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2013

THE LEGATUM PROSPERITY INDEX™

FOREWORD

The world has changed a lot in the last five years. The financial crisis of 2008 caused many western countries to reassess and question the foundations of their economic prosperity. The Arab Spring brought the taste of freedom to millions of people across the Arab world for the first time. The hostage crisis in Algeria reminded us of the continued threat posed by international terrorism. And most recently of all, the ongoing civil war in Syria has sparked a fresh debate about Western responsibility to secure global peace and stability.

In an age when data and information are the new currency, we are never short of material for analysis, punditry, and reaction. At any given moment we have at our fingertips snapshots that provide us with insights about events, often as they are happening. In such an environment, it can be wise to take a step back and view a situation from a distance.

This year the Prosperity Index offers five consecutive years of comparable data. When assessing national prosperity, this allows us to step back from the twists and turns of specific circumstances and, instead, consider the general direction of travel.

And so what do we observe from this vantage point? We see, for example, that despite the tumultuous events of the last five years, global prosperity is actually still on the rise. We see also that Latin America is on the rise, demonstrating steady economic growth. As European countries have fallen from being among the top performing economies in the world, they have been replaced at the top predominantly by Asian countries. This year's Prosperity Index also highlights individual countries that are increasing in prosperity (such as Bangladesh, Kazakhstan, and Germany), and our data shows that others, including the US and the UK, face considerable challenges. All of this, and more, is explained and examined in the following pages.

The Legatum Prosperity Index™ incorporates a mixture of traditional economic indicators alongside measurements of wellbeing and life satisfaction. Covering 96% of the world's population and more than 99% of global GDP it provides a more complete picture of global prosperity than any other tool of its kind.

The Prosperity Index is central to the Legatum Institute's mission to explore the foundations of national success. I hope you find the 2013 edition inspiring and engaging.

Yours,

Dr Jeffrey Gedmin
President and CEO, Legatum Institute

THE LEGATUM PROSPERITY INDEX™ RANKINGS 2013

OVERALL PROSPERITY RANK	COUNTRY	ECONOMY	ENTREPRENEURSHIP & OPPORTUNITY	GOVERNANCE	EDUCATION	HEALTH	SAFETY & SECURITY	PERSONAL FREEDOM	SOCIAL CAPITAL
1	Norway	1	6	12	4	5	6	2	1
2	Switzerland	2	4	1	27	3	11	15	8
3	Canada	4	16	8	3	11	7	1	6
4	Sweden	6	1	4	14	12	3	4	10
5	New Zealand	17	15	2	1	20	15	5	2
6	Denmark	23	2	3	18	14	8	9	3
7	Australia	10	11	7	2	17	16	3	4
8	Finland	26	3	5	6	16	4	17	7
9	Netherlands	20	8	10	12	7	17	14	5
10	Luxembourg	14	5	6	46	1	10	7	17
11	United States	24	13	11	5	2	31	16	9
12	Ireland	33	14	14	11	15	5	8	11
13	Iceland	41	7	18	13	13	2	6	13
14	Germany	9	18	17	15	4	21	12	15
15	Austria	15	17	15	17	9	14	19	14
16	United Kingdom	28	9	9	30	19	22	13	12
17	Belgium	25	24	16	16	10	20	18	21
18	Singapore	3	12	13	37	18	13	53	34
19	Hong Kong	18	10	23	43	30	1	24	28
20	France	22	21	19	19	8	30	21	42
21	Japan	5	25	21	21	6	25	48	23
22	Taiwan	16	22	33	10	25	9	31	30
23	Spain	44	29	26	8	24	27	23	27
24	Slovenia	53	23	30	9	26	12	25	37
25	Malta	37	19	20	45	34	29	22	20
26	South Korea	19	20	31	7	21	18	64	66
27	Portugal	63	31	37	33	29	19	20	43
28	United Arab Emirates	13	26	36	39	35	24	54	48
29	Czech Republic	38	27	35	24	27	23	50	46
30	Uruguay	42	53	29	51	40	28	10	52
31	Costa Rica	40	44	32	53	48	46	11	44
32	Italy	52	39	40	36	22	39	38	29
33	Kuwait	11	33	42	56	37	33	49	58
34	Poland	49	42	39	38	32	26	55	31
35	Chile	30	38	24	59	49	37	27	67
36	Estonia	65	28	25	35	41	35	71	40
37	Cyprus	57	30	22	32	31	51	46	86
38	Slovakia	67	36	43	23	28	36	75	47
39	Israel	29	32	27	25	33	113	112	19
40	Panama	31	35	61	61	51	48	35	41
41	Hungary	83	52	38	22	38	32	68	71
42	Trinidad and Tobago	64	34	46	76	58	42	29	78
43	Lithuania	94	40	45	28	43	34	101	54
44	Malaysia	8	45	34	40	53	64	110	80
45	Argentina	58	57	92	47	42	52	32	57
46	Brazil	32	49	59	77	62	82	26	69
47	Kazakhstan	45	55	97	41	60	66	52	22
48	Latvia	73	37	41	29	45	45	96	93
49	Bulgaria	88	43	71	49	47	40	57	87
50	Saudi Arabia	21	46	55	50	46	84	131	26
51	China	7	66	65	54	68	92	111	25
52	Thailand	12	62	57	71	59	96	129	16
53	Croatia	79	51	51	52	36	38	93	116
54	Greece	80	48	52	34	23	43	134	107
55	Romania	82	50	67	48	63	47	66	114
56	Jamaica	124	56	63	85	74	58	30	59
57	Mongolia	102	60	78	55	93	44	74	38
58	Belarus	114	67	124	20	39	50	104	24
59	Mexico	27	73	66	82	52	104	81	76
60	Sri Lanka	74	88	48	44	76	121	60	35
61	Russia	50	47	115	26	44	98	114	62
62	Vietnam	43	68	64	87	79	53	88	92
63	Uzbekistan	71	92	119	66	65	63	78	18
64	Ukraine	72	61	121	31	86	55	107	36
65	Belize	66	74	72	94	64	71	58	55
66	Philippines	39	79	56	73	98	112	44	61
67	Colombia	47	63	60	80	80	130	51	53
68	Paraguay	34	94	109	99	88	73	33	45
69	Indonesia	35	87	77	83	94	70	105	32
70	Dominican Republic	76	76	90	90	89	97	36	60
71	Montenegro	126	59	68	72	50	41	97	121

HIGH RANKING COUNTRIES (30) UPPER MIDDLE RANKING COUNTRIES (41) LOWER MIDDLE RANKING COUNTRIES (41) LOW RANKING COUNTRIES (30)

OVERALL PROSPERITY RANK	COUNTRY	ECONOMY	ENTREPRENEURSHIP & OPPORTUNITY	GOVERNANCE	EDUCATION	HEALTH	SAFETY & SECURITY	PERSONAL FREEDOM	SOCIAL CAPITAL
72	Botswana	96	69	28	92	104	68	41	109
73	Nicaragua	56	107	95	88	85	74	43	82
74	Ecuador	54	78	101	69	82	105	45	115
75	Peru	48	77	79	81	84	91	70	113
76	Serbia	127	82	82	62	54	69	72	102
77	South Africa	85	41	53	91	105	106	82	65
78	Venezuela	60	89	127	58	69	110	84	68
79	Macedonia	119	65	74	75	56	72	90	106
80	Kyrgyzstan	89	84	117	68	73	89	106	33
81	Azerbaijan	55	70	110	79	91	78	109	79
82	Morocco	36	81	69	107	78	94	94	90
83	Albania	98	80	91	70	57	49	108	126
84	Georgia	99	72	44	67	92	60	73	138
85	El Salvador	69	90	73	95	83	83	85	100
86	Bolivia	46	98	98	86	102	95	34	105
87	Turkey	70	54	50	89	55	99	130	128
88	Jordan	110	64	58	64	66	77	136	108
89	Moldova	125	71	99	60	81	75	115	91
90	Guatemala	68	85	85	102	99	100	76	75
91	Tunisia	86	58	86	84	70	56	122	137
92	Laos	51	102	80	103	113	62	80	77
93	Namibia	97	96	47	100	115	85	39	99
94	Tajikistan	100	108	111	65	96	57	113	70
95	Armenia	116	75	89	42	87	65	117	129
96	Honduras	90	99	107	93	77	79	89	103
97	Bosnia-Herzegovina	117	91	113	78	61	61	127	104
98	Lebanon	93	83	104	63	72	87	124	125
99	Algeria	61	95	103	74	71	108	132	96
100	Ghana	123	101	62	109	100	67	79	112
101	Iran	91	93	120	57	67	123	126	120
102	Nepal	92	111	100	104	97	101	77	95
103	Bangladesh	77	106	88	101	95	109	65	132
104	Senegal	95	117	83	121	108	88	42	94
105	Rwanda	108	103	49	111	103	86	99	127
106	India	62	104	54	97	109	120	100	133
107	Zambia	103	110	87	110	134	117	59	56
108	Egypt	101	86	105	98	75	116	142	89
109	Niger	84	139	81	139	111	76	47	85
110	Cambodia	78	105	75	106	107	90	118	135
111	Mali	121	125	112	140	122	59	61	39
112	Burkina Faso	109	124	84	130	125	81	40	98
113	Benin	132	131	76	118	112	54	28	140
114	Uganda	105	112	106	117	126	134	91	51
115	Cameroon	87	116	128	112	124	103	92	111
116	Kenya	133	97	108	115	117	127	98	73
117	Tanzania	111	121	102	119	123	115	116	49
118	Congo (Republic)	59	120	132	108	127	102	87	134
119	Malawi	134	128	70	116	106	114	95	101
120	Djibouti	130	134	93	131	116	80	102	88
121	Mozambique	106	115	94	127	135	111	63	117
122	Syria	129	119	96	96	90	137	133	124
123	Nigeria	112	113	129	126	121	135	103	63
124	Zimbabwe	120	122	141	105	120	133	120	72
125	Mauritania	136	118	130	128	118	93	125	81
126	Ethiopia	122	135	118	122	130	128	69	122
127	Liberia	141	129	126	135	137	124	62	74
128	Sudan	113	109	134	125	119	138	139	50
129	Sierra Leone	137	133	114	136	141	125	56	83
130	Iraq	75	130	137	113	101	132	141	110
131	Côte d'Ivoire	81	127	135	138	133	131	37	136
132	Pakistan	107	100	123	124	110	140	135	130
133	Angola	115	126	133	129	131	129	137	97
134	Haiti	142	138	140	114	136	118	138	64
135	Guinea	138	137	136	134	132	119	83	131
136	Yemen	131	123	131	133	114	126	140	119
137	Togo	139	132	125	120	128	107	86	142
138	Burundi	140	136	116	123	138	122	119	139
139	Afghanistan	135	114	142	137	129	139	123	123
140	Congo (DR)	118	141	138	132	139	142	128	84
141	Central African Republic	128	142	122	142	140	136	67	141
142	Chad	104	140	139	141	142	141	121	118

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ORIGINAL ILLUSTRATIONS—OPPOSITE: GIULIA FILIPPI (TOP); ZITA KATONA (MIDDLE)—THIS PAGE: JAY MADDEN (MIDDLE); MÁGOZ (BOTTOM) (OTHER IMAGES—ROYALTY FREE STOCK)

The World in 2013

1. **US DROPS OUT OF TOP 20 IN THE ECONOMY SUB-INDEX.** This year, the US has moved down four places to 24th in the Economy sub-index. Countries that have overtaken the US in the Economy sub-index include New Zealand (17th) and South Korea (19th), among others (for more, see page 35).

2. **MEXICO OVERTAKES BRAZIL IN THE ECONOMY SUB-INDEX.** Mexico has increased seven places to 27th in the Economy sub-index, overtaking Brazil (32nd). However, Mexico still trails Brazil in the overall Prosperity Index, ranking 59th compared to Brazil at 46th.

3. **BANGLADESH OVERTAKES INDIA IN OVERALL PROSPERITY.** Bangladesh (103rd) ranks above India (106th) in the Prosperity Index for the first time in 2013. Although Bangladesh's rank has remained constant since last year, India has declined five places in the same period. India has fallen down the Prosperity Index rankings consistently over the last five years.

4. **LATIN AMERICA AND THE CARIBBEAN RISE ABOVE THE WORLD AVERAGE IN THE ECONOMY SUB-INDEX FOR THE FIRST TIME IN 2013.** Countries showing big improvements include Mexico (27th), Chile (30th), Panama (31st) and Brazil (32nd), as well as Nicaragua (56th) and the Dominican Republic (76th).

5. **THE UK DECLINES FROM 13TH TO 16TH OVERALL THIS YEAR.** The UK has moved down three places to 16th in overall Prosperity, as a result of decreases in the rankings for six out eight sub-indices since last year. The UK has been leapfrogged by Austria (15th), Germany (14th), and Iceland (13th).

6. **EIGHT OF THE BOTTOM 15 COUNTRIES ON THE PERSONAL FREEDOM SUB-INDEX ARE IN THE MENA REGION.**
Turkey (130th), Saudi Arabia (131st), Algeria (132nd), Syria (133rd), Jordan (136th), Yemen (140th), Iraq (141st), and Egypt (142nd) are in the bottom 15 countries in the Personal Freedom sub-index, which measures factors such as the guarantee of individual freedom and social tolerance.

7. **NORWAY TOPS THE INDEX FOR THE FIFTH CONSECUTIVE YEAR.**
Norway ranks first in overall Prosperity, as it has since 2009, confirming its place as the most prosperous country in the world for the fifth consecutive year. The country also ranks first in the Economy and Social Capital sub-indices in 2013.

8. **NINE OF THE TOP TEN COUNTRIES ON THE ENTREPRENEURSHIP & OPPORTUNITY SUB-INDEX ARE FROM EUROPE.**
The top ten countries include Sweden (1st), Denmark (2nd), Finland (3rd), Switzerland (4th), Luxembourg (5th), Norway (6th), Iceland (7th), Netherlands (8th), and United Kingdom (9th). Hong Kong makes up the top 10, placing 10th in the sub-index.

9. **PERSONAL FREEDOM IS THE SUB-INDEX IN WHICH SUB-SAHARAN AFRICAN COUNTRIES RANK HIGHEST.**
Twenty-four sub-Saharan countries rank in the top 100 in the Personal Freedom sub-index. Benin (28th), Côte D'Ivoire (37th), Namibia (39th), Burkina Faso (40th), and Botswana (41st), are the five highest ranking sub-Saharan countries in the Personal Freedom sub-index.

10. **BOTSWANA IS THE HIGHEST RANKING SUB-SAHARAN COUNTRY FOR THE FIFTH CONSECUTIVE YEAR.**
Botswana also ranks the highest in the region in the Governance sub-index (28th) and is the second highest in the Education sub-index (92nd) after South Africa (91st).

FIVE YEAR Trends

THIS YEAR, THE PROSPERITY INDEX INCLUDES FIVE CONSECUTIVE YEARS OF COMPARABLE DATA. LOOKING BACK ACROSS THE FIVE YEARS OF INDEX DATA, SOME IMPORTANT TRENDS APPEAR. THE FOLLOWING PAGES HIGHLIGHT SOME OF THESE IMPORTANT TRENDS AND DEVELOPMENTS IN GLOBAL PROSPERITY.

IN 2013 **ALL SUB-INDICES** REPORTED **HIGHER AVERAGE SCORES** THAN IN 2009

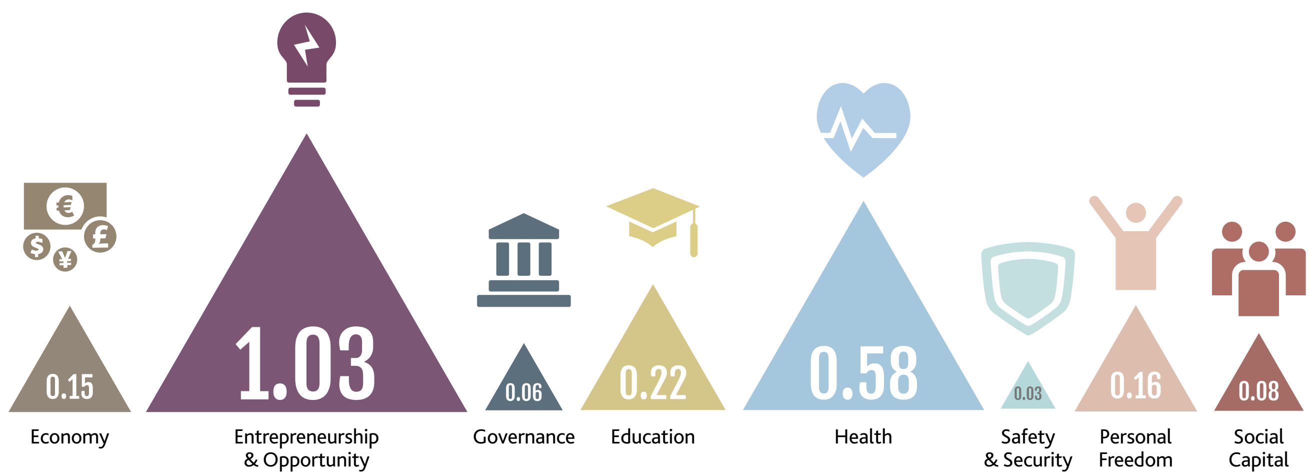
As well as an increase in overall global prosperity, this year for the first time every sub-index has increased its score compared with 2009 (see graph). There are, however, large variations between the sub-indices.

In many respects these variations reflect global events over the past half-decade. Safety & Security and Governance have improved the least, reflecting in part the uprisings in the Middle East and the perception in many countries that politicians contributed to the financial crisis and ensuing recession (in Europe, nineteen governments[1] have been voted out of office since the crisis hit in 2008). Furthermore, given the economic difficulties that followed, it is also not surprising that the Economy sub-index has not grown significantly in the past five years.

There has been clearer progress in Education, Health, and Entrepreneurship & Opportunity. Encouragingly, the Index shows that low-income countries improved faster than high-income countries in these three areas, and low-middle income countries improved faster in Education and Entrepreneurship & Opportunity).[4]

SUB-INDICES[2]

Average Score Change 2009-2013



OVERALL PROSPERITY YEAR-ON-YEAR RANKINGS TABLE 2009–2013

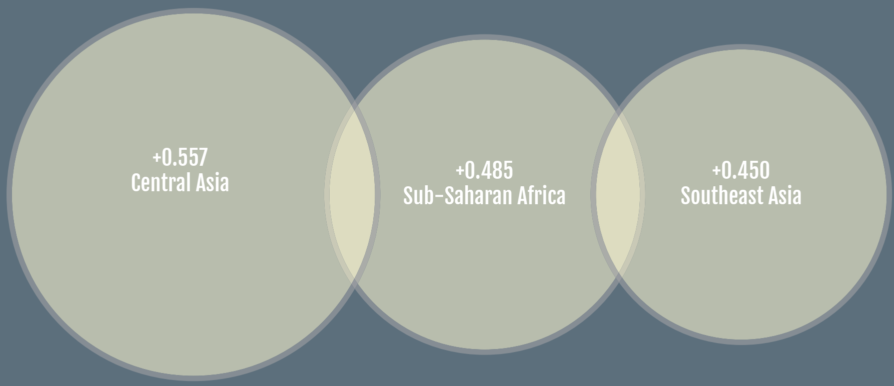
COUNTRY	COUNTRY RANK				
	2009	2010	2011	2012	2013
Norway	1	1	1	1	1
Switzerland	8	8	8	9	2
Canada	6	7	6	6	3
Sweden	7	6	5	3	4
New Zealand	3	5	4	5	5
Denmark	2	2	2	2	6
Australia	5	4	3	4	7
Finland	4	3	7	7	8
Netherlands	11	9	9	8	9
Luxembourg	\	\	\	11	10
United States	10	10	10	12	11
Ireland	9	11	11	10	12
Iceland	12	12	12	15	13
Germany	16	15	15	14	14
Austria	14	14	14	16	15
United Kingdom	13	13	13	13	16
Belgium	15	16	17	17	17
Singapore	17	17	16	19	18
Hong Kong	21	20	19	18	19
France	18	19	18	21	20
Japan	19	18	21	22	21
Taiwan	22	22	20	20	22
Spain	20	23	23	23	23
Slovenia	23	21	22	24	24
Malta	\	\	\	25	25
South Korea	29	27	24	27	26
Portugal	25	26	25	26	27
UAE	27	30	27	29	28
Czech Republic	24	24	26	28	29
Uruguay	32	28	29	31	30
Costa Rica	30	33	34	37	31
Italy	26	25	30	33	32
Kuwait	34	31	35	38	33
Poland	28	29	28	32	34
Chile	35	32	31	34	35
Estonia	31	35	33	35	36
Cyprus	\	\	\	30	37
Slovakia	37	37	32	36	38
Israel	33	36	38	40	39
Panama	42	40	37	42	40
Hungary	38	34	36	39	41
Trinidad & Tobago	46	44	47	51	42
Lithuania	40	42	44	43	43
Malaysia	43	43	43	45	44
Argentina	44	41	39	41	45
Brazil	45	45	42	44	46
Kazakhstan	51	50	46	46	47
Latvia	41	47	51	47	48

COUNTRY	COUNTRY RANK				
	2009	2010	2011	2012	2013
Bulgaria	47	46	48	48	49
Saudi Arabia	57	49	49	52	50
China	58	58	52	55	51
Thailand	54	52	45	56	52
Croatia	39	38	41	50	53
Greece	36	39	40	49	54
Romania	48	51	58	60	55
Jamaica	52	55	55	62	56
Mongolia	60	60	60	59	57
Belarus	55	54	50	54	58
Mexico	49	53	53	61	59
Sri Lanka	68	59	63	58	60
Russia	62	63	59	66	61
Vietnam	50	61	62	53	62
Uzbekistan	65	76	64	64	63
Ukraine	63	69	74	71	64
Belize	53	56	56	65	65
Philippines	61	64	66	67	66
Colombia	64	65	61	69	67
Paraguay	69	67	57	68	68
Indonesia	85	70	70	63	69
Dominican Rep.	71	68	72	81	70
Montenegro	\	\	\	57	71
Botswana	59	57	67	70	72
Nicaragua	73	87	86	91	73
Ecuador	77	77	83	76	74
Peru	72	73	68	72	75
Serbia	\	\	\	79	76
South Africa	67	66	69	74	77
Venezuela	76	75	73	80	78
Macedonia	70	72	76	75	79
Kyrgyzstan	\	\	\	88	80
Azerbaijan	\	\	\	94	81
Morocco	66	62	71	73	82
Albania	\	\	\	92	83
Georgia	\	\	\	93	84
El Salvador	81	78	77	90	85
Bolivia	84	82	85	95	86
Turkey	80	80	75	89	87
Jordan	75	74	65	77	88
Moldova	83	86	79	84	89
Guatemala	82	81	84	97	90
Tunisia	56	48	54	78	91
Laos	\	\	\	82	92
Namibia	74	71	80	83	93
Tajikistan	\	\	\	86	94
Armenia	\	\	\	98	95
Honduras	79	85	87	96	96

COUNTRY	COUNTRY RANK				
	2009	2010	2011	2012	2013
Bosnia-Herzegovina	\	\	\	99	97
Lebanon	90	84	82	85	98
Algeria	91	79	88	100	99
Ghana	89	90	78	87	100
Iran	93	92	97	102	101
Nepal	88	91	93	108	102
Bangladesh	95	96	95	103	103
Senegal	92	94	92	118	104
Rwanda	105	98	98	111	105
India	78	88	91	101	106
Zambia	98	101	101	110	107
Egypt	87	89	89	106	108
Niger	\	\	\	114	109
Cambodia	101	95	94	107	110
Mali	94	93	90	104	111
Burkina Faso	\	\	\	112	112
Benin	\	\	\	119	113
Uganda	102	99	100	117	114
Cameroon	99	102	99	115	115
Kenya	97	104	102	116	116
Tanzania	96	97	96	109	117
Congo (Republic)	\	\	\	120	118
Malawi	\	\	\	105	119
Djibouti	\	\	\	121	120
Mozambique	104	103	103	124	121
Syria	86	83	81	113	122
Nigeria	103	106	104	123	123
Zimbabwe	110	110	109	135	124
Mauritania	\	\	\	122	125
Ethiopia	108	107	108	133	126
Liberia	\	\	\	130	127
Sudan	106	100	105	125	128
Sierra Leone	\	\	\	128	129
Iraq	\	\	\	131	130
Côte d'Ivoire	\	\	\	126	131
Pakistan	107	109	107	132	132
Angola	\	\	\	129	133
Haiti	\	\	\	138	134
Guinea	\	\	\	127	135
Yemen	100	105	106	134	136
Togo	\	\	\	136	137
Burundi	\	\	\	137	138
Afghanistan	\	\	\	140	139
Congo (DR)	\	\	\	141	140
Central Afr. Rep.	109	108	110	142	141
Chad	\	\	\	139	142

*In 2012 the number of countries in the Index was increased to 142 (from 110 countries in 2009–2011). This should be borne in mind when looking at ranking movement over the five years. This is particularly relevant for lower ranking countries that appear to have declined significantly from 2009-2013.

