LEGATUM INSTITUTE

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A UNIQUE GLOBAL INQUIRY INTO WEALTH AND WELLBEING

The 2012 Legatum Prosperity Index™

■ GLOBAL TRANSITIONS ■ PROSPERITY STUDIES

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THE 2012 LEGATUM PROSPERITY INDEX™ RANKINGS

The eight sub-indices are equally weighted to produce the overall rankings. On our website (**www.prosperity.com**), we give you the opportunity to assign your own weightings to the sub-indices and see how the rankings change accordingly. For a discussion of how the Index data and methodology might affect certain individual rankings please see pages 46–47.

THE 2012 LEGATUM PROSPERITY INDEX™ RANKINGS

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
1	Norway	2	4	13	6	4	2	6	1
2	Denmark	19	1	3	16	16	8	7	2
3	Sweden	5	2	4	12	14	6	5	9
4	Australia	10	8	8	2	17	19	3	3
5	New Zealand	27	13	2	1	20	13	2	4
6	Canada	8	16	6	3	15	9	1	8
7	Finland	16	3	5	8	12	3	19	5
8	Netherlands	14	10	11	11	7	18	9	6
9	Switzerland	1	7	1	32	3	10	22	11
10	Ireland	25	14	14	14	11	4	4	7
11	Luxembourg	4	5	9	48	1	7	8	16
12	United States	20	12	10	5	2	27	14	10
13	United Kingdom	26	6	7	30	18	20	11	12
14	Germany	6	18	16	15	5	21	12	15
15	Iceland	61	9	20	13	13	1	10	13
16	Austria	13	17	12	24	10	15	21	14
17	Belgium	21	22	17	17	8	22	20	18
18	Hong Kong	9	15	23	39	30	5	23	25
19	Singapore	3	11	15	41	22	12	54	39
20	Taiwan	7	24	31	4	29	11	27	24
21	France	22	21	18	19	9	31	16	40
22	Japan	12	23	22	23	6	16	42	20
23	Spain	40	26	26	10	21	29	18	34
24	Slovenia	41	25	29	9	25	14	28	36
25	Malta	32	20	19	46	27	30	24	21
26	Portugal	51	28	36	34	28	17	13	67
27	South Korea	23	19	30	7	24	40	56	51
28	Czech Republic	30	29	33	22	26	24	45	45
29	United Arab Emirates	17	30	41	37	32	23	66	42
30	Cyprus	37	27	21	25	33	49	34	56
31	Uruguay	49	56	27	45	44	26	15	55
32	Poland	52	38	38	38	34	25	37	46
33	Italy	36	37	39	36	19	42	57	38
34	Chile	28	40	24	60	47	36	29	69
35	Estonia	60	32	25	31	39	39	74	30
36	Slovakia	56	35	42	26	31	33	40	47
37	Costa Rica	45	43	34	67	43	45	17	66
38	Kuwait	24	33	40	62	36	32	73	57
39	Hungary	68	45	37	20	38	28	68	79
40	Israel	29	31	28	33	35	115	118	22
41	Argentina	48	52	75	42	41	46	26	70
42	Panama	42	39	62	58	54	48	35	61
43	Lithuania	82	42	43	18	46	34	93	49
44	Brazil	33	47	56	79	57	87	25	64
45	Malaysia	15	44	35	40	45	62	111	100
46	Kazakhstan	54	59	95	43	60	53	43	37
47	Latvia	80	36	44	28	50	50	112	86
48	Bulgaria	93	41	72	51	49	41	59	85
49	Greece	85	51	48	35	23	38	121	97
50	Croatia	59	48	52	56	37	35	100	110
51	Trinidad and Tobago	78	54	57	82	59	58	36	76
52	Saudi Arabia	31	46	50	64	42	82	130	43
53	Vietnam	39	73	61	80	80	55	99	35
54	Belarus	90	63	123	21	40	52	102	26
55	China	11	66	65	50	67	101	128	29
56	Thailand	18	61	64	70	71	99	129	19
57	Montenegro	105	58	66	55	53	37	75	102
58	Sri Lanka	71	86	51	47	74	122	58	31
59	Mongolia	98	62	84	52	96	43	92	33
60	Romania	94	49	71	49	64	47	81	113
61	Mexico	34	69	69	78	52	116	78	63
62	Jamaica	116	57	68	86	65	70	64	48
63	Indonesia	43	85	80	84	95	68	80	27

64	Uzbekistan	67	98	116	65	72	66	70	17
65	Belize	64	72	74	96	63	72	65	50
66	Russia	62	50	118	27	48	97	119	71
67	Philippines	47	75	63	72	93	112	55	72
68	Paraguay	53	91	103	97	73	78	38	53
69	Colombia	46	60	58	81	79	136	61	62
70	Botswana	107	68	32	90	102	63	30	90
71	Ukraine	110	64	121	29	69	56	108	58
72	Peru	38	71	83	85	88	91	62	101
73	Morocco	35	78	78	110	76	84	103	23
74	South Africa	87	34	45	89	114	100	48	80
75	Macedonia	109	70	77	71	51	69	90	106
76	Ecuador	55	83	109	69	78	94	51	114
77	Jordan	100	65	59	53	62	75	133	92
78	Tunisia	69	53	67	75	68	73	123	122
79	Serbia	120	79	82	61	61	60	87	115
80	Venezuela	66	88	131	54	70	106	88	75
81	Dominican Republic	102	80	87	93	92	103	52	74
82	Laos	58	96	81	106	105	57	82	41
83	Namibia	86	92	47	99	101	81	41	99
84	Moldova	124	77	101	59	84	79	115	81
85	Lebanon	63	74	107	63	86	85	114	120
86	Tajikistan	113	107	112	68	94	54	98	65
87	Ghana	111	101	54	104	99	67	39	94
88	Kyrgyzstan	123	87	122	73	81	107	101	32
89	Turkey	74	55	46	91	58	93	127	133
90	El Salvador	75	90	70	98	82	90	83	119
91	Nicaragua	83	105	99	88	90	76	50	108
92	Albania	99	89	93	83	56	44	126	128
93	Georgia	132	76	53	66	83	59	79	140
94	Azerbaijan	89	67	113	87	89	80	117	88
95	Bolivia	44	102	104	76	103	102	71	103
96	Honduras	91	100	105	95	85	86	86	96
97	Guatemala	65	84	90	102	91	110	97	93
98	Armenia	129	81	97	44	98	61	122	124
99	Bosnia-Herzegovina	114	94	108	74	55	71	131	117
100	Algeria	50	93	106	77	75	104	137	109
101	India	57	99	49	100	104	114	67	138
102	Iran	70	95	126	57	66	125	125	121
103	Bangladesh	73	104	98	101	100	118	32	130
104	Mali	88	126	86	137	126	51	33	54
105	Malawi	106	129	60	115	110	92	72	60
106	Egypt	104	82	85	94	77	108	140	104
107	Cambodia	84	109	79	105	111	83	116	107
108	Nepal	97	115	110	107	97	96	104	111
109	Tanzania	81	118	89	120	122	109	96	59
110	Zambia	117	111	102	109	130	119	91	28
111	Rwanda	118	110	55	108	115	77	95	135
112	Burkina Faso	101	134	88	138	108	74	53	89
113	Syria	77	113	91	92	87	120	136	131
114	Niger	72	138	76	141	117	88	46	98
115	Cameroon	76	119	124	113	127	113	60	112
116	Kenya	122	97	111	114	119	130	77	77
117	Uganda	96	112	94	116	129	133	89	52
118	Senegal	108	117	100	119	124	89	47	129
119	Benin	119	128	73	122	118	64	31	141
120	Congo (Republic of)	79	122	134	111	113	105	76	134
121	Djibouti	131	130	96	136	121	65	106	84
122	Mauritania	127	116	133	128	120	95	109	78
123	Nigeria	121	106	125	123	116	131	84	91
124	Mozambique	126	108	92	129	137	111	69	116
125	Sudan	103	114	136	124	106	138	134	44
126	Côte d'Ivoire	95	127	138	135	123	127	49	136
127	Guinea	135	135	132	132	133	117	44	125
128	Sierra Leone	139	133	114	131	140	128	63	82
129	Angola	125	120	117	127	134	129	113	118
130	Liberia	141	132	128	117	135	126	94	68
131	Iraq	92	125	137	112	107	135	141	105
132	Pakistan	115	103	115	121	112	139	132	137
133	Ethiopia	128	131	119	134	125	134	138	95
134	Yemen	134	124	127	130	109	124	142	123
135	Zimbabwe	142	123	142	103	128	137	107	73
136	Togo	138	136	130	125	132	98	85	142
137	Burundi	137	140	120	126	136	123	120	139
138	Haiti	140	137	135	118	138	121	139	126
139	Chad	112	139	139	140	141	142	124	83
140	Afghanistan	130	121	141	139	131	140	135	127
141	Congo (DR)	136	142	140	133	142	141	110	87
142	Central African Republic	133	141	129	142	139	132	105	132

Prosperity extends beyond just material wealth. It includes factors such as social capital, effective governance, human rights and liberties, health, opportunity, security, and overall quality of life. The purpose of the Prosperity Index is to spark debate and to encourage policymakers, scholars, the media, and the interested public to take an holistic view of prosperity and to better understand how it is created.

A UNIQUE GLOBAL INQUIRY INTO WEALTH AND WELLBEING

The 2012 Legatum Prosperity Index™

FOREWORD

Dear Reader,

Recently, there has been a global shift in the understanding of how to measure national success. From former French President Nicolas Sarkozy's 2009 Commission, to the King of Bhutan's Index of Gross National Happiness, to David Cameron's initiative to measure wellbeing in the UK: the world is beginning to take a broader view of success. We welcome this shift in our understanding of why countries prosper.

We believe that the Legatum Institute is contributing to this debate. For the past six years the Legatum Prosperity Index™ has been exploring the foundations of national success by combining traditional measures of material wealth with subjective wellbeing. This holistic view of prosperity, that moves beyond GDP, allows us to paint a more complete picture of the world.

The Legatum Prosperity Index™ incorporates traditional economic measures of prosperity with measurements of wellbeing and life satisfaction. Indeed, it remains the only global index to provide an empirical basis for the intuitive sense that true prosperity is a complex blend of income and wellbeing. In order to better understand the role of wellbeing in public policy, the Legatum Institute has recently launched a Commission on Wellbeing to be chaired by former Cabinet Secretary Lord (Gus) O'Donnell. The independent, non-partisan Commission will report on the strengths and limitations of wellbeing analysis, tying latest research findings to the everyday practical needs of citizens.

Each country must chart its own course to success. No matter the circumstance, however, the Prosperity Index confirms that key drivers of national prosperity include entrepreneurship and opportunity, effective accountable government, and the rule of law.

The Prosperity Index is central to the Legatum Institute's on-going inquiry into the foundations of national success. I hope that you find the 2012 edition stimulating and engaging.

Yours,

Dr Jeffrey Gedmin
President and CEO, Legatum Institute

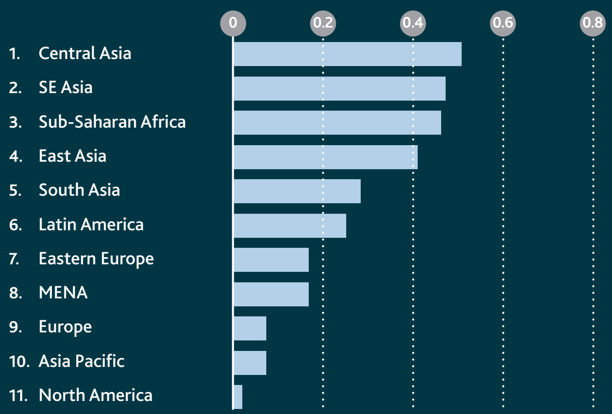
Covering 96% of the world's population and 99% of global GDP, the Index provides a more complete picture of global prosperity than any other tool of its kind.

The 2012 Legatum Prosperity Index™ comes at a time when much of the world is questioning the very foundations upon which prosperity and security are built. Increasing economic uncertainty continues to dominate much of the developed world; new global powers are emerging in Asia; citizens of Arab nations are tasting freedom and democracy for the first time; and social unrest is erupting in places as different as London and Lagos.

Now, perhaps more than any time in recent history, we need to re-examine our values and principles. What should be the priorities for policymakers responding to the economic crisis in its various guises? Are there insights or lessons for countries that are undergoing political and economic transitions? What are the fundamental pillars of prosperity?

KEY FINDINGS FROM THE 2012 PROSPERITY INDEX

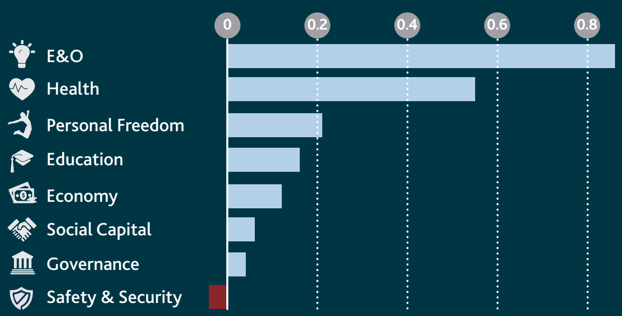
DIFFERENCE IN INDEX SCORE, 2009–2012



1 Global prosperity is increasing ...

Despite the most severe financial crisis in modern times, despite citizen uprisings that have toppled some of the world's most autocratic regimes, despite protests and riots that have erupted around the world, global prosperity has increased across all regions of the world over the last four years.

CHANGES BY SUB INDEX, 2009–2012



2 ... but Safety & Security is decreasing

This has been driven by Arab Spring countries such as Tunisia, Yemen, and Egypt and by Latin American countries such as Mexico, Paraguay, and Honduras. In fact, the Latin American region is one of the worst performers for citizen safety, driven by extremely high rates of assault and theft (see pages 10–11).

142 countries

96% of the world's population

99% of global GDP

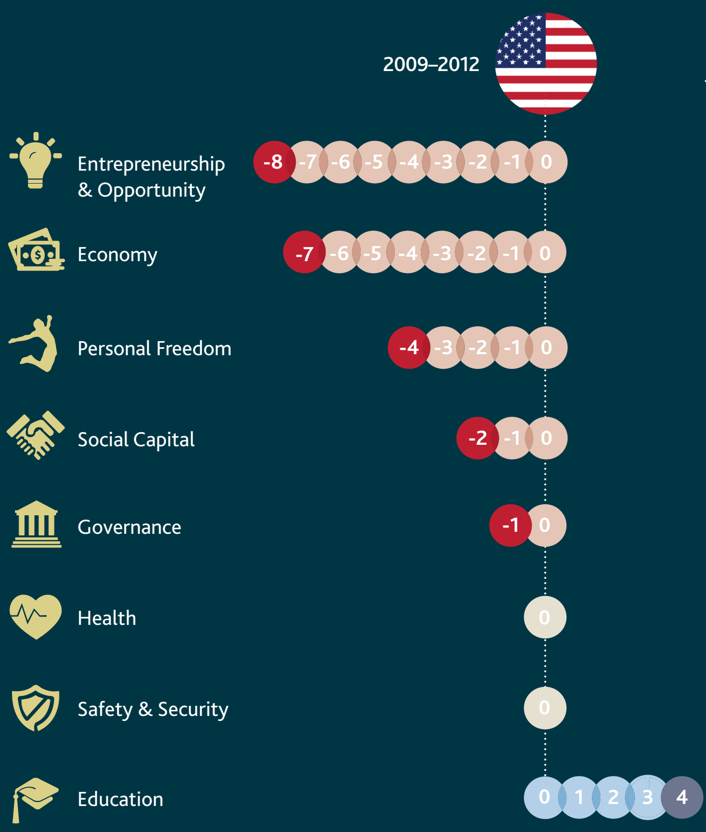
A unique snapshot of national prosperity

6 years running

Published in connection to this report is a full methodology document and 142 individual country fact sheets. These are available in print and on our website **www.prosperity.com**.

