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# Afghanistan

## Economic Performance Assessment



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# Afghanistan

## Economic Performance

### Assessment

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

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

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

The authors of the present report are Matthew Reisman, and Rose Mary Garcia (from Nathan Associates), Jacqueline Vavra (from MSI), and Krista Hendry (from Fund for Peace). Alexander Greenbaum of Nathan Associates assisted with preparation of data. The USAID/EGAT/EG CTO for this project is Rita Aggarwal. USAID missions and bureaus may seek assistance and funding for country analytical studies or in-depth follow-on studies by contacting Ms. Aggarwal at [raggarwal@usaid.gov](mailto:raggarwal@usaid.gov).

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Rose Mary Garcia  
Chief of Party, CAS Project  
Nathan Associates Inc.  
[RGarcia@nathaninc.com](mailto:RGarcia@nathaninc.com)

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## HIGHLIGHTS OF AFGHANISTAN'S PERFORMANCE

Economic Growth	Economic growth has averaged 17 percent since 2002, fueled by high levels of investment. However, private investment remains too low to drive growth and job creation.
Poverty	Seventy percent of the population lives on less than two dollars a day, and the country ranks near the bottom in UNDP's global Human Poverty Index.
Economic Structure	Services account for nearly 40 percent of GDP while employing one-tenth the labor force. Agriculture's share of GDP has declined steadily, although it still employs four out of five workers.
Demography and Environment	A large proportion of the population is very young, while adult literacy is low, at 28 percent. Migration to both internal and international destinations is common.
Gender	Gender inequalities are severe. Unlike in most countries, women's life expectancy (44 years) is lower than men's (45 years). The ratio of male to female gross enrollment is extremely high, at 2.0.
Fiscal and Monetary Policy	Government revenues have increased but still do not cover government expenditures. The Central Bank reduced inflation in 2005/2006 by slowing growth of the money supply.
Conflict Status	Afghanistan's score for 2006 on the Failed States Index falls in the "critical" category. Weak institutional capacity leaves the country vulnerable to a collapse.
Business Environment	Afghanistan is one of the world's most difficult places to do business. Problems include difficulty enforcing contracts, delays in registering property, high security costs, and corruption. One bright spot is the small amount of time necessary to start a business.
Financial Sector	The financial sector is underdeveloped. The ratio of broad money to GDP has increased but remains far below the median of the low income Asian countries. Credit information is virtually unavailable, and collateral and bankruptcy laws are weak.
External Sector	Nontariff barriers to trade keep trade's share of GDP relatively low, but exports grew by 10.7 percent in 2005/2006. Foreign investment remains low and dependence on foreign aid is high. Remittances are vital to the economy: they equaled 65 percent of the value of exports in 2005/2006.
Economic Infrastructure	Information technology and communications infrastructure is weak but improving dramatically. Less than a quarter of all roads are paved.
Science and Technology	Anecdotal evidence suggests that capacities to develop and apply science and technology are weak.
Health	Maternal mortality rate is among the world's highest at 1,900 deaths per 100,000 live births. The child immunization rate rose from 20 percent in 2000 to 61 percent in 2003, but remains substantially lower than in comparators.
Education	Youth literacy is low: only 51 percent of boys and 18 percent of girls can read. The pupil-teacher ratio is 65 to 1, far higher than the LI-Asia median of 35 to 1.
Employment and Workforce	Unemployment is one of Afghans' primary concerns, yet rigid employment regulations impede businesses' ability to hire workers.
Agriculture	Cereal yields have improved but remain well below the regression benchmark and the LI-Asia median.

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





## AFGHANISTAN: NOTABLE STRENGTHS AND WEAKNESSES— SELECTED INDICATORS

Indicators, by topic	Strengths	Weaknesses
Growth Performance		
Per capita GDP, current US dollars		X
Real GDP growth	X	
Investment productivity – capital-output ratio (ICOR)	X	
Gross fixed private investment, percentage of GDP		X
Poverty and Inequality		
Human poverty index		X
Demography and Environment		
Adult literacy rate		x
Youth dependency rate		x
Gender		
Female gross enrollment rate		x
Conflict Status		
Failed States Index		x
Fiscal and Monetary Policy		
Government revenue, excluding grants, percentage of GDP		x
Overall government budget balance, percentage of GDP	x	
Business Environment		
Ease of doing business ranking		x
Rule of law index		x
Cost of starting a business, percentage of GNI per capita	x	
Financial Sector		
Credit information index		x
Legal rights of borrowers and lenders		x
External Sector		
Present value of debt, percentage of GNI	x	
Gross international reserves, months of imports	x	
Aid, percentage of GNI		x
Trade in goods and services, percentage of GDP		x
Remittance receipts, percentage of exports	x	
Economic Infrastructure		
Internet users per 1,000 people		x

Indicators, by topic	Strengths	Weaknesses
Telephone density, fixed line and mobile		x
Health		
Life expectancy at birth		x
Maternal mortality rate		x
HIV prevalence	x	
Education		
Youth literacy rate		x
Persistence to grade 5, total		x
Pupil-teacher ratio, primary school		x
Employment and Workforce		
Rigidity of employment index		x

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

# 1. Introduction

This report is one of a series of economic performance assessments prepared for the EGAT Bureau to provide USAID missions and regional bureaus with a concise evaluation of key indicators covering a broad range of issues relating to economic growth performance in designated host countries. The report draws on a variety of international data sources<sup>1</sup> and uses international benchmarking against reference group averages, comparator countries, and statistical norms to identify major constraints, trends, and opportunities for strengthening growth and reducing poverty. This study uses Cambodia and Mozambique as comparators because they, like Afghanistan, are low-income countries that endured prolonged conflicts. Both have now been at peace for more than a decade, and Afghanistan’s performance can aspire to be like them within the next ten years. In addition, Afghanistan’s performance is compared to median values of Asian countries and low-income countries in Asia (LI-Asia).

## 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.<sup>2</sup> Similarly, the Economic Performance Assessment is based on an examination of key economic and social indicators, to see which ones are signaling problems. In some cases a “blinking” indicator has clear implications, while in others detailed studies may be needed to investigate the problems more fully and identify appropriate courses for programmatic action.

The analysis is organized around two mutually supportive goals: transformational growth and poverty reduction.<sup>3</sup> Rapid and broad-based growth is the most powerful instrument for poverty reduction. At the same time, programs to reduce poverty and lessen inequality can help to

---

<sup>1</sup> 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 early February 2007.

<sup>2</sup> Sometimes, too, the problem is faulty wiring to the indicator—analogue here to faulty data.

<sup>3</sup> 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.

underpin rapid and sustainable growth. These interactions can create a virtuous cycle of economic transformation and human development.

Transformational growth requires a high level of investment and rising productivity. This is achieved by establishing a strong *enabling environment for private sector development*, involving multiple elements: macroeconomic stability; a sound legal and regulatory system, 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*.<sup>4</sup> Here, too, many elements are involved, including effective education and health systems, policies facilitating job creation, agricultural development (in countries where the poor depend predominantly on farming), dismantling barriers to micro and small enterprise development, and progress toward gender equity.

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

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

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

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

Table 1-1. Topic Coverage

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

## DATA QUALITY AND FORMAT

The breadth and quality of economic data collected for Afghanistan have improved over the past five years, but data for many indicators remain incomplete. Throughout this report, we note topics for which data are particularly sparse or problematic, but deficiencies persist in almost every topical area. Because robust economic data are imperative for sound economic planning, improving data quality should remain high on donors' lists of priorities.

For many indicators used in this report, data are presented for periods corresponding to the Afghan fiscal year—approximately March 21 to March 20. If the period in question is March 2004–March 2005, the period is referred to as “2004/2005.” Data collected from January to December are referenced accordingly (i.e., as pertaining to 2004 or 2005). In the IMF's World Economic Outlook database, data were recorded for single years, but cross-checks with other IMF sources and reports of Afghanistan's Central Bank revealed that the data in fact applied to the Afghan fiscal year.



## 2. Overview of the Economy

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

### GROWTH PERFORMANCE

Afghanistan has achieved good economic recovery and growth since 2002: non-drug real GDP grew by an average of 16.6 percent per year between March 2002 and March 2006.<sup>6</sup> Growth slowed from 15.7 percent in 2003/2004<sup>7</sup> to a still-high 8 percent in 2004/2005, then rebounded to 14.0 percent in 2005/2006, supported by the agricultural sector's recovery from the previous year's drought.<sup>8</sup> The latter figure is more than twice the regression benchmark for a country with Afghanistan's characteristics (5.9 percent) and greater than the real GDP growth rates in Cambodia (13.4 percent) and Mozambique (7.7 percent) (both for 2005) (see Figure 2-1). Some of the initial growth is due to rebound from a wartime economic collapse, yet the 8 percent growth that the IMF predicts for 2006/2007 is due to continued strength in the construction and services sectors.<sup>9</sup>

The economy still suffers from decades of conflict and a series of governments that ignored prudent macroeconomic policies and the state's infrastructure. Despite steady recent economic growth, 2005/2006 per capita income is \$300.5 (in current U.S. dollars). This is well below the benchmarks of Cambodia (\$430.3), and also below Mozambique (\$331.4), and the median of low-income countries in Asia (LI-Asia) (\$547.5), all for 2005.

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<sup>5</sup> The Data Supplement provides a full tabulation of the data for Afghanistan and the international benchmarks, including indicators not discussed in the text, as well as technical notes for each indicator.

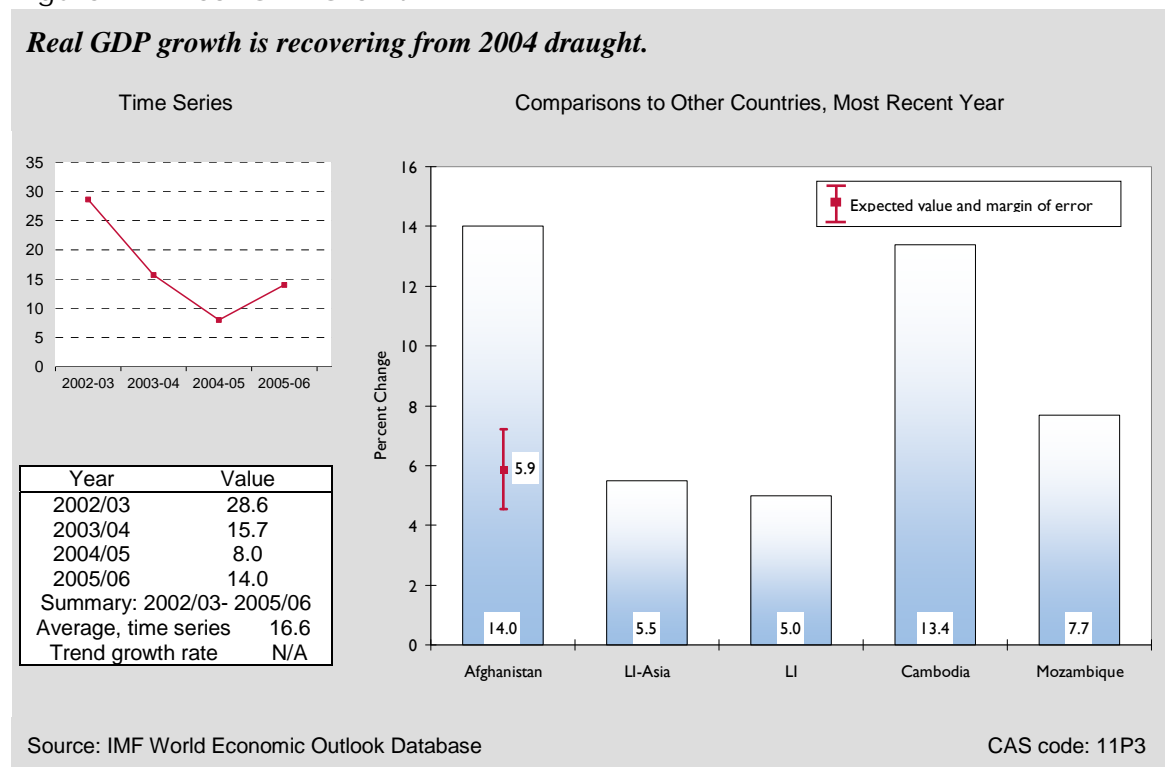
<sup>6</sup> GDP statistics do not take into account poppy production.

<sup>7</sup> This refers to the Afghan fiscal year, approximately from March 21, 2003 to March 20, 2004.

<sup>8</sup> Da Afghanistan Bank, *Quarterly Economic and Statistical Bulletin: Quarter I, 1385 (2006-2007)*, August 2006, 8.

<sup>9</sup> IMF, *Islamic Republic of Afghanistan – Statement of the IMF Staff at the Conclusion of the Mission for the First Review Under the Poverty Reduction and Growth Facility*, November 26, 2006. <http://www.imf.org/external/np/ms/2006/112606.htm>.

Figure 2-1. Real GDP Growth



Afghanistan's strong economic growth is fueled by high investment rates and strong investment productivity. Gross fixed investment averaged 40.1 percent of GDP for 2002–2006, with annual figures close to double those of all the comparators. This level of investment reflects international donors' assistance in intensive rebuilding of infrastructure and reconstruction (see External Sector, p. 24), and significant growth in the industrial sector (see Economic Structure, p. 9).<sup>10</sup> Investment productivity is relatively high. A simple way to measure this is by examining the incremental capital–output ratio (ICOR), which shows the amount of investment needed per unit of extra output; a high ICOR indicates low efficiency. Afghanistan's ICOR of 2.4 is lower than Cambodia's (2.5), Mozambique's (3.5) and the LI-Asia median (4.5), showing that investment in Afghanistan is more efficient than in these comparators.

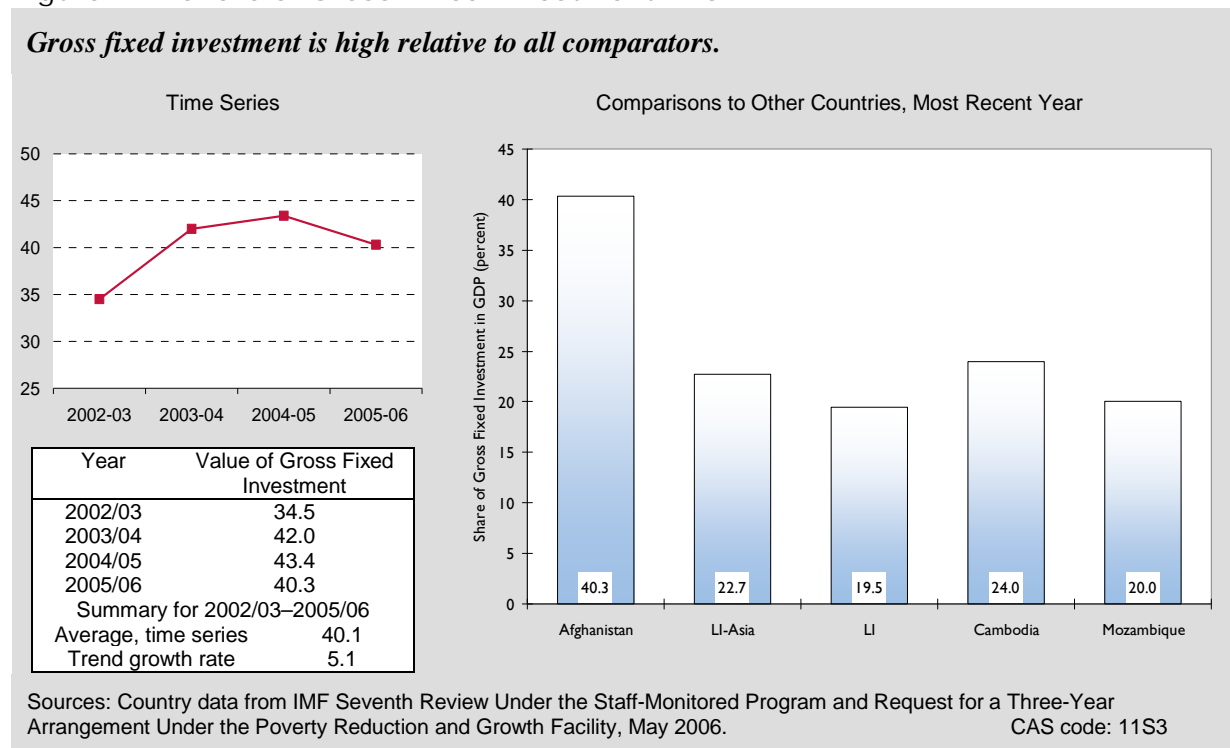
Gross fixed investment's share of GDP in Afghanistan is significantly stronger than all comparators. See Figure 2-2. Afghanistan's 40.3 percent is more than double the average of the LI countries. However, most of this is not private investment. Gross fixed private investment's share of GDP rose from 7.5 percent in 2002/2003 to 9.6 percent in 2005/2006, too low to drive growth and job creation. Afghanistan simply lacks the basic factors to induce investment: political and economic stability and security, unambiguous regulations, enforceable and

<sup>10</sup> Da Afghanistan Bank, *Quarterly Economic and Statistical Bulletin: Combined Issue 1384 (2005-06)*, April 2006, section 1.1, no pp.; and Da Afghanistan Bank, August 2006, pp 8–9.



reasonable tax rates, access to finance and infrastructure, and appropriately skilled workforce.<sup>11</sup> The Afghan government is taking steps to improve the business environment, but key challenges remain to be addressed (see Section 4).

Figure 2-2. Share of Gross Fixed Investment in GDP



## POVERTY AND INEQUALITY

The Afghanistan government has yet to carry out a census or delineate a national poverty line. Although Afghanistan’s National Development Strategy has been accepted recently as the Interim Poverty Reduction Strategy Paper (I-PRSP), no recent reliable data on poverty are available.

By most accounts poverty is a severe problem in Afghanistan. The *Afghanistan National Human Development Report 2004* presents the Human Poverty Index estimates for Afghanistan at 59.3 for 2004<sup>12</sup>—close to the average of the five worse-performing nations in the world, 60.6. See Figure 2-3. Additional evidence comes from a 2003 government survey of rural households and a subsequent World Bank analysis,<sup>13</sup> which found that nearly 48 percent of the surveyed households fell below the study’s proxy for the rural poverty line—the threshold for minimum

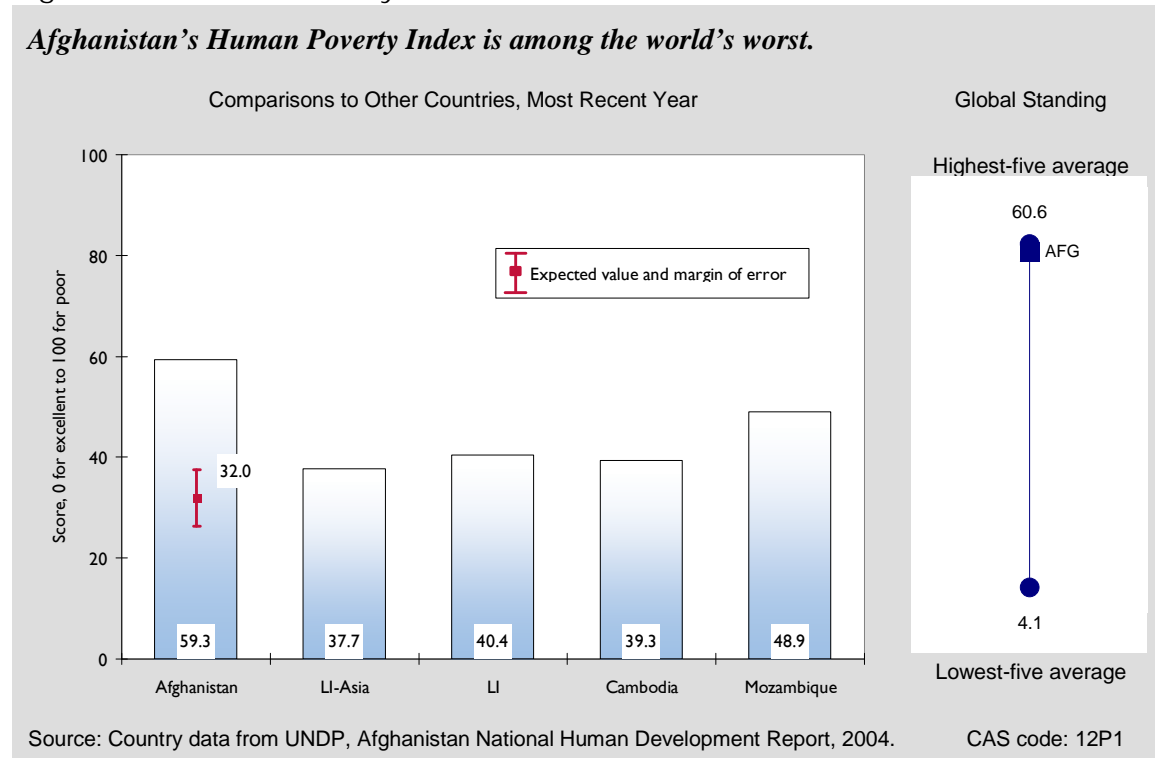
<sup>11</sup> World Bank, *Afghanistan: Investment Climate*, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/0,,contentMDK:20973586~pagePK:146736~piPK:146830~theSitePK:223547,00.html>, accessed February 10, 2007.

<sup>12</sup> United Nations Development Program, *Afghanistan National Human Development Report*, 2004, Chapter 2, p.23.

<sup>13</sup> This is not a typical indicator, and thus the data is not present in the Data Supplement.

daily food consumption expenditure.<sup>14</sup> An estimated 70 percent of the population lived on less than \$2 a day in purchasing power parity terms in 2003.<sup>15</sup> Although this is high in absolute terms, the rate is lower than that predicted by the regression benchmark (78.5 percent), or in the rate of Cambodia (77.7 percent for 2004) or Mozambique (78.4 percent for 2004). In addition, the proportion of the population living on less than the minimum dietary energy consumption was estimated at 20.4 percent during 2003, lower than all the comparators.

Figure 2-3. Human Poverty Index



According to the International Crisis Group's report on countering Afghanistan's insurgency, public discontent is growing at the lack of change among the most poverty stricken, particularly

<sup>14</sup> Christine Allison et al. *Afghanistan—Poverty, Vulnerability and Social Protection: an Initial Assessment*, World Bank, 2005, 27; survey data from Ministry of Rural Rehabilitation and Development, *2003 National Risk and Vulnerability Assessment in Rural Afghanistan*. The indicator is defined as “the annual cost of the minimum daily caloric requirement recommended for rural Afghanistan.” This was estimated at 2,100 calories per day. The threshold value was established as Af. 4,621 per capita per year, or \$0.30 per capita per day in 2003.

<sup>15</sup> World Bank staff estimates, in a government/interagency report, *Securing Afghanistan's Future: Accomplishments and the Strategic Path Forward*, prepared for international conference March 2004, 3, Table 1.1.

jobless youths. The most poverty stricken are also the most likely to be recruited by insurgents, and disillusionment encourages individuals to provide insurgents safe haven and support.<sup>16</sup>

The income distribution in Afghanistan, along with the high incidence of poverty, is also marked by a high degree of inequality. For 2003, the share of income accruing to the bottom quintile of household is just 6 percent. This is below all the comparators, including the normal range of values predicted by the regression benchmark (7.9).

Afghanistan's high rates of poverty and inequality not only pose critical policy problems in their own right, but may destabilize the country and impede economic growth by heightening social and political tensions by creating risks that deter investment and by making it difficult to achieve consensus on reforms. Afghanistan's I-PRSP sets an ambitious goal: to ensure that Afghanistan meets all Millennium Development Goals in the next 15 years. It also outlines the government's antipoverty strategies for that period. Before the poverty diagnostics and profile can be outlined for the Poverty Reduction Strategy Paper, the government will need to complete its national vulnerability assessment and get baseline data on poverty.

Policymakers and donors must focus not only on stimulating investment and productivity, but also on ensuring that growth creates better opportunities for income and wealth generation in the poorer segments of society.

## ECONOMIC STRUCTURE

The broad structure of Afghanistan's output shows a rising share of GDP in services and a declining share in agriculture. Afghanistan's services sector's share of GDP was 39.7 percent in 2005/2006, while agriculture's share was 35.9 percent and industry's 24.4 percent.<sup>17</sup> These figures are comparable to those of Cambodia in 2004 (37.9 percent in services, 32.9 percent in agriculture, and 29.2 percent in industry). The structure of economic output has shifted since 2002/2003, when 49.8 percent of GDP was from agriculture, 20.1 percent from industry, and 30.1 percent from services. The 157 percent increase in transport and communications from 2002/2003 through 2005/2006, accompanied by an only 6 percent increase in agricultural production, is the main contributor to such a quick transformation of the economic structure.<sup>18</sup> See Figure 2-4.

