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Iraq

Economic Recovery Assessment



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Iraq

Economic Recovery Assessment

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

Under Contract No. GEG-I-00-04-00002-00, Task Order 004, 2006-2010, Nathan has developed a special Economic Recovery template for countries emerging from crisis.

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HIGHLIGHTS OF IRAQ'S PERFORMANCE

Profile of Conflict and Recovery	Since the U.S.-led invasion in 2003, Iraq has been engulfed in conflict, with coalition troops maintaining a heavy presence. As Iraq exercises greater sovereignty, security will be as vital for stability and reconstruction as public services and infrastructure.
Postconflict Economic Growth	After a "bounce" in 2004, GDP growth averaged 2.2 percent per year from 2005-2007, leaving <i>per capita</i> income well below pre-war levels. The growth rate improved in 2008 as oil production neared the pre-war peak, but manufacturing and agriculture remain deeply depressed and private investment is extremely weak.
Poverty and Inequality	Poverty and regional inequality pose continuing threats to political and economic stability and recovery. Roughly 12.5 percent of the population is dependent on subsidized food rations.
Economic Structure	Oil accounts for more than half of GDP while employing a mere one percent of the workforce. All services, including government, account for 74 percent of non-oil GDP and 62 percent of the labor force. Manufacturing is small and inefficient, using 8 percent of the workforce to produce 4 percent of non-oil GDP.
Demography and Environment	With 3 percent population growth and an estimated 2.8 million internally displaced people, demographic pressures on land, public services, and environmental resources are rising. Population growth creates a large youth bulge and a pressing need for jobs.
Gender and Children	Gender disparities in the labor force are acute, with only 12.8 percent of females economically active compared to 74.6 percent of males. Recent progress has been made in other areas of gender equity, notably through more seats being held by women in Parliament. Iraqi children face significant challenges as well, including malnutrition, violence, and the loss of one or both parents due to the wars.
Economic Stabilization and Government Capacity	Inflation fell from 65 percent in 2006 to 6.8 percent in 2008 as the dinar appreciated and demand for money increased. But money supply growth is still high, driven by budgetary spending of external revenues. Government capacity and effectiveness are also critical problems.
Business Environment	Poor governance is a major impediment to private sector development. Iraq is considered among the five most corrupt countries in the world, and ranks 152 out of 181 countries on the Ease of Doing Business ranking.
Financial Sector	Inefficient state banks dominate Iraq's small and underdeveloped financial sector. In 2007 bank credit to the private sector was just 2.7 percent of GDP. The financial system is growing quickly, if from a very low base, making bank training and prudential supervision imperative.
External Sector	From 2004 to 2007 exports, virtually all from oil, grew rapidly; the recent plunge in oil prices has caused a huge drop in earnings. Other exports are a mere 1.1 percent of GDP. Lack of diversification impedes job creation and reflects a weak private sector. The strong dinar also inhibits investment in labor-intensive tradables.
Economic Infrastructure	Infrastructure services heavily damaged by the war have been improving rapidly. The transportation network has largely been rehabilitated, but power outages are a major hindrance to private sector development. Phone coverage is now in line with international benchmarks, but Internet use remains extremely limited.

Health	The steady loss of qualified physicians, the deterioration of health infrastructure and services due to conflict, and low public expenditure create major healthcare challenges, as reflected in a low life expectancy of 50 years and a high maternal mortality rate of 300 deaths per 100,000 live births.
Education	Security problems have provoked a massive exodus of teachers and eroded school attendance and completion rates. Higher completion rates and expanded teacher training are vital for educating Iraq's growing youth population.
Employment and Workforce	The unemployment rate has fallen to 11.7 percent, masking significant problems with nonparticipation in the workforce, lack of formal jobs, and underemployment, especially for young men. Job creation is a paramount concern for short-term stability and long-term development.
Agriculture	Agriculture is important for creating jobs, enhancing food security, and contributing to recovery outside the oil sector. Over the past two decades, agricultural output has fallen far short of population growth. The sector requires programs to improve productivity and attract private investment.

IRAQ: STRENGTHS AND WEAKNESSES—SELECTED INDICATORS

Indicators, by Topic	Strengths	Weaknesses
Profile of Conflict and Recovery		
Failed States Index		X
Postconflict Economic Growth		
Growth of non-oil GDP		X
Gross fixed investment, percentage of GDP		X
Gross private investment, percentage of GDP		X
Government capital formation, percentage of GDP	X	
Poverty and Inequality		
Income share, poorest 10 percent	X	
Economic Structure		
Share of non-oil GDP in manufacturing		X
Share of labor force in manufacturing		X
Demography and Environment		
Population growth rate		X
Youth dependency rate		X
Gender and Children		
Life expectancy, female		X
Labor force participation rate, female		X
Girls' primary completion rate		X
Women in Parliament	X	
Economic Stabilization and Government Capacity		
Inflation rate	X	
Money supply growth		X
Government revenue (non-oil), percentage of GDP		X
Government Effectiveness Index		X
Business Environment		
Control of Corruption Index		X
Rule of Law Index		X
Ease of doing business		X
Time to register property (Doing Business)	X	
Financial Sector		
Broad money supply, percentage of GDP		X
Credit to the private sector, percentage of GDP		X
Real interest rate	X	

Indicators, by Topic	Strengths	Weaknesses
External Sector		
Export growth	X	
Non-oil exports, percentage of non-oil GDP		X
Debt service ratio, percentage of exports	X	
Gross international reserves, months of imports	X	
Foreign direct investment, percentage of GDP		X
Country credit rating		X
Real effective exchange rate		X
Economic Infrastructure		
Number of electrical outages, average outage per month		X
Households with access to electricity	X	
Roads paved, percent	X	
Internet users per 100 people		X
Health		
Life expectancy		X
Maternal mortality rate		X
Public health expenditure, percentage of GDP		X
Education		
Primary completion rate, total, percent		X
Net secondary enrollment rate, total, percent		X
Pupil-teacher ratio, primary school	X	
Employment and Workforce		
Youth unemployment rate, male		X
Labor force participation rate		X
Rigidity of employment index	X	
Agriculture		
Crop production index		X

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

1. Introduction

This report is one of a series of economic recovery assessments prepared for the EGAT Bureau to provide USAID missions and regional bureaus with a concise evaluation of key indicators covering a broad range of issues relating to economic growth performance and postconflict economic recovery in designated host countries. The report draws on a variety of international data sources¹ and uses international benchmarking against reference group averages and statistical norms to identify major constraints, trends, and opportunities for strengthening growth and reducing poverty. For Iraq, the reference group benchmarks are the median values for lower-middle income countries globally (designated as LMI) and the median for lower-middle income countries in the Middle East and North Africa region (designated as LMI-MENA).²

METHODOLOGY

The methodology used here is analogous to examining an automobile dashboard to see which gauges are signaling problems. Sometimes a blinking light has obvious implications—such as the need to fill the fuel tank. In other cases, it may be necessary to have a mechanic probe more deeply to assess the source of the trouble and determine the best course of action.³ Similarly, this economic recovery assessment is based on an examination of key economic, conflict, and social indicators, to see which ones are signaling problems. Some “blinking” indicators have clear implications, while others may require further study to investigate the problems more fully and identify appropriate courses for programmatic action.

The economic analysis in this assessment is organized around two mutually supportive goals of economic development: sustainable growth and poverty reduction.⁴ In adapting our standard country analytic template to the circumstances of postconflict recovery, the report also takes into

¹ Sources include the World Bank, the International Monetary Fund, the Millennium Challenge Corporation, the United Nations (including the Millennium Development Goals database), the World Economic Forum, and host-country documents and data sources. This report reflects data available as of December 2008.

² Most studies in this series also examine the performance of comparator countries for the benchmarking analysis; however, for Iraq no countries were judged to be similar enough to be comparators.

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

⁴ In USAID’s white paper *U.S. Foreign Aid: Meeting the Challenges of the Twenty-first Century* (January 2004), transformational growth is a central strategic objective, both for its innate importance as a development goal and because growth is the most powerful engine for poverty reduction. See also USAID, *Economic Growth Strategy: Securing the Future*, April 2008.

account a third basic goal: achieving sustained peace.⁵ These three goals—growth, poverty reduction, and sustained peace—are influenced by many factors such as demographic composition, gender equity, the public provision of education and health services, job creation and workforce development (especially among youth), and agricultural development.

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

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

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

This assessment must be interpreted with care. A concise analysis of selected indicators cannot provide a definitive diagnosis of economic performance problems or simple answers to questions about programmatic priorities. Instead, the aim of the analysis is to spot signs of serious problems affecting postconflict economic growth and recovery (subject to limits of data availability and quality) and offer insight into potential paths for USAID intervention, to complement on-the-ground knowledge and point the way toward in-depth studies. Many USAID missions have reported that the analysis provided here can be extremely helpful in the development of new strategic plans; the design of new programs; as a background resource for new staff, temporary duty assignments, and consultants; and for framing in-depth studies.

DATA QUALITY

The breadth and quality of economic data collected for Iraq is relatively poor but has been improving rapidly. On its 2008 Statistical Capacity Indicator Index, the World Bank gave Iraq an

⁵ This is consistent with lessons identified in USAID's *A Guide to Economic Growth in Post-Conflict Countries* (draft) January 2009.

overall score of 47 (out of 100 possible points). This score is well below the LMI-MENA median of 70.3 but in line with the expected value of 47.3 for a country with Iraq's characteristics, and a big improvement over the score of 39 two years earlier. The Bank's data assessment cites numerous statistical problems including the use of old base years for national accounts and price data, the lack of timely trade data, and failure to adopt the IMF's Special Data Dissemination Standards (SDDS). The very low score of 20 for statistical practice should improve further in 2009 as Iraq is expected to adopt the SDDS and improve price data.

On indicator availability, Iraq scored 60 out of 100, the main problem being lack of data on income poverty and child mortality. Again, Iraq's score should improve dramatically in 2009 because of the recent release of two large-scale national surveys conducted in 2007—the Iraq Household Social and Economic Survey (IHSES) and the Comprehensive Food Security and Vulnerability Survey, both of which were used extensively in developing in this report. For data collection, Iraq also scored 60, largely owing to incomplete coverage of the vital registration system.

These data problems complicate our analysis in several sections of the report. Nevertheless, the data set was adequate for evaluating and highlighting a broad range of trends and issues in Iraq's economic recovery.⁶

REPORT ORGANIZATION

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

Table 1-1
Topic Coverage

Conflict and Economic Recovery	Private Sector Enabling Environment	Pro-Poor Growth Environment
<ul style="list-style-type: none"> • Profile of postconflict recovery • Postconflict economic growth • Poverty and inequality • Economic structure • Demography and environment • Gender and children 	<ul style="list-style-type: none"> • Economic stabilization and government capacity • Business environment • Financial sector • External sector • Economic infrastructure 	<ul style="list-style-type: none"> • Health • Education • Employment and workforce • Agriculture

⁶ The study team wishes to thank Dr. Shakir Issa for his assistance in supplementing our access to data for this report.

2. Conflict and Economic Recovery

We begin this section with an overview of conflict conditions and recovery progress in Iraq, then review basic indicators and information on postconflict growth performance, poverty and inequality, economic structure, demographic and environmental conditions, and gender equity. Some indicators cited here are descriptive rather than analytical and are included to provide context for the performance analysis.

CONFLICT RISK STATUS

Iraq has long been engulfed in conflict, most recently since 2003 when the United States invaded it to overthrow the regime of Saddam Hussein on grounds of preventing a proliferation of weapons of mass destruction (Exhibit 2-1). Violent civilian deaths were estimated to be 151,000 between March 2003 and June 2006 alone,⁷ and the Center for Systemic Peace classified the conflict through 2007 as Category 6 (Extensive Warfare).⁸

The risk of continued conflict and instability in Iraq is reflected in scores on the Failed States Index (FSI). Developed by the Fund for Peace and presented annually in *Foreign Policy*, this index ranks countries according to their vulnerability to violent internal conflict and societal deterioration on the basis of 12 social, economic, and political-military indicators.⁹ Each indicator is rated from 1 (best) to 10 (worst) for a possible total worst score of 120. A score of 90 or above signals “critical” risk. For 2008, Iraq received a very high score of 110.6, closely tracking the results for 2007 and 2006 (see Table 2-1). Iraq is thus ranked as the fifth most unstable state in the world after Somalia, Sudan, Zimbabwe, and Chad.

⁷ Brookings Iraq Index, January 5, 2009, 4.

⁸ The Center for Systemic Peace defines Category 06, Extensive Warfare as follows: “Technology of destruction is extensive but limited; supplemental resources from external supporters are limited. Effects are persistent and development is arrested over the medium-term. Social mobilization is largely determined by the warfare event but crucial areas are fairly secure from attack. Population dislocations often exceed two million; deaths often range from five hundred thousand to one million. Over forty percent of societal production is consumed by the war effort. Issues of contention are perceived as vital but terms are somewhat negotiable as neither war party has the capacity to unilaterally impose and enforce a lasting settlement. Ethnic cleansing is often viewed as a strategic imperative in the struggle to control a territorial and resource base.” See www.systemicpeace.org/warcode.htm.

⁹ For details on the FSI, see “Failed States Index 2008,” *Foreign Policy*, July/Aug 2008, http://www.foreignpolicy.com/story/cms.php?story_id=4350 (accessed January 30, 2009).

Exhibit 2-1

Iraq: A Chronology of Political Strife and Conflict

October 3, 1932. Iraq gains independence as a kingdom after being administered by the United Kingdom since the dissolution of the Ottoman Empire in 1920.

1958. Iraq is declared a republic after the monarchy is overthrown in a military coup and is ruled by strongmen until 2003.

July 16, 1979. Vice President Saddam Hussein becomes president after President Ahmad Hasan al-Bakr resigns.

September 1980. War breaks out between Iran and Iraq, ending a 1975 ceasefire.

June 1981. Israel attacks a nuclear research facility at Tuwaythah, near Baghdad.

August 20, 1988. A ceasefire is declared between Iran and Iraq and is monitored by the UN Iran-Iraq Military Observer Group (UNIIMOG).

August–November 1990. Iraq invades Kuwait on August 2. UN Security Council Resolution 660 condemns the attack and calls for a full withdrawal of Iraqi forces. Four days later UNSCR 661 imposes economic sanctions on Iraq. On August 8, Iraq announces the annexation of Kuwait. On November 29, UNSCR 678 authorizes allies of Kuwait to use all necessary force to expel Iraqi forces from the country.

January–April 1991. The Gulf War begins with UN-sanctioned bombing raids on January 16 (Operation Desert Storm). Ground operations begin on February 24, resulting in the liberation of Kuwait on February 27. Iraq accepts the terms of a ceasefire on March 3, ending the war. From mid-March to early April, Iraqi forces suppress rebellions in northern and southern Iraq, prompting an international plan to establish a safe haven for Kurds in northern Iraq. The United States orders Iraq to end all military activity in this area on April 10.

August 1992. A no-fly zone is established in southern Iraq, barring Iraqi planes.

October–December 1998. On October 31, Iraq ends its cooperation with the UN Special Commission to Oversee the Destruction of Iraq's Weapons of Mass Destruction. On December 16-19, the United States and United Kingdom respond with a bombing campaign to destroy Iraq's nuclear, biological, and chemical weapons programs (Operation Desert Fox).

November 2002–March 2003. UN weapons inspectors return to Iraq in November 2002 under a UN mandate threatening serious consequences if Iraq is found to be in "material breach" of the terms of the resolution. By March 2003, chief weapons inspector Hans Blix reports that Iraq had improved cooperation with inspections but that more time is needed to verify compliance with the resolution. On March 17, the UK's ambassador to the UN announces the end of the diplomatic process regarding Iraq's weapons programs. Inspectors are evacuated and U.S. President George W. Bush issues Saddam Hussein and his sons an ultimatum to leave Iraq within 48 hours or face war.

March 20, 2003. The United States begins bombing Baghdad, marking the start of the war to topple Saddam Hussein. A few days later, U.S. and British troops enter Iraq.

April–May 2003. U.S. forces take control of central Baghdad on April 9. In May, a U.S.-led administration is established in Iraq and abolishes the Baath Party and other institutions of Saddam's regime. The new administration is backed by the UN Security Council, which also lifts economic sanctions against the country.

December 14, 2003. Saddam Hussein is captured near Tikrit.

June 2004. The United States turns over sovereignty to an interim Iraqi government headed by Prime Minister Iyad Allawi.

January 30, 2005. Elections are held for a Transitional National Assembly. The Shia United Iraqi Alliance wins the majority of the seats.

December 15, 2005. Elections are held for the first full-term government since the overthrow of Saddam's regime. The Shia United Iraqi Alliance wins a plurality of seats, but fails to gain a majority.

November–December 2006. Saddam Hussein is put on trial in October 2005, found guilty of crimes against humanity, and sentenced to death. He is executed on December 30.

November 2008. The Iraqi parliament signs a security pact with the United States, providing for all U.S. troops to leave Iraq by the end of 2011.

January 2009. Successful provincial council elections held in 14 of Iraq's 18 provinces.

Table 2-1
Failed States Index for Iraq: Ranking by Indicators of Instability, 2008 and Change from 2007

Instability Indicator	FSI 2008 Score 1 (best)-10 (worst)	Change in Points From FSI 2007
SOCIAL		
Mounting demographic pressures	9.0	0.0
Massive movement of refugees or internally displaced persons	9.0	0.0
Legacy of vengeance-seeking, group grievance, or group paranoia	9.8	0.2
Chronic and sustained human flight	9.3	0.2
ECONOMIC		
Uneven economic development along group lines	8.5	0.0
Sharp and/or severe economic decline	7.8	0.2
POLITICAL AND MILITARY		
Criminalization and/or de-legitimization of the state	9.4	0.0
Progressive deterioration of public services	8.5	0.0
Suspension or arbitrary application of human rights	9.6	0.1
Security apparatus operates as a “state within a state”	9.8	0.2
Rise of factionalized elites	9.8	0.0
Intervention of other states or external political actors	10.0	0.0
TOTAL FSI SCORE	110.6	0.9

Social Indicators

As shown in Table 2-1, Iraq’s score for group grievances improved only slightly from 2007 to 2008, thanks to a slight decrease in sectarian violence. Sectarian rivalry, however, remains high. For example, when U.S. Vice President Dick Cheney met with Kurdish leaders in the North in March 2008, Sunni and Shia blocs boycotted Parliament, and Sunni opposition to the Shia-dominated government remains unresolved. Iraq’s scores on demographic pressures and refugees and internally displaced persons (IDP) all remained at 9.0. The United Nations High Commission on Human Rights (UNHCR) estimates that 2 million Iraqis have fled to neighboring countries, mostly to Syria and Jordan. In addition, 82 percent of the 2.77 million IDPs in Iraq are women and children under the age of 12.¹⁰ The score for human flight fell slightly in 2008, but Iraq continues to suffer from an extremely serious brain drain, with many of its trained professionals still residing abroad.

¹⁰ Iraqi Red Crescent Organization, Internally Displaced People in Iraq: Update 358, 6/30/2008. IDP Working Group—Internally Displaced Persons in Iraq—Update, 3/24/2008.

Economic Indicators

Though Iraq's economy improved in 2008 as oil revenues soared to an estimated at \$60 billion,¹¹ continuing inequality among Sunnis, Shiites, and Kurds kept development uneven. Inequality increased largely because of oil reserves located in the Kurdish areas of northern Iraq and in Shia-dominated southern Iraq, as well as the policy de-Baathification. This policy greatly accentuated economic disparities between the Sunnis and both the Shiites and the Kurds, inciting more fighting, deepening group grievance, disenfranchising the Sunnis, and jeopardizing economic progress. Policies and programs to reverse the effects of de-Baathification and to resolve issues surrounding the distribution of oil revenue will be equally important in relieving ethnic tensions.

Political and Military Indicators

All political and military indicators remained the same or improved only slightly in 2008, and most are still in the critical range. Public services had been suffering from years of neglect under Saddam Hussein, and the war has exacerbated the situation. Iraq's government continues to be plagued by high levels of corruption as well as sectarian divisions within the 275-member Parliament. Simmering tensions between Sunni, Shiites, and Kurds over control of oil revenue, jobs, and government positions has led to political deadlock and legislative inertia, all impeding political reconciliation. Human rights conditions remain poor, with many serious violations reported, including arbitrary killings and disappearances, torture, impunity, and poor conditions in prisons and detention facilities.¹² Coalition troops, mainly from the United States, remain a heavy presence though this is likely to change as military command of each province was turned over to the Iraqi government on January 1, 2009 under the new Status of Forces Agreement. If the transition to Iraqi military control goes well, authorities should be better able to govern and provide the security and services necessary to attract investment, with the assistance of external donors.

CONFLICT AND ECONOMIC GROWTH

Major conflicts directly undermine economic growth by destroying lives, property, and infrastructure, and indirectly by diverting resources to military activities at the expense of productive investment in physical and human capital. Conflict also disrupts essential public services, impairs fiscal and administrative capacity for postwar recovery, and leaves a legacy of debt to encumber future budgets.¹³ Iraq has faced or is facing these problems.

The relationship between conflict and growth works in the opposite direction, too, as poor economic performance accentuates the risk of violence and complicates efforts to achieve political reconciliation.¹⁴ Indeed, "economically motivated violence" is widely viewed as having

¹¹ Mariam Karouny, "Iraq earns \$60 billion from 2008 crude exports," Reuters, 1/5/2009.

¹² Iraq, State Department Human Rights Report, 3/11/2008. Available online at <http://www.state.gov/g/drl/rls/hrrpt/2007/100596.htm>.

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

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

facilitated sectarian conflict and insurgency in Iraq following the overthrow of Saddam Hussein's government in 2003.¹⁵ Given the interdependence of growth and conflict, progress toward political and military stability in Iraq is intimately tied to progress in revitalizing the economy, creating jobs for a youthful workforce, and improving standards of living in all regions.

According to the best estimates available, the war caused Iraq's GDP to plunge by 41.4 percent in 2003. GDP rebounded abruptly in 2004 by 46.5 percent but from a lower base, so GDP was actually 14 percent below its pre-war level. In addition, economic activity had been declining even before the war.¹⁶ Over the five years to 2004 when Iraq had a state-directed policy regime and sanctions were in place, GDP fell by a cumulative 29.1 percent. From 2005 to 2007 the growth rate was weak and erratic, averaging 2.4 percent per year—well below the global LMI median of 6.0 percent. Accounting for population growth, per capita income for 2007 was an estimated \$3,600 in purchasing power parity terms (\$2,109 using an exchange rate conversion), below the global LMI median of PPP\$4,713. Moreover, per capita GDP in 2007 was only half the pre-war peak of \$7,347 reached in 1999.¹⁷

Clearly, the national trauma of violence, destruction, and political disruption prevented a sustained economic rebound between 2003 and 2007. In 2008, however, a reduction in violence and political uncertainty, while far from satisfactory, brought about a marked improvement in economic performance. According to IMF estimates, GDP grew by 9.8 percent despite the steep decline in oil prices in the second semester.¹⁸ The growth story, of course, is heavily influenced by developments in the oil sector, which in 2007 generated more than half of GDP (see Economic Structure). Between 2004 and 2007 crude oil production dropped by 6.3 percent, exerting a strong drag on overall economic growth. In 2008 it rose by 14.1 percent as a result of improved security conditions and the re-opening of the pipeline to Turkey, pulling GDP growth along with it.¹⁹

Oil production, however, is a capital-intensive enclave that does not have a large direct impact on jobs or livelihood opportunities (though it is overwhelmingly important as a revenue source for the government; see Economic Stabilization and Government Capacity). To get a clear picture of the prospects for expanding employment and household incomes in Iraq, it is more useful to

¹⁵ Paul Brinkley, Deputy Under Secretary of Defense for Business Transformation, speaking at a United States Institute of Peace panel on Economic Reconstruction in Iraq, December 16, 2008. An audio file is available at http://www.usip.org/events/2008/1216_iraq_economic_reconstruction.html.

¹⁶ Source: World Development Indicators On-Line, accessed on January 7, 2009. The comparison to 1999 is from calculations by the authors.

