

## **Appendix 1**

### **Monitoring Country Progress 13 Methodology**

#### **October 2011**

This appendix includes: (1) a general overview of the Monitoring Country Progress (MCP) system; (2) indicator definitions of the components of the MCP indices as well as elaboration of the 1 to 5 rating scales; and (3) the weighting schemes of the two MCP indices in which the component indicators are weighted unequally.

#### **(1) General Overview of the MCP System in E&E**

The core of the MCP system consists of five indices: (1) economic reforms; (2) democratic reforms; (3) macroeconomic growth and performance; (4) human capital; and (5) peace and security. For each index, primary data are converted to a 1 to 5 scale, where a 1 represents the worst country performances on that indicator in the E&E region and a 5 represents the best worldwide. Three indices (economic reforms, democratic reforms, and peace and security) are calculated by equally weighting the components. Articulation of the unequal weighting schemes for the other two indices (economic growth and performance, and human capital) is provided in section (3) below.

MCP draws on publicly available, standardized (i.e., cross-country) data from a variety of sources including international organizations such as the European Bank for Reconstruction and Development (EBRD), the World Bank, the International Monetary Fund, the World Health Organization (WHO), the United Nations Office on Drugs and Crime (UNODC), and the United Nations Children Fund (UNICEF); various US government sources and reports (such as from USAID, US Department of State, US Department of Commerce, US Defense Department, and US Trade Representative); as well as think tanks and universities such as Freedom House, Transparency International, Fund for Peace, Binghamton University, and George Mason University.

Sequencing of progress by the sectors is an important aspect in the MCP system application. First, sufficient progress in peace and security needs to precede or at the least accompany progress in economic and democratic reforms. Second, progress in economic and democratic reforms needs to precede or at the least accompany macroeconomic performance and investing in people. Countries may do relatively well on the MCP macroeconomic performance and human capital scores in the absence of adequate reform progress, but such conditions cannot be sustained over the long term without reform progress.

Additionally, sustainability of the gains in any one sector (or any one index) is less likely to occur if other sectors are lagging considerably. The sustainable development path necessarily involves economic and democratic reforms progressing together in the

medium term if not year-to-year; similarly, relatively balanced results and progress are needed between economic performance and human capital.

## **(2) Indicator Definitions of the Components of the MCP Indices**

### **Economic Reforms**

The economic reform index is derived from the European Bank for Reconstruction and Development's (EBRD) annual *Transition Report*, from the Office of the Chief Economist. Nine indicators are included: (1) small-scale privatization; (2) price liberalization; (3) trade & foreign exchange reforms; (4) large-scale privatization; (5) governance & enterprise restructuring; (6) competition policy; (7) banking reform; (8) non-bank financial institutional reform; and (9) infrastructure reforms (which is itself an index of reform progress in 5 infrastructure sectors: telecommunications; railways; roads; electric power; and water & waste water). EBRD scores range from 1 to 4.3 (highest). The MCP system rescales the EBRD scores from 1 to 5, where a 5 represents the most advanced standards worldwide (i.e., the standards of the advanced industrialized economies), and differentiates between first stage and second stage economic reforms (as shown below).

### **Economic Reform rating criteria**

#### **First Stage Economic Reforms**

##### **Small-scale Privatization**

- 1 Little progress
- 2 Substantial share privatized
- 3 Comprehensive program almost ready for implementation.
- 4 Complete privatization of small companies with tradable ownership rights
- 5 Standards and performance typical of advanced industrial economies: no state ownership of small enterprises; effective tradability of land

##### **Price Liberalization**

- 1 Most prices formally controlled by the government
- 2 Some lifting of price administration; state procurement at non-market prices for the majority of product categories
- 3 Significant progress on price liberalization, but state procurement at non-market prices remains substantial
- 4 Comprehensive price liberalization; state procurement at non-market prices largely phased out; only a small number of administered prices remain
- 5 Standards and performance typical of advanced industrial economies: complete price liberalization with no price control outside housing, transport and natural monopolies

### **Trade & Foreign Exchange System**

- 1 Widespread import and/or export controls or very limited legitimate access to foreign exchange
- 2 Some liberalization of import and/or export controls; almost full current account convertibility in principle, but with a foreign exchange regime that is not fully transparent (possibly with multiple exchange rates)
- 3 Removal of most quantitative and administrative import and export restrictions; almost full current account convertibility
- 4 Removal of all quantitative and administrative import and export restrictions (apart from agriculture) and all significant export tariffs; insignificant direct involvement in exports and imports by ministries and state-owned trading companies; no major non-uniformity of customs duties for non-agricultural goods and services; full current account convertibility
- 5 Standards and performance norms of advanced industrial economies: removal of most tariff barriers; membership in WTO

### **Second Stage Economic Reforms**

#### **Large-scale Privatization**

- 1 Little private ownership
- 2 Comprehensive scheme almost ready for implementation; some sales completed
- 3 More than 25 percent of large-scale state-owned enterprise assets in private hands or in the process of being privatized (with the process having reached a stage at which the state has effectively ceded its ownership rights), but possibly with major unresolved issues regarding corporate governance
- 4 More than 50 percent of state-owned enterprise and farm assets in private ownership and significant progress on corporate governance of these enterprises
- 5 Standards and performance typical of advanced industrial economies: more than 75 percent of enterprise assets in private ownership with effective corporate governance

#### **Governance and Enterprise Restructuring**

- 1 Soft budget constraints (lax credit and subsidy policies weakening financial discipline at the enterprise level); few other reforms to promote corporate governance
- 2 Moderately tight credit and subsidy policy but weak enforcement of bankruptcy legislation and little action taken to strengthen competition and corporate governance
- 3 Significant and sustained actions to harden budget constraints and to promote corporate governance effectively (e.g., privatization combined with tight credit and subsidy policies and/or enforcement of bankruptcy legislation)
- 4 Substantial improvement in corporate governance and significant new investment at the enterprise level
- 5 Standards and performance typical of advanced industrial economies: effective corporate control exercised through domestic financial institutions and markets, fostering market-driven restructuring

### **Competition Policy**

- 1 No competition legislation and institutions
- 2 Competition policy legislation and institutions set up; some reduction of entry restrictions or enforcement action on dominant firms
- 3 Some enforcement actions to reduce abuse of market power and to promote a competitive environment, including break-ups of dominant conglomerates; substantial reduction of entry restrictions
- 4 Significant enforcement actions to reduce abuse of market power and to promote a competitive environment
- 5 Standards and performance typical of advanced industrial economies: effective enforcement of competition policy; unrestricted entry to most markets

### **Banking Reform**

- 1 Little progress beyond establishment of a two-tier system
- 2 Significant liberalization of interest rates and credit allocation; limited use of directed credit or interest rate ceilings
- 3 Substantial progress in establishment of bank solvency and of a framework for prudential supervision and regulation; full interest rate liberalization with little preferential access to cheap refinancing; significant lending to private enterprises and significant presence of private banks
- 4 Significant movement of banking laws and regulations towards BIS standards; well-functioning banking competition and effective prudential supervision; significant term lending to private enterprises; substantial financial deepening
- 5 Standards and performance norms of advanced industrial economies: full convergence of banking laws and regulations with BIS standards; provision of full set of competitive banking services

### **Non-Bank Financial Institutional Reform**

- 1 Little progress
- 2 Formation of securities exchanges, market-makers and brokers; some trading in government paper and/or securities; rudimentary legal and regulatory framework for the issuance and trading of securities
- 3 Substantial issuance of securities by private enterprises; establishment of independent share registries, secure clearance and settlement procedures, and some protection of minority shareholders; emergence of non-bank financial institutions (e.g. investment funds, private insurance and pension funds, leasing companies) and associated regulatory framework
- 4 Securities laws and regulations approaching IOSCO standards; substantial market liquidity and capitalization; well-functioning non-bank financial institutions and effective regulation
- 5 Standards and performance norms of advanced industrial economies: full convergence of securities laws and regulations with IOSCO standards; fully developed non-bank intermediation

**Infrastructure.** This indicator averages EBRD ratings for reform progress in five infrastructure sectors:

**(a) Telecommunications**

- 1 Little progress in commercialization and regulation, i.e., minimal degree of private sector involvement, strong political interference in management, lack of cost-effective tariff-setting principles and extensive cross-subsidization. Few other institutional reforms to encourage liberalization envisaged, even for mobile phones and value-added services.
- 2 Modest progress in commercialization, i.e., corporatization of the dominant operator and some separation of operation from public sector governance, but tariffs still politically determined.
- 3 Substantial progress in commercialization and regulation. Full separation of telecommunications from postal services, with reduction in the extent of cross-subsidization. Some liberalization in the mobile segment and in value-added services.
- 4 Complete commercialization (including the privatization of the dominant operator) and comprehensive regulatory and institutional reforms. Extensive liberalization of entry.
- 5 Implementation of a coherent and effective institutional and regulatory framework (including the operation of an independent regulator) encompassing tariffs, interconnection rules, licensing, concession fees and spectrum allocation. Existence of a consumer ombudsman function.

**(b) Railways**

- 1 Monolithic organizational structures. State railways still effectively operated as government departments. Few commercial freedoms to determine prices or investments. No private sector involvement. Cross-subsidization of passenger service public service obligations with freight service revenues.
- 2 Laws distancing rail operations from the state, but weak commercial objectives. No budgetary funding of public service obligations in place. Organizational structures still overly based on geographic/functional areas. Separation of ancillary businesses but little divestment. Minimal encouragement of private sector involvement. Initial business planning, but targets general and tentative.
- 3 Laws passed to restructure the railways and introduce commercial orientation. Separation of freight and passenger marketing groups grafted onto tradition structures. Some divestment of ancillary businesses. Some budgetary compensation for passenger services. Design of business plans with clear investment and rehabilitation targets. Business plans designed, but funding unsecured. Some private sector involvement in rehabilitation and/or maintenance.
- 4 Laws passed to fully commercialize railways. Creation of separate internal profit centers for passenger and freight (actual or imminent). Extensive market freedoms to set tariffs and investments. Medium-term business plans under implementation.

Ancillary industries divested. Policy development to promote commercial (including private) rail transport operations.

- 5 Railway law exists allowing for separation of infrastructure from operations, and/or freight from passenger operations, and/or private train operations. Private sector participation in ancillary services and track maintenance. Establishment of rail regulator and/or implementation of access pricing and/or plans for a full divestment and transfer of asset ownership, including infrastructure and rolling stock.

### **(c) Electric Power**

- 1 Power sector operated as a government department; political interference in running the industry. Few commercial freedoms or pressures. Average prices below costs, with external and implicit subsidy and cross-subsidy. Very little institutional reform with monolithic structure and no separation of different parts of the business.
- 2 Power company is distance from government. For example, established as a joint-stock company, though there is still political interference. Some attempt to harden budget constraints, but management incentives for efficient performance are weak. Some degree of subsidy and cross-subsidy. Little institutional reform; monolithic structure with no separation of different parts of the business. Minimal private sector involvement.
- 3 Law passed which provides for full-scale restructuring of the industry, including vertical unbundling through accounting separation, setting up of regulator with some distance from the government, plans for tariff reform if effective tariffs are below cost, possibility of private ownership and industry liberalization. Little or no private sector involvement.
- 4 Law for industry restructuring passed and implemented providing for: separation of the industry into generation, transmission and distribution; setting up of a regulator, with rules for setting cost-reflective tariffs formulated and implemented. Arrangements for network access (negotiated access, single buyer model) developed. Substantial private sector involvement in distribution and/or generation.
- 5 Business separated vertically into generation, transmission and distribution. Existence of an independent regulator with full power to set cost-reflective tariffs. Large-scale private sector involvement. Institutional development covering arrangements for network access and full competition in generation.

### **(d) Roads**

- 1 There is minimal degree of decentralization, and no commercialization has taken place. All regulatory, road management and resource allocation functions are centralized at ministerial level. New investments and road maintenance financing are dependent on central budget allocations. Road user charges are based on criteria other than relative costs imposed on the network and road use. Road construction and maintenance are undertaken by public construction units. There is no private sector participation. No public consultation or accountability take place in the preparation of road projects.

- 2 There is a moderate degree of decentralization, and initial steps have been taken in commercialization. A road/highways agency has been created. Initial steps have been undertaken in resource allocation and public procurement methods. Road user charges are based on vehicle and fuel taxes but are only indirectly related to road use. A road fund has been established but it is dependent on central budget allocations. Road construction and maintenance is undertaken primarily by corporatized public entities, with some private sector participation. There is minimal public consultation/participation and accountability in the preparation of road projects.
- 3 There is a fairly large degree of decentralization and commercialization. Regulation, resource allocation, and administrative functions have been clearly separated from maintenance and operations of the public road network. Road user charges are based on vehicle and fuel taxes and fairly directly related to road use. A law has been passed allowing for the provision and operation of public roads by private companies under negotiated commercial contracts. There is private sector participation either in road maintenance works allocated via competitive tendering or through a concession to finance, operate and maintain at least a section of the highway network. There is limited public consultation and/or participation and accountability in the preparation of road projects.
- 4 There is a large degree of decentralization of road administration, decision-making, resource allocation and management according to government responsibility and functional road classification. A transparent methodology is used to allocate road expenditures. A track record has been established in implementing competitive procurement rules for road design, construction, maintenance and operations. There is large-scale private sector participation in construction, operations and maintenance directly and through public-private partnership arrangements. There is substantial public consultation and/or participation and accountability in the preparation of road projects.
- 5 A fully decentralized road administration has been established, with decision-making, resource allocation and management across road networks and different levels of government. Commercialized road maintenance operations are undertaken through open and competitive tendering by private construction companies. Legislation has been passed allowing for road user charges to fully reflect costs of road use and associated factors, such as congestion, accidents and pollution. There is widespread private sector participation in all aspects of road provision directly and through public-private partnership arrangements. Full public consultation is undertaken in the approval process for new road projects.

**(e) Water and Waste Water**

- 1 There is a minimal degree of decentralization, and no commercialization has taken

place. Water and waste-water services are operated as a vertically integrated natural monopoly by a government ministry through national or regional subsidiaries or by municipal departments. There is no, or little, financial autonomy and/or management capacity at municipal level. Heavily subsidized tariffs still exist, along with a high degree of cross-subsidization.

- 2 There is a moderate degree of decentralization, and initial steps have been taken in commercialization. Water and waste-water services are provided by municipally owned companies, which operate as joint-stock companies. There is some degree of financial autonomy at the municipal level but heavy reliance on central government for grants and income transfers. Partial cost recovery is achieved through tariffs, and initial steps have been taken to reduce cross-subsidies. General public guidelines exist regarding tariff-setting and service quality but these are both still under ministerial control. There is some private sector participation through service or management contracts or competition to provide ancillary services.
- 3 A fairly large degree of decentralization and commercialization has taken place. Water and waste-water utilities operate with managerial and accounting independence from municipalities, using international accounting standards and management information systems. A municipal finance law has been approved. Cost recovery is fully operated through tariffs and there is a minimum level of cross-subsidies. A semi-autonomous regulatory agency has been established to advise on tariffs and service quality but without the power to set either. More detailed rules have been drawn up in contract documents, specifying tariff review formulae and performance standards. There is private sector participation through performance standards. There is private sector participation through the full concession of a major service in at least one city.
- 4 A large degree of decentralization and commercialization has taken place. Water and waste-water utilities are managerially independent, with cash flows—net of municipal budget transfers—that ensure financial viability. A municipal finance law has been implemented, providing municipalities with the opportunity to raise finance. Full cost recovery exists and there are no cross-subsidies. A semi-autonomous regulatory agency has the power to advise and enforce tariffs and service quality. There is substantial private sector participation through build-operate-transfer concessions, management contracts or asset sales to service parts of the network or entire networks. A concession of major services has taken place in a city other than the country's capital.



- 5 Water and waste-water utilities are fully decentralized and commercialized. Large municipalities enjoy financial autonomy and demonstrate the capability to raise finance. Full cost recovery has been achieved and there are no cross-subsidies. A fully autonomous regulator exists with complete authority to review and enforce tariff levels and performance quality standards. There is widespread private sector participation via service management/lease contracts, with high-powered performance incentives and/or full concessions and/or divestiture of water and waste-water services in major urban areas.

## **Democratic Reforms**

Freedom House, in its annual *Nations in Transit*, measures progress in the transition region in seven democratic reform areas: (1) electoral process; (2) civil society; (3) independent media; (4) national democratic governance; (5) local democratic governance; (6) rule of law; and (7) anti-corruption. Freedom House rates the progress from 1 to 7, where 1 represents the most advanced standards worldwide. In the Monitoring Country Progress system, these scores are reversed and re-scaled to range from 1 to 5, with 5 being the most advanced.

### **Democratic Reform rating criteria:**

Freedom House measures progress towards democratic reforms by assessing a series of questions in the seven democratization areas, and then provides rating guidelines on criteria towards policy and implementation (or “practice”).

### **Electoral Process**

- (1) Is the authority of government based upon universal and equal suffrage and the will of the people as expressed by regular, free, and fair elections conducted by secret ballot?
- (2) Are there fair electoral laws, equal campaigning opportunities, fair polling, and honest tabulation of ballots?
- (3) Is the electoral system free of significant barriers to political organization and registration?
- (4) Is the electoral system multiparty based, with viable political parties, including an opposition party, functioning at all levels of government?
- (5) Is the public engaged in the political life of the country, as evidenced by membership in political parties, voter turnout for elections, or other factors?
- (6) Do ethnic and other minority groups have sufficient openings to participate in the political process?
- (7) Is there opportunity for the effective rotation of power among a range of different political parties representing competing interests and policy options?
- (8) Are the people’s choices free from domination by the specific interest of power groups (the military, foreign powers, totalitarian parties, regional hierarchies, and/or economic oligarchies)?

- (9) Were the most recent national legislative elections judged free and fair by domestic and international election-monitoring organizations?
- (10) Were the most recent presidential elections judged free and fair by domestic and international election-monitoring organizations?

### **Civil Society**

- (1) Does the state protect the rights of the independent civic sector?
- (2) Is the civil society vibrant? (Consider growth in the number of charitable, nonprofit, and nongovernmental organizations; improvements in the quality of performance of civil society groups; locally led efforts to increase philanthropy and volunteerism; the public's active participation in private voluntary activity; the presence of effective civic and cultural organizations for women and ethnic groups; the participation of religious groups in charitable activity; or other factors)
- (3) Is society free of excessive influence from extremist and intolerant nongovernmental institutions and organizations (such as racists, groups advocating violence or terrorism, xenophobes, private militias and vigilante groups, or other groups whose actions threaten political and social stability and the transition to democracy)?
- (4) Is the legal and regulatory environment for civil society groups free of excessive state pressures and bureaucracy (consider ease of registration, legal rights, government regulation, fund-raising, taxation, procurement, and access-to-information issues)?
- (5) Do civil society groups have sufficient organizational capacity to sustain their work (that is, management structures with clearly delineated authority and responsibility; a core of experienced practitioners, trainers, and the like; access to information on NGO management issues in the native language; and so forth)?
- (6) Are civil society groups financially viable, with adequate conditions and opportunities for raising funds that sustain their work (for example, sufficient organizational capacity to raise funds; option of nonprofit tax status; freedom to raise funds from domestic or foreign sources; legal or tax environment that encourages private sector support; ability to compete for government procurement opportunities; ability to earn income or collect cost recovery fees)?
- (7) Is the government receptive to policy advocacy by interest groups, public policy research groups, and other nonprofit organizations? Do government officials engage civil society groups by inviting them to testify, comment on, and influence pending policies or legislation?
- (8) Are the media receptive to civil society groups as independent and reliable sources of information and commentary? Are they positive contributors to the country's civic life?
- (9) Does the state respect the right to form and join free trade unions?
- (10) Is the education system free of political influence and propaganda?

### **Independent Media**

- (1) Are there legal protections for press freedoms?
- (2) Are journalists, especially investigative reporters, protected from victimization by powerful state or nonstate actors?

- (3) Does the state oppose onerous libel laws and other excessive legal penalties for “irresponsible” journalism?
- (4) Are the media’s editorial independence and new-gathering functions free of interference from the government or private owners?
- (5) Does the public enjoy a diverse selection of print and electronic sources of information that represent a range of political viewpoints?
- (6) Are the majority of print and electronic media privately owned and free of excessive ownership concentration?
- (7) Is the private media’s financial viability subject only to market forces (that is, is it free of political or other influences)?
- (8) Is the distribution of newspapers privately controlled?
- (9) Are journalists and media outlets able to form their own viable professional associations?
- (10) Does society enjoy free access to the Internet?

### **National Democratic Governance**

- (1) Is the governmental system democratic?
- (2) Is the country’s governmental system stable?
- (3) Is the legislature independent, effective, and accountable to the public?
- (4) Is the executive branch independent, effective, and accountable to the public?

### **Local Democratic Governance**

- (1) Are the principles of local democratic government enshrined in law and respected in practice?
- (2) Are citizens able to choose local leaders in free and fair elections?
- (3) Are citizens ensured meaningful participation in local government decision-making?
- (4) Do democratically elected local authorities exercise their powers freely and autonomously?
- (5) Do democratically elected local authorities have the resources and capacity needed to fulfill their responsibilities?
- (6) Do democratically elected local authorities operate with transparency and accountability to citizens?

### **Rule of Law**

- (1) Is there an effective system of checks and balances among legislative, executive, and judicial authorities?
- (2) Is the legislature the effective rule-making institution?
- (3) Does the constitutional framework provide for human rights (including freedom of expression, religious freedom, freedom of association, and business and property rights), and does the state protect those rights in practice?
- (4) Is there independence and impartiality in the interpretation and enforcement of the constitution?
- (5) Is there equality before the law?
- (6) Has there been effective reform of the criminal code/criminal law? (Consider

presumption of innocence until proven guilty, access to a fair and public hearing, introduction of jury trials, access to independent counsel/public defender, independence of prosecutors, and so forth.)

- (7) Are suspects and prisoners protected in practice against arbitrary arrest, detention without trial, searches without warrants, torture and abuse, and excessive delays in the criminal justice system?
- (8) Are judges appointed in a fair and unbiased manner, and do they have adequate legal training before assuming the bench?
- (9) Do judges rule fairly and impartially, and are courts free of political control and influence?
- (10) Do legislative, executive, and other governmental authorities comply with judicial decisions, and are judicial decisions effectively enforced?

### **Corruption**

- (1) Has the government implemented effective anticorruption initiatives?
- (2) Is the government free from excessive bureaucratic regulations, registration requirements, and other controls that increase opportunities for corruption?
- (3) Are there significant limitations on the participation of government officials in economic life?
- (4) Are there adequate laws requiring financial disclosure and disallowing conflict of interest?
- (5) Does the state enforce an effective legislative or administrative process—particularly one that is free of prejudice against one’s political opponents—to prevent, investigate, and prosecute the corruption of government officials and civil servants?
- (6) Do executive and legislative bodies operate under effective audit and investigative rules that are free of political influence?
- (7) Do whistle-blowers, anticorruption activist, investigators, and journalists enjoy legal protections that make them feel secure about reporting cases of bribery and corruption?
- (8) Are allegations of corruption given wide and extensive airing in the media?
- (9) Does the public display a high intolerance for official corruption?

### **Democratization Ratings Guidelines**

- 1 Policy criteria: existence of policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: existence of best practices that adhere to basic human rights standards, democratic norms, and the rule of law
- 2 Policy criteria: existence of policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: existence of most practices that adhere to basic human rights standards, democratic norms, and the rule of law
- 3 Policy criteria: existence of many polices that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: existence

- of many practices that adhere to basic human rights standards, democratic norms, and the rule of law
- 4 Policy criteria: existence of many policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: existence of some practices that adhere to basic human rights standards, democratic norms, and the rule of law
  - 5 Policy criteria: existence of many policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: absence of many practices that adhere to basic human rights standards, democratic norms, and the rule of law
  - 6 Policy criteria: existence of some policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: absence of most practices that adhere to basic human rights standards, democratic norms, and the rule of law
  - 7 Policy criteria: absence of policies that adhere to basic human rights standards, democratic norms, and the rule of law; Practice criteria: absence of practices that adhere to basic human rights standards, democratic norms and the rule of law

## Economic Performance

The economic performance index is composed of ten indicators focusing on key economic structural changes as well as macroeconomic growth and stability: (1) private sector share of GDP; (2) export sector competitiveness; (3) foreign direct investment per capita; (4) economic growth; (5) macroeconomic stability; (6) income inequality; (7) the unemployment rate; (8) services as % of GDP; and (9) energy security; and (10) environmental sustainability.

- 1 **Foreign direct investment per capita.** This indicator measures average net flows as a percentage of GDP, five year average; World Bank, *World Development Indicators*. Scaling is based on the minimum-maximum normalization technique described in section 3.
- 2 **Private sector share of GDP.** This indicator measures the percentage share of private sector economic growth; EBRD, *Transition Report*. Scaling:
  - 1.0: ≤ 30-40%
  - 1.5: >40 to 45%
  - 2.0: >45 to 50%
  - 2.5: >50 to 55%
  - 3.0: >55 to 60%
  - 3.5: >60 to 65%
  - 4.0: >65 to 70%
  - 4.5: >70 to 75%

5.0: >75%

- 3 **Macroeconomic stability.** This index includes four indicators: inflation (consumer price index, three-year average); external debt (as a percentage of GDP, three-year average); current account balance (as a percentage of GDP, three year average); fiscal balance (as a percentage of GDP, three year average); World Bank, *World Development Indicators*. Scaling is based on the minimum-maximum normalization technique.
- 4 **GDP growth.** This indicator of economic growth is measured as a five year average; World Bank, *World Development Indicators*. Scaling is based on the minimum-maximum normalization technique.
- 5 **Income inequality.** This indicator measures the ratio of the share of income held by the highest 20% of the population to the share of income held by the lowest 20% of the population; World Bank, *World Development Indicators*. Scaling is based on the minimum-maximum normalization technique.
- 6 **Export share of GDP and composition of exports.** This index combines the size of the export sector (percentage of GDP) with the composition of exports (manufactured export as percent of total exports, and high-tech exports as percent of total exports); World Bank, *World Development Indicators*. Scaling is based on the minimum-maximum normalization technique.
- 7 **Services, value added, as a percentage of GDP.** This indicator measures services including value added in 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; bank service charges and import duties. Value added is the net output of a sector after adding up all outputs and subtracting intermediate inputs; World Bank, *World Development Indicators*. Scaling:
  - 1.0: <40%
  - 2.0: >40 to 50%
  - 3.0: >50 to 60%
  - 4.0: >60 to 64%
  - 4.5: >64 to 65%
  - 5.0: >65%
- 8 **Energy security.** This index combines energy dependency (net energy imports as percent of energy use) with energy efficiency (GDP per unit of energy use); World Bank, *World Development Indicators*. Scaling is based on the minimum-maximum normalization technique.

- 9 **Unemployment.** This indicator tracks the percentage of the labor force that is without work and seeking employment, 2-year average; World Bank, *World Development Indicators*. Scaling is based on the minimum-maximum normalization technique.
- 10 **Environmental sustainability.** This indicator is an index of five components that attempt to measure ecosystem vitality and natural resource management: (1) biodiversity and habitat; (2) sustainable energy; (3) air quality; (4) water resources; and (5) productive natural resources. Source: Yale Center for Environmental Law & Policy and Columbia University Center for International Earth Science Information Network, *The Environmental Performance Index*. Possible score: 25 to 100. Scaling is based on the minimum-maximum normalization technique.

## Human Capital

Nine primary indicators go into the human capital index: (1) per capita gross national income; (2) gender inequality; (3) under five mortality rate; (4) life expectancy; (5) tuberculosis incidences per 100,000 persons; (6) public expenditures on health; (7) environmental health; (8) public expenditures on education; and (9) education gaps (in the quantity and quality of education).

- 1 **GNI per capita, PPP.** This indicator measures gross national income converted to international dollars, in purchasing power parity; World Bank, *World Development Indicators*. Scaling:
  - 1.0: ≤\$3,000
  - 1.5: >\$3,000-5,000
  - 2.0: >\$5,000-7,000
  - 2.5: >\$7,000-9,000
  - 3.0: >\$9,000-11,000
  - 3.5: >\$11,000-13,000
  - 4.0: >\$13,000-15,000
  - 4.5: >\$15,000-17,000
  - 5.0: >\$17,000
- 2 **Gender Inequality Index.** This index has three dimensions: reproductive health (maternal mortality rate and adolescent fertility rate); empowerment (share of parliamentary seats held by each sex); and labor market (attainment at secondary and higher education by each sex, and labor market participation rate by each sex). Source: UNDP, *Human Development Report*. Possible score: 0 to 1. Scaling is based on the minimum-maximum normalization technique.
- 3 **Under five mortality rate.** This indicator measures the probability per 1000 that a newborn will die before age five; World Bank, *World Development Indicators*. Scaling is based on the minimum-maximum normalization technique.

- 4 **Life expectancy.** This indicator measures the number of years a newborn would be expected to live based on prevailing patterns of mortality at the time of birth; World Bank, *World Development Indicators*. Scaling is based on the minimum-maximum normalization technique.
- 5 **TB incidence.** This indicator measures TB incidences per year per 100,000 people; World Health Organization, European Health for All Database. Scaling is based on the minimum-maximum normalization technique.
- 6 **Public expenditures on health.** This indicator is a measure of government expenditures on health as a percentage of GDP; World Bank, *World Development Indicators*. Scaling is based on the minimum-maximum normalization technique.
- 7 **Environmental health.** This indicator is an index of five components that assess environmental health through measuring urban particulates; indoor air pollution; drinking water; adequate sanitation; and child mortality. Source: Yale Center for Environmental Law & Policy and Columbia University Center for International Earth Science Information Network, *The Environmental Performance Index*. Possible score: 25 to 100. Scaling is based on the minimum-maximum normalization technique.
- 8 **Public expenditures on education.** This indicator is a measure of government expenditures on education as a percentage of GDP; World Bank, *World Development Indicators*. Scaling is based on the minimum-maximum normalization technique.
- 9 **Education gaps.** This index measures education gaps or vulnerable results within a given country by measuring public expenditures on education, enrollment rates, and international assessment scores. As shown in *Table 20*, there are up to six possible gaps that any country could incur, and are defined as: (1)  $\leq 3\%$  of GDP in education spending; (2) pre-primary school enrollment:  $\leq 30\%$  or notable backsliding; (3) primary school enrollment:  $\leq 93\%$  enrollment or notable backsliding; (4) upper secondary enrollment:  $\leq 60\%$  or notable backsliding; (5) tertiary enrollment:  $\leq 25\%$  enrollment or notable backsliding; and (6) in one or more of the functional literacy tests (i.e., either PISA, TIMSS, or PIRLS),  $\leq 450$  score or notable backsliding. A score of 500 is OECD average. Primary sources are World Bank, *World Development Indicators*; UNICEF, *TransMONEE Database*; UNESCO, the International Association for the Evaluation of Educational Achievement (IEA); *Trends in International Mathematics and Sciences Study (TIMSS)*; *Progress in International Reading Literacy Study (PIRLS)*; and the OECD, *Programme for International Student Assessment (PISA)*. The 1 to 5 rating is based on the number of gaps as a percentage of indicators available. The conversions are shown in *Table 20*.

## Peace and Security



The peace and security Index consists of six components and aligns with the six program areas of the DFA Framework: (1) counterterrorism; (2) combating weapons of mass destruction; (3) stabilization operations and security sector reform; (4) counternarcotics; (5) combating transnational crime; and (6) conflict mitigation.

## **1 Counterterrorism** (four equally weighted components).

(a) **Government Capacity to Fight Terrorism (I)**. This indicator is based on the country-level narratives contained in the State Department's annual *Country Reports on Terrorism*. Scores are calculated for each country based on the extent to which a country denies terrorist sponsorship support and sanctuary, and de-legitimizes terrorist ideology. These scores were provided by a five-person panel with representatives from the State Department Office of Anti-Terrorism Assistance (ATA); the State Department Office of the Coordinator for Counterterrorism (S/CT); and USAID's Bureau on Europe and Eurasia (USAID/E&E).

1: Government, or elements of government, sponsor and/or provide sanctuary for terrorists or terrorist organizations. Terrorist ideology may have a strong and dangerous presence in country. Elements of the government may take actions that seem to condone such ideology. Countries on the State Sponsors of Terrorism List receive a "1", as do those designated as Terrorist Safe Havens by the State Department Office of the Coordinator for Counterterrorism;

2: Country, despite declared government policy, provides de-facto sponsorship of and/or sanctuary for terrorists or terrorist organizations to a significant degree. Country may be part of a region designated as a Terrorist Safe Haven by the State Department Office of the Coordinator for Counterterrorism. Terrorist ideology may be present to a significant degree, despite official government efforts to counter it. Government policies may be exacerbating terrorist grievances;

3: Terrorists enjoy some degree of sponsorship and/or sanctuary despite active government efforts to deny it. Sanctuary may be a result of limited government control of some regions of a country. Although terrorist ideology may be present, the government is taking some action to prevent it;

4: Terrorists enjoy only minimal degree of sponsorship and/or sanctuary. Government and other authorities take action to combat any presence of terrorist ideology;

5: Terrorists or terrorist organizations have no notable degree of sponsorship and/or sanctuary. Government works closely and effectively with other countries to combat terrorism. No notable presence or toleration of terrorist ideology.

(b) **Government Capacity to Fight Terrorism (II)**. This variable indicates the degree to which foreign governments have political will, strong avenues of cooperation, and mechanisms for sustaining partner engagement in the fight against terrorism. Does a country have a capability for counter-terrorism (CT) planning and coordination and commitment to support CT objectives? This indicator is derived from State

Department's annual *Country Reports on Terrorism*, and the scores are determined by a five-person panel within State and USAID.

- 1: Government has dangerously poor counterterrorism capacity;
- 2: Counterterrorism capabilities have significant weaknesses, possibly including lack of control over some regions of the country;
- 3: Counterterrorism capability is adequate but in need of improvement. Problems in areas such as border security may be evident;
- 4: Strong counterterrorism capability. Cooperation with U.S. anti-terrorism measures may be evident. New anti-terrorism legislation may have been taken;
- 5: Exceptional counterterrorism capability and strong partner with U.S. against terrorism. Government may have passed *and implemented* anti-terrorism legislation and/or technical improvements

(c) **Severity of Terrorism.** This indicator combines the total number of incidents of terrorism and victims of terrorism over the most recent 15-month period for which data are available. The data are compiled from country terrorism statistics gathered by the National Counterterrorism Center (NCTC) and its Worldwide Incidents Tracking System (WITS).

- 1: 500 and up
- 2: 100 to 499
- 3: 10 to 99
- 4: 4 to 9
- 5: 3 or less

(d) **Political Stability and Absence of Violence.** From the World Bank Institute, *Governance Matters* dataset. This composite indicator attempts to measure perceptions of the likelihood that the government in power will be destabilized or overthrown by possibly unconstitutional and/or violent means, including domestic violence and terrorism.

- 1: 19 percentile or less
- 2: 20-39
- 3: 40-59
- 4: 60-79
- 5: 80-99 percentile

## **2 Combating Weapons of Mass Destruction** (Three equally-weighted components).

(a) **Chemical and Biological Weapons Control Status.** This indicator uses the export control status of a country, designated by the Department of Commerce. Under these regulations, US companies are required to get licenses to export militarily sensitive

material to certain countries. Countries are grouped into categories according to several criteria. With regard to controlling the proliferation of chemical and biological weapons, two levels of export controls are in place as required by Commerce: a) CB 2 Controls - Licenses required (unless license exception applies) for exporting certain chemicals, software, equipment and technology to a country that is not member of the Australia Group organization with its common control lists of items related to chemical and biological weapons; and b) CB 3 Controls - License required (unless license exception applies) to export certain medical products. Under this control regime, license applications are considered to determine whether the export or re-export by a U.S. company would make a “material contribution to the design, development, production, stockpiling or use of chemical or biological weapons.” If Commerce deems an export would make such a contribution, the license will be denied.

- 1: CB 2 and CB 3 controls in place
- 3: CB 3 controls only
- 5: No CB 2 or CB 3 controls in place

(b) **Nuclear Proliferation Control Status.** As with (a) above, this indicator reflects the status of countries as measured by U.S. Department of Commerce export controls. Under these regulations, U.S. companies are required to get licenses to “export items that could be of significance for nuclear explosive purposes if used for activities other than those authorized at the time of export or re-export.” Countries are grouped into categories according to certain criteria. With regard to controlling of nuclear proliferation, two primary levels of export controls are in place as required by Commerce: a) NP 1 Controls - Licenses required (unless license exception applies) for exporting certain items that could be of significance for nuclear explosive purposes for countries which are not members of Nuclear Suppliers Group (NSG) (NSG is a multinational body concerned with reducing nuclear proliferation by controlling the export and retransfer of nuclear materials); and b) NP 2 Controls – Licenses required (unless license exception applies) to export certain items to “Group D:2” countries, which are non-signatories or in violation of Nuclear Non-proliferation Treaty (NPT). By identifying both signatories of the NPT and members of the NSG, this indicator serves as a proxy measure for commitment to the principles of nuclear non-proliferation.

- 1: NT 1 and NT 2 controls in place
- 3: NT 2 controls only
- 5: No NT 1 or NT 2 controls in place

(c) **Export Control/Border Security Assessment.** A tool used by the Department of State to analyze the state of a country’s own protections against WMD. The assessment has been given to sixty-four countries by the US State Department’s Office of Export Control Cooperation in the Bureau for International Security and Non-Proliferation. While the global data set is limited, the assessment has been given to most of the E&E region. It is

a relatively direct measure of the state of a country's border controls, a key component in the efforts to control WMD. Scores on a scale of 1 to 100:

- 1: less than 20
- 2: 20 to 29
- 3: 30 to 59
- 4: 60 to 69
- 5: over 70

**3 Stabilization Operations and Security Sector Reform.** (Five equally-weighted components)

(a) **Instability.** USAID DCHA/CMM Instability Alert List Instability Rankings based on color-coded scores. The risk of instability refers to the future likelihood that a country will experience a coup d'état, a civil war, a government collapse, or some other destabilizing event that will hamper or entirely disrupt the government's ability to function. A range of factors relating to attributes of the state in the economic, political, social, and security domains drives the risk for future instability. The indicators that make up the Instability Alert List include: Regime consistency (0=none 100=purely autocratic or democratic); Partial democracy – Yes/No; Economic Openness (total trade/GDP, %); Infant Mortality (deaths per 1000 births); Militarization (active troops per 10,000 population); Neighborhood conflict - Yes/No.

- 1: Highest Risk (red)
- 2: High Risk (orange)
- 3: Moderate Risk (yellow)
- 4: Some Risk (green)
- 5: Low Risk (blue)

(b) **Human Rights** (Cingranelli-Richards (CIRI) Human Rights Dataset; Binghamton University, drawing on State Department and Amnesty International reports). This measure assesses disappearances, extra-judicial killings, political prisoners and torture, and scores on a 0 to 8 scale. 1 to 5 converted scores:

- 1: 1 or less
- 2: 2 to 3
- 3: 4 to 5
- 4: 6 to 7
- 5: 8

(c) **Violent Crime** (UNICEF, Innocenti TransMONEE Database, and United Nations Office on Drugs and Crime [UNODC]). This indicator measures the recorded intentional annual homicide rate per 100,000 persons. It is intended to serve as a proxy indicator for the domestic security environment.

