

***MONITORING COUNTRY PROGRESS
IN EASTERN EUROPE & EURASIA***

***USAID/E&E/PO
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***Monitoring Country Progress in Eastern Europe & Eurasia
#12 (May 14, 2010)***

Highlights of the Findings

Economic Reforms

- (1) 2009 witnessed the fewest macro-economic reform gains in the Eastern Europe & Eurasia (E&E) region since the transition began. In addition, only four other transition years saw more economic reform backsliding in the region than did 2009. Three occurred leading up to and during the Russian financial crisis (1997, 1998, and 1999); the fourth year was early in the transition, 1994.
- (2) Twenty-years after the collapse of communism there remains a significant amount of second stage economic reforms yet to be completed across all three E&E sub-regions.

Democratization

- (3) Democratization trends continue to be problematic in much of the transition region, though particularly, once again, in Eurasia. Eleven transition countries experienced net backsliding in democratization in 2008-2009, while only six E&E countries saw measurable progress.
- (4) The democratization gap between Eurasia and the Central and Eastern Europe (CEE) countries continues to widen. This is a trend that started in the early 1990s and accelerated in the late 1990s. Six Eurasian countries experienced net backsliding in democratization in 2008-2009, while two, Belarus and Moldova, witnessed modest advancement.

Economic Performance

- (5) The E&E region has been disproportionately adversely affected by the global economic crisis. The region witnessed a larger economic contraction in 2009 than any other major region in the world, and is now experiencing one of the slowest economic recoveries of the regions of the world. Moreover, the scope of the 2009 economic output collapse in the region has precedent in E&E only in the depths of the transition depression in the early 1990s.
- (6) Twenty-one of the twenty-nine transition countries had economies which contracted in 2009. At least five E&E economies contracted by more than 10%: those of the three Baltic countries (Lithuania, Latvia, and Estonia), as well as Ukraine and Armenia. Only three E&E economies were essentially sheltered enough to expand by 5% or more in 2009: the economies in Uzbekistan; Turkmenistan; and Azerbaijan.
- (7) All three E&E sub-regions are very dependent on Western Europe markets for their exports. Almost 60% of Northern Tier CEE exports went to Western Europe in 2008; for Eurasia, it was almost 50%, and for the Southern Tier CEE countries,

38%. This dependence is likely to be particularly problematic at this juncture given the current forecasts of anemic growth for Western Europe in 2010 (of 1% according to the IMF in its April 2010 *World Economic Outlook*), and the potential, given the debt crisis stemming from Greece's troubles, for a much worse scenario.

Human Capital

- (8) The most recent data on human capital reveal generally improving conditions in health and education. Among these trends: life expectancy increased in sixteen transition countries from 2006-2008 and decreased in only one (the Kyrgyz Republic). Twenty-two of the twenty-nine transition countries witnessed a decrease in the annual incidences of TB from 2006 to 2008. Tertiary enrollment rates have increased modestly on balance in the Northern Tier CEE countries (from 50% in 2005 to 52% in 2008) and in the Southern Tier CEE countries (from 27% to 30%), and have held steady in Eurasia (at 26%).
- (9) However, the most recent results from a World Bank/EBRD business survey show that the skills and education of the work force in much of the E&E region are perceived by businesses to be a significant and growing constraint to doing business.
- (10) In addition, most of the currently available human capital data come with a notable lag and have been influenced by very favorable economic trends (in 2005-2007) which preceded them.
- a. Our estimates coupled with other studies suggest that the 2008-2009 global economic crisis has likely had a significant adverse impact on poverty rates in the E&E region, and that adverse social repercussions will likely continue after economic growth resumes.
 - b. Similarly, according to a UNDP study, there is likely to be a slower recovery among the social indicators as compared to the pace of improvement in these measures prior to the economic crisis. Hence, in some instances, it may be five years and more before magnitudes of certain social indicators are restored to pre-crisis levels.

Peace and Security

- (11) In general, those E&E countries which are the most peaceful and secure are also the countries which have made the most progress in economic and democratic reforms, and have the most advanced macroeconomic performance and human capital. In other words, the results of our peace and security index align quite closely with those of the other four MCP indices. The highest correlation is between peace & security and democratization.
- (12) We find that Tajikistan, which scores the lowest of the 29 transition countries in our P&S index, is nevertheless more peaceful and secure than many of the non-E&E comparison countries in the sample; specifically in ascending order (from the least peaceful and secure) this includes Iraq, Pakistan, Iran,

Afghanistan, India, Sudan, Yemen, Somalia, and Burma. At the other end, we find that all eleven of the E&E graduates from USG assistance (i.e., the eight Northern Tier CEE countries plus Romania, Bulgaria, and Croatia) are more peaceful and secure according to the P&S index than is the United States.

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Summary

Introduction and Method

This paper updates USAID/Europe & Eurasia (E&E) Bureau's analysis of the trends in the transition to market-oriented democracies in Eastern Europe & Eurasia. It is the twelfth such report in a series of periodic *Monitoring Country Progress in E&E* reports. Much of the focus of this analysis is assessing the change that has occurred since roughly mid-2008, which also roughly coincides with the onset of the global economic crisis. *MCP #11* (December 2008) provided a preliminary analysis of the emerging crisis; a key objective of this report is to provide a more in-depth look of the crisis' impact on the E&E region.

As in previous MCP reports, we track progress in large part by assessing results along several key dimensions which correspond to MCP indices which we have developed over the years: (1) economic reforms; (2) democratization; (3) macroeconomic performance; and (4) human capital. This year, we add a fifth dimension and a fifth index: peace and security. The components of our peace and security (P&S) index are drawn closely from the U.S. government's foreign assistance strategic framework of peace and security. As with the other four MCP indices, the focus of the P&S index is on measuring foreign assistance program-related areas, albeit at a relatively high (country progress) level.

The MCP system draws on publicly-available standardized (i.e., cross-country) data from a variety of sources including international organizations (such as the World Bank, the European Bank for Reconstruction and Development (EBRD), 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 U.S. government sources and reports (such as from USAID, U.S. Department of State, U.S. Department of Commerce, U.S. Defense Department, and U.S. Trade Representative), as well as think tanks and universities (such as Freedom House, Transparency International, Fund for Peace, Binghamton University, and George Mason University).

The original or raw data for each of the five indices are converted and standardized to a 1-to-5 scale, with a "5" representing the best performance worldwide, and a "1" the least advancement in the E&E region. Throughout the report, we highlight and differentiate progress among three sub-regions of E&E: the eight Northern Tier Central and Eastern Europe (CEE) countries; the nine Southern Tier CEE countries; and the twelve countries of Eurasia (or the former Soviet Union less the three Baltic countries).

Salient Findings

(a) Economic Reforms

By EBRD's macro-economic reform measures, there was very little progress in economic reforms in the latter part of 2008 through 2009 in Eastern Europe & Eurasia. In fact, 2009 witnessed the fewest annual advances in these economic reform indicators since the transition began, since 1990. This is likely due in part to the relatively advanced status of economic reforms in some of the Central and Eastern Europe (CEE) countries, and likely also due in part to the global economic crisis. Four countries--Ukraine, Kazakhstan, Montenegro, and Latvia—experienced regression in one economic reform dimension. Only four other transition years saw more economic reform backsliding in the region than did 2009. Three occurred leading up to and during the Russian financial crisis (1997, 1998, and 1999); the fourth year was early in the transition, 1994.

As in recent years past, the Southern Tier CEE sub-region made more economic reform gains in 2009 than did the Northern Tier CEE countries and the Eurasia countries. The Southern Tier CEE countries continue to slowly close the economic reform gap with the Northern Tier CEE countries. While Eurasia has advanced modestly in economic reforms in recent years, the economic reform gap between Eurasia and both CEE sub-regions does not appear to be closing.

As in recent years past, most of the economic reform gains in the region occurred in the second stage reforms in 2009. Nevertheless, the data suggest that there is still, twenty-years after the collapse of communism, a significant amount of reforms needed to be done in all of the second stage reforms across the three sub-regions.

(b) Democratization

Overall, democratization trends continue to be problematic in much of the transition region, though particularly, once again, in Eurasia. We reported in *MCP #11* (December 2008) that more transition countries witnessed democratic backsliding than progress in 2007 (the most recent data available at the time). That observation holds true for 2008-2009 as well: overall, eleven transition countries experienced net backsliding in democratization in these two years, while only six countries saw measurable progress.

On balance, six Eurasian countries witnessed democratic backsliding during 2008-2009 (Ukraine, Georgia, Armenia, Russia, Azerbaijan, and the Kyrgyz Republic), while only two Eurasian countries (Belarus and Moldova) witnessed modest advancement. The most significant backsliding in Eurasia in 2008-2009 occurred in the Kyrgyz Republic, Russia, and Azerbaijan. Four Northern Tier CEE countries experienced some democracy regression in 2008-2009: Latvia; Hungary; Lithuania; and Slovakia. Poland is the only Northern Tier CEE country to experience democratization gains, moving forward in 2008 on four dimensions (independent media, national governance, local governance, and rule of law) and back on one (civil society).

As with economic reform trends, the Southern Tier CEE sub-region outperformed the other two sub-regions in democratization progress in 2008-2009. Four countries advanced (Croatia, Montenegro, Serbia, and Kosovo) while one country regressed (Bulgaria). Kosovo's gains were the greatest.

The longer-term story is a familiar one: there continues to be a growing democratization gap between Eurasia and the CEE countries. This is a trend that started in the early 1990s and accelerated in the late 1990s. In addition, as highlighted above, most of the CEE gains in recent years have been in the Southern Tier CEE countries. In fact, the Northern Tier CEE countries have been experiencing gradual erosion in democratization since 2002.

© *Economic Performance*

The E&E region has been disproportionately adversely affected by the global economic crisis. It witnessed a larger economic contraction in 2009 than any other major region in the world, and is now experiencing one of the slowest recoveries of the regions of the world. Moreover, the scope of the 2009 economic output collapse in the region has precedent in E&E only in the depths of the transition depression in the early 1990s.

Twenty-one out of twenty-nine transition countries had economies which contracted in 2009. At least five E&E economies contracted by more than 10%: those of the three Baltic countries (Lithuania, Latvia, and Estonia), as well as Ukraine and Armenia. Only three E&E economies were essentially sheltered enough to expand by 5% or more in 2009: the economies in Uzbekistan; Turkmenistan; and Azerbaijan.

Global economic integration. The reasons for why the global economic crisis has disproportionately adversely affected many of the E&E countries stem largely from how and to what extent these economies are integrated into the world economy. Many E&E countries, particularly in Central and Eastern Europe, were extremely vulnerable to a financial crisis given their very large international capital needs at the onset of the crisis. This was manifested in part by very large current account deficits, coupled sometimes with burdensome external debt. Current account deficits as a percent of GDP continue to be particularly problematic in all nine of the Southern Tier CEE countries, as well as in a handful of Eurasian countries, including Georgia, Armenia, Belarus, Moldova, and the Kyrgyz Republic. External debt remains very high in four Northern Tier CEE countries (Latvia, 124% of GDP, Hungary and Estonia, both 114%, and Slovenia, 106%), as well as in Bulgaria (104%), and Kazakhstan (101% of GDP). E&E fiscal balances have deteriorated in twenty-four E&E countries from 2007 to 2009; a notable detrimental impact stemming from the global crisis.

Export sector trends and characteristics of the E&E region have played prominently into why many of these countries have been disproportionately affected by the global crisis. Second round effects of the crisis have included steep declines in exports for some countries with the collapse of their trading partners' economies. This has particularly

been the case for many CEE countries, underscoring how the significant and growing economic linkages with Western Europe come with costs alongside the many previously-evident benefits. For other countries, mostly in Eurasia, concentration in primary product exports (particularly in energy and metals) has generated mixed and uncertain economic prospects given the extreme fluctuation in the prices of these commodities in recent years.

One salient observation is the significant extent to which all three sub-regions are dependent on Western Europe markets for their exports. Almost 60% of Northern Tier CEE exports went to Western Europe (or EU-15) in 2008; almost 50% of Eurasian exports went to the Western Europe markets and 38% of Southern Tier CEE exports. The E&E region's dependence on Western Europe's markets for exports is particularly problematic at this juncture given the current forecasts of anemic growth for Western Europe in 2010 (1% according to the IMF in April 2010), and the potential, given the debt crisis stemming from Greece's troubles, for a much worse scenario.

Remittances figure very prominently in the economic welfare of a significant number of countries in the transition region. Hence, a significant drop in remittance income as the global economic crisis unfolded has been one of the key transmission mechanisms that has adversely affected the region. In 2007, Tajikistan received the highest amount of remittances as a percent of GDP in the world, equivalent to almost 50% of GDP. Moldova ranked third (with remittances equal to roughly 35% of GDP), and the Kyrgyz Republic, tenth (close to 20% of GDP). Remittances are also very significant in the economies of Bosnia-Herzegovina, Uzbekistan, Serbia, Albania, Kosovo, and Armenia.

Labor markets. The general trend of declining unemployment rates in many E&E countries that we noted in *MCP #11* (December 2008) was abruptly reversed with the onset of the global economic crisis. We estimate that at least thirteen transition countries have witnessed an increase in the unemployment rate from 2007 to 2009. This estimate excludes unemployment rates in six countries where estimates are either absent or highly likely to be inaccurate (this includes Azerbaijan, Uzbekistan, Turkmenistan, Belarus, Tajikistan, Ukraine, and Moldova).

Open unemployment rates remain extraordinarily high in a handful of transition countries (i.e., 20% or higher), and are double-digit in more than one-half of the transition countries for which reliable data are available (i.e., in twelve countries out of twenty-three). The highest unemployment rates continue to be concentrated in the former communist Yugoslavia.

(d) Human Capital

The focus here is twofold: (1) how have the health and education conditions in the transition region changed since our last systematic review in the fall 2008 (in *MCP #11*)?; and (2) particularly given that most of the human capital data come with a notable lag, what can credibly be said about the impact of the global economic crisis on social conditions, current and anticipated, in the E&E region?

Human capital trends over time. A comparison of the most recent data (primarily data from 2008) with those from *MCP #11* largely reveals improving human capital conditions. This comparison includes trends in life expectancy, infant and child mortality rates, infectious diseases, public expenditures in health and education, education enrollment rates, per capita incomes, and vulnerable populations.

Life expectancy increased in sixteen transition countries from 2006-2008 and decreased in only one (the Kyrgyz Republic). Of the three sub-regions, the most impressive gains in life expectancy since 2006 have occurred in the Northern Tier CEE countries in which seven of the eight countries witnessed an increase in life expectancy of one year, all but the Czech Republic. In Eurasia, seven of the twelve countries had life expectancy increase since 2006: Tajikistan; Turkmenistan; Georgia; Armenia; Uzbekistan; Russia; and Belarus (with the Kyrgyz Republic regressing). By this measure, there remains a significant CEE-Eurasia health gap. Moreover, while it may have been slightly larger in the mid-2000s, it does not appear to be closing as of 2008 in any significantly appreciable way.

While infant mortality rates vary widely within the E&E region (and across the globe), the pattern of significantly declining rates across the globe has been very clear and striking since at least 1980. On this measure, the CEE-Eurasia health gap remains large, though there is little evidence to support the observation that the gap in this dimension is growing; proportionate decreases in infant mortality rates have been very significant across the E&E sub-regions (ranging from 40-50% decreases since 1990), with the largest absolute decreases taking place in Eurasia.

The change in the incidences of tuberculosis (TB) in the region from 2006 to 2008 highlights a continuing general trend of a decline in such incidences in E&E. The available data show that at least twenty-two of the twenty-nine transition countries witnessed a decrease in the annual incidences of TB from 2006 to 2008. TB incidences have been declining in the Northern Tier CEE countries (less the Baltics) since the early 1990s, and declining in the Baltics as well as the Southern Tier CEE countries since the late 1990s. In Eurasia, TB incidences may have peaked in the early to mid-2000s.

Tertiary enrollment rates have increased modestly on balance in the Northern Tier CEE countries (from 50% in 2005 to 52% in 2008) and in the Southern Tier CEE countries (from 27% to 30%), and have held steady in Eurasia (at 26%). On this measure of human capital, there does exist a large gap across sub-regions though it is largely the gap between Northern Tier CEE standards and the rest; i.e., Southern Tier CEE tertiary enrollment rates are not much higher than those in Eurasia. In addition, the magnitude of this deficit has been relatively constant in recent years.

Secondary school enrollments continue to increase in the CEE countries, more notably in the Southern Tier CEE than in the Northern Tier CEE. In contrast, Eurasia actually witnessed a decline on average in such rates from 2007 to 2008, driven largely by

decreases in secondary enrollments in Belarus, Kazakhstan, and Armenia. On this measure, the CEE-Eurasia gap is large and continues to grow.

A key consideration in education in the region is its quality and relevance. How do these countries' education systems compare in terms of outcomes and effectiveness to OECD standards? Are students being adequately prepared for the demands and needs prevalent in competitive market economies?

The empirical evidence is mixed. On the one hand, results from a handful of cross-country surveys of education performance of students suggest that the education systems in most of the transition countries for which data are available are on par or close to it with OECD standards. However, there are some salient exceptions and still a number of countries for which data are not available. In addition, the most recent results from the World Bank and EBRD sponsored Business Environment and Enterprise Performance Survey, show that the skills and education of the work force in much of the E&E region are at least perceived by businesses to be a significant and growing constraint to doing business.

The global economic crisis and human capital. A key dynamic is how the change in economic output might affect poverty rates, which in turn are likely to affect various aspects of human capital over time. Drawing from data on economic growth and poverty rates from 1997 to 2003 in seven transition countries (Belarus, Russia, Romania, Georgia, Armenia, Moldova, and the Kyrgyz Republic), we found that for every 1% change in GDP in a given year, the poverty rate in an E&E country on average changed in the opposite direction by roughly one half of a percentage point. Hence, for example, a contraction of 14% of Armenia's economy in 2009 translates into an increase of seven percentage points in Armenia's poverty rate (using an international poverty line of \$2.14 a day) in 2010. Other countries with very significant increases in poverty rates estimated in 2010 by this technique include the Baltic countries and Ukraine.

A November 2009 UNDP study attempted similarly to measure various relationships between economic output and human development in the E&E region. The analysis examined the co-movements of income and a set of human development indicators which included poverty rates, unemployment rates, life expectancy, infant mortality rates, homicide rates, and incidences of sexually transmitted diseases during the past two decades in the region.

Several observations stand out. First, the UNDP's estimates of the responsiveness of poverty rates to changes in GDP are similar and consistent with ours. Second, the UNDP study findings suggest that the detrimental effects from the economic crisis in the social sector will likely continue for some time; the end to the economic crisis does not mean an end to adverse social consequences. Their findings suggest that while the economic crisis (or at least the economic contraction) may have ended for most countries in 2009, the resumption of positive trends in many social indicators is not likely to occur until 2011-2012. Third, there is likely to be a slower recovery among the social indicators as compared to the pace of improvement prior to the economic crisis. Hence, in some

instances, it may be five years and more for certain social indicators to achieve pre-crisis levels.

(e) Peace and Security

Six primary components make up our peace and security (P&S) index: (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. For now, peace and security measures for twenty-five non-E&E countries have also been calculated.

We find that all eight Northern Tier CEE countries are more peaceful and secure than are the rest of E&E. Next highest P&S scores are found in Romania, Bulgaria, and Croatia. At the other extreme, the Central Asian Republics are generally the least peaceful and secure of all the E&E countries. Four of the seven worst E&E performers are in Central Asia. Tajikistan is the least peaceful and secure of all the E&E countries

We also find that the E&E region compares quite favorably in our measure of peace and security to some of the most unstable and violent areas of the world. More specifically, we find that peace and security in the worst E&E performer on this score (i.e., Tajikistan) is greater than that found in nine of the twenty-five comparators. This includes, in ascending order, Iraq, Pakistan, Iran, Afghanistan, India, Sudan, Yemen, Somalia, and Burma.

The results of the P&S security index align closely the results of the other MCP indices. In general, those countries which are the most peaceful and secure are also the countries with the most progress in economic and democratic reforms, and the most advanced in macroeconomic performance and human capital.

Finally, we found high correlations when we compared results from our P&S index with a number of related efforts, with r-squares ranging from 0.82 (between our P&S index and USAID/DCHA/CMM's *Fragility Index*) to 0.80 (with Fund for Peace's *Failed States Index*), 0.79 (Brooking Institution's *State Weakness*), 0.78 (World Bank's *Political Stability*, Economist Intelligence Unit's *Global Peace Index*, and the Department of Defense's *SIAD*), and 0.65 (USAID/DCAH/CMM's *Instability Index*). We interpret the high correlations as very encouraging results. First, they indicate to us that the results of our efforts are likely on track and credible, given that other arguably more methodologically sophisticated efforts produce similar "bottom line" country rankings. Second, with that reassuring finding in mind, the P&S index can be disaggregated into components that roughly correspond to USG assistance areas. The related efforts can not. Moreover, on this score, our relatively transparent and simple methodology provides for a much more straightforward way to apply the results towards USG programmatic considerations.

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Introduction

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As in previous MCP reports, we track progress in large part by assessing results along several key dimensions which correspond to MCP indices which we have developed over the years: (1) economic reforms; (2) democratization; (3) macroeconomic performance; and (4) human capital. This year, we add a fifth dimension and a fifth index: peace and security. The components of our peace and security (P&S) index are drawn closely from the U.S. government's foreign assistance strategic framework of peace and security. As with the other four MCP indices, the focus of the P&S index is on measuring foreign assistance program-related areas, albeit at a relatively high (country progress) level. Part of the analysis that follows in this report includes a comparison of the P&S results with country progress in the other dimensions tracked, as well as a comparison of the P&S index with a number of related efforts from other organizations. Throughout the report, we highlight and differentiate progress among three transition region sub-regions: the Northern Tier Central and Eastern Europe (CEE) countries; the Southern Tier CEE countries; and Eurasia.¹

Economic Reforms

Tables 1-3 and *Figures 1-4* provide the data and visuals that form the basis of our analysis of economic reforms in the E&E region. The primary economic reform data are drawn from the European Bank for Reconstruction and Development's annual *Transition Report* which emerges each year in November. The data include events through early October 2009.

¹ Eurasia consists of 12 countries (the former Soviet Union less the three Baltic states: Russia; Ukraine; Moldova; Belarus; Armenia; Georgia; Azerbaijan; the Kyrgyz Republic; Kazakhstan; Turkmenistan; Uzbekistan; and Tajikistan). The Southern Tier CEE countries (n= 9) include Bulgaria, Romania, Croatia, Albania, Bosnia-Herzegovina, Serbia, Kosovo, Montenegro, and Macedonia. The Northern Tier CEE countries (n=8) include Hungary, the Czech Republic, Slovakia, Slovenia, Poland, Estonia, Latvia, and Lithuania.

Nine indicators are tracked by the EBRD. We separate them into first stage economic reforms (*Table 1* and *Figure 2*: small-scale privatization; trade & foreign exchange liberalization; domestic price liberalization; and large-scale privatization) and second stage economic reforms (*Table 2* and *Figure 2*: enterprise restructuring or governance; competition policy reforms; banking reforms; non-bank financial reforms; and infrastructure reforms in electric power, roads, railways, water, and telecommunications). The data range from a 1 to 5 scale in which a “5” represents standards of advanced industrial market economies. *Appendix 1* elaborates on the definitions and the methodology of measuring these indicators.

By these measures, there was very little progress in economic reforms in 2009 in E&E (*Tables 1* and *2*). In fact, 2009 witnessed the fewest annual advances in these economic reform indicators since the transition began, since 1990. This is likely due in part to the relatively advanced status of economic reforms in some of the Central and Eastern Europe countries, and likely also due in part to the global economic crisis. Four countries--Ukraine, Kazakhstan, Montenegro, and Latvia—experienced regression in one economic reform dimension. Kazakhstan and Latvia regressed in banking reforms in 2009, Ukraine in trade liberalization, and Montenegro in large-scale privatization.

Only four other transition years saw more economic reform backsliding in the region than did 2009. Three occurred leading up to and during the Russian financial crisis (1997, 1998, and 1999); the fourth year was early in the transition, 1994.

As in recent years past, the Southern Tier CEE sub-region made more economic reform gains in 2009 than did the Northern Tier CEE countries and the Eurasia countries. Net economic reform gains were achieved in five Southern Tier CEE countries: Albania; Serbia; Montenegro; Macedonia; and Croatia. Only one Northern Tier CEE country, Slovakia, experienced a net gain in economic reforms; in Eurasia, only three countries saw advancement: Belarus; Georgia; and Tajikistan.

As in recent years past, most of the economic reform gains in the region occurred in the second stage reforms in 2009. Of the fourteen economic reform advancements across the region in 2009, eleven were second stage reforms. Of those, the most occurred in infrastructure reforms (in four countries), followed by competition policy (in three countries).

Figure 1 provides a picture of economic reform change over time among the three sub-regions according to the EBRD data. The Southern Tier CEE countries continue to slowly close the economic reform gap with the Northern Tier CEE countries. While Eurasia has advanced modestly in economic reforms in recent years, the economic reform gap between Eurasia and both CEE sub-regions does not appear to be closing.

Figure 2 highlights the progress along the nine economic reform dimensions across the three sub-regions, and differentiates between first and second stage reforms. The Northern Tier CEE countries are ahead in all dimensions, and Eurasia lags in all

dimensions. Perhaps the most striking observation drawn from *Figure 2* is that there is still, twenty-years after the collapse of communism, a significant amount of reforms needed to be done in all of the second stage reforms as well as in large-scale privatization. Bearing in mind that a score of a “5” represents reform standards of advanced market economies, *Figure 2* shows that even the Northern Tier CEE countries have more second stage reforms to do.

We supplement the macroeconomic reform trends drawn from the EBRD with microeconomic reform trends from the World Bank’s *Doing Business* dataset (*Table 3* and *Figures 3* and *4*). The World Bank’s *Doing Business in 2010* is the sixth in an annual series which attempts to measure the business climate or environment of a country based on government policy vis-à-vis the private sector. The most recent data cover events to September 2009 and include 183 countries across ten business environment aspects: (1) starting a business; (2) dealing with licenses; (3) hiring and firing workers; (4) registering property; (5) getting credit; (6) protecting investors; (7) paying taxes; (8) trading across borders; (9) enforcing contracts; and (10) closing a business.²

We assess the change in business climate from year to year by calculating the percentile ranking worldwide for each country for each year. Percentile ranking was used since the sample size has increased from year-to-year.

There are some similarities in trends in the E&E region between these World Bank microeconomic reform data and the EBRD’s macroeconomic reform data. Of the three sub-regions, the Northern Tier CEE countries as a whole have the most favorable business environments, while the Eurasian countries on average lag the most. The Southern Tier CEE countries made the most gains in 2009: six countries in the sub-region advanced notably in their percentile ranking worldwide since 2008, while only one (Romania) experienced notable relative backsliding.³ This compares to only one notable advancement in the Northern Tier CEE countries in 2009 (Poland) and two backslidings (Hungary and Slovakia). Five Eurasian countries advanced notably in 2009 while two (Azerbaijan and Uzbekistan) notably slipped in their global rankings. The most significant country-specific gains in 2009 occurred in Macedonia, Montenegro, the Kyrgyz Republic, and Belarus.

It is worth underscoring that these changes noted in the business environments are relative changes (or changes in rankings) in contrast to the absolute changes (on a 1 to 5 scale) that we reported in the macroeconomic reforms from the EBRD dataset. Hence, while one sees more progress in the E&E region in these microeconomic reforms in 2009 than the macroeconomic reforms, it is progress relative to performance of other countries throughout the world.

² The technique employed for each *Doing Business* indicator is to define a specific type of business in a specific type of environment, and to compare the experience of that firm in that setting across the countries. In the days to start a business indicators, e.g., the firm is a limited liability company which operates in the country’s most populous city, is 100% domestically owned, has up to 50 employees, etc. This technique allows for a manageable and precise way to measure trends across countries. However, one may not be able to generalize the results across different parts of any one country.

³ We define notable change as an increase or decrease of at least three rankings in the global sample.

It is also worth noting that there is considerable variation in results within the three sub-regions in the business environment dataset, and thus the sub-regional averages mask this diversity. As highlighted in *Figure 3*, the global rankings among the Northern Tier CEE countries range from 24th (out of 183 countries) in the case of Estonia to 74th in the case of the Czech Republic. In the Southern Tier CEE countries, the rank ranges from 32nd in Macedonia to 116th in Bosnia-Herzegovina. In Eurasia, the range is even greater, from 11th in the case of Georgia to 152nd in the case of Tajikistan.

Similarly, while the sub-regional results from this business environment dataset generally align with the EBRD economic reform data, there are a number country-specific results which differ greatly. Georgia, for example, is the top E&E performer in terms of a favorable business environment, but is closer to the middle of the E&E pack in the EBRD economic reforms standing. Azerbaijan, the Kyrgyz Republic, and Armenia also rank much higher (better) in terms of a favorable business climate than would their EBRD reform rankings suggest, while many of the CEE countries, such as Croatia, the Czech Republic, and Poland rank much lower than they do in the EBRD economic reform standings. In general, the EBRD economic reform data reflect more comprehensive reforms which are less subject to year-to-year fluctuations than are the World Bank *Doing Business* data.

It is instructive to compare E&E business environment standards with standards in other regions of the world, as well as compared to the highest standards worldwide. The E&E countries on average ranked 71 (out of 183) in 2009. This compares unfavorably to the OECD average rank of 30, but better than the average rankings of all the developing country regions: East Asia & Pacific (83); Middle East & North Africa (92); Latin America & Caribbean (95); South Asia (118); and Sub-Saharan Africa (139). The average Northern Tier CEE rank is 46; the Southern Tier CEE average rank is 78; the Eurasian average rank is 83. Hence, as with the EBRD macroeconomic reform results, even the Northern Tier CEE countries are still not on par with OECD or advanced country standards in terms of these microeconomic reforms.

Democratization

Tables 4-11 and *Figures 5-11* provide the primary data and charts that form the basis of the following analysis of democratization. The data sources include Freedom House's transition region-specific *Nations in Transit*, supplemented by Freedom House's *Freedom in the World* which tracks progress worldwide. Also included are efforts to measure the NGO sector (a joint effort by USAID and Management Systems International or MSI, the *NGO Sustainability Index*), the media sector (the USAID-funded, IREX-produced *Media Sustainability Index*), and corruption (Transparency International's *Corruption Perception Index*).

Freedom House's *Nations in Transit* is our primary data source for democratization. These data are transition region-specific and hence are likely better tailored to the transition region than are the various global datasets on democratization. These data are also more disaggregated; seven democratization areas are assessed: (1) electoral process; (2) civil society; (3) independent media; (4) national governance; (5) local governance; (6) rule of law; and (7) anti-corruption efforts.⁴

However, one significant limitation in the *Nations in Transit* data is that they come with a notable lag. As of now, 2008 is the most recent year covered by these data. Nevertheless, we are able to update democratization trends to 2009 by drawing on Freedom House's 2009 measures of civil liberties and political rights from its global dataset in its annual *Freedom in the World* report. The *Media Sustainability Index* and the *Corruption Perception Index* are also currently updated to include 2009 trends.

What are the salient findings? Overall, democratization trends continue to be problematic in much of the transition region, though particularly, once again, in Eurasia. We reported in *MCP #11* (December 2008) that more transition countries witnessed democratic backsliding than progress in 2007 (the most recent data available at the time). That observation holds true for 2008-2009 as well: overall, eleven transition countries experienced net backsliding in democratization in these two years, while only six countries saw measurable progress.

The 2009 democratization scores were calculated by first converting the Freedom House *Nations in Transit* 2008 measures from their 7 to 1 scale to our 1 to 5 scale (where a "5" represents standards of advanced democracies) and then adjusting those scores by the changes in democratization in 2009 as assessed by Freedom House in its *Freedom in the World 2010*.⁵ *Table 4* highlights the 2008 *Nations in Transit* findings. *Table 5* shows the

⁴ We convert Freedom House's 7 to 1 scale to a 1 to 5 scale in which "5" represents standards of advanced democracies. *Appendix 1* elaborates on indicator definitions and on methodology.

⁵ The 2008 *Nations in Transit* 1-to-5 democracy scores were adjusted to 2009 changes, drawing from the *Freedom in the World* data in the following way: an increase (or a decrease) in both political rights and civil liberties translated into a "0.2" increase (or decrease); an increase (or decrease) in either political rights or civil liberties translated into a "0.1" change; a "directional" change in democratic freedoms in a country according to Freedom House translated into a change of "0.05."

updated 2009 scores drawing from 2009 *Freedom in the World* data, and compares the 2009 scores with the 2007 scores (of *MCP #11*).

On balance, as shown in *Table 5*, six Eurasian countries witnessed democratic backsliding during 2008-2009 (Ukraine, Georgia, Armenia, Russia, Azerbaijan, and the Kyrgyz Republic), while only two Eurasian countries (Belarus and Moldova) witnessed modest advancement. The most significant backsliding in Eurasia in 2008-2009 occurred in the Kyrgyz Republic, Russia, and Azerbaijan.

Four Northern Tier CEE countries experienced some democracy regression in 2008-2009: Latvia; Hungary; Lithuania; and Slovakia. Poland is the only Northern Tier CEE country to experience democratization gains, moving forward in 2008 on four dimensions (independent media, national governance, local governance, and rule of law) and back on one (civil society).

As with economic reform trends, the Southern Tier CEE sub-region outperformed the other two sub-regions in democratization progress in 2008-2009. Four countries advanced (Croatia, Montenegro, Serbia, and Kosovo) while one country regressed (Bulgaria). Kosovo's gains were the greatest. It advanced in national governance and local governance in 2008 according to the *Nations in Transit* data, and it advanced in both political rights and civil liberties in 2009 according to the *Freedom in the World* analysis. No other country in the transition region advanced in both Freedom House's political rights and civil liberties indices in 2009.

In 2008 (*Table 4*), the most significant net backsliding by democratization area occurred in civil society (eleven countries regressed while only one advanced), national governance (twelve countries regressed; three advanced), and rule of law (eleven regressed; two advanced). The least change, either regression or advancement, occurred in local governance in 2008; three countries regressed while two advanced.

In 2009, and according to Freedom House's more aggregated measures of political rights and civil liberties, five transition countries advanced and four regressed. As noted above, Kosovo advanced in both political rights and civil liberties. Croatia, Serbia, and Moldova all advanced in political rights. Montenegro advanced in civil liberties. The Kyrgyz Republic regressed in both political rights and civil liberties. Three countries, Russia, Kazakhstan, and Slovakia, received a downward "trend arrow"; i.e., backsliding in 2009 though not of the magnitude to affect a measurable change in either of the Freedom House indices.

Figure 5 puts the recent democratization trends in broader perspective. The primary story is a familiar one: there continues to be a growing democratization gap between Eurasia and the CEE countries. This is a trend that started in the early 1990s and accelerated in the late 1990s. As highlighted above, most of the CEE gains in recent years have been in the Southern Tier CEE countries. In fact, the Northern Tier CEE countries have been experiencing gradual erosion in democratization since 2002.

Figure 6 highlights the very large gap between progress in democratization in Central and Eastern Europe, particularly in the Northern Tier CEE countries, and progress in democratization in Eurasia. Of the various democratic reform areas, the largest Northern Tier CEE-Eurasian gap is in the electoral process, though such gaps in local governance, rule of law and independent media are not much smaller. The smallest Northern Tier CEE-Eurasia democratization gap is in anti-corruption efforts, followed by civil society, the former mostly because the Northern Tier CEE countries still have far to go in fighting corruption; the latter mostly because Eurasia has advanced the farthest in civil society as compared to the other six democratization components.

Since these data are region-specific, we don't have a precise estimate of similar measures for other countries in the world. However, based on other global datasets, the OECD countries on average are likely to score between 4.4 and 4.5 on this 1 to 5 scale, which is somewhat more advanced than the Northern Tier CEE countries' average of 4.2

Figure 7 updates through 2008 the trends over time across the seven democratization components in Eurasia. It shows backsliding in Eurasia across all the dimensions. While civil society development is more advanced than the other sectors, it too has been regressing in recent years. According to these data from Freedom House, the most significant backsliding by sector in Eurasia since at least 1999 has occurred in public governance, electoral process, and independent media.

We supplement data and analysis on democratization from Freedom House in no small part because of the recognition that measuring progress in democratization remains a very challenging endeavor with little in the way of a consensus in defining it let alone measuring what it is that is being defined. The *Media Sustainability Index*, the *NGO Sustainability Index*, and the *Corruption Perceptions Index* all provide additional efforts to measure and compare progress in certain aspects of democratization (*Figures 8-10*). In addition, the *Media Sustainability Index* and the *NGO Sustainability Index* allow us to take the analysis further through their efforts to measure sub-components that go into the development of an independent media and civil society. Such sub-component measures get us closer to USAID program-related or program impact indicators and hence facilitate the linkage between program impact and country progress. By providing relatively disaggregated information, they also facilitate program focus.

Table 6 and *Figure 8* show aggregated results of the *Media Sustainability Index* over time. This index covers the Southern Tier CEE and Eurasian countries only; i.e., the Northern Tier CEE countries are excluded from the analysis. The index consists of five components: (1) the legal environment for the sustainability of media; (2) the quality of the journalism; (3) the degree to which there are multiple news sources; (4) the business capacity of the media sector; and (5) supporting institutions needed to sustain the sector.

As with Freedom House measures on independent media in the region, the *Media Sustainability Index* (MSI) shows much greater progress in the media sector in the Southern Tier CEE countries than in Eurasia. According to the MSI, eight of the nine Southern Tier CEE countries fall into the category of "near sustainable" (i.e., with scores

equal to or greater than 2.0 but less than 3.0). Macedonia is the outlier, with a considerably lagging media sector by this analysis. Macedonia falls into the “unsustainable mixed system” category; this is also where most of the Eurasian countries are situated. The Eurasian exceptions are Ukraine, with a “near sustainable” media sector (i.e., notably more advanced for Eurasian standards), and three Eurasian countries with “unsustainable” sectors and hence lagging considerably, Belarus, Uzbekistan, and Turkmenistan.

There are some notable differences in estimates in progress in the media sector between Freedom House in its *Nations in Transit* and IREX’s *Media Sustainability Index*. Of the Southern Tier CEE and Eurasian countries, Bosnia-Herzegovina alongside Croatia has the most advanced media sector according to the MSI, yet is in the middle of the pack (ranking tenth out of twenty countries) according to Freedom House. In contrast, Ukraine is cited as having the most advanced media sector among this set of countries according to Freedom House, and yet is ranked ninth out of twenty according to MSI (still advanced by Eurasian standards, though not by Southern Tier CEE standards). Macedonia lags considerably in its media sector according to MSI (ranking fifteenth), but does significantly better by Freedom House measures (ranking eighth). Additional significant discrepancies between the two quantitative analyses include attempts to measure progress in media in Kosovo and in the Kyrgyz Republic.

Finally yet another difference between the two analyses that is worthy of note is with respect to the trends in progress in the media sector over time. As shown in *Figure 8*, according to MSI, development of the media sector in Eurasia has changed very little since 2000; this contrasts with the backsliding according to Freedom House (as shown in *Figure 6*). The Southern Tier CEE pattern in media development (of advancements through the mid-2000s followed by some erosion in these gains) is similar between the two sources.

Tables 7 and *8* disaggregate the MSI into its components. We look for two types of patterns. First, are there commonalities in terms of the relative progress of the media components? Are certain aspects of the sustainability of the media sector more (or less) advanced than others across the countries? There are some patterns which emerge, though they are not particularly strong. The least developed aspects of media development in the Southern Tier CEE countries are either the business capacity (in four countries) or the quality of journalism (in five countries). In the Southern Tier CEE countries, the most advanced aspects are the supporting institutions (in five countries) or the multiplicity of news sources (in four countries). In Eurasia, such common trends are less evident: five (of twelve) Eurasian countries have the business capacity of media as the least developed aspect; while five countries have supporting institutions as the most advanced aspect.

The second characteristic that we look for in these disaggregated data is the size of the maximum/minimum difference. Other things equal, the larger is the difference, the greater is the scope for programmatic prioritization or justification for programmatic focus within the media sector in a given country. In addition, the larger is the difference,

the greater is the probably that overall gains in the sector will less likely be sustained; hence, a greater need to focus on where the gaps are the greatest.

In general, there is less difference in the relative progress across the five media areas in Eurasia than there is in the Southern Tier CEE countries. This trend is consistent with the observation that the media sectors are less advanced in general in Eurasia than they are in the Southern Tier CEE countries. The largest difference in relative progress is found in Bosnia-Herzegovina, Moldova, and Serbia. The smallest difference is found in Azerbaijan, Kazakhstan, and Uzbekistan.

Figure 9 highlights salient aggregate trends in the *NGO Sustainability Index* (NGOSI) across the three E&E sub-regions. The index consists of seven components: (1) the legal environment for NGOs; (2) the organizational capacity of NGOs; (3) the financial viability; (4) advocacy; (5) service provision; (6) infrastructure; and (7) public image.

According to the NGOSI, seven of the eight Northern Tier CEE countries were considered to have “consolidated” NGO sectors in 2008, well advanced relative to the countries in the Southern Tier CEE and Eurasia. Slovenia is the Northern Tier CEE outlier, with an NGO sector in the “mid-transition” stage and closer to Southern Tier CEE standards. All the Southern Tier CEE countries have NGO sectors which are characterized as in the mid-transition stage of development. Croatia and Bulgaria’s sectors are the most advanced; Serbia’s sector is the least advanced. Most of the Eurasian countries lag behind the CEE countries in the development of the NGO sector. Lagging the most are the sectors in Belarus, Turkmenistan, and Uzbekistan. Ukraine’s NGO sector is the most advanced in Eurasia and is roughly Southern Tier CEE average.

There are some significant differences in the relative development of the NGO sector as measured by the NGOSI vs. Freedom House’s efforts in its *Nations in Transit*. They are all found in the Balkans and more specifically, countries which once were republics of the former communist Yugoslavia. In the NGOSI, Slovenia’s NGO sector ranks fifteen out of twenty-nine, i.e., well-down the pack. Yet, Freedom House has Slovenia ranking eighth in terms of the development of its NGO sector. Montenegro’s NGO sector ranks 19th in the NGOSI vs. 11th by Freedom House; Serbia, 23rd vs. 11th; and Kosovo 15th vs. 21st.

What can be said in regards to patterns of development of the components of the NGOSI? (*Tables 9-11*). One trend which stands out for all three sub-regions is the lagging progress of the financial viability of the NGO sector. Of the seven components of the NGOSI, financial viability lags the most in the NGO sectors in six of the eight Northern Tier CEE countries, in eight of the nine Southern Tier CEE countries, and in nine of the twelve Eurasian countries. In contrast, there appears to be no dominant leading area of development of the NGO sectors. Countries which have the greatest variation in development across the components of the NGO sector include Hungary, Bulgaria, and Georgia. Other things equal, this suggests that there may be both greater scope and need for assistance prioritization or focus within the NGO sectors in these countries.

Figure 10 shows the perception of corruption in the E&E region relative to that of other countries in the world according Transparency International's *Corruption Perceptions Index*. Of the three E&E sub-regions, corruption is generally perceived to be less problematic in the Northern Tier CEE and the most problematic in Eurasia. All but two Eurasian countries (Georgia and Moldova), meet Transparency International's definition of having at least the perception of "rampant corruption." There are some countries in the world with greater perceived corruption than that found in the most problematic countries in Eurasia, though not many. Uzbekistan, the E&E laggard on this dimension, is ranked 174th out of the global sample of 180 in the severity of corruption; Somalia is 180. Russia is ranked 146 out of 180. The Northern Tier CEE countries have perceived corruption greater than most OECD countries; though not all; corruption in Italy, e.g., is slightly more problematic than Northern Tier CEE standards. Estonia and Slovenia have the lowest perceived corruption in the E&E region; both are ranked 27th worldwide.

Finally, on democratization, *Figure 11* updates our "bird's eye view" of democratic trends in E&E vs. the world over time by combining Freedom House's political rights and civil liberties scores in its *Freedom in the World* publication. *Figure 11* shows that far and away the most significant change in democratization worldwide since the 1970s has occurred in Eastern Europe and Eurasia. The most dramatic positive change or liberalization of democratic freedoms in both Eurasia and in Central and Eastern Europe occurred in the late 1980s through the early 1990s. Since then, the CEE countries have advanced impressively forward, approaching OECD standards while Eurasia has witnessed a steady erosion of democratic freedoms, and is now on par with the Middle East and North Africa; i.e., competing with the Middle East as the region with the least democratic freedoms worldwide.

Economic and Democratic Reforms Summarized

Figure 12 and *Table 12* combine in summary fashion the economic and democratic reform progress in 2009 across the twenty-nine country transition region. *Figures 13* and *14* compare 2009 progress with that of the status of reforms in 1998. Economic reform data are taken from the EBRD's annual *Transition Report*, and democratic reform data are primarily from Freedom House's annual *Nations in Transit*.⁶

Several related summary observations that we have made in previous MCP reports remain valid today with the latest data in hand. Perhaps the most salient observation from a comparison of the current reform progress vs. that of roughly ten years ago is that the reform profiles of countries within the three sub-regions have become increasingly similar while the reform profiles between the sub-regions continue to become increasingly different (*Figure 13* vs. *Figure 14*). The Northern Tier CEE countries are much more similar in levels of reform progress in 2009 than they were in 1998; so, too Southern Tier CEE, and to a lesser extent, Eurasia.

We've noted two sub-regional country outliers in previous MCP report updates: Kosovo, the Southern Tier CEE economic and democratic reform laggard; and Ukraine, the Eurasian democratic reform leader. This year they remain sub-regional outliers, though less so than in years past. Kosovo has made the most significant gains in democratization of all twenty-nine E&E countries since we last reported in *MCP #11* (December 2008); it has made notable strides in beginning to catch its neighbors in the Southern Tier CEE in terms of reform progress. Ukraine, in contrast, has backslid in both economic and democratic reforms since we last reported. It is the only transition country to regress on both reform dimensions in this (2008-2009) period. Ukraine, in other words, is slightly closer to the reform profile of the Eurasian countries than it was two years ago.

Another observation worthy of note: while eleven of these twenty-nine countries have now "graduated" from United States Government (USG) bilateral assistance, and ten of those eleven are now members of the European Union, not even the reform leaders are yet quite at the reform standards of Western Europe (and more broadly the advanced industrial market democracies).⁷ Moreover, as is evident in *Figure 1* (on economic

⁶ The economic reform index consists of nine indicators drawn from the EBRD's annual *Transition Report*: (1) small-scale privatization; (2) large-scale privatization; (3) price liberalization; (4) trade and foreign exchange liberalization; (5) banking reforms; (6) non-bank financial reforms; (7) enterprise reforms (or policies towards corporate governance); (8) infrastructure reforms (electric power, water and waste water, railways, telecommunications, and roads); and (9) competition policy. The democratic reform index is drawn primarily from Freedom House's annual *Nations in Transit*: (1) electoral process (largely, the extent to which elections are free, fair, and competitive); (2) civil society (primarily the development of the non-government organization (NGO) sector); (3) the independence of media; (4) national public governance; (5) local public governance; (6) rule of law (primarily judicial reform); and (7) anti-corruption measures. *Appendix 1* provides elaboration of indicator definitions.

The Freedom House *Nations in Transit* data are for 2008 and are hence adjusted to changes in 2009 as noted in Freedom House's *Freedom in the World*. These adjustments affect the scores in 9 transition countries; footnote 5 describes the method used to adjust the scores.

⁷ The 11 country graduates from USG assistance include: Estonia (in 1996); the Czech Republic (1997); Slovenia (1997); Hungary (1999); Latvia (1999); Lithuania (2000); Poland (2000); Slovakia (2000);

reforms) and *Figure 5* (on democratic reforms), the eight Northern Tier CEE reform leaders have even experienced some reform erosion, particularly in democratization, in recent years.

Bulgaria (2006); Romania (2006); and Croatia (2006). All of these countries except Croatia are also now members of the European Union.

Economic Performance

For economic and democratic reforms to be sustained, solid macroeconomic performance needs to ensue, and in particular, macroeconomic stability and robust economic growth. In addition, for these macroeconomic trends to occur (and to be sustained), certain key economic structural changes need to take place in the transition, including increasing the private sector's share of the economy, energy security, and the global competitiveness of the economy, and decreasing significant domestic economic inequalities.

Ten primary indicators are tracked to assess progress in economic performance; these indicators comprise the MCP's economic performance index: (1) private sector share of GDP in 2009; (2) share of total employment in micro, small, and medium sized enterprises in 2004-2006; (3) export competitiveness in 2008: an index incorporating export share of GDP, manufactured exports as a percent of total exports, and high tech exports as a percent of total exports; (4) cumulative per capita foreign direct investment from 2005 to 2009; (5) average annual economic growth rate from 2005 to 2009; (6) macroeconomic stability: an index which includes average annual inflation rates from 2007-2009; external debt as a percent of GDP in 2008-2009, current account balance as percent of GDP in 2009, and fiscal balance as a percent of GDP in 2009; (7) domestic inequality: an index of three types of inequality: by culture & religion in 2009; population quintile in 2006; and regions within a country in 2004; (8) long-term unemployment as a percent of total employment in 2007-2008; (9) services as a percent of GDP in 2008; and (10) energy security in 2007: an index of two indicators, GDP per unit of energy use (energy efficiency) and net energy imports as a percent of energy use (energy dependency).

Table 13 provides the data for these indicators for all twenty-nine transition countries. It includes much of the original or raw data as well as our conversions to a 1 to 5 scale; the latter is done to compute an overall economic performance index. *Tables 14-18* provide the disaggregated data that go into the calculations of the indicators of *Table 13*. *Figures 15-33* provide supporting analysis on the economic performance of the region.

We start with economic output trends. *Figure 15* highlights, with the onset of the global economic crisis, the dramatic turnaround in economic output trends worldwide, and no more so than in the E&E region. We noted in *MCP #11* (December 2008) that economic growth in the transition region had exceeded the global average every year since 2000 through 2007, and was forecast to do the same in 2008 and 2009. From 2000-2007, the E&E region experienced annual average economic growth of 6%; the global 2000-2007 annual average was 4.1%. However, the 2008 and 2009 forecasts at the time (from the IMF's November 2008 *World Economic Outlook*), though reflecting initial analysis of the impact of the unfolding global financial crisis, turned out to be way off the mark, and much too optimistic. Rather than an expanding global economy of roughly 2% in 2009 as forecast by the IMF in November 2008, the global economy contracted in 2009 by roughly 2%. Moreover, the E&E region contracted by even more than the global average. The World Bank's *Global Economic Prospects 2010* (January 2010) estimates that the world economy shrank by 2.2% in 2009 and the E&E region contracted by 6.2%.

Figure 15 highlights that the Southern Tier CEE and Eurasian economies contracted more than did the Northern Tier CEE countries on the basis of GDP-weighted sub-regional averages.

Figure 16 shows estimates of changes in E&E country-specific economic output in 2009 in addition to several non-E&E country or regional comparisons. By EBRD estimates, twenty-one out of twenty-nine transition countries had economies which contracted in 2009. At least five E&E economies contracted by more than 10%: those of the three Baltic countries (Lithuania, Latvia, and Estonia), as well as Ukraine and Armenia. Only three E&E economies were essentially sheltered enough to expand by 5% or more in 2009: the economies in Uzbekistan; Turkmenistan; and Azerbaijan.

Another basic way to assess the relative impact of the global economic crisis on the region is to compare economic output changes in 2007 with those of 2009. In other words, how significant has been the turnaround in the annual change in economic output from the pre-crisis year of 2007 to the depth of the crisis in 2009? *Figure 17* highlights the answer for many regions of the world (and for the United States), and underscores that the E&E region has been disproportionately adversely affected by the global crisis, at least in economic terms. The difference between a contracting global economy of -1.1% in 2009 and an expanding global economy in 2007 of 5.2% was -6.3%. For the E&E countries, the differential was much greater: greatest in Eurasia at -13.8%, followed by the Southern Tier CEE countries at -12.2%, and the Northern Tier CEE countries at -9.9%.

Figure 18 provides another view of the impact of the global economic crisis on economic output in E&E by measuring the trends in GDP over time relative to the size of the economies at the outset of the transition (in 1989). It shows the very significant transition depression that occurred in all three sub-regions in the early 1990s, the subsequent largely steady economic expansion until 2008, and the very significant drop in output in all three sub-regions in 2009. Bearing in mind that these are equally-weighted sub-regional trends in *Figure 18*, the scope of the 2009 economic output collapse in the region has precedent only in the depths of the transition depression in the early 1990s. It's important to also caveat that empirical fact with the observation that predictions of economic output change in 2010 have the region's economies expanding, albeit "anemically" at 2.7% (according to the World Bank in its *Global Economic Prospects 2010*).