An estimated 80 percent of Afghanistan's labor force was employed in agriculture in 2004, with the remaining 20 percent distributed equally between the services and industry sectors.<sup>19</sup> The

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<sup>16</sup> International Crisis Group, *Countering Afghanistan's Insurgency: No Quick Fixes*, November 2006, i, and 12.

<sup>17</sup> Da Afghanistan Bank, *Quarterly Economic and Statistical Bulletin, Quarter I 1385 (2006-2007)*, August 2006, 10.

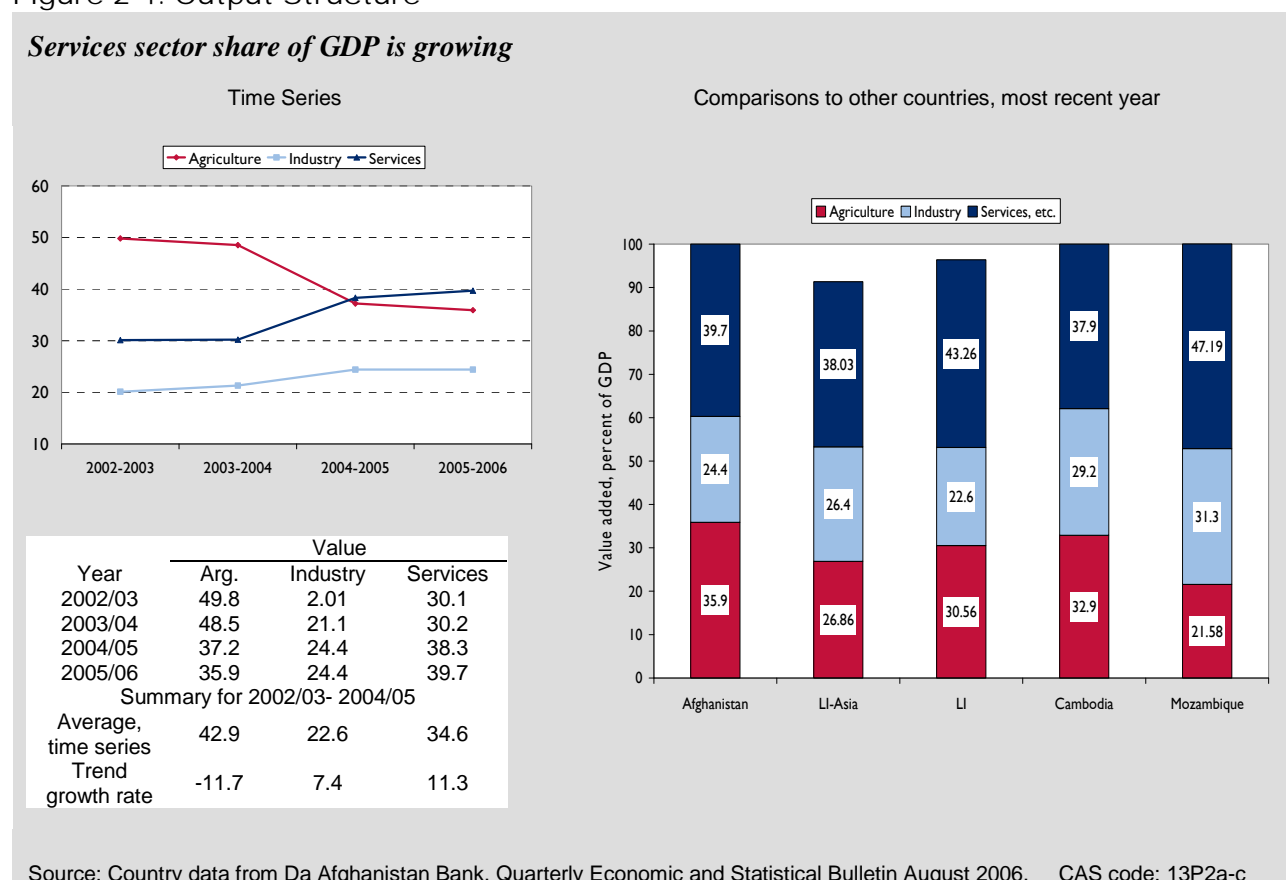
<sup>18</sup> IMF, Islamic Republic of Afghanistan: Selected Issues and Statistical Appendix, March 2006, 75, Table 3.

<sup>19</sup> Not available in World Development Indicators. This estimate is from U.S. Central Intelligence Agency, Afghanistan, "The World Factbook," <https://www.cia.gov/cia/publications/factbook/geos/af.html>, accessed February 6, 2007.

percentage working in agriculture falls in line with Mozambique's (81 percent for 2003) exceeds the regression benchmark (69.4 percent), the median for LI-Asia (48.9 percent), and the figure for Cambodia (70.2 percent for 2001).

Comparing the output and employment structures, labor seems to be most productive in services, where a tenth of the workforce contributes nearly 40 percent of output, and least productive in agriculture, where 80 percent of the population produces just over a third of output. This interpretation is erroneous however, because of the fact that an estimated 2 million Afghans are involved in illicit opium cultivation,<sup>20</sup> which does not appear in national output statistics. When opium production is taken into account, Afghanistan's services sector contributed to 28.6 percent of GDP in 2005/2006, industry 17.6 percent, and agriculture 53 percent.<sup>21</sup>

Figure 2-4. Output Structure



<sup>20</sup> U.N. Office on Drugs and Crime, *Summary Findings of Opium Trends in Afghanistan 2005*, 1.

<sup>21</sup> Calculations are based on value of opium exports from UNODC, 2005, 1 and 19; and relative size of opium production from IMF, *Islamic Republic of Afghanistan: Selected Issues and Statistical Appendix*, March, 2006, 48, Table III.4.

## DEMOGRAPHY AND ENVIRONMENT

Afghanistan's most striking demographic feature is its exceptionally high youth dependency ratio of 1.1, defined as the proportion of youths to the working age population. Afghanistan's population was estimated at 25.0 million with an annual growth rate of 2.9 percent for 2006,<sup>22</sup> with more than half of the population consisting of youth under the age of 15. This is of concern. Evidence shows that youth bulges that coexist with poor economic performance can be explosive and lead to national instability.<sup>23</sup> This also highlights the need to expand access to education. With the right policies and institutions, a rising share of working-age people in the population can boost economic growth in the long term.

The urbanization rate of 24 percent aligns closely with our regression benchmark. A large rural population, however, poses an additional challenge to increasing access to education among youth and working adults. This is evidenced in a very low adult literacy rate of 28.1 percent, a rate—although slightly higher than that of Cambodia (26.4 percent)—considerably below the benchmark for low-income countries in Asia and the rate predicted by our regression.<sup>24</sup>

Migration is a vital survival mechanism for Afghans. Continued insecurity in many communities, limited agricultural production, and recurring droughts drive migration.<sup>25</sup> There were 1.9 million Afghan refugees in other countries at the end of 2005, while 142,505 people were displaced within Afghanistan.<sup>26</sup> Migration for income-generating purposes is also important to Afghanistan; the government's 2003 survey of rural households showed that one in five rural households had a family member who had migrated to pursue a higher income, most to Pakistan or Iran.<sup>27</sup> Migration cuts across all ethnic and socioeconomic classes, but it is most often able-bodied men who migrate and send remittances to their families.<sup>28</sup> At the same time, there have been significant population movements in the opposite direction—the Central Bank estimates that 3.5 million Afghans have returned from abroad since December 2001.<sup>29</sup> Donors and Afghan government policymakers must recognize that, given economic and security conditions, Afghans are unlikely to stop moving. They must take the costs and benefits of migration into account, including remittances, so that their medium-term poverty alleviation plans are more effective.

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<sup>22</sup>IMF, World Economic Outlook, April 2007 update. It is not clear whether this estimate accounts for refugee returns.

<sup>23</sup> Henrik Urdal, *The Devil in the Demographics: The Effect of Youth Bulges on Domestic Armed Conflict, 1950-2000*, World Bank, Social Development Paper No. 14, July 2004.

<sup>24</sup> World Bank, January 2007.

<sup>25</sup> Elca Sitgter and Alessandro Monsutti, *Transnational Networks: Recognizing a Regional Reality*, Afghanistan Research and Evaluation Unit briefing Paper, April, 2005.

<sup>26</sup> UNHCR, *2005 Global Refugee Trends*, Field Information and Coordination Support Section, UNHCR Geneva, June 2006, Table 2. <http://www.unhcr.org/statistics/STATISTICS/4486ceb12.pdf>, accessed February 9, 2007.

<sup>27</sup> Data from NRVA 2003, in Negar Ghobadi, Johannes Koettl and Renos Vakis, *Moving Out of Poverty: Migration Insights from Rural Afghanistan*, January 2005, 7.

<sup>28</sup> Stigter and Monsutti, 5.

<sup>29</sup> Da Afghanistan Bank, April 2006, no pp.

There is no data on Afghanistan's environmental indicators, but UNEP's environmental assessment, during 2002 and 2003, concluded that there are "deep" environmental problems, including deforestation, drought, and erosion.<sup>30</sup> The Afghan government seems to be making some effort to protect the environment. Since then, the government, with UNEP assistance, created the National Environmental Protection Agency (NEPA), the first of its kind in Afghanistan. And in 2005, the government passed laws aimed at protecting Afghanistan's wildlife, waterways, and forests, possibly the first conservation legislation in the country.

## GENDER

Afghanistan's gender indicators highlight the profound challenges that the country must overcome. Women's lack of access to health care, education, and economic opportunities is reflected in the low female life expectancy at birth. In countries with an advanced level of human development, women live longer than men, typically five years or more. In Afghanistan, women live an average of 44 years, while their male counterparts reach 45 years of age. Although both figures are among the worst in the world, the average life expectancy for women in Afghanistan is particularly alarming because it is a departure from the global tendency of shorter life expectancy for men.

Female-headed households are a particularly vulnerable group. Estimates of the share of female-headed households range from about 16 percent in Kabul to 4–20 percent in three districts in Badakhshan.<sup>31</sup> The World Bank's Nationwide Risk and Vulnerability Assessment reports that female-headed households are poorer than average.<sup>32</sup>

Improving women's access to education and generating employment opportunities for women would lessen gender inequalities while enhancing the productive capacities of the country as a whole.

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<sup>30</sup> United Nations Environment Programme, Post-Conflict Branch Report, <http://postconflict.unep.ch/publications/afghanistanpcajanuary2003.pdf>

<sup>31</sup> World Bank, *Afghanistan: National Reconstruction and Poverty Reduction – the Role of Women in Afghanistan's Future*, March 2005.

<sup>32</sup> World Bank, *Afghanistan: National Reconstruction and Poverty Reduction – the Role of Women in Afghanistan's Future*, March 2005.

## 3. Conflict Risk

Conflict is detrimental to economic growth. According to a recent review of the literature on the links between conflict and growth,

The mechanisms through which conflict affects economic growth ... are many. First, the diversion of resources from productive to unproductive activities (Grossman and Kim, 1996; González, 2003). Second, the impact of conflict on investment in physical and human capital accumulation is not negligible once one takes into account that one of the most powerful incentives to invest is the capacity to ensure a secure return on investment (Lloyd-Ellis and Marceu, 2002). Third, while some authors point out that there is a positive relation between military expenditure and economic growth. . .increased military spending crowds out investment and may create a large fiscal burden for future generations (Deger and Sen , 1983; Klein, 2004).<sup>33</sup>

Conflict's impact on growth is substantial in the short and longer terms: for example, one 1998 study found that during civil wars, GDP per capita declines at an annual rate of 2.2 percent relative to what it would have been in the absence of conflict; furthermore, if the war lasts one year, GDP is 2.1 percent less per year than it otherwise would have been in the five years after the war's end.<sup>34</sup> Another study, drawing on evidence from Spain's Basque Country, found that over a period of 20 years, GDP per capita was 10 percent less than it would have been in the absence of conflict.<sup>35</sup>

In light of conflict's potentially significant effects on economic growth, we examine the risk for increased conflict in Afghanistan. We assess this risk using the Conflict Assessment System Tool (CAST) developed by the Fund for Peace (FFP). CAST assesses the extent to which states are vulnerable to violent internal conflict and societal dysfunction by rating 12 factors in three categories: social, economic, and political/military. Each indicator is scored on a scale of 1 to 10 (with 10 being the worst).

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<sup>33</sup> Daniel Mejia, "Conflict and Economic Growth: A Survey of the Theoretical Links," *Webpondo*, September 2004. [http://www.webpondo.org/filesoctdic2004/conflict\\_growth.pdf](http://www.webpondo.org/filesoctdic2004/conflict_growth.pdf), accessed April 13, 2007.

<sup>34</sup> Paul Collier, "On the Economic Consequences of Civil War," *Oxford Economic Papers* 51 (1999), 168–83. <http://www.worldbank.org/research/conflict/papers/cw-consq.pdf>, accessed April 13, 2007.

<sup>35</sup> Alberto Abadie and Javier Gardeazabal, "The Economic Costs of Conflict: A Case Study of the Basque Country," July 2002. <http://ksghome.harvard.edu/~aabadie/ecc.pdf>, accessed April 13, 2007.

To rate countries, a computerized content analysis technique processes thousands of news articles and documents from approximately 12,000 sources around the world. The results of this analysis are combined with statistical data. Higher scores represent greater risk, with 120 being the maximum, or “state collapse.” A score of 90 or higher means that a country falls into the category of “critical.”<sup>36</sup>

Afghanistan’s score for 2006 was 102.7, virtually unchanged from its 2005 score of 102.5. Cambodia and Mozambique’s scores for 2006 were 85 and 74.8, respectively. Table 3-1 shows the 2006 score broken down into 11 component indicators.

Table 3-1. Component Ratings of Afghanistan’s 2006 CAST Scores

Category	Rating
<b>Social</b>	
Demographic pressures	9.0
Refugees and displaced persons	8.8
Group grievance	9.1
Human flight	7.0
<b>Economic</b>	
Uneven development	7.5
Economic decline	7.6
<b>Political and military</b>	
Delegitimization of the state	8.9
Human rights	9.0
Security apparatus	9.1
Factionalized elites	8.2
External influence	10.0

Each indicator scored 7 or higher on the 10-point scale, placing the entire country as well as each indicator into the alert or critical category.

## SOCIAL INDICATORS

Afghanistan scores poorly on the demographic pressures indicator, with a score of 9.0. The youth bulge and large numbers of returning refugees that face unemployment (see *Employment and Workforce*, p. 37) can also contribute to discontent. The indicator for refugees and internally displaced persons (IDPs) received a score of 8.8 (see *Demography and Environment*, p. 11). Among the social indicators the worst performing is vengeance-seeking group grievance. With a rating of 9.1, this is one of the most serious problems facing the country. Pashtun resentment of

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<sup>36</sup> The CAST Methodology is described in greater detail on the Fund for Peace’s website: [http://www.fundforpeace.org/web/index.php?option=com\\_content&task=view&id=107&Itemid=145](http://www.fundforpeace.org/web/index.php?option=com_content&task=view&id=107&Itemid=145).



Tajik ethnic domination of the Afghan army and intelligence forces, as well as resentment of government centralization and of military attacks sparked violent anti-U.S. and anti-Karzai protests. Most troubling, suicide attacks, not known in Afghanistan until 2005 and totaling 27 that year, increased in 2006 to 139 attacks.<sup>37</sup> As in 2005, increasing violence is also preventing educated Afghans living abroad from returning to the country, slowing a positive trend that started in 2002 and resulting in a rating of 7.0 for human flight.<sup>38</sup>

## ECONOMIC INDICATORS

Most Afghans, however, still live in poverty, regardless of ethnic or tribal affiliation. Furthermore, Shiite Hazaras still suffer discrimination in employment.<sup>39</sup> This ethnic discrimination and differences between rural and urban economic levels contributed to a score of 7.5 for uneven economic development.

Although large amounts of foreign aid have led to improvements in the economy since 2001, the country remains extremely impoverished (see Growth Performance, p. 5 and Poverty and Inequality, p. 7). Poverty and the high dependence on foreign aid (see External Sector, p. 24) kept the score for the economy at a 7.6, despite recent high growth rates.

## POLITICAL AND MILITARY INDICATORS

Weak central institutions, the deadly insurgency, and the continued presence of former warlords in key government positions contributed to the score for state legitimacy of 8.9. Corruption at both the national and local levels increased, and the population became deeply disillusioned with elected officials.<sup>40</sup> Despite successful local elections in 2005, provincial governors and other officials continued to be implicated in the drug trade and, in some areas, were accused of conspiring with the Taliban.

The deteriorating security situation continually challenged international efforts to rebuild the education and health care sectors. The public services indicator scored an 8.5. Attacks by Taliban members and other insurgents on newly built schools and hospitals highlight the significant challenges in rebuilding a state in the midst of an active insurgency. Although school attendance

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<sup>37</sup> Burns, January 16, 2007.

<sup>38</sup> Internal Displacement Monitoring Centre, "Afghanistan: Fighting in the south sets off new wave of displacement," December 22, 2006, <http://www.reliefweb.int/rw/RWB.NSF/db900SID/ACIO-6WQJAU?OpenDocument> or IRIN News, "Violence fuels disillusionment and threatens reconstruction – UN", December 7, 2006, <http://www.irinnews.org/report.asp?ReportID=56648&SelectRegion=Asia&SelectCountry=AFGHANISTAN>

<sup>39</sup>U.S. Department of State, Bureau of Democracy, Human Rights, and Labor, "Afghanistan," *Country Reports on Human Rights Practices, 2006*, <http://www.state.gov/g/drl/rls/hrrpt/2006/78868.htm>, accessed April 13, 2007.

<sup>40</sup> Radio Free Europe, "Afghanistan: President Karzai Discusses Worsening Security," November 9, 2006, <http://www.rferl.org/featuresarticle/2006/11/1a8dff61-de50-4525-9042-cbbbf1dc88cb.html>; and International Crisis Group, *Afghanistan's Endangered Compact*, January 29, 2007, 11 <http://www.crisisgroup.org/home/index.cfm?l=1&id=4631>.

has increased significantly since the fall of the Taliban in 2001, including girls' attendance, the increased number of students has strained the educational system, causing a shortage of teachers and materials (see Education, p. 35).

Abuse of human rights and the absence of the rule of law remain critical problems, thus earning a score of 9.0. Although international efforts to rebuild the army and police continued in 2006, tribal militias, insurgent groups, and the Taliban increasingly challenged the government's security apparatus. These factors contributed to a score of 9.1 for the security apparatus.

Finally, the highest possible score of 10.0 for external intervention reflects the ongoing presence of nearly 26,000 Coalition and NATO forces operating in the country and the importance of foreign aid to the economy. Additionally, Afghanistan's six neighbors are suspected of backing various warlords in Afghanistan. Kabul has repeatedly accused Pakistan, for example, of harboring insurgents (particularly Taliban) who cross into Afghanistan to destabilize it.

All the indicators point to the high risk of backsliding endangering the recent gains in economic growth. Donors should design projects that can address these risks and improve performance on these indicators.

## CAPACITIES OF THE STATE

A country's ability to cope with the pressures described above depends on the strength of its institutions. Table 3-2 shows our ratings of the health of five core state institutions according to three criteria: legitimacy, representativeness, and professional competency. The ratings are on a scale of 0 to 5, with 5 the best.

Table 3-2. Core Ratings of Capacity of Afghan State Institutions, 2006

Institutions	Score
Leadership	2
Police	1
Military	2
Civil service	1
Judicial system	1

Afghanistan is suffering from a lack of strong state institutions to cope with the insurgency. The civil service, judiciary, and police were rated as poor (1) while the leadership (executive and legislative) and military were rated 2, slightly better than a poor rating,

Although the new Afghan National Army has been gaining strength, thanks to an emphasis on military training and rebuilding efforts, particularly by the U.S. government, the army is dominated by Tajik and other non-Pashtun ethnic groups. Meanwhile, the Taliban exploits ethnic rivalries to recruit among the Pashtuns. The security forces risk losing legitimacy and representativeness if they do not take steps to increase their ethnic diversity.

The civil service is in need of internal reform because it is prone to bribery, corruption, and ethnic discrimination. Appointments are usually made inequitably, along tribal or ethnic lines, not on the basis of professional competency. After decades of brain drain, there are few skilled professional civil servants in the government. Similarly, the judiciary is fraught with corruption or, in many parts of the country, is nonexistent. Decisions are generally made according to a mixture of codified law, sharia law, and local custom. The judiciary also lacks sufficient ethnic diversity.

To bolster the state's ability to cope with factors that increase conflict risk, donors and the government should dedicate substantial resources to strengthening the five institutions profiled here. In addition, they should strive to eliminate ethnic discrimination throughout these institutions. One lesson learned from Mozambique's recovery is that local people need to drive reconciliation and reconstruction in order for these processes to be sustainable,<sup>41</sup> and ethnic discrimination undermines broad-based support for them.

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<sup>41</sup> Susan Woodward, *Economic Priorities for Peace Implementation*, International Peace Academy Policy Paper Series on Peace Implementation, October 2002, 11.



# 4. Private Sector Enabling Environment

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

## **FISCAL AND MONETARY POLICY**

Government expenditure has risen from a very low base since 2002, growing from 8.5 percent of GDP in 2002/2003 to 15.5 percent in 2005/2006. Although only slightly higher than the comparable statistic in Cambodia (13.9 percent), and lower than that for Mozambique (22.6 percent), it exceeds the normal range for a country of Afghanistan's characteristics as predicted by the regression benchmark. Revenues have improved markedly—they accounted for 6.3 percent of GDP in 2005/2006, nearly double the percentage for 2002/2003 (3.2 percent)—they are still lower than the average for the world's five poorest performers (8.6 percent). Afghanistan's positive budget balance over the last four years would not have been possible without enormous support from donors (see External Sector, p. 24).

Recent developments, however, are encouraging: the income tax, instituted in September 2005, is making an increasing contribution to revenues,<sup>42</sup> and domestic revenues exceeded initial targets in the country's Poverty and Reduction and Growth Facility program with the IMF. Nevertheless, spending pressure—from the taking over of certain expenditures formerly covered by donors, arrears for public employees, operating costs from the development budget, and persistent

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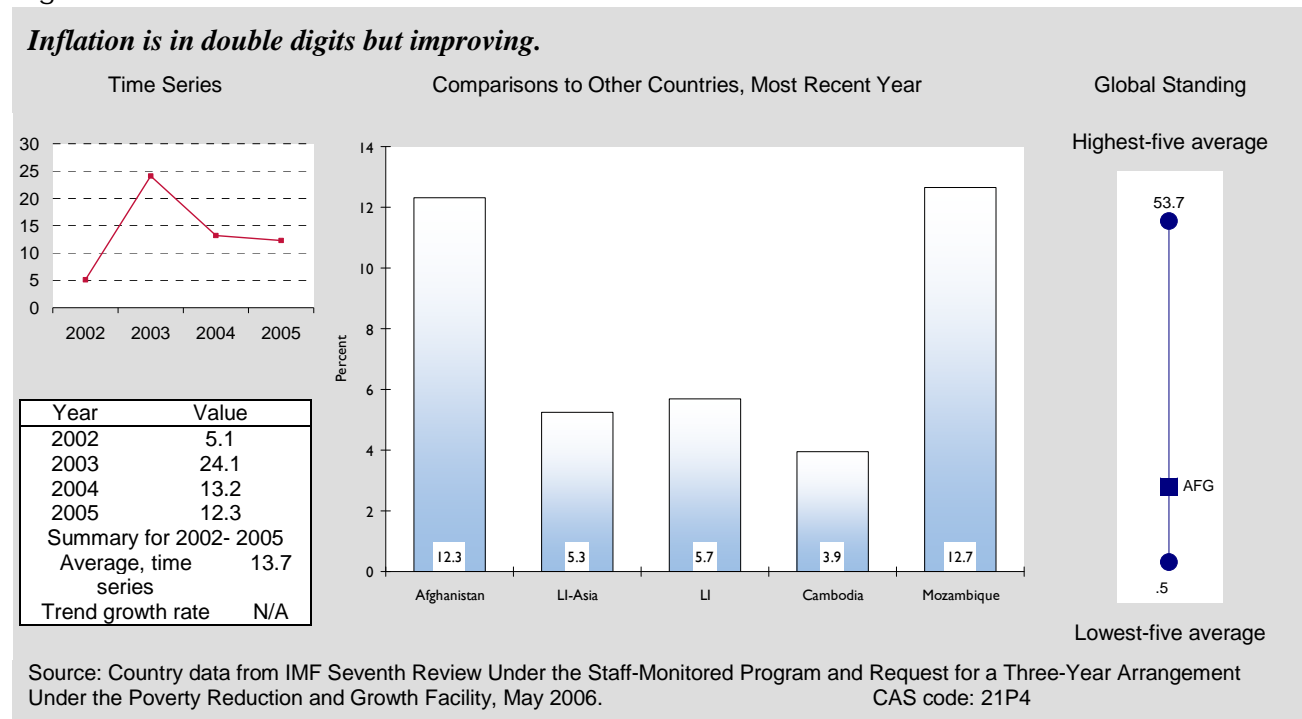
<sup>42</sup> Da Afghanistan Bank, August 2006; IMF; November 2006.

security problems—remain strong.<sup>43</sup> Wages and salaries appear particularly problematic: they accounted for 38.9 percent of government expenditures in 2005/2006, which far exceeds their share in Cambodia (18.2 percent in 2004) and Mozambique (31.0 percent in 2005), and the medians for LI-Asia (25.3 percent) and all low-income countries (27.4 percent). Fiscal stability will depend on the government's prudent management of spending, particularly the public payroll.