3 US falls out of top ten

The US ranks outside of the top ten for the first time (down to 12th), pulled down primarily by a decline in the Entrepreneurship & Opportunity sub-index. This fall is driven by a decline in the number of US citizens who believe that hard work will get them ahead and a decrease in ICT exports.



Key drivers of prosperity: entrepreneurship, opportunity, effective and accountable government.

The Prosperity Index is the only global index that measures national prosperity based on both wealth and wellbeing. The Index seeks to redefine the concept of national prosperity to include, as a matter of fundamental importance, factors such as democratic governance, entrepreneurial opportunity, and social cohesion. Covering 96% of the world's population and 99% of global GDP, the Index provides a more complete picture of global prosperity than any other tool of its kind.

KEY FINDINGS FROM THE 2012 PROSPERITY INDEX

SIX OF THE TOP 15 ECONOMIES ARE IN ASIA

1	Switzerland
2	Norway
3	**Singapore**
4	Luxembourg
5	Sweden
6	Germany
7	**Taiwan**
8	Canada
9	**Hong Kong**
10	Australia
11	**China**
12	**Japan**
13	Austria
14	Netherlands
15	**Malaysia**

4 The rise of the East continues

Hong Kong, Singapore, and Taiwan all rank in the top ten for the Economy and in the top 20 overall. Further, Asia receives the second highest inflow of Foreign Direct Investment as a percentage of GDP and East Asia is the second largest exporter globally.

5 Watch out for the Asian Tiger Cubs

Vietnam, Thailand, Indonesia, and Malaysia are the rising countries nipping at the heels of the regional leaders. Indonesia, for example, has experienced the largest increase in prosperity, globally, since 2009, moving up 26 positions to 63rd.

6 Key drivers of prosperity: accountable governance and entrepreneurship

This is particularly true for the top 50 countries, whereas for developing countries, health and education play a more crucial role. The Index finds that good governance and entrepreneurship tend to go together and reinforce each other, generating a virtuous cycle that leads to greater prosperity.

SUB-INDEX PERFORMERS: BEST AND WORST

This graphic shows the countries that rank highest (first) and lowest (142nd) in each of the eight sub-indices.

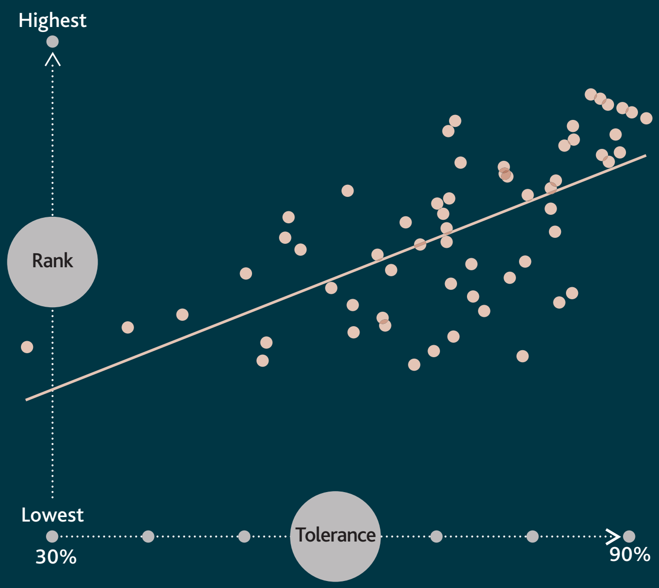
	Economy	E&O*	Governance	Education	Health	Safety & Security	Personal Freedom	Social Capital
BEST	Switzerland	Denmark	Switzerland	New Zealand	Luxembourg	Iceland	Canada	Norway
WORST	Zimbabwe	Congo (DR)	Zimbabwe	Central African Rep.	Congo (DR)	Chad	Yemen	Togo

**Entrepreneurship & Opportunity*

7 Key stepping stone to prosperity: accountable government

27 out of the top 30 countries in the Index are democracies. India, however (the biggest democracy in the world), has fallen ten positions since 2009 due, in part, to a decline in the Governance sub-index.

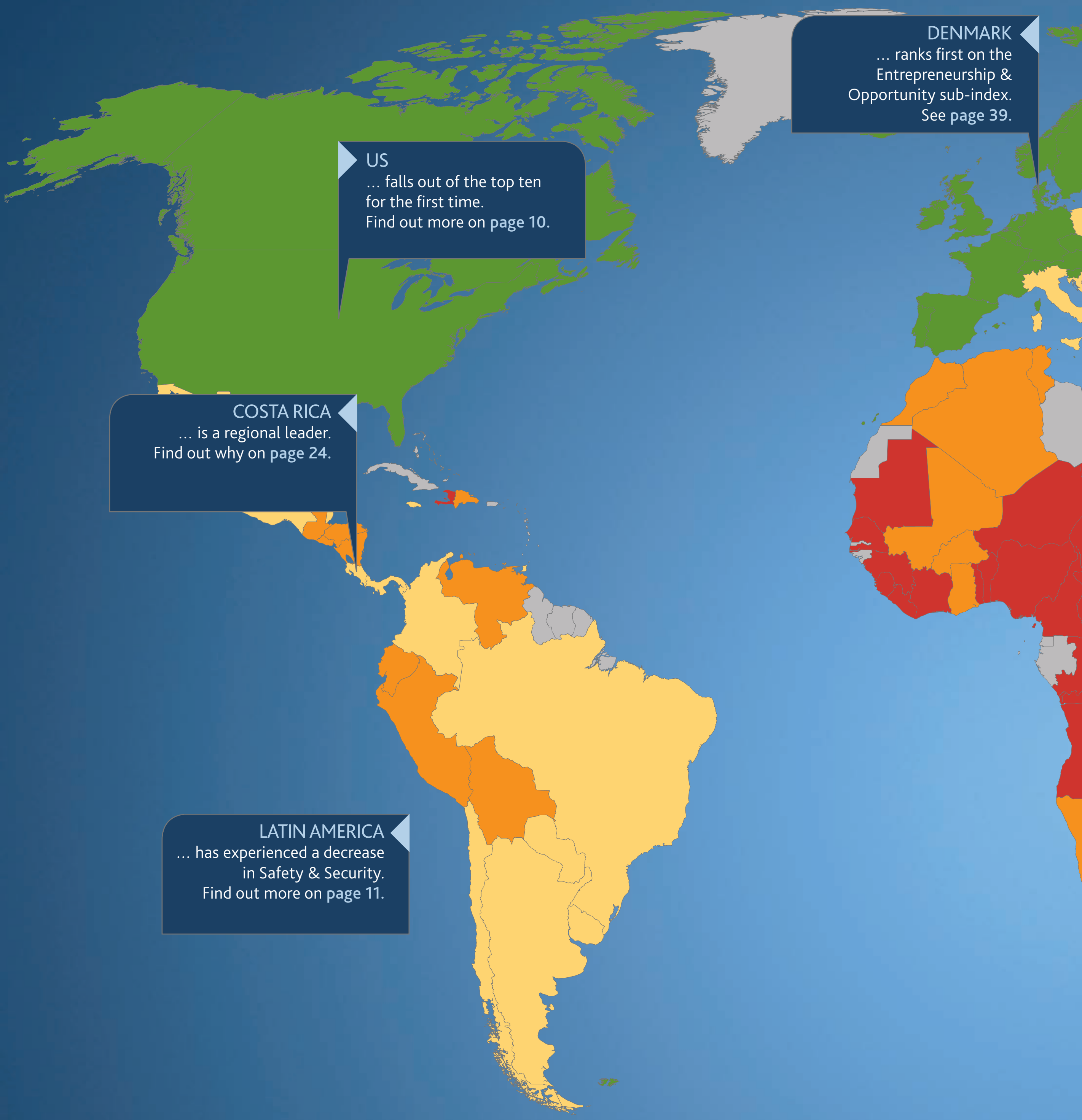
27 of the top 30 countries in the Index are democracies

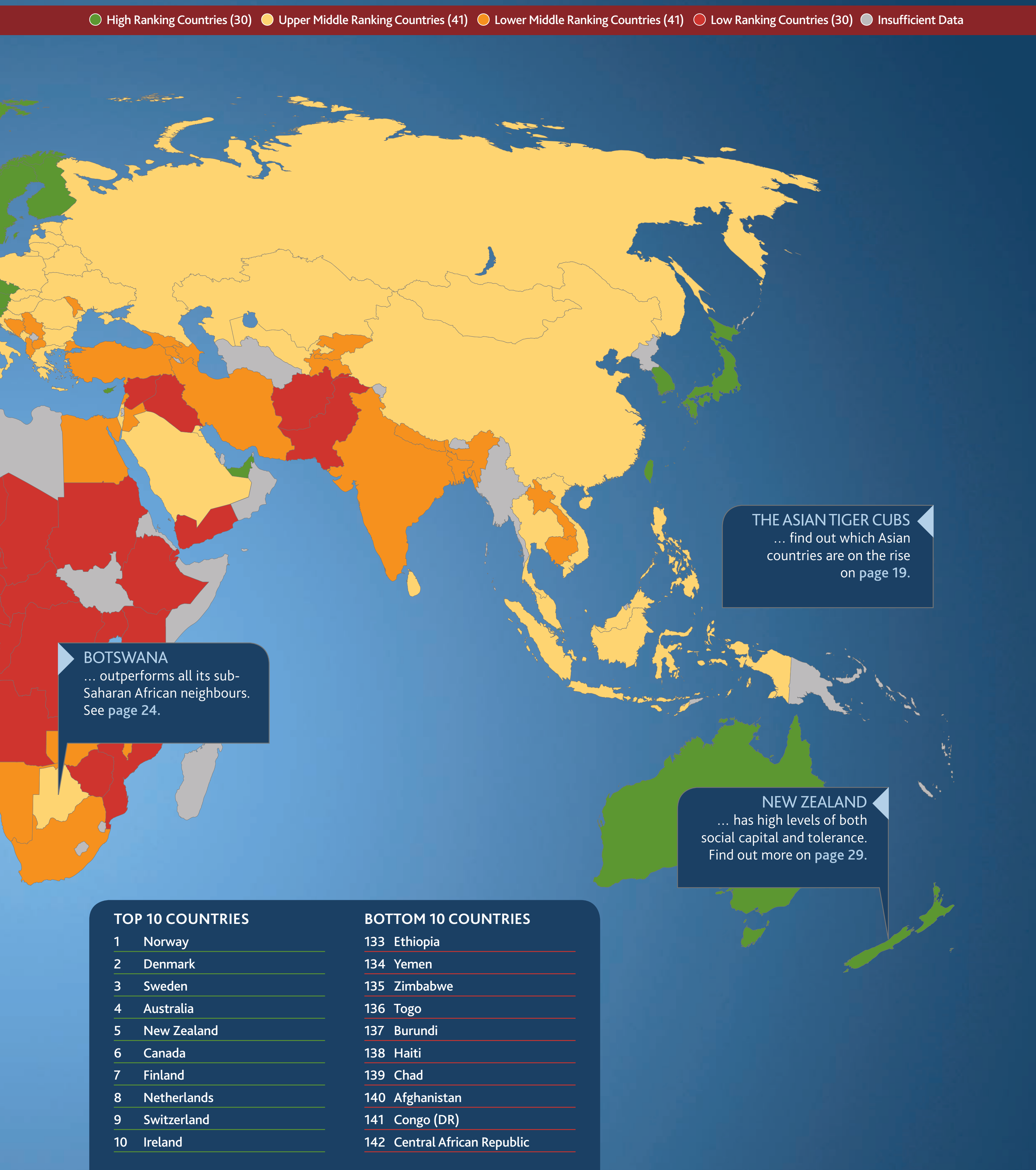


8 Tolerance is good for prosperity.

As the world becomes smaller and immigration rises, tolerance towards diversity becomes a crucial issue for societies. The Prosperity Index finds that in countries where tolerance levels are high, prosperity flourishes (see page 26).

PROSPERITY AROUND THE WORLD





THE ASIAN TIGER CUBS
… find out which Asian countries are on the rise on page 19.

BOTSWANA
… outperforms all its sub-Saharan African neighbours. See page 24.

NEW ZEALAND
… has high levels of both social capital and tolerance. Find out more on page 29.

TOP 10 COUNTRIES		BOTTOM 10 COUNTRIES	
1	Norway	133	Ethiopia
2	Denmark	134	Yemen
3	Sweden	135	Zimbabwe
4	Australia	136	Togo
5	New Zealand	137	Burundi
6	Canada	138	Haiti
7	Finland	139	Chad
8	Netherlands	140	Afghanistan
9	Switzerland	141	Congo (DR)
10	Ireland	142	Central African Republic

REGIONAL ANALYSIS: **THE AMERICAS**

Canada leads the region placing sixth, while the US falls out of the top ten for the first time since 2009, placing 12th overall.

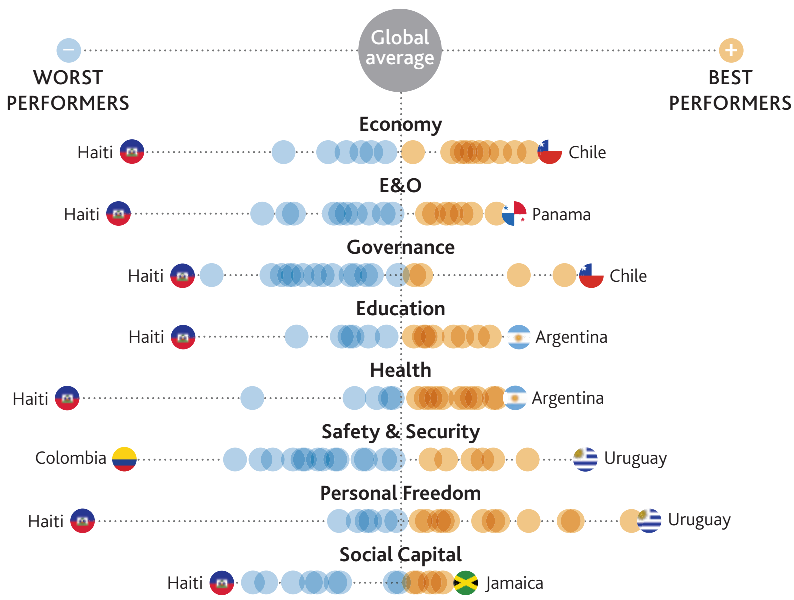
The US has seen a decline in rankings in most sub-indices. The Economy and Entrepreneurship & Opportunity sub-indices have declined the most with the US falling seven places and eight places respectively in each in the last four years. This is due to a decline in citizens' perception that working hard gets you ahead, a decline in high-tech and telecommunication exports, and an increase in levels of unemployment. Furthermore, US citizens' overall satisfaction with living standards has declined since last year. Although the US ranks second overall in the Health sub-index, the country's infant mortality rate is higher than that of Europe (6.5% compared to a European average of 3%).

Uruguay has replaced Costa Rica as the Latin American regional leader and is followed by Chile. Bolivia used to be the worst regional performer, but has now overtaken both Guatemala and Honduras. At the very bottom of the regional rankings, Haiti—a new entrant in the 2012 Index—places 138th.

When comparing the region with the rest of the world, we observe that most countries in the Latin American region fall below the global average in the Governance, Safety & Security, and Social Capital sub-indices (represented in the graphic below). Whereas, most countries in the region place above the global average for Personal Freedom.