Global economic integration. The reasons for why the global economic crisis has disproportionately adversely affected many of the E&E countries stem largely from how and to what extent these economies are integrated into the world economy. Many E&E countries, particularly in Central and Eastern Europe, were extremely vulnerable to a financial crisis given their very large international capital needs at the onset of the crisis. This was manifested in part by very large current account deficits, coupled sometimes with burdensome external debt. *Figure 19* shows the most recent figures of these two dimensions of the countries foreign capital needs. Current account deficits as a percent of GDP continue to be particularly problematic in all nine of the Southern Tier CEE

countries, as well as in a handful of Eurasian countries, including Georgia, Armenia, Belarus, Moldova, and the Kyrgyz Republic.

The three Baltic countries also had very large current account deficits going into the global financial crisis. As noted in *MCP #11*, the 2007 current account deficit in Latvia was 24% of GDP; 16% in Estonia; and 12% in Lithuania. As shown in *Figure 19*, the current account balances in the Baltic countries are all in surplus now, a consequence in large part of the global crisis and the forced reduction in the demand for imports that accompanied huge economic output drops.

Figure 19 also highlights the magnitude of external debts relative to GDP. The United States' external debt as a percent of GDP, which is included in the chart, is very high, approaching 100% of GDP. By comparison, a number of E&E countries have external debts higher still. Four are Northern Tier CEE: Latvia (124%); Hungary and Estonia (both 114%); and Slovenia (106%). One is Southern Tier CEE: Bulgaria (104%). In addition, the most recent (2009) data for Kazakhstan has its external debt at 101% of GDP. External debt is also very high in Croatia, Lithuania, and Moldova. Since *MCP #11* (i.e., since 2007), external debt as a percent of GDP decreased moderately in the Northern Tier CEE countries (from 89% to 84%) and in Eurasia (from 41% to 37%), and increased moderately in the Southern Tier CEE countries (from 51% to 54% of GDP).

While large current account deficits contributed to many of the E&E countries' vulnerabilities towards financial crisis, the crisis itself contributed to some dramatic reversals in some countries' balances and improvements in most. Since 2007, sixteen of the twenty-nine E&E countries have experienced some improvement in the current account balance, though all three sub-regional averages still remain in deficit (*Table 14*). In contrast, E&E fiscal balances have deteriorated in a large majority or twenty-four E&E countries from 2007 to 2009; a notable detrimental impact stemming from the global crisis. Fiscal deficits in the Northern Tier CEE countries in 2009 were almost 7% of GDP on average; in the Southern Tier CEE, 4.2% of GDP, and in Eurasia, almost 3% of GDP (*Table 14*). In 2007 (as reported in *MCP #11*), these sub-regional deficits were much lower: 2% in the Northern Tier CEE; and roughly 1% in the Southern Tier CEE and in Eurasia.

The net inflow of foreign direct investment (FDI) in the E&E region slowed across the three sub-regions in 2009, though particularly so in the Northern Tier CEE countries (*Figure 20*). Cumulative FDI per capita remains greater among the Northern Tier CEE countries, though such inflows in the Southern Tier CEE countries are approaching Northern Tier CEE norms, while Eurasia continues to lag considerably. These dynamics can be seen in both *Figure 20* and *Figure 21*. The largest inflows of FDI on a per capita basis over the past five years have occurred in Montenegro and Bulgaria, followed by Croatia, Estonia, and the Czech Republic.

Export sector trends and characteristics of the E&E region have played prominently into why many of these countries have been disproportionately affected by the global crisis. Second round effects of the crisis have included steep declines in exports for some

countries with the collapse of their trading partners' economies. This has particularly been the case for many CEE countries, underscoring how the significant and growing economic linkages with Western Europe come with costs alongside the many previously-evident benefits. For other countries, mostly in Eurasia, concentration in primary product exports (particularly in energy and metals) has generated mixed and uncertain economic prospects given the extreme fluctuation in the prices of these commodities in recent years.

Figure 22 highlights two key relevant observations in terms of trends in the size of the export sectors in the E&E region through 2008. First, all three sub-regions have witnessed notable growth of export sectors relative to GDP since the transition began, though particularly so in the case of the Northern Tier CEE countries. In 1990, the export sector on average in the Northern Tier CEE countries was 48% of GDP; by 2008 it was 66%. In the Southern Tier CEE countries, export shares of GDP grew on average from 28% of GDP in 1990 to 37% in 2008. The export sectors in Eurasia were 38% of GDP in 1990 on average; by 2008, the average had increased to 45% of GDP. Two caveats are merited: (1) there are significant differences in the size of the export sectors within the sub-regions, particularly within the Southern Tier CEE countries and Eurasia; and (2) early transition year observations are estimates given incomplete time series for a number of countries in the Southern Tier CEE.

The second observation is that the Northern Tier CEE countries have integrated much more extensively into the world economy than have the other two sub-regions by this measure. The Northern Tier CEE countries are much more dependent on exports for their economic well-being than are most of the other countries in the Southern Tier CEE and Eurasia.

Figure 23 shows where the exports of the three sub-regions are going. The salient observation is the significant extent to which all three sub-regions are dependent on Western Europe markets for their exports. Almost 60% of Northern Tier CEE exports went to Western Europe (or EU-15) in 2008; almost 50% of Eurasian exports went to the Western Europe markets and 38% of Southern Tier CEE exports. Much fewer exports are traded among the transition countries.

The proportion of Southern Tier CEE exports to Western Europe fell significantly from 52% in 2007 to 38% in 2008. The proportion of Northern Tier CEE exports to the EU-15 fell much less, from 62% to 58%. In contrast, the percentage of Eurasian exports increased significantly from 37% in 2007 to 49.5% in 2008.

Figure 24 highlights another key global economic integration characteristic among a number of E&E countries, namely the very high dependency on energy and metals exports. Three countries stand out in particular as having a very large concentration of these exports. For Azerbaijan and Turkmenistan, such exports have been the equivalent of roughly 50% of GDP or more in recent years; for Kazakhstan, it is closer to 40% of GDP. Other countries also have a very high concentration of such exports, including Belarus and Russia (both 19% of GDP in 2007). With a broader definition of such

commodities to include precious stones and more processed metals, Ukraine (with a heavy concentration in steel exports) and Armenia (with a large volume of diamonds) are also highly dependent; so too often the Kyrgyz Republic with its large dependency on the Kumtor gold mine for exports.⁸

Supported empirically and theoretically, we know that such significant dependencies on primary products for export are detrimental to economic development over the middle to long term. However, the more immediate impact in the current context seems to be less clear cut. This is largely so because of the extreme volatility in prices of these commodities. In addition, a number of governments in the region developed and maintained substantial foreign exchange reserves during price boom times thus mitigating adverse effects on the economies during price busts.

Figure 25 shows the trends in the price oil from 1971 to 2009. *Figure 26* provides a closer look at more recent monthly trends in such prices through January 2010. Other commodity prices have closely mirrored the changes in the price of oil, though the fluctuations have generally not been as extreme. As shown in *Figures 25* and *26*, while there is some precedent to the most recent oil price “spike” in the experiences in the 1970s and early 1980s, the more recent trends have been more significant and more volatile, characterized more specifically by: (1) an increase in the price of oil (which commenced in 1998 and peaked in 2008) which has been more rapid and more significant than what transpired in the 1970s; (2) a subsequent dramatic drop in price from a peak price in the second quarter of 2008 of \$122 per barrel to \$40 per barrel by first quarter 2009; and (3) the resumption of increasing prices; a virtual doubling of the price to close to \$80 per barrel; or i.e., back to historically high levels.

The huge fluctuations in energy prices have only exacerbated very significant energy security challenges in the region. *Figures 27* and *28* highlight some of these challenges. While there are a handful of countries with an excess (and overdependence in terms of exports) of oil and gas, there are also a number of countries in E&E at the other extreme; that is, highly dependent on energy imports. *Figure 27* shows the magnitude of net fuel exports as a percent of trade across twenty-five E&E countries in 2007; no data are available for Kosovo, Montenegro, Tajikistan, and Uzbekistan.⁹ Perhaps three groups of countries emerge from these data: (1) four countries (Azerbaijan, Russia, Kazakhstan, and Turkmenistan) are very significant net fuel exporters; (2) seven countries (Ukraine, Moldova, the Kyrgyz Republic, Armenia, Serbia, Georgia, and Macedonia) are significant net fuel importers; and (3) the rest are either moderately dependent on imported fuels or, in the one case of Bulgaria, a moderate net exporter of fuels.

Figure 28 draws on a more comprehensive measure of energy dependence (net energy imports as a percent of energy use) and combines it with a measure of energy efficiency (GDP per unit of energy use). Together, these two indicators make up our energy

⁸ In *MCP #11*, we estimated, with a broader definition of energy, metals, and precious stones for export, that such exports were equivalent to 26% of GDP in Ukraine in 2006, 19% of GDP in the Kyrgyz Republic, 17% of GDP in Tajikistan and in Uzbekistan, and 15% of GDP in Armenia.

⁹ In *MCP #11*, we reported that Uzbekistan had net fuel exports equal to roughly 5% of total trade in 2006.

security indicator which is part of the economic performance index (*Table 18*). We divide the E&E countries and a selection of other countries from the rest of the world into four quadrants or four categories according to energy security in *Figure 28*: (1) relatively energy efficient but dependent; (2) efficient and independent; (3) energy dependent and inefficient; and (4) energy independent but inefficient. We define an energy dependent country as one which is not self-sufficient in fulfilling its energy needs; i.e., it must import some of the energy that it consumes. It is a “high bar.” We classified the countries as energy efficient or inefficient according to the global average of the indicator, GDP per unit of energy use. Countries are relatively energy efficient if they exceed the global average of 5.8 and relatively inefficient if less GDP is produced per unit of energy than the global average.

By these definitions, very few countries are both energy efficient and independent. Denmark, as shown in *Figure 28* is one such country. Most countries in the world need to import some of their energy consumption. This is true for the E&E region as well. Consistent with the findings in *Figure 27*, *Figure 28* shows five E&E countries which are energy independent: Turkmenistan; Azerbaijan; Kazakhstan; Russia; and Uzbekistan. What may be most striking about the E&E countries, and particularly the Eurasian countries, is the significant extent to which many countries of the region are energy inefficient by global standards. In fact, many of the most energy inefficient countries in the world are found in Eurasia, and all of the Eurasian countries are below the global average of GDP per unit of energy use. Moreover, only two of the twelve Eurasian countries (Armenia and Georgia) are not considerably below the global standards.

All of the Eurasian energy exporters are highly energy inefficient. It may be true that part of that inefficiency is due to the fact that these countries are energy exporters, and hence they can afford to be inefficient with their energy use. However, there are also some very energy inefficient Eurasian countries which are also highly energy dependent. These countries are found in *Quadrant II* of *Figure 28*, and represent the group of countries that have the greatest energy security challenges. The two countries which stand out are Moldova and Belarus. However, other countries with this problematic profile include Tajikistan, the Kyrgyz Republic, Ukraine, and to a lesser extent, among the CEE countries, Bulgaria and Serbia. The United States also falls into *Quadrant II*, though it is very close to the global average in terms of energy efficiency and its energy import needs represent roughly 25% of its energy consumption. Seventeen E&E countries need a larger percentage of imported energy to meet their energy use than does the United States. Moldova is the most dependent, with net energy imports equal to 100% of its energy use.

Remittances figure very prominently in the economic welfare of a significant number of countries in the transition region. Hence, a significant drop in remittance income as the global economic crisis unfolded has been one of the key transmission mechanisms that has adversely affected the region. *Figure 29* shows World Bank estimates of the magnitude of remittances relative to GDP among the top fifty remittance receiving countries across the world. In 2007, Tajikistan received the highest amount of remittances as a percent of GDP in the world, equivalent to almost 50% of GDP.

Moldova ranked third (with remittances equal to roughly 35% of GDP), and the Kyrgyz Republic, tenth (close to 20% of GDP). Remittances are also very significant in the economies of Bosnia-Herzegovina, Uzbekistan, Serbia, Albania, Kosovo, and Armenia. These are very rough estimates and certainly in at least some cases, very likely underestimate the true magnitudes.

The Southern Tier CEE countries with significant remittances (Bosnia-Herzegovina, Kosovo, Serbia, and Albania) receive the majority (almost 60% in 2006) of those remittances from Western Europe (*Figure 30*). Just as exports to Western Europe took a significant hit from the global downturn, so did remittances. In Eurasia, most of the remittances are coming from within Eurasia, though from two countries in particular, Russia and Ukraine. Hence, with economic output plummeting in Russia and Ukraine in 2009 (perhaps -8.5% and -14%, respectively), so too has likely been the case of remittances going to Moldova, Armenia, and the Central Asian Republics.

Labor markets. Remittances and migration are linked closely to labor market challenges in many of these transition countries. Though we don't have much in the way of "hard" numbers on these trends, it seems credible to expect that at least some of the decline in remittances have coincided with workers returning to their home countries and perhaps creating additional imbalances between the supply of labor in the domestic economy with its demand; i.e., contributing to upward pressures in unemployment rates.

In *MCP #11* (December 2008) we were able to report for the first time in our periodic MCP reports some favorable trends over time in unemployment rates across the transition countries. In particular, we were able to discern that at least nineteen transition countries were experiencing falling unemployment rates. In virtually all the other transition countries, we found little to no evidence of falling unemployment rates, though little evidence that rates were rising either.¹⁰ The most recent evidence tells a very different story. With the significant caveat that measuring unemployment rates in the region remains very challenging, we estimate that at least thirteen transition countries have witnessed an increase in the unemployment rate from 2007 to 2009. This estimate excludes unemployment rates in six countries where estimates are either absent or highly likely to be inaccurate (this includes Azerbaijan, Uzbekistan, Turkmenistan, Belarus, Tajikistan, Ukraine, and Moldova).

This clear reversal in unemployment rate trends stems of course from the global economic crisis. It remains to be seen if the downward trend of unemployment rates prior to the global crisis will resume now that economic growth is forecast to resume in the region in 2010.

What hasn't changed from our analysis of labor markets in *MCP #11* is the fact that open unemployment rates remain extraordinarily high in a handful of transition countries (i.e., 20% or higher), and are double-digit in more than one-half of the transition countries for which reliable data are available (i.e., in twelve countries out of twenty-three). The highest unemployment rates continue to be concentrated in the former communist

¹⁰ *Figures 55-58 in MCP #11.*

Yugoslavia (*Figure 31*). Unemployment rates may be as high as 35% in Macedonia and in Kosovo, 30% in Bosnia-Herzegovina, 25% in Serbia, 20% in Montenegro, and 15% in Croatia. Of the former Republics of Communist Yugoslavia, Slovenia remains the labor market outlier with a relatively lower unemployment rate in 2008 of 8% (which nevertheless represents an increase from around 5% in 2006).

In Eurasia, open unemployment rates are generally not as high as they are in the Southern Tier CEE, partly because labor markets have adjusted differently (through the price mechanism) and/or they tend to be less developed or less adjustable (which manifests in underemployment or shadow employment), and/or measurement challenges are more substantial (i.e., the data are less reliable). In that context, estimates of open unemployment rates are highest in Armenia (perhaps as high as 28%) and Georgia (perhaps 17%).

Figures 31 and 32 (and Table 16) underscore the high proportion of long-term unemployed of those who are without a job. An unemployed worker is long-term unemployed if unemployment has continued for at least one year. In general, where unemployment rates are high, long-term unemployment rates constitute a disproportionate share of the unemployed. As a proportion of the unemployed, long-term unemployment is highest in Albania, at 92% in 2007-2008. But it is also very high (i.e., 70% or higher) in Macedonia (85%), Montenegro (83%), Serbia (81%), Kosovo (80%), Armenia (73%), Slovakia (71%), and Bosnia-Herzegovina (71%).

Figure 32 shows some of the country-specific long-term unemployment trends over time and compares them with a select group of OECD countries. In general, it shows a higher proportion of long-term unemployment over time in the transition region. It also shows that the highest proportion of long-term unemployment in the transition region is notably higher than that found among the non-transition OECD countries. Nevertheless, long-term unemployment is significant in many OECD countries. According to the *OECD Employment Outlook 2009*, long-term unemployment in the EU-15 averaged 39% of total unemployment in 2008; in the United States, it was 11%. These numbers have likely increased in most countries in 2009.

Finally on labor markets, *Figure 33* highlights some trends in youth unemployment in the CEE countries, and particularly in those countries where youth unemployment is the most problematic. As with national unemployment rates throughout E&E, youth unemployment rates are highest in the Balkans; more than half of youth aged 15-24 may be unemployed in Bosnia-Herzegovina, Kosovo, and Macedonia. Youth unemployment rates may be closer to 40% in Serbia and in Montenegro. *Figure 33* highlights a general trend of falling youth unemployment rates through 2007. However, as with national unemployment rates, this promising trend may not have continued in 2008 to the present.

Human Capital

Good macroeconomic performance needs to filter down to favorably affect social conditions. To improve the likelihood that economic and democratic reforms and good economic performance are sustained, economic growth needs to be broad-based and, more broadly, the gains at the macro level shared widely at the micro level. At the very least, from an economic standpoint, the deterioration of human capital (of health and education conditions) that has characterized much of the transition on some dimensions needs to stabilize or be prevented if the gains in other transition spheres are to continue.

The focus of this section in this MCP edition is twofold. First, how have the health and education conditions in the transition region changed since our last systematic review in the fall 2008 (in *MCP #11*)? Second, particularly given that most of the human capital data come with a notable lag, what can credibly be said about the impact of the global economic crisis on social conditions, current and anticipated, in the E&E region?

Most of the data that we examine in this section are components of the MCP human capital index. This index consists of six primary indicators: (1) 2008 under five mortality rate; (2) 2008 life expectancy; (3) 2008 public expenditures on health and education as a percent of GDP; (4) 2008 tuberculosis incidences per 100,000 persons; (5) poverty & income (an index of 2009 per capita income in purchasing power parity terms, 2002-2004 poverty rates at \$2.15 per day among the elderly and children, and the 2007 rate of children in residential care); and (6) education gaps (an index of eight indicators including 2008 pre-primary, primary, secondary, and tertiary enrollment rates, 2008 public spending on education as a percent of GDP, and three standardized tests which attempt to measure functional literacy in 2006-2007: the PISA, TIMSS, and PIRLS).

Human capital trends over time. We examined two key questions in regards to human capital trends in E&E in *MCP #11* which remain relevant to our current review. Do we see largely positive human capital trends from the most recently available data on health and education given the generally highly favorable economic performance trends in the region in prior years? Two, to what extent does the CEE-Eurasia gap exist in the human capital dimension, and, to the extent that it does, are there signs that the gap is closing?

A comparison of the most recent data (primarily data from 2008) with those from *MCP #11* largely reveals improving human capital conditions. This comparison includes trends in life expectancy, child mortality rates, infectious diseases, public expenditures in health and education, education enrollment rates, per capita incomes, and vulnerable populations.

Trends in health. Life expectancy increased in sixteen transition countries from 2006-2008 and decreased in only one (the Kyrgyz Republic). *Table 19* provides the 2008 life expectancy estimates for all twenty-nine countries and *Figure 34* shows the sub-regional trends over time. Of the three sub-regions, the most impressive gains in life expectancy since 2006 have occurred in the Northern Tier CEE countries in which seven of the eight countries witnessed an increase in life expectancy of one year, all but the Czech

Republic. The relatively fewest countries with an increase in life expectancy during this period are the Southern Tier CEE countries; only two of nine such countries have had life expectancy increase from 2006-2008: Albania and Serbia. In Eurasia, seven of the twelve countries had life expectancy increase since 2006: Tajikistan; Turkmenistan; Georgia; Armenia; Uzbekistan; Russia; and Belarus (with the Kyrgyz Republic regressing).

By this measure, as evident in *Figure 34*, there remains a significant CEE-Eurasia health gap. Moreover, while it may have been slightly larger in the mid-2000s, it does not appear to be closing as of 2008 in any significantly appreciable way.

Figure 35 highlights and updates a salient health characteristic of the E&E region, namely, a life expectancy gender gap (or the gap between longer living females and shorter living males) which is among the highest worldwide in some of the transition countries. The most recent data (of 2008) show that females on average continue to live roughly eight years longer than males in the transition region, and that this gap has remained remarkably stable since the transition began. There are only six countries in the world outside of the E&E region with life expectancy gender gaps equal to or greater than the E&E life expectancy gender gap average: El Salvador with a nine year gap; and Uruguay, Puerto Rico, Colombia, Sri Lanka, and Iraq with an eight year gap.

Women in Russia, Belarus, and Lithuania live twelve years longer than their male counterparts. Women in Ukraine, Estonia, Latvia, and Kazakhstan live eleven years longer than males in their respective countries. Of these seven transition countries, two have experienced a decline in the gender gap since 2006, a decrease of two years in Russia and one year in Ukraine, and one country experienced a gender gap increase, a one year increase in Belarus.

We've previously examined in some detail the question as to why the life expectancy gender gap is so large in the transition region and refer the interested reader to *MCP #10* (August 2006), pp. 53-56 which in turn drew heavily from an E&E working paper (Heinegg, Murphy, and Sprout, *Demography and Health in Eastern Europe & Eurasia*, #1, June 2005). The explanations remain largely the same and stem fundamentally from the fact that the lion's share of deaths in Eastern Europe and Eurasia is due to non-communicable diseases which in turn are the result in large part of so-called lifestyle choices (in particular, those related to alcohol, smoking, diet, and exercise-related conditions).

The most recent (2008) data for mortality rates of children under five years of age, when compared to the 2006 data in *MCP #11*, show a reduction in these rates in twenty-one transition countries. Seven countries saw no change in under five mortality rates from 2006-2008. Five of these countries are Northern Tier CEE where rates are relatively low (the Czech Republic, Poland, Slovakia, Hungary, and Slovenia); Ukraine and Bosnia-Herzegovina also saw no change in these rates from 2006-2008. We did not find reliable time series data for Kosovo. *Table 19* provides the 2008 estimates.

The patterns of the changes in the under five mortality rates and infant mortality rates are very similar across the globe. *Figure 36* provides the trends over time in infant mortality rates over the decades starting in 1980 in the transition countries, the OECD countries, and in most of the developing regions of the world. While infant mortality rates vary widely within the E&E region (and across the globe), the pattern of significantly declining rates across the globe has been very clear and striking since at least 1980. On this measure, the CEE-Eurasia health gap remains large, though there is little evidence to support the observation that the gap in this dimension is growing; proportionate decreases in infant mortality rates have been very significant across the E&E sub-regions (ranging from 40-50% decreases since 1990), with the largest absolute decreases taking place in Eurasia.

The change in the incidences of tuberculosis (TB) in the region from 2006 (as reported in *MCP #11*) to 2008 (the most recent data from the World Health Organization) highlights a continuing general trend of a decline in such incidences in E&E. The available data show that at least twenty-two of the twenty-nine transition countries witnessed a decrease in the annual incidences of TB from 2006 to 2008. Increases occurred in Russia, Azerbaijan, the Kyrgyz Republic, Tajikistan, and Turkmenistan. No change occurred in Slovenia. Updated 2008 data from the World Health Organization report are not available for Kosovo.¹¹ *Figure 37* highlights the trends in the incidences of TB since 1989 in various E&E sub-regions as well as in Western Europe. It shows that TB incidences have been declining in the Northern Tier CEE countries (less the Baltics) since the early 1990s, and declining in the Baltics as well as the Southern Tier CEE countries since the late 1990s. In Eurasia, TB incidences may have peaked in the early to mid-2000s.

Figure 38 underscores the large variation in the incidences in TB across the transition region as well as the CEE-Eurasia gap on this dimension. With several exceptions, Romania and Belarus being the most evident, the lowest TB incidences occur in the CEE and the highest in Eurasia.

Perhaps the most troubling aspect of TB trends in the E&E region is the very high proportion of multidrug-resistant TB (MDR-TB). MDR-TB costs ten times as much to treat, with a cure rate of only 60%. The proportion of MDR-TB globally is about 4%; in the E&E region it is closer to 17%. The WHO classifies twenty-seven countries as high MDR-TB burden countries because they have had at least 4,000 MDR-TB cases arising annually and/or at least 10% of newly registered TB cases with MDR-TB. Fifteen of those twenty-seven countries are in the E&E region and include Armenia (with 17% of all TB cases with MDR-TB), Azerbaijan (36%), Belarus (16%), Bulgaria (12%), Estonia (20%), Georgia (13%), Kazakhstan (32%), the Kyrgyz Republic (17%), Latvia (14%), Lithuania (17%), Moldova (29%), Russia (21%), Tajikistan (23%), Ukraine (19%), and Uzbekistan (24%).¹² The reasons as to why MDR-TB is so high in the transition region

¹¹ World Health Organization, *Global Tuberculosis Control: a Short Update to the 2009 Report* (fall 2009).

¹² Ibid as well as WHO, *Multidrug and extensively drug-resistant TB: 2010 Global Report on Surveillance and Response* (2010), and David Brown, "Drug-resistant tuberculosis poses global risk, WHO report says" *The Washington Post* (March 20, 2010).

generally relate to the collapse of communism (and the subsequent decline in the quality of TB treatment as well as the rise in economic hardships including more crowded living) as well as poor lifestyle choices (namely the high rates of alcoholism and smoking which increase the susceptibility to TB).

Trends in education. We reported on 2005 tertiary enrollments rates in *MCP #11*. Since then, data for 2006-2008 have emerged. A comparison of these enrollment rates between 2005 and 2008 reveals that such rates have increased modestly on balance in the Northern Tier CEE countries (from 50% in 2005 to 52% in 2008) and in the Southern Tier CEE countries (from 27% to 30%), and have held steady in Eurasia (at 26%) (*Table 22* shows the 2008 rates; *Figure 39* trends over time among the three sub-regions). From 2005-2008, three Northern Tier CEE countries had tertiary enrollment rates increase (the Czech Republic, Slovakia, and Hungary) while one (Latvia) saw a decline; four Southern Tier CEE countries had such rates increase (Romania, Bulgaria, Bosnia-Herzegovina, and Macedonia), while none had decreasing enrollment rates; and in Eurasia, four advanced in tertiary enrollment rates (Belarus, Armenia, the Kyrgyz Republic, and Tajikistan), while two regressed (Kazakhstan and Georgia).

On this measure of human capital, there does exist a large gap across sub-regions though it is largely the gap between Northern Tier CEE standards and the rest; i.e., Southern Tier CEE tertiary enrollment rates are not much higher than those in Eurasia (*Figure 39*). In addition, the magnitude of this deficit has been relatively constant in recent years.

Secondary school enrollments continue to increase in the CEE countries, more notably in the Southern Tier CEE than in the Northern Tier CEE (*Figure 40*). In contrast, Eurasia actually witnessed a decline on average in such rates from 2007 to 2008, driven largely by decreases in secondary enrollments in Belarus, Kazakhstan, and Armenia. On this measure, the CEE-Eurasia gap is large and continues to grow.

A key consideration in education in the region is its quality and relevance. How do these countries' education systems compare in terms of outcomes and effectiveness to OECD standards? Are students being adequately prepared for the demands and needs prevalent in competitive market economies?

There have been two strands of contrasting conventional wisdom in terms of educational aspects of human capital in the former communist countries. One has been that the educational systems of the region were largely an asset going into the transition. The priority under the communist system for universal education was high, and hence so were enrollments. Moreover, performances in various global fora in the sciences and math among students from behind the "Iron Curtain" were impressive. However, it has also been widely perceived that the type of education promoted under communism (with emphases on memorization at the expense of analytical and critical thinking, and perhaps premature specialization if not over-specialization) was ill-suited to the needs of a market economy.

The empirical evidence, which remains very limited, is also mixed. On the one hand, results from a handful of cross-country surveys of education performance of students suggest that the education systems in most of the transition countries for which data are available are on par or close to it with OECD standards. However, there are some salient exceptions and still a number of countries for which data are not available. In addition (and on the other hand), the most recent results from the World Bank and EBRD sponsored Business Environment and Enterprise Performance Survey (or BEEPS), show that the skills and education of the work force in much of the E&E region are at least perceived by businesses to be a significant and growing constraint to doing business.

There are three primary cross-country surveys on educational performance: (1) the Trends in International Mathematics and Sciences Study (TIMSS); (2) the Progress in International Reading Literacy Study (PIRLS); and (3) the Program for International Student Assessment (PISA). TIMSS and PIRLS were developed and are implemented by the International Association for the Evaluation of Educational Achievement (IES), an international organization of national research institutions and government research agencies. The first TIMSS survey was done in 1995; the first PIRLS in 2001. The PISA was launched in 1997 by the Organization for Economic Cooperation and Development (OECD).

These surveys attempt to test students' abilities to apply math, science, and reading to practical "real world" (market economy) problems. This includes the basics towards financial literacy (the ability to balance a check book, e.g.), the ability to think critically (e.g., by analyzing a newspaper editorial), or practical aspects such as basic understanding of the science of global warming.

Figure 41 shows the results of the most recent educational performance surveys of the E&E region and compares them to the OECD norms. Results of each of the three surveys were standardized with the average OECD scores equal to 100. The TIMSS results use 2007 data; the PIRLS and PISA, 2006. Twenty-four transition countries are represented; the five countries for which such surveys remain unavailable include Kosovo, Belarus, Uzbekistan, Tajikistan, and Turkmenistan.

What can be observed from *Figure 41*? First, all the Northern Tier CEE countries have scored on par with OECD standards in at least one test. Second, results among the Eurasian and Southern Tier CEE countries are much more mixed. In Eurasia, educational performances in Kazakhstan and Russia are comparable to OECD norms in at least one survey; in Armenia, Ukraine, and Moldova, test results approach OECD standards (i.e., at least 90% of OECD norms). Test results lag considerably, however, in three Eurasian countries: the Kyrgyz Republic most notably, though also in Georgia and Azerbaijan.

Most of the Southern Tier CEE countries lag considerably behind OECD standards in educational performance by these survey measures. This includes in particular, Albania, Montenegro, Macedonia, and Romania. The educational systems in Croatia and Bulgaria perform well by these standards; i.e. OECD comparable, in at least one survey, though

there is also considerable variation in results in the case of Bulgaria among the three surveys.

As noted by the World Bank in its *Turmoil at Twenty* (2010) summary update of transition progress in E&E since the collapse of communism, for the first time since the Business Environment and Enterprise Performance Survey (BEEPS) started a decade ago, firms are identifying workers' education and skills as a major impediment to their growth prospects.¹³ *Tables 23* and *24* provide some of the evidence.

Table 23 shows the generally very large proportion of businesses in the E&E region which take the view that skills and education of the workforce are at least a moderate obstacle to doing business, and ranks how problematic that business constraint is perceived to be relative to thirteen other possible business constraints flagged in the business survey. In 2008, a majority of businesses polled in sixteen of the twenty-seven countries included in the survey felt that the education of the work force was an obstacle to doing business. The highest proportion of businesses with such a perception was found in Belarus (82% of businesses), Russia (77%), Kazakhstan (75%), Poland (67%), and Moldova (64%); the lowest proportion was found in Hungary (13% of businesses), Montenegro (26%), and Macedonia (27%).

The highest proportion of businesses with the perception that the skills and education of the work force is a constraint by sub-region is found in Eurasia (58% of businesses on average) and lowest in the Southern Tier CEE countries (41%). A casual comparison between these findings and unemployment rates across E&E shows little link between lack of skills of the labor force and unemployment rates. Open unemployment rates are highest in a handful of countries in the Southern Tier CEE, including in Macedonia, Montenegro, Serbia, and Bosnia-Herzegovina, as well as in Armenia and Georgia. Yet, businesses in these countries tend not to view the education of the work force as problematic as do businesses in other parts of the transition region.

The World Bank/EBRD survey asks firms the extent to which fourteen areas which may affect business are problematic or obstacles: (1) tax rates; (2) corruption; (3) electricity; (4) skills and education of workers; (5) access to finance; (6) crime, theft and disorder; (7) tax administration; (8) telecommunications; (9) courts; (10) access to land; (11) business licensing and permits; (12) transport; (13) labor regulations; and (14) customs and trade regulations. Of those fourteen areas, the skills and education of the work force was perceived by businesses in twenty of the twenty-seven countries to be among the top five most problematic constraints in 2008. As shown in *Table 23*, this perception is hence shared widely by firms among a diverse group of E&E countries, from firms in Central Asia (in Kazakhstan, Uzbekistan, and Tajikistan in particular) to firms in the three Baltic states to Russia and Poland.

Table 24 highlights the change from 2005 to 2008 in the perception of businesses in the region in regards to the extent to which the skills and education of the work force are

¹³ P. Mitra, M. Selowsky, and J. Zalduendo, *Turmoil at Twenty: Recession, Recovery, and reform in Central and Eastern Europe and the Former Soviet Union*, the World Bank (2010), p. 237.

problematic according to the World Bank/EBRD survey. Results in twenty-six of the twenty-seven countries surveyed showed an increasing proportion of firms from 2005 to 2008 with a perspective that labor skills were problematic; i.e., the perception of a worsening situation took place in all countries except Hungary. Moreover, compared to changes in perceptions of other business constraints, labor skills ranked among the highest in a large majority of the countries in terms of the extent to which the constraint has become more problematic since 2005. In 2005, only 23% of firms surveyed in Belarus felt that labor skills and education was at least a moderate business constraint. By 2008, this had increased to 82% of businesses; i.e., an increase of 59% of businesses. Other substantial increases occurred in Kazakhstan (46%), Uzbekistan (43%), Russia (38%), and Slovakia (35%).

The global economic crisis and human capital. Most of the human capital trends described in the previous section are “moving in the right direction”; i.e., health and education indicators have been largely improving according to these data. Most of these data do, however, come with a notable lag and, moreover, have been influenced by largely very favorable economic trends which preceded them. Most of the human capital data are no more recent than 2008. Hence, the economic dynamics which affected those human capital trends likely occurred during the years from 2005-2007 when annual economic growth in the region approached 7% on average.

A key dynamic is how the change in economic output might affect poverty rates, which in turn are likely to affect various aspects of human capital over time. In *MCP #10* (August 2006), we compared economic growth and poverty rates from 1997 to 2003 in seven transition countries (Belarus, Russia, Romania, Georgia, Armenia, Moldova, and the Kyrgyz Republic); i.e., where time series data on poverty rates were available. We found that: (1) poverty rates do appear to be responsive to economic growth across all the countries examined; i.e., there is at least an apparent inverse relationship between the two. Not accounting for possible exogenous influences, economic growth seems to correspond to falling poverty; (2) the time series are consistent with the observation that there may be some minimum threshold of growth before poverty responds and declines, perhaps close to 5% annual economic growth. In other words, if an economy can continue to expand at 5% or more, then the poverty rate is likely to fall; and (3) in some but not all countries, urban poverty appears to be more responsive to economic growth than rural poverty. The extreme cases in this regard are Georgia and Armenia, where rural poverty rates actually increased in 2003 despite high and increasing economic growth.¹⁴

Using these data, we calculated how much poverty rates changed in a given year from a change in GDP the previous year, and then did the same with a two year lag between poverty rates and the change in economic output. The ratio of the two indicators is intended to measure the responsiveness or elasticity of poverty to GDP change. *Table 25* shows the results of the calculations of the elasticities using a one year lag. Overall, we found that for every 1% change in GDP in a given year, the poverty rate in an E&E

¹⁴ USAID, E&E/PO, *Monitoring Country Progress in Eastern Europe & Eurasia*, No. 10 (August 2006), pp. 50, 58-67.

country on average changed in the opposite direction by roughly one half of a percentage point. Hence, for example, a contraction of 14% of Armenia's economy in 2009 translates into an increase of seven percentage points in Armenia's poverty rate (using an international poverty line of \$2.14 a day) in 2010. Other countries with very significant increases in poverty rates estimated in 2010 by this technique include the Baltic countries and Ukraine. When we estimated the changes using a two year lag, we found the elasticity was higher still, between -0.9 to -1.1; i.e., for every decrease in economic output of one percent, the poverty rate increases by one percentage point.

A November 2009 UNDP study attempted similarly to measure various relationships between economic output and human development in the E&E region.¹⁵ The analysis examined the co-movements of income and a set of human development indicators which included poverty rates, unemployment rates, life expectancy, infant mortality rates, homicide rates, and incidences of sexually transmitted diseases during the past two decades in the region. The study employed a variety of techniques and lags to estimate the elasticities. Its overall conclusion was that the adverse impact of the global economic crisis on human development in the E&E region is likely to be "considerable, long-lasting, and to disproportionately affect the poorest."

Several specific observations from the study stand out. First, the UNDP's estimates of the responsiveness of poverty rates to changes in GDP are similar and consistent with ours. At a poverty rate of \$2.50 per day in 2005 PPP dollars, the study found that a one percent decrease in economic output corresponds with a 0.4 percentage point increase in poverty two years later. The elasticity was found to be higher (0.7 percentage points) when a broader measure of poverty (i.e. based on US\$5 per day) was employed.

Second, the findings from the UNDP study underscore that the detrimental effects from the economic crisis in the social sector will likely continue for some time; the end to the economic crisis does not mean an end to adverse social consequences. Their findings suggest that while the economic crisis (or at least the economic contraction) may have ended for most countries in 2009, the resumption of positive trends in many social indicators is not likely to occur until 2011-2012.

Moreover (and third), there is likely to be a slower recovery among the social indicators as compared to the pace of improvement prior to the economic crisis. Hence, in some instances, it may be five years and more for certain social indicators to achieve pre-crisis levels. The study, for example, estimates that infant mortality rates for the E&E region overall will not return to the region's 2008 average rate until 2014. For some human capital indicators, the study estimates that it will take even longer to achieve pre-crisis levels. These are very rough and precarious estimates, of course, and we know that estimating trends and drawing conclusions for the E&E region as a whole is also very precarious (and often of limited utility) given the extreme diversity among the countries within the region. It is, nevertheless, incumbent on us to follow these trends very closely as new data and new studies emerge.

¹⁵ B. Horvath, A. Ivanov, and M. Peleah, *The Human Development Impact of the Global Crisis in Central, Eastern and Southern Europe, and the CIS*, UNDP Bratislava Regional Center (November 27, 2009).

Finally, *Table 26*, drawing from the latest estimates of real GDP change in 2009 and 2010, provides some additional contextual information to consider. One, all except perhaps three Northern Tier CEE countries are now forecast to experience expanding economies in 2010; the exceptions are Latvia, Lithuania, and Hungary. We were unable to find an estimate for Kosovo. Second, however, economic recovery in the E&E region is forecast to be weak relative to most other regions of the world.

Moreover, within the E&E region, economic recovery is likely to be much weaker in Central and Eastern Europe than in Eurasia. The IMF's GDP-weighted estimate of 2010 economic growth in CEE is 2.8%, far below the developing countries average of 6.3% and the overall global economy average of 4.2%. The larger CEE economies of Poland and Slovakia are "pulling up" the CEE average of 2.8% growth in 2010; in thirteen of the sixteen CEE countries for which data are available, economic growth is forecast to be less than 2% in 2010. A key reason for such a stagnant recovery in CEE is that Western Europe is forecast to expand by only 1% in 2010. This forecast comes from the IMF in its April 2010 *World Economic Outlook*. At this juncture, with the still unfolding debt crisis in Greece and its possible spread through Europe, it may be that a lackluster growth of 1% for Western Europe in 2010 is even overly optimistic.

In any event, the emerging picture is that the E&E region has been disproportionately adversely affected by the global economic crisis not only because the economic contraction was so extensive in late 2008 through 2009, but also because recovery in 2010 has been and is forecast to continue to be anemic for most of the economies of the region. In that context, the UNDP estimates made in November 2009 of the lingering impact on the social conditions may also turn out to be optimistic.

Economic Performance and Human Capital Summarized

Table 27 and *Figure 42* summarize the status of economic performance and human capital in the transition region using the MCP indices. Compared to *MCP #11* results, the bird's eye view of relative progress in economic performance and human capital in E&E (in *Figure 42* vs. *Figure 22* of *MCP #11*) doesn't appear to have changed much, as one might expect. The Northern Tier CEE countries are generally out front in progress in both dimensions; the Eurasian countries are generally the laggards. The three sub-regions are generally less distinguishable by progress in macroeconomic performance and human capital than they are in the economic and democratic reforms. There continues to be much more variation in progress in human capital than in economic performance across the region; the spread between the leaders and laggards on both dimensions is very similar to what it was in *MCP #11*.

In addition, most, though not all, of the sub-regional country outliers are the same. This includes Belarus, Croatia, and Kosovo. Human capital in Belarus is advanced by Eurasian standards, and is average by Southern Tier CEE standards. Similarly, human capital in Croatia is advanced by Southern Tier CEE standards, and even slightly above Northern Tier CEE standards (ranked third overall of all the E&E countries). Kosovo's economic performance and human capital profile is closer to Eurasian standards than Southern Tier CEE norms.

In *MCP #11*, we noted that Ukraine's economic performance and human capital profile more closely resembled the Southern Tier CEE countries than Eurasia. This has since changed; Ukraine has slipped notably, particularly in economic performance. In *MCP #11*, Ukraine ranked 11th overall in economic performance; currently it ranks 25th. Bulgaria has emerged more clearly in the range of progress of the Northern Tier CEE countries, particularly in terms of economic performance (where it now ranks fourth overall).

A close comparison between the most recent economic performance and human capital scores and ranking in *Table 27* with those found in a comparable summary table in *MCP #11* (*Table 6*, page 45) reveals more changes than are apparent from the bird's eye view of the scatterplot figures. First, on average across the three sub-regions, economic performance has deteriorated and human capital has advanced moderately. Second, there have been significant changes in relative progress between the E&E countries in economic performance and very little change in relative progress in human capital. Of particular note is the relative decline in economic performance standings for Ukraine (from a rank in *MCP #11* of 12th to 25th currently), Armenia (from 13th to 22nd), Tajikistan (20th to 27th), Moldova (22nd to 27th), Latvia (3rd to 7th), and Lithuania (4th to 9th). The only notable change in relative progress in the human capital index from our *MCP #11* calculations is Georgia, which has witnessed a decline in its rank from 20th to 27th.

Peace and Security

Introduction. The current focus on peace and security represents a new analytical tool in the MCP “toolbox.” The primary product is a peace and security (P&S) index made up of six primary components which are drawn closely from the U.S. government’s foreign assistance strategic framework of peace and security. Hence, perhaps even more so than with the previously created four MCP indices (on economic reforms, democratization, economic performance, and human capital), the focus of this new index is on measuring foreign assistance program-related areas, albeit at a relatively “high” (country progress) level.

The development of this peace and security index has been an ongoing and evolving endeavor for several years. The need for measuring aspects of peace and security was perhaps first underscored in the spring of 2004 during phase-out reviews of USG assistance programs in the Eastern Europe & Eurasian countries led by the State Department’s Office of the Assistance Coordinator for Europe and Eurasia (EUR/ACE). At those reviews, four program areas were assessed; those focused on: (1) the economic transition; (2) the democratic transition; (3) the social transition; and (4) law enforcement. Estimates were made in regards to how much longer it might take before USG assistance in each of these areas could end with some assurance that the progress achieved could be sustained.

E&E’s MCP system was used to inform the decision-making in three of the four program areas, all but law enforcement. In other words, data and relatively rigorous analysis was used to facilitate decisions in regards to the economic, democratic, and social transitions. When it came time to discuss and decide on progress and challenges in law enforcement, observations drew largely from assertions based more on anecdotes and intuition, than on evidence. One result was that the law enforcement programs were consistently identified as ones not to be phased out any time soon, and generally longer than the programs in the three more traditional transition areas.

Method. Six primary components make up the P&S index. Each of these six components is an index in itself; i.e., each consists of multiple indicators. Similar to the other MCP indices, the original data has been converted and standardized on a “1” to “5” scale; where a “1” represents the worst score worldwide and a “5” the best. The data are drawn from global datasets, and are all publicly available; this provides for transparency and open discussion, facilitating improvements in the system. This also enables us to compare peace and security in the E&E region with comparator countries outside the region. For now, peace and security measures for twenty-five non-E&E countries have been calculated.

Figure 43 visually displays the six P&S components and their sub-components and their scores in the case of Russia. The *counterterrorism* component of our proposed P&S index consists of four indicators. It attempts to measure the incidents and severity of terrorism as well as the capacity of governments to avert or control terrorism and/or the likelihood of political instability stemming from terrorism. The *combating weapons of*

mass destruction component consists of three indicators, and attempts to measure the extent to which governments are able to control and regulate the export of chemical, biological, and nuclear weapons. *Stabilization operations and security sector reform* consists of five components, and attempts to measure the capacity, scope, and intent of a government's security sector as well as estimates of the domestic security environment and status. The *counternarcotics* component consists of four indicators and attempts to measure both the demand and supply of the four major types of narcotics: opiates; cocaine; cannabis; and amphetamines. *Combating transnational crime* consists of five components and attempts to measure the extent of trafficking in persons, piracy of intellectual property rights, narcotics, and money laundering as well as the capacity of governments to address these concerns. Finally, *conflict mitigation* consists of three indicators, and attempts to measure the potential or vulnerability of governments towards conflict and state failure by taking stock of instability, conflict history of the country, and the potential for conflict among neighborhood countries.

Salient results. *Table 28* provides the summary results of the P&S index for the E&E countries, the overall scores as well as the results of the six components. *Tables 29-34* provide the disaggregated results for each of the six components for the E&E region. Complete results, including the dataset for the twenty-five non-E&E comparison countries as well more elaboration of the method, are included in the USAID/E&E Working Paper # 10 (Swedberg and Sprout, *Peace and Security in Eastern Europe & Eurasia*, October 2009).

According to our calculations, and as shown in *Table 28* and *Figure 44*, all eight Northern Tier CEE countries are more peaceful and secure than are the rest of E&E. Next highest P&S scores are found in Romania, Bulgaria, and Croatia. Together, these eleven countries represent our “graduates” from USG foreign assistance in the region. Montenegro is not far behind the three Southern Tier CEE graduates in terms of its degree or level of peace and security.

At the other extreme, the Central Asian Republics are generally the least peaceful and secure of all the E&E countries. Four of the seven worst E&E performers are in Central Asia. Tajikistan is the least peaceful and secure of all the E&E countries. Kazakhstan is the Central Asian Republic outlier, with a P&S score the same as Bosnia-Herzegovina and slightly higher than that found in Serbia. Russia scores very poorly according to our index. Of all the E&E countries, only Tajikistan has a lower P&S score than does Russia.

In contrast, Ukraine is the most peaceful and secure of the Eurasian countries; an outlier by Eurasian standards. While data are incomplete on two of the six areas, the P&S score for Kosovo shows it lagging considerably behind the Southern Tier CEE norm. Hence, as is the case in some of our other MCP indices, Ukraine and Kosovo appear as sub-regional outliers in the P&S index.

Figure 45 highlights P&S progress in the E&E region with that found in other countries of the world. As previously noted, we've calculated peace and security measures for twenty-five non-E&E countries. Only one of these twenty-five comparators is classified

as a high income OECD country, the United States. Many of the comparators were chosen because of the expectation that they would score very poorly on one or more P&S dimensions. In other words, we were interested in seeing how peace and security in E&E compares with some of the presumably worst performers worldwide.

Overall, we find that the E&E region compares quite favorably to some of the most unstable and violent areas of the world. More specifically, we find that peace and security in Tajikistan, the worst E&E performer on this score, is greater than that found in nine of the twenty-five comparators. This includes, in ascending order, Iraq, Pakistan, Iran, Afghanistan, India, Sudan, Yemen, Somalia, and Burma.

We also find that eleven E&E countries have higher P&S scores than does the United States. This includes all of the Northern Tier CEE countries, and the three recent Southern Tier CEE graduates; i.e., all of the E&E countries which have graduated from USG foreign assistance. Montenegro has the same score as the U.S.

Peace and security in Eurasia as a whole (i.e., on average) is comparable to that found in Peru. Peace and security in the Southern Tier CEE on average scores well above twenty-four of the twenty-five comparator non-E&E countries, though below that found in the United States.

Figures 46 and 47 provide a sample of country-specific P&S results in our “web chart” format. The greater is the shaded blue area, the greater is the progress on that dimension in that country. The web charts provide us with a visual tool which helps us identify not only where gaps exist, but also whether certain common or similar profiles exist across countries. They also provide us with an easy way to determine if progress is relatively balanced or symmetric in a particular country. Other things equal, unbalanced or asymmetric progress may be less sustainable than balanced progress.

We looked for similar profiles across the three sub-regions. In general, the largest P&S gaps for the Northern Tier CEE countries center on counter-narcotics and/or transnational crime. Transnational crime is also very problematic in Romania, Bulgaria, Russia, Ukraine, and Belarus. For many Eurasian countries, particularly those in Central Asia and the Caucasus, combating weapons of mass destruction is the most problematic aspect of peace and security, at least in terms of the size of the gap. Conflict mitigation is also very problematic in Armenia and Georgia. Counter-terrorism is the largest gap or close to it in three Southern Tier CEE countries: Macedonia; Bosnia-Herzegovina; and Kosovo.

We also examined the extent to which the results of the peace and security index align with the results from our other MCP indices. We found relatively high correlations; that is, in general, those countries which are the most peaceful and secure are also the countries with the most progress in economic and democratic reforms, and the most advanced in macroeconomic performance and human capital (*Figure 48*). The highest correlation (with an r-square of 0.82) is between peace and security and democratic reforms (*Figures 48 and 49*).

Figure 50 looks at the relationship between peace and security and democratization more globally by comparing our peace and security index results with our *governing justly and democratically* index drawn from our global dataset. The *governing justly and democratically* index combines three indicators from Freedom House's global dataset (political rights, civil liberties, and media freedoms) with three indicators from the World Bank's *Governance Matters* dataset (rule of law, control of corruption, and government effectiveness). The 45 degree line helps determine the extent to which countries are equally advanced on both dimensions. We find that peace and security seems to be more advanced than democratization in countries in the E&E region, though this relationship does not seem to hold for many countries outside the region. India, in particular, is the salient outlier in this regard; much more democratic than peaceful and secure.

Finally, we compared results from our peace and security index with a number of related efforts. We tried to distinguish these related efforts between descriptive indices and predictive indices. We compared the P&S index (which we consider to be descriptive) with three other descriptive indices: USAID/DCHA/CMM's *Fragility Index*; the Economist Intelligence Unit's *Global Peace Index*; and the *Political Terror Scale* overseen by M. Gibney and L. Cornett at the University of North Carolina at Asheville. We also compared the P&S index with five predictive indices: the *Instability Index* by USAID/DCHA/CMM and CIDCM at the University of Maryland; the Fund for Peace's *Failed States Index*; the Brookings Institution's *Index of State Weakness*; the Defense Department's *SIAD Instability Index*; and the World Bank Institute's *Political Stability* composite indicator.

We found similarly high correlations with virtually all of these related efforts with r-squares ranging from 0.82 (between our P&S and the *Fragility Index*) to 0.80 (*Failed States Index*), 0.79 (*State Weakness*), 0.78 (*Political Stability*, *Global Peace Index*, and *SIAD*), and 0.65 (*Instability Index*). These high correlations might "beg" a question or two. Are these various related efforts relatively interchangeable? Similarly, if so, is there sufficient value-added to our efforts towards constructing and subsequently maintaining the *Peace & Security Index*?

We interpret the high correlations as very encouraging results. First, they indicate to us that the results of our efforts are likely on track and credible, given that other longer-lasting efforts, some with arguably more sophisticated methodology than our relatively methodologically straightforward P&S index, produce similar "bottom line" country rankings. Second, with that reassuring finding in mind, the P&S index can be disaggregated into components that roughly correspond to USG assistance areas. The related efforts can not. Moreover, on this score, our relatively transparent and simple methodology provides for a much more straightforward way to apply the results towards USG programmatic considerations.

