforce					
	Labor Force Participation Rate, Total, Percent	**Rigidity of Employment Index, 0 (Minimum rigidity) - 100 (Maximum rigidity)**	**Growth of the Labor Force, Annual percent change**	**Unemployment Rate, (Ages 15-24), Total, Percent**	**Unemployment Rate, (Ages 15-24), Male, Percent**	**Informal Sector Employment, Percent**
Indicator Number	**33P1**	**33P2**	**33P3**	**33P4a**	**33P4b**	**33S1**
Nepal Data						
Latest Year (T)	*2007*	*2010*	*2008*	*2001*		
Value Year T	*71.5*	*46*	*3.3*	*7.1*		
Value Year T-1	*71.2*	*42*	*3.0*			
Value Year T-2	*71.1*	*42*	*3.2*			
Value Year T-3	*70.9*		*3.0*			
Value Year T-4	*70.8*		*3.0*			
Average Value, 5 year	*71.1*		*3.1*			
Growth Trend	*0.2*		*2.0*			
Benchmark Data						
Regression Benchmark	*77.3*	*30.3*	*20.5*		*4.2*	
Lower Bound	*72.8*	*21.5*	*12.5*		*-1.7*	
Upper Bound	*81.9*	*39.1*	*28.6*		*10.0*	
Latest Year Bangladesh	*2007*	*2010*	*2008*	*2005*	*2005*	
Bangladesh Value Latest Year	*70.6*	*28*	*2.2*	*9.8*	*8.0*	
Latest Year Tajikistan	*2008*	*2010*	*2008*			
Tajikistan Value Latest Year	*65.8*	*49*	*3.8*			
LI - Asia	*71.5*	*24*	*2.4*			
LI	*71.7*	*31*	*3.0*			
High Five Avg.	*87.1*	*70*	*7.5*		*44.9*	
Low Five Avg.	*42.5*	*0*	*-0.5*		*5.6*	

	Agriculture		
	Agriculture Value Added per Worker, US Dollars, Constant 2000	**Crop Production Index, Index: 1999-2001 = 100**	**Agricultural Export Growth, Percent change**
Indicator Number	**34P1**	**34S1**	**34S2**
Nepal Data			
Latest Year (T)	*2008*	*2007*	*2003*
Value Year T	*240*	*118*	*1.1*
Value Year T-1	*237*	*120*	
Value Year T-2	*240*	*116*	
Value Year T-3	*246*	*116*	*0.5*
Value Year T-4	*243*	*111*	
Average Value, 5 year	*241*	*116*	
Growth Trend	*-0.6*	*1.6*	
Benchmark Data			
Regression Benchmark			
Lower Bound			
Upper Bound			
Latest Year Bangladesh	*2008*	*2007*	*2007*
Bangladesh Value Latest Year	*418*	*114*	*3.1*
Latest Year Tajikistan	*2008*	*2007*	*2000*
Tajikistan Value Latest Year	*542*	*156*	*12.6*
LI - Asia	*314*	*114*	
LI	*237*	*108*	*22.9*
High Five Avg.	*52,961*	*234*	
Low Five Avg.	*104*	*61*	

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 when 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.

STATISTICAL CAPACITY

Statistical Capacity Indicator

Source: World Bank, updated annually: **http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20541648~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html**

Definition: This indicator provides an evaluation of a country's statistical practice, data collection activities, and key indicator availability against criteria consistent with international recommendations. The score ranges from 0 to 100, with a score of 100 indicating that the country meets all criteria.

Coverage: Data are available for the majority of USAID countries.

CAS Code: 01P1

PROFILE OF POSTCONFLICT RECOVERY

Failed States Index Score

Source: Fund for Peace, Failed States Index,

www.fundforpeace.org/web/index.php?option=com_content&task=view&id=99&Itemid=140

Definition: The Failed States Index assesses violent internal conflicts and measures the impact of mitigating strategies. Published annually by Fund for Peace, the index rates 12 social, economic, and political or military indicators, including mounting demographic pressures, massive movement of refugees or internally displaced persons, legacy of vengeance-seeking group grievance or group paranoia, chronic and sustained human flight, uneven economic development along group lines, sharp and/or severe economic decline, criminalization and/or delegitimization of the state, progressive deterioration of public services, suspension or arbitrary application of the rule of law and widespread violation of human rights; security apparatus operates as a "state within a state;" rise of factionalized elites; and intervention of other states or external political actors. Each indicator is ranked on a scale of 1 (low) to 10 (high). A high ranking reflects high intensity or pressure on the state (more likely to foster conflict), whereas a low ranking reflects lower intensity or pressure on the state (less likely to foster conflict). The rankings for the 12 indicators are combined to determine the country's overall score.

Coverage: Data are available for all USAID countries.

CAS Code: 11P1

Episode of Significant Violence, Highest Magnitude in Previous 10 years

Source: Center for Systemic Peace, "Major Episodes of Political Violence 1946-2008," compiled by Monty G. Marshall, latest update available at **www.systemicpeace.org/warlist.htm.**

Definition: The variable tells the date and duration of the conflict episode with the highest magnitude in the past 10 years. At times delineating the exact beginning or end of a conflict is difficult, so the years presented are considered most likely to capture the transformative periods of the episodes.

Coverage: Data available for all USAID countries.

CAS Code: 11P2

Type of Conflict, Highest Magnitude in Previous 10 years

Source: Center for Systemic Peace, "Major Episodes of Political Violence 1946-2008," compiled by Monty G. Marshall, latest update available at: **www.systemicpeace.org/warlist.htm.**

Definition: This indicator tries to capture the characteristics of the conflict episode. Episode type is listed according to two character codes. The first character denotes whether the conflict is (C)ivil-intrastate involving rival political groups; (E)thnic-intrastate involving the state agent and a distinct ethnic group; or (I)nternational event-interstate, usually two or more states but may denote a distinct polity resisting foreign domination (colonialism). The second character connotes either an episode of (V)iolence used as an instrument without necessarily exclusive goals; (W)ar-violence between distinct, exclusive groups with the intent to impose a unilateral result to the contention; or i(N)dependence attempts to forcibly remove an existing foreign domination.

