Tanzania
Economic Performance Assessment

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Economic Performance Assessment

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

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

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

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HIGHLIGHTS OF TANZANIA'S PERFORMANCE

Economic Growth	Economic growth has averaged over 6 percent for the past five years, but low investment is a serious constraint on continued rapid growth.
Poverty	Based on the limited data available, poverty in Tanzania remains widespread, though less severe than many other low-income African countries.
Economic Structure	Tanzania remains heavily dependent on agriculture; there has been little progress in diversifying the structure of the economy in recent years.
Gender	Gender indicators show a mixed picture. Inequalities in adult literacy are persistent, but gender balance in the school system is much better.
Demography and Environment	Population growth rates, while slowing, remain high; this makes the task of poverty reduction more difficult. One direct consequence is that the age dependency rate remains very high.
Fiscal and Monetary Policy	Macroeconomic performance has been strong: fiscal policy has been solid and monetary policy has been successful in keeping inflation low.
Business Environment	The business environment indicators lag behind regional standards, and corruption is a serious impediment to doing business.
Financial Sector	Financial sector performance is poor. Credit to the private sector is very low, while interest rate spreads and real interest rates are very high.
External sector	Export performance is strong. Nonetheless, exports remain highly concentrated and susceptible to shocks due to weather conditions and commodity price changes. FDI inflows are low, and aid dependence is high.
Health	Poor health conditions are reflected in a very low and declining life expectancy; the HIV/AIDS prevalence rate of 8.8 percent is not just a health problem, but also an economic growth problem.
Education	Education indicators are mixed. Net primary enrollment is low compared to the benchmarks, but youth literacy is high.
Employment and Workforce	Tanzania has very high labor participation rates, reflecting the pressures of poverty, and the widespread use of child labor.
Agriculture	Agricultural has fared well in recent years. The average growth rate has been high, but performance remains susceptible to droughts; there is great scope for improvement in productivity.

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

TANZANIA: NOTABLE STRENGTHS AND WEAKNESSES – SELECTED INDICATORS[1]

Indicators, by topic	Notable Strengths	Notable Weaknesses
Growth Performance		
Investment efficiency: incremental capital-output ratio	✓	
Labor productivity growth (%)	✓	
Real GDP growth (%)	✓	
Share of gross fixed private investment in GDP (%)		✓
Poverty and Inequality		
Human poverty index	✓	
Population (%) living below minimum dietary consumption		✓
Demography and Environment		
Environmental Sustainability Index	✓	
Fiscal and Monetary Policy		
Inflation rate (%)	✓	
Business Environment		
Corruption perception index		✓
Cost of starting a business (% GNI per capita)		✓
Time to enforce a contract, days (2004)	✓	
Financial Sector		
Domestic credit to private sector (% GDP)		✓
External Sector		
Aid (% GNI)		✓
FDI (% GDP)		✓
Gross private capital inflows (% GDP)		✓
Growth in exports of goods and services (%)	✓	
Trade policy index		✓
Economic Infrastructure		
Telephone density (lines per 1,000 p eople)	✓	
Health		
Access to improved sanitation (% of population)	✓	

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

Indicators, by topic	Notable Strengths	Notable Weaknesses
Access to improved water source (% of population)	✓	
Births (%) attended by skilled health personnel		✓
Child immunization rate (%)	✓	
HIV prevalence (%)		✓
Maternal mortality rate (deaths per 100,000)		✓
Education		
Net primary enrollment rate (%)		✓
Persistence in school to grade 5 (%)	✓	
Youth literacy rate (%)	✓	
Employment and Workforce		
Rigidity of employment index		✓
Agriculture		
Agriculture value added per worker (1995 $US)	✓	

1. Introduction

This paper is one of a series of Economic Performance Assessments prepared for the EGAT Bureau to provide USAID missions and regional bureaus with a concise evaluation of a broad range of indicators relating to economic growth performance in designated countries. The report draws on a variety of international data sources,[1] and uses international benchmarking to identify major constraints, trends, and opportunities for strengthening growth and reducing poverty.

The methodology used here is analogous to examining an automobile dashboard to see which gauges are signaling problems. Sometimes a blinking light has obvious implications—such as the need to fill the fuel tank. In other cases, it may be necessary to have a mechanic probe more deeply to assess the source of the trouble and discern the best course of action.[2] Similarly, the Economic Performance Assessment is based on an examination of key economic and social indicators, to see which ones are signaling problems. In some cases a "blinking" indicator has clear implications, while in other instances a detailed study may be needed to investigate the problems more fully and identify an appropriate course for programmatic action.

The analysis is organized around two mutually supportive goals: transformational growth and poverty reduction.[3] Rapid and broad-based growth is the most powerful instrument for poverty reduction. At the same time, measures aimed at reducing poverty and lessening inequality can help to underpin rapid and sustainable growth. These interactions create the potential for stimulating a virtuous cycle of economic transformation and human development.

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

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

[2] Sometimes, too, the problem is faulty wiring to the indicator—analogous here to faulty data.

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

In turn, the impact of growth on poverty depends on policies and programs that create opportunities and build capabilities for the poor. We call this the ***pro-poor growth environment***.[4] Here, too, many elements are involved, including effective education and health systems; policies facilitating job creation; agricultural development (in countries where the poor depend predominantly on farming); dismantling barriers to micro and small enterprise development; and progress toward gender equity.

The present evaluation of these conditions must be interpreted with caution, because a concise analysis of this sort cannot provide a definitive diagnosis of economic problems, or simple answers to questions about programmatic priorities. Instead, the aim of the analysis is to spot signs of serious problems for economic growth, based on a review of selected indicators, subject to limits of data availability and quality. The results should provide insight about potential paths for USAID intervention, to complement on-the-ground knowledge and further in-depth studies.

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

Table 1-1
Topic Coverage

Overview of the Economy	Private Sector Enabling Environment	Pro-Poor Growth Environment
• Growth Performance • Poverty and Inequality • Economic Structure • Demographic and Environmental Conditions • Gender	• Fiscal and Monetary Policy • Business Environment • Financial sector • External sector • Economic Infrastructure • Science and Technology	• Health • Education • Employment and Workforce • Agriculture

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

2. Overview of the Economy

This section reviews basic information on Tanzania's macroeconomic performance, poverty and inequality, economic structure, demographic and environmental conditions, and indicators of gender equity.[1] Some of the indicators cited here are descriptive rather than analytical, and are included to provide context for the performance analysis.

GROWTH PERFORMANCE

Since the 1990s, per capita GDP in Tanzania has been on the rise. Yet in 2004 the level of per capita GDP, at 295 USD, remains well below the average of 407 USD for low-income countries of sub-Saharan Africa (hereafter, LIC-Africa). The income disparity is even more striking when measured in purchasing power parity (PPP) dollars. While Tanzania's per capita GDP in 2004 was 673 PPP dollars, the average for LIC-Africa was twice as high, at 1,267 PPP dollars; for low-income countries globally the figure is even higher, at 1,560 PPP dollars. On the other hand, Tanzania's growth trend has been impressive; annual GDP growth has averaged 6.4 percent over the last five years, exceeding seven percent in 2002 and 2003 (Figure 2-1, Real GDP Growth). Tanzania's growth rate of 6.3 percent in 2004 is well above the rate achieved in Kenya (3.1 percent) and in South Africa (3.7 percent).[2] It is also higher than the regression benchmark for countries with Tanzania's characteristics (5.2 percent).[3] This strong growth performance reflects the fruits of responsible monetary and fiscal policy, concerted reforms, rapid export growth, and significant debt relief.

Basic indicators of productivity are signaling excellent growth prospects. Growth in labor force productivity averaged 3.2 percent per year from 1999 to 2003, and exceeded 4.5 percent for the last two years of the period. Current labor productivity growth is more than double the average for LIC-Africa (1.9 percent), and far better than the figures for Kenya (-0.9 percent) and South Africa (0.9 percent). Investment productivity has also been strong, and improving. The incremental capital-output ratio (ICOR), which is the amount of capital investment needed per

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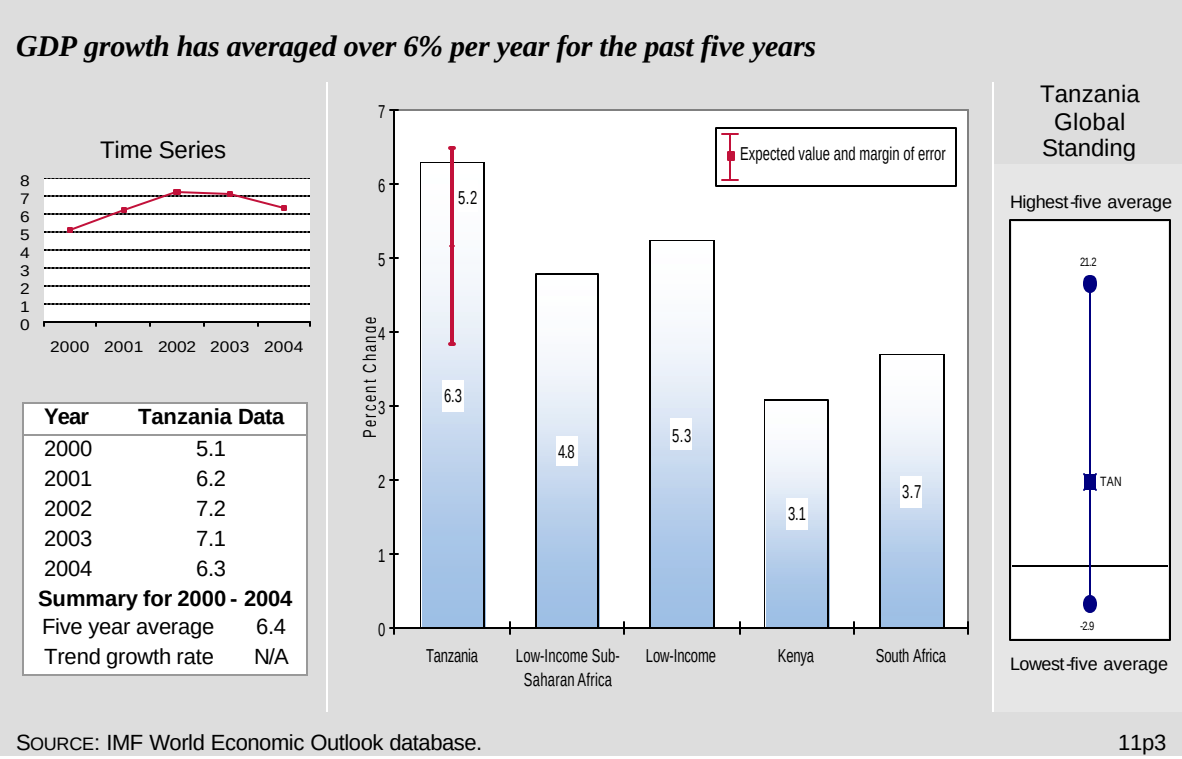
[1] A separate Data Supplement provides a full tabulation of the data for Tanzania and the international benchmarks, including indicators not discussed in the text, as well as technical notes on the data sources and definitions.

