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# Honduras

## Economic Performance Assessment



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# **Honduras**

## **Economic Performance**

### **Assessment**

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

- A synthesis of data drawn from numerous sources, including World Bank publications and other international data sets currently used by USAID for economic growth analysis, as well as accessible host-country data sources;
- International benchmarking to assess country performance in comparison to similar countries and groups of countries;
- An easy-to-read analytic narrative that highlights areas in which a country's performance is particularly strong or weak, thereby assisting in the identification of future programming priorities.

Under the CAS Project, Nathan Associates will also respond to mission requests for in-depth sector studies to examine more thoroughly particular issues identified by the data analysis in these country reports.

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## HIGHLIGHTS OF HONDURAS'S PERFORMANCE

Economic Growth	Honduras has had strong real GDP growth in 2004 and 2005. However, its investment and labor productivity numbers have declined over time. Significant competitiveness challenges remain.
Poverty	Honduras has very high levels of poverty and inequality.
Economic Structure	Honduras has a mismatch between the number of people employed in agriculture and the productivity of the agricultural sector. Industrial and service sector workers are very productive relative to their size.
Demography and Environment	Honduras has a young population that continues to grow quickly, creating ever more pressure on job creation. Despite improvements in environmental management, Honduras's Environmental Sustainability Index score has declined in recent years.
Gender	Honduras has more men than women enrolled in school. The ratio of male to female literacy is roughly equal at 0.99.
Fiscal and Monetary Policy	Fiscal and monetary management have tended to be good in recent years. Honduras' fiscal deficit has declined steadily. However, the government still faces a variety of spending pressures, notably from wages and salaries.
Business Environment	Honduras faces significant problems with corruption and rule of law. Although Honduras does relatively fine with respect to its business procedures, the cost of starting a business is significantly out of line with its comparators.
Financial Sector	Honduras has a significant quantity of credit available to the private sector. However, the cost to create collateral is high and those puts standard financial instruments out of reach for many small and medium size enterprises.
External Sector	CAFTA-DR offers tremendous opportunities and challenges to Honduras in the years ahead. Debt relief has helped Honduras by providing greater space for social spending over the medium term. Remittances will continue being an important source of income for the country and its population.
Economic Infrastructure	Honduras's Puerto Cortes is now part of the U.S. Container Security Initiative. Investment in airport infrastructure continues apace.
Health	Honduras has had great success in reducing maternal mortality rates. More investment in health, especially to reduce child malnutrition, is essential.
Education	Honduras has further to go in increasing its youth literacy rate. Its rates of student persistence to grade 5, while better than expected, need to improve.
Employment and Workforce	In Honduras, men have a relatively high rate of participation in the labor force while women have a very low rate of participation.
Agriculture	Growth in value-added per worker remains low by regional standards as does Honduras' cereal yield.

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



## HONDURAS: NOTABLE STRENGTHS AND WEAKNESSES— SELECTED INDICATORS

Indicator	Strength	Weakness
Growth Performance		
Real GDP growth	X	
Growth of labor productivity		X
Poverty and Inequality		
Income share accruing to poorest 20%		X
Poverty headcount (%), by national poverty line		X
Economic Structure		
Output structure (agriculture, value-added, % GDP)		X
Output structure (industry, value-added, % GDP)	X	
Demography and Environment		
Age dependency rate		X
Environmental sustainability index		X
Gender		
Ratio of male to female—adult literacy rate	X	
Fiscal and Monetary Policy		
Cash Surplus/Deficit (% of GDP)	X	
Composition of government expense (wages and salaries)		X
Business Environment		
Rule of law index		X
Cost of starting a business, % GNI per capita		X
Financial Sector		
Domestic credit to private sector, % GDP	X	
Interest rate spread, lending rate minus deposit rate	X	
External Sector		
Private capital inflows, % GDP		X
Gross international reserves, months of imports	X	
Debt service ratio, % exports	X	
Time to trade (average import and export days)		X
Economic Infrastructure		
Quality of infrastructure - ports	X	

Indicator	Strength	Weakness
Health		
Maternal mortality rate, per 100,000 live births	<b>X</b>	
Prevalence of child malnutrition (weight for age)		<b>X</b>
Education		
Persistence in school to grade 5 (total)	<b>X</b>	
Employment and Workforce		
Labor force participation rate (female)		<b>X</b>

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

# 1. Introduction

This paper 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 a broad range of indicators 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 and comparator countries (Chile and Costa Rica<sup>2</sup>) to identify major constraints, trends, and opportunities for strengthening growth and reducing poverty.

The methodology used 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>3</sup> Similarly, economic performance assessments are based on an examination of key economic and social indicators, to see which ones are signaling problems. In some cases a “blinking” indicator has clear implications, while in others a detailed study may be needed to investigate the problems more fully and identify an appropriate course for programmatic action.

The analysis is organized around two mutually supportive goals: transformational growth and poverty reduction.<sup>4</sup> Rapid and broad-based growth is the most powerful instrument for poverty reduction. At the same time, measures aimed at reducing poverty and lessening inequality can help to underpin rapid and sustainable growth. These interactions create the potential for stimulating 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

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<sup>1</sup> Sources include the latest data from USAID’s internal Economic and Social Database (ESDB), and from readily accessible public information sources. The ESDB is compiled and maintained by the Development Information Service, under PPC/CDIE. It is accessible to staff through the USAID intranet.

<sup>2</sup> These two countries were selected at the request of the LAC Bureau as comparators for all of the CAS reports on the CAFTA countries.

<sup>3</sup> Sometimes, too, the problem is faulty wiring to the indicator—analogue here to faulty data.

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

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>5</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.

The present evaluation of these conditions must be interpreted with caution, because a concise analysis of this sort cannot provide a definitive diagnosis of economic problems or simple answers to questions about programmatic priorities. Instead, the aim of the analysis is to spot signs of serious problems for economic growth, on the basis of a review of selected indicators, 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 report discusses the most important results of the diagnostic analysis in three sections: Overview of the Economy; Private Sector Enabling Environment; and Pro-Poor Growth Environment. Table 1-1 summarizes the topic coverage. The Appendix provides a brief explanation of the criteria used for selecting indicators, the benchmarking methodology, and a table showing the full set of indicators examined for this report.

Table 1-1  
*Topic Coverage*

Overview of the Economy	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>• 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>

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<sup>5</sup> A comprehensive poverty reduction strategy also requires programs to reduce the *vulnerability* of the poor to natural and economic shocks. This aspect is not covered in the template since the focus is economic growth programs. In addition, it is difficult to find meaningful and readily available indicators of vulnerability to use in the template

## 2. Overview of the Economy

This section reviews some basic information on Honduras's macroeconomic performance, poverty and inequality, economic structure, demographic and environmental conditions, and indicators of gender equity.<sup>6</sup> Some indicators are descriptive rather than analytical and are included to provide context for the performance analysis.

Honduras has spent much of the past seven years recovering from Hurricane Mitch, which struck the country in 1998. Mitch caused such massive and widespread damage that President Carlos Roberto Flores claimed it destroyed 50 years of progress in the country. Mitch destroyed about 70 percent of crops, totaling about \$900 million (1998 dollars) in losses. An estimated 70–80 percent of the transportation infrastructure of the entire country was wiped out, including nearly all bridges and secondary roads. Damages to the transportation and communication network totaled \$529 million in 1998 dollars (or \$671 million in 2005 dollars). Across the country, the storm destroyed 33,000 houses and damaged 50,000 others.

In the past eight years Honduras has made great strides in rebuilding its infrastructure and industry. It has also begun to move in a new direction that holds tremendous promise for generating economic growth and reducing poverty. This fresh departure has three central components. First, Honduras has received significant debt relief under the International Monetary Fund (IMF)-World Bank Heavily Indebted Poor Country (HIPC) initiative as well as under various bilateral initiatives. Second, on April 1, 2006, the United States–Central America/Dominican Republic Free Trade Agreement (CAFTA-DR) entered into force for Honduras, opening significant trade opportunities for the country's exporters. Third, on June 13, 2005, Honduras signed a \$215 million Millennium Challenge Account compact to finance activities to strengthen the productivity of the rural economy and reduce transport costs between production centers and rural markets.

On January 27, 2006, Manuel Zelaya Rosales of the Partido Liberal was sworn in for a four-year term as president of Honduras. The Zelaya administration appears to support basic policy continuity on the economic front—prudent, market-oriented policies with a strong trading relationship with the United States.<sup>7</sup>

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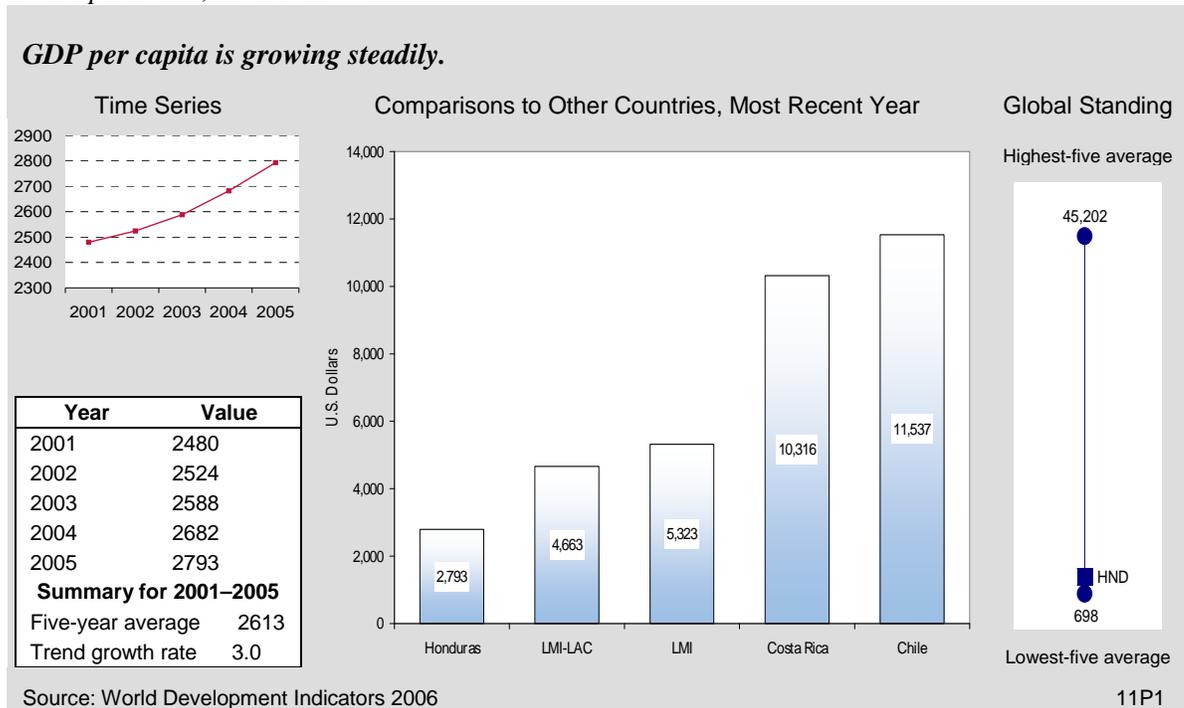
<sup>6</sup> The separate Data Supplement provides a full tabulation of the data for Honduras and the international benchmarks, including indicators not discussed in the text, as well as technical notes for each indicator.

<sup>7</sup> *Country Report: Honduras*. The Economist Intelligence Unit, January 2006, p. 3.

## GROWTH PERFORMANCE

With an estimated per capita income in 2005 of \$2,793 in PPP U.S. dollars (and \$1,069 in current dollars), Honduras is one of the poorest countries in the Western Hemisphere. Honduras's GDP per capita is still significantly below the average for lower-middle-income Latin American and Caribbean countries (LMI-LAC). It is also less than a quarter of Chile's GDP (\$11,537) and only slightly more than a quarter of Costa Rica's GDP (\$10,316).

Figure 2-1  
Per Capita GDP, PPP Dollars



To raise its per capita income, Honduras needs robust, real GDP growth sustained over a period of years. In the past five years, the Honduran economy has performed steadily better. Although real GDP growth grew by a paltry 2.6 percent in 2001, by 2004, the Honduran economy grew by 4.6 percent. In 2005, real GDP growth tapered off slightly to 4.2 percent, but this is still better than the growth levels of the early part of the decade. Honduras's 2005 growth performance compares favorably to the statistically estimated benchmark level<sup>8</sup> and the LMI-LAC level, both 3.7 percent. Although Costa Rica's 2005 performance was below the level of Honduras at 3.2 percent, the other comparator country, Chile, was the star performer, with real GDP growth of 6.1 percent.

The last available investment and productivity indicators in Honduras are from 2003 and thus do not capture the most recent years of 4 percent real GDP growth. By contrast, real GDP growth between 2001 and 2003 averaged just 2.9 percent. Therefore, the investment and productivity indicators may have improved somewhat in the past two years.

<sup>8</sup> A detailed description of the methodology used to determine the regression benchmark can be found in the Appendix.

The 1999–2003 investment and productivity data reveal a steadily declining economic situation. Gross fixed investment fell from 36.1 percent of GDP at the beginning of the period to 24.0 percent of GDP at the end of the period. The 2003 score for Honduras came in near the statistically predicted benchmark (23.5 percent) and the level of Chile (22.8 percent) but was higher than the LMI-LAC average (18.5 percent) and the level of Costa Rica (19.7 percent). Nongovernment gross fixed investment in Honduras showed the same trend, falling from 22.6 percent of GDP in 1999 to just 15.7 of GDP in 2003. Honduras experienced negative growth in the productivity of its labor force in the five years to 2003, averaging -0.9 percent. In 2003, Honduras, with a score of -0.2 percent on this indicator compared unfavorably to Chile, which saw a 1.6 percent growth in labor productivity, and Costa Rica, which turned in a score of 3.7 percent. Finally, a full five-year time series is not available for the incremental capital output ratio (ICOR). However, this indicator declined from 8.7 in 2000 to 10.8 in 2003, meaning that Honduras required \$10.8 in gross investment for every \$1 of extra output, compared to \$8.7 in 2000. By contrast, in 2003 regional competitor Costa Rica required only \$4.5 for every \$1 of extra output.

Although the economy has turned the corner in the past two years, Honduras needs sustained real growth well above 4 percent if it is to make significant inroads in reducing poverty. If Honduras is to achieve a significant acceleration of its growth rate, it will have to improve productivity. The analysis below will highlight some of the causes of low productivity with a view to flagging areas in which donor intervention may be appropriate.

## **POVERTY AND INEQUALITY**

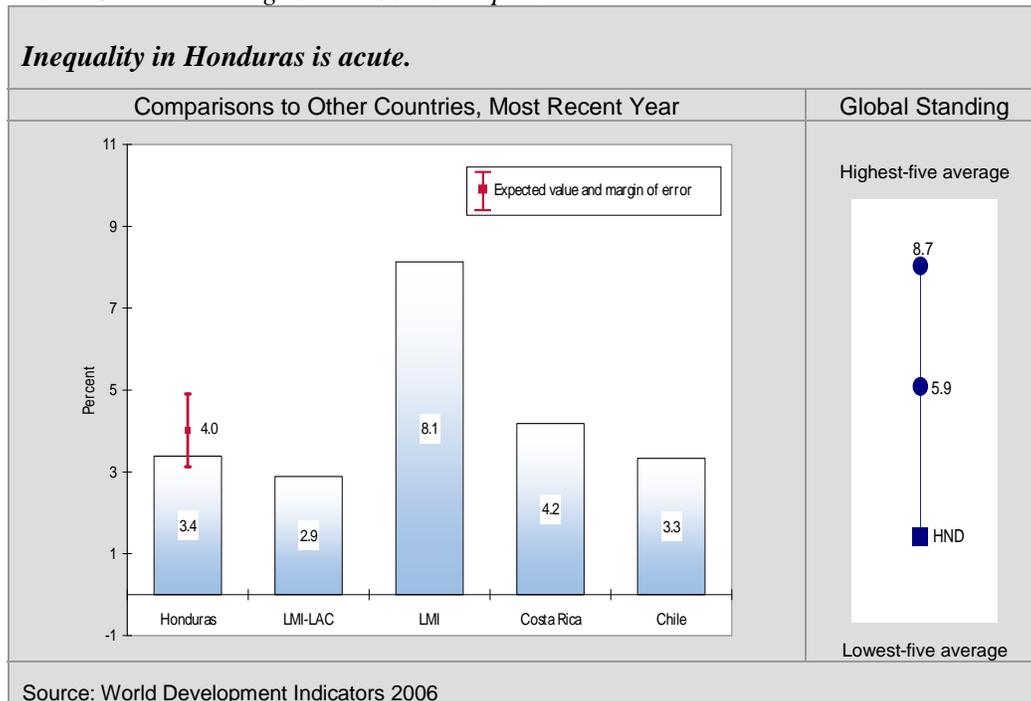
Honduras is one of the poorest and most unequal countries in Latin America. In 2004, 64.0 percent of Hondurans lived below the national poverty line, significantly higher than the statistically predicted level of 46.2 percent. In 1999, the last year for which data are available, some 20.7 percent of Hondurans were living on less than \$1 PPP per day. By contrast, in 2000 (latest year), only 2 percent of the population of Chile and 2 percent of the population of Costa Rica were living on less than \$1 PPP per day. The LMI-LAC average in this category is 17.0 percent, well below the level of Honduras.

Another key indicator of poverty is the percentage of the population living on less than the minimum dietary energy consumption. In 2003, 22 percent of the Honduran population lived in this manner. Lower than the statistically predicted benchmark of 24.2 percent, this rate is nonetheless well above the LMI-LAC average of 13.0 percent, six times the level of Chile (4.0 percent), and four times the level of Costa Rica (6.0 percent).

The UNDP Human Poverty Index (HPI) provides a broader gauge of poverty that takes into account deprivation in health and education as well as income. On a scale of 0 (no deprivation) to 100 (maximum deprivation), Honduras scored a 16.9 in 2005, an improvement over the 19.9 in 2003. Notably, this score is better than the regression benchmark of 21.1, indicating that on this count the country is doing better than expected. Be that as it may, Honduras's HPI score is still worse than the LMI-LAC average (11.4) and much worse than the scores of Chile (3.7) and Costa Rica (4.0).

On a global level, Latin America has one of the most unequal distributions of income. And in Honduras, in 2003, 60.2 percent of income accrued to the richest 20 percent of Hondurans, while only 3.4 percent accrued to the poorest 20 percent. In 1999, the last year for which data are available, the share of income accruing to the richest 20 percent of Hondurans was 21.5 times higher than the share accruing to the poorest 20 percent. Interestingly, Chile has both a similar share of income accruing to the richest 20 percent of the population (62.2 percent in 2000) and a similar share accruing to the poorest 20 percent (3.3 percent). The ratio of the income accruing to the richest 20 percent of Chileans to that of the poorest was 18.7. By contrast, Costa Rica saw 51.5 percent of income in 2000 accrue to the richest 20 percent while 4.2 percent accrued to the poorest 20 percent. Costa Rica's rich-to-poor income ratio was 12.3 in 2000 (Figure 2-2).

Figure 2-2  
*Income Share Accruing to the Poorest 20 percent*



Honduras is implementing its August 2001 Poverty Reduction Strategy Paper (PRSP). PRSPs describe a country's macroeconomic, structural, and social policies and programs to promote growth and reduce poverty, as well as associated external financing needs. These documents are required for countries wishing to receive World Bank and International Monetary Fund concessional assistance and serve as the basis for debt relief. The January 2005 PRSP Progress Report notes that Honduras has achieved approximately 18 percent of the PRSP indicator improvements necessary to reach the Millennium Development Goals by 2015. The PRSP indicators that have improved the most are macroeconomic indicators, the extreme poverty index, education coverage, electricity coverage, telecommunications coverage, and human development.

Indicators that have evolved more slowly include the poverty headcount index, health outcomes, and access to water and sanitation.<sup>9</sup>

Donors and policymakers need to work together in a variety of areas if Honduras is to succeed in reducing poverty and inequality. Investments need to focus on the social sector (education, health, and nutrition) and economic development (productivity enhancements at the firm level, infrastructure investments, and specialized training).

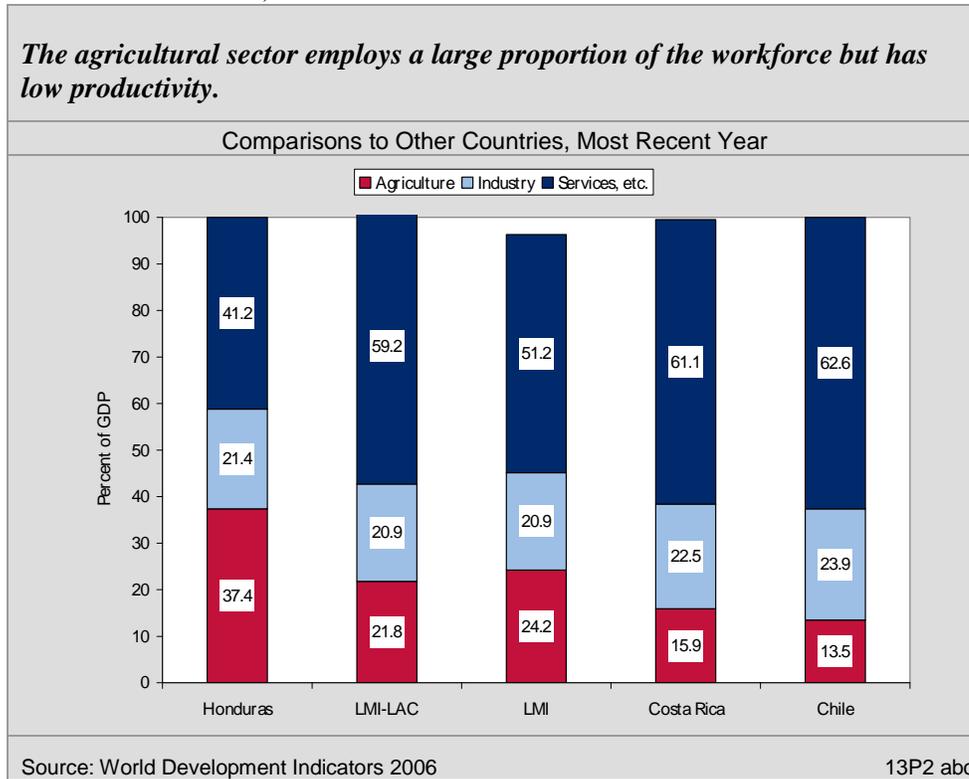
## **ECONOMIC STRUCTURE**

Honduras's labor force is divided between the services sector, with 41.2 percent, agriculture, with 37.4 percent, and industry, with 21.4 percent. Chile and Costa Rica, in contrast, share the employment patterns of virtually all developed countries: the largest number of workers by far is employed in the services sector (62.6 percent and 61.1 percent respectively), followed by industry (23.9 percent and 22.5 percent respectively), and then agriculture (13.5 percent and 15.9 percent respectively). The LMI-LAC average falls in the middle of these two points: services is the most important source of employment, at 59.2 percent, followed by agriculture at 21.8 percent, and finally industry, at 20.9 percent (Figure 2-3).

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<sup>9</sup> See Poverty Reduction Strategy: Progress Report 2004. Tegucigalpa, January 2005.  
[http://siteresources.worldbank.org/INTPRS1/Resources/Honduras-PRSP\(Feb2005\).pdf](http://siteresources.worldbank.org/INTPRS1/Resources/Honduras-PRSP(Feb2005).pdf).