CAS Code: 11P3

Magnitude of Societal-Systemic Impact, Highest Magnitude in Previous 10 years

Source: Center for Systemic Peace, "Major Episodes of Political Violence 1946-2008," compiled by Monty G. Marshall, latest update available at

www.systemicpeace.org/warlist.htm.

Definition: This variable captures the highest magnitude of conflict episode in the last 10 years. Each episode is ranked on a scale impact of 1 (smallest) to 10 (greatest). Magnitude scores reflect multiple factors including state capabilities, interactive intensity (means and goals), area and scope of death and destruction, population displacement, and episode duration.

Coverage: Data available for all USAID countries.
CAS Code: 11P4

Disarmament, Demobilization, and Reintegration

Source: Graduate Institute of International Studies in Geneva, Switzerland, Small Arms Survey, Cumulative Index 2001–2006, Search for "Where are DDR programmes currently being implemented?"
www.unddr.org/whatisddr.php#11
Data are also available from the UN DDR Resource Centre **www.unddr.org/**.

Definition: This indicator is a yes/no indicator that shows whether the military powers that perpetuated conflict are reforming through a formal UN-led Disarmament, Demobilization and Reintegration program.

Coverage: Data available for only UN-sponsored DDR programs, covering about 13 countries.

CAS Code: 11S1

Human Rights Index

Source: Gibney, M., Cornett L., and Wood, R. (2007), "Political Terror Scale 1976–2007,"

www.politicalterrorscale.org/

Definition: This variable shows the degree to which countries experience government-induced violence against their own population (1 is best and 5 is worst). The scores range from countries under secure rule of law with no imprisonment for their views, to violence in the form of assassinations and torture extended to the whole population. State-sponsored political terror (defined here as coercion directed at personal security) targets predominantly groups opposed to the state. It could lead eventually to the escalation of violence by pushing moderates to espouse radical ideas (after becoming less convinced that peaceful resolution is possible), or by increasing the cost of collective action, thus making resorting to violent means more attractive or economically viable. The "data" for the PTS is provided by the annual reports on human rights practices that are published by Amnesty International (A) and the U.S. State Department (S). Scores based on the U.S. State Department annual report are used in the Economic Recovery Report.

Coverage: Data are available for 188 countries.

CAS Code: 11S2

Refugees and IDPs per Capita

Source: United Nations High Commissioner for Refugees, **www.unhcr.org/statistics.html** and World Development Indicators.

Definition: Number of refugees and IDPs divided by total population. Refugees include persons recognized under the 1951 Convention relating to the Status of Refugees, its 1967 Protocol, the 1969 OAU Convention Governing the Specific Aspects of Refugee Problems in Africa, those recognized in accordance with the UNHCR Statute, persons granted a complementary form of protection, and persons granted temporary protection. Internally displaced persons (IDPs) are defined as "persons or groups of persons who have been forced or obligated to flee or leave their homes or places of habitual residence, in particular as a result of avoiding or in order to avoid the effect of armed conflict, situations of generalized violence, violations of human rights, or natural or manmade disasters, and who have not crossed an internationally recognized state border." (Guiding Principles on Internal Displacement, Introduction, para. 2). Unlike refugees, who have been deprived of the protection of their state of origin, IDPs remain legally under the protection of national authorities of their country of habitual residence. Internally displaced persons are those forced to flee their homes because their lives were at danger, but unlike refugees, they did not cross international borders. Estimates come from various sources, including the Internal Displacement Monitoring Center, United Nations High Commission for Human Rights, and United Nations Office for the Coordination of Humanitarian Affairs. Total population is based on the de facto definition of population, which counts all residents regardless of legal status or citizenship—except for refugees not permanently settled in the country of asylum, which are generally considered part of the population of their country of origin.

Coverage: 75 USAID countries

CAS Code: 11S3

Institutional Capacity

Source: Fund for Peace, content analysis

www.fundforpeace.org/web/index.php?option=com_content&task=view&id=99&Itemid=140
Definition: Fund for Peace computes this index by analyzing leadership, police, military, civil service, and judiciary capacity, applying a rating to each element on a 1 (worst) to 5 (best) scale and summing the result.

Coverage: Data are available for all USAID countries.

CAS Code: 11S4

POSTCONFLICT ECONOMIC GROWTH

Per capita GDP, $PPP

Source: International Monetary Fund (IMF) World Economic Outlook database, updated every 6 months: **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 65 USAID countries.

CAS Code: 12P1

Real GDP Growth

Source: IMF World Economic Outlook database, updated every six months
www.imf.org/external/ns/cs.aspx?id=28; latest country data from IMF Article IV Consultation Report:
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: 12P2

Gross Fixed Investment, Percentage of GDP

Source: IMF Article IV Consultation Report for country data, **www.imf.org/external/np/sec/aiv/index.htm**; 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: 12S1

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 the investment share of GDP to 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 12S2

POVERTY AND INEQUALITY

Income Share, Poorest 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. An alternative source is the country's Poverty Reduction Strategy Paper:
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 going back to 1997; for the period since 2000, data are available for about 35 USAID countries.

CAS Code: 13P1

Population Living on Less than $1.25 PPP per Day

Source: World Development Indicators, most recent publication series SI.POV.DDAY, original data from Development Research Group. An alternative source is the country's Poverty Reduction Strategy Paper:
www.imf.org/external/np/prsp/prsp.asp

Definition: The indicator captures the percentage of the population living on less than $1.25 a day at 2005 international prices. As a result of revisions in PPP exchange rates, poverty rates for individual countries cannot be compared with poverty rates reported in WDI editions prior to 2009.