[2] Kenya and South Africa are used in this report as comparators, at the request of USAID/Tanzania. Also note that the country-group averages used in this report are median values rather than means, to minimize the effect of outliers.

[3] The regression benchmarks are based on statistical analysis that establishes an expected value for the indicator, controlling for income and regional effects. The Appendix has a more complete explanation of the methodology.

unit of extra output, averaged 3.0 for the period 1999-2003.[4] A sustained value below 4.0 is a hallmark of efficient investment. Bearing in mind that lower values represent higher efficiency, the ICOR for Tanzania is better than the LIC-Africa average (4.7) and performance in South Africa (3.5), and far superior to efficiency levels in Kenya (13.5).

Figure 2-1
Real GDP Growth

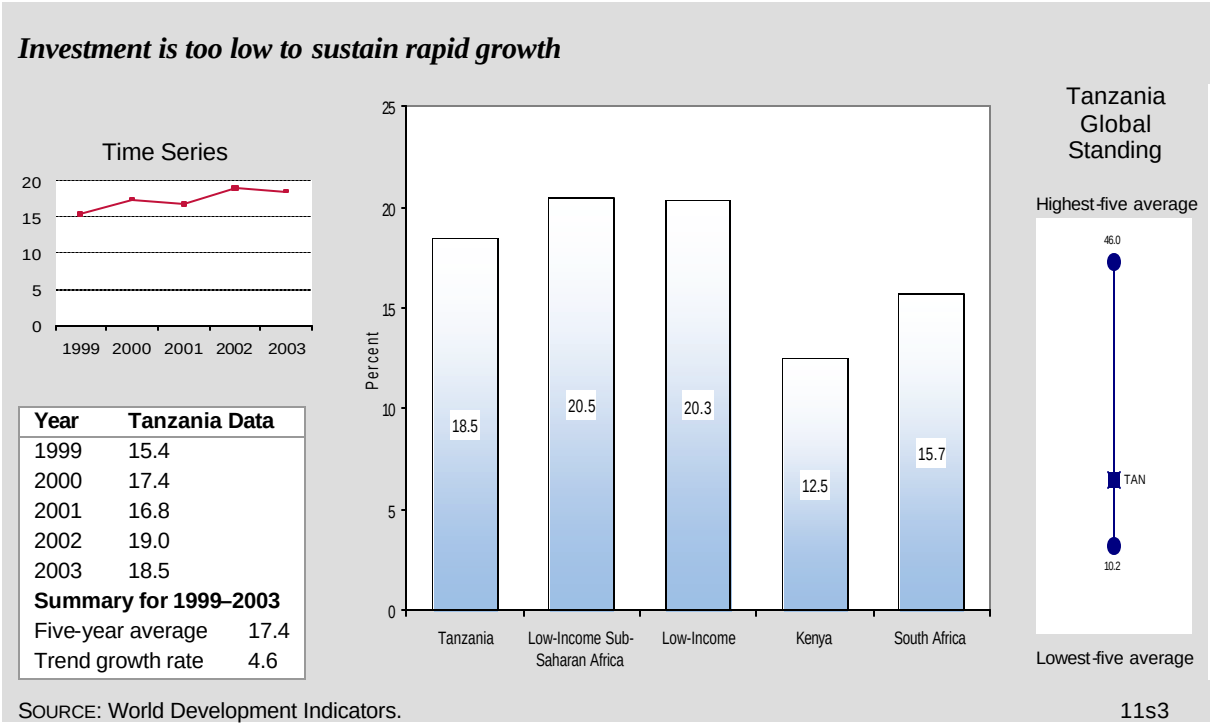


SOURCE: IMF World Economic Outlook database. 11p3

The troubling part of Tanzania's growth performance is the low level of investment. Gross fixed investment averaged only 17.4 percent of GDP from 1999 to 2003 (Figure 2-2, Gross Fixed Investment). Even though this exceeds recent investment rates in Kenya (12.5 percent) and South Africa (15.7 percent), the investment rate is lower than the averages for low-income Sub-Saharan Africa (20.5 percent). More to the point, a value below 20 percent is a sign that the economy is unlikely to sustain rapid economic growth, putting into question Tanzania's ability to maintain the strong performance in recent years. Similarly, the gross fixed *private* investment is extremely low and declining, standing at 11.1 percent in 2003; any value below 15 percent suggests a compelling need to focus donor intervention on improving the business enabling environment.

[4] IMF Article IV review provides FY2004 estimated data, which allows one to obtain an additional 6 months of data. In order to focus on actual rather than estimated figures, the FY2004 estimates have been examined only if significant changes are observed.

Figure 2-2
Gross Fixed Investment



SOURCE: World Development Indicators. 11s3

As discussed in section 3, further reforms to the business enabling environment are required to encourage higher rates of investment, both domestic and foreign.

POVERTY AND INEQUALITY[5]

According to the PRSP progress report for 2002/2003, there is not much evidence that poverty has been declining over the past decade, despite solid macroeconomic performance. Nonetheless, the latest poverty estimates show that the incidence of poverty is lower than in many other African countries. In particular, the proportion of population living below the national poverty line was estimated at 35.7 percent in 2001, much better than the regression benchmark of 56.9 percent for an African country with Tanzania's level of income and estimates for Kenya (55.4 percent) and South Africa (50.0 percent), suggesting a relatively equitable distribution of income.[6] This inference is corroborated by the UNDP Human Poverty Index (HPI), which takes into account deprivation in health and education, as well as income.[7] Tanzania's HPI score for 2002 was 36.0, much better than the regression benchmark of 49.7, as well as the average for

[5] According to the most recent PRSP progress report, for 2002/2003, the quality of the poverty monitoring data requires improvement.

[6] National poverty lines differ across countries, thus cross-country comparisons must be interpreted with caution. Due to insufficient data reporting by other countries, regional averages obtained from WDI are likely to be inaccurate and are not used for comparison.

[7] The HPI ranges from 0 (no deprivation) to 100 (maximum deprivation).

LIC-Africa of 45.0. Tanzania's HPI is slightly better than that for Kenya (37.5), and remarkably close to the score for South Africa (31.7).

On the other hand, the percent of population unable to obtain a minimum level of dietary energy consumption in Tanzania stands at 43 percent, which is much higher than the average of 33 percent for LIC-Africa, and Kenya's score of 37 percent. This observation underscores the fact that poverty remains severe and pervasive.

Tanzania was one of the first countries to complete a Poverty Reduction Strategy Paper, in October 2000. The poverty reduction strategy has focused on rural development, promotion of microfinance, development of the infrastructure, and facilitation of private investment in order to foster rapid economic growth to benefit the poor. The PRSP progress report also emphasizes a pressing need to improve governance, as a foundation for poverty reduction.

ECONOMIC STRUCTURE

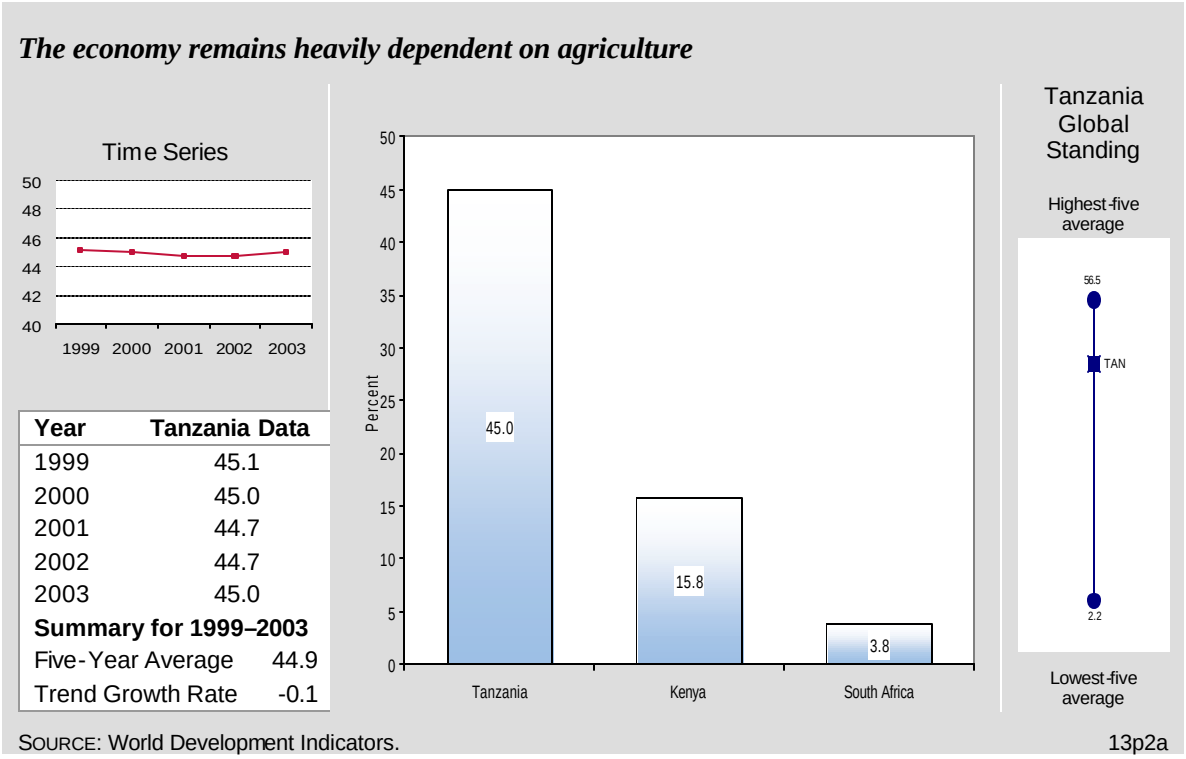
Agriculture accounts for 45 percent of GDP and provides the main source of livelihood for an estimated 80 percent of the workforce. The fact that a large fraction of the labor force produces less than half the output shows that productivity in agriculture is far lower than in other sectors. This is a standard condition for low-income countries, reflecting the importance of transformational growth as a source of rising productivity.

The 45 percent share of agriculture in GDP is high by all comparisons (Figure 2-3, Agriculture Value Added). Kenya and South Africa rely on agriculture far less than Tanzania does, with value-added shares of 15.8 percent and 3.8 percent, respectively, and the average for LIC-Africa is 31.7 percent. Thus Tanzania lags behind many other countries in the economic transformation needed to achieve higher income, and there has been little change in the output share for agriculture from 1999 to 2003 (latest data). Over that period, industry's share of GDP has risen slightly, mainly at the expense of the services sector. In absolute terms, industry's share of GDP is low, averaging 15.9 percent for the period 1999 to 2003, versus an average of 21.2 percent for LIC-Africa. Industry accounts for 19.6 percent and 31.0 percent of GDP in Kenya and South Africa, respectively. Looking at more disaggregated data, the construction and mining sectors have consistently led overall growth in recent years.[8]

Given low productivity levels in agriculture, programs to support investment and job creation outside agriculture can be a key to sustainable development and transformational growth.