## Inflation

At first glance, inflation appears worrisome: consumer prices rose by an average of 13.7 percent per year between 2002/2003 and 2005/2006, more than double the LI-Asia median of 5.3 percent (Figure 4-1).<sup>44</sup> Inflation has been driven by rising prices for food and non-food items, with particularly steep increases for non-food items between March 2004 and March 2006 (20.2 percent from March 2004 to March 2005 and 14.39 percent between March 2005 and March 2006). Major non-food contributors to inflation included rents, transportation, fuel, and housing prices, while a drought in 2004/2005 put pressure on food prices.<sup>45</sup>

Figure 4-1. Inflation Rate



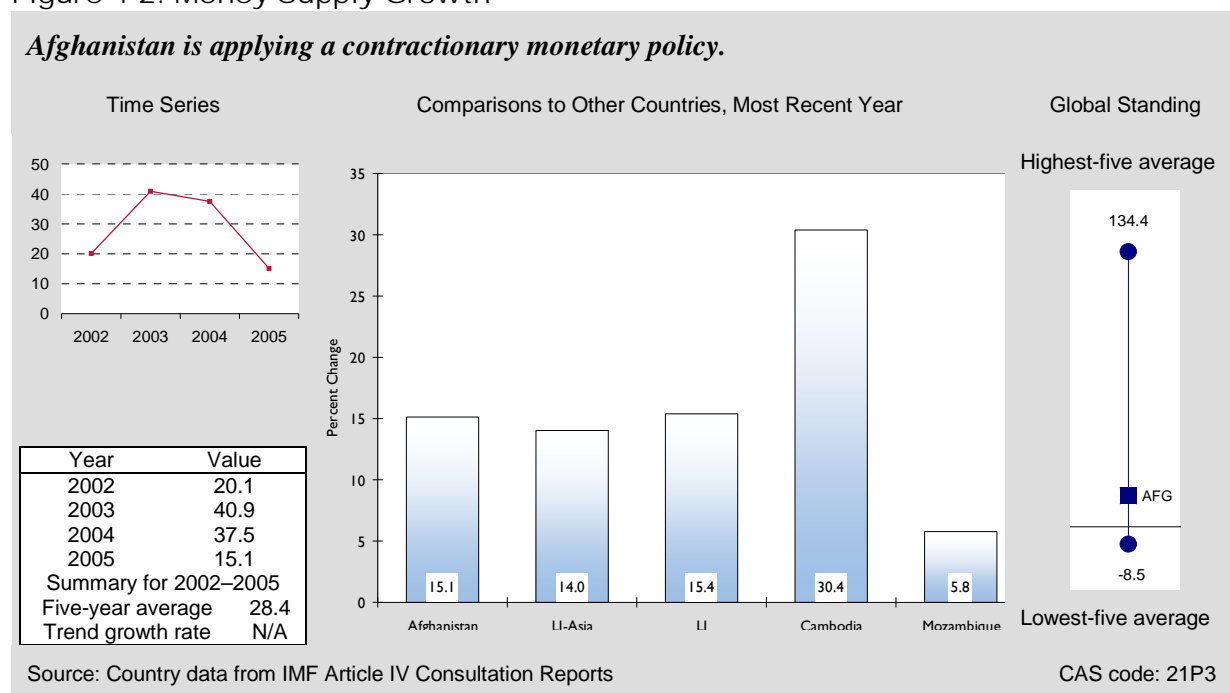
<sup>43</sup> IMF, November 2006.

<sup>44</sup> IMF, *Seventh Review Under the Staff-Monitored Program and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility*, May 2006, 25. The inflation figures quoted for Afghanistan in this section are period averages using the consumer price index for Kabul.

<sup>45</sup> Da Afghanistan Bank, April 2006 section 1.2, no pp.; and DAB, August 2006., 11-17

Despite these pressures, inflation declined from 24.1 percent in 2003/2004 to 12.3 percent in 2005/2006. Improved management of the money supply has been fundamental to the decline in inflation. The money supply grew at more than double the rate of GDP in 2003/2004 and four times real GDP in 2004/2005, when the Central Bank pursued a policy of deliberate monetary expansion. Recognizing the role that money supply growth was playing in driving inflation, however, the Central Bank slowed money supply growth to 15.1 percent in 2005/2006, primarily through sales of foreign exchange to mop up excess liquidity (Figure 4-2).<sup>46</sup> Although the Central Bank’s successful response to inflationary pressures is encouraging, the IMF projects that banks’ growing liquidity and expansion of credit (Financial Sector, p. 23) will continue to be sources of inflationary pressures. Donors and other international advisers will need to work with Afghanistan’s monetary authorities to ensure that sound management of the money supply continues.

Figure 4-2. Money Supply Growth



## BUSINESS ENVIRONMENT

Institutional barriers to doing business, including corruption in government, are critical determinants of private sector development and prospects for sustainable growth. Afghanistan is one of the world’s most difficult places to do business. The World Bank’s composite index of Doing Business indicators ranked Afghanistan 162 out of 175 countries evaluated in 2006; by comparison, Cambodia ranked 143rd and Mozambique ranked 140th. Enforcement of contracts is one of the most problematic areas: it took 1,642 days to enforce a contract in Afghanistan in 2006, far more than in Mozambique, where it took 1,010 days; the LI-Asia median of 859.7 days;

<sup>46</sup> Da Afghanistan Bank, April 2006, no pp.

and Cambodia's 401 days. Time to register property in Afghanistan was also extremely high in 2006. At 252 days, it was nearly five times the time required in Cambodia (56 days), six times that in Mozambique (42 days), and more than double the LI-Asia median (118.1 days). Business startup is a bright spot: the number of required procedures (3) and time to start-up (eight days) are among the world's lowest. The cost of starting a business is still high (67.4 percent of GNI per capita), but it declined from the previous year (75.2 percent). It is now lower than the LI-Asia median (71.5 percent) and the scores for Cambodia (236.4 percent) and Mozambique (85.7 percent).

Corruption and weakness in the rule of law are serious problems in Afghanistan. The World Bank's Control of Corruption Index, a scale of -2.5 (worst) to 2.5 (best), assigned Afghanistan a score of -1.37 in 2005. The index reflects public confidence in the rule of law, incidence of crime, the reliability of the judicial system, and enforceability of contracts.<sup>47</sup> Cambodia and Mozambique both scored better than Afghanistan on this indicator in 2005 (-1.12 and -0.67, respectively). Afghanistan's score has not changed much in the past three years, suggesting that the country has yet to make significant progress in the fight against corruption. Afghanistan's score in 2005 on the World Bank's Rule of Law index was -1.68, again lower than the scores for Cambodia (-1.13) and Mozambique (-0.95).

Security is particularly costly for firms in Afghanistan. Firms surveyed for the World Bank's 2005 Afghanistan Investment Climate Assessment for Afghanistan found that businesses spend close to 15 percent of sales on security infrastructure, compared to 13.9 percent in Cambodia, and far less in neighboring Pakistan and Tajikistan (2.2 and 3.4 percent, respectively). In Afghanistan, established firms spend an additional 3 percent of sales for protection payments to commanders, government officials, or organized criminals. New business entrants and potential investors that do not have established ties with powerful figures find the environment more intimidating, and the general climate of uncertainty about future conditions are often discouraged from investing<sup>48</sup>.

Afghanistan's low scores on most of the CAS template's business environment indicators demonstrate that the country needs to improve business regulation and governance to develop the country's private sector. The Financial Sector, Economic Infrastructure, and Education sections highlight other areas in which improvements are needed to improve prospects for private sector development.

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<sup>47</sup> Daniel Kaufmann, Aart Kraay, and Massimo Mastruzzi. *Governance Matters V*, World Bank, 2006. The Control of Corruption Index measures "the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests." It is used here in place of the corruption indicator in the CAS template, the Transparency International Corruption Perception Index because data for this indicator is not available for Afghanistan.

<sup>48</sup> Syed Mahmood, Samuel Munzele Maimbo, et al. *The Investment Climate in Afghanistan: Exploiting Opportunities in an Uncertain Environment*. World Bank, December 2005, 15. Cambodia data is from 2003, and is from the World Bank's *Enterprise Surveys* website, <http://www.enterprisesurveys.org/ExploreTopics/CompareAll.aspx?topic=crime>, accessed February 11, 2007. No data for security costs is available for Mozambique.



## FINANCIAL SECTOR

A sound and efficient financial sector is a key to mobilizing saving, fostering productive investment, and improving risk management. Data for Afghanistan's financial sector are scant, but the information available shows that the sector is underdeveloped but advancing. A simple indicator of banking sector development is the degree of monetary deepening, measured by the ratio of broad money (currency plus bank deposits) to GDP. In Afghanistan, this ratio was 23.7 percent in March 2006,<sup>49</sup> higher than in Cambodia (19.5 percent) and just shy the ratio in Mozambique (24.6 percent), but still much lower than the median for LI-Asia (37.9 percent). Broad money has experienced double-digit growth every year since 2002/2003 (see Fiscal and Monetary Policy, p. 19). Although currency in circulation remains the largest component of broad money, deposits account for a small but increasing share: quasi-money, consisting of time, savings, and foreign currency deposits, accounted for 6.4 percent of broad money in March 2006, compared to 2.3 percent a year earlier. This growth signals that confidence in the fledgling banking system is growing.<sup>50</sup>

Although reliable data on the volume of bank credit to the private sector are not available, access to finance is clearly a serious problem in Afghanistan. As the World Bank's December 2005 Afghanistan Investment Climate Assessment reported:

Afghanistan's financial system is just beginning to recover and businesses have almost no access to bank credit and only limited access to banking services generally. Most of the 12 commercial banks licensed to operate in Afghanistan are concentrated in Kabul and provide services primarily to international donors and businesses, foreign nongovernmental organizations, and foreign government agencies. Commercial banks in Afghanistan offer financing with a maximum tenure of financing of up to three years. There are a small number of nonbank financial institutions (11 microfinance institutions, one credit union, and one leasing company), but although growing, they are still nascent and can meet only a very small fraction of credit needs.<sup>51</sup>

*Doing Business 2007* assigned Afghanistan a score of zero on its Depth of Credit Information index, which reflects the country's lack of credit bureaus or credit rating agencies. Afghanistan also scored zero on the Strength of Legal Rights index, which examines collateral and bankruptcy laws' protection of borrowers' and lenders' rights. The underdeveloped state of the formal financial sector leads many Afghans to conduct financial transactions through informal financial operators known as *hawaladars*, who may broker money transfers and short-term loans. Although the *hawala* system helps Afghan entrepreneurs meet many needs for financial transactions, neither the *hawala* system nor the formal financial sector provides the options for extended financing that the Afghan private sector requires for long-term growth.<sup>52</sup> Developing and deepening the formal financial sector, including strengthening the sector's legal and regulatory

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<sup>49</sup> Monetary data from Da Afghanistan Bank, August 2006; GDP from World Economic Outlook.

<sup>50</sup> Da Afghanistan Bank, April 2006, no pp.

<sup>51</sup> Mahmood et al., vi. Da Afghanistan Bank's August 2006 Quarterly Economic and Statistical Bulletin reported the number of licensed banks as 13 (pg. 32).

<sup>52</sup> Ibid, pg. 23.

framework, creating credit information mechanisms, expanding access to finance for SMEs, and deepening financial sector services in and outside of Kabul, are urgent priorities.

## EXTERNAL SECTOR

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

Afghanistan's ability to import and export is hampered by cumbersome import and export procedures, but exports have grown in the past five years. The country runs only a modest current account deficit, but would run a much larger one without foreign aid. Indeed, dependence on aid has increased since 2002, despite significant increases in domestic government revenues. Foreign investment, an important potential driver of long-term growth, remains low because of problems in the business environment.

### International Trade and Current Account Balance

Trade data for Afghanistan must be interpreted with caution. Official records of imports and exports do not capture the large volume of imports and exports that go unrecorded (i.e., smuggled). Although hard statistics on smuggling are elusive, the Central Bank estimates that the value of smuggled goods equals 30 percent of the value of recorded trade.<sup>53</sup> Furthermore, official statistics do not include opium, of which exports to neighboring countries in 2005 equaled an estimated \$2.7 billion, or approximately 37 percent of Afghanistan's GDP for 2005/2006.<sup>54</sup> The trade data we use in this section were estimated by the IMF and do not include opium exports or exports related to United States or NATO military activities.

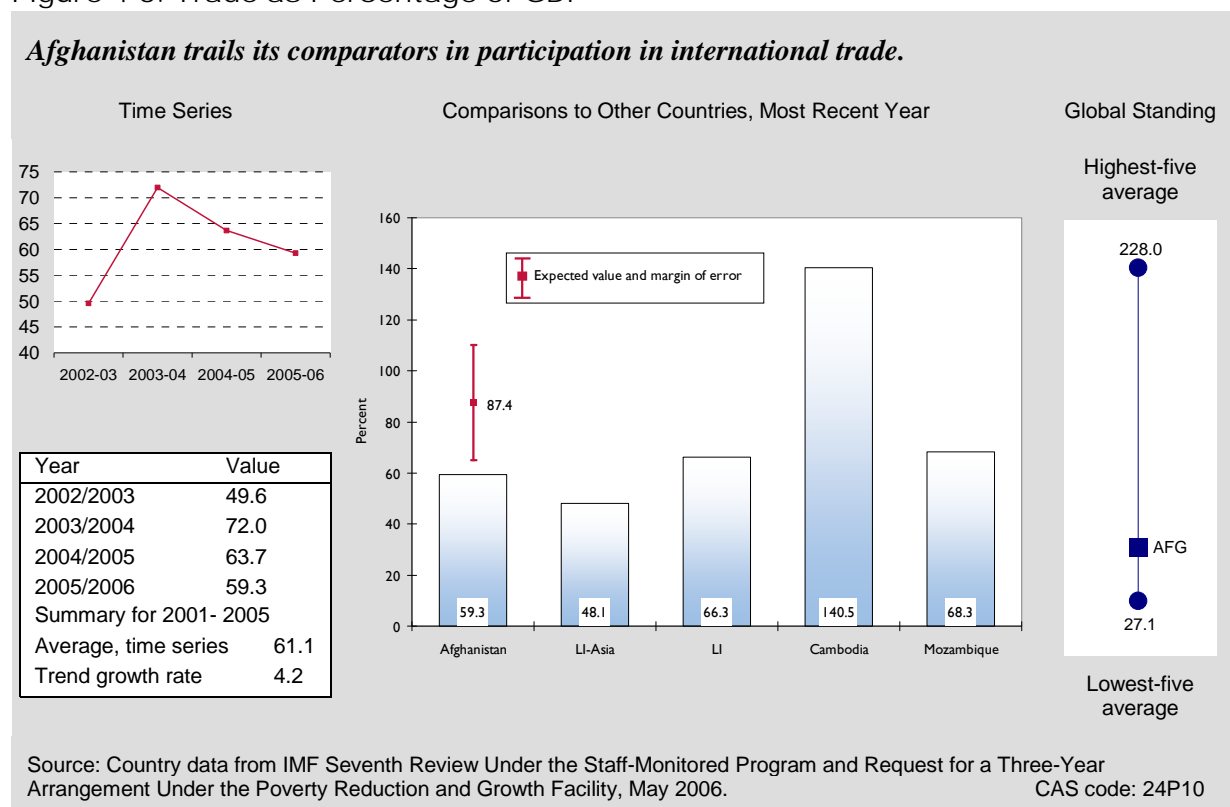
Afghanistan is far less active in international trade than many similar countries. In 2005/2006, trade flows (imports plus exports of goods and services) equaled 59.3 percent of GDP, \$4.5 billion. Although this figure exceeds the median for LI-Asia (48.1 percent), it is lower than Mozambique's 68.3 percent in 2004, much less than half of Cambodia's (140.5 percent in 2004), and well below the normal range for a country with Afghanistan's characteristics as estimated by the benchmark regression (Figure 4-3). Furthermore, imports are probably elevated because of imports by aid projects.

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<sup>53</sup> Da Afghanistan Bank, August 2006, 49.

<sup>54</sup> Value of opium exports from United Nations Office on Drugs and Crime, 2005, 1; GDP at market prices from IMF, World Economic Outlook.

Figure 4-3. Trade as Percentage of GDP



The comparatively low share of foreign trade in GDP suggests the need for measures to stimulate trade, investment, and productivity in licit sectors of the economy. Of particular concern are cumbersome import and export procedures: *Doing Business* ranked Afghanistan 152 out of 175 countries in 2006 for ease of trading across borders, lower than its rank of 147 the previous year. Official costs to ship a container for export totaled \$2,500 in 2006, more than three times the total for Cambodia (\$736) and well above Mozambique's (\$1,516), while the time to export totaled 66 days, compared to 36 days for Cambodia and 39 days for Mozambique.<sup>55</sup> Furthermore, although the IMF noted with concern Afghanistan's reclassification of certain goods into two new, higher tariff bands, it still described the trade regime as "liberal and transparent."<sup>56</sup> Trade facilitation improvements rather than tariff reductions should be the top trade policy priority for Afghanistan.

Despite these barriers, exports are growing. The 10.7 percent growth in 2005/2006<sup>57</sup> exceeded the median for low-income countries (7.1 percent) and was well within the normal range of values predicted by the regression benchmark, although it was less than the high figures for Mozambique (23.8 percent) and Cambodia (22.4 percent) in 2004 (Figure 4-4). A few product groups dominate Afghanistan's exports: the Central Bank claims that carpets and rugs accounted for over 53 percent of exports in 2005/2006, followed by food items (27.1 percent, including

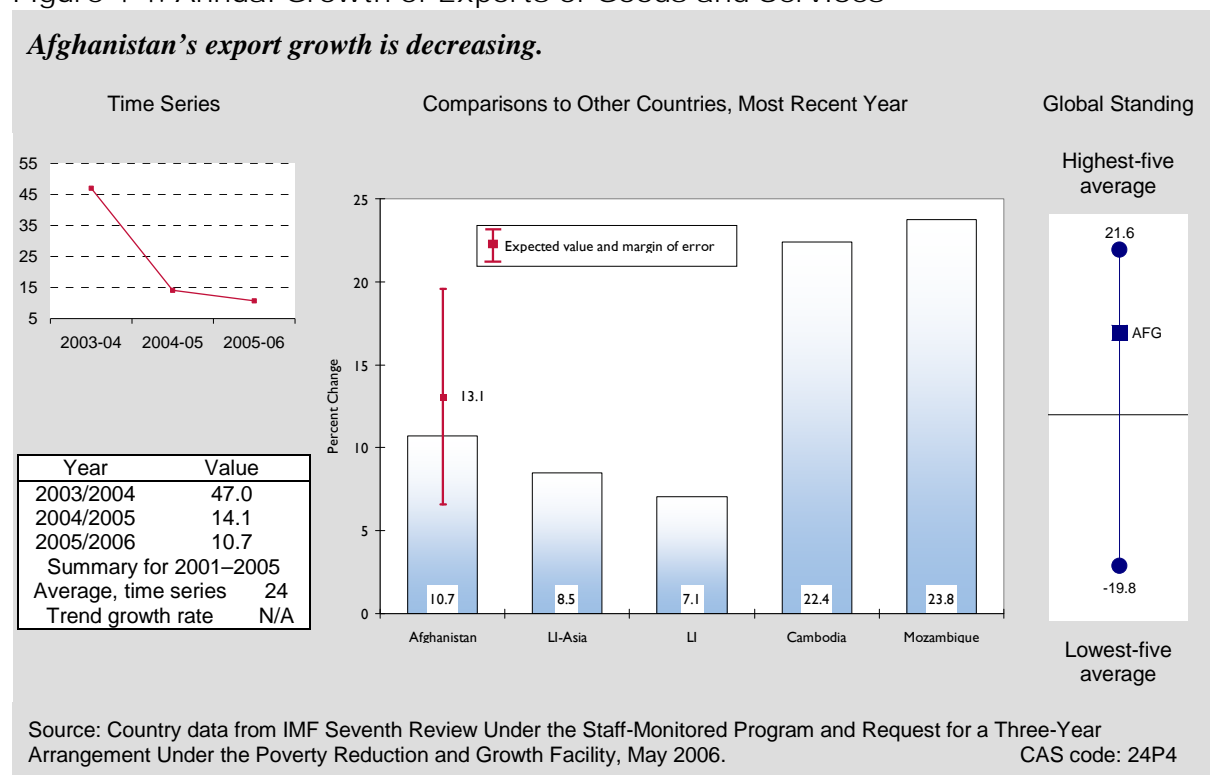
<sup>55</sup> [www.doingbusiness.org](http://www.doingbusiness.org), accessed February 1, 2007.

<sup>56</sup> IMF, November 2006.

<sup>57</sup> IMF, May 2006, 26.

fresh and dried fruits and nuts), and leather (8.1 percent). The overwhelming majority of Afghanistan's exports go to neighboring Pakistan (some 72.9 percent of exports in 2005/2006, up from 65.0 percent the previous year). The next most important destination, India, accounted for only 5.7 percent of exports in that same period.<sup>58</sup> The sectors in which Afghanistan specializes present strong growth opportunities: Afghanistan was once a leading exporter of dried fruits and nuts, and an important exporter of karakul (a type of lamb's wool). Exports of these products are growing again but have yet to reach pre-Soviet invasion levels.<sup>59</sup> Because the country remains dependent on a small basket of products and a few key markets, it is vulnerable to changes in world market conditions, domestic supply shocks, and demand shocks in the key export markets. Diversification of export products and markets is thus a high priority.

Figure 4-4. Annual Growth of Exports of Goods and Services



Real appreciation of the Afghani between 2002/2003 and 2005/2006—an average of 13.2 percent annually—may have dampened exports.<sup>60</sup> Annual appreciation slowed somewhat, however, by the end of this period (from 21.0 percent in 2002/2003 to 5.4 percent in 2005/2006). The

<sup>58</sup> Da Afghanistan Bank, August 2006, 53-55.

<sup>59</sup> Sayed Yaqub Ibrahim, "Afghanistan's Traditional Lambskin Fur Trade Revives," *EnvironmentNews Service*, May 26, 2006, <http://www.ens-newswire.com/ens/may2006/2006-05-26-02.asp>, accessed February 11, 2007, and Kathleen Trask, "Afghanistan," in *South Asian Free Trade Area: Opportunities and Challenges*, Nathan Associates/USAID, October 2005, 203.

<sup>60</sup> IMF, May 2006, 25.

slowdown in real appreciation reflects lower inflation and the Central Bank's efforts to maintain a stable nominal exchange rate through foreign exchange auctions, weekly at first, then biweekly beginning in February 2006.<sup>61</sup>

Afghanistan's current account went slightly into deficit in 2005/2006 (-0.9 percent of GDP) after two years of modest surpluses (3.1 percent in 2003/2004 and 1.4 percent in 2004/2005). Its recent deficit is lower than the median for low-income countries (-4.3 percent) and than the deficits of Cambodia (-4.4 percent in 2004) and Mozambique (-10 percent in 2004). Yet without donor assistance, Afghanistan's current account deficit would be far larger— -42.6 percent of GDP. Although Afghanistan's dependence on foreign aid to finance the current account is not sustainable in the long term, the situation is less worrisome than it might appear for three reasons: (1) an elevated level of imports is understandable in light of the country's vast reconstruction needs; (2) official transfers are likely to continue at important levels in the near to medium term; and (3) the trade deficit appears to be declining (from -41.3 percent in 2003/2004 to -35.9 percent in 2005/2006).<sup>62</sup> This suggests that Afghanistan is improving, albeit modestly, its ability to finance imports without external assistance.