- 1: 10 homicides or more
- 2: 5.0 to 9.9
- 3: 3.0 to 4.9
- 4: 2.0 to 2.9
- 5: less than 2.0

(d) **Military expenditures as Percentage of GDP.** This indicator, available from the World Bank's *World Development Indicators*, is used as a proxy for predicting future military action. NATO recommends spending 2% of GDP on defense for its members. Using a 2% threshold acknowledges that it is possible to spend too little on defense, e.g. a NATO country that is not "pulling its own weight" in the mutual defense alliance. Therefore, the indicator is initially scored for how much the military expenditure percentage deviates from the 2% threshold. After being converted to a 1 to 5 scale, countries are given a "freedom bonus" of 1 point if they are designated as "free" by Freedom House. The effort is to differentiate between democratic countries that might be penalized for spending too little on defense from authoritarian countries that might be spending too much. This benefits NATO countries such as Hungary, Lithuania and Slovakia, which are spending under 2% of GDP on their military, but have good records on democratization.

Deviation (+ or -) from 2% of GDP. Bonus of 1 additional point added after initial calculation for countries with a "free" designation from Freedom House.

- 1: deviation equal to or greater than 3% of GDP
- 2: deviation between 1% and 2.9%
- 3: deviation between 0.4% and 0.9%
- 4: deviation between 0.2% and 0.4%
- 5: deviation less than 0.2% of GDP

(e) **Peacekeeping.** This indicator is a ranking of nations based on two sets of data: 1) peacekeeping financial contributions as a share of GDP; and 2) peacekeeping personnel as a share of population. The data are compiled by A.T. Kearney as one component of their *Globalization Index*. The rankings include seventy-one countries, which are ranked on the 1-5 scale according to where they fall on the global ranking.

- 1: 60 to 71
- 2: 45 to 59
- 3: 30 to 44
- 4: 15 to 29
- 5: 1 to 14

**4 Counternarcotics** (three equally-weighted components). This indicator attempts to capture narcotics demand and supply. Four narcotics are tracked and are weighted to reflect the relative societal danger: opiates receive the highest weight (triple-weighted),

vs. cocaine and amphetamines, which receive an intermediate weight (double-weighted), vs. cannabis, which receives the lowest weighting (single-weighted).

(a) **Demand for Narcotics.** This indicator averages the annual prevalence of the level of abuse of opiates, cocaine, cannabis, of amphetamines. The data are collected by the United Nations Office of Drugs and Crime (UNODC). Under the International Drug Conventions, member states are formally required to provide drug related information annually. UNODC has developed the Annual Reports Questionnaire (ARQ) to collect these data, which are incorporated into the annual *World Drug Report*.

Weighted average of scores (1-5) for abuse prevalence for four drugs:

Opiates (score triple weighted) and Amphetamines (score double weighted)

- 1: > 1% of population
- 2: 0.5 - 1% of population
- 3: 0.3 ≤ 0.5% of population
- 4: 0.1 - < 0.3% of population
- 5: < 0.1% of population

Cocaine (score double weighted)

- 1: > 2% of population
- 2: 1.5 - 2% of population
- 3: 0.5 - ≤ 1.5% of population
- 4: 0.1 - ≤ 0.5% of population
- 5: < 0.1% of population

Cannabis (score un-weighted)

- 1: > 8% of population
- 2: 5 - 8% of population
- 3: 3 - ≤ 5% of population
- 4: 1 - < 3% of population
- 5: < 1% of population

(b) **Change in Demand for Narcotics** (UNODC, *World Drug Report*). Weighted average of scores (1-5) for change in use prevalence for four drugs. The determination of a “large increase,” “some increase,” “stable” usage, “some decline,” and a “strong decline” were made by the UNODC and reported in the *World Drug Report*.

- 1: large increase
- 2: some increase
- 3: stable
- 4: some decline
- 5: strong decline

(c) **Narcotics Interdiction.** This indicator attempts to measure three aspects of “interdiction” of narcotics: drug production; transiting; and government’s

counternarcotics capacity. The source is the International Narcotics Control Strategy Report, (INCSR), an annual report by the Department of State to Congress, which describes the efforts of key countries to attack all aspects of the international drug trade. The estimates on illicit drug production presented in the INCSR represent the United States Government's best effort to sketch the current dimensions of the international drug problem. If a country is designated in the report as a Major Illicit Drug Producing and/or Major Drug-Transit Country, (Afghanistan, The Bahamas, Bolivia, Brazil, Burma, Colombia, Dominican Republic, Ecuador, Guatemala, Haiti, India, Jamaica, Laos, Mexico, Nigeria, Pakistan, Panama, Paraguay, Peru, and Venezuela) the score for the entire interdiction indicator will be "1."

For countries not designated a "major illicit drug producing country," analysts at USAID/EE review the INCSR narratives and award a numerical score of 1 to 5, with 5 being the best and one the worst, to each of three sub-categories. The three sub-scores measure: 1) the extent to which drug production in a country is a problem for international counternarcotics efforts; 2) the extent to which a country serves as a drug transit route; and 3) the capacity of a country's counternarcotics forces. The 1-5 scores for each of the three categories are averaged to provide a numerical indicator. The initial scores are then vetted within the USAID/EE/Program office for accuracy.

#### Drug Production:

- (1) Large quantities of illegal narcotics are grown, harvested, manufactured, or otherwise produced in host country. Government is either unwilling or unable to significantly impede production. Applies primarily to opiates and cocaine.
- (2) Drug production exists on a substantial scale, despite often successful efforts of host government to impede and disrupt the production.
- (3) Some drug production exists despite efforts of host government to impede and disrupt the production. Production may be in isolated areas or due to geographic or climate conditions that encourage production of certain drugs.
- (4) Small amounts of production, usually for domestic use, are documented, but the impact on the world drug market is minimal. Potential for increased production may exist but is not yet fulfilled.
- (5) There is little to no significant drug production beyond minor domestic cultivation.

#### Drug Transiting

- (1) Country is a major transit route for narcotics trafficking. Government efforts to reduce transit are ineffectual. Applies primarily to opiates and cocaine.
- (2) Country is a significant transit route of narcotics trafficking, despite government efforts to impede it.
- (3) Drug transiting is noted, despite strong government interdiction efforts. Status may be due to geographic proximity to traditional transit routes.
- (4) Drug transiting exists, but is not a major factor on world drug markets.
- (5) Small scale drug transiting may occur, but impact is minimal .

#### Government's Counternarcotics Capacity

- (1) Government characterized by corruption, lack of political will, and/or incompetence in interdicting drugs. Drug activity may be occurring in areas not under the effective control of the central government.
- (2) While elements of the government may be committed to drug control, law enforcement and other state institutions lack the capacity to adequately address counternarcotics issues.
- (3) Government is taking steps to address drug control, but effectiveness may be compromised by capacity issues and/or corruption.
- (4) Drug control policy and enforcement is mostly sound and effective, and well coordinated with the international community. However, some policy and/or operational issues could still be improved.
- (5) Counternarcotics efforts are a high priority for government which is characterized by high professional standards and effective interdiction results.

#### 5 Transnational Crime (Five equally-weighted components).

(a) **Trafficking in Persons.** This indicator draws from the US Department of State's *Trafficking in Persons Report*. The Department of State places each country into one of the three lists, described here as tiers, mandated by the Trafficking Victims Protection Act of 2000 (TVPA). This placement is based more on the extent of government action to combat trafficking, rather than the size of the problem. The Department first evaluates whether the government fully complies with the TVPA's minimum standards for the elimination of trafficking. Governments that fully comply are placed in Tier 1. For other governments, the Department considers whether they are making significant efforts to bring themselves into compliance. Governments that are making significant efforts to meet the minimum standards are placed in Tier 2. Governments that do not fully comply with the minimum standards and are not making significant efforts to do so are placed in Tier 3. Finally, the TVPA created a "Special Watch List" of countries on the TIP Report that should receive special scrutiny (Tier 2W).

- 1: Tier 3
- 2: Tier 2w
- 4: Tier 2
- 5: Tier 1

(b) **Piracy of Intellectual Property Rights.** This indicator draws from the United States Trade Representative (USTR) "2008 Special 301 Report" which focuses on the "adequacy and effectiveness of intellectual property rights (IPR) protection by U.S. trading partners." The USTR places countries into three categories: the Priority Watch List, Watch List, or the Section 301 monitoring list. Countries on the Priority Watch list do not provide an adequate level of IPR protection or enforcement, or market access for persons relying on intellectual property protection, in absolute terms and/or relative to



a range of factors such as their level of development. Countries on the lower level Watch List, merit bilateral attention to address IPR problems

1.0: high priority (priority watch)

3.0: low priority (watch)

5.0: no priority (monitoring list)

(c) **Money Laundering.** This indicator uses classification found in the *International Narcotics Control Strategy Report* (INCSR), released annually by the US Department of State Bureau of International Narcotics and Law Enforcement Affairs. Every year, US officials from agencies with anti-money laundering responsibilities meet to assess the money laundering situations in 200 jurisdictions. The review includes an assessment of the significance of financial transactions in the country's financial institutions that involve proceeds of serious crime, steps taken or not taken to address financial crime and money laundering, each jurisdiction's vulnerability to money laundering, the conformance of its laws and policies to international standards, the effectiveness with which the government has acted, and the government's political will to take needed actions. The 2008 INCSR assigned priorities to jurisdictions using a classification system consisting of three differential categories titled Jurisdictions of Primary Concern, Jurisdictions of Concern, and Other Jurisdictions Monitored.

1: country of "primary concern"

2: country of "concern"

3: country "monitored"

5: country not monitored

(d) **Criminalization of the State.** This indicator is a component of the Fund for Peace's *Failed States Index*. It attempts to measure the disappearance of basic state functions that serve the people, including failure to protect citizens from terrorism and violence and to provide essential services, such as health, education, sanitation, and public transportation. When a country scores poorly under *the Criminalization and/or De-legitimization of the State* indicator, it is characterized by massive and endemic corruption or profiteering by ruling elites. There is a resistance of ruling elites to transparency, accountability and political representation along with a widespread loss of popular confidence in state institutions and processes; e.g., widely boycotted or contested elections, mass public demonstrations, sustained civil disobedience, inability of the state to collect taxes, resistance to military conscription, or a rise of armed insurgencies. In such states, there may be a growth of crime syndicates linked to ruling elites.

1.0: 7.7-10

1.5: 7.1 to 7.6

2.0: 6.2 to 7.0

3.0: 5.7 to 6.1

- 3.5: 4.9 to 5.6
- 4.0: 4.0 to 4.8
- 4.5: 3.1 to 3.9
- 5.0: 0 to 3.0

(e) **Counternarcotics** (see description above).

## **6 Conflict Mitigation** (Three equally-weighted components).

(a) **Conflict History.** This indicator is based on information from the Political Instability Task Force which is updated annually by researchers at the Center for Global Policy at George Mason University.

- 1: Conflict or regime change underway or ended within less than 1 year
- 2: 1 to 10 years
- 3: 11 to 20 years
- 4: 21 to 50 years
- 5: over 50 years

(b) **Fragility. USAID DCHA/CMM 2010 Alert List.** Fragility Rankings based on color-coded scores:

- 1: Highest Fragility (red)
- 2: High Fragility (orange)
- 3: Moderate Fragility (yellow)
- 4: Some Fragility (green)
- 5: Low Fragility (blue)

(c) **Bad Neighborhood.** (CIDCM, *Peace and Conflict 2010*) Based on levels of neighborhood war and militarization:

- 1: Neighborhood war and high militarization
- 2: Neighborhood war and some militarization
- 3: Neighborhood war and low militarization or no neighborhood war and high militarization
- 4: No neighborhood war and some militarization
- 5: No neighborhood war and low militarization

### **(3) Converting the Primary Data into a 1 to 5 Scale and Weighting Schemes**

For each indicator in which the minimum-maximum normalization technique is specified above, a 5 represents the best performance worldwide; that is, a level of progress which corresponds to the lower bound results of the top 5 percent of country performances worldwide. A 1 represents the worst performance in the E&E region; that is, a level of

progress which corresponds to the upper bound results of the bottom 5 percent of country performances in the twenty-nine country E&E region.

The 1 to 5 “spread” is determined by the minimum-maximum normalization technique (see OECD’s *Handbook on Constructing Composite Indicators: Methodology and User Guide*, 2008, pages 27-30). For indicators that are positively correlated with development (i.e., an increase in value indicates development):

$$\frac{(x - Min)}{(Max - Min)} * 4 + 1$$

For indicators that are negatively correlated with development (i.e., a decrease in value indicates development):

$$5 - 4 * \frac{(x - Min)}{(Max - Min)}$$

In some instances (as noted in the above sections), a regional minimum-maximum normalization technique is used in order to present a more accurate scaling for the E&E region. In a few instances (as noted above and for the peace and security indicators), cut-off points are used for regional scaling.

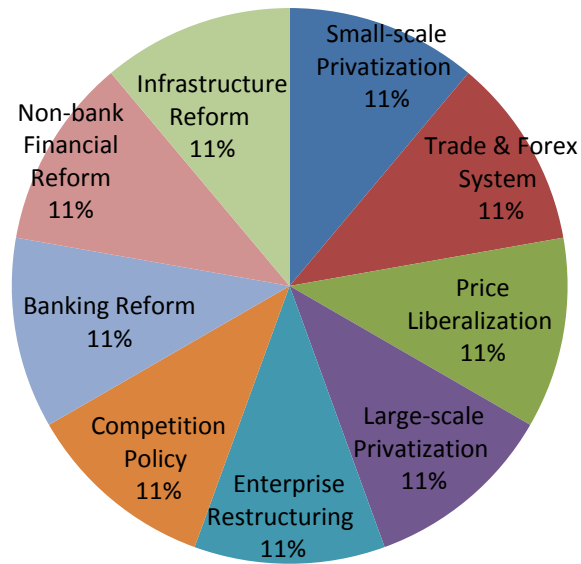
### **Weighting Schemes of the Economic Performance and Human Capital Indices**

Three of the five MCP indices consist of equally-weighted components: (1) economic reforms; (2) democratic reforms; and (3) peace and security. The Economic growth and performance index, as shown below, gives two times the weight to one of its ten components, namely, to economic growth. The nine primary indicators which go into the human capital index are grouped and weighted as follows: (1) per capita income (28%); (2) health (which consists of under-five mortality, life expectancy, TB incidence, environmental health, and public expenditures in health): 28%; (3) education (the education gaps index and public expenditures in education): 28%; and (4) gender inequality index (16%).

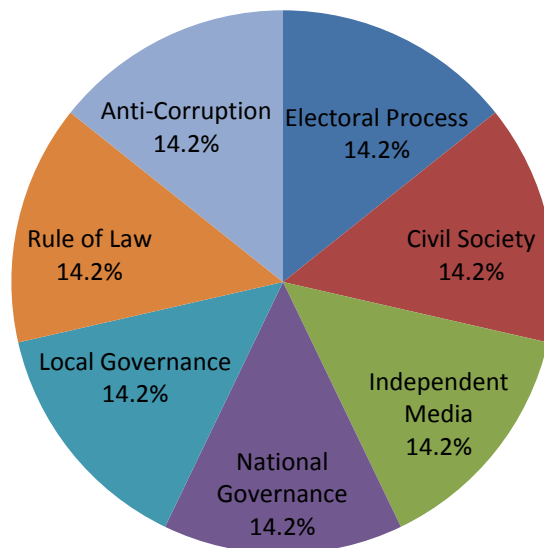
# Components and Weights

## MCP 13

### Economic Reforms



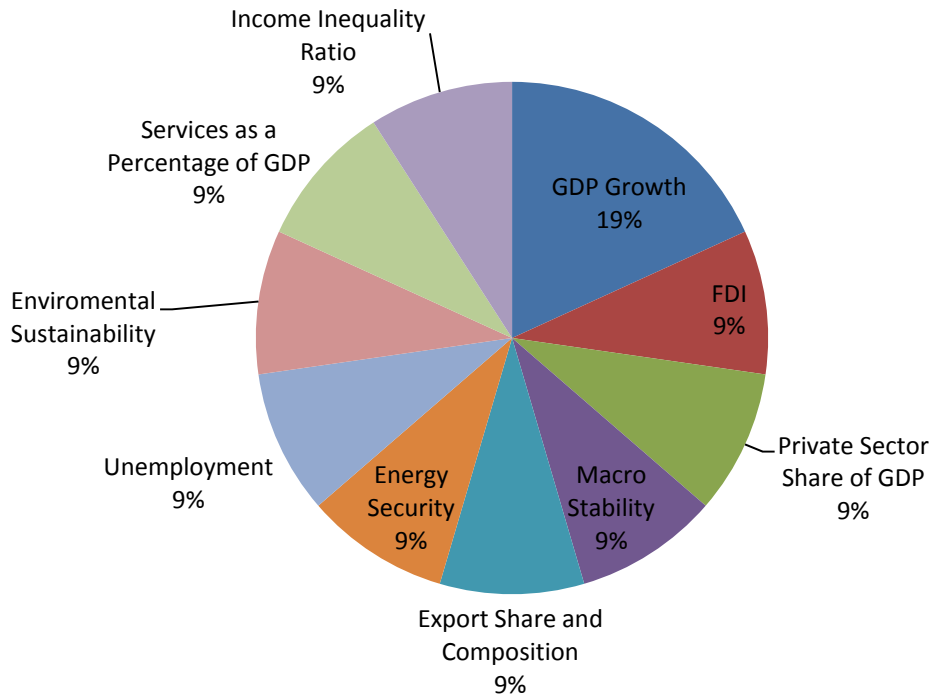
### Democratic Reforms



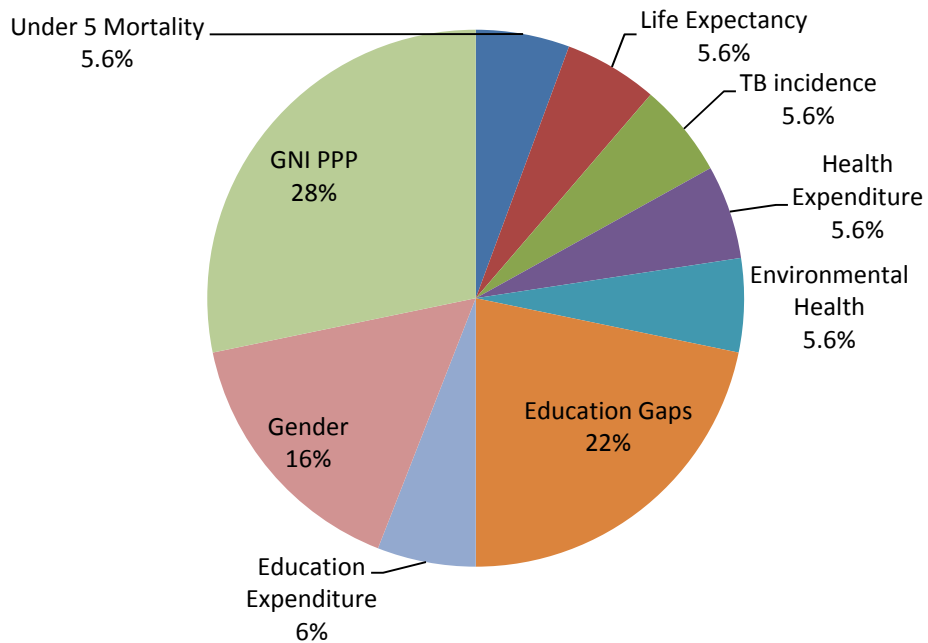
# Components and Weights

## MCP 13

### Macroeconomic Performance

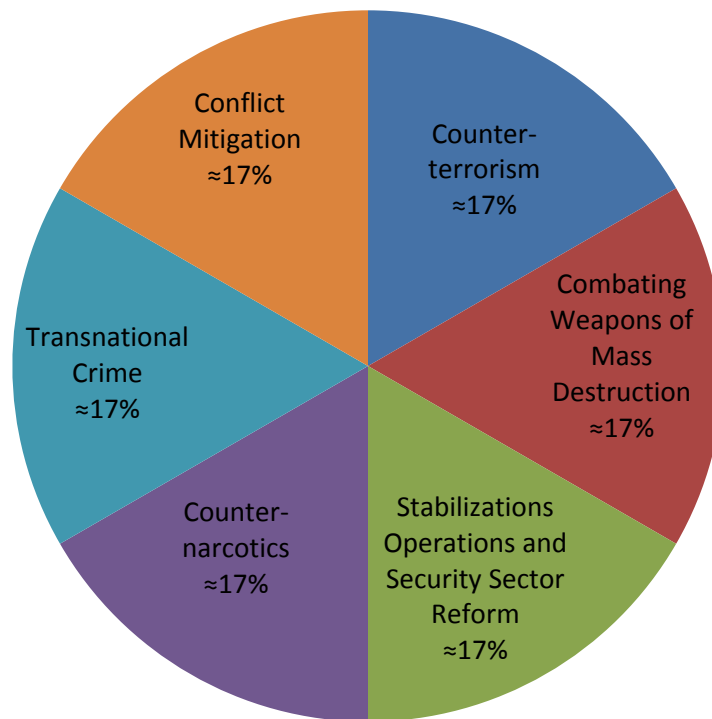


### Human Capital



# Components and Weights MCP 13

## Peace and Security





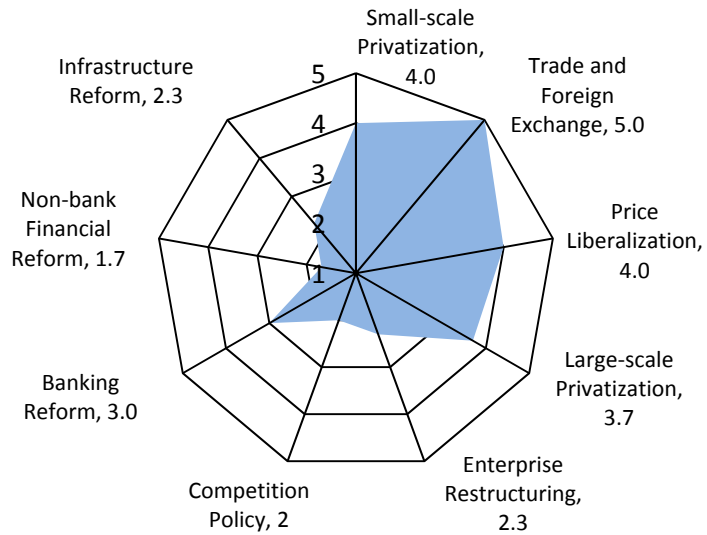
Appendix 2:  
Monitoring Country Progress in Eastern Europe &  
Eurasia #13  
Gap Analyses

USAID  
E&E Bureau  
Strategic Planning and Analysis Division  
October 2011

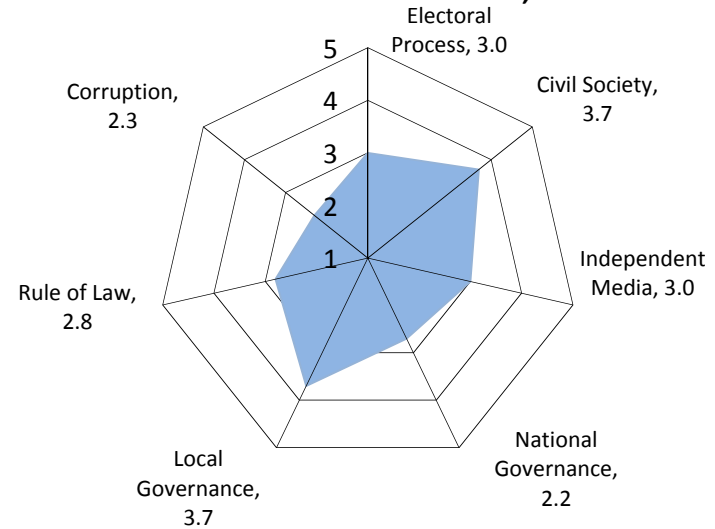
Figure 1

# Albania

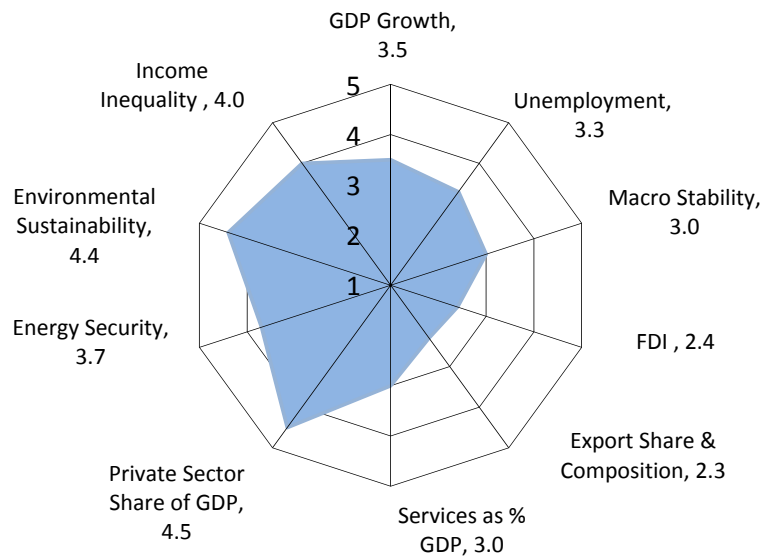
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

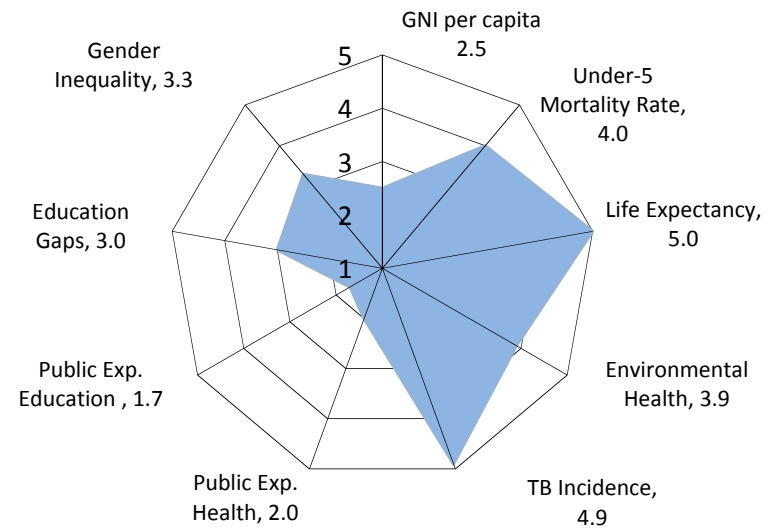
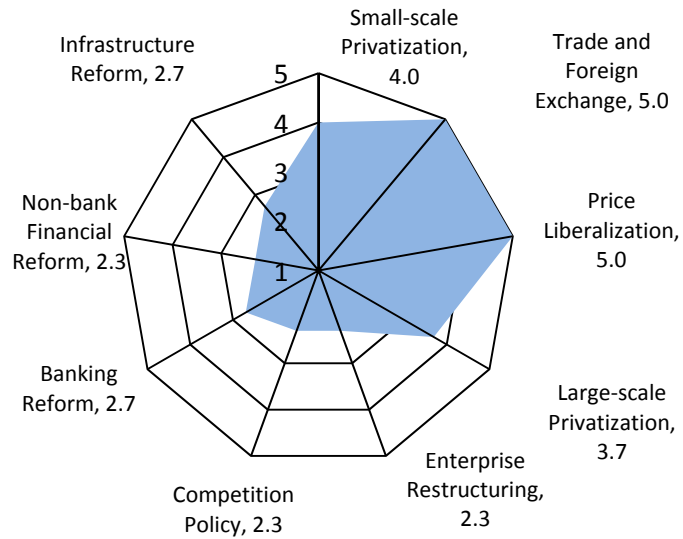




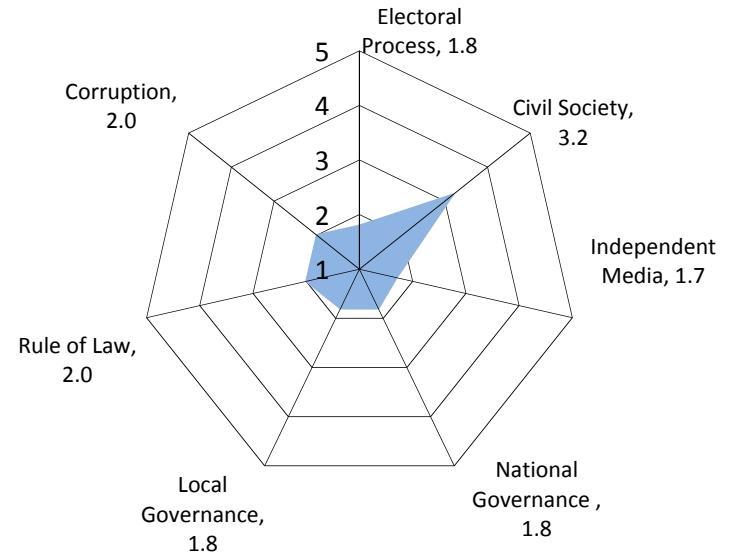
Figure 2

# Armenia

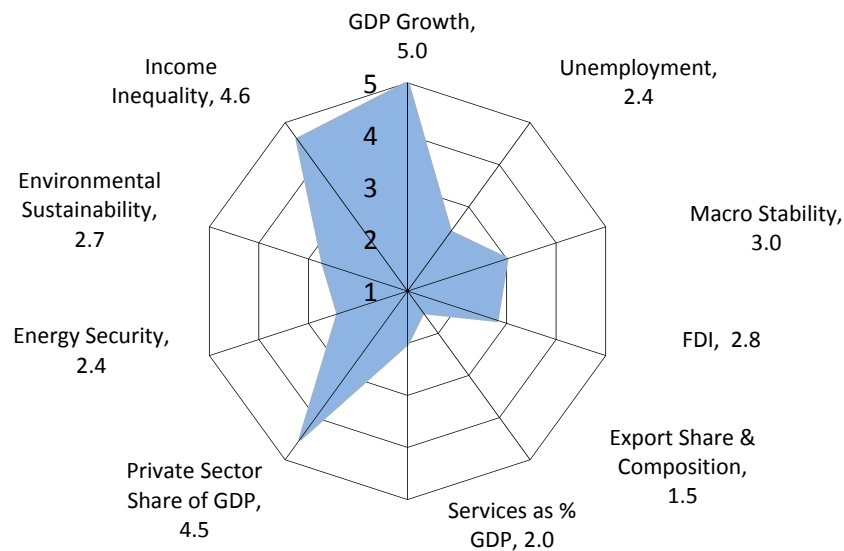
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

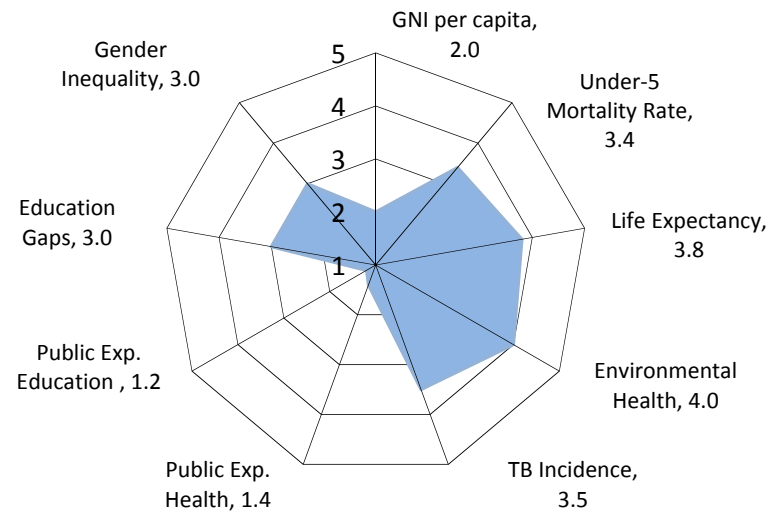
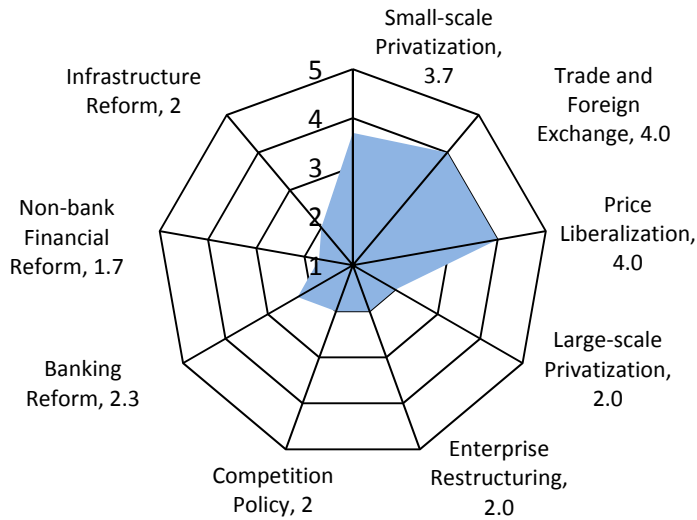


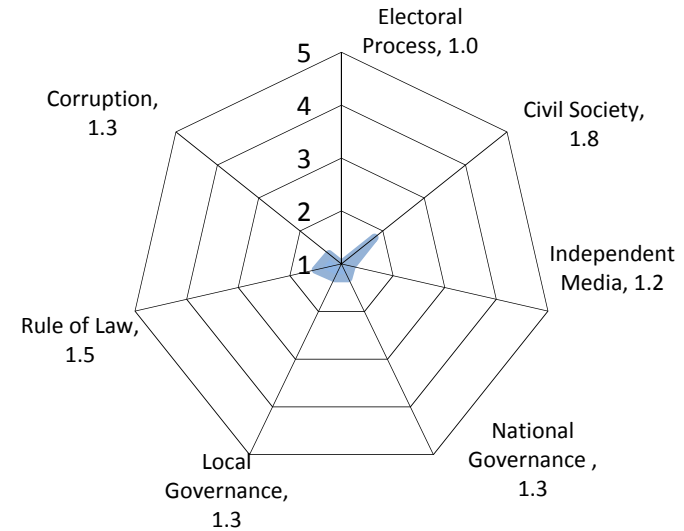
Figure 3

# Azerbaijan

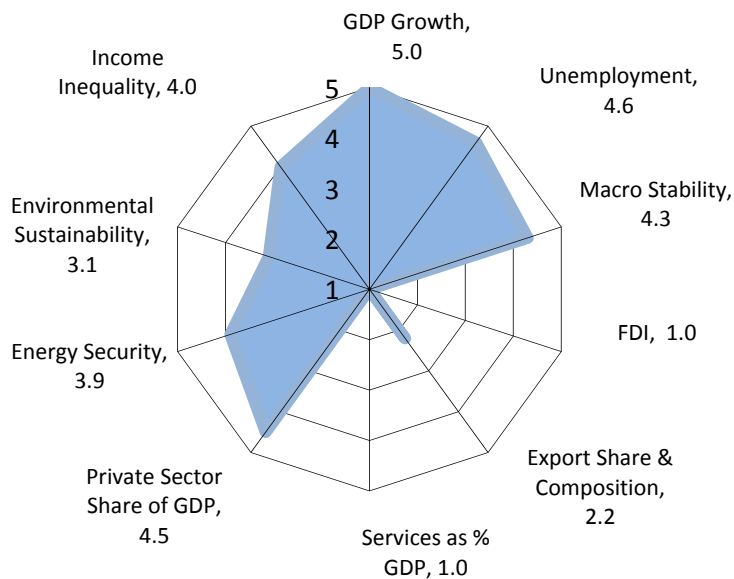
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

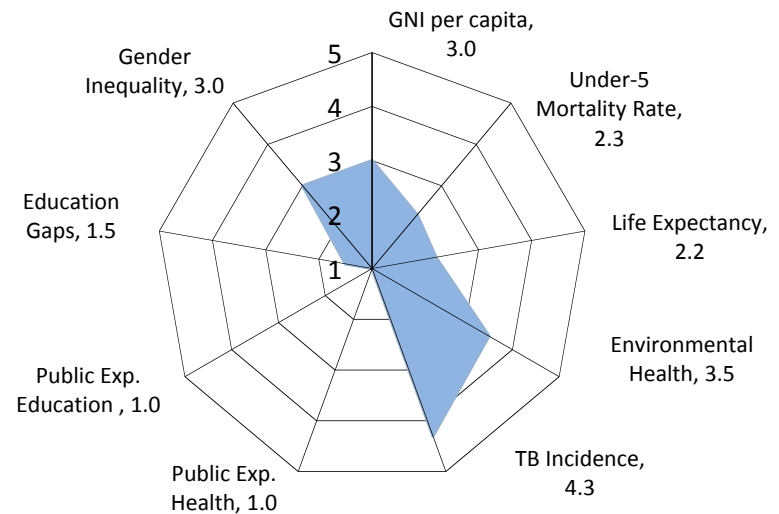
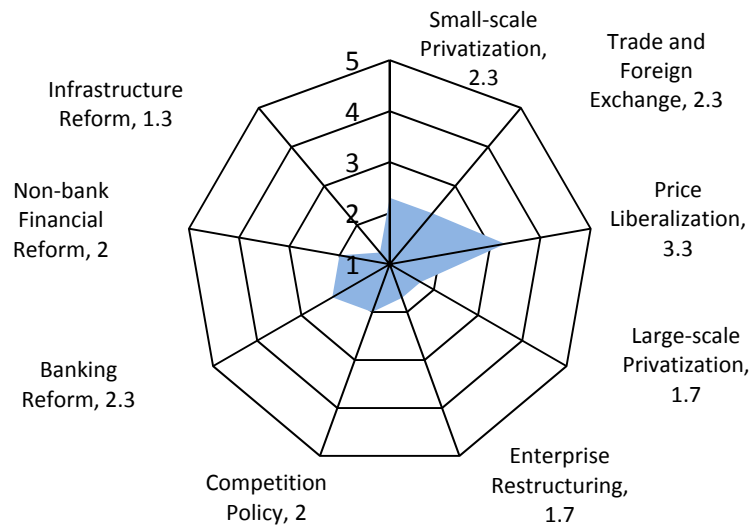


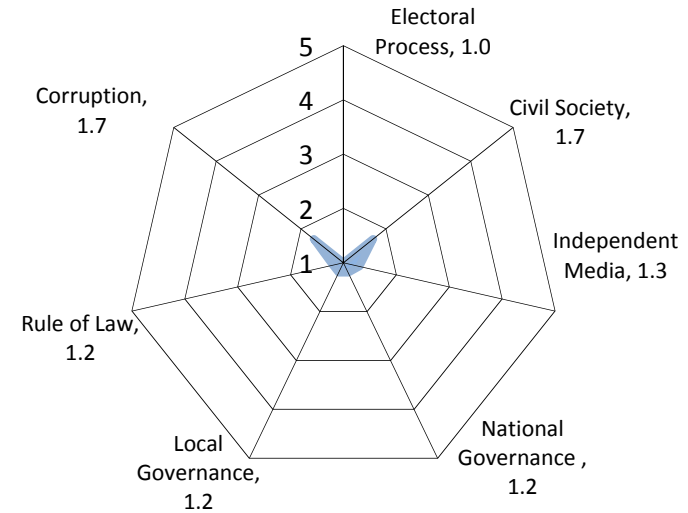
Figure 4

# Belarus

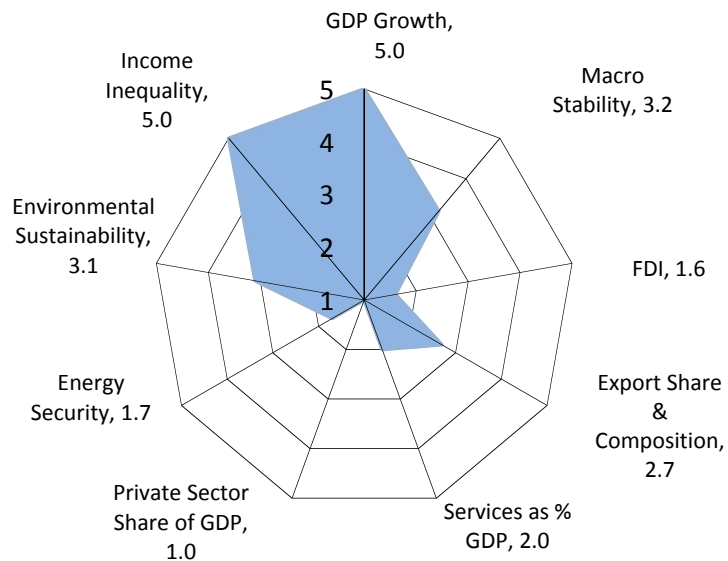
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