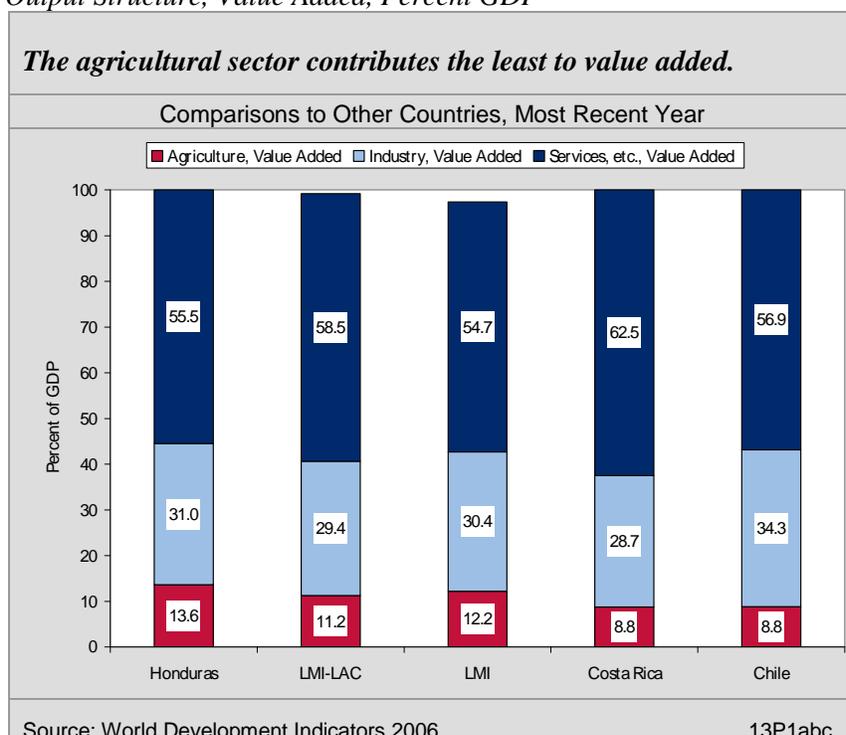
Figure 2-3  
*Labor Force Structure, Percent Total*



Productivity in Honduras's agricultural sector is low relative to other sectors of the economy. Its share of value added to GDP is only 13.6 percent. In both Chile and Costa Rica, agriculture's share is 8.8 percent. Honduras's industrial sector has relatively high labor productivity, accounting for 31.0 percent of value-added as a percentage of GDP. This high level of productivity is undoubtedly linked to Honduras's large *maquila* industry. In Chile, industry's share of value added to GDP is 34.3 percent and in Costa Rica, 28.7 percent. Finally, the service sector has a 55.5 percent share of value added to GDP, compared with 56.9 percent in Chile and 62.5 percent in Costa Rica (Figure 2-4). The Honduran services sector is expected to increase output in the coming years as international telecommunications are liberalized and the government participates in the expansion of tourism.<sup>10</sup>

<sup>10</sup> *Country Report: Honduras*. The Economist Intelligence Unit, January 2006, p.24.

Figure 2-4  
*Output Structure, Value Added, Percent GDP*



Agricultural workers, despite their number (37.4 percent), produce a relatively low percentage of the country’s output (13.6 percent as measured by value added as a share of GDP). This contrast is particularly striking because between 1999 and 2003 agricultural value added per worker grew by 4.6 percent over the period. (See Agriculture, p. 37). Despite success in improving productivity, there remains a fundamental mismatch between the sector’s share of value added to GDP and the proportion of the total labor force that it employs. This mismatch is of great concern because low productivity in agriculture translates into low income for agricultural workers. In fact, many agricultural workers in Honduras are stuck in a “poverty trap.” For workers to escape this trap, two concurrent developments are required. First, Honduras needs to continue to emphasize the diversification of its agricultural sector into higher-value-added and niche products that offer a higher return to their producers. Second, Honduras needs to focus on reducing obstacles—structural and regulatory—to the movement of agricultural workers into nonagricultural activities. The improvement of secondary roads, for example, can have the dual effect of helping to move people to jobs and agricultural products to market.

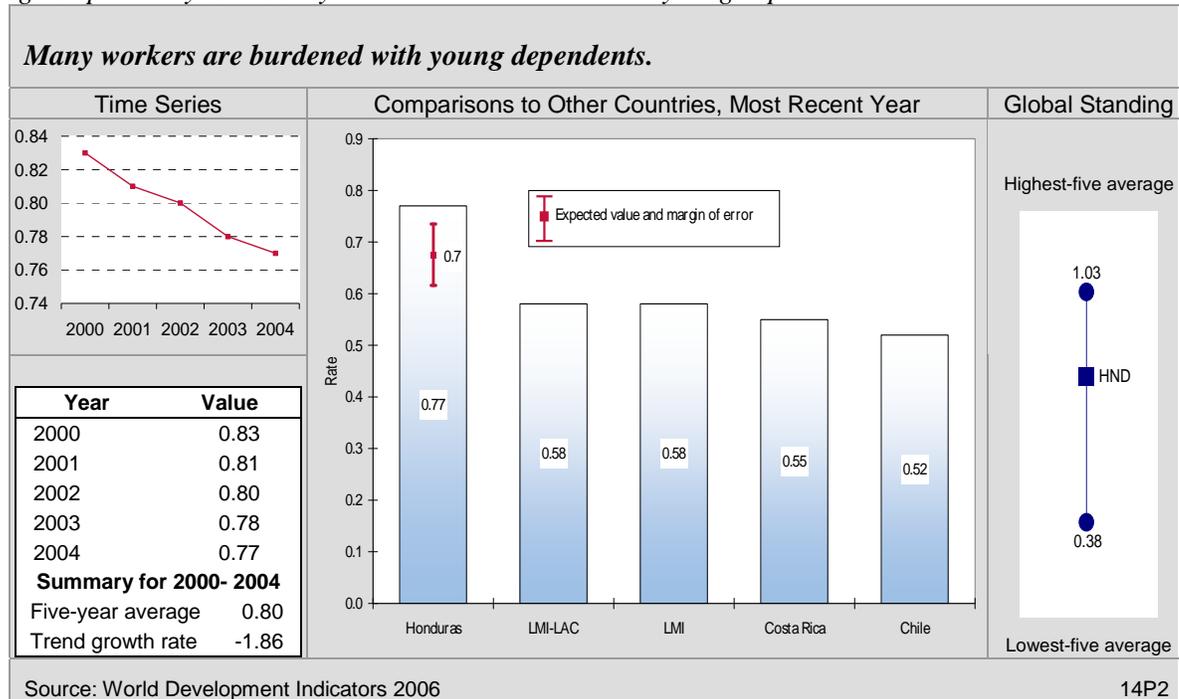
## DEMOGRAPHY AND ENVIRONMENT

Honduras is a mid-sized country by Central American standards, with a population of 7 million in 2003, compared with 4 million in Costa Rica and 12 million in Guatemala. But population size is less important than the population growth rate and the age dependency rate. In the 2000–2004 period, Honduras had a stable average annual population growth rate of 2.3 percent. This is significantly higher than the statistically predicted level (1.9 percent) and the LMI-LAC average (1.5 percent). It is also double the rate of Chile (1.2 percent) and a full percentage point higher than the rate found in Costa Rica (1.6 percent). Honduras also has a high age dependency rate, which is the number of dependents that each income earner supports. Although this rate fell

steadily from 0.83 in 2000 to 0.77 in 2004, Honduras's score still compares poorly to all the benchmarks. The statistically predicted age dependency rate for a country of Honduras's characteristics is 0.70, and this is still significantly above the LMI-LAC average of 0.58. A high age dependency rate in Honduras is a consequence of the number of young dependents rather than a large elderly population. The high age dependency rate translates into a growing need for job creation as the younger generation enters the labor force (Figure 2-5).

Figure 2-5

*Age Dependency Rate Many workers are burdened with young dependents.*



In 2004, some 46.0 percent of Honduras's population lived in urban areas. Moreover, the growth of the country's urban population has continued at a steady clip, averaging 0.9 percent per year from 2000 to 2004. Honduras's urban population is on par with statistically predicted (47.2 percent) but still lower than the LMI-LAC average (64.2 percent).

An important population characteristic is the adult literacy rate. In 2004, the adult literacy rate was 80.0 percent. Honduras's adult literacy rate is well below the LMI-LAC average (85.0 percent) and significantly below the near-universal levels of Chile (95.7 percent) and Costa Rica (95.8 percent). Increasing adult literacy to Chilean and Costa Rican levels should be a high priority for Honduras.

Rapid population growth often creates significant environmental stress. The best indicator available is the Environmental Sustainability Index (ESI), which ranges from 0 (poor) to 100 (excellent). In 2005, Honduras scored a 47.4, down significantly from 53.1 in 2002, although still slightly above the regression benchmark (45.0). Honduras's ESI score is also below the LMI-LAC average (52.4) and Chile's score (53.6). Meanwhile, Costa Rica scored a very good 59.6 on the ESI, in large part thanks to a long-term effort to give environmental stewardship a central place in the country's development strategy.

Key factors that are driving Honduras's ESI include insufficient efforts to reduce the environmental effects of natural disasters, poor air quality, and weak private sector responsiveness to environmental challenges. Yet Honduras has made large strides in stopping the degradation of its natural capital in areas that have been severely damaged in the past few decades, particularly in the southern and Caribbean regions.

Perhaps the single most complex environmental challenge facing Honduras is illegal logging.<sup>11</sup> In a 2005 report by the conservationist NGO the Environment Investigation Agency detailed a web of corruption that is resulting in large-scale deforestation in Honduras.<sup>12</sup> The report estimates that 80 percent of the mahogany and up to 50 percent of the pine are produced in violation of government regulations. At the current loss rate, mahogany could disappear as a native species within 10 to 15 years. The massive scale of illegal logging not only encourages a broader culture of corruption but is devastating to the economic and social lives of a whole series of communities in the affected areas. In addition, illegal logging is undermining potentially lucrative ecotourism possibilities created by the internationally recognized Río Plátano Biosphere Reserve. Donors, policymakers, and civil society groups need to work together to reverse the alarming rate of deforestation.

## GENDER

Honduras performs well on indicators of gender equality. The male-to-female adult literacy ratio rate was 0.99 in 2004. This is consistent with figures for Chile and Costa Rica (also at 1.00) and slightly better than the LMI-LAC average of 1.02. Equality in literacy corresponds with a ratio of male-to-female gross enrollment rate of 1.05 for 2002, indicating that slightly more boys than girls attend school. This is a manifestation of broader gender equality in society.

Gender-differentiated life expectancy at birth reveals that women live longer on average than men, with a male-to-female life expectancy ratio of 0.94 for 2004. This is in line with the LMI-LAC average of 0.92 and ratios for Chile (0.92) and Costa Rica (0.94). Women tend to live longer than men throughout the world; the Honduran data are in line with this tendency, indicating that there are no fundamental problems pushing the country away from the global norm.

Gender equity is a key component of the development process. Women generally raise the children and see that their children's basic needs are met, and healthy, educated women tend to ensure that their own children are healthy and educated. This creates a virtuous cycle of intergenerational development.

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<sup>11</sup> The ESI subcomponent indicator that relates to forestry ("Percentage of forest area that is certified for sustainable management") does not capture deforestation or illegal logging in national parks and other sanctuaries.

<sup>12</sup> *The Illegal Logging Crisis in Honduras*. Environmental Investigation Agency, 2005. <http://www.eia-international.org/files/reports112-1.pdf>.



# 3. Private Sector Enabling Environment

This section reviews indicators for key components 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 efficiency and rising 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 as a basis for attracting efficient investment, improving competitiveness, and stimulating productivity growth.

## FISCAL AND MONETARY POLICY

Honduras has made notable improvements in its fiscal and monetary policies in recent years. The central government deficit fell to 3.0 percent of GDP in 2005, down from 6.1 percent in 2003. This decrease is welcome and brings Honduras more in line with the regional average deficit of 2.5 percent as well as expectations set forth by the regression benchmark, at 2.6 percent (Figure 3-1).<sup>13</sup> The IMF reports that Honduras's success with reducing fiscal deficits is attributable to a policy package that includes the tax reforms enacted in 2002 and 2003, subsequent improvements in tax administration, and fiscal austerity.<sup>14</sup> On the revenue side,

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### *IMF Program Status*

On February 27, 2004 the IMF approved a three-year Poverty Reduction and Growth Fund for Honduras. In December 2005 the IMF Executive Board completed the third review of the fund and approved a waiver for nonobservance of performance criterion.

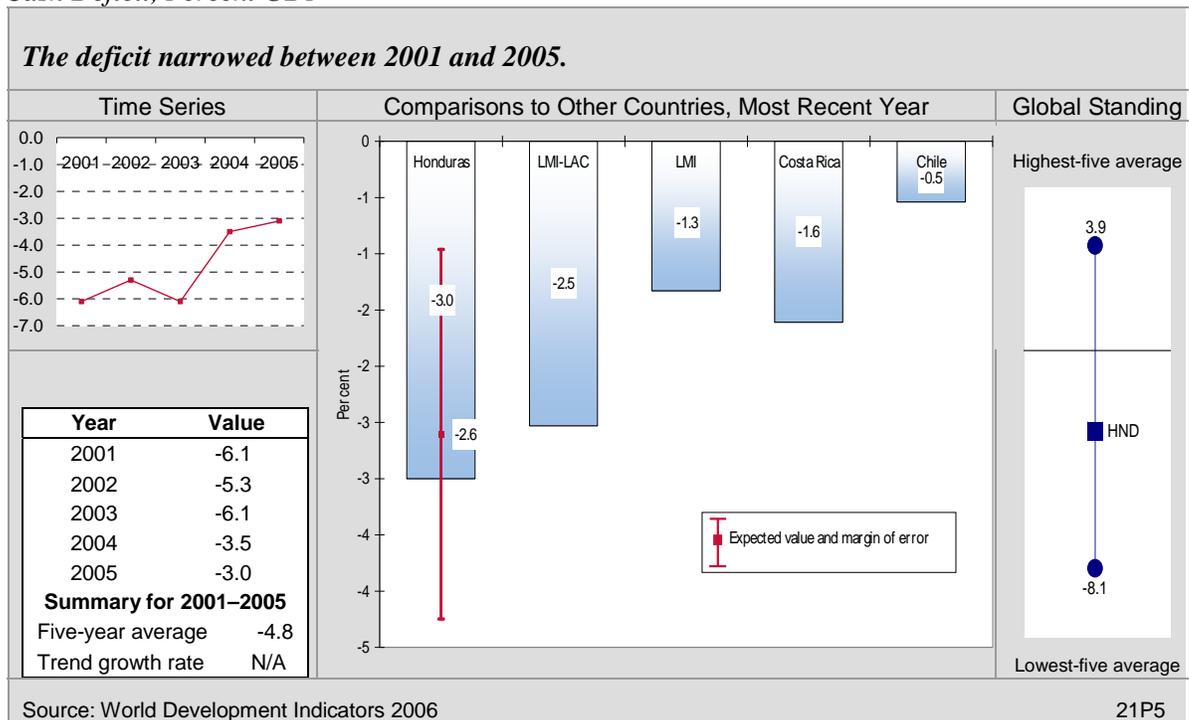
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<sup>13</sup> In 2005, the World Development Indicators (WDI) adopted a new system for classifying fiscal data, although most developing countries still use the old classification. The WDI database therefore has fiscal data for very few developing countries; because of the limited sample size, most of the group averages derived from WDI are not meaningful. In this section, comparisons are based on absolute standards or benchmarks derived from 2004 WDI data, as well as figures for Chile and Costa Rica.

<sup>14</sup> *Honduras: 2005 Article IV Consultation*. IMF Country Report No. 06/35, January 2006.

improved collections have translated into increased revenue, although growth has been limited. In 2005, the ratio of government revenue to GDP was 19.3 percent, compared with 18.2 percent in 2001. On the expenditure side, the Honduran government cut its ratio of government expense to GDP, from 26.1 percent in 2001 to 24.1 percent in 2005. These efforts on both the revenue and expenditure sides reflect the authorities' desire to reduce the country's fiscal deficit.

Figure 3-1  
*Cash Deficit, Percent GDP*



Despite the trend toward fiscal consolidation, the size of the government in relation to output remains disproportionately large. In many developing countries a large public sector effectively crowds out the private sector. Although Honduras's large public sector may be compensating for gaps in the private sector (particularly in the area of services) the government should seek ways to transfer functions that would be better suited to the private sector. For example, the elimination of the monopoly on telecommunications held by Hondutel in December 2005 seems to be a step in the right direction.<sup>15</sup>

The central government is also burdened with a high wage bill. In the five years to 2005, wages and salaries accounted for an average of 51.5 percent of government expenditure, compared to the LMI-LAC average of 25.7 percent. The current program that the government has with the IMF includes a prudent wage policy that in 2004 began to reduce the wage bill, from 52.6 percent in 2004 to 46.7 percent in 2005.

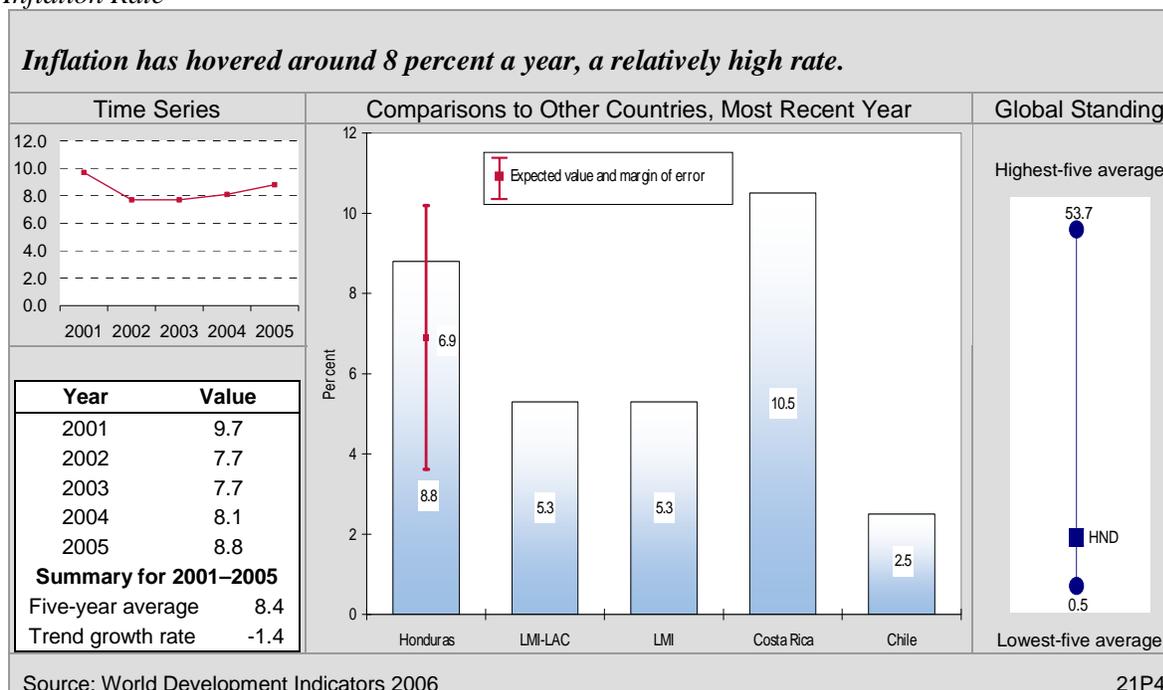
Honduras has also benefited from several debt relief initiatives:

<sup>15</sup> Article IV Consultation, p. 14.

- In February 2005, after a review of economic progress, the IMF agreed to grant Honduras US\$1.2 billion in debt relief under the HIPC initiative, equivalent to a 25 percent cut in Honduras’s foreign public debt.
- In May 2005, the Paris Club agreed to grant Honduras \$1.1 billion in debt relief—equivalent to almost 72 percent of bilateral debt.
- In June 2005, G8 finance ministers agreed to write off 100 percent of the debt of the poorest countries, including Honduras—an additional US\$1.25 billion reduction of Honduras’s bilateral and multilateral debt<sup>16</sup>
- In December 2005, the IMF announced plans to extend Honduras 100 percent debt relief for all debt incurred before January 1, 2005, amounting to approximately US\$154 million.<sup>17</sup>

Inflation management has been reasonable but not great in Honduras in the past five years, with rates hovering near 8 percent (Figure 3-2). In 2005, inflation edged up to 8.8 percent, which is mildly preoccupying because it is 1.3 percent above the high end of the Central Bank’s target range (6.5–7.5 percent). Inflation appears to have been driven in no small measure by higher prices for petroleum. Other factors appear to be contributing to inflation, however, including significant growth in the broad money supply from 15.8 percent in 2003 to 20.7 percent in 2004 (latest available data). With real GDP growth of only about 4 percent per year, the result is undoubtedly inflationary.

Figure 3-2  
Inflation Rate



<sup>16</sup> Country Report: Honduras. The Economist Intelligence Unit, January 2006, pp. 8–9.

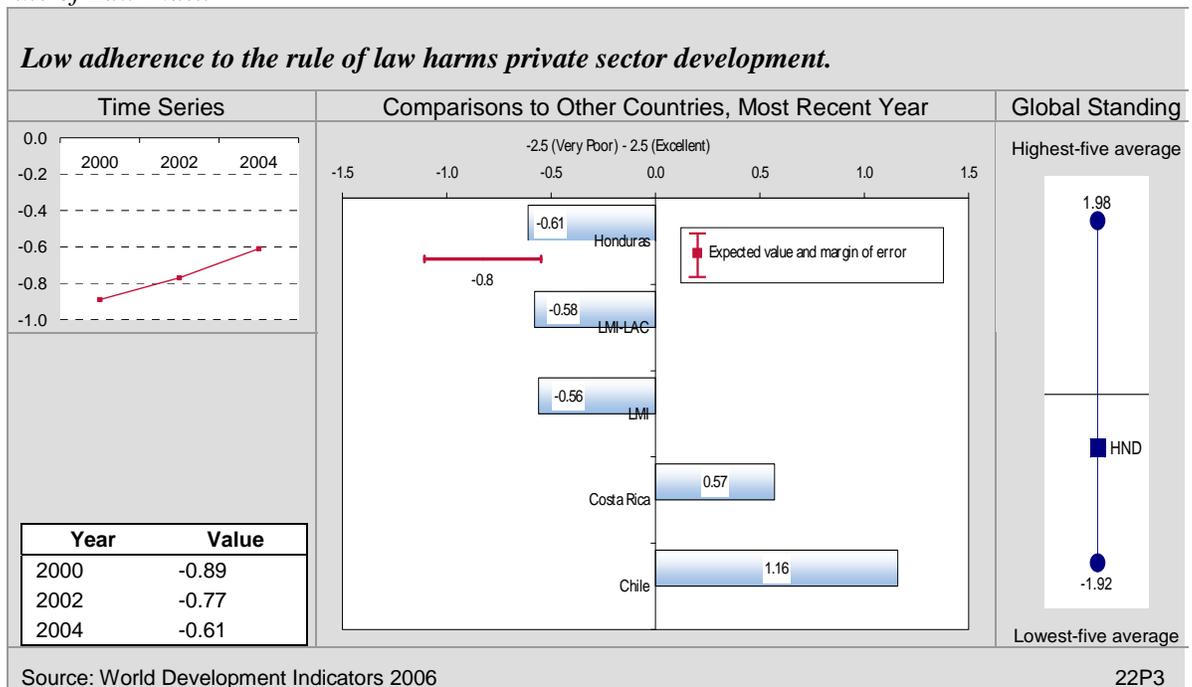
<sup>17</sup>“IMF to Extend 100 Percent Debt Relief to Honduras Under the Multilateral Debt Relief Initiative,” IMF Press Release No 05/295, December 23, 2005.

## BUSINESS ENVIRONMENT

Institutional barriers to doing business, including corruption and violence, are critical determinants of private sector development and prospects for sustainable growth. Honduras clearly has room for significant improvements in its business environment

Honduras, like certain of its neighboring countries, faces significant challenges in the related issues of rule of law and crime and violence. In the World Bank Institute's Rule of Law Index, which ranges from -2.5 (poor) to +2.5 (excellent), Honduras scored a -0.61 in 2004, much improved over the -0.89 it scored in 2000. The 2004 result is also better than the statistically predicted benchmark (-0.80) and not far from the LMI-LAC average (-0.58). Unsurprisingly, the scores for the wealthier Chile and Costa Rica are much higher (+1.16 and +0.57, respectively) (Figure 3-3).

Figure 3-3  
*Rule of Law Index*



Reliable data on crime and violence are often difficult to obtain, and measuring the impact of crime and violence on the business climate and economic growth is even harder. Nevertheless, Honduras clearly has undergone an upsurge in violent crime in recent years. Honduras had one of the world's highest murder rates in 2004—45.9 per 100,000 people.<sup>18</sup> The perpetrators of many of these murders are transnational gangs (known as *maras*) that are reportedly involved in kidnapping, extortion, human trafficking, and smuggling of autos, drugs, and weapons. Such activities imply both direct costs, such as increased security, and indirect costs, such as higher insurance premiums, for the local productive sector as well as for foreign investors.

<sup>18</sup> Clare Ribando. *Gangs in Central America*. Congressional Research Service. May 10, 2005: <http://fpc.state.gov/documents/organization/47140.pdf>.