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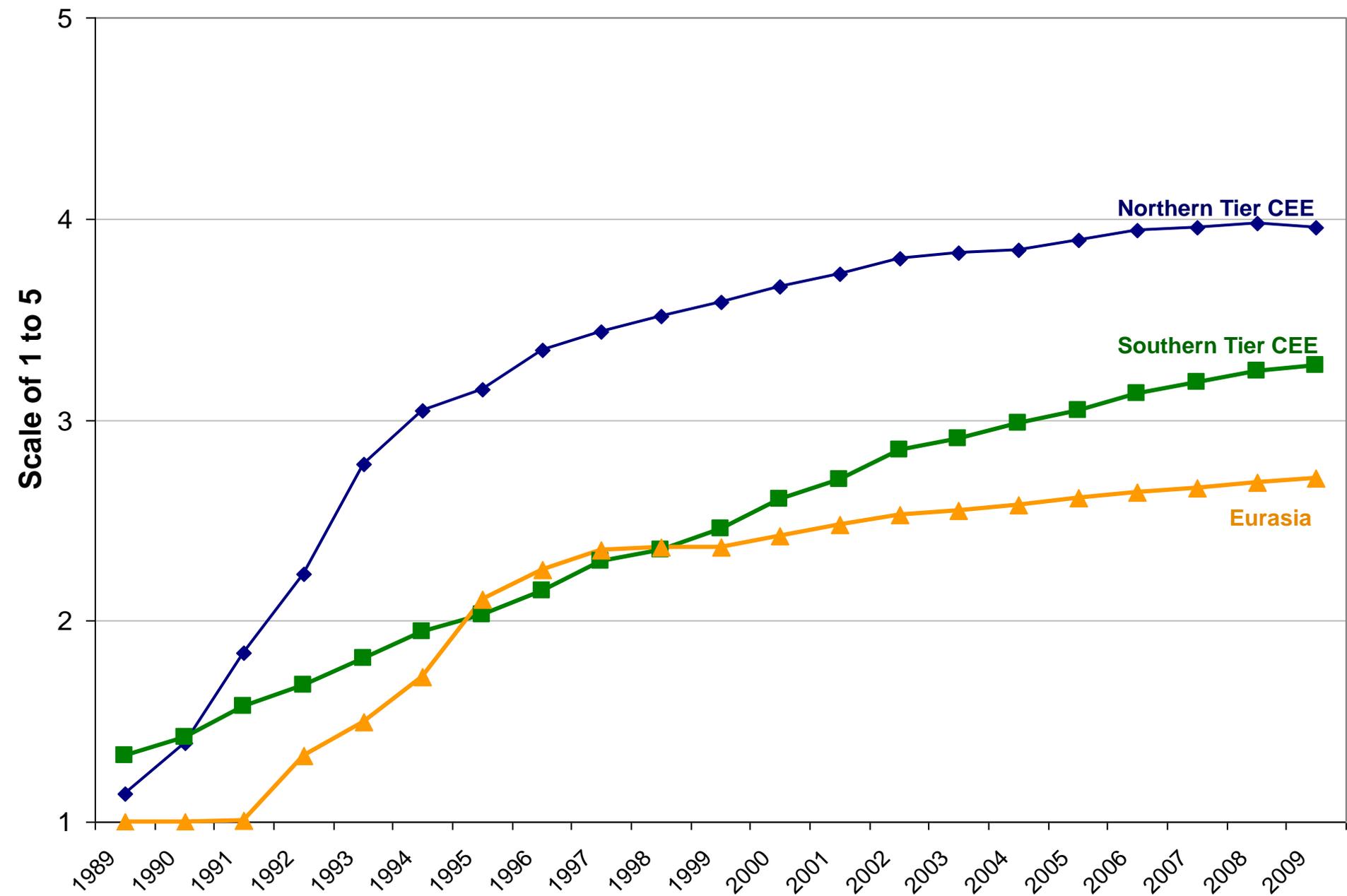
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Figure 1

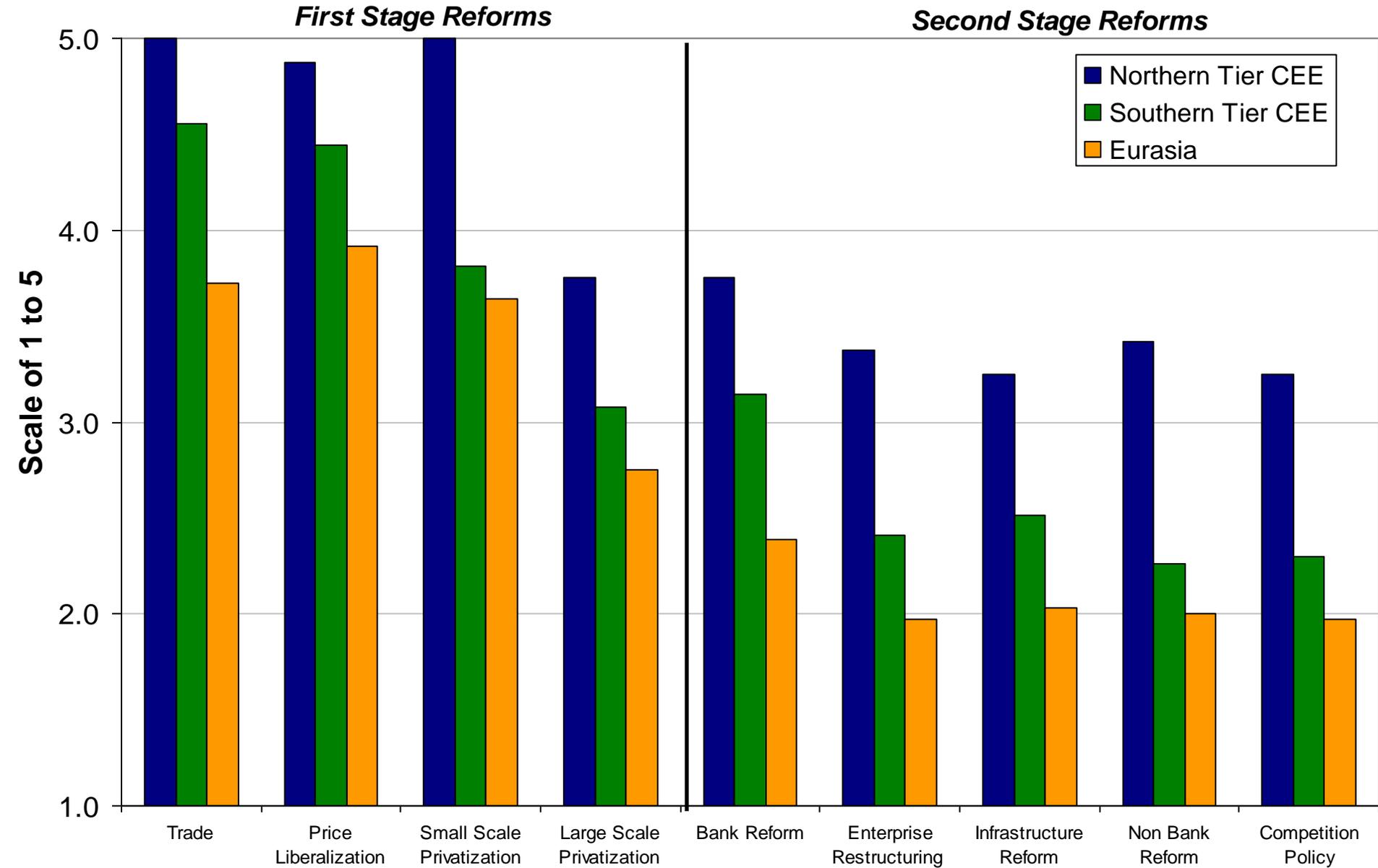
Economic Reform



Ratings are based on a 1 to 5 scale, with 5 representing the most advanced. Drawn from the EBRD, *Transition Report 2009* (November 2009).

Figure 2

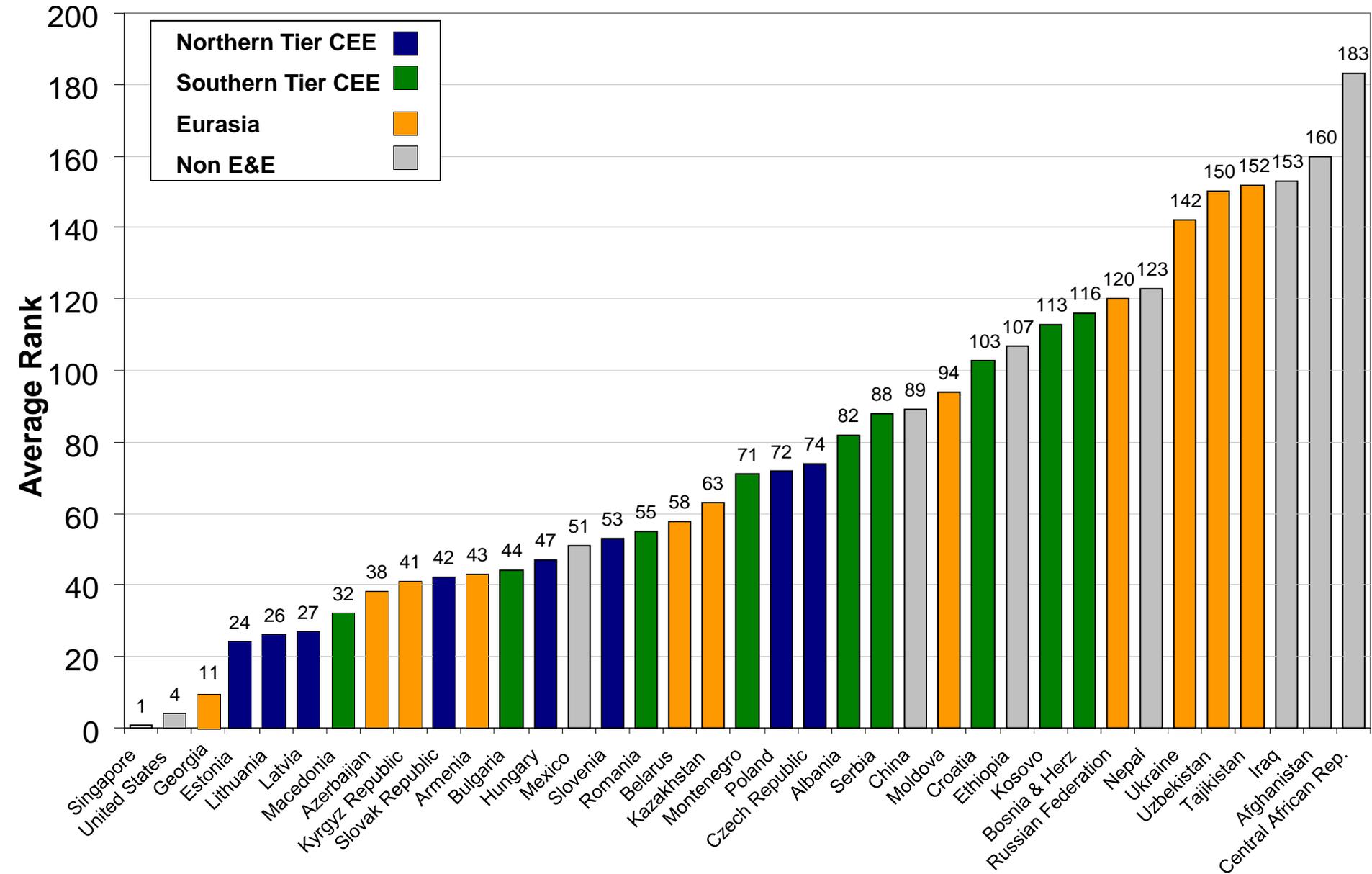
Economic Reform



Ratings are based on a 1 to 5 scale, with 5 representing the most advanced. Drawn from the EBRD, *Transition Report 2009* (November 2009).

Figure 3

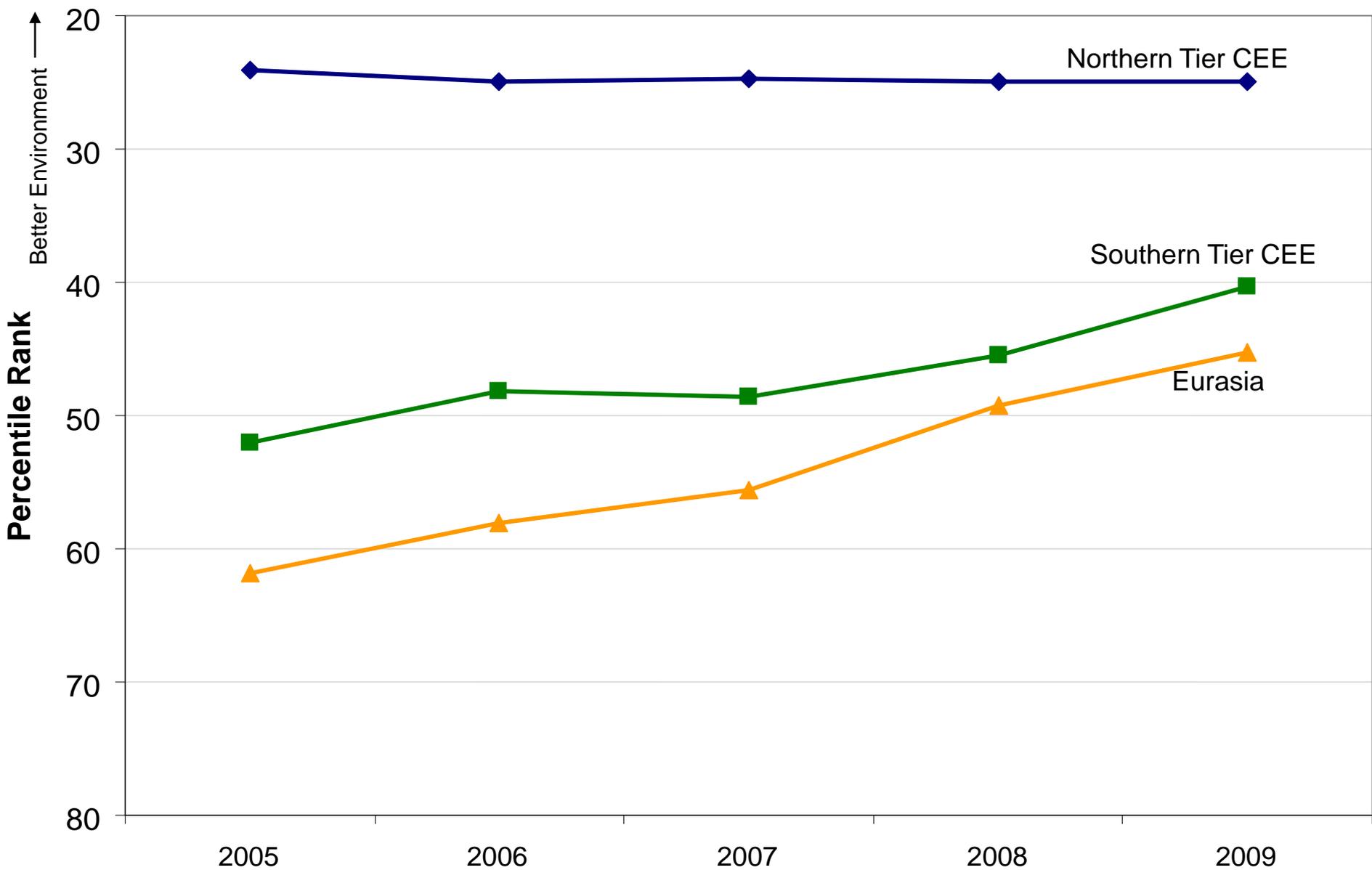
Business Environment in 2009



World Bank, *Doing Business in 2010* (September 2009). 183 countries are included in the analysis. The business environment is gauged based on 10 aspects: starting a business; dealing with construction; hiring and firing workers; registering a property; getting credit; protecting investors; paying taxes; trading across borders; enforcing contracts; and closing a business.

Figure 4

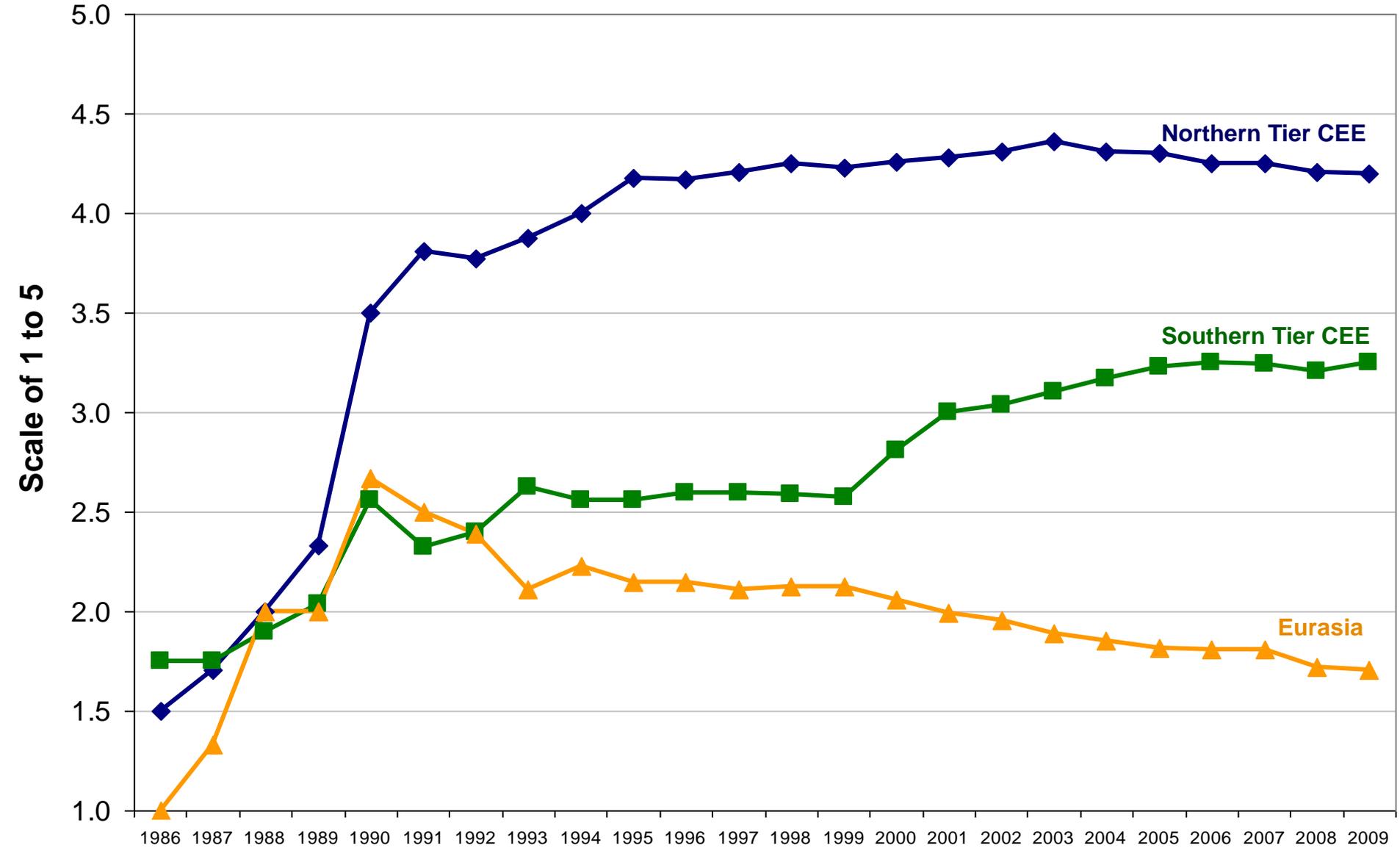
Business Environment



World Bank, *Doing Business in 2010* (September 2009). The analysis is based on 10 considerations: starting a business; dealing with construction; hiring and firing workers; registering a property; getting credit; protecting investors; paying taxes; trading across borders; enforcing contracts; and closing a business.

Figure 5

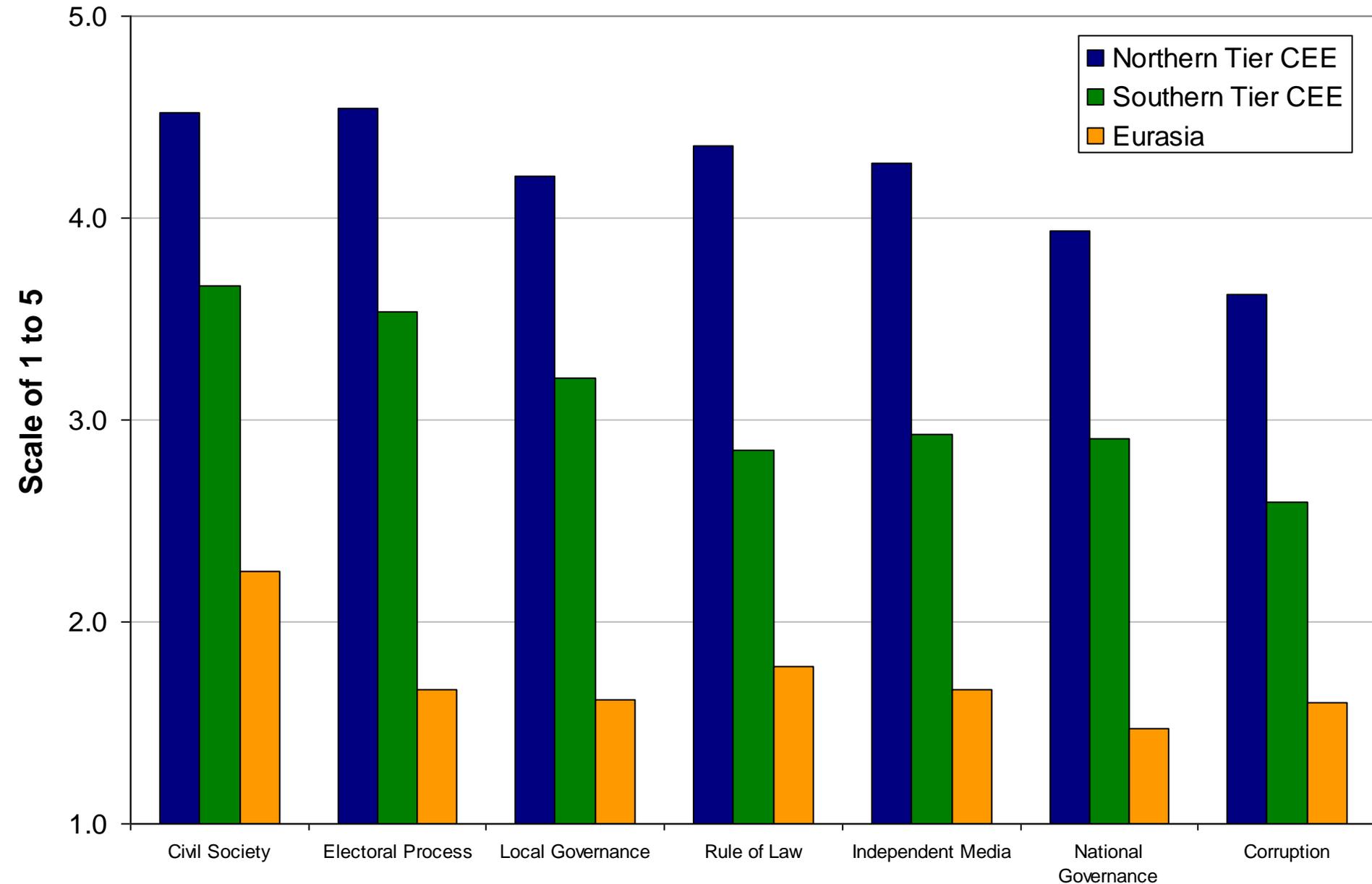
Democratic Reforms



Ratings are based on a 1 to 5 scale, with 5 representing the most advanced. Drawn from Freedom House, *Nations in Transit* (June 2009) and *Freedom in the World 2010* (January 2010).

Figure 6

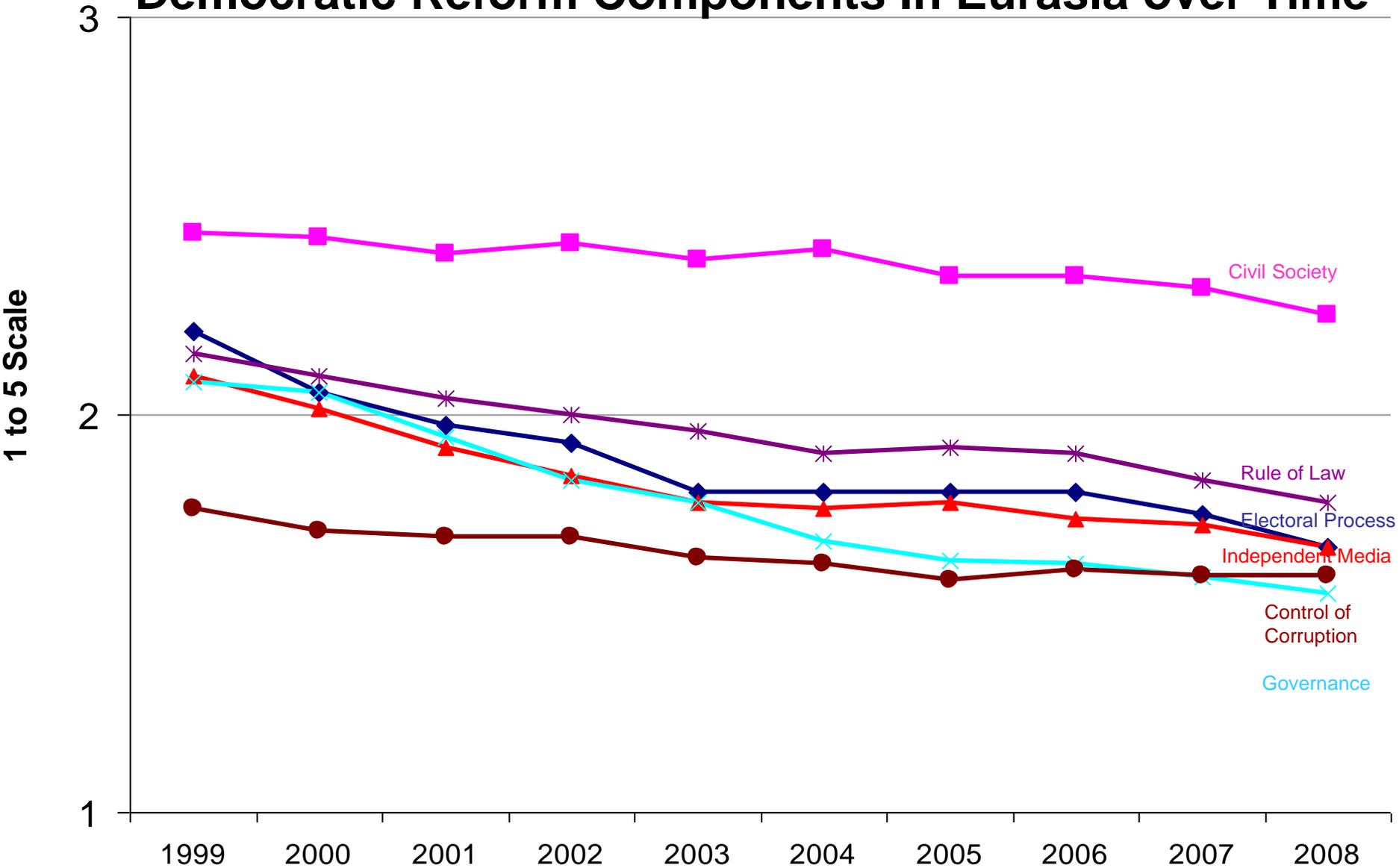
Democratic Reforms



Ratings are based on a 1 to 5 scale, with 5 representing the most advanced. Drawn from Freedom House, *Nations in Transit* (June 2009).

Figure 7

Democratic Reform Components In Eurasia over Time



Ratings are based on a 1 to 5 scale, with 5 representing the most advanced. Drawn from Freedom House, *Nations in Transit* (June 2009).

Figure 8

Media Sustainability Index

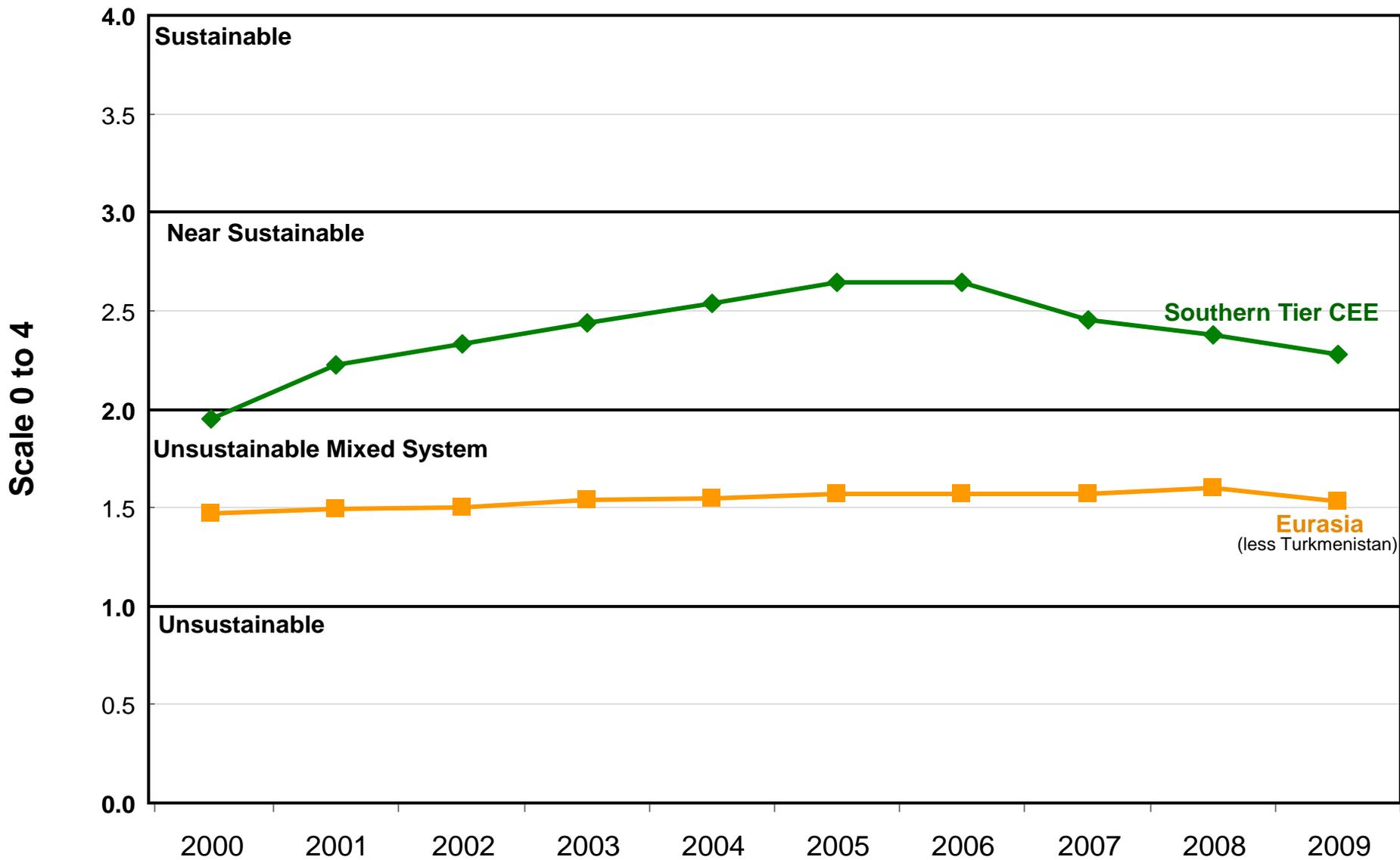


Figure 9

NGO Sustainability Index

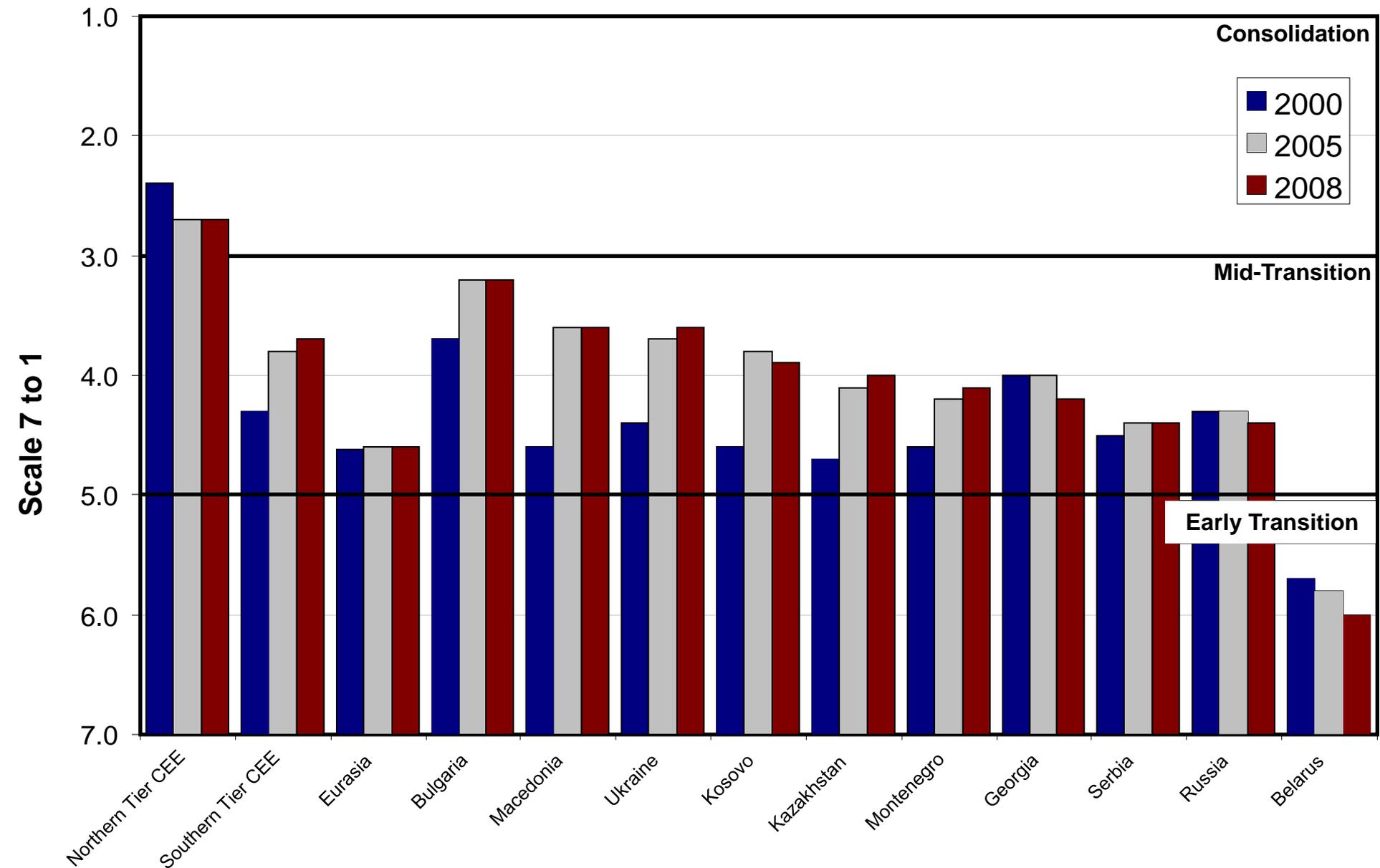


Figure 10

Corruption Perceptions in 2009

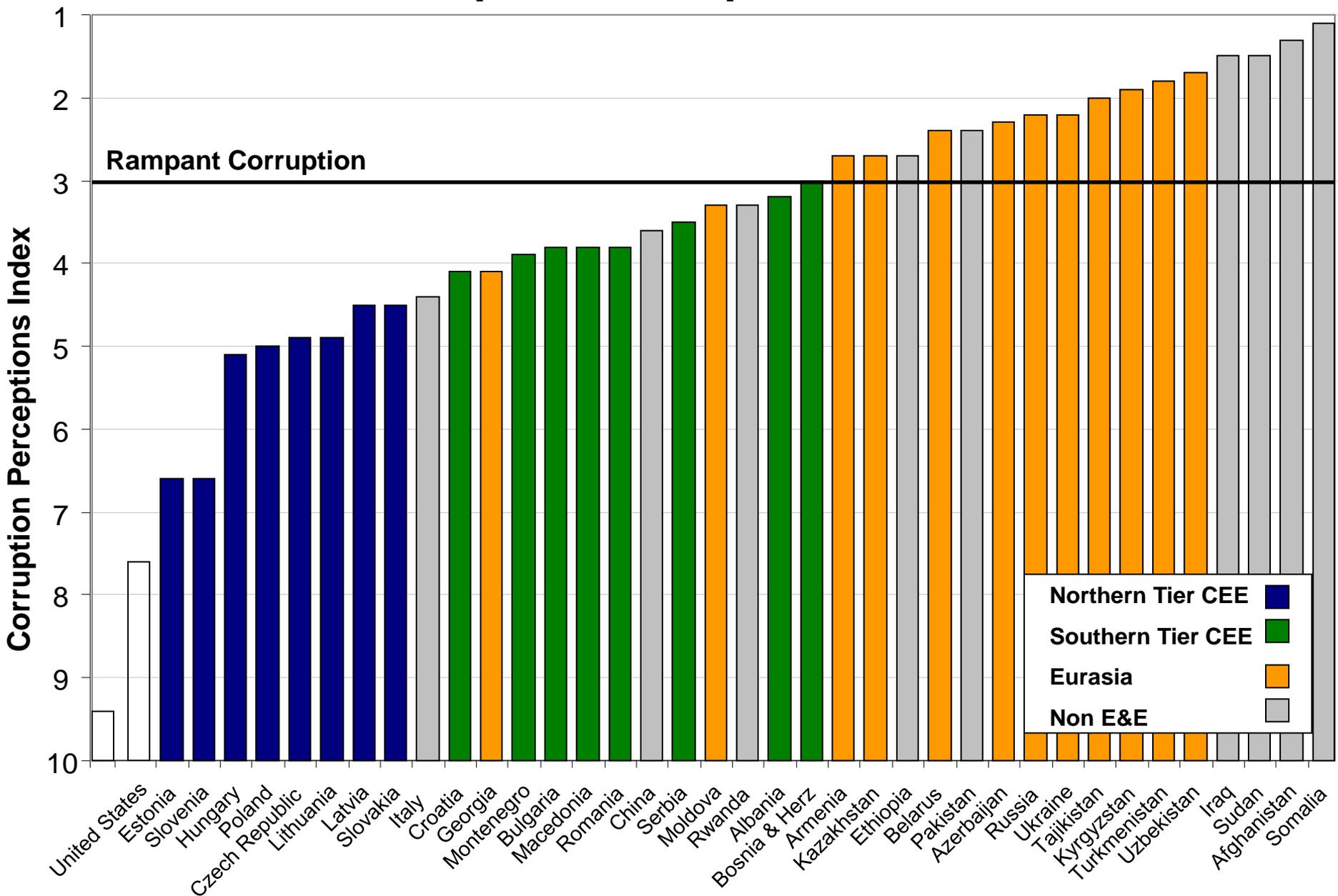
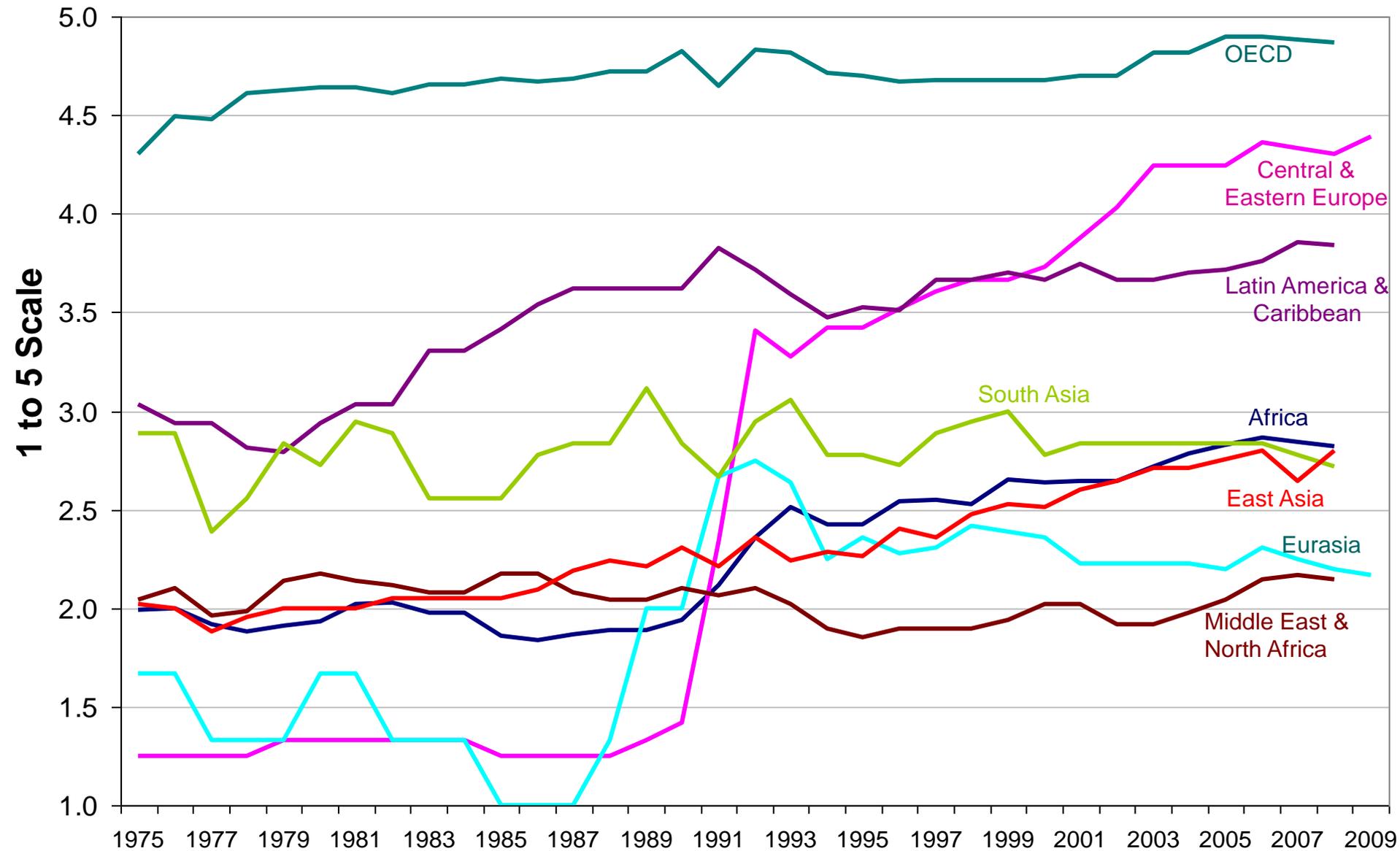


Figure 11

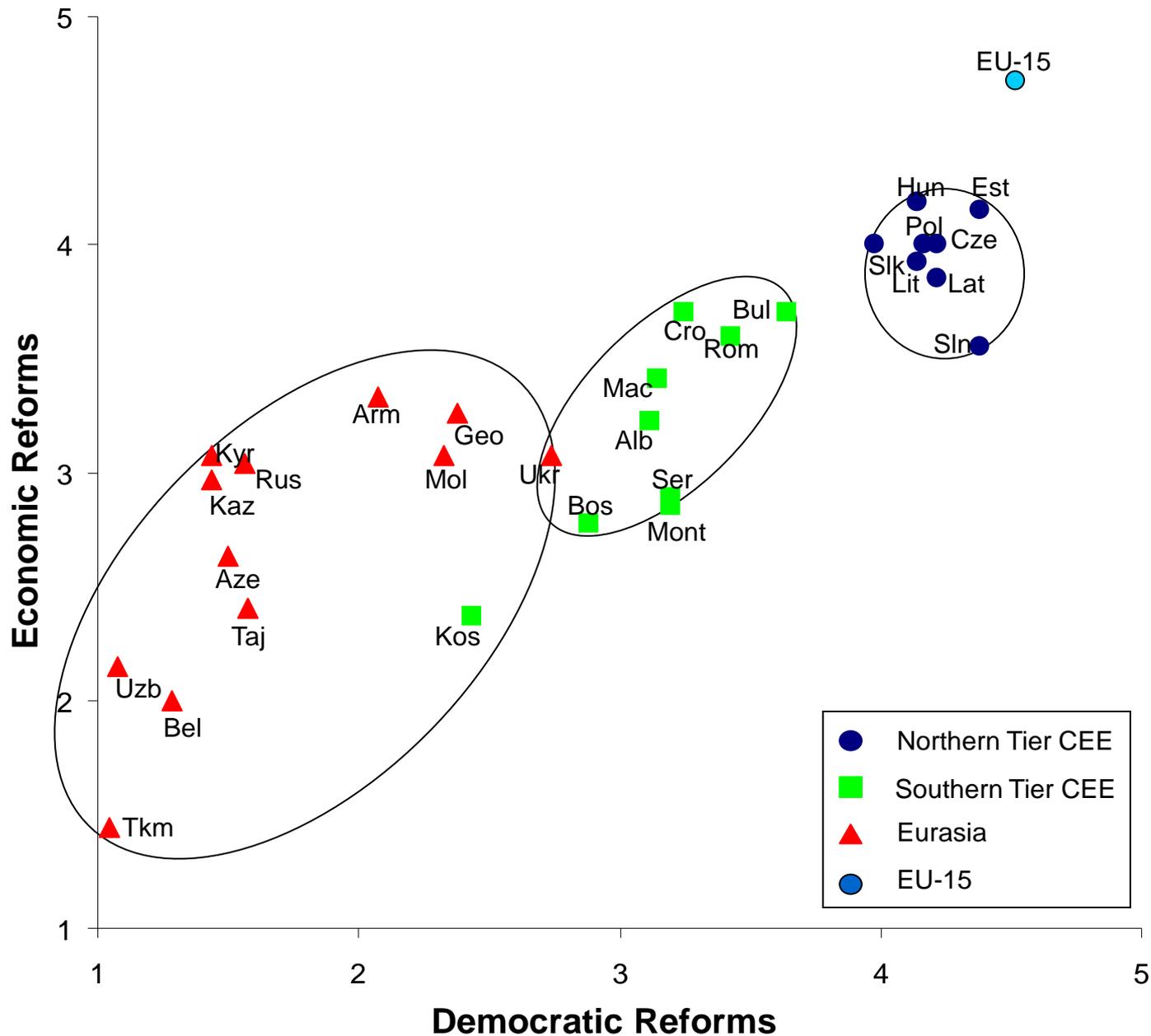
Freedom in the World – 1972-2009



Drawn from Freedom House, *Freedom in the World* (January 2010). Ratings are based on a 1 to 5 scale with 5 representing the most advanced; scores are the average of Freedom House's two indicators, political rights and civil liberties.

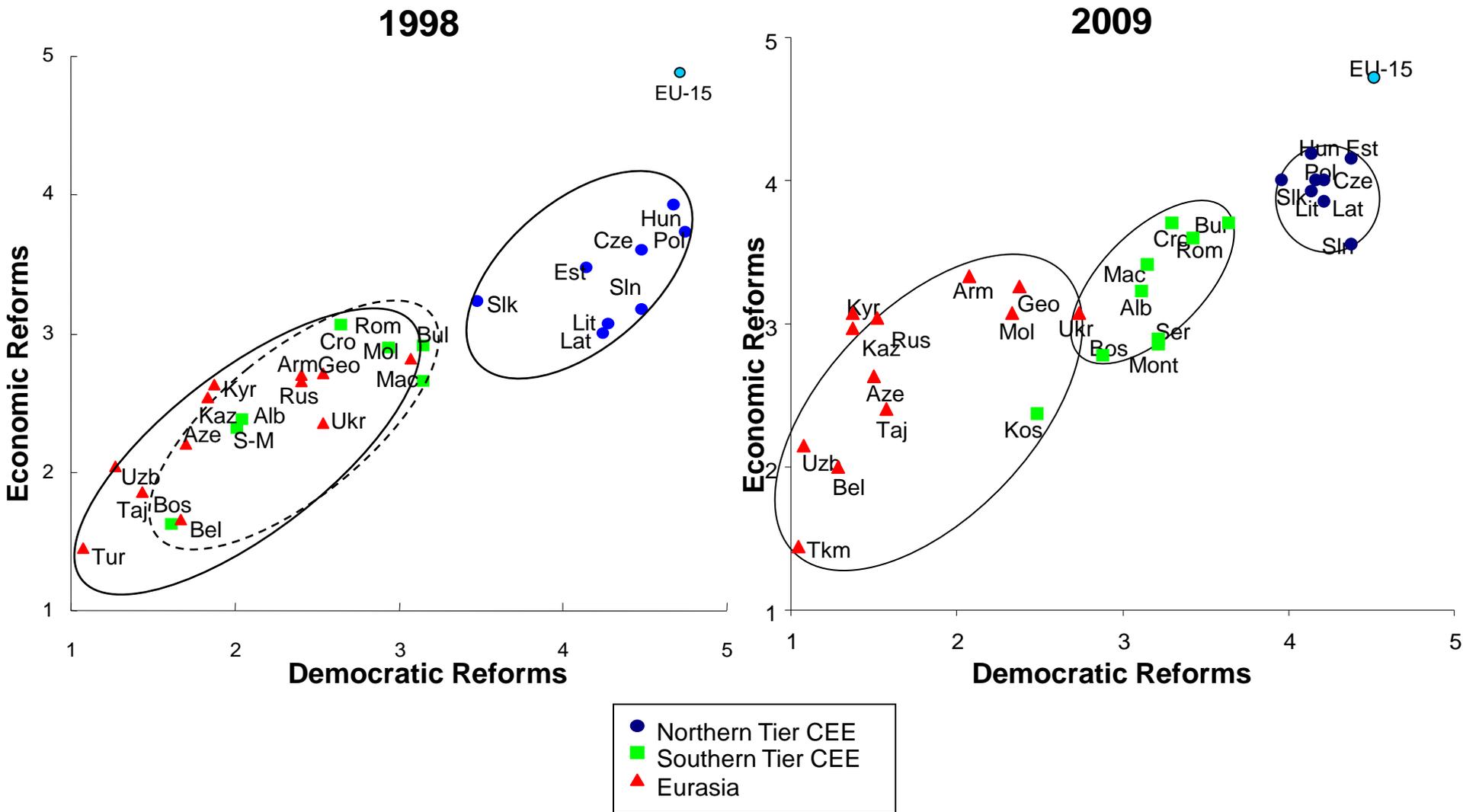
Figure 12

Economic and Democratic Reforms in 2009



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. Freedom House, *Nations in Transit* (June 2009); *Freedom in the World* (January 2010) and EBRD, *Transition Report* (November 2009).

Economic and Democratic Reforms 1998 vs. 2009



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. Freedom House, *Nations in Transit* (June 2009); *Freedom in the World* (January 2010) and EBRD, *Transition Report* (November 2009).