[8] Bank of Tanzania, *Economic and Operations Report for the Year Ended 30th June, 2003*. Dar el Salaam, Tanzania, 2003, 6-7.

Figure 2-3
Agriculture Value Added, Percent of GDP



SOURCE: World Development Indicators. 13p2a

DEMOGRAPHY AND ENVIRONMENT

Tanzania's population is estimated at 36.6 million people (2004). The population growth rate has been decelerating steadily, to an estimated 1.9 percent per year in 2004, on par with the regional average of 2.1 percent, and Kenya's growth rate of 1.8 percent. This deceleration will contribute to more rapid growth of per capita income over the next two decades, while also helping to ease the growth of demand for public services, including education and health. For the immediate future, however, the age dependency ratio remains very high, with 0.88 dependents per person of working age. This is equal to the average for LIC-Africa, but still a cause for concern. A high dependency rate is a symptom of deep poverty, showing that there are many mouths to feed for each hand to work. At the same time, the working age population is steadily becoming better educated, with the adult literacy rate reaching 77.1 percent in 2002. This is much better than the 59.8 percent average for LIC-Africa, and yet significantly below the literacy rates achieved in Kenya (84.3 percent) and South Africa (86.0 percent).

Tanzania's population is highly dependent on the quality of the environment. A recently created international index of environmental sustainability gives Tanzania a score of 50.3, which is higher than the scores for Kenya (45.3) and South Africa (46.2), as well as the regression benchmark of 43.8 for a country with Tanzania's characteristics.[9] The scoring is based on 21

[9] The environmental sustainability index ranges from 0 (for the worst performance) to 100 (for the best performance).

subcategories including direct environmental variables, as well as socioeconomic and institutional variables relating to sustainable development. Looking at components of the index, the most serious problems for Tanzania are in the areas of air and water quality.

GENDER

Tanzania is clearly moving in the direction of gender equality. One basic indicator is the gender gap in adult literacy. This gap has an important effect on growth potential, because maternal education is strongly related to children's health, education, and nutrition. In Tanzania, the male literacy rate (85.2 percent) is 1.23 times higher than the female rate (69.2 percent). Five years earlier the ratio was 1.29, indicating considerable progress, since this figure changes only gradually over time. In comparative terms, the gender literacy differential in Tanzania is considerably better than the average ratio of 1.44 for LIC-Africa, though not nearly as good as the ratio in Kenya (1.15) or South Africa (1.02).

Looking at gender equity within the school system, Tanzania is doing extremely well. The most recent estimate of gross enrollment rates at all levels of education show that the country is nearing full equality, with a male-to-female ratio of 1.03. This is far better than the average of 1.20 for LIC-Africa, and on par with Kenya (1.04) and South Africa (1.01).

Turning to equity in health, the male-to-female ratio for life expectancy is 0.96, indicating that women live somewhat longer than men. This is similar to the average for LIC-Africa and the ratio for Kenya; for South Africa, however, the ratio is 0.89, indicating a much longer life expectancy for women, typical of higher-income countries. Looking beyond the gender ratio, life expectancy for women is extremely low and getting lower, primarily due to the impact of HIV/AIDS (see Health section below). There is an enormous need for improving health conditions, both for men and women.

Gender equity is not only important as a matter of basic human rights, but also because better opportunities and capabilities for women have positive implications for growth and productivity. Hence, gender issues fully merit the attention they have received as a cross-cutting theme in donor programs.

3. Private Sector Enabling Environment

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

FISCAL AND MONETARY POLICY[1]

Tanzania's macroeconomic policy has been solid in recent years (Exhibit 3-1). Budget deficits have been low, signaling sound fiscal management. The overall deficit, inclusive of grant receipts, has been below 3.5 percent of GDP for the past five years, averaging 2.1 percent; this is well below the LIC-Africa standard of 4.6 percent. Even though the deficit of 2.9 percent for FY2004 is slightly higher than that in Kenya (2.2 percent) and South Africa (2.5), the fiscal posture is not a major concern.

[1] In 2005, WDI adopted a new system for classifying fiscal data, even though most developing countries still use the old classification. Subsequently, the WDI database includes fiscal data for very few developing countries, and the group averages derived from WDI are not meaningful due to the limited sample size. In this section, comparisons are based on absolute standards, benchmarks derived from 2004 WDI data, and figures for Kenya and South Africa.

Exhibit 3-1
IMF Program Status for Tanzania

The IMF recently completed the third review under the current three-year Poverty Reduction and Growth Facility (PRGF), but has not yet released the 2005 Article IV consultation report. At the completion of the second PRGF review in 2004, the IMF commended the Tanzanian authorities for satisfactory implementation of the program and significant progress in macroeconomic stabilization and structural reform.

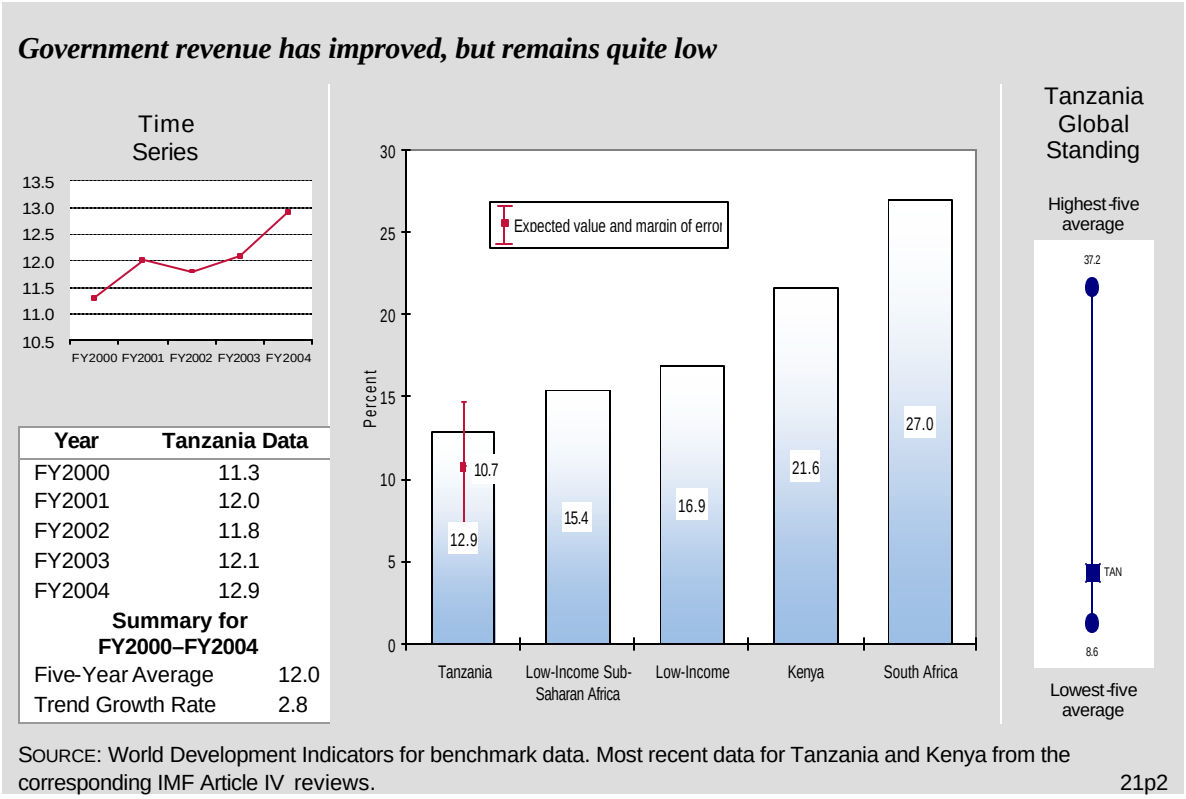
Government expenditure averaged 19.1 percent of GDP for the same five-year period. Expenditure has been on an upward trend – reaching 22.5 percent of GDP in FY2004 – as the government has intensified its commitment to delivering essential public goods and combating poverty. This is above the normal range for a country with Tanzania's low level of income, but government spending still absorbs a smaller share of economic resources than in Kenya (25 percent) or South Africa (29 percent).

Domestic revenues have also been rising, but more slowly than expenditures. At 12.9 percent of GDP in FY2004, revenues are within the normal range for a country at Tanzania's level of income, but far below the levels achieved in Kenya and South Africa (Figure 3-1, Government Revenue). In absolute terms, revenue mobilization is low. A more troubling note is Tanzania's heavy reliance on international trade taxes, which are highly distortionary. In FY2004, 26.1 percent of the revenue came from taxes on trade, a level that has not changed significantly over the past five years. In comparison, Kenya derives 14.8 percent of its revenue from trade taxes, while the share in South Africa is just 2.2 percent. Programs to broaden the tax base and strengthen tax administration are a priority, to enable the government to improve public services while reducing dependence on both trade taxes and foreign aid.

Inflation is well under control (Figure 3-2, Inflation Rate). At 4.6 percent in 2004, the inflation rate is significantly lower than the regression benchmark of 10.0 percent, and the LIC-Africa average of 8.0 percent.[2] Interestingly, money supply growth has averaged 18.4 percent over the period 1999 to 2003. This rate of money supply growth is compatible with low inflation as long as the economy maintains rapid growth and rising monetization (reflecting confidence in the economy). Nonetheless, the high rate of money growth must be monitored and managed carefully, to avoid the risk of reigniting inflation. It is also useful to note that the expansion in the money supply has been driven by an accumulation of foreign reserves and bank credit to public enterprises. There has been very little expansion of credit to the private sector – a strong negative signal in an otherwise favorable picture. As discussed below, programs to expand private sector access to credit warrant donors' serious consideration