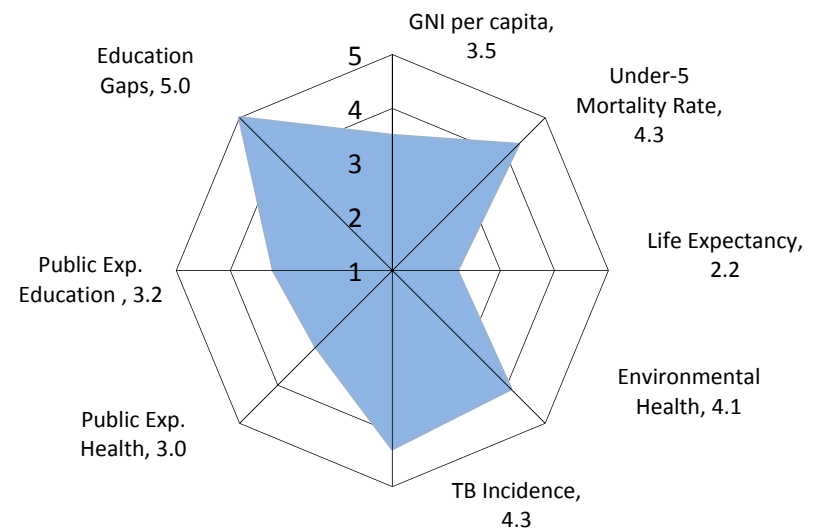
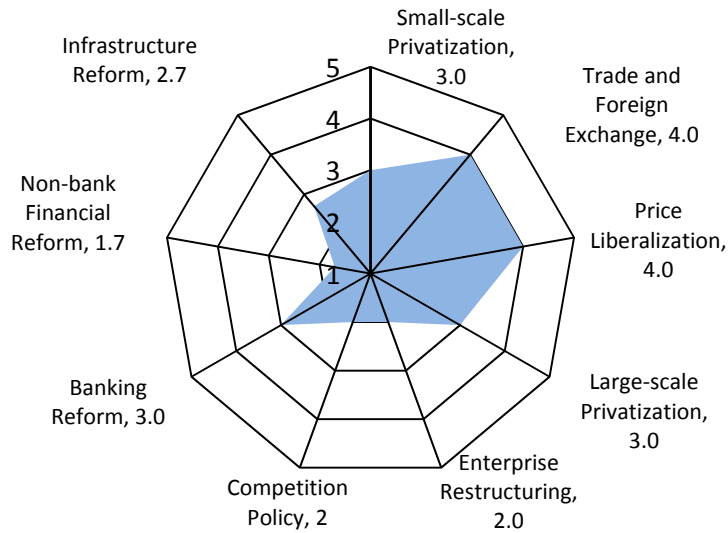


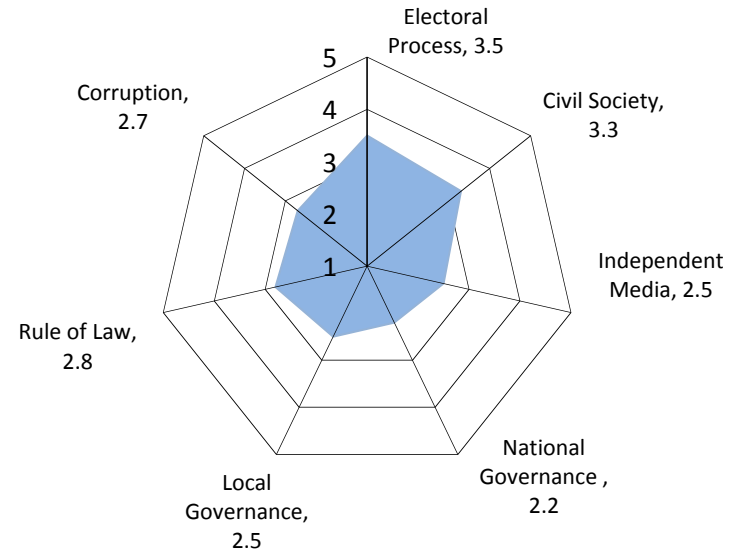
Figure 5

# Bosnia and Herzegovina

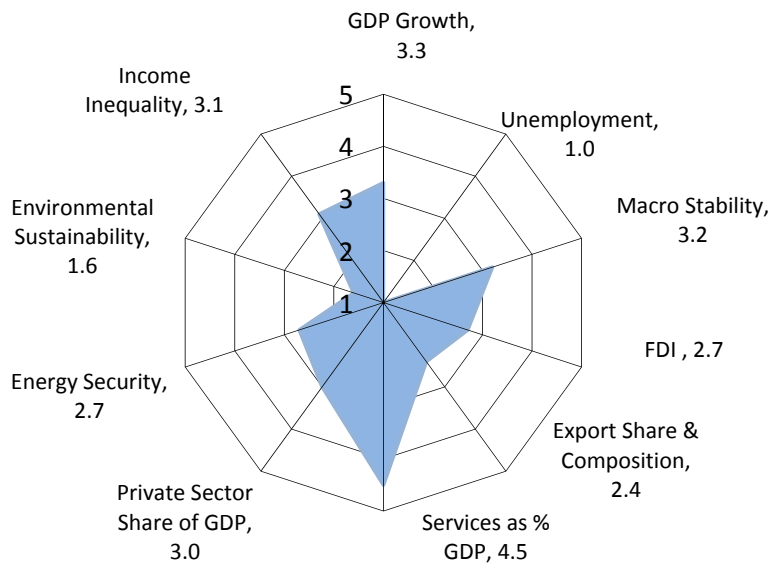
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

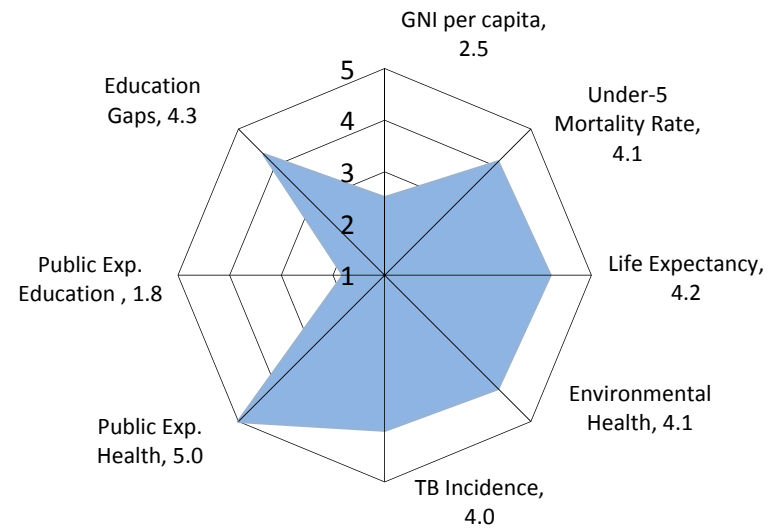
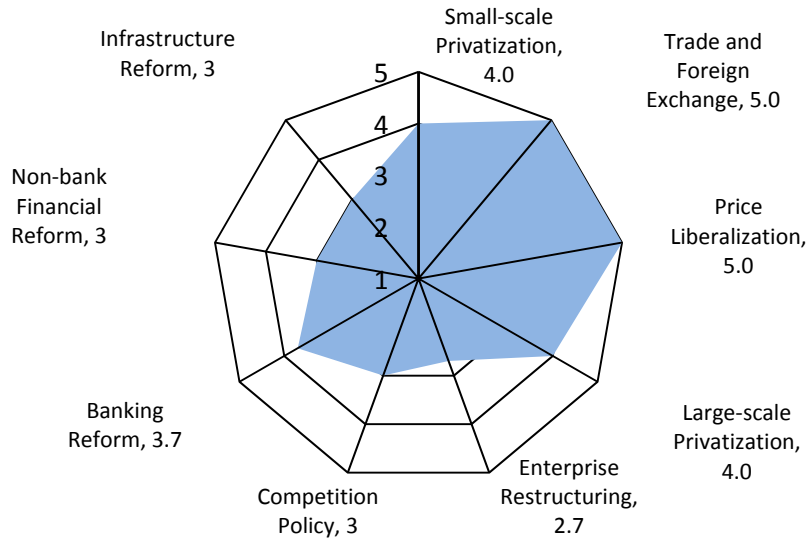


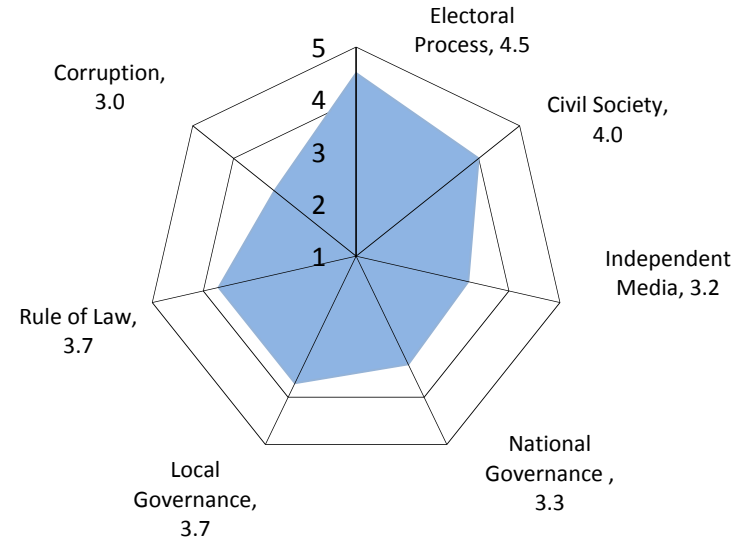
Figure 6

# Bulgaria

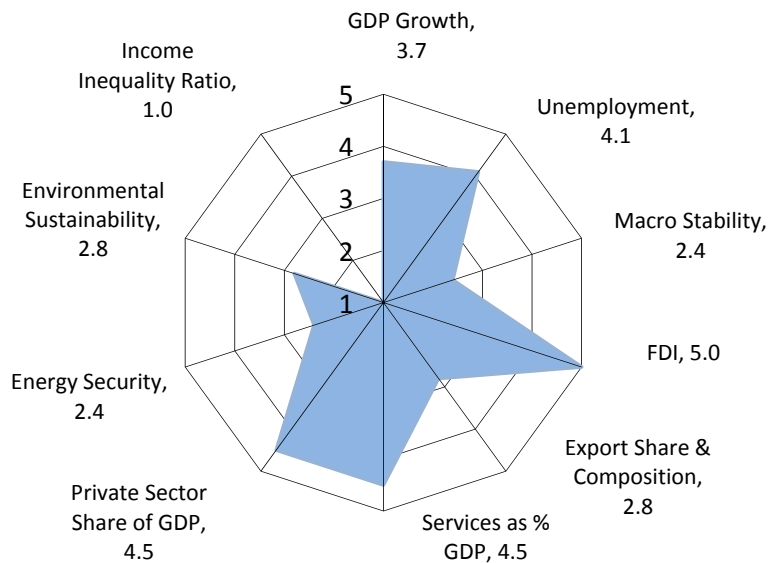
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

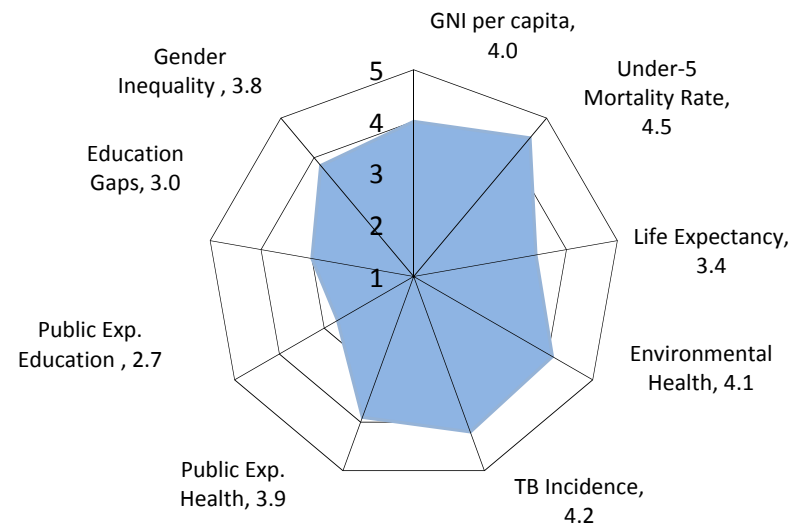
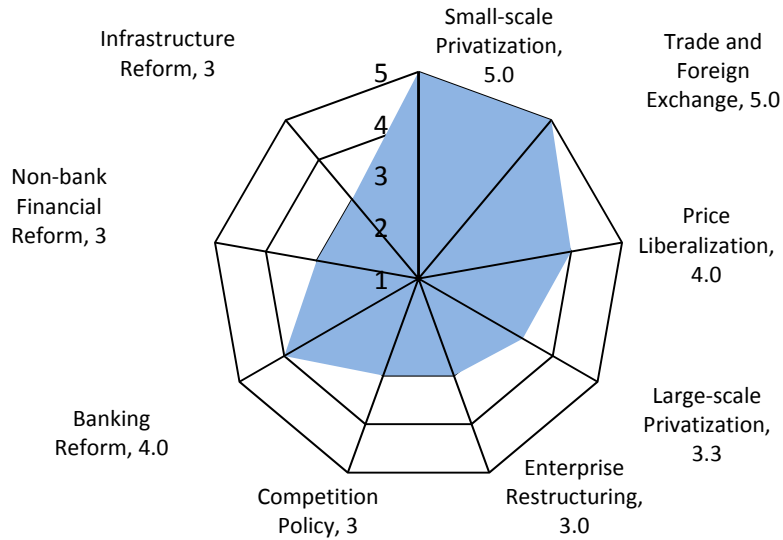


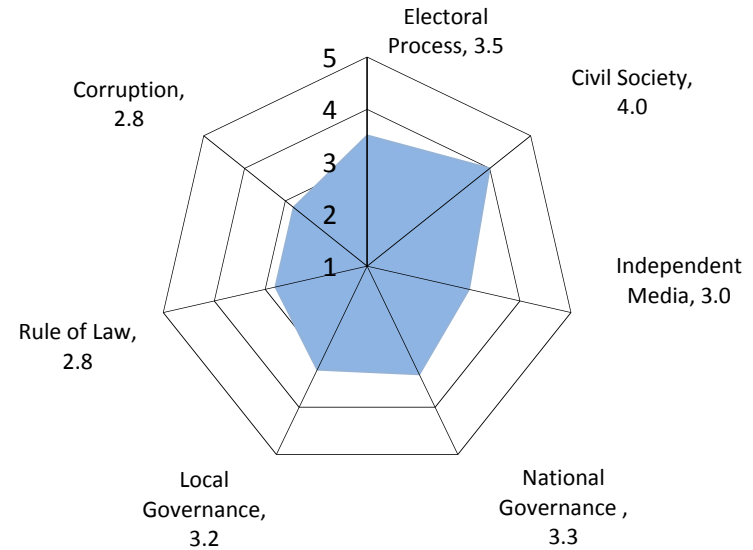
Figure 7

# Croatia

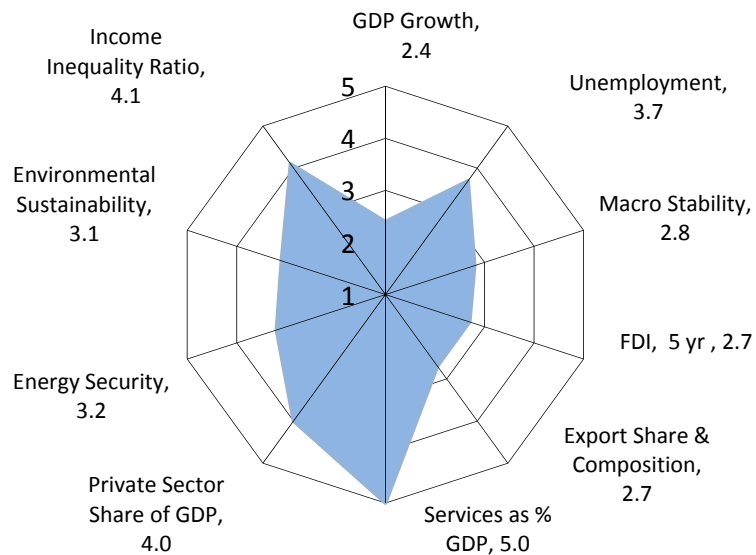
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

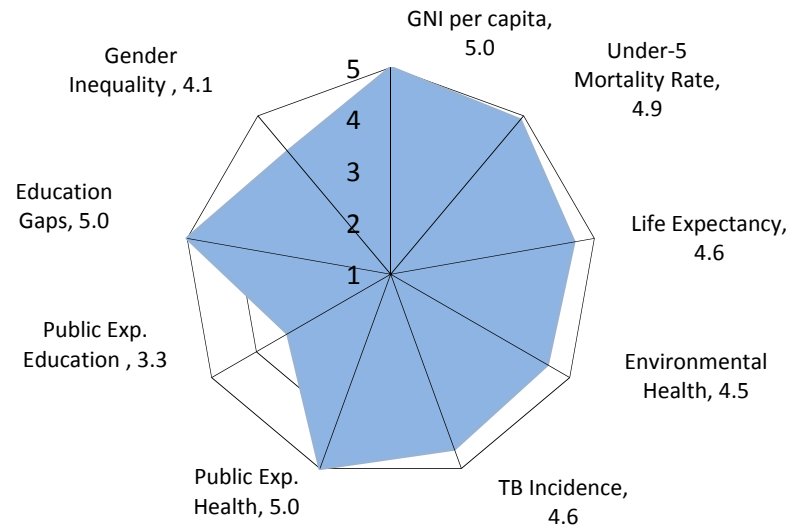
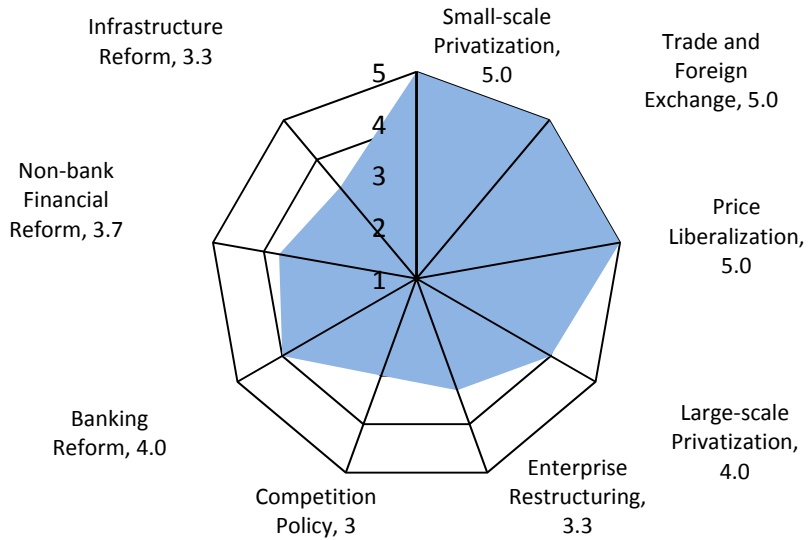


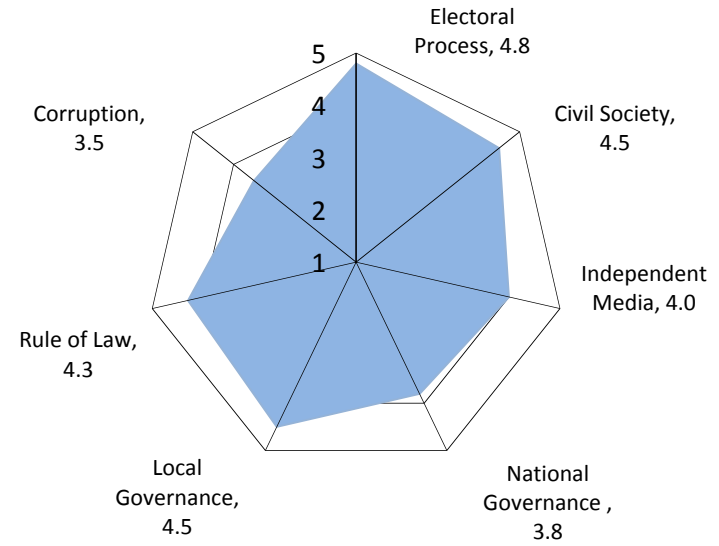
Figure 8

# Czech Republic

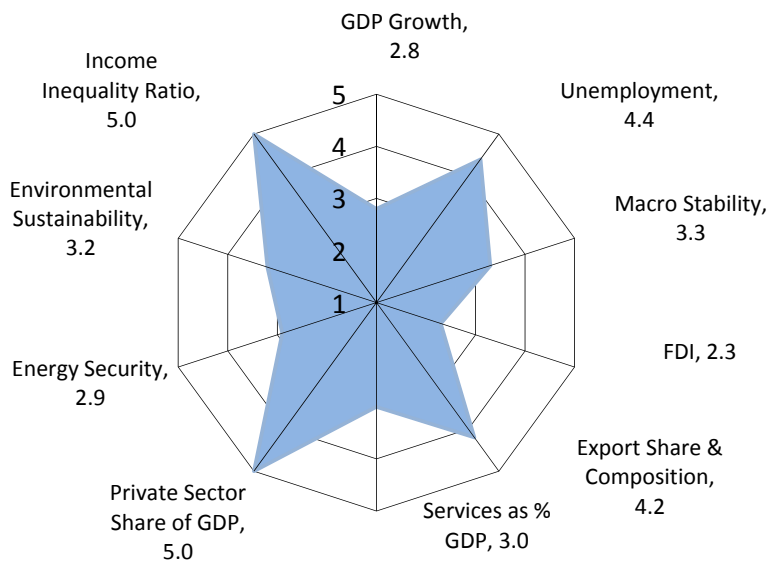
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

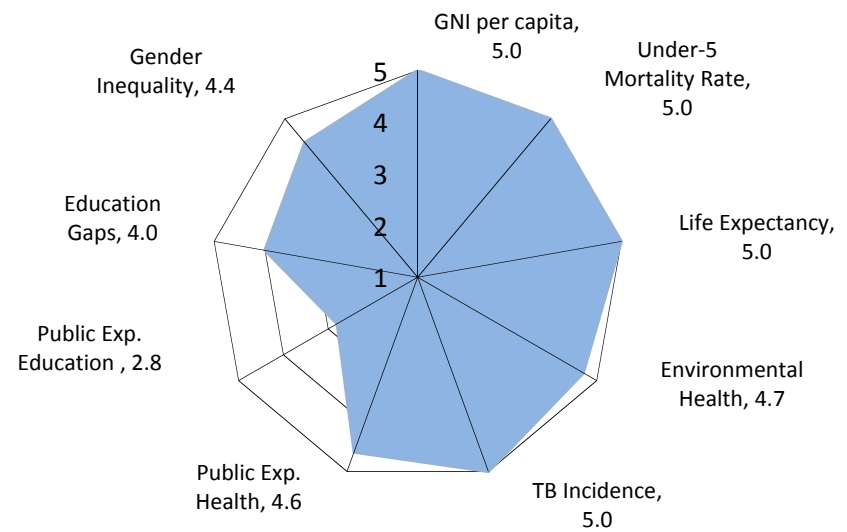
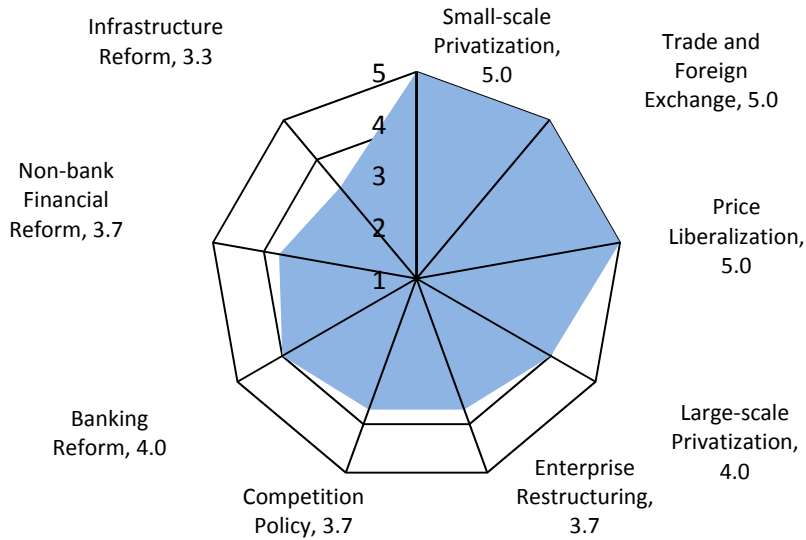


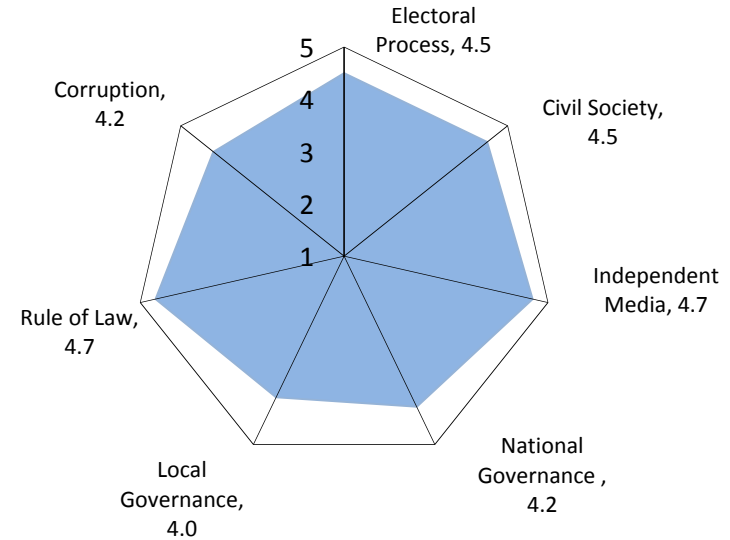
Figure 9

# Estonia

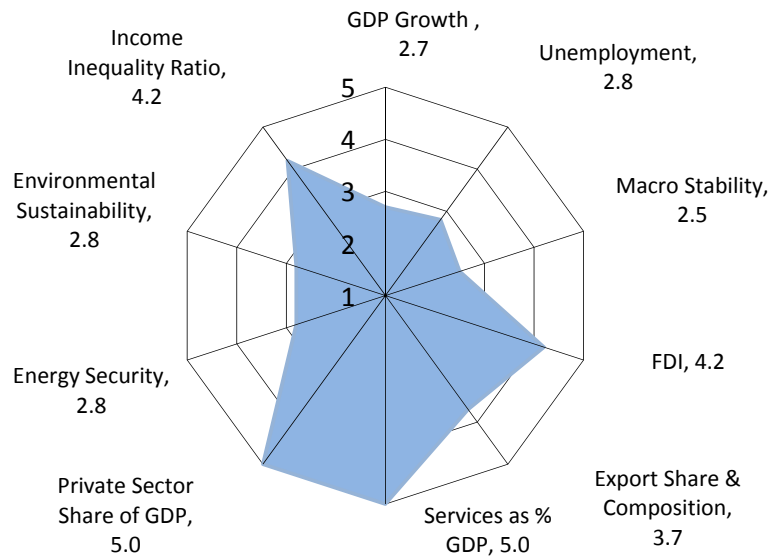
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

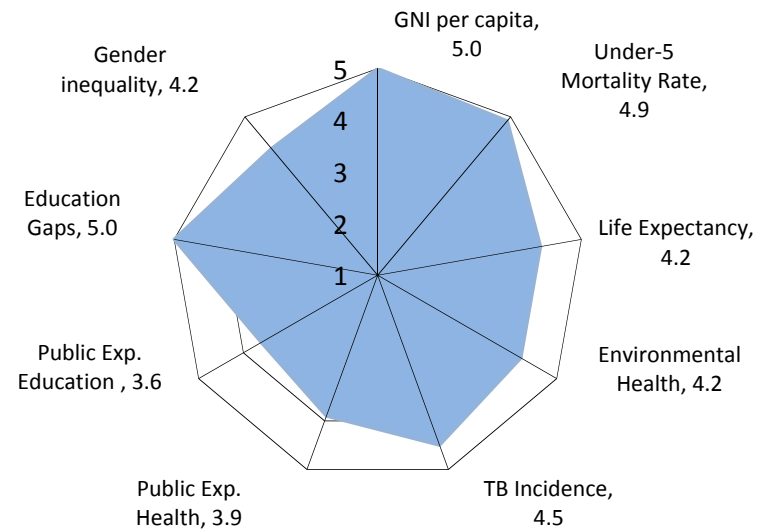
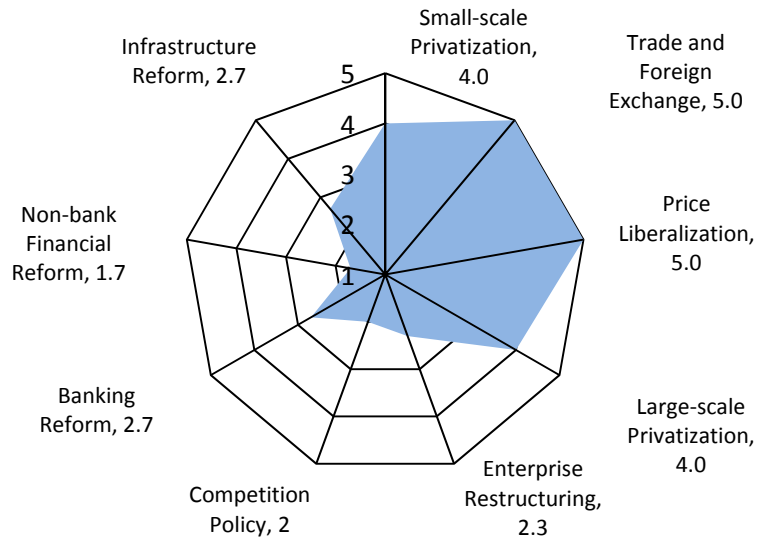




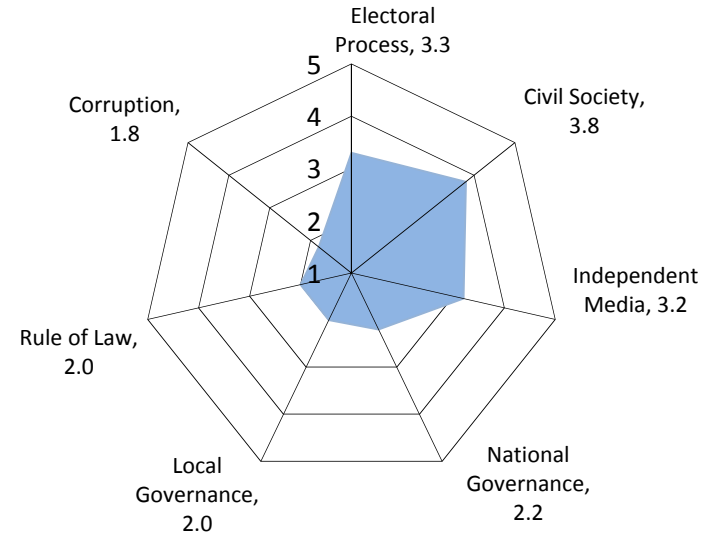
Figure 10

# Georgia

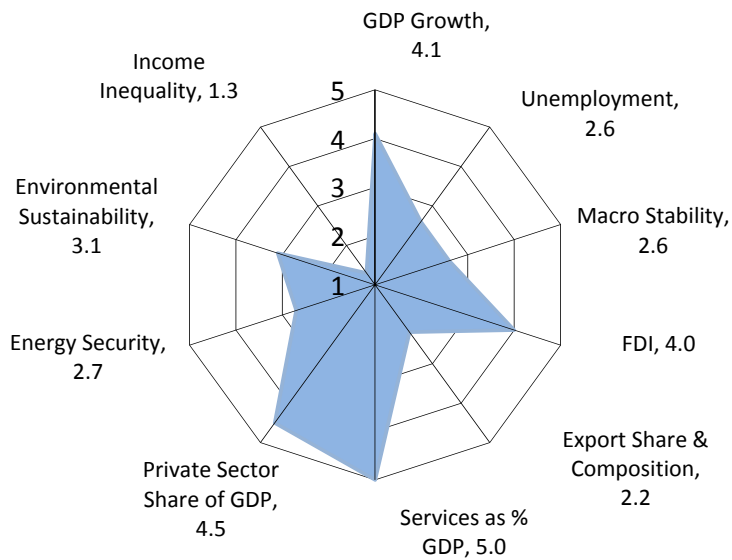
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

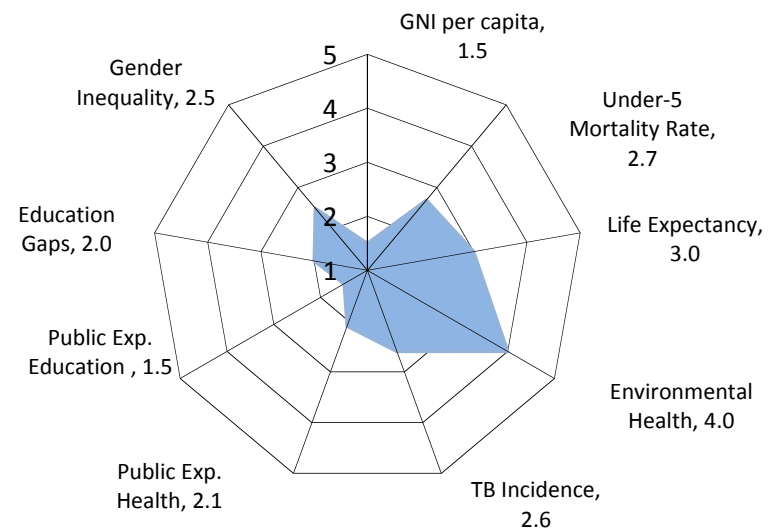
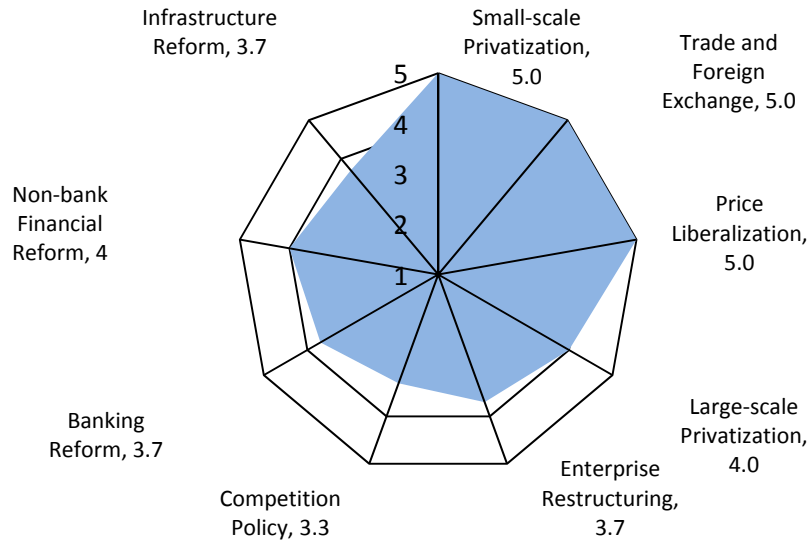


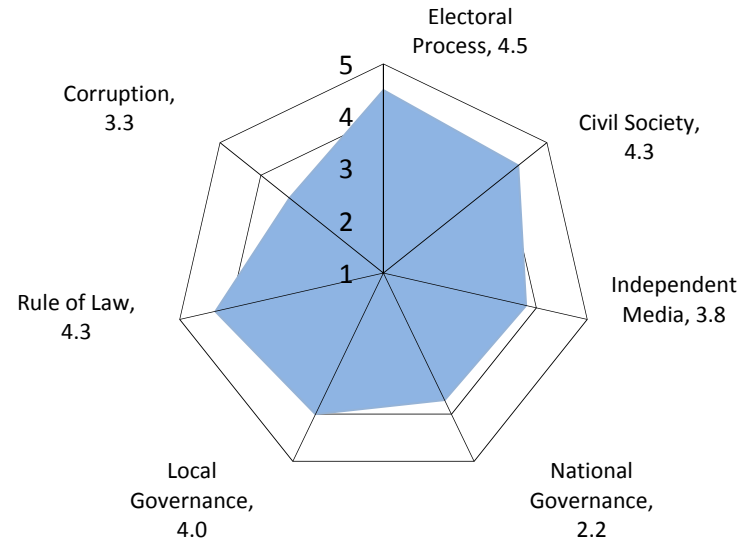
Figure 11

# Hungary

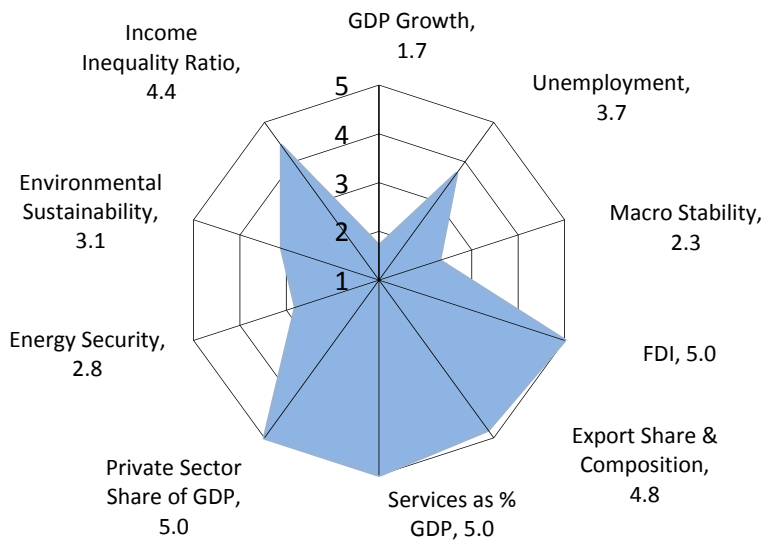
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