Figure 15

Economic Growth Trends Worldwide

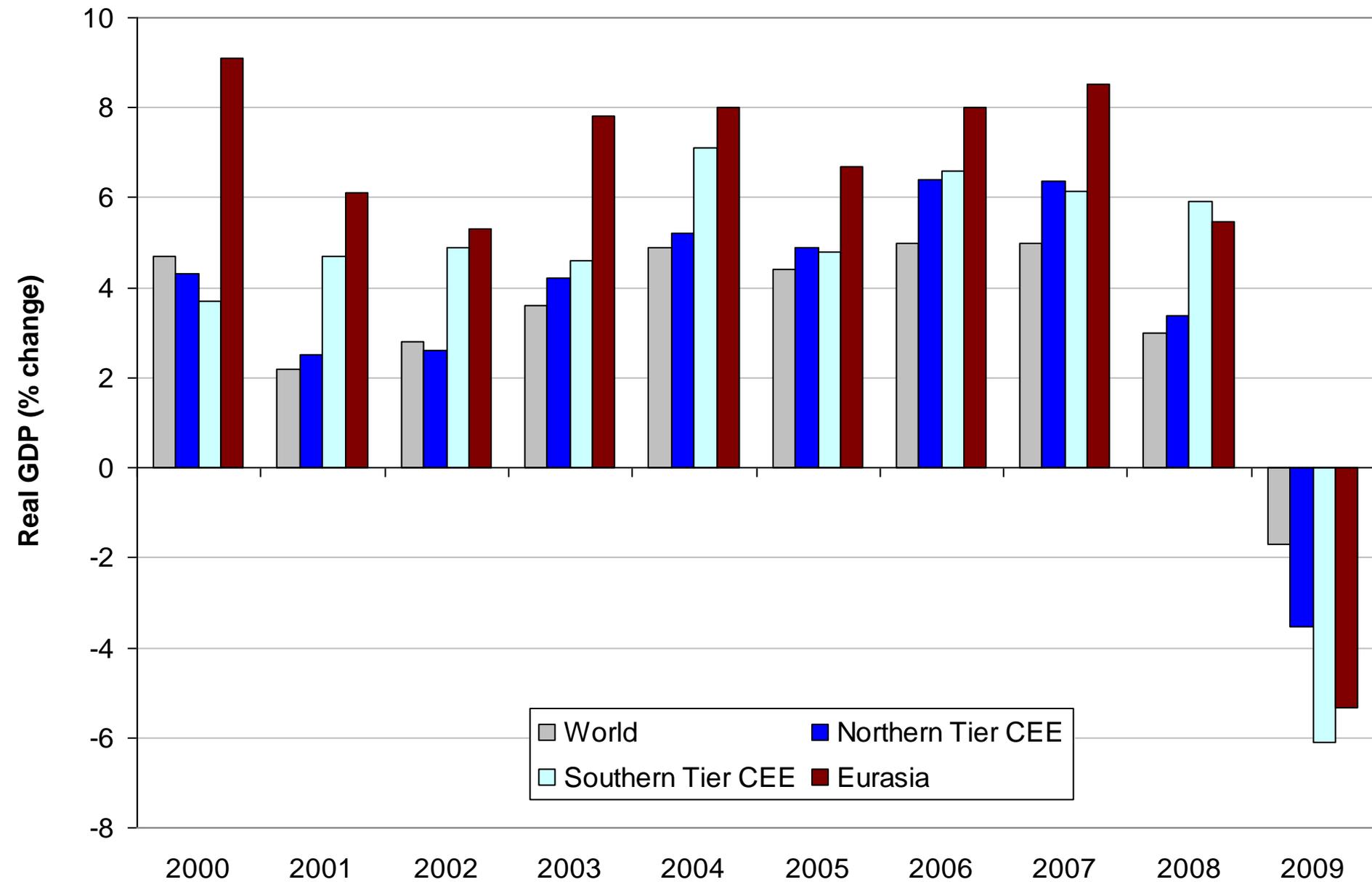
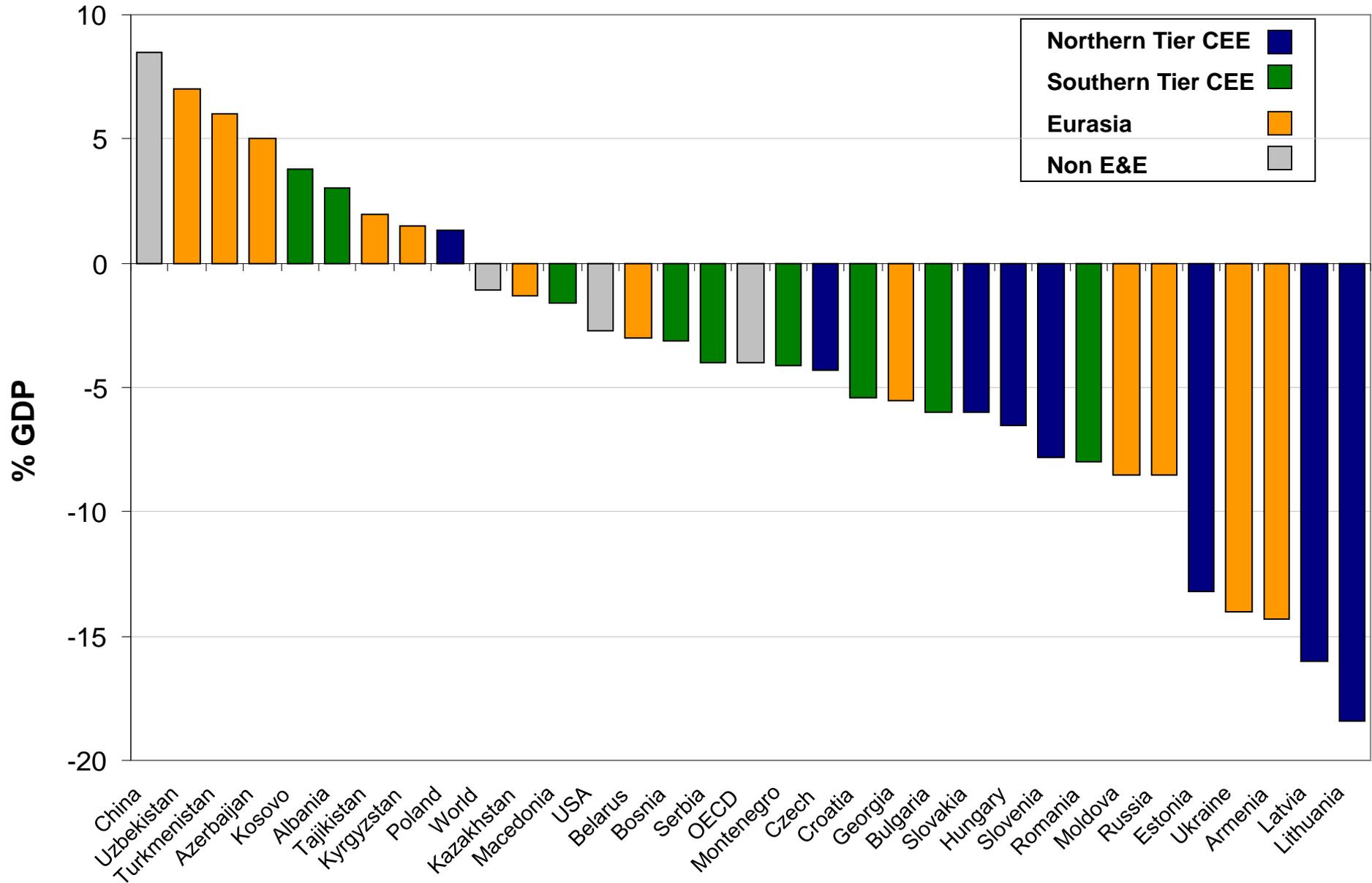


Figure 16

GDP Growth Estimates, 2009



EBRD, *Transition Report* (November 2009); Economist Intelligence Unit, various country reports, and IMF, *Republic of Kosovo, Staff Visit* (September 2009).

Figure 17

Economic Growth: 2007 vs. 2009

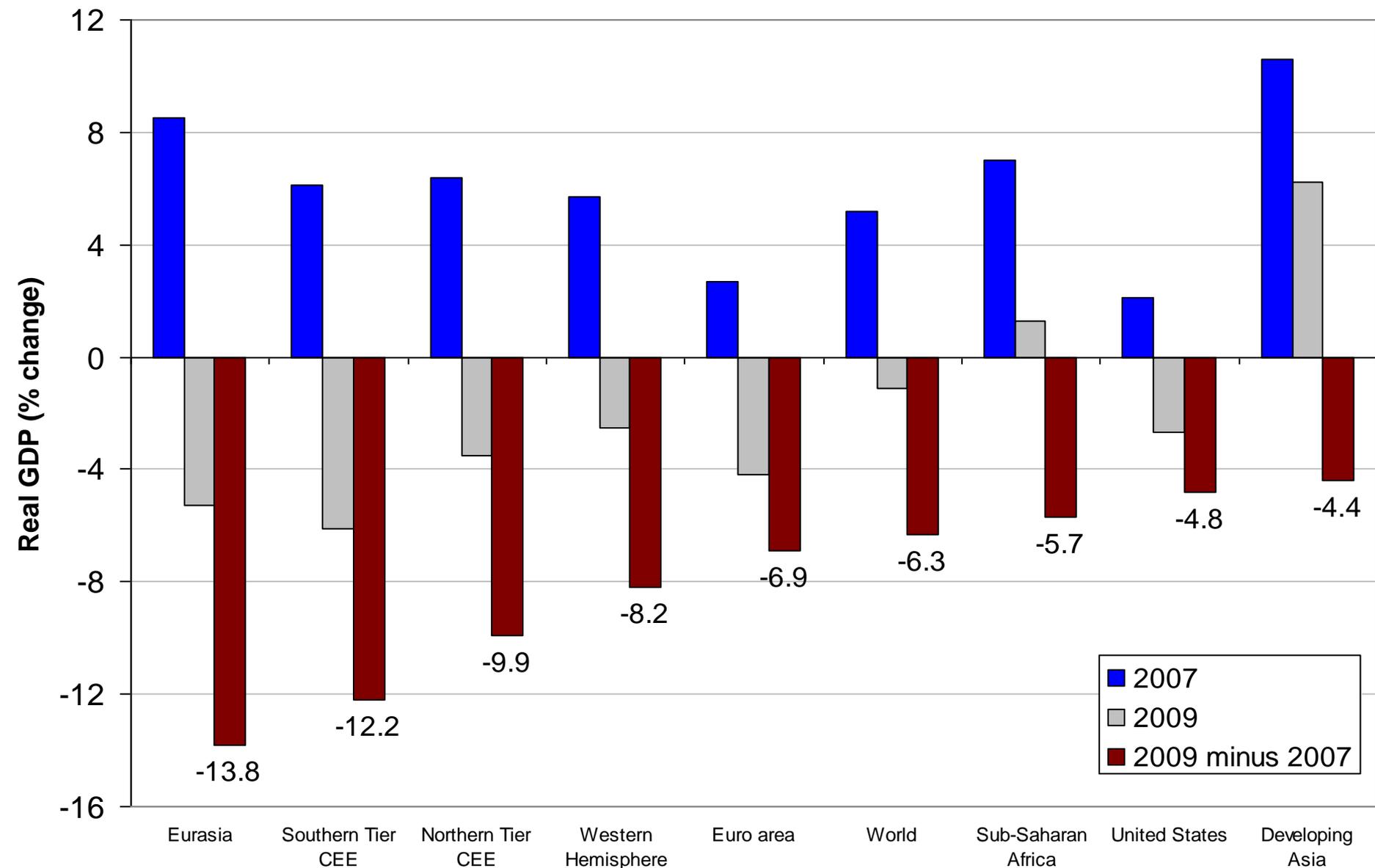
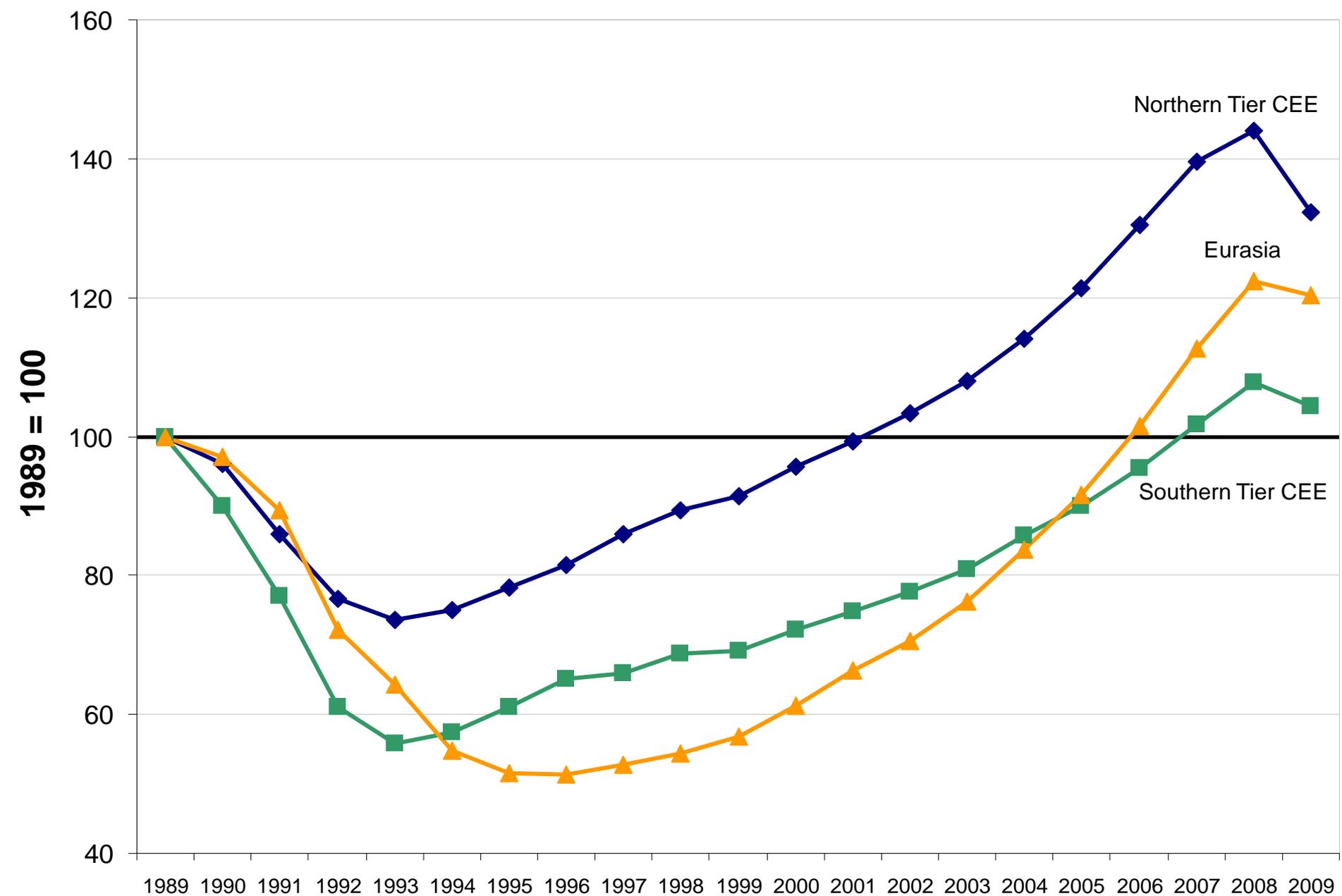


Figure 18

Real GDP as % of 1989 GDP



Current Account Balance & External Debt

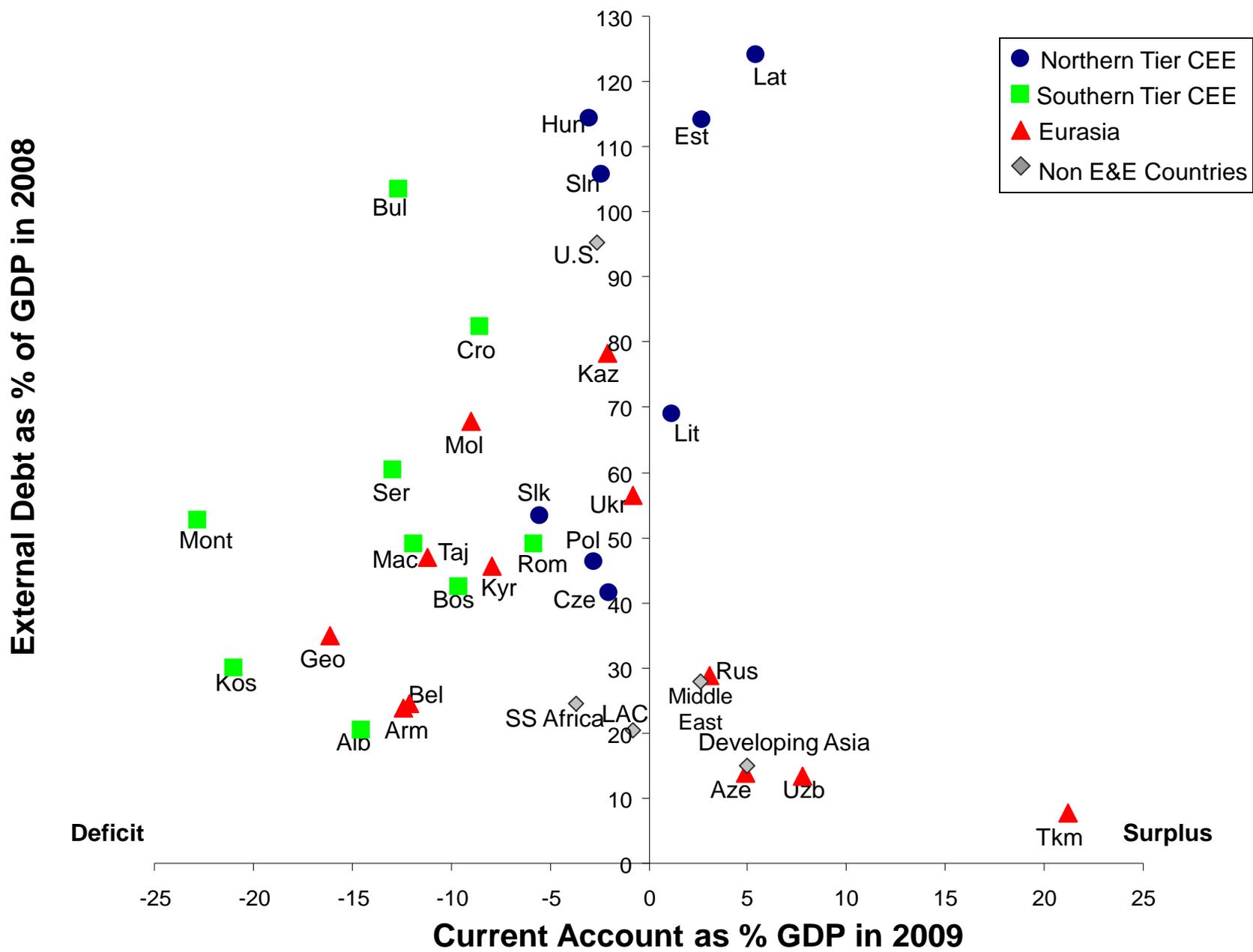
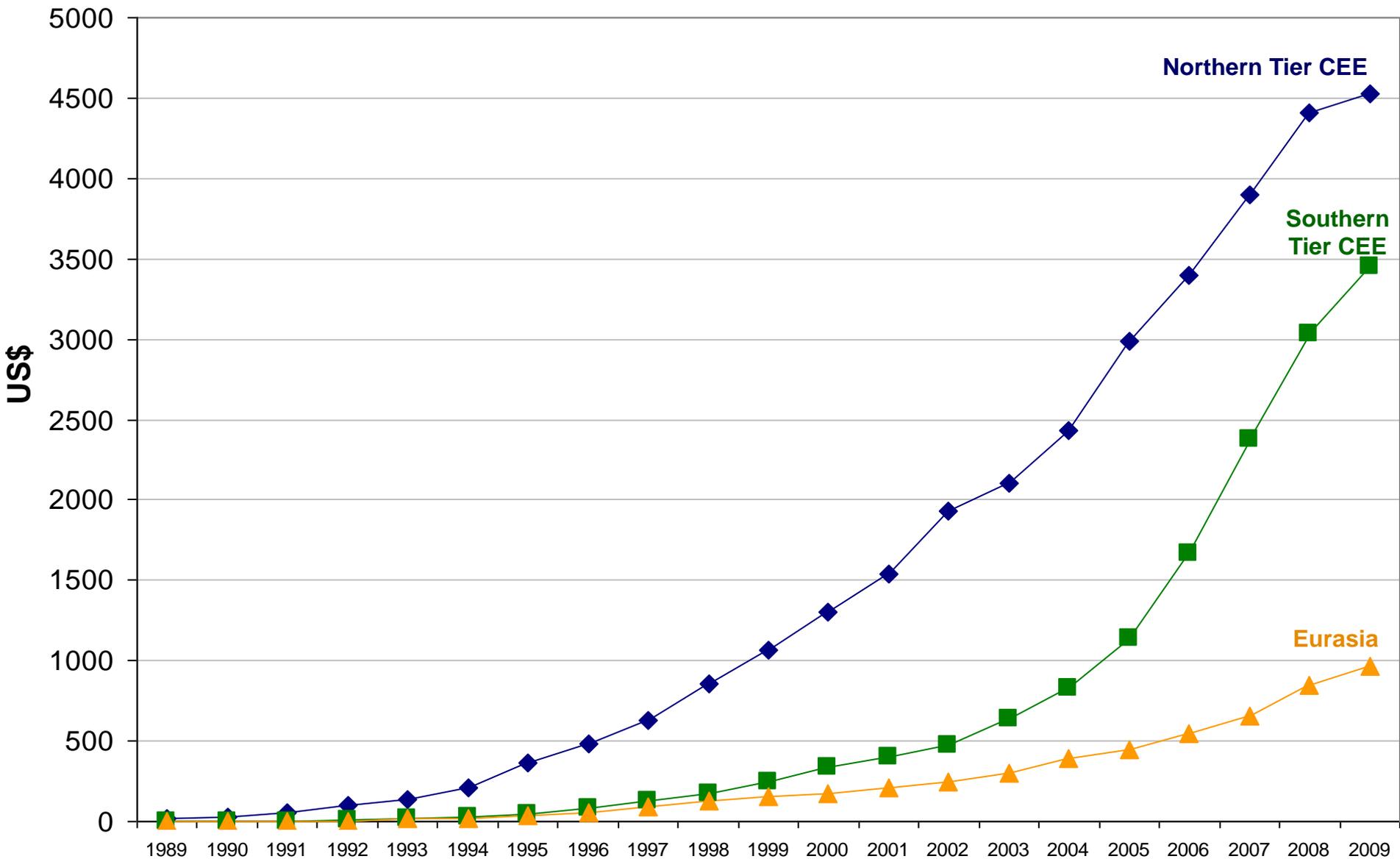


Figure 20

Foreign Direct Investment cumulative per capita



Foreign Direct Investment

5 year cumulative per capita, 2005-2009

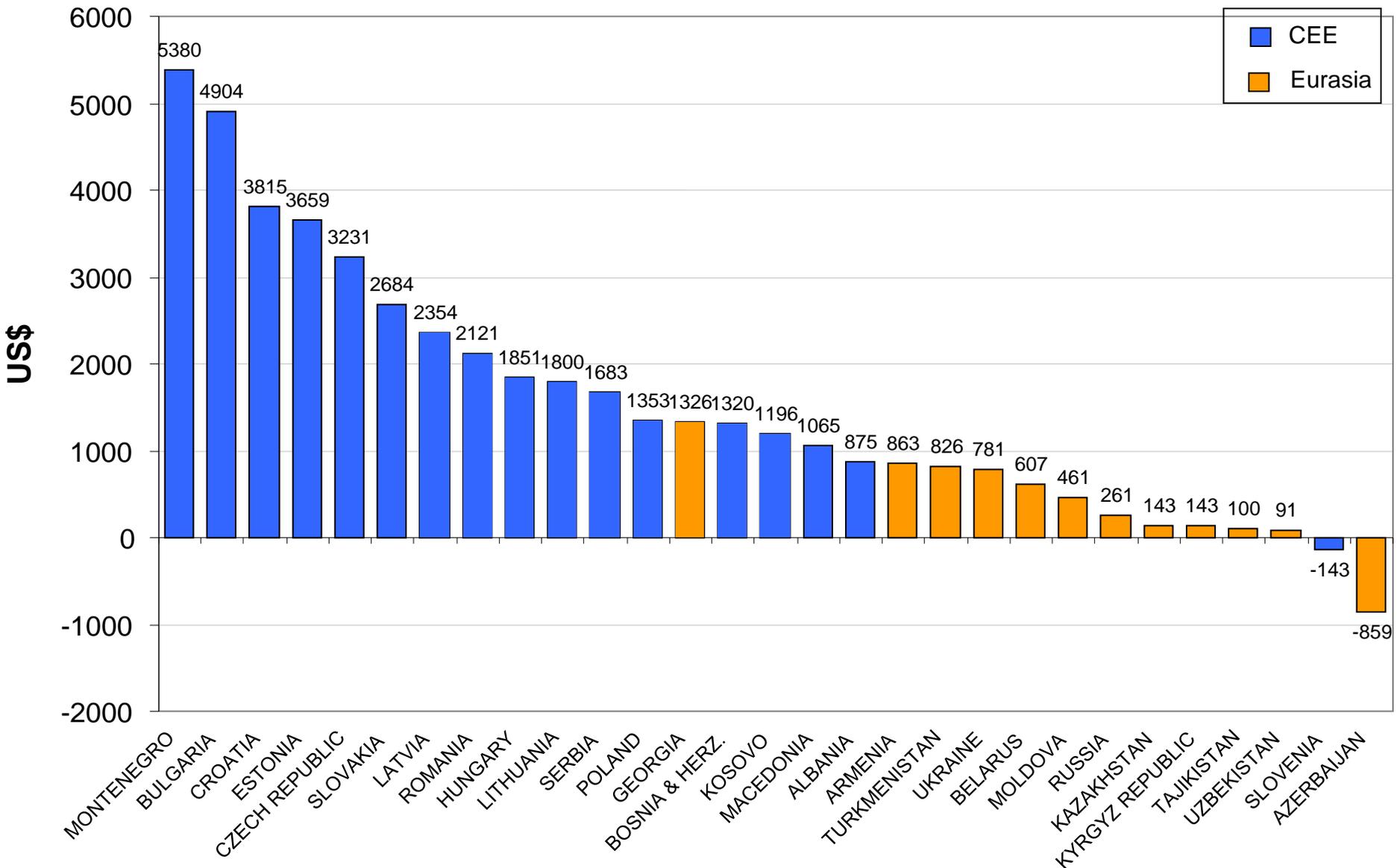
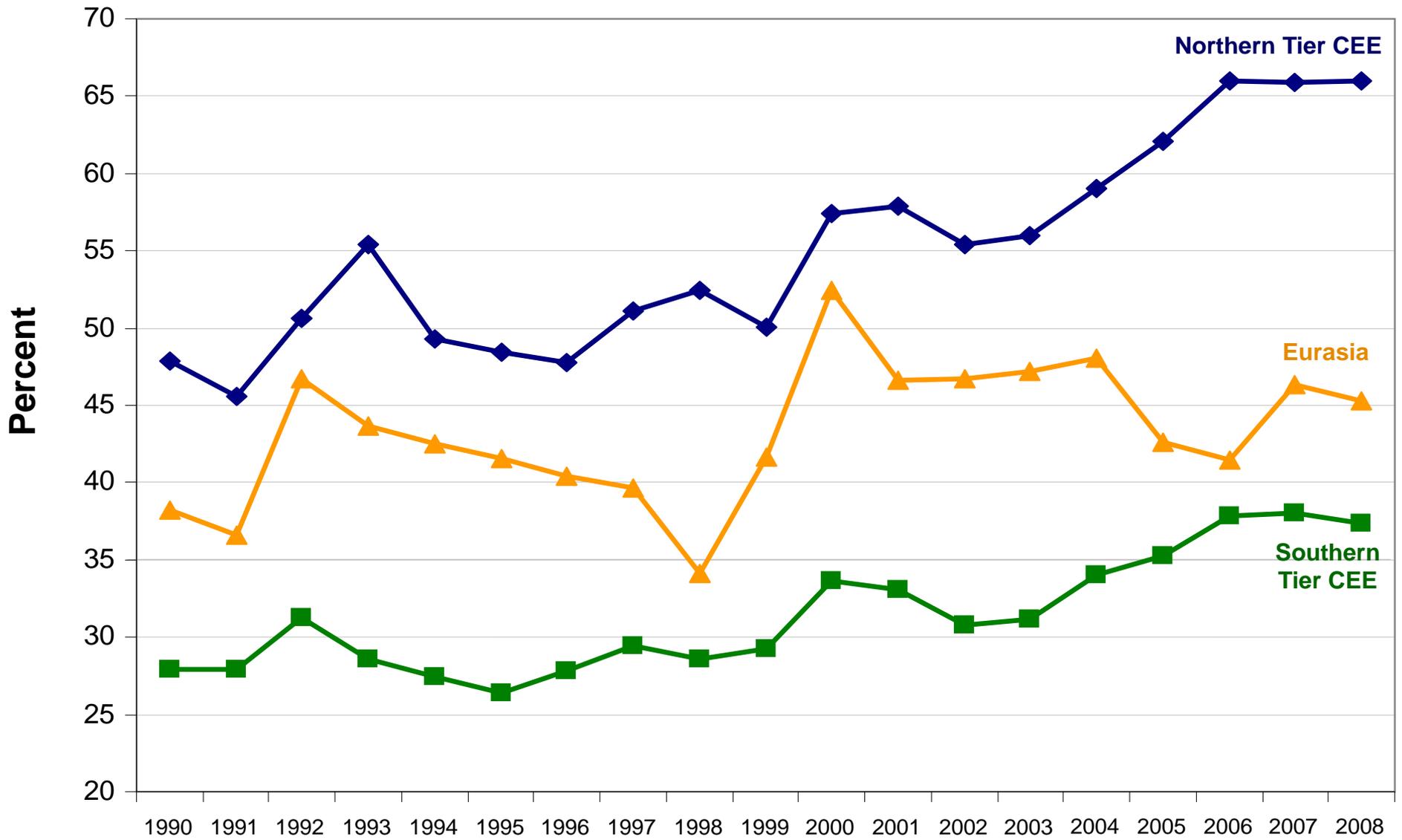
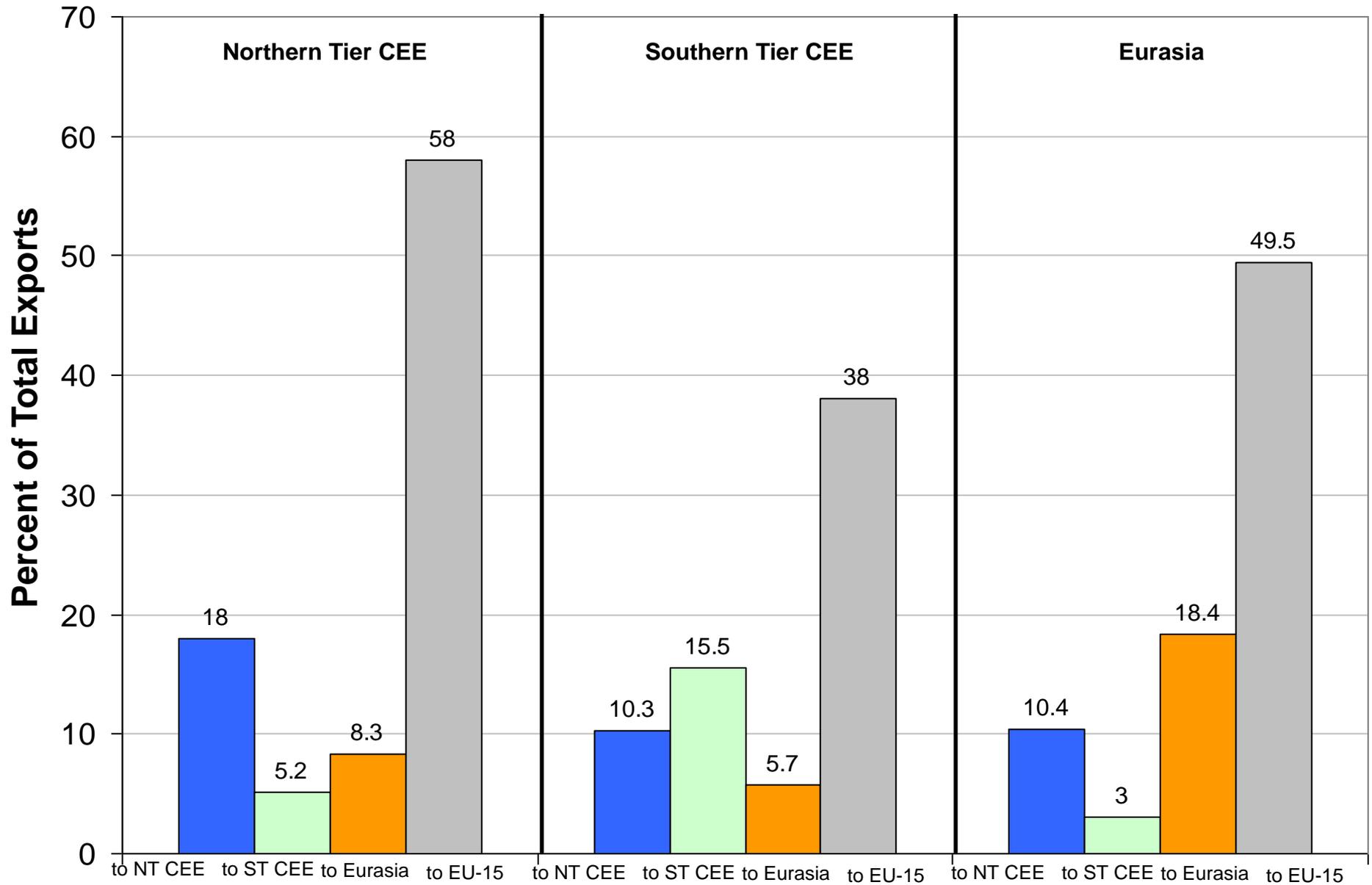


Figure 22

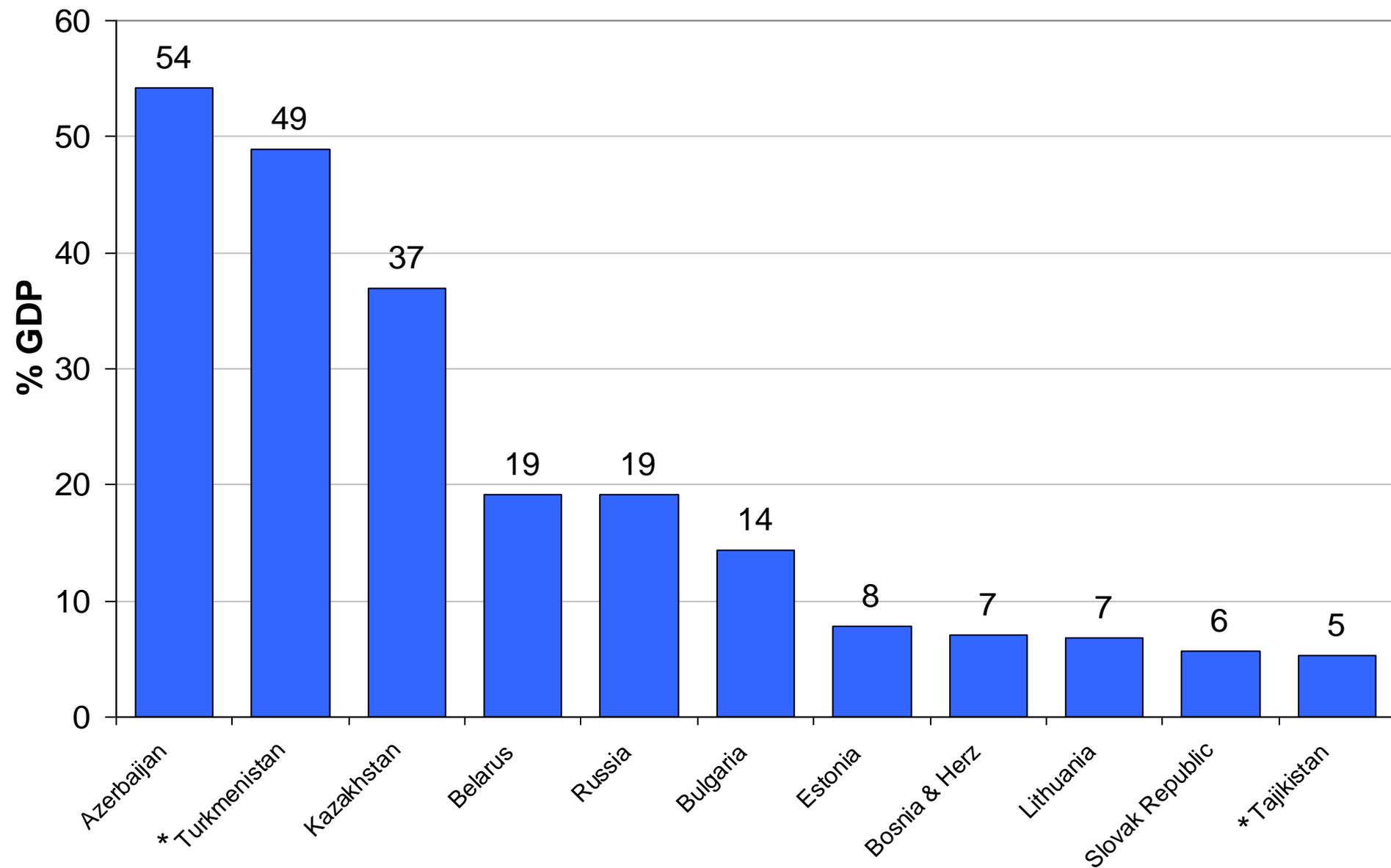
Exports as a % of GDP



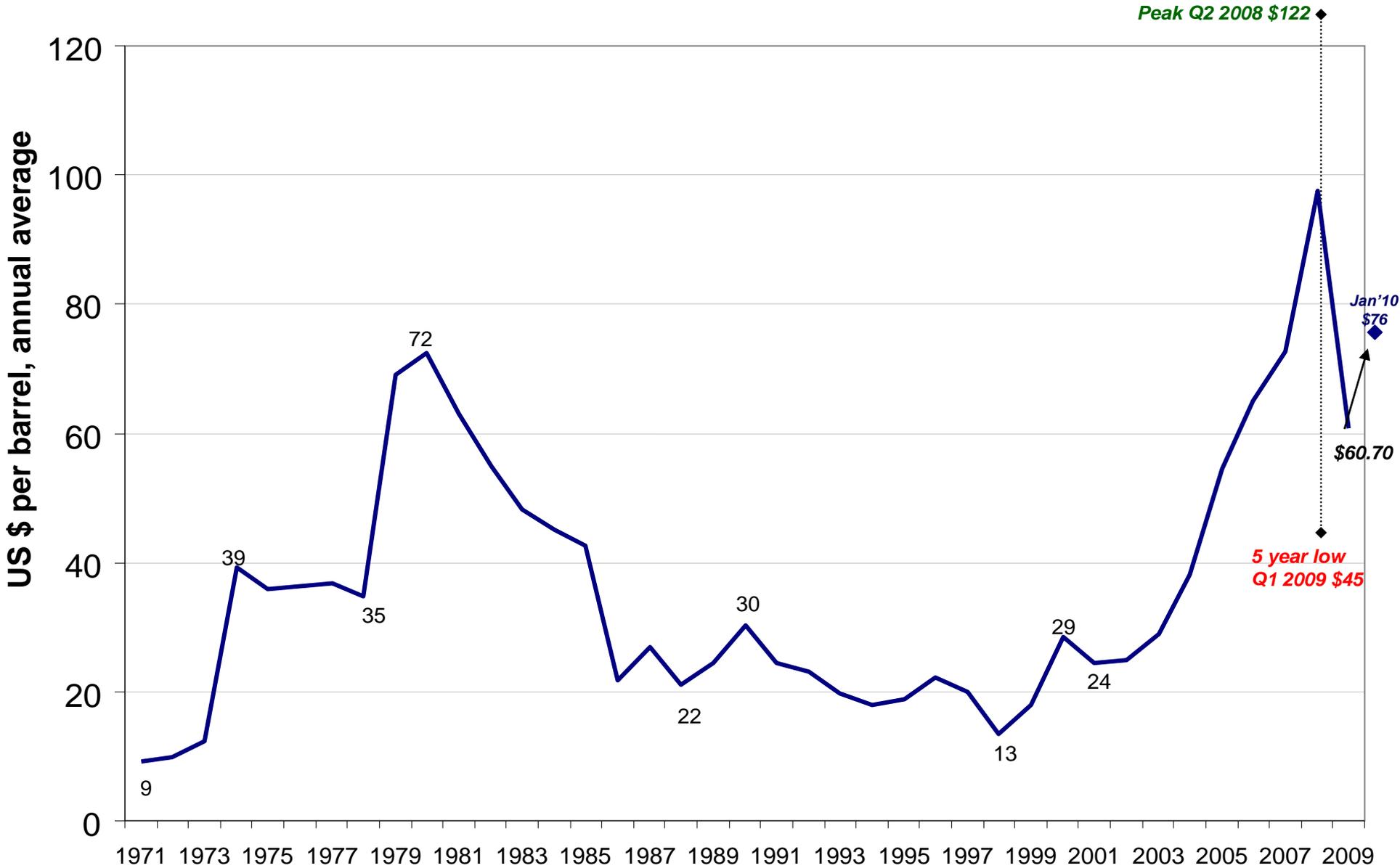
Percentage of Exports Destined for Sub-Regions: 2008



Exports of Fuels, Ores and Metals % of GDP in 2007



The Price of Oil



The Price of Oil

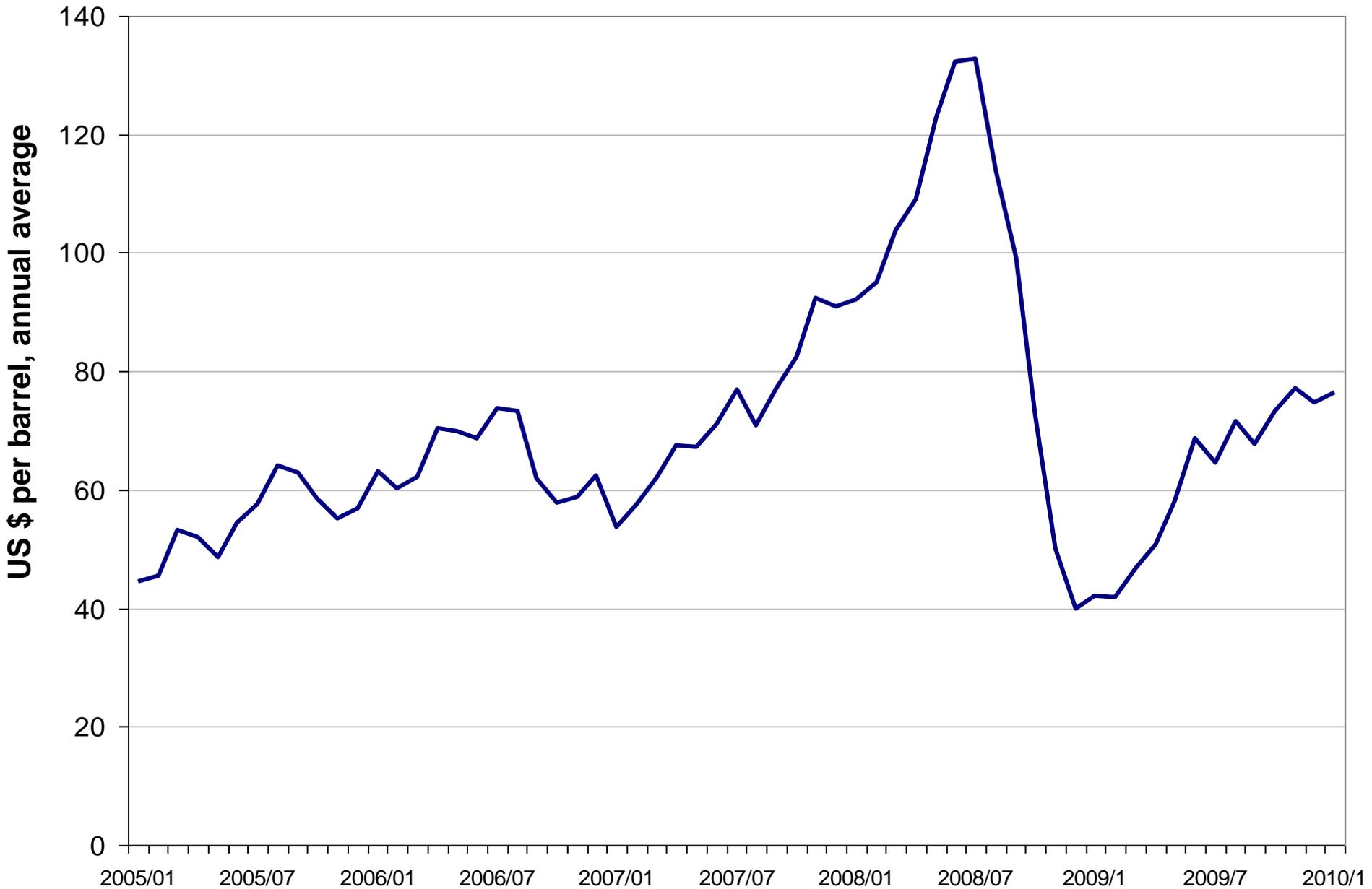
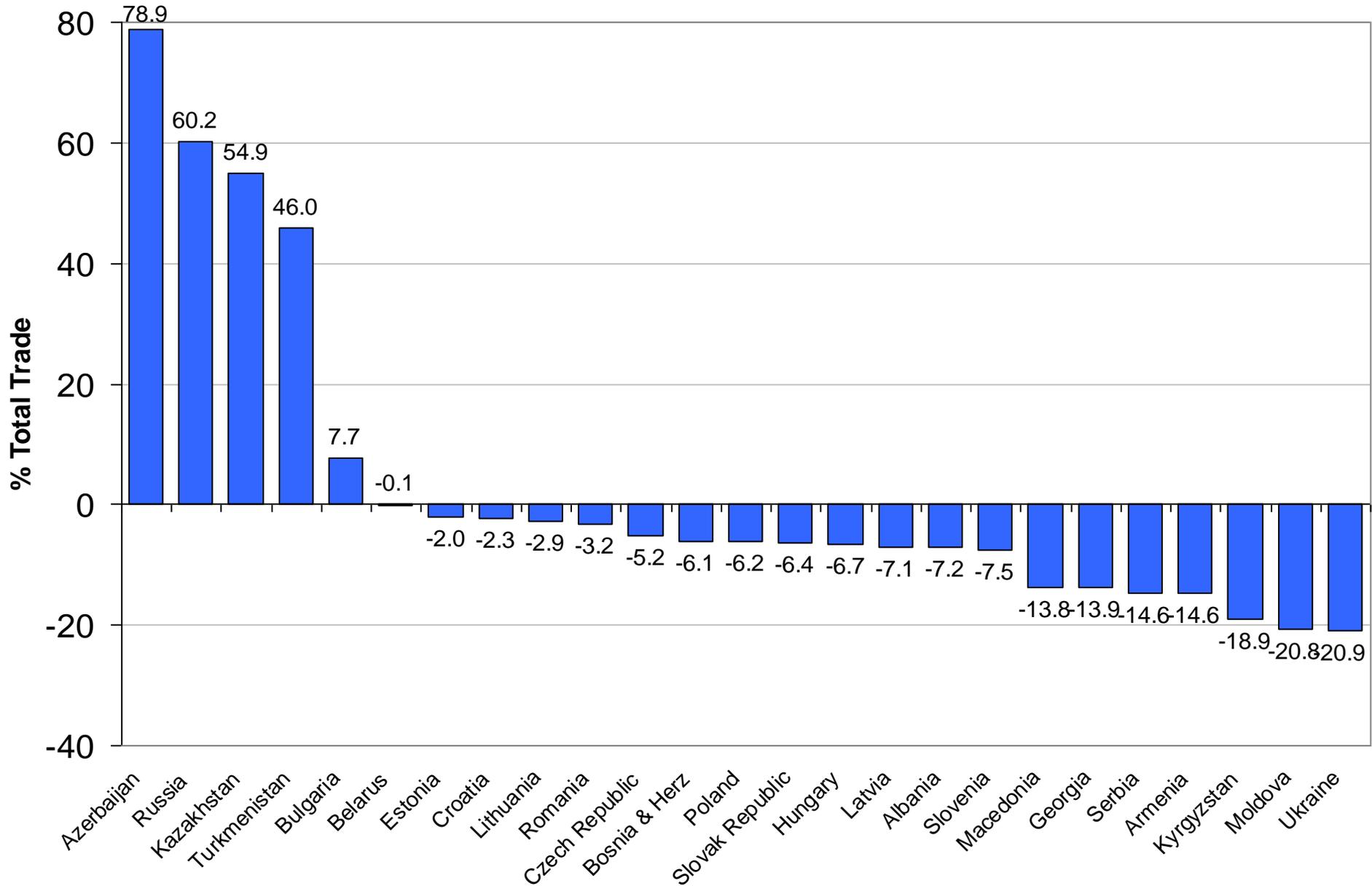
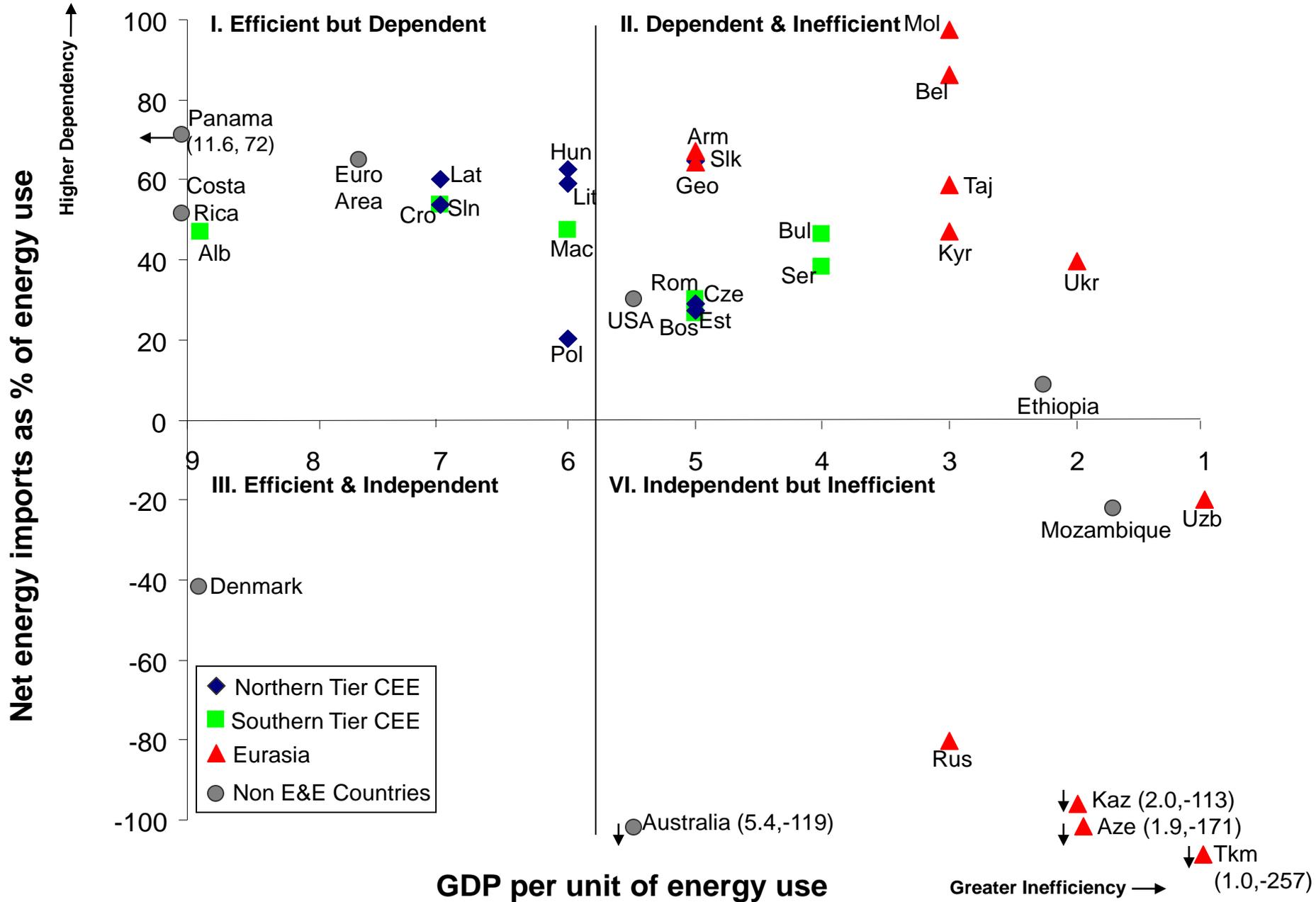