Another large challenge facing Honduras is corruption. In the 2005 Transparency International Corruption Perceptions Index, Honduras scored a 2.6 of a possible 10 (10 being the lowest level of corruption).<sup>19</sup> By contrast, Chile scored a 7.3 and Costa Rica a 4.2.<sup>20</sup>

Rule of law and corruption challenges certainly contribute to Honduras' poor performance in the World Bank's Ease of Doing Business ranking. Honduras finished in 112th position out of 155 countries ranked in the 2005 survey. By contrast, Chile finished 25th and Costa Rica in 89th position. Neither did Honduras score particularly well on the Regulatory Quality Index, which ranges from -2.5 (poor) to +2.5 (excellent), turning in a score of -0.33 in 2004. Once again, Chile (+1.62) and Costa Rica (+0.67) are well ahead of Honduras.

On the transaction side of doing business, Honduras is average, with definite room to improve. According to the 2005 Doing Business data, starting a business in Honduras requires 13 procedures, on par with the LMI-LAC average of 12.5 but slightly more than in Chile (9) or Costa Rica (11). The average length of time required to start a business in Honduras is 62 days—less time than in Costa Rica (77 days) but slightly more than the LMI-LAC average (56 days), and more than twice the time required in Chile (27 days). More problematic is the cost of starting a business (as a percent of GNI per capita). The cost in Honduras (64.1 percent) greatly exceeds the cost in Chile (10.3 percent) and Costa Rica (23.8 percent) and is 25 percentage points higher than the LMI-LAC average (48.3 percent) (Figure 3-4).

Seven steps are required for registering property in Honduras, the same as the LMI-LAC average and slightly more than the six procedures required in both Chile and Costa Rica. Completing the property registration process in Honduras takes an average of 36 days, 25 percent less than the LMI-LAC average (48 days) yet more than the time required in Chile (31 days) or Costa Rica (21 days). Enforcing a contract takes 36 procedures, slightly below the LMI-LAC average (37 procedures) yet still above number of procedures required in Chile (28 procedures) and Costa Rica (34 procedures). In terms of the time required to enforce a contract, the completion of the required procedures in Honduras took an average of 545 days, just less than the time required in Costa Rica (550 days), but more than the LMI-LAC average (457 days) and much more than the time required in Chile (305 days).

It therefore appears that Honduras could benefit greatly from improving the business environment, and donor assistance might target such interventions. Foreign investors and traders will compare the business climates of the CAFTA-DR countries carefully when deciding where to locate and expand businesses. Donors could help Honduras improve its competitiveness and attractiveness as an investment location if they considered (1) anticorruption programs,

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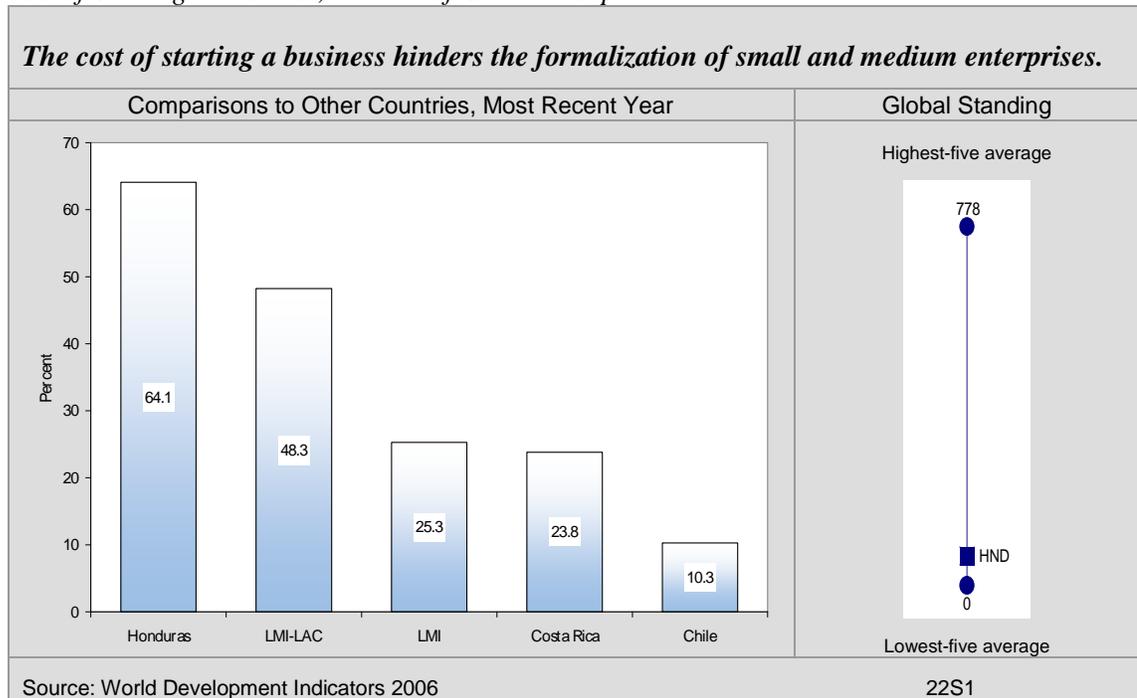
<sup>19</sup> The Corruption Perceptions Index ranks countries from least to most corrupt. Honduras's score makes it the 107th least-corrupt country in the world. [http://www.transparency.org/policy\\_research/surveys\\_indices/cpi/2005](http://www.transparency.org/policy_research/surveys_indices/cpi/2005).

<sup>20</sup> Quantitative and anecdotal evidence suggests that Costa Rica's score may not be accurate. When the survey data were being gathered, Costa Rica was in the midst of a major corruption scandal that resulted in the jailing of two former presidents and the disgracing of a number of senior officials. The data indicate that it is easier to do business in Mexico, Argentina, and Russia, than in Costa Rica, which appears unlikely to those with country-specific knowledge. This year of data therefore may be an outlier.

particularly for customs administration;<sup>21</sup> (2) strengthening regulatory performance; and (3) coordinated regional approaches to addressing violent crime and gang issues.

Figure 3-4

*Cost of Starting a Business, Percent of GNI Per Capita*



## FINANCIAL SECTOR

A sound and efficient financial sector is important for mobilizing savings, fostering productive investment, and improving risk management. The banking sector in Honduras, as the prime financial intermediary, has seen substantial growth over the past few years. In 2005, domestic credit to the private sector was valued at 40.0 percent of GDP, indicating that a substantial portion of credit is mobilized for private sector interests. This is impressive when compared to the statistical prediction of 26.5 percent, Costa Rica's 31.3 percent,<sup>22</sup> and especially the LMI-LAC average of 23.4 percent (Figure 3-5). Furthermore, a relatively low interest rate spread of 7.3 percent in 2004 indicates that Honduran banks are more efficient than other systems in the region. The LMI-LAC average interest rate spread is 10.4 percent, while the regression benchmark is similar, at 11.6 percent.

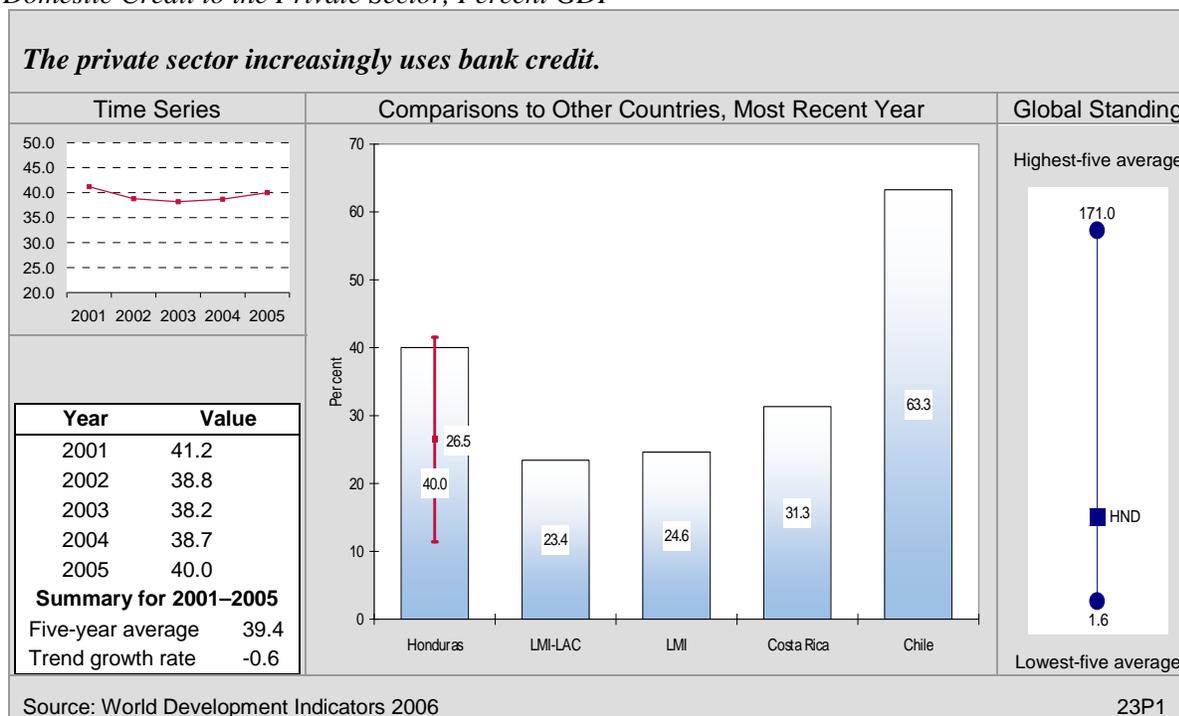
The relative efficiency of the banking sector translates into a significant use of banks as financial conduits for storing wealth and infusing credit into the economy. The predominance of banks is evident through money supply as a percent of GDP at 53.8 percent of GDP compared to a value

<sup>21</sup> An excellent diagnostic of the challenges facing Honduran customs can be found in *Trade and Commercial Law Assessment—Honduras*. USAID, January 2005, P.XI-4-XI-11.

<sup>22</sup> Chile's value, at 63.3 percent, exceeded that of Honduras.

of 35.8 percent suggested by the regression benchmark and the LMI-LAC regional average of 30.1 percent.

Figure 3-5  
*Domestic Credit to the Private Sector, Percent GDP*



However, the banking sector still needs to improve significantly, particularly in its capacity to provide credit to small and medium enterprises. For example, the cost to create collateral (as a percentage of per capita income) remains high, at 36.6 percent, inhibiting those seeking credit to set up or expand their business. These costs are high relative to the LMI-LAC average (23.7 percent) and costs in Costa Rica (16.2 percent) and astronomical compared to those of Chile (5.3 percent).

Finding solutions to barriers to obtaining credit will be an essential component to a pro-poor growth strategy that seeks to include small and medium-sized producers in the export opportunities afforded by CAFTA-DR. One option may be to help Honduras to establish a stock market, which could contribute to broadening access to finance for investors.

In addition to focusing on industry and services firms, the private financial sector also needs to develop some financial instruments that will reduce the risk of investing in agriculture through instruments such as area crop insurance. Given the uncertainties of climate and the range of risks in the production process, private financial institutions have tended to shy away from investing in agriculture. However, if donors form partnerships with local financial institutions, lending and providing insurance for agricultural production will become more attractive. This, in turn, would assist Honduras in overcoming some productivity constraints in the sector.

## 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 over the past 25 years. The international flow of goods and services, capital, technology, ideas, and people offers great opportunities for Honduras 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. Globalization also creates new challenges in the need for institutions, policies, and regulations to take full advantage of international markets, develop cost-effective approaches to cope with adjustment costs, and establish systems for monitoring and mitigating the associated risks.

### CAFTA-DR

The most significant manifestation of the integration process for Honduras is CAFTA-DR. CAFTA-DR entered into force for Honduras on April 1, 2006, and provides Honduras with secure access to the largest consumer market in the world. However, this access requires that Honduras provide reciprocity by reducing its barriers to goods and services originating in the United States and other CAFTA-DR countries. In addition, Honduras and its CAFTA-DR partners agreed to common measures covering a whole range of at-the-border and behind-the-border activities, from procedures for determining the origin of goods to the enforcement of copyrights and the treatment of foreign direct investment. The opportunities are great for Honduras, but so are the challenges, including the loss of government revenue from import duties. CAFTA-DR also serves as a tool for regime building by establishing common anticorruption commitments similar to those in the Foreign Corrupt Practices Act and by establishing a methodology for enhancing labor rights in Central America and the Dominican Republic. In short, CAFTA-DR is a multifaceted agreement that establishes a comprehensive regime that will govern most aspects of commerce among the six signatory countries.<sup>23</sup>

The entry into force of CAFTA-DR and, by extension, the reduction of barriers to trade and investment pose tremendous challenges for Honduras. CAFTA-DR will not only result in more imports of goods and services from the United States, but also more competition among the Central American countries in trade and attracting investment. International firms are likely to consolidate their regional presence and will place a premium on the domestic investment climate.

An important innovation in the CAFTA-DR agreement is the inclusion of a trade capacity building process. Before negotiations for the agreement, Honduras and its fellow CAFTA<sup>24</sup> countries each developed national trade capacity building strategies specifying their needs for negotiating, implementing, and adjusting to the agreement. USTR and USAID led the process of

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<sup>23</sup> The full text and more complete summaries of CAFTA/DR are available at [http://www.ustr.gov/Trade\\_Agreements/Bilateral/CAFTA/Section\\_Index.html](http://www.ustr.gov/Trade_Agreements/Bilateral/CAFTA/Section_Index.html).

<sup>24</sup> When referring to the negotiating period, it is more accurate to refer to the agreement as simply CAFTA. The agreement was originally negotiated by the five Central American Common Market countries (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) and the United States between January and December 2003 (through January 2004 in the case of Costa Rica). The Dominican Republic negotiated its own agreement with the United States in early 2004 and the two agreements were integrated into the CAFTA-DR in August 2004.

mobilizing assistance to meet these needs. Donors included U.S. government agencies and departments, international financial institutions, nongovernmental organizations, and private sector firms and organizations.<sup>25</sup> Chapter 19 of CAFTA-DR mandates that the trade capacity building process continue throughout the life of the agreement. Donors should continue to use this channel to assist countries in implementing and adjusting to CAFTA-DR.<sup>26</sup>

## International Trade Performance

So where does Honduras stand in international and regional trade with the entry into force of the CAFTA-DR? A precise assessment is made difficult by large discrepancies in the trade data among various sources, primarily because of the way that *maquila* exports are counted.<sup>27</sup> Discrepancies are particularly visible between data reported by Honduras and data reported by the United States. The discrepancies are no doubt largely accounted for by the absence in the Honduran statistics of apparel exports from the *maquilas* (See Table 3-1).<sup>28</sup>

The most common indicator for determining the openness of a country to international trade is the ratio of trade—exports plus imports—to GDP. In 2003, the year that Honduras negotiated CAFTA, Honduras's trade as a percentage of GDP was 64.1 percent; it rose to 68.8 percent in 2005 (according to Honduran data reported to COMTRADE and the IMF). These figures put Honduras very close to the regression benchmark of 66.4 percent and above the LMI-LAC average level of 52.6 percent. Chile, a country that has placed trade at the center of its growth strategy, has a trade-to-GDP ratio of 68.3 percent. Costa Rica, by contrast, has a trade-to-GDP ratio of 95.4 percent, typical of a small, relatively prosperous country.

The ratio of foreign direct investment to GDP tells a markedly different story. In 2005, Honduras had a ratio of 2.4 percent, down from 3.9 percent in 2004, and below the benchmark of 3.3 percent. However, the five-year average was 3.1 percent, closer to the benchmark. Chile

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<sup>25</sup> For a detailed description of the successes and challenges of the CAFTA trade capacity building process, see Eric T. Miller, *Achievements and Challenges of Trade Capacity Building: A Practitioner's Analysis of the CAFTA Process and its Lessons for the Multilateral System*. ITD-INTAL Occasional Paper 32. Inter-American Development Bank, October 2005.

[http://www.iadb.org/intal/aplicaciones/uploads/publicaciones/i\\_INTALITD\\_OP\\_32\\_2005\\_Miller.pdf](http://www.iadb.org/intal/aplicaciones/uploads/publicaciones/i_INTALITD_OP_32_2005_Miller.pdf).

<sup>26</sup> CAFTA-DR entered into force for El Salvador on March 1, 2006 and in Nicaragua and Honduras on April 1, 2006. Costa Rica has yet to ratify the agreement and legislative and regulatory work is continuing with Guatemala and Dominican Republic to permit its entry into force in the near future.

<sup>27</sup> "Net exports (i.e., value added) of the maquila industry are recorded as net services rather than as exports and imports of goods for processing. Non recording of profits of foreign enterprises operating in the maquila industry likely understates the external current account deficit, while direct investment in this industry is excluded from the financial account." *Honduras: Report on the Observance of Standards and Codes—Data Module, Response by the Authorities, and Detailed Assessments Using the Data Quality Assessment Framework*. IMF Country Report No. 05/230, July 2005, p. 14.

<sup>28</sup> Even when Honduras claims that it is including *maquila* exports, the country's reported total global exports are still smaller than U.S. imports from Honduras alone, as reported by the United States. Generally speaking, Honduras has dramatically undervalued both exports and imports, but particularly exports, by understating the very large *maquila* sector contribution. Neither are Honduran data internally consistent, with the Central Bank of Honduras reporting different figures to COMTRADE than the data used in other reports. Where these discrepancies are easily highlighted, we do so.

posted a somewhat better result at 4.1 percent for 2003 (the latest available data year) and while Costa Rica had an investment to GDP ratio of 3.3 percent for the same year.

Table 3-1

*Trade with United States in Selected Apparel and Textiles for HTS Categories Usually Processed in Maquilas*

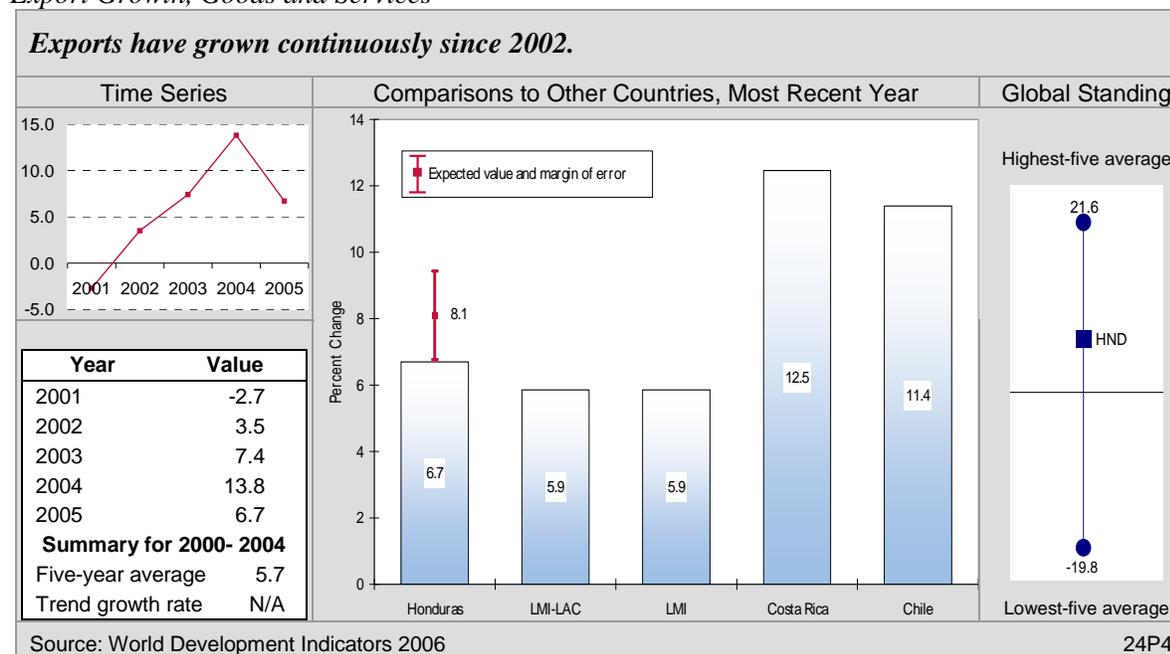
Selected HTS Categories	2002	2003	2004	2005
<b>EXPORTS TO U.S.</b>				
61—Apparel articles and accessories, knit or crochet	\$1,801,375	\$1,887,090	\$2,013,307	\$2,016,210
62—Apparel articles and accessories, not knit etc.	\$702,117	\$680,064	\$729,343	\$668,583
Subtotal	\$2,503,492	\$2,567,154	\$2,742,650	\$2,684,793
Total Imports	\$3,264,037	\$3,311,550	\$3,641,067	\$3,750,200
Exports to U.S.	\$645,413	\$415,306		
<b>IMPORTS FROM U.S.</b>				
52—Cotton, including yarn and woven fabric thereof	\$207,278	\$307,130	\$411,638	\$410,243
60—Knitted or crocheted fabrics	\$243,754	\$339,708	\$351,125	\$379,901
61—Apparel articles and accessories, knit or crochet	\$519,881	\$422,583	\$312,306	\$240,167
62—Apparel articles and accessories, not knit etc.	\$259,607	\$253,998	\$210,567	\$177,399
Subtotal	\$1,230,520	\$1,323,419	\$1,285,636	\$1,207,710
Total Exports	\$2,564,589	\$2,844,902	\$3,076,512	\$3,243,920
Imports from U.S.	\$1,251,715	\$1,326,570		

Honduras's export growth in goods and services with the world between 2001 and 2005 varied widely from year to year—declining in 2001 (-2.7 percent), probably because of the recession in the United States, rebounding, peaking in 2004 (13.8 percent), then growing more slowly in 2005 (6.7 percent) (Figure 3-6).

Exports of services have a reasonably important place among Honduras's total exports. In 2003, 21.7 percent of its exports were in services.<sup>29</sup> According to the IMF International Financial Statistics, this percentage has remained essentially the same since 1999. Honduras ranks midway between Chile, with services comprising 18.6 percent of total exports, and Costa Rica, with services making up 24.9 percent of total exports. The LMI-LAC average for the share of services in total exports is 16.5 percent.

<sup>29</sup> The IMF's data review of Honduras states that the net *maquila* exports are recorded in the balance of payments as a net service, but we cannot determine the size of this net on the basis of the categories of services imports and exports used by Honduras and the IMF. See IMF Balance of Payments Statistics, Part I—Country Tables, Honduras, p. 268.

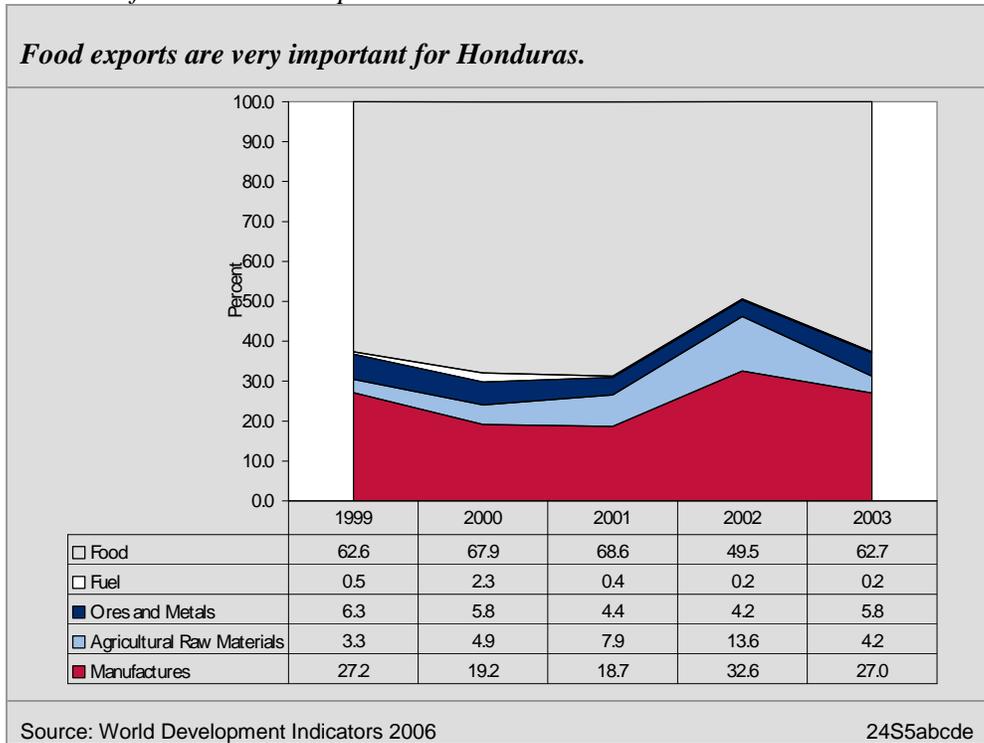
Figure 3-6  
*Export Growth, Goods and Services*



Goods make up the remaining 78.3 percent of Honduras's exports. Food products (including coffee, bananas, and sugar) made up 62.7 percent of that trade in 2003; manufactured goods made up 27.0 percent, agricultural raw materials 4.2 percent, ores and metals 5.8 percent, and fuel 0.2 percent. In 1999, the shares of food and manufactured products in Honduras's export basket were almost identical (62.6 percent and 27.2 percent respectively) (Figure 3-7).