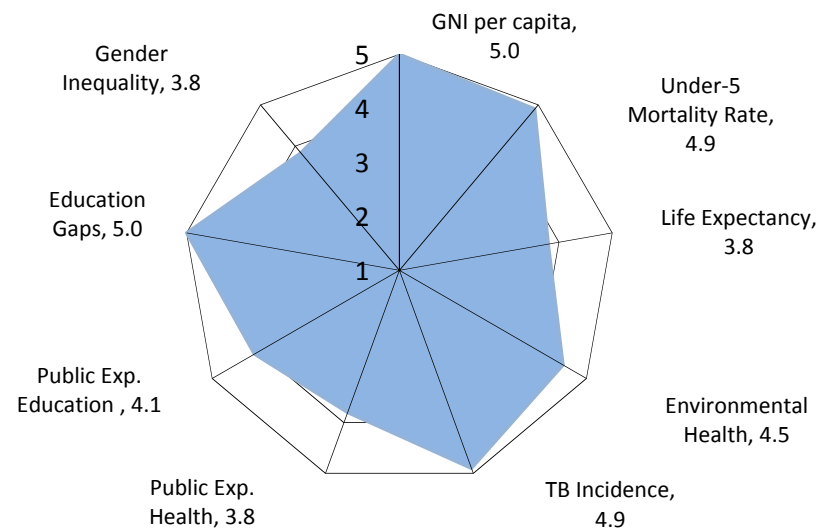
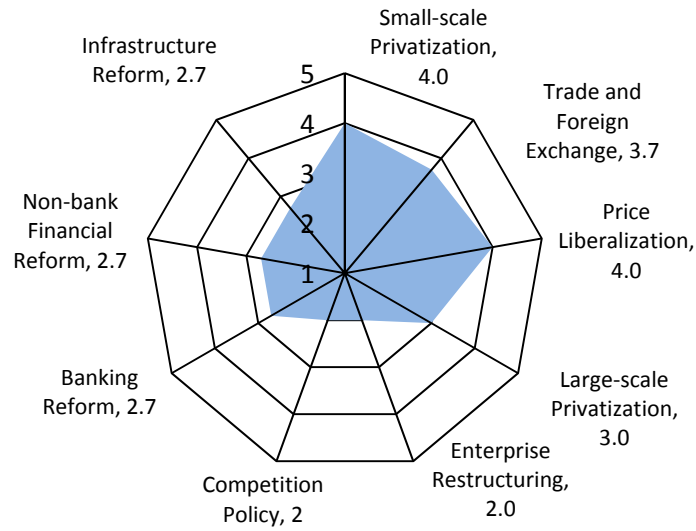


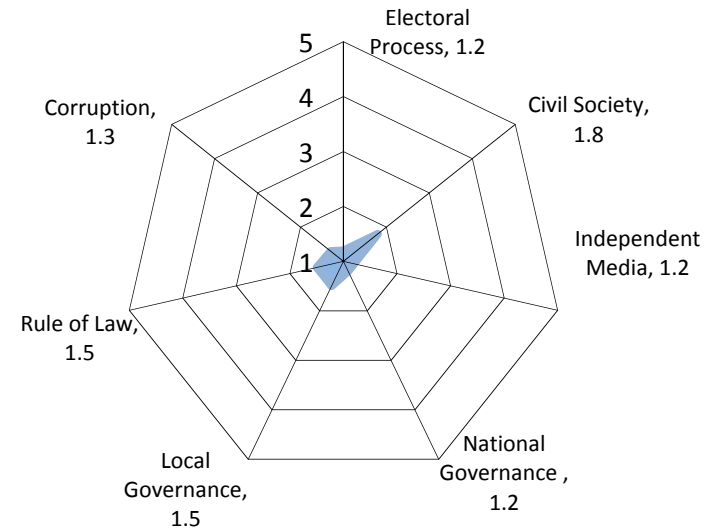
Figure 12

# Kazakhstan

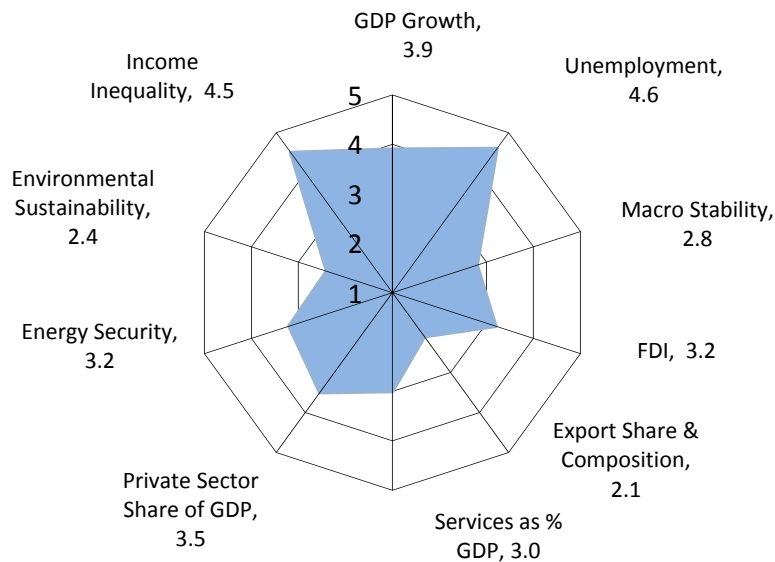
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

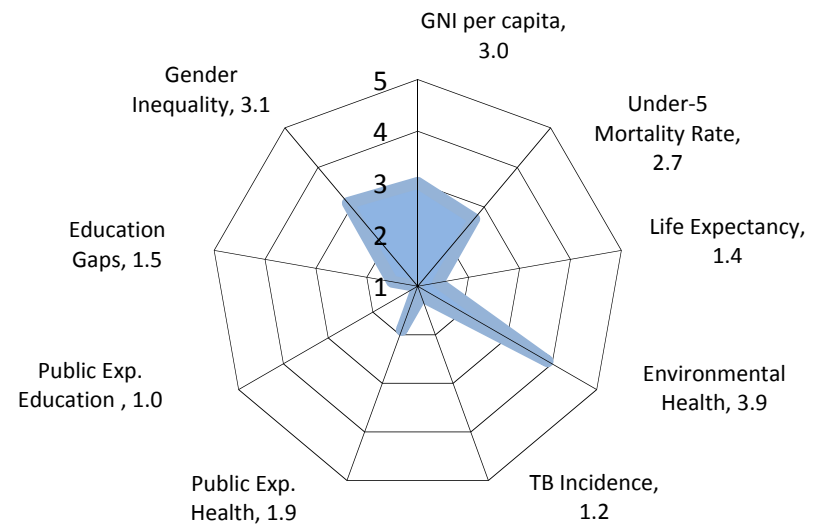
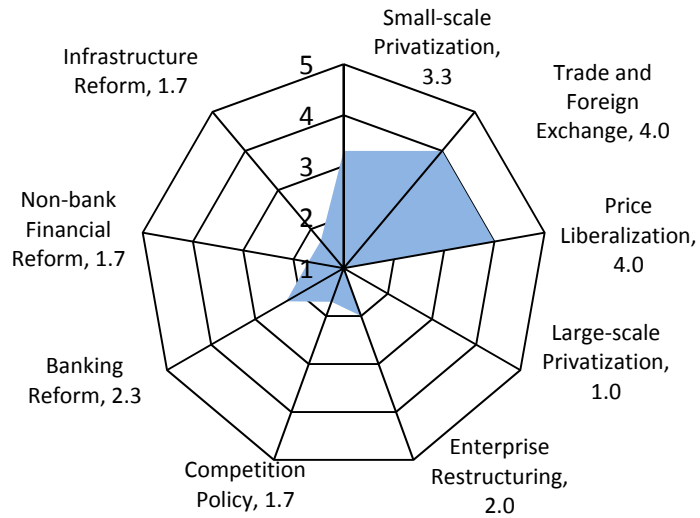


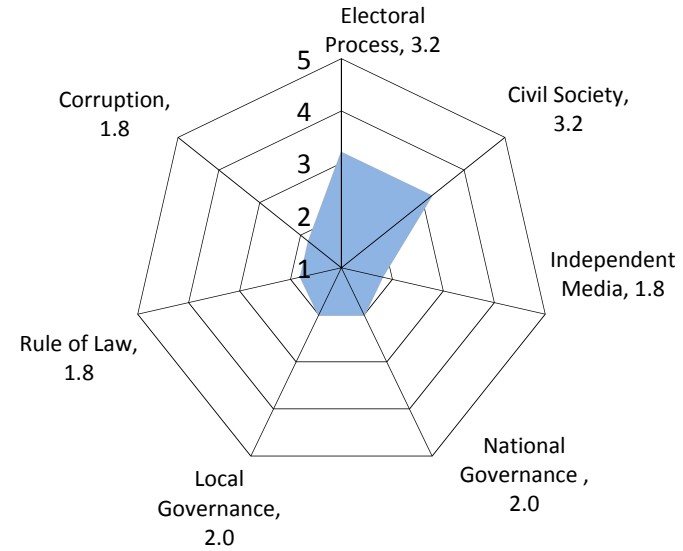
Figure 13

# Kosovo

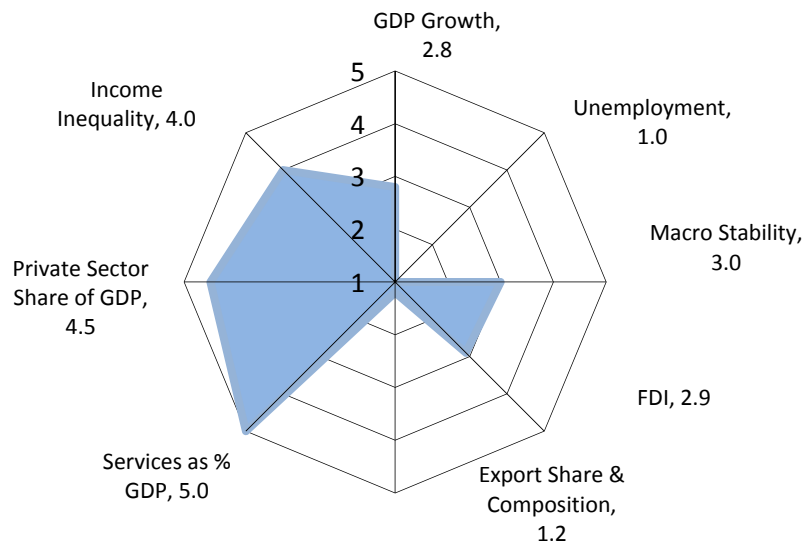
## Economic Reforms, 2009



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

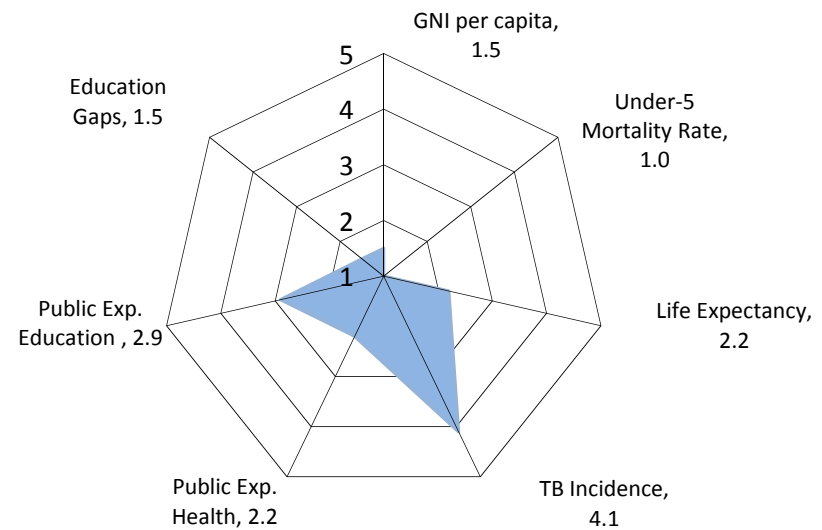
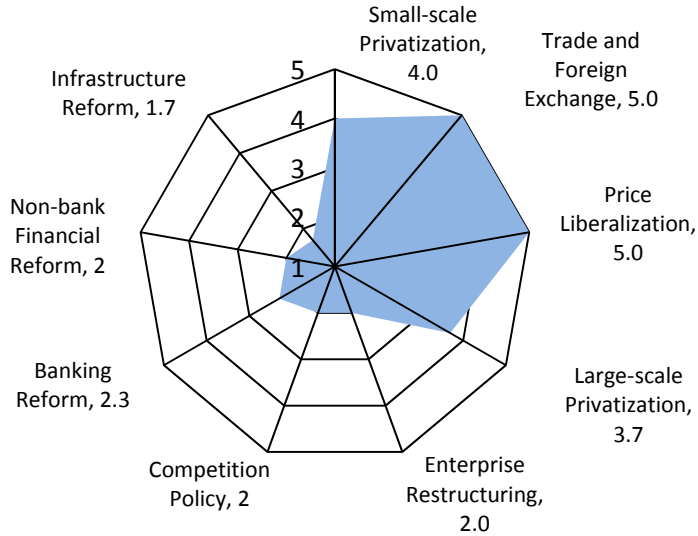


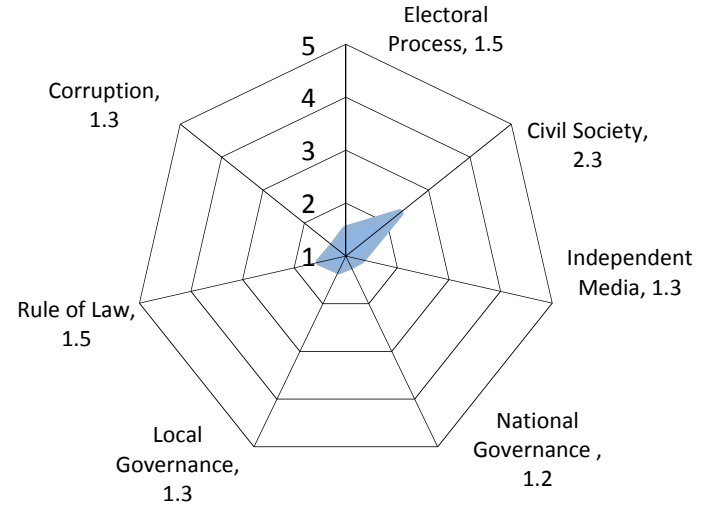
Figure 14

# Kyrgyzstan

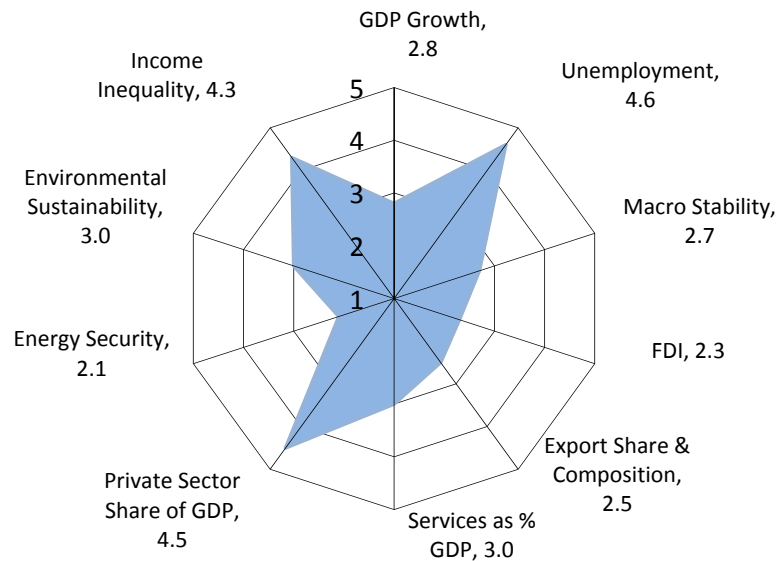
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

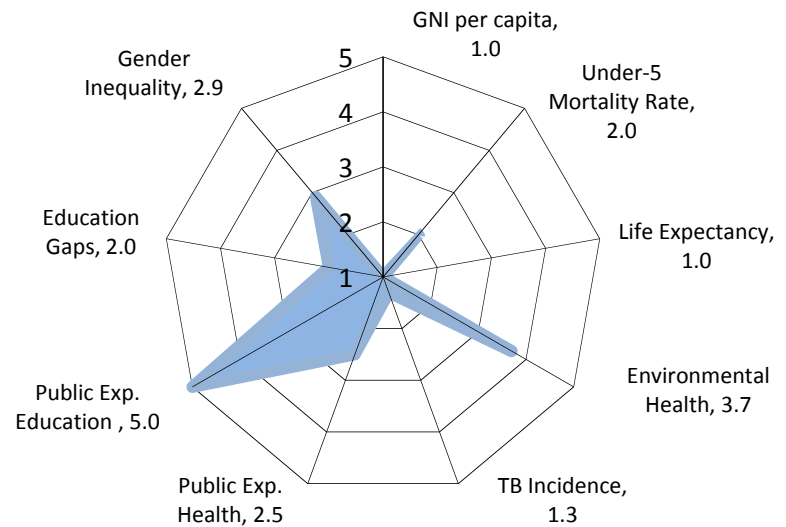
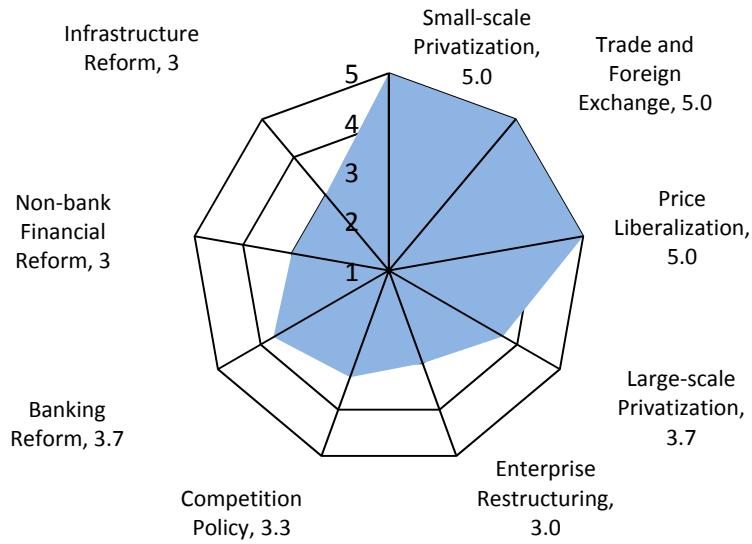


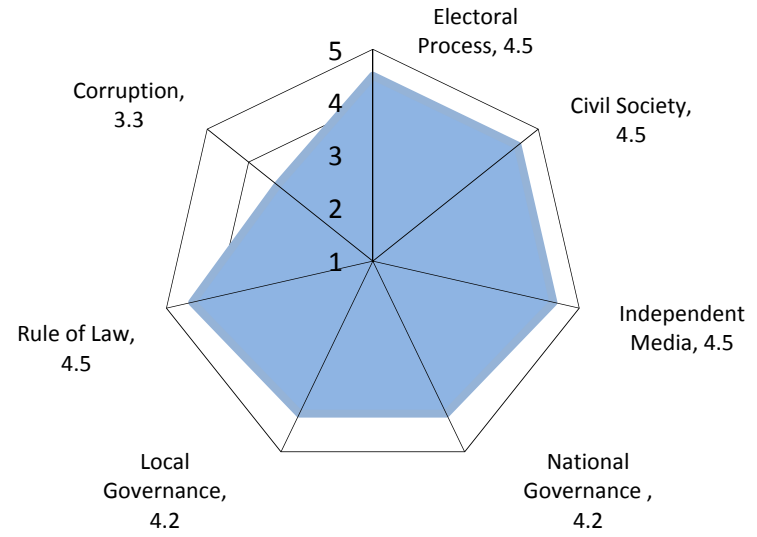
Figure 15

# Latvia

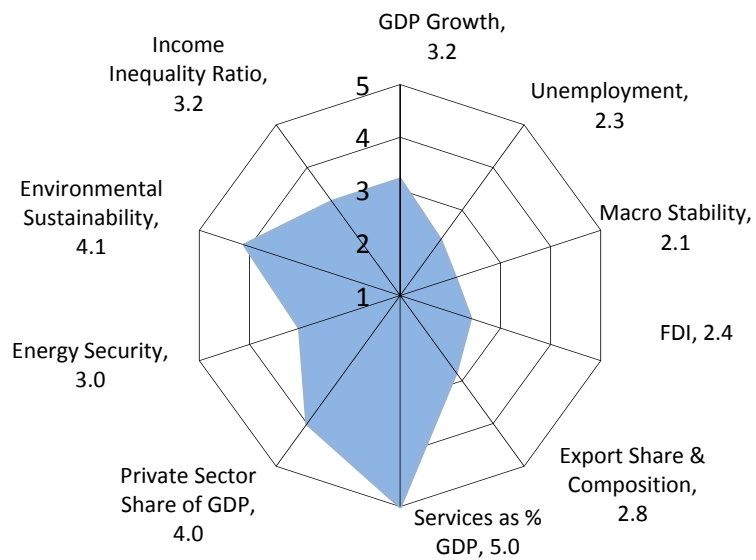
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

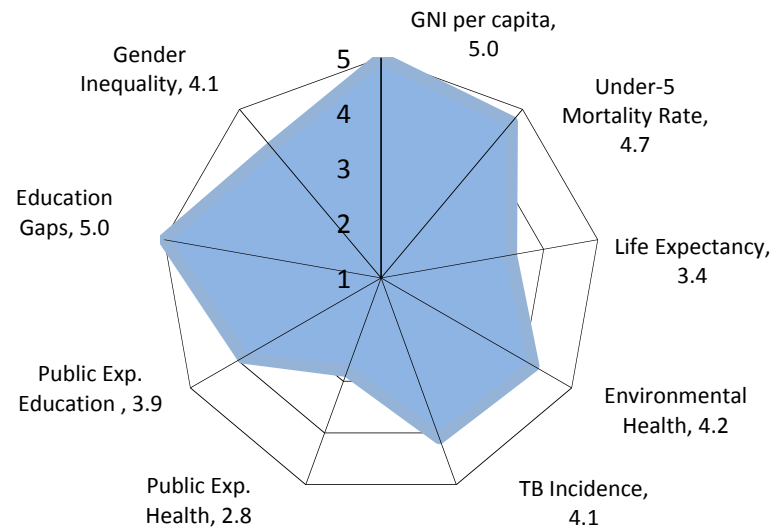
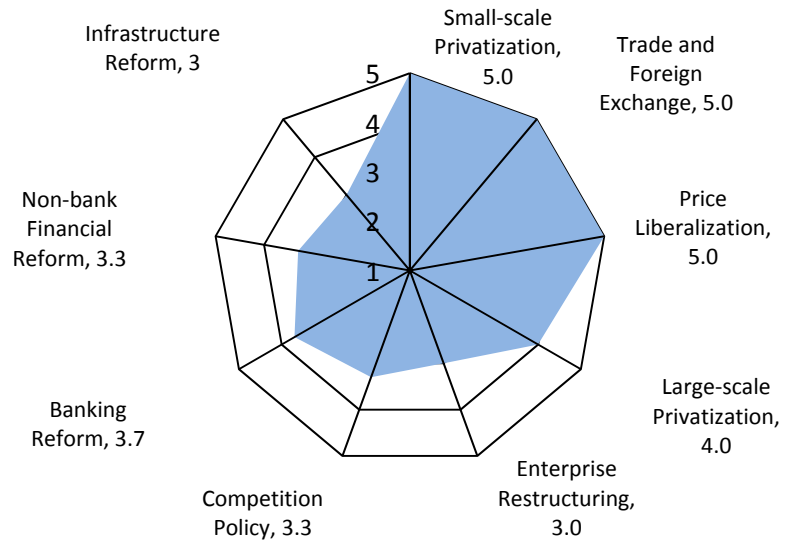


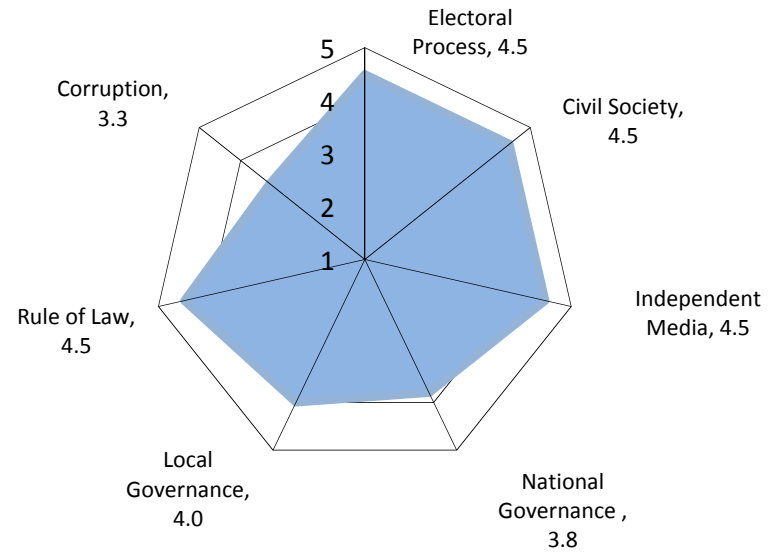
Figure 16

# Lithuania

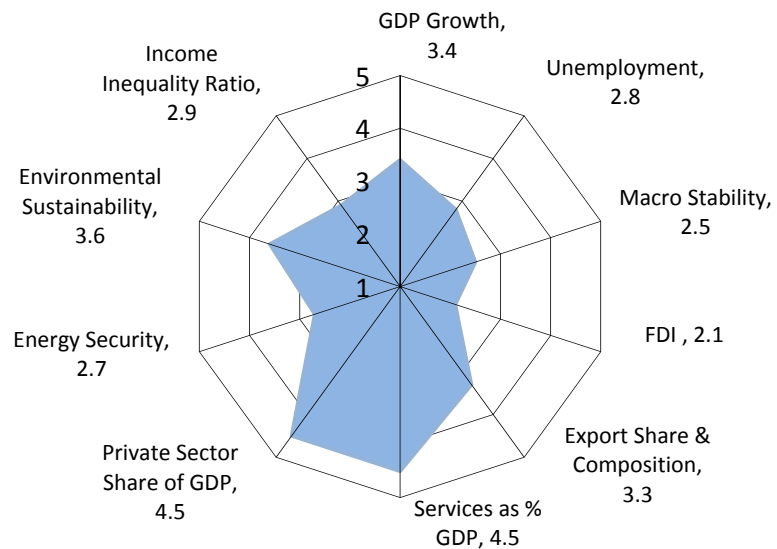
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

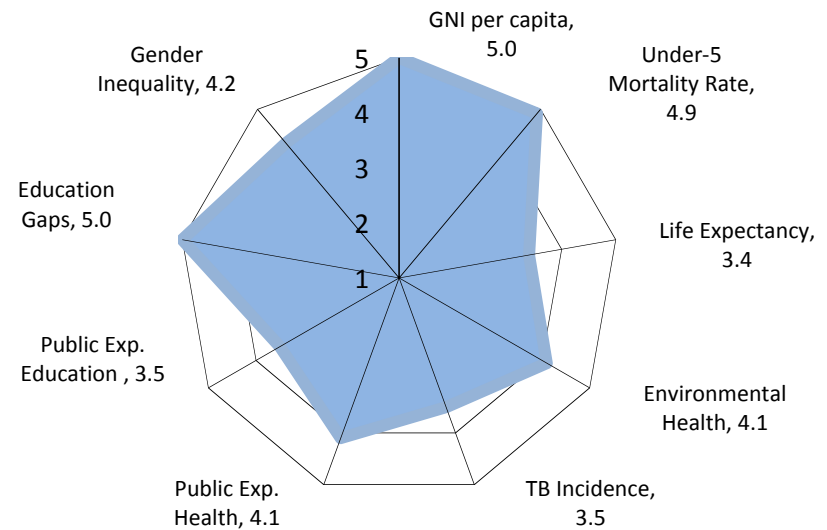
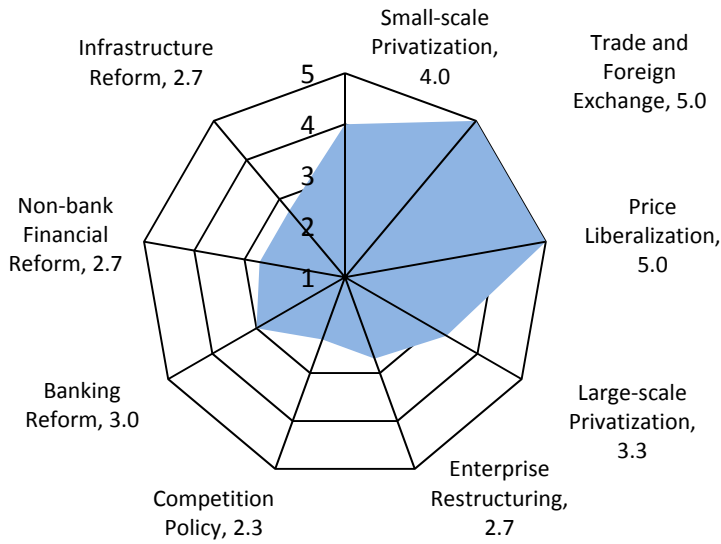


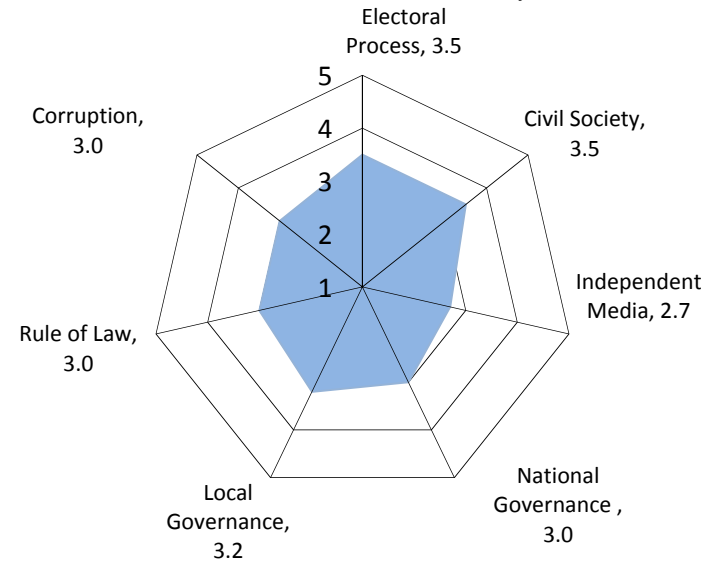
Figure 17

# Macedonia

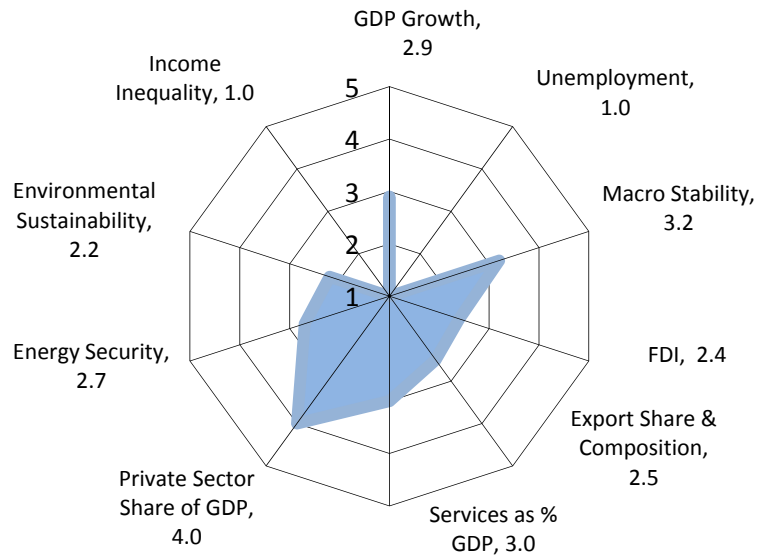
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

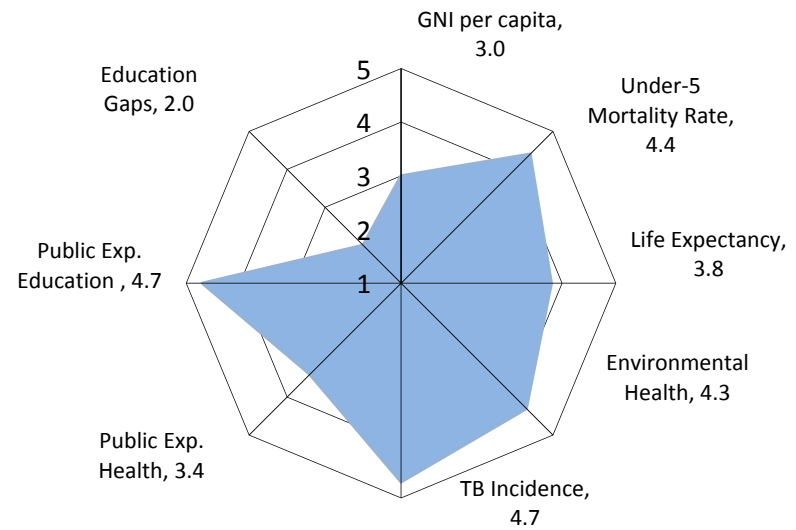
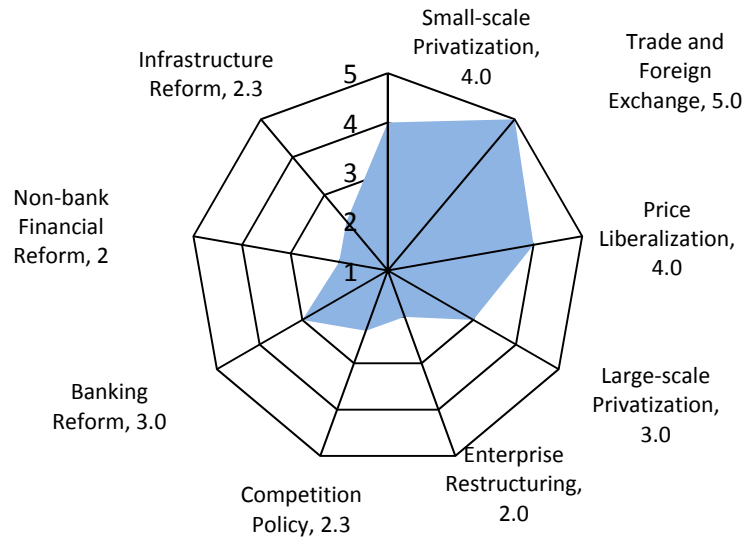




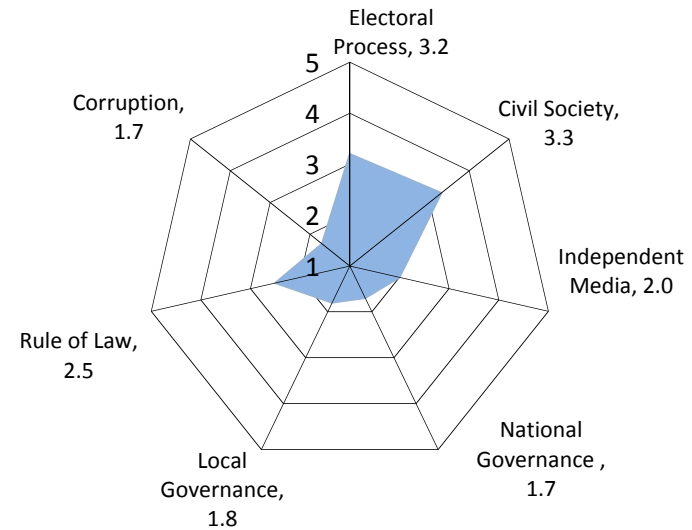
Figure 18

# Moldova

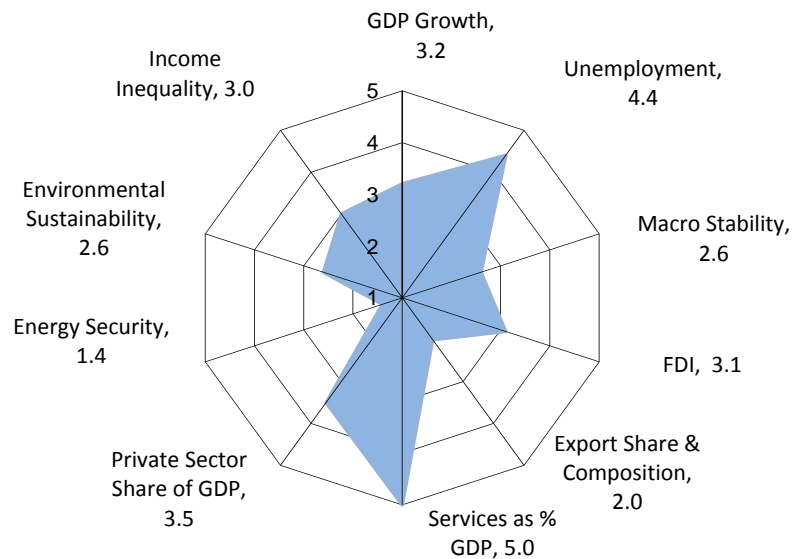
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

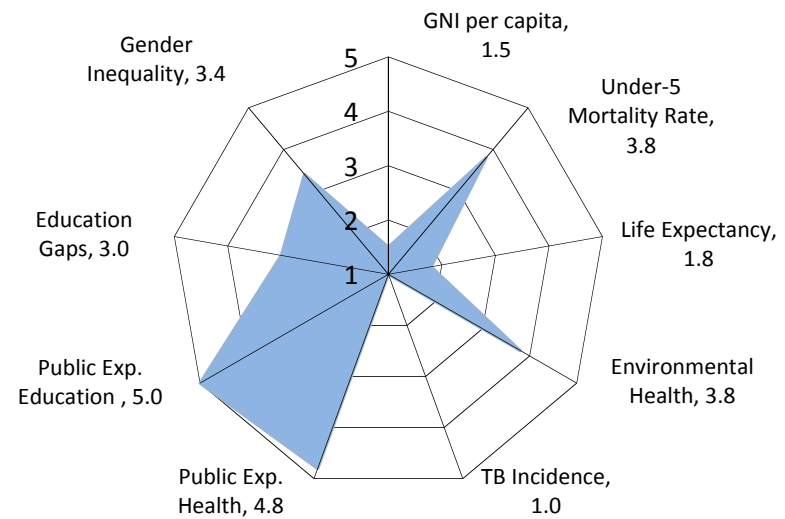
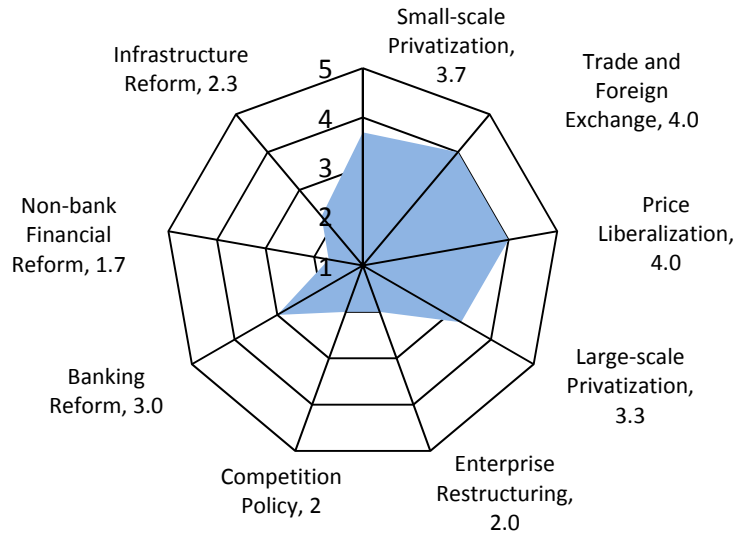