MAPPING PROSPERITY 2013



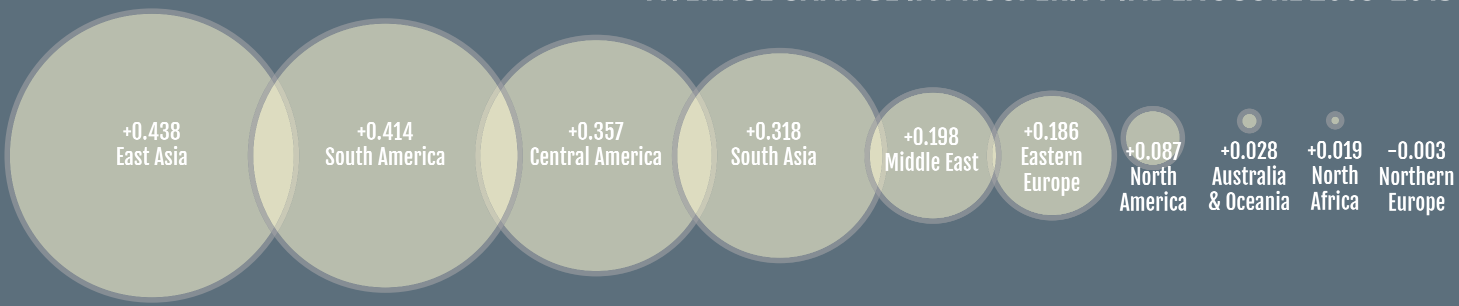
TOP TEN COUNTRIES

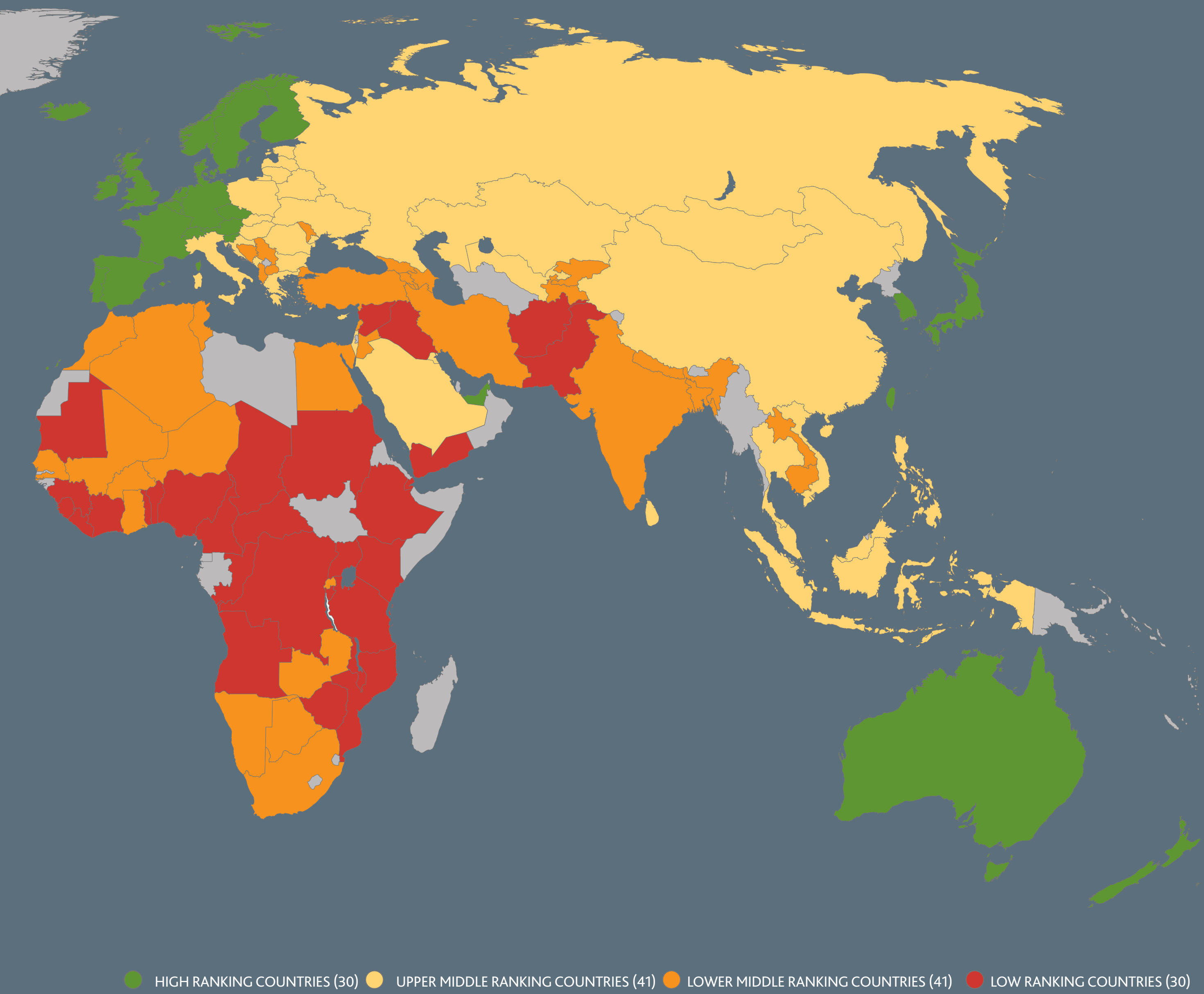
1	Norway
2	Switzerland
3	Canada
4	Sweden
5	New Zealand
6	Denmark
7	Australia
8	Finland
9	Netherlands
10	Luxembourg

BOTTOM TEN COUNTRIES

133	Angola
134	Haiti
135	Guinea
136	Yemen
137	Togo
138	Burundi
139	Afghanistan
140	Congo (DR)
141	Central African Republic
142	Chad

AVERAGE CHANGE IN PROSPERITY INDEX SCORE 2009–2013





EUROPE'S LOSS IS ASIA'S GAIN

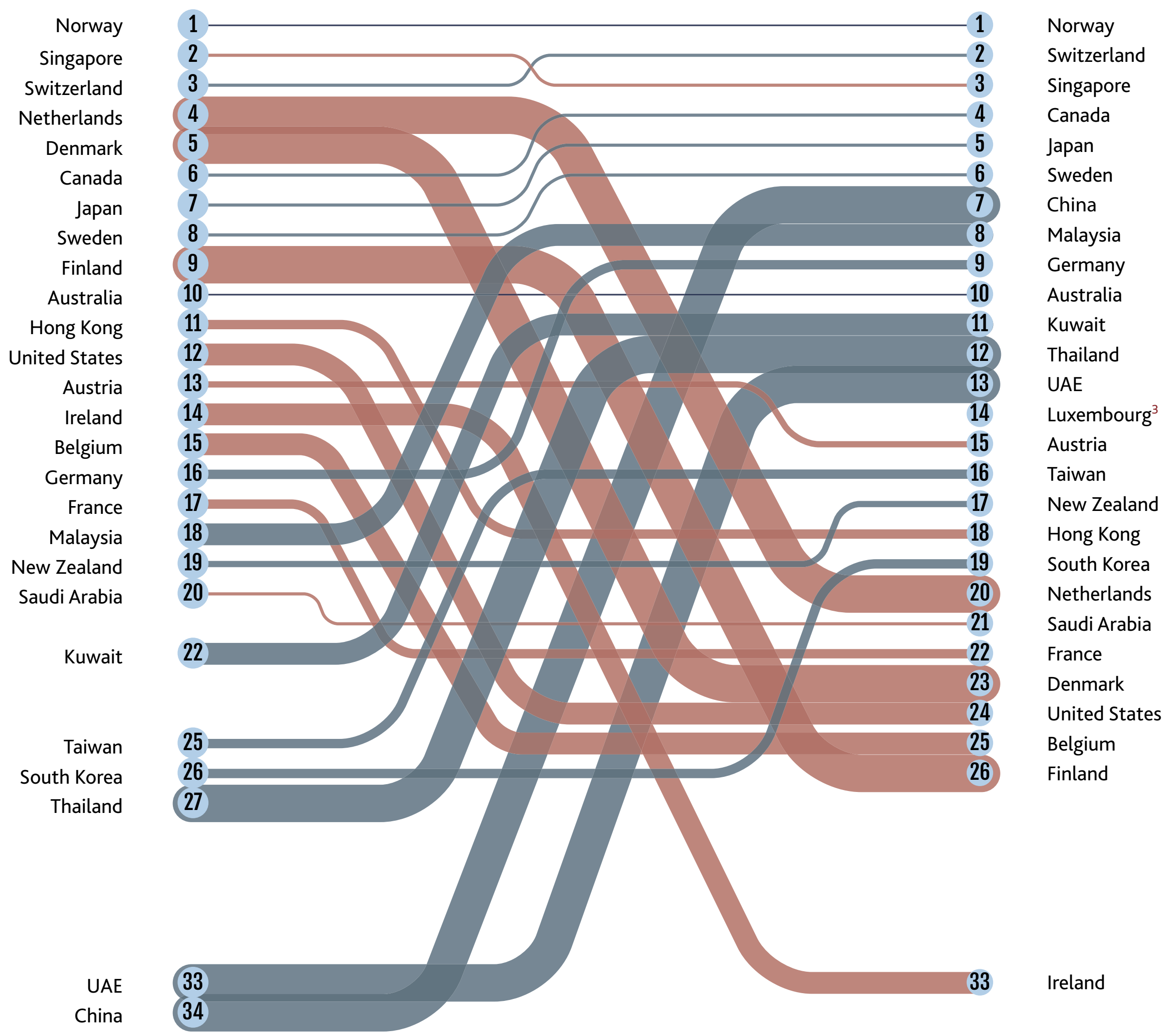
Since 2009, four Asian countries have risen into the top 20 on the Economy sub-index: China (7th), Thailand (12th), Taiwan (16th) and South Korea (19th). By contrast, five European countries have dropped out: France (22nd), Denmark (23rd), Belgium (25th), Finland (26th), and Ireland (33rd) (see graph below). The contrasting fortunes of these two groups point to a gradual change in the global economic landscape.

The four Asian countries are outperforming the European nations on all but three of the economic variables: capital per worker, satisfaction with living standards, and access to adequate food and shelter. Furthermore, their recent performance in these areas shows that they are catching up with their European competitors. For example, citizens in the Asian countries reported a 7% increase in their satisfaction with living standards (to 77%) and an 8% increase in their access to adequate food and shelter (to 86%). By contrast, respondents in the European countries saw a decrease of 1% in their satisfaction with living standards (to 83%) and a fall of 2% in those who felt they had access to adequate food and shelter (to 92%).

There is, however, some bright news for Europe: Norway and Switzerland top the Economy sub-index, and Sweden and Germany have risen up the ranks since 2009.

ASIA RISING, EUROPE FALLING

Economy Sub-Index Rankings 2009-2013



SUB-REGIONAL SUCCESS

The Central Asian region recorded the largest increase in prosperity between 2009 and 2013 (see p11-12 top). Encouragingly, sub-Saharan Africa was second. It is not surprising that many of the most developed regions in the world—such as Europe and North America—recorded far smaller increases over the period, suggesting that achieving higher levels of prosperity becomes increasingly difficult as development progresses. One concern is the fact that North Africa saw the smallest increase, suggesting that the upheaval in the region over the last couple of years has, thus far, not ushered in a noticeable increase in prosperity. Only Northern Europe registered a fall in prosperity since 2009 due to declines by Denmark, Finland and Iceland.

LATIN AMERICA AND THE CARIBBEAN: ECONOMY ON THE RISE

Latin American and Caribbean countries passed an impressive milestone in 2013, when the region surpassed the average score of the rest of the world on the Economy sub-index (see graph p20). Despite the vast economic contrasts in Latin America, the majority of countries are seeing consistent growth in the Economy sub-index.

The Latin American and Caribbean sub-region—mainly comprising developing countries and emerging economies—is a region of contrasts. Historically, some countries have been tipped for economic success, while others have been seen as economic laggards. However, countries that have previously struggled economically are now improving and are helping to propel the region forward in the Economy sub-index. For example, the Dominican Republic ranks 76th in the Economy sub-index in 2013, whereas in 2012 it ranked 102nd. Also, Nicaragua has moved up 39 places to 56th in the past five years. Also in the last five years, every single country in Latin America and the Caribbean—with the exception of Jamaica—has improved its Economy sub-index score.

Despite this success, Latin American and Caribbean countries still present very different levels of development, with some countries facing greater challenges than others. However, this growth in the Economy sub-index is a promising sign for the region.

SUB-SAHARAN AFRICA: MOST IMPROVED REGION IN HEALTH

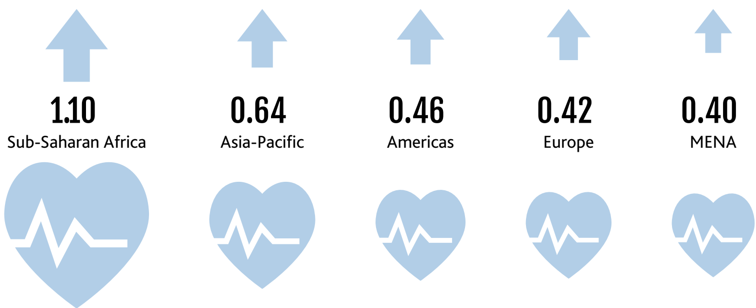
All regions have improved their average Health score since 2009, with sub-Saharan Africa showing the biggest rise (see graph below).

This is the result of large improvements in a number of variables. The region saw health-adjusted life expectancy increase by 4.4 years during the period. In addition to this, tuberculosis cases decreased by 105 per 100,000 people and infant mortality fell by 23 per 1,000 births.

These improvements were above the global average. Although this is to be expected given that health outcomes in the region started from a lower level, it is encouraging that the region is improving.

HEALTH SUB-INDEX REGIONAL PERFORMANCE

Average Score 2009-2013



1. Anders Aslund, "Europe's Voters Wisely Stick with Frugal Leaders", *Bloomberg*, September 29, 2013, http://www.bloomberg.com/news/2013-09-29/europe-s-voters-wisely-stick-with-frugal-leaders.html.
2. This analysis is based on a 110 countries between the 2009 and 2013 editions of the Prosperity Index. This does not include the 32 new countries added in the 2012 Prosperity Index.
3. Luxembourg was added to the Index in 2012.
4. As defined by the World Bank.

THE HEALTH OF The Regions

THE 142 COUNTRIES IN THE PROSPERITY INDEX ARE DIVIDED INTO FIVE REGIONS.

ASIA-PACIFIC

AMERICAS

SUB-SAHARAN AFRICA

MIDDLE EAST AND NORTH AFRICA (MENA)

EUROPE

This year's Index examines the changes in prosperity within these five regions over the last five years.

In some cases, where appropriate, the regions are broken down further and differences are examined between sub-regions. For example, for the purpose of our analysis, it can be helpful to divide the Americas between North America (US and Canada) and Latin America and the Caribbean.

All of the Regional Analysis is available on our website—**www.prosperity.com**—where you can also access all of our data including our rankings and analysis. You can also explore the data for all of our 142 countries to generate your own charts and graphs.

ASIA–PACIFIC

New Zealand	5	Malaysia	44	Uzbekistan	63	Bangladesh	103
Australia	7	Kazakhstan	47	Philippines	66	India	106
Singapore	18	China	51	Indonesia	69	Cambodia	110
Hong Kong	19	Thailand	52	Kyrgyzstan	80	Pakistan	132
Japan	21	Mongolia	57	Laos	92		
Taiwan	22	Sri Lanka	60	Tajikistan	94		
South Korea	26	Vietnam	62	Nepal	102		

FIVE YEAR SUB-INDICES PERFORMANCE 2009-2013[1]

The Asia-Pacific region encompasses a varied set of countries ranging from highly developed nations, to fast-growing emerging markets, and low-income and developing countries. The region includes some of the world's most prosperous nations, such as New Zealand and Australia (ranked fifth and seventh respectively), and conversely some of the lowest ranking countries, such as India—which has seen major and continued declines in prosperity since 2009.

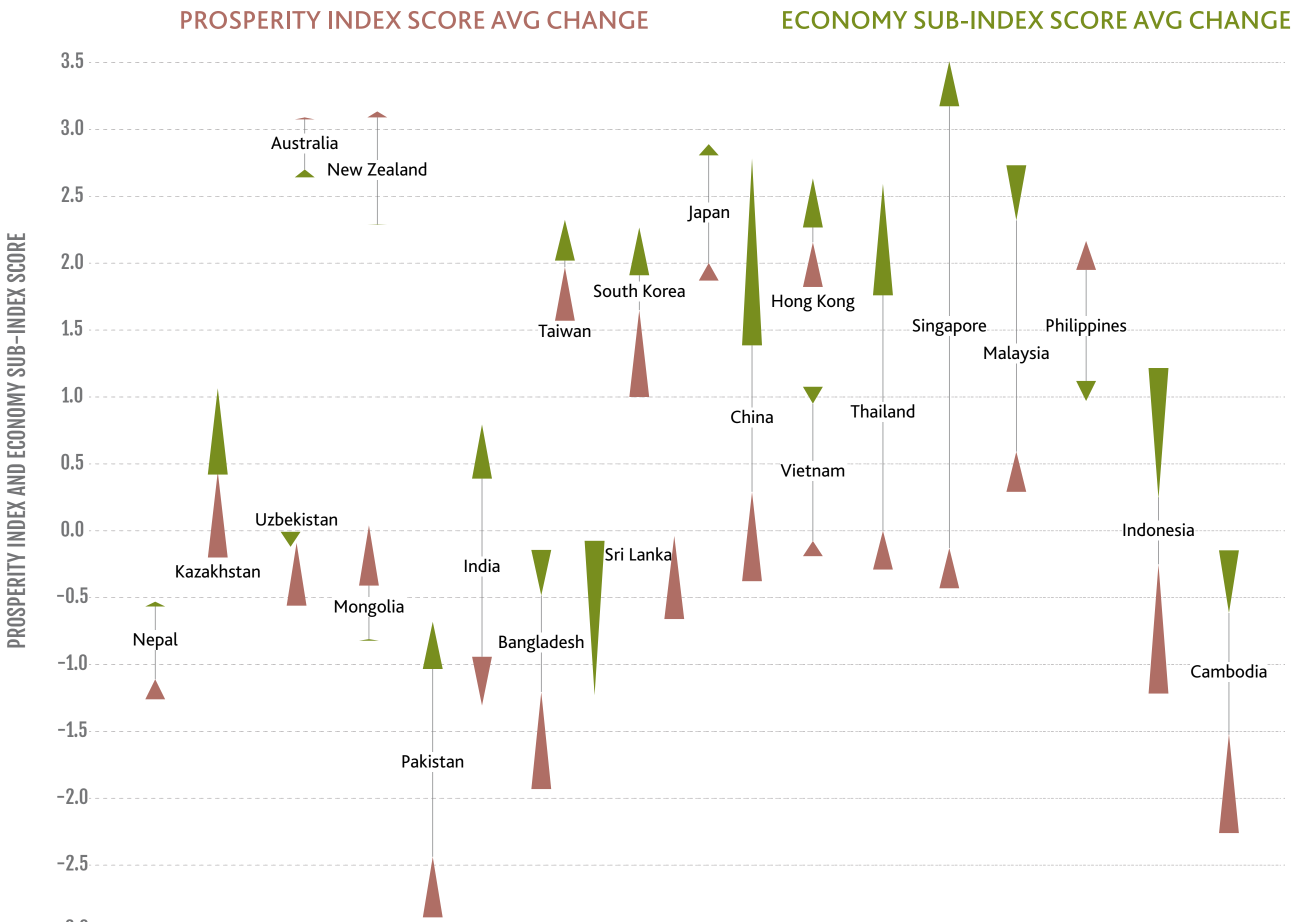
Since the middle of the twentieth century Asia has been a place of rapid economic expansions, from the Tiger economies in the 1960s, to the epic rise of China (the 'factory of the world') in the 1990s, and the more recent development of South-East Asian countries such as Vietnam. The 2013 Prosperity Index finds that, for most countries in Asia, improvements in the Economy sub-index coincide with an improvement in overall Prosperity.

The steady improvement of China's overall Prosperity score since 2009 (see graph above) has predominantly been due to its very strong performance in the Economy sub-index in the same five-year period. Countries such as Thailand, Malaysia, and Sri Lanka, have also seen big improvements in their Economy scores, which have contributed to their improvements in the overall Prosperity Index. In other countries, such as Indonesia and Kazakhstan, positive improvements in the Economy sub-index are near-equal to changes overall, further emphasising the link between the two.

However, a country's prosperity is not just determined by the health of its economy. It is also important to have inclusive political institutions, a guarantee of civil liberties, and human capital development, which ensure an educated, free, and healthy citizenry. These aspects of prosperity tend to increase in importance as nations become more economically developed—since in the early stages of development countries are focused on delivering basic standards of living.

The importance of these other aspects of prosperity is evident within the Asia-Pacific region, where some countries are seeing improvements in overall prosperity, while simultaneously experiencing declines in economic health. Singapore, for instance, ranks 18th in the world overall and has seen a decline in its

PROSPERITY INDEX AND ECONOMY SUB-INDEX SCORE AVERAGE CHANGE 2009-2013[1]



Economy sub-index score since 2009. However, improvements in the Social Capital sub-index (up 15 places to 34th), in the Education sub-index (up two places, to 37th) and in the Health sub-index (also up six places, to 18th), have all contributed to a rise in the overall Prosperity Index score. The improvements in these sub-indices for Singapore are the result of good performance in indicators such as the guarantee of political rights, pupil to teacher ratios, and a 100% enrolment rate in primary and secondary education (these figures stood at 90% and 77% just six years ago).

Equally, Hong Kong has seen a moderate decline in the Economy sub-index (see graph), but it has risen up the overall Prosperity Index due to improvements in the Entrepreneurship & Opportunity sub-index (up six places, to 10th). Hong Kong's improvement on the Entrepreneurship & Opportunity sub-index is the result of ICT exports rising to 3.7% of all manufactured exports (from 2.3% in 2008), as well as a spike in research and development spending to 1.8% of GDP (up from 0.6% in 2009).

It has also become the safest country in the world according to the Safety & Security sub-index (up 14 places to first). Hong Kong can also boast the lowest levels of property theft in the world (only 3% of people reported having had their property stolen in the last 12 months) and the lowest assault rate globally (less than 1% of people reported being assaulted in the last 12 months), which could explain why 89% of the population feel safe walking alone at night.

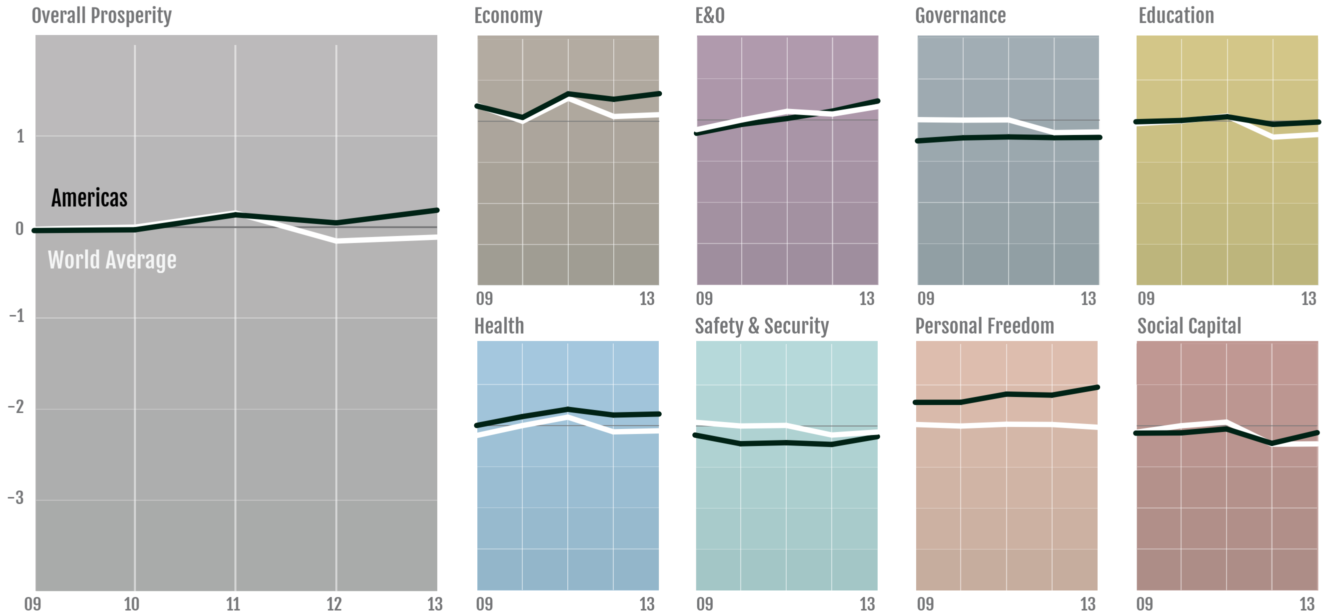
The variety of countries in the Asia region provides an opportunity to analyse the complex nature of prosperity. While many Asian countries have become more prosperous as a result of improvements in the Economy sub-index, other, more developed states have begun to see improvements in other aspects of prosperity. Their success demonstrates what is necessary once economic development has been realised.