Coverage: Data are available for about 59 USAID countries going back to 1997; data for 2000 or later are available for about 40 USAID countries.

Data quality: Poverty data originate from household survey questionnaires that can differ widely; even similar surveys may not be strictly comparable because of differences in quality.

CAS Code: 13P2

Poverty headcount, national poverty line

Source: World Development Indicators, most recent publication series SI.POV.NAHC. An alternative source is the country's Poverty Reduction Strategy Paper: 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 are available for only 19 countries for 2000 or later; data are available for about 49 countries going back to 1997. For most countries, data can be obtained from the PRSP.

Data quality: Measuring the percentage of people living below the "national poverty line" has the disadvantage of limiting international comparisons because of 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: 13P3

Human Poverty Index

Source: UNDP, Human Development Report. http://hdrstats.undp.org/indicators/18.html for most recent edition; updates are at http://hdr.undp.org/en/statistics/data/

Definition: The index measures deprivation in terms of not meeting target levels for specific economic and quality-of-life indicators. Values are based on (1) the percentage of people not expected to survive to age 40, (2) the percentage of adults who are illiterate, and (3) the percentage of people who fail to attain a "decent living standard," which is subdivided into three (equally weighted) items: (1) the percentage of people without access to safe water, (2) the percentage of people without access to health services, and (3) the percentage of underweight children. The HPI ranges in value from 0 (zero incidence of deprivation) to 100 (high incidence of deprivation).

Coverage: Data are available for about 60 USAID countries.

CAS Code: 13P4

Population below Minimum Dietary Energy Consumption

Source: UN Millennium Indicators Database at
http://milleniumindicators.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 light physical activity.

Coverage: Data are available for about 82 USAID countries.

CAS Code: 13S1

ECONOMIC STRUCTURE

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 composed of value added by major sector of the economy (agriculture, industry, and services) as percentages of GDP, where value added is the net output of a sector after all outputs are added up and intermediate inputs are subtracted. Value added is calculated without 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 is measured through regular enterprise censuses and surveys. In most developing countries such surveys are infrequent, so prior survey results are extrapolated.

CAS Code: 14P1a-c

Employment or Labor Force 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. An alternative source is the CIA World Fact Book:
https://www.cia.gov/library/publications/the-world-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 countries, data can be obtained from the PRSP.

Data quality: Employment figures originate with the International Labour Organization. Some countries report labor force structure instead of employment; thus the data must be checked carefully before comparisons are made.

CAS Code: 14P2a-c

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 aged 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: 15P1

Youth Dependency Ratio

Source: World Development Indicators, most recent publication series SP.POP.DPND.YG.

Definition: Youth dependency ratio is ratio of dependents—people younger than 15—to the working-age population--those ages 15-64. For example, 0.7 means there are 7 dependents for every 10 working-age people.

Coverage: Data are available for about 89 USAID countries.

CAS Code: 15P2

Youth Bulge

Source: U.S. Census Bureau, International Database (IDB), see mid-year population by age and sex table.
http://www.census.gov/ipc/www/idb/informationGateway.php

Definition: Youth bulge is calculated as the percentage of the population ages 15–24 divided by the total population.

Coverage: Data are available for all USAID countries.

CAS Code: 15P3

Environmental Performance Index

Source: Center for International Earth Science Information Network at Columbia University, and the Center for Environmental Law and Policy at Yale University. **http://epi.yale.edu/Home.**

Definition: The Environmental Performance Index (EPI) is a composite index of national environmental protection, which tracks (1) environmental health, (2) air quality, (3) water resources, (4) biodiversity and habitat, (5) productive natural resources, and (6) sustainable energy. The index is a weighted average of these six policy categories giving more weight to enviromental health (EPI = 0.5 × Environmental Health + 0.1 × (Air Quality + Water Resources + Productive Natural Resources + Biodiversity and Habitat + Sustainable Energy)). The index values range from 0 (for very poor performance) to 100 (for very good performance).

Coverage: Data are available for about 80 USAID countries.

Data quality: The 2006 pilot EPI and 2008 EPI differ in several strucutural and substantive areas. As a result comparison berween both years are not appropriate.

CAS Code: 15P4

Population Size and Growth

Source: World Development Indicators, most recent publication series SP.POP.GROW 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: 15P5a-b

Rural Population Density

Source: World Development Indicators, most recent publication series EN.RUR.DNST

Definition: Rural population density (rural population per sq. km of arable land) is the rural population divided by the arable land area. Rural population is calculated as the difference between the total population and the urban population. Arable land includes land defined by the FAO as land under temporary crops (double-cropped areas are counted once), temporary meadows for mowing or for pasture, land under market or kitchen gardens, and land temporarily fallow. Land abandoned as a result of shifting cultivation is excluded. Estimates are from the Food and Agriculture Organization and World Bank population estimates.

Coverage: Nearly all relevant countries.

CAS Code: 15P6

Population Living in Urban Areas

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; because these definitions vary greatly, cross-country comparisons should be made with caution.

CAS Code: 15P7

Frequency and Scope of Natural Disasters

Source: Centre for Research on the Epidemiology of Disasters, Emergency Events Database,

www.emdat.be/Database/CountryProfile/countryprofiles.php

Definition: This indicator measures the human-impact effects of natural disasters and the frequency of these occurrences. Natural disasters are defined as natural hazard events that have at least one of the following human-impact effects: 10 or more people reported killed, 100 people reported affected, declaration of a state of emergency, or call for international assistance. The scope is measured by the total number of people affected. This includes the number of people suffering from physical injuries, trauma, or an illness requiring medical treatment as a direct result of a disaster, the number of people needing immediate assistance for shelter, and the people requiring immediate assistance during a period of emergency; it can also include displaced or evacuated people.