In contrast, two-thirds of Costa Rica's exports are in manufactured products and less than one-third in food products. In Chile, 41.7 percent of exports are in ores and metals (especially copper) and 28.2 percent in food products. Furthermore, Chile tends to export higher-value food products (such as wine, grapes, apples, and asparagus) than Honduras—products that command a premium for the extent of their processing or are off season in northern markets.

Figure 3-7  
Structure of Merchandise Exports



In terms of the geographical distribution of its merchandise trade, in 2004 Honduras sent 38.7 percent of its exports to and received 34.6 percent of its imports from the United States.<sup>30</sup> In 2003 Honduras sent 19.3 percent of its exports to and received 12 percent of its imports from Central American Common Market countries. El Salvador and Guatemala are Honduras's most prominent CAFTA-DR trading partners after the United States. Honduras sends 6 percent of exports and receives 5 percent of its imports from El Salvador while it sends 4 percent of its exports to and receives 8 percent of its imports from Guatemala (Figures 3-8 and 3-9).<sup>31</sup>

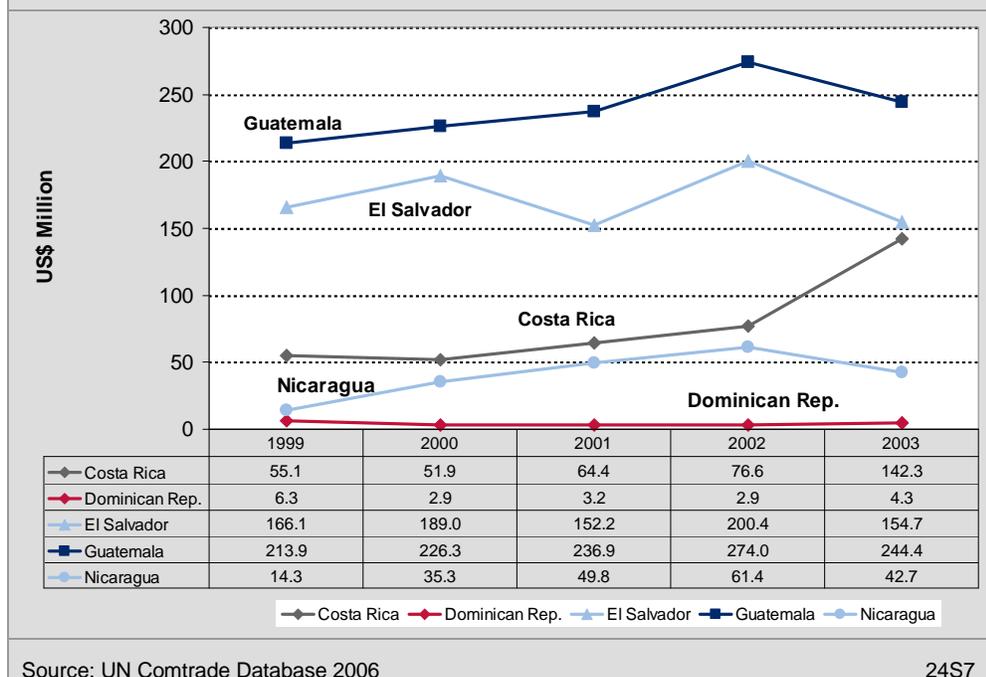
Merchandise trade between Honduras and other CAFTA-DR countries in the past five years, both exports and imports, has varied significantly year to year. Honduras is running a persistent trade deficit vis-à-vis other CAFTA-DR countries, especially with the United States (again excluding *maquila* exports). In 2003, Honduras sent \$670.5 million in merchandise exports to its CAFTA-DR partners. This is a worrisome decline from 1999 levels, when the country exported \$963 million worth of goods to other CAFTA-DR countries. Honduras imported \$1.9 billion of merchandise from these countries in 2003, only slightly more than the \$1.75 billion worth of goods imported in 1999 from the same countries, at a time when trade among these countries could have been expected to grow much faster.

<sup>30</sup> *Honduras: Statistical Annex*. IMF Country Report No. 05/385, p. 51. According to the Central Bank of Honduras, however, 41.5 percent of Honduran exports went to the United States in 2004 (see Banco Central de Honduras, *Exportaciones de Bienes de Honduras, 2000–2004*, April 2005, p. 6).

<sup>31</sup> IMF Country Report No. 05/385,

Figure 3-8  
 Merchandise Imports from Other CAFTA Countries, Excluding

*Guatemala and El Salvador are key sources of imports.*

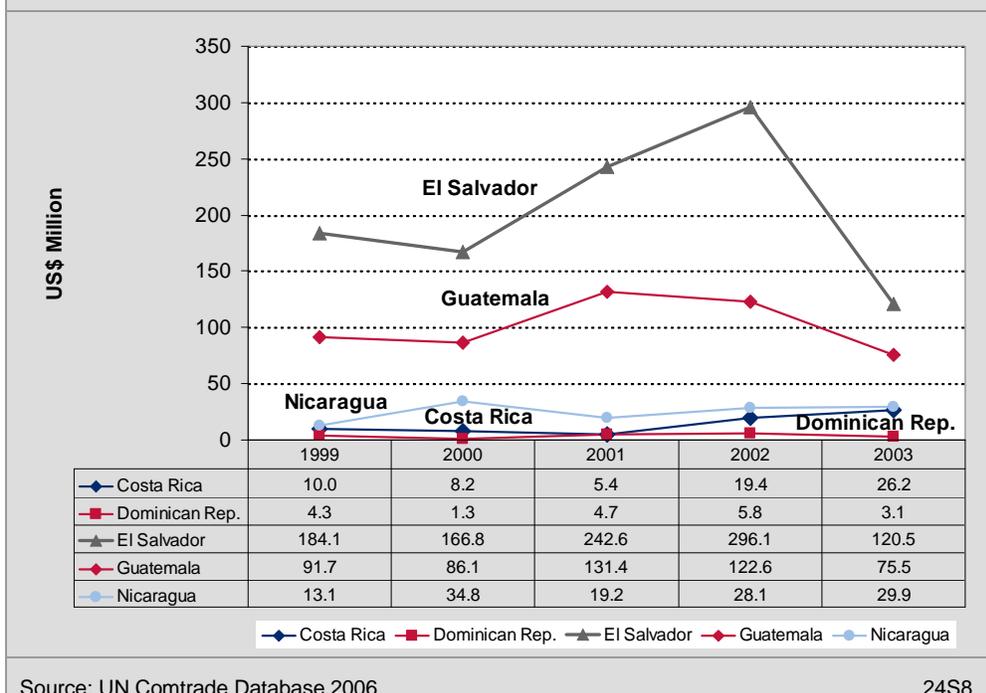


Source: UN Comtrade Database 2006

24S7

Figure 3-9  
 Merchandise Exports from Other CAFTA Countries, Excluding United States

*Guatemala and El Salvador are also key export markets.*



Source: UN Comtrade Database 2006

24S8

Some significant patterns emerge from the data disaggregated by country. First, the United States accounts for more than 69 percent of Honduras's imports from CAFTA-DR countries. Second, although the United States is the largest export market for Honduras among CAFTA-DR countries, the Salvadoran and Guatemalan markets are by no means insignificant. Third, Honduras has consistently run a trade deficit with all CAFTA-DR countries except El Salvador, with which Honduras enjoyed a trade surplus in two of the past five years.

The real effective exchange rate index has followed a trend of depreciation in the years to 2003, declining from 104.7 to 98.3.<sup>32</sup> Although more recent data have not become available in standard sources, the IMF reports that the trend towards real depreciation has continued. The IMF has cautioned, however, that pressure for real appreciation has increased, fueled in large part by remittances and strong capital inflow.<sup>33</sup> In 2004 the government was able to neutralize these pressures through an accumulation of reserves and sterilization efforts. But if these pressures persist the government will have to protect the competitiveness of the export sector by maintaining the real exchange rate. The IMF suggests a policy package that includes fiscal discipline and rational wage policies. Fluctuations in the currency in recent years have not been sufficiently pronounced to have a significant impact on trade and competitiveness.

The key performance measures of Honduras's trade and investment progress present a mixed picture. In the Heritage Foundation trade policy index, which ranges between 1 (excellent) and 5 (poor), Honduras comes out average, with a 3. Costa Rica also scored a 3, while free market trailblazer Chile received top marks, a 1. Honduras's results on the Actual and Expected Trade Size index,<sup>34</sup> which ranges from 0 (poor) to 10 (excellent), declined slightly between 2000 and 2003, falling from 6.5 to 5.8. Nevertheless, Honduras compares well with Costa Rica, which posted a 2003 result of 5.5, but is somewhat behind Chile, which had a 6.7 in the same year. On the Inward FDI Potential index,<sup>35</sup> which ranges from 0 (poor) to 1 (excellent), Honduras posted a 0.11 for the 2001–2003 period, a result that deteriorated only slightly from a high of 0.16 in 1997–1999. Chile and Costa Rica achieved results of 0.23 and 0.18, respectively, for the same period. Finally, in terms of the actual average time required to complete import and export processes, Honduras performs relatively poorly. The average time to complete the importing and exporting process in Chile is 23.5 days, the LMI-LAC average is 34.7 days, and the average for Costa Rica is 39.0 days, while in Honduras the process takes an average of 40.0 days—a particularly negative result given the importance of Puerto Cortés (near San Pedro Sula) to regional commerce.

The government of Honduras, with the help of USAID, the IDB, and the World Bank, has carried out a number of economic and poverty reduction initiatives, in conjunction with its National Competitiveness Plan, aimed at addressing regulatory, administrative, legal, and infrastructure

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<sup>32</sup> The data on the real effective exchange rate index used for Honduras differ from those in the technical notes because the base year used is 2000 rather than 1995.

<sup>33</sup> IMF Article IV Consultation, p. 21.

<sup>34</sup> The index, prepared by the Fraser Institute, estimates the degree to which an economy's actual share of trade (as percent of GDP) deviates from its expected trade share.

<sup>35</sup> The index, prepared by UNCTAD, measures an economy's attractiveness to foreign investors, capturing factors other than market size that have an index.

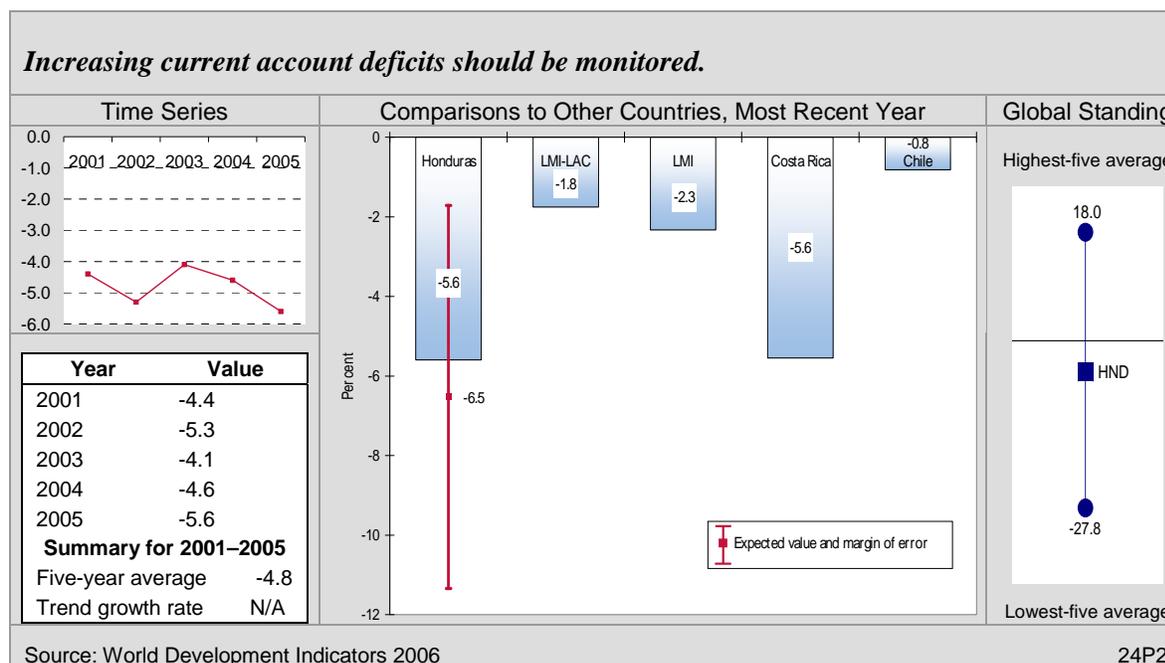
weaknesses: reduce export delays and onerous bureaucratic procedures, improve macroeconomic management, encourage domestic and foreign investment, reform political institutions and processes, and improve the education and health system.

Specific activities that donors may wish to consider financing include (1) a comprehensive trade facilitation audit to identify the impediments to reducing the time required to trade; (2) technical assistance to the apparel sector in adjusting to new competitive challenges from East Asian producers; (3) assistance in implementing and administering CAFTA-DR, including rules of origin, intellectual property rights, and trade in services; (4) development of a strategy to enhance the value-added share of Honduras’s food and agricultural exports; and (5) assistance in resolving some of the data issues discussed in this report.

### Current Account

Honduras’s current account deficit averaged 4.8 percent of GDP in the period 2000–2004 but grew in 2004 to 5.6 percent. The IMF attributes the widening of the current account deficit to higher oil prices and large private investments in energy and telecommunications, which were only partly offset by growth in the *maquila* sector and remittances (Figure 3-10).<sup>36</sup> The overall external picture improved despite the deficit thanks to higher official and private capital inflows.

Figure 3-10  
Current Account Balance, Percent GDP



Worker remittances are estimated to have grown by 30 percent in 2004 and now total more than 15.5 percent of GDP, up 3 percent from 2003. Remittances have become the second most

<sup>36</sup> IMF Article IV Consultation.

important source of foreign exchange inflows, after exports of goods. They far exceed official disbursements of loans and grants as well as net maquila exports and FDI.

Although the overall effects on the Honduran economy of strong growth in remittances are positive, and remittances generally are a stable source of foreign exchange inflows with important economic benefits, remittances can create difficulties for macroeconomic management. Although perhaps unavoidable in the long term, further increases could create real appreciation pressure and crowd out the export sector (maquila, tourism, and agriculture), which play an important role in growth and employment. Fostering financial services that could help channel more remittances into productive use will be important for promoting growth in the future.<sup>37</sup>

## International Financing

Honduras's public debt service ratio as a percent of exports has been improving, declining to 7.8 percent of exports in 2004 from 12.9 percent in 2000. Honduras's debt service ratio is very low and will fall further as a result of debt relief.

Honduras also has a healthy situation with respect to international reserves, with reserves covering 4.9 months of imports in 2005. This provides an extra level of stability over the 3.7 months that Honduras had in 2003. Honduras's virtuous situation exceeds both the benchmark (3.9) and the LMI-LAC average (4.0). Costa Rica's gross international reserves are at 2.3 months—uncomfortably low for a central bank concerned about medium-term stability.

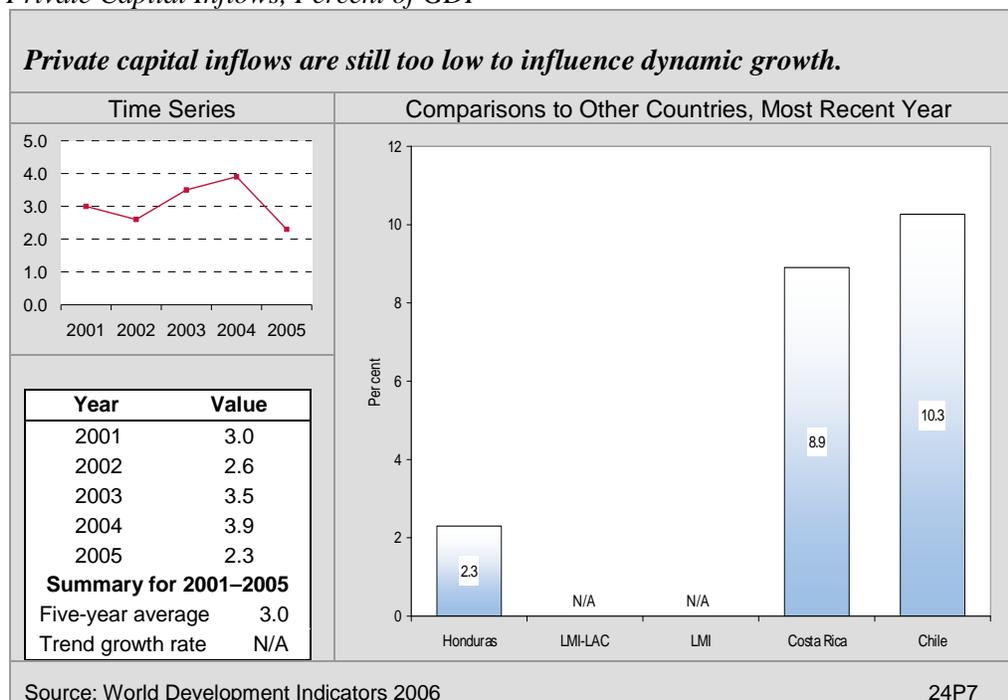
International aid flows are relatively important to Honduras. In 2003, aid was equal to 9.1 percent of Honduras's GNI, significantly higher than the LMI-LAC average of 1.0 percent. The \$215 million Millennium Challenge Corporation compact is an important aid instrument for the country. The aid-to-GNI ratio is negligible for Chile and Costa Rica because neither country is eligible for non-reimbursable assistance because of their higher per capita income levels.

Finally, Honduras has significant room for improvement of private capital inflows (measured as a percentage of GDP). Private capital inflows in 2005 were 2.3 percent, down from 3.9 percent in 2004. Private capital flows have been affected by lumpy investments in privatized companies and infrastructure. When Honduras's 2003 performance is compared with that of Chile, at 10.3 percent and Costa Rica, at 8.9 percent, it is clear that the country needs to do more (Figure 3-11). In the medium term, Honduras should work to increase FDI inflows, which would mitigate the country's growing dependence on remittances (and the accompanying current account pressures) and support domestic capital formation.

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<sup>37</sup> Article IV Consultation, p. 9.

Figure 3-11

*Private Capital Inflows, Percent of GDP*

## ECONOMIC INFRASTRUCTURE

A country's physical infrastructure—for transportation, communications, power, and information technology—is the backbone for strengthening competitiveness and expanding productive capacity. Honduras' rugged geographic setting makes any nationwide infrastructure program more complicated and costly, all other things being equal, than a similar program in a temperate climate with a gentle landscape.

The broad measure of a country's infrastructure is the Quality of Infrastructure index prepared by the World Economic Forum. Honduras scored a 2.5 out of a possible 7.0, above the regression benchmark (2.2) but somewhat below the LMI-LAC average (2.8) and Costa Rica's score (2.9) and well below Chile's score (4.8). When this index is disaggregated by type of infrastructure, rail is clearly the spoiler, with a score of 1.3 out of 7. Rail has not been an important transport mode for some time in Central America—the Costa Rican aggregate infrastructure score is also dragged down to a significant degree by its railroad score (1.2) (Figure 3-12).

Honduras' highest-scoring type of infrastructure is ports—specifically, Puerto Cortes, which is arguably the most important port in Central America. Although Honduras scored 3.4 out of 7 in terms of quality, this actually understates the advances that Puerto Cortes has made in preparing itself for expanded CAFTA-DR and global trade. In March 2006, Puerto Cortes became the first port in Central America to join the Container Security Initiative (CSI).<sup>38</sup> CSI is a joint initiative of U.S. Customs and Border Protection and foreign governments that aims to secure the supply chain by screening U.S.-bound containers at their port of embarkation, using smarter, more secure

<sup>38</sup> See [http://www.cbp.gov/xp/cgov/newsroom/news\\_releases/032006/03252006.xml](http://www.cbp.gov/xp/cgov/newsroom/news_releases/032006/03252006.xml).

containers and identifying high-risk containers. With the CSI seal of approval, Honduran (and Central American) trade originating at Puerto Cortes will be handled more efficiently on arrival in the United States. Puerto Cortes will receive sophisticated equipment to identify nuclear materials and a multidisciplinary team of officers from U.S. Customs and Border Protection will work on site with Honduran officials on screening containers bound for the United States.

Figure 3-12  
*Overall Infrastructure Quality Index*



Honduras scored 3.0 out of 7 on the quality of electricity infrastructure, notably worse than the comparator countries: the LMI-LAC average for quality of electricity infrastructure is 4.0 and Chile's and Costa Rica's scores are 5.5 and 4.6, respectively.

In terms of airports, Honduras received 2.9 out of 7. Honduras's four international airports have undergone upgrades in recent years as a result of long-term concession agreements negotiated with experienced international operators in the late 1990s. Steady efficiency improvements therefore can be expected in the years ahead.<sup>39</sup> By contrast, the quality of airports in Costa Rica, with a score of 4.1, and Chile, with a score of 5.4, is already first-rate.

Data on telecommunications in Honduras are incomplete. Nevertheless, the data available do indicate that the average cost of a three-minute, peak-rate, fixed-line local phone call is the same as the LMI-LAC average (\$0.06), which is cheaper than in Chile (\$0.10) yet more expensive than in Costa Rica (\$0.02). The other telecommunications indicator, the number of Internet users per 1,000 people, rose steadily from 9 to 32 in the five years to 2004. But Honduras underperforms compared to the statistically predicted benchmark (42) and is well below the LMI-LAC average (74). Chile and Costa Rica are advanced in this category, with 279 and 235 users per 1,000

<sup>39</sup> For a November 2004 progress report, see <http://www.iadb.org/exr/doc98/pro/rho0201.pdf>.

people, respectively. Honduras's telecommunications performance can be expected to improve significantly in the years ahead since Hondutel, the state telecoms company, lost its monopoly on long-distance and local service in December 2005.<sup>40</sup>

Honduras recognizes the importance of an efficient, competitive infrastructure. It has a first-rate port, is upgrading its airports, is opening its telecommunications system to competition, and is continuing to work with neighbors on developing a regional electrical grid. Although Honduras will receive financing for infrastructure projects from official lenders or private investors, donors such as USAID can provide financing for complementary activities such as feasibility studies and efficiency assessments. Honduras would undoubtedly benefit from this type of assistance.

## SCIENCE AND TECHNOLOGY

Science and technology are central elements of a dynamic growth process, because technical knowledge is a driving force for rising productivity and competitiveness. Even for low-income countries such as Honduras, transformational development increasingly depends on acquiring and adapting technology from the global economy and applying it in ways that are appropriate to their level of development. A lack of capacity to access and utilize technology prevents an economy from leveraging the benefits of globalization.

Honduras scores relatively well on the FDI Technology Transfer index, which ranges from 1 (FDI bringing little new technology) to 7 (FDI bringing much new technology). Its score of 4.6 is equal to the regression benchmark and the LMI-LAC average while Chile scored 5.3 and Costa Rica scored 5.5.

In 2000 (most recent data available), Honduras spent 0.1 percent of its GDP on research and development. This is in line with the LMI-LAC average, yet lower than Chile's (0.5) and Costa Rica's spending (0.4). In 2002, Honduran residents filed seven patent applications; although below the LMI-LAC average of 13 patents filed, this figure is nonetheless impressive for a country of the size and level of development of Honduras, especially considering that Costa Rica residents filed zero patent applications in the same year. Some of the explanation undoubtedly arises from the excellent work done through Zamorano University—an academic institution recognized as a leader throughout Central America.<sup>41</sup> Donors may wish to partner with and help to strengthen this and other recognized institutional leaders when implementing projects.

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<sup>40</sup> See *Analysis: Uncertain Future for Hondutel*: <http://www.tmcnet.com/scripts/print-page.aspx?PagePrint=http%3A%2F%2Fwww.tmcnet.com%2Fsubmit%2F2006%2Fjan%2F1272133.htm>.

<sup>41</sup> See <http://www.zamorano.edu/>.