1. This analysis is based on a 110 countries between the 2009 and 2013 editions of the Prosperity Index. This does not include the 32 new countries added in the 2012 Prosperity Index.

AMERICAS

Canada	3	Trinidad and Tobago	42	Colombia	67	Venezuela	78
United States	11	Argentina	45	Paraguay	68	El Salvador	85
Uruguay	30	Brazil	46	Dominican Republic	70	Bolivia	86
Costa Rica	31	Jamaica	56	Nicaragua	73	Guatemala	90
Chile	35	Mexico	59	Ecuador	74	Honduras	96
Panama	40	Belize	65	Peru	75	Haiti	134

FIVE YEAR SUB-INDICES PERFORMANCE 2009-2013



With the exception of the US, all countries in the Americas have improved their overall Prosperity Index score in the last five years (see graph top right). This increase has been driven in part by stronger economic performances of Latin American and Caribbean countries in 2013, compared with 2009. In that period, only Jamaica, Canada and the US did not improve their Economy sub-index scores.

This year, Latin America and the Caribbean have risen above the global average in the Economy sub-index for the first time, with Mexico overtaking Brazil to lead the sub-region (see graph bottom right). Chile and Panama also rank above Brazil, with Panama moving up 11 places to 31st in the sub-index in 2013.

Although Latin American and Caribbean countries are at various stages of development, the sub-region's recent economic performance points to a bright future. Nicaragua, Bolivia and Paraguay have improved the most on the Economy sub-index, followed by Panama, Honduras and Uruguay (see graph top right). In 2013, these countries have all seen an increase in important variables that contribute to the Economy sub-index, such as capital per worker, high-tech exports, and self-reported employment status.

In 2013, both Brazil (an original BRIC country) and Mexico (a "Next 11"[1] country) improved their position on the Economy sub-index as a result of increases in capital per worker, market size and employment status. The improvement shown by Mexico and Brazil on these variables mirrors that of some countries in the region that have registered improvements in the Economy sub-index—such as Panama, Honduras and Uruguay. While both Brazil and Mexico saw a decline in their GDP growth rates in the past three years, Brazil's GDP growth rate fell by 6.6% between 2010-2013, while Mexico's only fell by 1.4%. However, Mexico's unemployment rate is lower (5.3%) than Brazil's (8.3%) and the inflation rate in Brazil is higher than in Mexico.

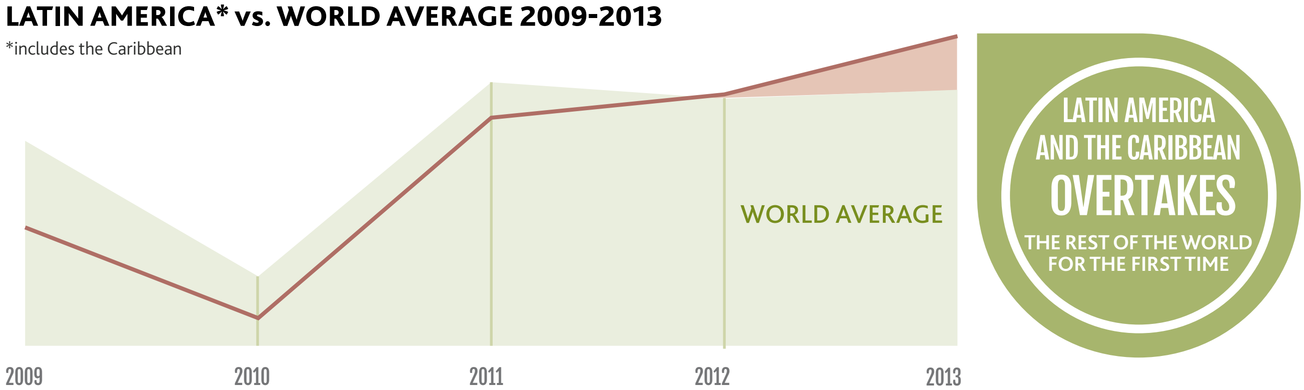
The Economy sub-index is not the only positive story for Latin America and the Caribbean. With the exception of Health there has been an increase in all sub-indices since 2009. This has resulted in a rise in overall Prosperity for the sub-region over the last five years. Paraguay, Trinidad and Tobago, and Bolivia have improved the most in overall Prosperity since 2009, while Uruguay is the highest ranking country in Latin America and the Caribbean on the Prosperity Index (30th).

OVERALL PROSPERITY INDEX SCORE (LEFT) **COMPARED TO ECONOMY SUB-INDEX SCORE** (RIGHT)

Average Change 2009-2013

ECONOMY SUB-INDEX PERFORMANCE OF LATIN AMERICA* vs. WORLD AVERAGE 2009-2013

*includes the Caribbean



Canada and the US, both ranking within the top 20 on the Prosperity Index overall, still lead the region, demonstrating the wide division in prosperity between North America[2] and the rest of the Americas. Canada, ranked third, leads the region overall. The US, meanwhile, has fallen out of the top 20 in the Economy sub-index. This drop in ranking was caused by a decline in the following variables: gross domestic savings; high-tech exports; access to adequate food and shelter; confidence in financial institutions; and overall satisfaction with standards of living. However, market size in the US has been rising constantly since 2009. In addition, the US has improved on a number of subjective economic variables such as expectations of the economy, which may suggest that the US economy is stabilising. Although the last couple of years have seen Latin American and Caribbean states close the gap to their more prosperous North American neighbours, wide variations in prosperity still remain.

1. Goldman Sachs, *BRICS and Beyond*, Chapter 13: Beyond the BRICs: A Look at the Next 11, pp. 159-164, (New York: The Goldman Sachs Group, 2007), http://www.goldmansachs.com/our-thinking/archive/archive-pdfs/brics-book/brics-full-book.pdf
2. For the purpose of this analysis, North America refers only to Canada and the United States of America.

SUB-SAHARAN AFRICA

Botswana	72	Burkina Faso	112	Mozambique	121	Angola	133
South Africa	77	Benin	113	Nigeria	123	Guinea	135
Namibia	93	Uganda	114	Zimbabwe	124	Togo	137
Ghana	100	Cameroon	115	Mauritania	125	Burundi	138
Senegal	104	Kenya	116	Ethiopia	126	Congo (DR)	140
Rwanda	105	Tanzania	117	Liberia	127	Central African Republic	141
Zambia	107	Congo (Republic of)	118	Sudan	128	Chad	142
Niger	109	Malawi	119	Sierra Leone	129		
Mali	111	Djibouti	120	Côte d'Ivoire	131		

FIVE YEAR SUB-INDICES PERFORMANCE 2009-2013

Countries in sub-Saharan Africa have historically faced many economic, political, and social challenges. Over the last five years, however, countries that have historically performed poorly on many development indicators—Ethiopia and Zimbabwe, for example—are showing improvements in key sub-indices, including Education, Economy, and Entrepreneurship & Opportunity.

Of the 25 lowest ranking countries in the Prosperity Index, 20 are from the sub-Saharan Africa region. Despite this, these nations have experienced some of the biggest increases in overall Prosperity over the last five years. For instance, Ethiopia (126th overall), Zimbabwe (135th overall), and Senegal (104th overall) have seen noticeable improvements, all rising in their Economy sub-index ranks (up by six, 22, and 13 places respectively). Additionally, Senegal also improved steadily in most other sub-indices. Zimbabwe was further supported by an increase in its Health ranking.

However, on average, Personal Freedom has decreased significantly in the last two years across the region (despite being a relatively well-performing sub-index for many sub-Saharan African nations). Countries such as South Africa, Ghana and Mali dropped out of the top 50 in the Personal Freedom sub-index to 82nd, 79th, and 61st, respectively. One of the key reasons for this decline is that citizens in all three countries reported a drop in the perceived freedom to choose the course of their lives. Mali also saw a significant drop in civil liberties, while tolerance for immigrants dropped in Ghana.

The Economy and Entrepreneurship & Opportunity sub-indices show the biggest improvements in the region. Sudan, Rwanda, and Burkina Faso have risen most on the Entrepreneurship & Opportunity sub-index since 2012. Rwanda, for example, has experienced a significant increase in the number of mobile phones per person, while

3 OF THE TOP 5
BIGGEST IMPROVING COUNTRIES IN THE
ECONOMY SUB-INDEX
SINCE 2009 ARE FROM
SUB-SAHARAN AFRICA

Sudan has experienced a decline in business start-up costs to 11% of GNI per capita.

Vital improvements in economic variables in Zimbabwe, Mozambique and the Democratic Republic of Congo have also driven the region's overall increase in prosperity. This has been caused in part by a drop in inflation rates throughout the region. While the Democratic Republic of Congo decreased its inflation by two-thirds (to 6%) and Mozambique decreased its inflation by 43% to just under 8%, the biggest change was in Zimbabwe, where inflation fell from 24,412% to a relatively normal 6% since adopting the US dollar.

Across the region, progress has been made in the Education sub-index—net primary school enrolment now stands at 80%. However, this masks significant variations in success. Countries such as Rwanda had a 99% enrolment rate in 2013, whereas in Nigeria this figure was only 58%.

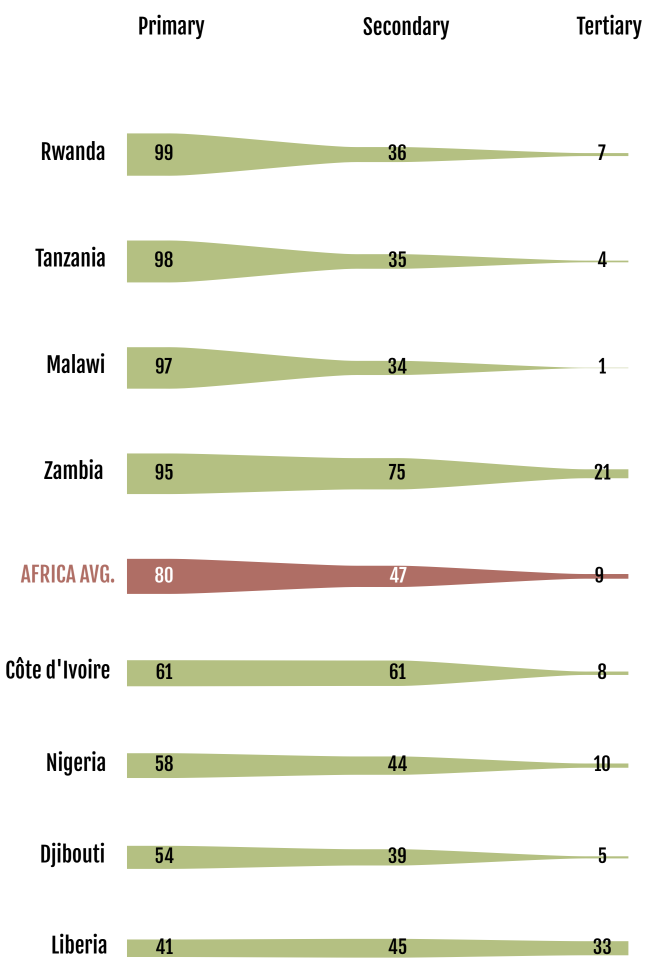
Furthermore, many educational problems remain. Secondary enrolment across the region now stands at 47% in 2013, and enrolment in tertiary education is only 9%. Also, on average, a worker in sub-Saharan Africa receives less than a year of secondary education, and only 0.08 years of tertiary education.

Educational problems are exacerbated by 'brain drain' in the region. Although levels of human flight have decreased across African countries between 2012 and 2013, the average level is still higher than in any other the region in the Prosperity Index.

Overall, progress in the Economy and Entrepreneurship & Opportunity sub-indices is encouraging in the region but needs to be sustained by progress in other aspects of development and particularly in education. An educated workforce will enable countries to spread the benefits of foreign direct investment more widely and propel home-grown development.

SUB-SAHARAN AFRICA ENROLMENT RATES IN EDUCATION (%)[1]

Prosperity Index Data 2013



1. The graph above includes the sub-Saharan African countries with the highest and lowest primary education enrolment rates.

MIDDLE EAST AND NORTH AFRICA (MENA)

United Arab Emirates	28	Morocco	82	Lebanon	98	Syria	122
Kuwait	33	Turkey	87	Algeria	99	Iraq	130
Israel	39	Jordan	88	Iran	101	Yemen	136
Saudi Arabia	50	Tunisia	91	Egypt	108	Afghanistan	139

FIVE YEAR SUB-INDICES PERFORMANCE 2009-2013

Since the onset of the Arab Spring in 2011, the MENA region has seen Syria descend into the horrors of civil war, Egypt—the hope for a democratic renaissance—become politically polarised, while the rest of the region is seeing little, if any, democratic progress.

Aside from these cases, many countries in the region have experienced minor or moderate protests that have not culminated in democratic change and most political systems remain intact. The 2013 Prosperity Index reflects much of this and finds that the MENA region continues to be marked by low scores on Governance indicators and on levels of Personal Freedom. For the first time since 2009, the MENA region has been overtaken by Latin America and the Caribbean in the Governance sub-index. However, it is important to remember that the transition from autocracy to democracy is often slow. Moreover, oppressive and undemocratic regimes do not just affect political organisation, but have deep social and economic effects which can take decades to change.

The 2013 Prosperity Index shows that the MENA region has not improved much in terms of Governance. In the last five years, the region's average score on the Governance sub-index—which measures the effectiveness and accountability of government, fair elections, rule of law, and political rights—has been steadily declining. This is a trend that goes against the global average.

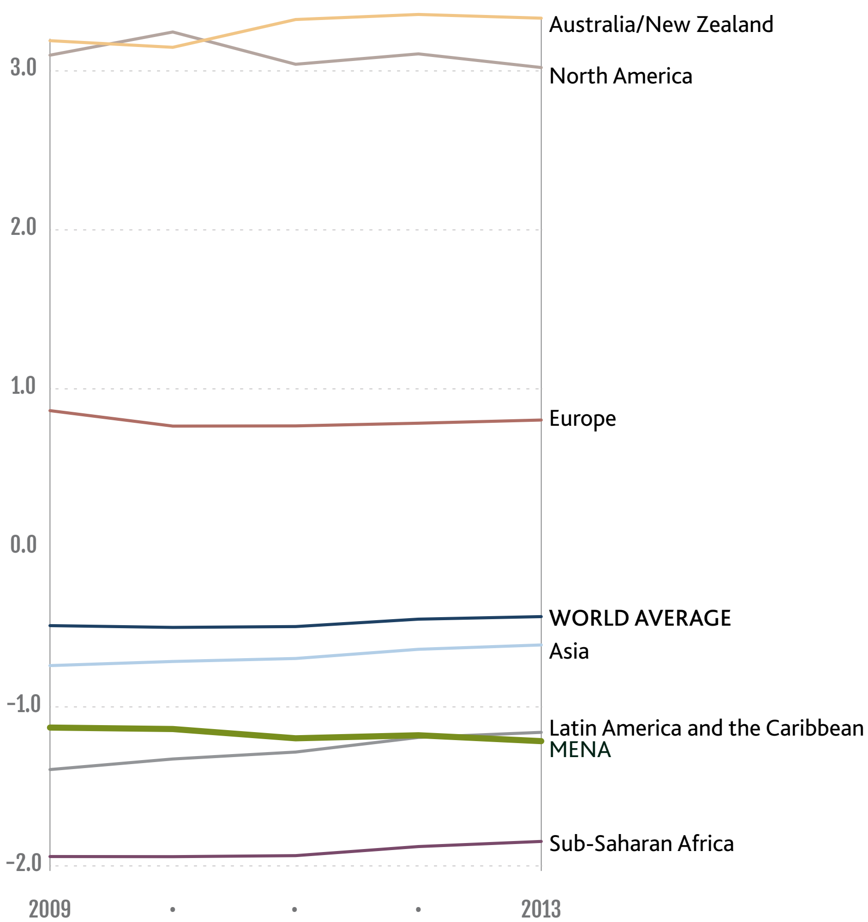
The countries showing the biggest declines in Governance are those that have experienced (or are experiencing) radical political upheaval and armed conflict (Egypt, Syria, Tunisia, and Yemen), although the whole region scores low on Governance.

Out of the 16 countries in the MENA region, 11 are still considered to be verging towards autocracy rather than democracy—according to data that measure the type of government in a country.[1] Political rights are rarely assured in the region, with only Israel, Turkey, and Tunisia performing above the global average on this metric. Moreover, the pervasive lack of stable and guaranteed rule of law means that both citizens and potential investors continue to face ambiguity in terms of the stability and application of the legal system (10 out of 16 countries in the region score negatively on the measure of rule of law). [2]

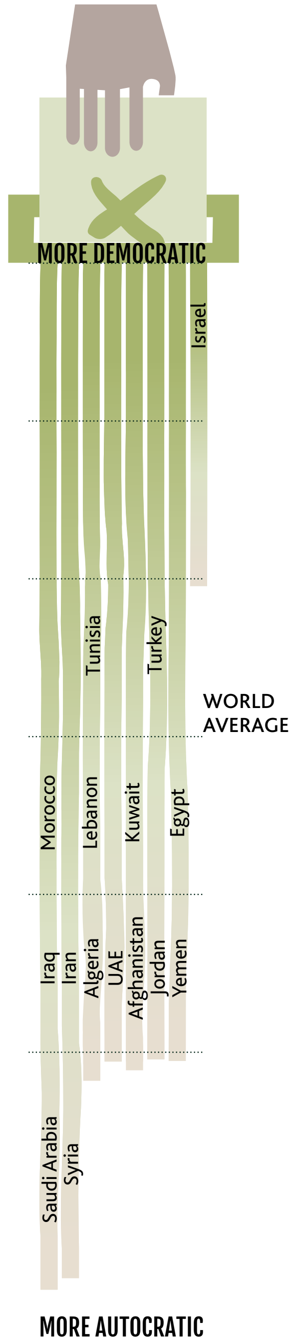
Countries in the region also rank lowly on the Personal Freedom sub-index. Regionally, 12 out of the 16 countries rank in the bottom 30 on the Personal Freedom sub-index.

The reason for this is the region's poor record of guaranteeing civil liberties for its citizens. Only Israel's[3] score for civil liberties

GOVERNANCE SUB-INDEX PERFORMANCE 2009-2013



DEMOCRACY WITHIN THE MENA REGION



is equivalent to those recorded by OECD countries. More striking is that, since 2010, most MENA countries have either remained at their low levels on the measure for civil liberties or have decreased.

Those countries which have stagnated in civil liberties, such as Lebanon, Morocco, and Algeria, did not experience governmental upheavals during the Arab Spring. Instead, the ruling government conceded to some constitutional reforms in exchange for preserving their power. While many other countries, such as Saudi Arabia, the UAE, Yemen, Kuwait, and Turkey have actually seen civil liberties drop in the last few years due to efforts to clamp down on dissidents or civil unrest. Surprisingly, Tunisia is the only country in the region that has seen civil liberties increase. Despite the current political unrest and turmoil, the country has made efforts to ensure that civil liberties are guaranteed. This has occurred through such initiatives as the Independent High Authority for Elections and a surge of female political participation.

In order for countries to achieve sustainable prosperity, political institutions must guarantee certain universal rights and freedoms. Currently the MENA region is still not showing signs of improvements in Governance and Personal Freedom, though any political transitions towards liberal democracy that may have started in recent years, will take decades to become fully established.

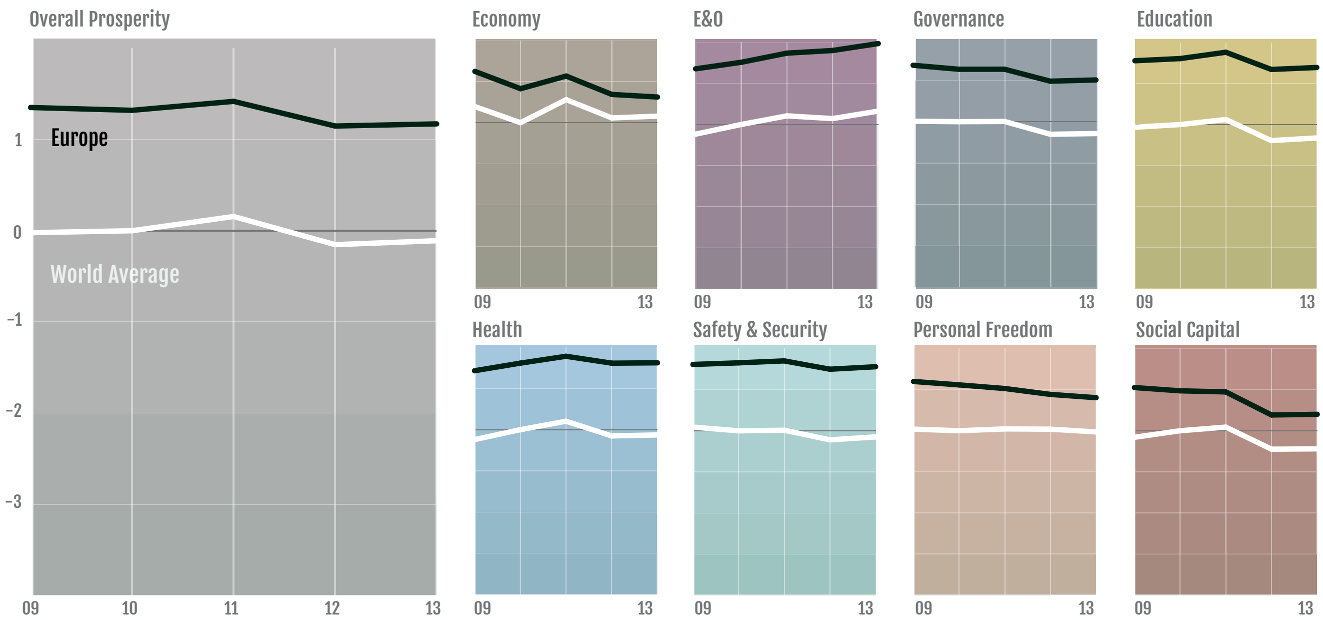
13 OUT OF 16
COUNTRIES WITHIN MENA ARE FAILING TO GUARANTEE POLITICAL RIGHTS

1. This is defined as the extent to which a society is autocratic or democratic. This measure depends on the competitiveness of executive recruitment; constraints on chief executives; and the regulation and competitiveness of political participation.
2. This is defined as the extent to which individuals within a society respect property rights, the police and the judiciary system, as well the quality of police and legal safeguards, ranging between +2.5 to -2.5, with negative values indicating a failure to guarantee rule of law.
3. This does not include the Palestinian territories.

EUROPE

Norway	1	United Kingdom	16	Cyprus	37	Ukraine	64
Switzerland	2	Belgium	17	Slovakia	38	Montenegro	71
Sweden	4	France	20	Hungary	41	Serbia	76
Denmark	6	Spain	23	Lithuania	43	Macedonia	79
Finland	8	Slovenia	24	Latvia	48	Azerbaijan	81
Netherlands	9	Malta	25	Bulgaria	49	Albania	83
Luxembourg	10	Portugal	27	Croatia	53	Georgia	84
Ireland	12	Czech Republic	29	Greece	54	Moldova	89
Iceland	13	Italy	32	Romania	55	Armenia	95
Germany	14	Poland	34	Belarus	58	Bosnia-Herzegovina	97
Austria	15	Estonia	36	Russia	61		

FIVE YEAR SUB-INDICES PERFORMANCE 2009-2013



The 2013 Prosperity Index reveals that, while the majority of European countries are becoming more prosperous, some are doing so faster than others.

It is perhaps unsurprising that Germany has recorded the highest increase in overall Prosperity since 2009 (see graph top right). What may be surprising is that some, though not all, of those countries behind Germany are newer members of the European Union from Eastern Europe. The evidence indicates that many of these states are becoming increasingly entrepreneurial, helping them to improve their level of overall Prosperity.

One inescapable factor that unites the continent is its poor economic performance over the last five years. Following an increase in 2011, the continent has fallen on the Economy sub-index for the second year in a row. Europe's declining score contrasts with that of the rest of the world, which has seen an average increase in 2013.