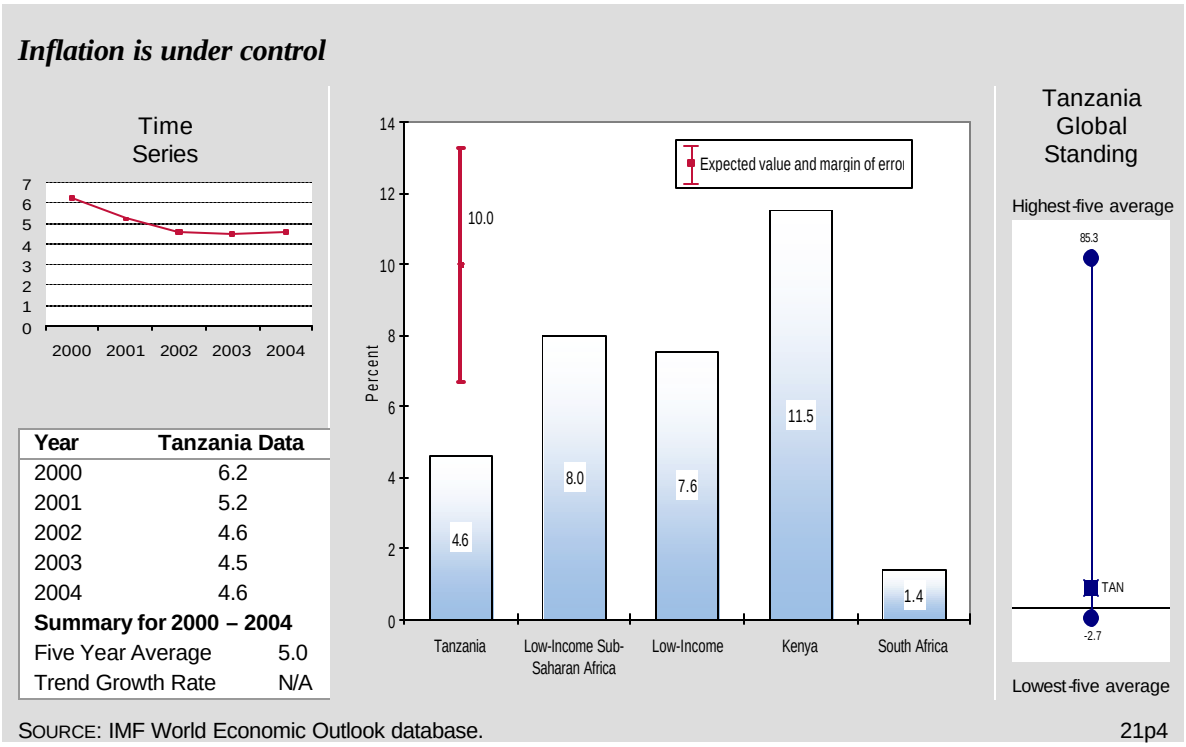
[2] A Millennium Challenge Account indicator.

Figure 3-1
Government Revenue, Percent of GDP



SOURCE: World Development Indicators for benchmark data. Most recent data for Tanzania and Kenya from the corresponding IMF Article IV reviews. 21p2

Figure 3-2
Inflation Rate

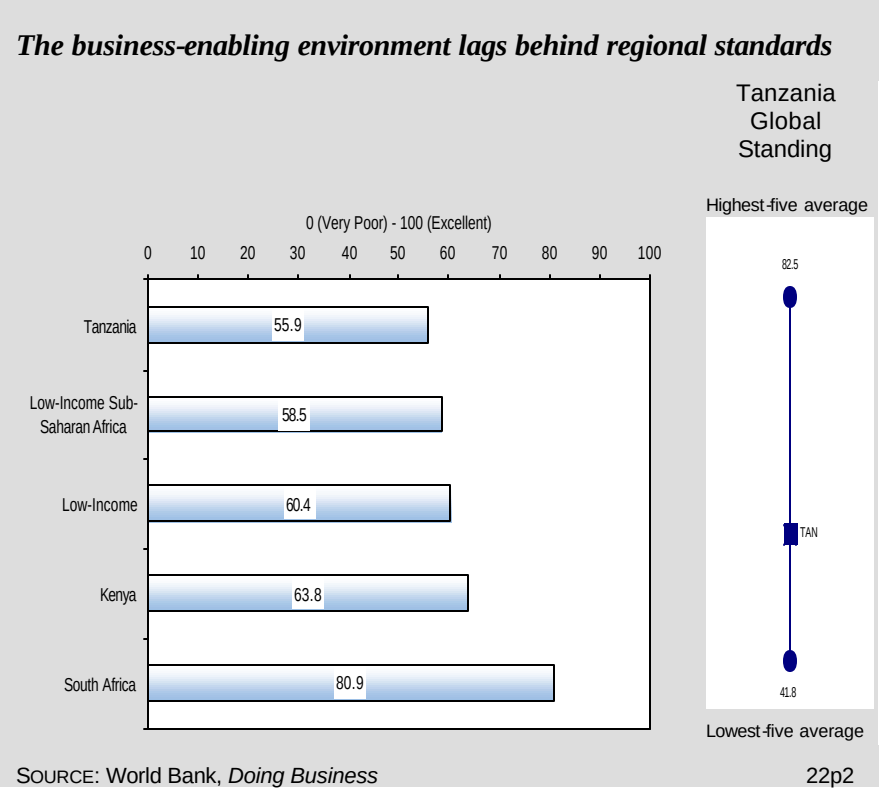


SOURCE: IMF World Economic Outlook database. 21p4

BUSINESS ENVIRONMENT

Tanzania's business environment is a critical constraint to private sector development and sustained growth. A composite index of Doing Business indicators illustrates a wide range of administrative and legal obstacles faced by the private sector.[3] Tanzania's score of 55.9 is lower than the average for LIC-Africa and significantly worse than the scores for Kenya and South Africa (Figure 3-3, Doing Business Composite Index). One positive element is that the typical time required to enforce a contract in Tanzania is 242 days, versus 415 for LIC-Africa, 360 for Kenya, and 277 for South Africa; in addition, fewer procedures (21) are required to enforce a contract than the LIC-Africa average of 35 or the 25 and 26 for Kenya and South Africa, respectively. The cost of starting, however, is high: 186.9 percent of per capita income (in 2004), compared to the average of 143 percent for LIC-Africa and 53 percent and 9 percent for Kenya and South Africa, respectively.

Figure 3-3
Doing Business Composite Index



Perhaps the most serious institutional problem is illustrated by the Corruption Perceptions Index (CPI) of Transparency International. Tanzania's CPI score was 2.8 in 2004, and has shown some improvement in the past five years.[4] While Tanzania's score is better than the benchmarks of 2.3

[3] See the Technical Notes for details. The Doing Business composite index has been constructed for this report, based on guidance from USAID/EGAT. The index ranges from 0 (worst performance) to 100 (best performance).

[4] The CPI scores range from 1 (most perceived corruption) to 10 (least perceived corruption).

for LIC-Africa and 2.1 for Kenya, any value below 3.0 is considered to indicate rampant corruption, which is a major impediment to investment. This is consistent with Tanzania's weak score on the World Economic Forum's index of regulatory quality. Tanzania's score of 42.9 is well below that of Kenya (66.1) and South Africa (87.6).[5] The main message for the government and the donor community is that the business environment remains unfriendly, discouraging investment and impairing the prospects for sustainable growth and poverty alleviation.

FINANCIAL SECTOR

A sound and efficient financial sector is a key to mobilizing saving, fostering productive investment, and improving risk management. Tanzania's financial sector performance has improved, but much remains to be done. A basic indicator of financial development is the degree of monetization, measured by the ratio of broad money (which includes deposit balances) to GDP. The ratio for Tanzania, 20.7 percent, is on par with the average for LIC-Africa, but far lower than the standards achieved in Kenya (38 percent) and South Africa (61 percent). This relationship is echoed in a second fundamental indicator, domestic credit to the private sector, also as a percentage of GDP (Figure 3-4, Domestic Credit to Private Sector). This indicator averaged 5.6 percent from 1999 to 2003, well below the LIC-Africa average (8.3 percent), and far inferior to levels in Kenya (21.3 percent) and South Africa (142.1 percent).

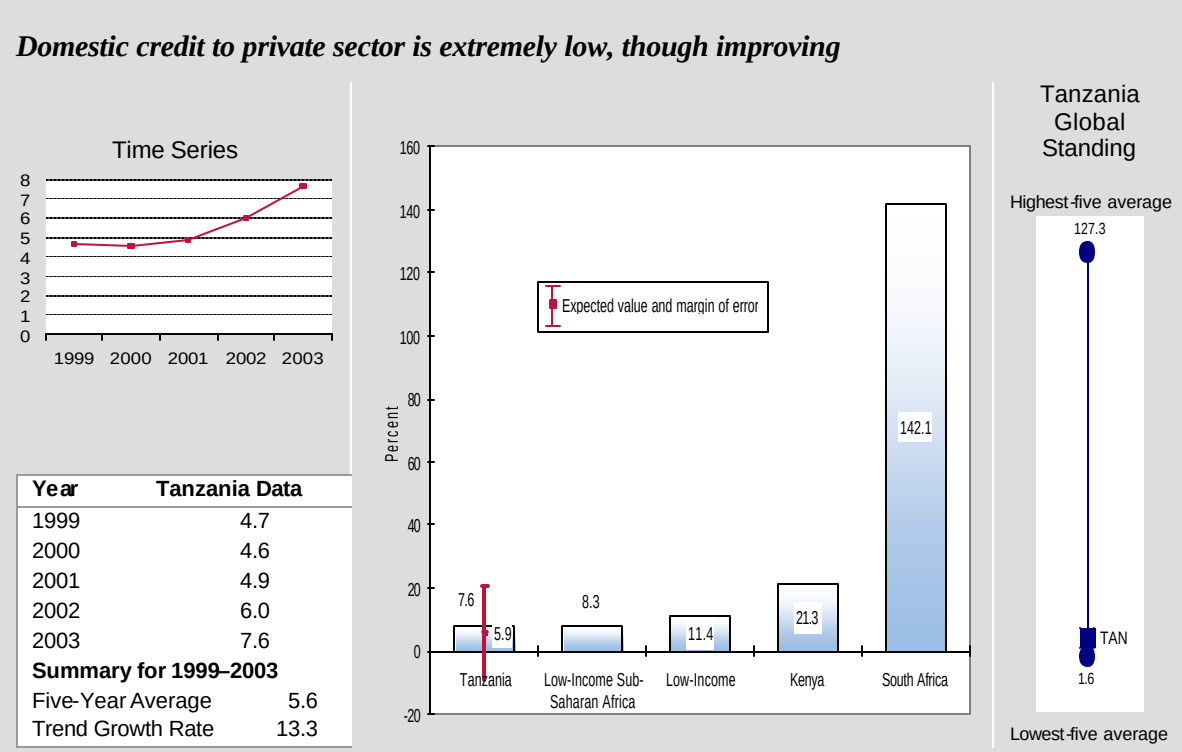
Financial sector efficiency is also very weak. This can be inferred from the spread between deposit and loan rates, which averaged 13.7 percent for the period 1999 to 2003. This is similar to the average for LIC-Africa (12.9 percent), and not far from the spread in Kenya (12.4 percent). Even so, it is very high in absolute terms. As a consequence, the real interest rate for borrowers is very high, averaging 10.5 percent for the same period. Here, too, Tanzania's performance is comparable to the regional average, but much higher than in Kenya (4.7 percent) or South Africa (8.5 percent). Such high real interest rates are a major barrier to starting or expanding a business. Part of the problem is a weak institutional environment to support bank lending. For example, the cost to create collateral is 21.3 percent of per capita income, again comparable to the regional average, but much more burdensome than the collateral cost in Kenya (3.3 percent) or South Africa (2.3 percent). All of these factors contribute to low borrowing by Tanzanian businesses, contributing to the alarmingly low investment rates.