Remittances from Afghans abroad are difficult to measure because they flow largely through the informal yet well-developed *hawala* system. According to IMF estimates of private current transfers (used as proxies for remittance flows), remittances equaled nearly 65 percent of the value of exports in 2005/2006.<sup>63</sup> This figure, although approximate, suggests that remittances play a substantial role in financing the current balance and the economy as a whole. In light of the importance of remittances, policymakers should seek to improve the security and efficiency of cash transfer mechanisms and develop programs to channel remittances toward productive investment.

### **Foreign Investment, External Assistance, and International Reserves**

Afghanistan depends heavily—and increasingly—on foreign aid, despite impressive recent increases in domestic revenue collection (see Fiscal and Monetary Policy). Official development assistance equaled 38.6 percent of gross national income in 2005, an increase of more than six percentage points since 2002, compared to 10.4 percent in Cambodia and 20.8 percent in Mozambique. Afghanistan depends on foreign assistance to cover developmental and operational expenses and to narrow its current account deficit (Figure 4-5). Reducing dependence on aid through continued expansion of domestic revenues, carefully managed government spending, and increased foreign private investment must remain high priorities.

In addition to relieving dependence on aid, foreign direct investment can catalyze productivity gains by transferring technology, developing human capital, and enhancing access to global supply chains. Afghanistan's Investment Support Agency (AISA) and the World Bank's

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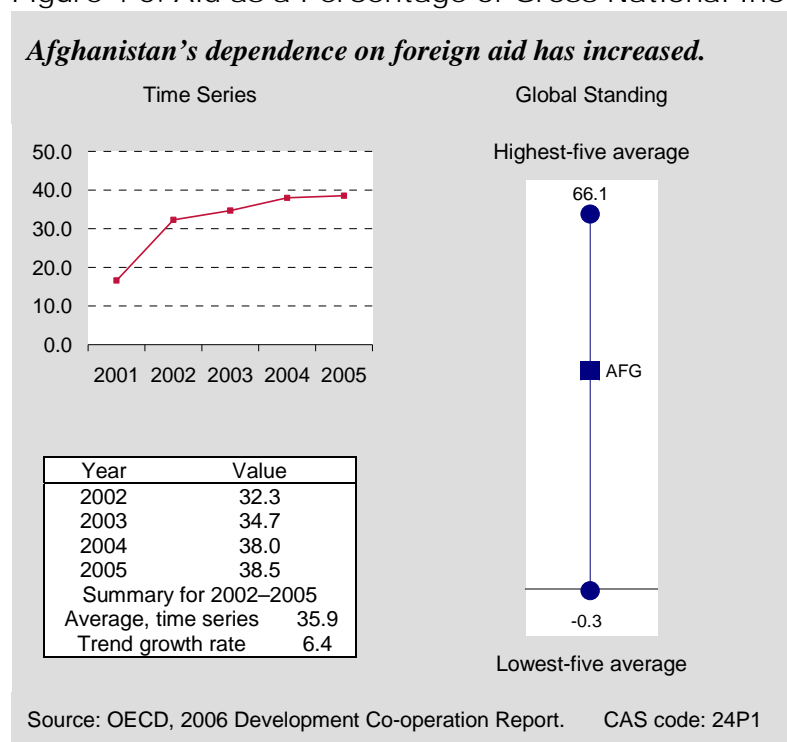
<sup>61</sup> Da Afghanistan Bank, April 2006.

<sup>62</sup> IMF, May 2006, 25.

<sup>63</sup> Private current transfers include individuals' remittances as well as current transfers between nongovernmental organizations.

Multilateral Investment Guarantee Agency (MIGA) have identified four sectors with particular promise for attracting FDI: logistics and transport, food and beverage processing, textiles and carpets, and mining.<sup>64</sup> In 2005/2006, net FDI inflows equaled a higher percentage of GDP (5.17 percent) than in Cambodia and Mozambique (2.69 percent and 4.02 percent in 2004, respectively). This figure was boosted, however, by a one-off telecommunications transaction, and will likely be lower in 2006/2007.<sup>65</sup> To increase FDI inflows, Afghanistan will need to continue to make improvements across the full spectrum of investment climate factors, including security (see Business Environment).

Figure 4-5. Aid as a Percentage of Gross National Income



At the outset of 2006, Afghanistan's external debt was extremely high: including some \$10 billion in mostly Soviet-era claims from Russia, 148.4 percent of GDP.<sup>66</sup> In early 2006, however, Afghanistan's three Paris Club creditors—Russia, Germany, and the United States—announced their intention to forgive 100 percent of Afghanistan's debt to them.<sup>67</sup> After an initial cancellation of 80 percent of Russia's claims, the Paris Club agreed to cancel \$1.6 billion of

<sup>64</sup> Multilateral Investment Guarantee Agency, *Investment Horizons: Afghanistan*, World Bank Group/MIGA, 2005.

<sup>65</sup> IMF, May 2006, 13.

<sup>66</sup> IMF, May 2006, 35.

<sup>67</sup> "United States Provides Afghanistan Full Debt Forgiveness." <http://usinfo.state.gov/sa/Archive/2006/Feb/07-399497.html>, accessed February 2, 2007.

Afghanistan's remaining \$2.4 billion of debt and to reschedule more than \$800 million.<sup>68</sup> The remaining debt will be canceled if Afghanistan qualifies for and meets program targets for the IMF/World Bank Heavily Indebted Poor Countries initiative. The full cancellation of debt could play a significant role in driving growth, because it would free up public and private resources for more productive uses. In addition, investors probably would likely perceive Afghanistan as a less-risky place to invest because of the lower risk of government default.

International reserves were the source of additional encouraging developments: from 2002/2003 to 2005/2006, gross international reserves steadily climbed from 1.8 months of imports to 4.7 months. Central Bank Governor Noorullah Delawari has noted that donors' demand for domestic currency has been an important factor contributing to the rise in reserves.<sup>69</sup>

## ECONOMIC INFRASTRUCTURE

Improving Afghanistan's physical infrastructure—transportation, communications, and information technology networks—is essential to enhancing the country's long-term growth potential. Indeed, increased business activity requires a parallel expansion of airports, roads, rail lines, power lines, and other key support services for the private sector. Afghanistan's ability to capitalize on its geographical position as a land bridge connecting the markets of Central Asia and South Asia and boosting regional trade also depends heavily on large-scale investment in developing its infrastructure.

Although data on infrastructure for Afghanistan are limited, the data that are available suggest that the country's infrastructure assets remain weak, although important improvements have been made recently. In 2003, the most recent year for which statistics are available, 23.66 percent of all roads were paved. The government has made strides to improve the road network in the intervening years, and improvements in travel times are noticeable in some areas.<sup>70</sup> Yet a tremendous amount of work remains to be done.

Improving physical infrastructure can be risky in conflict-affected areas. Roads are particularly sensitive. For example, insurgents killed more than 30 construction workers during reconstruction of the Kabul–Kandahar road in 2003 despite security provisions.<sup>71</sup>

The telecommunications field has experienced rapid changes in the past few years. The World Bank's most recent statistics (2003) on total telephone density in Afghanistan, or the number of telephone mainlines and mobile phone connections per 1,000 people, put the number at eight.

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<sup>68</sup> Paris Club, Press Release, July 19, 2006, [http://www.clubdeparis.org/en/news/page\\_detail\\_news.php?FICHER=com11533854280](http://www.clubdeparis.org/en/news/page_detail_news.php?FICHER=com11533854280), accessed February 12, 2007.

<sup>69</sup> Speech at the London Donors' Conference, January 28–February 2, 2006, in *Da Afghanistan Bank*, April 2006.

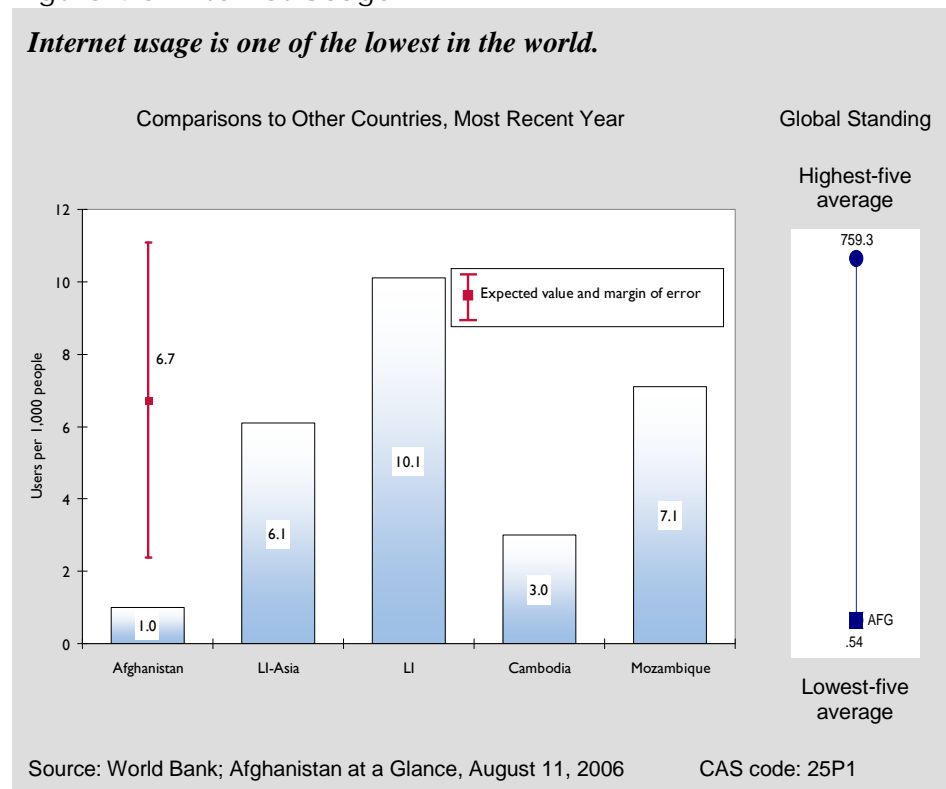
<sup>70</sup> World Bank, *Afghanistan Investment Climate Assessment*, 18.

<sup>71</sup> Andrew North, 2004. "I've been Scared, I Don't Mind Telling You." *BBC News*, 5 October 2004. [http://news.bbc.co.uk/2/hi/south\\_asia/3714332.stm](http://news.bbc.co.uk/2/hi/south_asia/3714332.stm). in Bray, John. "International Companies and Post-Conflict Reconstruction", *The World Bank, Social Development Papers No. 22*, February 2005.

This number has increased dramatically in the interim, however, driven by the growth of cellular phones. There were some 2,000,000 cellular phone subscribers in late 2006, or nearly 8 percent of the country's 25.1 million people. Growth continues to be rapid: the telecommunications company Roshan reported in November 2006 that it was adding 1,000 subscribers per day.<sup>72</sup>

Access to the Internet remains limited. The World Bank estimates that there was only one Internet user per 1,000 people in Afghanistan in 2004. This figure is far below the average for low-income countries in Asia (six users), Cambodia (three users in 2004) and Mozambique (seven users in 2004) (Figure 4-6).

Figure 4-6. Internet Usage



## SCIENCE AND TECHNOLOGY

Science and technology are central to a dynamic business environment and a driving force behind increased productivity and competitiveness. Even for low-income countries, transformational development depends on acquiring and adapting technology from the global economy. Lack of capacity to access and use technology prevents an economy from leveraging the benefits of globalization. Unfortunately, few international indicators are available for judging performance in low-income countries.

<sup>72</sup> Ivan Watson, "Cell Phone Towers Escape Afghan Violence," radio report on National Public Radio's *All Things Considered*, November 24, 2006. Accessed online at <http://www.npr.org/templates/story/story.php?storyId=6535365> on February 11, 2007.



Harnessing science and technology to support transformational growth remains a challenge for Afghanistan. No data on science and technology indicators are available; the lack of data itself indicates limited capacity to acquire, adapt, and apply technology for improving productivity and prosperity. Weaknesses in the country's education system and telecommunications infrastructure also indicate a wide technology gap separating Afghanistan from many other countries. There are at least some indications, however, of a strong commitment by both the government and the private sector to increasing the country's access to and use of advanced technology. The World Bank reports that the government is developing strategies for restoring agricultural research and extension systems; the strategies focus on adapting research, strengthening demand for research products, and defining public and private sector roles.<sup>73</sup> Government policies aimed at bringing in foreign investment are also expected to increase technology transfer and absorption.

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<sup>73</sup> Ibid, page 103.



# 5. Pro-Poor Growth Environment

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

## HEALTH

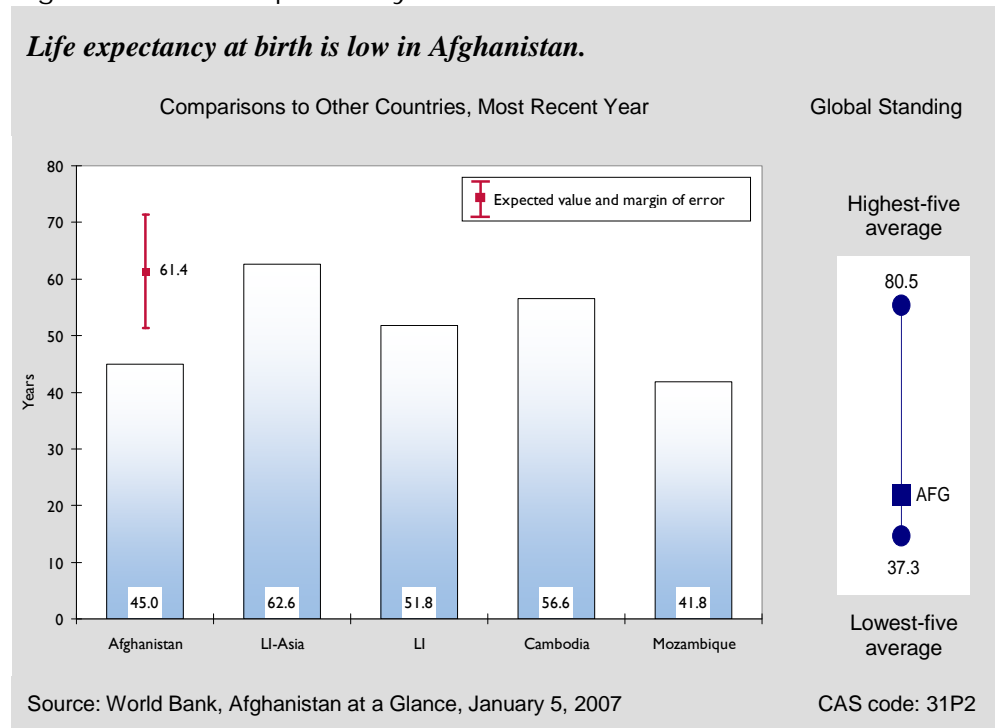
The provision of basic health service is a major form of human capital investment and a significant determinant of growth and poverty reduction. Although health programs do not fall under the EGAT bureau, an understanding of health conditions can influence the design of economic growth interventions.

Afghanistan indicators show very poor performance across the board. Life expectancy is the most common indicator of health conditions. The average life expectancy at birth in Afghanistan was 45 years (2005), below the expectancy in Cambodia (56.6 years in 2004) and the average for LI-Asia (62.6 years in 2004), and slightly better than in Mozambique (41.8 years)<sup>74</sup> (Figure 5-1). Afghanistan also has one of the world’s highest maternal mortality rates—1,900 maternal deaths for every 100,000 live births in 2000, far higher than in Cambodia (450 deaths in 2000), Mozambique (1,000 in 2001), and even higher than the average of the five worst-performing countries in the world (1,720). This statistic highlights Afghanistan’s low score on another health indicator, the percentage of births attended by a skilled health professional. During 2004, only 14 percent of births were attended by skilled health professionals, far less than in Cambodia (32 percent during 2001) and Mozambique (48 percent during 2004).

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<sup>74</sup>Mozambique’s life expectancy is low because of high HIV/AIDS prevalence; see UNAIDS, [http://www.unaids.org/en/Regions\\_Countries/Countries/mozambique.asp](http://www.unaids.org/en/Regions_Countries/Countries/mozambique.asp).

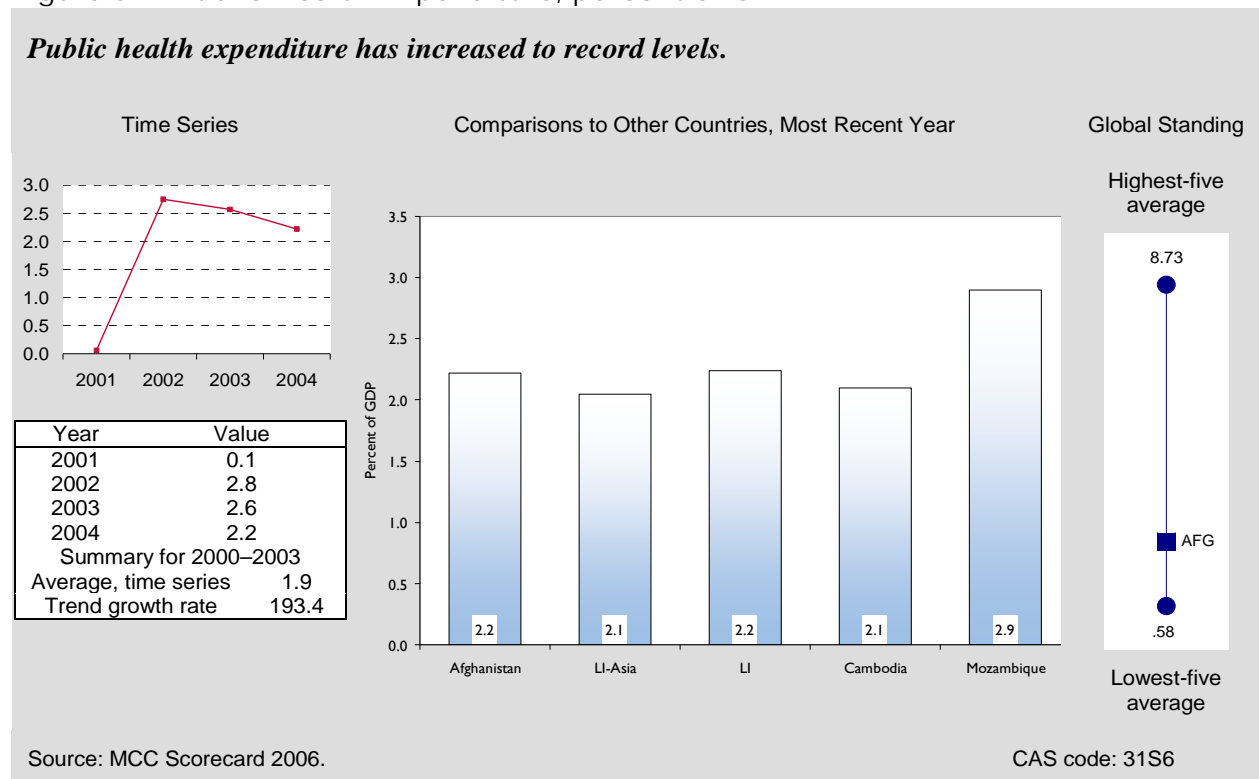
Figure 5-1. Life Expectancy at Birth



All these conditions reflect the two decades of war that made investment in basic health services impossible. But public health expenditure increased dramatically from 2000 to 2004, from 0.04 percent of GDP to 2.2 percent of GDP, thanks to donor agencies. This level is comparable to the most recent estimates for LI-Asia (2.1 percent), Cambodia (2.1 percent), and Mozambique (2.9 percent) (Figure 5-2). Fueled by this spending, child immunization rates climbed from 20 percent during 2000 to 61 percent during 2004. This is still worse than all the comparators, however—there is much work to be done.

Poor health conditions impede growth and contribute greatly to the persistence of severe poverty. Although multilateral and bilateral donors have been generous with support, including USAID, health problems cannot be addressed in a sustainable way without additional donor funding and the financial commitment on the part of Afghanistan's government. Allocating a larger share of government resources to the health sector will ultimately demand stronger revenue mobilization and economic growth (see Fiscal and Monetary Policy Section).

Figure 5-2. Public Health Expenditure, percent of GDP



## EDUCATION

The scant evidence on the Afghanistan educational system shows that the decades of war devastated the educational system. The most strikingly poor indicator is Afghanistan’s youth literacy rate—only 34 percent in 2004, not even half the median for LI-Asia (79.3 percent) or the rate in Cambodia (83.4 percent for 2004), and below Mozambique’s rate (62.8 percent for 2002) and the normal range predicted by the regression benchmark (75.5 percent) (Figure 5-3).

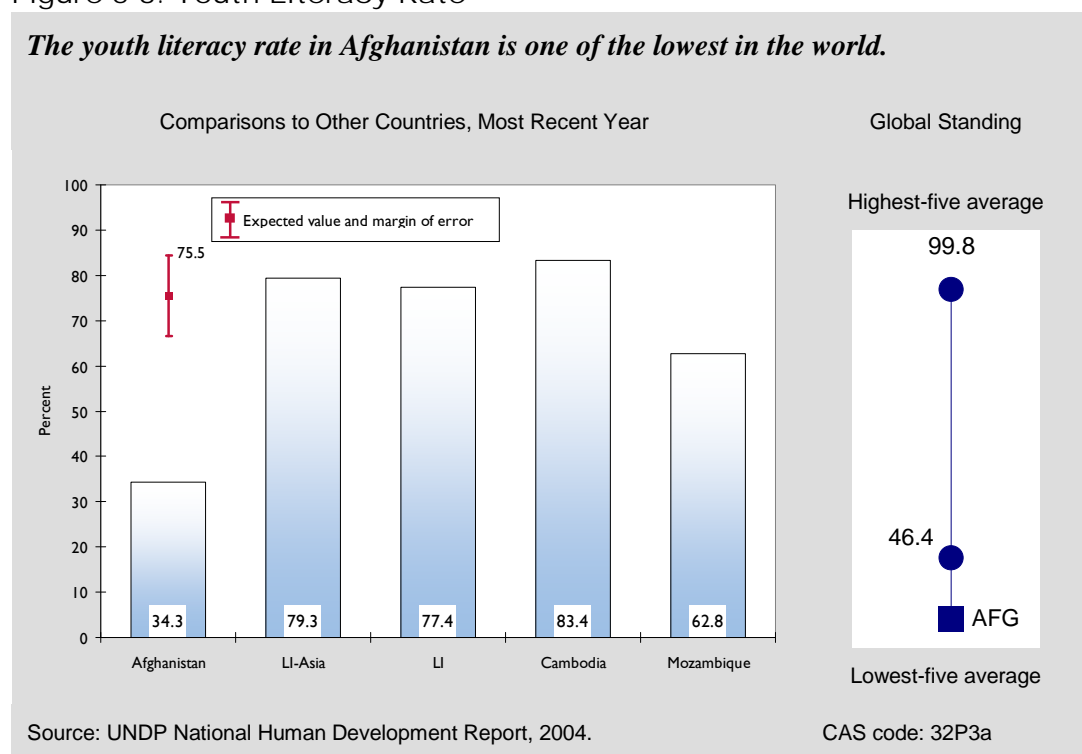
UNICEF reports that more than 4.2 million children returned to school between 2002 and 2004,<sup>75</sup> yet the primary attendance rate reached only 54 percent in 2003.<sup>76</sup> Net primary enrollment rates for Cambodia (98 percent for 2004) and Mozambique (71 percent for 2004), the average for LI-Asia (84.2 for most recent year), and the rate predicted by our regression (82.1 percent) are all much higher. Moreover, the UN reports that disparities in access to education between rural and urban communities are acute; the increase in the attendance rate between 1997 and 2003 was 50 percent higher in urban areas than in rural areas.

<sup>75</sup> UNICEF, Afghanistan Educational Fact Sheet, February, 2005. [http://www.unama-afg.org/news/\\_pr/\\_english/UN/2005/UNICEF-Education%20Fact%20Sheet.pdf](http://www.unama-afg.org/news/_pr/_english/UN/2005/UNICEF-Education%20Fact%20Sheet.pdf)

<sup>76</sup> Primary attendance is not a typical indicator. It is being used as a proxy for net primary enrollment; Millennium Development Goal Report, page 32.