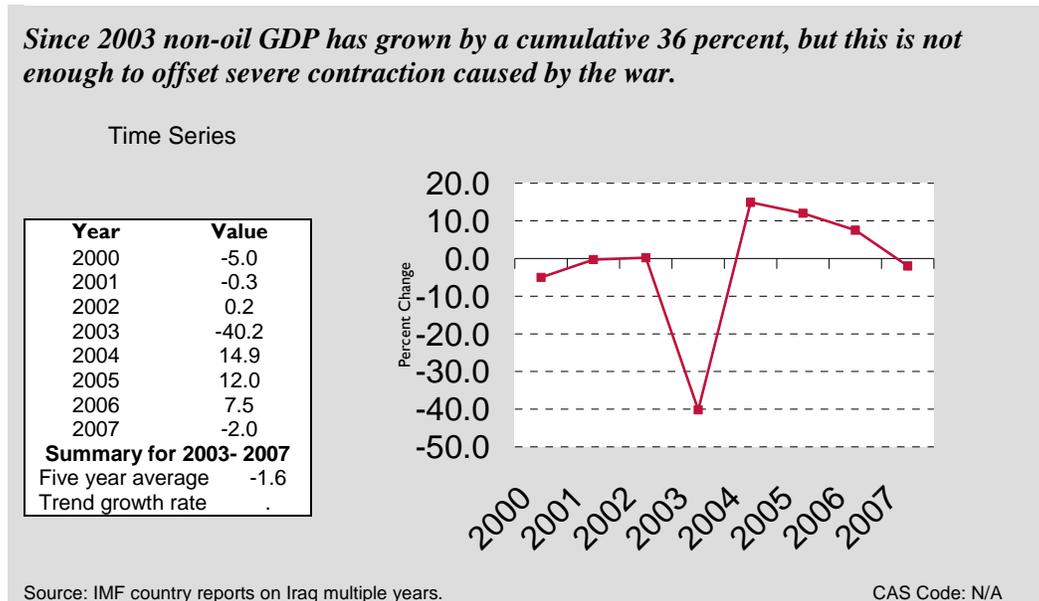
¹⁷ The 2007 PPP\$ estimate for per capita income is from Republic of Iraq, COSIT, *Iraq in Figures*, October 2008, p. 11. The 1999 figure is calculated from WDI data on real GDP growth and population growth rates in Iraq.

¹⁸ IMF Country Report No. 08/383, Iraq: Second Review Under the Stand-By Arrangement, December 2008, p. 19. In this December 2008 report, the IMF boosted its estimate of GDP growth for 2008, which had been 9.0 percent in a review published three months earlier (Country Report No. 08/303, p. 17). This is surprising considering that petroleum prices fell sharply in the intervening months.

¹⁹ Source: Brookings Institution, *Iraq Index*, January 2009, p. 38.

examine trends in non-oil GDP.²⁰ In 2003, the non-oil economy mirrored overall GDP in falling by 40.2 percent because of the war. Since then the recovery has been slow and incomplete (Figure 2-1). By 2007, value added outside the oil sector was still nearly one-fifth lower than in 2002.

Figure 2-1
Real GDP Growth (non-oil)



Manufacturing has been especially hard hit by the war and the associated collapse of huge and inefficient state enterprises following the regime change in 2003. The government's index of manufacturing production (defined to equal 100 in 1988) was already down to 65.9 in 2002, and then dropped further to a trough of 36.2 in 2005.²¹ The index has since climbed slowly to reach 45.4 in the third quarter of 2008. Output in the largest subsector, oil and chemicals, is still 51.9 percent below the level prevailing in 2002. Production in the second largest subsector, textiles and shoes, now exceeds the pre-war level by 9.8 percent. The rebound in manufacturing has been most pronounced in basic nonmetallic industries and in processed foodstuffs, up 84.3 percent and 39.3 percent over pre-war levels, respectively. Agriculture has suffered as well, with the production index for 2007 down by 25.5 percent as compared to 2002.

As in many developing countries, investment statistics in Iraq are approximations based on limited information, particularly for the private sector. Using IMF figures as the most recent estimates, capital formation averaged 19.3 percent of GDP between 2005 and 2007, well below

²⁰ The IMF and COSIT differ in their definitions of non-oil GDP (see footnote 34 for specifics). As a result, the term "non-oil" is not consistent throughout this report and between indicators; however, it is consistent when comparing the same indicator in different years.

²¹ For the production index in manufacturing industries see <http://cosit.gov.iq/english/2007/7-6.htm>. For the index of agricultural quantity see http://cosit.gov.iq/english/pdf/2008/consumer_agr1.pdf. Arabic versions obtained from COSIT run through the third quarter of 2008 for manufacturing and through 2007 for agriculture.

the global LMI median of 24.2 percent and the LMI-MENA median of 23.7 percent. A more serious concern is that the lion's share of this investment derived from the public sector, mainly for infrastructure. Private sector investment over the same period averaged just 3.1 percent of GDP.²² For 2008, the IMF projected that gross domestic investment will rise to 21.1 percent of GDP, with private investment still languishing at 3.8 percent of GDP. These figures for private investment are not only extraordinarily low, but also far below the levels required to offset depreciation of existing capital, let alone foster rapid growth.²³

For Iraq, 2009 will be a pivotal year in determining both political and economic prospects. It remains to be seen whether the new Status of Forces Agreement (subject to a referendum in July) turns out to be a source of stability or instability. As many observers have emphasized, the gains to date have been fragile and the situation remains fraught with uncertainty. Working on the assumption that conditions continue to improve, the IMF projects a GDP growth rate of 7.7 percent in 2009, with non-oil GDP expanding by 6.0 percent. This projection assumes that private investment will remain extremely depressed at 3.8 percent of GDP, so it implicitly reflects a further rebound in oil production and civil works rather than a surge of additional productive capacity outside the oil sector.

Postwar economic recovery in Iraq has centered on rebuilding infrastructure, reconstituting core public sector institutions, and restoring basic public services. Unlike most countries in postconflict situations, Iraq's oil wealth affords ample fiscal resources for public investment. The challenge is to use these resources wisely and efficiently to support broad-based economic growth. Thus, while government investment can lay the foundation for growth and provide a source of immediate jobs and income, it cannot substitute for private investment as an engine of growth. As the security situation improves, recovery should focus more on measures to stimulate private investment. Investment and growth outside the oil sector will be especially important in creating productive jobs and improving living standards.

To be precise, Iraq must target a sustained GDP growth rate of no less than 6 percent per annum to consolidate political stability and provide jobs for a labor force that is growing by more than 3 percent per year (see *Demography and the Environment*). This will require achieving an investment rate that matches or exceeds the LMI median of 24 percent of GDP, with a rapidly rising share of investment from the private sector.

In the short run, reaching this target for economic growth requires restoring security and political stability. Beyond these immediate political foundations, the core challenge for postconflict growth will be to reduce barriers to private investment by strengthening the business environment, raising standards of governance, developing the financial system, and improving

²² The latest available (provisional) estimates of gross fixed capital formation from COSIT go up to 2006 (http://cosit.gov.iq/english/section14_2005.php). The COSIT estimates are similar to those reported by the IMF but the breakdown is quite different, with private investment amounting to a mere 0.9 percent and 0.3 percent of GDP in 2005 and 2006, respectively.

²³ For a conservative approximation, assume a ratio of capital to output in the private sector of 3.0 and an economic depreciation rate of 5 percent. These figures suggest that gross fixed investment in the private sector has to exceed 15 percent of GDP in that sector just to offset depreciation of the existing capital stock.

power supplies. How the government manages the exchange rate will also have a strong effect on the viability of private sector investments in the production of tradable goods and services (see External Sector) outside the oil sector. The regional distribution of investment will also be vital to knitting the fabric of national unity.

POVERTY AND INEQUALITY

Widespread poverty and income inequality are multidimensional conditions related to a lack of security, education, health, income, and employment opportunities. Moreover, economic hardship and high inequality can motivate sectarian grievances, political instability, and civil strife.²⁴

Although poverty in Iraq is nowhere near as severe as in the poorest countries in the world, and conditions have recently improved, it is still a serious problem. A national survey conducted by the World Food Programme (WFP) in 2007 found that an estimated 930,000 Iraqis (3.1 percent of households) were food insecure,²⁵ down sharply from 4 million people (15.4 percent of households) in 2005. An additional 2.8 million people (9.4 percent of households) are highly dependent on food rations under the national Public Distribution System (PDS), without which they would likely be food insecure.²⁶ This number, too, has declined from 8.3 million people (31.8 percent of households) in 2005. Since the economy was not recovering quickly during this period, the decline may largely reflect improvements in humanitarian efforts to direct assistance to the large number of IDPs who fled their homes, particularly since 2006.

Malnutrition, especially among children, remains a concern. Data from multiple sources indicate an overall downward trend in child malnutrition rates, apart from a slight increase in acute malnutrition (from 7.5 to 9.0 percent) in 2005.²⁷ In 2007 an estimated 4.7 percent of children under five years of age suffered from acute malnutrition (wasting) and 21.8 percent from chronic malnutrition (stunted growth), while 9.1 percent were underweight.²⁸ Food poverty and malnutrition in early childhood have serious consequences for both physical and intellectual development.

The 2007 WFP survey found that 18 percent of Iraq's population lived at an expenditure level of less than US\$1 per capita per day (roughly PPP\$1.70), compared to 54 percent in 2005. On

²⁴ Paul Collier, *The Bottom Billion: Why the Poorest Countries Are Failing and What Can be Done About It*, London: Oxford University Press, 2007, 19.

²⁵ Food insecurity is the inability of households to access at all times enough food for an active, healthy life.

²⁶ Under the PDS, administered by the Ministry of Trade, each Iraqi is entitled to a monthly food ration for a nominal fee of 250 Iraqi dinars (\$0.216) as of June 1, 2008. Rations are distributed by approximately 45,000 "food and flour agents" – typically local groceries. World Food Programme, *Comprehensive Food Security and Vulnerability Analysis* (2008), 12.

²⁷ Food Security and Vulnerability Analysis in Iraq, WFP, UNICEF and COSIT, 2006.

²⁸ WFP, 65.

average Iraqi households spent US\$63 per person per month in 2007, compared to just US\$35 in 2005.²⁹

The WFP survey also shows that income inequality in Iraq is relatively low, with the poorest 10 percent earning 5.8 percent of national income. In comparison, for LMI countries globally the median income share for the poorest 20 percent—a group twice as large—is 6.5 percent.³⁰ Iraq's relatively equitable distribution of income is borne out by 2007 household survey data showing that 95 percent of the households in Iraq own a color television set, 93 percent have an electric or gas cooker, and 90 percent have a refrigerator.³¹ Hence, severe deprivation is rare. Low income inequality, however, may be a symptom of the mass emigration of skilled and professional workers and the lack of (legal) opportunities to earn high incomes as a result of the weak economy and paucity of private investment in Iraq.

The distribution of income in Iraq is marked by strong regional disparities. For example, while 22 percent of the population falls into the poorest wealth group, this proportion exceeds 35 percent in many central and southern districts such as Babil, Wassit, Muthanna, and Qadissiya and declines to less than 15 percent in Basrah, Kirkuk, and Erbil (Figure 2-2).³² Throughout Iraq female-headed households and those in rural areas are more vulnerable to both poverty and food insecurity.

Given the breadth of poverty and food insecurity in Iraq, especially in contrast to the nation's oil wealth, reducing deprivation and achieving regional equity should be emphasized for postconflict recovery. The government and its international partners should focus on achieving food security, delivering health and education services to the poor, and creating jobs. The range of approaches may include targeted cash grants for IDPs and the poorest households as well as sustaining economic growth through further improvements in the security situation. The core goal will be to design and implement investments and programs that are truly pro-poor and reach vulnerable groups in all of Iraq.

ECONOMIC STRUCTURE

Data on Iraq's economic structure reflect the predominance of oil: in 2007, the production of crude oil accounted for 53.9 percent of GDP.³³ This sector of the economy yields huge dividends

²⁹ WFP, 44.

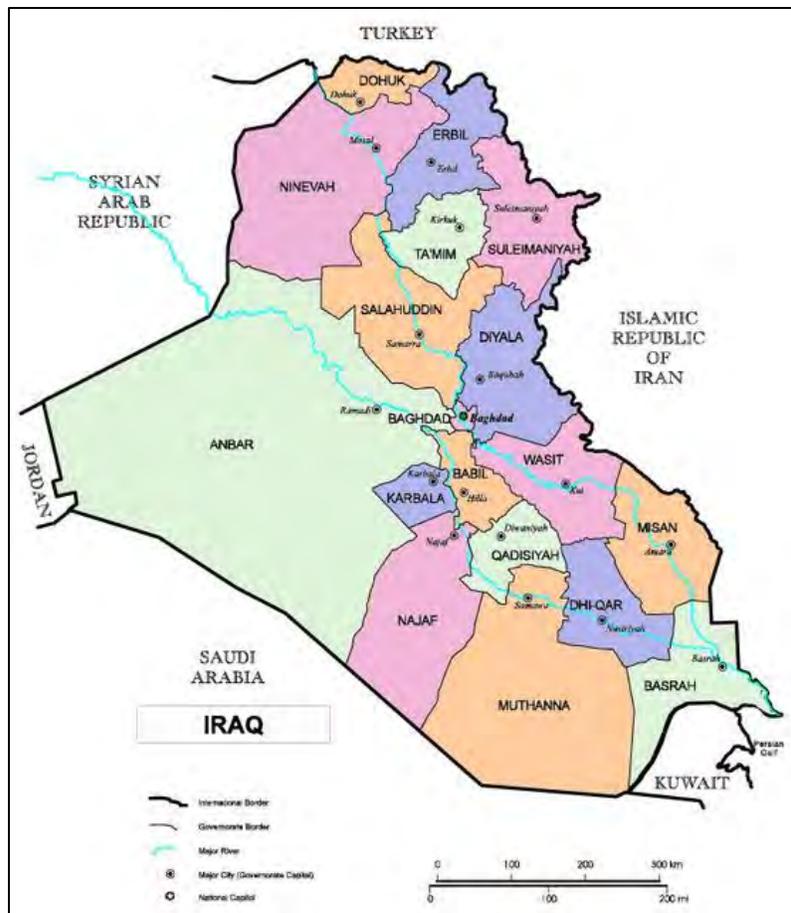
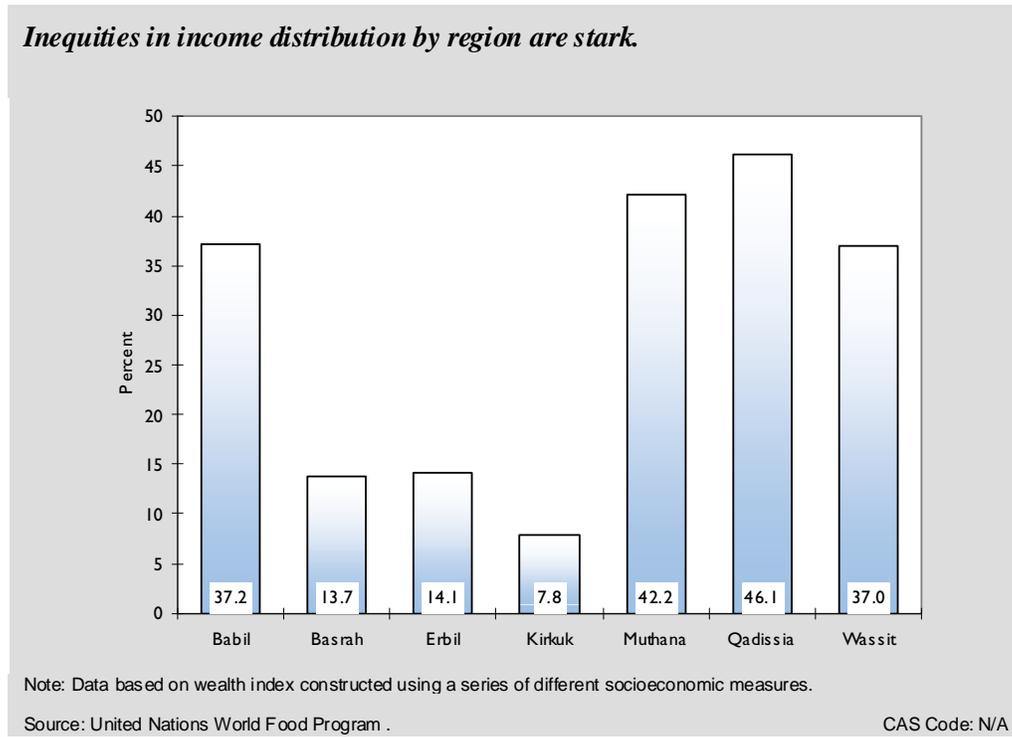
³⁰ COSIT, Iraq in Figures, p. 11, based on data from the WFP survey.

³¹ COSIT, Iraq Household Socio-Economic Survey 2007, January 2009, 189-194.

³² WFP, 36.

³³ The IMF, *op. cit.* (December 2008), p. 25 estimates non-oil GDP at 43.4 percent of total GDP, giving 56.6 percent from oil. The IMF figure evidently includes ancillary activities beyond crude oil production as such. COSIT's national accounts data do not permit a similarly inclusive separation of non-oil GDP (see http://cosit.gov.iq/english/section14_2005.php).

Figure 2-2
 Percent of Population in Lowest Wealth Quintile, by Governorate



in the form of government revenue, but creates few jobs and only a narrow range of linkage effects to other productive sectors.

Other sectors of the economy are much more labor intensive and services oriented. In 2007, value added in the services sector accounted for 75.7 percent of non-oil GDP, while the industrial sector generated 13.4 percent—with a mere 3.4 percent from manufacturing. Value added in agriculture accounted for just 10.9 percent of non-oil GDP, similar to the sector's 11.3 percent median share of overall GDP for the LMI-MENA group. The services share, however, is half again higher than the corresponding LMI median of 48.9 percent, while industry's share is far below the LMI-MENA benchmark of 32.7 percent. Between 2002 and 2007 the services sector's share of non-oil GDP jumped by 16 percentage points, while industry's share edged up marginally and agriculture's share plunged by a staggering 18 percentage points.

These statistics reveal the extremely weak condition of tradables production other than oil (mainly manufacturing and agriculture) and the dominant role of the public sector. Only private sector investment, likely to increase as security improves, can change this situation (see Economic Stabilization and Government Capacity). As discussed below (see External Sector), the government's current exchange rate policy will be a major hindrance to investment, growth, and job creation in the tradables sectors.

The 2007 household socioeconomic survey found that 15.7 percent of the workforce was engaged in agriculture, 22.7 percent in industry, and 61.5 percent in services (including security personnel). Of the industry share only a miniscule 1.2 percent were engaged in crude oil production and 7.8 percent in manufacturing. In comparison, the median labor force shares for LMI-MENA are 24.9 percent in agriculture, 22.9 percent in industry, and 52.7 percent in services. In this regard, the survey also showed an astonishing 33 percent of the workforce engaged in the public sector. Fully 24 percent of the workforce earns a living through off-farm, nonwage jobs, showing the extent of informal sector activity.³⁴

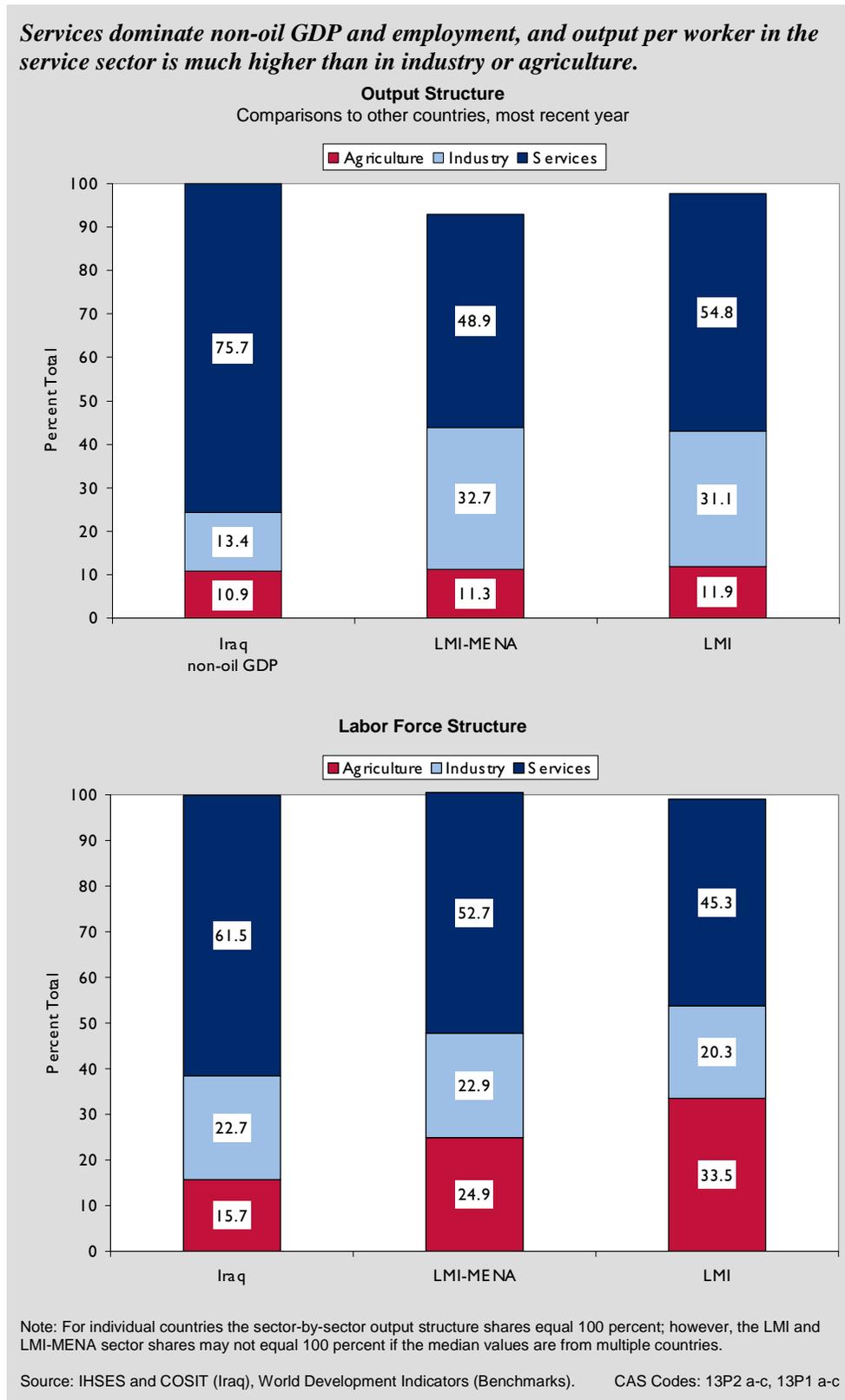
A comparison of the labor force structure and GDP structure provides a useful gauge of labor productivity imbalances across sectors. In Iraq, agriculture absorbs 16 percent of the labor force to produce 11 percent of non-oil GDP (see Figure 2-3). This shows that workers in agriculture are less productive than in the rest of the non-oil economy but not to a large degree.³⁵

Indeed, the imbalance is moderate when compared to the benchmarks. For LMI countries globally, 33.5 percent of the workforce is in agriculture and produces a similar share of GDP; for the LMI-MENA group, 25 percent of the workforce is in agriculture and produces 11 percent of GDP. For Iraq, labor productivity is even lower in industry than in agriculture, a puzzling situation. As shown in Figure 2-3,

³⁴ COSIT, Iraq Household Socio-Economic Survey—2007 (IHSES), 317 and 325-329. Because of an apparent editing error in the IHSES Table 5-20, total labor force shares are missing for 8 subsectors. These missing shares are calculated here using the data for male and female workers, weighted by respective gender shares of the labor force. For the 6 subsectors, the IHSES does provide Iraq total data, and our calculation properly replicates the respective totals.

³⁵ Productivity levels are equal across sectors when the labor force and GDP shares are equal.

Figure 2-3
Output and Labor Force Structure



nearly 23 percent of the labor force works in this sector but generates only 13.4 percent of non-oil GDP. Even more oddly, productivity is especially weak in manufacturing, where 7.8 percent of the work force generates a mere 3.4 percent of non-oil GDP. Productivity is relatively high in the service sector, where 61.5 percent of the workers generate 75.7 percent of non-oil value added. Given the dominance of government in Iraq's service sector, it is not very encouraging to see that productivity here is relatively high compared to other sectors.

This abnormally low productivity in industry (outside the oil industry) highlights the potential for accelerating growth over the medium term by modernizing the industrial sector and closing outmoded production facilities. The analysis likewise suggests that Iraq can benefit from programs to foster efficient development of agriculture and shift labor into high productivity activities. These transformations require a large inflow of efficient private investment, which necessitates resolution of the conflict, aggressive pursuit of market-supporting reforms (see Business Environment), and wise investment of the country's enormous oil wealth to create appropriate conditions for private sector development. In turn, successful transformation of the economy is likely to alleviate social and political tensions that are heightened by the lack of economic opportunity.

DEMOGRAPHY AND ENVIRONMENT

Though violence in Iraq has diminished significantly since 2007, demographic pressures related to persistent violence are significant. An estimated 2.8 million people are displaced inside the country and another 2 million, many wanting to return home, have fled. The UNHCR reports no large-scale returns of refugees and that those who do return generally do so only if their own sectarian group controls their home area.^{36, 37} This pattern reinforces sectarian concentration that occurred during the height of the conflict, especially in Baghdad's neighborhoods. Such local homogeneity may alleviate tensions in given areas, but could undermine efforts to foster reconciliation and establish a unified Iraq.