While the problems are very serious, there are clear signs of improvement. Over the five years to 2003, the monetization ratio and private sector credit ratio each increased by 3 percentage points, while the interest rate spread fell by 4 points, to 11.4 percent, and the real interest rate by 5 points, to 8.3 percent. Despite these positive signs, the financial system is still a critical constraint on investment and business development. Programs to strengthen the banking sector, improve the efficiency of financial intermediation, and overcome constraints that limit private sector access to credit are major candidates for two of the possible program areas for donor consideration.

[5] The index ranges from 0 to 100 (from very poor to excellent regulatory environment).

Figure 3-4

Domestic Credit to Private Sector, Percent of GDP



EXTERNAL SECTOR

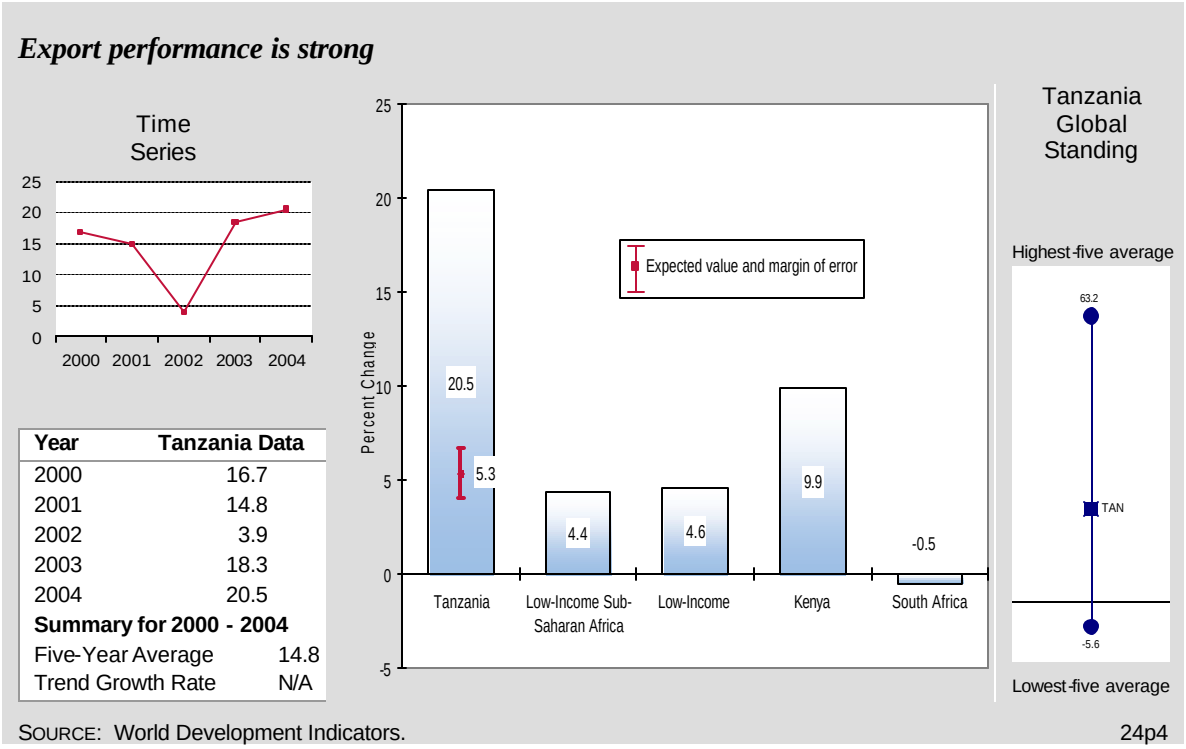
Fundamental changes in international commerce and finance, such as lower transport costs, advances in telecommunications technology, and the decline in policy barriers have fueled a rapid increase in global integration over the past 25 years. The international flow of goods and services, capital, technology, ideas, and people offers great opportunities for Tanzania to boost growth and reduce poverty by stimulating productivity and efficiency, providing access to new markets and ideas, and expanding the range of consumer choice. Globalization also creates new challenges in the need for institutions, policies, and regulations to take full advantage of international markets, cost-effective approaches to cope with the adjustment costs, and systems for monitoring and mitigating associated risks.

The overall ratio of trade (exports plus imports) to GDP has risen from 39.7 percent in 1999 to 45.6 percent in 2003. This is in line with the regression benchmark for Tanzania, but below the trade ratios for Kenya and South Africa, both around 55 percent. Export performance has been quite strong; in 2003 and 2004, exports of goods and services rose by more than 15 percent, significantly above the LIC-Africa average, as well as export growth rates for Kenya and South Africa (Figure 3-5, Growth in Exports of Goods and Services). Compared to many African countries, Tanzania's exports are fairly well diversified. In most years the three leading products (using 3-digit SITC categories) account for less than half of total exports. Nonetheless, the broad category of food accounted for 59 percent of total exports in 2003, so the country remains heavily

dependent on primary products. Further steps to reduce dependence on primary products will reduce vulnerability to fluctuations in weather conditions and commodity markets.

Figure 3-5

Growth in Exports of Goods and Services, Percent



SOURCE: World Development Indicators. 24p4

Tanzania's terms of trade rose by more than 30 percent from 1998 to 2002 (latest available data), indicating that the price of exports rose sharply relative to the price of imports. The subsequent rise in world oil prices has undoubtedly worked in the opposite direction. Another favorable factor for trade has been a substantial depreciation of the real exchange rate between 2000 and 2004, which enhances the competitiveness of Tanzanian products.[6] One major problem is indicated by the Heritage Foundation's trade policy index.[7] The index, which is used by the MCC as an eligibility criterion, is based on the weighted average import tariff rate, adjusted for nontariff barriers and corruption in the customs service. Scores range from 1 (very good) to 5 (poor). Tanzania's score has been steady at 5, the worst value, suggesting that Tanzania has far to go in reducing trade barriers that breed inefficiency and discriminate against production for export.

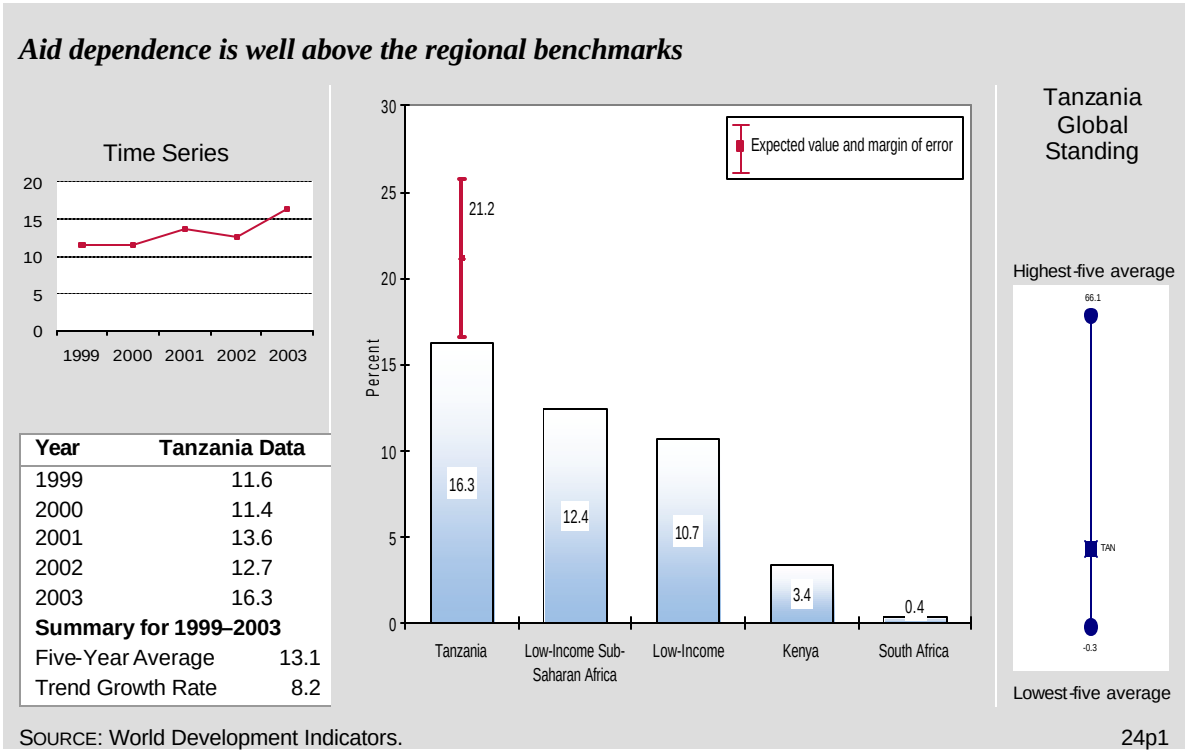
[6] REER fell from approximately 155 foreign currency units per Tanzania shilling in 2000 to under 100 in 2004 (1995=100). Figures are based on a graph in the Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Requests for Waiver of Performance Criterion and Modification of Performance Criteria, IMF report 05/181, June 3, 2005.

[7] A Millennium Challenge Account indicator.

The overall current account deficit has averaged 6.4 percent of GDP, but it is highly variable from year to year. For 2003, the deficit stood at 9.4 percent of GDP, well above the regression benchmark of 6.3 percent.[8] The fact that the deficit was increasing at a time of strong export growth indicates that imports were soaring.[9] The government must pay careful attention to avoid further deterioration.

By far the main source of external financing has been foreign aid. In 2003, net aid inflows amounted to 16.3 percent of gross national income, well above the regional benchmarks (Figure 3-6: Aid as Percent of GNI). This high degree of aid dependence underscores the need to attract more private capital inflows. Over the five years to 2003, foreign direct investment (FDI) averaged 3.9 percent of GDP, with a downward trend to 2.4 percent at the end of the period. Even so, Tanzania is receiving more FDI than the average for LIC-Africa (1.8 percent), as well as the relative inflows to Kenya and South Africa (0.6 and 0.5 percent, respectively). However, there are major problems with the investment climate, as shown by the UNDP's index of inward FDI potential. This index measures the attractiveness of a country to foreign investors, on a scale of 0.0 to 1.0. Tanzania's score is extremely low, at 0.1, and shows no signs of improvement.

Figure 3-6
Aid, Percent of GNI



[8] According to the IMF's Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility (IMF report 05/181, June 3, 2005), the current account deficit fell to 5.9 percent of GDP in FY2004, suggesting the large deficit in 2003 did not signal an adverse trend.

[9] On average, imports grew at 25 percent per annum in the 1999–2003 period. Source: World Development Indicators.