The rate of persistence to grade 5 was 45 percent (2003), meaning that more than half of all children who enroll in grade one do not complete five years of education. This rate, though marginally worse than that of Mozambique (2001), is significantly worse than that of Cambodia (2004) and far behind the average rate for LI-Asia. Afghanistan's pupil-teacher ratio was 65.2:1 during 2004—twice as high as the ratio for LI-Asia.

Figure 5-3. Youth Literacy Rate



A further challenge to education is antigovernment elements' attacks on schools. Between January and July 2006, the Ministry of Education recorded 202 attacks on schools in 27 provinces that killed 41 students, teachers, and support staff. In 2005, there were 123 attacks on schools in 15 provinces, and 47 in 2004.<sup>77</sup> Such attacks reduce the number of children attending school: between April and June 2006, 208 schools were closed in Zabul, Helmand, Kandahar Ghazni, Khost and Paktika.<sup>78</sup>

Donors and policymakers are called to continue and even expand their efforts to expand access and improve the quality of education. Education should be the highest priority for the Afghan government because Afghanistan has the highest proportion of school-age children in the world (see Demographic and Environment).<sup>79</sup> Ignoring the extent of educational deficiencies, combined

<sup>77</sup> International Crisis Group, *Countering Afghanistan's Insurgency: No Quick Fixes*. 2 November 2006

<sup>78</sup> "Education Under Fire", Ministry of Education release, August 2006.

<sup>79</sup> Millennium Development Goals Islamic Republic of Afghanistan, Country Report 2005. 33.

with the population boom, can lead to fostering of conflict and failure in the provision of human capital, which is essential for sustained economic growth.

## EMPLOYMENT AND WORKFORCE

Afghanistan's workforce is estimated at 15 million and growing at a rate of 2.3 percent per year.<sup>80</sup> If this growth holds steady, the economy will need to absorb approximately 345,000 new workers each year. These statistics, however, do not take into account the dynamics of migration (described in Demographics and Environment). The United Nations High Commissioner for Refugees estimates that more than 750,000 refugees, mostly working-age males, returned from Pakistan and Iran during 2005.<sup>81</sup> This magnitude of influx cannot be absorbed by the current economy.

The World Bank's Rigidity of Employment index measures the difficulty faced by firms in hiring and firing workers. If government policies impose regulations that increase the cost of firing workers, employers delay hiring, and this diminishes job creation. Afghanistan's 2006 score of 46 equals the LI-Asia average and is better than Cambodia's 2006 score of 49. Nevertheless, the government's policy efforts in this regard must improve to generate adequate employment.

Neither the World Bank nor Afghanistan's government provides official unemployment data; however, the U.S. Central Intelligence Agency reports unemployment at 40 percent for 2005<sup>82</sup>—a rate 20 times higher than that predicted by our regression for a country with Afghanistan's economic characteristics. Results of a national survey conducted by the Asia Foundation in 2006 show that unemployment remains the Afghan people's deepest concern.<sup>83</sup>

High unemployment—particularly among young men—and the desperation that often accompanies it undermine progress, stability, and prospects for transformational growth. Donors' efforts to stem unemployment clearly must remain a top priority. The lesson learned from Mozambique's success in creating jobs, as a post-conflict economy, must be applied: donors and the government must allocate specific funds to employment creation, specifically to creating jobs in SMEs.<sup>84</sup>

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<sup>80</sup> There are significant discrepancies among sources: The World Bank reports a labor force of 5 million in 1990: <http://devdata.worldbank.org/genderRpt.asp?rpt=profile&cty=AFG,Afghanistan&hm=home>.

<sup>81</sup> Returnee statistics from United Nations High Commission for Refugees, *2005 Global Refugee Trends*, <http://www.unhcr.org/statistics/STATISTICS/4486ceb12.pdf>, Table 18; mostly working-age males from, AREU, Stigter, Elca, and Alessandro Monsutti, *Transnational Networks: recognizing a Regional Reality*, Briefing Paper, April, 2005.

<sup>82</sup> CIA Factbook, <https://www.cia.gov/cia/publications/factbook/geos/af.html>

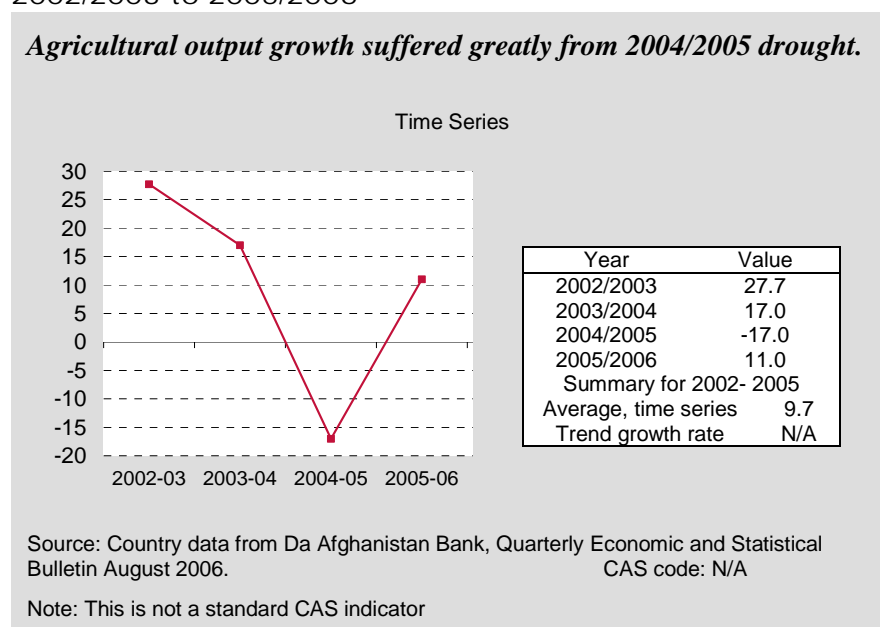
<sup>83</sup> Asia Foundation. Survey of the Afghan People: Afghanistan in 2006

<sup>84</sup> Woodward, Susan, *Economic Priorities for Peace Implementation*, International Peace Academy Policy Paper Series on Peace Implementation, October 2002.

## AGRICULTURE

Afghanistan is an agricultural country, and agricultural output has grown in absolute terms: it experienced double-digit growth every year between 2002/2003 and 2005/2006, albeit from a low base, with the exception of a severe downturn in 2004/2005 due to drought (Figure 5-4).<sup>85</sup>

Figure 5-4. Annual Percentage Growth in Agricultural Output, 2002/2003 to 2005/2006



Cereals are Afghanistan's most important licit crops; wheat alone covered 68 percent of the land cultivated in 2002. Cereal yields declined during the 1980s and 1990s but began to recover after the fall of the Taliban. They rose from 984 kg/hectare in 2000 to 1,906 kg/hectare in 2003, still far below the LI-Asia median of 2,831 kg/hectare, but comparable to Cambodia's yield for 2004 (1,999 kg/hectare) and higher than Mozambique's (959 kg/hectare). Other key crops include fruits, vegetables, oilseeds, nuts and pulses, and livestock products. Fruits occupy just 2 percent of cultivated area but are among Afghanistan's most valuable licit agriculture exports.<sup>86</sup> Dried grapes and almonds were the leading export products in this category in 2005.<sup>87</sup>

An increase in agricultural productivity is necessary to improve the lives of the rural poor. Donors and government should focus on initiatives that introduce sustained production methods and technologies as a strategy for long-term growth. A number of fundamental constraints must be addressed to increase productivity over the long term, and a 2005 World Bank study reports that there is a "large degree of unanimity" on what these constraints are: lack of access to reliable

<sup>85</sup> Da Afghanistan Bank, August 2006, 10.

<sup>86</sup> Statistics for Afghanistan in the preceding five sentences from Byrd et al., 93 and 180.

<sup>87</sup> UN COMTRADE, accessed via ITC Trade Map, December 2006.



irrigation, finance, and markets; poor knowledge and dissemination of improved production technologies; and the weak capacities of public and private sector agricultural institutions.

Insecurity of land tenure is also a major concern: in addition to discouraging investment, it raises the risk of quarrels over land and water. Such disputes have already been exacerbated by the return of millions of refugees and internally displaced people as well as the droughts. Solutions to this complex problem will be essential to promote agricultural development in the long term.<sup>88</sup>

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<sup>88</sup> Information in this paragraph and the preceding one from Byrd et al., 96.



# Appendix. CAS Methodology

## CRITERIA FOR SELECTING INDICATORS

The economic performance evaluation is designed to balance the need for broad coverage and diagnostic value, on the one hand, and the requirement of brevity and clarity, on the other. The analysis covers 15 economic growth-related topics, and just over 100 variables. For the sake of brevity, the write-up in the text highlights issues for which the “dashboard lights” appear to be signaling problems, which suggest possible priorities for USAID intervention. The accompanying table provides a full list of indicators examined for this report. The separate Data Supplement contains the complete data set for Afghanistan, including data for the benchmark comparisons, and technical notes for every indicator.<sup>89</sup>

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

When Level I indicators suggest weak performance, we review a limited set of *diagnostic supporting indicators*. These Level II indicators provide additional details, or shed light on *why* the primary indicators may be weak. For example, if economic growth is poor, one can examine data on investment and productivity as diagnostic indicators. If a country performs poorly on educational achievement, as measured by the youth literacy rate, one can examine determinants such as expenditure on primary education, and the pupil-teacher ratio.<sup>90</sup>

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

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<sup>89</sup> The Data Supplement is available on line at <http://www.nathaninc.com/projects/projectdetails.asp?pid=138&pfid=0&rpil=4&rid=9> .

<sup>90</sup> Deeper analysis of the topic using more detailed data (Level III) is beyond the scope of this series.

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

## BENCHMARKING METHODOLOGY

Comparative benchmarking is the main tool used to evaluate indicators. The analysis draws on several criteria rather than a single mechanical rule. The starting point is a comparison of performance in Afghanistan relative to the average for countries in the same income group and region—in this case, lower-middle-income countries in Asia.<sup>91</sup> For added perspective, three other comparisons are made: (1) the global average for this income group; (2) values for two comparator countries selected by the Afghanistan mission (in this case Cambodia and Mozambique); and (3) the average for the five best- and five worst-performing countries globally. Most comparisons are framed in terms of value for the latest year of data available. Five-year trends are also taken into account when they shed light on the performance assessment.<sup>92</sup>

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.<sup>93</sup> This approach has three advantages. First, the benchmark is customized to Afghanistan’s specific level of income. Second, the comparison does not depend on the exact choice of reference group. Third, the methodology allows quantification of the margin of error and establishment of a “normal” band for a country with Afghanistan’s characteristics. An observed value falling outside this band on the side of poor performance signals a serious problem.<sup>94</sup>

Finally, where relevant, Afghanistan’s performance is weighed against absolute standards. For example, a corruption perception index below 3.0 is a sign of serious economic governance problems, regardless of the regional comparisons or regression result.

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<sup>91</sup> Income groups as defined by the World Bank for 2004. For this study, the average is defined in terms of the mean; future studies will use the median instead, because the values are not distorted by outliers.

<sup>92</sup> The five-year trends are computed by fitting a log-linear regression line through the data points. The alternative of computing average growth from the end points produces aberrant results when one or both of those points diverges from the underlying trend.

<sup>93</sup> This is a cross-sectional OLS regression using data for all developing countries. For any indicator,  $Y$ , the regression equation takes the form:  $Y$  (or  $\ln Y$ , as relevant) =  $a + b * \ln \text{PCI} + c * \text{Region} + \text{error}$  – where PCI is per capita income in PPP\$, and Region is a set of 0-1 dummy variables indicating the region in which each country is located. When estimates are obtained for the parameters  $a$ ,  $b$ , and  $c$ , the predicted value for Afghanistan is computed by plugging in Afghanistan-specific values for PCI and Region. Where applicable, the regression also controls for population size and petroleum exports (as a percentage of GDP).

<sup>94</sup> This report uses a margin of error of 0.66 times the standard error of estimate (adjusted for heteroskedasticity, where appropriate). With this value, 25 percent of the observations should fall outside the normal range on the side of poor performance (and 25 percent on the side of good performance). Some regressions produce a very large standard error, giving a “normal band” that is too wide to provide a discerning test of good or bad performance.

## STANDARD CAS INDICATORS

Indicator	Level	MDG, MCA, or EcGov <sup>a</sup>
Growth Performance		
Per capita GDP, in Purchasing Power Parity Dollars	I	
Per capita GDP, in current US Dollars	I	
Real GDP Growth	I	
Growth of labor productivity	II	
Investment Productivity, Incremental Capital-Output Ratio (ICOR)	II	
Gross fixed investment, % GDP	II	
Gross fixed private investment, % GDP	II	
Poverty and Inequality		
Human Poverty Index	I	
Income-share, poorest 20%	I	
Population living on less than \$1 PPP per day/ \$2 PPP per day <sup>95</sup>	I	MDG
Poverty Headcount, by National Poverty Line	I	MDG
PRSP Status	I	EcGov
Population below minimum dietary energy consumption	II	MDG
Economic Structure		
Labor force or employment structure	I	
Output structure	I	
Demography and Environment		
Adult literacy rate	I	
Youth dependency rate/ elderly dependency rate <sup>96</sup>	I	
Environmental performance index	I	
Population size and growth	I	
Urbanization rate	I	
Gender		
Girls primary completion rate	I	MCA
Gross enrollment rate, all levels, male, female	I	MDG
Life expectancy at birth, male, female	I	
Labor force participation rate, male, female	I	
Fiscal and Monetary Policy		
Govt. expenditure, % GDP	I	EcGov
Govt. revenue, % GDP	I	EcGov

<sup>95</sup> \$1 PPP for lower income countries and \$2 PPP for lower middle income countries

<sup>96</sup> Elderly dependency rate for Eastern Europe and Former Soviet Union countries and youth dependency rate for all others

Indicator	Level	MDG, MCA, or EcGov <sup>a</sup>
Growth in the money supply	I	EcGov
Inflation rate	I	MCA
Overall govt. budget balance, including grants, % GDP	I	MCA, EcGov
Composition of govt. expenditure	II	
Composition of govt. revenue	II	
Composition of money supply growth	II	
Business Environment		
Corruption perception index	I	EcGov
Ease of doing business ranking	I	EcGov
Rule of law index	I	MCA, EcGov
Regulatory quality index	I	MCA, EcGov
Government effectiveness index	I	MCA, EcGov
Cost of starting a business	II	MCA, EcGov
Procedures to enforce a contract	II	EcGov
Procedures to register property	II	EcGov
Procedures to start a business	II	EcGov
Time to enforce a contract	II	EcGov
Time to register property	II	EcGov
Time to start a business	II	MCA, EcGov
Total tax payable by business	II	EcGov
Business costs of crime, violence, terrorism index	II	
Senior manager time spent dealing with government regulations	II	EcGov
Financial Sector		
Domestic credit to private sector, % GDP	I	
Interest rate spread	I	
Money supply, % GDP	I	
Stock market capitalization rate, % of GDP	I	
Credit information index	I	
Legal rights of borrowers and lenders index	II	
Real Interest rate	II	
External Sector		
Aid , % GNI	I	
Current account balance, % GDP	I	
Debt service ratio, % exports	I	MDG
Export growth of goods and services	I	
Foreign direct investment, % GDP	I	
Gross international reserves, months of imports	I	EcGov

Indicator	Level	MDG, MCA, or EcGov <sup>a</sup>
Gross Private capital inflows, % GDP	I	
Present value of debt, % GNI	I	
Remittance receipts, % exports	I	
Trade, % GDP	I	
Trade in services, % GDP	I	
Concentration of exports	II	
Inward FDI potential index	II	
Net barter terms of trade	II	
Real effective exchange rate (REER)	II	EcGov
Structure of merchandise exports	II	
Trade policy index	II	MCA, EcGov
Ease of trading across borders ranking	II	EcGov
Economic Infrastructure		
Internet users per 1,000 people	I	MDG
Overall infrastructure quality	I	EcGov
Telephone density, fixed line and mobile	I	MDG
Quality of infrastructure—railroads, ports, air transport, and electricity	II	
Roads paved, % total roads	II	
Science and Technology		
Expenditure for R&D, % GDP	I	
FDI and technology transfer index	I	
Availability of scientists and engineers index	I	
Science & technology journal articles per million people	I	
IPR protection index	I	
Health		
HIV prevalence	I	
Life expectancy at birth	I	
Maternal mortality rate	I	MDG
Access to improved sanitation	II	MDG
Access to improved water source	II	MDG
Births attended by skilled health personnel	II	MDG
Child immunization rate	II	MCA
Prevalence of child malnutrition (weight for age)	II	
Public health expenditure, % GDP	II	MCA, EcGov
Education		
Net primary enrollment rate – female, male, total	I	MDG

Indicator	Level	MDG, MCA, or EcGov <sup>a</sup>
Persistence in school to grade 5	I	MDG
Youth literacy rate, all, male, female	I	
Net secondary enrollment rate	I	
Gross tertiary enrollment rate	I	
Education expenditure, primary, % GDP	II	MCA, EcGov
Expenditure per student, % GDP per capita—primary, secondary, and tertiary	II	EcGov
Pupil-teacher ratio, primary school	II	
Employment and Workforce		
Labor force participation rate, total	I	
Rigidity of employment index	I	EcGov
Size and growth of the labor force	I	
Unemployment rate	I	
Economically active children, % children ages 7-14	I	
Firing costs, weeks of wages	II	EcGov
Agriculture		
Agriculture value added per worker	I	
Cereal yield	I	
Growth in agricultural value-added	I	
Agricultural policy costs index	II	EcGov
Crop production index	II	
Livestock production index	II	
Agricultural export growth	II	

<sup>a</sup> Level I = primary performance indicators, Level II = supporting diagnostic indicators

<sup>b</sup> 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.



# Afghanistan

## Data Supplement

<b>Full Dataset: Afghanistan and Benchmark Comparisons</b>	<b>1</b>
<b>Technical Notes</b>	<b>19</b>



Growth Performance							
Indicator Number	Per Capita GDP, PPP\$	Per capita GDP, current U.S. dollars	Real GDP growth	Growth of labor productivity-based on GDP/working age population; or GDP/labor force, or GDP	Investment productivity - incremental capital-output ratio (ICOR)	Gross fixed investment in GDP, current prices	Gross fixed private investment in GDP, current prices
	11P1	11P2	11P3	11S1	11S2	11S3	11S4
<b>Afghanistan Data</b>							
<i>Latest Year (T)</i>	2005	2005	2005/2006	.	2005/2006	2005/2006	2005/2006
Value Year T	1,310.2	300.5	14.0	.	2.4	40.3	9.6
Value Year T-1	1,158.3	252.8	8.0	.	.	43.4	8.5
Value Year T-2	1,078.7	199.4	15.7	.	.	42.0	8.1
Value Year T-3	938.6	182.4	28.6	.	.	34.5	7.5
Value Year T-4	.	.	.	.	.	.	.
Average Value, time series	1,121.5	233.8	16.6	.	.	40.1	8.4
Growth Trend	11.3	18.9	.	.	.	5.1	8.2
<b>Benchmark Data</b>							
Regression Benchmark	.	.	5.9	.	.	.	.
Lower Bound	.	.	3.5	.	.	.	.
Upper Bound	.	.	8.2	.	.	.	.
<i>Latest Year Cambodia</i>	2005	2005	2005	2004	2004	2004	.
Cambodia Value Latest Year	2,399.2	430.3	13.4	6.2	2.5	24.0	.
<i>Latest Year Mozambique</i>	2005	2005	2005	2004	2004	2004	.
Mozambique Value Latest Year	1,378.9	331.4	7.7	5.6	3.5	20.0	.
LI-Asia Average	2,082.5	547.5	5.5	2.2	4.5	22.7	.
LI Average	1,626.3	448.6	5.0	2.0	4.5	19.5	.
High Five Avg.	45,201.5	58,938.5	12.9	14.1	.	48.6	.
Low Five Avg.	697.9	132.5	-1.2	-13.3	.	7.7	.

Poverty and Inequality							
	Human poverty index (0 for excellent to 100 for poor)	Income share, poorest 20%	Population (%) living on less than \$1 PPP per day	Population (%) living on less than \$2 PPP per day	Poverty headcount (%), by national poverty line	PRSP Status	Population (%) below minimum dietary energy consumption
Indicator Number	12P1	12P2	12P3a	12P3b	12P4	12P5	12S1
<b>Afghanistan Data</b>							
<i>Latest Year (T)</i>	2004	2003	2004	2001	.	2006	2003
Value Year T	59.3	6.0	.	70.0	.	Interim	20.4
Value Year T-1	.	.	.	.	.	.	.
Value Year T-2	.	.	.	.	.	.	.
Value Year T-3	.	.	.	.	.	.	.
Value Year T-4	.	.	.	.	.	.	.
Average Value, time series	.	.	.	.	.	.	.
Growth Trend	.	.	.	.	.	.	.
<b>Benchmark Data</b>							
Regression Benchmark	32.0	7.9	32.6	78.5	43.3	.	.
Lower Bound	26.4	7.0	24.7	70.1	35.1	.	.
Upper Bound	37.5	8.8	40.5	86.9	51.5	.	.
<i>Latest Year Cambodia</i>	2006	2005	2004	2004	2004	2006	2002
Cambodia Value Latest Year	39.3	7.0	34.1	77.7	34.7	Yes	33.0
<i>Latest Year Mozambique</i>	2006	2006	2004	2004	2003	2005	2002
Mozambique Value Latest Year	48.9	6.5	37.8	78.4	69.4	Yes	47.0
LI-Asia Average	37.7	7.5	35.4	.	28.9	.	21.0
LI Average	40.4	7.2	21.8	.	40.2	.	27.5
High Five Avg.	60.6	8.7	33.5	80.9	41.2	.	66.0
Low Five Avg.	4.1	5.9	2.0	2.0	37.1	.	3.0

Economic Structure						
	Employment or labor force in agriculture, % total	Employment or labor force in industry, % total	Employment or labor force in services, % total	Output structure (agriculture, value added, % GDP)	Output structure (industry, value added, % GDP)	Output structure (services, etc., value added, % GDP)
Indicator Number	13P1a	13P1b	13P1c	13P2a	13P2b	13P2c
<b>Afghanistan Data</b>						
<i>Latest Year (T)</i>	2004	2004	2004	2005/2006	2005/2006	2005/2006
Value Year T	80.0	10.0	10.0	35.9	24.4	39.7
Value Year T-1	.	.	.	37.2	24.4	38.3
Value Year T-2	.	.	.	48.5	21.3	30.2
Value Year T-3	.	.	.	49.8	20.1	30.1
Value Year T-4	.	.	.	.	.	.
Average Value, time series	.	.	.	42.9	22.6	34.6
Growth Trend	.	.	.	-11.7	7.4	11.3
<b>Benchmark Data</b>						
Regression Benchmark	69.4	9.9	20.6	33.5	.	.
Lower Bound	62.8	6.7	15.4	27.5	.	.
Upper Bound	76.0	13.1	25.7	39.6	.	.
<i>Latest Year Cambodia</i>	2001	2001	2001	2004	2004	2004
Cambodia Value Latest Year	70.2	10.5	19.1	32.9	29.2	37.9
<i>Latest Year Mozambique</i>	.	.	.	2004	2004	2004
Mozambique Value Latest Year	.	.	.	21.6	31.3	47.2
LI-Asia Average	48.9	14.1	23.5	26.9	26.4	38.0
LI Average	48.7	14.4	33.5	30.6	22.6	43.3
High Five Avg.	41.5	37.1	72.8	56.0	66.2	77.7
Low Five Avg.	0.3	12.9	36.0	0.8	12.3	15.4