Sectarian tensions may also be aggravated by disparities in education and employment based on location and group affiliation. The wide variation in literacy rates by location can be attributed in part to the policies of the previous regime, which favored certain groups and areas. The recent Iraq Household Socio-Economic Survey (IHSES) shows that illiteracy rates in the formerly Sunni areas of Baghdad and Al-Anbar are low—12.4 percent and 9.6 percent, respectively—as compared to rates in the Shia areas of Muthana (29.6 percent) and Missan (30.9 percent).³⁸ Many factors in addition to education—geography, infrastructure, and security—contribute to the disparity in economic opportunities across population groups. For example, the unemployment rate in Anbar, a former Hussein stronghold, is 7.9 percent while in Missan, a swampy area on the border of Iran, it is 19.6 percent.

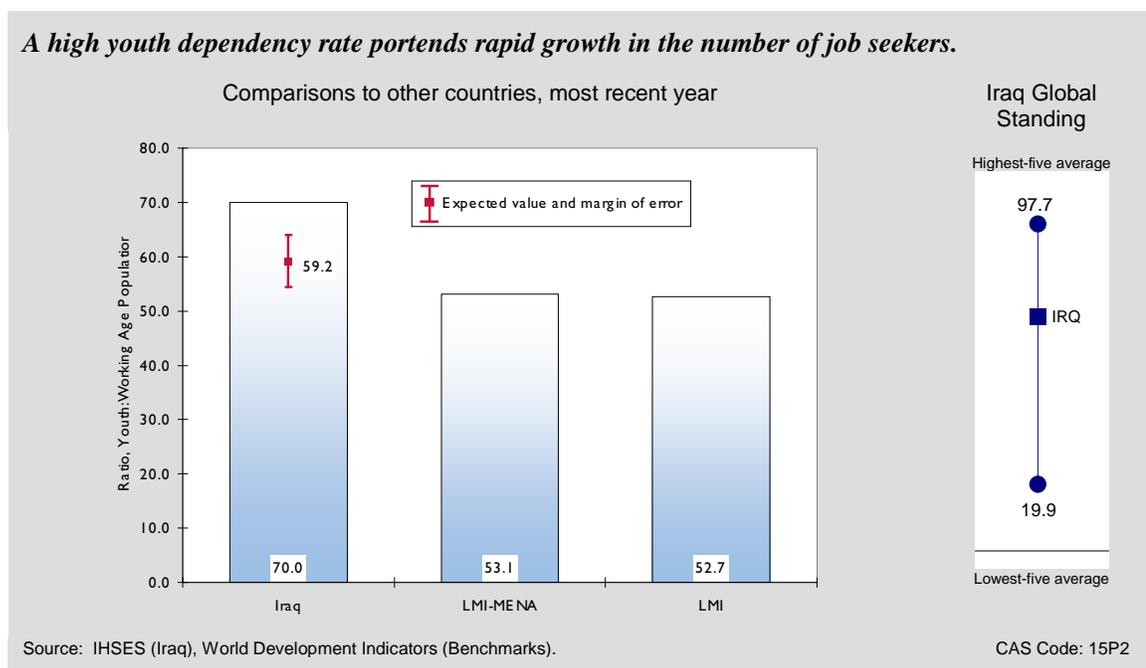
³⁶ IDP Working Group—Internally Displaced Persons in Iraq—Update, 3/24/2008.

³⁷ Iraq suffers from complex identity-based political, social, and economic tensions. They include friction between Kurds, who live in the northern region, and Arabs, who live in the southern and western regions; between Shia and Sunni Muslim religious sects within the Arab community; and from rival communal, religious, tribal, and political groupings within all three groups—Kurds, Sunnis and Shias—as well as conflict between these groups and minorities, including Christians.

³⁸ IHSES, 236.

Another worrisome demographic trend is Iraq's rate of population growth—an estimated 3 percent per year, well above the median of 1.3 percent for the LMI group globally or the growth rate of 1.8 percent for LMI-MENA. A direct consequence of this rate is a high youth dependency ratio. The IHSES reports that there are 70 dependents under age 15 for every 100 working-age adults (ages 15 to 64) in Iraq; the LMI and LMI-MENA medians are much lower, each approximately 53 (Figure 2-4). Substantial population growth, high youth dependency, and the 2.8 million IDPs put immense pressure on already strained social services and environmental resources. They also portend rising demand for jobs in a strained labor market. High unemployment could fuel violence by driving youth into militias (see Employment and Workforce).

Figure 2-4
Youth Dependency Rate



The portion of Iraq's population living in urban areas is 66.7 percent as of 2007, close to the median for LMI-MENA (66.3 percent), but well above the global LMI median (53.5). The high percent of the population living in urban areas is natural given Iraq's geography, which holds true for many of the MENA desert countries.

War and rapid population growth often stress the environment. The Environmental Performance Index (EPI) gauges such stress through a composite of 26 indicators tracking environmental health and ecosystem vitality, including ratings for air and water quality, biodiversity and habitat, natural resource management, and climate change. On a scale of 0 for poor performance to 100 for very good performance, Iraq received a score of 53.9 in 2008, ranking 135 out of 149 countries. This is well below the LMI and LMI-MENA medians of 69.6 and 68.1, respectively.

EPI subindices suggest that the two main environmental problems affecting economic growth in Iraq are greenhouse gas emissions and water stress. Oil and natural gas production dominate the

economy and oil facilities and pipelines are attractive targets for militias. To curb environmental stress, the government must improve the enforcement of environmental protection standards and ensure security in and around oil facilities and pipelines. Another major concern for agricultural production is the salinization of prime cropland and depletion of fertility due to poor soil management and a partially dysfunctional irrigation system.³⁹

GENDER AND CHILDREN

Gender equity promotes economic growth by ensuring that all citizens have an opportunity to develop and apply their full productive capacities. One may assess gender equity by a variety of indicators including economic participation, access to education and healthcare, women's legal rights, and participation and representation in public bodies. Indicators for Iraq in these areas are mixed, signaling some serious problems as well as promising improvements. On the whole, gender equity is a major source of concern.

In many countries of the region, traditional values severely limit opportunities for women to work outside the home. The resulting imbalance is especially stark in Iraq. The 2007 IHSES found only 12.8 percent of females participate in the labor force, versus 74.6 percent for males.⁴⁰ The participation rate for women is also far below the LMI-MENA median of 31.1 percent, which is itself very low (Figure 2-5). Gender disparities by type of labor are also enormous: 63 percent of working women are engaged in agriculture or education, compared to 16 percent of men.⁴¹ Without passing judgment on cultural values, one can say that, in economic terms, Iraq is grossly underutilizing half of its potential workforce. In the short run women's restricted economic role may reduce the number of jobs needed to stem economic grievances among working-age males, but in the long run it will constrain Iraq's growth potential. In addition, economic disparities arising from gender could fuel communal tensions and hinder the reconciliation of Iraq's religious and ethnic groups.

Ensuring access to education for girls has been a goal of the international donor community in Iraq in recent years and the gender gap in education appears to be narrowing. In 2005, for example, the primary completion rate was 63.5 percent for females, far below the 86 percent rate for males and the LMI-MENA median of 94.1 percent. But the 2007 household survey reported net enrollment rates of 82.1 percent for females and 87.2 for males, and a similar differential for net enrollment in intermediate schools (33.3 percent and 40.1 percent). At the secondary level the gap is even smaller, with net enrollment rates of 19.9 for females and 22.5 percent for males, presumably reflecting the tendency of males to leave school and enter the labor force. Another sign of a positive trend can be discerned in the IHSES data on years of schooling by sex and age. For Iraqis over age 40, women lag men by two years or more in educational attainment, but for Iraqis aged 15-24 the gap is less than one year.⁴²

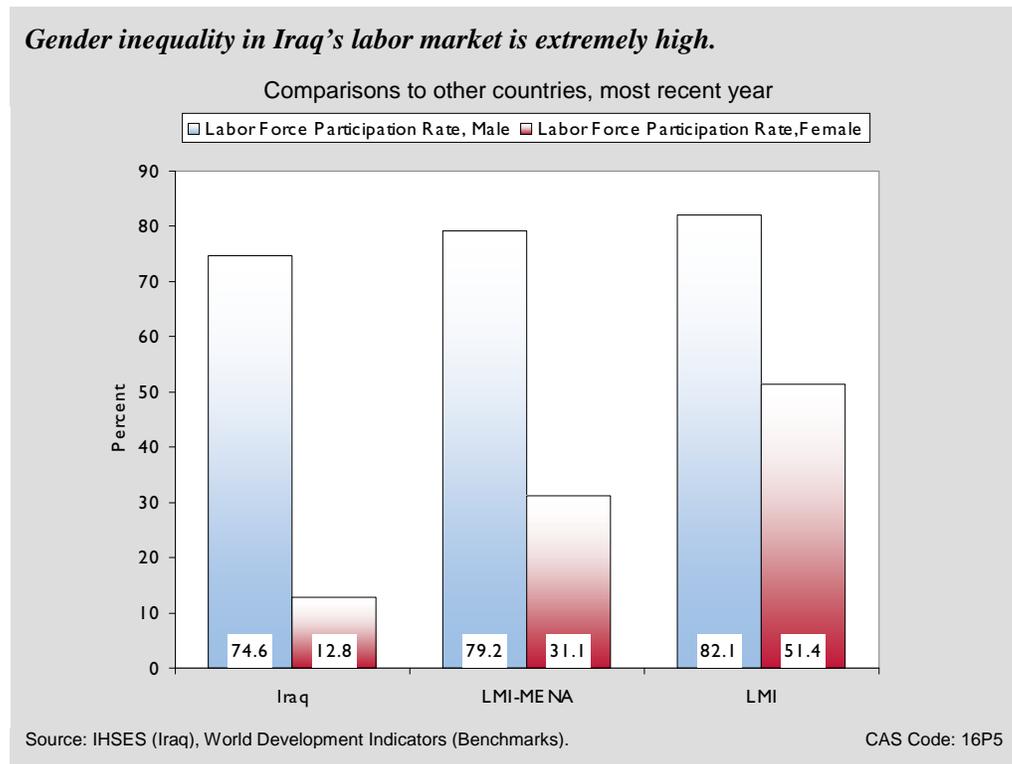
³⁹ Congressional Research Service Report for Congress, "Iraq's Agriculture: Background and Status," 5/13/2008.

⁴⁰ IHSES, 289.

⁴¹ *Ibid.*, 324-326.

⁴² *Ibid.*, 231-238.

Figure 2-5
Labor Force Participation Rate (male, female)



Data on life expectancy signal gender inequity in healthcare provision for women. The WHO estimates a life expectancy of 51 years for Iraqi women and 49 years for Iraqi men. Expectancy for both sexes is extremely low, but the two-year advantage for women is far less than the LMI median of a six-year advantage. Serious problems in women's healthcare are also signaled by a high maternal mortality rate of 300 deaths per 100,000 live births as of 2005. Of course, the lack of security and the scarcity of medical professionals (see Health in Section 4) limit access to medicine and healthcare. In addition, 66.9 percent of women responding to the Iraq Family Health Survey say their husbands require them to ask permission to seek healthcare.⁴³ The practice of early marriage may also be a cause of the high maternal mortality rate. The minimum legal age to marry is 17 for women and 18 for men, but marriage at earlier ages—especially in rural areas—is not uncommon.⁴⁴

Indicators and prospects for women's legal status in Iraq are mixed. The new Iraqi Constitution, for example, stipulates equal rights and duties for all citizens and freedom of mobility, including the right for a woman to travel without the permission of a male guardian. Because Article 2 of the final version makes Islam the official religion of the state and the basis for legislation, these provisions are subject to interpretation by the Supreme Court, which could one day be in a

⁴³ Iraq Family Health Survey Report 2006/7, World Health Organization.

⁴⁴ Gender in MENA, Sector Brief, The World Bank Group.

position to restrict women's rights.⁴⁵ Depending on the area of the country, other signs of inequality abound: forced wearing of the veil, female circumcision, honor killings, and an alarming level of domestic abuse.

The clearest evidence of the positive effect of international pressure for gender equity in Iraq is the growing number of women in the Iraqi Parliament. The Iraqi Constitution requires that women hold 25 percent of the 275 seats in Parliament. Currently 26 percent or 74 seats are held by women. Although there are still major problems such as sexism and women being relegated to work on "women's issues," the participation of these women in the legislative process means that Iraq could once again become an inspiration for women in the Middle East.⁴⁶ In the past, however, such progress has been reversed and patterns may not be consistent across the country. The international community must remain vigilant in pressing the Iraqi government to maintain progress.

Children in Iraq also face problems, the most serious being malnutrition, trauma, and the loss of one or both parents. In 2007, an average of 3.8 percent of Iraqis below 18 years old were orphaned (81 percent had lost their father, 15 percent had lost their mother, and 4 percent had lost both parents.)⁴⁷ Child labor is reportedly widespread but the 2007 IHSES presents a mixed picture on this issue. Overall only 3.1 percent of children age 6 to 14 are working, but 10.2 percent of male children in the poorest households work and in particular geographic and age groups even more male children work.⁴⁸ Young girls are vulnerable to the rising incidence of child trafficking and prostitution, early marriage, and female circumcision. And the UNHCR reports an increase in drug abuse among children in the north and far south of the country.⁴⁹ All of these problems demand concerted attention from the government and the international community.

⁴⁵ Coleman, Isobel, "Women, Islam, and the New Iraq", *Foreign Affairs*, January/February 2006.

⁴⁶ Michael, Jim, "Iraq's female lawmakers make strides," *USA Today*, 11/27/2008.

⁴⁷ WFP, 26-27.

⁴⁸ IHSES, 292-3.

⁴⁹ IDP Working Group—Internally Displaced Persons in Iraq—Update, 3/24/2008.

3. Private Sector Enabling Environment

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

ECONOMIC STABILIZATION AND GOVERNMENT CAPACITY

Fiscal and monetary policies are key instruments for creating a stable macroeconomic environment for private sector development. Hence, a main concern in a fragile postconflict economy is to ensure that the government has the capacity to maintain a sustainable fiscal balance and formulate prudent monetary policies in order to achieve low and stable inflation, while also laying the foundation for rapid growth and poverty reduction. In the past few years, macroeconomic management in Iraq has been reasonably good, as evidenced by declining inflation, increasing confidence in the domestic currency, a large budget surplus, and a program endorsement from the IMF (Exhibit 3-1).

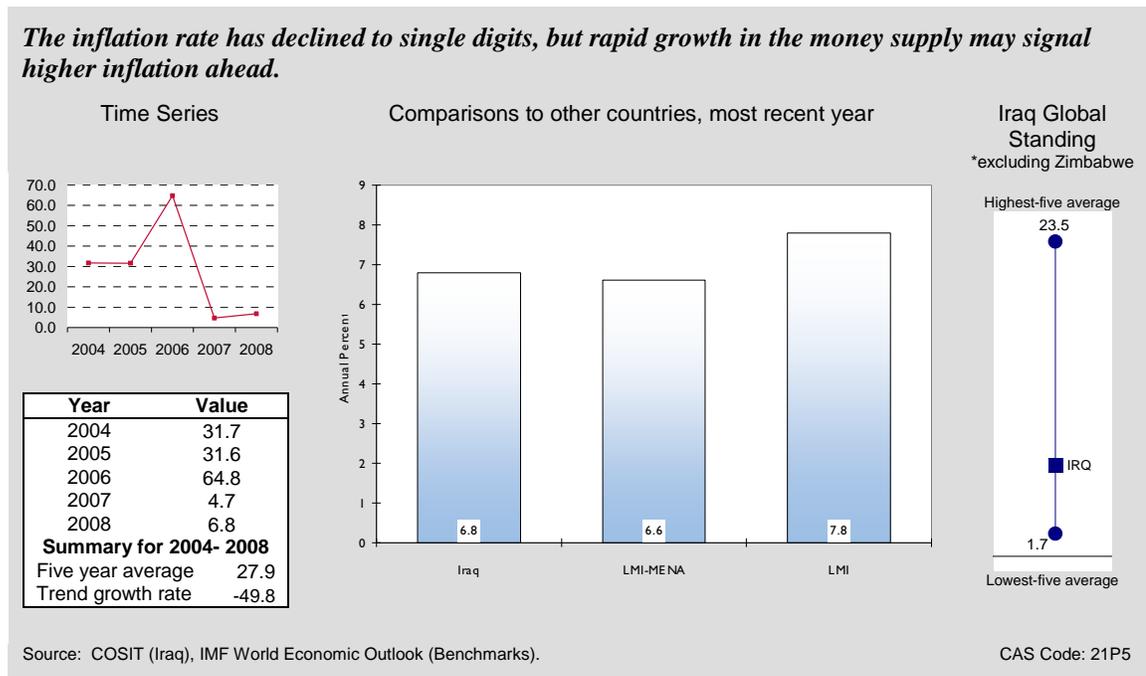
The clearest sign of successful macroeconomic management has been a large decline in the rate of inflation. From 2003 through 2006, inflation averaged 44 percent per year, more than tripling the consumer price index. Inflation then fell to 4.7 percent in 2007 rising slightly to 6.8 percent in 2008 to nearly match the LMI-MENA median of 6.6 percent (Figure 3-1). This rapid drop was not due to restrictive monetary policy. In fact, the supply of broad money (currency plus bank deposits) grew by 43.6 percent in 2006, 27.9 percent in 2007, and 33.5 percent in the twelve months to October 2008 (latest data). This far exceeds the LMI-MENA median of 13.0 percent, and the global LMI median of 17.2 percent. Such rapid growth in the money supply would normally fuel inflation. It has not done so in Iraq mainly because the Central Bank of Iraq (CBI) has managed oil earnings with an eye to reducing inflation. The CBI has saved a sizeable share of the oil income overseas (Exhibit 3-2) while also supplying enough foreign exchange to the market to achieve a nominal appreciation of the dinar against the dollar (see External Sector). The strong

Exhibit 3-1 *Iraq and the IMF*

On December 19, 2007, the IMF Executive Board approved a 15-month Stand-By Arrangement (SBA) for SDR 475 million of funding to support Iraq's economic stabilization and reform program. (SDRs, or Special Drawing Rights, are international reserve asset created by the IMF to supplement the official reserves of member countries.) As a condition of the financing, the Government of Iraq agreed to an external audit of international reserves and financial statements of the Central Bank of Iraq (CBI), as well as amendments to the pension law to put the system on a sustainable path.

The SBA also entails structural benchmarks, including audits and restructuring of the two largest commercial banks and a census of public employees. The government passed the first review of the SBA in September 2008, passed the second review in December, and is expected to pass the final review early in 2009. Adherence to the program is a condition for obtaining the final \$9 billion of debt relief from the Paris Club.⁵⁰ Just as the second review was completed, the Paris Club announced debt relief for the final 20 percent tranche of the total 80 percent of debt relief.

Figure 3-1
Inflation



⁵⁰ IMF, Iraq: First Review Under the Stand-By Arrangement, September 2008, Country Report No. 08/303, and IMF, Iraq: Second Review Under the Stand-By Arrangement, December 2008, Country Report No. 08/383.

Exhibit 3-2

Managing the Oil Revenue

In May 2003, a UN Security Council resolution established the Development Fund for Iraq (DFI) as a repository for oil revenue and the remainder of the UN's oil-for-food program fund. The DFI is held in accounts at the CBI and the Federal Reserve Bank of New York, earmarked "for the benefit of the Iraqi people."⁵¹ Since the return of sovereignty to the Iraqis in 2004, the DFI has continued to be a repository for oil earnings in excess of revenue requirements for the budget program. As world prices for crude oil soared, the DFI more than

doubled from December 2005 to December 2007, from \$6.2 billion to \$12.6 billion. The IMF estimates that the fund reached \$19.8 billion at the end of 2008.

In April 2008, the Government of Iraq signed a commitment to participate in the Extractive Industries Transparency Initiative. This is a global standard for transparency and accountability in the use of export earnings from petroleum and other extractive industries.⁵²

dinar lowers the local price of imported goods, and indirectly holds down the price of local products that compete with imports or involve a high import content. (At the same time, a large real appreciation of the dinar renders local production of tradable goods less competitive, complicating the task of stimulating broad-based growth in labor-intensive industries; see External Sector).

Equally important to lower inflation rates is the effect of the strong dinar on the demand for money. At the end of 2005, domestic currency deposits amounted to just 20 percent of total bank deposits. By the end of 2007 this ratio was 60 percent.⁵³ Over the same period, deposits rose from 38 percent to 47 percent of broad money, which itself was increasing rapidly. These statistics show that demand for local currency balances was growing rapidly, which meant that the economy could absorb a rapid increase in the money supply without sparking inflation. The demand for money will continue to rise faster than GDP as the economy remonetizes and the financial system deepens (see Financial Sector). Demand for money, however, is unlikely to maintain the high growth rate of the past three years because the recent increase has been due at least in part to one-off adjustments. Consequently, the CBI should not expect inflation to stay under control if the money supply continues to grow by well over 20 percent per year.

Even though the government has been running a large budget surplus, the budget has been a major source of money supply growth. The reason is that most government revenue comes from oil earnings. When the CBI credits the government's account with the local currency equivalent of dollar oil earnings and the government spends the money locally, the result is an infusion of dinar liquidity into the economy.⁵⁴ This process is especially important in Iraq because the budget is very large relative to the economy, and financed mainly by oil revenues. In 2007,

⁵¹ IMF, Iraq: Article IV Consultation, August 2007, Box 2, page 8.

⁵² See <http://eitransparency.org/node/335>.

⁵³ CBI, Key Financial Indicators, at <http://www.cbi.iq/index2.htm>.

⁵⁴ In contrast, if the government withdraws liquidity through taxes and then spends it, the effect on the money supply is neutral.

government revenue amounted to 71.3 percent of GDP, even though non-oil revenues were just 3.7 percent of GDP. Government expenditures were 61.5 percent of GDP. Despite a budget surplus of 9.8 percent of GDP (13.5 percent including grants), the government pumped far more dinars into circulation via domestic spending than it withdrew via domestic taxes. In 2008 the situation was similar: according to IMF estimates, revenue reached 75.9 percent of GDP while expenditure rose to 69.8 percent of GDP, giving a surplus of 6.1 percent of GDP (7.8 percent including grants)—financed, again, mainly by oil earnings.⁵⁵

This arrangement is deeply embedded in the structure of the economy. To mitigate the problem the government could mobilize more domestic revenue or curtail domestic spending. While a case can be made for increasing domestic revenue and rationalizing expenditures (especially on nontargeted transfers and the civil service payroll), it is difficult to justify a large tax hike or any sizable retrenchment in spending given the prevailing bounty of oil earnings and weakness of the domestic economy. Another option is for the CBI to “sterilize” the injection of liquidity using open market operations or further sales of foreign exchange. It will take many years, however, before local financial markets are deep enough to serve this purpose to any significant extent. Meanwhile, the fiscal program will continue to complicate efforts to maintain low inflation.

In 2009, Iraq’s fiscal outlook will change dramatically. In its second review of Iraq’s Stand-by Arrangement, the IMF projected that the plunge in oil prices would reduce government revenue by 10 percent of GDP, even as government expenditure would climb to a projected 85 percent of GDP in the face of demands for recovery and relief programs. This scenario was based on an export oil price of \$62.5 per barrel, and would transform the budget surplus into a staggeringly large deficit of 17.5 percent of GDP. In their January 2009 World Economic Outlook Update, the IMF revised its oil price assumption for 2009 down to \$50 a barrel.⁵⁶ This price will expand the negative impact on the Iraqi budget. To contain the budget deficit, the government will have to retrench its spending, prioritizing carefully and using budgeted funds efficiently. In particular it will have to rethink infrastructure spending which is projected to be 22.1 percent of GDP.⁵⁷ Drawing down balances accumulated in the years of surplus will finance some of the shortfall; however, this cannot be the only answer as it will still have a huge expansionary impact on the money supply. The government should therefore also consider borrowing domestically through an expansion of capital markets (see Financial Sector).