On the liability side of the balance of payments, Tanzania has benefited immensely from the cancellation of bilateral debts by the Paris Club. In 2001, the present value of debt fell from 52.2 percent of GDP to 15.0 percent. The stock of debt rose to 22.2 percent of GDP in 2003, but in absolute terms this is not alarming, considering the very soft terms for new borrowing. In 2003, debt service amounted to just 5.2 percent of exports. The important issue is to ensure that new debt is applied to ensure rapid growth, so that debt service does not become a major burden again.

The clearest sign that the external sector is under control is the level of foreign exchange reserves, which reached 8.8 months of import cover at the end of 2003. This cushion against shocks is far better than the average of 4.1 months for LIC-Africa, which matches the figure for Kenya.

To improve Tanzania's prospects for sustaining rapid growth, USAID may want to consider programs that will help the country reduce aid dependence, by improving the climate for attracting foreign capital, while improving revenue mobilization and stimulating domestic saving. Programs to promote nontraditional exports are also vital for sustained transformational growth.

ECONOMIC INFRASTRUCTURE

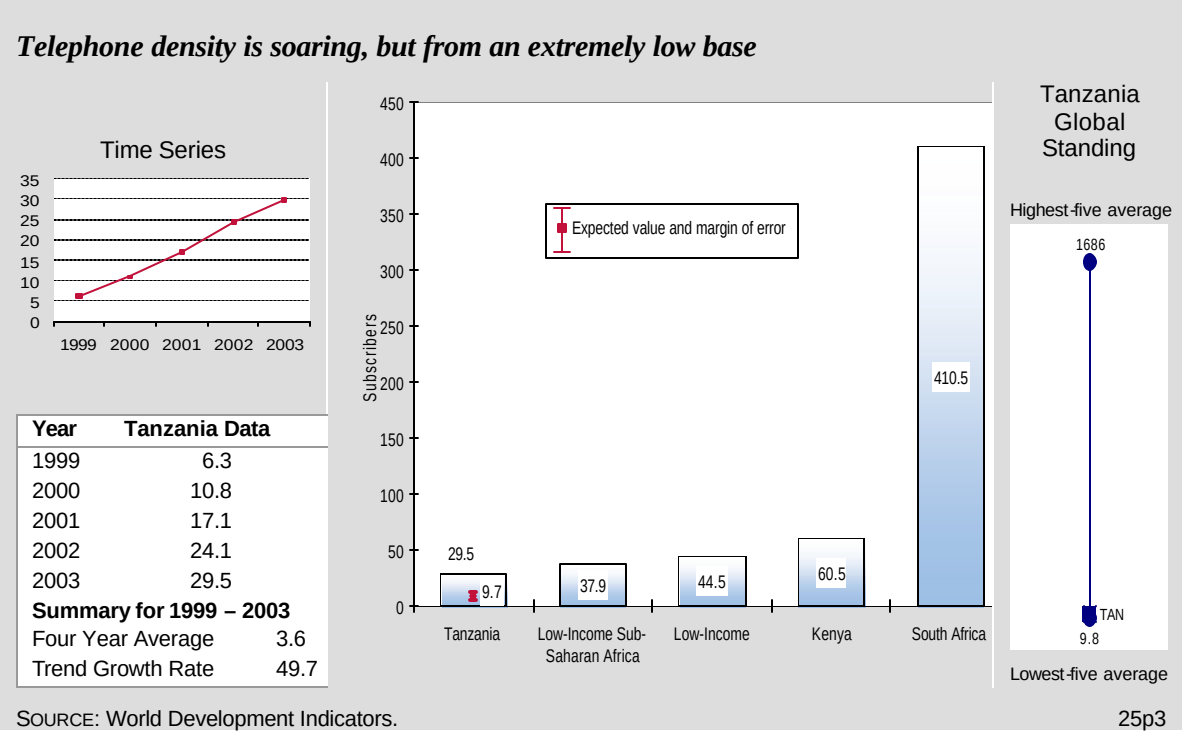
A country's physical infrastructure—for transportation, communications, power, and information technology—is the backbone for improving competitiveness and expanding productive capacity. Most of Tanzania's infrastructure indicators are somewhat better than the benchmark standards. The broadest indicator is an index of executive perceptions of infrastructure quality, compiled by the World Economic Forum (WEF). Tanzania's score of 3.2 is well above the average of 2.4 for LIC-Africa, as well as Kenya's score of 2.3.[10] Looking at subindices, Tanzania's performance is comparable to the regional standards for air transport and electricity, and better than the benchmark averages for ports and railroads.

According to the PRSP progress report for 2002/2003, Tanzania's road network has improved significantly in recent years, considerably aiding development of agriculture and manufacturing. The phone network has also improved greatly, with line density rising four-fold from 1999 to 2003, to 29.5 lines per 1,000 people (Figure 3-7, Telephone Density, Fixed Line and Mobile). Although this level is higher than the regression benchmark for a country with Tanzania's low level of income, the phone network is still far less extensive than the regional average (37.9 lines per 1,000 people), and the levels in Kenya (60.5) and South Africa (410.5). The internet infrastructure is in much the same condition as the phone system. The number of Internet users per 1,000 people rose sharply from 1.2 in 2,000 to 7.1 in 2003. Although this compares well with the (very low) regional average of 4.3 users per 1,000 people, Tanzania still lags well behind Kenya (12.7) and, of course, South Africa (68.2).

[10] Overall infrastructure quality index ranges from 1 (for "poorly developed and inefficient") to 7 (for "among the best in the world"). Not surprisingly, South Africa scores much better, at 5.2.

Figure 3-7

Telephone Density, Fixed Line and Mobile, Subscribers per 1,000 People



These indicators suggest that donors may want to regard programs for infrastructure development as a priority for improving the investment climate and fostering sustainable growth.

SCIENCE AND TECHNOLOGY

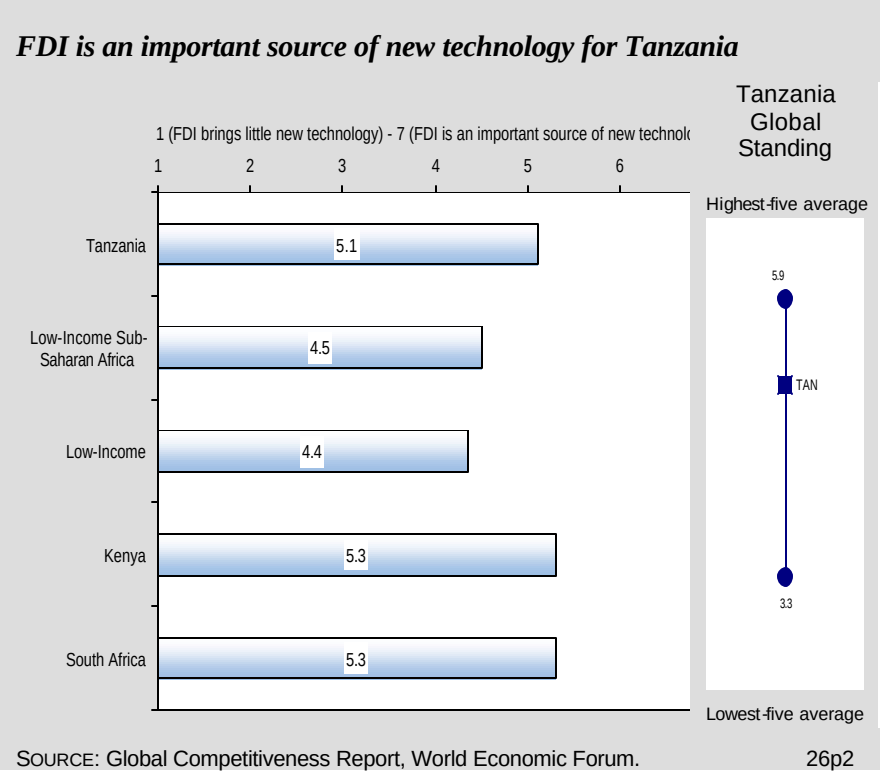
Science and technology are central elements of a dynamic business environment and a driving force behind increased productivity and competitiveness. Even for low-income countries, transformational development increasingly depends on acquiring and adapting technology from the global economy. Lack of capacity to access and utilize technology prevents an economy from leveraging the benefits of globalization. Unfortunately, few international indicators are available for judging performance in low-income countries. Hence, one must draw inferences from a very limited set of proxies.

One available indicator is the FDI technology transfer index, from the World Economic Forum, (Figure 3-8, FDI Technology Transfer Index). Tanzania's relatively high score of 5.1[11] indicates that Tanzania is indeed obtaining new technology along with foreign investment. Local technology capacity, however, appears to be extremely weak, as indicated by the virtual absence of local patent applications filed by residents. This is a common theme for low-income countries, but nonetheless a serious concern, since weak scientific capacity is a major barrier to the absorption of new technology from other sources. Technology education, with a particular

[11] FDI technology transfer index ranges from 1 (FDI brings little new technology) to 7 (FDI is an important source of new technology).

emphasis on quality, should be a top priority for the government and the donor community, to secure the foundation for sustainable development.

Figure 3-8
FDI Technology Transfer Index



4. Pro-Poor Growth Environment

While rapid growth is the most powerful and dependable instrument for poverty reduction, the link from growth to poverty reduction is not mechanical. In some countries, the income of poor households grows faster than overall per capita income, while in other settings, growth benefits the non-poor far more than the poor. A pro-poor growth environment stems from policies and institutions that improve opportunities and capabilities for the poor, while reducing their vulnerabilities. Pro-poor growth is associated with improvements in primary health and education, the creation of jobs and income opportunities, the development of skills, microfinance, agricultural development (for countries with large populations of rural poor), and gender equality.[1] This section focuses on four of these issues: health, education, employment and the workforce, and agricultural development.

HEALTH

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

Tanzania's performance on health indicators is poor compared to most benchmark standards. HIV/AIDS is one of the most serious problems (Figure 4-1: HIV Prevalence). Prevalence of the virus in Tanzania was 8.8 percent at 2004, significantly above the average of 4.4 percent for LIC-Africa. World Bank estimates for Tanzania suggest the disease is cutting the growth of income per capita by 0.4 percent to 0.8 percent per year, depending on assumptions used.[2]

Life expectancy is the broadest indicator of health status. Partly because of HIV/AIDS, life expectancy is extremely low in Tanzania: 43 years in 2003. It is little comfort that the regional benchmarks are not much better, with an average for LIC-Africa of 46 years, and figures for Kenya and South Africa of 45 and 46 years, respectively. Even more troublesome is that life

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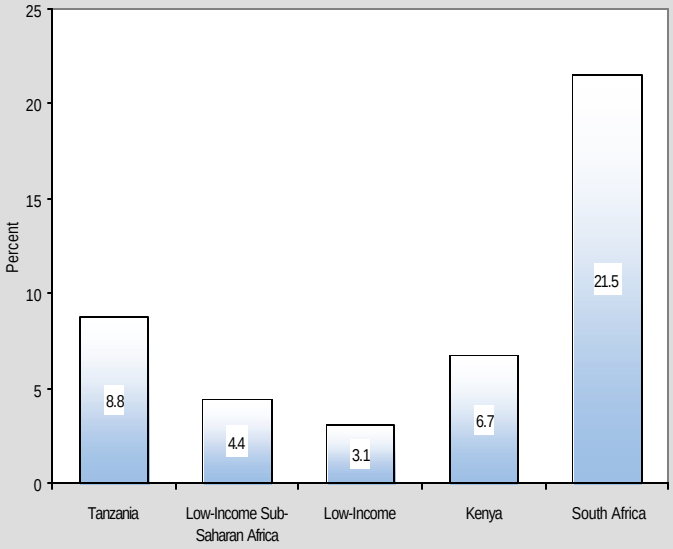
[1] For purposes of economic growth programming, the template does not cover emergency relief.