Coverage: Data are available for nearly all USAID countries.

CAS Code: 15S1a-b

Net Migration Rate

Source: CIA World Factbook,

https://www.cia.gov/library/publications/the-world-factbook/index.html

Definition: Net migration rate (migrants per 1,000 population) is the difference between the number of persons entering and leaving a country during the year per 1,000 persons (based on midyear population). An excess of persons entering the country is referred to as net immigration (e.g., 3.56 migrants per 1,000 population); an excess of persons leaving the country as net emigration (e.g., -9.26 migrants per 1,000 population).

Coverage: Data are available for nearly all USAID countries.

Data quality: The source does not specify the estimating methodology.

CAS Code: 15S2

Adjusted Savings: Energy Depletion, percentage of GNI

Source: World Development Indicators, most recent publication series NY.ADJ.DNGY.GN.ZS.

Definition: Energy depletion is equal to the product of unit resource rents and the physical quantities of energy extracted. It covers crude oil, natural gas, and coal.

Coverage: Data are available for about 88 USAID countries.

CAS Code: 15S3a

Adjusted Savings: Mineral Depletion, percentage of GNI

Source: World Development Indicators, most recent publica-tion series NY.ADJ.DMIN.GN.ZS.

Definition: Mineral depletion is equal to the product of unit resource rents and the physical quantities of minerals extracted. It refers to bauxite, copper, iron, lead, nickel, phosphate, tin, zinc, gold, and silver.

Coverage: Data are available for about 88 USAID countries.

CAS Code: 15S3b

GENDER AND CHILDREN

Gender Empowerment

Source: UNDP, Human Development Report, **hdrstats.undp.org/indicators/279.html.**

Definition: Captures gender inequality in three areas: political participation and decision-making power, as measured by women's and men's participation in parliamentary seats; economic participation and decision-making power, as measured by two indicators – women's and men's percentage shares of positions as legislators, senior officials and managers and women's and men's percentage shares of professionals and technical positions; and power over economic resources, as measured by estimated earned income.

Coverage: Data are available for half of USAID countries.

CAS Code: 16P1

Primary Completion Rate, Male and Female

Source: World Development Indicators, most recent publication series: series SE.PRM.CMPT.MA.ZS (male), SE.PRM.CMPT.FE.ZS (female). Based on data from United Nations Education, Scientific, and Cultural Organization (UNESCO) Institute of Statistics.

Definition: Primary completion rate is the percentage of students completing the last year of primary school. It is the total number of students in the last grade of primary school, minus the number of repeaters in that grade, divided by the total number of children of official graduation age.

Coverage: Data are available for about 128 USAID countries.

Data quality: Completion rates are based on data collected during annual school surveys, typically conducted at the beginning of the school year. The indicator does not measure the quality of the education.

CAS Code: 16P2

Gross Enrollment Ratio, All Levels of Education, Male and Female

Source: United Nations Organization for Education, Science, and Culture UNESCO: **http://stats.uis.unesco.org/unesco/TableViewer/document.aspx?ReportId=136&IF_Language=eng&BR_Topic=0**

Definition: The number of students enrolled in primary, secondary, and tertiary levels of education by gender, regardless of age, expressed as a percentage of the population of official school age for the three levels by gender.

Coverage: Data are available for about 80 USAID countries.

Data Quality: Enrollment ratios are based on data collected during annual school surveys, typically conducted at the beginning of the school year.

CAS Code: 16P3a-b

Life Expectancy at birth, Male and Female

Source: Estimated from UNDP Human Development Indicators: **http://hdrstats.undp.org/indicators/271.html**

Definition: The number of years a newborn male or female infant would live if prevailing patterns of age and sex-specific mortality rates at the time of birth were to stay the same throughout the child's life.

Coverage: Data are available for about 85 USAID countries.

CAS Code: 16P4a-b

Labor Force Participation Rate, Male and Female.

Source: World Development Indicators, most recent publication series: SL.TLF.CACT.MA.ZS (male) SL.TLF.CACT.FE.ZS (female). Based on data from International Labour Organization (ILO)
Definition: The proportion of the population ages 15 and older that is economically active: 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: 16P5a-b

Economically Active Children, percent of Children Ages 7–14

Source: World Development Indicators, most recent publication series SL.TLF.0714.ZS. Derived from the Understanding Children's Work project based on data from ILO, UNICEF, and the World Bank.

Definition: Economically active children refer to children involved in economic activity for at least one hour in the reference week of the survey.

Coverage: Data are available for 35 USAID countries.

CAS Code: 16P6

Internally Displaced Females per Capita

Source: UNHCR, 2005 Global Refugee Trends, Annex, Table 14, **www.unhcr.org/statistics.html** and World Development Indicators, most recent publication series SP.POP.TOTL.
Definition: Internally displaced women protected or assisted by UNHCR, divided by total population estimates.

Coverage: Data are available for 14 USAID countries.

Data quality: Most of the world's internal-displacement situations are not covered by UNHCR and are thus not reflected in these statistics.

CAS Code: 16S1

Use of Child Soldiers, Government and Political

Source: Text in country reports of Child Soldiers.org, **www.child-soldiers.org/library/global-reports**, and The UN DDR Resource Centre **www.unddr.org/**

Definition: The 2002 Optional Protocol to the UN Convention on the Rights of the Child set 18 as the minimum age for participation in hostilities, for compulsory recruitment by governments, and all recruitment into armed groups. The use of child solider is therefore defined as an individual under the age of 18 participating in government forces or in armed political groups.

Coverage: Data are available for approximately 70 percent of USAID countries.

Data quality: Information for country entries was gathered from a wide range of sources, including governments, UN agencies and peacekeeping missions, other intergovernmental organizations, news media, academic sources, and human rights and humanitarian organizations. Information was also provided by coalition members and partners and by local nongovernmental organizations, journalists, lawyers, activists, and others in many countries. The Child Soldier Global Report data was recoded as follows: E, I, S, or G = 1 (yes); P, B or L = 2 (possibly); N or N/A = 0 (no).