Figure 27

Net Fuel Exports as % of Merchandise Trade in 2007



Energy Dependency and Efficiency



Regional Remittance Composition by Source, 2006

% Total Flows

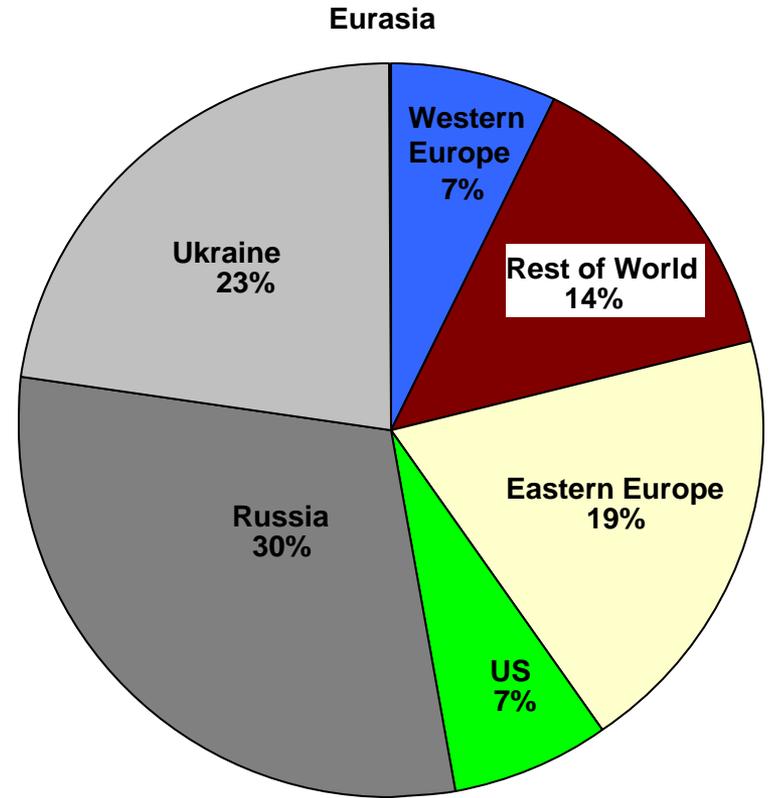
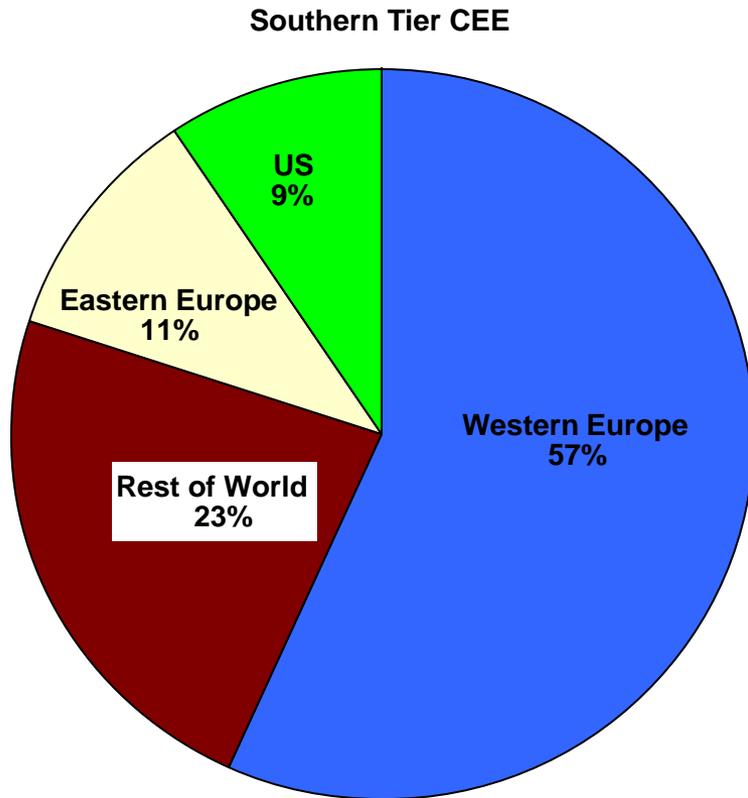


Figure 31

Unemployment Rate

(latest year available)

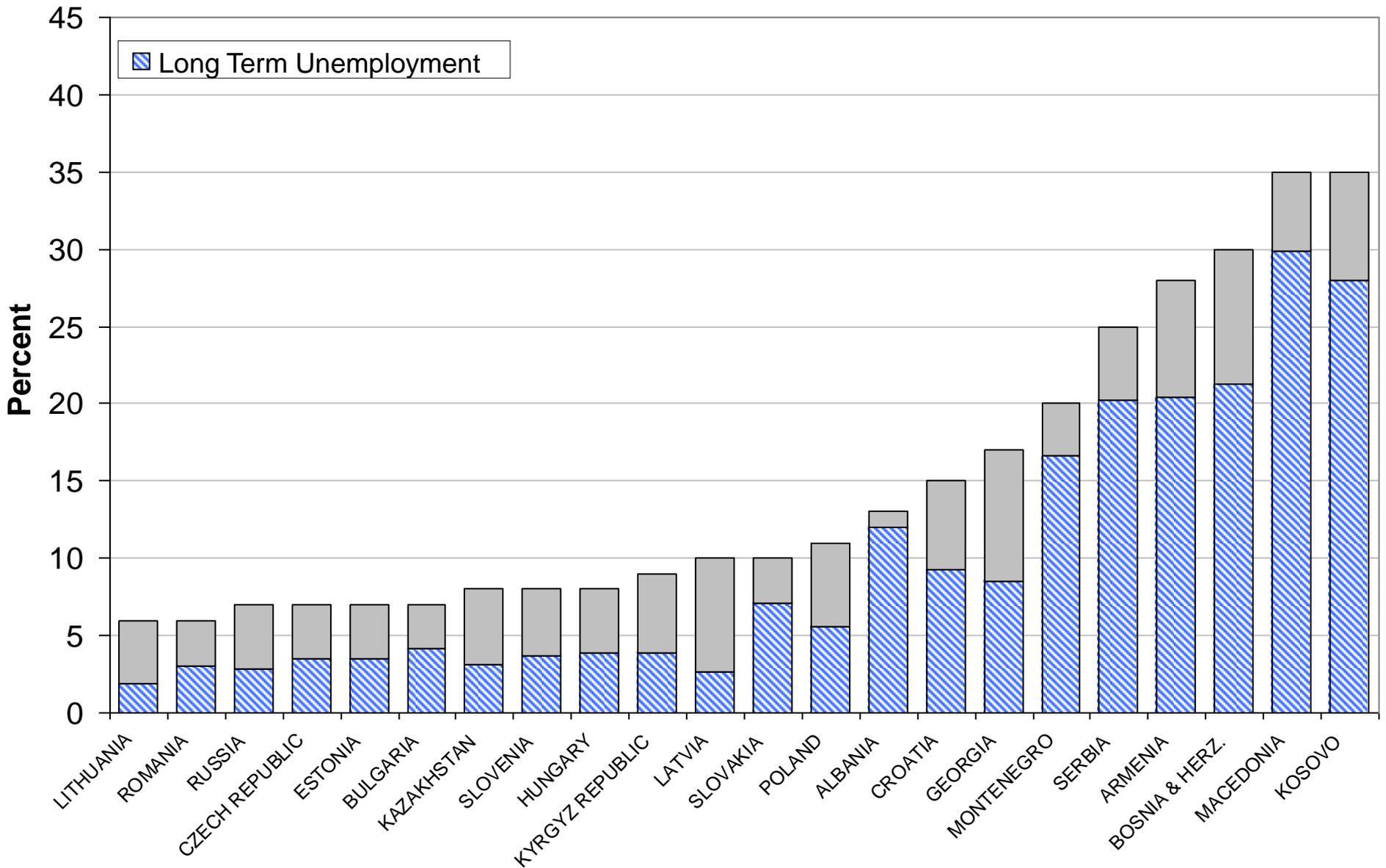
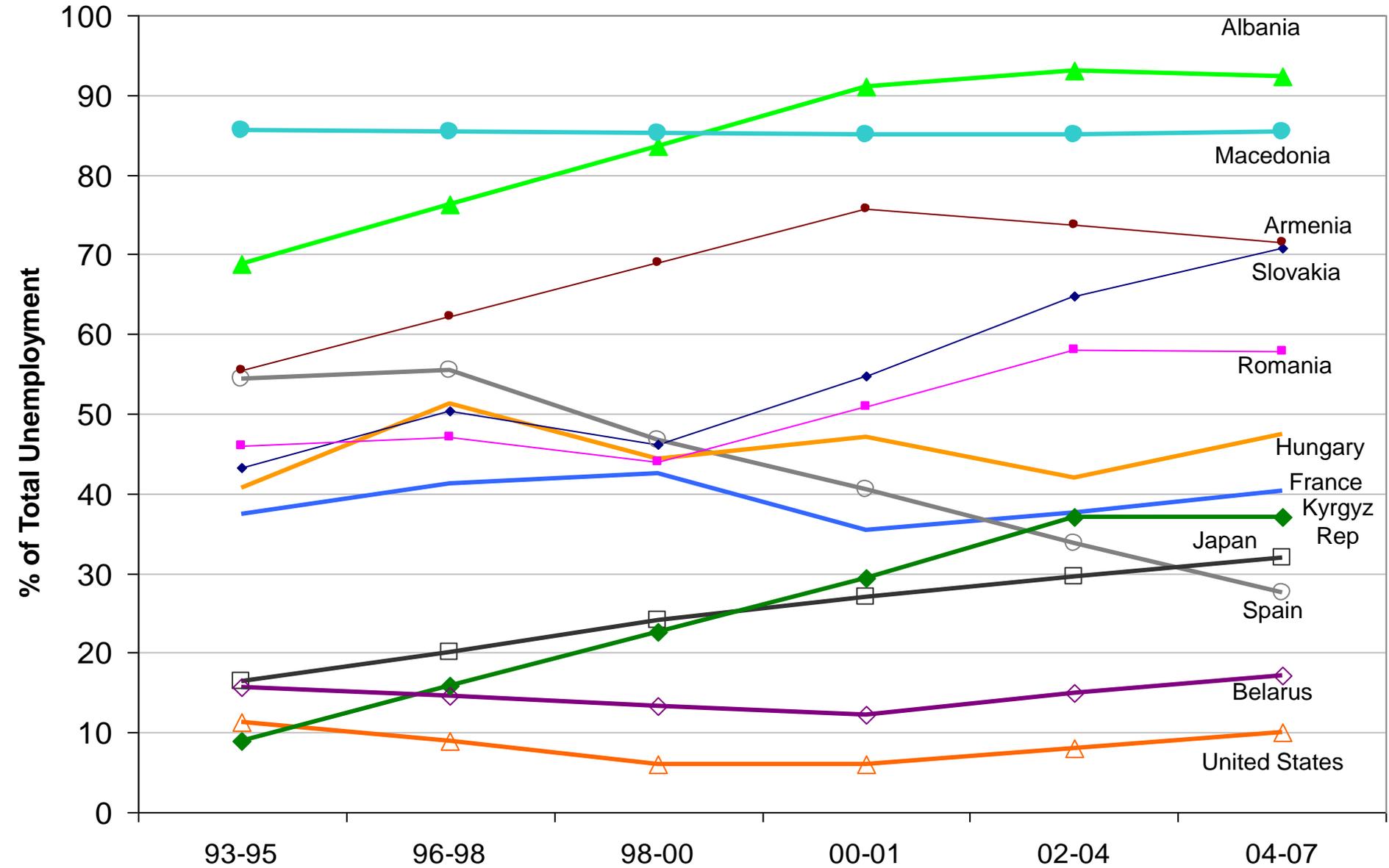


Figure 32

Long Term Unemployment



World Bank, *World Development Indicators* (May 2009), UN ILO, *Labor Statistics* (2009), and UNECE, *Statistical Division Database* (2009).

Figure 33

Youth Unemployment

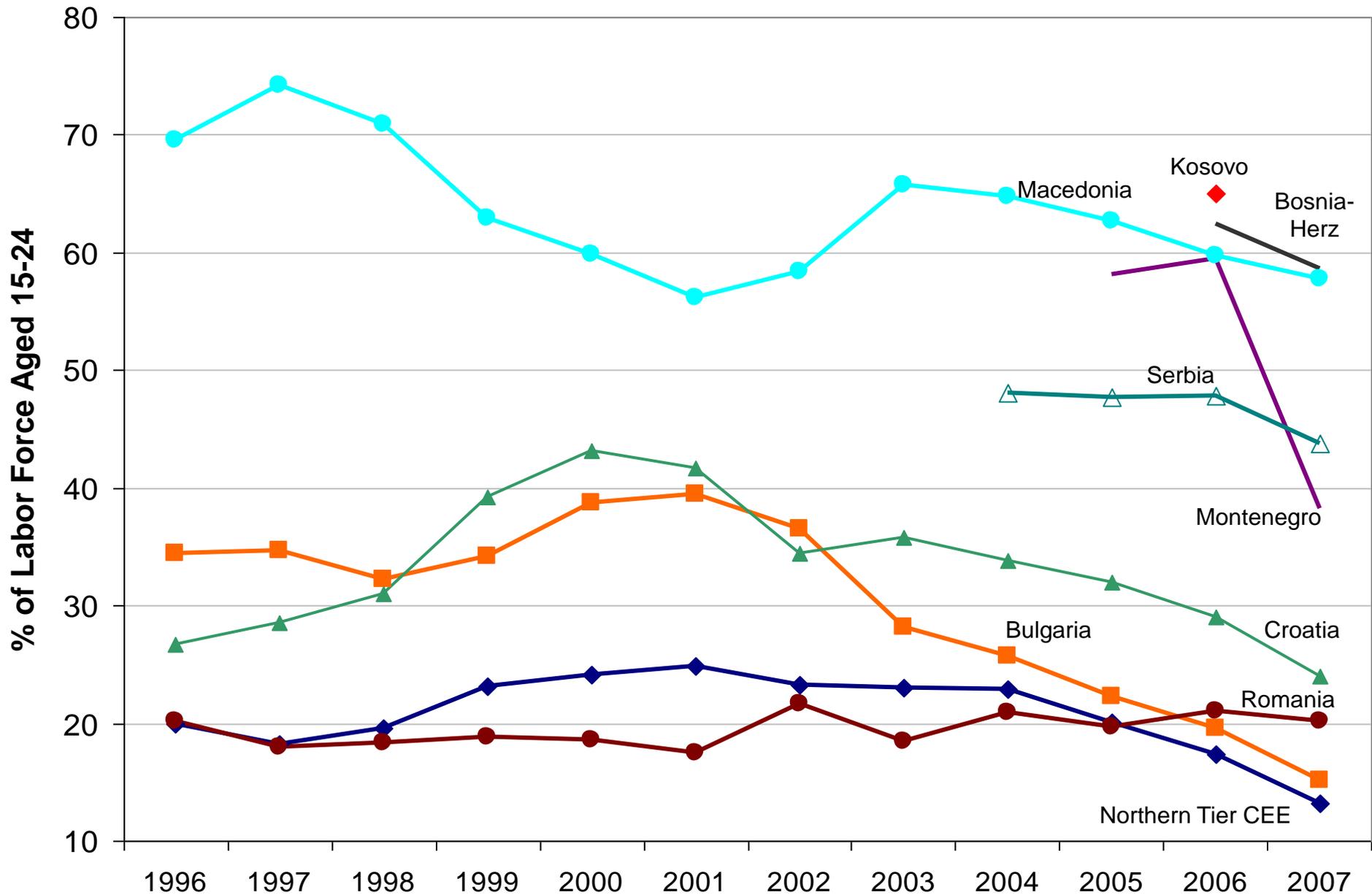


Figure 34

Life Expectancy at Birth

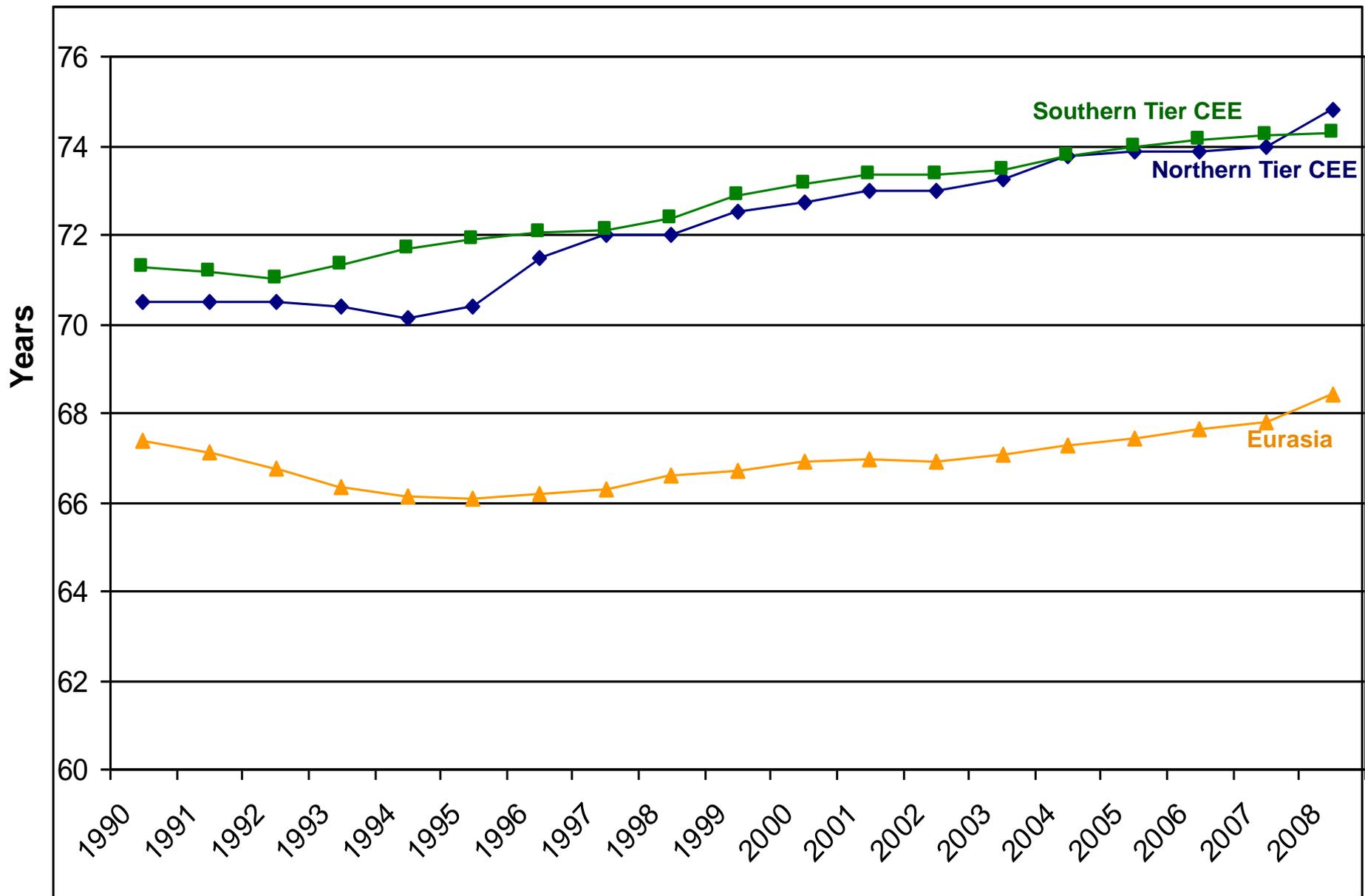
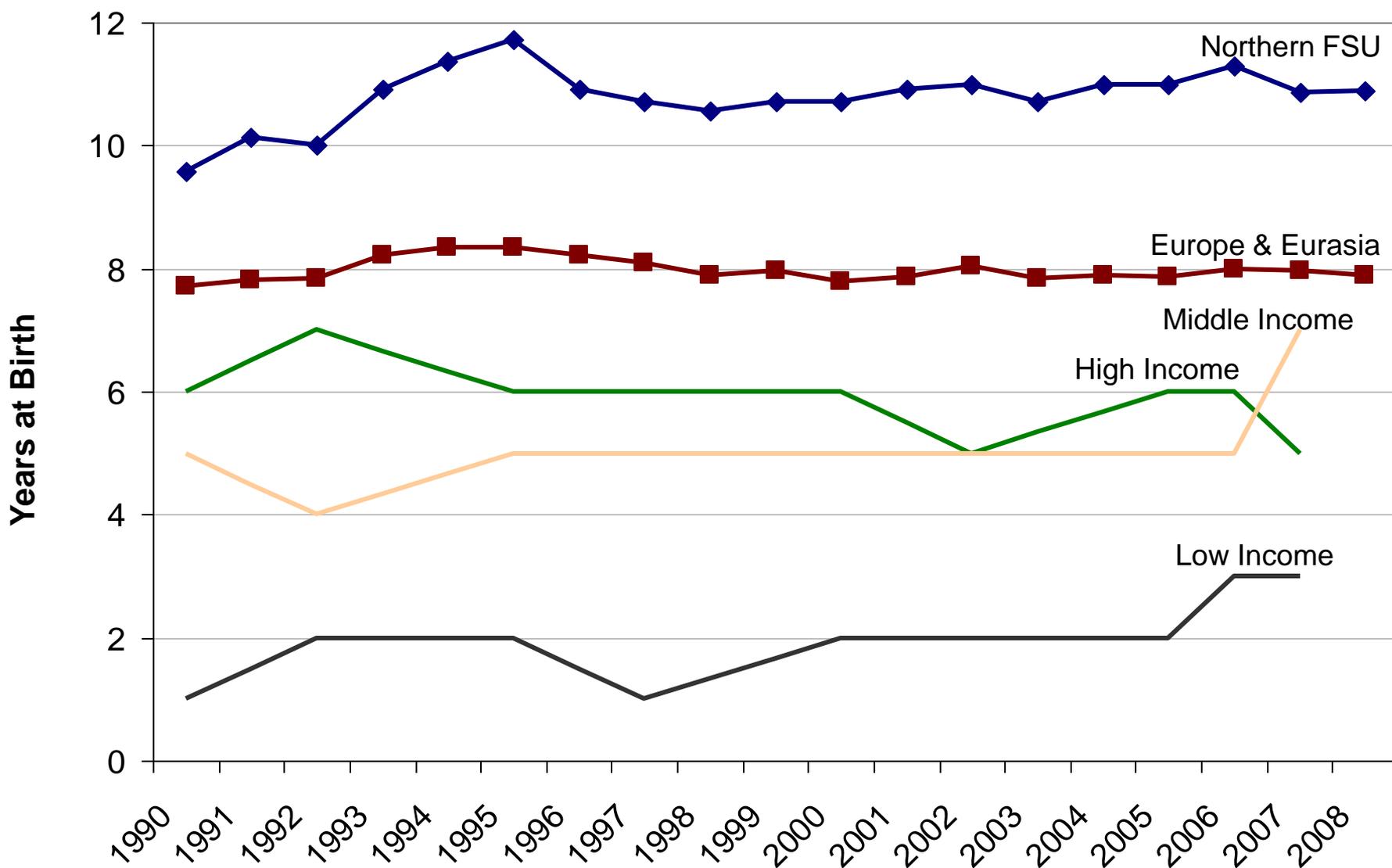


Figure 35

Life Expectancy Gender Gap



World Bank, *World Development Indicators 2009* (2009). The life expectancy gender gap is female life expectancy minus male life expectancy. The Northern Former Soviet Union countries include Russia, Ukraine, Moldova, Belarus and the three Baltic countries.

Infant Mortality Rates

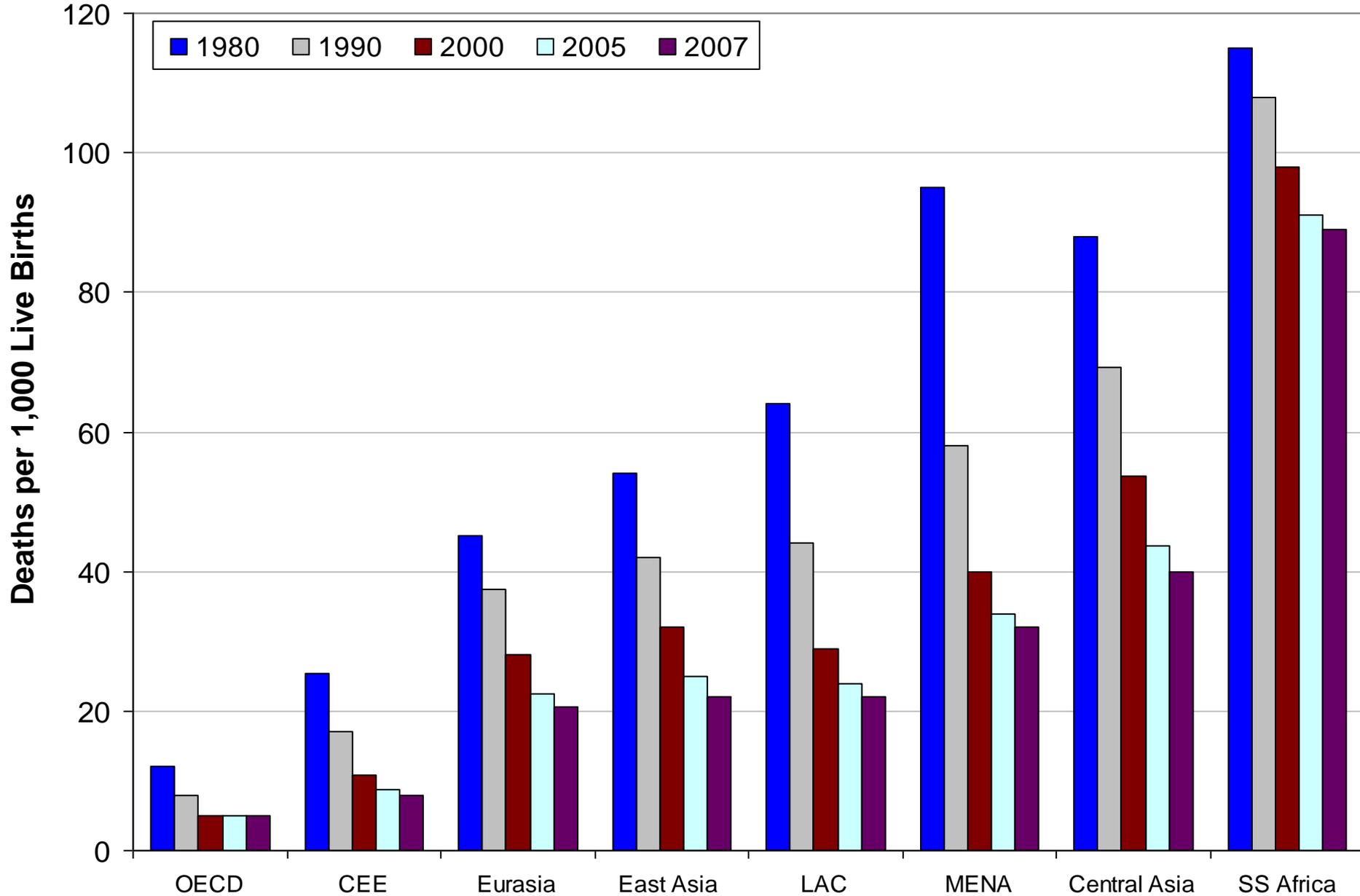
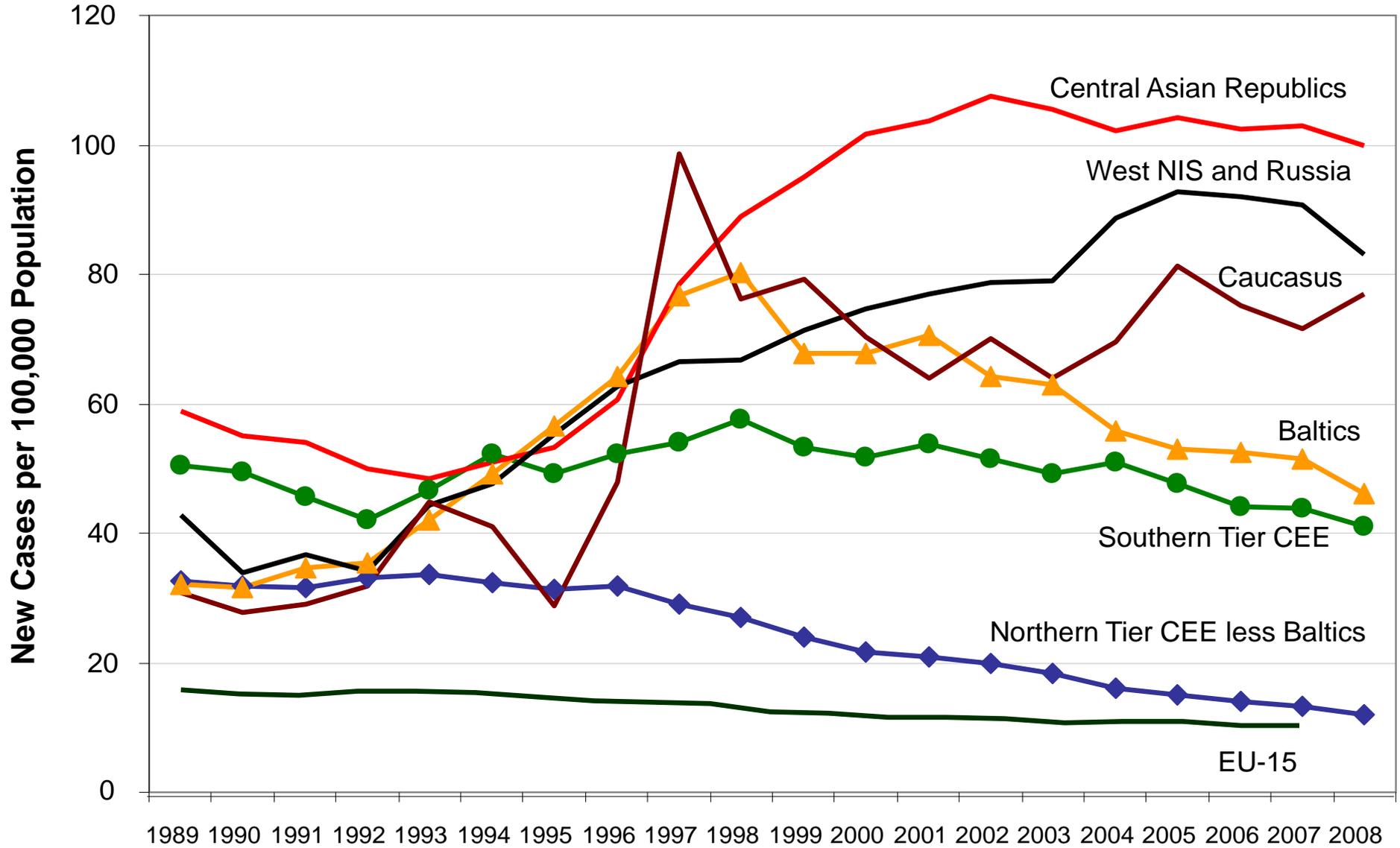


Figure 37

Tuberculosis Incidence



World Health Organization (WHO), *European Health For All Database* (2009) and WHO, *Global Tuberculosis Control: A Short Update to the 2009 Report* (Fall 2009).

TB Incidence in 2008

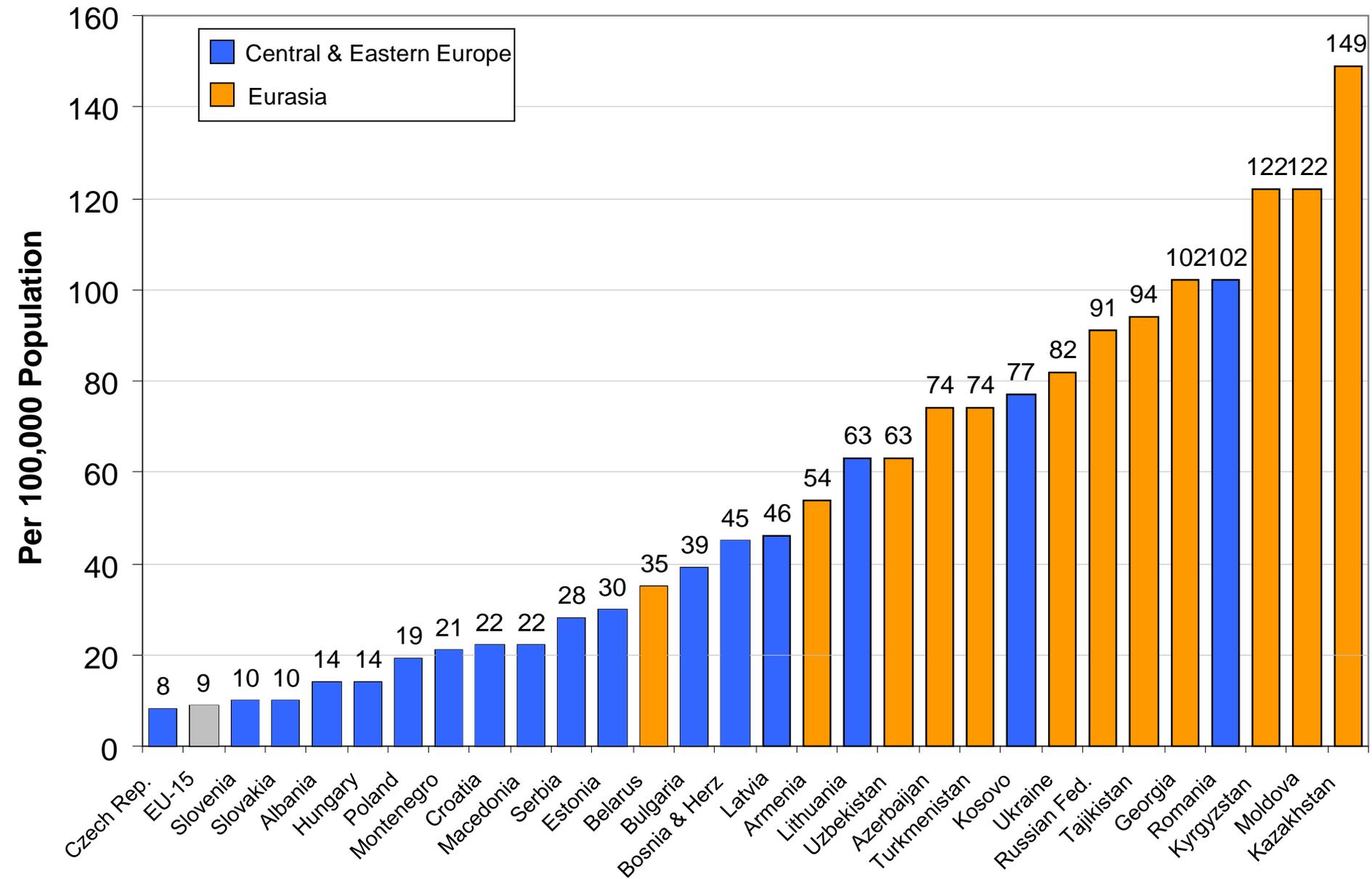


Figure 39

Tertiary Enrollment

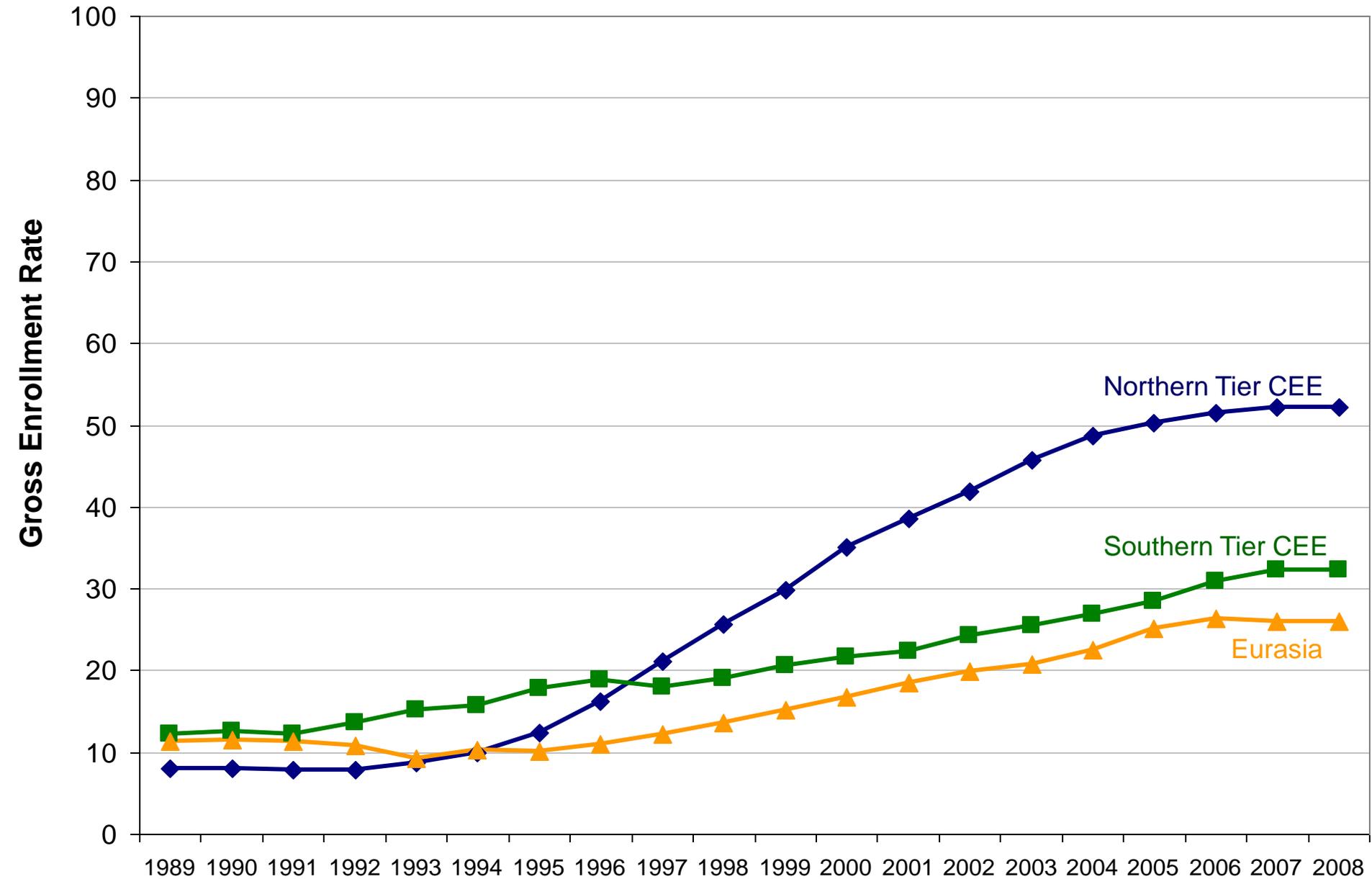


Figure 40

Total Secondary Enrollment

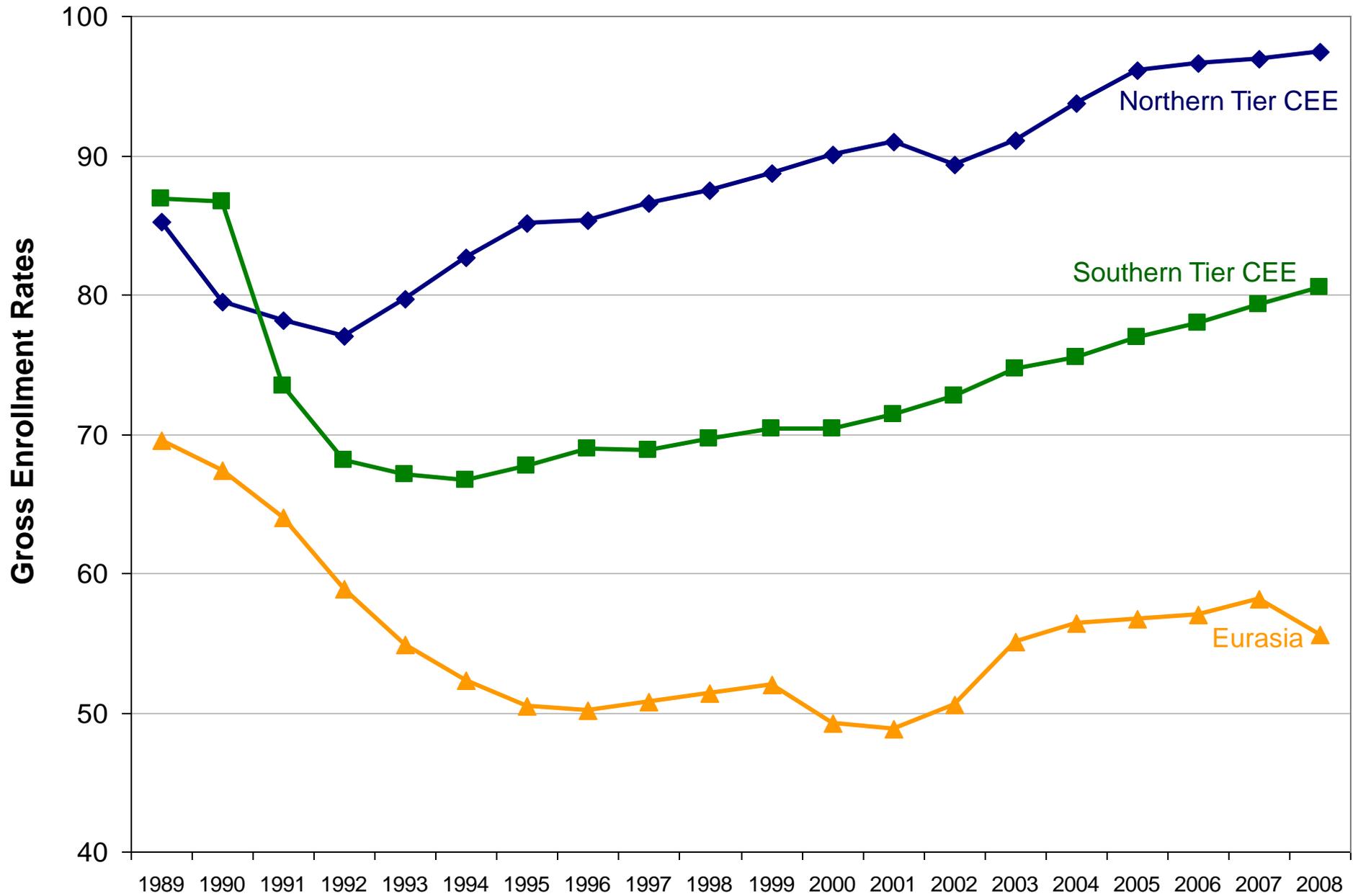
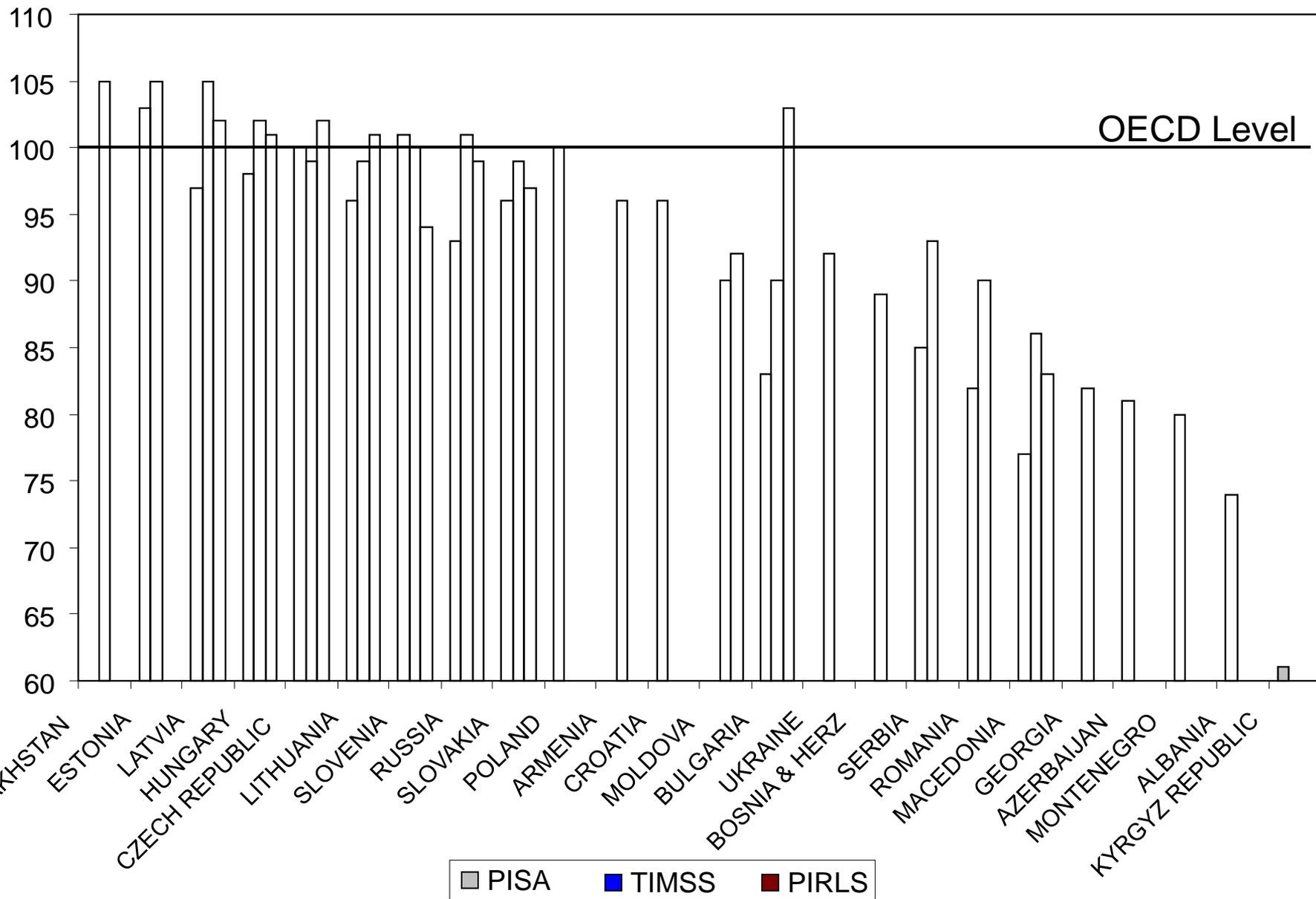


Figure 41

Functional Literacy

PISA vs. TIMSS vs. PIRLS



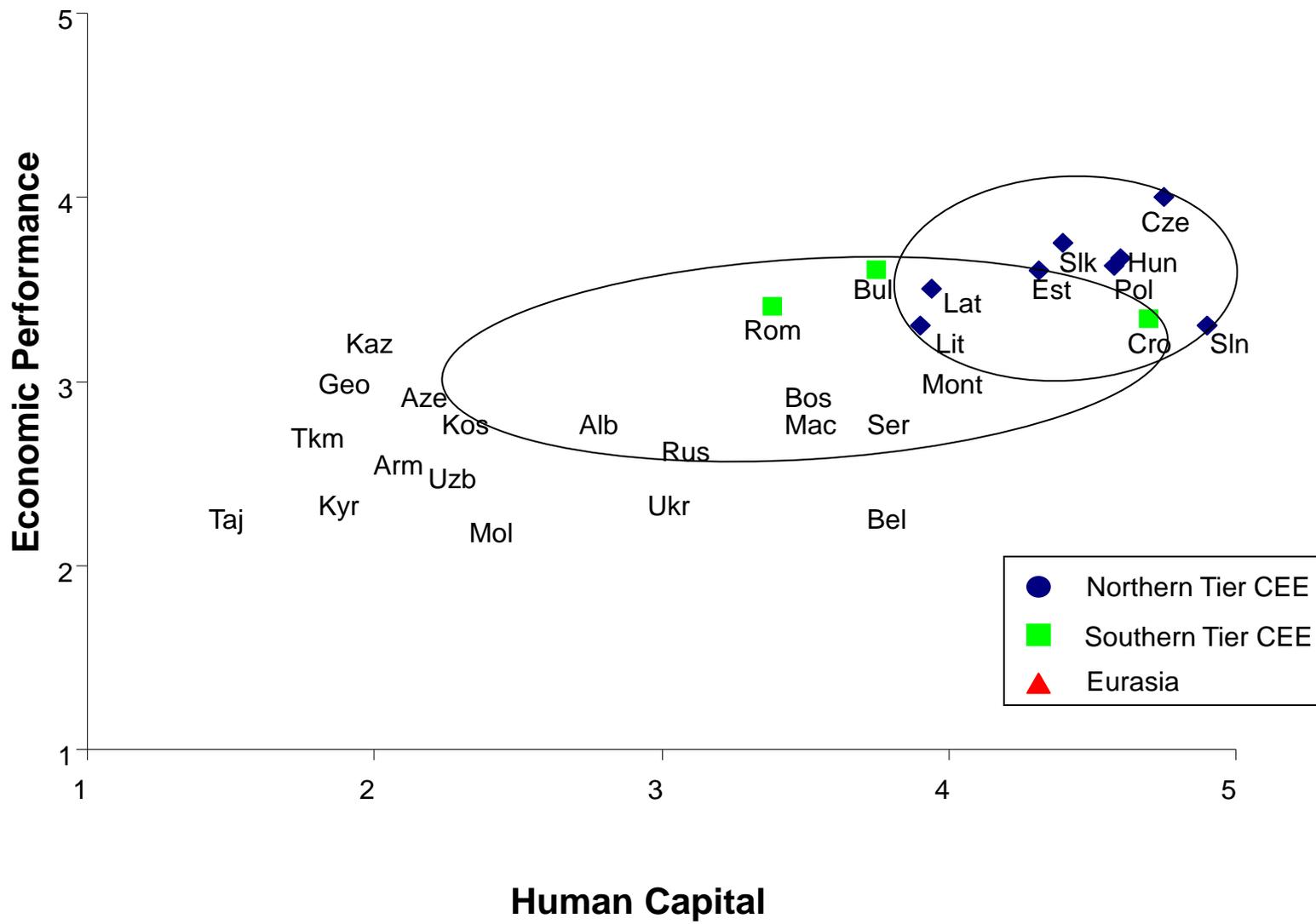
OECD Level

PISA
 TIMSS
 PIRLS

International Association for the Evaluation of Educational Achievement (IEA), *TIMSS International Mathematics Report (2008)*, *TIMSS International Science Report (2008)* and *PIRLS International Report (2008)*; and Organization for Economic Cooperation and Development (OECD), *First Results from PISA 2006 (2007)*.

Figure 42a

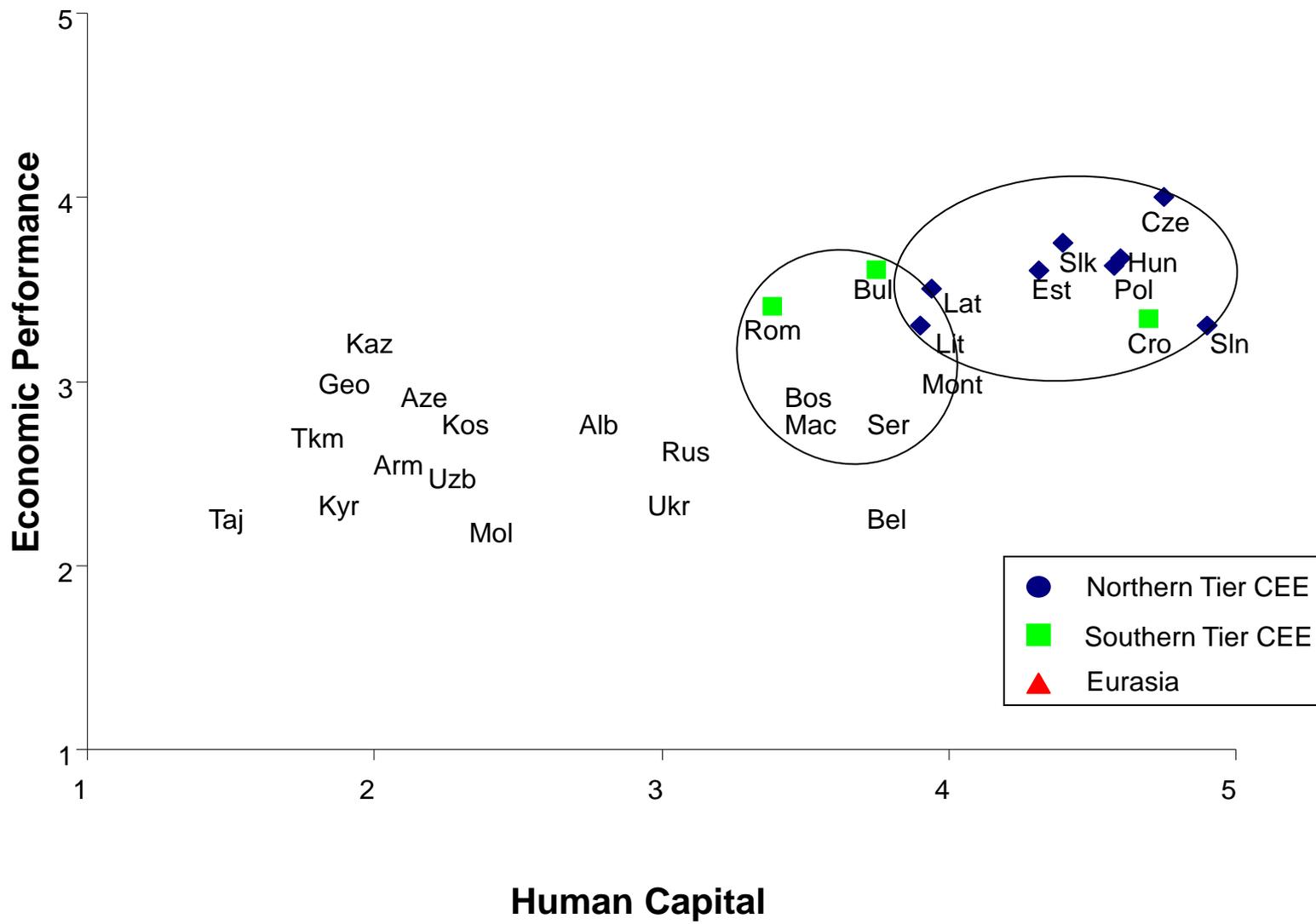
Economic Performance and Human Capital in 2007-2009



Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, Monitoring Country Progress in CEE & Eurasia #12 (2009 forthcoming) drawing from World Bank, *World Development Indicators 2009* (May 2009); EBRD, *Transition Report 2009* (November 2009), UNECE, *Statistical Division Database* (2009); Fund for Peace, *Failed States Index* (2009); IFC & World Bank, *MSME Database* (2007); UNICEF, *TransMONEE Database* (2009); World Health Organization European Health For All Database (2009); IEA, *TIMSS International Mathematics Report* (2008 and 2004), *TIMSS International Science Report* (2008 and 2004) and *PIRLS International Report* (2008 and 2003); OECD, *Literacy Skills for the World of Tomorrow: Further Results from PISA 2000* (2003), *First Results from PISA 2003* (2004) and *International Adult Literacy Survey* (2000).