[2] PHNFLASH Issue 58, Population, Health and Nutrition (PHN) Department, World Bank, February 22, 1995; http://www.worldbank.org/html/extdr/hnp/hddflash/issues/00075.html

expectancy has been declining. Reversing this trend is critical, since poor health and a high likelihood of premature death affect all aspects of the economy, including labor productivity, saving rates, the quality of public services, and the education of future generations.

Figure 4-1
HIV Prevalence, Percent

HIV prevalence is high, and likely to have adverse effects on growth performance



Source Latest Tanzania Data from UNAIDS; benchmarks from World Development Indicators. 31p1

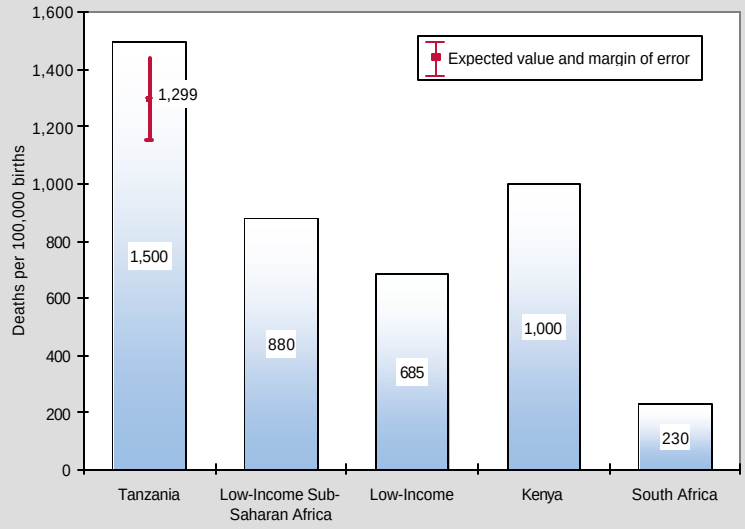
The maternal mortality rate (MMR) remains extremely high at 1,500 deaths per 100,000 births, compared to the average for LIC-Africa, as well as the figures for Kenya and South Africa (Figure 4-2, Maternal Mortality). One cause of high maternal mortality is that only 36 percent of births are attended by skilled health personnel, which is low even by standards for LIC-Africa (averaging 46 percent). Other causes are the generally poor health status of women and widespread malnutrition. The child malnutrition rate, which is a proxy for the nutrition status of the general population, was 29.4 percent in 1999 (latest data); this is much higher than in Kenya (19.9 percent) and South Africa (11.5 percent), but comparable to the average for low-income countries in the region.

Government spending on health stood at 2.2 percent of GDP in 2004. This is in line with all the benchmark standards, but it is troubling to see that the figure has declined from 2.9 percent in 2001. Furthermore, given Tanzania's low level of GDP per capita, health spending is extremely low in absolute terms. Thus, it is vitally important that available funds are used efficiently. A favorable sign is that the child immunization rate is very high, at 96 percent in 2003, surpassing the rates in Kenya (73 percent) and South Africa (89 percent), as well as the LIC-Africa average

(69 percent). Access to an improved water source and to improved sanitation are also well above the regional benchmarks (excluding South Africa).

Figure 4-2
Maternal Mortality, Deaths per 100,000 Births

The high rate of maternal mortality is a sign of poor health conditions, particularly for women



SOURCE: UN Millennium Indicators database. 31p3

In summary, poor health conditions are a major impediment to economic growth and both a primary factor and a result of severe poverty.

EDUCATION

Tanzania's performance on basic education is respectable, though with some exceptions. The net primary enrollment rate stood at 54.4 percent in 2001 (latest data), which is well above the regression benchmark of 46.9 percent, but below the values for the comparator countries and for low-income African countries as a group (Figure 4-3, Net Primary Enrollment). Signs of improvement are clear, as net primary enrollment rose by 6.4 percentage points over the latest five-year period. Also, persistence in school to grade 5 is 78.1 percent, which is very high compared to the average for LIC-Africa (66.9 percent) and the rate for Kenya (57.3 percent). The youth literacy rate of 91.6 percent is also very high compared to the average for LIC-Africa (75.0 percent), and on par with those of Kenya and South Africa.

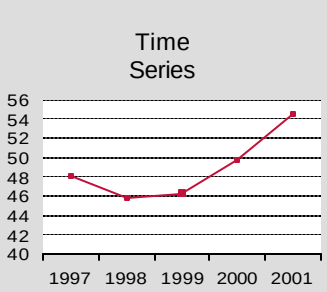
The *quality* of education appears to be a major challenge. The pupil–teacher ratio for primary schools reached 53.0 in 2002, well above any of the relevant benchmarks. Spending on primary education, at 2.0 percent of GDP, is in line with all points of comparison but clearly inadequate to

finance a sufficient number of teachers.[3] Sustained rapid growth is therefore essential to enable the country to mobilize better financing for the education system.

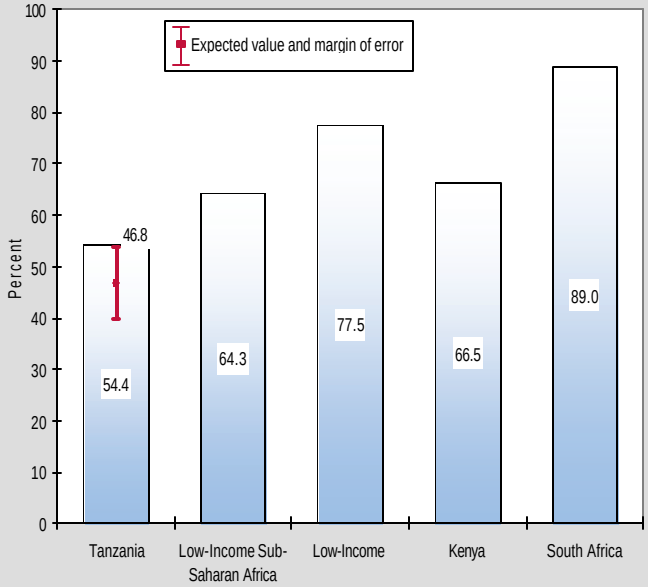
Figure 4-3

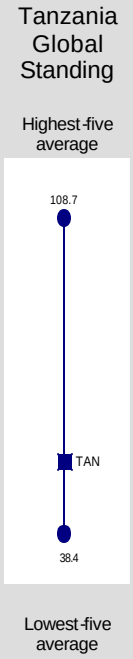
Net Primary Enrollment, Percent

Nearly half the primary-age population is not in school, though the enrollment rate is improving



Year	Tanzania Data
1997	48.0
1998	45.8
1999	46.3
2000	49.8
2001	54.4
Summary for 1997–2001	
Five Year Average	48.9
Trend Growth Rate	3.4





SOURCE: UNESCO Institute of Statistics. 32p1a

EMPLOYMENT AND WORKFORCE

Tanzania faces a huge need to create productive jobs and income generating opportunities for the growing population. Reflecting the country's youthful demographic structure, the labor force is estimated to be growing by just over 2 percent per year. While this is comparable to the average growth rate of the labor force in LIC-Africa, the economy still needs to absorb roughly 400,000 new workers each year. This can be accomplished only by creating a compelling environment to foster private investment, business expansion, and productive opportunities for self-employment.

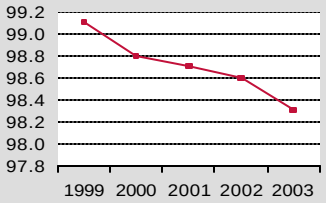
The labor force participation rate of 98.3 percent is well above the average for low-income sub-Saharan Africa and rates observed in Kenya and South Africa (Figure 4-4, Labor Force Participation). A participation rate this high is an indicator of widespread poverty: every able body has to work. Closer examination of the data shows that the participation rate for males is above 100 percent, most likely indicating a high incidence of child labor.

[3] A Millennium Challenge Account indicator.

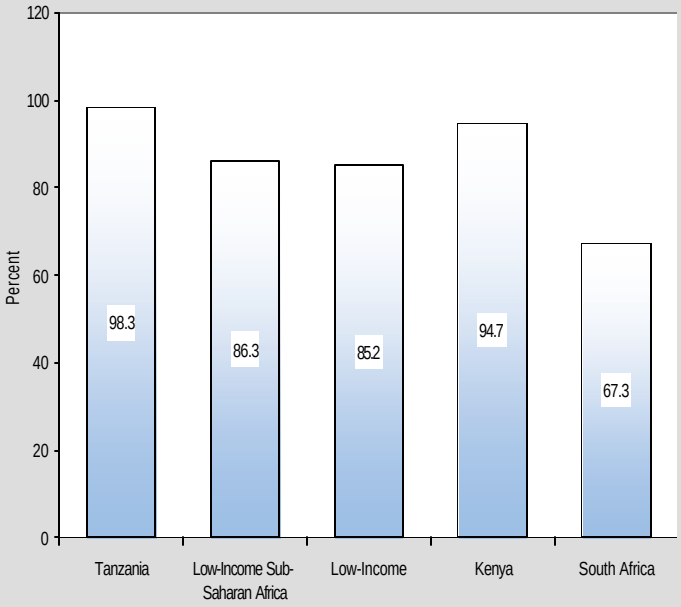
Figure 4-4
Labor Force Participation, Percent

A labor force participation rate near 100% indicates widespread poverty and use of child labor

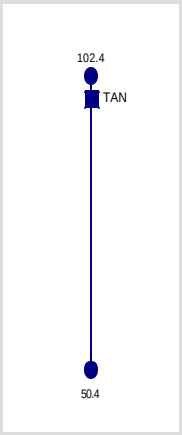
Time Series



Year	Tanzania Data
1999	99.1
2000	98.8
2001	98.7
2002	98.6
2003	98.3
Summary for 1999 – 2003	
Five-Year Average	98.7
Trend Growth Rate	-0.2



Tanzania Global Standing



SOURCE: Derived from World Development Indicators. 33p1a

Legal and regulatory impediments in the labor market are a serious hindrance to investment, job creation, and labor reallocation. The World Bank's Index of Rigidity of Employment gauges the difficulty in hiring and firing. On a scale of 0 (no rigidity) to 100 (excessive rigidity), Tanzania's score is 65. Like so many other indicators, this one is in line with the average for LIC-Africa, but is significantly worse than the scores for Kenya (24) and South Africa (52). Laws and regulations that unduly reduce labor market flexibility are a prime cause of poor employment performance and a drag on dynamic efficiency. Although these are very sensitive, labor market reforms are a priority for long-term success in creating jobs for the growing workforce, stimulating growth, and reducing poverty.