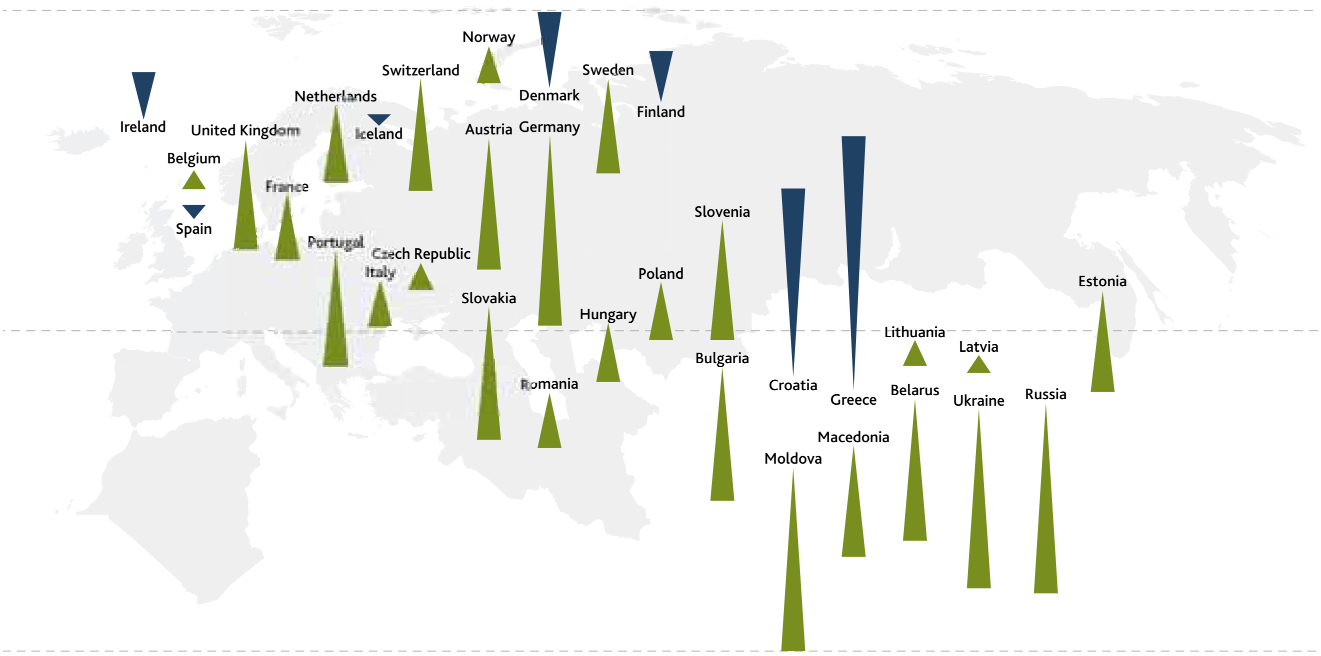
Despite the bleak economic picture, there are some bright spots. New EU members from Eastern Europe, including Slovakia, Latvia, and Poland have witnessed a marked rise in the Entrepreneurship & Opportunity sub-index since 2009 and are catching up to the older EU member states (see graph centre right).

Technological and institutional factors are propelling the rise of the new member states. The number of secure internet servers per million people has increased by an average of 237 servers across the new member states,[1] above the increase in the world average of 198 servers. Fifteen percent more households report owning a mobile phone (the increase in world average was 9% over the period) and business start-up costs fell by an average of 1.7% of GNI per capita.

Although many new members are catching up, particularly to Mediterranean countries, there still exist significant technological, economic, and institutional disparities between the majority of old

CHANGE IN PROSPERITY SCORES: EUROPE[2]

Overall Prosperity Index Average Score 2009-2013

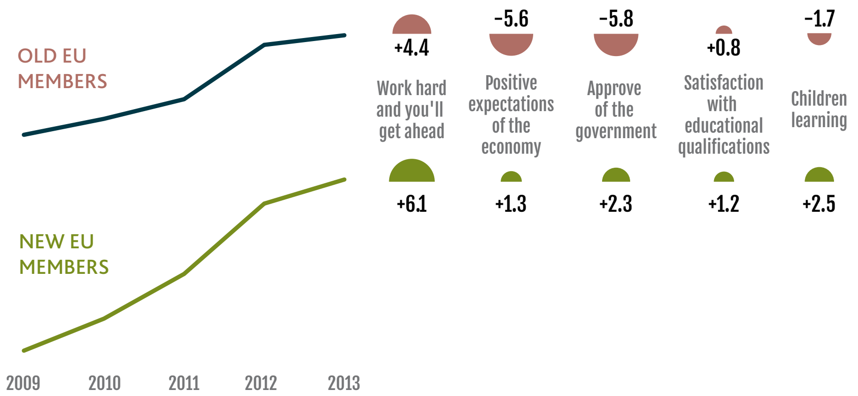


member states and the majority of new ones. Where there is less of a gap between the two groups is how people feel about their country and the direction in which it is heading. Since 2009, the number of citizens in the new member states who believe that working hard allows people to get ahead in life and those who are satisfied with the education system has increased. By contrast, the number of citizens in the old member states who believe that children have the opportunity to learn in their country, that approve of their government, and that report positive expectations of their economy has decreased. If these trends continue, the future could see some new states of the European Union overtaking the old.

OLD vs. NEW EU MEMBER STATES

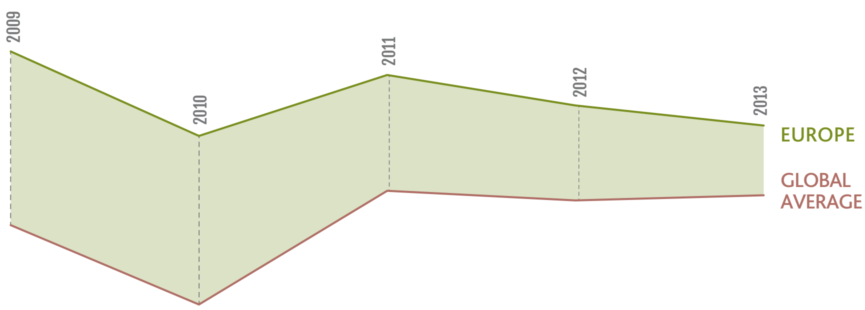
ENTREPRENEURSHIP & OPPORTUNITY SUB-INDEX SCORE (2009-2013)

CHANGE IN SURVEY RESULTS % (2010-2013)



OVERALL PROSPERITY INDEX PERFORMANCE

Average Score 2009-2013



1. Old member states are: Belgium, Germany, Greece, France, Ireland, Italy, Netherlands, Portugal, Spain and the United Kingdom. These states were selected because they are either founding members or countries that joined in the 1970s or 1980s. New member states are: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia, Bulgaria and Romania. These are states that joined after 2000. The two groups are defined in this way, with no member states who joined in the 1990s being included in either group, so as to compare two groups that have vastly different experiences of EU membership.
2. This analysis is based on a 110 countries between the 2009 and 2013 editions of the Prosperity Index. This does not include the 32 new countries added in the 2012 Prosperity Index.

MILLENNIUM DEVELOPMENT GOALS

Past Successes, New Challenges

Set in the year 2000 by the United Nations Millennium Declaration,[1] at what was then the largest summit of global leaders in history, the Millennium Development Goals (MDGs) were created to tackle some of the biggest problems affecting the world's developing countries. To date, none of the Declaration's eight goals has been fully met. Some regions, however, have achieved more than others—Eastern Asia and Northern Africa present better results than sub-Saharan Africa, for example.

Despite the mixed results, developed nations and international organisations—such as the IMF and the OECD—have committed funds to the achievement of the Declaration's goals and this global effort has drawn much attention to international development issues. With the 2015 deadline now looming, it is important to consider which new goals the international community should focus on. An important step towards defining these new goals is to assess the impact of the 2000–2015 programme. By assessing progress and examining what may have been overlooked we can shed light on what should be considered for the future.

Goal 2 aims to achieve universal primary education and, in this regard, considerable progress has been made over the past decade. The gap between developing and developed[2] countries in primary enrolment rates has decreased since 2010. This has resulted in a marginal difference in 2013 (see graph right). However, in developing countries secondary school enrolment rates are significantly lower than primary rates, and tertiary rates are lower still. The most striking difference between the regions is that those with lower income levels see the biggest fall in enrolment from primary through to tertiary. For example, while there is less than a 20% difference between sub-Saharan Africa and Western Europe in primary education enrolment, this gap increases to 61% at secondary and 56% at tertiary level. The gap closes slightly at tertiary level, but predominantly because of falling rates in developed regions rather than increasing rates in sub-Saharan Africa.

The MDGs set specific targets for primary but not secondary school enrolment. However, the preliminary Sustainable Development Goals (SDGs) for the post–2015 agenda, which were outlined in the UN Secretary-General's High-level Panel's recent report,[3] include a provision for the "access to lower secondary education". Moreover, data reveal that the situation has begun to improve, with secondary enrolment rates rising in sub-Saharan Africa and South Asia since 2010 (see graph far right). The Legatum Prosperity Index™ finds that, while the amount of secondary education per worker has increased by over 50% in South Asia over the last four years, the sub-Saharan African average has increased by less than 7%. By focusing on secondary education, the post–2015 targets aim to address this problem.

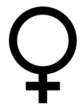
Goal 4 aims to reduce under-five mortality by two-thirds between 1990 and 2015.[4] Given that under-five mortality had decreased by only 41%, worldwide until 2011,[5] very rapid progress would be needed to achieve the target by 2015, which has so far only been met in East Asia and North Africa.[6] Child mortality is highest in the world's poorest regions and child deaths increasingly occur at or around the time of birth.[7]

THE GOALS

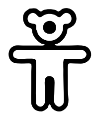
1. Eradicate extreme poverty and hunger

2. Achieve universal primary education

3. Promote gender equality and empower women



4. Reduce child mortality

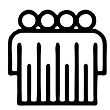


5. Improve maternal health

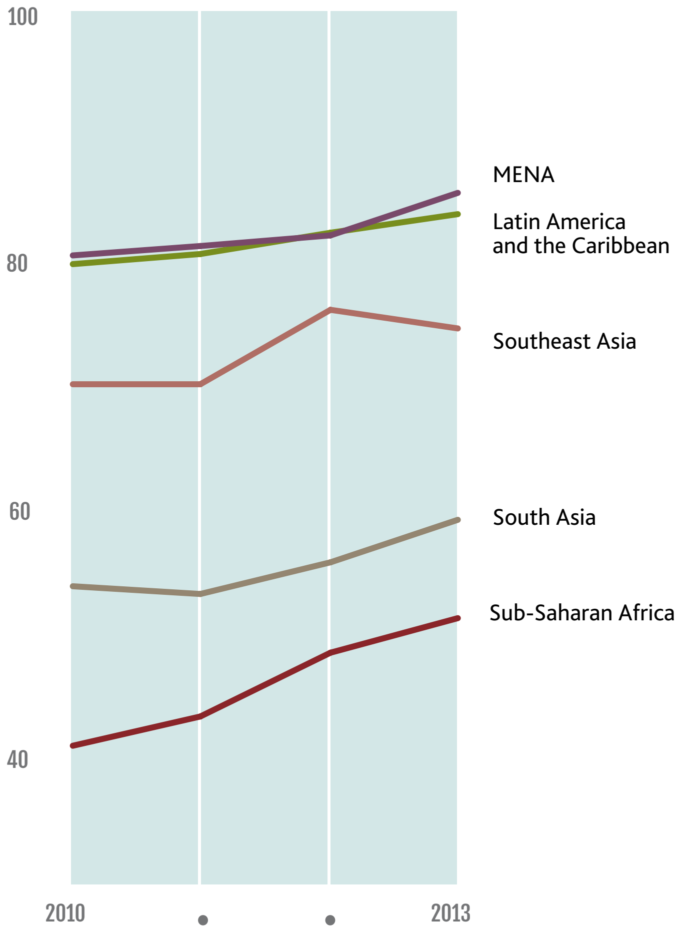
6. Combat HIV/AIDS, malaria and other diseases

7. Ensure environmental sustainability

8. Create a global partnership for development with targets for aid, trade and debt relief



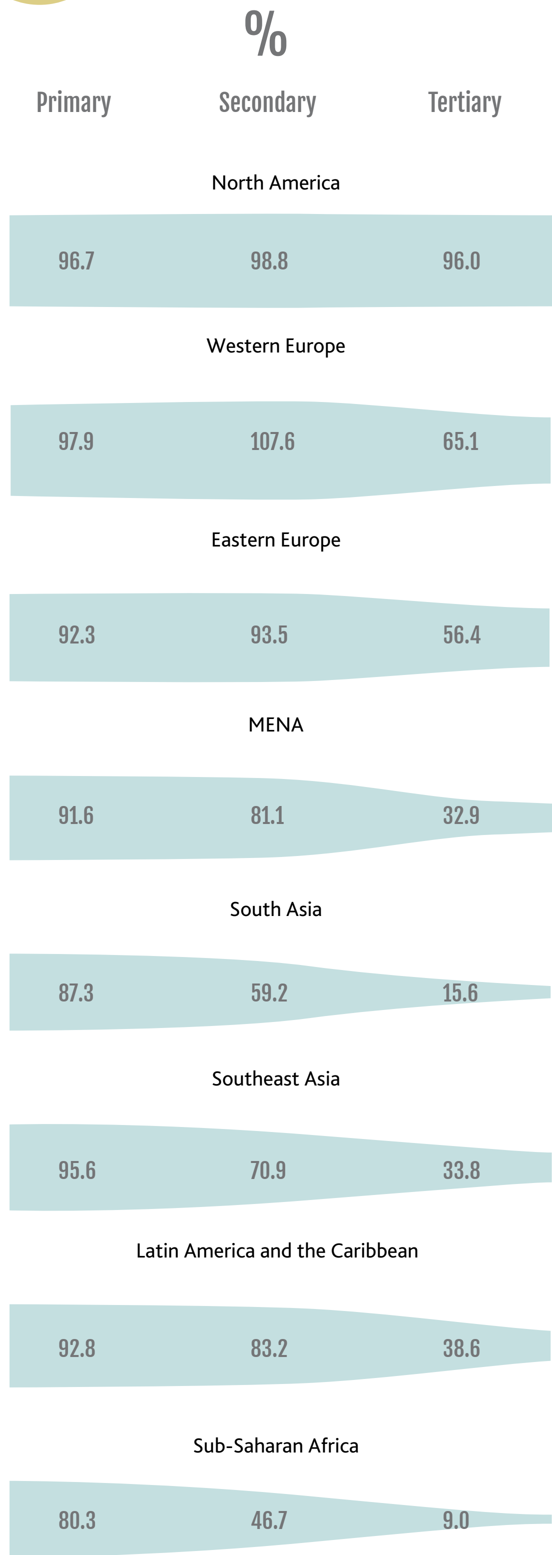
2 AVERAGE REGIONAL ENROLMENT RATES IN SECONDARY EDUCATION*



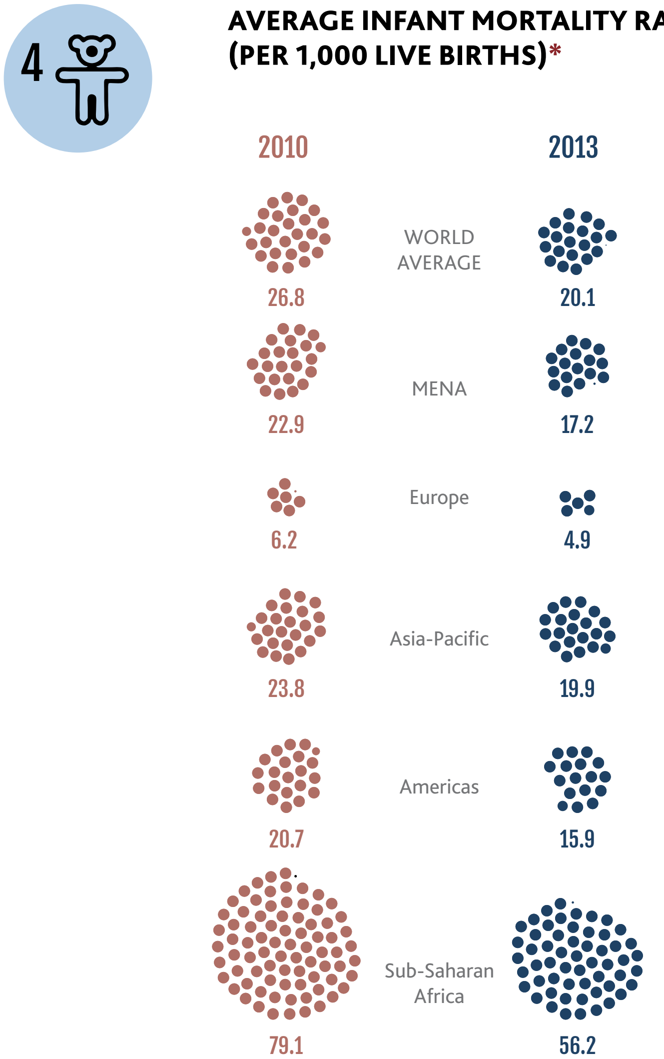
*This analyis is based on 110 countries between the 2009 and 2013 editions of the Prosperity Index.

2 ENROLMENT RATES IN EDUCATION: SUB-REGIONAL BREAKDOWN

Prosperity Index Data 2013

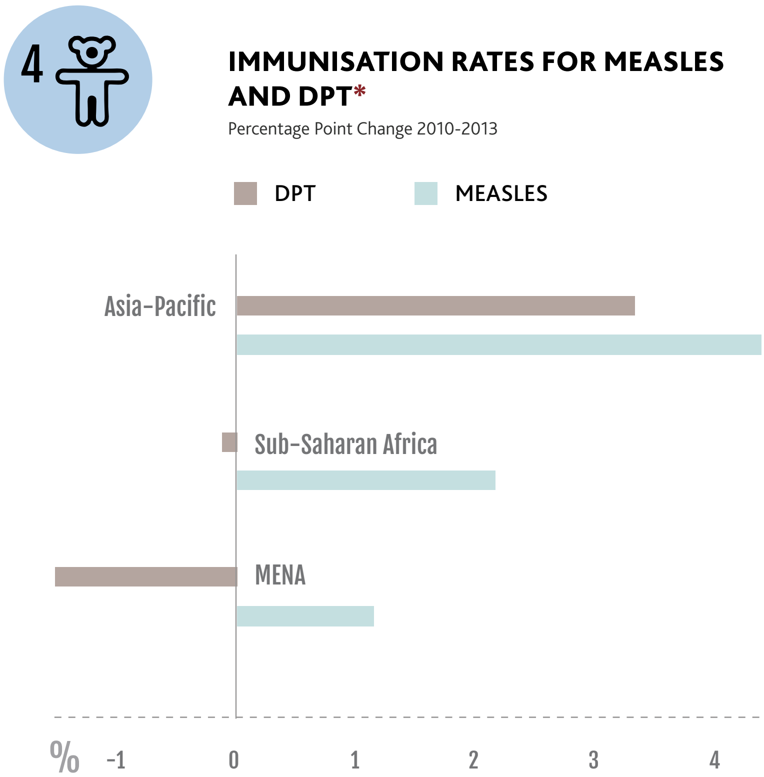


AVERAGE INFANT MORTALITY RATES (PER 1,000 LIVE BIRTHS)*



IMMUNISATION RATES FOR MEASLES AND DPT*

Percentage Point Change 2010-2013



It is therefore encouraging that according to Prosperity Index data, the largest decrease in infant mortality has been experienced in sub-Saharan Africa (see graph left).[8] In fact, nine out of the ten countries with the largest reductions in infant mortality between 2010 and 2013 were in this region.[9] Despite this, infant mortality rates in sub-Saharan Africa were still nearly three times higher than the world average in 2013, ie 56 deaths per 1,000 live births compared with 20 deaths.

Significant progress in the goal for child mortality is unlikely to be achieved without a large reduction in the spread of disease. A target contained within Goal 4 aims to increase the proportion of one-year-olds immunised against measles. Over the last four years, immunisation against measles has increased in Asia, sub-Saharan Africa and the MENA region (see graph bottom left), with the highest increase found in Asia where 4.4% more children were immunised between 2010 and 2013.[10]

Progress in immunisation against DPT (diphtheria, pertussis, tetanus) has been less significant than for measles. In the MENA region and sub-Saharan Africa the percentage of children immunised against DPT decreased, while in Asia only 3.3% more children were immunised against DPT compared to 4.4% for measles.

Data from the Legatum Prosperity Index™ and beyond shows significant progress has been made in certain aspects of health and education since 2000. However, there are still challenges to overcome and it is encouraging that new goals were set out for these areas of development by the UN Secretary-General's High-level Panel in the post-2015 agenda. Targets to be considered in this effort could include immunisation against DPT as well as increases in completion rates for secondary education, which will enable a more holistic measure of the progress of countries towards these goals.

As new targets are discussed, it is worth considering one of the major criticisms of the original MDG agenda. Namely, the overemphasis on outcomes rather than on development processes. This emphasis, it is argued, has placed a priority on short-term results rather than building the correct institutions for long-term sustainable development.[11] What's more, William Easterly has argued that arbitrary choices made in the formulation of the MDGs are responsible for the poor progress shown by African countries and the low likelihood of them achieving the goals by 2015.[12]

The Prosperity Index reveals that the two areas that have shown least progress globally between 2009 to 2013 are Governance and Safety & Security. Therefore, it will be encouraging for some that the post-2015 development objectives will likely include goals to "ensure good governance and effective institutions" as well as "ensure stable and peaceful societies".[13]

There is, however, a debate on whether or not specific targets on governance are politically feasible[14] and views differ about what role these institutions play in countries at different stages of development. There are additional concerns that a focus on governance may be perceived as interventionism from developed nations and a risk that this may come with various conditions attached that will be imposed on less developed nations.[15] Furthermore, there are significant challenges in measuring governance indicators.[16]

Prosperity Index data show that variables measuring freedom of political expression and civil liberties, issues which form part of the post-2015 discussion (alongside the need to reduce corruption), did not show improvement from 2010 to 2013. Other aspects of governance that have not been included in the post-MDG agenda thus far, such as government effectiveness, rule of law, and regulation quality, have also worsened or remained fairly stagnant in the sub-Saharan Africa, Asia-Pacific, and MENA regions. If these trends continue in the long term, we may observe that progress made so far in the MDGs might be set back by government instability and inability to implement adequate policies. It is important that any goal on governance encompasses targets that are related to human rights as well as those related to establishing transparent, efficient, and democratic institutions.

A less controversial post-2015 goal would be one that focuses on security. The detrimental effects of war in particular are obvious. Even excluding direct casualties of war, side effects such as starvation and disease, the resulting loss of production, and the effort needed to reconstruct the economy thereafter are significant. A proposed goal in the post-2015 agenda includes targets on reducing violent deaths per 100,000 and controlling external stressors that can lead to conflict, such as organised crime.

Incidences of crime are still high in sub-Saharan Africa, with over a quarter of those surveyed reporting having had property stolen within the past year.[17] Globally, war casualties have increased overall between 2010 and 2013 and are particularly prevalent still in sub-Saharan Africa, South Asia, and the MENA region.[18] With such clear security issues in the developing world, and the well-established negative effects of low security on development, the post-2015 agenda should emphasise security concerns as a priority.

The Prosperity Index shows that Governance and Safety & Security are key drivers of national prosperity and development. These factors are vital for future development and should form part of the post-2015 discussion on development goals. The formulation of the targets and the degree to which they will require international intervention will be important for their political acceptance. Although much of the world has not yet been able to achieve the targets set out in the MDGs, progress has been made. The focus now should be on goals and targets that aim to establish stable, democratic governance and increase peace. Only then will the foundations be laid for long-term development and prosperity.

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8. Prosperity Index data 2013.
9. By magnitude of decrease: Rwanda, Zambia, Mozambique, Cambodia, Kenya, Tanzania, Uganda, Ethiopia, Ghana and Mali (Prosperity Index data 2013).
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15. Gina Bergh et al., "Building Governance into a Post-2015 Framework: Exploring Transparency and Accountability as an Entry Point", (Research Report, Overseas Development Institute, October 2012), http://www.odi.org.uk/publications/6892-transparency-post-2015-governance.
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17. Prosperity Index data 2013.
18. Prosperity Index data 2013.

*This analyis is based on 110 countries between the 2009 and 2013 editions of the Prosperity Index.

DEVELOPMENT IN India and Bangladesh

BANGLADESH IS LEADING THE WAY IN TERMS OF DEVELOPMENT IN SOUTH ASIA, EXPOSING THE FAILINGS OF ITS GIGANTIC NEIGHBOUR.

In recent decades, India has been championed as an economic powerhouse and an economy on the rise. Indeed, it is one of the original BRIC countries and in the six-year period of 2005–2011 grew at an annualised rate of 8.2%.[1] Predicted to be the world's most populous country in the next 15 years—making it the home for nearly 20% of the earth's total population[2]—the status and trajectory of India's development is hugely important for global prosperity. It is notable, therefore, that India's progress has slowed recently. A closer look at India and its South Asia neighbours provides an interesting case study in progress and development, one which suggests that development can occur in the absence of rapid economic growth.