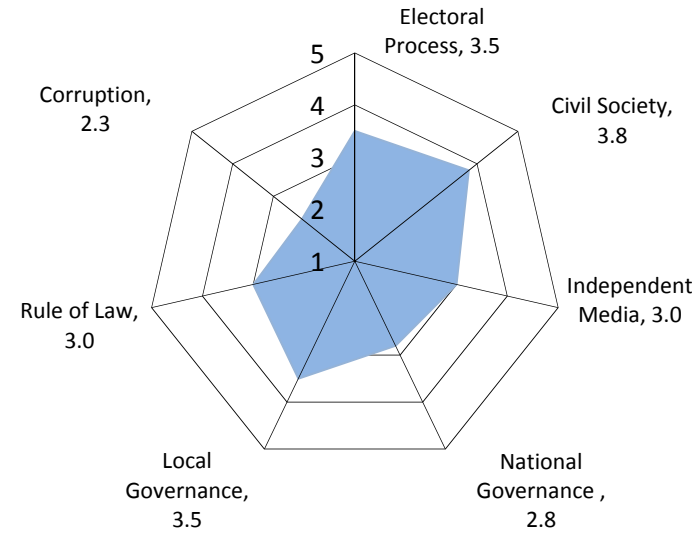
Figure 19

# Montenegro

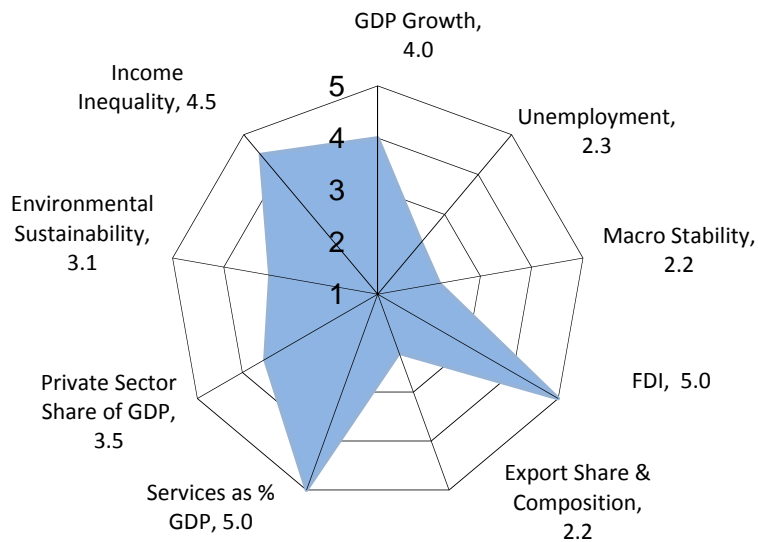
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

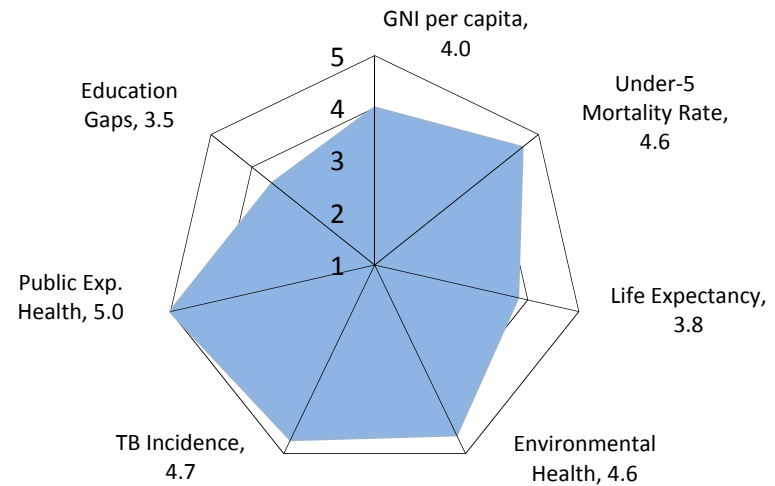
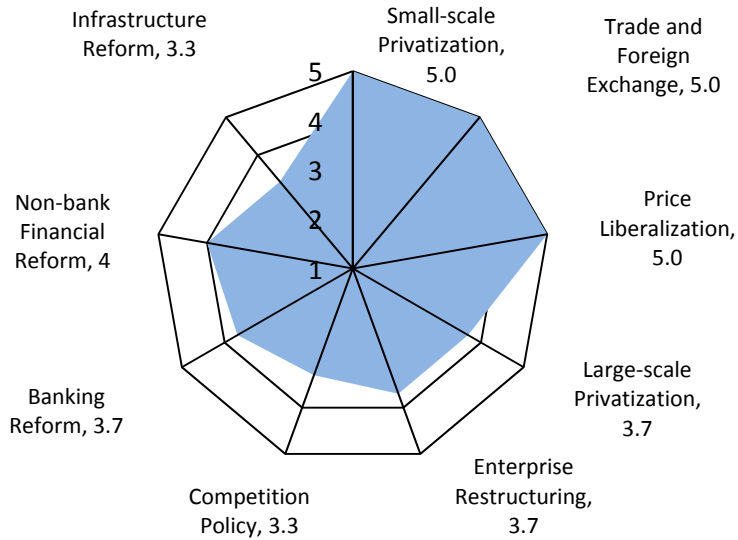


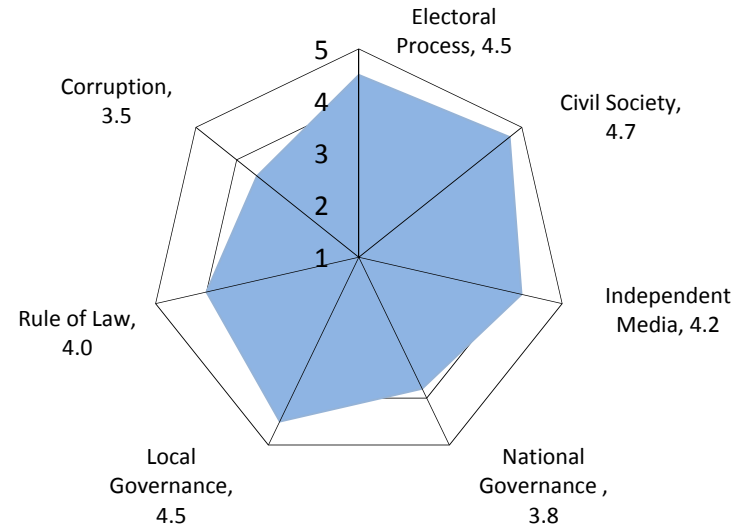
Figure 20

# Poland

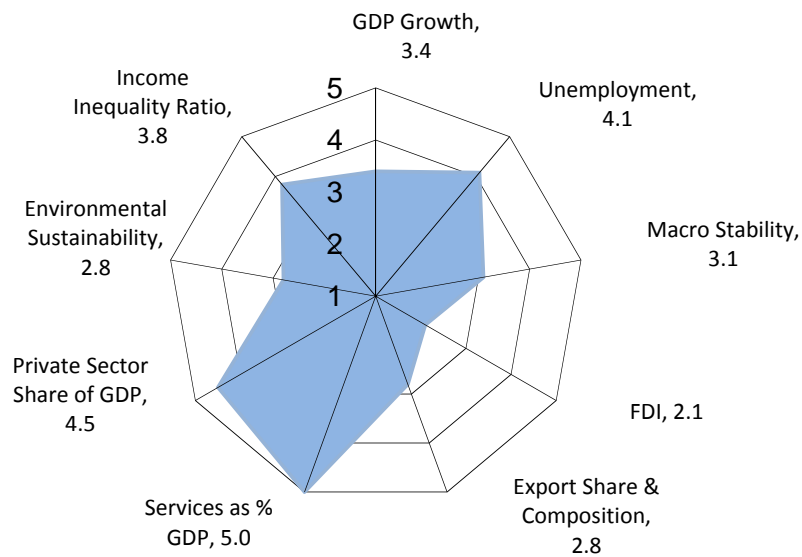
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

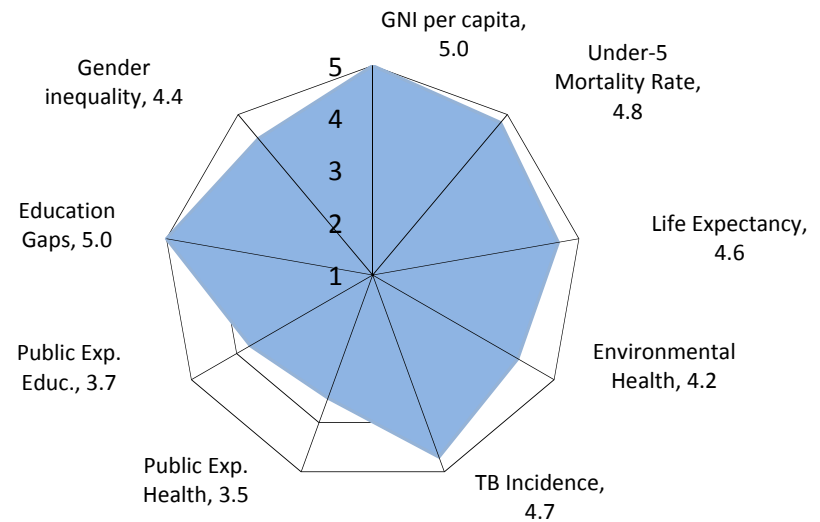
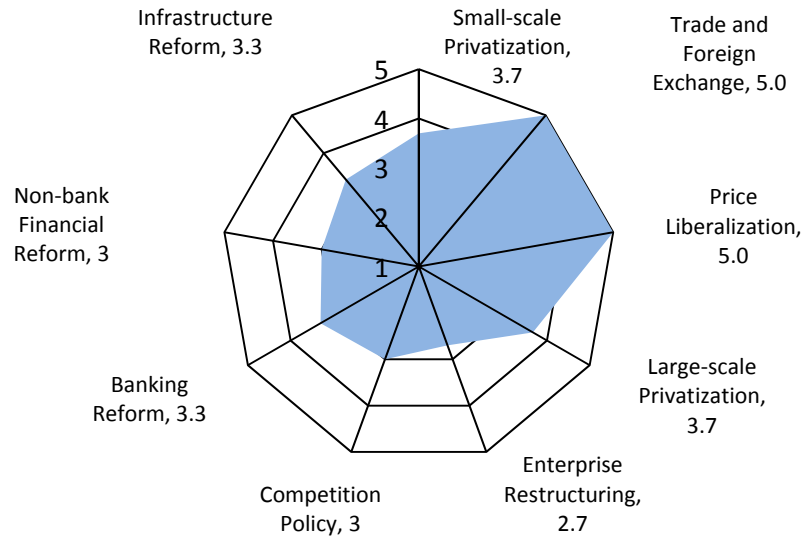


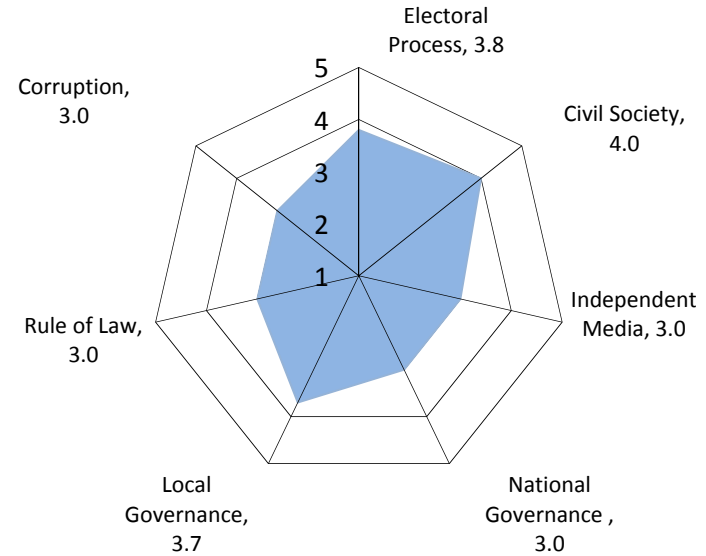
Figure 21

# Romania

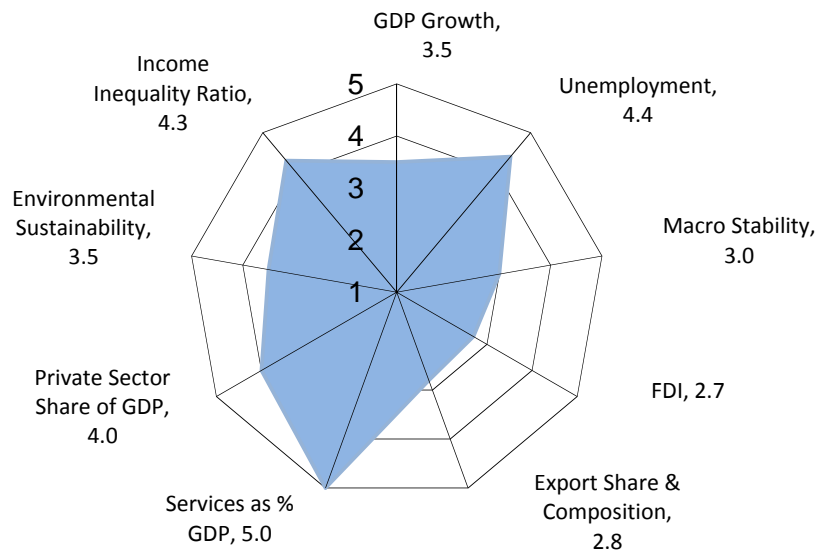
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

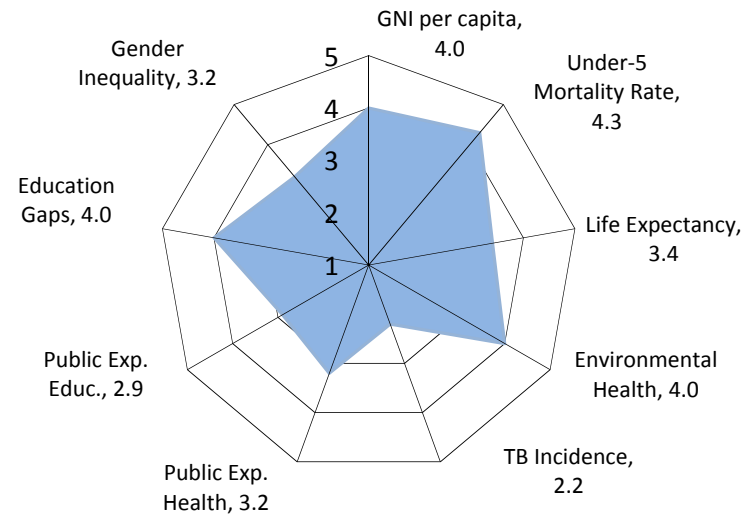
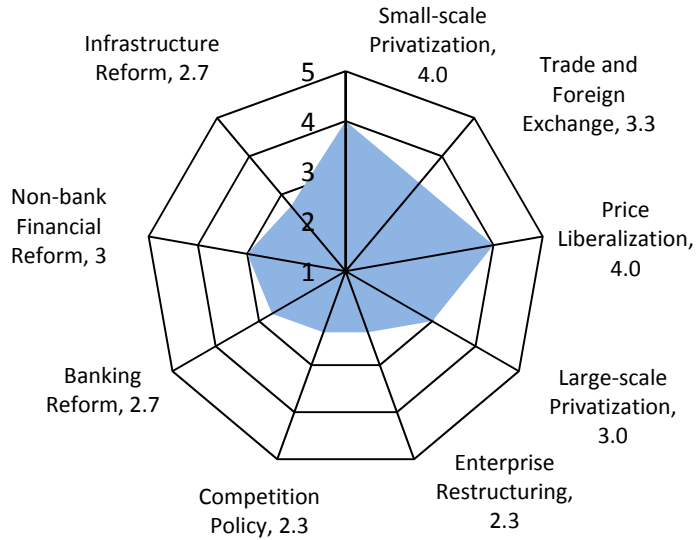


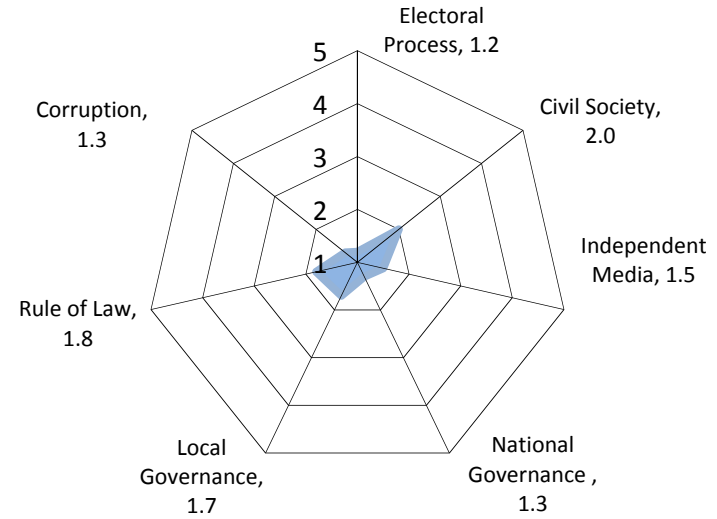
Figure 22

# Russia

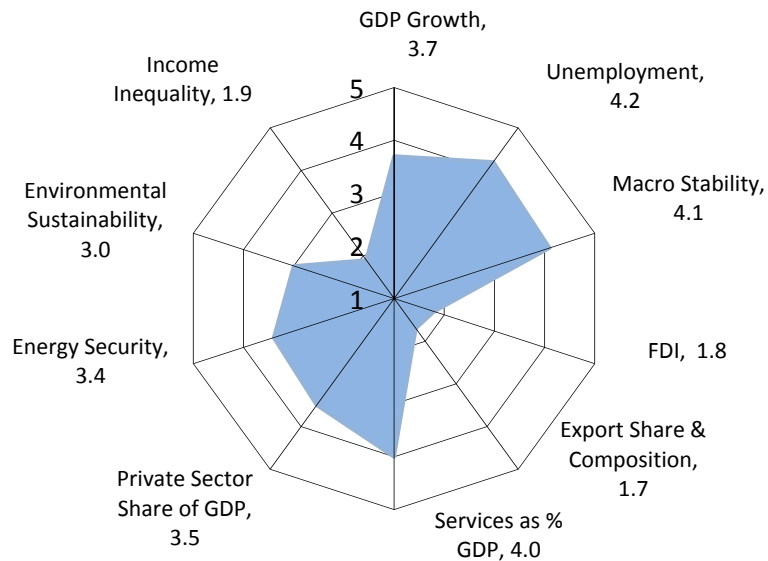
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

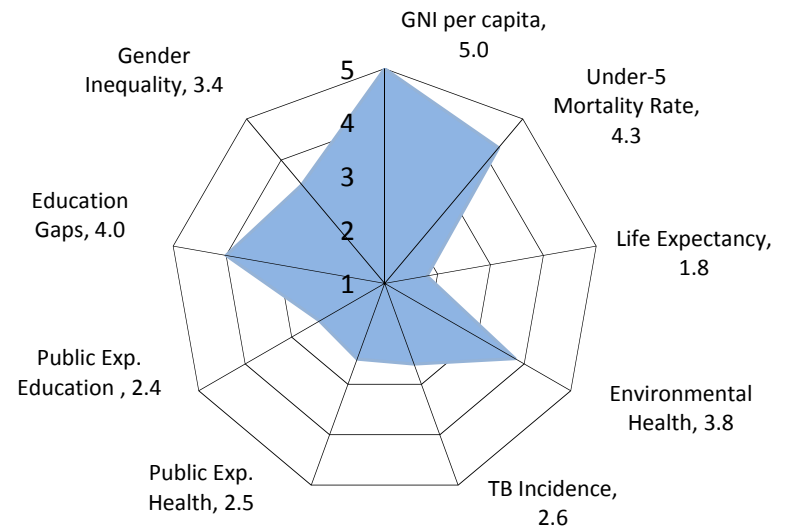
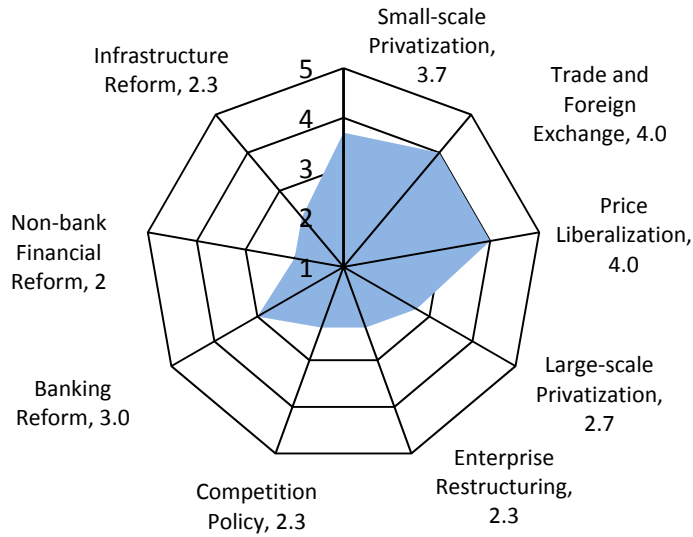


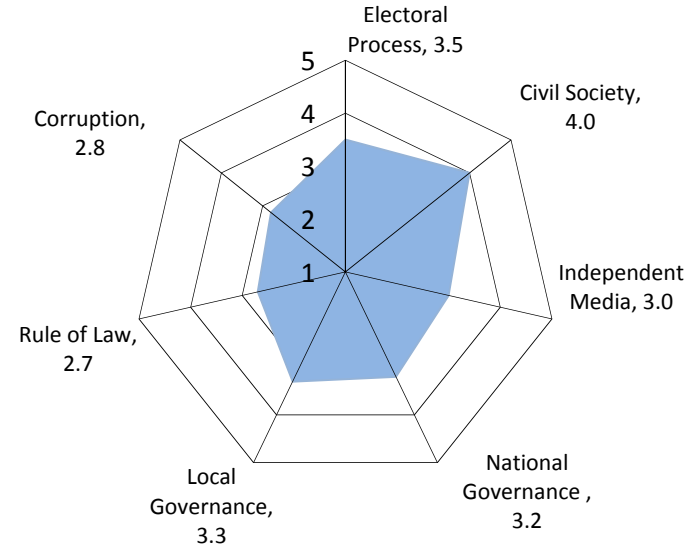
Figure 23

# Serbia

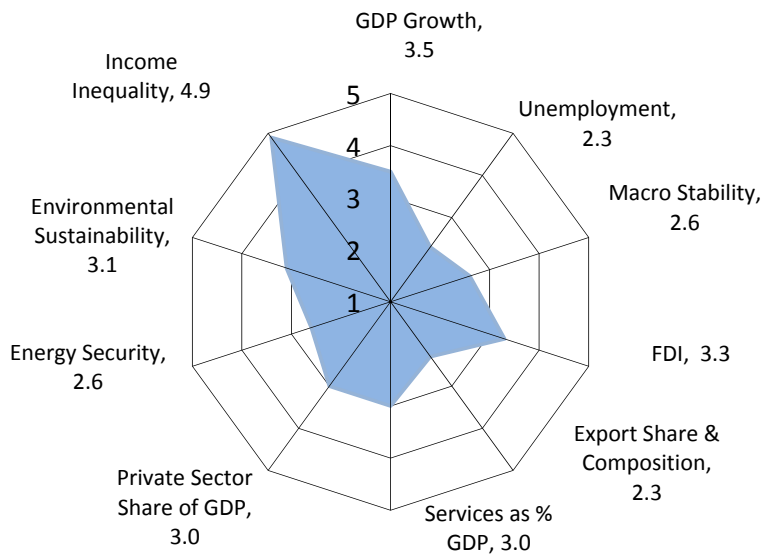
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

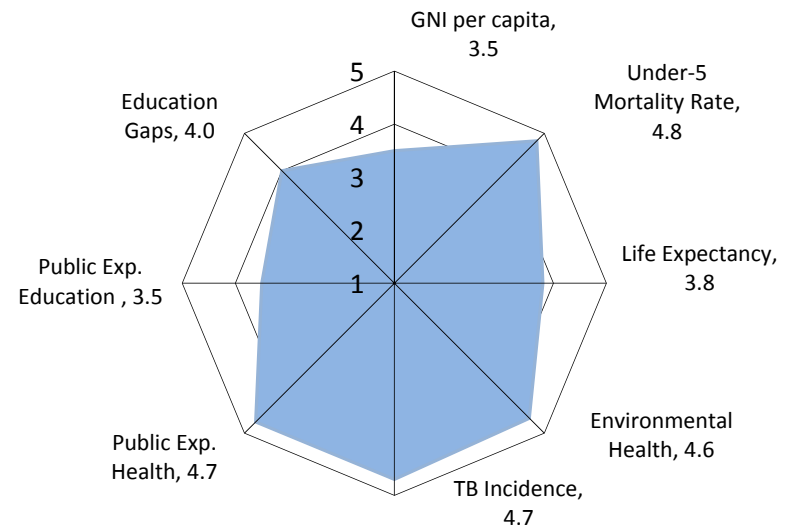
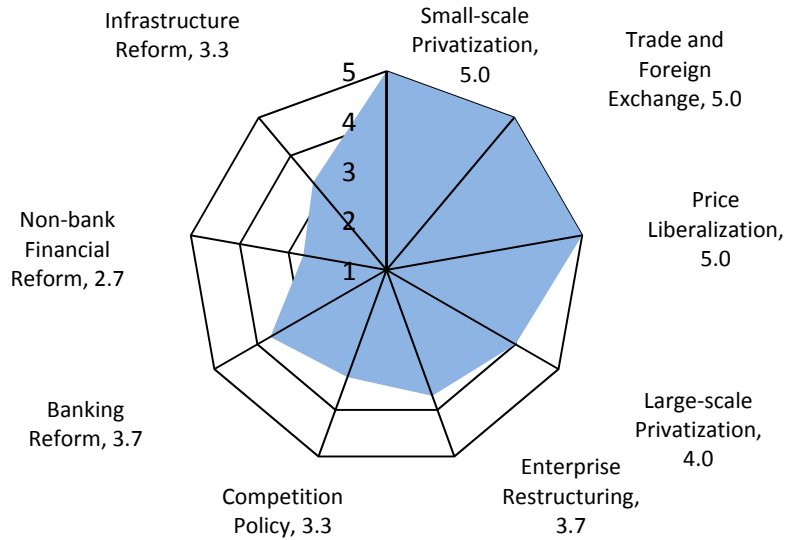


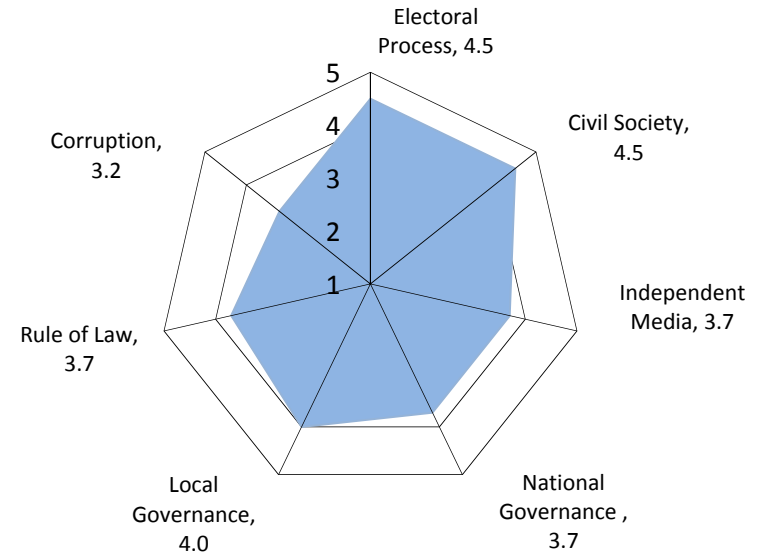
Figure 24

# Slovakia

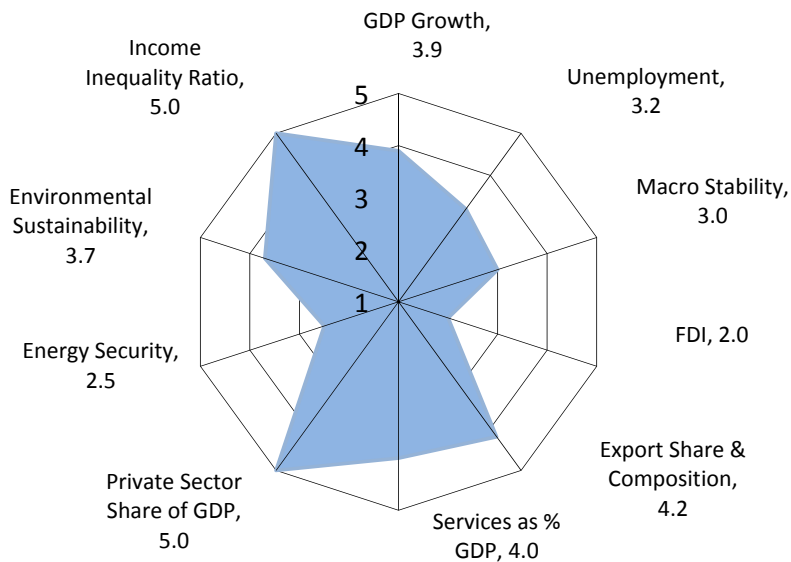
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

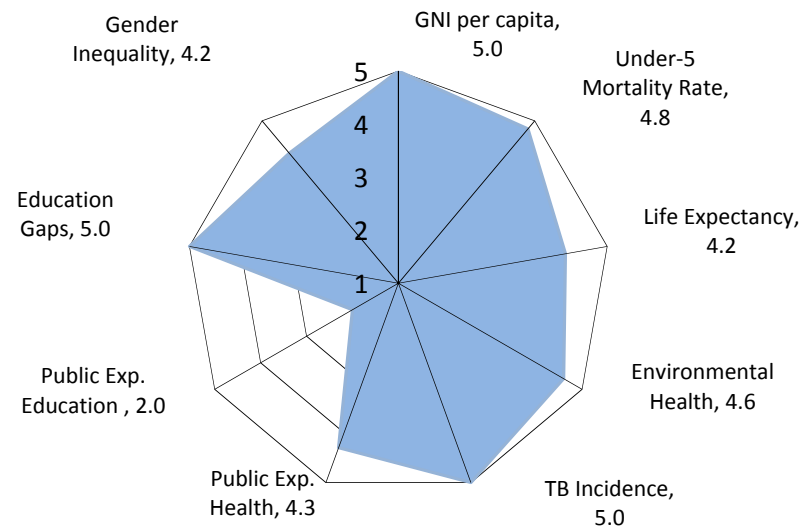
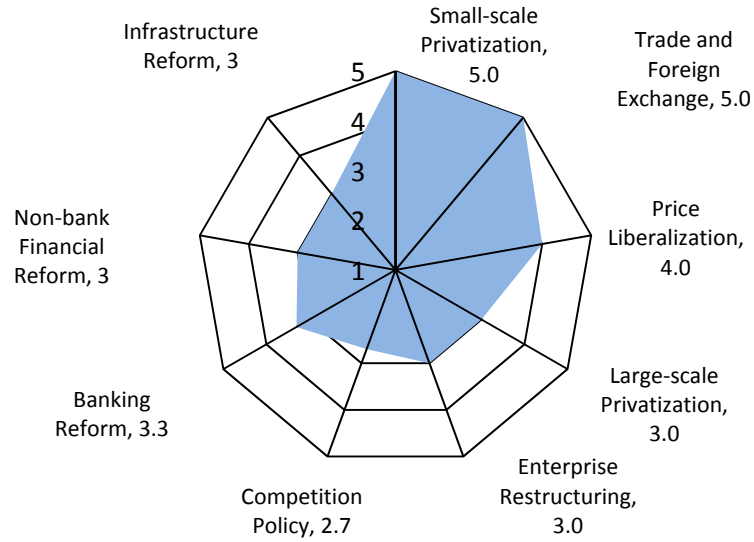


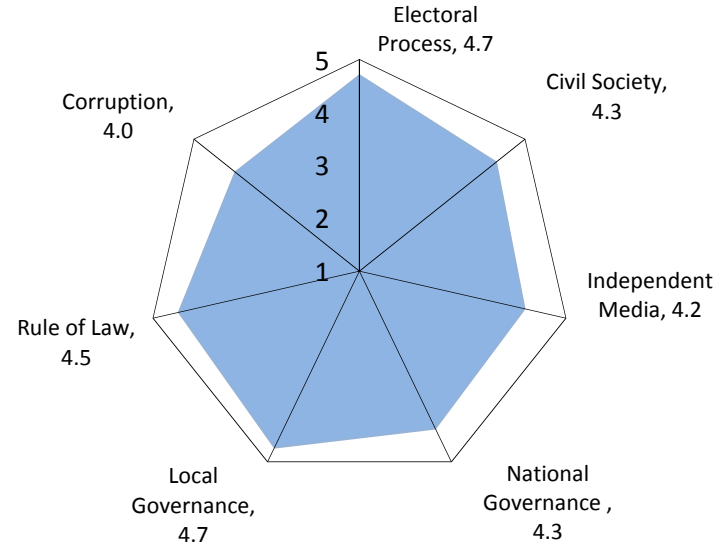
Figure 25

# Slovenia

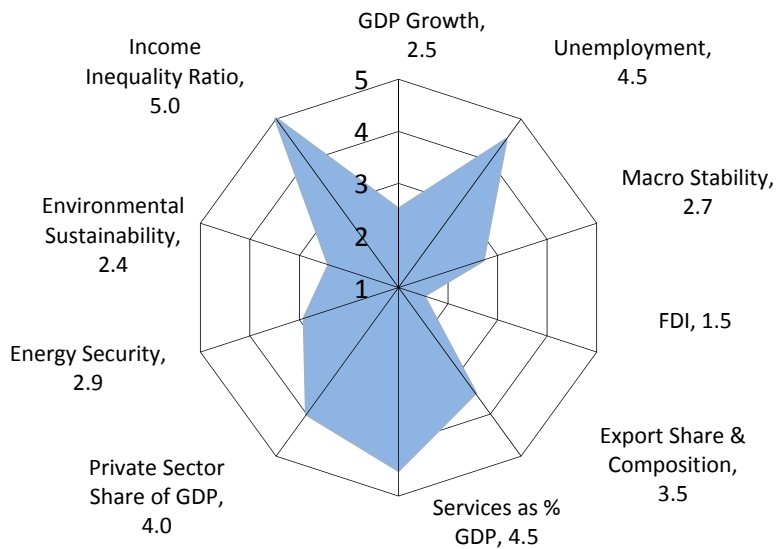
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

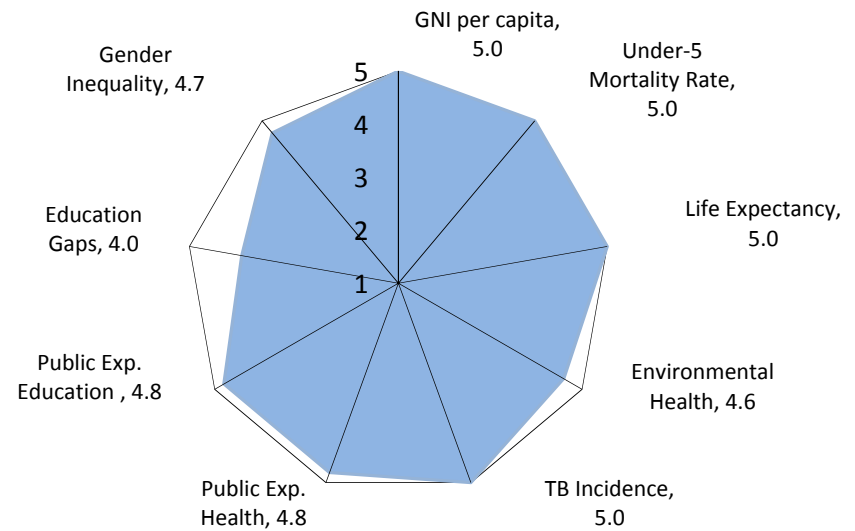
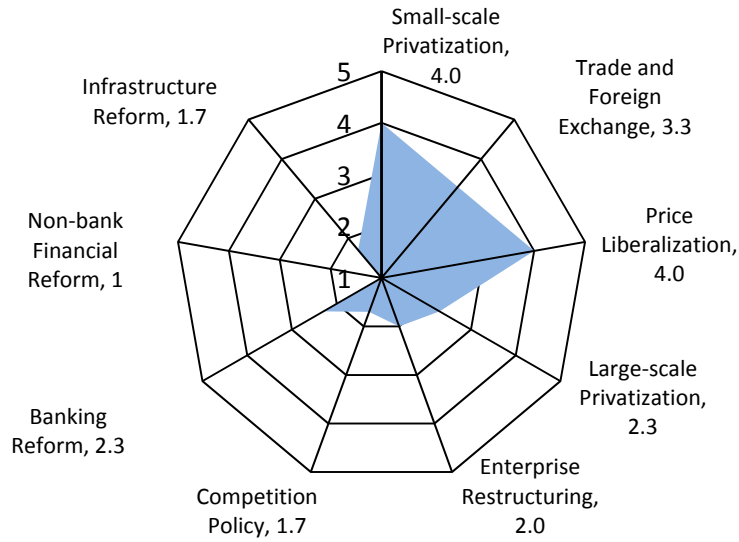




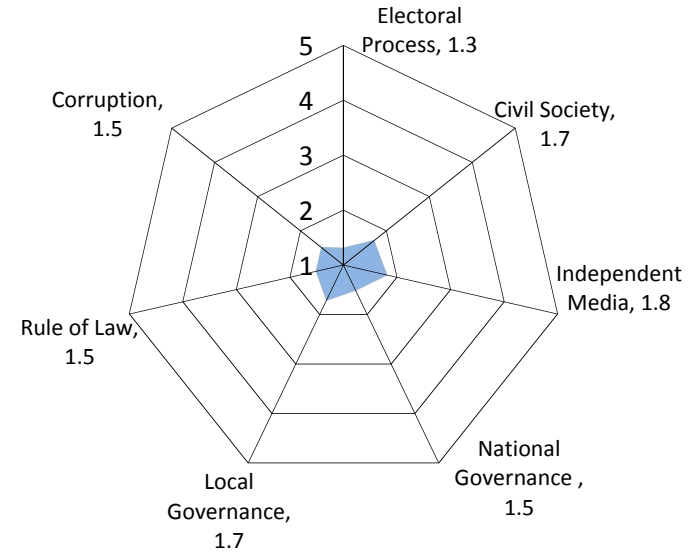
Figure 26

# Tajikistan

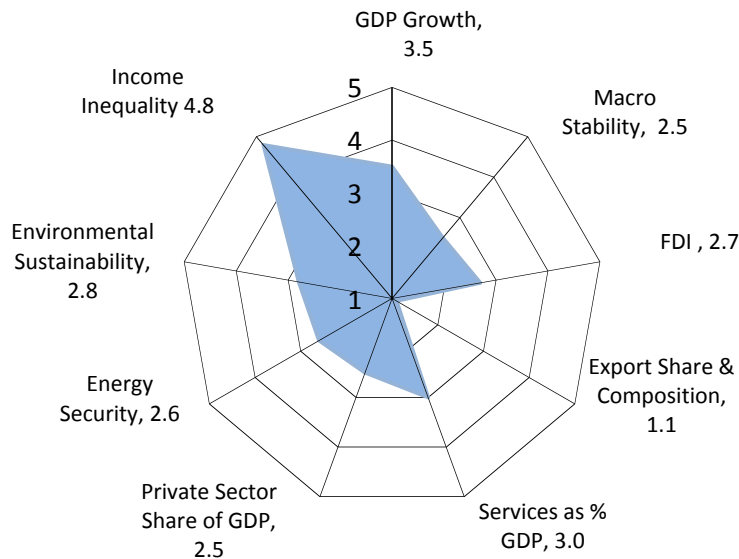
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