# 4. Pro-Poor Growth Environment

Rapid growth is the most powerful and dependable instrument for poverty reduction, yet the link from growth to poverty reduction is not mechanical. In some cases, income growth for poor households exceeds the overall rise in per capita income, while in other conditions growth benefits the non-poor far more than the poor. A pro-poor growth environment stems from policies and institutions that improve opportunities and capabilities for the poor while reducing their vulnerability. Pro-poor growth is associated with improvement in primary health and education, the creation of jobs and income opportunities, the development of skills, microfinance, agricultural development, and gender equality.<sup>42</sup> 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.

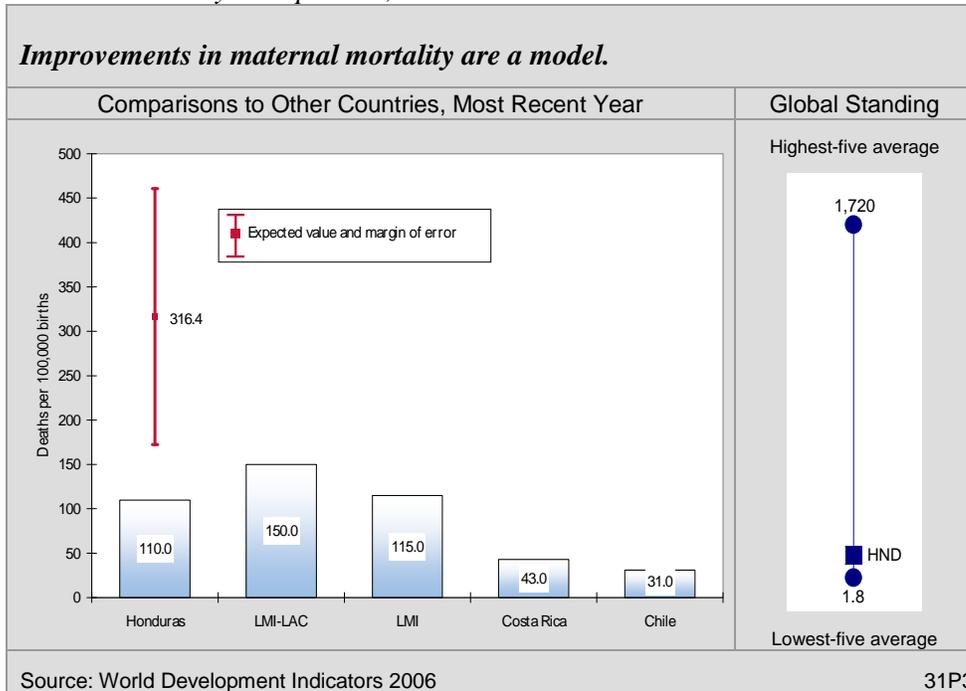
Among Honduras's greatest recent achievements in public health is a reduction of maternal mortality rates. In 2000 Honduras had approximately 110.0 maternal deaths per 100,000 live births. The statistical benchmark predicts that a country with Honduras's characteristics would have a maternal mortality rate of 316.4. Although values for Chile and Costa Rica still leave something for Honduras to aspire to, the fact that such a poor country has surpassed the LMI-LAC average of 150.0 is an important accomplishment. Honduras drastically reduced maternal mortality through a concerted effort by the Ministry of Health in the mid- to late-1990s that improved women's access to prenatal care, improved rural women's access to hospital births, and enabled early identification of high-risk pregnancies. This was accomplished through the construction of an integrated system whose components included maternity waiting homes for rural women, birthing centers and maternal-infant clinics, the addition of a number of rural health centers, and several new rural hospitals (Figure 4-1).<sup>43</sup>

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<sup>42</sup> This report focuses on economic growth performance and therefore does not cover emergency relief.

<sup>43</sup> Danel, Isabella. *Maternal Mortality Reduction, Honduras, 1990-1997: A Case Study*. World Bank, 2000, p. 4.

Figure 4-1  
*Maternal Mortality Rate per 100,000 Live Births*



Life expectancy at birth in Honduras rose one entire year from 2001 to 2005, from 67.5 to 68.6 years. This trend is part of improving overall health in Honduras. Nevertheless, a few areas of public health still demand improvement. For instance, the prevalence of child malnutrition, at 17.0 percent in 2003, is high compared to the LMI-LAC average of 14.0 percent, and very high compared to the rate in Chile (0.8 percent). Furthermore, access to improved sanitation is limited, with only 68.0 percent of the population having access, a slightly poorer score than the LMI-LAC average of 71.0 percent and much worse than Chile's and Costa Rica's 92.0 percent. The HIV prevalence rate in Honduras is 1.8 percent; while still low in absolute terms, this is more than twice the regional average of 0.7.

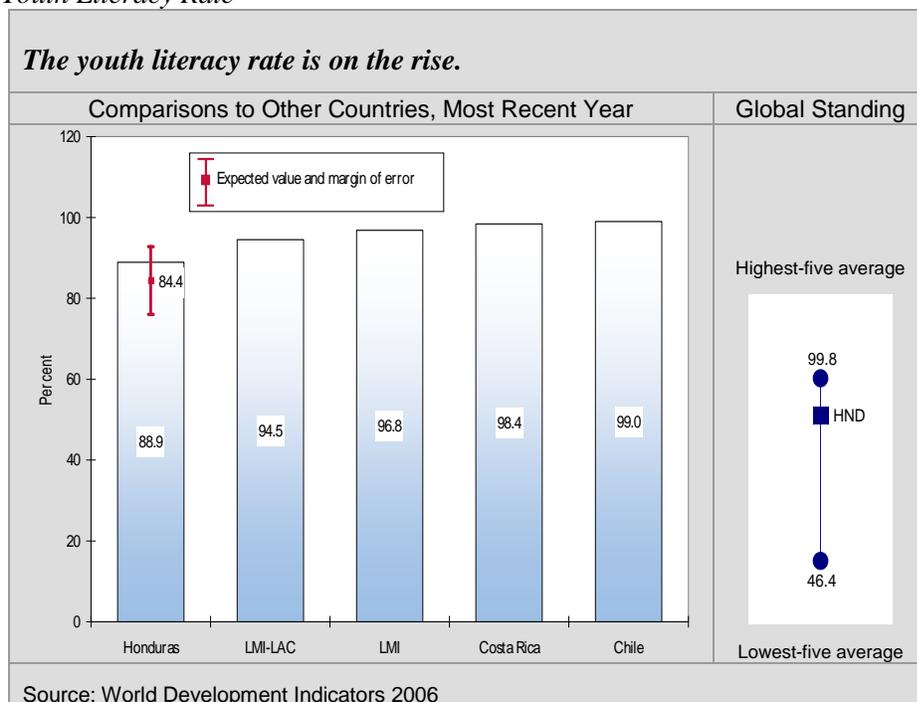
Honduras, in its reduction of maternal mortality, has demonstrated its capability to drastically improve public health. Lending this kind of dedication to other health concerns will contribute to better overall public health, which is an essential component to pro-poor growth.

## EDUCATION

Few data on basic education for Honduras are available from standard international sources. The data that are available show a mixed picture. On the negative side, total primary enrollment in 2004 was 90.7 percent—low compared to the regional average of 95.1. As already mentioned, slightly more girls than boys are enrolled at the primary level (91.7 percent compared to 89.8 percent). On the positive side, in 2004, 79.4 percent of Honduran students persisted to grade 5. Although this rate compares poorly to Costa Rica's and Chile's persistence rates (91.6 percent and 99.9 percent, respectively), it is higher than the statistically predicted benchmark (71.8 percent) and the LMI-LAC average (69.4 percent).

A youth literacy rate of 88.9 percent, low compared with the LMI-LAC average of 94.5 percent, is a direct consequence of weak primary education. Yet youth literacy increased between 2000 and 2004, so this situation appears to be improving (Figure 4-2).

Figure 4-2  
Youth Literacy Rate



Although the Honduran constitution stipulates free primary education for all children between the ages of 7 and 14, the public education system is plagued by a lack of schools, understaffing, and the inability to fund equipment.<sup>44</sup> The lack of funding is evidenced by a pupil–teacher ratio of 34.4, very high compared to the LMI-LAC average of 23.7 and Costa Rica’s 22.6. Rural students are particularly disadvantaged because rural schools are often hard to reach and have fewer staff and resources than their urban counterparts. The Library of Congress reports that rural classrooms often have more than 80 students. In 2005 the education expenditure for primary education was 2.37 percent of GDP, which is low in absolute terms as well as low relative to the LMI-LAC average of 2.93 percent. Honduras also needs to expand its rate of pupil persistence at the secondary and tertiary levels. Improvements in the quality and delivery of public education at all levels should therefore be a focal point of economic growth planning.

## EMPLOYMENT AND WORKFORCE

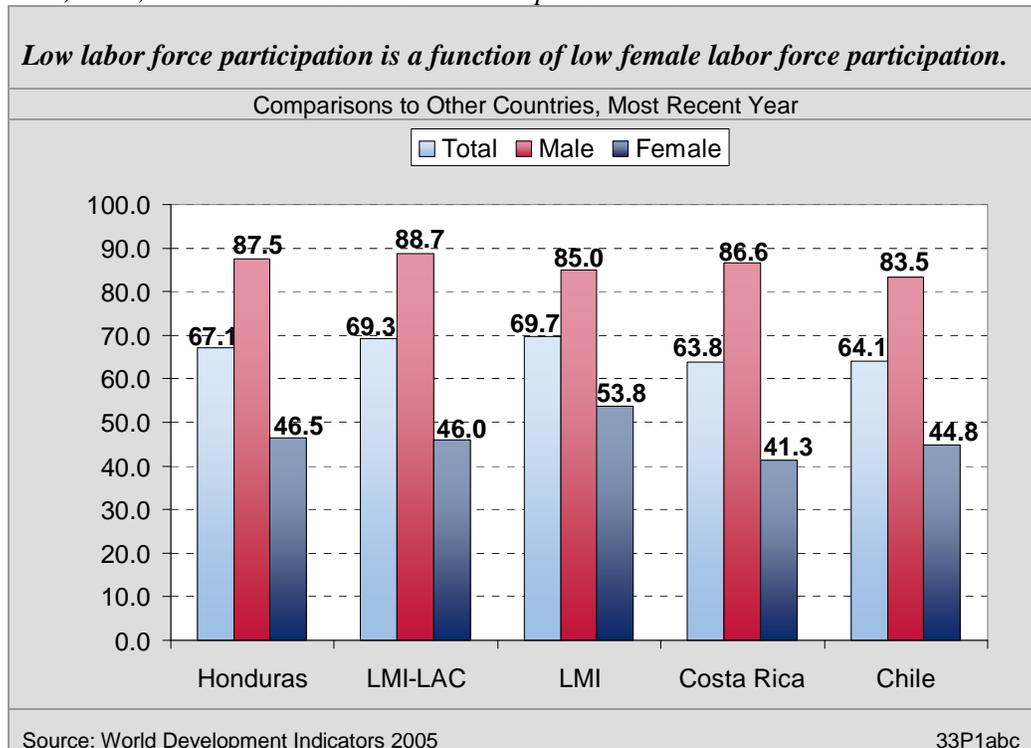
The labor force in Honduras is underutilized, with a participation rate of 67.1 percent. Although low labor force participation rates are typical in Latin America—the LMI-LAC average is 69.3 percent—it is problematic for economic growth in absolute terms. The gender breakdown of Honduras’s labor force participation rate is of particular concern. Although male labor force

<sup>44</sup> Country Study: Honduras, Library of Congress, 2006 <http://countrystudies.us/honduras> .

participation is high, 87.5 percent, the female labor force participation is very low, 46.5 percent (Figure 4-3). This rate indicates a lack of employment opportunities for women in Honduras.

Figure 4-3

*Total, Male, and Female Labor Force Participation Rates*



The unemployment rate in Honduras is a low 5 percent. Extremely low unemployment rates are not uncommon in very poor countries because poverty, coupled with the lack of a social safety net, creates conditions of underemployment that are not accounted for in official statistics. Low unemployment in this case is not linked with a robust labor market.

Honduras scored a 34.0 in 2005 on the Rigidity of Employment Index, which ranges from 0 (minimal rigidity) to 100 (extreme rigidity). Its labor market is much less rigid than the LMI-LAC average 44.0. Although Honduras scores reasonably well on the index, concerns have been raised about the degree to which labor laws have traditionally been enforced.<sup>45</sup> Therefore, the ease of hiring and firing workers may have traditionally been even greater than the index suggests.

Honduras's employment generation capacity will need to expand in the coming years. Some 70,000 workers enter the Honduran job market each year; in 2004, this translated into a labor force growth rate of 2.5 percent. To avoid increased unemployment, the labor market needs to create enough jobs to keep pace with this growing demand. As noted above, Honduras needs to improve its investment climate if it is to grow. CAFTA-DR will provide an important push in this

<sup>45</sup> *The Labor Dimension in Central America and the Dominican Republic*. A Report of the Working Group of Vice Ministers Responsible for Trade and Labor in the Countries of Central America and the Dominican Republic. April 2005.

direction. Furthermore, job creation through the expansion of export sectors is likely to have a key role in ameliorating many of the problems with the quality and quantity of employment in Honduras.

## **AGRICULTURE**

Agriculture employs over one-third of all workers in Honduras. Although value added per agricultural worker has grown in recent years—from \$979 per worker in 1999 to \$1,209 per worker in 2003 (the last available data)—it is still well below the LMI-LAC average of \$2,102 per worker and much below the levels of Chile (\$6,341) and Costa Rica (\$4,472). The growth rate for agricultural value added as a whole has varied significantly on a year-to-year basis. In 1999, agricultural value added contracted by 8.5 percent while in 2003 it grew by 9.0 percent. Honduras's cereal yield of 1,488 kilos per ha in 2005 was low compared to the LMI-LAC average of 2,413 kilos per ha and very low compared to Chile's yield (5,313 kilos per ha) and Costa Rica's yield (3,803 kilos per ha).

Honduras's agricultural sector is becoming more productive. However, there is a mismatch between the number of workers employed in agriculture and the ability of the sector, as it is currently structured, to generate the income required to lift significant numbers of people out of poverty. Donors should continue to work with Honduras to increase agricultural productivity because higher productivity translates into higher incomes and consumption for those employed in the sector.



# 5. Conclusions: Key Findings

In the 1980s, Honduras endured significant social tensions. In the late 1990s, Honduras suffered the devastating wrath of Hurricane Mitch. Despite this rather troubled recent history, the country has begun to turn the corner on its tumultuous past and seems to be entering on to a path of economic growth and poverty reduction. As it advances down this new path, Honduras brings to the table a number of key strengths but also suffers from a number of notable weaknesses.

Honduras will be able to draw on the following strengths in the years to come:

- **CAFTA-DR.** Through CAFTA-DR, Honduran producers of goods and services have secure tariff- and quota-free access to the largest consumer market in the world. Honduras will also benefit from CAFTA-DR's comprehensive rules on investment, intellectual property, government procurement, and transparency. Finally, CAFTA-DR is essential to the long-term future of the Honduran apparel sector.
- **Debt relief.** Honduras has benefited from significant debt relief in the past three years, from the multilateral financial institutions and individual countries that hold its debt. Lifting the debt burden will free the country to make productive investments that will have positive social and economic impacts.
- **Puerto Cortes.** The technical assistance, machinery and equipment, and most importantly, the expedited clearance in the United States of goods dispatched from Puerto Cortes offer Honduras tremendous competitiveness advantage in seaborne trade vis-à-vis competing ports in the region.
- **MCC compact.** Honduras will benefit significantly from the \$215 million compact that it has with the Millennium Challenge Corporation. The rural development and transport investments made under the compact will contribute significantly to upgrading of the country's competitiveness, particularly in rural areas and in the agricultural sector.

Honduras also must address certain weaknesses, including the following:

- **Poverty and income inequality.** Honduras a very poor country with a very unequal distribution of income. A reduction of the disparity between rich and poor in Honduras is fundamental to the country's long-term social stability and economic development.
- **Violent crime and corruption.** All levels of society in Honduras are deeply affected by violent crime, whether as direct victims or through paying the security costs to avoid this fate. The high social and economic costs of crime coupled with low levels of the rule of law are significant impediments to Honduras' development. Honduras also has high levels of corruption.
- **Mismatch between number of workers employed in agriculture and agricultural productivity.** Many Hondurans are employed in the agricultural sector at low-productivity jobs. Improving

the productivity of the agricultural sector while creating more non-farm employment opportunities is important.

- ***Lack of environmental sustainability.*** Honduras's environmental sustainability index has declined sharply in recent years. Although important advances in environmental management have been made, the massive scale of illegal logging not only encourages a culture of corruption but undermines the viability of communities in affected areas. It also undermines potentially lucrative ecotourism in the internationally recognized Río Plátano Biosphere Reserve.

Given Honduras's strengths and weaknesses, donors must choose among a number of competing priorities. Donors should consider the following as among the highest priorities for intervention:

- Assisting Honduras in taking advantage of the opportunities generated by CAFTA-DR. Potential activities include (1) a comprehensive trade facilitation audit to identify the impediments to reducing the time required to trade; (2) technical assistance to the apparel sector; (3) assistance in implementing and administering the agreement, including rules of origin, intellectual property rights, and trade in services; (4) development of a strategy to enhance the value-added share of Honduras's food and agricultural exports.
- Encouraging regional cooperation and coordination in efforts to fight transnational criminal gangs.
- Taking a multifaceted approach to assisting Honduras in stopping illegal logging and addressing other environmental challenges.
- Helping communities channel remittances to investment activities as well as to consumption. Remittances are an essential factor in the Honduran economy but have negative as well as positive effects. Regardless of how remittances are viewed, donors have an important role to play in strengthening the financial management skills of those receiving remittances and the intermediaries that channel remittances toward productive purposes.

# Appendix

## 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 governance–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 Honduras, including data for the benchmark comparisons, and technical notes for every indicator.

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

When Level I indicators suggest weak performance, the analysis proceeds to 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>46</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 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

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<sup>46</sup> Deeper analysis of the topic using more detailed data (level III) is beyond the scope of papers in this series.

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

## BENCHMARKING METHODOLOGY

Comparative benchmarking is the main tool used to evaluate each indicator. The analysis draws on several criteria, rather than a single mechanical rule. The starting point is a comparison of performance in Honduras relative to the average for countries in the same income group and region—in this case, Latin America and Caribbean countries with lower-middle income levels.<sup>47</sup> For added perspective, three other comparisons are examined: (1) the global average for this income group; (2) respective values for two comparator countries selected by the Honduras mission (in this case, Chile and Costa Rica); and (3) the average for the five best- and five worst-performing countries globally. Most comparisons are framed in terms of values for the latest year of data from available sources. Five-year trends are also taken into account where this information sheds light on the performance assessment.<sup>48</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>49</sup> This approach has three advantages. First, the benchmark is customized to Honduras' 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 Honduras' characteristics. An observed value falling outside this band on the side of poor performance signals a serious problem.<sup>50</sup>

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

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<sup>47</sup> Income groups as defined by the World Bank for 2005. 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>48</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>49</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 Honduras is computed by plugging in Honduras-specific values for PCI and Region. When applicable, the regression also controls for population size and petroleum exports (as a percentage of GDP).

<sup>50</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.

## LIST OF INDICATORS

Indicator	Level <sup>a</sup>	MDG, MCA, or EcGov <sup>b</sup>	CAS Code
<b>OVERVIEW OF THE ECONOMY</b>			
Growth Performance			
Per capita GDP, \$PPP	I		11P1
Per capita GDP, current US\$	I		11P2
Real GDP growth	I		11P3
Growth of labor productivity	II		11S1
Investment Productivity—incremental capital-output ratio (ICOR)	II		11S2
Gross fixed investment, % GDP	II		11S3
Gross fixed private investment, % GDP	II		11S4
Poverty and Inequality			
Human poverty index	I		12P1
Income-share, poorest 20%	I		12P2
Population living on less than \$1 PPP per day	I	MDG	12P3
Poverty headcount, by national poverty line	I	MDG	12P4
Income-share, richest 20%	I		12P5
Ratio of income shares, richest 20% to poorest 20%	I		12P6
PRSP Status	I	EcGov	12P5
Population below minimum dietary energy consumption	II	MDG	12S1
Poverty gap at \$1 PPP a day	II		12S2
Economic Structure			
Labor force structure	I		13P1
Output structure	I		13P2
Demography and Environment			
Adult literacy rate	I		14P1
Age dependency rate	I		14P2
Environmental sustainable index	I		14P3
Population size and growth	I		14P4
Urbanization rate	I		14P5
Gender			
Adult literacy rate, ratio of male to female	I	MDG	15P1
Gross enrollment rate, all levels, ratio of male to female	I	MDG	15P2
Life expectancy at birth, ratio of male to female	I		15P3
<b>PRIVATE SECTOR ENABLING ENVIRONMENT</b>			
Fiscal and Monetary Policy			
Govt. expenditure, % GDP	I	EcGov	21P1
Govt. revenue, % GDP	I	EcGov	21P2

Indicator	Level <sup>a</sup>	MDG, MCA, or EcGov <sup>b</sup>	CAS Code
Growth in the money supply	I	EcGov	21P3
Inflation rate	I	MCA	21P4
Overall govt. budget balance, including grants, % GDP	I	EcGov	21P5
Composition of govt. expenditure	II		21S1
Composition of govt. revenue	II		21S2
Composition of money supply growth	II		21S3
<b>Business Environment</b>			
Corruption perception index	I	EcGov	22P1
Ease of doing business ranking	I	EcGov	22P2
Rule of law index	I	MCA, EcGov	22P3
Cost of starting a business, % GNI per capita	II	MCA, EcGov	22S1
Procedures to enforce contract	II	EcGov	22S2
Procedures to register property	II	EcGov	22S3
Procedures to start a business	II	EcGov	22S4
Time to enforce a contract	II	EcGov	22S5
Time to register property	II	EcGov	22S6
Time to start a business	II	EcGov	22S7
<b>Financial Sector</b>			
Domestic credit to private sector, % GDP	I		23P1
Interest rate spread	I		23P2
Money supply, % GDP	I		23P3
Stock market capitalization rate, % of GDP	I		23P4
Cost to create collateral	II		23S1
Country credit rating	II		23S2
Legal rights of borrowers and lenders index	II		23S3
Real Interest rate	I		23S4
<b>External Sector</b>			
Aid , % GNI	I		24P1
Current account balance, % GDP	I		24P2
Debt service ratio, % exports	I	MDG	24P3
Export growth of goods and services	I		24P4
Foreign direct investment, % GDP	I		24P5
Gross international reserves, months of imports	I	EcGov	24P6
Gross Private capital inflows, % GDP	I		24P7
Present value of debt, % GNI	I		24P8
Remittance receipts, % exports	I		24P9

Indicator	Level <sup>a</sup>	MDG, MCA, or EcGov <sup>b</sup>	CAS Code
Trade, % GDP	I		24P10
Exports of services, % total exports	I		24P11
Imports of services, % total exports	I		24P12
Actual and expected trade size, index	I		24P13
Time to trade, days	I		24P14
Merchandise imports from CAFTA countries, current USD million	I		24P15
Merchandise exports to CAFTA countries, current USD million	I		24P16
Concentration of exports	II		24S1
Inward FDI Potential Index	II		24S2
Net barter terms of trade	II		24S3
Real effective exchange rate (REER)	II	EcGov	24S4
Structure of merchandise exports	II		24S5
Trade policy index	II	MCA, EcGov	24S6
Composition of merchandise imports from CAFTA countries by country	II		24S7
Composition of merchandise exports to CAFTA countries, by country, current USD million	II		24S8
<b>Economic Infrastructure</b>			
Internet users per 1,000 people	I	MDG	25P1
Overall infrastructure quality	I	EcGov	25P2
Telephone density, fixed line and mobile	I	MDG	25P3
Quality of infrastructure—railroads, ports, air transport, and electricity	II		25S1
Telephone cost, average local call	II		25S2
<b>Science and Technology</b>			
Expenditure for R&D, % GNI	I		26P1
FDI and technology transfer index	I		26P2
Patent applications filed by residents	I		26P3
<b>PRO-POOR GROWTH ENVIRONMENT</b>			
<b>Health</b>			
HIV prevalence	I		31P1
Life expectancy at birth	I		31P2
Maternal mortality rate	I	MDG	31P3
Access to improved sanitation	II	MDG	31S1
Access to improved water source	II	MDG	31S2
Births attended by skilled health personnel	II	MDG	31S3
Child immunization rate	II		31S4

Indicator	Level <sup>a</sup>	MDG, MCA, or EcGov <sup>b</sup>	CAS Code
Prevalence of child malnutrition (weight for age)	II		31S5
Public health expenditure, % GDP	II	EcGov	31S6
Education			
Net primary enrollment rate	I	MDG	32P1
Persistence in school to grade 5	I	MDG	32P2
Youth literacy rate	I		32P3
Education expenditure, primary, % GDP	II	MCA, EcGov	32S1
Expenditure per student, % GDP per capita, primary, secondary, and tertiary	II	EcGov	32S2
Pupil-teacher ratio, primary school	II		32S3
Employment and Workforce			
Labor force participation rate, females, males, total	I		33P1
Rigidity of employment index	I	EcGov	33P2
Size and growth of the labor force	I		33P3
Unemployment rate	I		33P4
Agriculture			
Agriculture value added per worker	I		34P1
Cereal yield	I		34P2
Growth in agricultural value-added	I		34P3
Agricultural policy costs index	II	EcGov	34S1
Crop production index	II		34S2
Livestock production index	II		34S3

<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 USAID defines in *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, and legal and regulatory systems affecting the business environment, infrastructure quality, and budget allocations.