CAS Code: 16S2a-b

ECONOMIC STABILIZATION AND GOVERNMENT CAPACITY

In the World Development Indicators for 2005, the World Bank adopted the Government Finance Statistics 2001 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 (GFS) 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). Most countries do not use the new GFS system, so country coverage of fiscal data in WDI 2005 is limited. For this reason, the template continues to use data from IMF Article IV consultations and domestic country websites on a cash outlays and receipts system.

Government Effectiveness Index

Source: World Bank Institute, Governance Indicators, **www.govindicators.org**

Definition: Based on perception surveys from 17 sources, this index measures the quality of public and civil services and the degree of the public sector's independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

Coverage: Data are available for all USAID countries.

CAS Code: 21P1

Government Expenditure, Percent of GDP

Source: IMF Article IV Reviews for latest country data: **www.imf.org/external/np/sec/aiv/index.htm**
Original data from the IMF, Government Finance Statistics Yearbook, and World Bank estimates.

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

Coverage: Data are available for about 70 percent of USAID countries.

CAS Code: 21P2

Government Revenue, Percent of GDP

Source: IMF Article IV reviews for latest country data: **www.imf.org/external/np/sec/aiv/index.htm**;
World Development Indicators for benchmarking data (GC.REV.XGRT.GD.ZS). Original data from the IMF, Government Finance Statistics Yearbook and data file, and World Bank estimates.

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

Coverage: Data are missing for about 24 USAID countries.

CAS Code: 21P3

Money Supply Growth

Source: Latest country data are from national data sources or 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 IMF, International Financial Statistics, and World Bank estimates.

Definition: Average annual growth rate in the broad money supply, M2 (money plus quasimoney) measured as the change in end-of-year totals relative to the preceding year. M2 is made up of 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 IMF's International Financial Statistics (IFS).

Coverage: Data are available for about 81 USAID countries.

CAS Code: 21P4

Inflation Rate

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

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: 21P5

Overall Government Budget Balance, including Grants, Percent of GDP

Source: For countries using the new GFS system (see explanation at the beginning of this section), benchmarking data on a government's cash surplus or 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. The latest country data are obtained from national data sources or from IMF Article IV Reviews:
www.imf.org/external/np/sec/aiv/index.htm.

Definition: The cash surplus or deficit is revenue (including grants) minus expenses, minus net acquisition of nonfinancial assets. This is close to the previous concept of 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 GFS system, the template will continue to focus on the overall budget balance, using data from alternative sources. 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 that 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: 21S1

Interest Payments/Total Government Expenditure

Source: National data sources or IMF Article IV consultative reports: **www.imf.org/external/np/sec/aiv/index.htm**.

Definition: Interest payments as a percent of total expense.

Coverage: Data are available for about half of USAID countries.

Data quality: Many countries report revenue in noncomparable categories. Budget data are compiled by fiscal year. If the fiscal year differs from the calendar year, ratios to GDP may be calculated by interpolating budget data from two adjacent fiscal years.

CAS Code: 21S2

Subsidies and Other Current Transfers/Total Government Expenditure

Source: National data sources or IMF Article IV consultative reports: **www.imf.org/external/np/sec/aiv/index.htm**.

Definition: Subsidies and other current transfers as a percent of total expense.

Coverage: Data are available for about half of USAID countries.

Data quality: Many countries report their revenue in noncomparable categories. Budget data are compiled by fiscal year. If the fiscal year differs from the calendar year, ratios to GDP may be calculated by interpolating budget data from two adjacent fiscal years.

CAS Code: 21S3

BUSINESS ENVIRONMENT

Control of Corruption Index

Source: World Bank Institute, Governance Indicators: www.govindicators.org

Definition: The Control of Corruption index is an aggregation of indicators that measure the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as the "capture" of the state by elites and private interests. Index ranges from -2.5 (for very poor performance) to +2.5 (for excellent performance).

This is also an MCC indicator, under the criterion of ruling justly. 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.

Coverage: Data are available for nearly all USAID countries.

Data quality: This indicator uses perception and opinions gathered from local businessmen and third-party experts; thus, the indicator is largely subjective. Also, standard errors are large. For both reasons, international comparisons are problematic, though widely used.

CAS Code: 22P1

Rule of Law Index

Source: World Bank Institute, Governance Indicators: www.govindicators.org. This indicator is based on perceptions of the legal system, drawn from 12 data sources.

Definition: The Rule of Law Index is an aggregation of indicators that measure the extent to which agents have confidence in and abide by the rules of society. It 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. Using the index to track a country's progress over time is difficult 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: 22P2

Voice and Accountability

Source: World Bank Institute, Governance Indicators: www.govindicators.org.

Definition: Based on seven representative sources, this index measures the government's capacity to transfer power in a legitimate manner and offer civil liberties and political rights. Although this is a subjective index of perception, the index is based on a broad range of sources: 31 data sources produced by 25 organizations, ranging from international organizations to political and business risk-rating agencies (Afrobarometer, Latinobarometro), think tanks, and NGOs.

Coverage: Data are available for all USAID countries.

CAS Code: 22P3

Ease of Doing Business Index

Source: World Bank, Doing Business Indictors: www.doingbusiness.org/

Definition: The Ease of Doing Business index ranks economies from 1 to 181. 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 nearly all USAID countries.

CAS Code: 22P4

Time to Start a Business

Source: World Bank, Doing Business; Starting a Business category: www.doingbusiness.org/

Definition: The number of 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 nearly all USAID countries.