India, Bangladesh and Pakistan are three countries united by geography, divided by history, and on very different paths to prosperity. At first glance the comparison may seem unusual. India is a giant (encompassing 3.2 million square kilometres and with a total GDP of $1.8 trillion)[3] relative to Bangladesh, which covers only 147,000 square kilometres and has a GDP of $116 billion.[4] Pakistan sits between the two, covering 796,000 square kilometres with a total GDP of $231 billion.[5] Throughout their shared histories, India's economy has, on more than one occasion, been enthusiastically promoted, while Bangladesh has been viewed in a less positive light. However, the country once referred to as a "basket case" by Henry Kissinger is now a "development star" according to Rob Vos, Director of UN Department of Economy and Social Affairs.[6]

This year, for the first time, Bangladesh has overtaken India on the Prosperity Index. The country is now ranked 103rd (and rising), while India is 106th (and falling) (see graph top right). Over the past five years, India has slid down the rankings in seven of the eight sub-indices and in overall Prosperity, while Bangladesh's performance over this period is the complete opposite—rising in seven sub-indices and overall Prosperity.[7] While comparing Bangladesh and India, it is also worth reflecting on Pakistan. In many respects Pakistan is distinct from Bangladesh and India. Pakistan (132nd) is ranked nearly 30 places lower than India on the Prosperity Index and faces distinct security challenges that affect "all aspects of life…and impede development".[8] As a result, Pakistan's rank in the Prosperity Index has remained relatively unchanged over the last five years, showing neither a big increase nor a decline. Given this, close comparisons with India and Bangladesh—two countries heading in opposite directions—could be misleading, and as such this piece does not compare Pakistan with its two neighbours.

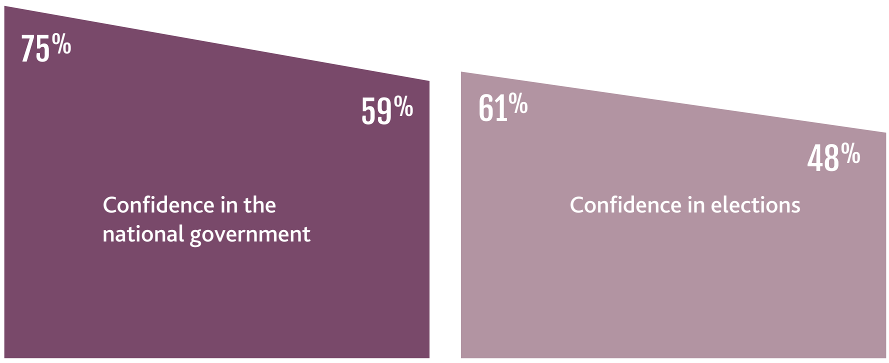
For Bangladesh, surpassing India is quite an accomplishment considering that the country's GNI per capita—at purchasing power parity—amounts to just half that of its larger neighbour.[9] The Prosperity Index reveals that despite this Bangladeshis not only live 3.5 years longer than their Indian counterparts, but fewer are undernourished, a lower number die in infancy, and more have access to sanitation. Furthermore, the average Bangladeshi worker has more secondary years of education (1.8 years) than his or her Indian counterpart (1.2 years). Perhaps as a result, more respondents in Bangladesh reported being satisfied with the quality of education they receive and more felt that children were learning in their society (see graph right). Such achievements explain why Bangladesh's success in improving the lives of its people has begun to generate substantial public interest.[10]

These impressive achievements suggest that development and progress are not solely reliant on rapid economic growth. India's experience suggests that GDP growth, in itself, is not enough. Between 1995 and 2012, India's economy grew each year, on average, by 1.2% more than Bangladesh's (5.6% compared to 6.8%) and this occurred despite India's recent slowdown.[11] As a result, Bangladesh spends roughly four times less per person than

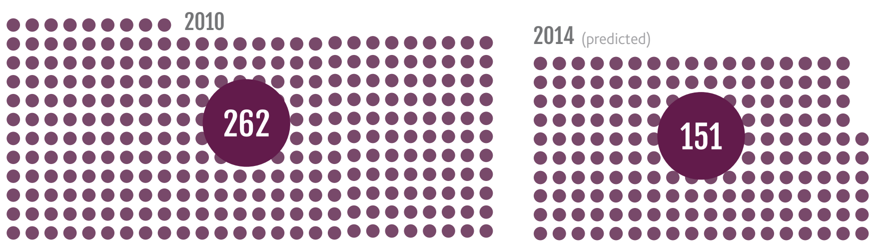
BANGLADESH AND INDIA: AVERAGE CHANGES IN RANK ACROSS SUB-INDICES 2009–2013*

IN 2013 BANGLADESH HAS OVERTAKEN INDIA ON THE PROSPERITY INDEX FOR THE FIRST TIME

GOVERNANCE IN INDIA 2010-2013



UNITED PROGRESSIVE ALLIANCE SEATS IN LOWER HOUSE OF PARLIAMENT:



*This analyis is based on 110 countries between the 2009 and 2013 editions of the Prosperity Index.

India on employment programmes and yet had an employment to population ratio over 10% higher than India in 2007.[12]

While Bangladesh's economic growth has not attracted the same attention as India's, its work on microfinance—the provision of small loans to poor recipients without access to financial services—certainly has. Microfinance originated in Bangladesh in the 1970s and is now viewed as an important way of tackling poverty.[13] One study of households in Bangladeshi villages over time found that, on average, an increase in borrowing of 100 Bangladeshi Taka (Tk) increased future household consumption by 15Tk, or 15%. Furthermore, the study found that borrowing had a particularly positive effect when targeted at women and that female borrowers were more likely to invest in schooling and healthcare for their families.[14] Microfinance in India has not had the same effect on poverty as in Bangladesh.[15] Among other factors, this is partly the result of the shock to microfinance that occurred in 2010 when the state of Andhra Pradesh effectively outlawed private microfinance institutions. The result was that overall loan portfolios for microfinance institutions across India shrank by 33%, from $5.25 billion to $3.52 billion, between March and December 2011.[16] Since then, the Indian government has taken steps to regulate microfinance institutions on a national basis, providing the sector with a clearer regulatory framework. This has helped the health of the sector, although its future success is far from assured.[17] Although microfinance in Bangladesh is no panacea, it would appear that in this area too India has been outperformed by its neighbour.

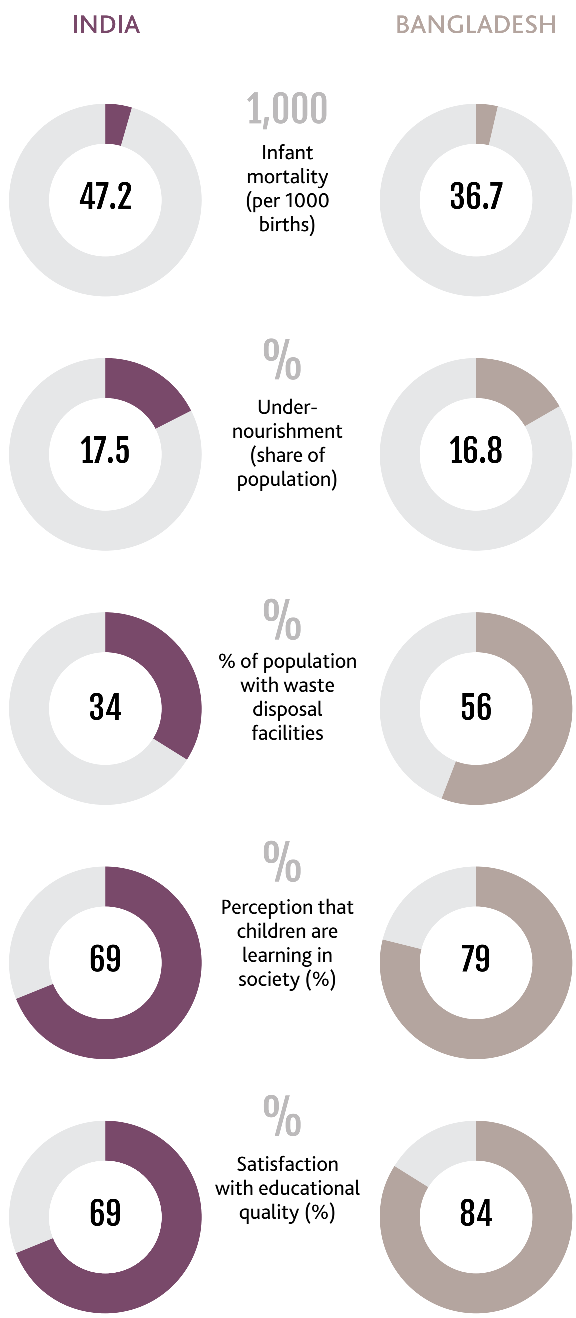
Despite all these successes Bangladesh still has acute problems, particularly in terms of governance: the country has been under military rule three times in the past three decades.[18]

While Bangladesh's performance in many respects is encouraging, by contrast India's development progress has slowed considerably over the last five years, particularly in terms of the economy and governance. The slowdown in India's economic growth in 2012, to 3.2%, is surprising when compared with the 8.2% average annual growth that the country recorded between 2005 and 2011.[19] Even more worrying is the fact that this fall has been mirrored by declines in other economic indicators. Since 2009, un-repaid (or 'non-performing') loans in India's banks have increased to a reported 4.4% in mid-2013,[20] the rupee has fallen, and foreign direct investment has shrunk (see graphs right).

In addition, inflation remains worryingly high at 6.1%.[21] The deterioration in all these indicators mirrors the decline in the country's score on our Economy sub-index, which has caused India to fall from 43rd to 62nd in ranking since 2009.

India's democratic system of governance has always been highlighted as fundamental to its future success. Despite many failings, it is, at least, a democracy. It would appear, however, that India's economic problems have been compounded by governance failures. Since 2009, India has fallen 14 places on the Governance

INDIA vs. BANGLADESH



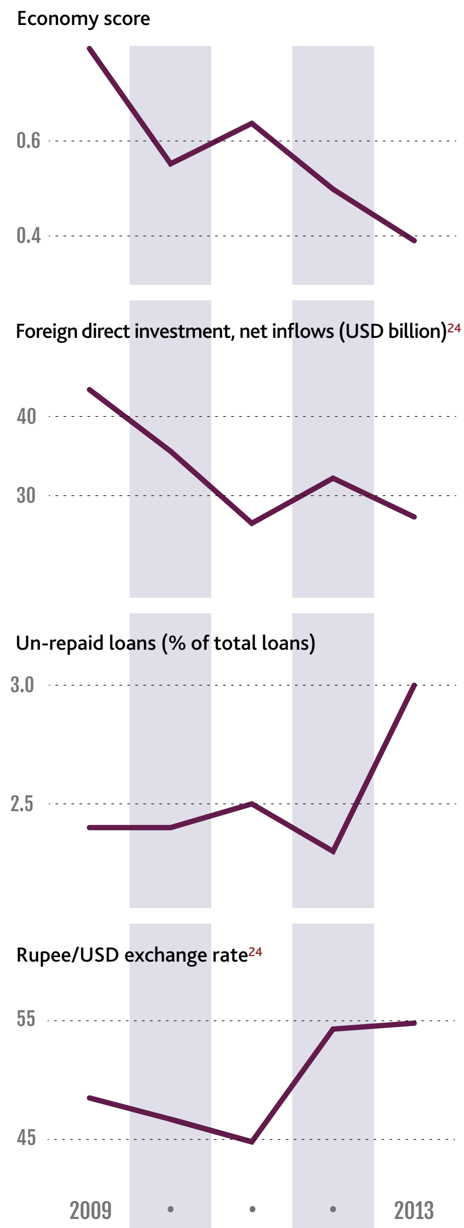
sub-index to 54th. Over this period, faith in the country's political class has been shaken by high-profile corruption scandals, including the selling of mobile phone spectrum at below market rates and the numerous instances of bribery and incompetence associated with the 2010 Commonwealth Games. Events like these—and the fact that 14% of the current Indian parliament is accused of criminal activity, including murder, kidnapping, extortion and rape—may have contributed to declining standards of governance as well as the largest anti-government protests on record, led by India's middle class.[22]

Such discontent is reflected in the Prosperity Index. India's slide down the Governance rankings has been, in part, the result of falling confidence in the national government (down from 75% in 2009 to 59% by 2012) and in confidence in elections (see bottom graph p32). This decline has been accompanied by a fall in support for the governing coalition, which is currently predicted to lose 111 (42%) of its seats in the election scheduled for 2014.[23]

India's economic and political problems are far from unresolvable and the country has prospered over the course of the last two decades. However, the recent malaise seems to have lingered and observers are unconvinced that many of these difficulties will be resolved in the near future. These problems threaten to stall the country's progress in the Prosperity Index.

Although Bangladesh continues to rise in the Index—in part a reflection of successful development policies—we should not forget that the country has significant problems of its own. However, at present, the grand South-Asian leader might learn a trick or two from its more nimble regional compatriot.

INDIA ECONOMIC PERFORMANCE



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2. "India's population 'to be biggest'", *BBC*, August 18, 2004, http://news.bbc.co.uk/1/hi/3575994.stm.
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5. ibid.
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8. World Bank, Pakistan: Achieving Results in a Challenging Environment 2013.
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18. International Crisis Group, *Restoring Democracy in Bangladesh*, (Dhaka/Brussels: International Crisis Group, April 2008), http://www.crisisgroup.org/~/media/Files/asia/south-asia/bangladesh/151_restoring_democracy_in_bangladesh.pdf.
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21. Trading Economics, Inflation rate.
22. Average from 5 polls: CV Voter Jan-March 2013, April-May 2013, July 2013, Hansa Research, July 2013 and CSDA, July 2013.
23. Aalok Khandekar and Deepa S. Reddy, "An Indian Summer: Corruption, Class and the Lokpal Protests", *Journal of Consumer Culture 0*, no. 0 (2013): 1-27.
24. Non-Prosperity Index data.

THE ECONOMIC PERFORMANCE OF the UK and the USA

ECONOMIC MALAISE HAS PLAGUED BOTH AMERICA AND GREAT BRITAIN IN THE LAST FIVE YEARS, YET THE FUTURE LOOKS BRIGHTER FOR THE WORLD'S LARGEST ECONOMY.

Since Winston Churchill coined the phrase in 1946, it has often been stated that the US and the UK share a 'special relationship'. The 2013 Legatum Prosperity Index™ reveals that the two countries now also share an unwanted economic connection; both have fallen down the Economy sub-index rankings in the last five years, and this year the US has dropped out of the top 20.

While the US's fall is noteworthy, the UK left the top 20 (dropping from 18th to 21st) in 2011 and has continued its descent. Furthermore, data from the Prosperity Index indicate that America's immediate future may be far brighter than that of the United Kingdom.

Due to declines in their Economy scores, both countries have been leapfrogged by a number of middle- and high-income countries from Asia and the Middle East (see graph right). The contrasting fortunes of these two groups of countries point to a change in the global economic landscape. The US saw a 24% decline in its score, causing it to fall from 12th in 2009 to 24th place this year. Over the same period the UK's score decreased by 21% and it fell four places in the rankings to 28th.

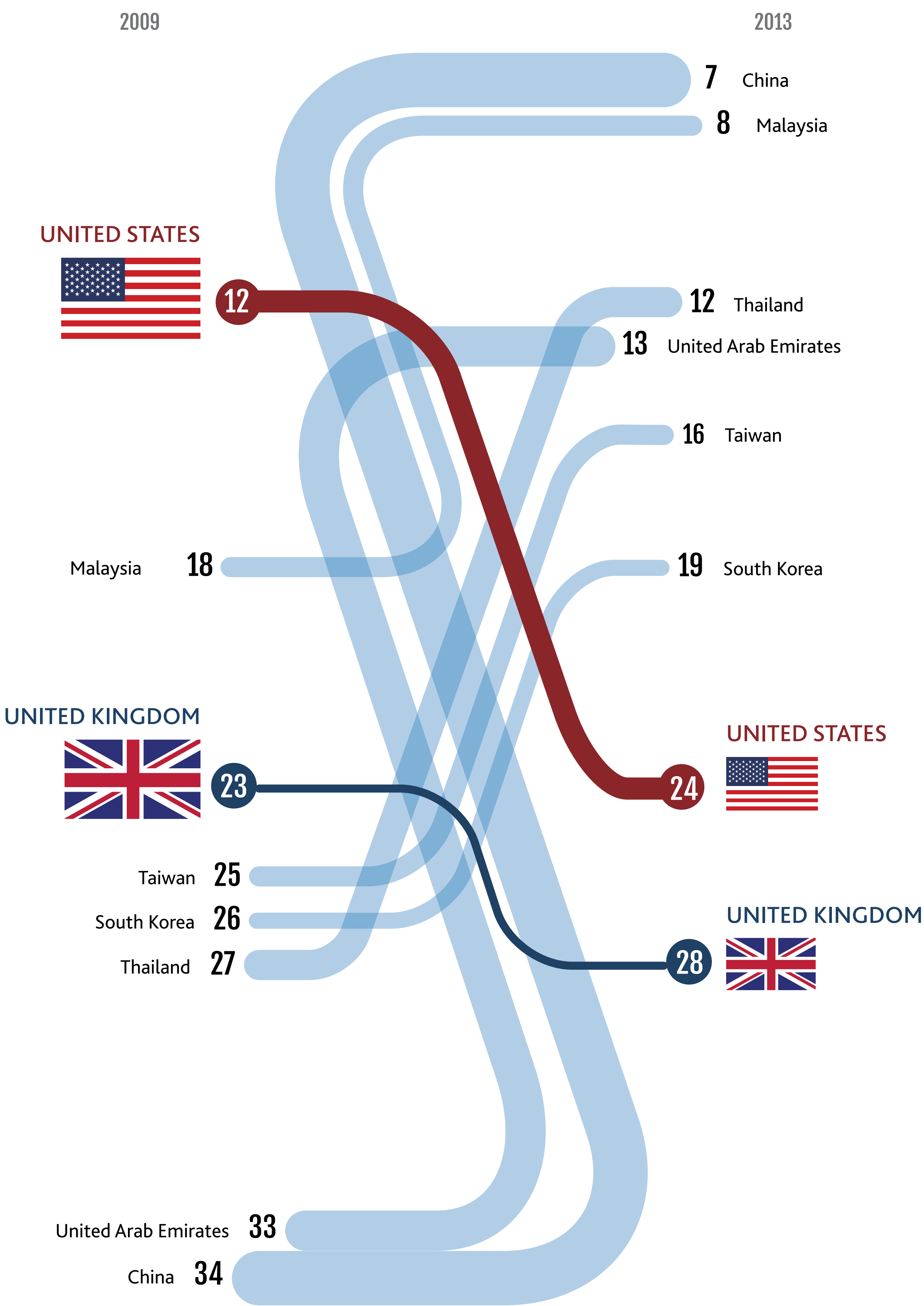
In some respects the US and UK face similar economic problems. Unemployment has increased in both countries since 2009 and remains above 7%.[2] The Asian and Middle-Eastern countries that have overtaken the US and UK have lower levels of unemployment: the unemployment rate is 4.3% in Taiwan and 4% in the United Arab Emirates. Many countries export more high-tech products than the US and UK: 43% of Malaysia's manufactured exports are high-tech, compared with 21% for the UK and 18% for the US, while for China and South Korea the figure is 26%. The US and UK are also lagging behind in terms of foreign direct investment (FDI). While the US received foreign direct investment worth 1.3% of GDP in 2012, this figure was 4.2% for Malaysia (in 2011)[3], 3.1% for China and 2.1% for the United Arab Emirates (in 2011). The UK fared slightly better with FDI worth 2.3% of GDP.[4]

Both Britain and the United States also saved and invested[5] less than their new competitors in 2012 (see graph overleaf). Although it is to be expected that developing countries would have higher saving and investment rates, it is illuminating that South Korea and Taiwan—both high-income economies—are also investing more. This could lend support to arguments that the UK and US economies suffer from underinvestment.[6]

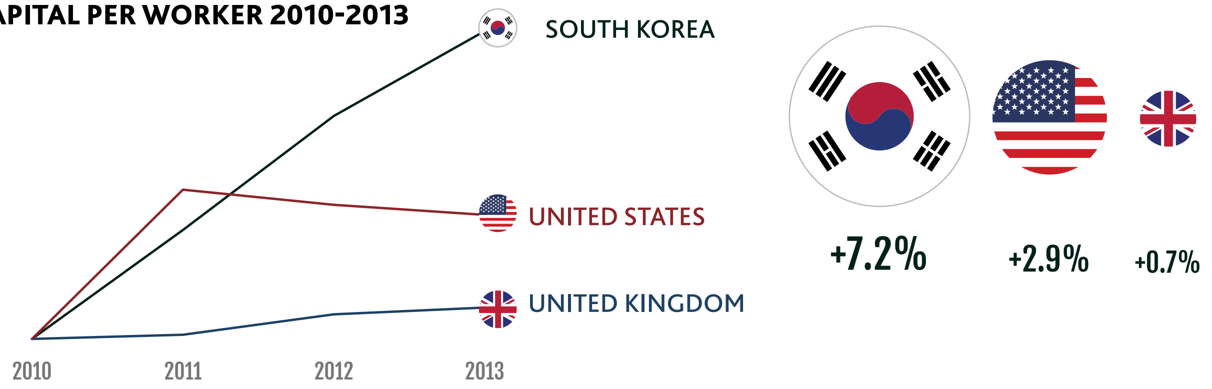
Saving and investment are important drivers of productivity. Similarly, capital per worker—the amount of productive resources, such as machinery, at the disposal of workers—is another important driver. Capital per worker in the US and UK is growing more slowly than in many other countries, although America's performance in this regard is more promising (see graph overleaf).

Since 2010, capital per worker in the UK has only increased by 0.7%, while it has grown by 2.9% in the United States. America's performance is far more impressive than the UK's, but both are dwarfed by South Korea's increase. This is more of a concern for the UK because South Korea's capital per worker was already above Britain's in 2010, whereas it still remains below America's. This may have had an

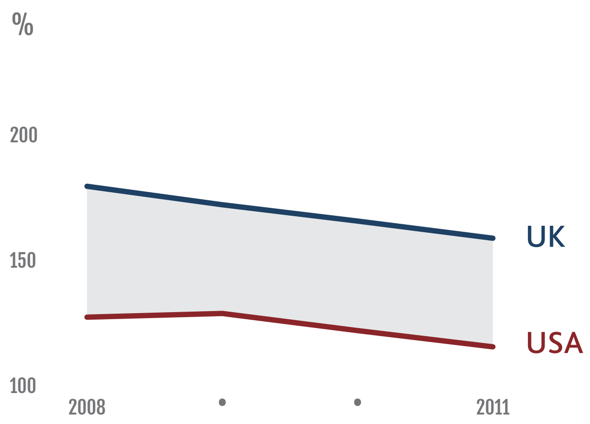
FIVE YEAR CHANGE IN ECONOMIC RANKING 2009-2013[1]



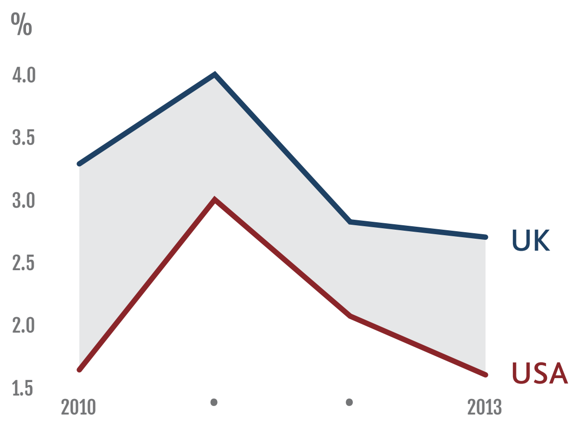
PERCENTAGE INCREASE IN CAPITAL PER WORKER 2010-2013



UK AND US HOUSEHOLD INDEBTEDNESS 2008-2011 (% of nominal disposable wealth)[9]



UK AND US INFLATION 2010-2013[10]



effect on productivity: between 2007 and 2011 multi-factor productivity—which measures how much output can be produced with the same amount of input—declined in the UK by 2.4%, in contrast it increased by 0.9% in the United States and by 3.3% in South Korea.[7]

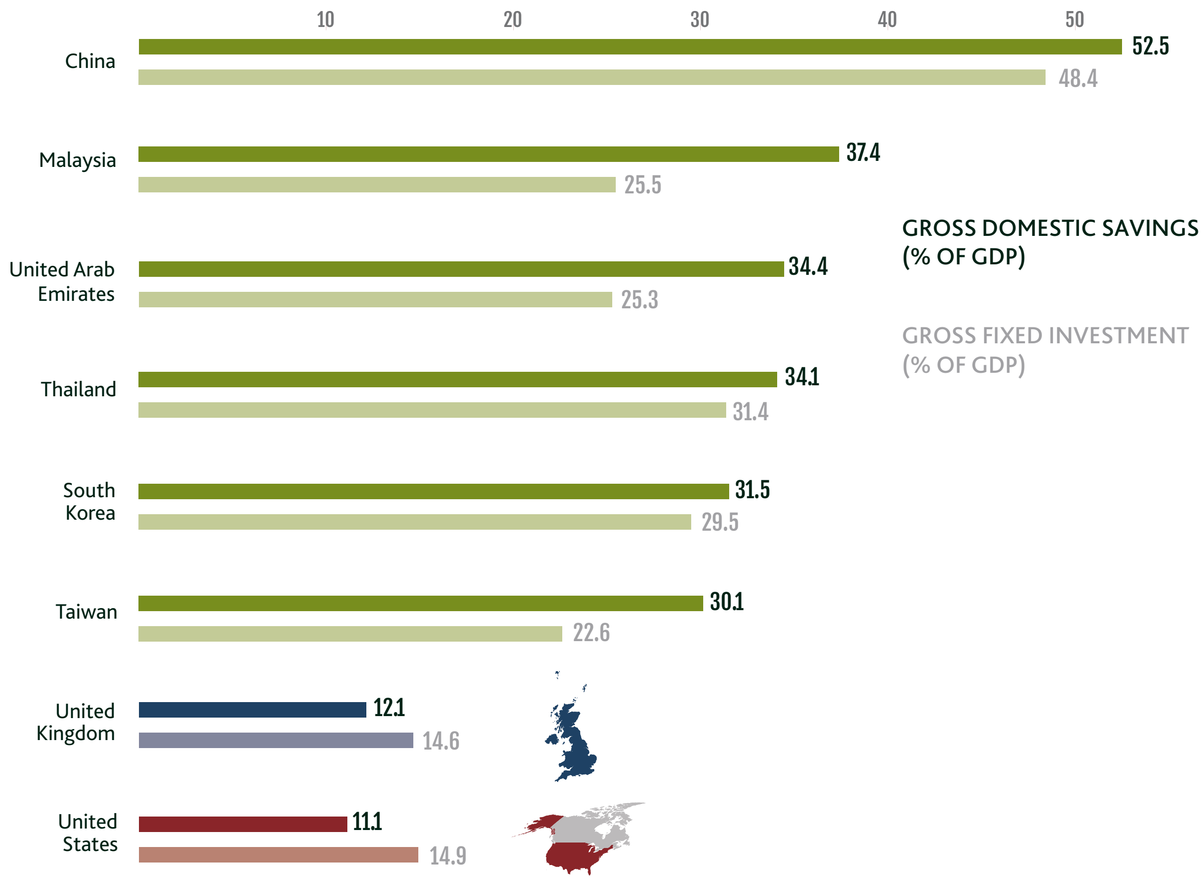
Popular perceptions of financial institutions have declined in both the US and UK in the last four years. In both countries the proportion of respondents expressing confidence in financial firms fell by approximately 8%. However, the total level of confidence in financial institutions in 2013 is still higher in the US (38%) than in the UK (28%). Americans are right to be more confident. American banks increased lending to businesses by 10.6% in 2012 and 7.9% in the first two quarters of 2013. In contrast, lending by UK banks decreased by 1.5% in 2012 and has continued to decrease by 1.4% in 2013.[8]

Businesses appear to have benefited from an improvement in economic conditions in the US and it seems that this is also the case for consumers. Consumption, the final purchase of goods and services by businesses and individuals, is an important part of both the British and US economies. To a degree, this separates them from the majority of countries that have overtaken them on the Economy sub-index, which are more reliant on investment for economic growth.