Figure 42b

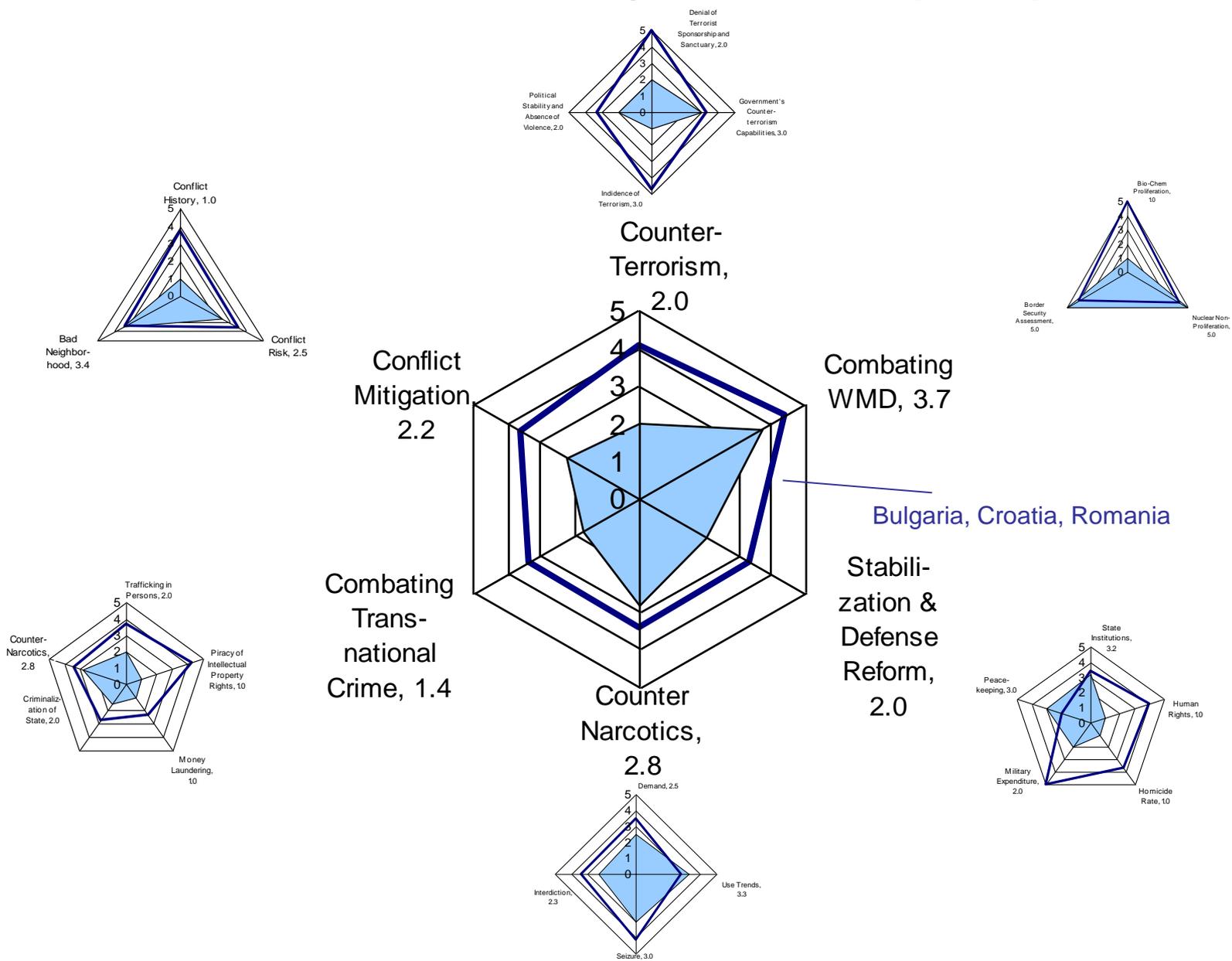
Economic Performance and Human Capital in 2007-2009



Human Capital

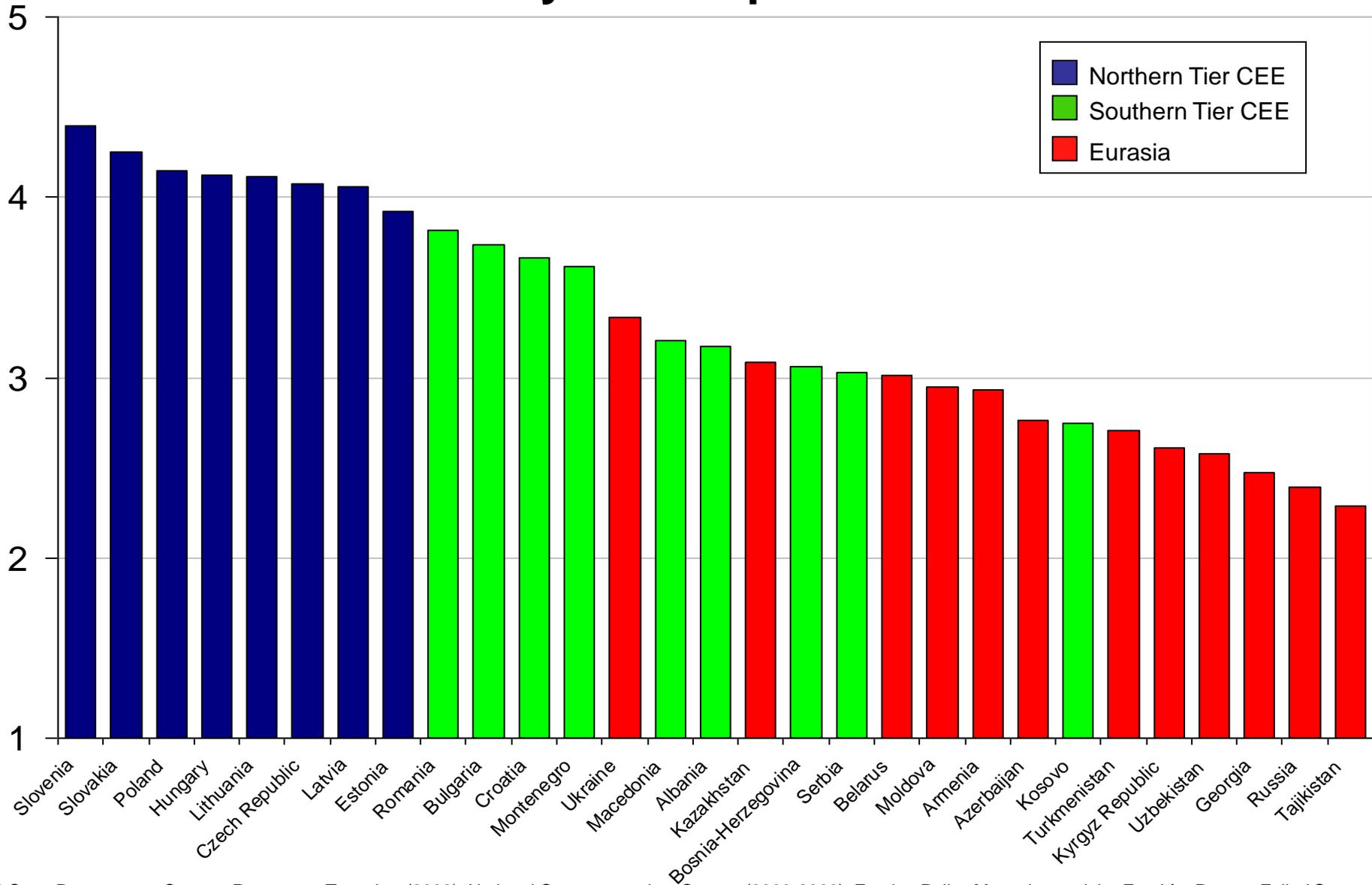
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, Monitoring Country Progress in CEE & Eurasia #12 (2009 forthcoming) drawing from World Bank, *World Development Indicators 2009* (May 2009); EBRD, *Transition Report 2009* (November 2009), UNECE, *Statistical Division Database* (2009); Fund for Peace, *Failed States Index* (2009); IFC & World Bank, *MSME Database* (2007); UNICEF, *TransMONEE Database* (2009); World Health Organization European Health For All Database (2009); IEA, *TIMSS International Mathematics Report* (2008 and 2004), *TIMSS International Science Report* (2008 and 2004) and *PIRLS International Report* (2008 and 2003); OECD, *Literacy Skills for the World of Tomorrow: Further Results from PISA 2000* (2003), *First Results from PISA 2003* (2004) and *International Adult Literacy Survey* (2000).

Peace & Security in Russia (2009)



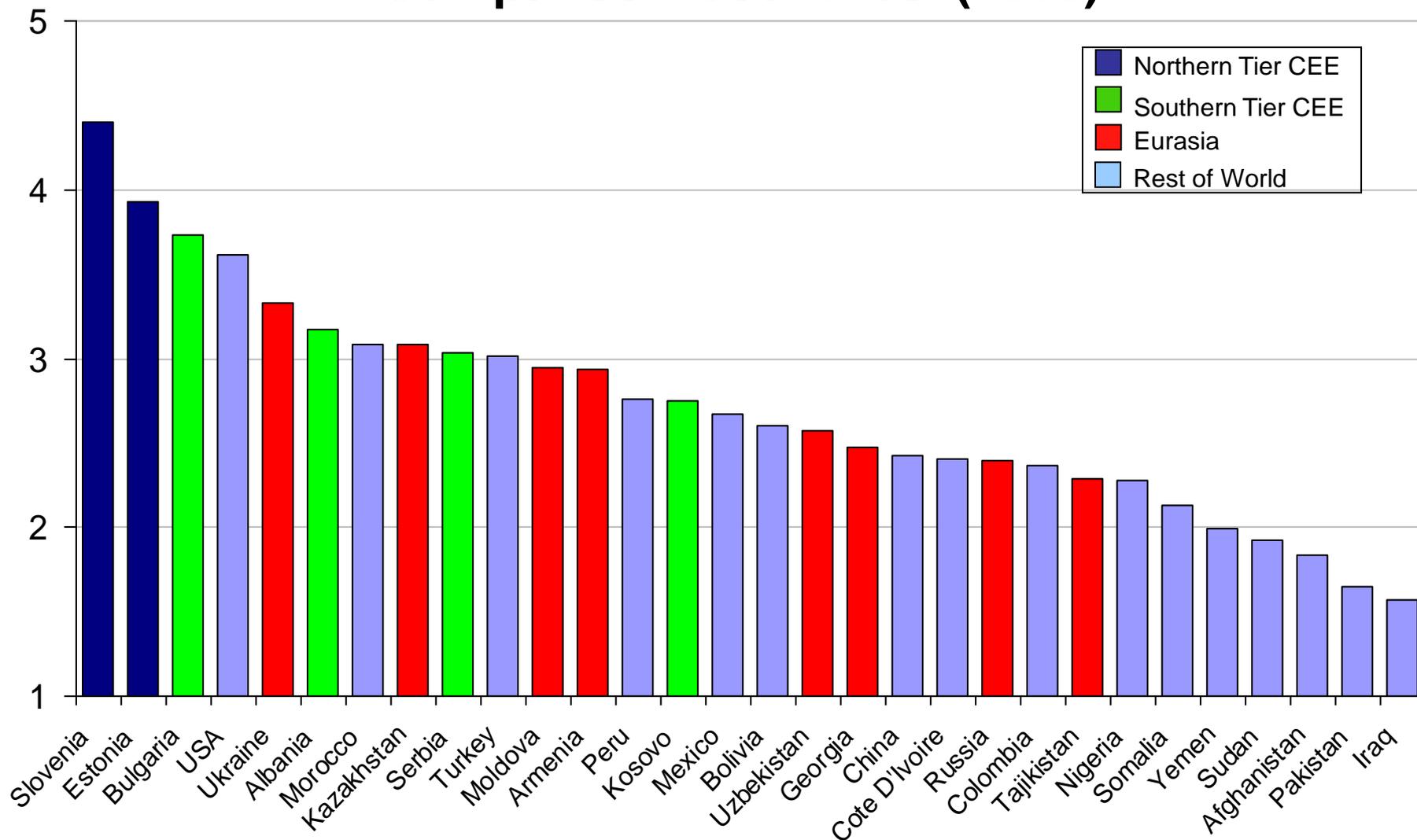
Sources include: U.S. State Department; Fund for Peace; World Bank; U.S. Commerce Department; Binghamton University; UNICEF; A.T. Kearney; UNODC; USTR; USAID/DCHA/CMM; and George Mason University.

Peace and Security in Europe & Eurasia in 2009



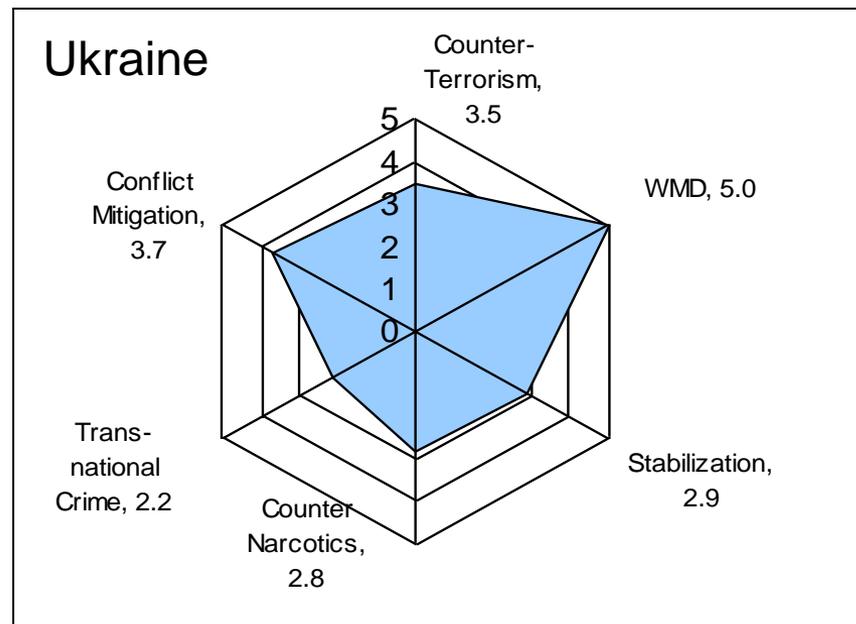
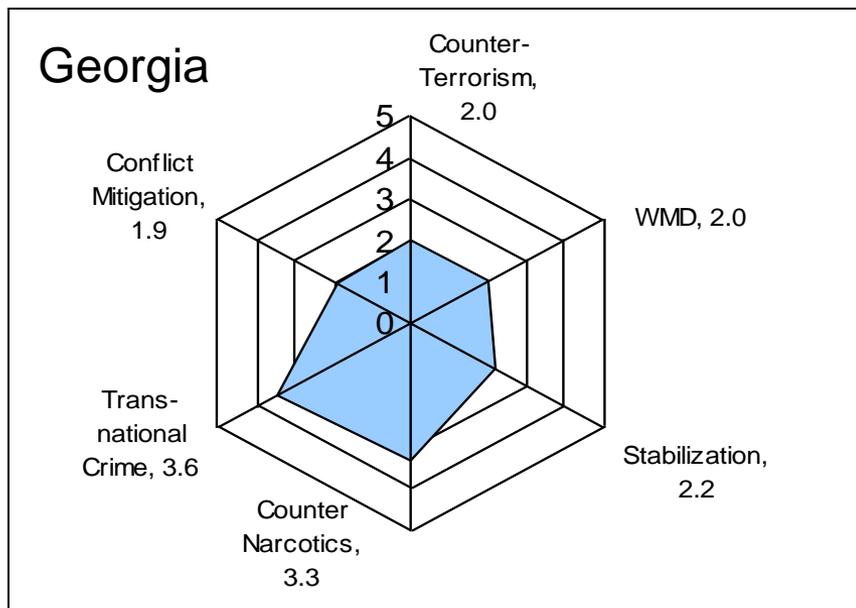
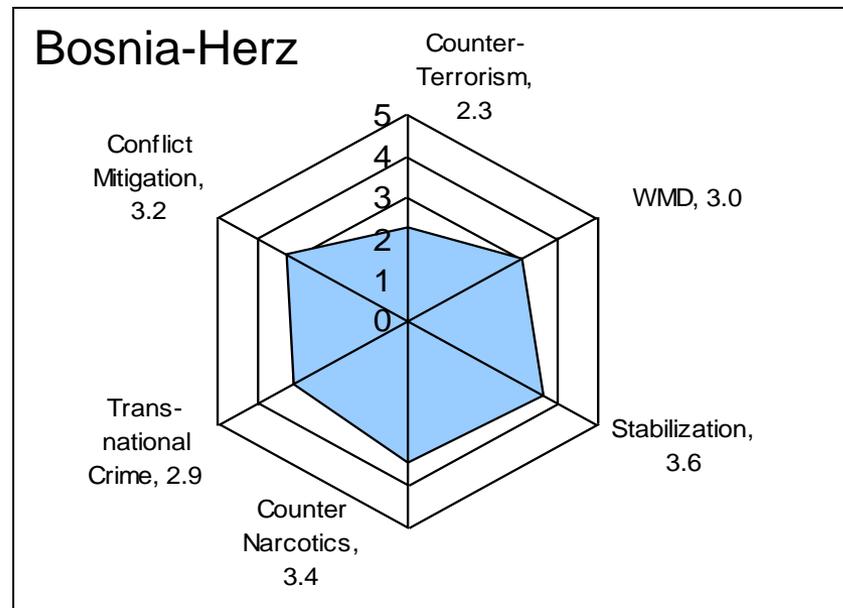
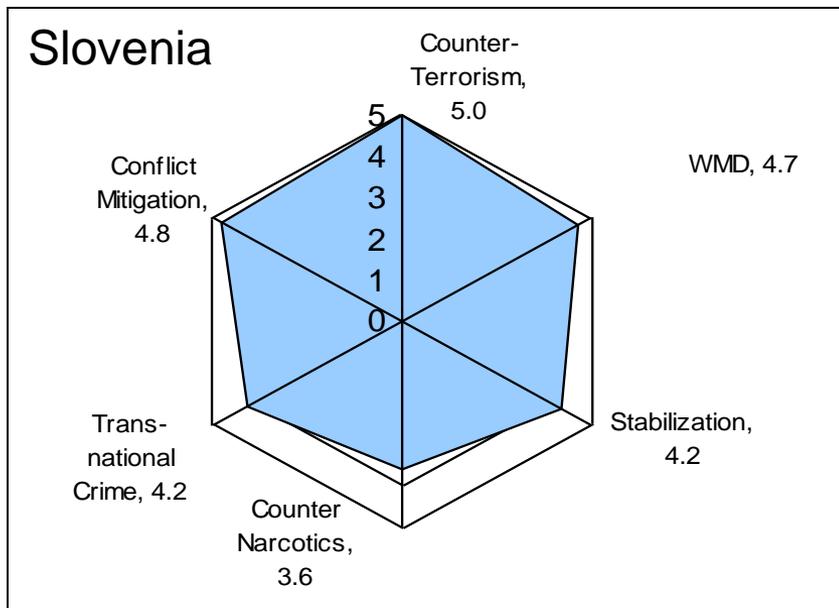
US State Department, *Country Reports on Terrorism* (2009); National Counterterrorism Center, (2008-2009); Foreign Policy Magazine and the Fund for Peace, *Failed States Index* (2009); World Bank Institute, *Governance Matters Indicators* (2008); US Commerce Department, *Export Control Policy*, (2009.) US State Department, *Export Control/Border Security Assessment* (2009) Binghamton University, Cingranelli-Richards *Human Rights Dataset*, (2007); UNICEF TransMONEE (2003-2006); World Bank, *World Development Indicators* (2009); A.T. Kearney/Foreign Policy Magazine, *Globalization Index* (2007) UNODC, *World Drug Report*, (2009) ; US Department of State, *Trafficking in Persons Report* (2009); USTR *Special 301 Report* (2009) ;US Department of State, *International Narcotics Control Strategy Report* (2009); Center for Global Policy, George Mason University, *Political Instability Task Force* (2006-0) USAID/DCHA/CMM *Instability Alert List* (2009)

Peace and Security in Selected E&E and Comparison Countries (2009)

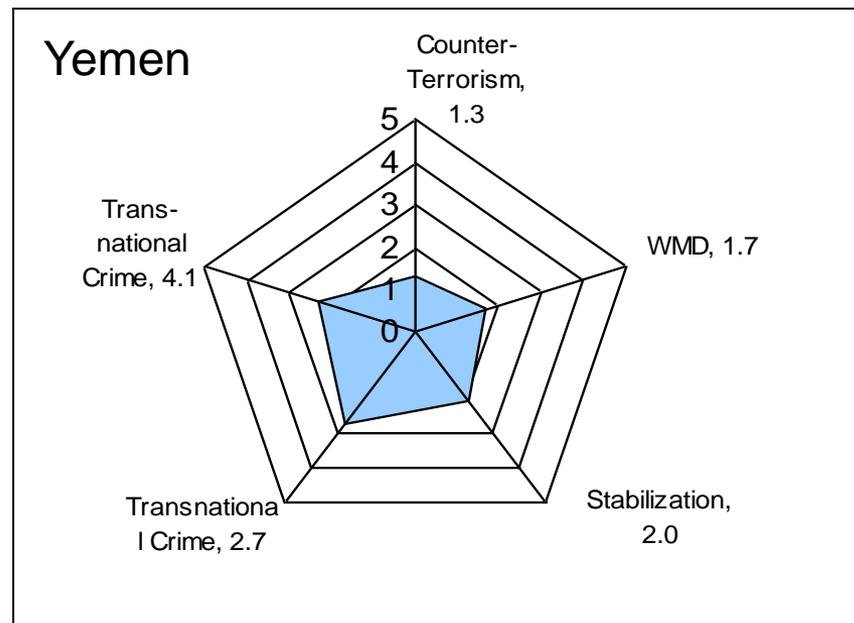
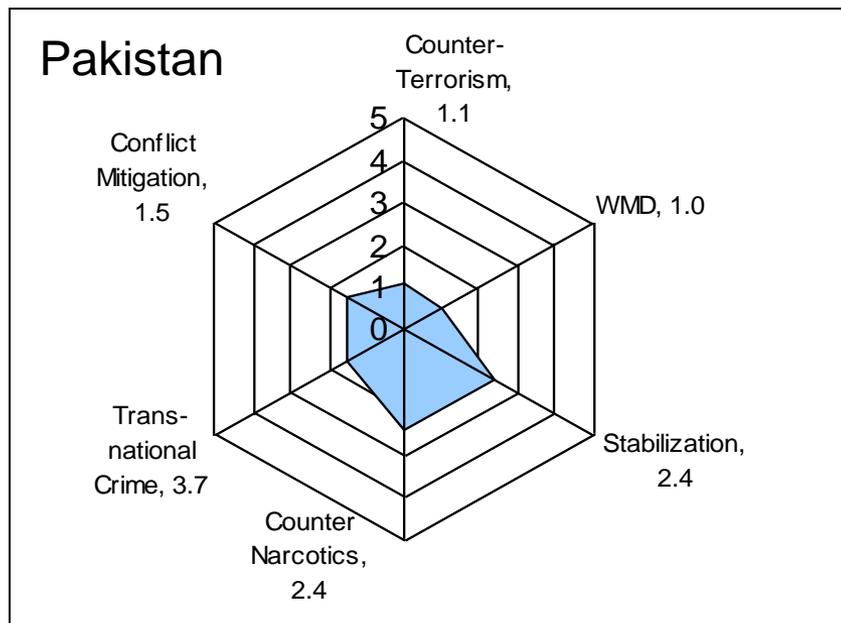
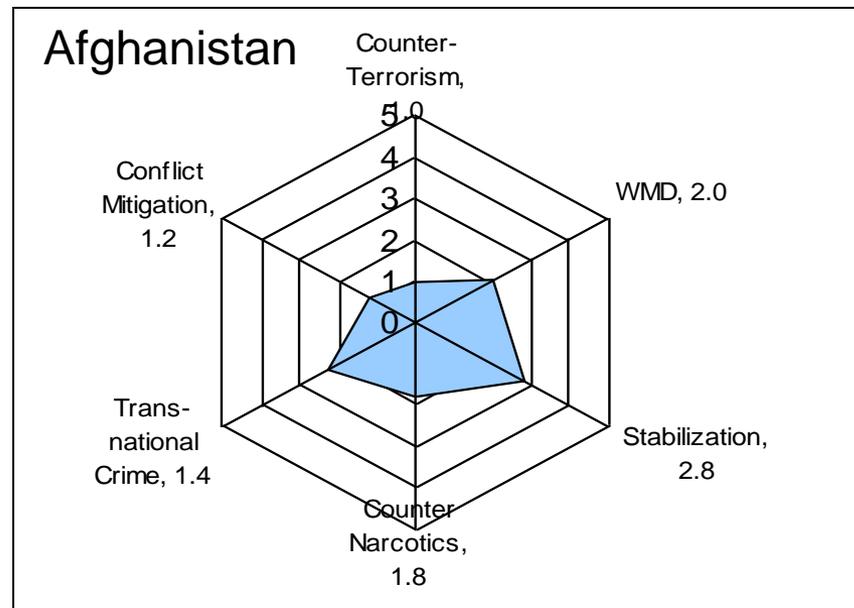
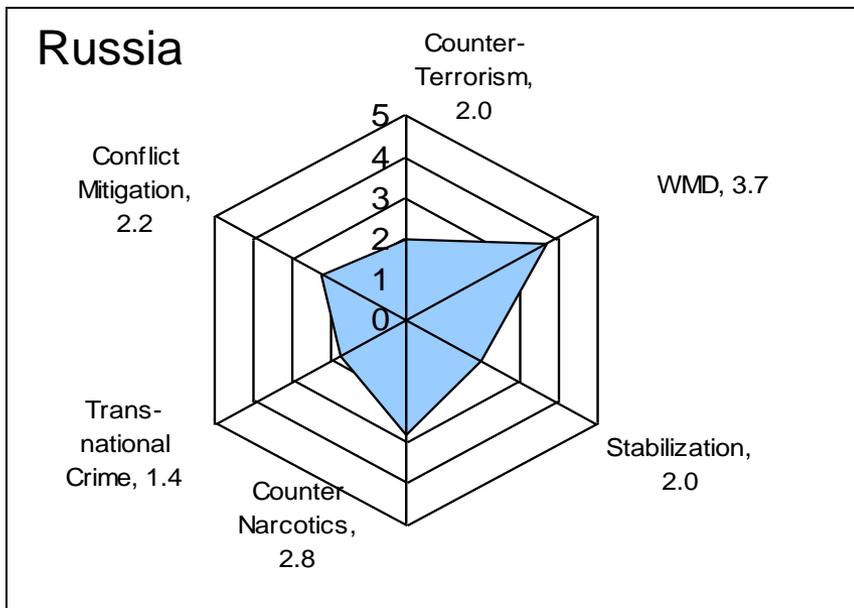


US State Department, *Country Reports on Terrorism* (2009); National Counterterrorism Center, (2008-2009); Foreign Policy Magazine and the Fund for Peace, *Failed States Index* (2009); World Bank Institute, *Governance Matters Indicators* (2008); US Commerce Department, *Export Control Policy*, (2009.) US State Department, *Export Control/Border Security Assessment* (2009) Binghamton University, Cingranelli-Richards *Human Rights Dataset*, (2007); UNICEF TransMONEE (2003-2006); World Bank, *World Development Indicators* (2009); A.T. Kearney/Foreign Policy Magazine, *Globalization Index* (2007) UNODC, *World Drug Report*, (2009) ; US Department of State, *Trafficking in Persons Report* (2009); USTR *Special 301 Report* (2009) ;US Department of State, *International Narcotics Control Strategy Report* (2009); Center for Global Policy, George Mason University, *Political Instability Task Force* (2006-0) USAID/DCHA/CMM *Instability Alert List* (2009)

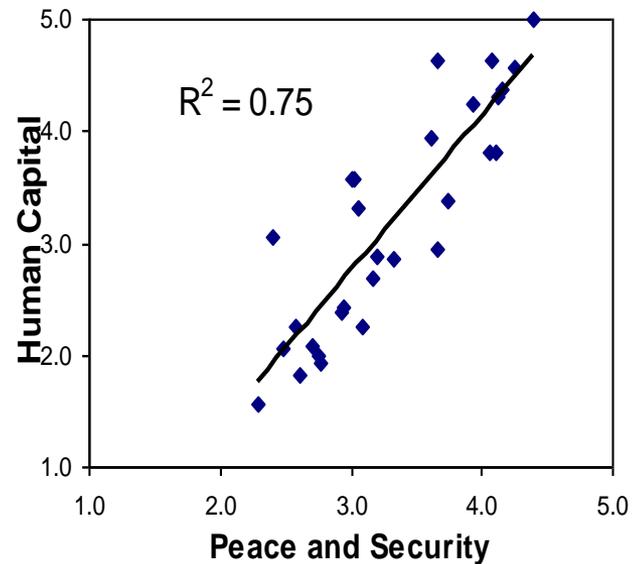
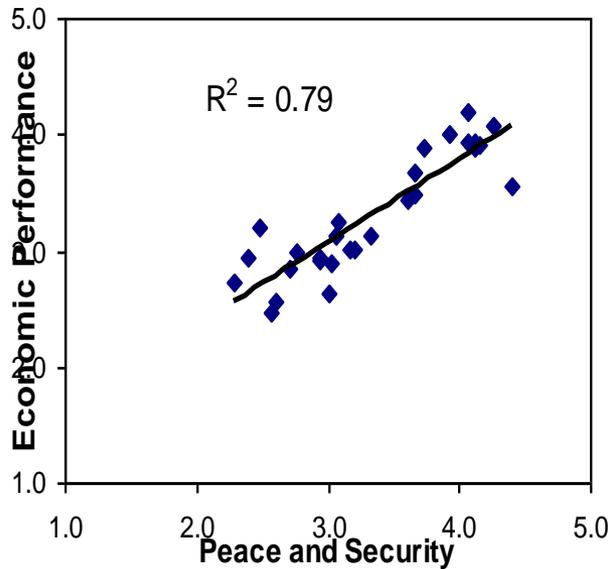
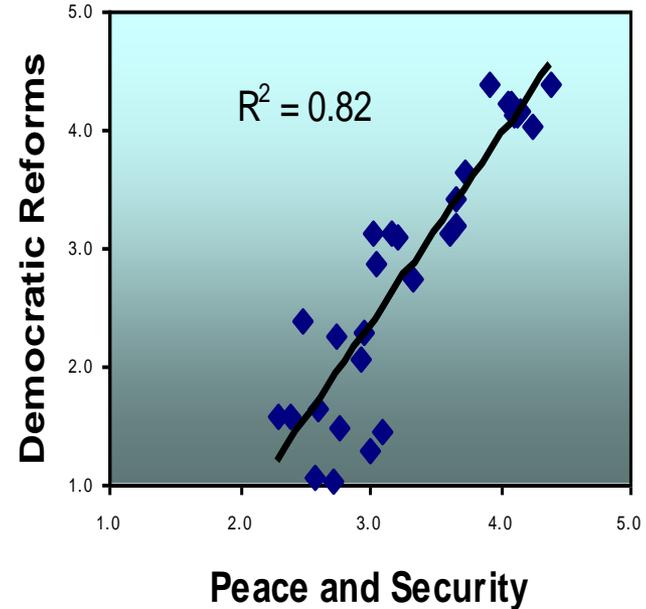
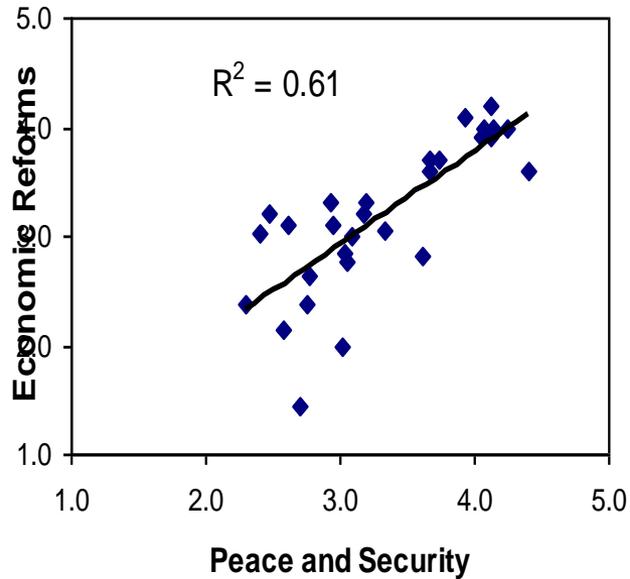
Peace & Security in Europe and Eurasia



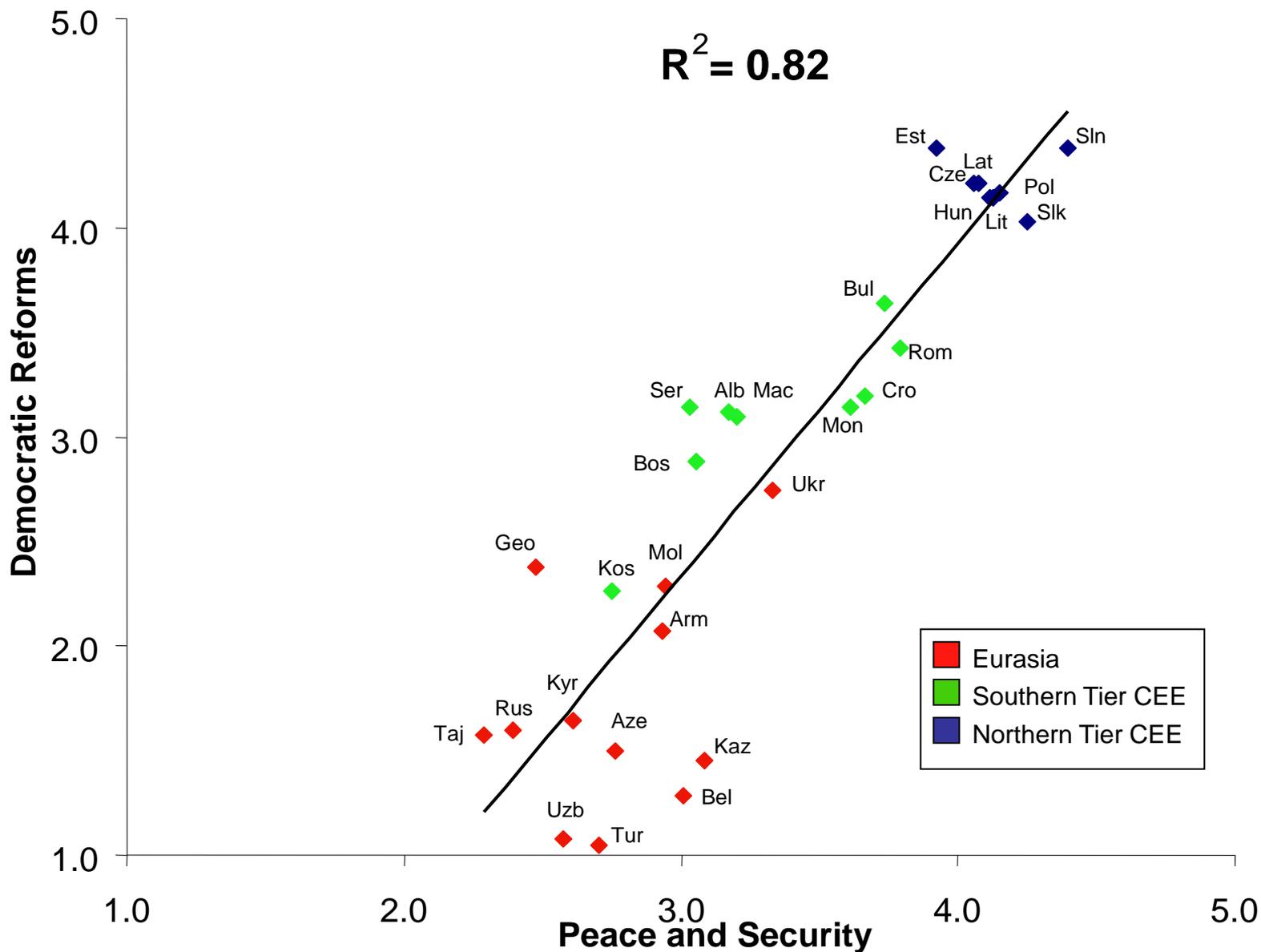
Peace & Security in Europe and Eurasia



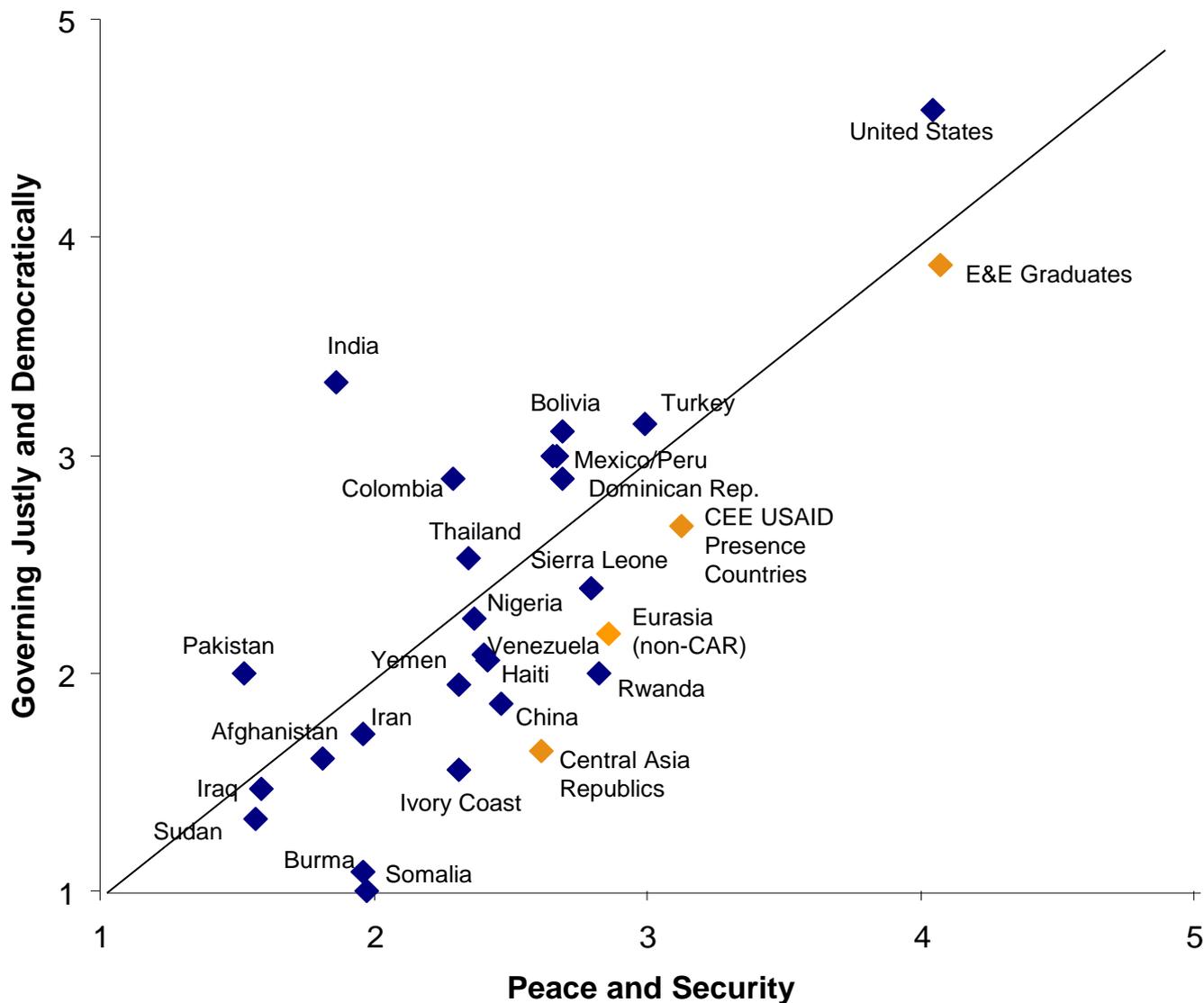
Peace and Security vs. Other MCP Indices



Peace and Security vs. Democratic Reforms



Peace and Security vs. Governing Justly and Democratically



US 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; USAID/CMM; World Bank Institute, *Governance Matters Indicators (2007)*; World Bank, Freedom House, *Freedom in the World 2008 (2007)*, and *Freedom of the Press 2008 (2007)*.

Table 1. First Stage Economic Policy Reforms in 2009

	Small scale privatization	Trade & Forex system	Price Liberalization	Large scale privatization	First Stage Economic Reform
ESTONIA	5.0	5.0	5.0	4.0	4.8
HUNGARY	5.0	5.0	5.0	4.0	4.8
LITHUANIA	5.0	5.0	5.0	4.0	4.8
SLOVAK REPUBLIC	5.0	5.0	5.0	4.0	4.8
CZECH REPUBLIC	5.0	5.0	5.0	4.0	4.8
LATVIA	5.0	5.0	5.0	3.7	4.7
POLAND	5.0	5.0	5.0	3.3	4.6
BULGARIA	4.0	5.0	5.0	4.0	4.5
GEORGIA	4.0	5.0	5.0	4.0	4.5
ALBANIA	4.0	5.0	5.0	3.7	4.4
ARMENIA	4.0	5.0	5.0	3.7	4.4
KYRGYZ REPUBLIC	4.0	5.0	5.0	3.7	4.4
ROMANIA	3.7	5.0	5.0	3.7	4.3
CROATIA	5.0	5.0	4.0	3.3	4.3
MACEDONIA	4.0	5.0	5.0	3.3	4.3
SLOVENIA	5.0	5.0	4.0	3.0	4.3
MOLDOVA	4.0	5.0	4.0	3.0	4.0
UKRAINE	4.0	4.0	↓↓	3.0	3.8
KAZAKHSTAN	4.0	3.7	4.0	3.0	3.7
MONTENEGRO	3.7	4.0	4.0	3.0	3.7
SERBIA	3.7	4.0	↑	2.7	3.6
RUSSIAN FEDERATION	4.0	3.3	4.0	3.0	3.6
BOSNIA AND HERZEGOVINA	3.0	4.0	4.0	3.0	3.5
AZERBAIJAN	3.7	4.0	4.0	2.0	3.4
TAJIKISTAN	4.0	3.3	3.7	2.3	3.3
KOSOVO	3.3	4.0	4.0	1.0	3.1
UZBEKISTAN	3.3	2.0	2.7	2.7	2.7
BELARUS	2.3	2.3	3.0	↑	2.3
TURKMENISTAN	2.3	2.0	2.7	1.0	2.0
Northern Tier CEE	5.0	5.0	4.9	3.8	4.7
Southern Tier CEE	3.8	4.6	4.4	3.1	4.0
Eurasia	3.6	3.7	3.9	2.8	3.5

EBRD, *Transition Report 2009* (November 2009). Ratings are based on a 1 to 5 scale, with 5 being most advanced. A "↑" indicates an advancement of one increment from September 2008 to September 2009.

↑↑ represents an advancement of two or more increments.

Table 2. Second Stage Economic Policy Reforms in 2009

	Enterprise restructuring	Competition Policy	Banking Reform	Non-bank financial Reform	Infrastructure Reform	Second Stage Economic Reform		
HUNGARY	3.7	3.3	4.0	4.0	3.7	3.7		
ESTONIA	3.7	3.7	4.0	3.7	3.3	3.7		
POLAND	3.7	3.3	3.7	3.7	3.3	3.5		
CZECH REPUBLIC	3.3	3.0	4.0	3.7	3.3	3.5		
SLOVAK REPUBLIC	3.7	3.3	3.7	3.0	3.3	↑	3.4	
LITHUANIA	3.0	3.3	3.7	3.3	3.0		3.3	
CROATIA	3.0	3.0	↑	4.0	3.0		3.2	
LATVIA	3.0	3.3	↑	3.7	↓	3.0	3.0	3.2
BULGARIA	2.7	3.0	3.7	3.0	3.0		3.1	
ROMANIA	2.7	2.7	3.3	3.0	3.3		3.0	
SLOVENIA	3.0	2.7	3.3	3.0	3.0		3.0	
MACEDONIA	2.7	2.3	3.0	2.7	↑	2.7	↑	2.7
RUSSIAN FEDERATION	2.3	2.3	2.7	3.0		2.7		2.6
UKRAINE	2.3	↑	2.3	3.0	2.7	2.3		2.5
ARMENIA	2.3	2.3	2.7	2.3	2.7		2.5	
KAZAKHSTAN	2.0	2.0	2.7	↓	2.7	2.7		2.4
MOLDOVA	2.0	2.3	3.0	2.0	2.3		2.3	
SERBIA	2.3	2.0	3.0	2.0	2.3		2.3	
GEORGIA	2.3	2.0	2.7	1.7	2.7	↑	2.3	
ALBANIA	2.3	2.0	3.0	1.7	2.3		2.3	
BOSNIA AND HERZEGOVINA	2.0	2.0	3.0	1.7	2.3		2.2	
MONTENEGRO	2.0	2.0	↑	3.0	1.7	2.3	↑	2.2
AZERBAIJAN	2.0	2.0	2.3	1.7	2.0		2.0	
KYRGYZ REPUBLIC	2.0	2.0	2.3	2.0	1.7		2.0	
BELARUS	1.7	2.0	2.3	↑	2.0	1.3		1.9
KOSOVO	2.0	1.7	2.3	1.7	1.3		1.8	
UZBEKISTAN	1.7	1.7	1.7	2.0	1.7		1.7	
TAJIKISTAN	2.0	↑	1.7	2.3	1.0	1.3		1.7
TURKMENISTAN	1.0	1.0	1.0	1.0	1.0		1.0	
Northern Tier CEE	3.4	3.2	3.8	3.4	3.2		3.4	
Southern Tier CEE	2.4	2.3	↑	3.1	2.3	2.5	↑	2.5
Eurasia	2.0	↑	2.0	2.4	2.0	2.0		2.1

EBRD, *Transition Report 2009* (November 2009). Ratings are based on a 1 to 5 scale, with 5 being most advanced. A "↑" indicates an advancement of one increment from September 2008 to September 2009;

↑↑ represents an advancement of two or more increments.

Table 3. Doing Business, percentile rank

	2005	2006	2007	2008	2009	2005-2009 change
GEORGIA	64	21	12	8	6	58
ESTONIA	10	10	10	12	13	-3
LITHUANIA	9	9	15	15	14	-5
LATVIA	18	14	14	16	15	3
MACEDONIA	54	53	44	39	17	37
AZERBAIJAN	57	57	54	18	21	36
KYRGYZ REPUBLIC	59	51	55	38	22	37
SLOVAKIA	19	21	20	20	23	-4
ARMENIA	21	19	23	24	23	-2
BULGARIA	34	31	24	25	24	10
HUNGARY	34	38	28	23	26	8
SLOVENIA	32	35	35	30	29	3
ROMANIA	41	28	26	26	30	11
BELARUS	71	74	64	47	32	39
KAZAKHSTAN	68	70	44	39	34	34
MONTENEGRO	37	40	46	50	39	-2
POLAND	42	43	40	42	39	3
CZECH REPUBLIC	29	30	36	41	40	-11
ALBANIA	66	69	75	48	45	21
SERBIA	54	39	50	52	48	6
MOLDOVA	50	59	51	57	51	-1
CROATIA	77	71	59	59	56	21
KOSOVO	---	---	---	---	62	---
BOSNIA AND HERZEGOVINA	52	54	65	66	63	-11
RUSSIA	55	55	62	66	66	-11
UKRAINE	75	73	80	80	78	-3
UZBEKISTAN	86	84	80	76	82	4
TAJIKISTAN	74	76	86	88	83	-9
Northern Tier CEE	24	25	25	25	25	-1
Southern Tier CEE	52	48	49	46	43	12
Eurasia	62	58	56	49	45	17

Drawn from World Bank, *Doing Business in 2010* (September 2009).

Table 4. Democratic Reform in 2008

	<u>Electoral Process</u>		<u>Civil Society</u>		<u>Independent Media</u>		<u>National Governance</u>		<u>Local Governance</u>		<u>Rule of Law</u>		<u>Corruption</u>		<u>Democratic Reforms</u>	
ESTONIA	4.7		4.5		4.7		4.2		4.0		4.7		4.0		4.4	
SLOVENIA	4.7		4.3		4.2		4.3		4.7		4.5	↓	4.0	↓	4.4	
CZECH REP.	4.7	↑	4.7	↓	4.2		3.8		4.5		4.2	↓	3.5		4.2	
LATVIA	4.3		4.5		4.5		4.0	↓	4.2		4.5		3.5	↓	4.2	↓
POLAND	4.3		4.7	↓	4.3	↑	3.5	↑	4.3	↑	4.2	↑	3.8		4.2	↑
HUNGARY	4.5		4.5	↓	4.0		4.0	↓	4.0	↓	4.5		3.5	↓	4.1	↓
LITHUANIA	4.5		4.5		4.5		3.8	↓	4.0		4.5		3.2		4.1	↓
SLOVAKIA	4.7		4.5	↓	3.8	↓	3.8	↓	4.0	↓	3.8	↓	3.5		4.0	↓
BULGARIA	4.5		4.0		3.2	↓	3.5	↓	3.7		3.7	↓	3.0	↓	3.6	↓↓
ROMANIA	4.0	↑	4.0	↓	3.2		3.2		3.7		3.0		3.0		3.4	
CROATIA	3.5		3.8		3.0	↓	3.3	↓	3.2		2.8		2.7		3.2	↓
MONTENEGRO	3.5		3.8		3.2		2.8		3.5		2.8	↓	2.3	↑	3.1	
SERBIA	3.5		3.8		3.2		3.0		3.2		2.7		2.7		3.1	
ALBANIA	3.2	↑	3.7		3.2		2.8		3.8		2.8	↓	2.3		3.1	
MACEDONIA	3.3	↓	3.5		2.8		3.0		3.2		3.0		2.8	↑	3.1	
BOSNIA & HERZ.	3.7		3.3		2.7	↓	2.3		2.5		3.0		2.7	↓	2.9	
UKRAINE	3.3	↓	3.8		3.3		2.3	↓	2.2		2.3	↓	1.8		2.7	↓
GEORGIA	2.2	↓	3.2	↓	2.8		1.7	↓	2.0		2.5		2.3		2.4	↓
MOLDOVA	3.0	↓	3.2		1.8	↓	1.8		1.8		2.7		1.7		2.3	
KOSOVO	2.7		3.0		2.0		2.2	↑	2.2	↑	1.8		1.8		2.3	↑
ARMENIA	1.8	↓	3.2	↓	1.7	↓	1.8	↓	2.0		2.0	↓	2.0	↑	2.1	↓
KYRGYZ REPUBLIC	1.7		2.5	↓	1.5	↓	1.3	↓	1.3		1.7		1.5		1.6	↓
RUSSIA	1.2		1.8	↓	1.5		1.3	↓	1.8		2.0	↓	1.5	↓	1.6	↓
TAJIKISTAN	1.3		1.8	↓	1.7		1.5		1.7		1.5	↓	1.5		1.6	
AZERBAIJAN	1.2	↓	2.0	↓	1.2	↓	1.5	↓	1.5	↓	1.8		1.3	↓	1.5	↓↓
KAZAKHSTAN	1.2		2.0		1.3	↑	1.2		1.5		1.7	↑	1.3		1.5	↑
BELARUS	1.2	↑	1.5	↑	1.2		1.2	↑	1.2		1.2		1.7	↑	1.3	↑
UZBEKISTAN	1.0		1.0		1.0		1.0		1.2		1.0	↓	1.3		1.1	
TURKMENISTAN	1.0		1.0		1.0		1.0		1.2		1.0		1.2		1.0	
Northern Tier CEE	4.5		4.5		4.3		3.9	↓	4.2		4.4		3.6		4.2	
Southern Tier CEE	3.5		3.7		2.9	↓	2.9	↓	3.2	↑	2.9	↓	2.6		3.1	
Eurasia	1.7	↓	2.3	↓	1.7		1.5	↓	1.6	↓	1.8	↓	1.6		1.7	↓

Ratings are based on a scale from 1 to 5, with 1 representing most advanced--or, in the case of corruption, most free. Freedom House, *Nations in Transit* (July 2009).