**Demography and Environment**

	Adult literacy rate	Youth dependency rate	Elderly dependency rate	Environmental performance index (on scale of 0-100)	Population size (millions)	Population growth rate	Urbanization rate
Indicator Number	14P1	14P2a	14P2b	14P3	14P4a	14P4b	14P5
<b>Afghanistan Data</b>							
<i>Latest Year (T)</i>	2004	2006	.	.	2006	2006	2005
Value Year T	28.1	1.1	0.1	.	25.0	2.9	24.0
Value Year T-1	28.7	.	.	.	24.3	3.8	.
Value Year T-2	.	.	.	.	23.6	2.2	.
Value Year T-3	.	.	.	.	22.9	.	.
Value Year T-4	.	.	.	.	.	.	.
Average Value, time series	.	.	.	.	24.0	.	.
Growth Trend	.	.	.	.	3.0	.	.
<b>Benchmark Data</b>							
Regression Benchmark	68.1	0.7	.	51.9	.	.	23.3
Lower Bound	58.4	0.7	.	46.7	.	.	13.3
Upper Bound	77.8	0.8	.	57.0	.	.	33.2
<i>Latest Year Cambodia</i>	2004	.	.	2006	2006	.	2004
Cambodia Value Latest Year	26.4	.	.	49.8	14.8	.	5.0
<i>Latest Year Mozambique</i>	2004	.	.	.	2003	.	2004
Mozambique Value Latest Year	46.5	.	.	.	18.8	.	5.2
LI-Asia Average	66.4	.	.	.	18.0	2.0	23.4
LI Average	59.9	.	.	.	9.9	2.1	33.9
High Five Avg.	99.7	107.1	25.3	83.3	50.0	4.6	100.0
Low Five Avg.	35.7	0.6	0.1	25.7	0.1	-0.8	9.0

Gender							
	Girls' primary completion rate	Male gross enrollment rate	Female gross enrollment rate	Male life expectancy at birth	Female life expectancy at birth	Male labor force participation rate	Female labor force participation rate
Indicator Number	15P1	15P2a	15P2b	15P3a	15P3b	15P4a	15P4b
<b>Afghanistan Data</b>							
<i>Latest Year (T)</i>	.	2002	2002	2002	2002	1990	1990
<b>Value Year T</b>	.	59.3	29.6	45.0	44.0	72.0	28.0
<b>Value Year T-1</b>	.	.	.	.	.	.	.
<b>Value Year T-2</b>	.	.	.	.	.	.	.
<b>Value Year T-3</b>	.	.	.	.	.	.	.
<b>Value Year T-4</b>	.	.	.	.	.	.	.
<b>Average Value, time series</b>	.	.	.	.	.	.	.
<b>Growth Trend</b>	.	.	.	.	.	.	.
<b>Benchmark Data</b>							
<b>Regression Benchmark</b>	71.9	58.4	51.7	59.8	63.0	88.0	65.2
<b>Lower Bound</b>	62.3	52.1	44.5	56.1	58.8	84.4	56.9
<b>Upper Bound</b>	81.4	64.6	58.8	63.5	67.1	91.6	73.5
<i>Latest Year Cambodia</i>	.	.	.	2004	2004	2004	2004
<b>Cambodia Value Latest Year</b>	.	.	.	52.7	60.1	48.5	51.5
<i>Latest Year Mozambique</i>	.	.	.	2004	2004	2004	2004
<b>Mozambique Value Latest Year</b>	.	.	.	41.0	42.3	46.5	53.5
<b>LI-Asia Average</b>	.	.	.	.	.	.	.
<b>LI Average</b>	.	.	.	.	.	.	.
<b>High Five Avg.</b>	.	101.0	98.0	76.0	81.1	99.0	98.8
<b>Low Five Avg.</b>	.	25.0	18.0	31.3	31.0	65.1	11.0

**Fiscal and Monetary Policy**

	Government expenditure, % GDP	Government revenue, excluding grants, % GDP	Growth in the money supply	Inflation rate	Overall government, including grants, budget balance (% of GDP)	Composition of government expenditure (wages and salaries)	Composition of government expenditure (goods and services)	Composition of government expenditure (interest payments)	Composition of government expenditure (subsidies and other current transfers)	Composition of government expenditure (capital expenditures)
Indicator Number	21P1	21P2	21P3	21P4	21P5	21S1a	21S1b	21S1c	21S1d	21S1e
<b>Afghanistan Data</b>										
<i>Latest Year (T)</i>	<i>2005/2006</i>	<i>2005/2006</i>	<i>2005/2006</i>	<i>2005/2006</i>	<i>2005/2006</i>	<i>2005/2006</i>	<i>2005/2006</i>	<i>2005/2006</i>	<i>2005/2006</i>	<i>2005/2006</i>
Value Year T	15.5	6.3	15.1	12.3	1.2	38.9	40.1	0.3	3.1	17.6
Value Year T-1	9.0	4.2	37.5	13.2	0.5	.	.	.	.	.
Value Year T-2	10.0	4.6	40.9	24.1	0.2	.	.	.	.	.
Value Year T-3	8.5	3.2	20.1	5.1	0.9	.	.	.	.	.
Value Year T-4	.	.	.	.	.	.	.	.	.	.
Average Value, time series	10.8	4.6	28.4	13.7	0.7	.	.	.	.	.
Growth Trend	18.5	21.5	-9.0	.	18.2	.	.	.	.	.
<b>Benchmark Data</b>										
Regression Benchmark	10.8	11.2	.	.	-2.6	.	.	.	.	.
Lower Bound	7.2	6.2	.	.	-4.9	.	.	.	.	.
Upper Bound	14.5	16.2	.	.	-0.2	.	.	.	.	.
<i>Latest Year Cambodia</i>	<i>2005</i>	<i>2005</i>	<i>2005</i>	<i>2005</i>	.	<i>2004</i>	<i>2004</i>	<i>2004</i>	<i>2004</i>	<i>2004</i>
Cambodia Value Latest Year	13.9	10.5	30.4	3.9	-3.4	18.2	32.7	1.4	3.1	36.4
<i>Latest Year Mozambique</i>	<i>2005</i>	<i>2005</i>	<i>2005</i>	<i>2005</i>	.	<i>2005</i>	<i>2005</i>	<i>2005</i>	<i>2005</i>	<i>2005</i>
Mozambique Value Latest Year	22.6	14.0	5.8	12.7	-2.3	31.0	14.6	3.5	11.9	37.2
LI-Asia Average	.	13.1	14.0	5.3	-2.9	25.3	21.9	20.6	29.3	8.1
LI Average	.	14.9	15.4	5.7	-0.8	27.4	19.0	13.6	30.0	15.6
High Five Avg.	.	44.1	134.4	53.7	3.9	52.5	47.7	18.8	71.8	45.0
Low Five Avg.	.	8.6	-8.5	0.5	-8.1	6.2	6.0	1.9	2.6	0.5



**Fiscal and Monetary Policy (cont'd)**

	Composition of government revenue (Taxes of income, profits and capital gains)	Composition of government revenue (Taxes on goods and services)	Composition of government revenue (Taxes on international trade)	Composition of government revenue (Non-tax revenue)	Composition of money supply growth (Net credit to government)	Composition of money supply growth (Credit to the private sector)	Composition of money supply growth (Net credit to non-financial public enterprises)	Composition of money supply growth (Net foreign assets)
Indicator Number	21S2a	21S2b	21S2c	21S2d	21S3a	21S3b	21S3c	21S3d
<b>Afghanistan Data</b>								
<i>Latest Year (T)</i>	<i>2005/2006</i>	<i>2005/2006</i>	<i>2005/2006</i>	<i>2005/2006</i>	.	.	.	.
Value Year T	5.4	5.5	48.7	39.5	.	.	.	.
Value Year T-1	.	.	.	.	.	.	.	.
Value Year T-2	.	.	.	.	.	.	.	.
Value Year T-3	.	.	.	.	.	.	.	.
Value Year T-4	.	.	.	.	.	.	.	.
Average Value, time series	.	.	.	.	.	.	.	.
Growth Trend	.	.	.	.	.	.	.	.
<b>Benchmark Data</b>								
Regression Benchmark	.	.	.	.	.	.	.	.
Lower Bound	.	.	.	.	.	.	.	.
Upper Bound	.	.	.	.	.	.	.	.
<i>Latest Year Cambodia</i>	<i>2004</i>	<i>2004</i>	<i>2004</i>	<i>2004</i>	.	.	.	.
Cambodia Value Latest Year	4.5	25.4	14.6	15.5	.	.	.	.
<i>Latest Year Mozambique</i>	<i>2005</i>	<i>2005</i>	<i>2005</i>	<i>2005</i>	.	.	.	.
Mozambique Value Latest Year	20.7	50.7	12.9	13.6	.	.	.	.
LI-Asia Average	.	16.2	32.3	12.2	.	.	.	.
LI Average	.	16.1	32.4	9.2	.	.	.	.
High Five Avg.	50.8	53.7	57.9	34.1	.	.	.	.
Low Five Avg.	1.4	3.3	5.0	0.5	.	.	.	.

Business Environment								
	Corruption Perception Index	Ease of doing business ranking (from 1 to 175)	Rule of law index (-2.5 for poor to 2.5 for excellent)	Regulatory quality index (-2.5 for poor to 2.5 for excellent)	Government effectiveness index	Cost of starting a business (% GNI per capita)	Procedures to enforce a contract	Procedures to register property
Indicator Number	22P1	22P2	22P3	22P4	22P5	22S1	22S2	22S3
<b>Afghanistan Data</b>								
<i>Latest Year (T)</i>	2005	2006	2005	2005	2005	2006	.	2006
Value Year T	-1.4	162.0	-1.7	-1.6	-1.2	67.4	.	11.0
Value Year T-1	-1.4	159.0	-1.8	-1.8	-1.2	75.2	.	11.0
Value Year T-2	-1.3	.	-1.7	-1.7	-1.1	.	.	.
Value Year T-3	-1.3	.	-1.7	-1.8	-1.5	.	.	.
Value Year T-4	.	.	.	.	.	.	.	.
Average Value, time series	-1.3	.	-1.7	-1.7	-1.2	.	.	.
Growth Trend	-1.3	.	-0.4	3.1	4.8	.	.	.
<b>Benchmark Data</b>								
Regression Benchmark	.	117.4	.	.	.	.	.	.
Lower Bound	.	96.1	.	.	.	.	.	.
Upper Bound	.	138.7	.	.	.	.	.	.
<i>Latest Year Cambodia</i>	2005	2006	2005	2005	2005	2006	2006	2006
Cambodia Value Latest Year	-1.1	143.0	-1.1	-0.6	-0.9	236.4	31.0	6.0
<i>Latest Year Mozambique</i>	2005	2006	2005	2005	2005	2006	2006	2006
Mozambique Value Latest Year	-0.7	140.0	-1.0	-0.6	-0.8	85.7	38.0	8.0
LI-Asia Average	.	62.6	-0.8	.	.	71.5	45.3	6.6
LI Average	.	60.4	-1.0	.	.	143.7	38.6	7.0
High Five Avg.	.	82.5	2.0	1.9	-2.4	777.9	65.2	15.8
Low Five Avg.	.	41.8	-1.9	-2.3	1.4	0.4	13.4	1.6

Business Environment (cont'd)							
	Procedures to start a business	Time to enforce a contract	Time to register property	Time to start a business	Total tax payable by business (% operating profit)	Business costs of crime, violence and terrorism	Senior manager time spent dealing with gov't regulations (%)
Indicator Number	22S4	22S5	22S6	22S7	22S8	22S9	22S10
<b>Afghanistan Data</b>							
<i>Latest Year (T)</i>	2006	2006	2006	2006	2006	.	.
Value Year T	3.0	1,642.0	252.0	8.0	36.3	.	.
Value Year T-1	3.0	1,642.0	252.0	8.0	36.3	.	.
Value Year T-2	.	.	.	.	.	.	.
Value Year T-3	.	.	.	.	.	.	.
Value Year T-4	.	.	.	.	.	.	.
Average Value, time series	.	.	.	.	.	.	.
Growth Trend	.	.	.	.	.	.	.
<b>Benchmark Data</b>							
Regression Benchmark	.	.	.	.	.	.	.
Lower Bound	.	.	.	.	.	.	.
Upper Bound	.	.	.	.	.	.	.
<i>Latest Year Cambodia</i>	2006	2006	2006	2006	2006	2006	2003
Cambodia Value Latest Year	10.0	401.0	56.0	86.0	22.3	4.7	11.1
<i>Latest Year Mozambique</i>	2006	2006	2006	2006	2006	2006	.
Mozambique Value Latest Year	13.0	1,010.0	42.0	113.0	39.2	5.3	.
LI-Asia Average	8.7	859.7	118.1	54.6	.	.	.
LI Average	10.5	561.1	122.6	58.3	.	.	.
High Five Avg.	17.2	1,166.0	556.6	180.2	291.4	.	20.0
Low Five Avg.	2.0	50.8	1.8	4.0	9.3	.	2.0

Financial Sector							
	Domestic credit to private sector, % GDP	Interest rate spread, lending rate minus deposit rate	Money supply (M2), % GDP	Stock market capitalization rate, % GDP	Credit information index	Legal rights of borrowers and lenders index (0 for poor to 10 for excellent)	Real interest rate
Indicator Number	23P1	23P2	23P3	23P4	23P5	23S1	23S2
<b>Afghanistan Data</b>							
<i>Latest Year (T)</i>	.	.	2005/2006	.	2006	2006	.
<b>Value Year T</b>	.	.	23.7	.	.	.	.
<b>Value Year T-1</b>	.	.	.	.	.	.	.
<b>Value Year T-2</b>	.	.	.	.	.	.	.
<b>Value Year T-3</b>	.	.	.	.	.	.	.
<b>Value Year T-4</b>	.	.	.	.	.	.	.
<b>Average Value, time series</b>	.	.	.	.	.	.	.
<b>Growth Trend</b>	.	.	.	.	.	.	.
<b>Benchmark Data</b>							
<b>Regression Benchmark</b>	.	11.0	.	18.4	0.8	.	.
<b>Lower Bound</b>	.	8.0	.	-11.0	-0.5	.	.
<b>Upper Bound</b>	.	14.0	.	47.8	2.0	.	.
<i>Latest Year Cambodia</i>	2004	2004	2004	.	.	2006	2004
<b>Cambodia Value Latest Year</b>	9.3	15.8	19.5	.	.	.	11.7
<i>Latest Year Mozambique</i>	2004	2004	2004	.	2006	2006	2004
<b>Mozambique Value Latest Year</b>	2.1	12.2	24.6	.	3.0	4.0	8.4
<b>LI-Asia Average</b>	19.2	8.9	37.9	11.7	.	4.0	10.7
<b>LI Average</b>	12.0	12.3	24.2	16.3	.	4.0	10.7
<b>High Five Avg.</b>	171.0	46.9	188.2	238.9	.	9.6	36.2
<b>Low Five Avg.</b>	1.6	1.0	4.8	1.0	.	0.6	-4.6

External Sector											
	Aid, % GNI	Current account balance, % GDP	Debt service ratio, % exports	Exports growth, goods and services	Foreign direct investment, % GDP	Gross international reserves, months of imports	Gross Private Capital Flows, % of GDP	Present value of debt, % GNI	remittance receipts, % exports	Trade in goods and services, % GDP	Trade in services, % GDP
Indicator Number	24P1	24P2	24P3	24P4	24P5	24P6	24P7	24P8	24P9	24P10	24P11
<b>Afghanistan Data</b>											
<i>Latest Year (T)</i>	2005	2005/2006	2005/2006	2005/2006	2005/2006	2005/2006	2005/2006	2005/2006	2005/2006	2005/2006	2005/2006
Value Year T	38.5	-0.9	3.8	10.7	5.2	4.7	5.2	11.6	65.0	59.3	.
Value Year T-1	38.0	1.4	3.9	14.1	3.1	4.1	3.1	12.8	56.4	63.7	.
Value Year T-2	34.7	3.1	4.0	47.0	1.3	3.0	1.3	14.6	11.4	72.0	.
Value Year T-3	32.3	-3.6	3.6	.	1.2	1.8	1.2	13.2	15.7	49.6	.
Value Year T-4	16.6	.	.	.	.	.	.	.	.	.	.
Average Value, time series	35.9	0.0	3.8	.	2.7	3.4	2.7	13.1	37.1	61.1	.
Growth Trend	6.4	.	1.4	.	68.8	37.6	68.8	-5.1	79.5	4.2	.
<b>Benchmark Data</b>											
Regression Benchmark	.	.	9.1	13.1	0.6	.	.	58.8	25.0	90.6	16.3
Lower Bound	.	.	4.2	6.6	-1.7	.	.	37.5	16.3	68.1	5.8
Upper Bound	.	.	14.0	19.6	2.9	.	.	80.2	33.7	113.2	26.7
<i>Latest Year Cambodia</i>	2005	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004
Cambodia Value Latest Year	10.4	-4.4	0.8	22.4	2.7	3.4	3.4	67.6	4.4	140.5	25.3
<i>Latest Year Mozambique</i>	2005	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004
Mozambique Value Latest Year	20.8	-10.0	4.5	23.8	4.0	5.1	5.1	13.6	0.1	68.3	12.9
LI-Asia Average	10.3	1.4	8.2	8.5	0.7	3.2	0.0	59.6	19.1	48.1	.
LI Average	10.8	-4.3	10.3	7.1	1.5	3.9	0.0	58.7	15.0	66.3	.
High Five Avg.	66.1	18.0	61.5	21.6	99.4	18.6	.	380.0	86.5	228.0	.
Low Five Avg.	-0.3	-27.8	0.9	-19.8	-0.4	0.3	.	9.1	0.0	27.1	.

**External Sector (cont'd)**

	Concentration of exports (top three exports, 3 digit SITC)	Inward FDI potential index (0 for poor to 1 for excellent)	Net barter terms of trade (1995=100)	Real effective exchange rate (1995=100)	Structure of merchandise exports (agricultural raw materials)	Structure of merchandise exports (fuel)	Structure of merchandise exports (manufactured goods)	Structure of merchandise exports (ores and metals)	Structure of merchandise exports (food)	Trade policy index (1 for excellent to 5 for poor)	Ease of trading across borders ranking (1 for best 175 for worst)
Indicator Number	24S1	24S2	24S3	24S4	24S5a	24S5b	24S5c	24S5d	24S5e	24S6	24S7
<b>Afghanistan Data</b>											
Latest Year (T)	.	.	.	.	.	.	.	.	2005/2006	.	2006
Value Year T	.	.	.	.	.	.	.	.	27.1	.	152.0
Value Year T-1	.	.	.	.	.	.	.	.	31.5	.	147.0
Value Year T-2	.	.	.	.	.	.	.	.	.	.	.
Value Year T-3	.	.	.	.	.	.	.	.	.	.	.
Value Year T-4	.	.	.	.	.	.	.	.	.	.	.
Average Value, time series	.	.	.	.	.	.	.	.	.	.	.
Growth Trend	.	.	.	.	.	.	.	.	.	.	.
<b>Benchmark Data</b>											
Regression Benchmark	.	.	.	.	.	.	.	.	.	.	.
Lower Bound	.	.	.	.	.	.	.	.	.	.	.
Upper Bound	.	.	.	.	.	.	.	.	.	.	.
Latest Year Cambodia	.	.	.	.	.	.	.	.	.	.	2006
Cambodia Value Latest Year	.	.	.	.	.	.	.	.	.	.	114.0
Latest Year Mozambique	.	.	2004	.	.	.	.	.	.	.	.
Mozambique Value Latest Year	.	.	94.3	.	.	.	.	.	.	.	.
LI-Asia Average	.	0.2	91.5	.	2.5	2.7	37.9	2.2	11.3	5.0	.
LI Average	.	0.1	100.0	.	7.3	1.8	20.0	3.4	37.2	4.0	.
High Five Avg.	.	0.5	149.8	.	30.8	92.8	94.2	51.5	91.0	5.0	.
Low Five Avg.	.	0.1	71.8	.	0.0	0.0	2.6	0.0	0.5	1.0	.

Economic Infrastructure								
Indicator Number	Internet users per 1,000 people	Overall infrastructure quality (1 for poor to 7 for excellent)	Telephone density, fixed line and mobile	Quality of infrastructure index - air transport (1 for poor to 7 for excellent)	Quality of infrastructure index - ports (1 for poor to 7 for excellent)	Quality of infrastructure index - railroads (1 for poor to 7 for excellent)	Quality of infrastructure index - electricity (1 for poor to 7 for excellent)	Roads, paved (% total)
	25P1	25P2	25P3	25S1a	25S1b	25S1c	25S1d	25S2
<b>Afghanistan Data</b>								
<i>Latest Year (T)</i>	2004	.	2005	.	.	.	.	2003
Value Year T	1.0	.	5.0	.	.	.	.	23.7
Value Year T-1	.	.	.	.	.	.	.	.
Value Year T-2	.	.	.	.	.	.	.	.
Value Year T-3	.	.	.	.	.	.	.	.
Value Year T-4	.	.	.	.	.	.	.	.
Average Value, time series	.	.	.	.	.	.	.	.
Growth Trend	.	.	.	.	.	.	.	.
<b>Benchmark Data</b>								
Regression Benchmark	6.7	2.3	57.1	.	.	.	.	.
Lower Bound	2.4	1.8	32.5	.	.	.	.	.
Upper Bound	11.1	2.7	81.7	.	.	.	.	.
<i>Latest Year Cambodia</i>	2004	2006/2007	.	2006/2007	2006/2007	2006/2007	2006/2007	2000
Cambodia Value Latest Year	3.0	2.7	.	3.9	3.3	1.5	2.4	16.2
<i>Latest Year Mozambique</i>	2004	2006/2007	.	2006/2007	2006/2007	2006/2007	2006/2007	.
Mozambique Value Latest Year	7.1	2.3	.	3.5	2.6	1.8	3.4	.
LI-Asia Average	6.1	2.8	34.9	4.3	3.2	2.9	2.8	.
LI Average	10.1	2.5	44.2	3.5	2.2	1.7	2.6	.
High Five Avg.	759.3	6.7	1,686.0	6.7	6.6	6.5	6.9	100.0
Low Five Avg.	0.5	1.5	9.8	2.4	1.3	1.1	1.4	6.0

Indicator Number	Science and Technology					Health			
	Expenditure for R&D, % GDP	FDI technology transfer index (1 for bring little to 7 for bringing a lot)	Availability of scientists & engineers (1 for poor to 7 for excellent)	Science & technology journal articles, per million population	IPR protection index (1 for poor to 7 for excellent)	HIV prevalence	Life expectancy at birth	Maternal mortality rate, per 100,000 live births	Access to improved sanitation
	26P1	26P2	26P3	26P4	26P5	31P1	31P2	31P3	31S1
<b>Afghanistan Data</b>									
<i>Latest Year (T)</i>	.	.	.	.	.	2004	2005	2000	2004
Value Year T	.	.	.	.	.	0.1	45.0	1,900.0	34.0
Value Year T-1	.	.	.	.	.	.	.	.	.
Value Year T-2	.	.	.	.	.	.	.	.	.
Value Year T-3	.	.	.	.	.	.	.	.	.
Value Year T-4	.	.	.	.	.	.	.	.	.
Average Value, time series	.	.	.	.	.	.	.	.	.
Growth Trend	.	.	.	.	.	.	.	.	.
<b>Benchmark Data</b>									
Regression Benchmark	0.4	4.8	4.0	4.0	.	.	61.4	659.2	.
Lower Bound	0.2	4.5	3.6	3.6	.	.	57.5	492.1	.
Upper Bound	0.5	5.2	4.4	4.4	.	.	65.2	826.3	.
<i>Latest Year Cambodia</i>	.	2006/2007	2006/2007	.	2006/2007	2004	2004	2000	2004
Cambodia Value Latest Year	.	5.0	2.8	.	2.5	2.0	56.6	450.0	17.0
<i>Latest Year Mozambique</i>	.	2006/2007	2006/2007	.	2006/2007	2004	2004	2001	2004
Mozambique Value Latest Year	.	4.8	3.0	.	2.5	16.0	41.8	1,000.0	32.0
LI-Asia Average	0.3	4.3	.	.	.	0.5	62.6	420.0	41.0
LI Average	0.3	4.4	.	.	.	2.9	51.8	670.0	37.0
High Five Avg.	3.5	5.9	.	.	.	30.2	80.5	1,720.0	100.0
Low Five Avg.	0.1	3.3	.	.	.	0.1	37.3	1.8	8.0