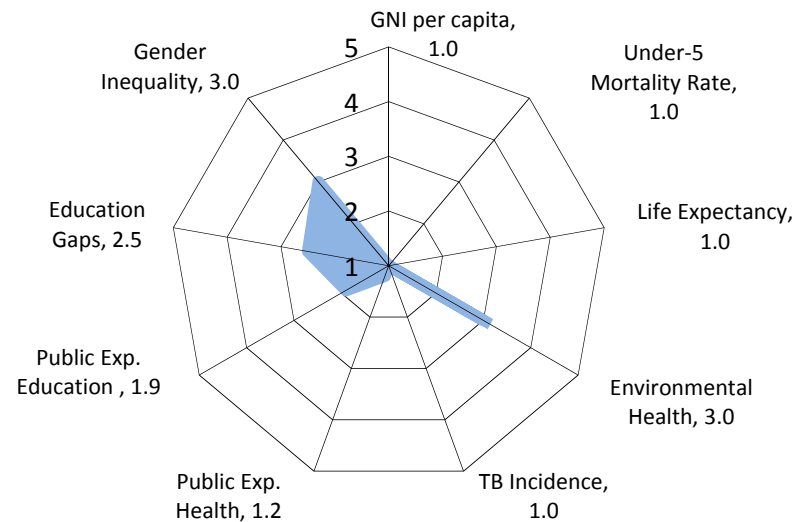
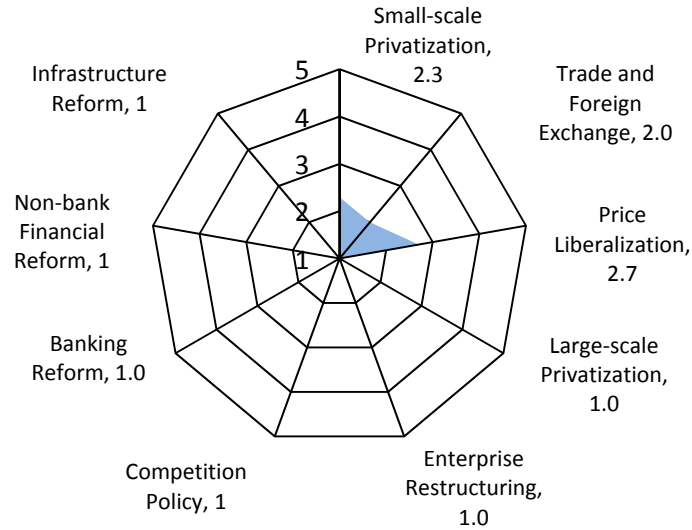


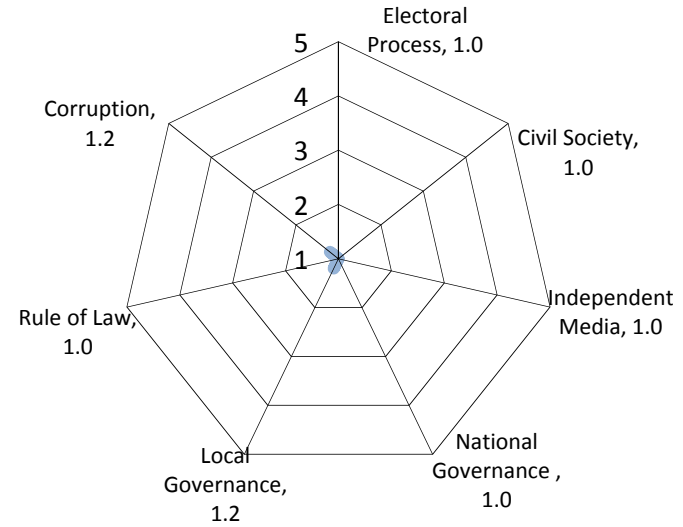
Figure 27

# Turkmenistan

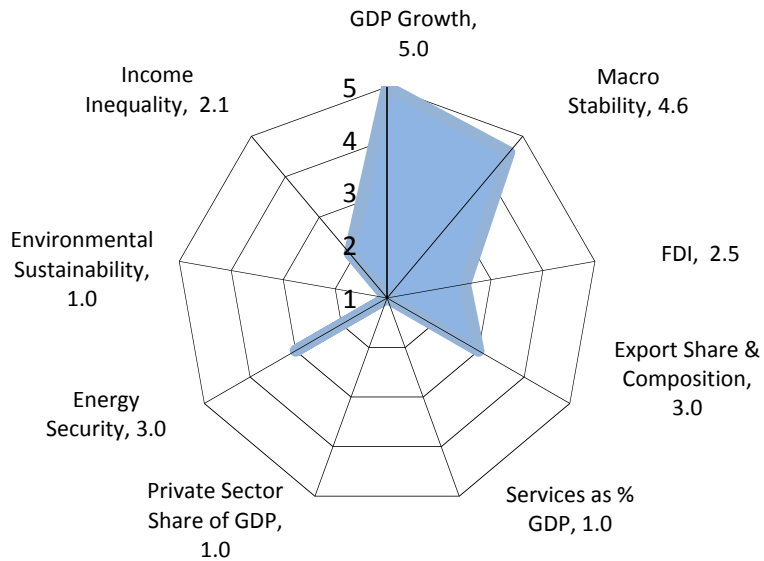
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

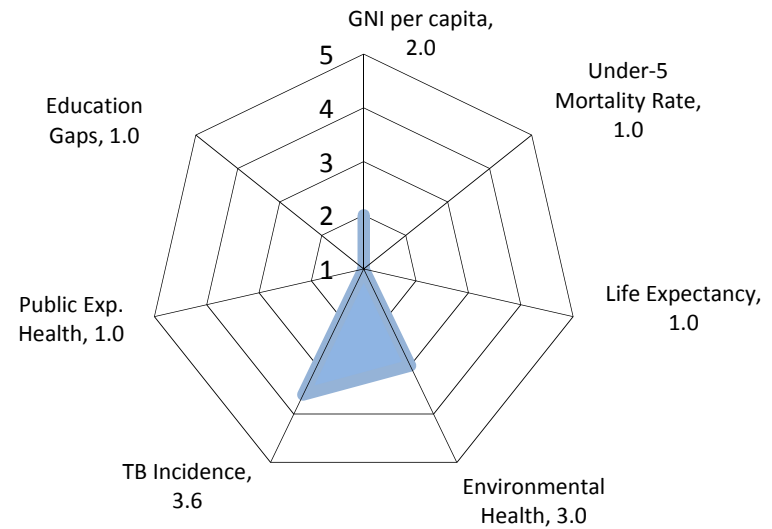
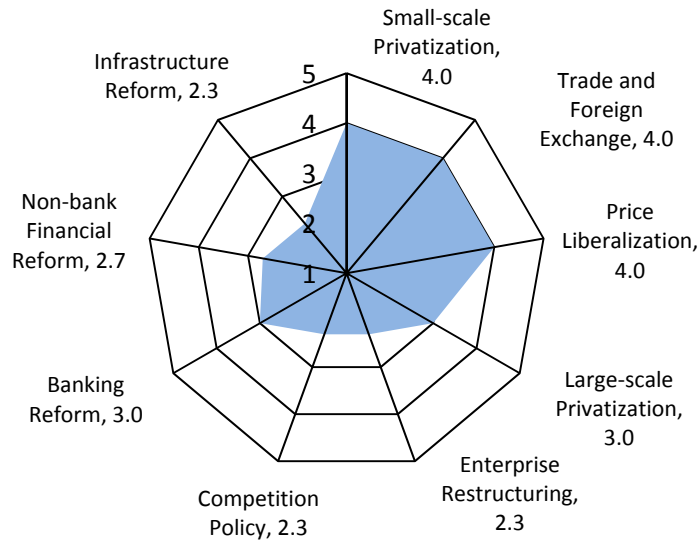


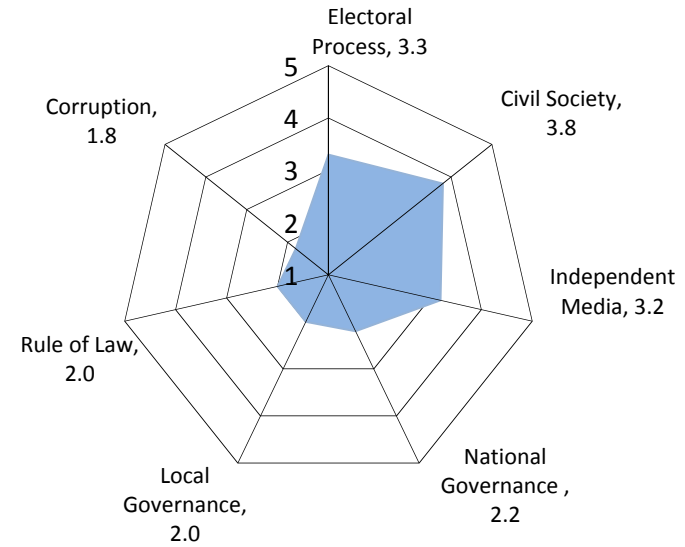
Figure 28

# Ukraine

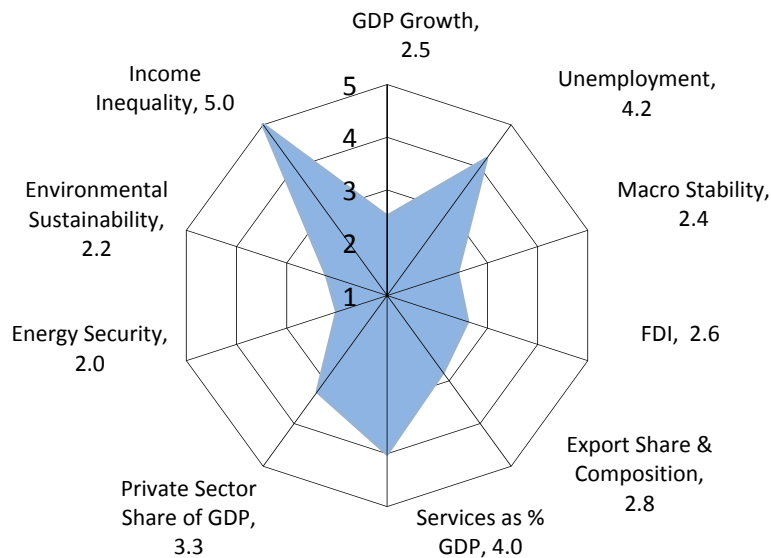
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

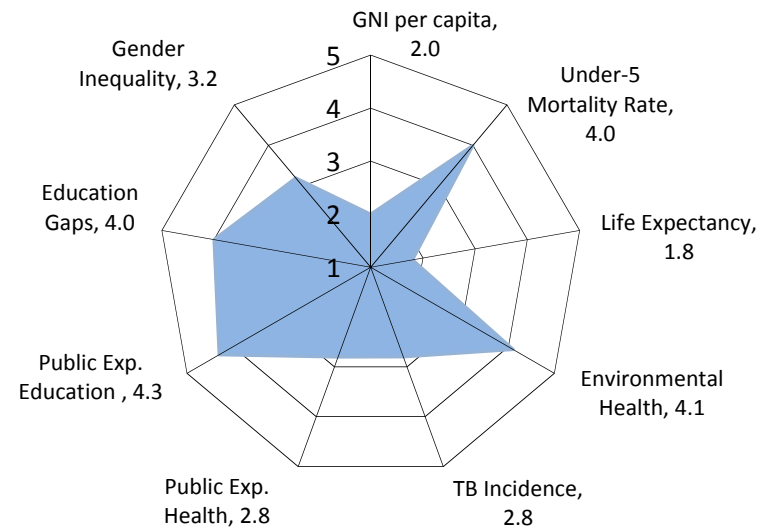
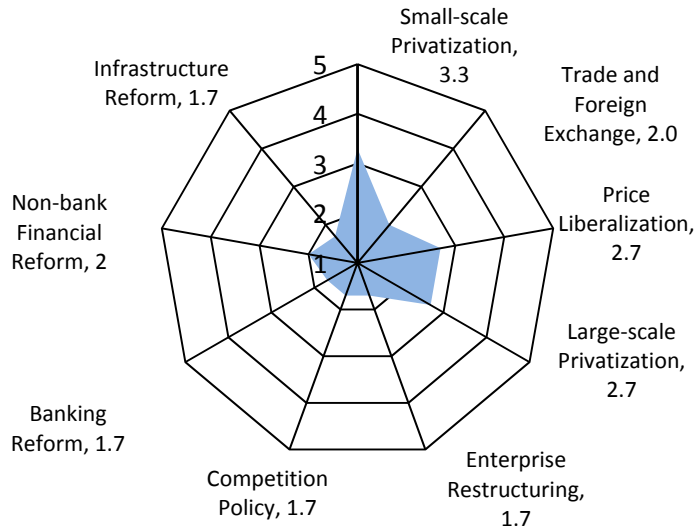


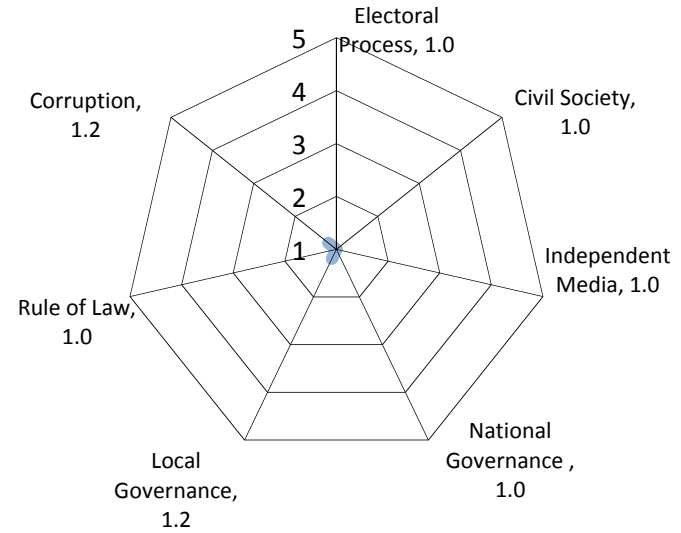
Figure 29

# Uzbekistan

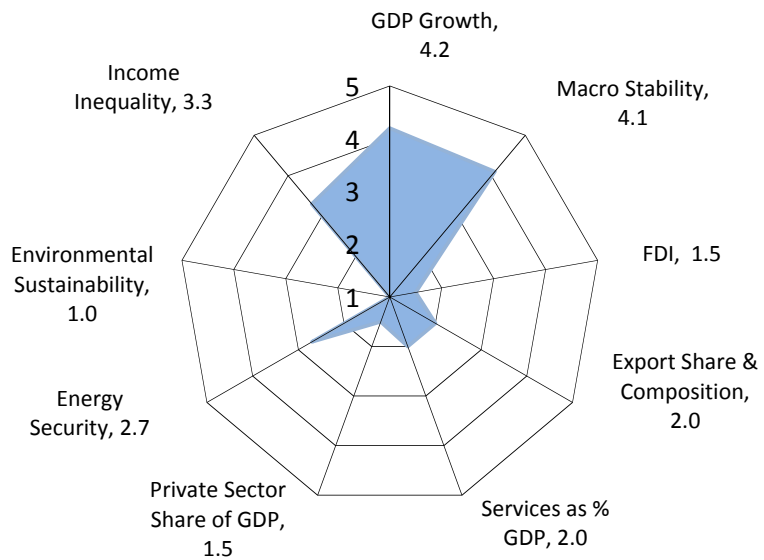
## Economic Reforms, 2010



## Democratic Reforms, 2010



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

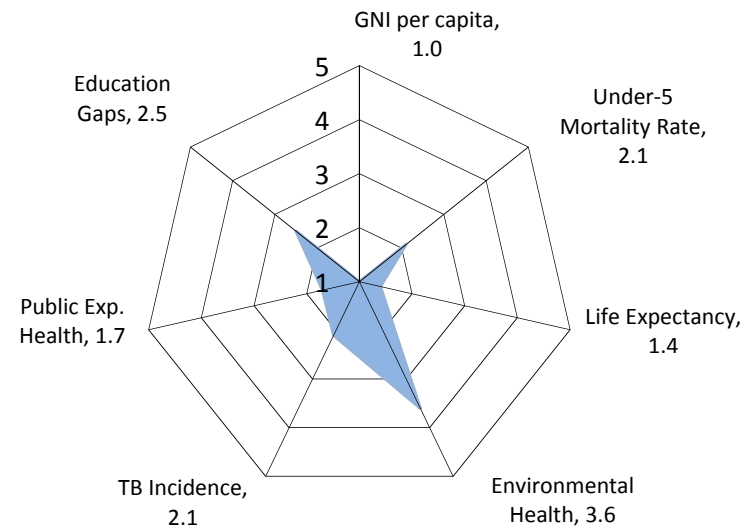
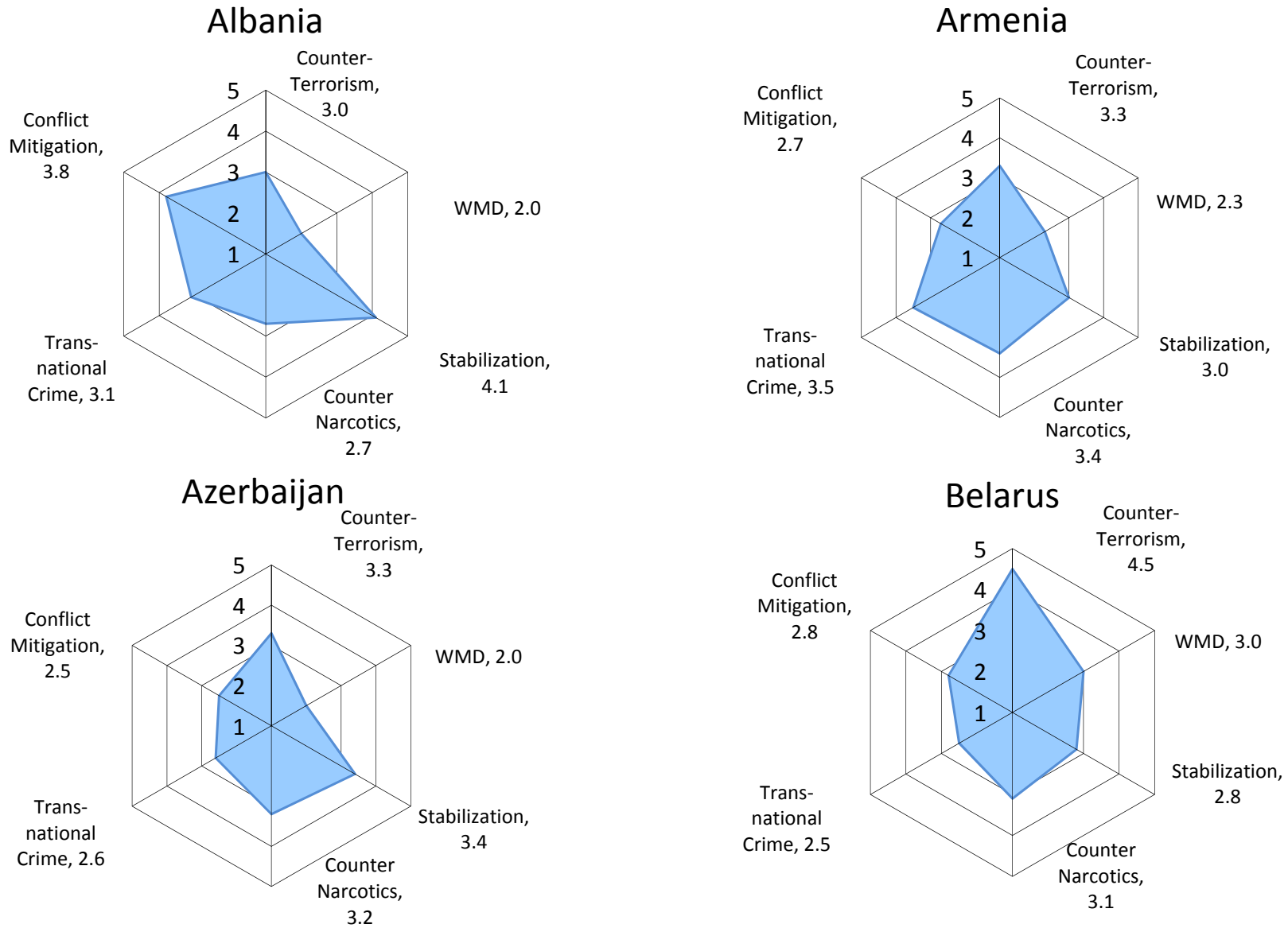


Figure 33

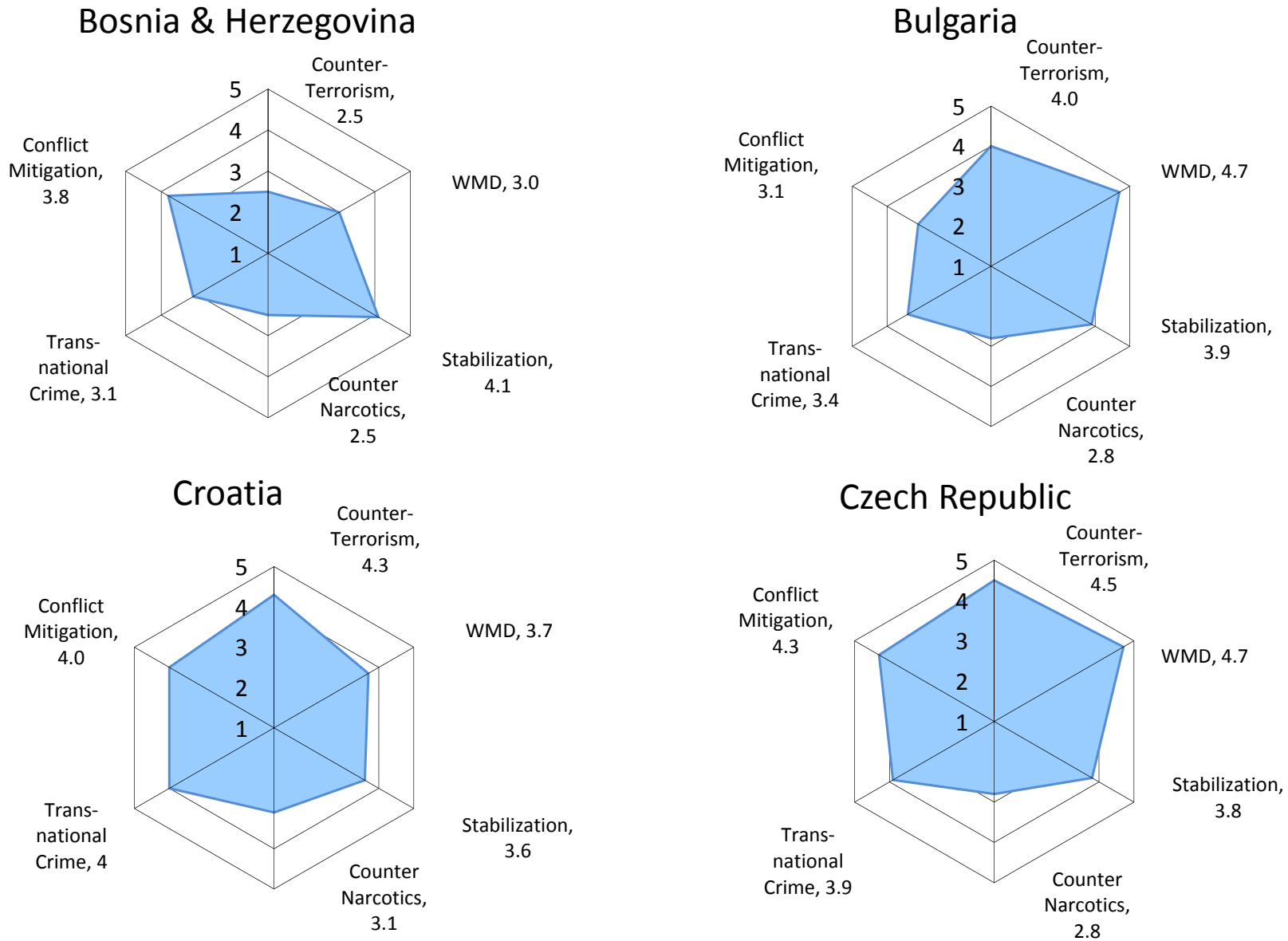
# Peace & Security



Primary sources include: U.S. State Department; Foreign Policy Magazine and the Fund for Peace; World Bank; US Commerce Department; Binghamton University; UNICEF; A.T. Kearney/Foreign Policy Magazine; UNODC; USTR; George Mason University.

Figure 33

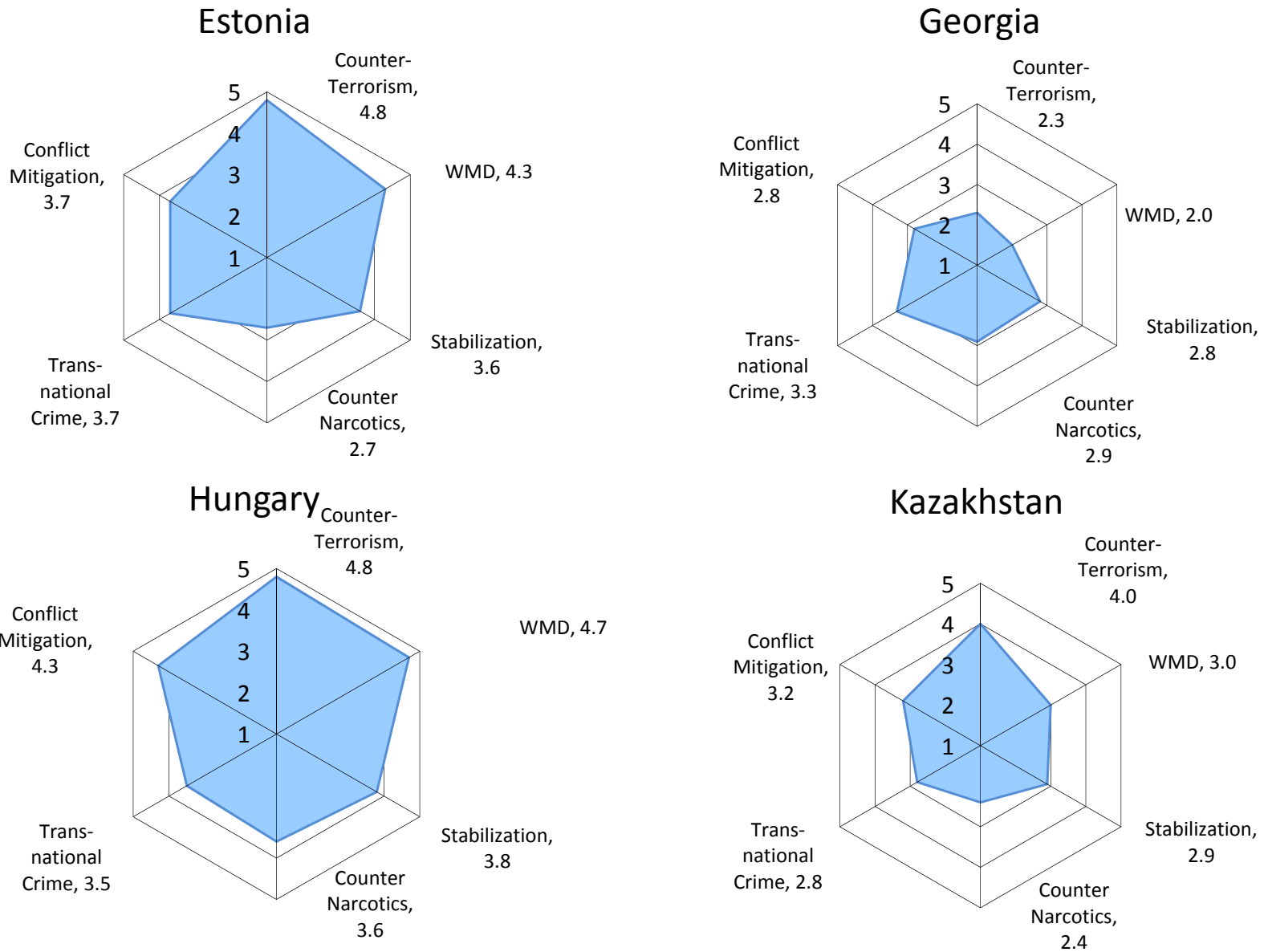
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Figure 33

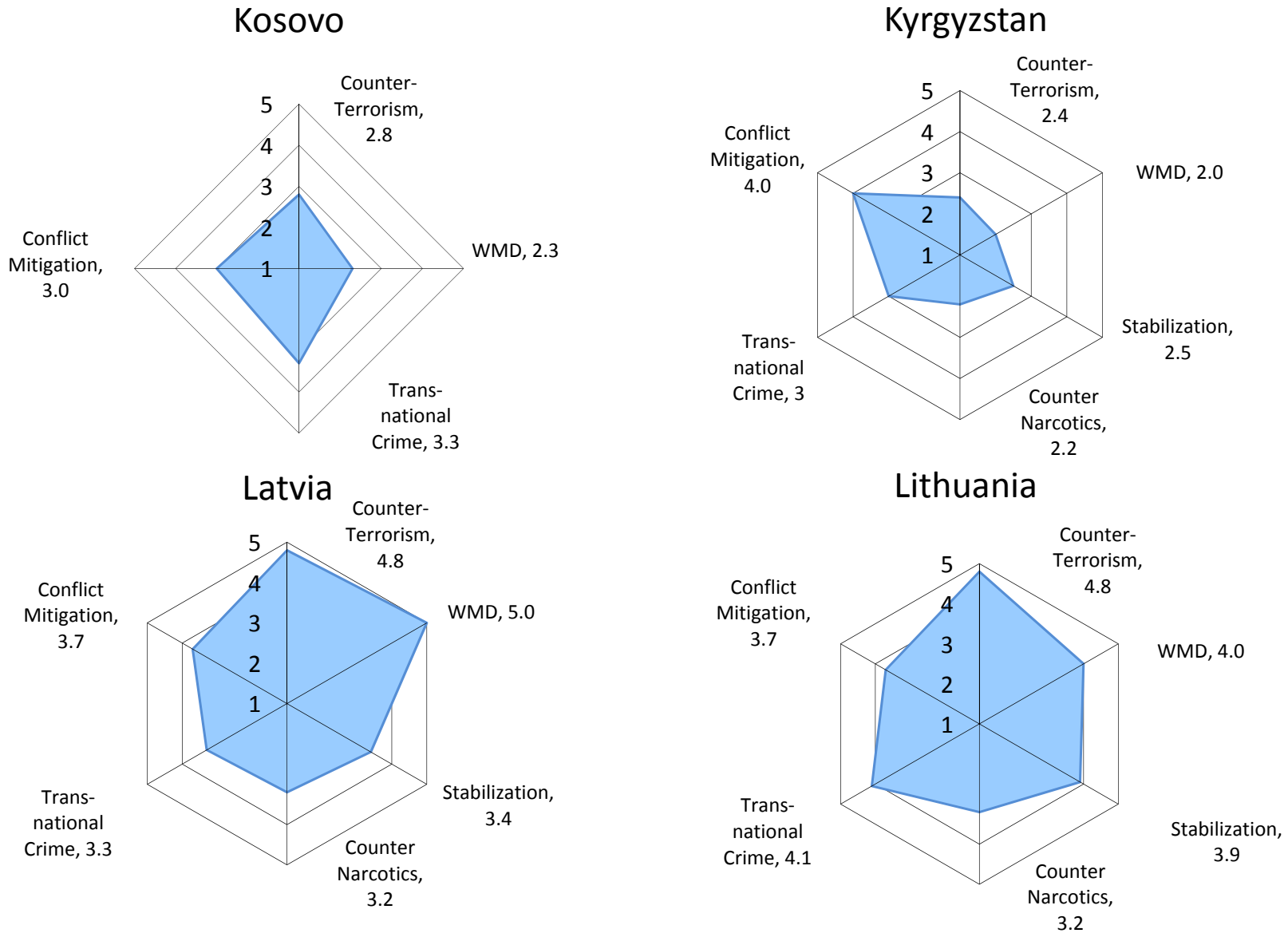
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Figure 33

# Peace & Security

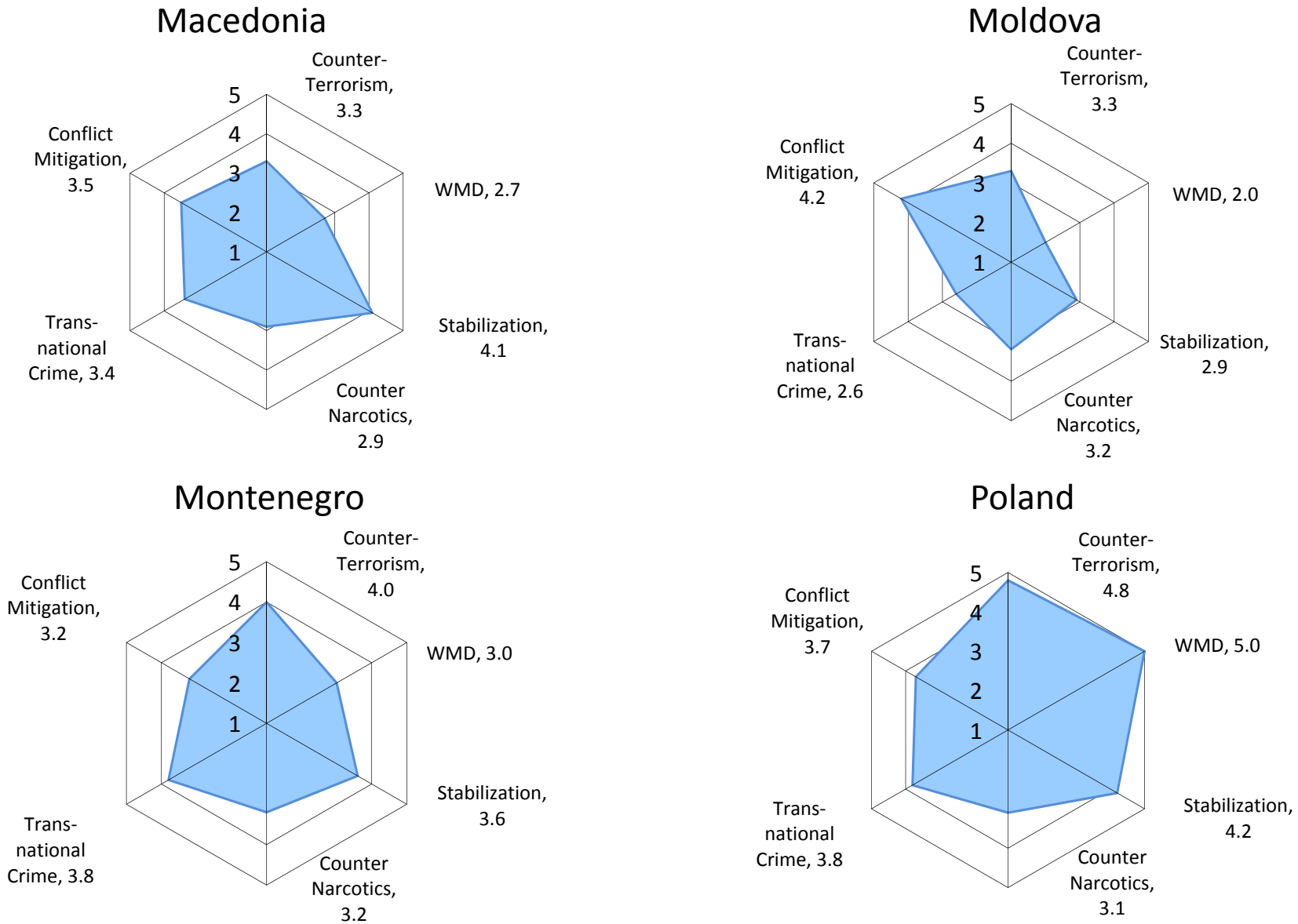


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Figure 33

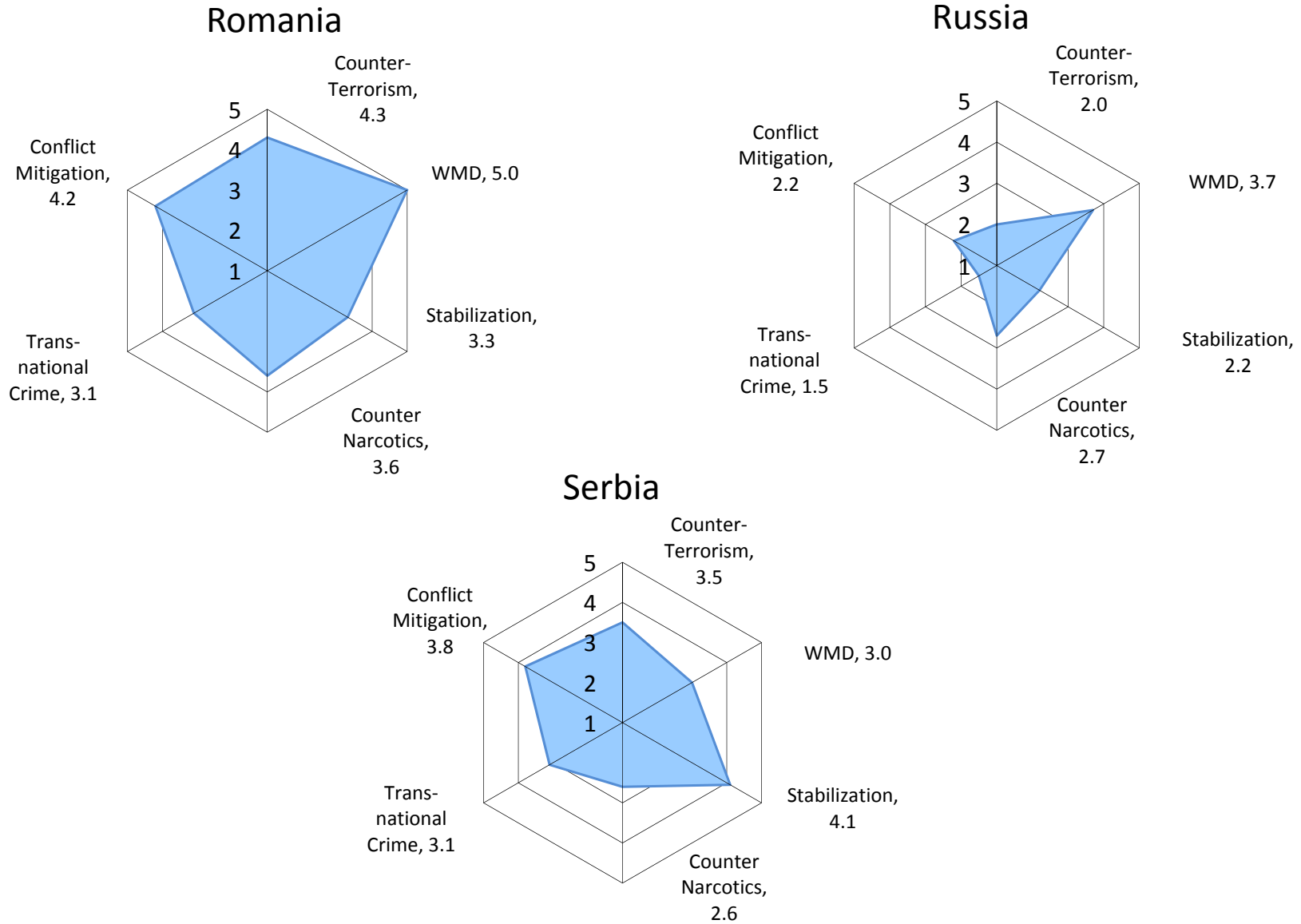
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Figure 33