Another important consideration is that 85 percent of the female labor force is located in poverty-stricken rural areas,[4] according to the International Labour Organization. Consequently, donors may want to consider programs to expand earning opportunities for women in rural areas.

AGRICULTURE

As shown in the Economic Structure section, employment and output in Tanzania are heavily concentrated in agriculture. In addition, rural areas are the main locus of poverty. Thus, agricultural development is a critical determinant of growth and poverty reduction. The underlying growth trend in agriculture has been reasonably strong, with value added rising at an

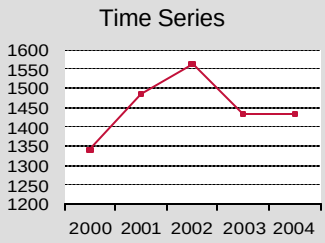
[4] www.ilo.org/public/english/employment/gems/action/tanz.htm

average rate of 4.7 percent from 2000 to 2004. Improvements in labor productivity have been an important factor, as value added per worker rose by 2.9 percent per year over the period, to 290 USD. This is well above the regional benchmark of 250 USD for LIC-Africa, and 148 USD for Kenya.

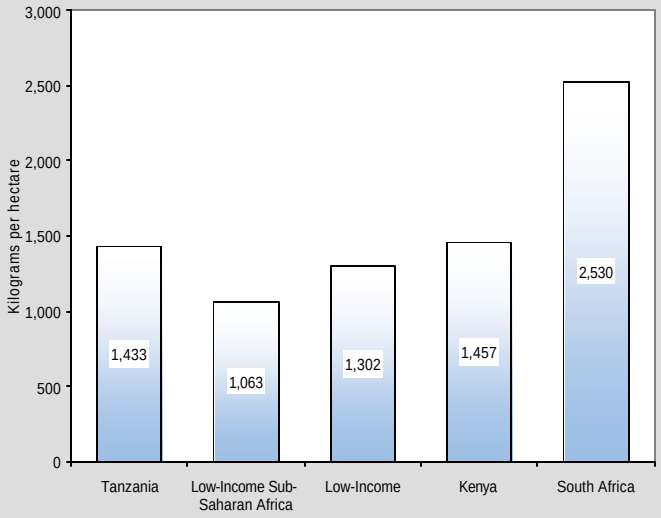
Though Tanzania's GDP shows growth in agriculture is strong, several supporting indicators suggest that agricultural output has been stagnant. An index of cereal yields, for example, showed no increase at all over the data period—though the good news is that yields in Tanzania are comparable to those in Kenya and well above the relevant group averages (Figure 4-5, Cereal Yield). A broader measure of crop production from the Food and Agriculture Organization shows no substantial gain; the index, defined to equal 100.0 for 1989–1991, stood at just 104.7 in 2004, compared to 102.0 in 2000. A similarly defined index for livestock production did a bit better, rising from 104.2 to just 109.1 over the same period. These figures cast into doubt the extent of progress, and donors may want to suggest programs to improve yields and enhance earning opportunities for poor farmers. At the same time, there is a fundamental need to promote investment and job creation outside agriculture, to pull workers into activities with higher productivity and better prospects for sustainable growth.

Figure 4-5
Cereal Yield, Kilograms per Hectare

Cereal yields compare favorably to regional standards, but there is great scope for improvement



Year	Tanzania Data
2000	1,338
2001	1,483
2002	1,563
2003	1,431
2004	1,433
Summary for 2000–2004	
Five-Year Average	1,450
Trend Growth Rate	1.0



SOURCE: World Development Indicators. 34p2

Appendix. Indicator Criteria and Benchmarking Methodology

CRITERIA FOR SELECTING INDICATORS

The scope of the paper is constrained by the availability of suitable indicators. Indicators have been chosen to balance the need for broad coverage and diagnostic value, on the one hand, and the need of brevity and clarity, on the other. The analysis covers 15 EG-related topics, and just over 100 variables. For the sake of brevity, the write-up in the text highlights issues for which the "dashboard lights" appear to be signaling problems, which suggest possible priorities for USAID intervention. The accompanying table (below) provides a full list of the indicators examined for this report. A separate Data Supplement presents the complete data set for Tanzania, including the benchmark comparisons, and technical notes for every indicator.

For each topic, the analysis begins with an assessment of *primary performance indicators*. These "level I" indicators are selected to answer the question: Is the country performing well or not in this area? The set of primary indicators also includes a few descriptive variables, such as per capita income, the poverty head count, and the age dependency rate. In areas of weak performance, the analysis proceeds to review a limited set of *diagnostic supporting indicators*. These "level II" indicators provide more details about the problem or shed light on *why* the primary indicators may be weak. For example, if economic growth is poor, one can examine data on investment and productivity as diagnostic indicators. If a country performs poorly on educational achievement, as measured by the youth literacy rate, one can examine determinants such as expenditure on primary education, and the pupil-teacher ratio.[30]

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

[30] Deeper analysis of the topic using more detailed data (level III) is beyond the scope of papers in this series.

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

BENCHMARKING METHODOLOGY

Comparative benchmarking is the main tool used to evaluate each indicator. The analysis draws on several criteria, rather than a single mechanical rule. The starting point is a comparison of performance in Tanzania relative to the average for countries in the same income group and region —in this case, low-income countries in Sub-Saharan Africa.[31] For added perspective, three other comparisons are examined: (1) the global average for this income group; (2) respective values for two comparator countries selected by the Tanzania mission (Kenya and South Africa); and (3) the average for the five best and five worst performing countries globally. Most comparisons are framed in terms of values for the latest year of data from available sources. Five-year trends are also taken into account if they shed light on the performance assessment.[32]

For selected variables, a second source of benchmark values uses statistical regression analysis to establish an expected value for the indicator, controlling for income and regional effects.[33] This approach has three advantages. First, the benchmark is customized to Tanzania's specific level of income. Second, the comparison does not depend on the exact choice of reference group. Third, the methodology allows one to quantify the margin of error and establish a "normal band" for a country with Tanzania's characteristics. An observed value falling outside this band on the side of poor performance signals a serious problem.[34]

Finally, where relevant, Tanzania's performance is weighed against absolute standards. For example, the corruption perception index for Tanzania was 2.1 in 2004. Regardless of the regional comparisons or regression results, this is a sign of serious economic governance problems.

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

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

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

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

LIST OF INDICATORS

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

	Level	MDG/MCA/EcGov [a]	CAS Indicator Code
Business Environment			
Corruption perception index	I	EcGov	22P1
Doing business composite index	I	EcGov	22P2
Rule of law index	I	MCA / EcGov	22P3
Cost of starting a business, % GNI per capita	II	EcGov	22S1
Procedures to enforce contract	II	EcGov	22S2
Procedures to register property	II	EcGov	22S3
Procedures to start a business	II	EcGov	22S4
Time to enforce a contract	II	EcGov	22S5
Time to register property	II	EcGov	22S6
Time to start a business	II	EcGov	22S7
Financial Sector			
Domestic credit to private sector, % GDP	I		23P1
Interest rate spread	I		23P2
Money supply, % GDP	I		23P3
Stock market capitalization rate, % of GDP	I		23P4
Cost to create collateral	II		23S1
Country credit rating	II	MCA	23S2
Legal rights of borrowers and lenders index	II		23S3
Real Interest rate	I		23S4
External Sector			
Aid , % GNI	I		24P1
Current account balance, % GDP	I		24P2
Debt service ratio, % exports	I	MDG	24P3
Export growth of goods and services	I		24P4
Foreign direct investment, % GDP	I		24P5
Gross international reserves, months of imports	I	EcGov	24P6
Gross Private capital inflows, % GDP	I		24P7
Present value of debt, % GNI	I		24P8
Remittance receipts, % exports	I		24P9
Trade, % GDP	I		24P10
Concentration of Exports	II		24S1
Inward FDI Potential Index	II		24S2
Net barter terms of trade	II		24S3
Real effective exchange rate (REER)	II	EcGov	24S4
Structure of merchandise exports	II		24S5
Trade policy index	II	MCA / EcGov	24S6
Economic Infrastructure			
Internet users per 1000 people	I	MDG	25P1
Overall infrastructure quality	I	EcGov	25P2
Telephone density, fixed line and mobile	I	MDG	25P3
Quality of infrastructure – railroads, ports, air Transport, and electricity	II		25S1
Telephone cost, average local call	II		25S2
Science and Technology			
Expenditure for R&D, % GNI	I		26P1

	Level	MDG/MCA/EcGov [a]	CAS Indicator Code
FDI and technology transfer index	I		26P2
Patent applications filed by residents	I		26P3
PRO-POOR GROWTH ENVIRONMENT			
Health			
HIV prevalence	I		31P1
Life expectancy at birth	I		31P2
Maternal mortality rate	I	MDG	31P3
Access to improved sanitation	II	MDG	31S1
Access to improved water source	II	MDG	31S2
Births attended by skilled health personnel	II	MDG	31S3
Child immunization rate	II		31S4
Prevalence of child malnutrition (weight for age)	II		31S5
Public health expenditure, % GDP	II	EcGov	31S6
Education			
Net primary enrollment rate	I	MDG	32P1
Persistence in school to grade 5	I	MDG	32P2
Youth literacy rate	I		32P3
Education expenditure, primary, % GDP	II	MCA/ EcGov	32S1
Expenditure per student, % GDP per capita – primary, secondary, and tertiary	II	EcGov	32S2
Pupil-teacher ratio, primary school	II		32S3
Employment & Workforce			
Labor force participation rate, females, males, total	I		33P1
Rigidity of employment index	I	EcGov	33P2
Size and growth of the labor force	I		33P3
Unemployment rate	I		33P4
Agriculture			
Agriculture value added per worker	I		34P1
Cereal yield	I		34P2
Growth in agricultural value-added	I		34P3
Agricultural policy costs index	II	EcGov	34S1
Crop production index	II		34S2
Livestock production index	II		34S3

[a] Level I = primary performance indicators, Level II = supporting diagnostic indicators
MDG = Millennium Development Goal indicator
MCA = Millennium Challenge Account indicator

EcGov = Major indicators of *Economic Governance*, which is defined in USAID's *Strategic Management Interim Guidance* to include "microeconomic and macroeconomic policy and institutional frameworks and operations for economic stability, efficiency, and growth." The term therefore encompasses indicators of fiscal and monetary management, trade and exchange rate policy, legal and regulatory systems affecting the business environment, infrastructure quality, and budget allocations.