Consumer spending is affected by indebtedness and inflation, especially when the price of goods increases faster than the wages people use to pay for them. Since the 2008 recession, inflation has outstripped earnings growth in the UK[11] and, since late 2010, in the US[12]. Encouragingly, both the US and the UK have seen a fall in both indebtedness and inflation, but of concern for the UK is that these are still far higher than across the Atlantic (see above). This may indicate that British consumer spending will lag behind that of the US in the near future.

There is some evidence that an improvement in consumer purchasing power in the US is reflected in consumer sentiment. The data in our index suggest that Americans have been growing more optimistic since 2009. The number of US respondents who think it is a good time to enter the job market is up 3% from last year and has increased from 15% to 29%, since 2009. Furthermore, there was a similar increase in expectations about the economy, with 5% more respondents feeling that the economic situation was improving this year (reaching 45%). By contrast, the number of Britons with a favourable view of the job market decreased by 2% from last year and remains at 10%. Similarly, those in the UK who feel that the economy is improving fell by 14% (to 30%) over the

SAVINGS AND INVESTMENTS: ASIA vs UK AND US



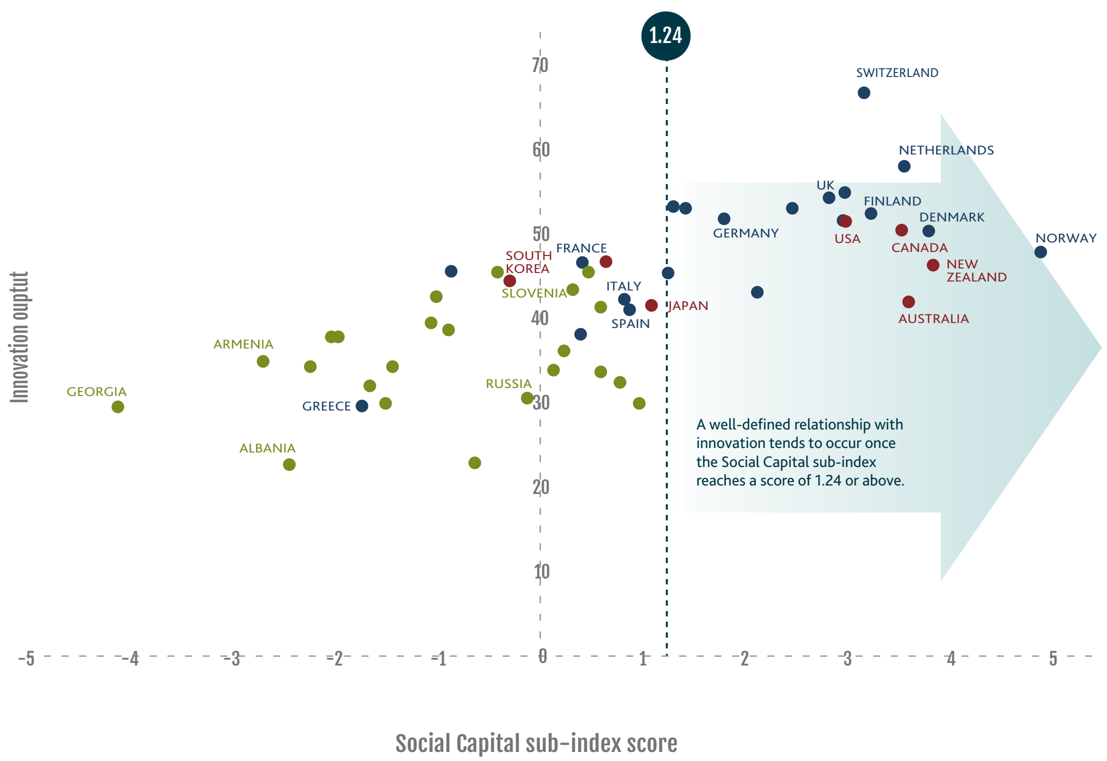
same period. Recent economic data from the UK, including rising house prices and increased GDP growth, have improved public sentiment. However, similar data from the US suggests a more robust recovery is occurring across the Atlantic, perhaps giving Americans more reasons to be cheerful.

It is striking that both Britain and America have slid down the economy rankings for many of the same reasons; underinvestment, decreasing export competitiveness and high unemployment. Their decline reflects the fact that economic growth has been largely absent from Europe and North America since 2008. Digging further into the data, though, should warn against predictions of further decline, especially for the US. America's recent economic performance has been far more encouraging and sets it apart not only from the UK, but many other developed countries. Belgium, Finland and Ireland also dropped out of the top 20 and are all currently below the US on the Economy sub-index. Compared with some other developed countries the US's economy is beginning to look healthier than it has in the past. Despite some recent improvements in economic indicators, it is less certain that this is the case for the UK.

1. This analysis is based on a 110 countries between the 2009 and 2013 editions of the Prosperity Index. This does not include the 32 new countries added in the 2012 Prosperity Index.
2. United States Department of Labor, Bureau of Labor Statistics. Office for National Statistics, Labour Market Statistics (August 2013).
3. 2011 data are used when 2012 data are not available.
4. World Bank, FDI Net Inflows (% of GDP).
5. World Bank, Gross Fixed Investment (% of GDP).
6. LSE Growth Commission & Institute for Government, *Investing for Prosperity* (London: Centre for Economic Performance, 2013), http://www.lse.ac.uk/researchAndExpertise/units/growthCommission/documents/pdf/LSEGC-Report.pdf; Paul Krugman, "Profits Without Production", *New York Times*, June 20, 2013, http://www.nytimes.com/2013/06/21/opinion/krugman-profits-without-production.html.
7. OECD, Multi-factor Productivity (2007-2011).
8. Bank of England, *Trends in Lending* (London: Bank of England, July 2013), http://www.bankofengland.co.uk/publications/Documents/other/monetary/trendsjuly13.pdf; Board of Governors of the Federal Reserve System, Selected Assets and Liabilities of Commercial Banks in the United States (August 2013).
9. OECD, Household wealth and indebtedness as a percentage of nominal disposable income. (June 2013).
10. World Bank, Inflation, consumer prices (annual %). The Office for National Statistics. United States Department of Labour, Bureau of Labor Statistics.
11. Office for National Statistics, 2013.
12. Bureau of Labor Statistics, 2013.

SOCIAL CAPITAL vs ENTREPRENEURSHIP & OPPORTUNITY SUB-INDEX SCORES

INNOVATION OUTPUT vs SOCIAL CAPITAL SUB-INDEX SCORE



● WESTERN EUROPE ● EASTERN EUROPE ● OTHER DEVELOPED COUNTRIES

The Innovative ENTREPRENEUR

FOR INNOVATION TO FLOURISH, SOCIETIES REQUIRE HIGH LEVELS OF SOCIAL CAPITAL.

In today's hyper-competitive world, some of the most successful nations are the ones that innovate. The genesis of innovation can be the result of large governmental investment in research projects, occasionally it is the result of happenstance, but often the truly inspired ideas come from innovative entrepreneurs—those who invent new ideas, re-invent old ones, or perhaps create whole new industries.

But is promoting entrepreneurial activity—lowering start-up costs, promoting effective or limited regulation—all that is necessary to spur innovation? Current research suggests not. Initially, establishing inclusive institutions and reducing procedural rules will generate entrepreneurial business growth.[1] But this does not necessarily equate to an increase in highly innovative behaviour. The Prosperity Index finds that a society must also have a high level of Social Capital (social cohesion, community engagement, and interpersonal trust) in order to foster innovation.

The 2013 Prosperity Index finds that lowering procedural barriers and regulations can help entrepreneurs create new businesses, especially in countries that are still developing economically or transitioning from authoritarianism to a more open and democratic government. Slovenia, for example, which in the last two decades has transitioned towards more democratic institutions and has enacted entrepreneur-friendly policies (there is no cost for registering and starting a new business in Slovenia), is today one of the best performing countries on the Entrepreneurship & Opportunity sub-index.

According to the Prosperity Index, countries that score highest on the Entrepreneurship & Opportunity sub-index are also the ones with the highest levels of Social Capital (see graph top left). The graph divides highly developed European, Asian, and North American nations, and compares them with the transitioning countries of Eastern Europe. By focusing on the already developed with the newly transitioning, the graph is able to split those countries that have long-established inclusive institutions and those (primarily in Eastern Europe) that are working to re-establish them.[2] Countries in the bottom left corner of the graph (those primarily transitioning from communism in Eastern Europe) have yet to establish basic foundations for entrepreneurship (low start-up costs, effective government, and low corruption) that help to form Social Capital and enable higher levels of innovation.

Not only do societies with high Social Capital tend to have more favourable environments for entrepreneurship, they also tend to generate more innovative output.[3] Innovation is a risky activity, especially for investors who want to help fund entrepreneurs and researchers that have original ideas. Capital investors may be risk-averse, may have internal capital constraints, or there may be differences in information between the investor and the entrepreneur that lead to uncertainties about whether the investment will be profitable.[4] While high Social Capital does not necessarily eliminate these barriers, it can lower the costs associated with them.

What defines a high Social Capital society is idiosyncratic to each country. In some countries, Social Capital is generated through high rates of volunteerism, for others it is membership of community organisations, while for others it is a mixture of other factors. Regardless of the avenue through which Social Capital is achieved, these societies tend to have people who care about trusting, helping, and cooperating with each other.

Entrepreneurs in high Social Capital societies tend to care about their reputation and will not ruin this by trying to cheat others. As a result, investors know that entrepreneurs who care about their reputations are not simply conning them with a bad idea. Importantly, when the relationship between investor and entrepreneur is grounded on high trust, there tends to be a reduction in transaction and monitoring costs, since there is less of a need to collect information regarding the authenticity and quality of entrepreneurs' ideas.[5] As a result, this creates societies where investors are more willing to invest in more radical and otherwise risky entrepreneurial endeavours.

A SOCIETY MUST HAVE A
HIGH LEVEL OF SOCIAL CAPITAL
IN ORDER TO FOSTER INNOVATION

However, high Social Capital levels seem to have a positive impact on innovation and entrepreneurship only after a certain point. In the Social Capital sub-index we observe a threshold when a country reaches a Social Capital score of 1.24 or above. Only then do we see a well-defined relationship with innovation (see bottom graph p39). Those countries above the threshold all rank in the top 21 on the Social Capital sub-index. These countries are distinct in that they have already achieved a high level of effective regulatory and democratic institutional quality (see table opposite). They all tend to have low start-up costs, the highest levels of the guarantee of rule of law (a necessary component of economically successful societies),[6] highly effective and non-burdensome regulatory environments, and almost all are considered decidedly democratic.

These historically strong institutions, which have developed over the last couple of hundred years, have helped develop the current high stock of Social Capital.[7] As a result, these institutions have created the necessary foundations for a strong entrepreneurial environment as well as the Social Capital stock, which encourages risk taking and innovative entrepreneurship. For example, high Social Capital countries such as the Netherlands, Denmark, New Zealand, and Norway not only have well-established institutions and supportive attitudes towards entrepreneurship (see p39), but have seen this coalesce into encouraging high levels of innovative output.

For those countries where Social Capital is not having a large, positive impact on innovative entrepreneurship, there are country-specific characteristics that have prevented its catalytic effects. In transitioning countries in Eastern Europe, some of the fundamental institutional qualities are not in place—corruption levels are high, which deteriorates social trust, regulatory quality is highly burdensome and unhelpful in promoting business growth, and rule of law is yet to be fully guaranteed (see table opposite). Regardless of whether these countries had high Social Capital levels or not, the fundamentals for entrepreneurial growth do not yet exist. Even for countries such as France and Spain, which have well-established institutional systems, the relatively low stock of Social Capital appears to have deterred the development of innovative entrepreneurs.

Ultimately, the fundamentals for entrepreneurship—start-up costs, regulatory quality and the rule of law—must be prioritised to encourage the growth of successful and productive businesses. However, for innovative entrepreneurship to flourish, social cohesion must exist. When people trust each other they will be willing to support each other in the riskier, but ultimately rewarding, activities that can increase prosperity.

1. Daron Acemoglu and James A. Robinson, *Why Nations Fail* (New York: Crown Publishers, 2012).
2. A number of Eastern European countries had institutions prior to the Soviet bloc, which are now being re-established.
3. Innovative output is defined utilising a series of metrics, which range from number of registered patents, high-tech outputs, intangible or creative outputs, royalty licences, FDI outflows, ICT exports. See http://www.globalinnovationindex.org/content.aspx?page=data-analysis
4. Spiros Bougheas, "Internal vs. External Financing of R&D," *Small Business Economics 22*, no.1 (2004): 11-17; Grahame Boocock and Margaret Woods "The evaluation Criteria Use by Venture Capitalist: Evidence from a UK Venture Fund," International Small Business Journal 16, no. 1 (1997): 36-57.
5. Ibrahim S. Akcomak and Bas ter Weel, "Social Capital, Innovation and Growth: Evidence from Europe", *European Economic Review 53*, no. 5 (2008): 544-567.
6. See the following papers for the development of these arguments: Amir N. Licht et al., "Culture Rules: the Foundations of the Rule of Law and Other Norms of Governance" *Journal of Comparative Economics 35*, no 7 (2007): 659-688; Witold J. Henisz, "The Institutional Environment for Economic
7. Growth", *Economics and Politics 12*, no. 1 (2000): 1-31.
8. Guido Tabellini, "Culture and Institutions: Economic Development in the Regions of Europe", *Journal of the European Economic Association 84*, no. 4 (2010): 677-716.

WELL-GOVERNED COUNTRIES TEND TO HAVE HIGH SOCIAL CAPITAL

REGION	COUNTRY	SOCIAL CAPITAL SUB-INDEX RANK	START-UP COSTS (% GNI PER CAPITA)	RULE OF LAW*	REGULATORY QUALITY**	GOVERNMENT TYPE***
Eastern Europe	Georgia	138	3.8	-0.16	0.66	6
Eastern Europe	Armenia	129	2.5	-0.41	0.26	5
Eastern Europe	Albania	126	22.1	-0.49	0.28	9
Eastern Europe	Montenegro	121	1.6	0.03	-0.06	9
Eastern Europe	Croatia	116	7.3	0.18	0.56	9
Eastern Europe	Romania	114	2.8	0.04	0.72	9
Europe	Greece	107	20.5	0.57	0.51	10
Eastern Europe	Macedonia	106	1.9	-0.25	0.33	9
Eastern Europe	Bosnia-Herzegovina	104	14.9	-0.34	-0.04	5
Eastern Europe	Serbia	102	7.7	-0.33	0.01	8
Eastern Europe	Latvia	93	2.3	0.8	0.95	8
Eastern Europe	Moldova	91	5.7	-0.36	-0.08	8
Eastern Europe	Bulgaria	87	1.1	-0.09	0.56	9
Europe	Cyprus	86	12.4	1.06	1.22	10
Eastern Europe	Azerbaijan	79	2.3	-0.87	-0.4	-7
Eastern Europe	Hungary	71	8.9	0.77	1.05	10
Asia East	South Korea	66	14.6	1.01	0.95	8
Eastern Europe	Russia	62	2	-0.78	-0.35	4
Eastern Europe	Lithuania	54	1.1	0.77	0.94	10
Eastern Europe	Slovakia	47	1.8	0.65	1.03	10
Eastern Europe	Czech Republic	46	8.2	1.01	1.25	8
Europe	Portugal	43	2.3	1.01	0.66	10
Europe	France	42	0.9	1.5	1.11	9
Eastern Europe	Estonia	40	1.6	1.18	1.4	9
Eastern Europe	Slovenia	37	0	1.07	0.63	10
Eastern Europe	Ukraine	36	1.5	-0.86	-0.56	6
Asia Southeast	Singapore	34	0.6	1.69	1.83	-2
Eastern Europe	Poland	31	14.4	0.73	0.96	10
Asia East	Taiwan	30	2.4	1.04	1.17	10
Europe	Italy	29	16.5	0.41	0.75	10
Europe	Spain	27	4.7	1.2	1.09	10
Eastern Europe	Belarus	24	2.3	-1.08	-1.21	-7
Asia East	Japan	23	7.5	1.27	0.9	10
Europe	Belgium	21	5.2	1.45	1.25	8
Europe	Malta	20	8.9	1.35	1.31	10
Europe	Luxembourg	17	1.9	1.81	1.86	10
Europe	Germany	15	4.9	1.61	1.51	10
Europe	Austria	14	4.9	1.81	1.41	10
Europe	Iceland	13	3	1.69	1.01	10
Europe	United Kingdom	12	0.7	1.67	1.62	10
Europe	Ireland	11	0.3	1.76	1.65	10
Europe	Sweden	10	0.5	1.95	1.84	10
America North	United States	9	1.4	1.6	1.49	10
Europe	Switzerland	8	2.1	1.76	1.64	10
Europe	Finland	7	1	1.96	1.77	10
America North	Canada	6	0.4	1.76	1.68	10
Europe	Netherlands	5	5.1	1.82	1.84	10
Asia Pacific	Australia	4	0.7	1.78	1.79	10
Europe	Denmark	3	0.2	1.92	1.93	10
Asia Pacific	New Zealand	2	0.4	1.91	1.91	10
Europe	Norway	1	1.7	1.89	1.41	10

Table—*Rule of Law: The extent to which individuals within a society respect property rights, the police and the judiciary system, as well as the quality of police and legal safeguards (values closer to 2 indicate universal guarantee for the rule of law) ** Regulatory Quality: Captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development (higher, positive, levels indicate more effective regulation). *** Government Type: The extent to which a society is autocratic or democratic. This measure depends on the competitiveness of executive recruitment, constraints on chief executives, regulation of political participation, and competitiveness of political participation (a 10 indicates democratic while a -10 indicates highly autocratic).

ORIGINAL ILLUSTRATION BY MÁGOZ

THE Sub-Indices

THE LEGATUM PROSPERITY INDEX™ IS DIVIDED INTO EIGHT SUB-INDICES, WHICH ARE FOUNDATIONS OF PROSPERITY.

ECONOMY

ENTREPRENEURSHIP & OPPORTUNITY

GOVERNANCE

EDUCATION

HEALTH

SAFETY & SECURITY

PERSONAL FREEDOM

SOCIAL CAPITAL

The following pages examine some of the changes that have occurred within each sub-index in the last five years.

Since 2009, all sub-indices have increased in score. This means that all aspects of prosperity have increased over the last five years. Over this period, one of the biggest drops was seen in the Economy sub-index following the start of the financial crisis in 2008. This, however, has rebounded since then and is now showing modest but steady growth, on average.

All of the Sub-Index Analysis is available on our website —**www.prosperity.com**—where you can also access all of our data including our rankings and key findings. You can also explore the data for all of our 142 countries to generate your own charts and graphs.

ECONOMY

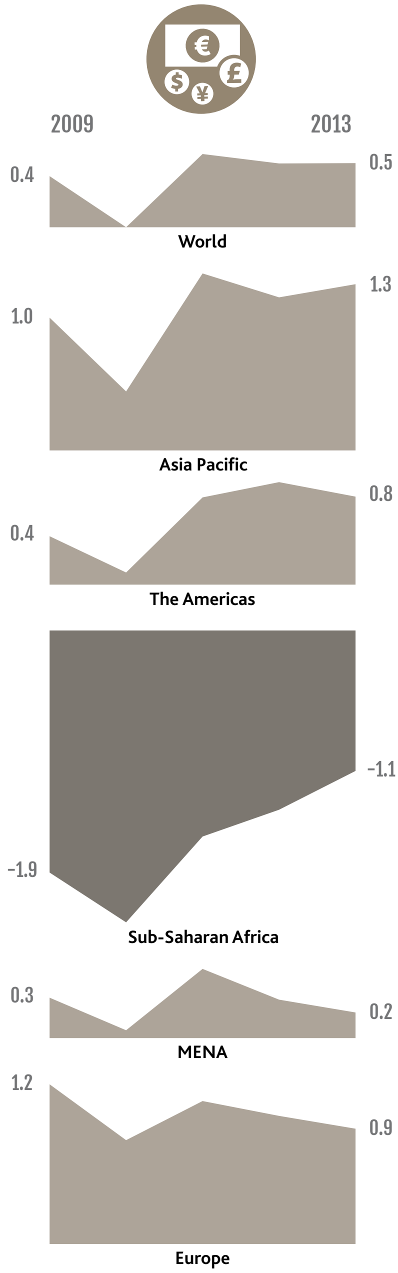
The Economy sub-index measures countries' performance in four key areas: macroeconomic policies, economic satisfaction and expectations, foundations for growth, and financial sector efficiency. Many countries have struggled in these areas during a difficult period for the global economy. However, nearly all regions now register a higher score on the Economy sub-index than they did in 2009, thus recovering from the sharp drop in 2010, when the effects of the global financial crisis were most keenly felt.

The only exceptions to this are Europe and the MENA region, neither of which has fully regained the ground lost in 2010. Although the poor performance of both regions is down to a range of factors, each has witnessed significant upheaval since 2009. In Europe, the political and economic uncertainty about the future of the Eurozone and the insolvency of some of its states, such as Greece, Portugal and Ireland, continues to have an effect. In MENA, the repercussions of the Arab Spring are preventing some countries from creating favourable conditions for economic growth.

While most regions have improved economically since 2009, some have done so quicker than others. Sub-Saharan Africa has grown the fastest, followed by the Americas and the Asia-Pacific region. Although it may not be surprising that the most economically underdeveloped region is growing the quickest—since it has more clear opportunities for growth—it is encouraging to observe that sub-Saharan Africa, despite having a long way to go, is catching up.