One reason for the budget surplus of recent years is the government’s weak absorptive capacity. In 2008, for example, Iraq’s program with the IMF called for government spending to reach 76.2 percent of GDP; the latest IMF estimate is that it turned out to be 69.8 percent of GDP. The shortfall is due entirely to underspending on capital projects. The government’s difficulty in implementing capital projects is symptomatic of a more general problem of a weak capacity in the public sector. This is measured by the World Bank Institute’s Index of Government Effectiveness, which rates the quality of public and civil services, policy formation and implementation, and credibility of government commitment on a scale ranging from -2.5 (worst)

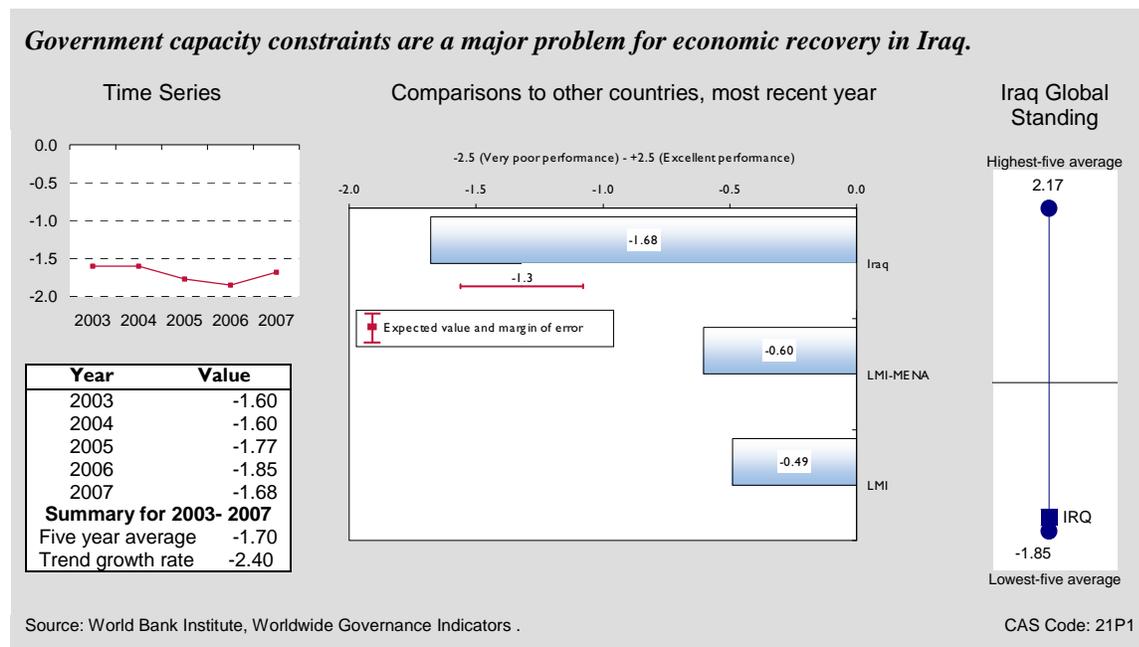
⁵⁵ IMF Country Report No. 08/383, p. 21.

⁵⁶ <http://www.imf.org/external/pubs/ft/weo/2009/update/01/index.htm>. Accessed February 3, 2009.

⁵⁷ IMF Country Report No. 08/383, p. 21.

to +2.5 (best), with 0.0 as the global median. For 2007, Iraq was rated at a very poor -1.68, well below the median for LMI-MENA (-0.60) and LMI (-0.49). Only Somalia, North Korea, and the Comoros had lower scores (Figure 3-2).

Figure 3-2
Government Effectiveness Index



Improving public sector capacity and effectiveness should therefore be a top priority for the Iraqi authorities and international donors. Focus issues include strengthening fiscal and monetary management to establish a credible record of macroeconomic stability, and enhancing the capacity for implementation of the capital budget.

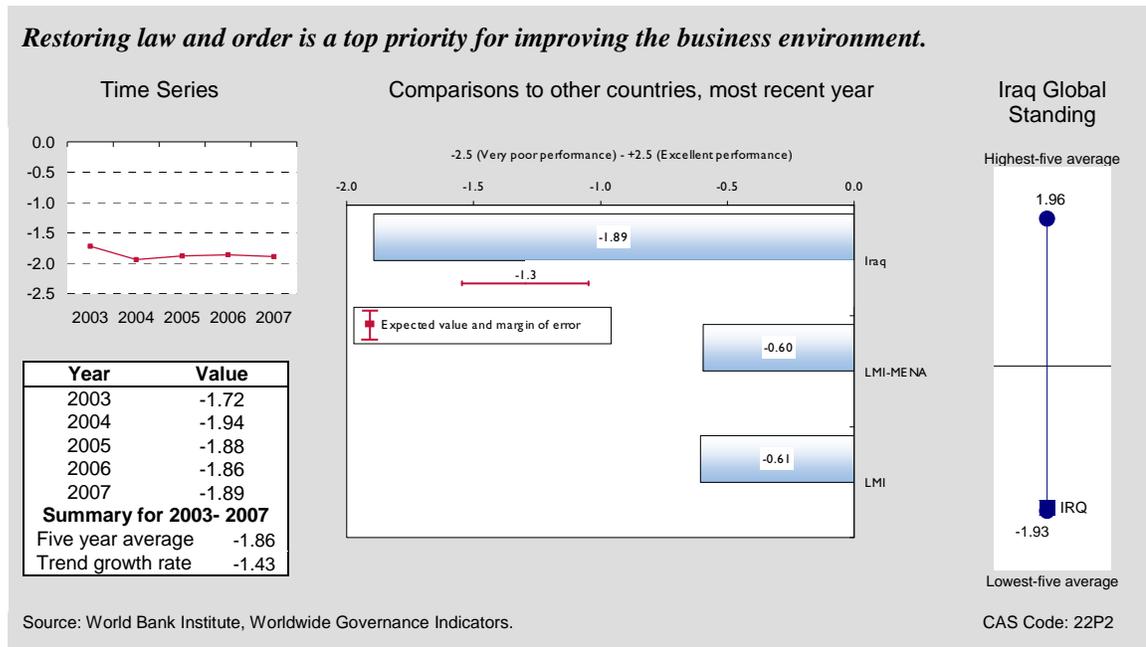
BUSINESS ENVIRONMENT

In Iraq, as in many fragile states, poor governance is a primary impediment to private sector development. Although the public sector is likely to continue dominating the economy during the postconflict recovery period, prospects for long-term growth and job creation in Iraq hinge on broad-based private sector development outside the petroleum industry. Growth cannot be sustained by relying on oil wealth or propping up inefficient state enterprises inherited from the previous regime. This means that the institutional and regulatory foundations for private sector development are crucial to the country's economic performance in the medium to long term. At present, governance conditions in Iraq are very poor on a global scale: public administration is weak, red tape is burdensome, the legal and judicial framework is ineffective, and corruption is rampant.

The magnitude of these institutional problems is captured in a series of governance indices compiled by the World Bank Institute. Each index grades countries on a scale ranging from -2.5 for very poor performance to +2.5 for excellent performance, with 0.0 as the global median. The

Rule of Law Index measures the extent to which all players have confidence in and abide by the rules of society. Maintaining reliable rule of law is a basic requirement not only for improving the business environment, but also for sustaining peace and political stability. Iraq's score of -1.89 on the Rule of Law index for 2007 is the third worst in the world, better only than scores for Somalia and Afghanistan. As conflict conditions recede, the government will face an immense challenge in simply matching the low benchmark represented by LMI-MENA and LMI median scores of -0.60 and -0.61, respectively (Figure 3-3).

Figure 3-3
Rule of Law Index



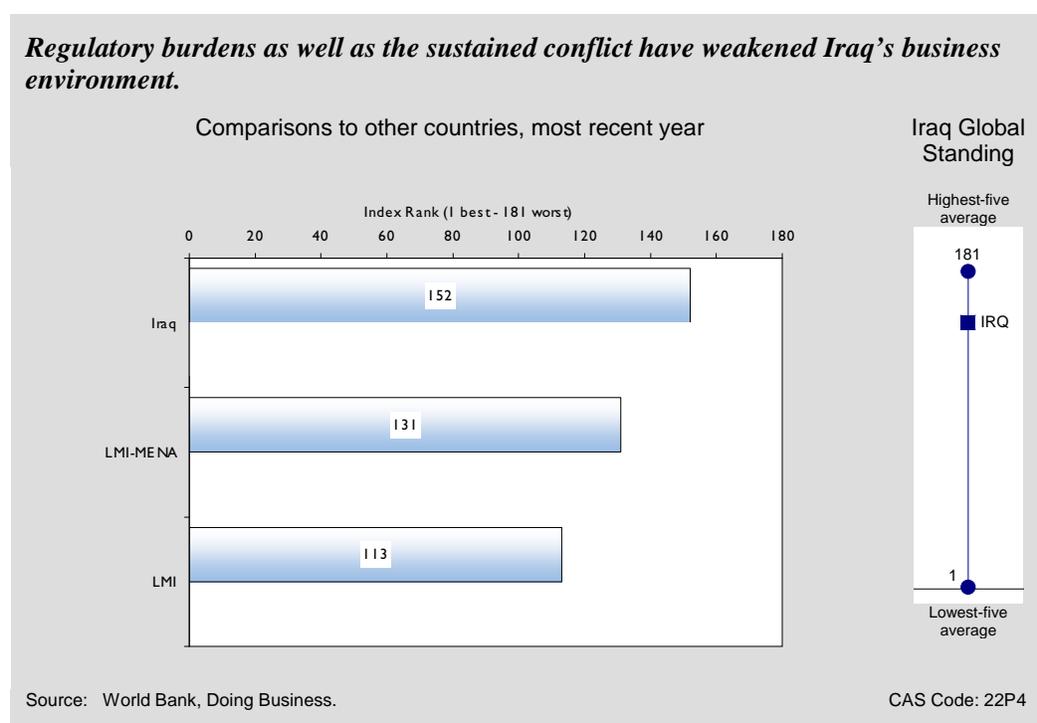
Similarly, the WBI's Control of Corruption Index—an aggregate measure of the extent to which public power is used for private gain and the “capture” of the state by elites and private interests—shows that institutional corruption is severe in Iraq. Although showing improvement from 2004 (-1.54) to 2007 (-1.39), Iraq is still ranked fifth worst in the world, after Somalia, North Korea, Afghanistan, and Myanmar.⁵⁸ By comparison, the LMI-MENA median is -0.54 and the LMI median is -0.59. As with the rule of law, the government of Iraq has an enormous task at hand to achieve minimally appropriate institutional conditions for attracting private investment.

The extent to which Iraqis can select their government and freely express their views—as measured by the WBI's Voice and Accountability Index—has improved significantly since the fall of Saddam Hussein's regime, rising from -2.03 in 2002 (second worst in the world) to -1.29 in 2007. The recent score is approaching the LMI-MENA median of -1.08, though still significantly lower than the LMI median of -0.30.

⁵⁸ This result is echoed in the 2008 rankings on Transparency International's Corruption Perception Index, which places Iraq among the ten most corrupt countries in the world.

Red tape burdens Iraq's business environment, compounding the effects of violence and poor governance on private investment. The ineffective regulatory framework is reflected in the World Bank Group's composite Ease of Doing Business rankings, which combine quantitative assessments of institutional conditions for 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. For the 2009 ratings (reflecting survey results from the previous year), Iraq ranked 152 out of 181 countries examined by the Doing Business team (Figure 3-4). This is a deterioration from 146 in rankings for 2008, indicating that other countries with poor ratings have leapfrogged ahead of Iraq in improving their business environments.

Figure 3-4
Ease of Doing Business Ranking



For example, the Doing Business report estimates that opening a small to medium-sized business in Iraq (for a prototype case) requires 77 days, 11 procedures, and 150.7 percent of Gross National Income per capita. Although the number of procedures is on par with the benchmarks, both the time and cost in Iraq are far more burdensome than the LMI-MENA medians of 30.5 days and 52.3 percent of GNI per capita, as well as the global LMI medians of 40.5 days and 36.3 percent. The cost of enforcing a contract also exceeds the benchmarks, though not as badly, at 32.5 percent of the contract claim, compared to the LMI-MENA median of 25.7 percent and the LMI median of 28.4 percent. In contrast, standard property registration in Iraq takes only 8 days, compared to the LMI-MENA median of 44 days and the LMI global median of 47 days. Even though progress has been made in simplifying procedures, the government and the private sector have as much more to do to improve the institutional environment.

Maintaining law and order, curbing corruption, reforming the regulatory framework, and achieving institutional efficiency will be keys to the development of a strong private sector. Particular attention must be paid to the corruption hindering political reforms and reconstruction. Donors should continue to support programs aimed at reducing barriers to doing business, including institutional capacity building and further simplification of regulations, as well as improved access to credit (see next section). By encouraging stability, reform, and private sector expansion, such programs can build business confidence and promote sustainable growth in postconflict Iraq.

FINANCIAL SECTOR

Financial sector development is fundamental to the resumption of normal economic activity in a fragile postconflict environment. A well functioning financial system furnishes the means of payment for all monetary transactions; mobilizes savings; finances business operations, investment, and major household expenditures, particularly for housing; and allocates financial resources productively, fostering entrepreneurship and improving risk management.

Iraq's financial sector is small and underdeveloped, a legacy of the state-managed economic regime under Saddam Hussein compounded by wartime destruction of facilities and widespread looting in 2003. Its lack of depth, efficiency, soundness, and diversity seriously impedes private sector development, growth, and poverty reduction.

A simple indicator of the development of the banking sector and monetization is the ratio of broad money (currency plus bank deposits) to GDP. In 2007, broad money totaled just 25 percent of GDP, far below the 70.2 percent LMI-MENA average, and well under the global LMI standard of 41.7 percent. However, this figure is a significant improvement from the ratio of 22.0 percent in 2006. A further rise is in prospect for 2008 as broad money in October was up by 60 percent over the level one year earlier.⁵⁹ This progress indicates that improved conditions in Iraq are restoring confidence and expanding use of the dinar in place of foreign currencies. Nonetheless, bank deposits account for less than half of the broad money supply, indicating that banks still have a very limited role in the transactions system (Figure 3-5).

A second basic indicator of financial development is the amount of domestic credit to the private sector as a percentage of GDP. By the end of 2007, this credit ratio was only 2.6 percent of GDP, woefully low compared to the LMI-MENA median of 41.7 percent and the LMI median of 33.9 percent.⁶⁰ There have been steady improvements, however, in each year since the war, with the ratio nearly doubling from a starting point of 1.4 percent of GDP in 2004. Given the enclave nature of the oil industry and the likely predominance of offshore financing for its major operations, it is also useful to examine credit to the economy as a percentage of *non-oil* GDP. This ratio, too, was extremely low at 5.5 percent in 2007, up from 3.8 percent in 2004. These

⁵⁹ Source: CBI Key Financial Indicators, http://www.cbi.iq/en/key_financial_indicators.htm. Various IMF reports only show credit to the economy which includes state-owned enterprises. CBI tables show that state enterprises account for approximately 20 percent of the total.

⁶⁰ Source: CBI monetary survey at http://www.cbi.iq/xl&wr/Monetary_Survey_f.xls.

credit ratios are likely to increase substantially in 2008, as banks increased lending to the private sector by 26.9 percent over the 12 months to June 2008 (Figure 3-6).

Figure 3-5
Money Supply, Percent of GDP

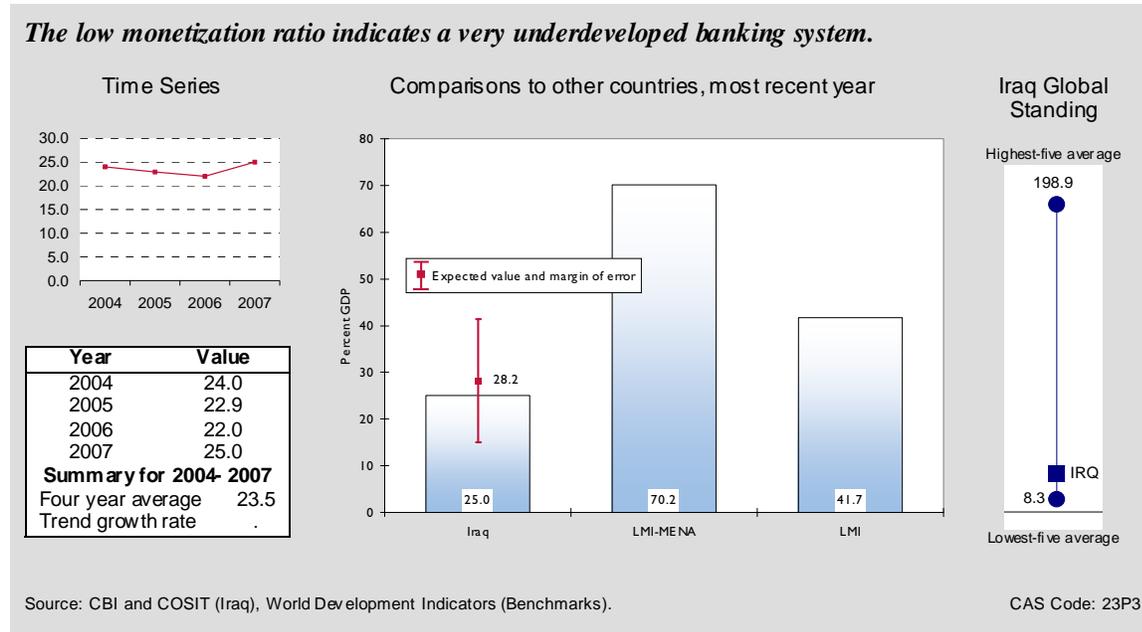
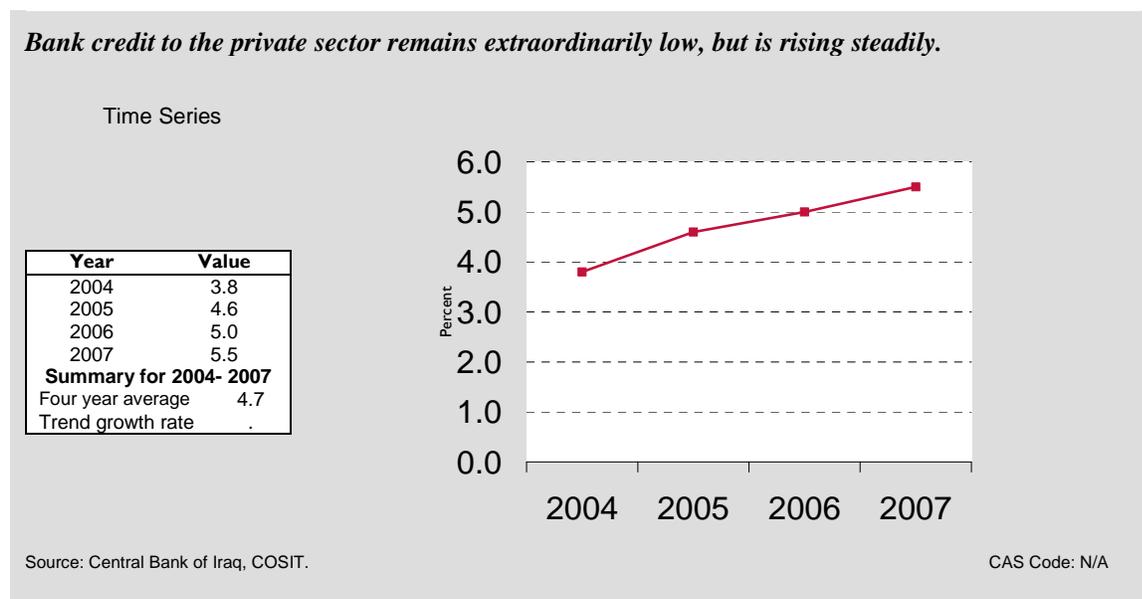


Figure 3-6
Domestic Credit to the Private Sector, Percent Non-oil GDP



Another sign of underdevelopment in the financial system is the relatively high spread between the average prime lending rate and the average deposit rate.⁶¹ The spread of 8.4 percentage points in 2007 was well above the LMI-MENA median of 5.5 points and the global LMI median of 7.3 points. A high spread can be caused by lack of competition in the financial system, operational inefficiency in financial intermediation, or high lending risks. In Iraq all three factors appear to be at work. Despite the presence of 28 private banks as of the end of 2007, two operationally weak state-owned banks dominate the system. The larger, Rafidain Bank, controls 89 percent of total bank assets; state banks overall hold 98 percent of total assets in the system.⁶² Furthermore, the IMF has designated the restructuring of the two main state banks as a priority reform under the current Stand-By Arrangement. Finally, the risk factor for lending to businesses in Iraq is self evident. The puzzle is why the interest rate spread widened by 3.5 percentage points between 2004 and 2007. A possible explanation is that the rapid growth of credit over the past few years has led the banks to deal with new clients involving greater credit risks, particularly given the weak condition of the private sector.

On a positive note, lower inflation in 2007 and 2008 has pushed the real interest rate on loans squarely into positive territory after years of deeply negative rates. This is an important development because Iraq cannot afford the misallocation of scarce financial resources that occurs when negative real interest rates undermine the screening function of the price of credit, making it profitable to borrow for even unproductive activities.

Another favorable development has been the emergence of microfinance institutions (MFIs), with a strong boost from international donors. Microfinance creates economic opportunities and improves livelihoods for the poor, both necessary to ease tensions in Iraq. USAID alone has supported nine MFIs that recorded a cumulative \$150 million of loans between 2003 and 2007. Since most microcredits are short-term loans, these cumulative figures exceed the volume outstanding at any given time. For the latter measure, the most recent available data are from a USAID-sponsored microfinance summit for Iraq held in November 2006. At that time US-supported MFIs recorded 17,000 current clients with \$18.5 million of loans in 15 provinces.⁶³

Other financial institutions are also relatively small and weak. At the end of 2008, 96 companies were listed on the Iraq Stock Exchange, but market capitalization was only 2 percent of GDP and the turnover rate on listed stocks was just 0.6 percent. One-third of the listed entities are financial institutions, including 20 banks, 4 insurance companies, and 8 financial investment companies.⁶⁴ To encourage the development its capital markets and to help offset the budgetary effects of the plunge in oil prices (see Economic Stabilization and Government Capacity), the government should consider raising funds by issuing debt to the domestic private sector. Investing in government bonds is relatively low-risk and provides an excellent way for ordinary Iraqis to

⁶¹ IMF, International Financial Statistics.

⁶² CBI, Annual Bulletin 2007, 70.

⁶³ See <http://www.usaid.gov/press/releases/2008/pr080325.html>. One NGO active in this area reported in June 2008 a cumulative disbursement of US\$122 million in micro-credits. For current loans as of November 2006 see http://www.microlinks.org/ev_en.php?ID=16148_201&ID2=DO_TOPIC.

⁶⁴ For information on the Iraq Stock Exchange see <http://isx-iq.net>.

become involved in the financial sector. Bonds are also a noninflationary form of government financing.

In conclusion, Iraq's small and inefficient financial system severely constrains prospects for a robust economic recovery (outside the oil industry). With security improving, access to finance is also getting better, albeit from an extremely low base. Continued donor assistance will be critical for strengthening, broadening, and deepening the financial system, including sustainable financing for micro, small, and medium enterprises. As banks expand, they must follow prudent lending practices to avoid the crisis that often results from rapid growth in lending. To develop a sound and stable financial system, Iraq requires well managed financial institutions with well trained staff, strong prudential supervision, and effective competition in the financial system, as well as a business environment that fosters bankable opportunities for private sector development.

EXTERNAL SECTOR

Fundamental changes in international commerce and finance, including reduced transport costs, advances in telecommunications technology and lower policy barriers, have fueled a rapid increase in global trade integration over the past 30 years. Fragile states are often unable to take full advantage of these opportunities. Reestablishing and building linkages to international markets for goods, services, and capital should play an important part in Iraq's economic recovery.

In evaluating economic progress in a fragile postconflict state, the most important external sector indicators are the growth and diversity of exports and the country's ability to attract international aid and investment, reduce its debt burden, and expand international reserves to instill confidence and establish a cushion against shocks.

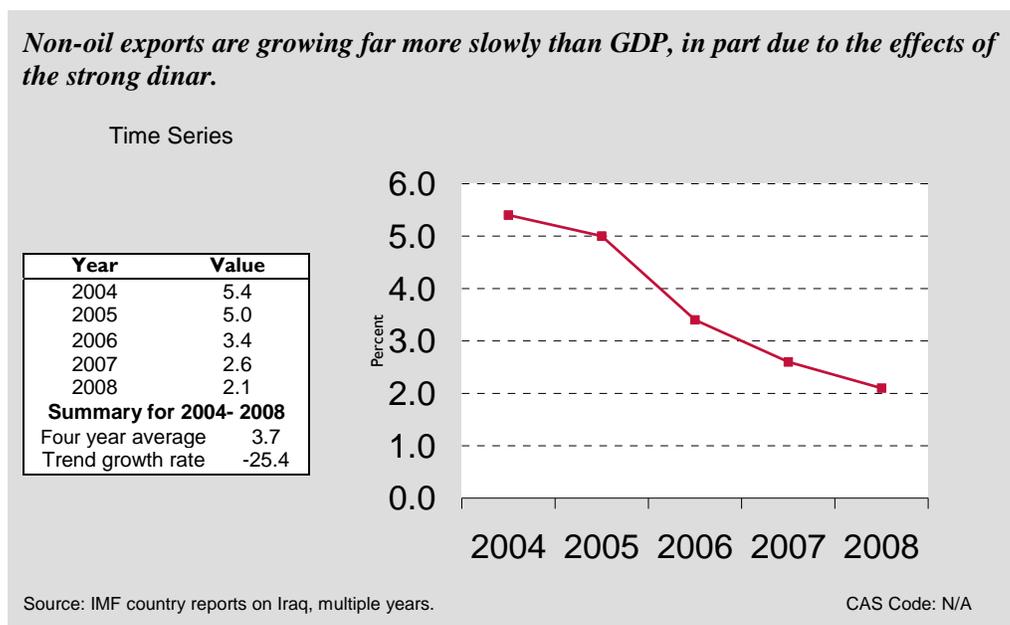
International Trade

From 2004 to 2007, Iraq's export revenue grew in dollar terms at an annual average rate of 28.6 percent, far outpacing the median of 6.4 percent for LMI-MENA. Nearly all of this growth is attributable to a doubling in oil earnings—from \$17.8 billion in 2004 to \$37.8 billion in 2007—as production gradually resumed in a time of soaring world oil prices. The recent plunge in prices from around \$145 per barrel in mid-2008 to around \$45 per barrel by year end caused a huge drop in earnings for the second half of 2008, continuing into 2009. Fortunately, the government has a large fund of offshore savings from prior oil exports to ease the adjustment; though tough decisions will have to be made to ensure that Iraq's budget deficit does not balloon as a result of the plunge (see Economic Stabilization and Government Capacity).