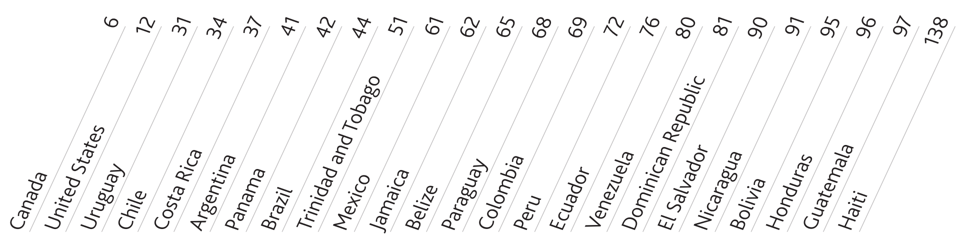
LATIN AMERICA REGIONAL PERFORMANCE

Most countries in the region fall below global average in Governance, Safety & Security and Social Capital sub-indices.



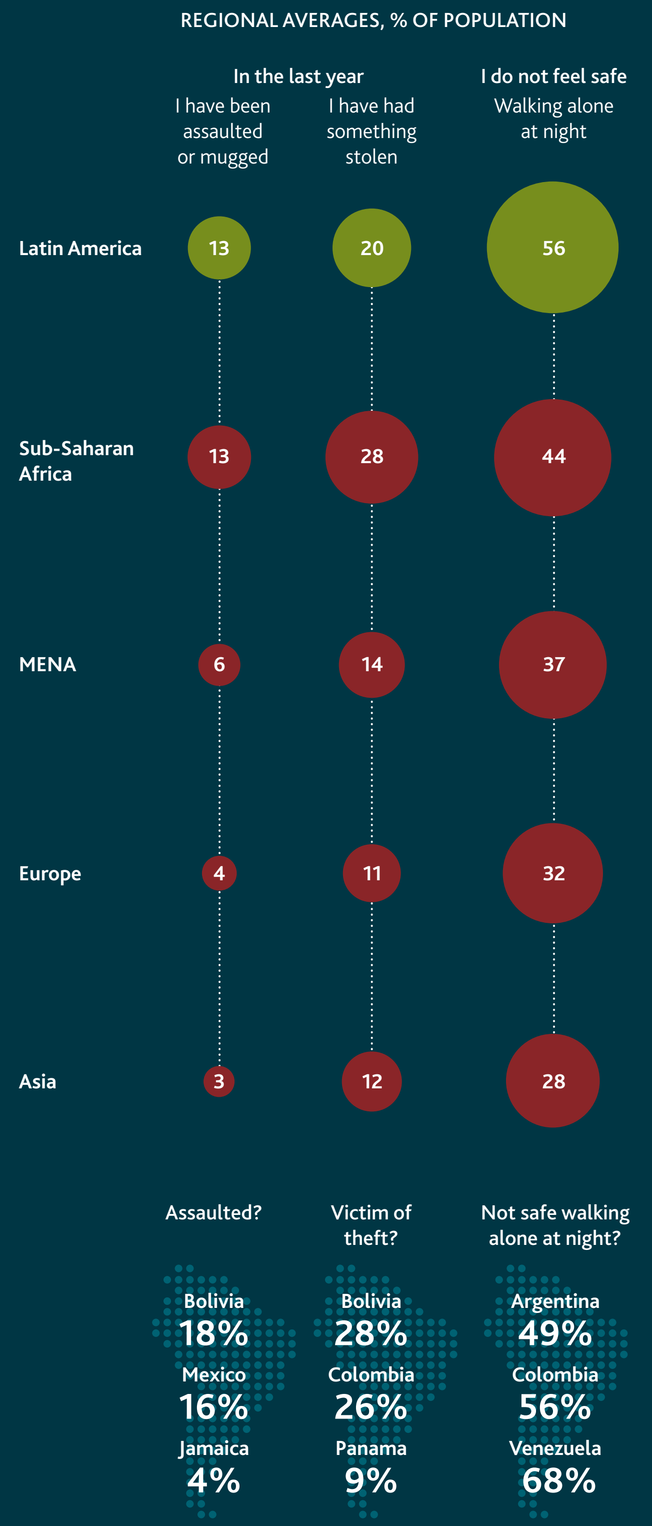
URUGUAY Highest ranking country in Safety & Security and Personal Freedom.

COLOMBIA Lowest ranking country in Safety & Security sub-index.



REGIONAL RANKING—THE AMERICAS

CITIZEN SAFETY IN LATIN AMERICA



*Data are from the 2012 Legatum Prosperity Index™ (original source: Gallup World Poll)

In Focus:

Safety in Latin America

One of the global trends we have observed over the last four years is a decline in Safety & Security. One of the main drivers of this trend has been the Latin American region. Low levels of personal safety and high crime rates have long been a challenge in the region. Social inequality is often considered a major driver of crime and violence. For example, in the last five years, violence associated with drug cartels has killed approximately 50,000 people in Mexico alone.

The Safety & Security sub-index has two parts: national security and personal safety. For the purpose of this analysis, we have split the sub-index according to these two components. This reveals that Latin America is the worst performer in personal safety, globally, together with sub-Saharan Africa. In particular, Latin Americans feel the least safe when walking alone at night.

Paraguay, Bolivia, and Peru report the highest levels of both property theft and assault, while Venezuela, the Dominican Republic, and Paraguay report the lowest levels of people that feel safe walking alone at night. The outliers in the region are Panama and Jamaica who perform comparatively well on these indicators.

In Uruguay, citizens feel relatively safe walking alone at night and the percentage of the population who has suffered assault is low, but the percentage of the population who has had property stolen is much higher, placing the country among the bottom five performers on this variable.

Some countries in Latin America have taken firm action to curb crime and violence, including measures such as the banning of weapons in Honduras or proposals for drug legalisation in Uruguay and Colombia. However, more remains to be done to bring crime levels down.

REGIONAL ANALYSIS: **EUROPE**

The performance of European countries in the 2012 Index is varied, reflecting institutional, economic, and political differences among them.

In the overall rankings, most Western European countries rank in the top 30 (with the exception of Greece and Italy), while Central and Eastern European countries rank in the middle of the Index (with the exception of the Czech Republic and Slovenia who place in the top 30).

Although this distinction within the region suggests the existence of ‘two Europes’, the same distinction is harder to make when analysing the Economy sub-index, where the majority of European countries have seen their scores drop since 2009.

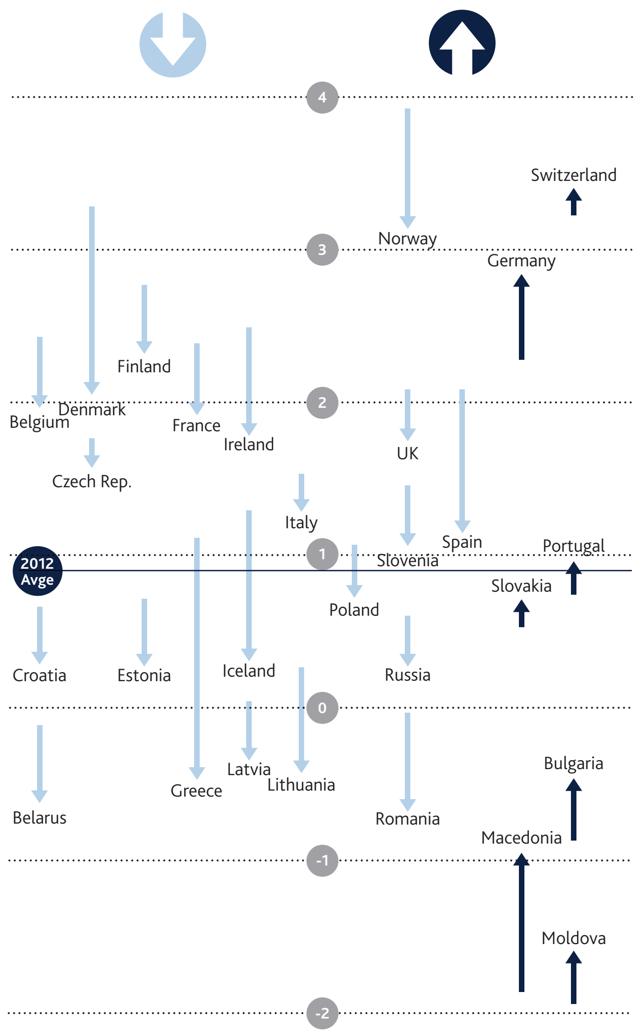
A change in the Economy sub-index does not merely reflect changes in GDP. It reflects the health of the overall economy coupled with citizens’ satisfaction and expectations of the economy.

The graphic (right) captures the movements of European countries’ scores in the Economy sub-index since 2009. Among the countries with the largest decreases in score are Greece, Spain, Iceland, and Lithuania. The decline in the Economy sub-index is more pronounced in Western European countries, which saw an average decline twice as large as that in Eastern Europe.

Perhaps surprisingly, some of the stronger European economies such as Norway, Denmark and Finland, are also declining. Overall, the drop in the Economy sub-index is led by objective variables such as increases in non-performing loans and in employment.

ECONOMY RANKINGS CHANGE 2009–2012

The majority of European countries have seen a drop in the Economy sub-index since 2009.

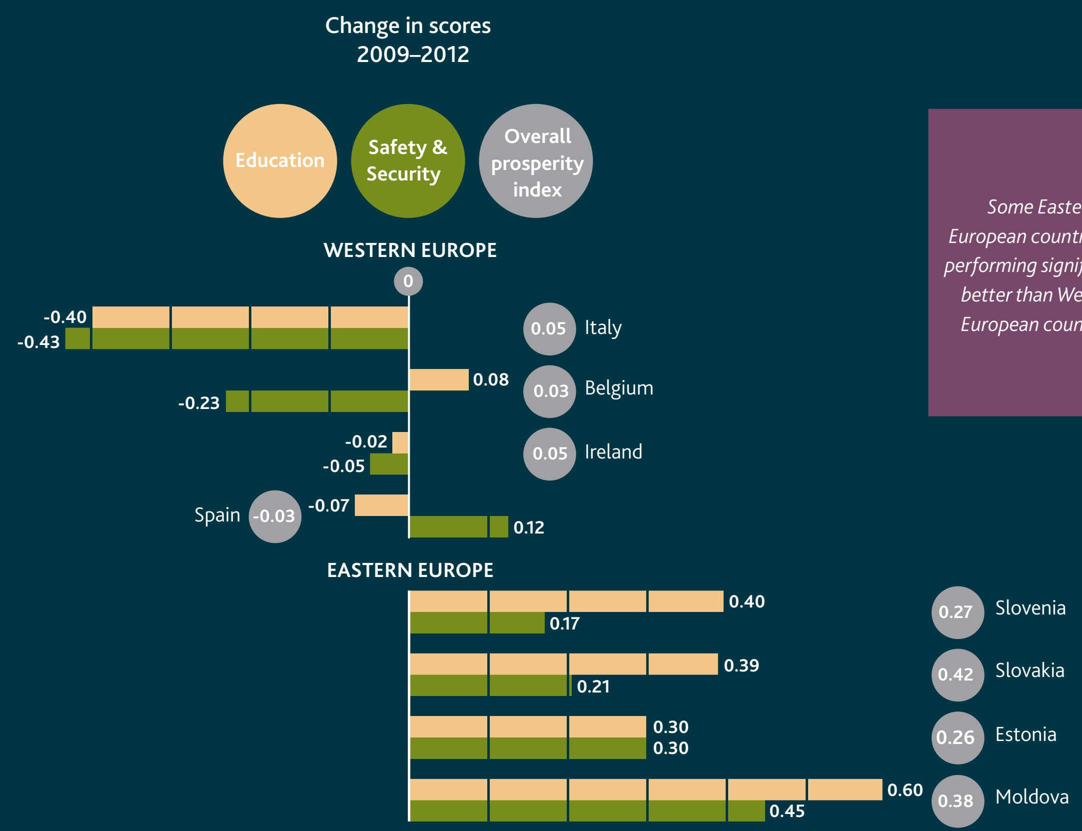


1	Norway
2	Denmark
3	Sweden
7	Finland
8	Netherlands
9	Switzerland
10	Ireland
11	Luxembourg
13	United Kingdom
14	Germany
15	Iceland
16	Austria
17	Belgium
21	France
23	Spain
24	Slovenia
25	Malta
26	Portugal
28	Czech Republic
30	Cyprus
32	Poland
33	Italy
35	Estonia
36	Slovakia
39	Hungary
43	Lithuania
47	Latvia
48	Bulgaria
49	Greece
50	Croatia
54	Belarus
57	Montenegro
60	Romania
66	Russia
71	Ukraine
75	Macedonia
79	Serbia
84	Moldova
92	Albania
93	Georgia
94	Azerbaijan
98	Armenia
99	Bosnia-Herzegovina

REGIONAL RANKING—EUROPE

WESTERN EUROPE DECLINING, EASTERN EUROPE RISING

Data from the 2012 Legatum Prosperity Index™



Some Eastern European countries are performing significantly better than Western European countries.

In Focus:

Emerging Eastern Europe

Among the Eastern and Central European countries, four stand out for their notable improvements in overall prosperity: Slovakia, Moldova, Slovenia, and Estonia. The chart above shows how these four countries have outperformed a number of Western European countries on the overall Prosperity Score in the last four years.

Specifically, in the Education and Safety & Security sub-indices we see the 'emerging' European countries outperforming traditional Western Europe.

Education has improved in the 'emerging' European countries as a result of increased primary and secondary school enrolment, and increased years of secondary education per worker. In Slovakia and Estonia, for example, the labour force has, on average, five to six years of secondary education, indicating a workforce which is becoming increasingly better educated.

In the Safety & Security sub-index, countries such as Slovakia and Moldova have seen substantially large gains over the last four years and now surpass many Western European countries as well as the overall European average in this sub-index.

By contrast, many of the Western European countries are either just keeping pace with the European average (such as France and Spain), or are seeing substantial falls in their scores (notably Italy, which has seen the largest decrease in the whole of Europe). Among the four selected Central and Eastern European countries, the variable that has helped improve their Safety & Security scores is the percentage of people who feel safe walking home at night, up by 7%, while the average improvement of Italy, Ireland, Belgium, and France was only 1.6%.

While these patterns are not universal across East and West Europe, they point towards the emergence of an increasingly prosperous area in Central and Eastern Europe. Western Europe is at best slowing down or at worst decreasing in levels of overall prosperity.

REGIONAL ANALYSIS: **SUB-SAHARAN AFRICA**

Among the 30 lowest ranking countries in the Index, 24 are in sub-Saharan Africa. The highest ranking sub-Saharan African country is Botswana (70th), followed by South Africa (74th) and Namibia (83rd). The 2012 Index includes 16 new sub-Saharan African countries, all of whom rank among the bottom 40 of the Index.