**USAID**  
FROM THE AMERICAN PEOPLE

# Honduras

## Economic Performance Assessment



**May 2006**

This publication was produced by Nathan Associates Inc. for review by the United States Agency for International Development.

# **Honduras**

## **Economic Performance**

### **Assessment**

#### **DISCLAIMER**

The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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

- A synthesis of data drawn from numerous sources, including World Bank publications and other international data sets currently used by USAID for economic growth analysis, as well as accessible host-country data sources;
- International benchmarking to assess country performance in comparison to similar countries and groups of countries;
- An easy-to-read analytic narrative that highlights areas in which a country's performance is particularly strong or weak, thereby assisting in the identification of future programming priorities.

Under the CAS Project, Nathan Associates will also respond to mission requests for in-depth sector studies to examine more thoroughly particular issues identified by the data analysis in these country reports.

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Electronic copies of reports and materials relating to the CAS project are available at [www.nathaninc.com](http://www.nathaninc.com). For further information or hard copies of CAS publications, please contact

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Growth Performance							
	Per capita GDP, purchasing power parity Dollars	Per capita GDP, current U.S. Dollars	Real GDP growth	Growth of labor productivity	Investment productivity - incremental capital- output ratio (ICOR)	Share of gross fixed investment in GDP, current prices	Share of gross fixed private investment in GDP, current prices
Indicator Number	11P1	11P2	11P3	11S1	11S2	11S3	11S4
<b>Honduras Data</b>							
<i>Latest Year (T)</i>	2005	2005	2005	2003	2003	2003	2003
Value Year T	2,793	1,069	4.2	-0.2	10.8	24.0	15.7
Value Year T-1	2,682	1,035	4.6	-1.2	11.0	22.1	16.9
Value Year T-2	2,588	992	3.5	0.1	8.9	23.6	17.0
Value Year T-3	2,524	963	2.7	1.8	8.7	26.1	20.3
Value Year T-4	2,480	961	2.6	-5.2	.	36.1	22.6
Average Value, 5 year	2,613	1,004	3.5	-0.9	.	26.4	18.5
Growth Trend	3.0	2.9	.	.	.	-9.4	-8.7
<b>Benchmark Data</b>							
Regression Benchmark	.	.	3.7	.	.	23.5	.
Lower Bound	.	.	2.3	.	.	21.0	.
Upper Bound	.	.	5.0	.	.	26.1	.
<i>Latest Year Costa Rica</i>	2005	2005	2005	2003	2003	2003	.
Costa Rica Value Latest Year	10,316	4,526	3.2	3.7	4.5	19.7	.
<i>Latest Year Chile</i>	2005	2005	2005	2003	2003	2003	.
Chile Value Latest Year	11,537	6,272	6.1	1.6	9.3	22.8	.
LMI-LAC Avg.	4,663	2,358	3.7	-0.2	10.0	18.5	.
Low-Middle Income Avg.	5,323	2,298	4.5	1.8	5.6	22.3	.
High Five Avg.	45,202	58,939	12.9	14.1	70.2	48.6	.
Low Five Avg.	698	132	-1.2	-13.3	-302.9	7.7	.

Poverty and Inequality									
	Human Poverty Index (0 for excellent to 100 for poor)	Income share accruing to poorest 20%	Population (%) living on less than \$1 PPP per day	Poverty headcount (%), by national poverty line	PRSP Status	Income share accruing to richest 20%	Ratio of income share accruing to richest 20 % to share poorest 20%	Population (%) below minimum dietary energy consumption	Poverty gap at \$1 PPP a day
Indicator Number	12P1	12P2	12P3	12P4	12P5	12P6	12P7	12S1	12S2
<b>Honduras Data</b>									
<i>Latest Year (T)</i>	2005	2003	1999	2004	.	2003	1999	2003	1999
Value Year T	16.9	3.4	20.7	64.0	YES	60.2	21.5	22.0	7.5
Value Year T-1	16.6	.	23.8	.	.	60.2	.	.	11.6
Value Year T-2	19.9	.	.	.	.	60.2	.	20.0	.
Value Year T-3	.	.	25.0	.	.	.	.	.	9.1
Value Year T-4	.	.	.	.	.	58.9	.	.	.
Average Value, 5 year	.	.	.	.	.	.	.	.	.
Growth Trend	.	.	.	.	.	.	.	.	.
<b>Benchmark Data</b>									
Regression Benchmark	21.1	4.0	24.1	46.2	.	.	.	24.2	.
Lower Bound	15.4	3.1	16.6	38.0	.	.	.	16.2	.
Upper Bound	26.8	4.9	31.7	54.4	.	.	.	32.2	.
<i>Latest Year Costa Rica</i>	2003	2000	2000	.	2001	2000	2000	2001	2000
Costa Rica Value Latest Year	4.0	4.2	2.0	.	.	51.5	12.3	6.0	0.7
<i>Latest Year Chile</i>	2003	2000	2000	.	.	2000	2000	2001	2000
Chile Value Latest Year	3.7	3.3	2.0	.	.	62.2	18.7	4.0	0.5
LMI-LAC Avg.	11.4	2.9	17.0	.	.	57.2	17.7	13.0	6.9
Low-Middle Income Avg.	16.3	8.1	4.2	.	.	48.0	8.1	11.0	1.2
High Five Avg.	60.6	8.7	.	.	.	62.7	25.2	66.0	11.8
Low Five Avg.	4.1	5.9	.	.	.	36.2	3.8	3.0	0.5

Economic Structure						
	Employment or labor force in agriculture, % total	Employment or labor force in industry, % total	Employment or labor force in services, % total	Output structure (agriculture, value added, % GDP)	Output structure (industry, value added, % GDP)	Output structure (services, etc., value added, % GDP)
Indicator Number	13P1a	13P1b	13P1c	13P2a	13P2b	13P2c
<b>Honduras Data</b>						
<i>Latest Year (T)</i>	2002	2002	2002	2003	2003	2003
Value Year T	37.4	21.4	41.2	13.6	31.0	55.5
Value Year T-1	32.8	20.9	46.2	13.4	30.7	55.9
Value Year T-2	.	.	.	14.0	31.4	54.6
Value Year T-3	35.1	22.0	42.9	16.2	31.6	52.3
Value Year T-4	34.6	23.0	42.4	15.9	32.4	51.7
Average Value, 5 year	.	.	.	14.6	31.4	54.0
Growth Trend	.	.	.	-4.9	-1.2	2.1
<b>Benchmark Data</b>						
Regression Benchmark	.	.	.	19.9	23.6	.
Lower Bound	.	.	.	13.8	17.6	.
Upper Bound	.	.	.	25.9	29.6	.
<i>Latest Year Costa Rica</i>	2002	2002	2002	2003	2003	2003
Costa Rica Value Latest Year	15.9	22.5	61.1	8.8	28.7	62.5
<i>Latest Year Chile</i>	2002	2002	2002	2003	2003	2003
Chile Value Latest Year	13.5	23.9	62.6	8.8	34.3	56.9
LMI-LAC Avg.	21.8	20.9	59.2	11.2	29.4	58.5
Low-Middle Income Avg.	24.2	20.9	51.2	12.2	30.4	54.7
High Five Avg.	41.5	37.1	72.8	56.0	66.2	77.7
Low Five Avg.	0.3	12.9	36.0	0.8	12.3	15.4

Demography and Environment							Gender		
	Adult literacy rate	Age dependency rate	Environmental sustainability index (0 for poor to 100 for excellent)	Population size (millions)	Population growth rate	Urbanization rate	Ratio of male to female - adult literacy rate	Ratio of male to female - gross enrollment rate, all levels	Ratio of male to female - life expectancy at birth
Indicator Number	14P1	14P2	14P3	14P4a	14P4b	14P5	15P1	15P2	15P3
<b>Honduras Data</b>									
<i>Latest Year (T)</i>	2004	2004	2005	2004	2004	2004	2004	2002	2004
Value Year T	80.0	0.77	47.4	7.0	2.2	46.0	0.99	1.05	0.94
Value Year T-1	.	0.78	.	6.9	2.3	45.6	1.00	.	0.94
Value Year T-2	.	0.80	.	6.7	2.3	45.2	1.00	.	0.94
Value Year T-3	80.0	0.81	53.1	6.6	2.4	44.8	.	.	.
Value Year T-4	75.0	0.83	.	6.4	2.5	44.4	.	.	0.94
Average Value, 5 year	.	0.80	.	6.7	2.3	45.2	.	.	.
Growth Trend	.	-1.86	.	2.3	.	0.9	.	.	.
<b>Benchmark Data</b>									
Regression Benchmark	75.4	0.68	45.0	.	1.9	47.2	.	.	.
Lower Bound	66.7	0.62	41.3	.	1.5	38.0	.	.	.
Upper Bound	84.1	0.73	48.7	.	2.3	56.5	.	.	.
<i>Latest Year Costa Rica</i>	2002	2003	2005	2003	2003	2003	2003	2003	2003
Costa Rica Value Latest Year	95.8	0.55	59.6	4.0	1.6	60.6	1.00	0.97	0.94
<i>Latest Year Chile</i>	2002	2003	2005	2003	2003	2003	2003	2003	2003
Chile Value Latest Year	95.7	0.52	53.6	15.8	1.2	86.6	1.00	1.01	0.92
LMI-LAC Avg.	85.0	0.58	52.4	8.8	1.5	64.2	1.02	0.98	0.92
Low-Middle Income Avg.	87.8	0.58	47.8	8.0	1.4	57.0	1.03	0.99	0.93
High Five Avg.	99.7	1.03	72.6	607.0	4.6	100.0	2.48	1.59	1.02
Low Five Avg.	35.7	0.38	32.6	31,200.0	-0.8	9.0	0.91	0.86	0.84

**Fiscal and Monetary Policy**

	Government expense, % GDP	Government revenue, % GDP	Growth in the broad money supply	Inflation rate	Cash Surplus/Deficit (% of GDP)	Composition of government expense (wages and salaries)	Composition of government expense (goods and services)	Composition of government expense (interest payments)	Composition of government expense (subsidies and other current transfers)	Composition of government expense (other expense)	Composition of government revenue (Taxes of income, profits and capital gains)
Indicator Number	21P1	21P2	21P3	21P4	21P5	21S1a	21S1b	21S1c	21S1d	21S1e	21S2a
<b>Honduras Data</b>											
<i>Latest Year (T)</i>	2005	2005	2004	2005	2005	2005	2005	2005	2005	2005	2005
Value Year T	24.1	19.3	20.7	8.8	-3.0	46.7	15.3	6.0	25.6	6.3	22.7
Value Year T-1	24.0	19.6	15.8	8.1	-3.5	52.6	11.6	6.3	22.8	6.7	21.6
Value Year T-2	25.7	18.5	13.7	7.7	-6.1	50.7	12.3	5.4	25.9	5.8	19.7
Value Year T-3	24.7	18.3	17.5	7.7	-5.3	54.8	13.3	5.7	20.8	5.4	18.9
Value Year T-4	26.1	18.2	24.4	9.7	-6.1	52.5	15.7	6.8	20.3	4.6	19.1
Average Value, 5 year	24.9	18.8	18.4	8.4	-4.8	51.5	13.6	6.0	23.1	5.8	20.4
Growth Trend	-1.9	1.9	-4.2	-1.4	.	-2.7	-1.9	-1.7	5.8	8.7	5.0
<b>Benchmark Data</b>											
Regression Benchmark	19.2	17.9	17.1	6.9	-2.6	.	.	.	.	.	.
Lower Bound	15.1	13.6	8.6	3.6	-4.2	.	.	.	.	.	.
Upper Bound	23.3	22.1	25.6	10.2	-1.0	.	.	.	.	.	.
<i>Latest Year Costa Rica</i>	2003	2003	2003	2005	2003	2003	2003	2003	2003	2003	2003
Costa Rica Value Latest Year	23.4	22.7	16.7	10.5	-1.6	42.9	12.9	18.4	21.2	4.8	14.8
<i>Latest Year Chile</i>	2003	2003	2003	2005	2003	2003	2003	2003	2003	.	2003
Chile Value Latest Year	18.4	21.2	8.1	2.5	-0.5	23.1	10.0	6.4	60.6	.	20.7
LMI-LAC Avg.	16.8	16.2	10.5	5.3	-2.5	27.0	13.6	11.3	20.4	6.6	22.9
Low-Middle Income Avg.	18.4	18.8	14.4	5.3	-1.3	25.7	15.7	8.9	30.2	6.5	16.7
High Five Avg.	43.7	44.1	134.4	53.7	3.9	52.5	47.7	18.8	71.8	22.1	53.7
Low Five Avg.	12.1	8.6	-8.5	0.5	-8.1	6.2	6.0	1.9	2.6	0.3	3.3

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

	Composition of government revenue (Taxes on goods and services)	Composition of government revenue (Taxes on international trade)	Composition of government revenue (Other taxes)	Composition of government revenue (Social Security Contributions)	Grants and other revenue (% of revenue)	Composition of money supply growth (Net credit to government)	Composition of money supply growth (Credit to the private sector)	Composition of money supply growth (Net credit to non-financial public enterprises)	Composition of money supply growth (Net foreign assets)	Composition of money supply growth (Other items, net)
Indicator Number	21S2b	21S2c	21S2d	21S2e	21S2f	21S3a	21S3b	21S3c	21S3d	21S3e
<b>Honduras Data</b>										
<i>Latest Year (T)</i>	2005	2005	2005	2005	2005	2004	2004	2004	2004	2004
Value Year T	18.8	6.7	0.02	.	51.8	-16.3	52.9	.	71.0	-86.8
Value Year T-1	20.2	6.9	0.03	.	51.3	18.8	79.0	.	3.1	-85.2
Value Year T-2	19.6	7.0	0.04	.	53.7	-8.7	35.6	.	76.6	-89.8
Value Year T-3	20.8	7.5	0.03	.	52.8	24.0	46.2	.	54.6	-107.4
Value Year T-4	13.2	12.4	0.01	.	55.3	24.8	47.1	.	38.4	-85.8
Average Value, 5 year	18.5	8.1	0.03	.	53.0	8.5	52.1	.	48.8	-91.0
Growth Trend	7.0	-12.4	13.0	.	-1.6	.	.	.	.	.
<b>Benchmark Data</b>										
Regression Benchmark	.	.	.	.	.	.	.	.	.	.
Lower Bound	.	.	.	.	.	.	.	.	.	.
Upper Bound	.	.	.	.	.	.	.	.	.	.
<i>Latest Year Costa Rica</i>	2003	2003	2003	2003	2003	.	.	.	.	.
Costa Rica Value Latest Year	37.8	4.5	2.2	32.3	8.4	.	.	.	.	.
<i>Latest Year Chile</i>	2003	2003	2003	2003	2003	.	.	.	.	.
Chile Value Latest Year	48.9	3.0	3.9	6.9	16.6	.	.	.	.	.
LMI-LAC Avg.	40.6	7.8	2.2	6.7	13.4	.	.	.	.	.
Low-Middle Income Avg.	38.6	7.8	1.8	8.7	15.8	.	.	.	.	.
High Five Avg.	57.9	34.1	5.4	45.0	65.4	.	.	.	.	.
Low Five Avg.	5.0	0.5	0.0	0.5	3.2	.	.	.	.	.

Business Environment											
	Corruption Perception Index (1 for poor to 10 for excellent)	Ease of doing business ranking (1 to 155)	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)	Cost of starting a business, % GNI per capita	Procedures to enforce a contract	Procedures to register property	Procedures to start a business	Time to enforce a contract	Time to register property	Time to start a business
Indicator Number	22P1	22P2	22P3	22P4	22S1	22S2	22S3	22S4	22S5	22S6	22S7
<b>Honduras Data</b>											
<i>Latest Year (T)</i>	2005	2005	2004	2004	2005	2005	2005	2005	2005	2005	2005
Value Year T	2.6	112.0	-0.61	-0.33	64.1	36.0	7.0	13.0	545	36	62
Value Year T-1	2.3	.	.	.	72.9	36.0	7.0	13.0	545	36	62
Value Year T-2	2.3	.	-0.77	-0.34	.	.	.	.	.	.	.
Value Year T-3	2.7	.	.	.	.	.	.	.	.	.	.
Value Year T-4	2.7	.	-0.89	0.32	.	.	.	.	.	.	.
Average Value, 5 year	2.5	..	.	.	.	.	.	.	.	.	.
Growth Trend	-2.3	.	.	.	.	.	.	.	.	.	.
<b>Benchmark Data</b>											
Regression Benchmark	2.7	.	-0.83	.	.	.	.	.	.	.	.
Lower Bound	2.2	.	-1.11	.	.	.	.	.	.	.	.
Upper Bound	3.2	.	-0.55	.	.	.	.	.	.	.	.
<i>Latest Year Costa Rica</i>	2005	2005	2004	2004	2005	2005	2005	2005	2005	2005	2005
Costa Rica Value Latest Year	4.2	89.0	0.57	0.67	23.8	34.0	6.0	11.0	550	21	77
<i>Latest Year Chile</i>	2005	2005	2004	2004	2005	2005	2005	2005	2005	2005	2005
Chile Value Latest Year	7.3	25.0	1.16	1.62	10.3	28.0	6.0	9.0	305	31	27
LMI-LAC Avg.	3.1	96.2	-0.58	-0.13	48.3	37.0	7.0	12.5	457	48	56
Low-Middle Income Avg.	2.9	85.6	-0.56	-0.34	25.3	30.0	7.0	10.5	409	52	45
High Five Avg.	9.6	153.0	1.98	1.88	777.9	65.2	15.8	17.2	1,166	557	180
Low Five Avg.	1.8	3.0	-1.92	-2.29	0.4	13.4	1.6	2.0	51	2	4

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	Cost to create collateral	Country credit rating	Legal rights of borrowers and lenders index (0 for poor to 10 for excellent)	Real interest rate
Indicator Number	23P1	23P2	23P3	23P4	23S1	23S2	23S3	23S4
<b>Honduras Data</b>								
<i>Latest Year (T)</i>	2005	2004	2005	.	2004	2005	2005	2004
Value Year T	40.0	7.3	53.8	.	36.6	30.6	5.0	8.1
Value Year T-1	38.7	7.0	52.1	.	.	.	5.0	7.7
Value Year T-2	38.2	8.0	50.1	.	.	.	.	7.7
Value Year T-3	38.8	8.9	49.2	.	.	.	.	9.7
Value Year T-4	41.2	10.9	47.6	.	.	.	.	11.1
Average Value, 5 year	39.4	8.4	50.6	.	.	.	.	8.8
Growth Trend	-0.6	-9.9	3.1	.	.	.	.	-8.2
<b>Benchmark Data</b>								
Regression Benchmark	26.5	11.6	35.8	27.8	.	.	.	.
Lower Bound	11.4	9.0	21.7	4.5	.	.	.	.
Upper Bound	41.6	14.2	49.9	51.0	.	.	.	.
<i>Latest Year Costa Rica</i>	2003	2003	2003	2003	2004	.	2005	2003
Costa Rica Value Latest Year	31.3	15.2	37.6	9.9	16.2	.	4.0	16.5
<i>Latest Year Chile</i>	2003	2003	2005	2003	2004	.	2005	2003
Chile Value Latest Year	63.3	3.5	36.8	119.2	5.3	.	4.0	1.7
LMI-LAC Avg.	23.4	10.4	30.1	22.1	23.7	27.4	3.5	9.1
Low-Middle Income Avg.	24.6	7.1	40.4	18.1	10.0	28.8	5.0	9.2
High Five Avg.	171.0	46.9	188.2	238.9	121.6	51.5	9.6	36.2
Low Five Avg.	1.6	1.0	4.8	1.0	0.0	9.4	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	Private capital inflows, % GDP	Present value of debt, % GNI	Remittance receipts, % exports	Trade, % GDP	Exports of services, % total exports
Indicator Number	24P1	24P2	24P3	24P4	24P5	24P6	24P7	24P8	24P9	24P10	24P11
<b>Honduras Data</b>											
<i>Latest Year (T)</i>	2003	2004	2004	2005	2005	2005	2005	2004	2003	2005	2003
Value Year T	9.1	-5.6	7.8	6.7	2.4	4.9	2.3	37.8	32.4	68.8	21.7
Value Year T-1	5.9	-4.6	11.5	13.8	3.9	4.8	3.9	53.9	28.4	70.6	21.2
Value Year T-2	7.5	-4.1	12.1	7.4	3.6	3.7	3.5	50.2	22.0	64.1	20.1
Value Year T-3	10.9	-5.3	11.3	3.5	2.7	4.7	2.6	54.7	16.5	63.4	19.2
Value Year T-4	7.8	-4.4	12.9	-2.7	3.0	4.7	3.0	57.9	14.4	64.8	21.3
Average Value, 5 year	8.2	-4.8	11.1	5.7	3.1	4.6	3.0	50.9	22.7	66.3	20.7
Growth Trend	-2.9	.	-9.3	.	-1.0	1.0	.	-8.3	24.32	2.3	1.4
<b>Benchmark Data</b>											
Regression Benchmark	4.7	-6.5	12.0	8.1	3.3	3.9	.	53.8	.	66.4	.
Lower Bound	-1.8	-11.3	6.9	1.5	1.4	2.4	.	30.1	.	47.6	.
Upper Bound	11.2	-1.7	17.2	14.8	5.2	5.4	.	77.6	.	85.2	.
<i>Latest Year Costa Rica</i>	2003	2003	2003	2003	2003	2003	2003	2003	2003	2003	2003
Costa Rica Value Latest Year	0.2	-5.6	9.7	12.5	3.3	2.3	8.9	36.1	3.8	95.4	24.9
<i>Latest Year Chile</i>	2003	2003	2003	2003	2003	2003	2004	2003	.	2003	2003
Chile Value Latest Year	0.1	-0.8	31.3	11.4	4.1	6.8	10.3	67.0	.	68.3	18.6
LMI-LAC Avg.	1.0	-1.8	14.0	5.9	2.2	4.0	.	54.0	19.7	52.6	16.5
Low-Middle Income Avg.	1.8	-2.3	11.7	5.9	2.1	3.9	.	44.9	8.8	79.0	13.8
High Five Avg.	66.1	18.0	61.5	21.6	99.4	18.6	.	380.0	86.5	228.0	83.8
Low Five Avg.	-0.3	-27.8	0.9	-19.8	-0.4	0.3	.	9.1	0.0	27.1	1.4