The extraordinary aspect of Iraq's trade picture is that crude oil accounts for more than 97 percent of export earnings. In 2007, non-oil exports earned a mere 1.1 percent of GDP (2.6 percent of non-oil GDP). At the same time, imports in 2007 amounted to 33.1 percent of GDP (76 percent of non-oil GDP), roughly half going to the private sector. For 2008, the IMF estimates that non-oil export earnings were no higher than two years earlier, while imports by the private sector rose by

138 percent over the same period⁶⁵ (Figure 3-7). Thus, Iraq is extremely dependant on oil earnings to support a basket of imports which, for the private sector alone, are ten times higher than non-oil export revenues. Given that Iraq possesses some of the world's largest oil reserves, which are readily accessible (under peaceful conditions), the country can cope with volatility in the world market for oil as well as any major producer. A more important concern is that exports in most developing countries are a major source of employment, especially for unskilled labor. As discussed above (see Economic Structure), the oil industry employs barely 1 percent of the workforce. The lack of export diversification is a major impediment to job creation, itself a top priority for consolidating and sustaining the peace.

Figure 3-7
Non-oil Exports, Percent Non-oil GDP



The paucity of non-oil exports is not the result of trade policy barriers. On the contrary, since 2003 Iraq has had an open trade regime characterized by a low 5 percent customs duty on imports.⁶⁶ To be sure, security problems are a great hindrance to trade. The most serious constraints, however, stem from low competitiveness in producing tradables for export or import substitution, particularly in agriculture and manufacturing. This low competitiveness results from a combination of weak productivity and a strong local currency. Weak productivity is partly a legacy of inward-looking strategies pursued by the previous regime, which bred inefficiency. It is also a consequence of low investment, poor access to finance, a difficult business environment, and the loss of skilled workers, as discussed in other sections of this report.

⁶⁵ Source: Balance of Payments tables in IMF (2008) Country Reports No. 08/383 and 08/303, and IMF (2007) Country Report No. 07/301.

⁶⁶ Iraq applied for WTO accession in 2004. As of 2008, a working group was examining Iraq's trade regime pursuant to the accession process. See http://www.wto.org/english/thewto_e/acc_e/a1_iraq_e.htm.

Prospects for producing tradables and diversifying exports are also influenced heavily by exchange rate policies. In Iraq, the inflow of oil earnings has strengthened the dinar and built inflationary pressures that only recently have come under control. Between 2004 and the end of 2008, the dinar rose by 18 percent against the dollar while domestic prices nearly tripled. Under these conditions a domestic enterprise producing tradable goods with a substantial local content or labor cost would face a huge and increasing competitive disadvantage due to movement in the real exchange rate. The overt effect on existing entities has been limited because there is so little production of tradables in Iraq. The problem is that real appreciation of the dinar inhibits investment in more labor-intensive industries that should be a prime source of growth.

Many oil-rich countries, from Nigeria and Gabon to Venezuela, have suffered setbacks due to this exchange rate syndrome. Others, such as Indonesia and Norway, have coped reasonably well through prudent management of export earnings. Since the 1950s, for example, Norway has been parking oil earnings in an offshore fund to minimize pressure on the exchange rate, restraining domestic spending of oil revenue to control inflation, and investing heavily in education and technology to strengthen productivity and competitiveness.⁶⁷

Following Norway's example, Iraq has been saving a portion of its oil revenues in an offshore fund since 2003 (see Exhibit 2-2)—but not to the extent of stabilizing the real exchange rate. Iraqi authorities face an urgent need to spend oil earnings on domestic priorities, so tight fiscal policy, as pursued in Norway, is inappropriate, at least in the short run. Similarly, a substantial devaluation might be undesirable at this time because it would create an impulse of inflation by raising the dinar price of imports just as the government has been gaining control of inflation.

In the future, however, the authorities will have to balance these considerations against the need to maintain a more competitive exchange rate to stimulate investment in sectors other than oil. To this end, the government must continue investing a calibrated share of oil earnings in the offshore account to contain pressure for further real appreciation and to smooth out economic adjustments to the strong dinar. This is especially important to the extent that the oil earnings can all too easily prove to be temporary, as seen in 2008. Indeed, a case can be made for managing oil earnings with a view to engineering a gradual real depreciation of the exchange rate in order to enhance the competitiveness of new investments outside the oil sector.

Using oil revenue to rebuild infrastructure and expand public services will also enhance productivity throughout the economy. More careful study is needed to determine for particular investments whether these indirect productivity benefits outweigh the adverse effects of a strong real exchange rate. The government can also mitigate the impact of oil earnings on the real exchange rate by increasing the share of its spending on imported goods and services, to avoid unduly pumping up domestic demand. Such purchases include equipment for construction and the expansion of utilities; computer supplies for schools, hospitals, and government agencies; overseas education for professionals and technical workers; and even foreign technical expertise geared to national development needs.

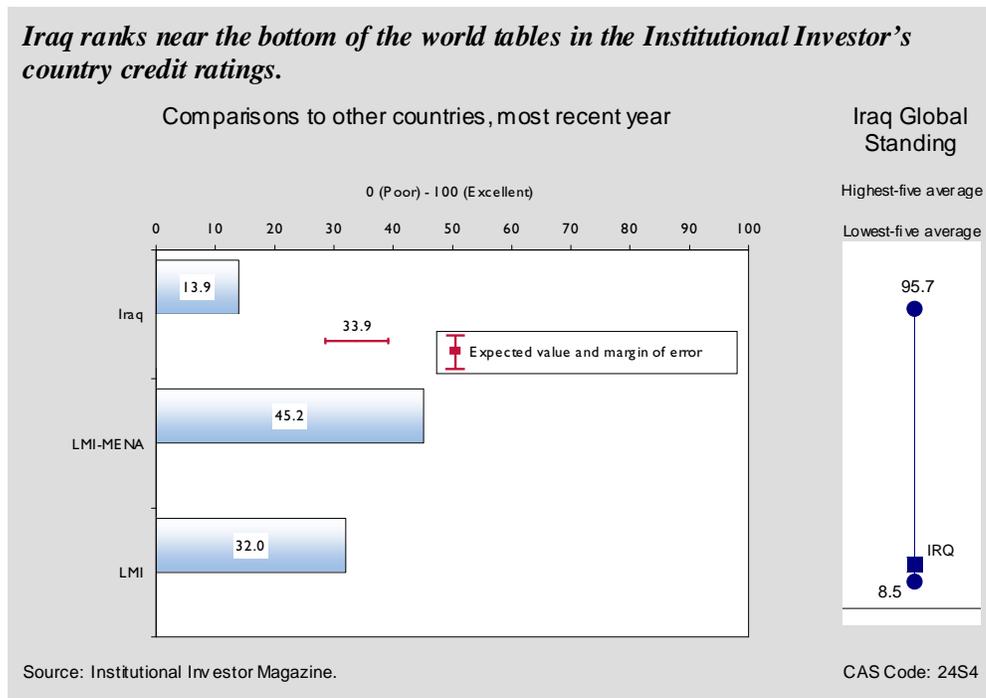
⁶⁷ Larsen, Erling Roed. 2004. Escaping the Natural Resource Curse and the Dutch Disease? Discussion Paper No. 377, Statistics Norway, Research Department.

External Financing and International Reserves

Unlike many conflict-ridden states, Iraq does not need to finance a large current account deficit with capital inflows. Because of its oil wealth the country has run a current account surplus averaging 13.2 percent of GDP over the period 2005 to 2007. The IMF estimates that the surplus reached 15.1 percent of GDP in 2008, though it projects a zero balance for 2009 because of low oil prices.

Still, Iraq has a considerable interest in attracting foreign direct investment (FDI) to spur development and growth by transferring technology, developing human capital, establishing linkages to external markets, and enhancing competition. FDI inflows have been averaging just 1 percent of GDP over the period 2004 to 2007, well below the LMI-MENA median of 5.5 percent and the global LMI benchmark of 7.5 percent—and even further below the expected value of 6 percent of GDP for a major oil-exporting country with Iraq’s structural characteristics. The IMF projects that FDI increased to 2.3 percent of GDP in 2008, still low relative to both needs and international standards. As the security situation continues to improve, so should the FDI inflows. But the amount of investment, especially outside the oil sector, will be heavily influenced by progress in maintaining macroeconomic stability and improving the business environment. In this regard the prospects are not favorable: on a scale of 0 to 100 Iraq scored a mere 13.9 in the Institutional Investor’s country credit ratings for 2008, placing it near the bottom of world tables. This compares poorly to all the international benchmarks (see Figure 3-8).

Figure 3-8
Country Credit Rating



Since 2003, foreign aid for reconstruction, humanitarian relief, and institutional development has been much more important than FDI as a source of external financing in Iraq. In 2007, aid accounted for 6.6 percent of Gross National Income (GNI), down from 18.1 percent the previous year.⁶⁸ Although the drop is substantial, aid to Iraq remains far above the LMI-MENA median of 1.3 percent and the global LMI median of 3.6 percent. With oil production nearing full resumption, Iraq should soon be able to lessen financial dependence on foreign aid but will likely require support for capacity building and institutional development for years to come.

Another major problem has been the heavy burden of debt inherited from Saddam Hussein's regime. In 2004, this debt amounted to a staggering 379 percent of GDP. Through IMF programs, Paris Club negotiations, and other channels, official and private creditors have forgiven a substantial portion of this debt, reducing it to an estimated 163 percent of GDP in 2007, with a further decline to 43 percent of GDP in 2008. Even further relief is expected in 2009 as a result of Iraq's adherence to the Stand-By Arrangement with the IMF. For 2009, the IMF projects that the debt ratio will decline to 40 percent under the debt relief program, compared to a projected 50 percent otherwise.⁶⁹ As a result of debt relief and rising export earnings, debt service payments declined rapidly from 32.5 percent of exports in 2004 to 12.4 percent in 2007 and an estimated 8.9 percent in 2008. The latter figure is in line with the expected value for a country with Iraq's characteristics (8.2), though above the LMI-MENA median of 1.2 percent. More to the point, the debt service ratio has declined to the point where it is no longer a policy problem.

The huge hike in oil prices of recent years allowed the Central Bank of Iraq (CBI) to build its stock of official international reserves as a cushion against external shocks. In 2004, gross reserves were equivalent to just 3.2 months of imports, at \$8 billion. By 2007, reserves reached 8 months of imports, and the IMF estimates a further rise in 2008 to nearly 12 months of imports, or \$47 billion.⁷⁰ The 2007 figure was already on par with the expected value of 7.6 months of imports for a country with Iraq's characteristics, and somewhat better than the LMI-MENA median of 3.9 months.

Iraq's oil insulates it from some of the external pressures felt by other postconflict economies. Nevertheless, Iraq must manage its external sector policies wisely, fostering broad-based growth while maintaining macroeconomic stability and cushioning the economy from external shocks. With the debt problem essentially solved, one core issue is to manage oil earnings wisely in order to promote vigorous private sector development in industries other than oil. A second core issue is to attract FDI as a catalyst for development. On both counts, the government must also pursue complementary policies to improve the business environment.

⁶⁸ Source: Balance of Payments tables in IMF Country Reports No. 08/383, 08/303, and IMF 07/301.

⁶⁹ The data in this paragraph on external debt and debt service are from the IMF Country Report No. 08/383, pp. 29-31.

⁷⁰ Source: Balance of payments tables in IMF Country Reports No. 08/383 and 08/303, and IMF 07/301.

ECONOMIC INFRASTRUCTURE

Efficient and dependable physical infrastructure—for transportation, energy, and communications—is a critical determinant of success in postconflict recovery and sustained economic growth. Inadequate infrastructure impedes reconstruction and retards economic and social development by raising the cost of production and service delivery and diminishing productivity and competitiveness.

Most standard international indicators of infrastructure quality are unavailable for Iraq, making it difficult to apply benchmarking to the analysis. The information that is available reveals serious problems with the basic economic infrastructure, but also considerable progress in infrastructure development over the past few years.

Transportation systems are the backbone of domestic economic activity and international trade. In 2003 (latest data) Iraq was maintaining an extensive road network of 39,952 kilometers, approximately 85 percent of which is paved.⁷¹ Rail lines connect major cities, with links to Syria and Turkey, and four ports provide access to the Persian Gulf.⁷² Military conflict and acts of insurgency heavily damaged this network but international donors and the Iraqi government have made a concerted effort to rehabilitate the entire transport infrastructure. As a result, transport connections are hampered more by security problems in various locales than by insufficient infrastructure. One glaring deficiency is the absence of rail connections to Jordan or Saudi Arabia, but plans are underway to seek funding to develop rail connections.⁷³

Problems with power supply are a more serious impediment to private sector development. Ninety four percent of households are connected to the national grid but electricity services are erratic.⁷⁴ According to the Brookings Iraq Index, the average customer in Iraq received an estimated 14.1 hours of electricity per day in December 2008.⁷⁵ While this is an improvement from 11.6 hours one year earlier and 9.2 hours at the end of 2006, power supplies still fall far short of national requirements, compelling tens of thousands of businesses and households to rely on generators.⁷⁶

The information and communications technology (ICT) infrastructure has improved rapidly in the past few years. Between 2005 and 2007, telephone density jumped nearly tenfold to 53.1 connections per 100 people (including fixed lines and mobile phones), from 5.7 connections in

⁷¹ USAID. Iraq Infrastructure Reconstruction Program Assessment Report Executive Summary, June 2003, 23.

⁷² The four ports are Basrah, Khor Al Zubai, Mina Al Bakr and Umm Qasr. See: <http://www.worldportsource.com/ports/IRQ.php>.

⁷³ AFP article: <http://afp.google.com/article/ALeqM5h09CKE8ovrKXHvd7Ymr-JSlacnXA>, accessed January 30, 2009.

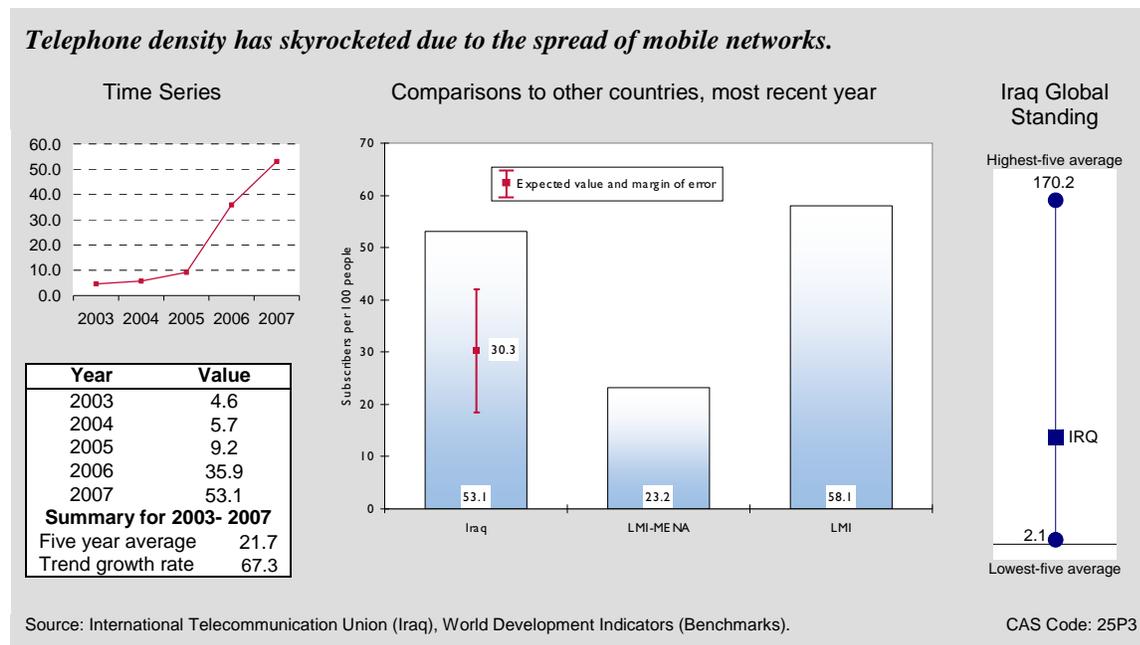
⁷⁴ World Food Programme, 32.

⁷⁵ First hand evidence from the field suggests that national grid power supply is much lower than the hours of availability estimated by the Brookings Iraq Index.

⁷⁶ Brookings Iraq Index, January 5, 2009, 40.

2005.⁷⁷ In the twelve months to April 2008, the number of phone subscribers rose by 35 percent.⁷⁸ The number of phone connections in Iraq is now well above the LMI-MENA median of 23.2 per 100 people, and comparable to the global LMI median of 58.1 (Figure 3-9). Internet usage has likewise increased tenfold, but from an extraordinarily low base. Thus, in 2007 there was still just one user per 100 people in Iraq, far below the LMI-MENA median of 6.5 and the LMI median of 8.8.

Figure 3-9
Telephone Density



The clear trend toward rapid improvement in infrastructure services holds great promise for economic and social development. In addition to spurring growth in all sectors, the provision of infrastructure services provides broad scope for job creation and direct opportunities for private sector development through public-private partnerships. Thanks to oil earnings, the government has the financial capacity to finance certain infrastructure projects though projects will need to be prioritized in light of the recent plunge in oil prices (see Economic Stabilization and Government Capacity). Further technical assistance is needed to build the government's capacity to implement capital projects and devise and plan approaches to private sector participation in infrastructure development.

⁷⁷ Data from the International Telecommunications Union: <http://www.itu.int/net/home/index.aspx>.

⁷⁸ Brookings Iraq Index, January 5, 2009, 47.

4. Pro-Poor Growth Environment

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

HEALTH

The provision of basic health services is a major form of human capital investment and a significant determinant of economic growth and poverty reduction. An understanding of the health status of a population can also influence the design of economic recovery interventions. Insecurity, curfews, and restrictions on movement interrupt the supply of drugs and services and hamper the coordination and provision of basic healthcare in regions suffering conflict. In Iraq, years of human rights abuses followed by a prolonged period of violent conflict have caused "brain drain" and a consequent dearth of qualified physicians as well.

Life expectancy at birth is commonly regarded as the best overall indicator of the health of a population. In Iraq, life expectancy was just 50 years in 2006. This is significantly below the LMI median of 70.6 years and the LMI-MENA median of 71.9 years and the pre-war life expectancy of 59.⁷⁹ According to a World Bank analysis, among others, the main cause has been insecurity in the country since the 1990s. In fact, the male adult mortality rate in Iraq is the highest in the world.⁸⁰ Because of the prevalence of violence, life expectancy may not be such a good indicator of health conditions, as such, in Iraq.

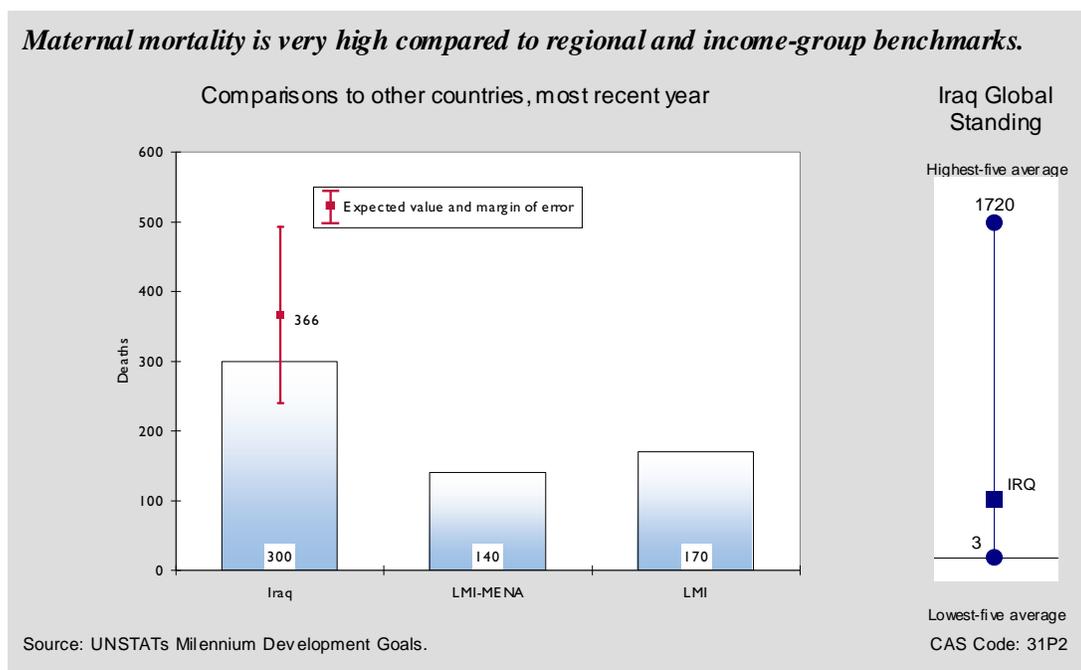
⁷⁹ World Development Indicators database.

⁸⁰ "Health and Economic Development in MENA Countries," World Bank. Available online at http://siteresources.worldbank.org/INTMNAREGTOPHEALTH/Resources/MNA_HPFLahouel.pdf.

Other indicators confirm that the badly strained healthcare system needs investment and restructuring. Under Saddam Hussein, state-run hospitals delivered most health services. Since the regime change, Iraq has been restructuring that model to focus on primary care but must recruit trained medical personnel, improve healthcare infrastructure, and secure supplies of medicine.

Iraq also performs poorly on other health indicators such as maternal and child mortality. The latest estimate of Iraq's maternal mortality rate (MMR) was 300 deaths per 100,000 live births in 2005—more than double the LMI–MENA median rate of 140 and far worse than the global LMI median of 170 (Figure 4-1). The rate is also very surprising in light of the 2006 WHO Annual report which indicated that 88.5 percent of births are attended by a skilled health professional. The high rate may be the result of a number of other factors: limited access to prenatal care, the custom requiring wives to have their husbands' permission to seek healthcare services (see Gender and Children), and early marriage and consanguinity.⁸¹ In any case, pre- and post-natal health programs should include components to educate the community—especially husbands and other male authorities—on circumstances and customs that harm maternal and child health.

Figure 4-1
Maternal Mortality



Because Iraq has a large youth population, the health of children will influence future security and labor force productivity. According to WHO, Iraq's child mortality rate of 123 deaths per 1,000 live births in 2003 fell dramatically to 47 in 2006, nearly matching the LMI median of 44. This large and rapid change may reflect a data problem or changes in child healthcare conditions following the regime change. For example, the IHSES reports a child immunization rate of 93.7

⁸¹ On the problem of marriage between close cousins see <http://www.consang.net/images/c/cb/Asia.pdf>.

percent in 2007,⁸² well above the estimate of 73 percent in 2002 given in the World Development Indicators.

Iraq performs reasonably well on two major environmental indicators of health conditions, access to clean water and sanitation. Results from the IHSES survey show that 83.7 percent of the population had access to an improved water source in 2007,⁸³ or 86.8 percent when tanker truck supplies are included. The survey also found that 76.8 percent of the population has access to improved sanitation.⁸⁴ Both results are in line with the LMI-MENA and LMI global medians, and above the statistical norms for a country with Iraq's structural characteristics. Even though these indicators match international benchmarks, there is still ample room for improvement.