One arrow represents a change greater than 0.1 and less than 0.5 from January 1, 2008 to December 31, 2008; two arrows represent change of 0.5 and greater.

Table 5. Democratic Reforms: 2007 vs. 2009

	2007	2009	Change
ESTONIA	4.4	4.4	0
SLOVENIA	4.4	4.4	0
CZECH REP.	4.2	4.2	0
LATVIA	4.3	4.2	-0.1
POLAND	4.1	4.2	0.1
HUNGARY	4.2	4.1	-0.1
LITHUANIA	4.2	4.1	-0.1
SLOVAKIA	4.1	4	-0.1
BULGARIA	3.8	3.6	-0.2
ROMANIA	3.4	3.4	0
CROATIA	3.2	3.3	0.1
MONTENEGRO	3.1	3.2	0.1
SERBIA	3.1	3.2	0.1
ALBANIA	3.1	3.1	0
MACEDONIA	3.1	3.1	0
BOSNIA & HERZ.	2.9	2.9	0
UKRAINE	2.8	2.7	-0.1
KOSOVO	2.2	2.5	0.3
MOLDOVA	2.3	2.4	0.1
GEORGIA	2.5	2.4	-0.1
ARMENIA	2.2	2.1	-0.1
TAJIKISTAN	1.6	1.6	0
RUSSIA	1.7	1.5	-0.2
AZERBAIJAN	1.7	1.5	-0.2
KYRGYZ REPUBLIC	1.7	1.4	-0.3
KAZAKHSTAN	1.4	1.4	0
BELARUS	1.2	1.3	0.1
UZBEKISTAN	1.1	1.1	0
TURKMENISTAN	1	1	0
NT CEE	4.24	4.20	-0.04
ST CEE	3.10	3.14	0.04
Eurasia	1.77	1.70	-0.07

Ratings are based on a scale from 1 to 5, with 5 representing most advanced

Drawn from Freedom House, *Nations in Transit* and *Freedom in the World*.

Table 6. Media Sustainability Index

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	08-09 change	00-09 change
ALBANIA	1.76	1.97	2.01	2.02	2.27	2.41	2.41	2.21	2.2	2.11	-0.09	0.35
BOSNIA	1.66	1.66	2.09	2.52	2.41	2.9	2.9	2.64	2.81	2.6	-0.21	0.94
BULGARIA	2.22	2.37	2.26	2.56	2.52	2.98	2.98	2.71	2.78	2.43	-0.35	0.21
CROATIA	2.44	2.68	2.83	2.82	3.04	2.76	2.76	2.61	2.46	2.61	0.15	0.17
KOSOVO	1.9	2.32	2.32	2.36	2.46	2.56	2.56	2.26	2.38	2.6	0.22	0.7
MACEDONIA	1.73	2.02	2.32	2.53	2.58	2.44	2.44	2.28	1.71	1.55	-0.16	-0.18
MONTENEGRO	1.58	2.12	2.31	2.42	2.47	2.52	2.52	2.35	2.15	2.21	0.06	0.63
ROMANIA	2.38	2.48	2.35	2.24	2.56	2.78	2.78	2.62	2.57	2.3	-0.27	-0.08
SERBIA	1.86	2.42	2.52	2.46	2.5	2.47	2.47	2.39	2.35	2.07	-0.28	0.21
ST CEE	1.95	2.23	2.33	2.44	2.53	2.65	2.65	2.45	2.38	2.28	-0.10	0.33
ARMENIA	1.65	1.71	1.89	1.67	1.65	1.6	1.6	1.81	1.86	1.85	-0.01	0.2
AZERBAIJAN	1.74	1.76	1.94	1.81	1.9	1.74	1.74	1.84	1.67	1.71	0.04	-0.03
BELARUS	1.17	1.43	0.93	0.79	0.66	0.71	0.71	0.74	0.84	0.96	0.12	-0.21
GEORGIA	1.82	1.71	1.96	2.14	2.23	2.4	2.4	2.07	1.89	1.82	-0.07	0
KAZAKHSTAN	1.42	1.54	1.32	1.42	1.39	1.27	1.27	1.33	1.68	1.44	-0.24	0.02
KYRGYZ REPUBLIC	1.29	1.62	1.6	1.74	1.78	1.97	1.97	1.78	1.93	1.92	-0.01	0.63
MOLDOVA	1.72	1.57	1.65	1.56	1.51	1.48	1.48	1.75	1.81	1.61	-0.2	-0.11
RUSSIA	2	1.71	1.7	1.71	1.63	1.67	1.67	1.78	1.88	1.45	-0.43	-0.55
TAJIKISTAN	1.11	0.99	1.22	1.47	1.58	1.61	1.61	1.65	1.46	1.45	-0.01	0.34
TURKMENISTAN								0.42	0.32	0.33	0.01	
UKRAINE	1.37	1.35	1.69	1.96	2.22	2.37	2.37	2	2.14	2.05	-0.09	0.68
UZBEKISTAN	0.87	1	0.65	0.64	0.45	0.45	0.45	0.49	0.45	0.55	0.1	-0.32
Eurasia	1.47	1.49	1.50	1.54	1.55	1.57	1.57	1.57	1.60	1.53	-0.07	0.06

IREX, *Media Sustainability Index* (2010). The Eurasia average excludes Turkmenistan.

Table 7. Media Sustainability Index: Central & Eastern Europe, 2009

	1	2	3	4	5		
	<u>Legal Environment</u>	<u>Quality of Journalism</u>	<u>Multiple News</u>	<u>Business Capacity</u>	<u>Supporting Institutions</u>	<u>Average</u>	<u>H/L Difference</u>
ALBANIA	2.16	2.18	2.19	1.73 Low	2.29 High	2.11	0.56
BOSNIA	2.96 High	2.12 Low	2.77	2.43	2.71	2.598	0.84
BULGARIA	2.53	2.08 Low	2.62 High	2.4	2.55	2.44	0.54
CROATIA	2.71	2.36 Low	2.6	2.59	2.8 High	2.61	0.44
KOSOVO	2.53	2.63	2.77 High	2.32 Low	2.76	2.60	0.45
MACEDONIA	1.47	1.57	1.65	1.39 Low	1.67 High	1.55	0.28
MONTENEGRO	2.22	2.11	2.41 High	2.05 Low	2.24	2.21	0.36
ROMANIA	2.47	2.08 Low	2.51 High	2.12	2.33	2.30	0.43
SERBIA	1.87	1.74 Low	2.28	1.96	2.5 High	2.07	0.76
ST CEE	2.32	2.10 Low	2.42	2.11	2.43 High	2.28	
Ave.H/L diff:							0.52

IREX, *Media Sustainability Index* (2010).

Table 8. Media Sustainability Index: Eurasia, 2009

	1	2	3	4	5		
	<u>Legal Environment</u>	<u>Quality of Journalism</u>	<u>Multiple News</u>	<u>Business Capacity</u>	<u>Supporting Institutions</u>	<u>Average</u>	<u>H/L Difference</u>
ARMENIA	1.72	1.65 Low	2.21 High	1.95	1.72	1.85	0.56
AZERBAIJAN	1.74	1.68	1.72	1.62 Low	1.79 High	1.71	0.17
BELARUS	0.68 Low	1.15 High	0.85	1.07	1.04	0.96	0.47
GEORGIA	2.05	1.62	1.68	1.61 Low	2.14 High	1.82	0.53
KAZAKHSTAN	1.49	1.4	1.34 Low	1.44	1.51 High	1.44	0.17
KYRGYZ REPUBLIC	2.09 High	1.68 Low	1.88	1.87	2.07	1.92	0.41
MOLDOVA	1.69	1.36	1.73	1.22 Low	2.05 High	1.61	0.83
RUSSIA	1.6 High	1.37	1.54	1.44	1.31 Low	1.45	0.29
TAJIKISTAN	1.66 High	1.53	1.61	1.13 Low	1.33	1.45	0.53
TURKMENISTAN	0.24	0.73 High	0.26	0.14 Low	0.3	0.33	0.59
UKRAINE	2	1.96	1.89 Low	2.11	2.28 High	2.05	0.39
UZBEKISTAN	0.46 Low	0.61	0.55	0.64 High	0.46 Low	0.54	0.18
Eurasia	1.45	1.40	1.44	1.35 Low	1.50 High	1.43	
						Ave.H/Ldiff:	0.43

IREX, *Media Sustainability Index* (2010).

Table 9: 2008 NGO Sustainability Index

	<u>Legal Environ</u>	<u>Organ Capacity</u>	<u>Financial Viability</u>	<u>Advocacy</u>	<u>Service Provision</u>	<u>Infra- structure</u>	<u>Public Image</u>	<u>Overall Score</u>	<u>Max/Min Difference</u>
CZECH REP.	3.0 Min	3.0 Min	2.9	2.4	2.2 Max	2.9	2.5	2.7	0.8
ESTONIA	1.7	2.3 Min	2.3 Min	1.8	2.3 Min	1.6 Max	2.0	2.0	0.7
HUNGARY	1.5 Max	3	3.5 Min	3.2	2.5	2.2	3.3	2.7	2.0
LATVIA	2.4	3	3.3 Min	2.3 Max	2.5	2.4	3.3 Min	2.7	1.0
LITHUANIA	2.1	2.7	2.8	2 Max	3.3 Min	3	2.9	2.7	1.3
POLAND	2.3	2.6	2.7 Min	1.9 Max	2.2	1.7	2.2	2.2	0.8
SLOVAKIA	2.6	2.9	3.2 Min	2.6	2.4	2.2 Max	2.3	2.6	1.0
SLOVENIA	3.5 Max	4	4.4 Min	3.9	3.5 Max	3.8	3.9	3.9	0.9
NT CEE	2.4 Max	2.9	3.1 Min	2.5	2.6	2.5	2.8	2.7	0.8

USAID & MSI, *The NGO Sustainability Index* (2009).

Table 10: 2008 NGO Sustainability Index

	<u>Legal Environ</u>	<u>Organ Capacity</u>	<u>Financial Viability</u>	<u>Advocacy</u>	<u>Service Provision</u>	<u>Infra- structure</u>	<u>Public Image</u>	<u>Overall Score</u>	<u>Max/Min Difference</u>
ALBANIA	3.7 Max	3.9	4.5 Min	3.4	3.7 Max	3.9	3.8	3.8	0.8
BOSNIA	3.4	3.5	4.8 Min	3.1 Max	4	4	3.4	3.7	1.7
BULGARIA	2 Max	4.3 Min	4.1	2.6	3.1	3.1	3	3.2	2.3
CROATIA	2.9	3	4.2 Min	3.2	3.1	2.8	2.4 Max	3.2	1.8
KOSOVO	3.4 Max	3.7	4.7 Min	3.9	4	3.5	3.8	3.9	1.3
MACEDONIA	3.1 Max	3.7	4.5 Min	3.1 Max	3.8	3.2	3.7	3.6	1.4
MONTENEGRO	3.5 Max	4.4	4.9 Min	3.6	4	3.9	4.4	4.1	1.4
ROMANIA	3.5	3.6	4.1 Min	3.4	3.1 Max	3.3	3.7	3.5	1.0
SERBIA	4.7	4.2	5.3 Min	3.9	4.4	3.7 Max	4.7	4.4	1.6
ST CEE	3.4 Max	3.8	4.6 Min	3.4 Max	3.7	3.5	3.7	3.7	1.2

USAID & MSI, *The NGO Sustainability Index* (2009).

Table 11: 2008 NGO Sustainability Index

	<u>Legal Environ</u>	<u>Organ Capacity</u>	<u>Financial Viability</u>	<u>Advocacy</u>	<u>Service Provision</u>	<u>Infra- structure</u>	<u>Public Image</u>	<u>Overall Score</u>	<u>Max/Min Difference</u>
ARMENIA	3.9	3.9	5.2 Min	3.6	3.9	3.5 Max	3.9	4	1.7
AZERBAIJAN	4.8	4.6	5.7 Min	4.8	4.6	4.4 Max	4.9	4.8	1.3
BELARUS	7 Min	5.1 Max	6.6	6	5.5	5.5	6	6	1.9
GEORGIA	3.2 Max	4	5.3 Min	4.4	4.1	4.3	4.1	4.2	2.1
MOLDOVA	4.3	4.1	5.2 Min	3.7 Max	4.5	3.7 Max	4.2	4.2	1.5
RUSSIA	5 Min	4.3	4.5	4.1	4.1	3.8 Max	4.7	4.4	1.2
UKRAINE	3.6	3.7	4.1 Min	2.9 Max	3.3	3.5	3.9	3.6	1.2
KAZAKHSTAN	3.9	4.1	4.6 Min	3.8	4	3.7 Max	4.1	4	0.9
KYRGYZ R	3.9	4.3	5.1 Min	3.6 Max	4	3.6 Max	4.2	4.1	1.5
TAJIKISTAN	5	4.7	5.6 Min	5.2	4.6	4.6	4.5 Max	4.9	1.1
TURKMENISTAN	6.4 Min	5.3	6	6.1	5.2	5 Max	5.6	5.7	1.4
UZBEKISTAN	5.9	5.3 Max	6.1 Min	5.9	5.4	5.6	5.6	5.7	0.8
Eurasia	4.7	4.5	5.3 Min	4.5	4.4	4.3 Max	4.6	4.6	1.1

USAID & MSI, *The NGO Sustainability Index* (2009).

**Table 12. Economic and Democratic Reforms
in Central and Eastern Europe & Eurasia: 2009**

	<u>ECONOMIC REFORMS</u>			<u>DEMOCRATIC REFORMS</u>	
	<u>RATING (1 to 5)</u>	<u>RANKING</u>		<u>RATING (1 to 5)</u>	<u>RANKING</u>
HUNGARY	4.2	1	ESTONIA	4.4	1
ESTONIA	4.2	1	SLOVENIA	4.4	1
POLAND	4.0	3	CZECH REP.	4.2	3
SLOVAK REPUBLIC	4.0	3	LATVIA	4.2	3
CZECH REPUBLIC	4.0	3	POLAND	4.2	3
LITHUANIA	3.9	6	HUNGARY	4.1	6
LATVIA	3.9	6	LITHUANIA	4.1	6
BULGARIA	3.7	8	SLOVAKIA	4.0	8
CROATIA	3.7	8	BULGARIA	3.6	9
ROMANIA	3.6	10	ROMANIA	3.4	10
SLOVENIA	3.6	10	CROATIA	3.3	11
MACEDONIA	3.4	12	MONTENEGRO	3.2	12
ARMENIA	3.3	13	SERBIA	3.2	12
GEORGIA	3.3	13	ALBANIA	3.1	14
ALBANIA	3.2	15	MACEDONIA	3.1	14
KYRGYZ REPUBLIC	3.1	16	BOSNIA & HERZEGOVINA	2.9	16
MOLDOVA	3.1	16	UKRAINE	2.7	17
UKRAINE	3.1	16	KOSOVO	2.5	18
RUSSIAN FEDERATION	3.0	19	MOLDOVA	2.4	19
KAZAKHSTAN	3.0	19	GEORGIA	2.4	19
SERBIA	2.9	21	ARMENIA	2.1	21
MONTENEGRO	2.9	21	TAJIKISTAN	1.6	22
BOSNIA AND HERZEGOVINA	2.8	23	RUSSIA	1.5	23
AZERBAIJAN	2.6	24	AZERBAIJAN	1.5	23
TAJIKISTAN	2.4	25	KYRGYZ REPUBLIC	1.4	25
KOSOVO	2.4	25	KAZAKHSTAN	1.4	25
UZBEKISTAN	2.2	27	BELARUS	1.3	27
BELARUS	2.1	28	UZBEKISTAN	1.1	28
TURKMENISTAN	1.4	29	TURKMENISTAN	1.0	29
Rating (1 to 5)			Rating (1 to 5)		
Northern Tier CEE	4.0		Northern Tier CEE	4.2	
Southern Tier CEE	3.2		Southern Tier CEE	3.2	
Eurasia	2.7		Eurasia	1.7	

USAID calculations drawing from EBRD, *Transition Report 2009* (November 2009), Freedom House, *Nations in Transit* (July 2009), and Freedom House, *Freedom in the World* (2010).

Table 13. Economic Performance

	FDI CUMULATIVE		PRIVATE SECTOR SHARE OF GDP (%)		Macro Stability	GDP Growth	Domestic Inequality		Export Share & Composition	MSME SHARE OF EMPLOYMENT (%)	Long Term Unemployment % Labor Force			Services % GDP	Energy Security	Economic Performance Index	
	2005-2009		2009		2007-2009	5 year avg	09 or latest		2008	2001-2006	2007-2009			2008	2007		
CZECH REPUBLIC	3231	5.0	80	5.0	3.1	3.5	2.5	5.0	5.0	62	4.0	3.5	4.5	60	3.0	4.0	4.0
SLOVAKIA	2684	5.0	80	5.0	2.8	5.2	3.5	5.0	4.5	62	4.0	7.1	2.0	55	3.0	3.3	3.8
HUNGARY	1851	4.5	80	5.0	2.4	0.6	1.0	4.0	5.0	72	5.0	3.8	4.0	66	5.0	3.5	3.7
POLAND	1353	4.0	75	4.5	3.1	4.6	3.0	3.0	2.8	68	4.5	5.6	3.0	65	4.5	4.5	3.6
ESTONIA	3659	5.0	80	5.0	3.5	2.0	1.0	3.0	4.3	56	3.5	3.5	4.5	68	5.0	3.5	3.6
BULGARIA	4904	5.0	75	4.5	2.3	3.7	2.5	3.0	3.3	79	5.0	4.1	4.0	62	4.0	3.0	3.6
LATVIA	2354	5.0	70	4.0	2.3	2.5	1.5	3.0	2.4	74	5.0	2.6	5.0	74	5.0	3.5	3.5
ROMANIA	2121	5.0	70	4.0	2.6	3.4	2.5	3.0	2.8	30	2.0	3.0	4.5	68	5.0	4.0	3.4
LITHUANIA	1800	4.5	75	4.5	2.8	2.0	1.0	2.0	3.5	71	5.0	1.9	5.0	63	4.0	3.3	3.3
CROATIA	3815	5.0	70	4.0	2.4	2.3	1.5	4.5	2.9	65	4.0	9.3	2.0	65	5.0	4.0	3.3
SLOVENIA	-143	0.5	70	4.0	2.6	2.6	2.0	4.5	4.5	63	4.0	3.7	4.0	63	4.0	4.0	3.3
KAZAKHSTAN	2331	5.0	65	3.5	2.9	6.2	4.0	2.0	2.4	17	1.0	3.1	4.5	51	3.0	3.0	3.2
MONTENEGRO	5380	5.0	65	3.5	2.8	5.4	3.5	---	1.5	36	2.0	16.7	1.0	73	5.0	---	3.1
GEORGIA	1326	4.0	75	4.5	1.9	5.6	3.5	2.0	1.8	43	2.0	8.5	2.0	69	5.0	3.0	3.0
AZERBAIJAN	-859	0.5	75	4.5	4.1	18.8	5.0	3.0	2.6	5	0.5	---	---	24	1.0	4.0	3.0
ALBANIA	875	3.0	75	4.5	2.8	5.4	3.5	4.0	1.0	44	2.0	12.0	1.0	60	3.0	4.0	2.9
BOSNIA & HERZ.	1320	4.0	60	3.0	2.6	3.9	2.5	3.0	1.9	53	3.0	21.3	0.5	69	5.0	4.0	2.9
KOSOVO	1025	3.5	75	4.5	2.8	4.5	3.0	---	0.5	---	---	28.0	0.5	68	5.0	---	2.9
TURKMENISTAN	826	3.0	25	0.5	4.1	10.5	5.0	1.0	2.9	---	---	---	---	34	1.0	3.0	2.8
MACEDONIA	1065	3.5	70	4.0	2.5	3.5	2.5	2.0	3.0	62	4.0	29.8	0.5	55	3.0	3.5	2.8
RUSSIA	261	1.5	65	3.5	3.9	3.8	2.5	1.0	1.1	50	3.0	2.9	5.0	58	3.0	3.5	2.8
ARMENIA	863	3.0	75	4.5	2.3	7.0	4.0	4.0	1.1	34	2.0	20.4	0.5	37	1.0	3.0	2.7
SERBIA	1683	4.5	60	3.0	1.9	4.0	2.5	2.0	2.0	59	3.5	20.3	0.5	59	3.0	3.5	2.6
UZBEKISTAN	91	0.5	45	1.5	4.0	8.0	4.5	1.0	1.0	57	3.5	---	---	48	2.0	3.0	2.6
UKRAINE	781	2.5	60	3.0	2.5	1.2	1.0	3.0	2.4	67	4.5	---	---	55	3.0	2.0	2.5
KYRGYZ REPUBLIC	143	1.0	75	4.5	2.0	4.0	2.5	3.0	2.4	5	0.5	3.4	4.0	51	3.0	2.5	2.5
BELARUS	607	2.5	30	0.5	2.4	6.9	4.0	3.0	3.0	15	1.0	---	---	46	2.0	1.8	2.4
MOLDOVA	461	2.0	65	3.5	2.0	2.8	2.0	3.0	1.5	22	1.0	---	---	74	5.0	1.5	2.4
TAJIKISTAN	100	1.0	55	2.5	1.8	6.3	4.0	3.0	0.5	25	2.0	---	---	59	3.0	2.3	2.4
Northern Tier CEE	2101	4.3	76	4.6	2.8	2.9	2.0	3.6	3.9	62	4.1	4	4.1	65	4.3	3.7	3.6
Southern Tier CEE	2113	4.0	65	3.5	2.7	4.7	2.9	2.8	2.3	56	3.3	19	1.1	62	4.0	3.6	3.0
Eurasia	606	2.4	61	3.2	2.7	7.2	3.7	2.5	1.9	24	1.4	8	3.2	50	2.7	2.8	2.7

GDP growth is double weighted in the economic performance index. Primary sources include the EBRD, *Transition Report 2009* (November 2009); World Bank, *World Development Indicators* (April 2010); Fund for Peace, *Failed States Index* (2009); UNECE, *Statistical Division Database* (2009); and IFC & World Bank, *MSME Database*.

Table 14. Macro Stability

	INFLATION		EXTERNAL		Fiscal	Current Account		MACRO STABILITY	
	3 YEAR		DEBT		Balance	Balance			
	AVERAGE		(% OF GDP)		(% of GDP)	(% of GDP)	(% of GDP)		
	(%)								
	2007-2009	2008-2009	2008-2009	2009	2009	2009	2009		
TURKMENISTAN	8.7	2.5	2.9	4.5	9.3	4.5	21.2	5.0	4.1
UZBEKISTAN	13.2	2.0	13.2	4.0	2.0	5.0	7.8	5.0	4.0
AZERBAIJAN	13.3	2.0	9.1	4.5	6.3	5.0	4.9	5.0	4.1
RUSSIA	11.8	2.0	28.8	3.5	-6.6	5.0	3.1	5.0	3.9
LITHUANIA	7.0	3.0	68.9	2.0	-10.3	1.0	1.2	5.0	2.8
ESTONIA	5.8	3.5	114.1	0.5	-3.6	5.0	2.7	5.0	3.5
POLAND	3.4	4.0	46.2	2.5	-5.8	2.0	-2.8	4.0	3.1
CZECH REPUBLIC	3.4	4.0	41.6	2.5	-6.0	2.0	-2	4.0	3.1
KAZAKHSTAN	11.7	2.0	100.7	0.5	-1.9	5.0	-2.1	4.0	2.9
SLOVENIA	3.7	4.0	105.7	0.5	-5.9	2.0	-2.4	4.0	2.6
BOSNIA & HERZ.	3.6	4.0	42.5	2.5	-4.7	2.0	-9.6	2.0	2.6
ROMANIA	6.0	3.5	49	2.5	-7.3	1.5	-5.8	3.0	2.6
MACEDONIA	3.4	4.0	49.1	2.5	-2.8	2.5	-11.9	1.0	2.5
SLOVAKIA	3.3	4.0	53.3	2.0	-5.3	2.0	-5.5	3.0	2.8
LATVIA	9.7	2.5	124	0.5	-13	1.0	5.4	5.0	2.3
KOSOVO	4.9	3.5	30.0	3.0	-0.9	4.0	-21	0.5	2.8
MONTENEGRO	4.5	3.5	52.7	2.0	-6.7	5.0	-22.8	0.5	2.8
BELARUS	12.2	2.0	24.6	3.5	-1.7	3.0	-12.1	1.0	2.4
ALBANIA	2.7	4.5	20.4	3.5	-6.3	2.0	-14.5	1.0	2.8
ARMENIA	5.5	3.5	31.1	3.0	-7.5	1.5	-12.4	1.0	2.3
UKRAINE	18.0	2.0	56.4	2.0	-6	2.0	-0.8	4.0	2.5
GEORGIA	6.8	3.0	54.9	2.0	-9.4	1.5	-16.1	1.0	1.9
MOLDOVA	8.4	2.5	67.9	2.0	-8	1.5	-9	2.0	2.0
CROATIA	3.8	4.0	82.4	1.5	-3.5	2.0	-8.5	2.0	2.4
HUNGARY	6.2	3.0	114.4	0.5	-3.9	2.0	-3	4.0	2.4
KYRGYZ REPUBLIC	14.1	2.0	52	2.0	-3.8	2.0	-7.9	2.0	2.0
BULGARIA	7.8	2.5	103.5	0.5	-0.8	5.0	-12.6	1.0	2.3
SERBIA	8.9	2.5	60.4	2.0	-4.5	2.0	-12.9	1.0	1.9
TAJIKISTAN	14.1	2.0	58.6	2.0	-6.7	2.0	-11.2	1.0	1.8
Northern Tier CEE	5.3	3.5	83.5	1.4	-6.7	2.1	-0.8	4.3	2.8
Southern Tier CEE	5.1	3.6	54.4	2.2	-4.2	2.9	-13.3	1.3	2.5
Eurasia	11.5	2.3	41.7	2.8	-2.8	3.2	-2.9	3.0	2.8

EBRD, *Transition Report* (November 2009); World Bank, *World Development Indicators* (April 2010), and IMF, *World Economic Outlook* (October 2009).

Table 15. Domestic Inequality

	<u>Ethnic & Religious Inequality</u>			<u>Income Inequality of</u>			<u>Urban-Rural Inequality</u>			1 to 5 score:	
	2009			top Q to bottom Q			of Poverty Rates				
	1-10	rank	H/M/L	2006 or latest available			2004				
			ratio	rank	H/M/L	coef.of var	rank	H/M/L	Avg Rank		
CZECH REPUBLIC	4.3	1	L	3.5	2	L	---	---	---	1.5	5.0
SLOVAKIA	5.8	7	L	4.0	3	L	---	---	---	5.0	5.0
CROATIA	5.5	6	L	4.3	6	M	---	---	---	6.0	4.5
SLOVENIA	5.2	4	L	4.8	9	M	---	---	---	6.5	4.5
ALBANIA	5.9	9	L	5.3	13	M	29.2	6	L	9.3	4.0
HUNGARY	6.1	10	M	4.5	8	M	43.3	10	M	9.3	4.0
ARMENIA	6.5	16	M	5.0	11	M	13.1	2	L	9.7	4.0
ESTONIA	5.4	5	L	6.3	20	H	30.3	8	L	11.0	3.0
TAJIKISTAN	7.3	19	M	5.4	14	M	8.5	1	L	11.3	3.0
AZERBAIJAN	7.4	22	H	2.3	1	L	44.1	11	M	11.3	3.0
BELARUS	7.2	18	M	4.2	5	M	46.7	13	M	12.0	3.0
BULGARIA	6.3	13	M	4.4	7	H	49.7	16	H	12.0	3.0
UKRAINE	6.4	14	M	4.1	4	L	95.6	18	H	12.0	3.0
ROMANIA	5.8	7	L	4.9	10	M	96.3	19	H	12.0	3.0
MOLDOVA	7.0	17	M	5.9	17	H	18.6	4	L	12.7	3.0
POLAND	4.9	3	L	5.8	16	H	115.5	21	H	13.3	3.0
KYRGYZ REPUBLIC	8.3	27	H	5.1	12	M	19.1	5	L	14.7	3.0
LATVIA	6.2	11	M	6.3	20	H	48.7	14	M	15.0	3.0
BOSNIA & HERZ.	7.3	19	M	6.2	18	H	30.6	9	M	15.3	3.0
MACEDONIA	7.3	19	M	7.4	24	H	29.6	7	L	16.7	2.0
LITHUANIA	6.2	11	M	6.3	20	H	103.2	20	H	17.0	2.0
KAZAKHSTAN	6.4	14	M	5.6	15	H	118.1	22	H	17.0	2.0
GEORGIA	7.5	24	H	8.7	26	H	16.8	3	L	17.7	2.0
SERBIA	7.4	22	H	---	---	---	67.7	17	H	19.5	2.0
RUSSIA	8.1	26	H	6.9	23	H	46.2	12	M	20.3	1.0
UZBEKISTAN	8.7	28	H	6.2	18	H	49.1	15	M	20.3	1.0
TURKMENISTAN	7.6	25	H	7.7	25	H	---	---	---	25.0	1.0
MONTENEGRO	4.6	2	L	---	---	---	---	---	---	---	---
KOSOVO	---	---	---	---	---	---	---	---	---	---	---
Northern Tier CEE	5.5	6.5		5.2	12.3		68.2	14.6	---	9.8	3.7
Southern Tier CEE	6.3	12.1		5.4	13.0		50.5	12.3	---	13.0	3.1
Eurasia	7.4	20.8		5.6	14.3		43.3	9.6	---	15.3	2.4

Peters, Sprout & Melzig, "Regional Poverty Disparity and Economic Performance in Eastern Europe and Eurasia," *Post-Communist Economies* Volume 22, no. 3 (September 2010 forthcoming); World Bank, *World Development Indicators 2009* (May 2009) and Fund for Peace, *Failed States Index* (2009).

Table 16. Long Term Unemployment as % of Labor Force

	Long Term Unemployment		Long Term % labor force	1 to 5
	% total unemployment 2007-2008	Unemployment Rate 2008		
LITHUANIA	32.0	6.0	1.9	5.0
LATVIA	26.0	10.0	2.6	5.0
RUSSIA	41.0	7.0	2.7	5.0
KAZAKHSTAN	39.0	8.0	3.1	4.5
ROMANIA	50.0	6.0	3.0	4.5
CZECH REPUBLIC	50.0	7.0	3.5	4.0
ESTONIA	50.0	7.0	3.5	4.0
SLOVENIA	46.0	8.0	3.7	4.0
BULGARIA	59.0	7.0	4.1	4.0
HUNGARY	48.0	8.0	3.8	4.0
KYRGYZ REPUBLIC	43.0	9.0	3.9	4.0
POLAND	51.0	11.0	5.6	3.0
CROATIA	62.0	15.0	9.3	2.0
SLOVAKIA	71.0	10.0	7.1	2.0
GEORGIA	50.0	17.0	8.5	2.0
ALBANIA	92.0	13.0	12.0	1.0
MONTENEGRO	83.0	20.0	16.6	1.0
ARMENIA	73.0	28.0	20.4	0.5
BOSNIA & HERZEGOVINA	71.0	30.0	21.3	0.5
SERBIA	81.0	25.0	20.3	0.5
MACEDONIA	85.4	35.0	29.9	0.5
KOSOVO	80.0	35.0	34.6	0.5
AZERBAIJAN	---	7.0	---	---
UZBEKISTAN	---	---	---	---
TURKMENISTAN	---	---	---	---
BELARUS	11	---	---	---
TAJIKISTAN	25.0	---	---	---
UKRAINE	25	---	---	---
MOLDOVA	45.0	---	---	---
Northern Tier CEE	46.8	8.4	4.0	4.0
Southern Tier CEE	73.7	20.7	16.8	1.0
Eurasia	39.1	12.7	7.7	2.0

ILO, various Labor Force Surveys (2009); EBRD, *Transition Report 2009* (November 2009); and UNECE, *Trends in Europe and North America* (2009).

	Export Share		Manufacturing		High Tech		1 to 5 Average*
	% GDP		% Merch Exports		% Exports		
	2008	2008	2008	2008	2008	2008	
CZECH REPUBLIC	77	5.0	87	5.0	12.2	5.0	5.0
HUNGARY	81	5.0	80	5.0	19.2	5.0	5.0
SLOVAKIA	83	5.0	86	5.0	4.3	3.0	4.5
SLOVENIA	70	4.5	87	5.0	5.2	4.0	4.5
ESTONIA	76	4.5	66	4.0	6.6	4.0	4.3
LITHUANIA	59	3.5	55	3.0	6.1	4.0	3.5
BULGARIA	60	3.5	51	3.0	3.6	3.0	3.3
BELARUS	62	4.0	52	3.0	1.0	1.0	3.0
MACEDONIA	53	3.0	76	5.0	0.8	1.0	3.0
TURKMENISTAN	81	5.0	15	0.5	1.0	1.0	2.9
CROATIA	42	1.5	70	4.5	6.3	4.0	2.9
POLAND	40	1.5	80	5.0	4.0	3.0	2.8
ROMANIA	30	1.0	77	5.0	5.4	4.0	2.8
AZERBAIJAN	69	4.5	1	0.5	0.0	1.0	2.6
UKRAINE	42	1.5	70	4.5	2.1	2.0	2.4
LATVIA	42	1.5	63	3.5	4.4	3.0	2.4
KAZAKHSTAN	57	3.0	15	0.5	3.3	3.0	2.4
KYRGYZ REPUBLIC	57	3.0	47	2.5	0.9	1.0	2.4
SERBIA	30	1.0	66	4.0	2.0	2.0	2.0
BOSNIA & HERZEGOVINA	37	1.0	64	3.5	2.6	2.0	1.9
GEORGIA	29	1.0	55	3.0	1.7	2.0	1.8
MONTENEGRO	41	1.5	---	---	---	---	1.5
MOLDOVA	41	1.5	32	1.0	1.3	2.0	1.5
ALBANIA	31	1.0	33	1.0	1.3	2.0	1.3
ARMENIA	15	0.5	51	2.5	1.0	1.0	1.1
RUSSIA	31	1.0	17	0.5	1.2	2.0	1.1
UZBEKISTAN	42	1.5	10	0.5	---	0.5	1.0
TAJIKISTAN	17	0.5	---	---	---	---	0.5
KOSOVO	14	0.5	---	---	---	---	0.5
Northern Tier CEE	66	3.8	86	4.3	7.3	3.8	3.9
Southern Tier CEE	38	1.9	51	3.0	2.9	2.5	2.3
Eurasia	45	2.3	39	2.0	1.5	1.6	2.0

* Export share of GDP is double-weighted in the average.
World Bank, *World Development Indicators* (April 2010).

Table 18. Energy Security

	Dependency		Efficiency		Energy Security
	Net Energy Imports % Energy Use		GDP per unit of energy use		
	2007	2007	2005 PPP \$ per Kilogram of oil equivalent	2007	
POLAND	25	4.0	6.1	5.0	4.5
AZERBAIJAN	-337	5.0	5.3	4.0	4.5
ALBANIA	51	3.0	9.2	5.0	4.0
SLOVENIA	53	3.0	7.2	5.0	4.0
CROATIA	57	3.0	7.5	5.0	4.0
CZECH REPUBLIC	26	4.0	5.2	4.0	4.0
ROMANIA	29	4.0	5.6	4.0	4.0
ESTONIA	22	4.0	4.7	3.0	3.5
HUNGARY	62	2.0	6.7	5.0	3.5
LATVIA	61	2.0	7.4	5.0	3.5
BOSNIA AND HERZEGOVINA	30	4.0	4.5	3.0	3.5
MACEDONIA	50	3.0	5.3	4.0	3.5
SERBIA	38	4.0	4.4	3.0	3.5
RUSSIA	-83	5.0	2.9	2.0	3.5
SLOVAK REPUBLIC	67	2.0	5.9	4.5	3.3
LITHUANIA	59	2.5	5.8	4.0	3.3
ARMENIA	71	2.0	5.7	4.0	3.0
GEORGIA	68	2.0	5.8	4.0	3.0
BULGARIA	51	3.0	3.8	3.0	3.0
KAZAKHSTAN	-105	5.0	2.4	1.0	3.0
TURKMENISTAN	-266	5.0	1.6	1.0	3.0
UZBEKISTAN	-23	5.0	1.3	1.0	3.0
KYRGYZSTAN	51	3.0	3.4	2.0	2.5
TAJIKISTAN	59	2.5	2.9	2.0	2.3
UKRAINE	41	3.0	2.2	1.0	2.0
BELARUS	86	1.0	3.6	2.5	1.8
MOLDOVA	97	1.0	2.7	2.0	1.5
MONTENEGRO	---	---	---	---	---
KOSOVO	---	---	---	---	---
Northern Tier CEE	47	2.9	5.9	4.4	3.7
Southern Tier CEE	36	3.4	5.0	3.9	3.7
Eurasia	-15	3.3	2.9	2.2	2.8

World Bank, *World Development Indicators* (April 2010).

Table 19. Human Capital

	UNDER 5	POVERTY &	LIFE	PUBLIC			Education	TB incidence per 100,000	Human Capital Index			
	MORTALITY	INCOME	EXPECTANCY	EXPENDITURE		Gaps						
	(per 1,000)		(Years)	Health & Education	(% GDP)	#						
	2008	2004-2009	2008	2008	2008	2006-2008	2008					
SLOVENIA	4	5.0	5.0	79	5.0	5.9	4.5	0	5.0	10	5.0	4.9
CZECH REPUBLIC	4	5.0	4.5	77	5.0	5.3	4.0	0	5.0	8	5.0	4.8
CROATIA	6	4.5	4.8	76	5.0	5.8	4.5	0	5.0	22	4.0	4.7
POLAND	7	4.5	4.8	76	5.0	5.0	3.5	0	5.0	19	4.0	4.6
HUNGARY	7	4.5	4.8	74	4.0	5.6	4.5	0	5.0	14	4.5	4.6
SLOVAKIA	8	4.5	5.0	75	4.5	4.4	3.0	1	4.0	10	5.0	4.4
ESTONIA	6	4.5	4.5	74	4.0	4.6	3.5	0	5.0	30	3.5	4.3
MONTENEGRO	10	4.5	3.5	74	4.0	5.9	4.5	1	4.0	21	4.0	4.0
LATVIA	9	4.5	4.0	72	3.5	4.4	3.0	0	5.0	46	2.5	3.9
LITHUANIA	7	4.5	3.8	72	3.5	4.6	3.5	0	5.0	63	2.0	3.9
SERBIA	7	4.5	3.5	74	4.0	4.5	3.0	1	4.0	28	3.5	3.8
BELARUS	13	4.5	3.8	71	3.0	5.1	4.0	1	4.0	35	3.0	3.8
BULGARIA	11	4.5	3.8	73	4.0	4.2	3.0	1	4.0	39	3.0	3.8
BOSNIA & HERZEGOVINA	15	4.5	3.3	75	4.5	5.5	4.0	2	3.0	45	2.0	3.4
ROMANIA	14	4.5	3.3	73	4.0	4.4	3.0	1	4.0	102	1.0	3.4
MACEDONIA	11	4.5	3.5	74	4.0	5.0	3.5	3	2.0	22	4.0	3.4
RUSSIA	13	4.5	3.0	68	2.5	3.8	2.5	1	4.0	91	1.5	3.1
UKRAINE	16	4.5	2.0	68	2.5	4.6	3.5	1	4.0	82	1.5	3.0
ALBANIA	14	4.5	2.3	77	5.0	3.2	2.0	4	1.0	14	4.5	2.8
MOLDOVA	17	4.0	1.3	68	2.5	6.7	5.0	3	2.0	122	1.0	2.4
UZBEKISTAN	38	3.0	1.0	68	2.5	4.2	3.0	2	3.0	63	2.0	2.3
KOSOVO	49	3.0	1.3	69	2.5	3.8	2.5	2	3.0	77	1.5	2.3
AZERBAIJAN	38	3.5	3.3	70	3.0	1.6	0.5	4	1.0	74	2.0	2.2
ARMENIA	23	4.0	1.5	74	4.0	2.6	1.5	4	1.0	54	2.5	2.1
KAZAKHSTAN	30	3.5	2.0	66	1.5	2.6	1.5	3	2.0	149	0.5	1.9
KYRGYZ REPUBLIC	38	3.0	0.8	67	2.0	4.6	3.5	3	2.0	122	1.0	1.9
GEORGIA	30	3.5	1.3	72	3.5	2.2	1.0	4	1.0	102	1.5	1.8
TURKMENISTAN	48	3.0	2.0	65	1.0	3.9	2.5	4	1.0	74	2.0	1.8
TAJKISTAN	64	2.0	0.8	67	2.0	2.4	1.0	3	2.0	94	1.5	1.5
Northern Tier CEE	6.3	4.6	4.5	74.9	4.3	5.0	3.7	0.1	4.9	25	3.9	4.4
Southern Tier CEE	15.2	4.3	3.2	73.9	4.1	4.7	3.3	1.7	3.3	41	3.1	3.5
Eurasia	30.8	3.6	1.9	68.7	2.5	3.7	2.5	2.8	2.3	89	1.7	2.3

Two indicators are double-weighted in the calculation of the human capital index: poverty & income; and education gap.

Primary sources include the World Bank, *World Development Indicators* (April 2010), UNICEF, *TransMONEE Database* (2009);

the World Health Organization, *European Health for All Database*; IEA, *PIRLS 2006 International Report* (2007), & *Highlights from TIMSS 2007* (2008);

and OECD, *The Programme for International Student Assessment Report* (2007).

Table 20. Per Capita Income & Vulnerable Populations

	PER CAPITA		Poverty Among Elderly and Children				Rate of Children in Residential Care			Per Capita Income & Vulnerable Populations
	INCOME		% in poverty, \$PPP 2.15/day				per 100,000 pop.		Vulnerable Populations	
	(PPP, \$)		2002-2004				aged 0-17			
	2009		Children	Elderly	Average	1 to 5	2007	1 to 5	1 to 5	
HUNGARY	16,901	4.5	1	0	1	5.0	385	5.0	5.0	4.8
SLOVAKIA	20,555	5.0	1	1	1	5.0	658	3.0	5.0	5.0
SLOVENIA	25,834	5.0	1	1	1	5.0	392	5.0	5.0	5.0
CROATIA	17,867	4.5	1	1	1	5.0	729	3.0	5.0	4.8
POLAND	17,310	4.5	5	1	3	5.0	707	3.0	5.0	4.8
CZECH REPUBLIC	21,992	5.0	1	1	1	5.0	1,264	1.0	4.0	4.5
ESTONIA	17,256	5.0	6	4	5	4.0	591	4.0	4.0	4.5
LATVIA	14,564	4.0	5	2	4	4.0	643	3.0	4.0	4.0
BELARUS	11,716	3.5	3	1	2	5.0	1,253	1.0	4.0	3.8
BULGARIA	11,592	3.5	8	2	5	4.0	622	3.0	4.0	3.8
LITHUANIA	16,116	4.5	6	2	4	4.0	1,444	1.0	3.0	3.8
SERBIA	10,816	3.0	7	8	8	4.0	400	4.0	4.0	3.5
MACEDONIA	9,801	3.0	6	2	4	4.0	184	5.0	4.0	3.5
MONTENEGRO	13,781	4.0	15	15	15	3.0	367	5.0	3.0	3.5
ROMANIA	12,960	3.5	21	7	14	3.0	619	3.0	3.0	3.3
AZERBAIJAN	8,003	2.5	5	4	5	4.0	658	3.0	4.0	3.3
BOSNIA & HERZ.	8,534	2.5	6	5	6	4.0	260	5.0	4.0	3.3
RUSSIA	14,380	4.0	13	8	11	3.0	1,266	1.0	2.0	3.0
UKRAINE	6,489	2.0	---	---	---	---	491	4.0	---	2.0
ALBANIA	8,030	2.5	30	19	25	2.0	104	5.0	2.0	2.3
KAZAKHSTAN	9,496	3.0	28	11	20	2.0	1,703	1.0	1.0	2.0
TURKMENISTAN	6,799	2.0	---	---	---	---	151	5.0	---	2.0
ARMENIA	5,963	2.0	54	47	51	1.0	657	3.0	1.0	1.5
GEORGIA	4,802	1.5	57	53	55	1.0	790	3.0	1.0	1.3
KOSOVO	4,434	1.5	---	---	37	1.0	---	---	1.0	1.3
MOLDOVA	3,017	1.5	53	38	46	1.0	1,215	1.0	1.0	1.3
UZBEKISTAN	2,793	1.0	50	40	45	1.0	309	5.0	1.0	1.0
KYRGYZ REPUBLIC	2,151	1.0	80	51	66	0.5	1,101	1.0	0.5	0.8
TAJIKISTAN	1,869	1.0	76	72	74	0.5	333	5.0	0.5	0.8
need to calc:										
Northern Tier CEE	20041	4.8	3.3	1.5	2.4	4.6	760.4	3.1	4.4	4.6
Southern Tier CEE	11073	3.2	11.8	7.4	12.7	3.3	410.7	4.1	3.3	3.3
Eurasia	6641	2.2	41.9	32.5	37.2	1.9	928.5	2.4	1.6	1.9

World Bank "Growth, Poverty, and Inequality: Eastern Europe and the Former Soviet Union" (2005); UNICEF, TransMONEE Database (2009), and World Bank, World Development Indicators (April 2010).

Table 21. Public Spending on Health and Education

	Public Expenditure on Health (% GDP)	Public Expenditure on Education (% GDP)	AVERAGE	1 to 5
	2007	2008	2007-08	
MOLDOVA	5.2	8.2	6.7	5.0
SLOVENIA	6.0	5.7	5.9	4.5
MONTENEGRO	6.3	5.5	5.9	4.5
CROATIA	7.1	4.6	5.8	4.5
HUNGARY	5.8	5.4	5.6	4.5
BOSNIA & HERZEGOVINA	5.7	5.2	5.5	4.0
BELARUS	4.9	5.2	5.1	4.0
CZECH REPUBLIC	6.0	4.6	5.3	4.0
LITHUANIA	4.4	4.8	4.6	3.5
ESTONIA	4.2	4.9	4.6	3.5
MACEDONIA	5.2	4.7	5.0	3.5
KYRGYZ REPUBLIC	2.6	6.6	4.6	3.5
UKRAINE	3.8	5.3	4.6	3.5
POLAND	4.2	5.7	5.0	3.5
SLOVAKIA	5.0	3.8	4.4	3.0
UZBEKISTAN	2.0	6.3	4.2	3.0
LATVIA	3.6	5.1	4.4	3.0
SERBIA	5.7	3.3	4.5	3.0
ROMANIA	4.2	4.6	4.4	3.0
BULGARIA	4.2	4.2	4.2	3.0
TURKMENISTAN	2.5	5.3	3.9	2.5
KOSOVO	3.1	4.5	3.8	2.5
RUSSIA	3.5	4.0	3.8	2.5
ALBANIA	2.9	3.4	3.2	2.0
KAZAKHSTAN	2.4	2.8	2.6	1.5
ARMENIA	2.1	3.0	2.6	1.5
GEORGIA	1.5	2.9	2.2	1.0
TAJIKISTAN	1.3	3.5	2.4	1.0
AZERBAIJAN	1.2	1.9	1.6	0.5
Northern Tier CEE	4.9	5.0	5.0	3.5
Southern Tier CEE	4.9	4.4	4.7	2.9
Eurasia	2.8	4.6	3.7	2.5

Primary sources include UNICEF, *TransMONEE Database* (2009) and the World Bank, *World Development Indicators* (April 2010).

Table 22. Education Gaps

	Education Spending 2008	Enrollment (most recent)				PISA 2006	TIMSS 2007	PIRLS 2006	# of gaps	Education Gaps 1 to 5
		Primary	Pre-Primary	Total Secondary	Tertiary					
		2008	2008	2008	2008					
CROATIA	4.6	95	60	88	33	479	---	---	0	5.0
CZECH REPUBLIC	4.6	103	79	95	43	502	511	537	0	5.0
ESTONIA	4.9	103	89	99	53	516	542	---	0	5.0
LITHUANIA	4.8	101	72	107	58	481	513	543	0	5.0
SLOVENIA	5.7	97	82	102	69	506	515	502	0	5.0
LATVIA	5.1	103	83	99	57	485	540	545	0	5.0
HUNGARY	5.4	101	89	98	47	492	526	543	0	5.0
POLAND	5.7	99	60	85	53	500	---	---	0	5.0
SLOVAKIA	3.8	100	74	95	37	482	*511B	518	1	4.0
RUSSIA	4.0	107	73	*50	45	465	521	528	1	4.0
UKRAINE	5.3	100	73	*58	40	---	473	---	1	4.0
BELARUS	5.2	98	90	*51&B	36	---	---	---	1	4.0
SERBIA	3.3	99	49	83	41	*424	478	---	1	4.0
MONTENEGRO	5.5	99	36	86	---	*401	---	---	1	4.0
ROMANIA	4.6	100	76	89	41	*410&B	*462&B	---	1	4.0
BULGARIA	4.2	96	74	92	37	*416&B	*464&B	550	1	4.0
KOSOVO	4.5	---	---	75	*16	*	---	---	2	3.0
UZBEKISTAN	6.3	96	*22	79	*8.1	---	---	---	2	3.0
BOSNIA & HERZ	5.2	*92	*9	61	29	---	461	---	2	3.0
KAZAKHSTAN	*2.8	107	42	*45&B	*35&B	---	541	---	3	2.0
MOLDOVA	8.2	*92	73	*48	*24	---	466	492	3	2.0
MACEDONIA	4.7	*92	*23&B	75	30	*385	**442&B	*442	3	2.0
KYRGYZ REPUBLIC	6.6	98	*14	*49	38	*306	---	---	3	2.0
TAJIKISTAN	3.5	98	*7	*58	*15	---	---	---	3	2.0
AZERBAIJAN	*1.9	102	*22	68	*14	*404	---	---	4	1.0
ALBANIA	3.4	*89	*47&B	71	*14	*369	---	---	4	1.0
ARMENIA	*3.0	97	*29	*77&B	*25	---	493	---	4	1.0
TURKMENISTAN	5.3	*87	*24	*10	*3	---	---	---	4	1.0
GEORGIA	*2.9	*89&B	39	76	*30&B	---	*422	---	4	1.0
Vulnerable Threshold	* <= 3%	* <93% or backsliding (B)	* < 30% or backsliding (B)	* < 60% or backsliding (B)	* < 25%	* < 450 or backsliding (B)	* < 450	* < 450		

Primary sources include World Bank, *World Development Indicators* (April 2010), OECD, *The Programme for International Student Assessment Report* (2007), the International Association for the Evaluation of Educational Achievement (IEA), *PIRLS 2006 International Report* (2007), & *Highlights from TIMSS 2007* (2008), and UNICEF, *TransMONEE Database* (2009).

Table 23. The Skills & Education
of the work force as a business constraint
(compared to 13 other business constraints)

	2005 (% of firms)	2008 (% of firms)	most problematic in 2008 (rank among the 14 constraints)
Kazak	29	75	1
Estonia	32	53	1
Russia	39	77	2
Belarus	23	82	2
Lithuania	48	60	2
Latvia	57	60	2
Poland	40	67	2
Uzbekistan	12	55	2
Croatia	24	45	3
Montenegro	-----	26	3
Moldova	34	64	3
Tajikistan	26	54	3
Serbia	22	38	4
Albania	39	58	4
Slovakia	24	59	4
Ukraine	46	59	4
Czech R	44	56	4
Azerbaijan	15	39	5
Slovenia	32	33	5
Bosnia-H	15	38	5
Romania	38	60	6
Georgia	30	37	6
Kyrgyz R	40	55	8
Armenia	15	39	9
Bulgaria	36	38	9
Hungary	39	13	11
Macedonia	20	27	11
NT CEE	40	50	3.9
ST CEE	28	41	5.6
Eurasia	28	58	4.1

% of firms which view skills and education of the work force is at least a moderate obstacle.

A rank to "1" means that more firms found that the skills & education of the work force was more problematic than any of the other 13 business constraints posed in the survey

World Bank & EBRD, Business Environment & Enterprise Performance Survey (BEEPS).