CAS Code: 22S1

Procedures to Start a Business

Source: World Bank, Doing Business; Starting a Business category: www.doingbusiness.org/

Definition: The number of procedural steps required to legalize a simple limited liability company. A procedure is an interaction of a company with government agencies, lawyers, auditors, notaries, and the like, including interactions required to obtain necessary permits and licenses and complete all inscriptions, verifications, and notifications to start operations.

Coverage: Data are available for nearly all USAID countries.

CAS Code: 22S2

Cost of Starting a Business

Source: World Bank, Doing Business; Starting a Business category: www.doingbusiness.org/

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

Coverage: Data are available for nearly all USAID countries.

CAS Code: 22S3

Time to Enforce a Contract

Source: World Bank, Doing Business; Enforcing Contracts category: www.doingbusiness.org/

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

Coverage: Data are available for nearly all USAID countries.

CAS Code: 22S4

Procedures to Enforce a Contract

Source: World Bank, Doing Business; Enforcing Contracts category: www.doingbusiness.org/

Definition: The number of procedures required to enforce a valid contract through the court system, with procedure defined as any interactive step the company must take with government agencies, lawyers, notaries, and the like, to proceed with enforcement action.

Coverage: Data are available for nearly all USAID countries.

CAS Code: 22S5

Cost to Enforce a Contract, Percent of Claim

Source: World Bank, Doing Business; Enforcing Contracts category: **www.doingbusiness.org/**

Definition: Cost is recorded as a percentage of the claim, assumed to be equivalent to 200% of income per capita. Only official costs required by law are recorded, including court and enforcement costs and average attorney fees where the use of attorneys is mandatory or common.

Coverage: Data are available for nearly all USAID countries.

CAS Code: 22S6

Time to Register Property

Source: World Bank, Doing Business; Registering Property category: **www.doingbusiness.org/**

Definition: The time required to accomplish the full sequence of procedures to transfer a property title from seller to buyer when a business purchases land and a building in a periurban area of the country's most populous city. Every required procedure is included, whether it is the responsibility of the seller, the buyer, or a third party on their behalf.

Coverage: Data are available for nearly all USAID countries.

CAS Code: 22S7

FINANCIAL SECTOR

Domestic Credit to Private Sector, Percent of GDP

Source: IMF Article IV reviews or national data sources for latest country data **www.imf.org/external/np/sec/aiv/index.htm**; World Development Indicators, most recent publication series FS.AST.PRVT.GD.ZS for benchmarking data. The WDI data originate with IMF International Financial Statistics and data files and World Bank estimates.

Definition: Domestic credit to the private sector refers to end of year financial resources provided to the private sector, such as through loans, purchases of nonequity 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 are from IMF 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

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 IMF, International Financial Statistics and data files, and World Bank and OECD GDP estimates.

Definition: Money supply (M2), also called broad money, is defined as the end of year nonbank 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, money market instruments, and treasury bills.

CAS Code: 23P3

Real Interest Rate

Source: World Development Indicators, most recent publication series FR.INR.RINR.

Definition: The 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: 23S1

Banking Sector Default Rate

Source: IMF, Financial Soundness Indicators, Coordinated Compilation Exercise for Financial Soundness Indicators: core series of nonperforming loans to total loans, **www.imf.org/external/np/sta/fsi/datarsl.htm**

Definition: This is calculated by taking the value of nonperforming loans as the numerator and the total value of the loan portfolio (including nonperforming loans, and before the deduction of specific loan loss provisions) as the denominator.

Coverage: Data are available for 29 USAID countries.

CAS Code: 23S2

EXTERNAL SECTOR

Aid, Percent 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 do 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

Current Account Balance, Percent of GDP

Source: Latest country data from national data sources or IMF Article IV Consultation Report: **www.imf.org/external/np/sec/aiv/index.htm**. Benchmarking data are from the IMF World Economic Outlook (WEO) database, most recent edition, based on IMF balance of payments statistics and IMF local currency GDP figures.

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 (GDP).

Coverage: Data are available for about 79 USAID countries.

CAS Code: 24P2

Debt Service Ratio, 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 from World Development Indicators, most recent publication, series DT.TDS.DPPPG.XP.ZS, based on World Bank, Global Development Finance data.
Definition: The debt service is the sum of interest and principal payments actually paid in foreign currency, goods, or services in a given year, expressed as a percentage of exports of goods and services. Service exports include cross-border income payments, but exclude workers' remittances. It covers only long-term public and publicly guaranteed debt and repayments (repurchases and charges) to the IMF.

Coverage: Data are available for about 77 USAID countries.

Data quality: See data quality comments on present value of debt, percent of GNI, about debt data reported.

CAS Code: 24P3

Export Growth of 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

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 IMF, 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 are made up of holdings of monetary gold, special drawing rights (SDRs), the reserve position of members in the IMF, and holdings of foreign exchange under the control of monetary authorities expressed in the number of months of imports of goods and services.

Coverage: Data are available for about 77 USAID countries.

CAS Code: 24P6

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 nonguaranteed, long-term external debt over the life of existing loans. The 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 among countries because of the wide spectrum of debt instruments, the unwillingness of governments to provide information, and a lack of capacity in reporting. Discrepancies are significant when exchange rate fluctuations, debt cancellations, and rescheduling occur.

CAS Code: 24P7

Remittance 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 are obtained from World Development Indicators, most recent publication. The figure is constructed by dividing workers' 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: 24P8

Concentration of Exports

Source: Constructed with ITC COMTRADE data by aggregating the value for the top three export product groups (SITC Rev.3) and dividing by total exports. Raw data: **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: Data are available for about 74 USAID countries.

Data quality: Smuggling is a serious problem in some countries. For countries that do not report trade data to the

United Nations, ITC uses partner country data. This approach has a number of shortcomings: ITC does not cover trade with nonreporting countries; transshipments may hide the actual source of supply; and transport cost and insurance are included in measuring exports but excluded in measuring imports.