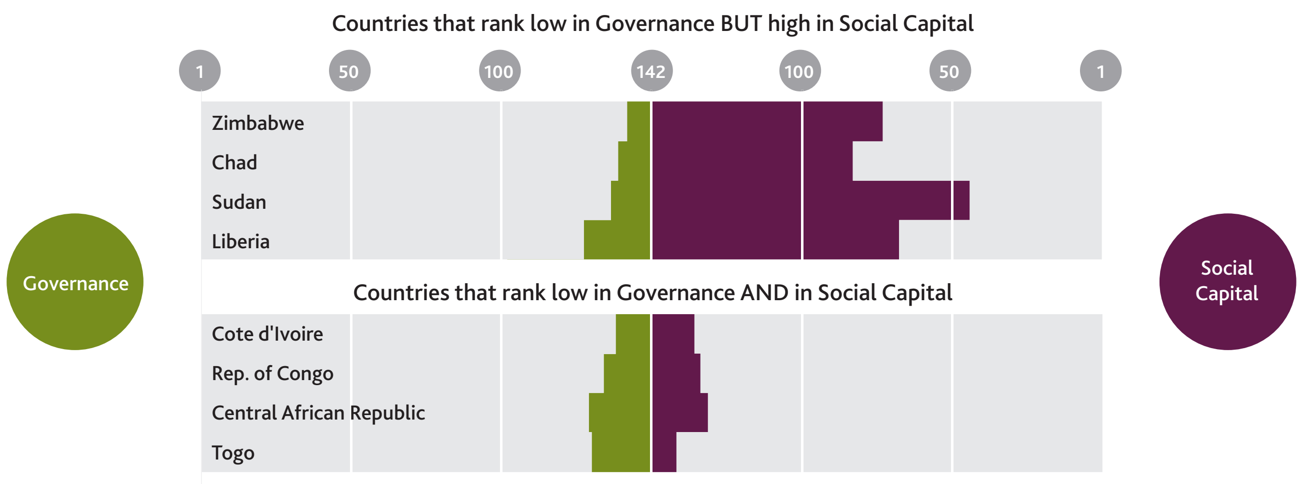
Many African countries perform best in the Social Capital sub-index, including Zambia, Sudan, Uganda, Mali and Tanzania, who rank among the top 60 countries, in this sub-index overall.

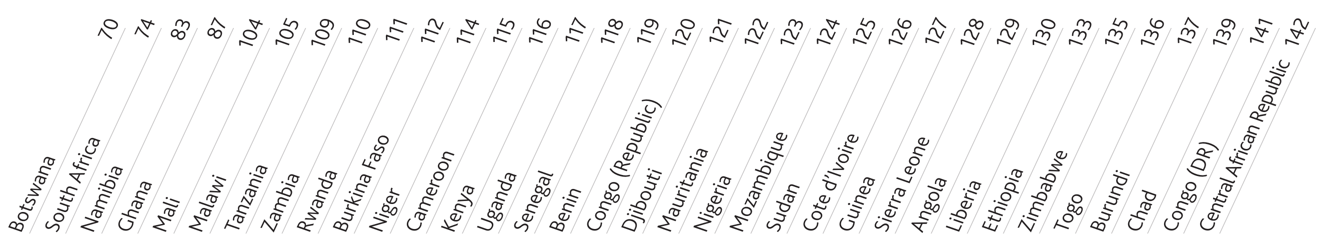
The role of social capital in a developing country is complex. For example, when social capital is high, and citizens are able to rely heavily on networks and connections, it can be a symptom of failing institutions. In other words, when institutions are weak and cannot deliver public goods, networks and social ties provide an alternative that facilitates collective actions.

Instead, when strong institutions are in place, the role of the state in delivering public goods and services is best accomplished when combined with social trust and community participation.

The link between Governance and Social Capital is seen in the graph (below) where we observe countries such as Zimbabwe, Chad, Sudan, and Liberia ranking low on Governance, but high on Social Capital.

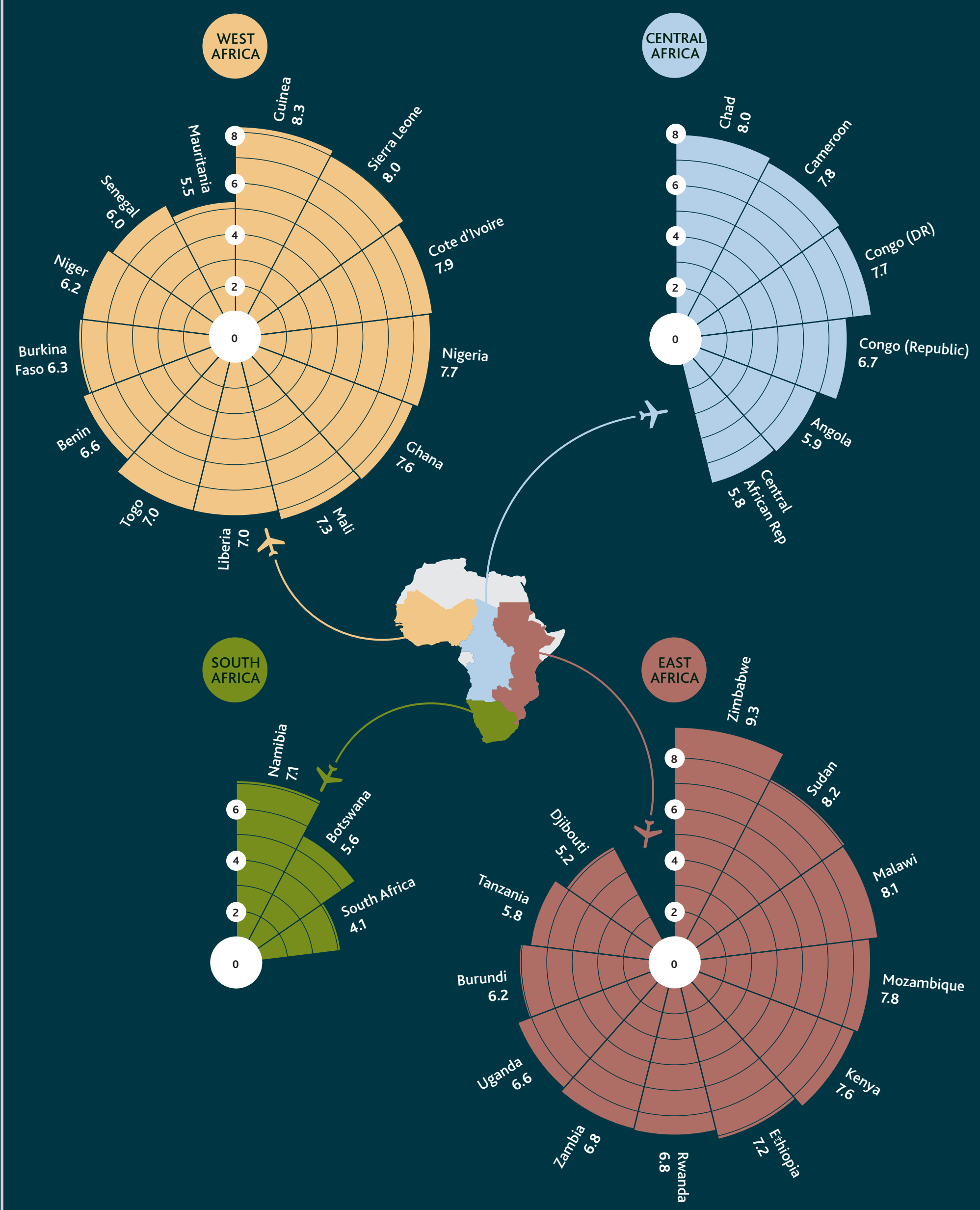
SOCIAL CAPITAL IN SUB-SAHARAN AFRICA: COMPLEMENT OR SUBSTITUTE FOR FORMAL INSTITUTIONS?





REGIONAL RANKING—SUB-SAHARAN AFRICA

OUT OF AFRICA:
HIGH LEVELS OF HUMAN FLIGHT IN SUB-SAHARAN AFRICA



Human Flight is defined as the flight of professionals, intellectuals, political dissidents, and the middle class.

Data from the 2012 Legatum Prosperity Index™ (original source: Failed State Index)

In Focus:

Human Flight

There are cases in which both formal and informal institutions fail. Examples are Côte d'Ivoire, the Republic of Congo, and Togo. In these countries, armed conflicts, both internal and in neighbouring countries, have displaced people and weakened the social fabric of society, limiting the development of networks and interpersonal connections.

Although social capital can be an effective substitute for formal institutions, it remains a second-best solution. The priority should be on creating the necessary formal legal and political institutions that can lead to economic and social development.

But this cannot be achieved without the contribution of the most educated and skilful people in the society. Most sub-Saharan African countries are experiencing high levels of emigration of professionals, intellectuals, and dissidents. Human flight is highest in Zimbabwe, followed by Guinea, Sudan, and Malawi. This increasing brain drain raises concerns about the process of national development in many sub-Saharan countries.

REGIONAL ANALYSIS: **MIDDLE EAST AND NORTH AFRICA**

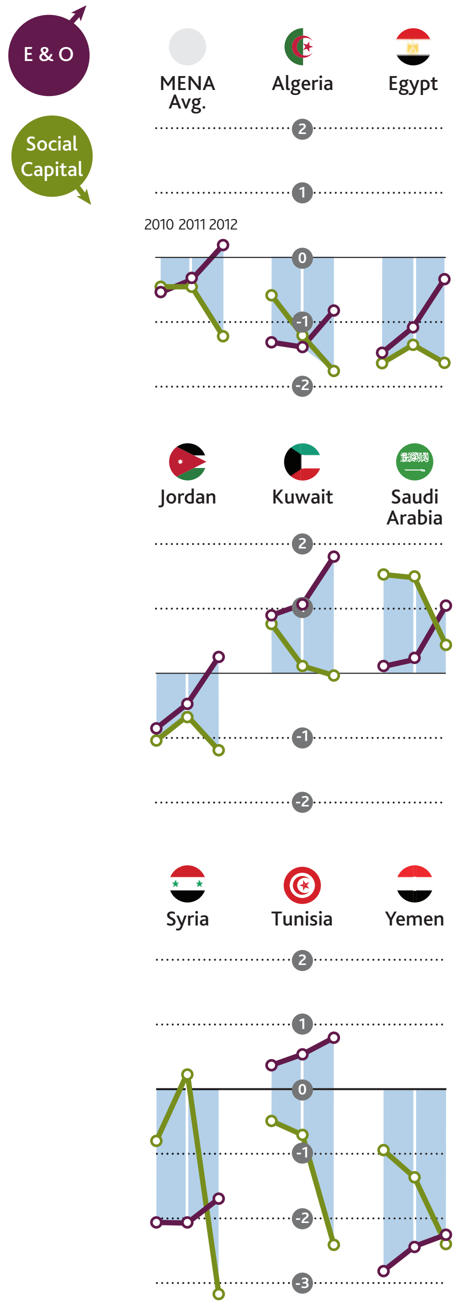
Middle East and North Africa (MENA) countries span the Index rankings. The United Arab Emirates, for example, ranks in the top 30 overall, whilst Iraq and Afghanistan—two new countries in the Index this year—rank within the bottom 15 countries in the Index.

Despite differences across the region, most countries have improved their performance in the Entrepreneurship & Opportunity (E&O) sub-index over the last three years (see graph). This parallels a global improvement in the E&O sub-index in recent years, which has been caused, in part, by increasing levels of communications technology such as mobile banking. This has allowed more aspiring entrepreneurs to launch their own businesses. The MENA region has seen the second largest improvement in this sub-index behind Asia.

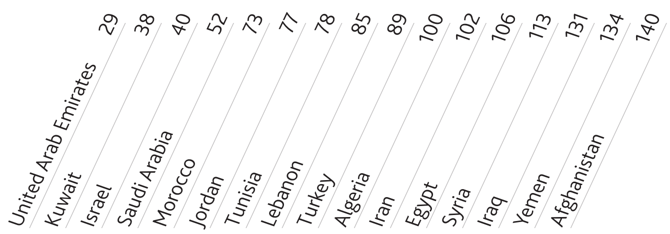
Alongside greater connectivity, improvements in the E&O sub-index (represented by the purple lines in the graphic, right) are partly due to a decrease in business start-up costs. Start-up costs have decreased throughout the region with the exceptions of Israel, Algeria, and Yemen, where they remain mostly unchanged. A significant improvement has been experienced by Egypt where business start-up costs decreased from almost 16% of GNI per capita in 2009 to 6% in 2012.

UAE is one of a small number of countries where survey data may not be representative of the entire population, which may have an effect on the results. For more detail, see pages 46–47.

DECREASING SOCIAL CAPITAL, INCREASING E&O



This graphic shows the changes in sub-index scores over the last three years



REGIONAL RANKING—MIDDLE EAST AND NORTH AFRICA (MENA)

In Focus:

Social Capital in the MENA Region

Another common regional trend is the sharp decline in the Social Capital sub-index experienced by most countries since 2010. Social Capital is important to prosperity because it measures the level of social cohesion, reciprocity, and trust in a society (see more about Social Capital on page 45).

The decline has been most pronounced in countries such as Tunisia, Syria, and Yemen. Syria, for example, has dropped 30 positions in the Social Capital rankings since 2010 to rank 131st in the 2012 Index. Similarly, Tunisia has dropped 32 positions in Social Capital to 122nd in the 2012 Index.

Yet, even countries where the Arab Spring was of less consequence have also declined. Saudi Arabia, for example, dropped 21 positions and now ranks 43rd in the Social Capital sub-index.

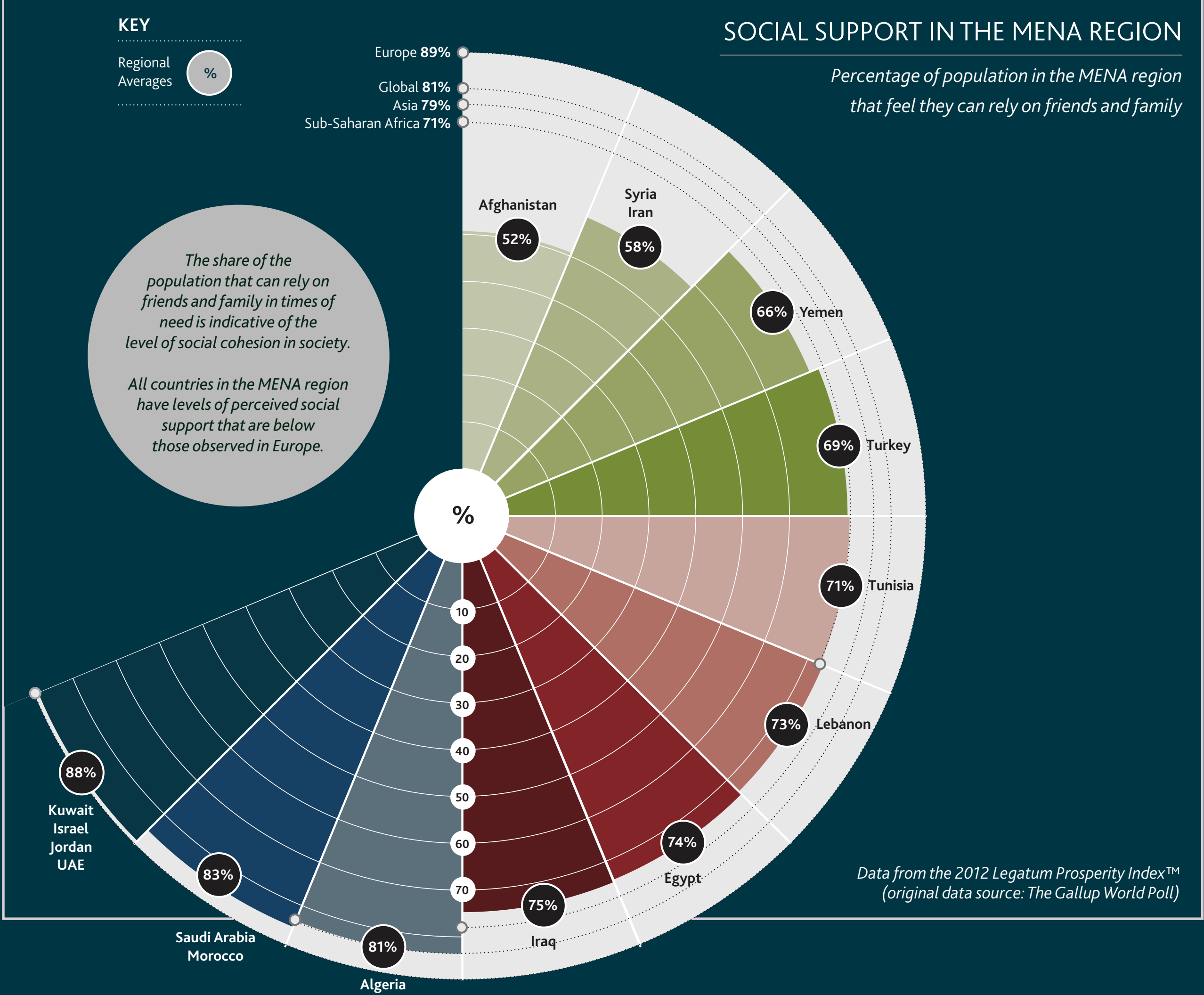
One of the components of social capital is the level of support that a person has within society. The graph below examines these levels. In every country in the region, the percentage of people that can rely on friends and family for help is far below the average performance of European countries and all but seven countries, in the region have lower levels than the global average (81%).