The international community has invested significantly in Iraq's healthcare system since 2003, and the Iraqi government increased spending on health to 2.0 percent of GDP in 2007, compared to an estimated 0.4 percent of GDP in 2001. But this is still a very small commitment of budgetary resources to healthcare, especially in view of the extraordinarily high ratio of overall government spending to GDP (see Economic Stabilization and Government Capacity). In addition, the loss of physicians due to emigration and violence severely limits the quality and availability of healthcare. According to the Brookings Iraq Index, 34,000 physicians were registered in Iraq before 2003. Since then an estimated 20,000 have emigrated and 2,000 have been murdered.⁸⁵

Health influences economic growth as well as social welfare. Improving health conditions in Iraq will require a government commitment to increase health spending and ensure the efficiency of public investments in health. Pressing needs include improving maternal healthcare and attracting emigrant physicians back to Iraq by curbing violence, raising pay, and providing better facilities. In the medium to long term, Iraq needs to expand the supply of health professionals by improving the education system. Strong donor support can supplement local resources and help build capacity at the national and local levels in all of these critical areas.

EDUCATION

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

With a youth bulge of more than 40 percent (See Demography and Environment), Iraq must quickly expand and improve educational services at all levels. The conflict, however, has had a

⁸² IHSES, 280.

⁸³ Ibid., 105.

⁸⁴ Ibid., 103.

⁸⁵ Brookings Iraq Index, January 5, 2009, 48.

serious impact on the quality of the entire education system. Schools have closed, students and teachers lack security in schools that have not closed, families have been displaced, and qualified teachers have been lost to violence or have emigrated. National statistics for 2007 show a net primary enrollment rate of 84.8 percent, slightly better than expected for a country with Iraq's characteristics and not far below the LMI median of 89.7 percent. But the 2007 WFP survey found that 86 percent of full-time students under age 15 do not actually attend school on a regular basis—with approximately 60 percent citing lack of security as a main reason.⁸⁶ Indeed the primary school completion rate for females (63.5 percent) and males (86.0 percent) in 2005 (most recent data) are significantly lower than the LMI-MENA medians of 94.1 percent for females and 95.2 percent for males, as well as the global LMI medians of 91.8 percent and 91.9 percent for females and males, respectively.⁸⁷ In addition, the youth literacy rate of 78.5 percent in 2007 is slightly below the expected value of 83.5 percent.

Enrollment rates in Iraq drop off substantially after primary school. The net secondary enrollment rate in 2007 was a mere 21.2 percent, compared to the LMI-MENA median of 66.0 percent and the LMI median of 55.1 percent (Figure 4-2). At the tertiary level, the gross enrollment rate of 15.8 percent in 2005 (latest data) was also well below the median of 22.4 percent for both the regional and global income comparison groups. Security concerns are again a major cause of low attendance at universities. During the 2006–2007 school year, only 50 percent of students at Baghdad University attended classes on a regular basis. As security improves, attendance rates increase; for the 2007–2008 school year, approximately 80 percent of students attended classes on a regular basis. Moreover, recent reports indicate that teachers and professors lost to wartime brain drain have begun returning.⁸⁸

Enrollment statistics provide insight into service coverage but not service quality, something not easy to quantify. A common but crude indicator is the pupil-teacher ratio. In 2005, there were approximately 21 students per teacher in primary school classrooms in Iraq, slightly better than the LMI-MENA and LMI medians of 24.4 and 26.1, respectively. Furthermore, the ratio has declined from 26 students per teacher in 1999, possibly reflecting a decline in enrollments and persistence. As early as would be practicable, the government should take steps to participate in an international testing system such as the OECD Programme for International Student Assessment (PISA) to obtain better information for monitoring basic education in math, reading, and science.

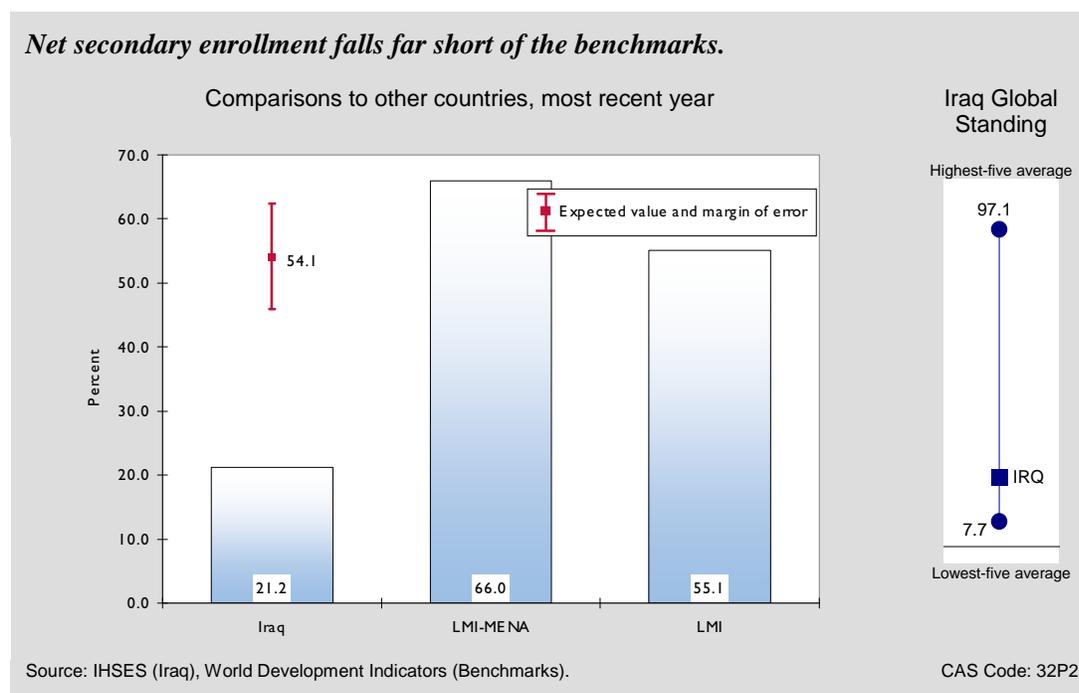
Overall, Iraq must greatly increase its investment in education to raise enrollment and retention rates as well as educational quality. Doing so will help expand economic opportunities for a growing labor force, improve labor productivity, and develop the pool of technical and professional skills needed to modernize the economy. This will require building education infrastructure and providing effective learning materials, as well as extensive recruitment, training, and capacity development to improve teacher competency.

⁸⁶ WFP, 30.

⁸⁷ The 2007 WFP survey reports much lower rates of 31 percent and 29 percent for males and female, respectively. A specific explanation for this discrepancy was not found.

⁸⁸ Brookings Iraq Index, 49.

Figure 4-2
Net Secondary Enrollment



EMPLOYMENT AND WORKFORCE

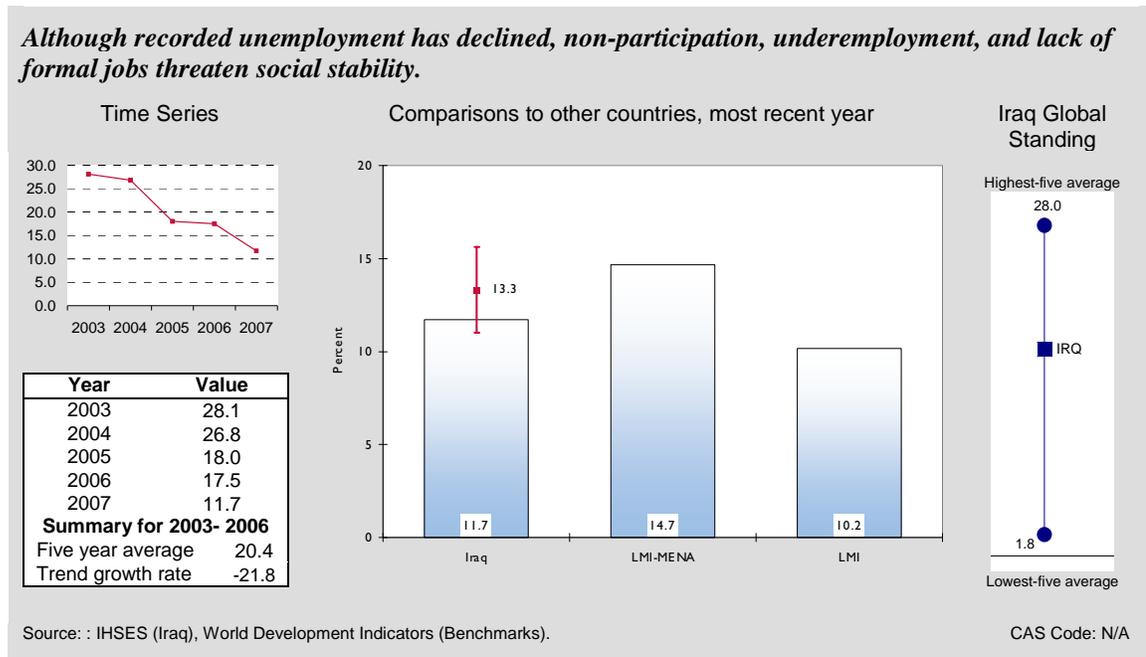
In a fragile postconflict country like Iraq earning opportunities—whether in formal jobs, informal activities, or self-employment—spread the benefits of economic recovery. The lack of such opportunities in Iraq, particularly among young men, has contributed to civil unrest and violence. More generally, unemployment and underemployment depress incomes and limit effective demand and, in a vicious cycle, reduce economic activity. Job creation is thus paramount for short-term stability and long-term development.

Drawing on a variety of sources, the Brookings Institution has cited estimates of a 25 to 40 percent unemployment rate in Iraq over the past three years. Official data from COSIT show the unemployment rate declining from 26.8 percent in 2004 to 17.5 percent in 2006. More recently the 2007 IHSES provided hard data on labor force characteristics based on a well designed national survey. The IHSES recorded an overall unemployment rate of 11.7 percent⁸⁹ (see Figure 4-3).

It must be understood, however, that the technical definition of “unemployment” is limited to persons who did not work at all in the week before the survey (even one hour in the informal sector) and who actively sought work. The measure therefore masks nonparticipation in the workforce, lack of formal sector jobs, and underemployment.

⁸⁹ The IHSES data reported here and in the following paragraphs come from IHSES Volume 2, Tables 5-1 to 5-7. Figures for youth age 15-24 are calculated from age groups 15-19 and 20-24 using respective population weights from IHSES Table 1-0.

Figure 4-3
Total Unemployment



A more detailed examination of the survey results shows that the Iraqi job market is anything but robust, especially for the rapidly growing youth population. In 2007, only three in five men age 15-24 were in the labor force. Of these, 23.3 percent were unemployed and nearly two-thirds of these unemployed reported being full-time students. In the age 20-24 cohort, one-third of the unemployed reported being full-time students, but 40 percent simply had no job and another 8 percent did not work due to security problems. Among women age 15-24, only 7.5 percent were in the labor force and of these 20 percent were unemployed. More than 70 percent of the nonworking women in this cohort cited social reasons or marriage as the cause; 22 percent cited school as the reason. Furthermore, at least one-fourth of all workers were employed outside the formal sector.⁹⁰

Overall, only 43.2 percent of the population age 15 and above were economically active in 2007, with participation rates of 74.6 percent for men and just 12.8 percent for women (see Gender and Children). The overall participation rate is very low even by regional standards, as seen in the LMI-MENA median of 57.0 percent and the expected value for Iraq of 65.3 percent. For LMI countries globally, labor force participation is 68.9 percent, mainly reflecting far higher rates of female participation in the labor force.

The lack of employment opportunity is due more to economic factors than to rigid labor market regulations. In 2009 Iraq scored 38 on the World Bank's Rigidity of Employment Index (0 indicates minimum rigidity and 100 maximum), less favorable to job creation than the LMI

⁹⁰ WFP, Food Security and Vulnerability Analysis, 2008, p. 95. The figure for informal sector employment only includes workers who reported being self-employed outside of agriculture.

median score of 32, but on par with the LMI-MENA median of 39 and much better than the expected score of 51 for a country with Iraq's characteristics.

To curb civil unrest and accelerate economic growth Iraq must deal with mounting demographic pressures in the labor market, mainly by fostering job opportunities in the formal sector. In the short term, opportunities will be heavily weighted toward public works programs. For the medium to long term, however, opportunities will arise from private investment outside the oil sector, workforce development programs linked to market demands, and reforms that facilitate the formalization of small and medium enterprises.

AGRICULTURE

Although Iraq is predominantly a desert nation with erratic rainfall patterns, it is also home to the world's most ancient agricultural traditions fed by the Tigris and Euphrates Rivers—the famed Fertile Crescent. And although oil production now dominates the economy, agriculture can and should have an important role in creating jobs, enhancing food security, and contributing to economic recovery outside the oil sector. As shown in the Economic Structure section, approximately one in six workers are engaged in agricultural activities, producing approximately one-tenth of non-oil GDP. As discussed in the section on Poverty and Inequality, 12 percent of the population is food insecure or relies on food rations from the donor-backed public distribution system.

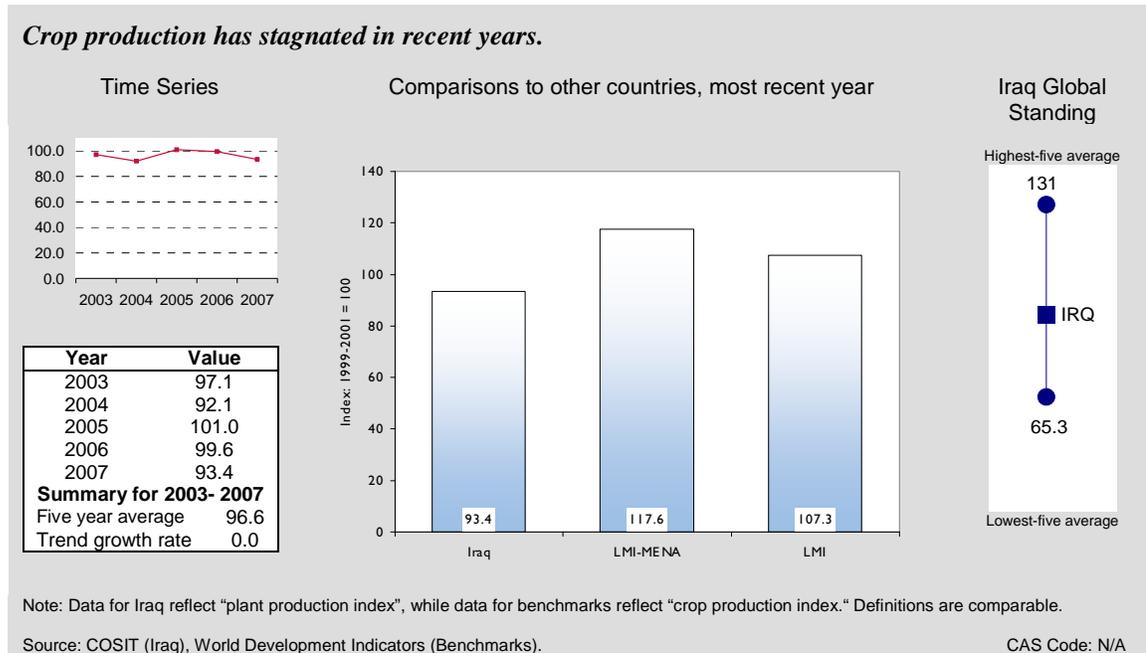
Agriculture in Iraq is mainly in the form of small-scale farming. In 2007, 49 percent of rural households had an agricultural plot, as did 7 percent of households in zones classified as urban. Household production typically centers on wheat and barley—the staple crops—supplemented with vegetables, fruit, and livestock products, including meat, wool, and hides.⁹¹

In recent decades the sector has stagnated. This can be seen in an index of agricultural output compiled by the central statistics organization, COSIT. With a base period of 1988–1990 equaling 100, the index value of 123.2 in 2007 implies an average growth rate since 1989 of 1.5 percent—just half the rate of population growth (see Demographic and Environmental Conditions). Hence, output per capita in agriculture has been in long-term decline, with large fluctuations year to year due to soil salinity, neglect of drainage systems and security conditions.⁹² Agricultural production in 2007 was also marginally lower (by 2.6 percent) than the pre-war average for 1999–2001. Looking at components of the index, crop production was 30.9 percent higher in 2007 than in the late 1980s, but down 6.6 percent from 1999–2001 (Figure 4-4). More specifically, production of fruit crops and industrial input crops (such as cotton, sunflowers and maize) fell sharply from pre-war levels, though cereals production increased. Livestock production registered a small increase of 7.6 since 1999–2001, though is still 6.4 percent lower than in the late 1980s.

⁹¹ WFP, 43.

⁹² COSIT Annual Abstract of Statistics 2006-2007: http://cosit.gov.iq/english/section14_2005.php. Since 2007 was a drought year the comparison in the text is a bit skewed, but the picture does not change materially when one uses instead a three year average for 2005-2007.

Figure 4-4
Crop Production Index



The principal challenges in agriculture are to

- Increase productivity in family farming;
- Attract private investment into commercial farming as well as agro-industry and supporting services throughout the value chain for inputs and outputs (e.g., transportation logistics, marketing channels, market information systems); and
- Develop sustainable systems for providing credit to farmers.

As security and infrastructure improve, private initiative will rise to meet these challenges but an improved business climate, an exchange rate managed carefully to support competitive production of tradable goods, and complementary measures—such as training for farmers, rehabilitation of irrigation systems, and enhanced access to credit—will be important as well. Rising agricultural productivity should provide much needed jobs in high-value added horticulture in the short run. Over time rising productivity may well reduce demand for labor demand in the sector. This normal aspect of transformational development is not an immediate problem but underscores the importance of diversifying out of oil and stimulating employment in industry and services.

Appendix A. CAS Methodology

CRITERIA FOR SELECTING INDICATORS

The economic recovery evaluation in this report balances the need for broad coverage and diagnostic value with the requirement of brevity and clarity. The analysis covers 15 topics related to economic growth and just over 100 variables. For the sake of brevity, the write-up in the text highlights issues for which the “dashboard lights” appear to be signaling problems and which suggest priorities for USAID intervention. The table below provides a full list of indicators examined for this report. The data supplement in Appendix B contains the complete data set for Iraq, including data for benchmark comparisons, and technical notes for every indicator.

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

When Level I indicators suggest weak performance, we review a limited set of *diagnostic supporting indicators*. These Level II indicators provide additional details, or shed light on *why* the primary indicators may be weak.¹ For example, if economic growth is poor, one can examine data on investment and disarmament and demobilization as diagnostic indicators. If life expectancy is low in a particular country, one can examine determinants such as access to improved sanitation or refugees and internally displaced persons per capita following the conflict.²

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

¹ The distinction between *primary* and *diagnostic supporting indicators* is not always clear-cut. In many cases, it is difficult to find readily available discerning and broadly applicable diagnostic indicators.

² Deeper analysis using more detailed data (Level III) is beyond the scope of this series.

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

BENCHMARKING 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 the country being assessed relative to the average for countries in the same income group and region—for Iraq, lower-middle income countries in the Middle East and Northern Africa.³ Three other comparisons provide additional perspective: (1) the global average for the income group; (2) respective values for two comparator countries approved by the USAID mission;⁴ and (3) the average for the world’s five best- and five worst-performing countries. Most comparisons are framed in terms of values for the latest year of data from available sources. Five-year trends are also taken into account when this information sheds light on the performance assessment.⁵ In many cases, however, data limitations preclude time series analysis.

For selected variables, a second source of benchmark values uses statistical regression analysis to establish an expected value for the indicator, controlling for income and regional effects.⁶ This approach has three advantages. First, the benchmark is customized to the country’s level of income. Second, the comparison does not depend on the exact choice of reference group. Third, the methodology allows the quantification of the margin of error and establishment of a “normal band” for a country with characteristics similar to those of the country being assessed. An observed value falling outside this band on the side of poor performance signals a serious problem.⁷ Finally, where relevant, the country’s performance is weighed against absolute standards. For example, a double-digit inflation rate is a sign of macroeconomic problems, regardless of the regional comparisons or other benchmark results.

³ Income groups as defined by the World Bank for 2008. For this study, the average is defined in terms of the median so that values are not distorted by outliers.

⁴ Country comparators were not used in the Iraq report.

⁵ 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.

⁶ 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 the Angola is computed by plugging in Angola-specific values for PCI and Region. Where applicable, the regression also controls for population size and petroleum exports (as a percentage of GDP).

⁷ This report uses a margin of error of 0.68 times the standard error of estimate (adjusted for heteroskedasticity, where appropriate). With this value, 25 percent of the observations should fall outside the normal range on the side of poor performance (and 25 percent on the side of good performance). Some regressions produce a very large standard error, giving a “normal band” that is too wide to provide a discerning test of good or bad performance.

POSTCONFLICT CAS INDICATORS

Indicator	Level ^a	MDG, MCA, EcGov, CAS std ^b
Profile of Conflict and Recovery		
Failed State Index score	I	
Episode of significant violence, highest magnitude in previous 10 years	I	
Type of conflict, highest magnitude in previous 10 years	I	
Magnitude of societal-systemic impact, highest magnitude in previous 10 years	I	
Disarmament, demobilization and reintegration	II	
Human Rights Index	II	
Refugees and IDPs per capita	II	
Postconflict Economic Growth		
Per capita GDP, \$PPP	I	CAS std, I
Real GDP growth	I	CAS std, I
Gross fixed investment, % GDP	II	CAS std, II
Poverty and Inequality		
Income share, poorest 20%	I	CAS std, I
Population living on less than \$1 PPP per day	I	MDG; CAS std, I
Population living below national poverty line	I	MDG; CAS std, I
Human Poverty Index	I	
Population below minimum dietary energy consumption	II	MDG; CAS std, II
Economic Structure		
Output structure	I	CAS std, I
Labor force structure	I	CAS std, I
Adjusted savings: energy depletion, % GNI	II	
Adjusted savings: mineral depletion, % GNI	II	
Demography and Environment		
Adult literacy rate	I	CAS std, I
Youth dependency rate	I	CAS std, I
Youth bulge	I	
Environmental performance index	I	CAS std, I
Population growth rate	I	CAS std, I
Rural population density	I	
Percentage of population living in urban areas	I	CAS std, I
Frequency and scope of natural disasters	II	
Net migration rate	II	

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

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

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

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

^b MDG—Millennium Development Goal indicator

MCA—Millennium Challenge Account indicator

EcGov—Major indicators of economic governance, which is defined in USAID’s Strategic Management Interim Guidance to include “microeconomic and macroeconomic policy and institutional frameworks and operations for economic stability, efficiency, and growth.” The term therefore encompasses indicators of fiscal and monetary management, trade and exchange rate policy, legal and regulatory systems affecting the business environment, infrastructure quality, and budget allocations;
CAS std –Standard CAS template indicator for template version, December 2006.

Appendix B. Data Supplement

This supplement presents a full tabulation of the data and international benchmarks examined for this report, along with technical notes on the data sources and definitions.

	Profile of Conflict & Recovery							
	Statistical Capacity Indicator	Failed State Index Score	Episode of significant violence, highest magnitude in previous 10 years	Type of conflict, highest magnitude in previous 10 years	Magnitude of societal-systemic impact, highest magnitude in previous 10 years	Disarmament Demobilization and Reintegration (DDR)	Human Rights Index	Refugee and IDPs per Capita
Indicator Number	01P1	11P1	11P2	11P3	11P4	11S1	11S2	11S3
<i>Iraq Data</i>								
Latest Year (T)	2008	2008	2007+	2007+	2007+	.	2007	2008
Value Year T	47.0	110.6	1.0	IW	6.0	.	5.0	9.5
Value Year T-1	42.0	111.4	.	.	.	.	5.0	.
Value Year T-2	39.0	109.0	.	.	.	.	5.0	.
Value Year T-3	37.0	.	.	.	.	.	5.0	.
Value Year T-4	29.0	.	.	.	.	.	5.0	.
Average Value, 5 year	38.8	.	.	.	.	.	5.0	.
Growth Trend	10.9	.	.	.	.	.	0.0	.
<i>Benchmark Data</i>								
Regression Benchmark	47.3	.	.	.	.	.	.	.
Lower Bound	40.9	.	.	.	.	.	.	.
Upper Bound	53.7	.	.	.	.	.	.	.
LMI-MENA	70.3	80.2	.	.	.	.	.	.
Lower Middle Income	67.5	81.3	.	.	.	1.0	.	.
High Five Avg.	90.7	110.5	.	.	5.0	.	.	.
Low Five Avg.	24.7	18.7	.	.	1.0	.	.	.