CAS Code: 24P9

Trade Logistics Performance Index—Customs

Source: Latest country score obtained from World Bank Logistics Performance Index country scorecard: info.worldbank.org/etools/tradesurvey/mode1a.asp

Definition: The Logistics Performance Index is a simple average of a country's score on seven dimensions: the efficiency and effectiveness of clearance process by customs and other border control agencies; the quality of transport and IT infrastructure for logistics; the ease and affordability of arranging shipments; competence in the local logistics industry (e.g., transport operators, customs brokers); ability to track and trace shipments; domestic logistics costs (e.g., local transportation, terminal handling, warehousing); and the timeliness of shipments in reaching destination. This indicator captures the first dimension.

Coverage: Data available for about 150 countries.

CAS Code: 24S1

Trade in Goods and Services, Percent of GDP

Source: Latest country data obtained from national data sources or IMF Article IV Consultation Report: 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: 24S2

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 that 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 REER 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: 24S3

Country Credit Rating

Source: Institutional Investor Magazine

www.iimagazine.com/Rankings/RankingsCountryCredit.aspx

Definition: Institutional Investor Magazine measures individual countries' creditworthiness by asking senior economists and risk managers for their predictions on credit risk, exchange rate risk, valuation correction, and risk impact. The rating is on a scale of 0 to 100 with 100 being the best rating possible.

Coverage: Data are available for about 80 USAID countries.

CAS Code: 24S4

ECONOMIC INFRASTRUCTURE

Logistics Performance Index—Infrastructure

Source: Latest country score obtained from World Bank Logistics Performance Index country scorecard: info.worldbank.org/etools/tradesurvey/mode1a.asp

Definition: The Logistics Performance Index is a simple average of a country's score on seven factors: the efficiency and effectiveness of the clearance process by customs and other border control agencies; the quality of transport and IT infrastructure for logistics; the ease and affordability of arranging shipments; competence in the local logistics industry (e.g., transport operators, customs brokers); the ability to track and trace shipments; domestic logistics costs (e.g., local transportation, terminal handling, warehousing); and the timeliness of shipments in reaching destination. This indicator captures the second dimension.

Coverage: Data available for about 150 countries.

CAS Code: 25P1

Number of Electrical Outages, per Month

Source: World Bank, Enterprise Surveys, Infrastructure. www.enterprisesurveys.org/

Definition: This indicator shows the average number of power outage in a typical month.

Coverage: Data available for a small number of countries.

CAS Code: 25P2

Telephone Density, Fixed Line and Mobile per 100 People

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 100 people. Fixed lines represent telephone main lines 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

Internet Users per 100 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 worldwide network, per 100 people.

Coverage: Data are available for about 88 USAID countries.

CAS Code: 25S1

Roads Paved, Percent of Total Roads

Source: World Development Indicators, most recent publication series IS.ROD.PAVE.ZS

Definitions: Paved roads are roads surfaced with crushed stone (macadam) and hydrocarbon binder or bituminized agents, with concrete, or with cobblestones.

Coverage: Data are available for nearly all USAID countries.

CAS Code: 25S2

Percentage of Households with Access to Electricity

Source: Obtained from individual country sources.

Definition: Access to electricity is defined as the percentage of households that have electrical power.

Coverage: Data are available for about 25 USAID countries.

CAS Code: 25S3

Overall Infrastructure Quality

Source: Global Competitiveness Report, World Economic Forum
www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/index.htm.

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

Coverage: Data are available for about 52 USAID countries.

Data quality: Comparisons between countries are difficult because the data are based on executives' perceptions.

CAS Code: 25S4

Quality of Infrastructure—Air, Ports, Railroads, Electricity, and Roads

Source: Global Competitiveness Report, World Economic Forum:

www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/index.htm.

Definition: The index measures executives' perceptions of general infrastructure in their own countries. Executives grade, on a scale from 1 to 7, whether air transport, ports, railroads, electricity and roads are poorly developed (1) or among the best in the world (7).

Coverage: Data are available for about 52 USAID countries.

Data quality: Comparisons between countries are difficult because the data are based on executives' perceptions.

CAS Code: 25S5 a-e

HEALTH

Child Mortality Rate (per 1,000 Live Births)

Source: World Development Indicators, most recent publication series SH.DYN.MORT.

Definition: The indicator is the number of children dying before reaching the age of five, per 1,000 live births in a given year, if subject to current age-specific mortality rates.

Coverage: Data are available for about 87 USAID countries.

CAS Code: 31P1

Maternal Mortality Ratio

Source: Millennium Development Goals Indicators, **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 their sisters. The estimates pertain to 12 years or so before the survey, making them unsuitable for monitoring recent changes.

CAS Code: 31P2

Life Expectancy at Birth

Source: World Development Indicators, most recent publication, males SP.DYN.LE00.MA.IN, females SP.DYN.LE00.FE.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 his or her birth were to stay the same throughout his or her life, by sex.

Coverage: Data are available for about 88 USAID countries.

Data quality: Life expectancy at birth is estimated on the basis of vital registration or the most recent census or survey. Extrapolations may not be reliable for monitoring changes in health status or for comparative analytical work.

CAS Code: 31P3

HIV Prevalence

Source: UNAIDS for most recent country data:
http://data.unaids.org/pub/GlobalReport/2008/20080813_gr08_prev1549_1990_2007_en.xls . 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, and other surveillance information.

CAS Code: 31S1

Access to Improved Sanitation

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

Definition: The indicator is the percentage of the 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: Coverage rates may include nonfunctioning systems.

CAS Code: 31S2

Access to Improved Water Source

Source: World Development Indicators, most recent publication series SH.H2O.SAFE.ZS.