Table 24. The Skills & Education
of the work force as a business constraint

	2005	2008	2005-2008	greatest increase as a constraint (rank among the 14 constraints)
	(% of firms	(% of firms	change	
Romania	38	60	22	1
Uzbekistan	12	55	43	2
Tajikistan	26	54	28	2
Serbia	22	38	16	2
Armenia	15	39	24	2
Azerbaijan	15	39	24	2
Belarus	23	82	59	2
Bosnia-H	15	38	23	2
Estonia	32	53	21	2
Poland	40	67	27	2
Kazak	29	75	46	2
Russia	39	77	38	3
Albania	39	58	19	3
Croatia	24	45	21	3
Moldova	34	64	30	3
Czech R	44	56	12	4
Macedonia	20	27	7	5
Slovakai	24	59	35	5
Georgia	30	37	7	6
Kyrgyz R	40	55	15	7
Lithuania	48	60	12	9
Latvia	57	60	3	9
Ukraine	46	59	13	10
Bulgaria	36	38	2	11
Slovenia	32	33	1	12
Hungary	39	13	-26	13
NT CEE	40	50	11	7
ST CEE	28	43	16	4
Eurasia	28	58	30	4

Table 25
 Responsiveness (or elasticity)
 of poverty to GDP change
 with one year lag

	1998	1999	2000	2001	2002	2003 average	
Russia	1.0	-1.7	-0.6	-0.7	-0.4		-0.5
Georgia	-0.2	2.7	1.0	1.0	-1.2		0.7
Romania		-0.8	-1.0	-1.3	-0.2	-0.6	-0.8
Kyrgyz R				-0.7	-0.3	-0.3	-0.4
Moldova		-1.6	0.3	-2.5	-2.3	-1.3	-1.5
Armenia			0.3	-0.4	-0.5		-0.2
Belarus		-0.2	-0.6	-0.3	-0.2		-0.3
						ave:	-0.4
						ave of 27:	-0.5

i.e., for every 1% contraction in economic growth the year before, there will be an increase in the poverty rate of 0.4 to 0.5% the next year.

	2009	2010	elasticity:
	change in	change in	-0.5
	GDP	poverty	
	(%)	(% points)	
Latvia	-18	9	
Ukraine	-15.1	7.55	
Estonia	-14.1	7.05	
Lithuania	-15	7.5	
Hungary	-6.3	3.15	
Czech R	-4.3	2.15	
Romania	-7.1	3.55	
Bulgaria	-5	2.5	
Russia	-7.9	3.95	
Armenia	-14.4	7.2	
Moldova	-6.5	3.25	

MCP #10 (August 2006); IMF, World Economic Outlook (April 2010).

Table 26
Real GDP (annual percent change)

	2009	2010		2009	2010
Hungary	-6.3	-0.2	World	-0.6	4.2
Poland	1.7	2.7	Advanced	-3.2	2.3
Czech R	-4.3	1.7	U.S.	-2.4	3.1
Slovakia	-4.7	4.1	E.U	-4.1	1.0
Slovenia	-7.3	1.1	Developing	2.4	6.3
Lithuania	-15.0	-1.6	CEE	-3.7	2.8
Latvia	-18.0	-4.0	Eurasia	-6.6	4.0
Estonia	-14.1	0.8	Asia	6.6	8.7
			MENA	2.4	4.5
Bulgaria	-5.0	0.2	SSAfr	2.1	4.7
Romania	-7.1	0.8	LAC	-1.8	4.0
Croatia	-5.8	0.2			
Montenegro	-6.1	0.5			
Albania	2.8	3.5			
Macedonia	-0.7	1.0			
Bosnia-H	-3.4	1.0			
Kosovo	4.0	-----			
Serbia	-3.0	1.5			
Russia	-7.9	4.0			
Ukraine	-15.1	3.7			
Kazakhs	1.2	2.4			
Belarus	0.2	2.4			
Azerbi	9.3	2.7			
Turkm	4.1	12.0			
Uzbek	8.1	8.0			
Georgia	-4.0	2.0			
Armenia	-14.4	1.8			
Tajiki	3.4	4.0			
Kygyz	2.3	4.6			
Moldova	-6.5	2.5			

IMF, World Economic Outlook (April 2010),
EBRD, Transition Report (November 2009).
Economist Intelligence Unit reports (2010)
IMF, Kosovo (2009).

**Table 27. Economic Performance and Human Capital
in Central and Eastern Europe & Eurasia: 2007-2009**

	<u>ECONOMIC PERFORMANCE</u>		<u>HUMAN CAPITAL</u>		
	RATING (1 to 5)	RANKING	RATING (1 to 5)	RANKING	
CZECH REPUBLIC	4.0	1	SLOVENIA	4.9	1
SLOVAKIA	3.8	2	CZECH REPUBLIC	4.8	2
HUNGARY	3.7	3	CROATIA	4.7	3
POLAND	3.6	4	POLAND	4.6	4
ESTONIA	3.6	4	HUNGARY	4.6	4
BULGARIA	3.6	4	SLOVAKIA	4.4	6
LATVIA	3.5	7	ESTONIA	4.3	7
ROMANIA	3.4	8	MONTENEGRO	4.0	8
LITHUANIA	3.3	9	LATVIA	3.9	9
CROATIA	3.3	9	LITHUANIA	3.9	9
SLOVENIA	3.3	9	SERBIA	3.8	11
KAZAKHSTAN	3.2	12	BULGARIA	3.8	11
MONTENEGRO	3.1	13	BELARUS	3.8	11
AZERBAIJAN	3.0	14	BOSNIA & HERZEGOVINA	3.4	14
GEORGIA	3.0	14	ROMANIA	3.4	14
ALBANIA	2.9	16	MACEDONIA	3.4	14
KOSOVO	2.9	16	RUSSIA	3.1	17
BOSNIA & HERZ.	2.9	16	UKRAINE	3.0	18
MACEDONIA	2.8	19	ALBANIA	2.8	19
TURKMENISTAN	2.8	19	MOLDOVA	2.4	20
RUSSIA	2.8	19	KOSOVO	2.3	21
ARMENIA	2.7	22	UZBEKISTAN	2.3	21
SERBIA	2.6	23	AZERBAIJAN	2.2	23
UZBEKISTAN	2.6	23	ARMENIA	2.1	24
UKRAINE	2.5	25	KAZAKHSTAN	1.9	25
KYRGYZ REPUBLIC	2.5	25	KYRGYZ REPUBLIC	1.9	25
BELARUS	2.4	27	GEORGIA	1.8	27
MOLDOVA	2.4	27	TURKMENISTAN	1.8	27
TAJIKISTAN	2.4	27	TAJIKISTAN	1.5	29
	Rating (1 to 5)		Rating (1 to 5)		
Northern Tier CEE	3.6		Northern Tier CEE	4.4	
Southern Tier CEE	3.0		Southern Tier CEE	3.5	
Eurasia	2.7		Eurasia	2.3	

Ratings are based on a scale from 1 to 5, with 5 representing the most advanced. Primary sources include the World Bank, *World Development Indicators* (April 2010); EBRD, *Transition Report 2009* (November 2009), UNECE, *Statistical Division Database* (2009); Fund for Peace, *Failed States Index* (2009); IFC & World Bank, *MSME Database* (2007); UNICEF, *TransMONEE Database* (2009); and the World Health Organization, *European Health For All Database* (2009).

Table 28. Peace & Security

	Counter Terrorism	Combatting Weapons of Mass Destruction	Stabilization Operations and Defense Reform	Counter- Narcotics	Trans- national Crime	Conflict Mitigation	Peace & Security
SLOVENIA	5.0	4.7	4.2	3.6	4.1	4.8	4.4
SLOVAKIA	4.8	4.3	4.4	3.7	3.5	4.9	4.3
POLAND	4.8	5.0	3.9	3.4	3.3	4.5	4.1
HUNGARY	4.8	4.7	4.0	3.7	2.9	4.8	4.1
LITHUANIA	4.8	4.0	3.8	3.8	4.1	4.3	4.1
CZECH REPUBLIC	4.5	4.7	4.0	3.5	3.4	4.3	4.1
LATVIA	4.8	5.0	4.0	3.7	2.9	4.0	4.1
ESTONIA	4.8	4.3	3.8	3.2	3.5	4.0	3.9
ROMANIA	4.3	5.0	3.9	3.8	2.8	3.1	3.8
BULGARIA	4.0	4.7	3.6	3.0	3.1	4.0	3.7
CROATIA	4.0	3.7	3.4	3.5	4.0	3.5	3.7
MONTENEGRO	3.8	3.0	3.7	4.0	3.4	3.8	3.6
UKRAINE	3.5	5.0	2.9	2.8	2.1	3.7	3.3
MACEDONIA	2.8	2.7	3.7	3.3	3.6	3.2	3.2
ALBANIA	3.0	2.7	3.6	3.2	3.0	3.5	3.2
KAZAKHSTAN	4.0	3.0	2.1	2.6	3.1	3.7	3.1
BOSNIA-HERZEGOVINA	2.3	3.0	3.6	3.4	3.0	3.2	3.1
SERBIA	3.3	3.0	3.4	2.7	2.9	3.0	3.0
BELARUS	3.5	3.0	2.4	3.1	2.4	3.7	3.0
MOLDOVA	3.3	2.0	2.7	3.5	2.8	3.5	2.9
ARMENIA	3.3	2.3	2.6	4.3	3.5	1.7	2.9
AZERBAIJAN	2.8	2.0	2.6	3.5	3.0	2.8	2.8
KOSOVO	2.3	2.3			3.7	2.8	2.8
TURKMENISTAN	3.5	1.7	2.2	3.0	2.4	3.4	2.7
KYRGYZ REPUBLIC	2.6	2.0	2.2	2.4	3.0	3.5	2.6
UZBEKISTAN	2.3	2.0	2.4	2.7	2.4	3.7	2.6
GEORGIA	2.0	2.0	2.2	3.3	3.5	1.9	2.5
RUSSIA	2.0	3.7	2.0	2.8	1.7	2.2	2.4
TAJIKISTAN	2.3	1.7	3.3	2.1	2.2	2.2	2.3
NORTHERN TIER CEE	4.8	4.6	4.0	3.6	3.5	4.5	4.1
SOUTHERN TIER CEE	3.3	3.3	3.6	3.4	3.3	3.4	3.3
EURASIA	2.9	2.5	2.4	3.0	2.7	3.0	2.8

J. Swedberg and R. Sprout, *Peace and Security in Eastern Europe and Eurasia*, USAID/E&E Working Paper #10 (October 2009).

**Table 29. Combatting Weapons of Mass Destruction:
Europe and Eurasia**

	2009	2009	2006-2009	<u>Rating</u> (1-5)
	<u>Chem. & Bio</u>	<u>Nuclear</u>	<u>Export Controls</u>	
	<u>Weapons</u> <u>Control Status</u>	<u>Non-</u> <u>Proliferation</u>		
LATVIA	5.0	5.0	5.0	5.0
POLAND	5.0	5.0	5.0	5.0
ROMANIA	5.0	5.0	5.0	5.0
UKRAINE	5.0	5.0	5.0	5.0
BULGARIA	5.0	5.0	4.0	4.7
CZECH REPUBLIC	5.0	5.0	4.0	4.7
HUNGARY	5.0	5.0	4.0	4.7
SLOVENIA	5.0	5.0	4.0	4.7
ESTONIA	5.0	3.0	5.0	4.3
SLOVAKIA	5.0	5.0	3.0	4.3
LITHUANIA	5.0	3.0	4.0	4.0
CROATIA	5.0	3.0	3.0	3.7
RUSSIA	1.0	5.0	5.0	3.7
BELARUS	1.0	5.0	3.0	3.0
BOSNIA-HERZEGOVINA	3.0	3.0	3.0	3.0
KAZAKHSTAN	1.0	5.0	3.0	3.0
MONTENEGRO	3.0	3.0		3.0
SERBIA	3.0	3.0	3.0	3.0
ALBANIA	3.0	3.0	2.0	2.7
MACEDONIA	3.0	3.0	2.0	2.7
ARMENIA	1.0	3.0	3.0	2.3
KOSOVO	3.0	3.0	1.0	2.3
AZERBAIJAN	1.0	3.0	2.0	2.0
GEORGIA	1.0	3.0	2.0	2.0
KYRGYZ REPUBLIC	1.0	3.0	2.0	2.0
MOLDOVA	1.0	3.0	2.0	2.0
TAJIKISTAN	1.0	3.0	1.0	1.7
TURKMENISTAN	1.0	3.0	1.0	1.7
UZBEKISTAN	1.0	3.0	1.0	1.7
E&E Average	3.1	3.8	3.1	3.3
Northern Tier CEE	5.0	4.5	4.3	4.6
Southern Tier CEE	3.7	3.4	2.9	3.3
Eurasia	1.3	3.7	2.5	2.5

J. Swedberg and R. Sprout, *Peace and Security in Eastern Europe and Eurasia*, USAID/E&E Working Paper #10 (October 2009), drawing from U.S. State Department, *Export Control and Border Assessment* (2009), and U.S. Commerce Department, *Export Control Policy*, (September 2008).

Table 30. Counter-Terrorism: Europe and Eurasia

	2009 <u>a. Denial of Terrorist</u> <u>Sponsorship and</u> <u>and Sancturary</u>	2009 <u>b. Government's</u> <u>Counterterrorism</u> <u>Capabilities</u>	2009 <u>c. Incidence of</u> <u>Terrorism</u>	2008 <u>d. Political</u> <u>Stability</u> <u>/ Absence</u> <u>of Violence</u>	Rating (1-5)
SLOVENIA	5.0	5.0	5.0	5.0	5.0
ESTONIA	5.0	5.0	5.0	4.0	4.8
HUNGARY	5.0	5.0	5.0	4.0	4.8
LATVIA	5.0	5.0	5.0	4.0	4.8
LITHUANIA	5.0	5.0	5.0	4.0	4.8
POLAND	5.0	5.0	5.0	4.0	4.8
SLOVAKIA	5.0	5.0	5.0	4.0	4.8
CZECH REPUBLIC	5.0	4.0	5.0	4.0	4.5
ROMANIA	5.0	4.0	5.0	3.0	4.3
BULGARIA	5.0	3.0	5.0	3.0	4.0
CROATIA	5.0	3.0	4.0	4.0	4.0
KAZAKHSTAN	4.0	3.0	5.0	4.0	4.0
MONTENEGRO	4.0	3.0	4.0	4.0	3.8
BELARUS			3.0	4.0	3.5
TURKMENISTAN	3.0	3.0	5.0	3.0	3.5
UKRAINE	5.0	3.0	3.0	3.0	3.5
ARMENIA	3.0	2.0	5.0	3.0	3.3
MOLDOVA	3.0	3.0	5.0	2.0	3.3
SERBIA	4.0	4.0	3.0	2.0	3.3
ALBANIA	3.0	1.0	5.0	3.0	3.0
AZERBAIJAN	3.0	3.0	3.0	2.0	2.8
MACEDONIA	4.0	2.0	3.0	2.0	2.8
KYRGYZ REPUBLIC	2.0	1.5	5.0	2.0	2.6
BOSNIA-HERZEGOVINA	3.0	1.0	3.0	2.0	2.3
KOSOVO	3.0	1.0	3.0	2.0	2.3
TAJIKISTAN	2.0	1.0	4.0	2.0	2.3
UZBEKISTAN	2.0	1.0	5.0	1.0	2.3
GEORGIA	2.0	3.0	2.0	1.0	2.0
RUSSIA	2.0	3.0	1.0	2.0	2.0
E&E Average	3.8	3.1	4.2	3.0	3.5
Northern Tier CEE	5.0	4.9	5.0	4.1	4.8
Southern Tier CEE	4.0	2.4	3.9	2.8	3.3
Eurasia	2.8	2.4	3.8	2.4	2.9

J. Swedberg and R. Sprout, *Peace and Security in Eastern Europe and Eurasia*, USAID/E&E Working Paper #10 drawing from

U.S. State Department, *Country Reports on Terrorism (2009)*, National Counterterrorism Center, *Worldwide Incidents Tracking System (2008-2009)*,

Fund for Peace, *Failed States Index (2009)*; World Bank Institute, *Governance Matters Indicators (2009)*.

Table 31. Stabilization Operations and Defense Reform

	2009	2007	2007	2007	2007	
	<u>a. State</u>	<u>b. Human</u>	<u>c. Homicide</u>	<u>d. Military</u>	<u>e. Peace-</u>	<u>Total</u>
	<u>Institutions</u>	<u>Rights</u>	<u>Rate</u>	<u>Expenditures</u>	<u>keeping</u>	
SLOVAKIA	5.0	4.0	5.0	5.0	3.0	4.4
SLOVENIA	5.0	4.0	4.0	4.0	4.0	4.2
CZECH REPUBLIC	5.0	4.0	5.0	4.0	2.0	4.0
HUNGARY	5.0	4.0	4.0	4.0	3.0	4.0
LATVIA	5.0	4.0	2.0	5.0		4.0
ROMANIA	4.5	3.0	5.0	5.0	2.0	3.9
POLAND	3.4	4.0	4.0	5.0	3.0	3.9
ESTONIA	5.0	4.0	2.0	5.0	3.0	3.8
LITHUANIA	5.0	4.0	2.0	4.0	---	3.8
MONTENEGRO	4.0	4.0	3.0	---	---	3.7
MACEDONIA	2.6	4.0	3.0	5.0	---	3.7
ALBANIA	3.5	4.0	3.0	4.0	---	3.6
BULGARIA	3.0	4.0	4.0	5.0	2.0	3.6
BOSNIA-HERZEGOVINA	2.2	4.0	5.0	3.0	---	3.6
CROATIA	2.8	5.0	2.0	5.0	2.0	3.4
SERBIA	2.4	4.0	2.0	5.0	---	3.4
TAJIKISTAN	2.2	3.0	4.0	4.0	---	3.3
UZBEKISTAN	3.4	3.0	2.0	4.0	---	3.1
UKRAINE	3.4	3.0	2.0	4.0	2.0	2.9
MOLDOVA	2.6	4.0	2.0	2.0	---	2.7
ARMENIA	2.4	2.0	4.0	2.0	---	2.6
AZERBAIJAN	2.2	2.0	4.0	2.0	---	2.6
BELARUS	1.4	3.0	2.0	3.0	---	2.4
TURKMENISTAN	1.6	2.0	3.0	---	---	2.2
GEORGIA	2.6	3.0	2.0	1.0	---	2.2
KYRGYZ REPUBLIC	1.6	3.0	2.0	2.0	---	2.2
KAZAKHSTAN	2.5	2.0	1.0	3.0	---	2.1
RUSSIA	3.2	1.0	1.0	2.0	3.0	2.0
KOSOVO						
E&E Average	3.3	3.4	3.0	3.7	2.6	3.2
Northern Tier CEE	4.8	4.0	3.5	4.5	3.0	4.0
Southern Tier CEE	3.1	4.0	3.4	4.6	2.0	3.6
Eurasia	2.4	2.6	2.4	2.6	2.5	2.5

J. Swedberg and R. Sprout, *Peace and Security in Eastern Europe and Eurasia*, USAID/E&E Working Paper #10 drawing from

Fund for Peace, *Failed States Index (2009)*; Binghamton University, *Cingranelli-Richards Human Rights Dataset, (2007)*; UNICEF, *TransMONEE (2003-2006)*; World Bank, *World Development Indicators (2009)*; and A.T. Kearney, *Globalization Index (2007)*.

	2006-07	2006	2006-07	2009	2006-09
	<u>Demand</u>	<u>Changes in</u>	<u>Seizure of</u>	<u>Interdiction</u>	<u>Total</u>
	<u>for Illicit</u>	<u>Use</u>	<u>Illicit</u>		
	<u>Narcotics</u>	<u>Patterns</u>	<u>Narcotics</u>		
ARMENIA	4.3	---	5.0	3.7	4.3
MONTENEGRO	---	---	4.7	3.3	4.0
LITHUANIA	4.4	3.0	4.5	3.3	3.8
ROMANIA	4.6	2.9	4.3	3.3	3.8
SLOVAKIA	2.8	3.0	4.8	4.3	3.7
HUNGARY	3.1	3.0	4.3	4.3	3.7
LATVIA	2.6	3.0	4.8	4.3	3.7
SLOVENIA	2.6	2.8	4.5	4.3	3.6
CROATIA	2.6	2.4	4.8	4.3	3.5
AZERBAIJAN	3.8	2.8	4.5	3.0	3.5
CZECH REPUBLIC	3.1	3.1	4.8	3.0	3.5
MOLDOVA	4.6	2.0	4.3	3.0	3.5
POLAND	3.9	2.9	3.8	3.0	3.4
BOSNIA-HERZEGOVINA	4.0	2.4	4.8	2.3	3.4
MACEDONIA	3.8	1.8	4.5	3.3	3.3
GEORGIA	2.5	2.6	4.5	3.7	3.3
ALBANIA	4.1	2.2	4.3	2.3	3.2
ESTONIA	1.8	2.9	4.5	3.7	3.2
BELARUS	3.6	2.9	---	2.7	3.1
TURKMENISTAN	3.0	3.3	3.5	2.3	3.0
BULGARIA	3.1	3.0	3.3	2.7	3.0
UKRAINE	2.6	2.1	3.8	2.7	2.8
RUSSIA	2.5	3.3	3.0	2.3	2.8
UZBEKISTAN	2.3	2.5	3.5	2.7	2.7
SERBIA	---	1.6	3.7	2.7	2.7
KAZAKHSTAN	2.3	3.2	2.5	2.7	2.6
KYRGYZ REPUBLIC	2.0	2.4	3.0	2.3	2.4
TAJIKISTAN	2.3	2.0	2.0	2.3	2.1
KOSOVO	---	---	---	2.7	---
E&E Average	3.2	2.6	4.1	3.1	3.3
Northern Tier CEE	3.0	3.0	4.5	3.8	3.6
Southern Tier CEE	3.7	2.3	4.3	3.0	3.4
Eurasia	3.0	2.6	3.6	2.8	3.0

J. Swedberg and R. Sprout, *Peace and Security in Eastern Europe and Eurasia*, USAID/E&E Working Paper #10 drawing from UNODC, *World Drug Report*, (2009); UNODC, On Line Database (2009); and U.S. State Department, *International Narcotics Control Strategy Report*, (INCSR) (2009) .

Table 33. Transnational Crime

	<u>2009</u> <u>Trafficking</u> <u>in</u> <u>Persons</u>	<u>2009</u> <u>Piracy of</u> <u>Intellectual</u> <u>Property</u>	<u>2008-09</u> <u>Money</u> <u>Laundering</u>	<u>2009</u> <u>Criminal-</u> <u>ization</u> <u>of the State</u>	<u>2009</u> <u>Counter-</u> <u>Narcotics</u> <u>Score</u>	<u>2008-09</u> <u>Total</u>
SLOVENIA	5.0	5.0	3.0	4.0	3.6	4.1
LITHUANIA	5.0	5.0	3.0	3.5	3.8	4.1
CROATIA	5.0	5.0	3.0	3.3	3.5	4.0
KOSOVO	3.0	5.0	3.0	---	---	3.7
MACEDONIA	5.0	5.0	3.0	1.8	3.3	3.6
ESTONIA	3.0	5.0	3.0	3.2	3.2	3.5
GEORGIA	5.0	5.0	3.0	1.0	3.3	3.5
SLOVAKIA	3.0	5.0	2.0	3.6	3.7	3.5
ARMENIA	3.0	5.0	3.0	2.0	4.3	3.5
CZECH REPUBLIC	5.0	3.0	2.0	3.7	3.5	3.4
MONTENEGRO	2.0	5.0	3.0	3.2	4.0	3.4
POLAND	5.0	3.0	2.0	3.3	3.4	3.3
BULGARIA	3.0	5.0	2.0	2.5	3.0	3.1
KAZAKHSTAN	3.0	5.0	3.0	1.7	2.6	3.1
ALBANIA	3.0	5.0	2.0	1.9	3.2	3.0
AZERBAIJAN	2.0	5.0	2.0	1.4	3.5	3.0
KYRGYZ REPUBLIC	3.0	5.0	3.0	1.4	2.4	3.0
BOSNIA-HERZEGOVINA	3.0	5.0	2.0	1.4	3.4	3.0
LATVIA	2.0	5.0	1.0	3.0	3.7	2.9
SERBIA	3.0	5.0	2.0	1.9	2.7	2.9
HUNGARY	3.0	3.0	2.0	2.8	3.7	2.9
ROMANIA	3.0	3.0	2.0	2.4	3.8	2.8
MOLDOVA	2.0	5.0	2.0	1.5	3.5	2.8
UZBEKISTAN	3.7	3.0	2.0	0.9	2.7	2.4
TURKMENISTAN	2.0	3.0	3.0	1.2	3.0	2.4
BELARUS	3.0	3.0	2.0	1.1	3.1	2.4
TAJIKISTAN	2.0	3.0	3.0	0.9	2.1	2.2
UKRAINE	2.0	3.0	1.0	1.9	2.8	2.1
RUSSIA	2.0	1.0	1.0	1.5	2.8	1.7
E&E Average	3.2	4.2	2.3	2.2	3.3	3.1
Northern Tier CEE	3.9	4.3	2.3	3.4	3.6	3.5
Southern Tier CEE	3.3	4.8	2.4	2.3	3.4	3.3
Eurasia	2.7	3.8	2.3	1.3	3.0	2.7

J. Swedberg and R. Sprout, *Peace and Security in Eastern Europe and Eurasia*, USAID/E&E Working Paper #10 drawing from U.S. Department of State, *Trafficking in Persons Report* (June 2009); United States Trade Representative, *USTR Special 301 Report* (2009), U.S. Department of State, *International Narcotics Control Strategy Report* (2009); and Fund for Peace, *Failed States Index* (2009).

	2009 <u>Conflict</u> <u>History</u>	2009 <u>Instability</u> <u>Index</u>	2009 <u>Bad</u> <u>Neighbor-</u> <u>hood</u>	2009 <u>Total</u>
SLOVAKIA	5.0	5.0	4.6	4.9
SLOVENIA	5.0	5.0	4.5	4.8
HUNGARY	5.0	5.0	4.3	4.8
POLAND	5.0	4.5	4.1	4.5
CZECH REPUBLIC	4.0	4.0	5.0	4.3
LITHUANIA	5.0	4.5	3.5	4.3
BULGARIA	5.0	3.5	3.6	4.0
ESTONIA	5.0	3.5	3.5	4.0
LATVIA	5.0	3.5	3.5	4.0
MONTENEGRO	5.0	3.5	3.0	3.8
BELARUS	3.0	4.0	4.2	3.7
UKRAINE	5.0	2.5	3.6	3.7
KAZAKHSTAN	5.0	4.0	2.0	3.7
UZBEKISTAN	5.0	4.0	2.0	3.7
ALBANIA	3.0	3.5	4.0	3.5
CROATIA	3.0	4.0	3.5	3.5
KYRGYZ REPUBLIC	5.0	2.0	3.5	3.5
MOLDOVA	3.0	3.5	4.0	3.5
TURKMENISTAN	5.0	3.5	1.8	3.4
BOSNIA-HERSEGOVINA	3.0	3.0	3.7	3.2
MACEDONIA	2.0	3.5	4.0	3.2
ROMANIA	3.0	3.0	3.4	3.1
SERBIA	2.0	3.5	3.6	3.0
AZERBAIJAN	3.0	3.0	2.4	2.8
KOSOVO	2.0	---	3.5	2.8
RUSSIA	1.0	2.5	3.2	2.2
TAJIKISTAN	3.0	2.0	1.5	2.2
GEORGIA	1.0	2.0	2.8	1.9
ARMENIA	1.0	2.0	2.0	1.7
E&E Average	3.7	3.5	3.4	3.5
Northern Tier CEE	4.9	4.4	4.1	4.5
Southern Tier CEE	3.1	3.4	3.6	3.4
Eurasia	3.3	2.9	2.7	3.0

J. Swedberg and R. Sprout, *Peace and Security in Eastern Europe and Eurasia*, USAID/E&E Working Paper #10 drawing from Center for Global Policy, GMU, *Political Instability Task Force (2006-08)*, USAID/DCHA/CMM, *Alert Lists (2009)*, and Fund for Peace, *Failed States Index (2009)*.

Appendix

Monitoring Country Progress in Eastern Europe & Eurasia #12

May 2010

Some elaboration of the MCP indices, indicator definitions, sources, and scales

I. Economic Reforms Index

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). The EBRD differentiates and defines five main thresholds for the nine indicators and scores them from a "1" to a "4+." We've converted the "4+" to a "5" which represents the most advanced standards worldwide (i.e., the standards of the advanced industrialized economies).

II. Democratic Reforms Index

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 on a seven-category scale 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.

III. Economic Performance Index

The economic performance index includes: (1) private sector share of GDP; (2) share of employment in micro, small, and medium enterprises; (3) export share of GDP & composition of exports (the average of the 1 to 5 ratings of: (a) exports as a percent of GDP; (b) manufactured exports as a percent of total exports; and (c) high technology exports as a percent of total exports; with export share weighted two times); (4) foreign direct investment per capita, cumulative 5 year average; (5) the most recent 5 year average annual economic growth rate; (6) macro stability (the average of the 1 to 5 ratings of: (a) 3 year inflation rates; (b) external debt as a percent of GDP; (c) current account balance as a percent of GDP; and (d) fiscal balance as a percent of GDP); (7) domestic inequality (the rating based on the average rank of three types of inequalities: (a) ethnic or religious inequalities; (b) income inequality of the ratio of the top population

quintile to the bottom population quintile; and (c) urban-rural inequality of poverty rates); (8) long term unemployment as % of the labor force; (9) services as % of GDP; and (10) energy security (the average of the 1 to 5 ratings of: (a) energy dependency or net energy imports as a percent of energy use; and (b) energy efficiency or GDP per unit of energy use). These indicators are drawn primarily from the World Bank's *World Development Indicators* and the EBRD's *Transition Report*. Data are converted to a "1" to "5" scale with "5" representing the most advanced standards worldwide. The five year economic growth rate is given twice the weight of each of the other indicators.

IV. Human Capital Index

Six primary indicators go into the human capital index: (1) under five mortality rate; (2) life expectancy; (3) public expenditures on health and education as a percent of GDP; (4) tuberculosis incidences per 100,000 persons; (5) poverty & income (an index of per capita income in purchasing power parity terms, poverty rates at \$2.15 per day among the elderly and children, and the rate of children in residential care); and (6) education gaps (an index of eight indicators including pre-primary, primary, secondary, and tertiary enrollment rates, public spending on education as a percent of GDP, and three standardized tests which attempt to measure functional literacy: the PISA, TIMSS, and PIRLS).

Primary data sources include the World Bank, *World Development Indicators*; UNICEF, *TransMonee Database*; and the World Health Organization, *European Health For All Database*. The original indicators are converted to a "1" to "5" scale with "5" representing the most advanced standards worldwide. Two of the six primary indicators are double-weighted in the calculation of the human capital index. The education gap indicator is given twice the weight to more equally balance the importance of education issues with health issues. The poverty and income indicator was two separate indicators in previous iterations of the human capital index (in *MCP #11* and prior); to maintain comparability with past scores, we double-weight the merged "poverty and income" indicator.

Peace & Security Index

Six primary components make up the peace and security index. Each of these six components is an index in itself. (1) *Counterterrorism* consists of four indicators. It attempts to measure the incidents and severity of terrorism as well as the capacity of governments to avert or control terrorism and/or the likelihood of political instability stemming from terrorism. (2) *Combating weapons of mass destruction* consists of three indicators, and attempts to measure the extent to which governments are able to control and regulate the export of chemical, biological, and nuclear weapons. (3) *Stabilization operations and security sector reform* consists of five components, and attempts to measure the capacity, scope, and intent of a government's security sector as well as estimates of the domestic security environment and status. (4) *Counternarcotics* consists

of four indicators and attempts to measure both the demand and supply of the four major types of narcotics: opiates; cocaine; cannabis; and amphetamines. (5) *Combating transnational crime* consists of five components and attempts to measure the extent of trafficking in persons, piracy of intellectual property rights, narcotics, and money laundering as well as the capacity of governments to address these concerns. (6) *Conflict mitigation* consists of three indicators, and attempts to measure the potential or vulnerability of governments towards conflict and state failure by taking stock of instability, conflict history of the country, and the potential for conflict among neighborhood countries.

Similar to the other MCP indices, the original data have been converted and standardized on a “1” to “5” scale; where a “1” represents the worst score worldwide and a “5” the best. Primary data sources include the U.S. State Department (*Export Control and Border Assessment, Country Reports on Terrorism, International Narcotics Control Strategy Report, and Trafficking in Persons Report*), the U.S. Trade Representative, *USTR Special 301 Report*, the U.S. Commerce Department, *Export Control Policy*, USAID, Bureau of Democracy, Conflict, and Humanitarian Assistance, Office of Conflict Management and Mitigation, *Alert Lists*, the United Nations Office on Drugs and Crime, *World Drug Report*, the National Counterterrorism Center, *Worldwide Incidents Tracking System*, the Fund for Peace, *Failed States Index*, and Binghamton University, the *Cingranelli-Richards Human Rights Dataset*.

Rating scales defined

I. Economic Reforms Index

The EBRD differentiates and defines 5 main thresholds for the nine indicators (below). The EBRD's scoring ranges from a "1" to a "4+"; we've converted the "4+" to a "5". The disaggregation into first and second stage reforms is our designation.

First Stage 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 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 & 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: telecommunications, railways, electric power, roads, and water & waste water.

(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.

II. Democratic Reforms Index

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.

III. Economic performance Index.

The economic performance index is derived by converting “raw scores” (such as percentages and growth rates) into scores which range from “1” to “5”:

(1) ***Private Sector Share of GDP*** (EBRD *Transition Report*): “0.5”: 30% of GDP or less; “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 79%; “5.0”: 80% or greater.

(2) ***Employment in MSME Sector as % of Total Employment*** (IFC, *MSME Database*). “0.5”: 10% or less; “1.0”: >10-23%; “1.5”: >23-30%; “2.0”: >30-45%; “2.5”: >45-49%; “3.0”: >49-55%; “3.5”: >55-60%; “4.0”: >60-65%; “4.5”: >65-75%; “5.0”: greater than 75% of total employment.

(3) ***Export Sector*** (the average of the ratings of three components below, weighting export share times two; World Bank, *World Development Indicators*).

(3a) ***Export share of GDP***: “0.5”: 25% or less; “1.0”: greater than 25% to 37%; “1.5”: >37-43%; “2.0”: >43-46%; “2.5”: >46-51%; “3.0”: >51-58%; “3.5”: >58-61%; “4.0”: >61-66%; “4.5”: >66-77%; “5.0”: greater than 77%.

(3b) ***Manufactured exports as % of total exports***: “0.5”: 25% or less; “1.0”: greater than 25% to 35%; “1.5”: >35-40%; “2.0”: >40-45%; “2.5”: >45-50%; “3.0”: >50-55%; “3.5”: >55-65%; “4.0”: >65-70%; “4.5”: >70-75%; “5.0”: greater than 75%.

(3c) ***High-tech exports as % of exports***: “1.0”: <1%; “2.0”: 1-<3%; “3.0”: 3-<5%; “4.0”: 5-<10%; “5.0”: 10% or greater.

(4) ***Foreign Direct Investment*** (per capita, cumulative, most recent five year average, net in \$; EBRD *Transition Report*). “0.5”: \$100 or less; “1.0”: >\$100-200; “1.5”: >\$200-400; “2.0”: >\$400-600; “2.5”: >\$600-800; “3.0”: >\$800-1,000; “3.5”: >\$1,000-1,200; “4.0”: >\$1,200-1,500; “4.5”: >\$1,500-2,000; “5.0”: >\$2,000.

(5) **GDP Growth** (most recent five year average; EBRD, *Transition Report*). “0.5”: 0% or less; “1.0”: greater than 0% to 2.0%; “1.5”: >2.0-2.5%; “2.0”: >2.5-3.0%; “2.5”: >3.0-4.0%; “3.0”: >4.0-5.0%; “3.5”: >5.0-6.0%; “4.0”: >6.0-7.5%; “4.5”: >7.5-9.0%; “5.0”: greater than 9.0%.

(6) **Macro Stability** (the average of the ratings of the four indicators below):

(6a) *3 year average annual inflation rate* (EBRD, *Transition Report*). “0.5”: >30%; “1.0”: >26-30%; “1.5”: >22-26%; “2.0”: >10-22%; “2.5”: >7-10%; “3.0”: >6-7%; “3.5”: >4-6%; “4.0”: >3-4%; “4.5”: >2.5-3%; “5.0”: 2.5% inflation rate or less.

(6b) *external debt as % of GDP* (EBRD, *Transition Report*). “0.5”: >95%; “1.0”: >85% to 95%; “1.5”: >75-85%; “2.0”: >50-75%; “2.5”: >40-50%; “3.0”: >30-40%; “3.5”: >20-30%; “4.0”: >10-20%; “4.5”: >5-10%; “5.0”: 5% or less.

(6c) *fiscal balance as % of GDP* (World Bank, *World Development Indicators*). “0.5”: -15% or less; “1.0”: <-10.0% to -15.0%; “1.5”: <-7.0 to -10.0%; “2.0”: <-3.0 to -7.0%; “2.5”: <-2.5 to -3.0%; “3.0”: -1.5 to <-2.5%; “3.5”: -1.0 to <-1.5%; “4.0”: 0.0 to <-1.0%; “4.5”: 1.0 to < 2.0%; “5.0”: 2.0% or greater.

(6d) *current account balance as % of GDP* (World Bank, *World Development Indicators*). “0.5”: -20% or less; “1.0”: <-10 to -20%; “2.0”: <-6.0 to -10%; “3.0”: <-3.0 to -6.0%; “4.0”: <0.0 to -3.0%; “5.0”: greater than 0%.

(7) **Domestic Inequality**. A 1 to 5 rating was assigned from an average of three rankings of each of three measures of inequality: (a) ethnic or religious inequalities (the “uneven development” indicator from the Fund for Peace’s *Failed States Index*); (b) income inequality of the top population quintile relative to the bottom population quintile (from UNESCO, *Statistical Division Database*); and (c) urban-rural inequality of poverty rates (Peters, Sprout, and Melzig. “Regional Poverty Disparity and Economic Performance in Eastern Europe and Eurasia.” *Post-Communist Economies*, Volume 22. No. 3 (September 2010 forthcoming).

(8) **Long Term Unemployment as % of the Labor Force** (UNECE, *Statistical Division Database*). “0.5”: >20.0%; “1.0”: >10.0 to 20.0%; “2.0”: >7.0 to 10.0%; “3.0”: >5.0 to 7.0%; “4.0”: >3.5 to 5.0%; “4.5”: >3.0 to 3.5%; “5.0” <=3.0%.

(9) **Services as % GDP** (World Bank, *World Development Indicators*). “1.0”: <= 40%; “2.0”: >40 to 50%; “3.0”: >50 to 60%; “4.0”: >60 to 65%; “5.0”: greater than 65%.

(10) **Energy Security** (the average of the ratings of the two components below, World Bank, *World Development Indicators*):

(10a) *energy dependency* (net energy imports as percent of energy use). “1.0”: greater than 79%; “2.0”: >59 to 79%; “3.0”: >39 to 59%; “4.0”: >10 to 39%; “5.0”: less than or equal to 10%.

(10b) *energy efficiency* (GDP per unit of energy use, 2005 PPP \$ per kilogram of oil equivalent). “1.0”: less than 2.6; “2.0”: >2.6 to 3.5; “3.0”: >3.5 to 5 “4.0”: >5.0 to 6.0; “5.0”: greater than 6.0.

IV. Human capital Index.

The human capital index is derived by converting “raw scores” (such as percentages and growth rates) into scores which range from “1” to “5”:

(1) ***Poverty and income*** (average of per capita income and a vulnerable populations score)

(a) *per capita income* (gross national income, purchasing power parity, World Bank, *World Development Indicators*). “0.5”: \$1,000 or less; “1.0”: >\$1,000 to \$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 per capita.

(b) vulnerable populations (the proportion of children and elderly in poverty at \$2.15 per day; World Bank, *Growth, Poverty, and Inequality: Eastern Europe and the Former Soviet Union* (2005) and UNICEF, *TransMONEE Database*; Countries are down-graded a “1” on the “1” to “5” scale on the poverty rates of the vulnerable population if the countries also have a high rate of institutionalized children (and if the score is not already a “1”)) “0.5”: greater than 60%; “1.0”: >30 to 60%; “2.0”: >19 to 30%; “3.0”: >10 to 19%; “4.0”: >3 to 10%; “5.0”: 3% or less.

(2) ***Education Gaps*** (the number of gaps or “vulnerable” results, primary sources are World Bank, *World Development Indicators*, UNICEF, *TransMONEE Database*, IEA (2007 and 2008), and OECD (2007)). “1.0”: 4 to 6 gaps; “2.0” 3 gaps; “3.0” 2 gaps; “4.0”: 1 gap; “5.0”: 0 gaps. There are up to six possible gaps, and are defined as: (1) =< 3% of GDP in education spending; (2) pre-primary school enrollment: < 30% or notable backsliding; (3) primary school enrollment: < 93% enrollment or notable backsliding; (4) secondary enrollment: < 60% or notable backsliding; (5) tertiary enrollment: < 25% enrollment or notable backsliding; (6) in one or more of the functional literacy tests (i.e., either PISA, TIMSS, or PIRLS), < 450 score or notable backsliding. A score of 500 is OECD average.

(3) ***Public Expenditure on Education and Health as % of GDP*** (average of the two expenditures, World Bank, *World Development Indicators*). “0.5”: 2% or less; “1.0”: >2% to 2.5%; “1.5”: >2.5-3%; “2.0”: >3-3.5%; “2.5”: >3.5-4%; “3.0”: >4-4.5%; “3.5”: >4.5-5%; “4.0”: >5-5.5%; “4.5”: >5.5-6%; “5.0”: greater than 6% of GDP.

(4) ***Life Expectancy*** (years, World Bank, *World Development Indicators*). 0.5: less than 64 years; 1: 64 years to <65.5; 1.5: 65.5 to <67 years; 2: 67 to <68.5 years; 2.5: 68.5 to

<70 years; 3: 70 to < 71.5 years; 3.5: 71.5 to <73 years; 4: 73 to < 74.5 years; 4.5: 74.5 to < 76 years; 5: 76 years or greater.

(5) ***Under Five Years Mortality Rate*** (per thousand live births, World Bank, *World Development Indicators*). 0.5: greater than 93 deaths; 1: >82 to 93 deaths; 1.5: >71-82 deaths; 2: >60-71 deaths; 2.5: >49-60 deaths; 3: >38-49 deaths; 3.5: >27-38 deaths; 4: >16-27 deaths; 4.5: >5-16 deaths; 5: 5 deaths or less.

(6) ***TB Incidences*** (per 100,000 persons, World Health Organization, *European Health For All Database*) “0.5”: greater than 150 incidences; “1.0”: >100 to 150; “1.5”: >75 to 100; “2.0”: >59 to 75; “2.5”: >45 to 59; “3.0”: >35 to 45; “3.5”: >25 to 35; “4.0”: >15 to 25; “4.5”: >11 to 15; “5.0”: 11 incidences or less.

V. Peace and Security Index¹

The Peace and Security Index consists of six components and aligns with the six program areas of the U.S. government’s foreign assistance strategic framework of peace and security.

(1) ***Counter-terrorism*** (Four equally-weighted components)

(a) ***Denial of Terrorist Sponsorship and Sanctuary***. 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

¹ More elaboration is available in Swedberg and Sprout, *Peace and Security in Eastern Europe & Eurasia*, E&E Working Paper #10 (October 2009).

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's Counterterrorism Capabilities*. 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 US anti-terrorism measures may be evident. New anti-terrorism legislation may have been taken;

“5”: Exceptional counterterrorism capability and strong partner with US against terrorism. Government may have passed *and implemented* anti-terrorism legislation and/or technical improvements

© *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; and “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; and a “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; 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.

“1.0”: CB 2 and CB 3 Controls in place; “3.0”: CB 3 Controls only; “5.0”: 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; 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.

“1.0”: NT 1 and NT 2 Controls in place; “3.0”: NT 2 Controls only; “5.0”: 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 U.S. 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 are on a scale of 1 to 100. "1.0": less than 20; "2.0": 20 to 29; "3.0": 30 to 59; "4.0": 60 to 69; and "5.0": over 70.

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

(a) *Governance in the Security Sector*. As part of its methodology towards calculating the *Failed States Index*, the Fund for Peace rates on a 1 to 5 scale five institutions that it deems necessary for sustainable security: (1) a competent domestic police force and corrections system; (2) an efficient and functioning civil service or professional bureaucracy; (3) an independent judicial system that works under the rule of law; (4) a professional and disciplined military accountable to a legitimate civilian government; and (5) a strong executive/legislative leadership capable of national governance. The five scores are averaged to provide a single 1 to 5 score.

Currently, for slightly less than half of the countries in the E&E region, no such score from the Fund for Peace is available. To fill the gap, we use the Fund for Peace's *Security Apparatus Operates as a State within a State* indicator. This indicator attempts to measure the "emergence of elite or praetorian guards that operate with impunity," and the extent to which state-sponsored or state-supported private militias terrorize political opponents, suspected "enemies," or civilians seen to be sympathetic to the opposition. This indicator also tracks any emergence of an "army within an army" that serves the interests of the dominant military or political clique or the emergence of rival militias, guerilla forces or private armies in an armed struggle or protracted violent campaigns against state security forces.

"0.5": 8.6 to 10; "1.0": 7.7-8.5; "1.5": 7.1 to 7.6; "2.0": 6.7 to 7.0; "2.5": 6.2 to 6.6; "3.0": 5.7 to 6.1; "3.5": 4.9 to 5.6; "4.0": 4 to 4.8; "4.5": 3.1 to 3.9; "5.0": 0 to 3.0.

(b) *Human Rights*. This indicator attempts to measure government human rights practices or the capacity of government to maintain basic human rights freedoms. It uses the *Cingranelli-Richards Physical Integrity Rights Index* maintained by scholars at Binghamton University. Physical integrity rights are defined as the rights not to be tortured, summarily executed, disappeared, or imprisoned for political beliefs. Information are drawn from two primary sources to construct the index: U.S. Department

of State's *Country Reports on Human Rights Practices* and Amnesty International's *Annual Report*. The index is scored on a 0 to 8 scale; we convert it to our 1 to 5 standard.

"1": 1 or less; "2": 2 to 3; "3": 4 to 5; "4": 6 to 7; and "5": 8.

© *Violent Crime*. This indicator measures the recorded intentional homicide rate per 100,000 population. It is intended to serve as a proxy indicator for domestic security environment. For Europe and Eurasia, data are drawn from UNICEF's TransMONEE database. For the rest of the world, the primary source of data is the United Nations Office on Drugs and Crime (UNODC).

"1": 10 homicides per 100,000 population or more; "2": 5 to 9.9; "3": 3 to 4.9; "4": 2 to 2.9; "5": less than 2.

(d) *Military expenditures as % 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": rank of 60-71; "2": 45-59; "3": 30-44; "4": 15-29; and "5": 1-14.

(4) Counter-narcotics (Four equally-weighted components)

This indicator attempts to capture narcotics demand and supply, two indicators for each. Four narcotics are tracked and in our index are weighted to reflect the relative societal danger: opiates receive the highest weight vs. cocaine and amphetamines, which receive an intermediate weight vs. cannabis, which receives no additional weighting

(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*.

Opiates – “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. Opiate score triple weighted. Cocaine - “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. Cocaine score double weighted. Cannabis – “1”: > 8% of population; “2”: 5 - 8% of population; “4”: 1 - 5% of population; “5”: <1% of population Cannabis score un-weighted. Amphetamines “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. Amphetamine score double weighted.

(b)*Change in Annual Demand for Narcotics*. The data are collected by the United Nations Office of Drugs and Crime (UNODC) through use of the Annual Reports Questionnaire (ARQ) and incorporated into the annual *World Drug Report*. 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*.

Opiates – “1”: large increase; “2”: some increase; “3”: stable; “4”: some decline; “5”: strong decline. Opiate score triple weighted. Cocaine “1”: large increase; “2”: some increase; “3”: stable; “4”: some decline; “5”: strong decline . Cocaine score double weighted. Cannabis - “1”: large increase; “2”: some increase; “3”: stable; “4”: some decline; “5”: strong decline. Cannabis score un-weighted. Amphetamines - “1”: large increase; “2”: some increase; “3”: stable; “4”: some decline; “5”: strong decline. Amphetamine score double weighted.

© *Seizure of Illicit Narcotics*. UNODC gathers information on illicit drug seizures worldwide, mainly drawn from the Annual Reports Questionnaire sent to all Member States, but also supplemented by other sources such as Interpol and UNODC Field Offices. Seizures are combined into a single, derived unit of measurement (kilogram equivalents) that converts seizures reported in volume (liters) and units into their equivalent in kilograms.

Opiates – “1”: Greater than 45,000 kg; “2”: 1,000 – 45,000 kg; “3”: 250 – 1,000 kg; “4”: 100 – 250 kg; “5”: Less than 100 kg. Cocaine – “1”: Greater than 1,000,000 kg; “2”: 100,000 – 1,000,000 kg; “3”: 1,000 – 100,000 kg; “4”: 10 – 1,000 kg; “5”: Less than 10 kg. Cannabis – “1”: Greater than 1,000,000 kg; “2”: 100,000 – 1,000,000 kg; “3”: 10,000 – 100,000 kg; “4”: 1,000 – 10,000 kg; “5”: Less than 1,000 kg. Amphetamines – “1”: Greater than 1,000 kg; “2”: 100 – 1,000 kg; “3”: 20 – 100 kg; “4”: 1– 20 kg; “5”: Less than 1 kg.

(d) *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* (Four equally-weighted components)

(a) *Trafficking in Persons*. This indicator draws from the U.S. 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; "3": Tier 2; and "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

We convert these three categories into a “1” (priority watch) or “3 (watch) or a “5” (monitoring list).

© *Money Laundering*. This indicator uses classification found in the *International Narcotics Control Strategy Report (INCSR)*, released annually by the U.S. State Department Bureau of International Narcotics and Law Enforcement Affairs. Every year, U.S. 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.

“1.0”: country of “primary concern”; “2.0”: “country of concern”; “3.0”: country ‘monitored’; “5.0”: country not monitored.

(d) *Criminalization and/or De-legitimization 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.

“0.5”: 8.6 to 10; “1.0”: 7.7-8.5; “1.5”: 7.1 to 8.5; “2.0”: 6.6 to 7; “3.0”: 5.7 to 6.1; “3.5”: 4.9 to 5.6; “4.0”: 4 to 4.8; “4.5”: 3.1 to 3.9; “5.0”: 0 to 3.0.

(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 underway or ended within less than 1 year; “2” : 1 – 10 years; “3” : 11 to 20 years; “4” : 21 to 50 years; “5” : over 50 years.

(b)*Instability*. The risk of instability refers to the future likelihood that a country will experience a coup d’etat, 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. Scores are based on rankings presented in the Peace and Conflict Instability Ledger, which is produced by the Center for International Development and Conflict Management at the University of Maryland in concert with USAID/DCHA/CMM. Using the most recent data available, the rankings are based on a statistical estimation of the risk of instability in the period 2008-2010

The Instability Alert List differs from many such rankings in that points are removed for countries categorized as “partial democracies,” which are considered at greater risk for instability than autocracies or full democracies. Repressive tactics adopted by autocratic governments often quell the sources of instability. Coherent and mature democracies possess the capacity to address group grievances and manage the competition between groups that vie for political power and other resources, thereby reducing the risks of instability. Partial democracies typically possess neither of the qualities of full autocracies. This formulation produces some anomalous results in the correlation of Conflict Mitigation with other parts of the P&S Index, but takes into account the fact that some authoritarian regimes, such as Uzbekistan, Turkmenistan or Belarus may be less vulnerable to the drivers of instability and conflict than more stable than partial democracies such as Armenia or Georgia.

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” : Rank from 1-18; “1.5” : 19-36; “2” : 37-54; “2.5” : 55-72; “3” : 73-90; “3.5” : 91-108; “4” : 109-126; “4.5” : 127-144; “5” : 145-162.

© *Bad Neighborhood*. This indicator is calculated for each country by taking the average of the Fund for Peace’s *Failed States Index* scores for all of that country’s neighboring countries. The assumption behind this indicator is that countries bordering on failing

states are more likely to be drawn into conflict. Using twelve social, economic, political, and military indicators, 177 states are ranked in order of their vulnerability to violent internal conflict and societal deterioration.

Average FSI scores of all bordering states. “1”: Bottom Quintile in ranking (1-36); “2”: 2nd Quintile (37-71); “3”: 3rd Quintile (72-106); “4”: 4th Quintile (107-141); and “5”: Top Quintile (142-177).