External Sector (cont'd)										
	Imports of services, % total imports	Actual and expected trade size index (0 for poor and 10 for excellent)	Time to trade (average import and export, days)	Merchandise imports from CAFTA countries, mil. current USD	Merchandise exports to CAFTA countries, mil. current USD	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 index (2000=100)	Structure of merchandise exports (agricultural raw materials)
Indicator Number	24P12	24P13	24P14	24P15	24P16	24S1	24S2	24S3	24S4	24S5a
<b>Honduras Data</b>										
<i>Latest Year (T)</i>	2003	2003	2005	2003	2003	.	2001-2003	2004	2003	2003
Value Year T	17.6	5.8	40.0	1,915.0	670.5	.	0.11	89.7	98.3	4.2
Value Year T-1	17.6	5.8	.	1,867.0	1,117.4	.	0.14	79.1	96.1	13.6
Value Year T-2	18.5	6.1	.	1,469.4	886.8	.	0.15	98.0	96.9	7.9
Value Year T-3	18.3	6.5	.	1,656.9	830.5	.	0.15	103.4	100.0	4.9
Value Year T-4	16.7	.	.	1,746.6	963.1	.	0.16	100.0	104.7	3.3
Average Value, 5 year	17.7	6.0	.	1,565.7	1,043.6	.	0.14	94.0	99.2	6.8
Growth Trend	0.7	-3.8	.	10.5	0.9	.	-7.0	-4.7	.	16.3
<b>Benchmark Data</b>										
Regression Benchmark	.	.	.	.	.	.	0.13	.	.	5.5
Lower Bound	.	.	.	.	.	.	0.11	.	.	-0.9
Upper Bound	.	.	.	.	.	.	0.15	.	.	11.9
<i>Latest Year Costa Rica</i>	2003	2003	2005	2004	2004	.	2001-2003	2002	.	2003
Costa Rica Value Latest Year	14.0	5.5	39.0	3,942.4	3,590.7	.	0.18	97.0	.	3.1
<i>Latest Year Chile</i>	2003	2003	2005	2004	2004	.	2001-2003	2002	.	2003
Chile Value Latest Year	23.6	6.7	23.5	3,404.7	4,982.7	.	0.23	93.0	.	8.9
LMI-LAC Avg.	21.9	5.1	34.7	.	.	.	0.15	97.0	.	4.2
Low-Middle Income Avg.	17.2	5.8	36.1	.	.	.	0.17	98.5	.	2.3
High Five Avg.	50.4	10.0	120.8	.	.	.	0.50	149.8	.	30.8
Low Five Avg.	5.4	0.1	6.2	.	.	.	0.05	71.8	.	0.0

External Sector (cont'd)										
	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)	CAFTA merchandise imports (imports from Costa Rica, mil. current USD)	CAFTA merchandise imports (imports from Dominican Republic, mil. current USD)	CAFTA merchandise imports (imports from El Salvador, mil. current USD)	CAFTA merchandise imports (imports from Guatemala, mil. current USD)	CAFTA merchandise imports (imports from Honduras, mil. current USD)
Indicator Number	24S5b	24S5c	24S5d	24S5e	24S6	24S7a	24S7b	24S7c	24S7d	24S7e
<b>Honduras Data</b>										
<i>Latest Year (T)</i>	2003	2003	2003	2003	2005	2003	2003	2003	2003	2003
Value Year T	0.2	27.0	5.8	62.7	3	142.3	4.3	154.7	244.4	Not Applicable
Value Year T-1	0.2	32.6	4.2	49.5	3	76.6	2.9	200.4	274.0	Not Applicable
Value Year T-2	0.4	18.7	4.4	68.6	3	64.4	3.2	152.2	236.9	Not Applicable
Value Year T-3	2.3	19.2	5.8	67.9	3	51.9	2.9	189.0	226.3	Not Applicable
Value Year T-4	0.5	27.2	6.3	62.6	3	55.1	6.3	166.1	213.9	Not Applicable
Average Value, 5 year	0.7	24.9	5.3	62.2	3	78.0	3.9	172.5	239.1	Not Applicable
Growth Trend	-34.9	5.4	-4.8	-3.1	.	.	.	.	.	.
<b>Benchmark Data</b>										
Regression Benchmark	.	.	.	.	.	.	.	.	.	.
Lower Bound	.	.	.	.	.	.	.	.	.	.
Upper Bound	.	.	.	.	.	.	.	.	.	.
<i>Latest Year Costa Rica</i>	2003	2003	2003	2003	2005	2004	2004	2004	2004	2004
Costa Rica Value Latest Year	0.5	65.6	0.7	30.2	3	Not Applicable	12.2	88.4	158.7	36.0
<i>Latest Year Chile</i>	2003	2003	2003	2003	2005	2004	2004	2004	2004	2004
Chile Value Latest Year	2.2	16.4	41.7	28.2	1	9.0	2.8	3.0	12.3	1.1
LMI-LAC Avg.	8.2	24.1	3.3	33.8	4	.	.	.	.	.
Low-Middle Income Avg.	5.6	44.4	3.2	14.5	4	.	.	.	.	.
High Five Avg.	92.8	94.2	51.5	91.0	5	.	.	.	.	.
Low Five Avg.	0.0	2.6	0.0	0.5	1	.	.	.	.	.

External Sector (cont'd)									
	CAFTA merchandise imports (imports from Nicaragua, mil. current USD)	CAFTA merchandise imports (imports from U.S.A., mil. current USD)	CAFTA merchandise exports (exports to Costa Rica, mil. current USD)	CAFTA merchandise exports (exports to Dominican Republic, mil. current USD)	CAFTA merchandise exports (exports to El Salvador, mil. current USD)	CAFTA merchandise exports (exports to Guatemala, mil. current USD)	CAFTA merchandise exports (exports to Honduras, mil. current USD)	CAFTA merchandise exports (exports to Nicaragua, mil. current USD)	CAFTA merchandise exports (exports to U.S.A., mil. current USD)
Indicator Number	24S7f	24S7g	24S8a	24S8b	24S8c	24S8d	24S8e	24S8f	24S8g
<b>Honduras Data</b>									
<i>Latest Year (T)</i>	2003	2003	2003	2003	2003	2003	2003	2003	2003
Value Year T	42.7	1,326.6	26.2	3.1	120.5	75.5	Not Applicable	29.9	415
Value Year T-1	61.4	1,251.7	19.4	5.8	296.1	122.6	Not Applicable	28.1	645
Value Year T-2	49.8	962.9	5.4	4.7	242.6	131.4	Not Applicable	19.2	483
Value Year T-3	35.3	1,151.6	8.2	1.3	166.8	86.1	Not Applicable	34.8	533
Value Year T-4	14.3	1,290.8	10.0	4.3	184.1	91.7	Not Applicable	13.1	660
Average Value, 5 year	40.7	1,196.7	13.9	3.8	202.0	101.5	Not Applicable	25.0	547.5
Growth Trend	.	.	.	.	.	.	.	.	.
<b>Benchmark Data</b>									
Regression Benchmark	.	.	.	.	.	.	.	.	.
Lower Bound	.	.	.	.	.	.	.	.	.
Upper Bound	.	.	.	.	.	.	.	.	.
<i>Latest Year Costa Rica</i>	2004	2004	2004	2004	2004	2004	2004	2004	2004
Costa Rica Value Latest Year	50.8	3,596.3	Not Applicable	70.6	195.9	272.8	185.6	219.9	2,646
<i>Latest Year Chile</i>	2004	2004	2004	2004	2004	2004	2004	2004	2004
Chile Value Latest Year	0.1	3,376.4	97.0	28.6	56.4	165.6	57.2	8.4	4,569
LMI-LAC Avg.	.	.	.	.	.	.	.	.	.
Low-Middle Income Avg.	.	.	.	.	.	.	.	.	.
High Five Avg.	.	.	.	.	.	.	.	.	.
Low Five Avg.	.	.	.	.	.	.	.	.	.

Economic Infrastructure								
	Internet users per 1000 people	Overall infrastructure quality index (1 for poor to 7 for excellent)	Telephone density, fixed line and mobile, per 1000 people	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)	Telephone cost, average local call
Indicator Number	25P1	25P2	25P3	25S1a	25S1b	25S1c	25S1d	25S2
<b>Honduras Data</b>								
<i>Latest Year (T)</i>	2004	2004	2004	2004	2004	2004	2004	2002
Value Year T	32	2.5	157	2.9	3.4	1.3	3.0	0.06
Value Year T-1	27	.	104	.	.	.	.	0.07
Value Year T-2	25	.	96	.	.	.	.	0.06
Value Year T-3	14	.	83	.	.	.	.	0.06
Value Year T-4	9	.	71	.	.	.	.	0.06
Average Value, 5 year	21	.	102	.	.	.	.	0.06
Growth Trend	38.7	.	19.3	.	.	.	.	1.8
<b>Benchmark Data</b>								
Regression Benchmark	42	2.2	126	.	.	.	.	.
Lower Bound	3	1.8	73	.	.	.	.	.
Upper Bound	81	2.6	180	.	.	.	.	.
<i>Latest Year Costa Rica</i>	2004	2004	2002	2004	2004	2004	2004	2003
Costa Rica Value Latest Year	235	2.9	362	4.1	2.1	1.2	4.6	0.02
<i>Latest Year Chile</i>	2004	2004	2003	2004	2004	2004	2004	2003
Chile Value Latest Year	279	4.8	732	5.4	4.6	2.2	5.5	0.10
LMI-LAC Avg.	74	2.8	321	3.7	2.6	1.4	4.0	0.06
Low-Middle Income Avg.	53	3.1	273	4.0	3.4	2.2	4.1	0.03
High Five Avg.	759.3	6.7	1,686	6.7	6.6	6.5	6.9	0.41
Low Five Avg.	0.5	1.5	10	2.4	1.3	1.1	1.4	0.00

<b>Science and Technology</b>			
	Expenditure for R&D, % GDP	FDI technology transfer index (1 for FDI bringing little new technology to 7 for FDI bringing a lot of it)	Patent applications filed by residents
Indicator Number	26P1	26P2	26P3
<b><i>Honduras Data</i></b>			
<i>Latest Year (T)</i>	2003	2004	2002
Value Year T	0.1	4.6	7.0
Value Year T-1	0.1	.	7.0
Value Year T-2	0.1	.	.
Value Year T-3	0.1	.	8.0
Value Year T-4	.	.	11.0
Average Value, 5 year	.	.	.
Growth Trend	.	.	.
<b><i>Benchmark Data</i></b>			
Regression Benchmark	.	4.6	.
Lower Bound	.	4.2	.
Upper Bound	.	5.0	.
<i>Latest Year Costa Rica</i>	2000	2004	2002
Costa Rica Value Latest Year	0.4	5.5	0.0
<i>Latest Year Chile</i>	2001	2004	2000
Chile Value Latest Year	0.5	5.3	241.0
LMI-LAC Avg.	0.1	4.6	13.0
Low-Middle Income Avg.	0.3	4.5	13.0
High Five Avg.	3.5	5.9	153,540.2
Low Five Avg.	0.1	3.3	0.0

Health									
	HIV prevalence	Life expectancy at birth	Maternal mortality rate, per 100,000 live births	Access to improved sanitation	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
Indicator Number	31P1	31P2	31P3	31S1	31S2	31S3	31S4	31S5	31S6
<b>Honduras Data</b>									
<i>Latest Year (T)</i>	2003	2005	2000	2002	2002	2001	2004	2003	2005
Value Year T	1.8	68.6	110.0	68.0	90.0	55.7	90.5	17.0	3.3
Value Year T-1	.	68.3	.	.	.	.	93.5	.	.
Value Year T-2	1.6	67.9	.	.	.	.	96.0	16.6	4.0
Value Year T-3	.	67.6	.	.	.	.	95.0	.	3.8
Value Year T-4	1.9	67.5	.	.	.	.	96.5	.	3.6
Average Value, 5 year	.	68.0	.	.	.	.	94.3	.	.
Growth Trend	.	0.4	.	.	.	.	-1.4	.	2.9
<b>Benchmark Data</b>									
Regression Benchmark	.	66.9	316.4	.	.	56.0	.	.	.
Lower Bound	.	63.1	172.2	.	.	45.2	.	.	.
Upper Bound	.	70.7	460.7	.	.	66.8	.	.	.
<i>Latest Year Costa Rica</i>	2003	2003	2000	2002	2002	2001	2003	.	2002
Costa Rica Value Latest Year	0.6	78.6	43.0	92.0	97.0	98.0	88.5	.	6.1
<i>Latest Year Chile</i>	2003	2003	2000	2002	2002	2001	2003	2002	2002
Chile Value Latest Year	0.3	76.4	31.0	92.0	95.0	100.0	99.0	0.8	2.6
LMI-LAC Avg.	0.7	70.2	150.0	71.0	89.5	80.0	87.3	14.0	3.5
Low-Middle Income Avg.	0.1	69.6	115.0	73.0	85.0	69.0	92.5	7.0	3.2
High Five Avg.	30.2	80.5	1,720.0	100.0	100.0	.	99.0	36.3	8.7
Low Five Avg.	0.1	37.3	1.8	8.0	26.4	20.8	39.0	7.3	0.6

Education												
	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)	Youth literacy rate	Education expenditure, primary, %GDP	Expenditure per student, % GDP per capita, primary	Expenditure per student, % GDP per capita, secondary	Expenditure per student, % GDP per capita, tertiary	Pupil-teacher ratio, primary school
Indicator Number	32P1a	32P1b	32P1c	32P2a	32P2b	32P2c	32P3	32S1	32S2a	32S2b	32S2c	32S3
<b>Honduras Data</b>												
<i>Latest Year (T)</i>	2004	2004	2004	2004	2003	2003	2004	2005	.	.	.	2004
Value Year T	90.7	91.7	89.8	79.4	68.8	63.4	88.9	2.37	.	.	.	34.4
Value Year T-1	90.0	90.9	89.0	66.0	.	.	.	.	.	.	.	30.6
Value Year T-2	.	.	.	.	.	.	.	.	.	.	.	.
Value Year T-3	87.7	88.5	86.9	.	.	.	88.9	.	.	.	.	34.1
Value Year T-4	87.6	88.5	86.9	.	.	.	85.1	.	.	.	.	34.1
Average Value, 5 year	.	.	.	.	.	.	85.2	.	.	.	.	.
Growth Trend	.	.	.	.	.	.	1.4	.	.	.	.	.
<b>Benchmark Data</b>												
Regression Benchmark	87.3	.	.	71.8	.	.	84.4	.	.	.	.	.
Lower Bound	80.7	.	.	64.8	.	.	76.0	.	.	.	.	.
Upper Bound	93.8	.	.	78.7	.	.	92.7	.	.	.	.	.
<i>Latest Year Costa Rica</i>	2002	2002	2002	2001	2001	2001	2002	.	2002	2002	2002	2002
Costa Rica Value Latest Year	90.4	91.2	89.7	91.6	93.1	90.2	98.4	.	16.2	23	50.6	22.6
<i>Latest Year Chile</i>	2002	2002	2002	1999	1999	1999	2002	.	2002	2002	2002	2002
Chile Value Latest Year	86.5	86.0	87.0	99.9	99.9	100.0	99.0	.	15.8	16	17.7	32.9
LMI-LAC Avg.	95.1	94.4	94.6	69.4	74.0	67.1	94.5	2.93	12.7	11	37.2	23.7
Low-Middle Income Avg.	92.4	92.6	92.9	77.8	77.7	79.5	96.8	2.29	11.5	15	35.5	20.8
High Five Avg.	100.0	100.0	100.0	99.2	99.8	99.3	99.8	5.54	31.3	47	344.3	65.5
Low Five Avg.	42.3	36.9	47.6	52.3	51.5	51.8	46.4	0.17	6.2	6	9.8	11.7

Employment and Workforce							
	Labor force participation rate (total)	Labor force participation rate (male)	Labor force participation rate (female)	Rigidity of employment index (0 for minimum rigidity to 100 for extreme rigidity)	Size of labor force	Labor force growth rate	Unemployment rate
Indicator Number	33P1a	33P1b	33P1c	33P2	33P3a	33P3b	33P4
<b>Honduras Data</b>							
<i>Latest Year (T)</i>	2003	2003	2003	2005	2004	2004	2003
Value Year T	67.1	87.5	46.5	34.0	2,998,840	2.5	5
Value Year T-1	67.5	89.3	45.6	31.0	2,722,105	2.5	4
Value Year T-2	67.9	91.0	44.7	.	2,634,498	2.6	4
Value Year T-3	68.3	92.7	43.8	.	2,548,501	3.7	.
Value Year T-4	68.2	93.0	43.2	.	2,493,655	.	4
Average Value, 5 year	67.8	90.7	44.7	.	2,679,520	2.8	.
Growth Trend	-0.5	-1.6	1.9	.	4.4	.	.
<b>Benchmark Data</b>							
Regression Benchmark	72.5	.	.	43.6	.	2.7	.
Lower Bound	67.3	.	.	32.3	.	2.3	.
Upper Bound	77.7	.	.	55.0	.	3.2	.
<i>Latest Year Costa Rica</i>	2003	2003	2003	2005	2003	2004	2002
Costa Rica Value Latest Year	63.8	86.6	41.3	39.0	1,641,238	2.0	6
<i>Latest Year Chile</i>	2003	2003	2003	2005	2003	2004	2002
Chile Value Latest Year	64.1	83.5	44.8	24.0	6,619,875	2.1	8
LMI-LAC Avg.	69.3	88.7	46.0	44.0	3,762,947	2.5	5
Low-Middle Income Avg.	69.7	85.0	53.8	41.0	4,061,858	2.3	9
High Five Avg.	102.4	112.6	97.0	84.8	316,912,650	5.7	24
Low Five Avg.	50.4	70.9	21.5	2.0	125,147	-0.3	2

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 (1999-01=100)	Livestock production index (1999-01=100)
Indicator Number	34P1	34P2	34P3	34S1	34S2	34S3
<b>Honduras Data</b>						
<i>Latest Year (T)</i>	2003	2005	2003	2004	2004	2004
Value Year T	1,209	1,488	9.0	3.0	124.2	100.2
Value Year T-1	1,116	295	4.8	.	119.6	107.1
Value Year T-2	1,073	1,503	-0.5	.	112.8	110.0
Value Year T-3	1,087	1,342	11.7	.	106.3	100.0
Value Year T-4	979	1,447	-8.5	.	101.8	100.8
Average Value, 5 year	1,093	1,215	3.3	.	112.9	103.6
Growth Trend	4.6	-13.6	.	.	5.3	0.6
<b>Benchmark Data</b>						
Regression Benchmark	1,239.5	.	0.9	.	.	.
Lower Bound	769.5	.	-3.4	.	.	.
Upper Bound	1,709.6	.	5.2	.	.	.
<i>Latest Year Costa Rica</i>	2003	2004	2003	2004	2004	2004
Costa Rica Value Latest Year	4,472	3,803	7.4	3.8	91.8	97.1
<i>Latest Year Chile</i>	2003	2004	2003	2004	2004	2004
Chile Value Latest Year	6,341	5,313	3.3	4.6	107.0	107.7
LMI-LAC Avg.	2,102	2,413	2.0	3.4	106.5	102.6
Low-Middle Income Avg.	1,666	2,441	2.8	3.5	106.3	103.4
High Five Avg.	40,135	7,775	22.0	5.3	134.9	145.5
Low Five Avg.	108	312	-13.4	2.4	69.5	78.3

# Technical Notes

The following technical notes (updated as of February 13, 2006) 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. These technical notes include information on the additional indicators that are only used for LAC studies. In many cases, the descriptive information is taken directly from the original sources, as cited.

## GROWTH PERFORMANCE

### Per capita GDP, purchasing power parity dollars

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

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

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

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

*CAS Code #11P1*

### Per capita GDP, current US dollars

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

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

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

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

*CAS Code #11P2*

### Real GDP growth

*Source:* IMF World Economic Outlook database, updated every 6 months; latest country data from IMF Article IV Review Reports available at:

[www.imf.org/external/np/sec/aiv/index.htm](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:* World Development Indicators 2005. Estimated by calculating the annual percentage change of the ratio of GDP (constant 1995 US\$) (NY.GDP.MKTP.KD) to the population age 15-64, which in turn is the product of the total population (SP.POP.TOTL) times the percentage of total population that is in this age group (SP.POP.1564.IN.ZS).

*Definition:* Labor productivity is defined here as the ratio of GDP (in constant prices) to the size of the working age population (ages 15 to 64 years). The more familiar

calculation, based on employment, labor force, or work hours, is not used here because low participation or employment rates are themselves structural productivity problems; also, many low-income countries do not report data needed to compute these alternative measures of labor productivity.

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

*CAS Code # 11S1*

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

*Source:* International benchmark data computed from World Development Indicators 2005, based on the five-year average of the share of fixed investment (NE.GDI.FTOT.ZS) and the five-year average GDP growth (NY.GDP.MKTP.KD.ZG). Updated figures for the target country are computed from IMF article IV Consultation Reports.

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

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

*CAS Code #11S2*

### Gross fixed investment, percentage of GDP

*Source:* IMF Article IV Consultation Reports for latest country data; international benchmark from the World Development Indicators 2005 series NE.GDI.FTOT.ZS.

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

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

*CAS Code # 11S3*

### Gross fixed private investment, percentage of GDP

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

*Definition:* This indicator measures gross fixed capital formation by non-government investors, including spending

for replacement or net addition to fixed assets (buildings, machinery, equipment and similar goods).

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

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

CAS Code #11S4

## POVERTY AND INEQUALITY

### Human poverty index

*Source:* UNDP, Human Development Report.

<http://hdr.undp.org/statistics/data/indicators.cfm?x=18&y=1&z=1> for 2005 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 (for zero deprivation incidence) to 100 (for high deprivation incidence).

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

CAS Code #12P1

### Income share held by lowest 20%

*Source:* World Development Indicators 2005 series SI.DST.FRST.20. These are World Bank staff estimates based on primary household survey data obtained from government statistical agencies and World Bank country departments. Alternate source for target countries: Country Poverty Reduction Strategy Paper:

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

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

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

CAS Code # 12P2

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

*Source:* World Development Indicators 2005 series SI.POV.DDAY, original data from National Surveys.

Alternate source for target countries: the country's Poverty Reduction Strategy Paper:

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

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

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

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

CAS Code #12P3

### Poverty headcount, national poverty line

*Source:* World Development Indicators 2005 series SI.POV.NAHC. Alternate source: Country Poverty Reduction Strategy Paper (PRSP):

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

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

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

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

CAS Code #12P4

### PRSP Status

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

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

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

CAS Code #12P5

### Income share held by highest 20%

*Source:* World Development Indicators 2005 series SI.DST.05TH.20. These are World Bank staff estimates based on primary household survey data obtained from government statistical agencies and World Bank country departments. Alternate source for target countries: Country Poverty Reduction Strategy Paper:

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

*Definition:* Share of total income or consumption accruing to the richest 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 # 12P6

### Ratio of income share held by highest 20% to income share held by lowest 20%

*Source:* World Development Indicators 2005; calculated from series SL.DST.05TH.20 and SL.DST.FRST.20. These are World Bank staff estimates based on primary household survey data obtained from government statistical agencies and World Bank country departments. Alternate source for target countries: Country Poverty Reduction Strategy Paper:

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

*Definition:* Ratio of the share of total income or consumption accruing to the richest quintile of the population to the 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 # 12P7*

### Population below minimum dietary energy consumption

*Source:* UN Millennium Indicators Database at [http://millenniumindicators.un.org/unsd/mi/mi\\_series\\_results.asp?rowId=566](http://millenniumindicators.un.org/unsd/mi/mi_series_results.asp?rowId=566), based on FAO estimates.

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

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

*CAS Code # 12S1*

### Poverty gap at \$1 PPP a day

*Source:* World Development Indicators 2005 series SL.POV.GAPS, original data from national surveys. Alternate source: the country's Poverty Reduction Strategy Paper: <http://www.imf.org/external/np/prsp/prsp.asp>

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

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

*CAS Code #12S2*

## ECONOMIC STRUCTURE

### Labor force or employment structure

*Source:* World Development Indicators 2005 series SL.AGR.EMPL.ZS for agriculture, series SL.IND.EMPL.ZS for industry, and series SL.SRV.EMPL.ZS for services. Alternate source: CIA World Fact Book. <http://www.cia.gov/cia/publications/factbook/>.

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

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

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

*CAS Code #13P1*

### Output structure

*Source:* World Development Indicators 2005 series NV.AGR.TOTL.ZS for value added in agriculture as a percentage of GDP; series NV.IND.TOTL.ZS for the share of industry; and NV.SRV.TETC.ZS for the share of services.

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

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

*Data Quality:* A major difficulty in compiling national accounts is the extent of unreported activity in the informal economy. In developing countries a large share of agricultural output is either not exchanged (because it is consumed within the household) or not exchanged for money. This production is estimated indirectly using estimates of inputs, yields, and area under cultivation. This approach can differ from the true values over time and across crops. Ideally, informal activity in industry and services should be measured through regular enterprise censuses and surveys. In most developing countries such surveys are infrequent, so prior survey results are extrapolated.

*CAS Code #13P2*

## DEMOGRAPHY AND ENVIRONMENT

### Adult literacy rate

*Source:* World Development Indicators 2005 series SE.ADT.LITR.ZS, based on UNESCO calculations.

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

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

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

*CAS Code # 14P1*

### Age dependency rate

*Source:* World Development Indicators 2005 series SP.POP.DPND.