Indicator Number	Health (Cont'd)					Education					
	Access to improved water source	Births attended by skilled health personnel	Child immunization rate	Prevalence of child malnutrition (weight for age)	Public health expenditure, % GDP	Net primary enrollment rate (total)	Net primary enrollment rate (female)	Net primary enrollment rate (male)	Persistence in school to grade 5 (total)	Persistence in school to grade 5 (female)	Persistence in school to grade 5 (male)
	31S2	31S3	31S4	31S5	31S6	32P1a	32P1b	32P1c	32P2a	32P2b	32P2c
<b>Afghanistan Data</b>											
Latest Year (T)	2004	2004	2004	2005	2004	2001	.	.	2003	.	.
Value Year T	39.0	14.0	61.0	39.3	2.22	27.0	.	.	45.0	.	.
Value Year T-1	.	.	46.0	.	2.57	.	.	.	.	.	.
Value Year T-2	.	.	40.0	.	2.75	.	.	.	.	.	.
Value Year T-3	.	.	41.0	.	0.06	.	.	.	.	.	.
Value Year T-4	.	.	20.0	.	.	.	.	.	.	.	.
Average Value, time series	.	.	47.0	.	1.90	.	.	.	.	.	.
Growth Trend	.	.	14.2	.	193.4	.	.	.	.	.	.
<b>Benchmark Data</b>											
Regression Benchmark	.	.	.	.	.	82.1	.	.	68.7	.	.
Lower Bound	.	.	.	.	.	74.1	.	.	61.2	.	.
Upper Bound	.	.	.	.	.	90.0	.	.	76.3	.	.
Latest Year Cambodia	2004	2001	2004	2000	2003	2004	2004	2004	2004	2003	2003
Cambodia Value Latest Year	41.0	31.8	80.0	45.2	2.10	98.0	96.0	100.0	60.0	61.3	58.2
Latest Year Mozambique	2004	2004	2004	2005	2003	2004	2004	2004	2001	2001	2001
Mozambique Value Latest Year	43.0	48.0	77.0	23.7	2.90	71.0	67.3	74.8	49.0	44.9	52.7
LI-Asia Average	70.0	14.0	74.5	48.3	2.05	84.2	84.5	83.8	64.1	64.7	63.3
LI Average	63.0	39.8	72.5	31.4	2.24	68.8	67.7	74.9	64.8	65.2	63.7
High Five Avg.	100.0	100.0	99.0	36.3	8.73	100.0	100.0	100.0	99.2	99.8	99.3
Low Five Avg.	26.4	10.9	39.0	7.3	0.58	42.3	36.9	47.6	52.3	51.5	51.8

Education (cont'd)										
	Youth literacy rate (total)	Youth literacy rate (male)	Youth literacy rate (female)	Net secondary enrollment rate (total)	Gross tertiary enrollment rate (total)	Expenditure on primary education, % GDP	Expenditure per student, % GDP per capita, primary	Expenditure per student, % GDP per capita, secondary	Expenditure per student, % GDP per capita, tertiary	Pupil-teacher ratio, primary school
Indicator Number	32P3a	32P3b	32P3c	32P4	32P5	32S1	32S2a	32S2b	32S2c	32S3
<b>Afghanistan Data</b>										
Latest Year (T)	2004	2004	2004	.	2004	.	.	.	.	2004
Value Year T	34.3	50.8	18.4	.	1.1	.	.	.	.	65.2
Value Year T-1	.	.	.	.	.	.	.	.	.	71.4
Value Year T-2	.	.	.	.	.	.	.	.	.	.
Value Year T-3	.	.	.	.	.	.	.	.	.	.
Value Year T-4	.	.	.	.	.	.	.	.	.	.
Average Value, time series	.	.	.	.	.	.	.	.	.	.
Growth Trend	.	.	.	.	.	.	.	.	.	.
<b>Benchmark Data</b>										
Regression Benchmark	75.5	.	.	35.0	.	.	.	.	.	.
Lower Bound	66.6	.	.	26.9	.	.	.	.	.	.
Upper Bound	84.4	.	.	43.1	.	.	.	.	.	.
Latest Year Cambodia	2004	2004	2004	2003	2004	.	2004	2001	2001	2004
Cambodia Value Latest Year	83.4	87.9	78.9	24.8	2.9	.	6.5	6.8	46.8	55.1
Latest Year Mozambique	2002	.	.	2004	2004	.	.	.	.	2004
Mozambique Value Latest Year	62.8	.	.	4.0	1.2	.	.	.	.	65.2
LI-Asia Average	79.3	.	.	.	.	1.1	8.9	14.1	36.4	35.4
LI Average	77.4	.	.	.	.	1.8	9.7	17.4	62.4	42.6
High Five Avg.	99.8	100.0	100.0	100.0	50.7	5.5	31.3	46.9	344.3	65.5
Low Five Avg.	46.4	24.2	32.3	16.9	0.4	0.2	6.2	6.0	9.8	11.7

**Employment and Workforce**

	Labor force participation rate (total)	Rigidity of employment index (0 for minimum rigidity to 100 for maximum rigidity)	Size of labor force (millions)	Labor force growth rate	Unemployment rate	Economically active children (% children ages 7-14)	Firing costs (weeks of wages)
Indicator Number	33P1	33P2	33P3a	33P3b	33P4	33P5	33S1
<b>Afghanistan Data</b>							
<i>Latest Year (T)</i>	2005	2006	2004	.	2005	.	2006
Value Year T	.	46.0	15.0	.	40.0	.	4.3
Value Year T-1	.	46.0	.	.	.	.	4.3
Value Year T-2	.	.	.	.	.	.	.
Value Year T-3	.	.	.	.	.	.	.
Value Year T-4	.	.	.	.	.	.	.
Average Value, time series	.	.	.	.	.	.	.
Growth Trend	.	.	.	.	.	.	.
<b>Benchmark Data</b>							
Regression Benchmark	76.6	35.9	.	3.4	2.1	.	.
Lower Bound	71.7	25.0	.	1.9	-0.4	.	.
Upper Bound	81.5	46.8	.	4.9	4.5	.	.
<i>Latest Year Cambodia</i>	.	2006	2004	.	2001	2001	2006
Cambodia Value Latest Year	.	49.0	6.6	.	1.8	52.3	39.0
<i>Latest Year Mozambique</i>	.	.	2004	.	1997	.	.
Mozambique Value Latest Year	.	.	9.1	.	21.0	.	.
LI-Asia Average	56.6	46.0	9.1	.	3.2	.	.
LI Average	53.8	47.0	4.6	5.6	6.8	.	.
High Five Avg.	102.4	84.8	316.9	.	24.3	74.0	.
Low Five Avg.	50.4	2.0	0.1	.	1.7	4.0	.

Agriculture							
	Agriculture value added per worker	Cereal yield	Growth in agricultural value-added	Agricultural policy costs index (1 for poor to 7 for excellent)	Crop production index (1999-2001=100)	Livestock production index (1999-2001=100)	Agricultural export growth
Indicator Number	34P1	34P2	34P3	34S1	34S2	34S3	34S4
<b>Afghanistan Data</b>							
<i>Latest Year (T)</i>	2002	2003	.	.	.	.	.
Value Year T	277.1	1,906.0	.	.	.	.	.
Value Year T-1	224.1	.	.	.	.	.	.
Value Year T-2	263.4	.	.	.	.	.	.
Value Year T-3	.	984.0	.	.	.	.	.
Value Year T-4	.	.	.	.	.	.	.
Average Value, time series	.	.	.	.	.	.	.
Growth Trend	.	.	.	.	.	.	.
<b>Benchmark Data</b>							
Regression Benchmark	309.1	2,715.8	4.4	.	.	.	.
Lower Bound	186.2	2,093.8	0.2	.	.	.	.
Upper Bound	431.9	3,337.8	8.6	.	.	.	.
<i>Latest Year Cambodia</i>	2003	2005	2004	2006/2007	2004	2004	.
Cambodia Value Latest Year	301.8	1,999.1	-2.0	4.2	105.7	101.0	.
<i>Latest Year Mozambique</i>	2003	2005	2004	2006/2007	2004	2004	.
Mozambique Value Latest Year	146.7	959.2	6.0	3.3	107.4	101.1	.
LI-Asia Average	359.6	2,831.4	.	3.7	3.9	106.8	109.0
LI Average	295.9	1,329.4	.	4.0	3.6	105.0	108.3
High Five Avg.	40,134.9	7,775.3	21.3	22.0	5.3	134.9	145.5
Low Five Avg.	108.2	312.1	-15.2	-13.4	2.4	69.5	78.3



# Technical Notes

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

## GROWTH PERFORMANCE

### Per capita GDP, in Purchasing Power Parity Dollars

*Source:* IMF World Economic Outlook database, updated every six months, at <http://www.imf.org/external/ns/cs.aspx?id=28>

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

*Coverage:* Data are available for about 85 USAID countries.

*CAS Code #11P1*

### Per capita GDP, in current US Dollars

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

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

*Definition:* GDP per capita is gross domestic product divided by midyear population. GDP is the sum of gross value added by all resident producers plus any product taxes, less any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.

*Coverage:* Data are available for about 85 USAID countries.

*CAS Code #11P2*

### Real GDP Growth

*Source:* IMF World Economic Outlook database, updated every six months; latest country data from IMF Article IV consultation reports:

[www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm)

*Definition:* Annual percentage growth rate of GDP at constant local currency prices

*Coverage:* Data are available for about 85 USAID countries.

*CAS Code #11P3*

### Growth of Labor Productivity

*Source:* Best labor market data available for target country, or World Development Indicators. If using WDI, estimated by calculating the annual percentage change of the ratio of GDP (constant 1995 US\$) (NY.GDP.MKTP.KD) to the population age 15–64, which in turn is the product of the total population (SP.POP.TOTL) times the percentage of total population in this age group (SP.POP.1564.IN.ZS).

*Definition:* Labor productivity is defined here as the ratio of GDP (in constant prices) to the size of the working age population (age 15–64). The more familiar calculation, based on employment, labor force, or work hours, is used where available.

*Coverage:* Data are available for about 85 USAID countries.

*CAS Code # 11S1*

### Investment Productivity, Incremental Capital-Output Ratio (ICOR)

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

*Definition:* The ICOR shows the amount of capital investment incurred per extra unit of output. A high value represents low investment productivity. The ICOR is calculated here as the ratio of 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 #11S2*

### Gross Fixed Investment, Percentage of GDP

*Source:* IMF Article IV consultation report for latest country data; international benchmark from the World Development Indicators, most recent publication series NE.GDI.FTOT.ZS.

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

*Coverage:* Data are available for about 84 USAID countries.

*CAS Code # 11S3*

### Gross Fixed Private Investment, Percentage of GDP

*Source:* IMF Article IV consultation report, for latest country data; World Development Indicators 2004, for international comparison data (explanation below). The estimation of this indicator involves taking the difference between gross fixed capital formation (percent of GDP) (NE.GDI.FTOT.ZS) and government capital expenditure (percent of GDP). The latter term is the product of government capital expenditure (percent of total expenditure) (GB.XPK.TOTL.ZS) and total government expenditure (percent of GDP) (GB.XPD.TOTL.GD.ZS).

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

*Coverage:* Available from World Development Indicators 2004 for about 38 USAID countries. Starting in 2005, WDI no longer reports government capital expenditure, which is needed to compute this variable. The reason is that the World Bank has adopted a new system for government finance statistics, which switches from reporting budget performance based on cash outlays and receipts, to a modified accrual accounting system in which government capital formation is a balance sheet entry, and only the consumption of fixed capital (that is, a depreciation allowance) is treated as an expense. The template will include this variable when the required data can be obtained from IMF Article IV

consultation report or national data sources. Group and regression benchmarks will be computed from WDI 2004 (since group averages tend to be relatively stable).

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

CAS Code #11S4

## POVERTY AND INEQUALITY

### Human Poverty Index

*Source:* UNDP, Human Development Report.

<http://hdr.undp.org/statistics/data/indicators.cfm?x=18&y=1&z=1> for most recent edition; updates may be found at [http://hdr.undp.org/reports/view\\_reports.cfm?type=1](http://hdr.undp.org/reports/view_reports.cfm?type=1)

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

*Coverage:* Data are available for about 60 USAID countries.

CAS Code #12P1

### Income Share, Poorest 20%

*Source:* World Development Indicators, most recent publication series SIDST.FRST.20. These are World Bank staff estimates based on primary household survey data obtained from government statistical agencies and World Bank country departments. Alternative source for target countries: the country’s Poverty Reduction Strategy Paper: <http://www.imf.org/external/np/prsp/prsp.asp>

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

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

CAS Code # 12P2

### Percentage of Population Living on Less than \$1 PPP per Day

*Source:* World Development Indicators, most recent publication series SI.POV.DDAY, original data from national surveys. Alternative source for target countries: the country’s Poverty Reduction Strategy Paper:

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

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

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

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

CAS Code #12P3a

### Percentage of Population Living on Less than \$2 PPP per Day

*Source:* World Development Indicators, most recent publication series SI.POV.2DAY, original data from national surveys. Alternative source for target countries: the country’s Poverty Reduction Strategy Paper:

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

*Definition:* The indicator captures the percentage of the population living on less than \$2.15 a day at 1993 international prices.

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

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

CAS Code #12P3b

### Poverty Headcount, National Poverty Line

*Source:* World Development Indicators, most recent publication series SI.POV.NAHC. Alternative source: the country’s Poverty Reduction Strategy Paper: <http://www.imf.org/external/np/prsp/prsp.asp>

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

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

*Data Quality:* Measuring the percentage of people below the “national poverty line” has the disadvantage of limiting international comparisons 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 #12P4

### PRSP Status

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

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

*Coverage:* All countries having PRSPs are so indicated.

CAS Code #12P5

### Population below Minimum Dietary Energy Consumption

*Source:* UN Millennium Indicators Database at <http://millenniumindicators.un.org/unsd/mdg/Data.aspx>, based on FAO estimates.

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

*Coverage:* Data are available for about 82 USAID countries.

CAS Code # 12S1

## ECONOMIC STRUCTURE

### 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. Alternative source: CIA World Fact Book: <https://www.cia.gov/cia/publications/factbook/index.html>.

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

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

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

*CAS Code #13P1*

### Output Structure

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

*Definition:* The output structure is 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 #13P2*

## DEMOGRAPHY AND ENVIRONMENT

### Adult Literacy Rate

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

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

*Coverage:* Data are available for about 66 USAID countries.

*Data Quality:* In practice, literacy is difficult to measure. A proper estimate requires census or survey measurements under controlled conditions. Many countries estimate the number of illiterate people from self-reported data, or by taking people with no schooling as illiterate.

*CAS Code #14P1*

### Youth Dependency Rate

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

*Definition:* Youth dependency rate is calculated as the percentage of the population below age 15 (WDI SP.POP.0014.TO.ZS) divided by the working-age population (those ages 15–64) (WDI SP.POP.1564.TO.ZS)

*Coverage:* Data are available for about 89 USAID countries.

*CAS Code #14P2a*

### Elderly Dependency Rate

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

*Definition:* This is calculated as percentage of the population over age 65 (WDI SP.POP.65UP.TO.ZS) divided by working-age population (those ages 15–64) (WDI SP.POP.1564.TO.ZS)

*Coverage:* Data are available for about 89 USAID countries.

*CAS Code #14P2b*

### Environmental Performance Index

*Source:* Center for International Earth Science Information Network (CIESIN) at Columbia University, and the Center for Environmental Law and Policy at Yale University. <http://www.yale.edu/epi/>.

*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, with more weight given environmental health, (i.e.,  $EPI = 0.5 \times \text{environmental health} + 0.1 \times (\text{air quality} + \text{water resources} + \text{productive natural resources} + \text{biodiversity and habitat} + \text{sustainable energy})$ ). The index values range from 0 (very poor performance) to 100 (very good performance). The 2006 edition is considered a work in progress.

*Coverage:* Data are available for about 80 USAID countries.

*CAS Code #14P3*

### Population Size and Growth

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

*Definition:* Total population counts all residents regardless of legal status or citizenship—except refugees not permanently



settled in the country of asylum. Annual population growth rate is based on the de facto definition of population.

*Coverage:* Data are available for about 88 USAID countries.

*CAS Code # 14P4*

### Urbanization Rate

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

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

*Coverage:* Data are available for about 86 USAID countries.

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

*CAS Code #14P5*

## GENDER

### Girls' Primary Completion Rate

*Source:* World Development Indicators, most recent publication series: SE.PRM.CMPT.FE.ZS

*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 80 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 #15P1*

### Gross Enrollment Rate, All Levels of Education, Male and Female

*Source:* UNDP Human Development Report <http://hdr.undp.org/hdr2006/statistics/indicators/225.html> and <http://hdr.undp.org/hdr2006/statistics/indicators/224.html>

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

*Coverage:* Data are available for about 80 USAID countries.

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

*CAS Code #15P2*

### Life Expectancy, Male and Female

*Source:* Estimated from UNDP Human Development Indicators:

<http://hdr.undp.org/hdr2006/statistics/indicators/221.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 #15P3*

### Labor Force Participation Rate, Male and Female

*Source:* Derived from World Development Indicators, but the precise computation differs depending on the edition of WDI used for the data.

To calculate the female labor force participation rate using WDI 2007: the numerator is the labor force, female (% of total labor force) (SL.TLF.TOTL.FE.ZS) times labor force, total (SL.TLF.TOTL.IN); the denominator is simply population ages 15–64, female (SP.POP.1564.FE.IN). Using WDI 2006, the denominator (female population, ages 15–64), can only be estimated by multiplying the total population (SP.POP.TOTL) times the percentage of the population ages 15–64 (SP.POP.1564.IN.ZS) times the percentage of females in the total population (SP.POP.TOTL.FE.ZS).

To calculate the male labor force participation rate using WDI 2004: the numerator is calculated by subtracting the female labor force, derived above, from the total labor force (SL.TLF.TOTL.IN). The denominator is population ages 15–64, male (SP.POP.1564.MA.IN). Using WDI 2006 and subsequent years, the denominator is an estimate of the male population, ages 15–64, calculated as the total population (SP.POP.TOTL) times the percentage ages 15–64 (SP.POP.1564.IN.ZS) times the percentage of males in the total population, where the final factor is computed as 100 minus the percentage of females in the total population (SP.POP.TOTL.FE.ZS).

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

*Coverage:* Data are available for about 88 USAID countries.

*CAS Code #15P4*

## FISCAL AND MONETARY POLICY

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

### Government Expenditure, Percentage of GDP

*Source:* IMF Article IV consultation report for latest country data [www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm); International Financial Statistics database for benchmarking (line item 82 divided by GDP).

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

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

CAS Code # 21P1

### Government Revenue, Percentage of GDP

*Source:* IMF Article IV consultation report for latest country data [www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm); World Development Indicators for benchmarking data (GB.RVC.TOTL.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 non-repayable receipts (other than grants), measured as a share of GDP. Grants represent monetary aid going to the central government that has no repayment requirement.

*Gaps:* Data missing for about 24 USAID countries.

CAS Code # 21P2

### Growth in the Money Supply

*Source:* Latest country data are from national data sources or from IMF Article IV consultation report: [www.imf.org/external/np/sec/aiv/index.htm](http://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 quasi-money) measured as the change in end-of-year totals relative to the preceding year. M2 comprises the sum of currency outside banks, checking account deposits other than those of the central government, and the time, savings, and foreign currency deposits of resident sectors other than the central government. M2 corresponds to the sum of lines 34 and 35 in the IMF's International Financial Statistics.

*Coverage:* Data are available for about 81 USAID countries.

CAS Code #21P3

### Inflation Rate

*Source:* IMF World Economic Outlook database, updated every six months, at <http://www.imf.org/external/ns/cs.aspx?id=28>

*Definition:* Inflation as measured by the consumer price index reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at 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 # 21P4

### Overall Budget Balance, Including Grants, Percentage of GDP

*Source:* For countries using the new GFS system (see explanation at the beginning of this section), benchmarking data on the government's cash surplus/deficit are obtained from World Development Indicators, most recent publication series GC.BAL.CASH.GD.ZS. For countries that are not yet using the new system, benchmarking data on the overall budget balance are obtained from WDI 2004, series GB.BAL.OVRL.GD.ZS. Latest country data are obtained from national data sources or from IMF Article IV consultation reports: [www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm).

*Definition:* The cash surplus/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 new GFS system, the template will continue to focus on the *overall budget balance*, using data from the alternative sources indicated above. The overall budget deficit is defined as the difference between total revenue (including grants) and total expenditure.

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

*Coverage:* Data are available in WDI 2006 for less than half USAID countries.

CAS Code # 21P5

### Composition of Government Expenditure

*Source:* The latest country and benchmark data are taken from national data sources or from IMF Article IV consultation reports: [www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm).

*Definition:* Central government expenditure, broken down into the following five categories: (1) wages and salaries; (2) goods and services; (3) interest payments; (3) subsidies and other current transfers; (4) other expenditure

*Coverage:* Data are available for the majority of USAID countries. As explained at the beginning of this section, WDI stopped reporting government *expenditures* in 2005. The template will include this variable when the required data can be obtained from IMF Article IV consultation report or national data sources for the target country and the comparison 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 # 21S1

### Composition of Government Revenue

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

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

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

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

CAS Code # 21S2

### Composition of Money Supply Growth

*Source:* Constructed using national data sources or IMF Article IV consultation reports: [www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm).

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

*Coverage:* Data are available for about 86 USAID countries.

*CAS Code # 21S3*

## BUSINESS ENVIRONMENT

### Corruption Perception Index

*Source:* Transparency International: [http://www.transparency.org/cpi/2005/dnld/media\\_pack\\_en.pdf](http://www.transparency.org/cpi/2005/dnld/media_pack_en.pdf)

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

*Coverage:* Data are available for about 79 USAID countries.

*Data Quality:* This indicator uses perception and opinions gathered from local businessmen as well as third-party experts and not hard empirical data; thus, the indicator is largely subjective. Also standard errors are large. For both reasons, international comparisons are problematic, though widely used.

*CAS Code # 22P1*

### Ease of Doing Business Index

*Source:* World Bank, Doing Business Indicators <http://rru.worldbank.org/DoingBusiness/>

*Definition:* The Ease of Doing Business index ranks economies from 1 to 175. 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 2007: 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 # 22P2*

### Rule of Law Index

*Source:* World Bank Institute, <http://www.worldbank.org/wbi/governance/govdata2002/index.html>. This indicator is based on the perceptions of the legal system, drawn from 12 data sources.

*Definition:* The Rule of Law index is an aggregation of various indicators that measure the extent to which agents have confidence in and abide by the rules of society. Index ranges from -2.5 (for very poor performance) to +2.5 (for excellent performance).

*Coverage:* Data are available for nearly all USAID countries.

*Data Quality:* This index is best used with caution for relative comparisons between countries in a single year, because the standard errors are large. Using the index to track

a country's progress over time is also 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 its legal environment.

*CAS Code #22P3*

### Regulatory Quality Index

*Source:* World Bank Institute;

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

*Definition:* The regulatory quality index measures the incidence of market-unfriendly policies such as price controls and inadequate bank supervision, as well as perceptions of the burdens imposed by excessive regulation in areas such as foreign trade and business development. It is computed from survey data from multiple sources. The index values range from -2.5 (very poor performance) to +2.5 (excellent performance).

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

*Gaps:* Data are available for nearly all USAID countries.

*Data Quality:* This index is best used with caution for relative comparisons between countries in a single year, because the standard errors are large. It is also difficult to use the index to track a country's progress over time because the index does not compensate for changes in the world average. For instance, if the world average decreases in a given year, a country whose score appears to increase may not actually have tangible improvements in their legal environment.

*CAS Code #22P4*

### Government Effectiveness Index

*Source:* World Bank Institute, Governance Indicators, <http://web.worldbank.org/WBSITE/EXTERNAL/WBI/EXT/WBIGOVAANTCOR/0,,contentMDK:21045735~pagePK:64168445~menuPK:1866365~piPK:64168309~theSitePK:1740530,00.html>

*Definition:* This index, based on 17 component sources, measures "the quality of public services, the quality of the civil service and the degree of its 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 nearly all USAID countries.

*CAS Code #22P5*

### Cost of Starting a Business

*Source:* World Bank, Doing Business; Starting a Business category: <http://rru.worldbank.org/DoingBusiness/ExploreTopics/StartingBusiness/CompareAll.aspx>

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

*Coverage:* Data are available for nearly all USAID countries.

*CAS Code #22S1*

### Procedures to Enforce a Contract

*Source:* World Bank, Doing Business; Enforcing Contracts category: <http://rru.worldbank.org/DoingBusiness/ExploreTopics/EnforcingContracts/CompareAll.aspx>

*Definition:* 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, etc. to proceed with enforcement action.