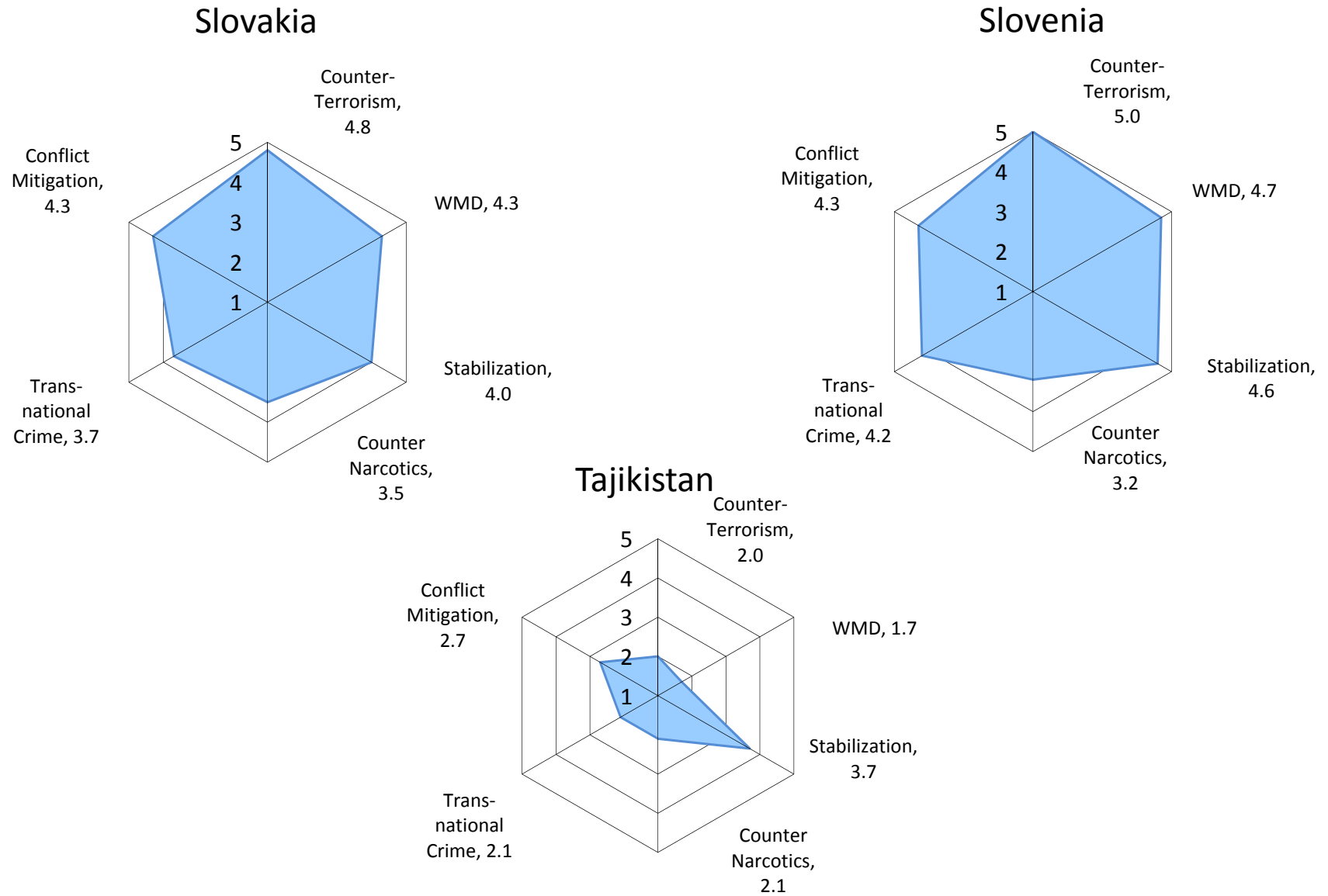
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Figure 33

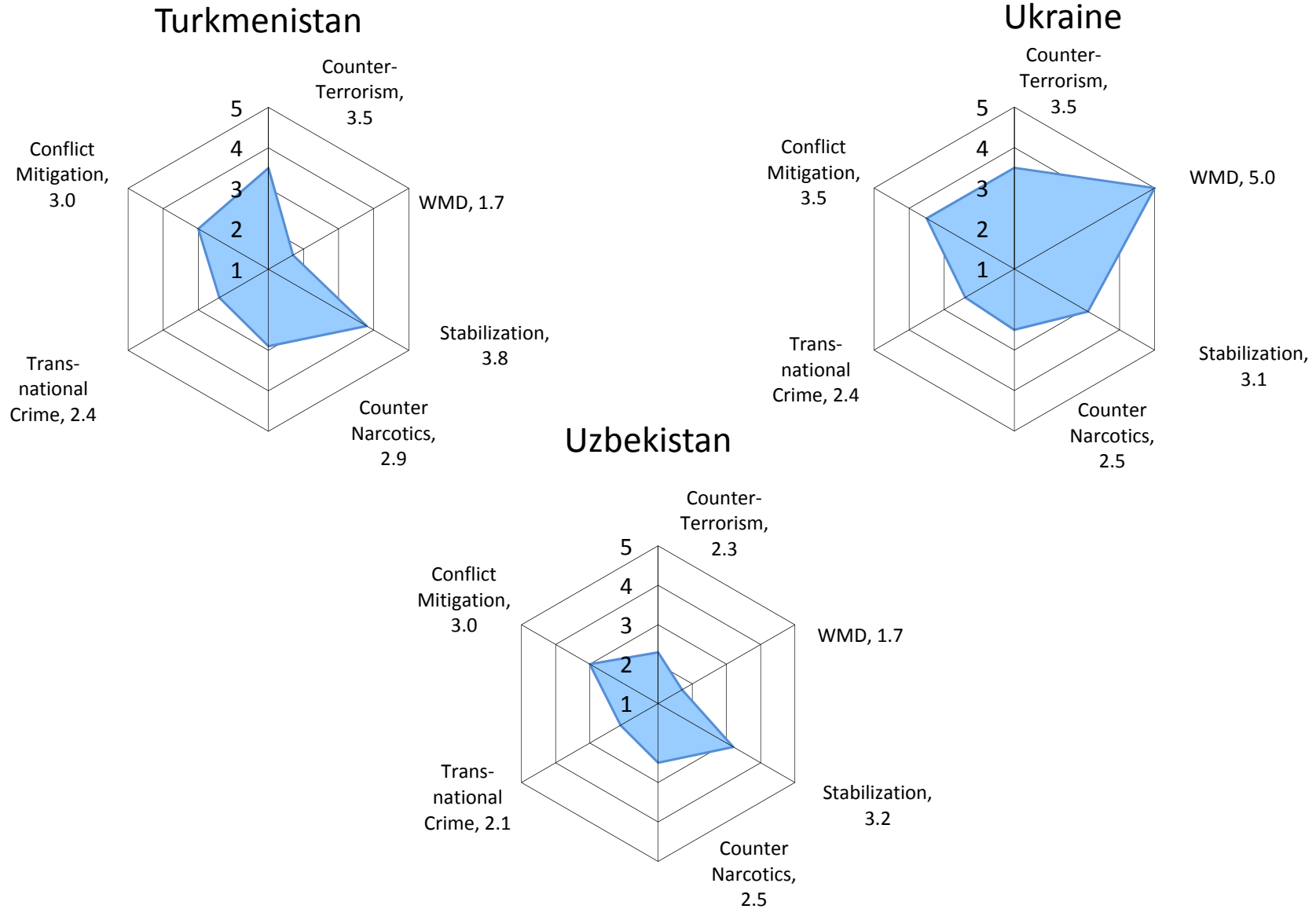
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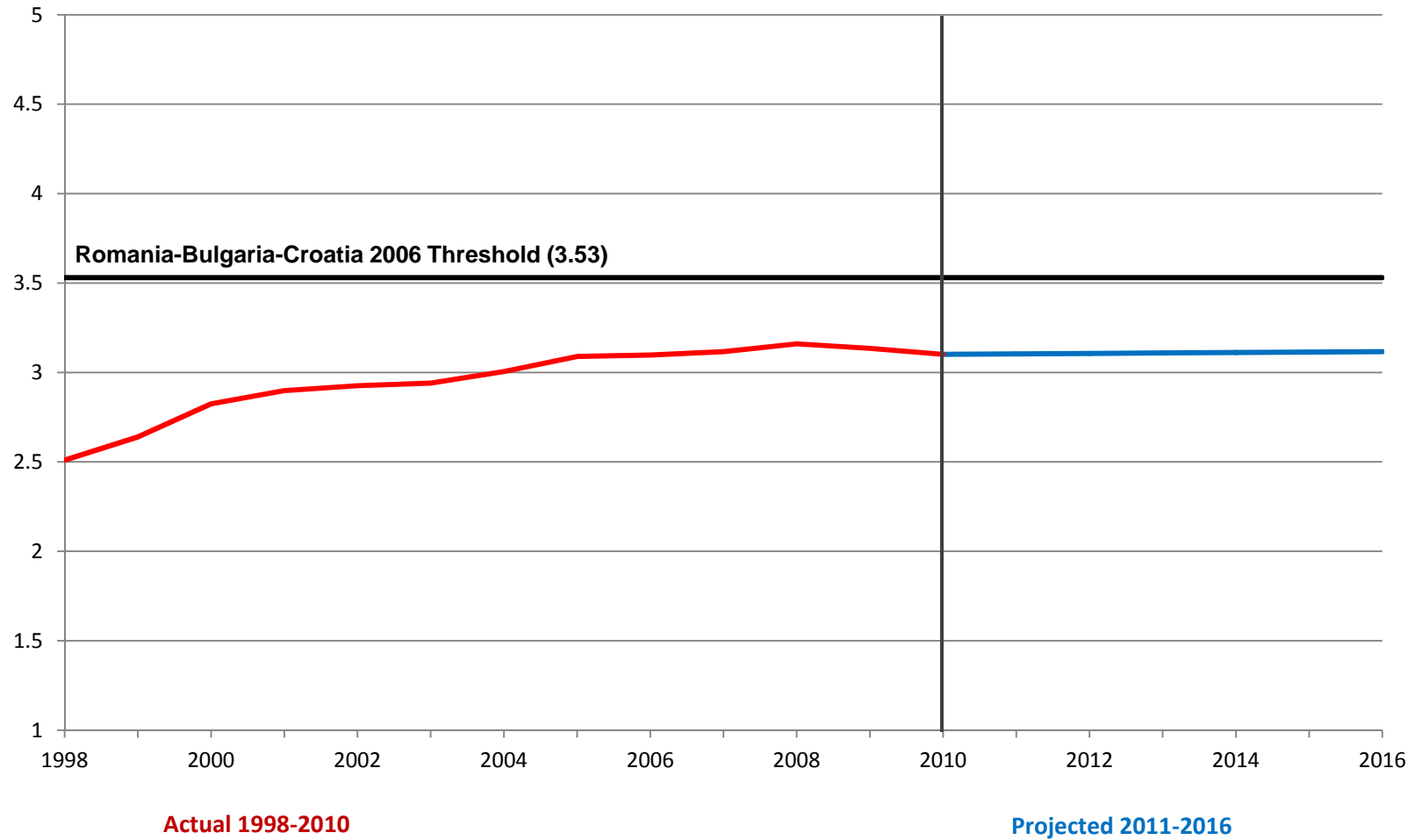
# Appendix 3: E&E Threshold Projections

USAID  
E&E Bureau  
Strategic Planning and Analysis Division  
October 2011

Figure 1

# Albania

## Economic and Democratic Reforms

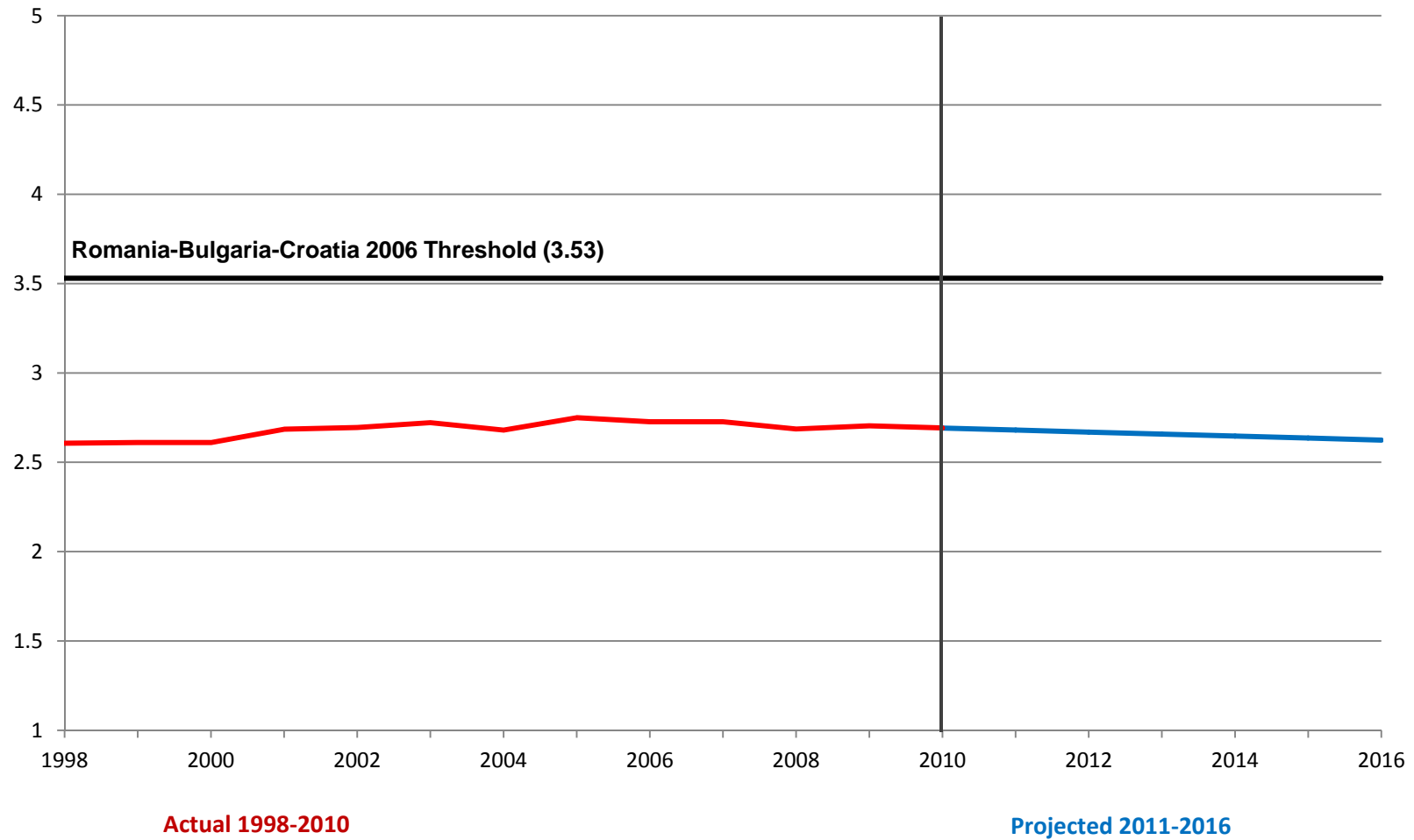


The projections are extrapolations from the average annual trends from 2006-2010. The economic reform data are drawn from the EBRD's annual *Transition Report*, and the democratic reform data are drawn from Freedom House's annual *Nations in Transit*.

Figure 2

# Armenia

## Economic and Democratic Reforms

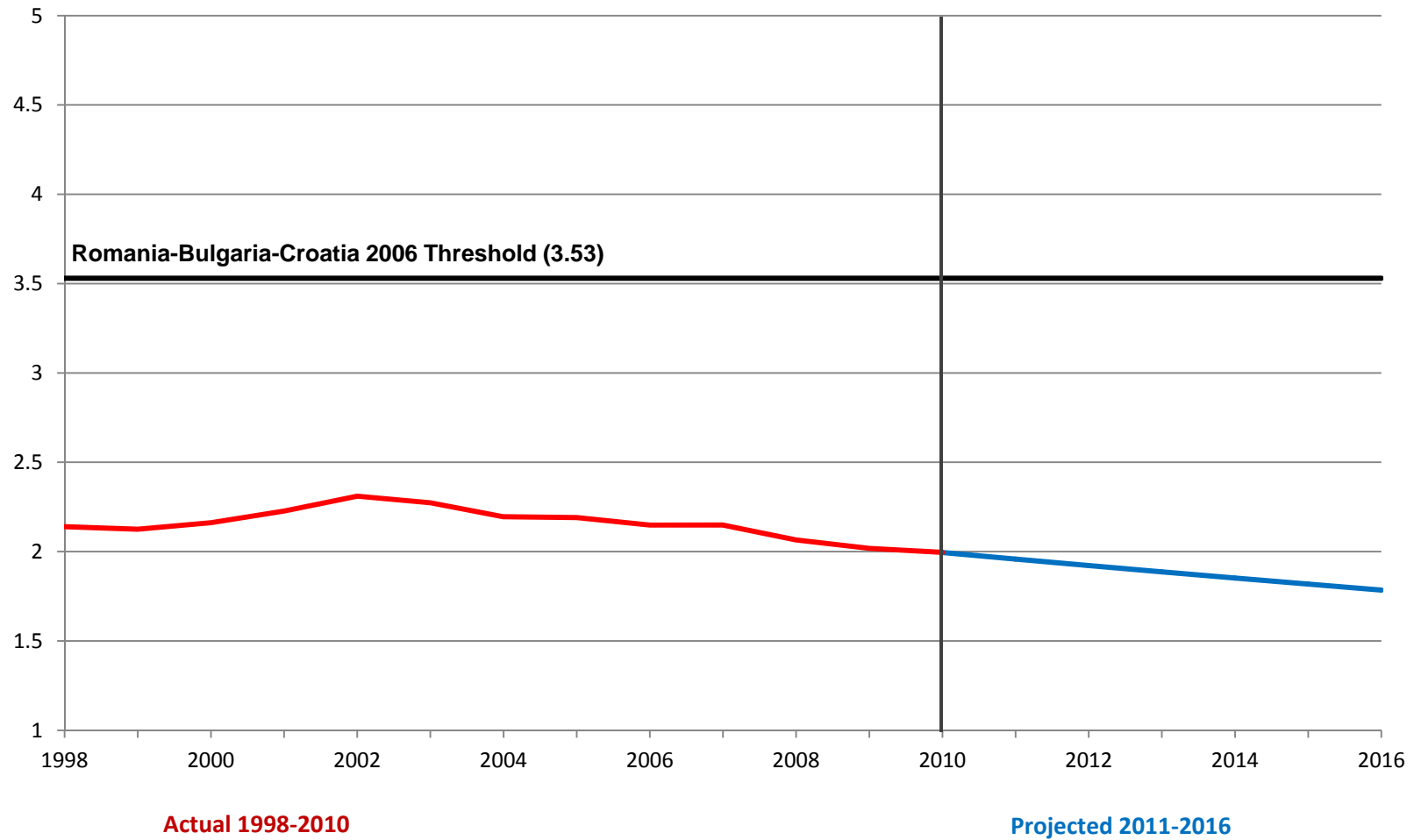


The projections are extrapolations from the average annual trends from 2006-2010. The economic reform data are drawn from the EBRD's annual *Transition Report*, and the democratic reform data are drawn from Freedom House's annual *Nations in Transit*.

Figure 3

# Azerbaijan

## Economic and Democratic Reforms



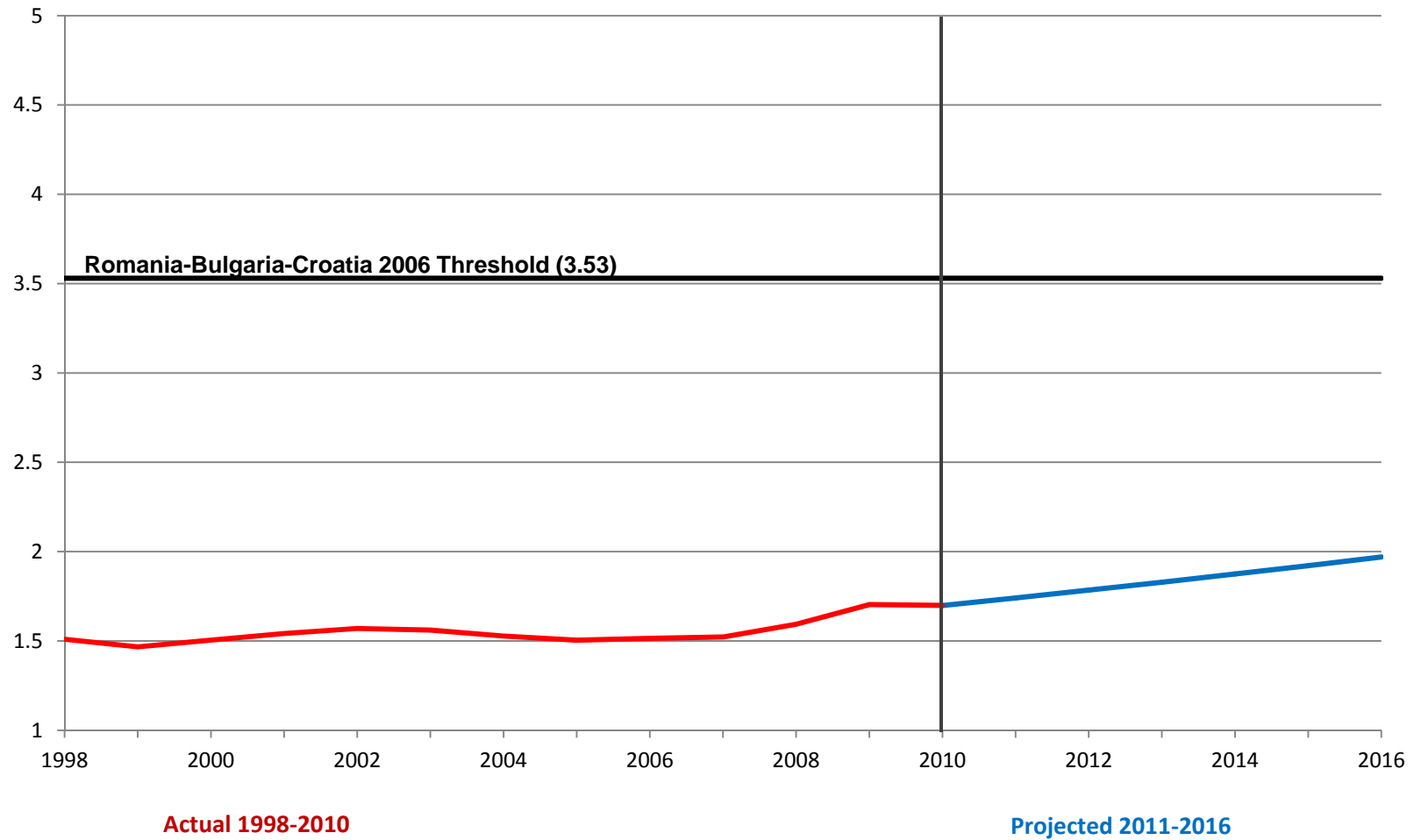
The projections are extrapolations from the average annual trends from 2006-2010. The economic reform data are drawn from the EBRD's annual *Transition Report*, and the democratic reform data are drawn from Freedom House's annual *Nations in Transit*.



Figure 4

# Belarus

## Economic and Democratic Reforms

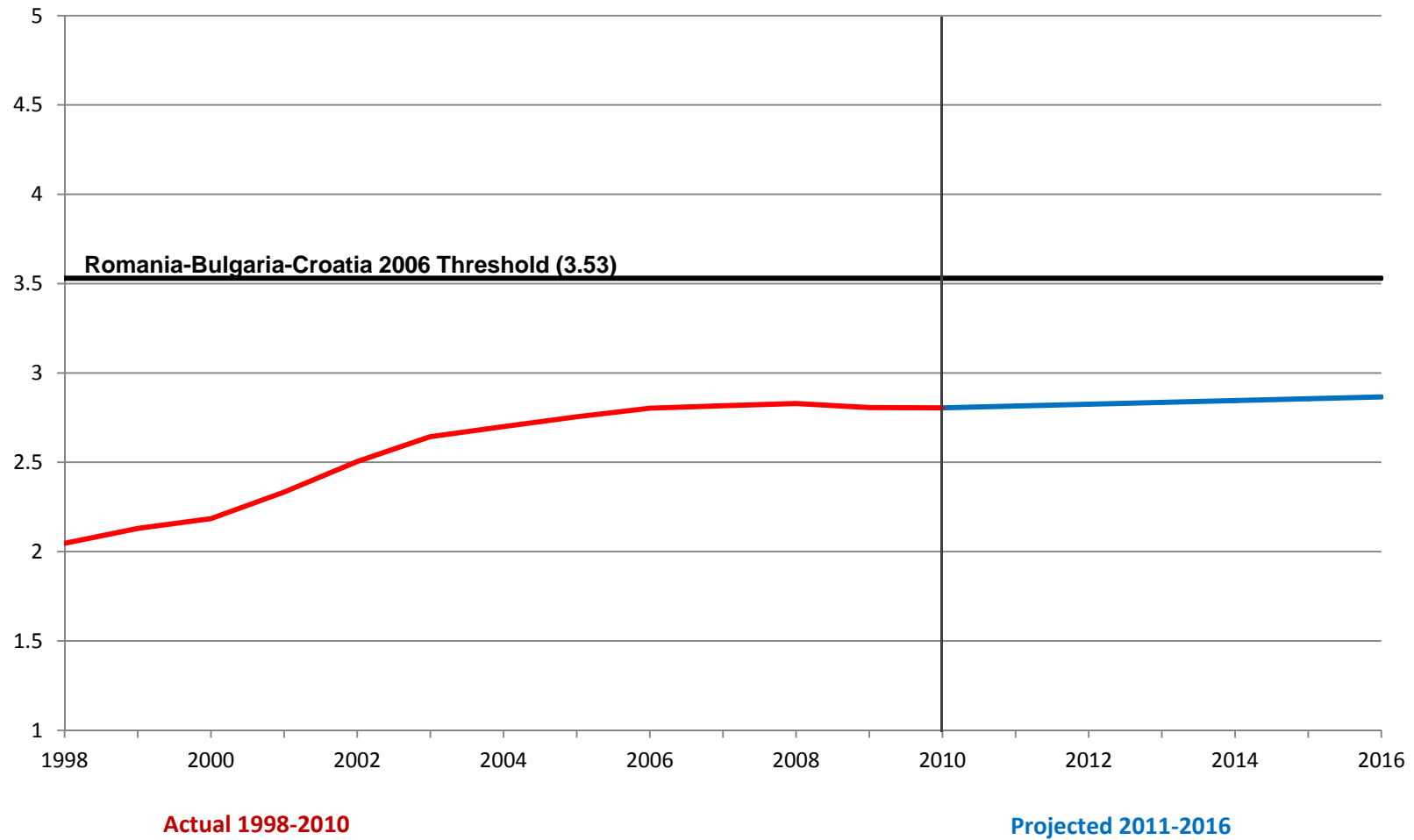


The projections are extrapolations from the average annual trends from 2006-2010. The economic reform data are drawn from the EBRD's annual *Transition Report*, and the democratic reform data are drawn from Freedom House's annual *Nations in Transit*.

Figure 5

# Bosnia and Herzegovina

## Economic and Democratic Reforms

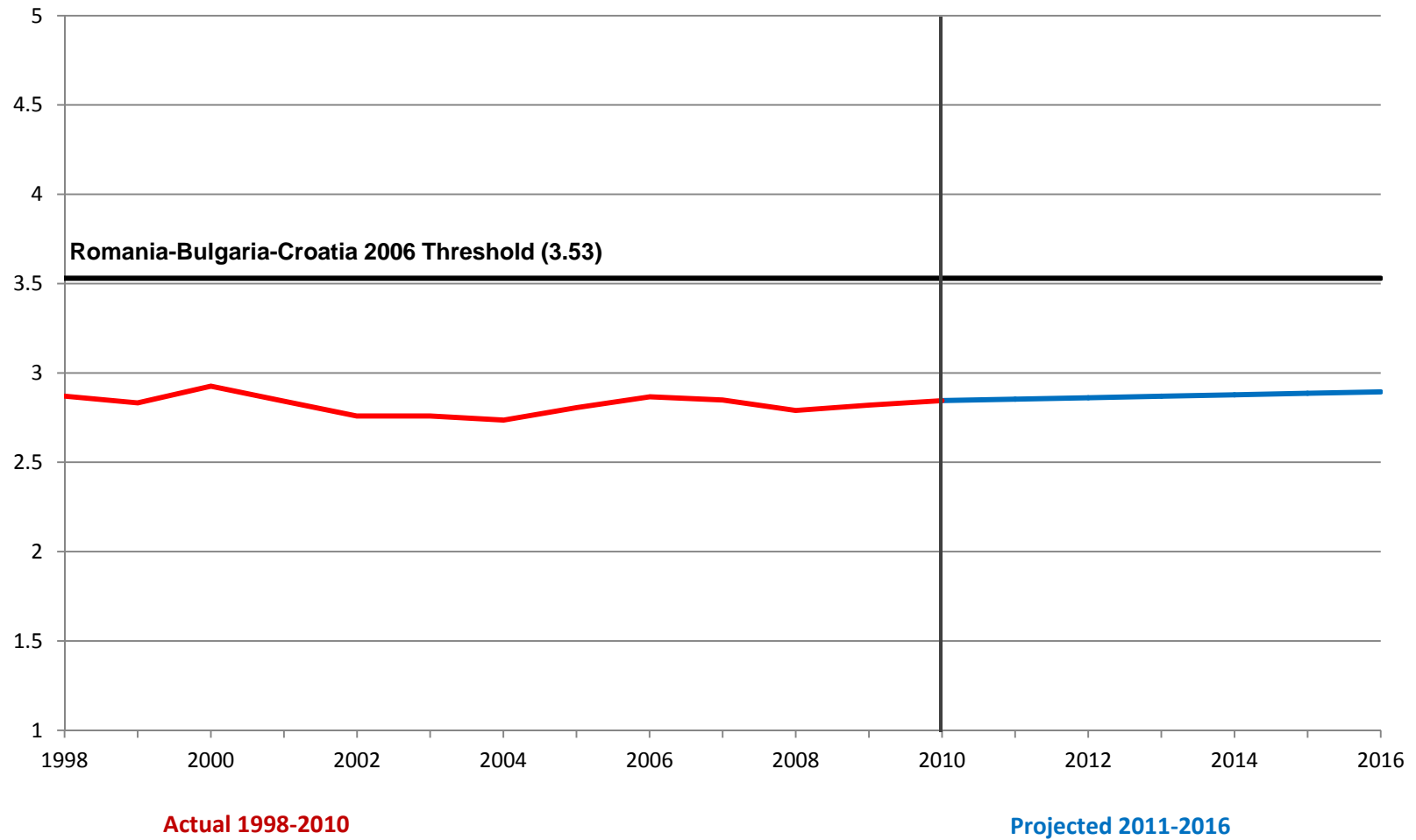


The projections are extrapolations from the average annual trends from 2006-2010. The economic reform data are drawn from the EBRD's annual *Transition Report*, and the democratic reform data are drawn from Freedom House's annual *Nations in Transit*.

Figure 6

# Georgia

## Economic and Democratic Reforms

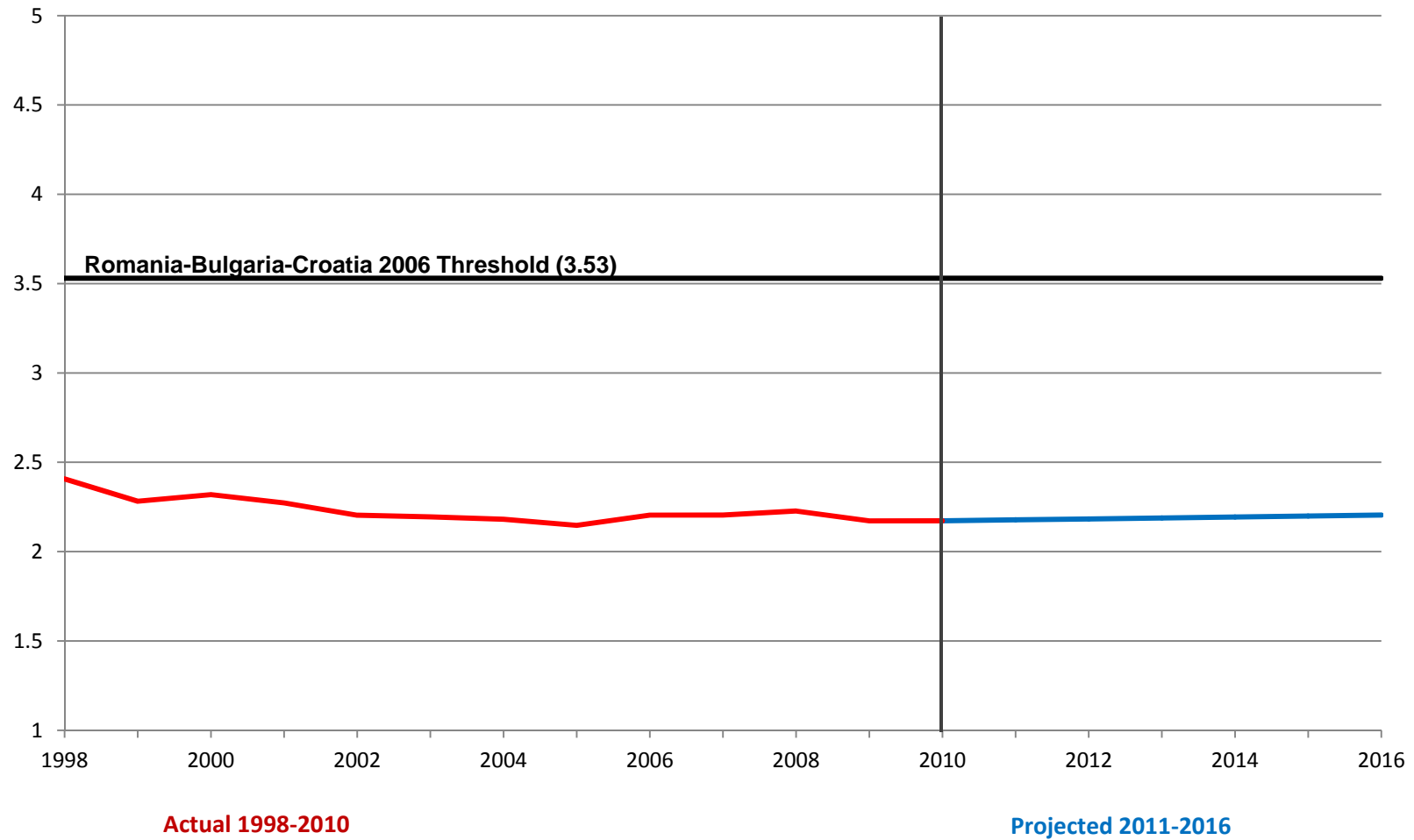


The projections are extrapolations from the average annual trends from 2006-2010. The economic reform data are drawn from the EBRD's annual *Transition Report*, and the democratic reform data are drawn from Freedom House's annual *Nations in Transit*.

Figure 7

# Kazakhstan

## Economic and Democratic Reforms

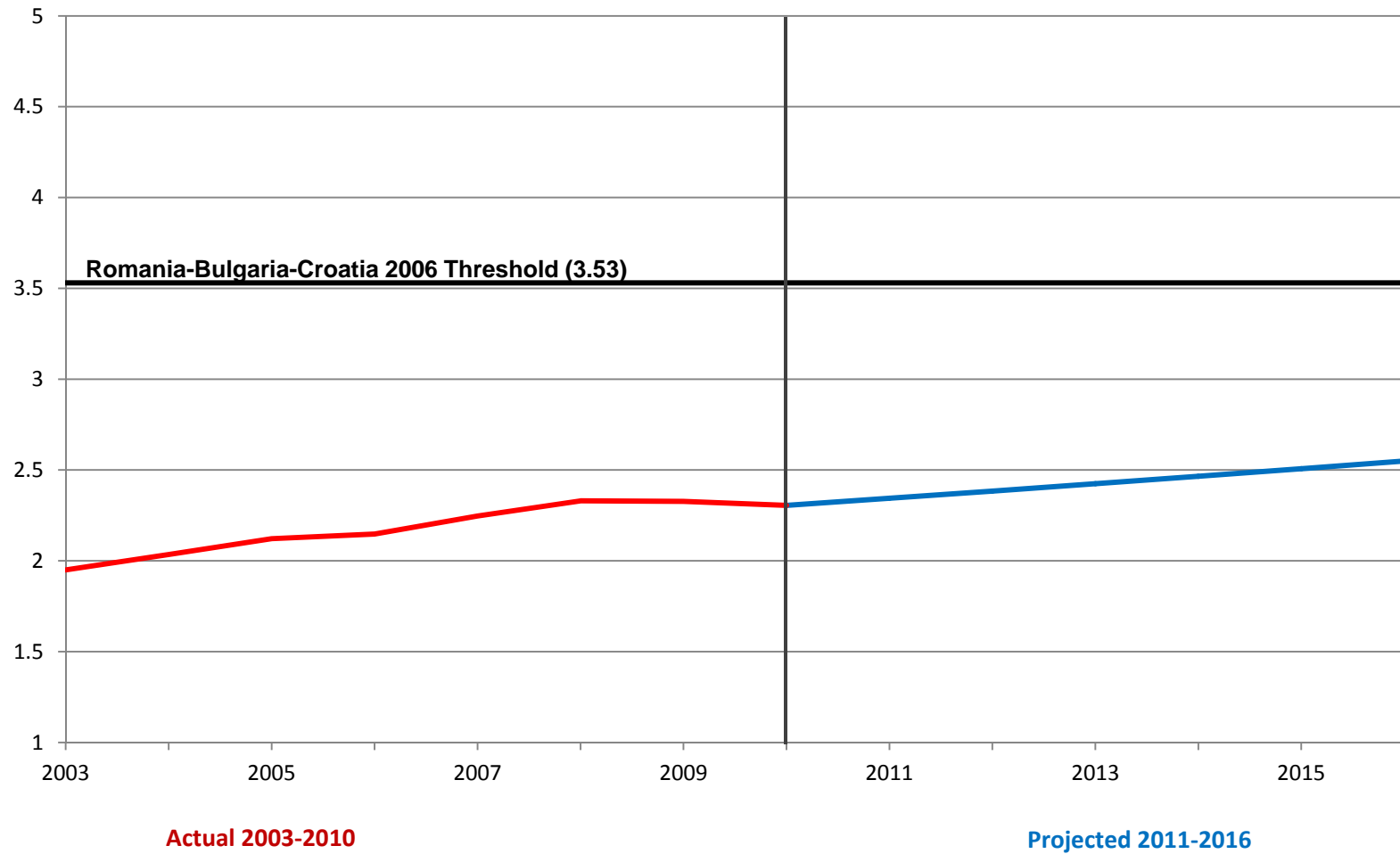


The projections are extrapolations from the average annual trends from 2006-2010. The economic reform data are drawn from the EBRD's annual *Transition Report*, and the democratic reform data are drawn from Freedom House's annual *Nations in Transit*.