The best performers are Israel, Jordan, Kuwait and the United Arab Emirates. Among the worst performers are Afghanistan, Syria, and Iran, where more than 40% of the population report that they cannot rely on relatives and friends.

In Tunisia, the percentage of the population that believe they can rely on friends and family for help has dropped from 88% in 2010 to 71% in the 2012 Index. During the same period, Yemen declined from 76% to 66%, well below the global average.

SOCIAL SUPPORT IN THE MENA REGION

Percentage of population in the MENA region that feel they can rely on friends and family



Data from the 2012 Legatum Prosperity Index™ (original data source: The Gallup World Poll)

REGIONAL ANALYSIS: **ASIA-PACIFIC**

The Asia-Pacific region includes 28 countries whose rankings span from the top ten (Australia and New Zealand) to Pakistan. The so-called 'Asian Tigers' along with Japan all rank within the top 30 of the Index.

China has remained relatively stable since last year, ranking 55th overall in 2012. China's economic performance is strong, placing fifth in the regional Economy rankings and 11th in the global Economy. Its performance in the Safety & Security and Personal Freedom sub-indices, however, remains overall very low ranking 101st and 128th, respectively.

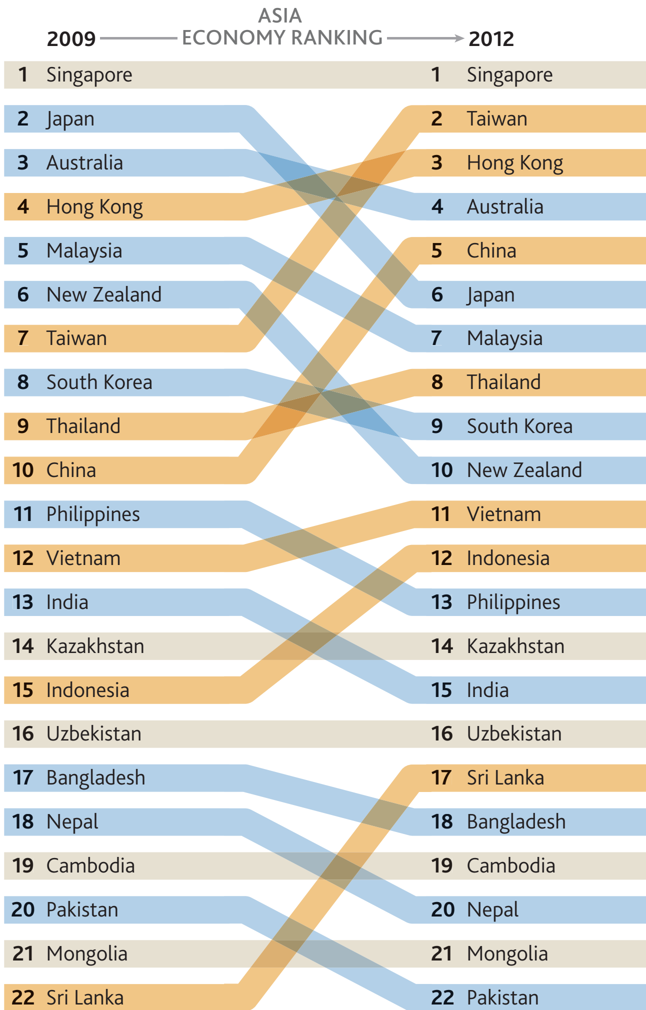
India has experienced a drop in prosperity since 2009, partly due to a decrease in its Governance score. Despite this drop, the Governance sub-index remains India's highest ranking sub-index (49th). India's lowest ranking sub-indices are Safety & Security (114th) and Social Capital (138th).

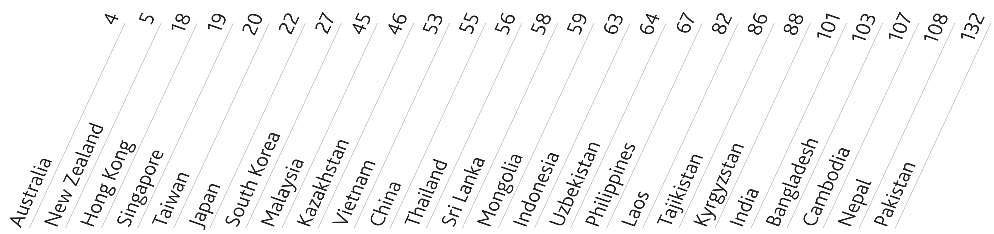
Of all the global trends that have sparked discourse and debate in recent years, perhaps the most significant is the rise of the new economic powers in the East. This is reflected in the Economy sub-index where we observe improvements in most Asian countries since 2009.

The significant drop in Japan's Economy ranking (see graphic) is mainly due to a sustained decrease in foreign direct investment (FDI) inflows, as well as the negative effects on the investment climate of the Tōhoku earthquake and tsunami. Japan went from ranking second to sixth in the region, having been overtaken by China, Hong Kong, Australia, and Taiwan. Pakistan has experienced the largest drop, now ranking last in the Economy sub-index, regionally. New Zealand fell from sixth to 10th in the region, resulting from rising unemployment and inflation coupled with a decrease in citizen's satisfaction with the economy.

ECONOMY SUB-INDEX—RISE AND FALL

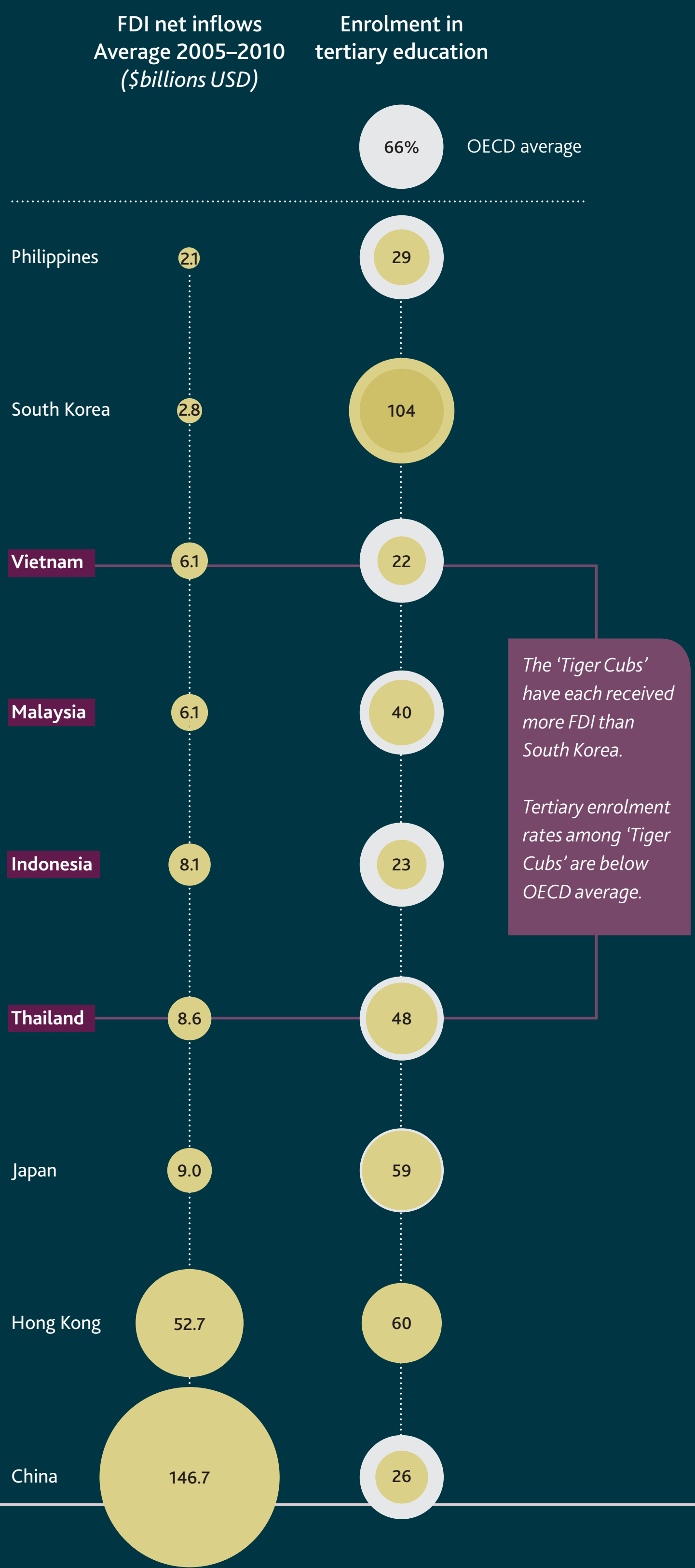
Changes in the economy sub-index since 2009.





REGIONAL RANKING—ASIA-PACIFIC

TERTIARY EDUCATION AND FDI IN ASIAN COUNTRIES



Data from 2012 Legatum Prosperity Index™
(original source: World Development Indicators)

In Focus:

The Growing Asian Tiger Cubs

There is a good deal of public debate about the highly developed and globally competitive 'Asian Tigers'. While these nations continue to excel, it is also worth considering the 'Tiger Cubs'—the rising Asian countries nipping at the heels of the regional leaders. In the Prosperity Index we observe these to be Vietnam, Thailand, Indonesia, and Malaysia.

One metric that can shed light on why these Asian nations are rising is the level of FDI flowing into each country. This is because FDI, when managed appropriately, can be a source of economic growth. The graph (left) shows that among the 'Tiger Cubs', Thailand and Indonesia are the biggest recipients of FDI. In terms of FDI as a share of GDP, however, Vietnam outperforms the other 'Tiger Cubs' as FDI net inflows constitute almost 8% of its GDP.

However, the graph also shows that tertiary education enrolment rates among the 'Tiger Cubs' are much lower than OECD standards. To meet the need of the increasingly globalised economy, the 'Tiger Cubs' must encourage further education so as to produce the skills necessary to increase productivity.

SNAPSHOT: **PROSPERITY WITHIN COUNTRIES**

While the Prosperity Index measures prosperity at the national level, there are sometimes large differences within countries. It is difficult for a global index to provide insights into sub-national differences because most data represent national averages. Some Index data can, however, be broken down to provide sub-national analysis.

The map opposite explores variations in the Social Capital sub-index within India (India's large and diverse population and its clearly defined states and territories make it possible to break down the data to state level). The state of Uttar Pradesh, for example, has a population of almost 200 million people comparable to that of Brazil, the world's fifth most populous country.

India ranks 138th globally in the Social Capital sub-index, however, disaggregation of the data at the sub-national level reveals large differences within the country. Within India, the states of Gujarat and Uttarakhand have the highest social capital scores and would rank 15th and 18th, globally, in this sub-index, next to Germany and Belgium, respectively. In the state of Gujarat, 77% of respondents can rely on friends and family for help and 51% have donated money to a charity. In Uttarakhand, 52% of the respondents have volunteered their time and 71% have helped a stranger.

The state of Kerala, often cited as an example of successful development achievements, also offers an interesting comparison.[1] Its GDP per capita is similar to that of Mauritania but its literacy rate is similar to that of Turkey, whose GDP per capita is seven times larger. Kerala performs relatively well in terms of social capital and would rank 40th, just above France. On the other hand, the states of Punjab and Madhya Pradesh would rank at the bottom of the Social Capital sub-index after Togo and Benin. Only 27% of the respondents in Punjab feel they can rely on others and only 14% of them have volunteered their time in the previous month.

Sub-national disaggregation provides interesting insights into 'within-country' differences that are often hidden behind global aggregated data. We hope that this feature illustrates how the distribution of prosperity within countries may be not uniform.

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1. Amartya Sen, *Development as Freedom* (Oxford University Press, 1999).

SOCIAL CAPITAL RANKINGS IN INDIAN STATES

Data from 2012 Legatum Prosperity Index™

SNAPSHOT: **LESS IS MORE ...**

... THE CURIOUS EFFECT OF SOCIAL CAPITAL ON ECONOMIC REGULATION

Social capital is one of the most important components of prosperity. The term 'social capital' encompasses factors such as social cohesion and engagement, as well as community and family networks.[1] In every region of the world, social capital correlates negatively with government regulation.

Does excessive regulation decrease social capital or do high levels of social capital lead to low levels of regulation? Research suggests that the causal relationship follows the latter example, with higher levels of social capital leading to fewer but better regulations. Indeed societies that are highly trusting—both in government institutions and in one's fellow citizens—tend to demand fewer, less complex and less restrictive economic regulations.

Countries that have low levels of social capital tend to be highly regulated, and vice versa.

Consider entrepreneurship, an activity that in many economies attracts a substantial amount of regulation. In countries where social capital is low, the lack of trust can translate into a belief that entrepreneurs behave in their own self-interest to the detriment of society. Therefore, the profit-driven culture that entrepreneurs are perceived to be promoting is seen as a threat to society and the established ways of doing business. In these countries, the government is often called upon to create regulations to prevent rent-seeking behaviour, which in turn can also result in unwanted barriers to entrepreneurial activity, innovation, and competition.

The opposite dynamic occurs in countries where social capital is high. Entrepreneurs in these economies are considered to provide societal benefits and, as a result, these countries tend to erect fewer regulatory barriers to entrepreneurial activities. In the graphic (top right), the cost of starting a business—a measure of a country's level of regulatory burden—is plotted in relation to a country's social capital ranking.

The contrast is clear. Countries such as Denmark, Australia, and Japan, which score highly on the Social Capital sub-index, impose an average business start-up cost of less than 2.7% of gross national income (GNI) per capita. The average start-up cost in countries with below-average social capital scores is 60% of GNI per capita.

How do existing levels of regulation relate to social capital? As shown in the second graphic (bottom right), high-income nations that have less regulation, owing to their higher social capital, also have more effective regulation. In this example, the effectiveness of government regulation is measured by its ability to formulate and implement sound policies that permit and promote private sector growth and development.

The data clearly show that European countries that have low levels of social capital, such as Greece, Italy, Portugal, Spain, and France, also have low levels of regulatory effectiveness compared with other developed Western European countries.