	Postconflict Economic Growth				Poverty & Inequality				
	Per Capita GDP, PPP	Real GDP Growth (% change)	Real non-oil GDP Growth (% change)	Gross Fixed Investment (% GDP)	Incomes-share, Poorest 20%	Population living on less than \$1 PPP per day	Population living below national poverty line	Human Poverty Index	Population below minimum dietary energy consumption
Indicator Number	12P1	12P2	N/A	12S1	13P1	13P2	13P3	13P4	13S1
<i>Iraq Data</i>									
Latest Year (T)	2007	2007	2007	2007	.	.	.	.	.
Value Year T	3,600	1.5	-2.0	16.1	.	.	.	.	.
Value Year T-1	3,489	6.2	7.5	18.4	.	.	.	.	.
Value Year T-2	3,624	-0.7	12.0	23.4	.	.	.	.	.
Value Year T-3	.	46.5	14.9	27.7	.	.	.	.	.
Value Year T-4	.	-41.4	-40.2	.	.	.	.	.	.
Average Value, 5 year	.	2.4	-1.6	.	.	.	.	.	.
Growth Trend	.	.	.	.	.	.	.	.	.
<i>Benchmark Data</i>									
Regression Benchmark	.	.	.	22.5	7.2	.	42.9	.	10.9
Lower Bound	.	.	.	18.4	6.4	.	37.0	.	5.0
Upper Bound	.	.	.	26.5	7.9	.	48.8	.	16.9
LMI-MENA	4,480	.	.	23.7	.	.	.	17.9	5.0
Lower Middle Income	4,713	6.0	.	24.2	6.5	.	.	17.8	12.0
High Five Avg.	50,174	17.1	.	51.3	9.1	45.1	55.1	56.7	67.0
Low Five Avg.	467	1.0	.	9.5	2.3	2.1	15.2	3.9	2.5

Indicator Number	Economic Structure							
	Output Structure (Agriculture, value added, % GDP)	Output Structure (Industry, value added, % GDP)	Output Structure (Service, value added, % GDP)	Labor Force Structure (Employment in Agriculture)	Labor Force Structure (Employment in Industry)	Labor Force Structure (Employment in Services)	Adjusted savings: Energy depletion (% GNI)	Adjusted savings: Mineral depletion (% GNI)
	14P1a	14P1b	14P1c	14P2a	14P2b	14P2c	14S1a	14S1b
<i>Iraq Data</i>								
<i>Latest Year (T)</i>	2007	2007	2007	2007	2007	2007	.	.
Value Year T	5.0	60.0	34.9	15.7	22.7	61.5	.	.
Value Year T-1	5.8	61.1	33.1	27.0	26.3	46.7	.	.
Value Year T-2	6.6	68.4	25.0	.	.	.	.	.
Value Year T-3	7.3	66.5	26.2	17.0	17.8	65.1	.	.
Value Year T-4	8.3	70.1	21.6	.	.	.	.	.
Average Value, 5 year	6.6	65.2	28.2	.	.	.	.	.
Growth Trend	-12.4	-4.0	11.9	.	.	.	.	.
<i>Benchmark Data</i>								
Regression Benchmark	14.0	55.4	25.0	34.2	20.8	45.3	74.7	0.0
Lower Bound	9.5	50.4	19.2	27.8	18.5	39.4	70.8	-2.2
Upper Bound	18.4	60.3	30.8	40.6	23.1	51.2	78.7	2.2
LMI-MENA	11.3	32.7	48.9	24.9	22.9	52.7	5.9	0.1
Lower Middle Income	11.9	31.1	54.8	33.5	20.3	45.3	0.2	0.0
High Five Avg.	56.9	70.1	85.3	.	.	80.4	89.8	24.1
Low Five Avg.	0.3	9.4	18.0	.	.	24.2	0.0	0.0

	Demography & Environment									
	Adult literacy rate	Youth dependency rate	Youth Bulge	Environmental performance index (0 poor performance to 100 good performance)	Population growth rate	Rural population density	Population living in urban areas	Frequency of natural disasters (No. per year)	Scope of natural disasters (No. people affected)	Net migration rate
Indicator Number	15P1	15P2	15P3	15P4	15P5	15P6	15P7	15S1a	15S1b	15S2
<i>Iraq Data</i>										
Latest Year (T)	2006	2007	2007	2008	2007	.	2007	2007	2008	non-dated
Value Year T	65.5	70.0	13.3	53.9	3.0	.	66.7	1	531	1.8
Value Year T-1	.	.	.	53.9	3.0	.	66.8	1	4,696	.
Value Year T-2	.	.	.	.	3.0	.	66.9	2	59,910	.
Value Year T-3	.	.	.	.	3.0	.	67.1	.	.	.
Value Year T-4	.	.	.	.	3.0	.	67.3	1	8,000	.
Average Value, 5 year	.	.	.	.	3.0	.	66.9	.	.	.
Growth Trend	.	.	.	.	0.0	.	-0.2	.	.	.
<i>Benchmark Data</i>										
Regression Benchmark	69.6	59.2	.	.	2.6	218.8	64.8	.	.	0.6
Lower Bound	58.4	54.5	.	.	2.2	-107.9	57.3	.	.	-7.8
Upper Bound	80.8	63.9	.	.	3.0	545.6	72.2	.	.	8.9
LMI-MENA	.	53.1	.	68.1	1.8	181.4	66.3	0	27	-0.1
Lower Middle Income	.	52.7	.	69.6	1.3	288.7	53.5	1	127	-0.5
High Five Avg.	.	97.7	.	89.1	4.0	6,147.6	100.0	16	22,028	20.3
Low Five Avg.	.	19.9	.	37.4	-0.8	6.7	12.4	0	0	-15.4

	Gender & Children										
	Gender Empowerment Measure	Girls' Primary completion rate	Gross Enrollment Rate, Male	Gross Enrollment Rate, Female	Life Expectancy at Birth, Male	Life Expectancy at Birth, Female	Labor Force Participation Rate, Male	Labor Force Participation Rate, Female	Internally displaced females per capita	Use of Child Soldiers - Government	Use of Child Soldiers - Political
Indicator Number	16P1	16P2	16P3a	16P3b	16P4a	16P4b	16P5a	16P5b	16S1	16S2a	16S2b
<i>Iraq Data</i>											
Latest Year (T)		2005			2006	2006	2007	2007			
Value Year T		63.5			49.0	51.0	74.6	12.8			
Value Year T-1		63.1					78.3	20.7			
Value Year T-2		63.7									
Value Year T-3											
Value Year T-4											
Average Value, 5 year											
Growth Trend											
<i>Benchmark Data</i>											
Regression Benchmark		76.5					84.8	38.6			
Lower Bound		66.0					82.0	31.1			
Upper Bound		86.9					87.6	46.1			
LMI-MENA		94.1	73.5	71.5	70.3	72.9	79.2	31.1			
Lower Middle Income	0.5	91.8	69.0	70.0	67.2	72.8	82.1	51.4			
High Five Avg.	0.9	122.6	101.2	106.8	78.7	84.2	94.5	87.1			
Low Five Avg.	0.2	20.0	28.0	21.8	38.5	38.9	64.9	19.8			

Indicator Number	Economic Stabilization & Government Capacity											
	Govt. effectiveness index	Government Expenditure (% GDP)	Government Revenue (% GDP)	Government Revenue (% GDP)	Government Revenue (% non-oil GDP)	Money Supply Growth	Inflation rate	Overall Budget Balance, Including Grants	Overall Budget Balance, excluding Grants (% GDP)	Interest Payments/ Total Government Expenditure	Subsidies and Other Current Transfers/ Total Government Expenditure	Institutional Capacity
	21P1	21P2	21P3	N/A	N/A	21P4	21P5	21S1	N/A	21S2	21S3	21S4
<i>Iraq Data</i>												
<i>Latest Year (T)</i>	2007	2007	2007	2007	2007	2007	2008	2007	2007	2007	2007	2008
Value Year T	-1.68	61.5	71.3	67.6	3.7	27.9	6.8	13.5	9.8	1.3	19.0	8.0
Value Year T-1	-1.85	69.4	67.9	65.2	2.7	43.6	4.7	11.0	-1.5	0.9	14.8	.
Value Year T-2	-1.77	100.8	79.4	76.7	2.7	19.8	64.8	6.5	-21.4	0.2	16.9	.
Value Year T-3	-1.60	120.6	70.9	69.6	67.9	.	31.6	-41.2	-50.3	0.8	31.1	.
Value Year T-4	-1.60	.	.	.	.	.	31.7	.	.	.	.	.
Average Value, 5 year	-1.70	.	.	.	.	.	27.9	.	.	.	.	.
Growth Trend	-2.40	.	.	.	.	.	-49.8	.	.	.	.	.
<i>Benchmark Data</i>												
Regression Benchmark	-1.32	.	26.9	.	.	28.4	.	.	.	.	.	.
Lower Bound	-1.56	.	23.1	.	.	20.3	.	.	.	.	.	.
Upper Bound	-1.08	.	30.7	.	.	36.4	.	.	.	.	.	.
LMI-MENA	-0.60	.	29.0	.	.	13.0	6.6	-2.2	.	.	.	.
Lower Middle Income	-0.49	.	19.8	.	.	17.2	7.8	-2.2	.	.	.	.
High Five Avg.	2.17	.	.	.	.	191.3	23.5	8.0	.	.	.	.
Low Five Avg.	-1.85	.	.	.	.	-0.4	1.7	-12.7	.	.	.	.

	Business Environment										
	Control of Corruption Index (-2.5 for poor performance to 2.5 excellent performance)	Rule of law index (-2.5 for poor performance to 2.5 excellent performance)	Voice and Accountability (-2.5 for poor performance to 2.5 excellent performance)	Ease of Doing Business Ranking (1 best to 181 worst)	Time to Start a Business (days)	Procedures to Start a Business	Cost of Starting a Business (% GNI per capita)	Time to Enforce a Contract (days)	Procedures to Enforce a Contract	Cost to Enforce a Contract (% claim)	Time to Register Property (days)
Indicator Number	22P1	22P2	22P3	22P4	22S1	22S2	22S3	22S4	22S5	22S6	22S7
<i>Iraq Data</i>											
<i>Latest Year (T)</i>	2007	2007	2007	2009	2009	2009	2009	2009	2009	2009	2009
Value Year T	-1.39	-1.89	-1.29	152	77	11	150.7	520	51	32.5	8
Value Year T-1	-1.50	-1.86	-1.39	146	77	11	93.5	520	51	32.5	8
Value Year T-2	-1.40	-1.88	-1.38	.	77	11	65.9	520	51	32.5	8
Value Year T-3	-1.54	-1.94	-1.63	.	77	11	43.4	520	51	32.5	8
Value Year T-4	-1.13	-1.72	-1.60	.	.	.	.	.	.	.	.
Average Value, 5 year	-1.39	-1.86	-1.46	.	.	.	.	.	.	.	.
Growth Trend	-3.87	-1.43	5.77	.	.	.	.	.	.	.	.
<i>Benchmark Data</i>											
Regression Benchmark	-1.14	-1.30	-1.94	164.6	44.9	11.5	107.0	660.3	44.5	27.4	47.4
Lower Bound	-1.35	-1.55	-2.29	144.1	21.7	9.9	72.6	504.7	41.3	16.3	4.6
Upper Bound	-0.94	-1.05	-1.59	185.0	68.0	13.1	141.4	815.9	47.7	38.4	90.3
LMI-MENA	-0.54	-0.60	-1.08	131.0	30.5	10.8	52.3	659.5	41.0	25.7	44.4
Lower Middle Income	-0.59	-0.61	-0.30	113.0	40.5	10.2	36.3	584.5	39.0	28.4	46.7
High Five Avg.	2.39	1.96	1.60	179.0	287.7	18.5	574.0	1,611.6	53.7	149.9	485.8
Low Five Avg.	-1.57	-1.93	-2.08	3.0	4.3	2.4	0.5	182.6	22.9	8.9	2.1

Indicator Number	Financial Sector					
	Domestic credit to private sector (% GDP)	Domestic Credit to Private Sector (% non-oil GDP)	Interest rate spread	Money supply (% GDP)	Real Interest rate	Banking sector default rates
	23P1	N/A	23P2	23P3	23S1	23S2
<i>Iraq Data</i>						
Latest Year (T)	2007	2007	2007	2007	2007	.
Value Year T	2.6	5.5	8.4	25.0	15.0	.
Value Year T-1	2.3	5.0	7.2	22.0	-50.3	.
Value Year T-2	1.8	4.6	7.0	22.9	-18.0	.
Value Year T-3	1.4	3.8	4.9	24.0	.	.
Value Year T-4	.	.	.	.	.	.
Average Value, 5 year	.	.	.	.	.	.
Growth Trend	.	.	.	.	.	.
<i>Benchmark Data</i>						
Regression Benchmark	8.5	.	7.6	28.2	5.6	.
Lower Bound	-2.5	.	5.5	15.0	1.7	.
Upper Bound	19.4	.	9.7	41.3	9.6	.
LMI-MENA	41.7	.	5.5	70.2	5.4	.
Lower Middle Income	33.9	.	7.3	41.7	6.5	.
High Five Avg.	203.4	.	.	198.9	35.3	.
Low Five Avg.	2.0	.	.	8.3	-20.7	.

Indicator Number	External Sector												
	External Aid (% GNI)	Current Account Balance (% GDP)	Debt service ratio (% exports)	Export growth of goods and services	Foreign Direct Investment (% GDP)	Gross International Reserves (months of imports)	Present Value of Debt (% GNI)	Remittance Receipts (% exports)	Concentration of Exports	Trade Logistics Performance Index - Customs	Trade in Goods and Services (% GDP)	Real Effective Exchange Rate (REER)	Country Credit Rating
Indicator Number	24P1	24P2	24P3	24P4	24P5	24P6	24P7	24P8	24P9	24S1	24S2	24S3	24S4
<i>Iraq Data</i>													
<i>Latest Year (T)</i>	2007	2007	2007	2007	2007	2007							2008
Value Year T	6.6	17.3	12.4	26.5	1.5	8.0							13.9
Value Year T-1	18.1	13.6	19.7	29.5	0.2	9.3							12.4
Value Year T-2		8.6	22.3	29.9	1.6	5.8							
Value Year T-3		-37.6	32.5		0.8	3.2							
Value Year T-4													
Average Value, 5 year													
Growth Trend													
<i>Benchmark Data</i>													
Regression Benchmark	0.6		8.2	6.0	6.0	7.6	36.1	32.0			87.6		33.9
Lower Bound	-4.4		2.6	-3.3	3.4	6.2	11.9	6.2			70.6		28.6
Upper Bound	5.6		13.8	15.3	8.7	9.1	60.4	57.9			104.7		39.2
LMI-MENA	1.3	1.2	1.2	6.4	5.5	3.9	28.9	12.2	34.5	2.2	73.1		45.2
Lower Middle Income	3.6	-1.6	-1.6	7.2	7.5	3.4	33.0	14.6	41.8	2.2	88.2	100.2	32.0
High Five Avg.	53.8	23.8	23.8				75.9		185.4		3.9	294.4	95.7
Low Five Avg.	0.0	-29.3	-29.3				-1.7		0.1		1.6	28.5	8.5

Indicator Number	Economic Infrastructure											
	Logistics Performance Index - Infrastructure (score)	Number of Electrical Outages (per month)	Telephone Density, Fixed Line and Mobile (per 100 people)	Internet Users (per 100 people)	Roads Paved (% total)	Percentage of Households with Access to Electricity	Overall Infrastructure Quality	Quality of Infrastructure - Air Transport Infrastructure Index	Quality of Infrastructure - Port Infrastructure Quality Index	Quality of Infrastructure - Rail Development Index	Quality of Infrastructure - Electricity Supply Index	Quality of Infrastructure - Roads
	25P1	25P2	25P3	25S1	25S2	25S3	25S4	25S5a	25S5b	25S5c	25S5d	25S5e
<i>Iraq Data</i>												
<i>Latest Year (T)</i>			2007	2007	2003	2007						
Value Year T			53.1	1.0	85.0	94.0						
Value Year T-1			35.9	0.9								
Value Year T-2			9.2	0.7								
Value Year T-3			5.7	0.1								
Value Year T-4			4.6	0.1								
Average Value, 5 year			21.7	0.6								
Growth Trend			67.3	68.0								
<i>Benchmark Data</i>												
Regression Benchmark			30.3	3.0	56.5							
Lower Bound			18.5	-2.7	41.5							
Upper Bound			42.1	8.7	71.6							
LMI-MENA	2.2		23.2	6.5	70.2		3.6	4.6	3.7	3.0	5.0	3.4
Lower Middle Income	2.3		58.1	8.8	57.2		2.9	4.1	3.1	1.9	3.9	3.1
High Five Avg.	4.2	92.2	170.2	80.9	100.0		6.6	6.6	6.6	6.5	6.8	6.6
Low Five Avg.	1.5	0.4	2.1	0.1	4.8		1.8	2.4	1.4	1.1	1.5	1.6

Indicator Number	Health							
	Child Mortality Rate (per 1,000 live births)	Maternal mortality rate (per 100,000 live births)	Life expectancy at birth	HIV prevalence	Access to improved sanitation	Access to improved water source	Prevalence of Child Malnutrition, Weight for Age	Public Health Expenditure (% GDP)
	31P1	31P2	31P3	31S1	31S2	31S3	31S4	31S5
<i>Iraq Data</i>								
Latest Year (T)	2006	2005	2006	2007	2007	2007	2007	2007
Value Year T	47	300	50	0.2	76.8	83.7	7.5	2.0
Value Year T-1	.	.	.	.	.	.	.	1.8
Value Year T-2	.	.	.	.	.	.	.	2.6
Value Year T-3	123	.	.	.	.	.	.	3.1
Value Year T-4	.	.	.	.	.	.	.	.
Average Value, 5 year	.	.	.	.	.	.	.	.
Growth Trend	.	.	.	.	.	.	.	.
<i>Benchmark Data</i>								
Regression Benchmark	83.9	366.3	65.0	0.2	69.5	76.6	17.7	2.1
Lower Bound	67.8	239.8	62.2	-1.3	60.3	69.7	13.1	1.4
Upper Bound	99.9	492.8	67.9	1.7	78.6	83.4	22.3	2.9
LMI-MENA	.	140	71.9	0.2	80.0	89.0	.	.
Lower Middle Income	44.0	170	70.6	0.2	77.0	88.0	10.3	3.0
High Five Avg.	255	1,720	81.7	21.6	100.0	100.0	.	9.7
Low Five Avg.	4	3	41.9	0.1	8.4	35.0	.	0.3

Indicator Number	Education										
	Net Primary Enrollment Rate, Total	Net Primary Enrollment Rate, Female	Net Primary Enrollment Rate, Male	Net Secondary Enrollment Rate	Gross Tertiary Enrollment Rate	Primary Completion Rate, Total	Primary Completion Rate, Female	Primary Completion Rate, Male	Youth Literacy Rate	Education Expenditure, Primary (% GDP)	Pupil-Teacher Ratio, Primary School
	32P1a	32P1b	32P1c	32P2	32P3	32P4a	32P4b	32P4c	32P5	32S1	32S2
<i>Iraq Data</i>											
<i>Latest Year (T)</i>	2007	2007	2007	2007	2005	2005	2005	2005	2007		2005
Value Year T	84.8	82.1	87.2	21.2	15.8	75.0	63.5	86.0	78.5		20.5
Value Year T-1					15.7	74.6	63.1	85.6			20.5
Value Year T-2						74.9	63.7	85.7			19.4
Value Year T-3	88.6	81.8	95.2	38.4	12.6						21.0
Value Year T-4	88.4	81.6	94.9	38.3		56.5	50.6	62.3			21.2
Average Value, 5 year											20.5
Growth Trend											-0.8
<i>Benchmark Data</i>											
Regression Benchmark	81.3	77.3	84.6	54.1	16.1	85.4	76.5	88.0	83.5	0.0	23.7
Lower Bound	74.8	70.5	78.5	45.9	9.3	75.7	66.0	88.0	74.2	0.0	19.4
Upper Bound	87.7	84.1	90.6	62.4	22.9	95.1	86.9	88.0	92.8	0.0	28.0
LMI-MENA				66.0	22.4	94.9	94.1	95.2		0.0	24.4
Lower Middle Income	89.7	89.4	90.3	55.1	22.4	92.6	91.8	91.9		0.0	26.1
High Five Avg.	99.4	99.6	99.6	97.1	79.3	125.2	122.6	125.7		0.1	63.3
Low Five Avg.	41.4	36.0	46.7	7.7	0.6	25.9	20.0	30.7		0.0	9.9

	Employment & Workforce							Agriculture		
	Labor Force Participation Rate	Rigidity of Employment Index	Economically Active Children (% ages 7-14)	Unemployment Rate, (Ages 15-24), Total	Unemployment Rate, (Ages 15-24), Male	Total Unemployment rate	Informal Sector Employment	Agriculture Value Added per Worker	Crop Production Index (1999-2000=100)	Agricultural Export Growth
Indicator Number	33P1	33P2	33P3	33P4a	33P4b	N/A	33S1	34P1	34S1	34S2
<i>Iraq Data</i>										
<i>Latest Year (T)</i>	2007	2009	2007	2007	2007	2007	2007	2007	2007	2007
Value Year T	43.2	38.0	3	23.2	23.3	11.7	36.8	2,520.8	93.4	28.8
Value Year T-1	49.7	38.0	.	.	.	17.5	.	.	99.6	26.9
Value Year T-2	49.6	38.0	5	.	.	18.0	.	.	101.0	16.9
Value Year T-3	48.5	38.0	.	.	.	26.8	.	.	92.1	-93.2
Value Year T-4	44.1	38.0	.	30.3	.	28.1	.	1,756.3	97.1	.
Average Value, 5 year	47.0	38.0	.	.	.	20.4	.	.	96.6	.
Growth Trend	-0.2	0.0	.	.	.	-21.8	.	.	0.0	.
<i>Benchmark Data</i>										
Regression Benchmark	65.3	50.8	12.5	.	.	13.3	.	.	.	.
Lower Bound	60.8	42.1	4.4	.	.	11.0	.	.	.	.
Upper Bound	69.9	59.6	20.5	.	.	15.6	.	.	.	.
LMI-MENA	57.0	39.0	.	.	.	14.7	.	2,046.1	117.6	14.2
Lower Middle Income	68.9	31.7	.	.	18.2	10.2	.	1,490.5	107.3	14.5
High Five Avg.	92.4	72.4	41.1	.	39.4	28.0	.	49,898.7	131.0	.
Low Five Avg.	50.1	0.0	8.6	.	4.4	1.8	.	90.9	65.3	.

Technical Notes

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

STATISTICAL CAPACITY

Statistical Capacity Indicator

Source: World Bank, updated annually:

<http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,contentMDK:20541648~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html>

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

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

CAS Code: 01P1

PROFILE OF CONFLICT AND RECOVERY

Failed States Index score

Source: Fund for Peace, Failed States Index,

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

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

Coverage: Data are available for all USAID countries.

CAS Code: 11P1

Episode of Significant Violence, Highest Magnitude in Previous 10 years

Source: Center for Systemic Peace, Major Episodes of Political Violence, from Marshall, Monty G. 1998-2006. "Current Status of the World's Major Episodes of Political Violence," bimonthly reports to the U.S. government's Political Instability Task Force, <http://www.systemicpeace.org/warlist.htm>

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

Coverage: Data available for all USAID countries.

CAS Code: 11P2

Type of Conflict, Highest Magnitude in Previous 10 years

Source: Center for Systemic Peace, Major Episodes of Political Violence, from Marshall, Monty G. 1998-2006. "Current Status of the World's Major Episodes of Political Violence," bimonthly reports to the U.S. government's Political Instability Task Force:

<http://www.systemicpeace.org/warlist.htm>

Definition: This variable tries to capture the characteristics of the conflict episode with the highest magnitude in the last 10 years. The first letter (C, E, I) denotes what caused the violence: a civil-intrastate (C) episode involving rival political groups; ethnic-intrastate conflict (E) involving the state agent and a distinct ethnic group; or international event-interstate (I), usually involving two or more states, but possibly denoting a distinct polity resisting foreign domination (colonialism). The second letter (V, W, N) denotes episodes of violence (V) (i.e., the use of instrumental violence without necessarily exclusive goals); war-violence (W) between distinct, exclusive groups with the intent to impose a unilateral result to the contention; or independence (I)—an attempt to forcibly remove foreign domination.

Coverage: Data available for all USAID countries.

CAS Code: 11P3

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

Source: Center for Systemic Peace, Major Episodes of Political Violence, from Marshall, Monty G. 1998-2006. "Current Status of the World's Major Episodes of Political Violence," bimonthly reports to the U.S. government's Political Instability Task Force:

<http://www.systemicpeace.org/warlist.htm>

Definition: This variable captures the highest magnitude of conflict episode in the last 10 years. From episodes in which the number of deaths is under 2,000, to extensive, systematic, and indiscriminate destruction of human resources and/or physical infrastructure with persistent and adverse effects.

Coverage: Data available for all USAID countries.

CAS Code: 11P4

Disarmament, Demobilization, and Reintegration

Source: Graduate Institute of International Studies in Geneva, Switzerland, Small Arms Survey, Cumulative Index 2001–2006, Search for “Where are DDR programmes currently being implemented?”