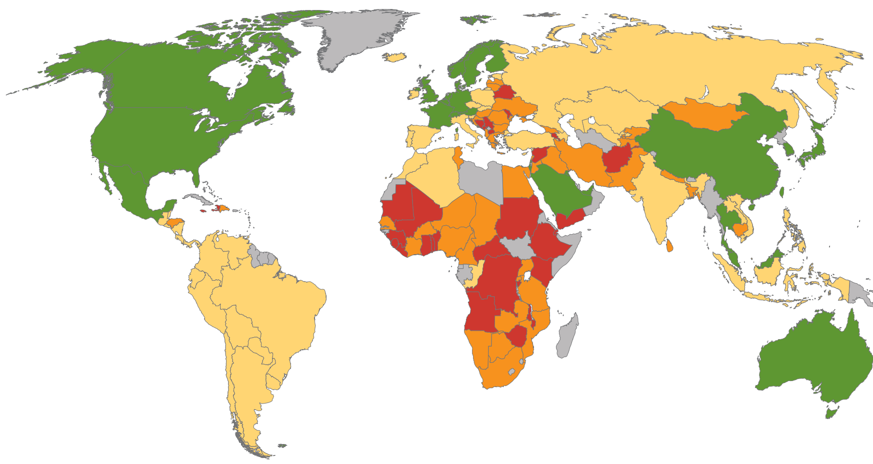
Sub-Saharan Africa's success has been based on an improvement in economic fundamentals rather than subjective measures. Looking at those countries for which we have five years of data, sub-Saharan Africa has increased high-tech exports by 5%, gross domestic savings by 2% and capital per worker by $2,066, since 2009. Furthermore, it has reduced inflation by 5% and unemployment by 10%. The region's growth in these areas, except for the increase in capital per worker, was better than the global average.

In a marked contrast to sub-Saharan Africa, Europe has declined on a range of economic measures. Unemployment is up by 3% to 10%, above the global average, and non-performing loans increased by 5.3% to 9%, well above the global average of 5%. European citizens are not optimistic about the continent's economic potential. Only 19% feel that now is a good time to enter the job market, compared with 33% of people globally, and only 42% have confidence in financial institutions, below the global average of 59%.



HIGH RANKING COUNTRIES (30) UPPER MIDDLE RANKING COUNTRIES (41) LOWER MIDDLE RANKING COUNTRIES (41) LOW RANKING COUNTRIES (30)

Norway	1
Switzerland	2
Singapore	3
Canada	4
Japan	5
Sweden	6
China	7
Malaysia	8
Germany	9
Australia	10



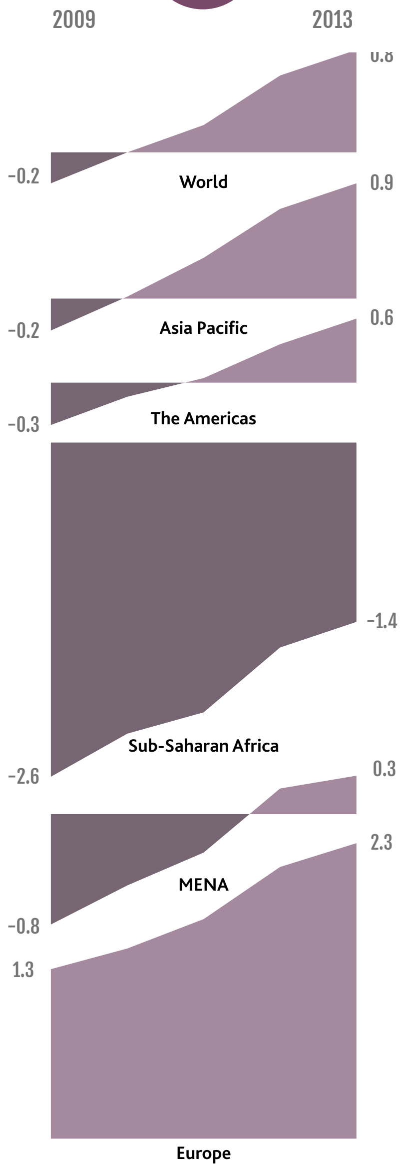
Kenya	133
Malawi	134
Afghanistan	135
Mauritania	136
Sierra Leone	137
Guinea	138
Togo	139
Burundi	140
Liberia	141
Haiti	142

ENTREPRENEURSHIP & OPPORTUNITY

The Entrepreneurship & Opportunity sub-index measures a country's entrepreneurial environment, its promotion of innovative activity and the evenness of opportunity. The global average for the E&O sub-index is the highest among the eight in the 2013 Legatum Prosperity Index. Since 2009, all countries, except for the Central African Republic, have improved their performance on the E&O sub-index.

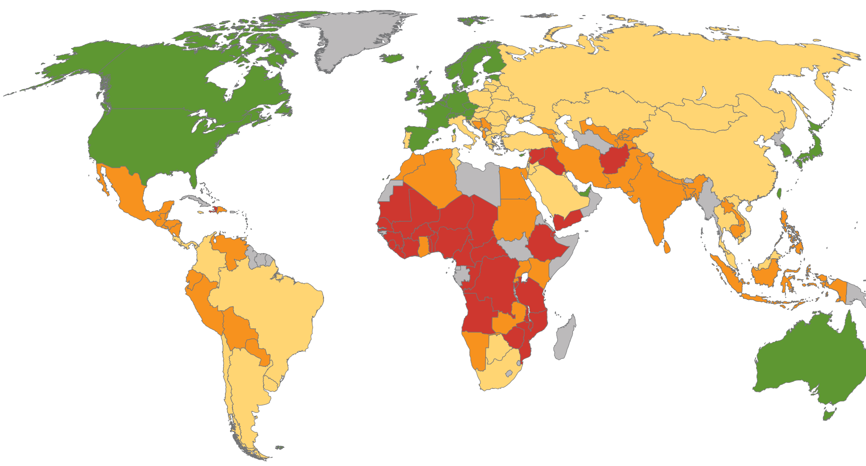
The E&O sub-index is the most correlated with overall prosperity. There is a stronger relationship between E&O and overall Prosperity than between Social Capital and Prosperity. This indicates that having a high E&O score is more important for determining a country's level of prosperity than performing well on the Social Capital sub-index. The correlation coefficient for E&O and prosperity is 0.96 compared with 0.78 for Social Capital and prosperity.

Technology, specifically the number of secure internet servers in a country, has a particularly important relationship with overall prosperity. Testing the Index's 89 variables reveals that the number of secure internet servers per 1 million people has the strongest relationship with prosperity, with a correlation coefficient of 0.92. By contrast, life expectancy (a variable in the Health sub-index) has a weaker relationship with prosperity, with a correlation coefficient of 0.83. Across all countries the number of secure internet servers per 1 million people increased by 198 between 2010 and 2013, an increase of 119%. This growth had an important effect on entrepreneurship and prosperity across the globe.



HIGH RANKING COUNTRIES (30) UPPER MIDDLE RANKING COUNTRIES (41) LOWER MIDDLE RANKING COUNTRIES (41) LOW RANKING COUNTRIES (30)

Sweden	1
Denmark	2
Finland	3
Switzerland	4
Luxembourg	5
Norway	6
Iceland	7
Netherlands	8
United Kingdom	9
Hong Kong	10



Sierra Leone	133
Djibouti	134
Ethiopia	135
Burundi	136
Guinea	137
Haiti	138
Niger	139
Chad	140
Congo (DR)	141
Central Afr. Rep.	142

GOVERNANCE

The Governance sub-index measures countries' performance in three areas: effective and accountable government, fair elections and political participation, and rule of law. The Governance sub-index has shown a consistent upwards trend since 2010, with a notable surge from 2011 to 2012.

It is encouraging to see the Governance sub-index rising, especially in regions that have historically faced many challenges—such as sub-Saharan Africa and the Asia Pacific region.

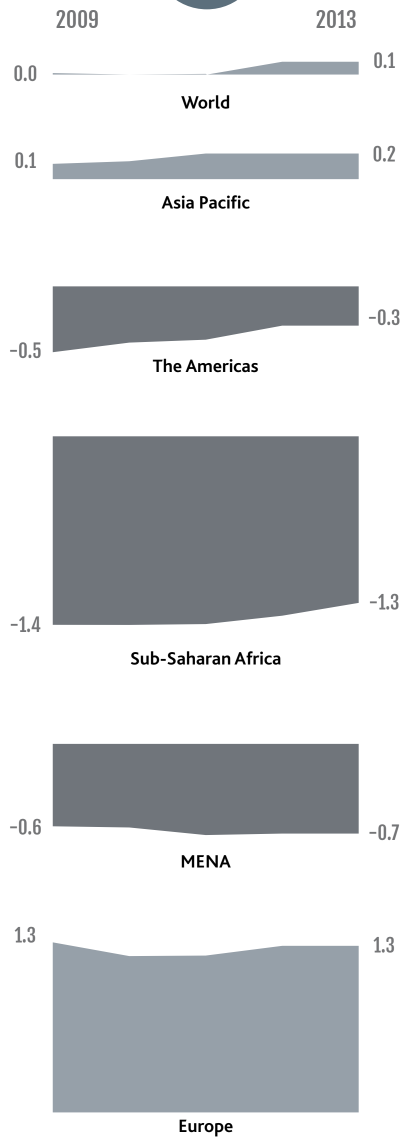
Looking at the performance of different regions we see that sub-Saharan Africa is the region with the lowest Governance sub-index score, while Europe has the highest. However, sub-Saharan Africa's score has increased over the last five years, while Europe's has decreased, marginally.

This relative improvement in sub-Saharan Africa has been partly driven by improvements in countries previously performing very poorly, such as Zimbabwe and Rwanda, which were the second and fourth biggest improvers in the world on Governance in the last five years. In Zimbabwe's case, its improvement over five years has been driven by increases in government effectiveness, rule of law, regulation quality, and reported confidence in government and elections. Despite these improvements, political institutions are still under-developed, leading Zimbabwe to rank low (110th) on the Governance sub-index.

Furthermore, perceptions of corruption, which has been a key problem in sub-Saharan African countries, have dropped throughout the region since 2009—unlike Europe, where increasing levels of perceived corruption are a contributing factor to the region's decline in Governance.

The MENA region has witnessed the biggest decline in the Governance sub-index since 2009, which is unsurprising given the recent political upheaval in the region. Government effectiveness, rule of law, regulation quality, and citizens' confidence in the judicial system have dropped over the last five years, reflecting the discontent seen within Arab Spring countries—although reported confidence in the military has increased. Contributing to this decline in the region is Tunisia, which registers the biggest drop, globally, in the Governance sub-index.

The Americas have had the biggest improvement in Governance out of all the regions, with Trinidad and Tobago leading the region in the sub-index.



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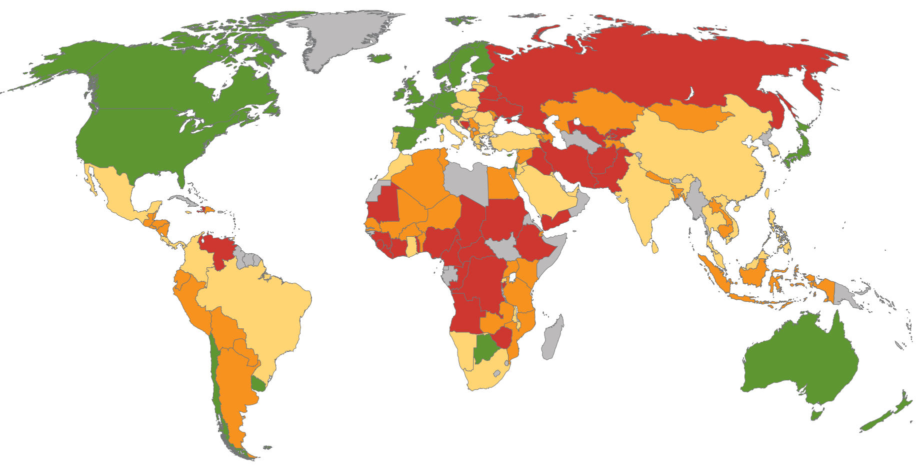
United Kingdom	9
Netherlands	10



Angola	133
Sudan	134
Côte d'Ivoire	135
Guinea	136
Iraq	137
Congo (DR)	138
Chad	139
Haiti	140
Zimbabwe	141
Afghanistan	142

EDUCATION

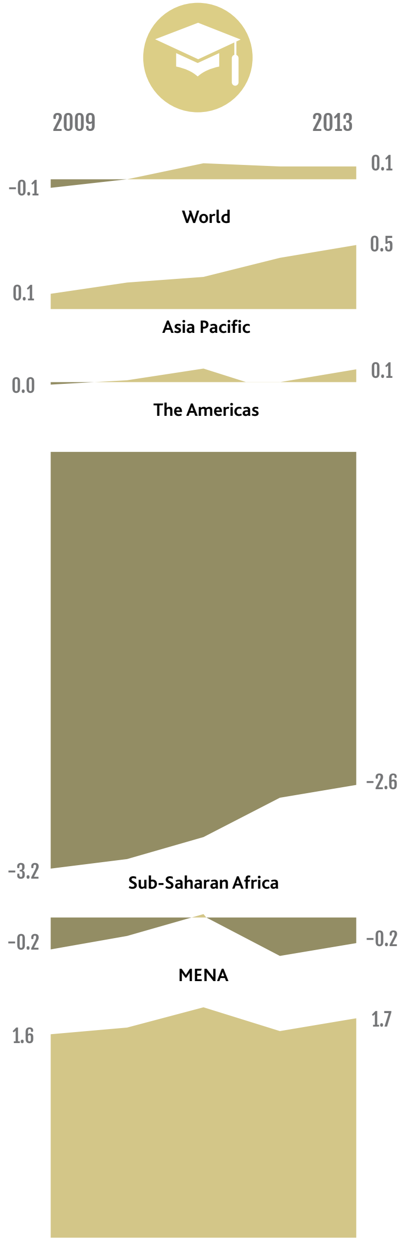
The Education sub-index measures countries' performance in three areas: access to education, quality of education and human capital. The Education sub-index has risen since 2009, with a slight drop in 2012. Europe and sub-Saharan Africa recorded the highest and lowest performances, respectively, in the Education sub-index over the last five years, with the other regions scoring very close to the global average throughout the last five years.

All regions have improved their average Education score since 2009, with sub-Saharan Africa showing the biggest improvement, followed by the Asia-Pacific region. Zimbabwe and Ethiopia improved the most (albeit from very low starting points), while Bangladesh has also performed strongly since 2009.

Driving the global increase in the Education sub-index is a rise in net primary, gross secondary, and gross tertiary enrolment rates, along with an increase in years of secondary education per worker. All regions saw an improvement in these variables. This is encouraging because an improvement in enrolment rates combined with an increase in secondary education per worker helps create an increasingly capable workforce, laying the foundations for further economic development and prosperity.

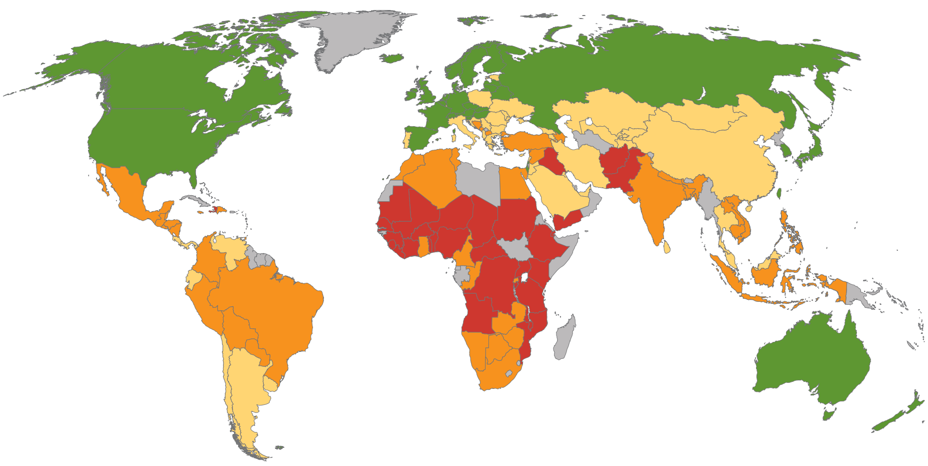
Less positively, tertiary education per worker has declined in every region since 2009. A drop in tertiary education per worker indicates that rising gross tertiary enrolment rates may have not yet translated into an increase in skilled workers.

Tunisia registers the biggest decline in the Education sub-index since 2009, followed by Egypt. Denmark and Finland—which usually score very highly in the Education sub-index—recorded the third and fourth biggest decreases in 2013 compared to 2009. Both suffered declines in the ratio of girls to boys in education, and tertiary education per worker over the past five years.



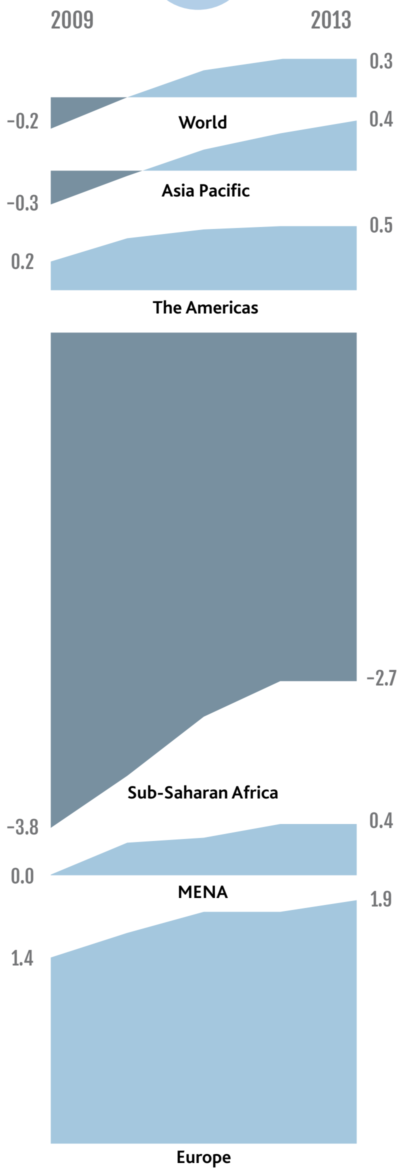
HIGH RANKING COUNTRIES (30) · UPPER MIDDLE RANKING COUNTRIES (41) · LOWER MIDDLE RANKING COUNTRIES (41) · LOW RANKING COUNTRIES (30)

New Zealand	1
Australia	2
Canada	3
Norway	4
United States	5
Finland	6
South Korea	7
Spain	8
Slovenia	9
Taiwan	10



Yemen	133
Guinea	134
Liberia	135
Sierra Leone	136
Afghanistan	137
Côte d'Ivoire	138
Niger	139
Mali	140
Chad	141
Central Afr. Rep.	142

HEALTH



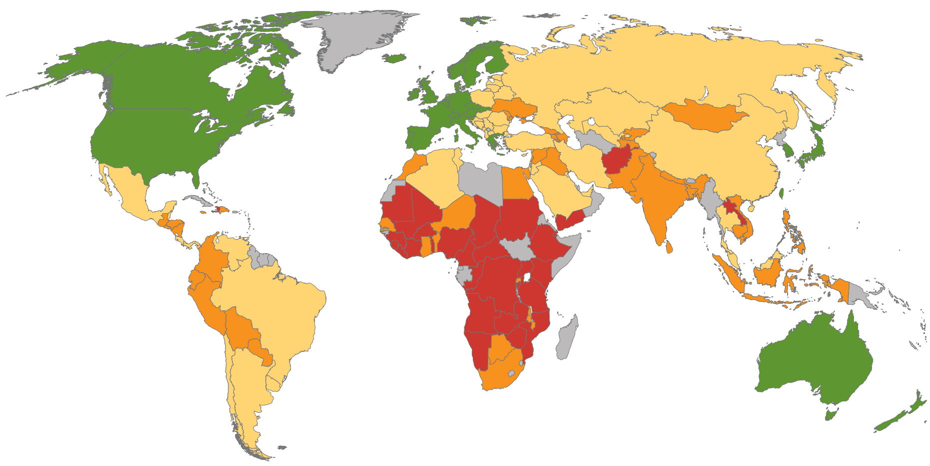
The Health sub-index measures countries' performance in three areas: basic health outcomes (both objective and subjective), health infrastructure, and preventative care. On average, the Health sub-index has risen every year since 2009. Only six countries: Syria, Ukraine, Guatemala, Sudan, Philippines, and Israel, have a lower Health score than they did five years ago, showing that nearly all countries in the Index have improved.

Of all the regions, sub-Saharan Africa has recorded the greatest improvement in Health (see graph p14). All countries in the region, except for Sudan, have improved their Health score in the past five years. Sudan's poor performance is partly the result of the incidences of respiratory disease (increasing by 27 people to 140 per 100,000) and undernourishment (increasing by 18 people to 39 per 100,000). Other countries in the region have performed well though, and six of the top 10 risers in the Health sub-index are sub-Saharan African countries.

Of the top 10 biggest risers in the sub-index, all have reduced their rates of infant mortality and increased health-adjusted life expectancy, while nine of them have reduced undernourishment. On average, infant mortality has declined by 24 children per 1,000 live births, the prevalence of undernourishment has fallen by 6% and health-adjusted life expectancy has increased by 4.2 years. In addition to this, the majority of the biggest risers have reduced incidences of tuberculosis and respiratory diseases, and increased measles and diphtheria vaccinations.

Data from the Prosperity Index reflect the fact that the healthcare challenges facing developed and developing countries differ. The top 10 risers in the Health sub-index, all developing countries, improved due to progress in basic health outcomes and increased provision of basic medical services, particularly vaccinations. By contrast, the five most improving high-income countries (including the Netherlands and Germany) did not see such large increases in vaccination rates or reductions in undernourishment and infant mortality. In some cases these countries saw no improvement because they already have near-perfect performance in these measures (100% vaccination rates or negligible instances of undernourishment). The five most-improving high income countries increased their healthcare expenditure (by an average of $1,257) and all saw increases in life expectancy and health-adjusted life expectancy (both by an average of two years).

HIGH RANKING COUNTRIES (30) UPPER MIDDLE RANKING COUNTRIES (41) LOWER MIDDLE RANKING COUNTRIES (41) LOW RANKING COUNTRIES (30)



Luxembourg	1	Côte d'Ivoire	133
United States	2	Zambia	134
Switzerland	3	Mozambique	135
Germany	4	Haiti	136
Norway	5	Liberia	137
Japan	6	Burundi	138
Netherlands	7	Congo (DR)	139
France	8	Central Afr. Rep.	140
Austria	9	Sierra Leone	141
Belgium	10	Chad	142

SAFETY & SECURITY

The Safety & Security sub-index measures countries' performance in two respects: national security and personal safety. The Safety & Security sub-index has increased since its abrupt drop in 2010. Since this decrease, the sub-index score has risen in the three subsequent years, with the biggest increase this year.

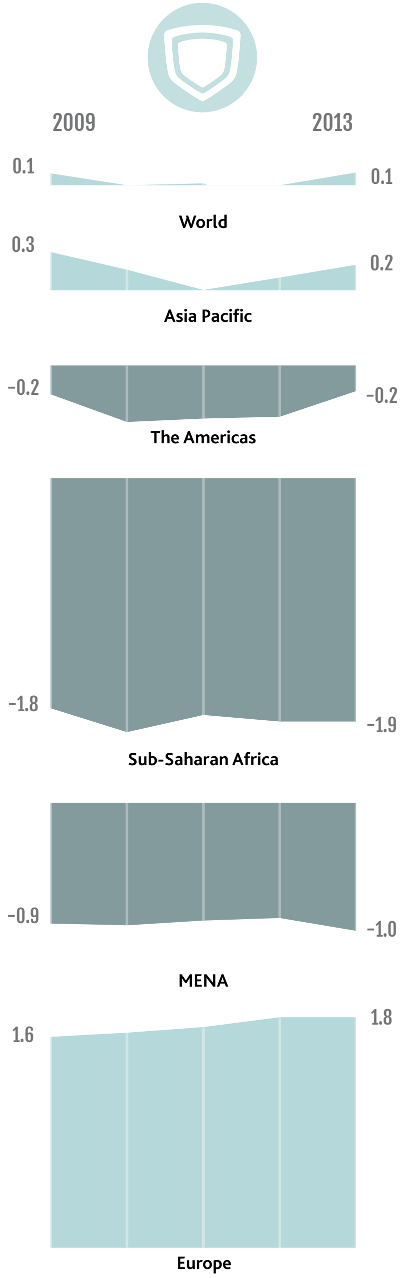
Hong Kong ranks first in Safety & Security and shows the biggest increase over the last five years, making it the safest country in the world—less than 1% of Hong Kong citizens reported being assaulted, when surveyed last year.

The region that has shown the biggest increase in Safety & Security is Europe, which has had the highest sub-index score every year since 2009. A large drop in demographic instability has driven the improvement. On the other hand, the only countries that have declined in Safety & Security in Europe in the past five years are all Western European nations: Norway, Greece, Finland, Italy, Portugal, Denmark, and Ireland, which are less commonly linked to Safety & Security issues than other European countries.

Regional variations in the sub-index depict the safety and security challenges that many regions still face—especially the MENA and sub-Saharan regions. This is important given that safety and security issues affect countries' stability and potential for development.