Definition: The indicator is the percentage of the population with reasonable access to an adequate amount of water from an improved source, such as 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: 31S3

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 the percentage of children under age 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: 31S4

Public Health Expenditure, Percent of GDP

Source: Latest data for host country are obtained from the MCC:
www.mcc.gov/mcc/selection/scorecards/index.shtml.
International benchmarking data from World Development Indicators, most recent publication (SH.XPD.PUBL.ZS), based on WHO, World Health Report, and updates 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 borrowing and grants (including donations from international agencies and NGOs), and social (or compulsory) health insurance funds.

Coverage: Data are available for about 88 USAID countries.

CAS Code: 31S5

EDUCATION

Net Primary Enrollment Rate, Total, Male and Female

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 enrolled in primary schools according to national regulations. 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 because teachers often are paid proportionally to the number of pupils enrolled. The indicator does not measure the quality of the education provided.

CAS Code: 32P1a-c

Net Secondary Enrollment Rate

Source: World Development Indicators, most recent publication, series SE.SEC.NENR. Based on data from the United Nations Educational, Scientific, and Cultural Organization (UNESCO) Institute for Statistics.

Definitions: Net enrollment ratio is the ratio of children of official school age based on the International Standard Classification of Education 1997 who are enrolled in school to the population of the corresponding official school age. Secondary education completes the provision of basic education that began at the primary level and aims at laying the foundations for lifelong learning and human development by offering more subject- or skill-oriented instruction using more specialized teachers.

Coverage: Data are available for half of USAID countries.

Data quality: A break in the series between 1997 and 1998 is due to a change from International Standard Classification of Education (ISCED) 76 to ISCED97. Recent data are provisional.

CAS Code: 32P2

Gross Tertiary Enrollment Rate

Source: World Development Indicators, most recent publication, series SE.TER.ENRR. Based on data from the UNESCO Institute for Statistics.

Definitions: Gross enrollment ratio is the ratio of total enrollment, regardless of age, to the population of the age group that officially corresponds to the level of education shown. Tertiary education, whether or not to an advanced research qualification, normally requires as a minimum condition of admission the successful completion of education at the secondary level.

Coverage: Data are available for nearly all USAID countries.

Data quality: A break in the series between 1997 and 1998 is due to a change from International Standard Classification of Education (ISCED) 76 to ISCED97. Recent data are provisional.

CAS Code: 32P3

Primary Completion Rate

Source: World Development Indicators, most recent publication, SE.PRM.CMPT.ZS (total).

Definition: Primary completion rate is the percentage of students completing the last year of primary school. It is calculated by taking the total number of students in the last grade of primary school, minus the number of repeaters in that grade, divided by the total number of children of official graduation age.

Coverage: Data are available for about 128 USAID countries

CAS Code # 32P4

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 two to three years.

CAS Code: 32P5

Expenditure on Primary Education, Percent of GDP

Source: Millennium Challenge Corporation:
www.mcc.gov/mcc/selection/scorecards/index.shtml.
Definition: The indicator is the total expenditure 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 through U.S. embassies.

CAS Code: 32S1

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 affect the quality of teaching and learning and pupil performance.

CAS Code: 32S2

EMPLOYMENT AND WORKFORCE

Labor Force Participation Rate

Source: World Development Indicators, most recent publication series: SL.TLF.CACT.ZS. Based on data from International Labour Organization (ILO).

Definition: The proportion of the population ages 15 and older that is economically active: 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, Employing workers category: **www.doingbusiness.org/ExploreTopics/Employing Workers/**

Definition: The 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 Difficulty of Firing index. The index ranges in value from 0 (minimum rigidity) to 100 (maximum rigidity).

Coverage: Data are available for nearly all USAID countries.

Data quality: Compiled by the World Bank from survey responses to in-country specialists.

CAS Code: 33P2

Labor Force Growth Rate

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

Definition: The indicator measures the annual percent change in the labor supply. Labor force is made up of people who meet the International Labor 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 the employed and the unemployed. Although national practices vary in the treatment of groups such 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 Ages 15–24, Total and Male

Source: World Development Indicators, most recent publication series SL.UEM.1524.ZS and SL.UEM.1524.MA.ZS.

Definitions: Youth unemployment refers to the share of the labor force ages 15–24 without work but available for and seeking employment.

Coverage: Data are available for 35 USAID countries.

Data quality: Definitions of labor force and unemployment differ by country; thus caution is needed when benchmarking.

CAS Code: 33P4a-b

Informal Sector Employment, Percent of Labor Force

Source: Normally obtained from national sources such as a labor market survey.

Definition: Informal sector employment is defined as economic activities that fall outside the formal economy regulated by economic and legal institutions. It is economic activity that is not taxed or included in the government's GNP.

Coverage: Data are available for about 20 USAID countries.

Data quality: The indicator is inherently difficult to calculate and the methodology may differ by country; thus caution is needed when benchmarking.

CAS Code: 33S1

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 2000 U.S. dollars.

Coverage: Data are available for about 80 USAID countries.

CAS Code: 34P1

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: 34S1

Agricultural Export Growth

Source: World Development Indicators, most recent publication series TX.VAL.AGRI.ZS.UNs, Agricultural raw materials exports (percentage of merchandise exports), based on World Bank staff estimates from the COMTRADE database maintained by the United Nations Statistics Division; and series TX.VAL.MRCH.CD.WT, Merchandise exports (current US$), based on data from the World Trade Organization.

Definition: Agricultural raw materials comprise SITC section 2 (crude materials except fuels), excluding divisions 22, 27 (crude fertilizers and minerals excluding coal, petroleum, and precious stones), and 28 (metalliferous ores and scrap). Merchandise exports show the f.o.b. value of goods provided to the rest of the world valued in U.S. dollars. Data are in current U.S. dollars. The indicator is calculated by multiplying agricultural raw materials by merchandise exports. The annual growth rate is then calculated from the resulting series.

Coverage: Data are available for about 85 USAID countries.

CAS Code: 34S2.