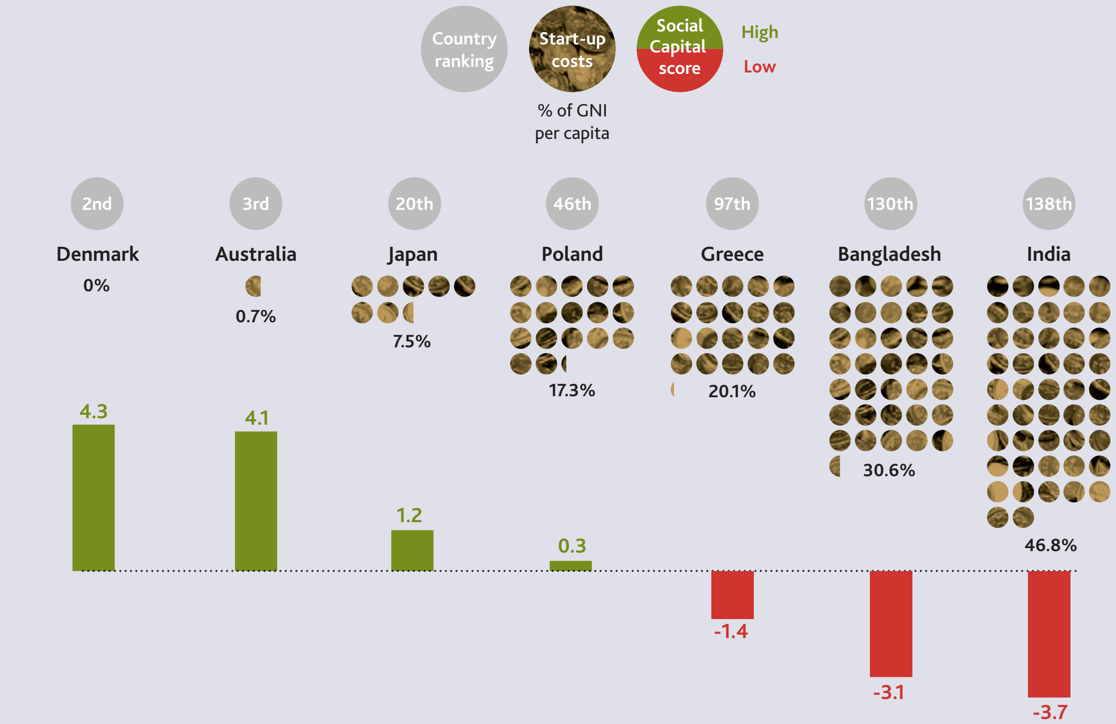
This raises a troubling prospect for every country in which social cohesion, civic participation, and levels of trust are in decline. A look at the multi-year trends in countries such as the United States, the United Kingdom, Austria, and the Netherlands shows a gradual drop in social capital that could conceivably lead to calls for greater regulation.

The challenge for these countries to move forward will be not to fall into the trap of creating more regulation as a substitute for eroding social capital. The more effective (yet complex and elusive) solution is finding alternatives to regulation that better cultivate trust in institutions and between members of society.

REFERENCE

1. Our working definition of Social Capital, based on academic theory and our own Social Capital sub-index, is as follows: the accumulation of benefits accrued by a society whose citizenry is interconnected, trusting, and who engage in altruistic/charitable behaviour.

HIGH SOCIAL CAPITAL AND LOW BUSINESS START-UP COSTS GO HAND IN HAND



HIGH SOCIAL CAPITAL AND EFFECTIVE REGULATION GO HAND IN HAND

Data from the 2012 Legatum Prosperity Index™
(original source: World Bank Development Indicators)

SNAPSHOT: **TRACING A PATH TO PROSPERITY**

WHY COSTA RICA AND BOTSWANA OUTPERFORM THEIR NEIGHBOURS

Both Costa Rica and Botswana stand above their regional neighbours in the 2012 Prosperity Index. One reason for this lies in the strength of their institutions, which have undoubtedly benefitted from advantageous historical moments where political leaders have made difficult choices to commit to developing democratic institutions.

As their neighbouring countries seek their own paths to prosperity, the institutional and government practices adopted by Costa Rica and Botswana, while not guaranteeing success in all other dimensions of development, strongly indicate a way forward.

First, both Costa Rica and Botswana have chosen to promote social welfare, provide for systems of public education, and secure political stability, which ultimately has led to protected property rights and rule of law enforcement. Moreover, they have pursued these policies within the political constraints of inclusive, constitutionally democratic institutions.

Second, thanks to their economic and political success, both countries have emerged as leaders in their regions, doing surprisingly well despite the unstable nature of the surrounding neighbours. Indeed, both receive high scores in the Personal Freedom and Governance sub-indices—scores which rival some high-income, developed countries.

Finally, while neighbouring countries would benefit from emulating the political choices of these 'high achievers', this will require both the opportunities that history has afforded Costa Rica and Botswana, and a commitment to the creation of democratic and participatory institutions.

As their neighbouring countries seek their own paths to prosperity, the institutional and government practices adopted by Costa Rica and Botswana strongly indicate a way forward.

COSTA RICA

Relative to its scores on other sub-indices, Costa Rica has for the last four years scored very high in the Governance and Personal Freedom sub-indices. In particular, it does well in objective governance indicators, such as political rights, democratic quality of institutions, constraints on the executive, and rule of law.

The strength of Costa Rica's institutions dates back to 1948, when a brief civil war ended, not with dictatorship or chronic civil conflict as in other Central American nations, but with the drafting of a new constitution. Not only did that constitution establish a stable democratic government, it also abolished the army and extended civic rights to different ethnic groups and women, thereby ensuring that the needs of rural and lower-middle-class citizens would be taken into account.

The fortunate outcome was a state-led social-democratic welfare strategy that guaranteed civil rights and invested heavily in education, infrastructure, and health. The enduring benefits of this strategy are reflected in the 2012 Prosperity Index, which shows a secondary school enrolment rate as high as 100%, and a life expectancy of 79 years. Both of these indicators are among the highest for all of Latin America.

BOTSWANA

This land-locked, sparsely populated nation in southern Africa has experienced remarkable economic progress, averaging a 10% GDP growth rate since independence in 1966. In addition, Botswana is the highest ranking sub-Saharan African country in the Index. Like Costa Rica, Botswana also achieved high scores in Governance and Personal Freedom.

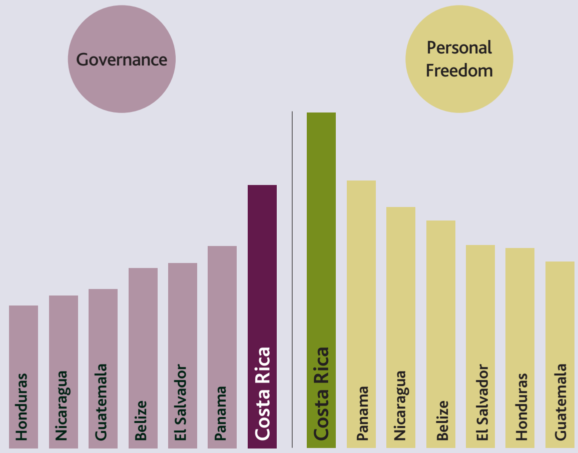
These scores mostly reflect the commitment Botswana has made to democratic institutions and rule of law. Prior to Botswana's independence, the British instilled strict property rights and rule of law, while at the same time refraining from dismantling pre-existing tribal institutions. This combination of new and old institutional strength then carried over to the post-independence government, and it has contributed to one of Botswana's most impressive historical achievements: avoiding the 'resource curse'.

When diamonds were discovered in 1967, President Seretse Khama (the Oxford-educated chief of one of Botswana's eight principal tribes) sought to avoid the 'resource curse' that had fostered corruption, and political instability in so many countries. Under his leadership, Botswana adopted far-sighted

Yet much like other democratic governments in the twentieth century, Costa Rica has struggled to balance an expanding welfare state with the need for private enterprise. Under President Arias and his successors, Costa Rica introduced trade liberalisation reforms including establishing free trade zones that eventually led to an increase in foreign direct investment, with companies such as Intel, Microsoft, and Motorola opening manufacturing plants in the country. Today high-tech goods account for 40% of Costa Rica's manufactured exports, compared with a regional average of 6.8%.

The decline we see in the survey data on satisfaction with government could be attributed to the recent government strategy which has sought to increase reliance on the market economy and downsize the social-welfare safety net. These efforts may be the reason why, between 2009 and 2011, Costa Ricans' confidence in their government declined from 54% to 35%, and the percentage of respondents who believe their government is doing a good job addressing poverty also declined, from 53% to 37%. This social instability most likely reflects the political fall-out of a government making the tough decision to reduce the availability of social welfare policies.

HIGH GOVERNANCE AND PERSONAL FREEDOM IN COSTA RICA

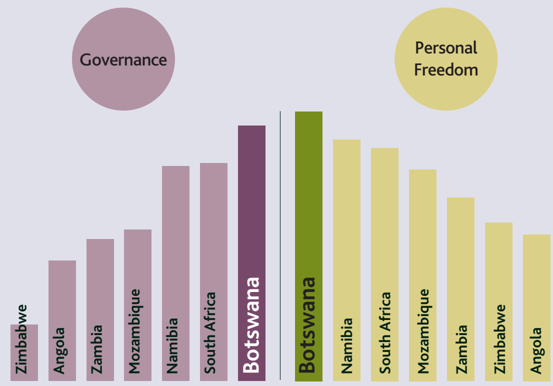


development-oriented policies, particularly focusing on issues of tribal land ownership. Revenues from the mining industry were invested in infrastructure, education, and health projects.

The wisdom of those policies is today reflected in a secondary school enrolment rate of 80%, as well as in a high proportion of people reporting adequate access to sanitation facilities (62%, as opposed to the regional average of 31%). In the Prosperity Index, it also translates into high scores in such crucial variables as rule of law and government effectiveness.

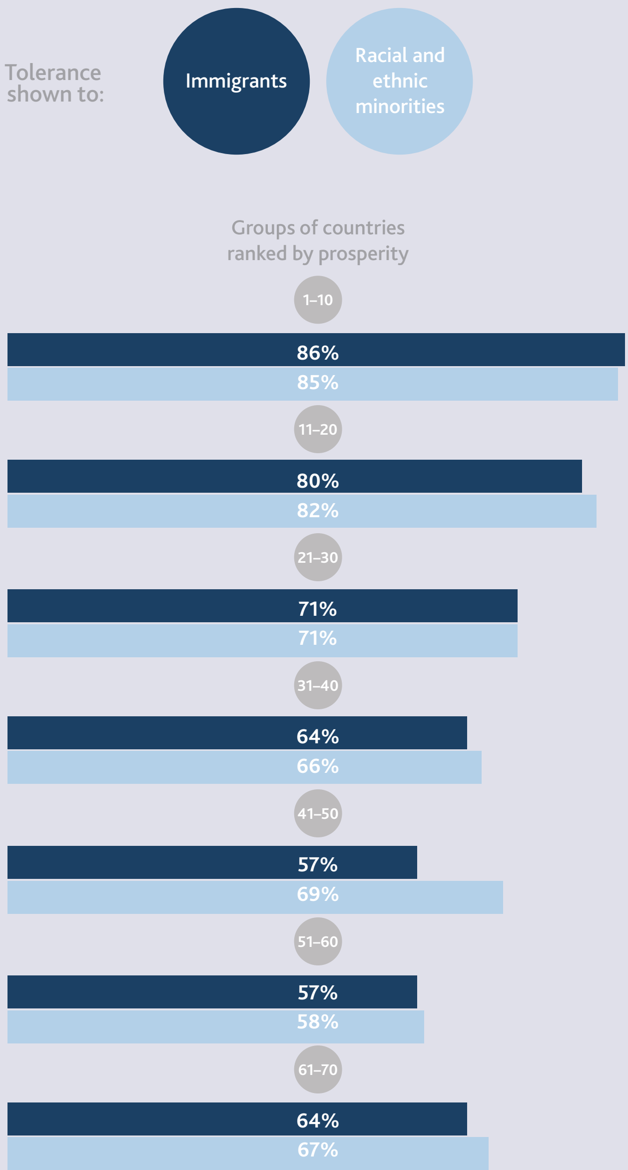
Yet, just as Costa Rica faces the challenge of carrying its fortunate historical legacy forward into an uncertain future, so too must Botswana find ways to achieve levels of prosperity that are not built exclusively on natural endowments. In recent years, the global economic crisis has dampened the demand for Botswana's diamonds, causing revenues to fall. Moreover, for the first time since independence, the government is running a deficit. These setbacks help to explain why citizen confidence in the government has dropped to 75% in the 2012 Index, from a high of 89% in 2009. Perhaps the biggest test ahead for this regional leader will be whether its political system can continue to produce leaders of the same high calibre as have been seen in the past.

HIGH GOVERNANCE AND PERSONAL FREEDOM IN BOTSWANA



SNAPSHOT: **TOLERANCE, DIVERSITY, AND PROSPERITY**

HIGH RANKING COUNTRIES ARE ALSO THE MOST TOLERANT



Percentage of population that think where they live is a good place to live for immigrants and minorities

Data from the 2012 Legatum Prosperity Index™ (original source: Gallup World Poll)

The 2012 Prosperity Index suggests that countries with high levels of tolerance towards immigrants and ethnic minorities also enjoy high levels of prosperity. This is depicted in the graphic (left), which compares the tolerance scores of the top 70 countries in the Index, divided into six groups according to their overall prosperity rankings.

There is considerable evidence that cultural and religious diversity have positive economic impacts, with new ideas, new markets, and a general culture of creativity and innovation emerging from the interaction of people from different backgrounds.

Yet the news is not all good. Over the last 50 years, Europe, for example, has experienced unprecedented waves of immigration. And while majorities in most EU countries still affirm the benefits of diversity, there are signs that mounting economic problems in some member nations are accompanied by diminishing tolerance toward both immigrants and older ethnic minorities.

The pattern, however, is not universal. The graphic (right) shows that some countries are experiencing a positive trend in tolerance for immigrants, such as Slovenia and Slovakia. It also shows that some countries are experiencing a negative trend. In Latvia, for example, the percentage of respondents expressing tolerance toward immigrants dropped from 65% in the 2009 Index to 38% in 2012. In Greece, the percentage dropped from 67% to 47% over the same period. In these countries and others, a severe economic downturn has brought about high unemployment, widespread discontent, and rising crime rates attributed, rightly or wrongly, to the presence of large numbers of immigrants.

This leads to a policy insight. Along with efforts to restore economic health, it is also beneficial when governments strive to restore tolerance among their citizens. It is extremely difficult to promote openness among different ethnic and religious groups, especially against a backdrop of ongoing intergroup friction and a general distrust of government. But to do nothing may be worse, because intolerance has a way of spiralling out of control.

As Harvard University scholar, Robert Putnam and others have shown, a high degree of diversity can erode social capital, in the sense of reducing mutual trust, cooperation, and networking

Along with efforts to restore economic health, governments should also strive to promote tolerance among their citizens.

among citizens, so that they become less willing to engage in civic activity or even to share public space.[1] In addition, the erosion of social capital tends to undermine public support for the provision of social welfare and other public goods.[2] But Putnam also argues that successful societies find ways to overcome the negative effects of diversity, by creating new forms of cross-culture 'solidarity'.

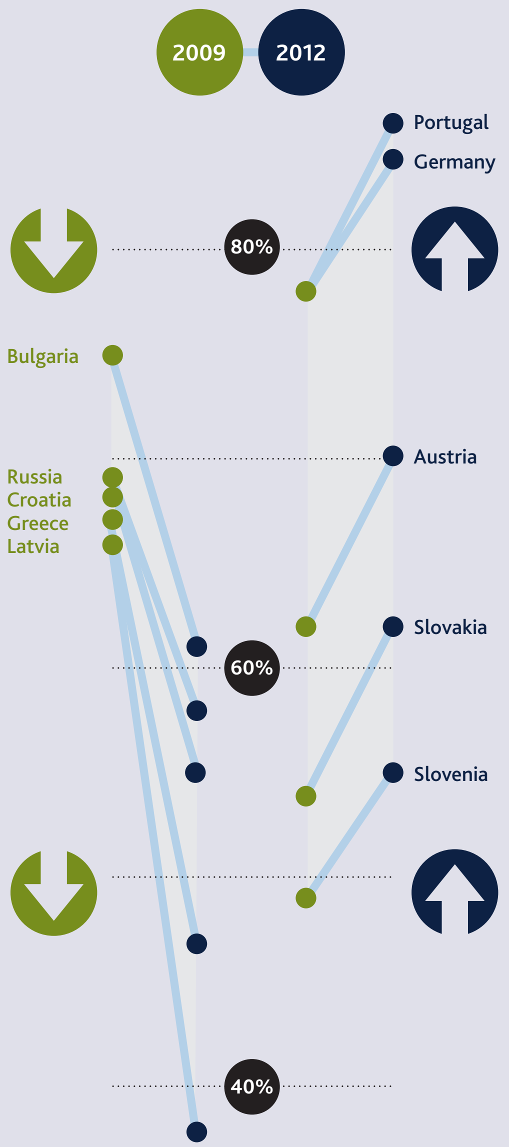
The Prosperity Index can help in these efforts because, as illustrated in the graphic on the following page, it demonstrates a clear link between higher levels of tolerance for immigrants and ethnic minorities, and higher levels of social capital.