Figure 8

# Kosovo

## Economic and Democratic Reforms

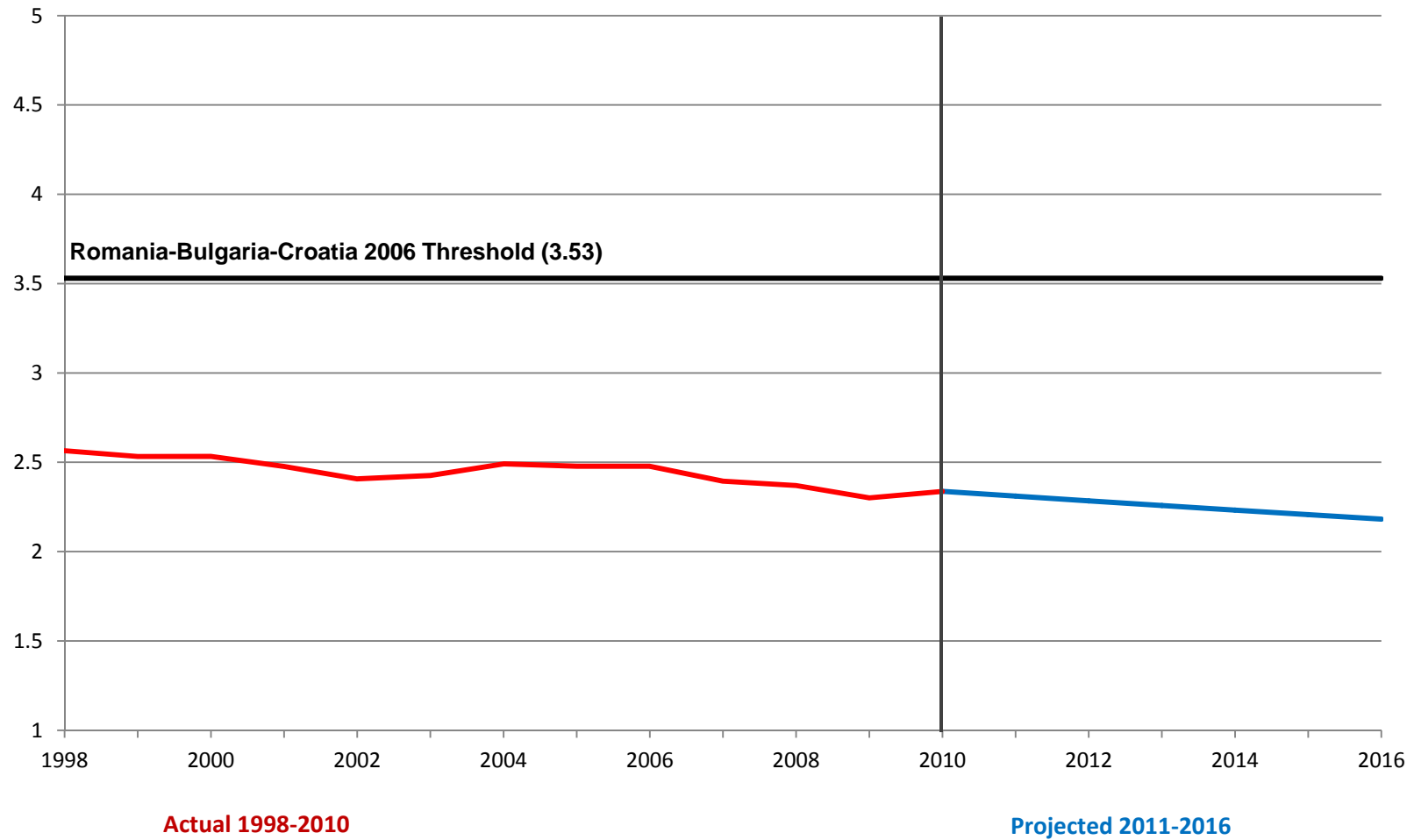


The projections are extrapolations from the average annual trends from 2006-2010. The economic reform data are drawn from the EBRD's annual *Transition Report*, and the democratic reform data are drawn from Freedom House's annual *Nations in Transit*.

Figure 9

# Kyrgyzstan

## Economic and Democratic Reforms

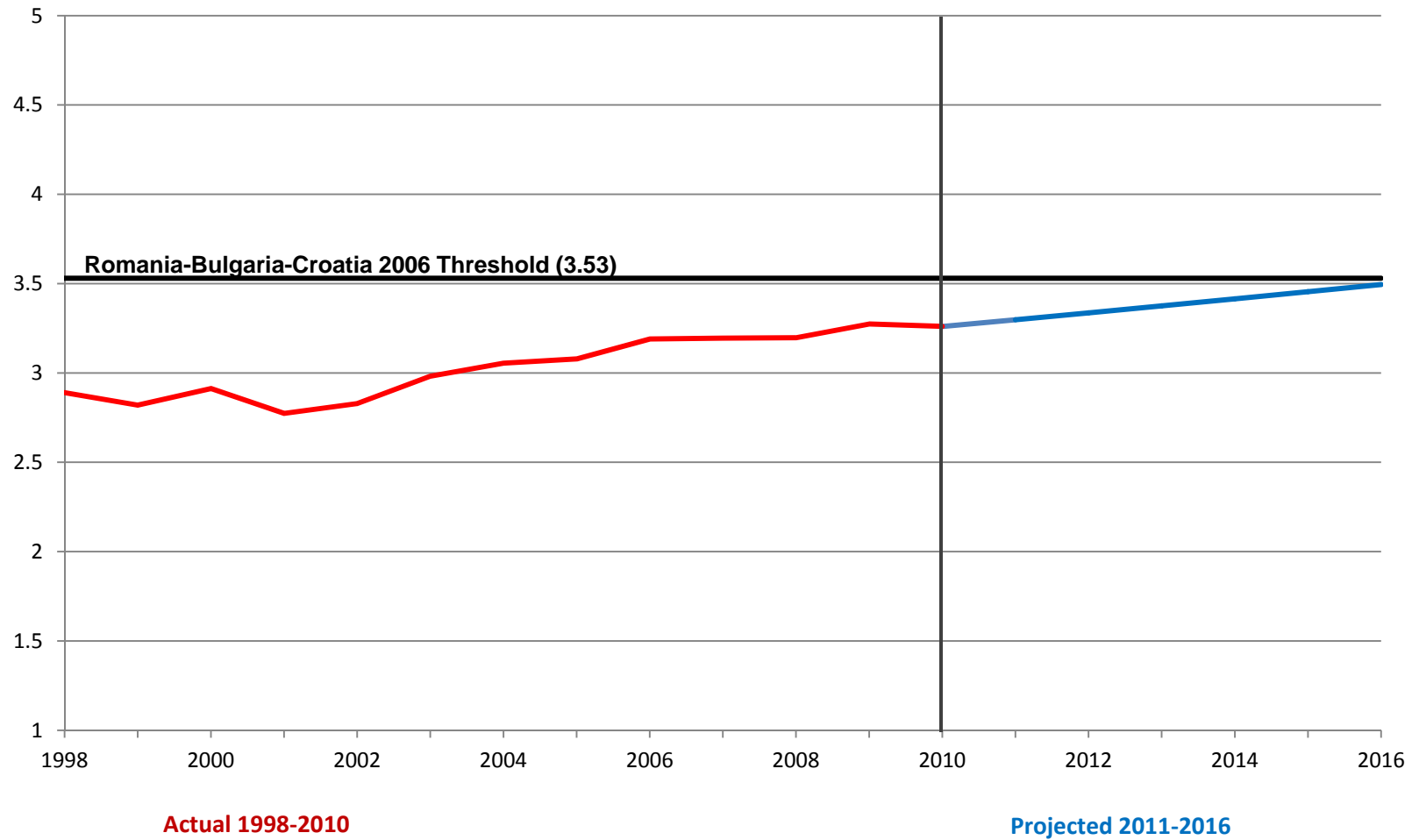


The projections are extrapolations from the average annual trends from 2006-2010. The economic reform data are drawn from the EBRD's annual *Transition Report*, and the democratic reform data are drawn from Freedom House's annual *Nations in Transit*.

Figure 10

# Macedonia

## Economic and Democratic Reforms

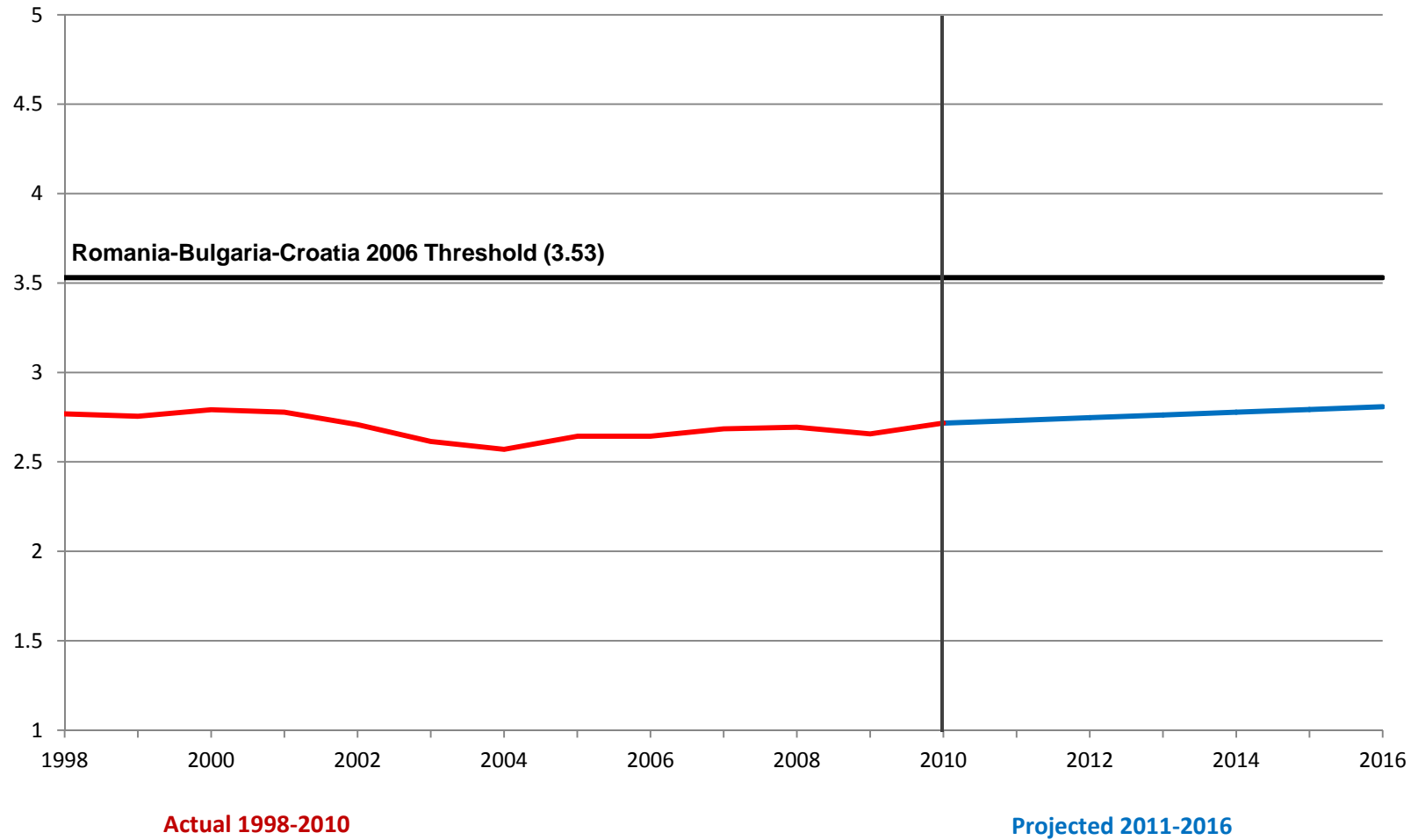


The projections are extrapolations from the average annual trends from 2006-2010. The economic reform data are drawn from the EBRD's annual *Transition Report*, and the democratic reform data are drawn from Freedom House's annual *Nations in Transit*.

Figure 11

# Moldova

## Economic and Democratic Reforms



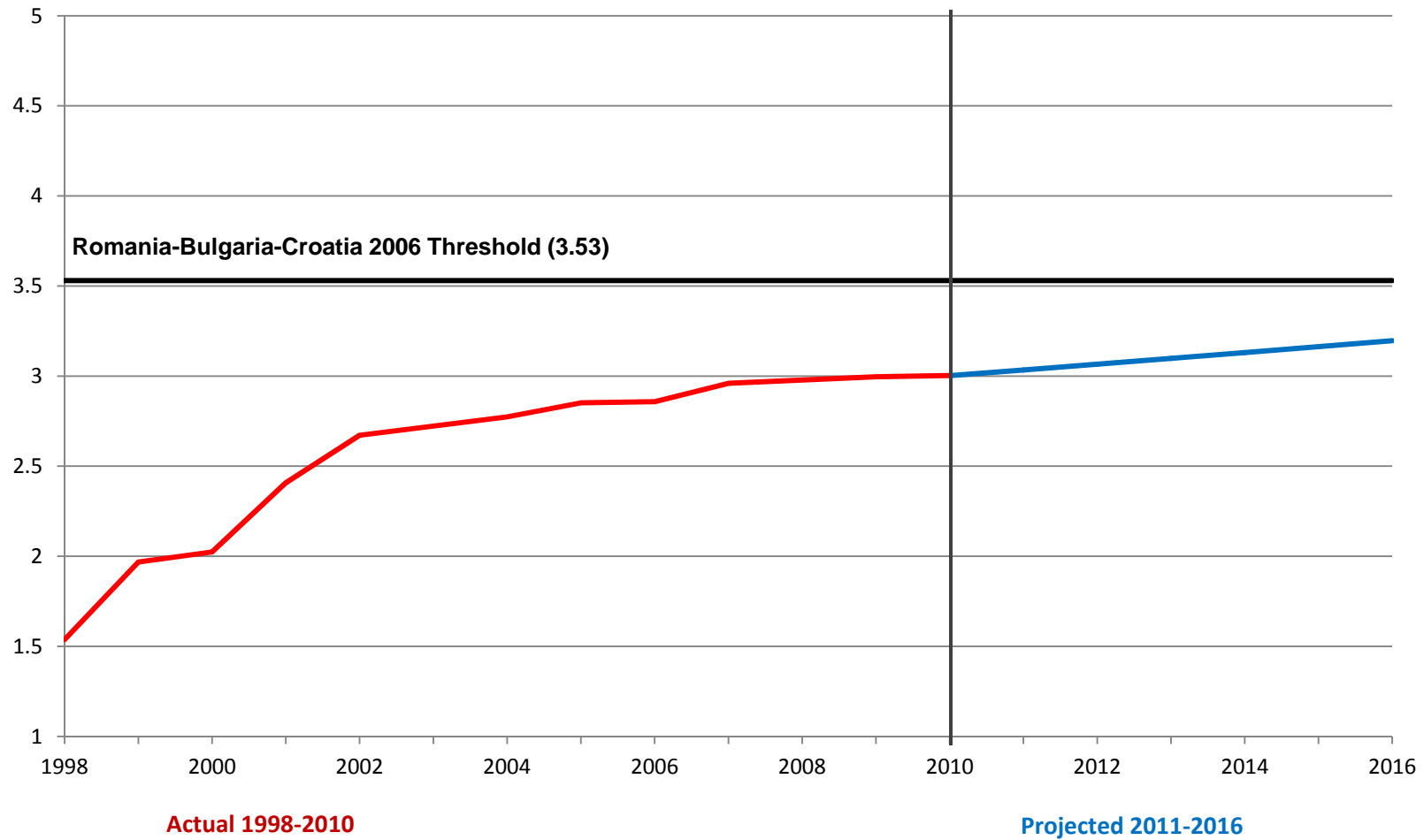
The projections are extrapolations from the average annual trends from 2006-2010. The economic reform data are drawn from the EBRD's annual *Transition Report*, and the democratic reform data are drawn from Freedom House's annual *Nations in Transit*.



Figure 12

# Montenegro

## Economic and Democratic Reforms

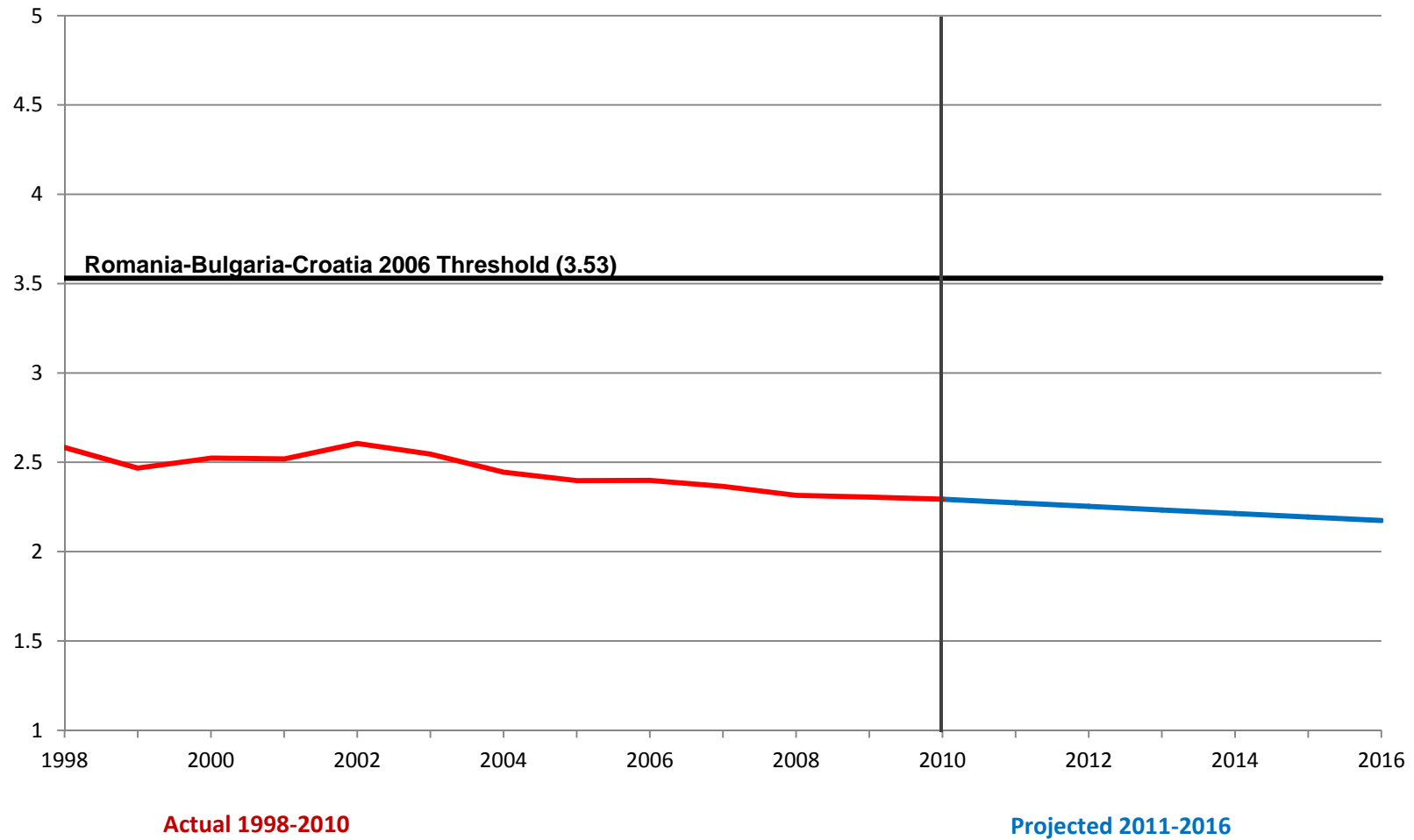


The projections are extrapolations from the average annual trends from 2006-2010. The economic reform data are drawn from the EBRD's annual *Transition Report*, and the democratic reform data are drawn from Freedom House's annual *Nations in Transit*.

Figure 13

# Russia

## Economic and Democratic Reforms

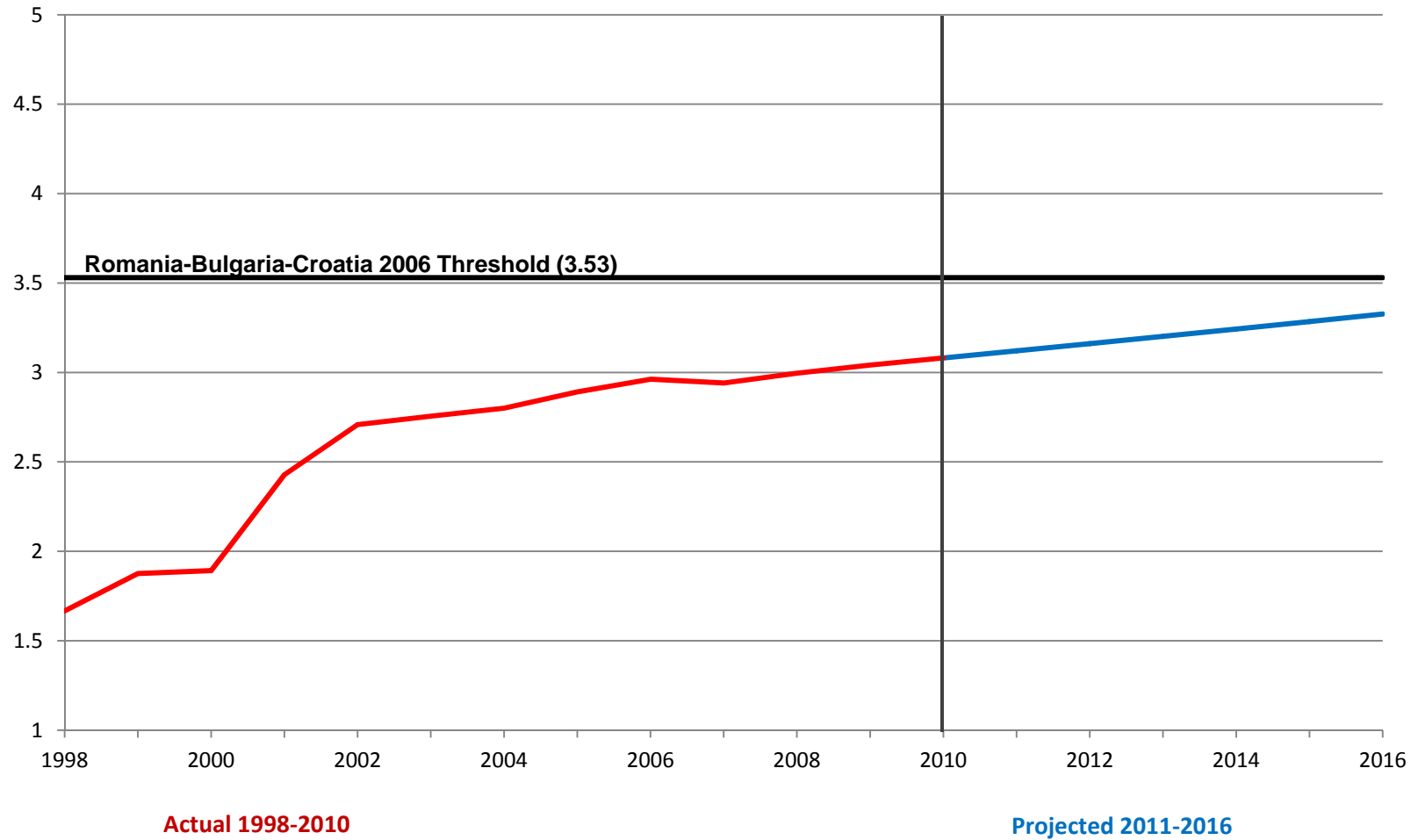


The projections are extrapolations from the average annual trends from 2006-2010. The economic reform data are drawn from the EBRD's annual *Transition Report*, and the democratic reform data are drawn from Freedom House's annual *Nations in Transit*.

Figure 14

# Serbia

## Economic and Democratic Reforms

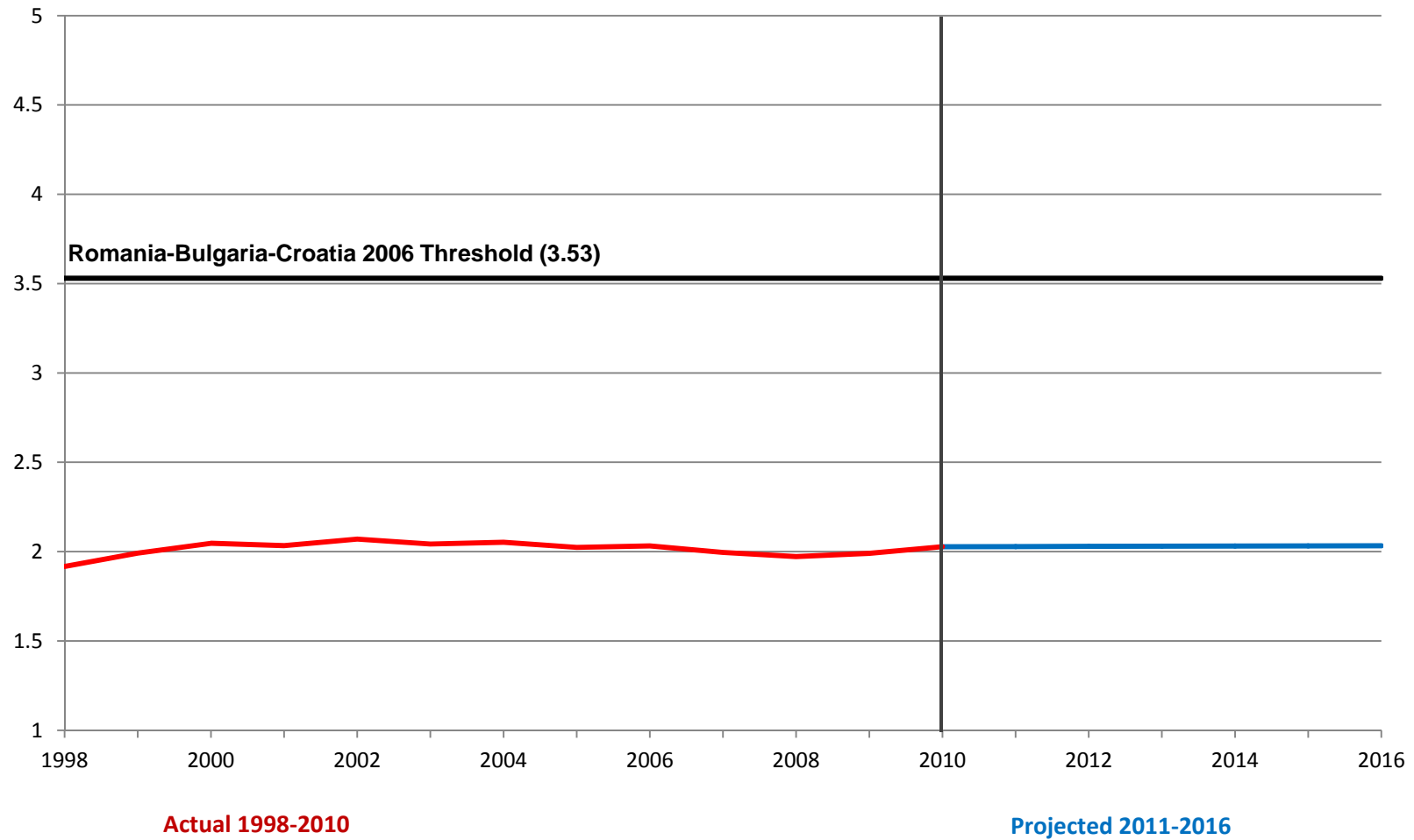


The projections are extrapolations from the average annual trends from 2006-2010. The economic reform data are drawn from the EBRD's annual *Transition Report*, and the democratic reform data are drawn from Freedom House's annual *Nations in Transit*.

Figure 15

# Tajikistan

## Economic and Democratic Reforms

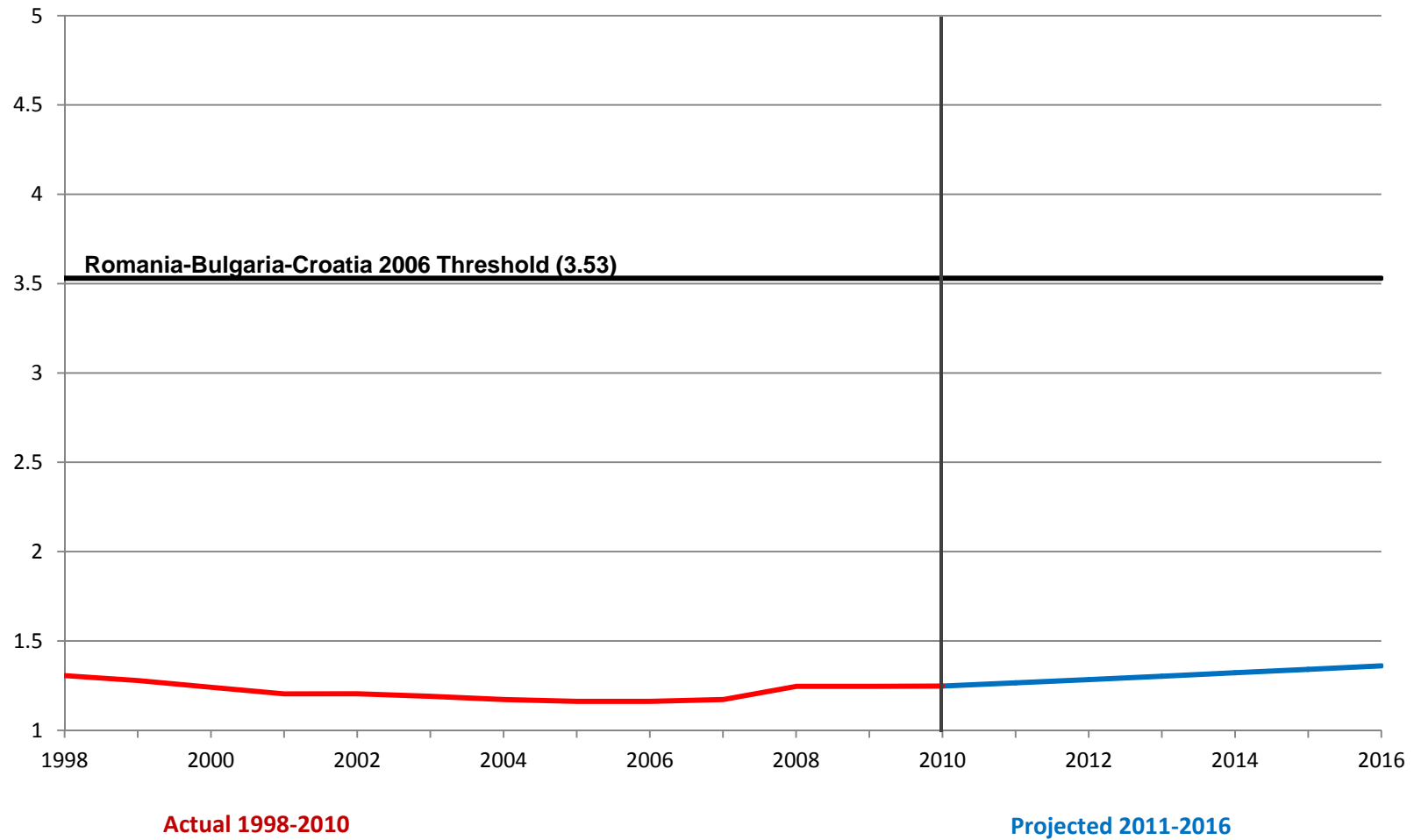


The projections are extrapolations from the average annual trends from 2006-2010. The economic reform data are drawn from the EBRD's annual *Transition Report*, and the democratic reform data are drawn from Freedom House's annual *Nations in Transit*.

Figure 16

# Turkmenistan

## Economic and Democratic Reforms

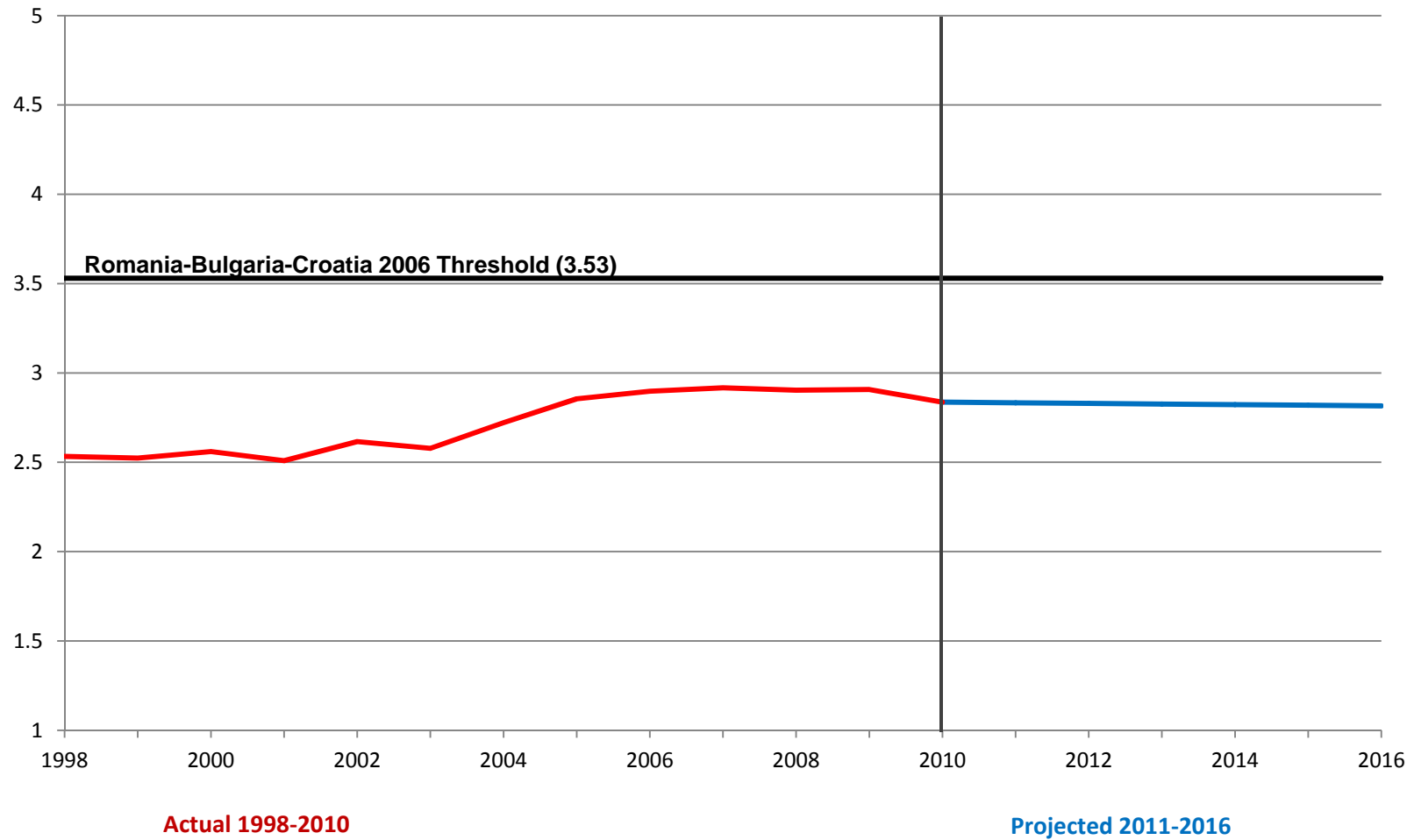


The projections are extrapolations from the average annual trends from 2006-2010. The economic reform data are drawn from the EBRD's annual *Transition Report*, and the democratic reform data are drawn from Freedom House's annual *Nations in Transit*.

Figure 17

# Ukraine

## Economic and Democratic Reforms

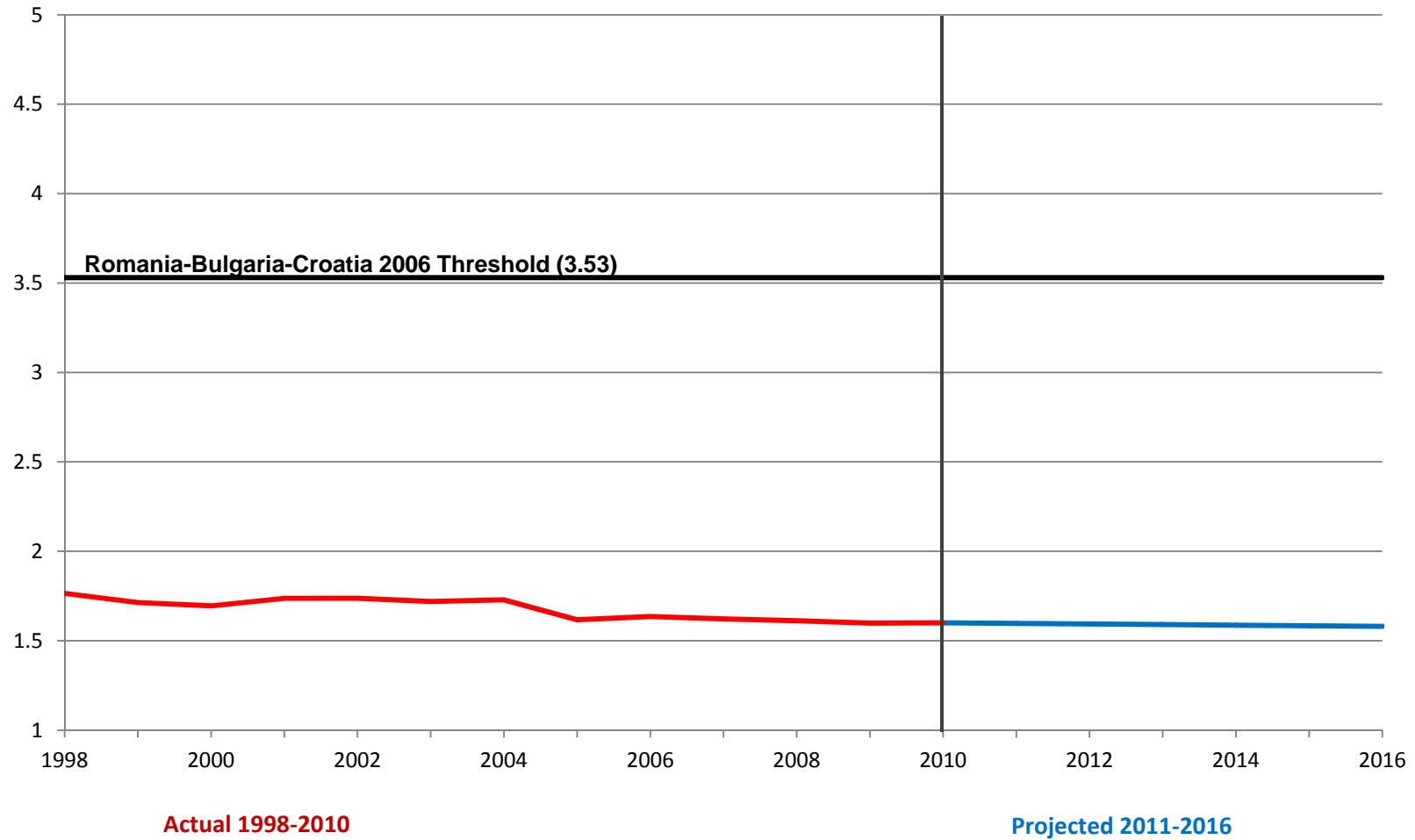


The projections are extrapolations from the average annual trends from 2006-2010. The economic reform data are drawn from the EBRD's annual *Transition Report*, and the democratic reform data are drawn from Freedom House's annual *Nations in Transit*.

Figure 18

# Uzbekistan

## Economic and Democratic Reforms



The projections are extrapolations from the average annual trends from 2006-2010. The economic reform data are drawn from the EBRD's annual *Transition Report*, and the democratic reform data are drawn from Freedom House's annual *Nations in Transit*.