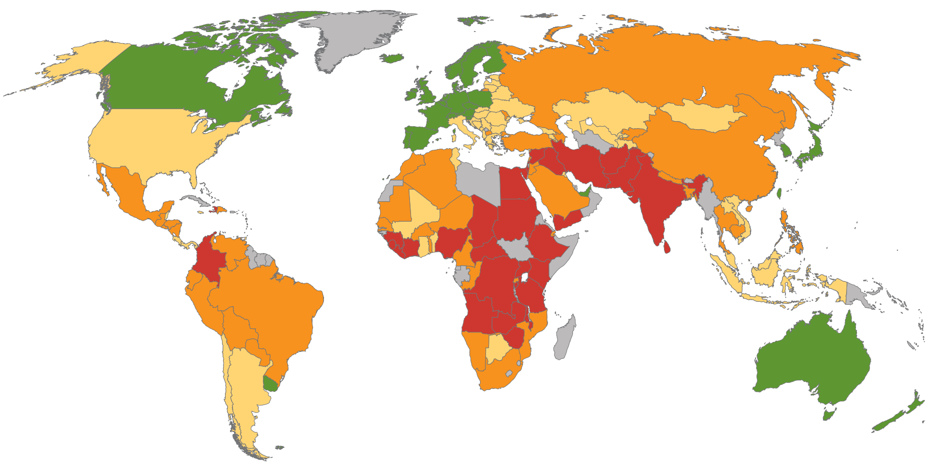
Sub-Saharan Africa registers the lowest score and also the biggest decline on the sub-index since 2009—with the Central African Republic, Mozambique, Zambia, and Senegal recording the largest decreases. The region is held back by the highest increases in state-sponsored violence and in refugees and internally displaced persons—all widespread problems in the sub-Saharan region.

The Asia-Pacific region registers the second biggest decline since 2009 with Pakistan, India, and Nepal recording the largest decreases. Behind this decline in the region is an increase in state-sponsored violence, refugees and internally displaced people, and group grievances.



HIGH RANKING COUNTRIES (30) UPPER MIDDLE RANKING COUNTRIES (41) LOWER MIDDLE RANKING COUNTRIES (41) LOW RANKING COUNTRIES (30)

Hong Kong	1
Iceland	2
Sweden	3
Finland	4
Ireland	5
Norway	6
Canada	7
Denmark	8
Taiwan	9
Luxembourg	10



Zimbabwe	133
Uganda	134
Nigeria	135
Central Afr. Rep.	136
Syria	137
Sudan	138
Afghanistan	139
Pakistan	140
Chad	141
Congo (DR)	142

PERSONAL FREEDOM

The Personal Freedom sub-index measures the performance and progress of nations in guaranteeing individual freedom and encouraging social tolerance. Over the last five years, levels of personal freedom around the world have fluctuated. For instance, between 2011 and 2012, the average Personal Freedom sub-index score rose only to drop between 2012 and 2013.

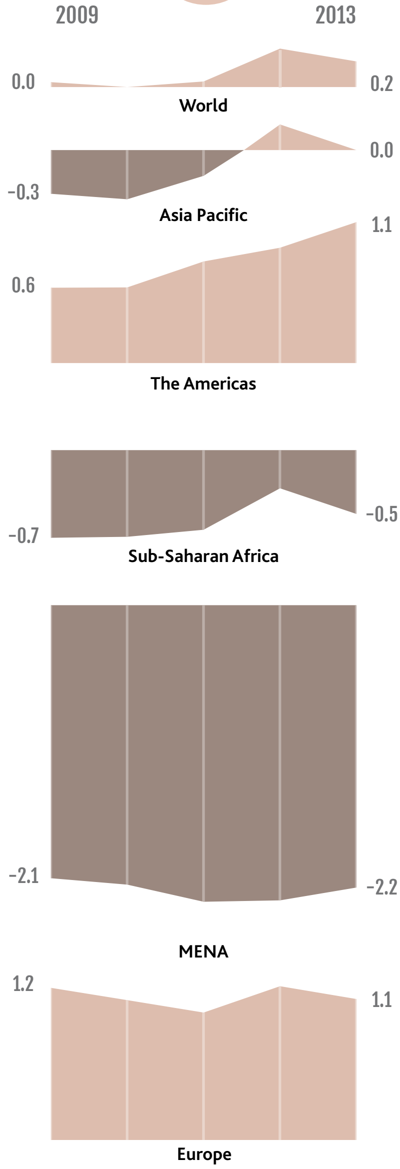
These fluctuations are the result of changes in citizens' perceptions of their freedom of choice and the guarantee of civil liberties. The perception of freedom of choice hit a global high in 2012 when the average percentage of citizens who were satisfied with their freedom of choice stood at 75.8%.

Countries that stand out as having the largest drops in perceived freedom of choice include Syria (currently embroiled in civil war), which saw a drop from 69% in 2010 to 47% in 2013, the largest in the world. Tunisia (undergoing a precarious transition towards democracy) has also seen a drop—by 10.8% to 56.7%—less dramatic, but still significant.

Another important variable within the Personal Freedom sub-index measures the change in the guarantee of civil liberties—freedom of expression, belief, and association, rule of law, and personal autonomy within a nation.

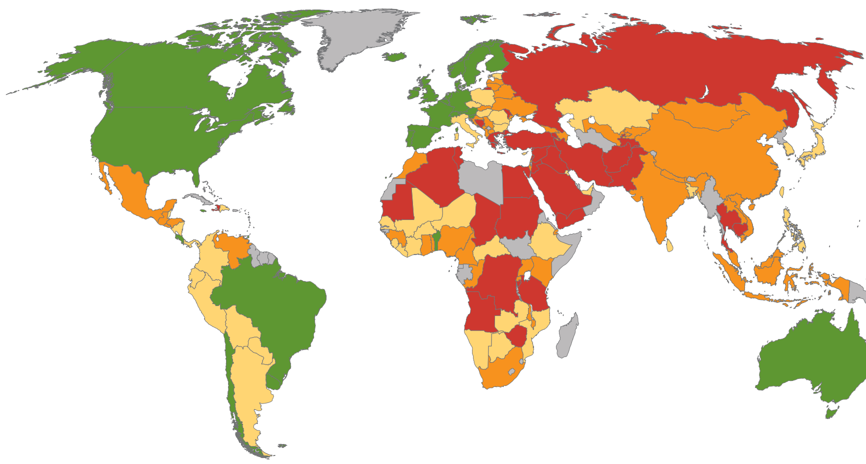
For most of the countries in the Index, the guarantee of civil liberties has not changed dramatically over the years. For instance, France, Germany, and the UK are given a value of seven (indicating a full guarantee of civil liberties) which has not changed since the Index was first compiled. However, for a select few countries, sudden or radical changes in political or societal institutions have shifted their respective policy attitudes towards civil liberties. Tunisia, for example, saw an increase in civil liberties as political association has been promoted in the post-revolutionary era.

The last two years of Prosperity Index data show that personal freedom is, momentarily, in decline. However, as recent global transitions gain momentum, we can remain hopeful that they will shift the balance back towards freedom.



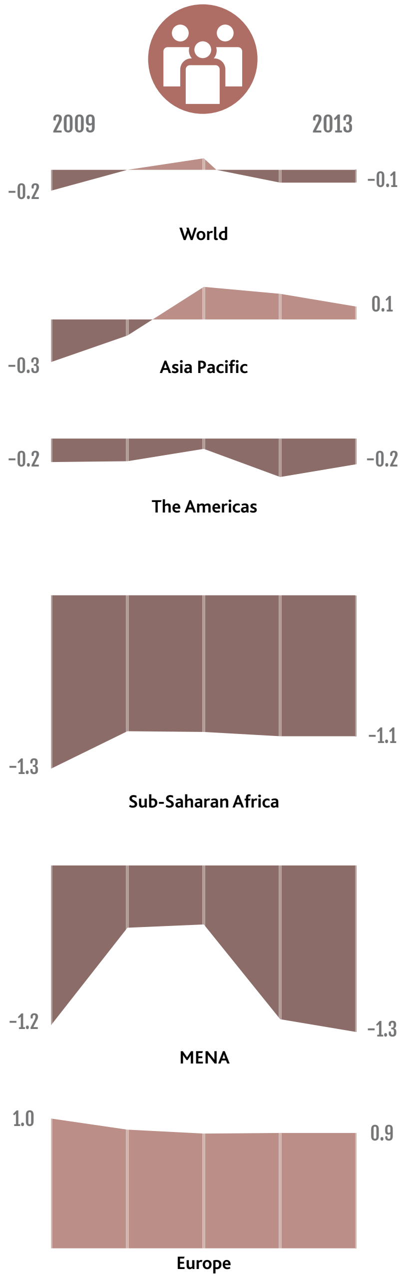
HIGH RANKING COUNTRIES (30) UPPER MIDDLE RANKING COUNTRIES (41) LOWER MIDDLE RANKING COUNTRIES (41) LOW RANKING COUNTRIES (30)

Canada	1
Norway	2
Australia	3
Sweden	4
New Zealand	5
Iceland	6
Luxembourg	7
Ireland	8
Denmark	9
Uruguay	10



Syria	133
Greece	134
Pakistan	135
Jordan	136
Angola	137
Haiti	138
Sudan	139
Yemen	140
Iraq	141
Egypt	142

SOCIAL CAPITAL



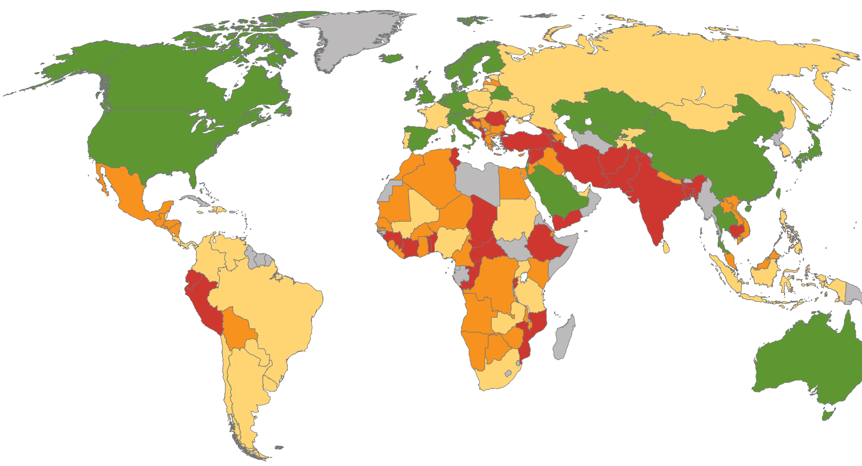
The Social Capital sub-index, which measures countries' performance in two areas—social cohesion and engagement, and community and family networks—has not changed meaningfully in the last five years (up 0.07 in score). Although the Social Capital sub-index looks to be stagnating globally, individual regions exhibit different trends. This may reflect the fact that the determinants of social capital are different for each region and country around the world.

Since 2009, certain regions have seen significant changes in their Social Capital sub-index scores. For instance, Asia saw a substantial increase over the last five years (see right). This significant change is the result of Asian citizens being, on average, 7% more likely to help a stranger than five years ago. Sub-Saharan Africa saw the second largest increase in Social Capital since 2009, largely as a result of an increase in the number of people reporting that they could rely on others during hard times.

The most significant drops in the Social Capital sub-index came in Australasia, due to falls in volunteerism (the two countries registered an average decline of 2.6% since 2010), donation levels (down, on average, by nearly 2%), and marriage rates (down, on average, by 2.34%). Despite these decreases, Australia and New Zealand have some of the highest levels of social capital in the world (ranked fourth and second in the sub-index). Europe saw the second largest drop in Social Capital, primarily because of declines in marriage rates (down nearly 2% to 52%, since 2010) and charitable donation rates (down 2.3%, to 34% since 2010). This could be, in part, the result of the ongoing economic crisis. The Middle East and North Africa region also saw a decline as a result of a decrease in donation rates and the ability to rely on others during hard times. The fall in reliance on others may partly reflect the increased polarisation within some of the countries that are seeing sectarian/political schisms. For instance, in Tunisia this year only 61% of people reported that they could rely on others during hard times, down from 88% in 2010.

However, at the variable level some promising global trends are emerging—the willingness to help a stranger has increased, on average, by 3% in every region over the past five years. Beyond this, other variables have not changed dramatically, mainly because the improvements and declines between countries have cancelled each other out. This provides further evidence that social capital varies by country, and rises or falls in social capital manifest themselves in different ways for different states.

HIGH RANKING COUNTRIES (30) UPPER MIDDLE RANKING COUNTRIES (41) LOWER MIDDLE RANKING COUNTRIES (41) LOW RANKING COUNTRIES (30)



Norway	1	India	133
New Zealand	2	Congo (Rep.)	134
Denmark	3	Cambodia	135
Australia	4	Côte d'Ivoire	136
Netherlands	5	Tunisia	137
Canada	6	Georgia	138
Finland	7	Burundi	139
Switzerland	8	Benin	140
United States	9	Central Afr. Rep.	141
Sweden	10	Togo	142

E&O
Entrepreneurship & Opportunity

Business Start-up Costs	Secure Internet Servers
Secure Internet Servers	Mobile Phones per Household
R&D Expenditure	Working hard gets you ahead
Internet Bandwidth	Environment for Entrepreneurship
Uneven Economic Development	Business Start-up Costs
Mobile Phones	
Royalty Receipts	
ICT Exports	

GOVERNANCE

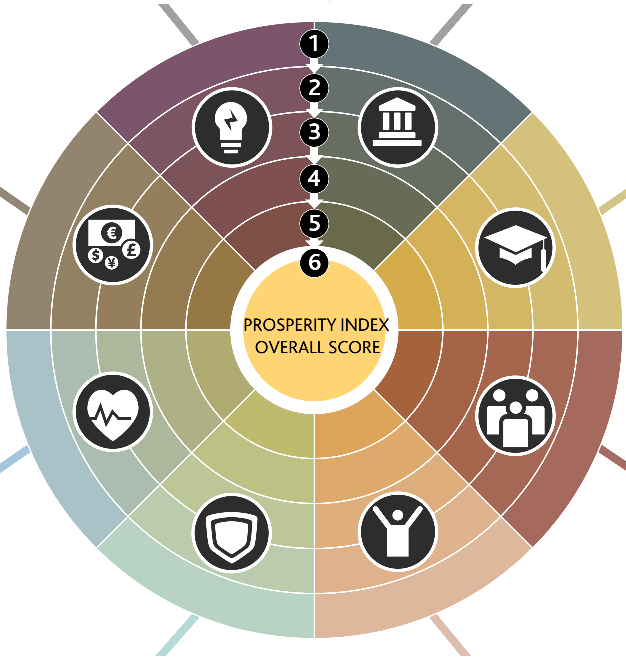
Government Stability	Efforts to Address Poverty
Government Effectiveness	Confidence in the Judicial System
Rule of Law	Business and Government Corruption
Regulation	Government Effectiveness
Separation of Powers	Rule of Law
Political Rights	Regulation
Government Type	Environmental Preservation
Political Constraints	Separation of Powers
	Government Approval
	Voiced Concern
	Confidence in Military
	Confidence in Honesty of Elections

ECONOMY

Capital per Worker	Satisfaction with Living Standard
Market Size	Inflation
High-tech Exports	Adequate Food and Shelter
Gross Domestic Savings	Perceived Job Availability
Unemployment	Gross Domestic Savings
Non-performing Loans	Expectations of the Economy
Inflation	Employed
FDI Size & Volatility	Confidence in Financial Institutions
	5-year Rate of Growth

EDUCATION

Gross Secondary Enrolment	Satisfaction with Educational Quality
Pupils-to-Teacher Ratio	Perception that Children are Learning in Society
Net Primary Enrolment	Gross Secondary Enrolment
Girls-to-Boys Enrolment	Gross Tertiary Enrolment
Gross Tertiary Enrolment	Tertiary Education per Worker
Secondary Education per Worker	Net Primary Enrolment
Tertiary Education per Worker	Girls-to-Boys Enrolment
	Secondary Education per Worker



INCOME | WELLBEING

Variables listed in darker columns have an effect on income. Those in the lighter column affect wellbeing. Some variables appear in both columns because they have an impact on both income and wellbeing.

HEALTH

Infant Mortality Rate	Satisfaction with Health
Life Expectancy	Level of Worrying
Immunisation Against Infectious Diseases	Satisfaction with Environmental Beauty
Incidence of TB	Hospital Beds
Undernourishment	Health Expenditure per Person
Measles Immunisation Rate	Water Quality
Health Expenditure per Person	Infant Mortality Rate
	Health-adjusted Life Expectancy (HALE)
	Sanitation
	Death from Respiratory Diseases
	Undernourishment
	Well-rested
	Health Problems

SAFETY & SECURITY

Group Grievances	Safe Walking Alone at Night
Refugees and Internally Displaced Persons	Express Political Opinion without Fear
State Sponsored Political Violence	Group Grievances
Theft	State Sponsored Political Violence
Assault	Demographic Instability
Safe Walking Alone at Night	Refugees and Internally Displaced Persons
	Human Flight
	Assault
	Civil War

PERSONAL FREEDOM

Tolerance for Immigrants	Satisfaction with Freedom of Choice
Tolerance for Minorities	Tolerance for Immigrants
Civil Liberty & Free Choice	Civil Liberties
	Tolerance for Minorities

SOCIAL CAPITAL

Reliability of Others	Reliability of Others
Volunteering	Trust Others
Helping Strangers	Marriage
Donations	Donations
	Volunteering
	Helping Strangers
	Religious Attendance

The diagram above shows the eight sub-indices that form the basis of national prosperity and the 89 individual variables, divided between the sub-indices. The variables determine a country's score for each sub-index and these determine its overall score for the Prosperity Index.

Each variable makes a different contribution to its sub-index score. The variables are weighted by the size of their effect on either wealth or wellbeing. For instance, in the Health sub-index, infant mortality has a greater effect on the score than health expenditure per person.

Although variables are weighted differently, the Prosperity Index applies equal weights to each sub-index for all countries. We offer you, the reader, the opportunity to assign your own weightings to each of the sub-indices. This can be done on our website.

For more information on weightings please refer to the Technical Appendix published on www.prosperity.com.

METHODOLOGY:

How We Build the Index

The 2013 Legatum Prosperity Index™ offers a unique insight into how prosperity is forming and changing across the world.

Traditionally, a nation's prosperity has been based solely on macroeconomic indicators such as a country's income, represented either by GDP or by average income per person (GDP per capita). However, most people would agree that prosperity is more than just the accumulation of material wealth, it is also the joy of everyday life and the prospect of being able to build an even better life in the future. The Prosperity Index is distinctive in that it is the only global measurement of prosperity based on both income and wellbeing.

Attempting to understand how we move 'beyond' GDP is a particularly stimulating challenge, one that we strive to meet with academic and analytical rigour. This short methodological overview provides an understanding of how we constructed the 2013 Legatum Prosperity Index™ by combining established theoretical and empirical research on the determinants of wealth and wellbeing.

The Index values the need for a country to promote high levels of per capita income, but also advocates the need for countries to improve the subjective wellbeing of its citizens. Our econometric analysis has identified 89 variables, which are spread across eight sub-indices. Through this process we are able to identify and analyse the specific factors that contribute to the prosperity of a country.

We endeavour to create an Index that is methodologically sound. To that end, we also publish a full methodology document to provide the reader with all the information required to understand the Legatum Prosperity Index™ in a way that is transparent, useful, and informative.

HOW DO WE MEASURE A COUNTRY'S OVERALL PROSPERITY?

1. **Selecting the variables.** Starting with the current academic literature on economic growth and wellbeing, we identified a large number of variables (more than 200 in total) that have a proven impact upon wealth and wellbeing. The final variables were selected according to their global coverage and by using regression analysis to determine those that have a statistically significant relationship with wealth and wellbeing. The remaining 89 variables are divided into eight sub-indices depending on what aspect of prosperity the data influence.

2. **Standardisation.** The 89 variables use many different units of measurement. For example, the proportion of citizens that express confidence in financial institutions is measured in percentage terms, while capital per worker is measured in US Dollars. We transformed all variables to a common scale using a statistical technique called standardisation. A variable is standardised by subtracting the mean and dividing by the standard deviation.

3. **Variable weights.** When the methodology was set in 2010, we also determined the weight of each variable, using regression analysis. A variable's weight (or 'coefficient') represents its relative importance to the outcome (either income or wellbeing). In other words, statistically speaking, some things matter more to prosperity than others.

HOW TO CALCULATE PI SCORES AND RANKINGS

4. **Income and Wellbeing scores.** For each country, the latest data available in 2013 were gathered for the 89 variables. The raw values are standardised and multiplied by the weights. The weighted variable values are then summed to produce a country's wellbeing and income score in each sub-index. The income and wellbeing scores are then standardised so that they can be compared.

5. **Sub-index scores.** The standardised income and wellbeing scores are added together to create the countries' sub-index scores. Countries are ranked according to their scores in each of the eight sub-indices.

6. **Prosperity Index score.** Finally, the Prosperity Index score is determined by assigning equal weights to all eight sub-indices. The average of the eight sub-indices yields a country's overall Prosperity score. The overall Prosperity Index rankings are based on this score.

ANOMALIES

SOME PROSPERITY INDEX RANKINGS MAY APPEAR TO THE READER AS PUZZLING. IN SOME CASES THESE COULD BE THE RESULT OF ISSUES THAT LIE WITHIN THE DATA.

1. **Data Lag**

   The Prosperity Index uses the most recent available data points, but because it relies on large global data sets the data are not always up to date. The 2013 Index may not, therefore, reflect all recent events.

2. **Autocratic Countries**

   Subjective data on perceptions can produce counterintuitive results for autocratic regimes as citizens may be afraid of providing an honest opinion, particularly concerning the government.

3. **Actual Changes vs. Perceived Changes**

   Taking steps to tackle a problem can negatively affect citizens' perceptions of it—even if actual conditions are improving. Interventions can give an issue higher visibility, leading to heightened public concern.

4. **Weighting Sub-indices**

   It might be argued that some sub-indices have a larger effect on prosperity than others, particularly in developing countries compared to developed countries. For instance, addressing health issues could be more important for developing countries than increasing social capital. For objectivity, and global comparability however, the same weights have been applied to all sub-indices across all countries.

5. **Treatment of Occupied/Disputed Territories**

   The status of disputed territories, such as the Palestinian territories or Kashmir, is treated non-uniformly by several of our data sources. For instance, a number of our data sources fail to include these territories within their data sets, while others, such as the Failed States Index (from whom we receive data on human flight), include them.

6. **Inputs vs. Outputs**

   In some instances the Prosperity Index utilises variables that measure inputs rather than outputs as they are the best available proxy for the phenomena under consideration. Anomalies arise when the efficiency with which inputs are transformed into outputs varies across countries.

7. **Under-representation of the Population**

   For some countries, such as Saudi Arabia or the United Arab Emirates, subjective data collected by Gallup might not be representative of the entire population. Countries facing this problem are listed in our separate methodology document available online.

The Legatum Institute adopts an open and transparent approach to the methodology of our Prosperity Index. We do not apply weightings to sub-indices nor do we adjust the rankings or amend the data. With this in mind, we strongly encourage analysis and scrutiny of the data as this can help the interpretation of rankings. To this purpose, all datapoints used in the construction of the Index are freely available on our website **www.prosperity.com.**

Prosperity **ILLUSTRATED**

YOU MAY HAVE NOTICED SEVERAL 'ORIGINAL ILLUSTRATIONS' CREDITED WITHIN THIS BROCHURE. THESE WERE SELECTED FROM SHORTLISTED ENTRIES IN OUR FIRST **PROSPERITY ILLUSTRATED** COMPETITION, A CHALLENGE FOR ILLUSTRATORS TO VISUALISE THEIR TAKE ON WHAT IT MEANS TO BE GENUINELY PROSPEROUS.

1ST PLACE:
GIULIA FILIPPI (ITALY)

"The key to prosperity lies in fundamental human values like love, respect, imagination, and brotherhood".

2ND PLACE:
ZITA KATONA (UK)

"Prosperity is growth".

3RD PLACE:
MIGUEL MONTANER (SPAIN)

"True prosperity is climbing higher than you think you can, to improve yourself, and to reach beyond".

A truly global competition, entries were received from every continent. The three winning entries appear above.

To see the full gallery of shortlisted art work, please visit our website at **http://www.li.com/prosperity-illustrated**

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Carol Graham, Brookings Institution

Edmund Malesky, University of California, San Diego

Ann Owen, Hamilton College

Designed by Kay Webb

Additional Data Visualisation by Jack Hagley

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Unless otherwise stated, all data is from the 2013 Legatum Prosperity Index™. All original data sources can be found in the Prosperity Index methodology report and online at **www.prosperity.com**.

In this report the term "country" is used to refer to the 142 societies that are included in the Prosperity Index. There are 140 states and two territories—Hong Kong and Taiwan—in the Index.

We encourage you to share the contents of this document. In so doing, we request that all data, findings, and analysis be attributed to the 2013 Legatum Prosperity Index™.

Twitter: #prosperity @LegatumInst

BUILDING A MORE PROSPEROUS WORLD THROUGH LIBERTY AND RESPONSIBILITY

The Legatum Institute is an independent non-partisan public policy organisation whose research, publications, and programmes advance ideas and policies in support of free and prosperous societies around the world.

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