As indicated by the dark purple dots, several countries that score highly in both tolerance and social capital, such as New Zealand, Canada, Australia, Sweden, and Ireland, also have large immigrant populations. Some of these countries, notably Australia, have a history of 'white only' immigration; others, notably Sweden and Ireland, have only recently become 'nations of immigrants'. Yet all have successfully facilitated social cohesion among different groups.

It is hard to say why some countries are more successful at this than others. Some researchers argue that societies with a high degree of social interconnectedness enable greater intergroup interactions and therefore are more tolerant. But in any case, it seems clear that the most successful twenty-first century societies will be those in which creativity and innovation are stimulated by infusions of influences and ideas from diverse cultural sources. To cite one obvious example, it has been argued that global popularity of Hollywood films and American popular music is partly due to their having been developed to satisfy a highly diverse domestic market.[3]

A similar case can be made for the role of diversity in stimulating creativity and innovation in the modern economy. When met with tolerance, diversity can act as a

TOLERANCE IN EUROPEAN COUNTRIES



Percentage of population who state that the area where they live is a good place for immigrants.

Data from the 2012 Legatum Prosperity Index™ (orginal source: Gallup World Poll)

Several countries that have high scores in both tolerance and social capital, such as New Zealand, Canada, Australia, Sweden, and Ireland, also have large immigrant populations.

catalyst, allowing people from different origins with different skills to work together and generate new ideas. Unskilled immigrants play a part, too, by bringing new consumption patterns to the society. Tolerance for diversity implies tolerance for dynamism and change, which allow the flow of new products and new ways of doing business.

For all these reasons, then, tolerance of diversity is worth preserving and promoting, not just because it is right but also because it confers practical economic advantages. As noted by the Nobel Prize-winning economist Joseph Stiglitz: "Discrimination reduces the incentives for members of a particular group to make the investments that would lead to higher productivity".[4] Future generations will inevitably face greater diversity. The response should be one where tolerance is encouraged and promoted. This could include educational programmes, inclusive public policies, and civic engagement, which can help people understand and build upon each other's differences.

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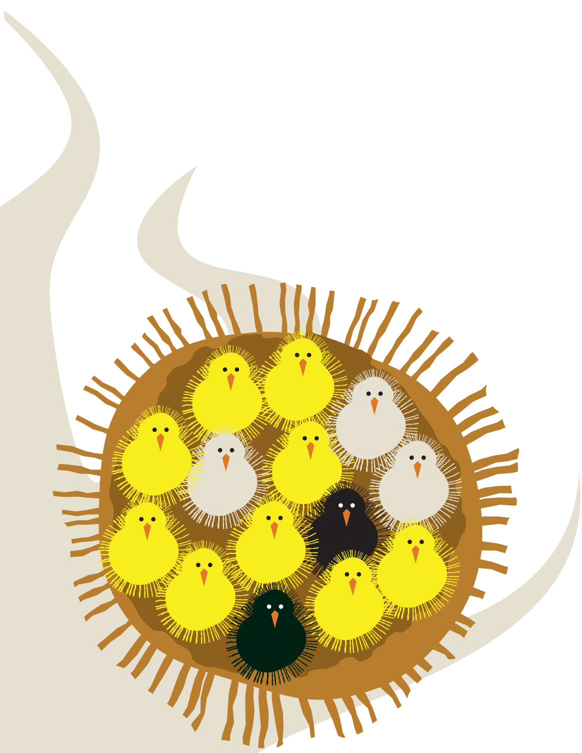
2. Stephen Knowles, "Is Social Capital Part of the Institutions Continuum?" (UNU-WIDER research paper 2006/25, 2006).
3. See, for example, Richard H. Pells, *Not Like Us* (Basic Books/HarperCollins, 1997).
4. Joseph E. Stiglitz, *The Price of Inequality* (Allen Lane/WW Norton, 2012).



HIGH SOCIAL CAPITAL AND HIGH TOLERANCE GO HAND IN HAND

Percentage of population who state that the area where they live is a good place for immigrants.

Data from the 2012 Legatum Prosperity Index™ (orginal source: Gallup World Poll)

SNAPSHOT: **ENTREPRENEURSHIP AND INNOVATION**

Entrepreneurs in the developing world often don't experience the growth and success of their counterparts in the developed world. Addressing the underlying reasons can help boost entrepreneurial activity and job opportunities.

Entrepreneurship drives innovation, and innovation drives growth. So a high level of entrepreneurship is often interpreted as a sign of a healthy economy. Thus, reformers and activists seeking to increase growth in developing economies often focus on building and nurturing entrepreneurship. The micro-finance industry is an example of a service that has developed around the idea that a lack of access to capital is what keeps small-scale entrepreneurs from growing their businesses.

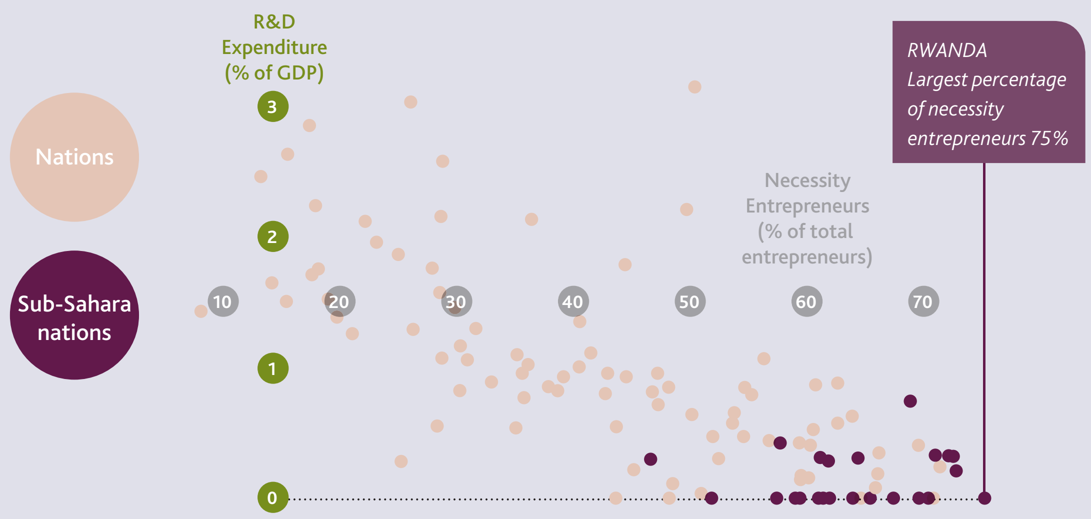
Greater access to capital does foster entrepreneurship. However, not all entrepreneurship has a lasting impact on a country's economy. Particularly in developing countries many are entrepreneurs not out of choice but out of necessity. This type of entrepreneurship is common in sub-Saharan African countries such as Rwanda and Zambia, where over 70% of entrepreneurs have started small businesses because they have no prospect of a job.

The contrast here is with 'opportunity entrepreneurs', who choose to exploit the opportunities they perceive in the marketplace. Unlike necessity entrepreneurs, who lack an entrepreneurial inclination, opportunity entrepreneurs have the motivation and the skills to save, invest, innovate, and grow—and in the process contribute to their country's prosperity.

The relationship between the type of entrepreneurship and the level of innovation and growth achieved in a country is clear when we compare the level of necessity entrepreneurship with the level of innovation. As shown in the graphic below, there is a strong correlation between a country's level of research and development expenditure (a proxy for innovation), and the proportion of necessity to total entrepreneurs within that country.

Many sub-Saharan African countries appear in the lower right corner. In these countries, most entrepreneurs are necessity entrepreneurs who tend to operate in businesses that are replicative and undifferentiated from the many others, such as street market

THE SHARE OF NECESSITY ENTREPRENEURS AGAINST R&D EXPENDITURE



The Necessity Entrepreneurship variable is constructed using questions from the Gallup World Poll which ask why a person decided to start a business. Data on R&D expenditure are from the World Bank Development Indicators and our own calculation. Data from the 2012 Legatum Prosperity Index™ (orginal source: Gallup World Poll).

traders or fishermen. Although they are very resourceful and able to make a lot out of little, they tend to remain small, avoid risky activities, and earn negligible profits. Further, most have no employees and survive only for a few years.[1]

Entrepreneurs in the developing world often do not experience the growth and success experienced by their counterparts in the developed world. There are four main reasons for this. First, the underdeveloped financial system in developing countries denies entrepreneurs access to the capital needed to undertake more innovative activity. Micro-loans, although helpful, are often insufficient to help entrepreneurs meet the large upfront investment needed to leap into larger enterprises .

Second, obligations to relatives act as a disincentive for entrepreneurs to grow their business. In most sub-Saharan African countries, kinship is a collective social institution but it can impose undesirable moral and financial obligations towards sharing and redistribution, which can be detrimental to financial success.[2]

Third, limited access to adequate infrastructure and technology has negative effects on entrepreneurial activities. The Prosperity Index shows that communication infrastructure is linked to high levels of entrepreneurship and that sub-Saharan African countries lag far behind in these indicators. For instance, the total number of secure Internet servers in all of the Index's sub-Saharan African countries (population 800 million) is equal to that of Hong Kong (population 7 million).

Fourth, the lack of established and protected institutions, such as property rights and rule of law, prevents opportunity entrepreneurs from enforcing contracts, which inhibits growth and the creation of new employment opportunities. The Prosperity Index finds that sub-Saharan African countries exhibit some of the lowest levels of rule of law in the world.

Understanding the distinction between necessity and opportunity entrepreneurs, and the reasons why entrepreneurship may not flourish, can help to inform development policies aimed at boosting entrepreneurial activity and job opportunities. Focusing on sound institutions (point four above) can create a more stable economic environment that will benefit local opportunity entrepreneurs and attract foreign investors; both of which would create the crucial jobs that necessity entrepreneurs aspire to.

The Index shows that current inflows of foreign direct investment (FDI) in sub-Saharan Africa are extremely low. Increased FDI resulting from stronger institutions should be directed to the manufacturing and service industries that have greater employment potentials.

The focus of development policies should be to help opportunity entrepreneurs to grow and succeed—through financial and institutional reforms. Policies should also enable industries to flourish so that the surplus of necessity entrepreneurs is able to move into stable employment.

SECURE INTERNET SERVERS

Data from the 2012 Legatum Prosperity Index™ (original source: World Bank Development Indicators)

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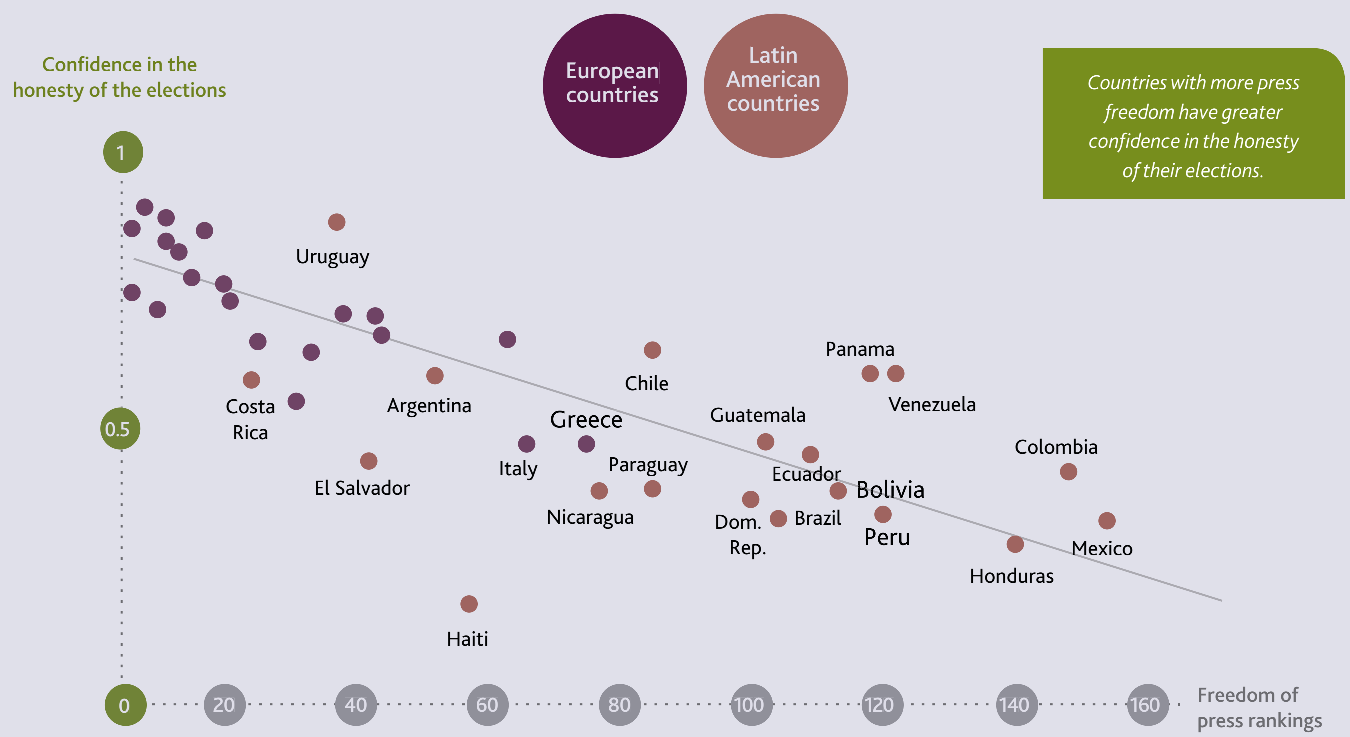
SNAPSHOT: GOVERNMENT APPROVAL AND MEDIA FREEDOM IN LATIN AMERICA

The Prosperity Index finds that accountable government is a key driver of prosperity. When countries have good governance, it is often reflected in the level of confidence and satisfaction citizens have in their national institutions. The 2012 Prosperity Index reveals, however, that Latin American citizens have low levels of confidence in their governments and national institutions.

The lack of confidence in national institutions stems, in part, from the lack of freedom in the media which can compromise the transparency of political institutions. The integrity of the media in many Latin American countries have been called into question by international observers. In Venezuela, for example, President Hugo Chavez is engaged in a battle with the opposition-leaning media. In Bolivia and Ecuador, state governments have acquired a large (and growing) share of the national media. In Mexico, President Enrique Peña Nieto receives extensive support and coverage from Televisa, the country's largest mass-media company.