*Coverage:* Data are available for nearly all USAID countries.  
CAS Code # 22S2

### Procedures to Register Property

*Source:* World Bank, Doing Business; Registering Property category: <http://rru.worldbank.org/DoingBusiness/ExploreTopics/RegisteringProperty/CompareAll.aspx>

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

*Coverage:* Data are available for nearly all USAID countries.  
CAS Code #22S3

### Procedures to Start a Business

*Source:* World Bank, Doing Business; Starting a Business category: <http://rru.worldbank.org/DoingBusiness/ExploreTopics/StartingBusiness/CompareAll.aspx>

*Definition:* 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 # 22S4

### Time to Enforce a Contract

*Source:* World Bank, Doing Business; Enforcing Contracts category: <http://rru.worldbank.org/DoingBusiness/ExploreTopics/EnforcingContracts/CompareAll.aspx>

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

*Coverage:* Data are available for nearly all USAID countries.  
CAS Code # 22S5

### Time to Register Property

*Source:* World Bank, Doing Business; Registering Property category: <http://rru.worldbank.org/DoingBusiness/ExploreTopics/RegisteringProperty/CompareAll.aspx>

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

*Coverage:* Data are available for nearly all USAID countries.  
CAS Code #22S6

### Time to Start a Business

*Source:* World Bank, Doing Business; Starting a Business category: <http://rru.worldbank.org/DoingBusiness/ExploreTopics/StartingBusiness/CompareAll.aspx>

*Definition:* 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 #22S7

### Total Tax Payable by Business

*Source:* World Bank, Doing Business, Paying Taxes Category: <http://www.doingbusiness.org/ExploreTopics/PayingTaxes/>

*Definition:* The amount of taxes payable by a medium-sized business in the second year of operation, expressed as share of commercial profits. The total amount of taxes is the sum of all the different taxes payable after accounting for deductions and exemptions. The taxes withheld but not paid by the company are excluded. The taxes included can be divided into five categories: profit or corporate income tax, social security contributions and other labor taxes paid by the employer, property taxes, turnover taxes and other small taxes (such as municipal fees and vehicle and fuel taxes). Commercial profits are defined as sales minus cost of goods sold, minus gross salaries, minus administrative expenses, minus other deductible expenses, minus deductible provisions, plus capital gains (from the property sale) minus interest expense, plus interest income and minus commercial depreciation.

*Coverage:* Data are available for nearly all USAID countries  
CAS Code #22S8

### Business Costs of Crime, Violence and Terrorism

*Source:* Global Competitiveness Report 2006-2007, World Economic Forum. The indicators can be found in the Data Tables, Section VI.

*Definitions:* The index measures executives' perceptions of the business costs of terrorism in their respective country. Executives grade, on a scale from 1 to 7, whether crime, violence and terrorism impose (1) significant costs on business, or (7) do not impose significant costs on business.

*Coverage:* Data are available for about 52 USAID countries.

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

CAS Code #22S9

### Senior Manager Time Spent Dealing with Government Regulations

*Source:* World Bank Enterprise Surveys, Bureaucracy section, [www.enterprisesurveys.org](http://www.enterprisesurveys.org).

*Definitions:* Average percentage of senior managers' time that is spent in a typical week dealing with requirements imposed by government regulations such as taxes, customs, labor regulations, licensing and registration, and dealings with officials, and completing forms.

*Coverage:* Data available for about 80 USAID countries.

*Data Quality:* Same-timeframe comparisons between countries may be difficult; 15-20 enterprise surveys are conducted per year, with country updates expected approximately every three to five years. Surveys are taken of hundreds of entrepreneurs per country who describe the impact of their country's investment climate on their firm.

CAS Code #22S10

## FINANCIAL SECTOR

### Domestic Credit to Private Sector, Percentage of GDP

*Source:* IMF Article IV consultation reports or national data sources for latest country data; World Development Indicators, most recent publication series FS.AST.PRVT.GD.ZS for benchmarking data. The WDI data originate with the IMF, International Financial Statistics and data files, and World Bank estimates.

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

*Coverage:* Data are available for about 82 USAID countries.

*CAS Code # 23P1*

### Interest Rate Spread

*Source:* World Development Indicators, most recent publication series FR.INR.LNDP. Original data from 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, Percentage of GDP

*Source:* Latest country data obtained from national data sources or IMF Article IV consultation reports: [www.imf.org/external/np/sec/aiv/index.htm](http://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 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*

### Stock Market Capitalization Rate, Percentage of GDP

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

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

*Coverage:* Data are available for about 54 USAID countries.

*CAS Code # 23P4*

### Credit Information Index

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

*Definition:* The credit information index measures rules affecting the scope, accessibility and quality of credit

information available through either public or private credit registries. The index ranges from 0 to 6, with higher values indicating the availability of more credit information, from either a public registry or a private bureau, to facilitate lending decisions.

*Coverage:* Data are available for nearly all USAID countries.

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

*CAS Code # 23P5*

### Legal Rights of Borrowers and Lenders

*Source:* World Bank Doing Business; Getting Credit category: <http://rru.worldbank.org/DoingBusiness/ExploreTopics/GettingCredit/CompareAll.aspx>. The index is based on data collected through research of collateral and insolvency laws supported by survey data on secured transactions laws.

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

*Coverage:* Data are available for nearly all USAID countries.

*CAS Code # 23S1*

### Real Interest Rate

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

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

*Coverage:* Data are available for about 68 USAID countries.

*CAS Code # 23S2*

## EXTERNAL SECTOR

### Aid, Percentage of GNI

*Source:* Latest country data obtained from national data sources or IMF Article IV consultation reports: [www.imf.org/external/np/sec/aiv/index.htm](http://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, Percentage of GDP

*Source:* Latest country data from national data sources or IMF Article IV consultation reports: [www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm). Benchmarking data from World Development Indicators, most recent publication series BN.CAB.XOKA.GD.ZS, based on IMF, Balance of Payments Statistics Yearbook and data files, World Bank staff estimates, and World Bank and OECD GDP estimates.

*Definition:* Current account balance is the sum of net exports of goods, services, net income, and net current transfers. It is

presented here as a percentage of a country's gross domestic product.

*Coverage:* Data are available for about 79 USAID countries.

*CAS Code # 24P2*

#### **Debt Service ratio**

*Source:* Latest country data obtained from national data sources or IMF Article IV consultation reports:

[www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm). Benchmarking data from World Development Indicators, most recent publication, series DT.TDS.DECT.EX.ZS, based on World Bank, Global Development Finance data.

*Definition:* Total debt service is the sum of principal repayments and interest actually paid in foreign currency, goods, or services on long-term debt, interest paid on short-term debt and repayments (repurchases and charges) to the IMF. Debt is considered as a percent of exports of goods and services, which includes income and workers' remittances.

*Coverage:* Data are available for about 77 USAID countries.

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

*CAS Code # 24P3*

#### **Exports Growth, Goods and Services**

*Source:* Latest country data obtained from national data sources or IMF Article IV consultation reports:

[www.imf.org/external/np/sec/aiv/index.htm](http://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, Percentage of GDP**

*Source:* Latest country data obtained from national data sources or IMF Article IV consultation reports:

[www.imf.org/external/np/sec/aiv/index.htm](http://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 consultation reports:

[www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm). Benchmarking data from World Development Indicators, most recent publication, series FI.RES.TOTL.MO.

*Definition:* Gross international reserves comprise holdings of monetary gold, special drawing rights (SDRs), the reserve position of members in the IMF, and holdings of foreign exchange under the control of monetary authorities expressed in terms of the number of months of imports of goods and services.

*Coverage:* Data are available for about 77 USAID countries.

*CAS Code # 24P6*

#### **Gross Private Capital Inflows, Percentage of GDP**

*Source:* Latest country data obtained from national data sources or IMF Article IV consultation reports:

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

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

*Coverage:* Information on coverage is not easily accessible.

*Data Quality:* Capital flows are converted to U.S. dollars at the IMF's average official exchange rate for the year shown.

*CAS Code #24P7*

#### **Present Value of Debt, Percentage of GNI**

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

*Definition:* Present value of debt is the sum of short-term external debt plus the discounted sum of total debt service payments due on public, publicly guaranteed, and private non-guaranteed long-term external debt over the life of existing loans. 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 across 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 # 24P8*

#### **Remittances Receipts, Percentage of Exports**

*Source:* Latest country data obtained from national data sources or IMF Article IV consultation reports:

[www.imf.org/external/np/sec/aiv/index.htm](http://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 # 24P9*

### Trade, Percentage of GDP

*Source:* Latest country data obtained from national data sources or IMF Article IV consultation reports: [www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm). Benchmarking data from World Development Indicators, most recent publication, series NE.TRD.GNFS.ZS.

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

*Coverage:* Data available for about 84 USAID countries.

*CAS Code # 24P10*

### Trade in Services, Percentage of GDP

*Source:* Latest country data obtained from national data sources or IMF Article IV consultation reports: [www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm). Benchmarking data from the World Development Indicators, most recent publication, series BG.GSR.NFSV.GD.ZS.

*Definition:* Trade in services is the sum of service exports and imports divided by the value of GDP, all in current U.S. dollars.

*Coverage:* Data available for about 80 USAID countries.

*CAS Code # 24P11*

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

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

*Coverage:* Available for about 74 USAID countries.

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

*CAS Code # 24S1*

### Inward FDI Potential Index

*Source:* UNCTAD. Indicator is available at <http://www.unctad.org/Templates/WebFlyer.asp?intItemID=2472&lang=1>.

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

*Coverage:* Data are available for about 77 USAID countries.

*CAS Code # 24S2*

### Net Barter Terms of Trade

*Source:* World Development Indicators, most recent publication, series TT.PRI.MRCH.XD.WD

*Definition:* Net barter terms of trade are calculated as the ratio of the export price index to the corresponding import price index measured relative to the base year 2000.

*Coverage:* Data are available for about 51 USAID countries.

*CAS Code # 24S3*

### Real Effective Exchange Rate (REER)

*Source:* IMF Article IV consultation reports: [www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm);

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

*Coverage:* Information on coverage is not easily accessible.

*Data Quality:* Changes in real effective exchange rates should be interpreted with caution. For many countries the weights from 1990 onward take into account trade in 1988-90, and an index of relative changes in consumer prices is used as the deflator.

*CAS Code # 24S4*

### Structure of Merchandise Exports

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

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

*Coverage:* Data are available for about 78 USAID countries.

*Data Quality:* The classification of commodity groups follows the Standard International Trade Classification (SITC) revision 1, but most countries report using later revisions of the SITC. Tables are used to convert data reported in one system to another and this may introduce errors of classification. Shares may not sum to 100 percent because of unclassified trade.

*CAS Code # 24S5*

### Trade Policy Index

*Source:* Index of Economic Freedom, Heritage Foundation: <http://www.heritage.org/research/features/index/downloads.cfm>. The Trade Policy Score (index) is one component of the Index of Economic Freedom.

*Definition:* The index measures the degree to which government hinders the free flow of foreign commerce, based on a country's weighted average tariff rate (weighted by imports from the country's trading partners), with adjustments for nontariff barriers and corruption in the customs service. The countries are ranked on a 0-to-100 scale, with a higher score representing greater freedom (low barriers to trade)—a switch from the 5-1 ranking of previous Indexes (in which lower numbers denoted greater freedom).

*Coverage:* Data are available for about 83 USAID countries.

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

*CAS Code # 24S6*

### Ease of Trading Across Borders Ranking

*Source:* World Bank, Doing Business, Trading Across Borders category: <http://www.doingbusiness.org/ExploreTopics/TradingAcrossBorders/>

*Definitions:* The 175 economies covered by the Doing Business report are ranked on the ease with which one may import into and export out of the economy. The ranking is based on a simple average of the economy's ranking on each of the composite indicators for Trading Across Borders: number of documents to import and export, cost to import and export, and time to import and export.

*Coverage:* Data are available for nearly all USAID countries.

*CAS Code # 24S7*

## ECONOMIC INFRASTRUCTURE

### Internet Users per 1,000 people

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

*Definition:* Indicator quantifies the number of Internet users, defined as those with access to the worldwide network, per 1,000 people.

*Coverage:* Data are available for about 88 USAID countries.

*CAS Code # 25P1*

### Overall Infrastructure Quality

*Source:* Global Competitiveness Report 2006–2007, World Economic Forum. The indicator can be found in the Data Tables, Section V. General Infrastructure; 5.01.

*Definition:* The index measures executives' perceptions of general infrastructure in their respective country. Executives grade, on a scale from 1 to 7, whether general infrastructure in their country is 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 # 25P2*

### Telephone Density, Fixed Line and Mobile

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

*Definition:* The indicator is the sum of subscribers to telephone mainlines and mobile phones per 1,000 people. Fixed lines represent telephone mainlines connected to the public switched telephone network. Mobile phone subscribers refer to users of cellular-based technology with access to the public switched telephone network.

*Coverage:* Data are available for about 88 USAID countries.

*CAS Code #25P3*

### Quality of infrastructure—Railroads, Ports, Air Transport and Electricity

*Source:* Global Competitiveness Report 2006-2007, World Economic Forum. The indicators can be found in the Data Tables, Section V. General Infrastructure; 5.02, 5.03, 5.04, and 5.05 for Railroad, Port, Air Transport, and Electricity, respectively.

*Definitions:* The index measures executives' perceptions of general infrastructure in their respective country. Executives grade, on a scale from 1 to 7, whether railroads, ports, air

transport, and electricity are 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 executive perceptions.

*CAS Code #25S1*

### Roads, paved (% total)

*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*

## SCIENCE AND TECHNOLOGY

### Expenditure in Research and Development, Percentage of GDP

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

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

*Coverage:* Data are available for about 26 USAID countries.

*CAS Code #26P1*

### FDI Technology Transfer Index

*Source:* Global Competitiveness Report 2006-2007, World Economic Forum. The indicator can be found in the Data Tables, Section III. Technology: Innovation and Diffusion; 3.04.

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

*Coverage:* Data are available for about 52 USAID countries.

*Data Quality:* Comparisons between countries are difficult because the data are based on executive perceptions.

*CAS Code # 26P2*

### Availability of Scientists and Engineers Index

*Source:* Global Competitiveness Report 2006-2007, World Economic Forum. The indicators can be found in the Data Tables, Section IX. Innovation; 9.05.

*Definitions:* The index measures executives' perceptions of the availability of scientists and engineers in their respective country. Executives grade, on a scale from 1 to 7, whether scientists and engineers in their country are nonexistent (1) or rare, or widely available (7).

*Coverage:* Data are available for about 52 USAID countries.

*Data Quality:* Comparisons between countries are difficult because the data are based on executive perceptions.

*CAS Code #26P3*



### Science and Technology Journal Articles, per Million People

*Source:* World Development Indicators, most recent publication, series IP.JRN.ARTC.SC

*Definitions:* The indicator refers to published scientific and engineering articles in physics, biology, chemistry, mathematics, clinical medicine, biomedical research, engineering and technology, and earth and space sciences per one million population.

*Coverage:* Data are available for about 82 USAID countries.  
*CAS Code #26P4*

### IPR Protection Index

*Source:* Global Competitiveness Report 2006-2007, World Economic Forum. The indicators can be found in the Data Tables, Section IV. Innovation; 9.07.

*Definitions:* The index measures executives' perceptions of the availability of the quality of intellectual property rights protection in their respective country. The scale ranges from 1 (for poorly enforced) to 7 (among the best in the world).

*Coverage:* Data are available for about 52 USAID countries.

*Data Quality:* Comparisons between countries are difficult because the data are based on executive perceptions.

*CAS Code #26P5*

## HEALTH

### HIV Prevalence

*Source:* UNAIDS for most recent country data:

[http://data.unaids.org/pub/GlobalReport/2006/2006\\_GR\\_AN\\_N2\\_en.pdf](http://data.unaids.org/pub/GlobalReport/2006/2006_GR_AN_N2_en.pdf). World Development Indicators, most recent publication for benchmark data, series SH.DYN.AIDS.ZS.

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

*Coverage:* Data are available for about 79 USAID countries.

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

*CAS Code #31P1*

### Life Expectancy at Birth

*Source:* World Development Indicators, most recent publication, (SP.DYN.LE00.IN)

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

*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/survey. Extrapolations may not be reliable for monitoring changes in health status or for comparative analytical work.

*CAS Code #31P2*

### Maternal Mortality Rate

*Source:* UN Millennium Indicators Database, <http://millenniumindicators.un.org/unsd/mdg/Data.aspx> based on WHO, UNICEF and UNFPA data.

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

*Coverage:* Data are available for about 87 USAID countries.

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

*CAS Code #31P3*

### Access to Improved Sanitation

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

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

*Coverage:* Data are available for about 82 USAID countries.

*CAS Code #31S1*

### 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 a household connection, public standpipe, borehole, protected well or spring, or rain water collection.

*Coverage:* Data are available for about 83 USAID countries.

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

*CAS Code #31S2*

### Births Attended by Skilled Health Personnel

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

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

*Coverage:* Data are available for about 62 USAID countries.

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

*CAS Code #31S3*

### Child Immunization Rate

*Source:* World Development Indicators, most recent publication, estimated by averaging two series: Immunization, DPT (% of children ages 12–23 months) (SH.IMM.IDPT) and Immunization, measles (% of children ages 12–23 months) (SH.IMM.MEAS).

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

*Coverage:* Data are available for about 88 USAID countries.

*CAS Code #31S4*

### Prevalence of Child Malnutrition—Weight for Age

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

*Definition:* The indicator is based on 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 # 31S5*

### Public Health Expenditure, Percentage of GDP

*Source:* Latest data for host country is obtained from the

MCC: <http://www.mcc.gov/selection/scorecards/2007/index.php>.

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

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

*Coverage:* Data are available for about 88 USAID countries.

*CAS Code #31S6*

## EDUCATION

### Net Primary Enrollment Rate—Female, Male and Total

*Source:* UNESCO Institute for Statistics, <http://stats.uis.unesco.org/ReportFolders/reportfolders.aspx>

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

*Coverage:* Data are available for about 80 USAID countries.

*Data Quality:* Enrollment rates are based on data collected during annual school surveys, which are typically conducted at the beginning of the school year, and do not reflect actual rates of attendance during the school year. In addition, school administrators may report exaggerated enrollments 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 # 32P1*

### Persistence to Grade 5—Female, Male, and Total

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

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

*Coverage:* Data are available for about 48 USAID countries.

*CAS Code # 32P2*

### Youth Literacy Rate—Female, Male, and Total

*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 #32P3*

### Net Secondary Enrollment Rate, Total

*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:* Not available for draft.

*Data Quality:* Break in series between 1997 and 1998 due to change from International Standard Classification of Education (ISCED) 76 to ISCED97. Recent data are provisional.

*CAS Code #32P4*

### Gross Tertiary Enrollment Rate, Total

*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:* Not available for draft.

*Data Quality:* Break in series between 1997 and 1998 due to change from International Standard Classification of Education (ISCED) 76 to ISCED97. Recent data are provisional.

*CAS Code #32P5*

### Expenditure on Primary Education, Percentage of GDP

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

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

*Coverage:* Data are available for about 58 USAID countries.

*Data Quality:* The MCC obtains the data from national sources through U.S. embassies.

*CAS Code #32S1*

### Educational Expenditure per Student, Percentage of GDP per capita—Primary, Secondary and Tertiary

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

*Definition:* Public expenditure per student (primary, secondary or tertiary) is defined as the public current

expenditure on education divided by the total number of students, by level, as a percentage of GDP per capita.

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

*Data Quality:* Education statistics should be interpreted with caution because the data are out of date by 2 or 3 years; also, the statistics reflects solely public spending, generally excluding spending by religious schools, which play a significant role in many developing countries. Data for some countries and for some years refer to spending by the ministry of education only.

*CAS Code # 32S2*

### **Pupil-teacher Ratio, Primary School**

*Source:* World Development Indicators, most recent publication series SE.PRM.ENRL.TC.ZS.

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

*Coverage:* Data are available for about 76 USAID countries.

*Data Quality:* The indicator does not take into account differences in teachers' academic qualifications, pedagogical training, professional experience and status, teaching methods, teaching materials and variations in classroom conditions – all factors that could also affect the quality of teaching/learning and pupil performance.

*CAS Code # 32S3*

## **EMPLOYMENT AND WORKFORCE**

### **Labor Force Participation Rate**

*Source:* Derived from World Development Indicators, but the precise computation differs depending on whether a particular country study uses the 2004 or 2005 and years subsequent WDI.

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

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

*Coverage:* Data are available for about 88 USAID countries.

*CAS Code #33P1*

### **Rigidity of Employment Index**

*Source:* World Bank, Doing Business in 2007, Employing workers category:

<http://www.doingbusiness.org/ExploreTopics/EmployingWorkers/>

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

*Coverage:* Data are available for nearly all USAID countries.

*Data Quality:* Subindices are compiled by the World Bank from survey responses to in-country specialists.

*CAS Code # 33P2*

### **Size and Growth of the Labor Force**

*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 size of the labor supply, and its annual percent change. 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**

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

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

*Coverage:* Data are available for about 50 USAID countries.

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

*CAS Code # 33P4*

### **Economically Active Children, Percentage 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.

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

*CAS Code # 33P5*

### **Firing Costs, Weeks of Wages**

*Source:* World Bank, Doing Business, Employing Workers

Category: <http://www.doingbusiness.org/MethodologySurveys/EmployingWorkers.aspx>.

*Definitions:* The firing cost indicator measures the cost of advance notice requirements, severance payments, and penalties due when terminating a redundant worker, expressed in weekly wages. One month is recorded as 4 and 1/3 weeks.

*Coverage:* Data available for nearly all USAID countries.

*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 1995 U.S. dollars.

*Coverage:* Data are available for about 80 USAID countries.

*CAS Code # 34P1*

### Cereal Yield

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

*Definition:* Cereal yield, measured as kilograms per hectare of harvested land, includes wheat, rice, maize, barley, oats, rye, millet, sorghum, buckwheat, and mixed grains. Production data on cereals relate to crops harvested for dry grain only.

*Coverage:* Data are available for about 84 USAID countries.

*Data Quality:* Data on cereal yield may be affected by a variety of reporting and timing differences. The FAO allocates production data to the calendar year in which the bulk of the harvest took place. But most of a crop harvested near the end of a year will be used in the following year. Cereal crops harvested for hay or harvested green for food, feed, or silage, and those used for grazing, are generally excluded. But millet and sorghum, which are grown as feed for livestock and poultry in Europe and North America, are used as food in Africa, Asia, and countries of the former Soviet Union. So some cereal crops are excluded from the data for some countries and included elsewhere, depending on their use.

*CAS Code # 34P2*

### Growth in Agricultural Value-Added

*Source:* The latest country data are taken from national data sources or from IMF Article IV consultation reports:

[www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm). The benchmarking data are from World Development Indicators, most recent publication series NV.AGR.TOTL.KD.ZG

*Definition:* The indicator measures the annual growth rate for agricultural value added, in constant local currency. Regional group aggregates are based on constant 2000 U.S. dollars. Agriculture corresponds to ISIC divisions 1–5 and includes forestry, hunting, and fishing, as well as cultivation of crops and livestock production. Value added is the net output of a sector after all outputs are added up and intermediate inputs are subtracted. It is calculated without deductions for depreciation of fabricated assets or depletion and degradation of natural resources.

*Coverage:* Data are available for about 84 USAID countries.

*CAS Code # 34P3*

### Agricultural Policy Costs Index

*Source:* Global Competitiveness Report 2006-2007, World Economic Forum. The indicator can be found in the Data Tables, Section II. Macroeconomic Environment; 2.20.

*Definition:* The index measures executives' perceptions of agricultural policy costs in their respective country. Executives grade, on a scale from 1 to 7, whether the cost of agricultural policy in a given country is excessively burdensome (1), or balances all economic agents' interests (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 # 34S1*

### Crop Production Index

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

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

*Coverage:* Data are available for about 85 USAID countries.

*Data Quality:* Regional and income group aggregates for the FAO's production indices are calculated from the underlying values in international dollars, normalized to the base period 1999–2001. The FAO obtains data from official and semiofficial reports of crop yields, area under production, and livestock numbers. If data are not available, the FAO makes estimates. To ease cross-country comparisons, the FAO uses international commodity prices to value production expressed in international dollars (equivalent in purchasing power to the U.S. dollar). This method assigns a single price to each commodity so that, for example, one metric ton of wheat has the same price regardless of where it was produced. The use of international prices eliminates fluctuations in the value of output due to transitory movements of nominal exchange rates unrelated to the purchasing power of the domestic currency.

*Coverage:* Data are available for about 85 USAID countries.

*CAS Code # 34S2*

### Livestock Production Index

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

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

*Coverage:* Data are available for about 85 USAID countries.

*Data Quality:* See comments on the Crop Production Index.

*CAS Code # 34S3*

### Agriculture Export Growth

*Source:* World Development Indicators, most recent publication series TX.VAL.AGRI.ZS.UNS, Agricultural raw materials exports (% 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.

*Definitions:* 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:* Not available for draft.

*CAS Code # 34S4*