<http://www.unddr.org/whatisddr.php#11>

Data are also available from the UN DDR Resource Centre <http://www.unddr.org/>.

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

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

CAS Code: 11S1

Human Rights Index

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

<http://www.politicalterroryscale.org/ptsdata.html>

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

Coverage: Data are available for 188 countries.

CAS Code: 11S2

Refugees and IDPs per Capita

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

Definition: Number of refugees and IDPs divided by total population. Refugees include persons recognized under the 1951 Convention relating to the Status of Refugees, its 1967 Protocol, the 1969 OAU Convention Governing the Specific Aspects of Refugee Problems in Africa, those recognized in accordance with the UNHCR Statute, persons granted a complementary form of protection, and persons granted temporary protection. Internally displaced persons (IDPs) are defined as “persons or groups of persons who have been forced or obligated to flee or leave their homes or places of habitual residence, in particular as a result of avoiding or in

order to avoid the effect of armed conflict, situations of generalized violence, violations of human rights, or natural or manmade disasters, and who have not crossed an internationally recognized state border.” (Guiding Principles on Internal Displacement, Introduction, para. 2). Unlike refugees, who have been deprived of the protection of their state of origin, IDPs remain legally under the protection of national authorities of their country of habitual residence. Internally displaced persons are those forced to flee their homes because their lives were at danger, but unlike refugees, they did not cross international borders. Estimates come from various sources, including the Internal Displacement Monitoring Center, United Nations High Commission for Human Rights, and United Nations Office for the Coordination of Humanitarian Affairs. Total population is based on the de facto definition of population, which counts all residents regardless of legal status or citizenship—except for refugees not permanently settled in the country of asylum, which are generally considered part of the population of their country of origin.

Coverage: 75 USAID countries

CAS Code: 11S3

POSTCONFLICT ECONOMIC GROWTH

Per capita GDP, \$PPP

Source: International Monetary Fund (IMF) World Economic Outlook database, updated every 6 months:

<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 65 USAID countries.

CAS Code: 12P1

Real GDP Growth

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

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

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

Coverage: Data are available for about 85 USAID countries.

CAS Code: 12P2

Gross Fixed Investment, Percentage of GDP

Source: IMF Article IV consultation reports for latest country data www.imf.org/external/np/sec/aiv/index.htm; international benchmark from the World Development Indicators, most recent publication series NE.GDI.FTOT.ZS.

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

Coverage: Data are available for about 84 USAID countries.

CAS Code: 12S1

POVERTY AND INEQUALITY

Income Share, Poorest 20%

Source: World Development Indicators, most recent publication series SI.DST.FRST.20. These are World Bank

staff estimates based on primary household survey data obtained from government statistical agencies and World Bank country departments. An alternative source is the country's Poverty Reduction Strategy Paper:

<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 going back to 1997; for the period since 2000, data are available for about 35 USAID countries.

CAS Code: 13P1

Population Living on Less than \$1 PPP per Day

Source: World Development Indicators, most recent publication series SI.POV.DDAY, original data from national surveys. An alternative source is the country's Poverty Reduction Strategy Paper:

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

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

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

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

CAS Code: 13P2

Population Living Below National Poverty Line

Source: World Development Indicators, most recent publication series SI.POV.NAHC. An alternative source is the country's Poverty Reduction Strategy Paper:

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

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

CAS Code: 13P3

Human Poverty Index

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

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

percentage of people without access to health services, and (3) the percentage of underweight children. The HPI ranges in value from 0 (zero incidence of deprivation) to 100 (high incidence of deprivation).

Coverage: Data are available for about 60 USAID countries.

CAS Code: 13P4

Population below Minimum Dietary Energy Consumption

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

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

Coverage: Data are available for about 82 USAID countries.

CAS Code: 13S1

ECONOMIC STRUCTURE

Output Structure

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

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

Coverage: Data are available for about 86 USAID countries.

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

CAS Code: 14P1a-c

Employment or Labor Force Structure

Source: World Development Indicators, most recent publication series SL.AGR.EMPL.ZS for agriculture, series SL.IND.EMPL.ZS for industry, and series SL.SRV.EMPL.ZS for services. An alternative source is the CIA World Fact Book:

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

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

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

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

CAS Code: 14P2a-c

Adjusted Savings: Energy Depletion, percentage of GNI

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

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

Coverage: Data are available for about 88 USAID countries.

CAS Code: 14S1a

Adjusted Savings: Mineral Depletion, percentage of GNI

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

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

Coverage: Data are available for about 88 USAID countries.

CAS Code: 14S1b

DEMOGRAPHY AND ENVIRONMENT

Adult Literacy Rate

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

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

Coverage: Data are available for about 66 USAID countries.

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

CAS Code: 15P1

Youth Dependency Rate

Source: World Development Indicators, most recent publication series.

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

Coverage: Data are available for about 89 USAID countries.

CAS Code: 15P2

Youth Bulge

Source: Obtained from individual country sources.

Definition: Youth bulge is calculated as the percentage of the population ages 15–24 divided by the total population (WDI SP.POP.TOTL)

Coverage: Data are available for about 35 USAID countries.

CAS Code: 15P3

Environmental Performance Index

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

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

Coverage: Data are available for about 80 USAID countries.

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

CAS Code: 15P4

Population Growth Rate

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

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

Coverage: Data are available for about 88 USAID countries.

CAS Code: 15P5

Rural Population Density

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

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

Coverage: Nearly all relevant countries.

CAS Code: 15P6

Percentage of Population Living in Urban Areas

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

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

Coverage: Data are available for about 86 USAID countries.

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

CAS Code: 15P7

Frequency and Scope of Natural Disasters

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

<http://www.emdat.be/Database/CountryProfile/countryprofile.s.php>

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

Coverage: Data are available for nearly all USAID countries.

CAS Code: 15S1a-b

Net migration rate

Source: CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/>

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

Coverage: Data are available for nearly all USAID countries.

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

CAS Code: 15S2

GENDER AND CHILDREN

Gender Empowerment Measure

Source: UNDP, Human Development Report, <http://hdrstats.undp.org/indicators/279.html>.

Definition: Captures gender inequality in three areas: political participation and decision-making power, as

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

Coverage: Data are available for half of USAID countries.

CAS Code: 16P1

Girls' Primary Completion Rate

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

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

Coverage: Data are available for about 128 USAID countries.

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

CAS Code: 16P2

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

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

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

Coverage: Data are available for about 80 USAID countries.

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

CAS Code: 16P3a-b

Life Expectancy, Male and Female

Source: Estimated from UNDP Human Development Indicators: <http://hdrstats.undp.org/indicators/271.html> and <http://hdrstats.undp.org/indicators/270.html> for most recent edition; updates may be found at <http://hdr.undp.org/en/statistics/data/>

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

Coverage: Data are available for about 85 USAID countries.

CAS Code: 16P4a-b

Labor Force Participation Rate, Male and Female.

Source: World Development Indicators, most recent publication series: SL.TLF.ACTI.MA.ZS (male)

SL.TLF.ACTI.FE.ZS (female). Based on data from International Labour Organization (ILO)

Definition: The percentage of the working-age population (15-64) that is in the labor force. The labor force is made up of people who meet the International Labor Organization definition of the economically active population: all people who supply labor for the production of goods and services during a specified period. It includes both the employed and the unemployed.

Coverage: Data are available for about 88 USAID countries.

CAS Code: 16P5a-b

Internally Displaced Females per Capita

Source: UNHCR, 2005 Global Refugee Trends, Annex, Table 14, <http://www.unhcr.org/statistics.html> and World Development Indicators, most recent publication series SP.POP.TOTL.

Definition: Internally displaced women protected or assisted by UNHCR, divided by total population estimates.

Coverage: Data are available for 14 USAID countries.

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

CAS Code: 16S1

Use of Child Soldiers, Government and Political

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

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

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

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

CAS Code: 16S2a-b

ECONOMIC STABILIZATION AND GOVERNMENT CAPACITY

In the World Development Indicators for 2005, the World Bank adopted 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 (GFS) Manual, 2001. On the revenue side, the changes are minor, and comparisons to the old system may still be valid. There is a major change, however, in the reporting of capital outlays, which are now treated as balance sheet entries; only the annual capital consumption allowance (depreciation) is reported as an expense. Hence, the data on total expense are not comparable to the former data on total expenditure. In addition, WDI

2005 provides data on a 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 GFS system, so country coverage of fiscal data in WDI 2005 is limited. For these reasons, the template will continue to use some data from WDI 2004, along with new data from WDI 2005 and subsequent WDI series, as appropriate.

Government Effectiveness Index

Source: World Bank Institute, Governance Indicators, <http://www.govindicators.org>

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

Coverage: Data are available for all USAID countries.

CAS Code: 21P1

Government Expense, Percent of GDP

Source: IMF Article IV Reviews for latest country data:

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

Original data from the IMF, Government Finance Statistics Yearbook, and World Bank estimates.

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

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

CAS Code: 21P2

Government Revenue, Percent of GDP

Source: IMF Article IV reviews for latest country data: www.imf.org/external/np/sec/aiv/index.htm;

World Development Indicators for benchmarking data (GC.REV.XGRT.GD.ZS). Original data from the IMF, Government Finance Statistics Yearbook and data file, and World Bank estimates.

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

Coverage: Data are missing for about 24 USAID countries.

CAS Code: 21P3

Money Supply Growth

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

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

Benchmarking data are from World Development Indicators, most recent publication, series FM.LBL.MQMY.ZG. Original source of WDI data is IMF, International Financial Statistics, and World Bank estimates.

Definition: Average annual growth rate in the broad money supply, M2 (money plus quasimoney) measured as the change in end-of-year totals relative to the preceding year. M2 is made up of the sum of currency outside banks, checking account deposits other than those of the central government, and the time, savings, and foreign currency deposits of resident sectors other than the central

government. M2 corresponds to the sum of lines 34 and 35 in the IMF's International Financial Statistics (IFS).

Coverage: Data are available for about 81 USAID countries.

CAS Code: 21P4

Inflation Rate

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

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

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

Coverage: Data are available for about 85 USAID countries.

Data quality: For many developing countries, figures for recent years are IMF staff estimates. Additionally, data for some countries are for fiscal years.

CAS Code: 21P5

Overall Government Budget Balance, including Grants, Percent of GDP

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

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

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

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

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

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

CAS Code: 21S1

Interest Payments/Total Government Expense

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

Definition: Interest payments as a percent of total expense.

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

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

CAS Code: 21S2

Subsidies and Other Current Transfers/Total Government Expense

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

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

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

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

CAS Code: 21S3

Institutional Capacity

Source: Fund for Peace, content analysis <http://www.fundforpeace.org>

Definition: Fund for Peace computes this index by analyzing leadership, police, military, civil service, and judiciary capacity, applying a rating to each element on a 1 (worst) to 5 (best) scale and summing the result.

Coverage: Data are available for all USAID countries.

CAS Code: 21S4

BUSINESS ENVIRONMENT

Control of Corruption Index

Source: World Bank Institute: <http://www.govindicators.org>

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

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

Coverage: Data are available for nearly all USAID countries.

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

CAS Code: 22P1

Rule of Law Index

Source: World Bank Institute: <http://www.govindicators.org>.

This indicator is based on perceptions of the legal system, drawn from 12 data sources.

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

Coverage: Data are available for nearly all USAID countries.

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

CAS Code: 22P2

Voice and Accountability

Source: World Bank Institute, Governance Indicators, (Kaufmann, Kraay, and Mastruzzi, September 2006) <http://web.worldbank.org/WBSITE/EXTERNAL/WBI/EXT/WBIGOVANTCOR/0..contentMDK:21045735~pagePK:64168445~menuPK:1866365~piPK:64168309~theSitePK:1740530,00.html>

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

Coverage: Data are available for all USAID countries.

CAS Code: 22P3

Ease of Doing Business Index

Source: World Bank, Doing Business Indicators <http://www.doingbusiness.org/>

Definition: The Ease of Doing Business index ranks economies from 1 to 175. The index is calculated as the ranking on the simple average of country percentile rankings on each of the 10 topics covered in Doing Business in 2006: starting a business, dealing with licenses, hiring and firing, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and closing a business.

Coverage: Data are available for nearly all USAID countries.

CAS Code: 22P4

Time to Start a Business

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

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

Coverage: Data are available for nearly all USAID countries.

CAS Code: 22S1

Procedures to Start a Business

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

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

Coverage: Data are available for nearly all USAID countries.

CAS Code: 22S2

Cost of Starting a Business

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

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

Coverage: Data are available for nearly all USAID countries.

CAS Code: 22S3

Time to Enforce a Contract

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

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

Coverage: Data are available for nearly all USAID countries.

CAS Code: 22S4

Procedures to Enforce a Contract

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

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

Coverage: Data are available for nearly all USAID countries.

CAS Code: 22S5

Cost to Enforce a Contract, Percent of Claim

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

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

Coverage: Data are available for nearly all USAID countries.

CAS Code: 22S6

Time to Register Property

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

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

Coverage: Data are available for nearly all USAID countries.

CAS Code: 22S7

FINANCIAL SECTOR

Domestic Credit to Private Sector, Percent of GDP

Source: IMF Article IV reviews or national data sources for latest country data www.imf.org/external/np/sec/aiv/index.htm; World Development Indicators, most recent publication series FS.AST.PRVT.GD.ZS for benchmarking

data. The WDI data originate with IMF International Financial Statistics and data files and World Bank estimates.

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

Coverage: Data are available for about 82 USAID countries.

CAS Code: 23P1

Interest Rate Spread

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

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

Coverage: Data are available for about 66 USAID countries.

CAS Code: 23P2

Money supply, Percent of GDP

Source: Latest country data obtained from national data sources or IMF Article IV reviews: www.imf.org/external/np/sec/aiv/index.htm. Benchmarking data from World Development Indicators, most recent publication series FM.LBL.MQMY.GD.ZS. WDI data originate from IMF, International Financial Statistics and data files, and World Bank and OECD GDP estimates.

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

Coverage: Data are available for about 81 USAID countries.

Data quality: In some countries M2 includes certificates of deposits, money market instruments, and treasury bills.

CAS Code: 23P3

Real Interest Rate

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

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

Coverage: Data are available for about 68 USAID countries.

CAS Code: 23S1

Banking Sector Default Rates

Source: IMF, Financial Soundness Indicators, Coordinated Compilation Exercise for Financial Soundness Indicators: core series of nonperforming loans to total loans, <http://www.imf.org/external/np/sta/fsi/datars1.htm>

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

Coverage: Data are available for 29 USAID countries.

CAS Code: 23S2

EXTERNAL SECTOR

Aid, Percent of GNI

Source: Latest country data obtained from national data sources or IMF Article IV Reviews: www.imf.org/external/np/sec/aiv/index.htm

Benchmarking data from World Development Indicators, most recent publication series DT.ODA.ALLD.GN.ZS.

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

Coverage: Data are available for about 84 USAID countries.

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

CAS Code: 24P1

Current Account Balance, Percent of GDP

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

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

Coverage: Data are available for about 79 USAID countries.

CAS Code: 24P2

Debt Service Ratio, Percent of Exports

Source: Latest country data obtained from national data sources or IMF Article IV Reviews: www.imf.org/external/np/sec/aiv/index.htm. Benchmarking data from World Development Indicators, most recent publication, series DT.TDS.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 on present value of debt, percent of GNI, about debt data reported.

CAS Code: 24P3

Export Growth of Goods and Services

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

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

Benchmarking data from World Development Indicators, most recent publication, series NE.EXP.GNFS.KD.ZG, based on World Bank national accounts data, and OECD National Accounts data files.

Definitions: Annual growth rate of exports of goods and services based on constant local currency units. Exports include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services,

such as communication, construction, financial, information, business, personal, and government services. They exclude labor and property income (formerly called factor services), as well as transfer payments.

Coverage: Data are available for about 81 USAID countries.

CAS Code: 24P4

Foreign Direct Investment, Percent of GDP

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

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

Benchmarking data from World Development Indicators, most recent publication, series BX.KLT.DINV.DT.GD.ZS, based on IMF, International Financial Statistics and Balance of Payments databases, World Bank, Global Development Finance, and World Bank and OECD GDP estimates.

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

Coverage: Data are available for about 82 USAID countries.

CAS Code: 24P5

Gross International Reserves, Months of Imports

Source: Latest country data obtained from national data sources or IMF Article IV reviews: www.imf.org/external/np/sec/aiv/index.htm. Benchmarking data from World Development Indicators, most recent publication, series FI.RES.TOTL.MO.

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

Coverage: Data are available for about 77 USAID countries.

CAS Code: 24P6

Present Value of Debt, Percent of GNI

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

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

Coverage: Data are available for about 80 USAID countries.

Data quality: The coverage and quality of debt data vary widely among countries because of the wide spectrum of debt instruments, the unwillingness of governments to provide information, and a lack of capacity in reporting. Discrepancies are significant when exchange rate fluctuations, debt cancellations, and rescheduling occur.

CAS Code: 24P7

Remittance Receipts, Percent of Exports

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

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

Benchmarking data are obtained from World Development Indicators, most recent publication. The figure is constructed by dividing workers' remittances (receipts), series BX.TRF.PWKR.CD, by exports of goods and services, series BX.GSR.GNFS.CD.

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

Coverage: Data are available for about 74 USAID countries.

CAS Code: 24P8

Concentration of Exports

Source: Constructed with ITC COMTRADE data by aggregating the value for the top three export product groups (SITC Rev.3) and dividing by total exports. Raw data: <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 is a serious problem in some countries. For countries that do not report trade data to the United Nations, ITC uses partner country data. This approach has a number of shortcomings: ITC does not cover trade with nonreporting countries; transshipments may hide the actual source of supply; and transport cost and insurance are included in measuring exports but excluded in measuring imports.

CAS Code: 24P9

Trade Logistics Performance Index—Customs

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

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

Coverage: Data available for about 150 countries.

CAS Code: 24S1

Trade in Goods and Services, as a Percentage of GDP

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

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

Coverage: Data available for about 84 USAID countries.

CAS Code: 24S2

Real Effective Exchange Rate (REER)

Source: IMF Article IV reviews:

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

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

Coverage: Information on coverage is not easily accessible.

Data quality: Changes in REER should be interpreted with caution. For many countries the weights from 1990 onward take into account trade in 1988–90, and an index of relative changes in consumer prices is used as the deflator.

CAS Code: 24S3

Country Credit Rating

Source: Institutional Investor Magazine

<http://www.iimagazine.com/Rankings/RankingsCountryCredit.aspx>

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

Coverage: Data are available for about 80 USAID countries.

CAS Code: 24S4

ECONOMIC INFRASTRUCTURE

Logistics Performance Index, Infrastructure

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

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

Coverage: Data available for about 150 countries.

CAS Code: 25P1

Number of Electrical Outages (per month)

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

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

Coverage: Data available for a small number of countries.

CAS Code: 25P2

Telephone Density, Fixed Line and Mobile

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

Definition: The indicator is the sum of subscribers to telephone mainlines and mobile phones per 100 people. Fixed lines represent telephone main lines connected to the public switched telephone network. Mobile phone subscribers refer to users of cellular-based technology with access to the public switched telephone network.

Coverage: Data are available for about 88 USAID countries.

CAS Code: 25P3

Internet Users per 100 People

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

Definition: Indicator quantifies the number of Internet users, defined as those with access to the worldwide network, per 100 people.

Coverage: Data are available for about 88 USAID countries.

CAS Code: 25S1

Roads Paved, Percent of Total Roads

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

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

Coverage: Data are available for nearly all USAID countries.

CAS Code: 25S2

Percentage of Households with Access to Electricity

Source: Obtained from individual country sources.

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

Coverage: Data are available for about 25 USAID countries.

CAS Code: 25S3

Overall Infrastructure Quality

Source: Global Competitiveness Report, World Economic Forum

<http://www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/index.htm>.

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

Coverage: Data are available for about 52 USAID countries.

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

CAS Code: 25S4

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

Source: Global Competitiveness Report, World Economic Forum <http://www.weforum.org/documents/gcr0809/index.html>.

Definition: The index measures executives' perceptions of general infrastructure in their respective countries.

Executives grade, on a scale from 1 to 7, whether railroads, ports, air transport, and electricity are poorly developed (1) or among the best in the world (7).

Coverage: Data are available for about 52 USAID countries.

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

CAS Code: 25S5 a-e

HEALTH

Child Mortality Rate (per 1,000 Live Births)

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

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

Coverage: Data are available for about 87 USAID countries.

CAS Code: 31P1

Maternal Mortality Rate

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

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

Coverage: Data are available for about 87 USAID countries.

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

CAS Code: 31P2

Life Expectancy at Birth

Source: World Development Indicators, most recent publication, males SP.DYN.LE00.MA.IN, females SP.DYN.LE00.FE.IN.

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

Coverage: Data are available for about 88 USAID countries.

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

CAS Code: 31P3

HIV Prevalence

Source: UNAIDS for most recent country data: http://data.unaids.org/pub/GlobalReport/2008/20080813_gr08_prev1549_1990_2007_en.xls. World Development Indicators, most recent publication for benchmark data, series SH.DYN.AIDS.ZS.

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

Coverage: Data are available for about 79 USAID countries.

Data quality: UNAIDS/WHO estimates are based on all available data, including surveys of pregnant women, population-based surveys, household surveys conducted by

Kenya, Mali, Zambia, and Zimbabwe, and other surveillance information.

CAS Code: 31S1

Access to Improved Sanitation

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

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

Coverage: Data are available for about 82 USAID countries.

Data quality: The coverage rates may include nonfunctioning systems.

CAS Code: 31S2

Access to Improved Water Source

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

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

Prevalence of Child Malnutrition (Weight for Age)

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

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

Coverage: Data are available for about 55 USAID countries.

CAS Code: 31S4

Public Health Expenditure, Percent of GDP

Source: Latest data for host country are obtained from the MCC: <http://www.mcc.gov/selection/scorecards/2007/>.

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

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

Coverage: Data are available for about 88 USAID countries.

CAS Code: 31S5

EDUCATION

Net Primary Enrollment Rate, Total, Male and Female

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

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

Coverage: Data are available for about 80 USAID countries.

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

CAS Code: 32P1a-c

Net Secondary Enrollment Rate

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

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

Coverage: Data are available for half of USAID countries.

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

CAS Code: 32P2

Gross Tertiary Enrollment Rate

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

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

Coverage: Data are available for nearly all USAID countries.

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

CAS Code: 32P3

Primary Completion Rate –Male, Female, and Total

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

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

Coverage: Data are available for about 128 USAID countries

CAS Code # 32P4

Youth Literacy Rate

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

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

Coverage: Data are available for about 67 USAID countries.

Data quality: Statistics are out of date by two to three years.

CAS Code: 32P5

Education Expenditure, Primary, Percent of GDP

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

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

Coverage: Data are available for about 58 USAID countries.

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

CAS Code: 32S1

Pupil–Teacher Ratio, Primary School

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

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

Coverage: Data are available for about 76 USAID countries.

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

CAS Code: 32S2

EMPLOYMENT AND WORKFORCE

Labor Force Participation Rate

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

Definition: The percentage of the working age population (15–64) that is in the labor force. The labor force comprises people who meet the International Labor Organization definition of the economically active population: all people who supply labor for the production of goods and services during a specified period. It includes both the employed and the unemployed.

Coverage: Data are available for about 88 USAID countries.

CAS Code: 33P1

Rigidity of Employment Index

Source: World Bank, Doing Business, Employing workers category:

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

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

Coverage: Data are available for nearly all USAID countries.

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

CAS Code: 33P2

Economically Active Children, Percent of Children ages 7–14

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

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

Coverage: Data are available for 35 USAID countries.

CAS Code: 33P3

Unemployment rate (15–24-year-old males, and total 15–24 year olds)

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

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

Coverage: Data are available for 35 USAID countries.

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

CAS Code: 33P4a-b

Informal Sector Employment, percentage of Labor Force

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

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

Coverage: Data are available for about 20 USAID countries.

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

CAS Code: 33S1

AGRICULTURE

Agriculture Value Added per Worker

Source: World Development Indicators, most recent publication series EA.PRD.AGRI.KD, derived from World

Bank national accounts files and Food and Agriculture Organization Production Yearbook and data files.

Definition: Agriculture value added per worker is a basic measure of labor productivity in agriculture. Value added in agriculture measures the output of the agricultural sector (ISIC divisions 1–5)—forestry, hunting, fishing, cultivation of crops, and livestock production—less the value of intermediate inputs. Data are in constant 1995 U.S. dollars.

Coverage: Data are available for about 80 USAID countries.

CAS Code: 34P1

Crop production index

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

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

Coverage: Data are available for about 85 USAID countries.

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

Coverage: Data are available for about 85 USAID countries.

CAS Code: 34S1

Agricultural Export Growth

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

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

Coverage: Data are available for about 85 USAID countries.

CAS Code: 34S2