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

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

*CAS Code #14P2*

### Environmental Sustainability Index

*Source:* Center for International Earth Science Information Network (CIESIN) at Columbia University, and Yale Center for Environmental Law and Policy at Yale University. The 2005 index is at <http://www.yale.edu/esi/ESI2005.pdf>. For updates: <http://www.yale.edu/esi/>.

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

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

*CAS Code #14P3*

### Population size (in millions) and growth

*Source:* World Development Indicators 2005 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 2005 series SP.URB.TOTL.IN.ZS.

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

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

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

*CAS Code #14P5*

## GENDER

### Adult literacy rate, ratio of male to female

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

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

*Coverage:* Data are available for about 74 USAID countries.

*CAS Code #15P1*

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

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

*Definition:* The ratio of the gross enrollment rate for males to that of females. The gross enrollment rate is the ratio of students enrolled in primary, secondary, and tertiary levels of

education, regardless of age, to the total school age population for all three levels, assuming normal age of entry into the system and uninterrupted continuation to completion.

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

*CAS Code #15P2*

### Life expectancy, ratio of male to female

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

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

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

*CAS Code #15P3*

## FISCAL AND MONETARY POLICY

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

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

*Source:* Benchmarking data obtained from World Development Indicators 2005 series GC.XPN.TOTL.GD.ZS. Original source of WDI data is the International Monetary Fund, International Financial Statistics Yearbook, World Bank and OECD estimates. Latest country data obtained from national sources or from IMF Article IV Reviews: [www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm);

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

*Coverage:* Data are available for about 42 USAID countries.

*CAS Code #21P1*

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

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

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

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

*Coverage:* Data are available for about 41 USAID countries.

*CAS Code # 21P1*

**Government revenue, excluding grants, percentage of GDP**

*Source:* Latest country data obtained from national data sources or IMF Article IV Reviews: [www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm). Benchmarking data from World Development Indicators 2005 series GC.REV.XGRT.GD.ZS. Original source of WDI data is the International Monetary Fund, Government Finance Statistics Yearbook and data file, and World Bank estimates.

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

*Coverage:* Data are available for about 47 USAID countries.

*CAS Code # 21P2*

**Money supply growth**

*Source:* Latest country data are from national data sources or from IMF Article IV Reviews: [www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm). Benchmarking data are from World Development Indicators 2005, series FM.LBL.MQMY.ZG. Original source of WDI data is International Monetary Fund, International Financial Statistics, and World Bank estimates.

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

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

*CAS Code # 21P3*

**Inflation rate**

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

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

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

*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), or Cash surplus/deficit, as percentages of GDP**

*Source:* For countries using the new GFS system (see explanation at the beginning of this section), benchmarking data on the government's cash surplus/deficit are obtained from World Development Indicators 2005 series GC.BAL.CASH.GD.ZS. For countries that are not yet using the new system, benchmarking data on the overall budget balance are obtained from WDI 2004, series GB.BAL.OVRL.GD.ZS. Latest country data is obtained from national data sources or from IMF Article IV Reviews:

[www.imf.org/external/np/sec/aiv/index.htm](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 non-financial assets. This is close to the previous concept *overall budget balance*, differing only in that it excludes net lending (which is now treated as a financing item, under net acquisition of financial assets).

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

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

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

*CAS Code # 21P5*

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

*Source:* Benchmarking data are from World Development Indicators 2004. Country data constructed from national data sources or from IMF Article IV Consultative Reports:

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

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

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

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

*CAS Code # 21S1*

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

<sup>2</sup> This variable is no longer available in WDI 2005.

*Source:* Group benchmarking data are from the World Development Indicators 2005. Latest country data are constructed from national sources or from IMF Article IV Reports: [www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm).

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

*Coverage:* Data are available for about 42 USAID countries from the World Development Indicators 2005.

*CAS Code # 21S1*

### Composition of government revenue

*Source:* The latest country and comparison country data is taken from national data sources or from IMF Article IV Reviews: [www.imf.org/external/np/sec/aiv/index.htm](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 contributions (% of revenue), series GC.REV.SOCL.ZS; and (6) grants and other revenue (% of revenue), series GC.REV.GOTR.ZS.

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

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

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

*CAS Code # 21S2*

### Composition of money supply growth

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

[www.imf.org/external/np/sec/aiv/index.htm](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 credit to government, (2) credit to the private sector, (3) net credit to public enterprises, (4) net foreign assets (reserves), and (5) other items net. Each component is expressed as a percentage of the annual change (December to December) in M2.

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

*CAS Code # 21S3*

## BUSINESS ENVIRONMENT

### Corruption perception index

*Source:* Transparency International:

[http://www1.transparency.org/cpi/2005/dnld/media\\_pack\\_en.pdf](http://www1.transparency.org/cpi/2005/dnld/media_pack_en.pdf).

*Definition:* Corruption Perceptions Index (CPI) is a composite index that ranks countries in terms of the degree to which corruption is perceived to exist among public officials and politicians. The index ranges from 1 (for most corruption) to 10 (for least corruption). Values below 3.0 are

considered to indicate rampant corruption. This threshold is used in the template as an absolute benchmark standard.

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

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

*CAS Code # 22P1*

### Ease of doing business ranking

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

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

*Coverage:* Data are available for about 74 USAID countries.

*CAS Code # 22P2*

### Rule of law index

*Source:* World Bank Institute,

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

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

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

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

*CAS Code #22P3*

### Regulatory Quality Index

*Source:* World Bank Institute;

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

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

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

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

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

CAS Code #22P4

### **Cost to start a business, % of GNI per capita**

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

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

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

*Coverage:* Data are available for about 74 USAID countries.

CAS Code #22S1

### **Procedures to enforce a contract**

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

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

*Definition:* Number of procedures required to enforce recovery of a valid debt contract through the court system. Where a procedure is defined as any interactive step the company must undertake with the government agencies, lawyers, notaries, etc. to proceed with the enforcement action.

*Coverage:* Data are available for about 74 USAID countries.

CAS Code # 22S2

### **Procedures to register property**

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

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

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

*Coverage:* Data are available for about 74 USAID countries.

CAS Code #22S3

### **Procedures to start a business**

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

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

*Definition:* Number of procedural steps required to legalize a simple limited liability company. Procedures are interactions of a company with the government agencies, lawyers, auditors, notaries, and the like, including interactions required to obtain necessary permits and licenses and to complete all inscriptions, verifications, and notifications to start operations.

*Coverage:* Data are available for about 74 USAID countries.

CAS Code # 22S4

### **Time to enforce a contract**

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

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

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

*Coverage:* Data are available for about 74 USAID countries.

CAS Code # 22S5

### **Time to register property**

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

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

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

*Coverage:* Data are available for about 74 USAID countries.

CAS Code #22S6

### **Time to start a business**

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

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

*Definition:* Calendar days needed to complete the required procedures for legally operating a business. If a procedure can be speeded up at additional cost, the fastest procedure, independent of cost, is chosen.

*Coverage:* Data are available for about 74 USAID countries.

CAS Code #22S7

## **FINANCIAL SECTOR**

### **Domestic credit to private sector, percent of GDP**

*Source:* IMF Article IV Reviews or national data sources for latest country data; World Development Indicators 2005 series FS.AST.PRVT.GD.ZS for benchmarking data. The WDI data originate from the International Monetary Fund, International Financial Statistics and data files, and World Bank estimates.

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

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

CAS Code # 23P1

### **Interest rate spread**

*Source:* World Development Indicators 2005 series FR.INR.LNDP. Original data from International Monetary Fund, International Financial Statistics and data files.

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

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

*CAS Code # 23P2*

### Money supply, percent of GDP

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

[www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm). Benchmarking data from World Development Indicators 2005 series FM.LBL.MQMY.GD.ZS. WDI data originate from International Monetary Fund, International Financial Statistics and data files, and World Bank and OECD GDP estimates.

*Definition:* Money supply (M2), also called broad money, and is defined as non-bank private sector's holdings of notes, coins and demand deposits plus savings deposits and foreign currency deposits. Ratio of M2 to GDP is calculated to assess the degree of monetization of an economy.

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

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

*CAS Code # 23P3*

### Stock Market Capitalization Rate, % of GDP

*Source:* World Development Indicators 2005, series CM.MKT.LCAP.GD.ZS.

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

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

*CAS Code # 23P4*

### Cost to Create Collateral

*Source:* World Bank Doing Business; Getting Credit category:

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

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

*Coverage:* Data are available for about 74 USAID countries.

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

*CAS Code #23S1*

### Country credit rating

*Source:* Millennium Challenge Corporation. Original data comes from the Institutional Investor Magazine. <http://www.mca.gov/countries/rankings/index.shtml>.

*Definition:* Bankers' and fund managers' perception of the country's risk of default based on a semi-annual survey. Index ranges in value from 0 (for very poor performance) to 100 (for excellent performance).

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

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

*CAS Code # 23S2*

### Legal rights of borrowers and lenders

*Source:* World Bank Doing Business; Getting Credit category:

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

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

*Coverage:* Data are available for about 74 USAID countries.

*CAS Code # 23S3*

### Real interest rate

*Source:* World Development Indicators 2005 series FR.INR.RINR.

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

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

*CAS Code # 23S4*

## EXTERNAL SECTOR

### Aid, % of GNI

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

[www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm). Benchmarking data from World Development Indicators 2005 series DT.ODA.ALLD.GN.ZS.

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

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

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

*CAS Code #24P1*

### Current Account Balance, percent of GDP

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

[www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm). Benchmarking data from World Development Indicators 2005 series BN.CAB.XOKA.GD.ZS, based on International Monetary Fund, Balance of Payments Statistics Yearbook and data files, and World Bank staff estimates, and World Bank and OECD GDP estimates.

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

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

*CAS Code # 24P2*

### Debt service ratio

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

[www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm). Benchmarking data from World Development Indicators 2005, 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 Reviews:

[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 2005, series NE.EXP.GNFS.KD.ZG, based on World Bank national accounts data, and OECD National Accounts data files.

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

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

*CAS Code # 24P4*

### Foreign Direct Investment, percent of GDP

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

[www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm). Benchmarking data from World Development Indicators 2005, series BX.KLT.DINV.DT.GD.ZS, based on International Monetary Fund, International Financial Statistics and Balance of Payments databases, World Bank, Global Development Finance, and World Bank and OECD GDP estimates.

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

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

*CAS Code #24P5*

### Gross international reserves, months of imports

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

[www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm). Benchmarking data from World Development Indicators 2005, series FI.RES.TOTL.MO.

*Definition:* Gross international reserves comprise holdings of monetary gold, special drawing rights (SDRs), the reserve position of members in the International Monetary Fund (IMF), and holdings of foreign exchange under the control of

monetary authorities expressed in terms of the number of months of imports of goods and services.

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

*CAS Code # 24P6*

### Private capital inflows, percent of GDP

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

[www.imf.org/external/np/sec/aiv/index.htm](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 of direct and portfolio investment inflows recorded in the balance of payments financial account. The indicator is calculated as a ratio to GDP in U.S. dollars.

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

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

*CAS Code #24P7*

### Present value of debt, percent of GNI

*Source:* World Development Indicators 2005 series DT.DOD.PVLX.GN.ZS, based on Global Development Finance data.

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

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

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

*CAS Code # 24P8*

### Remittances receipts, percent of exports

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

[www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm). Benchmarking data is obtained from World Development Indicators 2005; it is constructed by dividing Worker's Remittances (receipts), series BX.TRF.PWKR.CD, by Exports of Goods and Services, series BX.GSR.GNFS.CD.

*Definition:* Workers' remittances are current transfers by migrants who are employed or intend to remain employed for more than a year in another economy in which they are considered residents. The indicator is the ratio of remittances to exports.

*Coverage:* Data are available for about 74 USAID countries.

*CAS Code # 24P9*

### Trade in goods and services, as a percentage of GDP

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

[www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm). Benchmarking data from World Development Indicators 2005, 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*

#### **Exports of services, as a percent of total exports**

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

[www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm). Benchmarking data is obtained from World Development Indicators 2005; it is constructed by dividing Exports of Services, series BX.GSR.NFSV.CD, by Exports of Goods and Services, series BX.GSR.GNFS.CD.

*Definition:* Services (previously classified by the IMF as nonfactor services) refer to economic output of intangible commodities that may be produced, transferred, and consumed at the same time. The indicator is the ratio of exports of services to exports of goods and services. Original data are in current U.S. dollars.

*Coverage:* Data are available for about 71 USAID countries.

*CAS Code # 24P11*

#### **Imports of services, as a percent of total imports**

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

[www.imf.org/external/np/sec/aiv/index.htm](http://www.imf.org/external/np/sec/aiv/index.htm). Benchmarking data is obtained from World Development Indicators 2005; it is constructed by dividing Imports of Services, series BM.GSR.NFSV.CD, by Imports of Goods and Services, series BM.GSR.GNFS.CD.

*Definition:* Services (previously classified by the IMF as nonfactor services) refer to economic output of intangible commodities that may be produced, transferred, and consumed at the same time. The indicator is the ratio of imports of services to imports of goods and services. Original data are in current U.S. dollars.

*Coverage:* Data are available for about 69 USAID countries.

*CAS Code # 24P12*

#### **Index of deviation of a country's trade sector from its expected size**

*Source:* The Fraser Institute. Indicator is available online at <http://freetheworld.com/download.html>; see component 4-C.

*Definition:* In order to estimate the degree to which an economy's actual trade share (in percent of GDP) deviates from its expected trade share, an economic model is run with the following independent variables: working age population, geographic size, extent of coastline, absence of coastline, a linear trend, and a measure of proximity to World's consumer demand. Once the regression estimate is available, the index ranking trade share on the scale of 0 to 10 is created by as follows: (1) 0 is assigned if a country's trade share is 50 percent or more below the regression estimate; (2) 10 is assigned if a country's trade share is 100 percent or more above the regression estimate; and (3) for the remainder of countries, the index is calculated based on a set formula that assigns an index value between 10 and 0, with higher number indicating that the trade sector is outperforming the expectations substantially, and lower number meaning that the trade sector is performing below the expectations.

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

*Data Quality:* The Fraser Institute does not report the regression estimates for the expected trader share, nor the standard errors. Consequently, it is impossible to judge whether the expected trade share is statistically different from

the actual trade share for a given country. Furthermore, the regression model used by the Fraser Institute does not control for petroleum exports.

*CAS Code # 24P13*

#### **Time to trade, days**

*Source:* World Bank, Doing Business; Trading Across Borders category:

<http://www.doingbusiness.org/ExploreTopics/TradingAcrossBorders/>; constructed as an average of time to import (days) and time to export (days).

*Definition:* An average of days needed for exporting and importing a standardized cargo of goods. Time is calculated from the moment a procedure is initiated until it is completed. It is assumed that neither the importer nor the exporter wastes time and that each commits to completing each remaining procedure without delay.

*Coverage:* Data are available for about 74 USAID countries.

*CAS Code # 24P14*

#### **Merchandise imports from CAFTA member countries, millions of current US Dollars**

*Source:* ITC COMTRADE (SITC Rev.3), <http://unstats.un.org/unsd/comtrade/>, import data, all commodities.

*Definition:* Combined total of country's merchandise imports from all of the CAFTA member countries (United States, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua), SITC (Rev. 3), in millions of current US Dollars.

*Coverage:* Data are available for about 74 USAID countries.

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

*CAS Code # 24P15*

#### **Merchandise exports to CAFTA member countries, millions of current US Dollars**

*Source:* ITC COMTRADE (SITC Rev.3), <http://unstats.un.org/unsd/comtrade/>, export data, all commodities.

*Definition:* Combined total of country's merchandise exports to all of the CAFTA member countries (United States, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua), SITC (Rev. 3), in millions of current US Dollars.

*Coverage:* Data are available for about 74 USAID countries.

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

*CAS Code # 24P16*

### Concentration of exports

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

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

*Coverage:* Data are available for about 74 USAID countries.

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

CAS Code # 24S1

### Inward FDI Potential Index

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

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

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

CAS Code # 24S2

### Net barter terms of trade

*Source:* World Development Indicators 2005, 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 1995.

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

CAS Code # 24S3

### Real effective exchange rate (REER)

*Source:* IMF Article IV Reviews:

[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 2005. 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. The Trade Policy Score (Index) is one of the components of the Index of Economic Freedom. The indices can be found at <http://www.heritage.org/research/features/index/downloads.cfm>.

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

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

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

CAS Code # 24S6

### Composition of merchandise imports from CAFTA member countries, by destination country, millions of current US Dollars

*Source:* ITC COMTRADE (SITC Rev.3), <http://unstats.un.org/unsd/comtrade/>, import data, all commodities.

*Definition:* Country's merchandise imports from each of the CAFTA member country (United States, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua), SITC (Rev. 3), in millions of current US Dollars.

*Coverage:* Data are available for about 74 USAID countries.

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

CAS Code # 24S7

### Composition of merchandise exports to CAFTA member countries, by country of origin, millions of current US Dollars

*Source:* ITC COMTRADE (SITC Rev.3), <http://unstats.un.org/unsd/comtrade/>, export data, all commodities.

*Definition:* Country's merchandise exports to each of the CAFTA member country (United States, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua), SITC (Rev. 3), in millions of current US Dollars.

*Coverage:* Data are available for about 74 USAID countries.

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

*CAS Code # 24S8*

## ECONOMIC INFRASTRUCTURE

### Internet users per 1,000 people

*Source:* World Development Indicators 2005 series IT.NET.USER.P3, derived from the International Telecommunication Union database.

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

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

*CAS Code # 25P1*

### Overall Infrastructure Quality

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

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

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

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

*CAS Code # 25P2*

### Telephone density, fixed line and mobile

*Source:* World Development Indicators 2005 series IT.TEL.TOTL.P3, derived from the International Telecommunication Union database.

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

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

*CAS Code #25P3*

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

*Source:* Global Competitiveness Report 2005-2006, World Economic Forum. The indicators can be found in the Data Tables, Section V. General Infrastructure; 5.02, 5.03, 5.04, and 5.05 for Railroad, Port; Air Transport, and Electricity, respectively.

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

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

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

*CAS Code #25S1*

### Telephone cost, average local call

*Source:* World Development Indicators 2005 series IT.MLT.CLCL.CD, derived from the International Telecommunication Union database.

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

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

*CAS Code #25S2*

## SCIENCE AND TECHNOLOGY

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

*Source:* World Development Indicators 2005, series GB.XPD.RSDV.GD.ZS, based on data from the UNESCO Institute of Statistics.

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

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

*CAS Code #26P1*

### FDI technology transfer index

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

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

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

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

*CAS Code # 26P2*

### Patent applications filed, by residents

*Source:* World Development Indicators 2005 series IP.PAT.RESD, based on WIPO data.

*Definition:* The indicator is the number of applications filed by host-country residents with the national patent office for exclusive rights for an invention – a product or process that provides a new way of doing something or offers a new technical solution to a problem.

*Coverage:* Data are available for about 63 USAID countries.

*CAS Code #26P3*

## HEALTH

### HIV prevalence rate

*Source:* UNAIDS for most recent country data:

<http://www.unaids.org/Unaid/EN/Resources/epidemiology.asp>. World Development Indicators 2005 for benchmark data, series SH.DYN.AIDS.ZS.

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

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

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

*CAS Code # 31P1*

### Life expectancy at birth

*Source:* World Development Indicators 2005, (SP.DYN.LE00.IN)

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

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

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

*CAS Code # 31P2*

### Maternal mortality rate

*Source:* UN Millennium Indicators Database, [http://millenniumindicators.un.org/unsd/mi/mi\\_series\\_results.asp?rowId=553](http://millenniumindicators.un.org/unsd/mi/mi_series_results.asp?rowId=553) based on WHO, UNICEF and UNFPA data.

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

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

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

*CAS Code # 31P3*

### Access to improved sanitation

*Source:* World Development Indicators 2005, series SH.STA.ACSN.

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

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

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

*CAS Code #31S1*

### Access to improved water source

*Source:* World Development Indicators 2005 series SH.H2O.SAFE.ZS

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

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

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

*CAS Code # 31S2*

### Births attended by skilled health personnel

*Source:* World Development Indicators 2005, series SH.STA.BRTC.ZS.

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

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

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

*CAS Code # 31S3*

### Child immunization rate

*Source:* World Development Indicators 2005, estimated by averaging two series: Immunization, DPT (% of children ages 12-23 months) (SH.IMM.IDPT) and Immunization, measles (% of children ages 12-23 months) (SH.IMM.MEAS)

*Definition:* Percentage of children under one year receiving vaccination coverage for four diseases-measles and diphtheria, pertussis (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 2005, series SH.STA.MALN.ZS.

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

*Coverage:* Data are available for about 55 USAID countries.

*CAS Code # 31S5*

### Public health expenditure, percent of GDP

*Source:* Latest data for host country is obtained from the MCC <http://www.mca.gov/countries/rankings/index.shtml>.

International benchmarking data from World Development Indicators 2005, (SH.XPD.PUBL.ZS), based on World Health Organization, World Health Report and updates and from the OECD, supplemented by World Bank poverty assessments and country and sector studies.

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

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

*CAS Code #31S6*

## EDUCATION

### Net primary enrollment rate - female, male and total

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

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

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

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

*CAS Code # 32P1*

### Persistence to grade 5 – female, male, and total

*Source:* World Development Indicators 2005 series SE.PRM.PRS5.FE.ZS (female); SE.PRM.PRS5.MA.ZS (male); and SE.PRM.PRS5.ZS (total).

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

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

*CAS Code # 32P2*

### Youth literacy rate

*Source:* World Development Indicators 2005, series SE.ADT.1524.LT.ZS.

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

*Coverage:* Data are available for about 67 USAID countries.

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

*CAS Code #32P3*

### Expenditure on primary education, percent GDP

*Source:* Millennium Challenge Corporation <http://www.mca.gov/countries/rankings/index.shtml>

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

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

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

*CAS Code #32S1*

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

*Source:* World Development Indicators 2005 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 2005 series SE.PRM.ENRL.TC.ZS.

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

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

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

*CAS Code # 32S3*

## EMPLOYMENT AND WORKFORCE

### Labor force participation rate – total, male, female

*Source:* Derived from World Development Indicators, but the precise computation differs depending on whether a particular country study uses the 2004 or 2005 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, the denominator is calculated as the total population (SP.POP.TOTL) times the percentage of the population in the age group 15-64 (SP.POP.1564.IN.ZS).

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

To calculate the *male* labor force participation rate using WDI 2004: the numerator is calculated by subtracting the female labor force, derived above, from the total labor force (SL.TLF.TOTL.IN). The denominator is Population ages 15-64, male (SP.POP.1564.MA.IN). Using WDI 2005, the

denominator is an estimated of the male population, ages 15-64, calculated as the total population (SP.POP.TOTL) times the percentage ages 15-64 (SP.POP.1564.IN.ZS) times the percentage of males in the total population, where the final factor is computed as 100 minus the percentage of females in the total population (SP.POP.TOTL.FE.ZS).

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

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

*CAS Code #33P1*

### Rigidity of employment index

*Source:* World Bank, Doing Business in 2005, Hiring and Firing Workers Category:

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

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

*Coverage:* Data are available for about 74 USAID countries.

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

*CAS Code # 33P2*

### Size and growth of the labor force

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

*Definition:* The indicator measures the size of the labor supply, and its annual percent change. Labor force comprises of people who meet the International Labour Organization definition of the economically active population: all people who are able to supply labor for the production of goods and services during a specified period, including both employed and the unemployed. While national practices vary in the treatment of such groups as the armed forces and seasonal or part-time workers; in general, the labor force includes the armed forces, the unemployed, and first-time job-seekers, but excludes homemakers and other unpaid caregivers and workers in the informal sector.

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

*CAS Code #33P3*

### Unemployment rate

*Source:* World Development Indicators 2005 series SL.UEM.TOTL.ZS.

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

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

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

*CAS Code # 33P4*

## AGRICULTURE

### Agriculture value added per worker

*Source:* World Development Indicators 2005 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 2005 series AG.YLD.CREL.KG based on Food and Agriculture Organization (FAO), Production Yearbook and data files.

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

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

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

*CAS Code # 34P2*

### Growth in agricultural value added

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

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

benchmarking data are from World Development Indicators 2005 series NV.AGR.TOTL.KD.ZG

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

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

*CAS Code # 34P3*

### Agricultural policy costs index

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

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

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

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

*CAS Code # 34S1*

### **Crop production index**

*Source:* World Development Indicators 2005 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 2005 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*