The graph below plots the relationship between media freedom and citizen confidence in the honesty of elections. It shows that countries where the press is free tend to have citizens

PRESS FREEDOM GOES HAND IN HAND WITH HONEST ELECTIONS



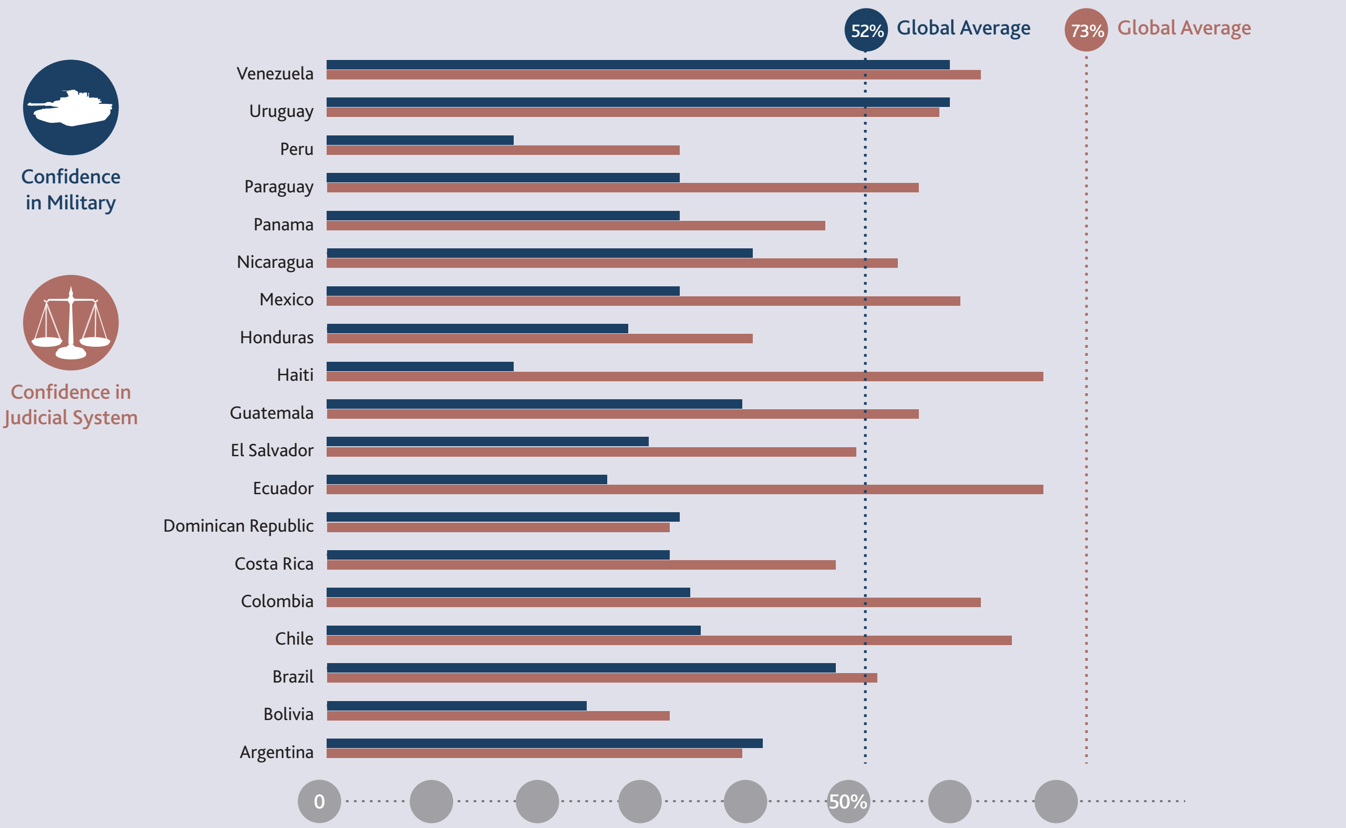
Data from the 2012 Legatum Prosperity Index™ (original sources: Gallup World Poll and Press Freedom Index) who believe that elections are conducted in a transparent and competitive manner. Most European countries place higher than Latin American countries on both metrics (with the notable exceptions of Italy and Greece).

Less than 30% of citizens in Mexico and Honduras believe that the national elections are honest. Conversely, Uruguay does extremely well in confidence in the honesty of elections and its freedom of the media is close to that of France and Belgium. Costa Rica tops the list of Latin American countries for freedom of the press, although confidence in elections does not reach European levels.

Latin American countries offer us an interesting insight into media freedom and the quality of government. Generally, the lack of media freedom goes hand in hand with negative perceptions about the transparency of national institutions. But it is also a symptom of malfunctioning judicial and legal institutions unable to prevent the spread of disruptive political influences on the media.

Countries where the press is free tend to have citizens who believe that elections are conducted in a transparent and competitive manner.

CONFIDENCE IN THE MILITARY AND THE JUDICIAL SYSTEM IN LATIN AMERICA



Data from the 2012 Legatum Prosperity Index™ (orginal source: Gallup World Poll)

INDEX METHODOLOGY

The 2012 Legatum Prosperity Index™ offers a unique insight into how prosperity is forming and changing across the world.

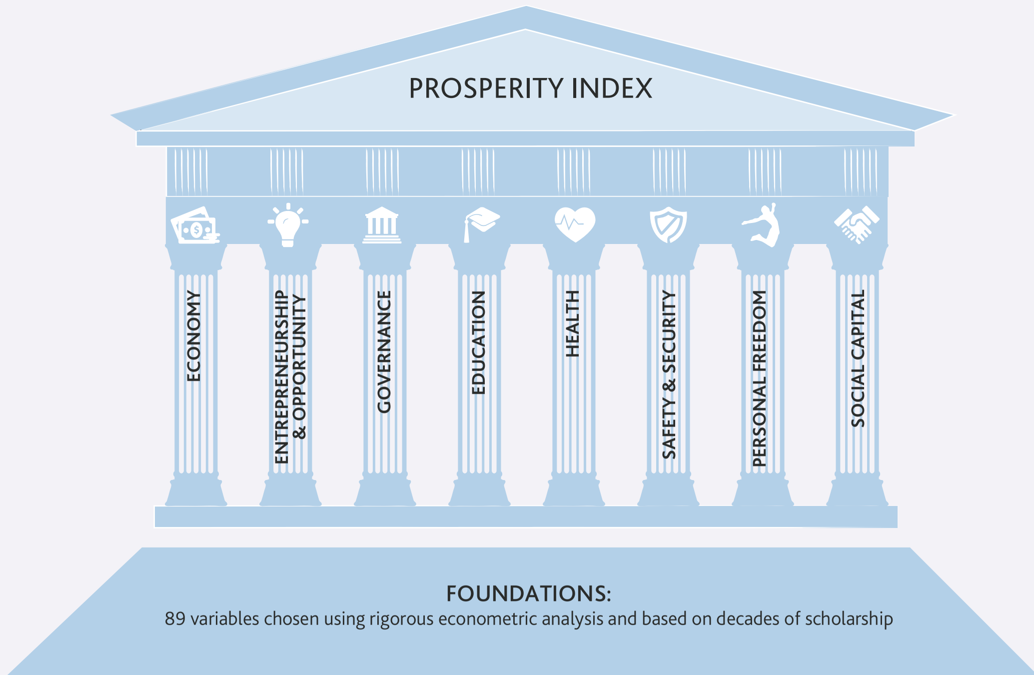
Traditionally, a nation's prosperity has been based on macroeconomic indicators such as a country's income, represented either by GDP or by average income per person (GDP per capita). However, most people would agree that prosperity is more than just the accumulation of material wealth, it is also the 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 which we strive to meet with academic and analytical rigour. This short methodological overview provides an understanding of how we constructed the 2012 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.

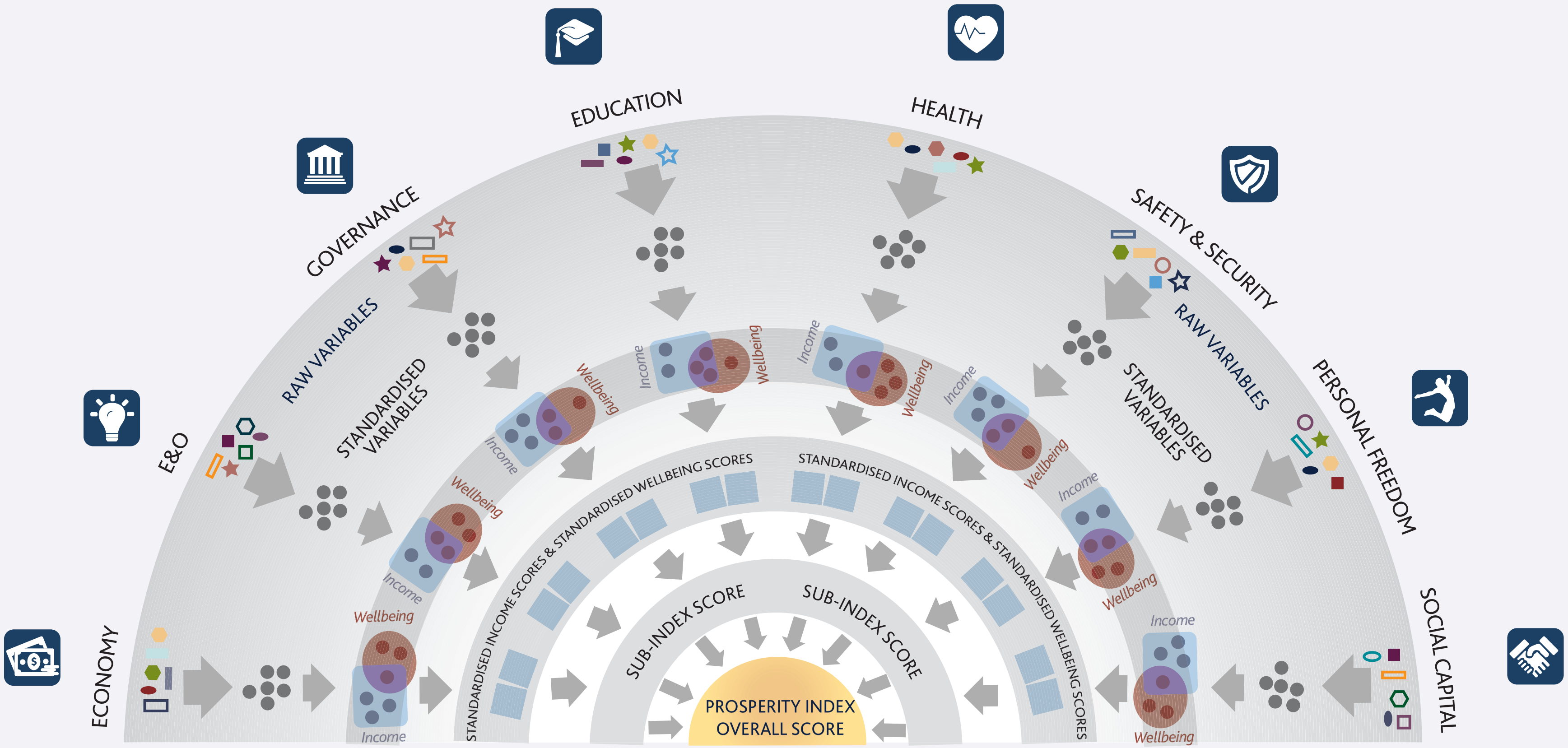
We endeavour to create an Index that is methodologically sound. To that end, we also publish a full methodology document to provide the reader with all the information required to understand the Legatum Prosperity Index™ in a way that is transparent, useful, and informative.

THE PILLARS OF PROSPERITY: EIGHT SUB-INDICES, EQUALLY WEIGHTED



Further information on the Index, including comprehensive country profiles and interactive tools that allow you to explore the data, can be found on our website **www.prosperity.com.**

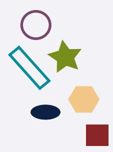
CREATING THE PROSPERITY INDEX RANKINGS



Each step for the methodology is explained in detail on the next page.

HOW DO WE MEASURE A COUNTRY'S OVERALL PROSPERITY?

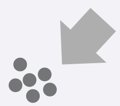
1. SELECTING THE VARIABLES



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 an 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 influences.

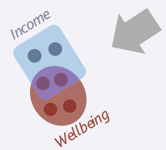
The Prosperity Index uses both objective and subjective variables to measure prosperity. This provides a balanced approach, which prevents the country rankings from being biased due to either prejudice or misperceptions on the one hand, or to the poor quality of record keeping and reported statistics on the other.

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. WEIGHTING

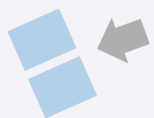


When the methodology was set in 2010, we also determined the weight of each variable, using regression analysis. A variable's weight (or 'coefficient') represents its relative importance to the outcome (either income or wellbeing). In other words, statistically speaking, some things matter more to prosperity than others. We represent these weights in the graphics provided in each of the sub-index pages (p38–45).

Again, we emphasise that these weights are not arrived at through subjective judgements or discretionary choices, but are based on the particular statistical relationship between each variable and changes in income and wellbeing.

HOW TO CALCULATE PI SCORES AND RANKINGS

4. INCOME AND WELLBEING SCORES



For each country, the latest data available in 2012 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 AND RANKINGS

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 SCORES AND RANKINGS

45 3 140 82

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.

The Prosperity Index applies equal weights to each sub-index for all countries, regardless of their level of development. While it is of course true that countries at different levels of development will each have different needs, to construct a global index it is crucial to measure each country by the same yardstick. Giving different weights to countries would make country rankings incomparable across income levels.

We offer you, the reader, the opportunity to assign your own weightings to each of the sub-indices, and to see how the rankings change according to these different weightings. This can be easily done at our website: www.prosperity.com. For a mathematical illustration of how scores change according to the choice of the weights, please refer to the Technical Appendix.

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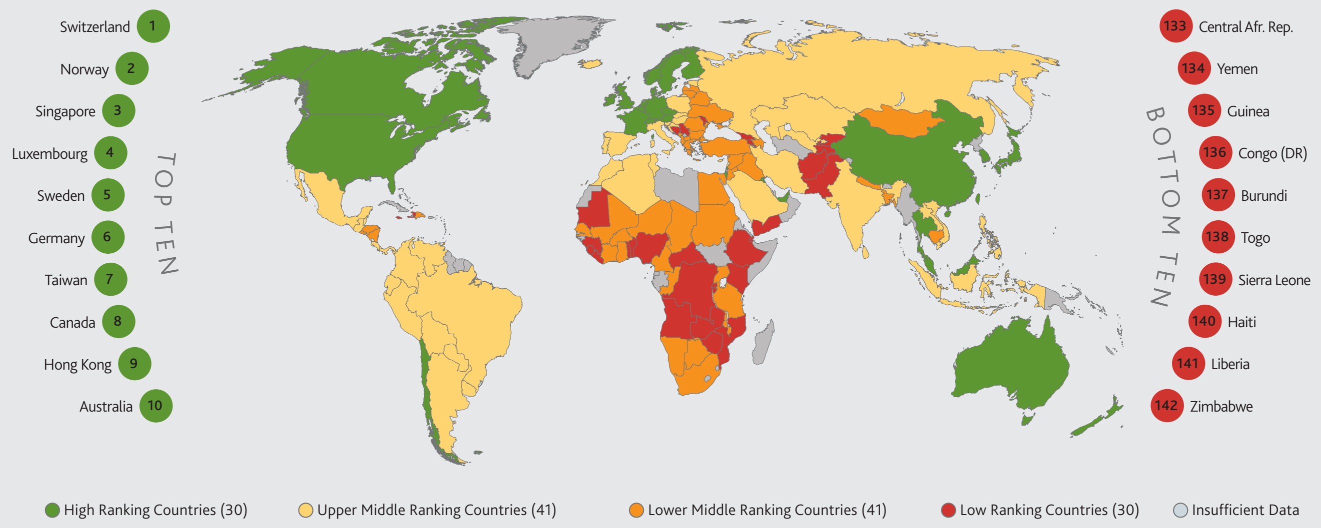
SUB-INDEX: **ECONOMY**



Sound and stable economic fundamentals increase per capita income and promote overall wellbeing. The Economy sub-index measures countries' performance in four key areas: macroeconomic policies, economic satisfaction and expectations, foundations for growth, and financial sector efficiency. As illustrated in the chart on the right, the variables of the sub-index are categorised according to these areas.

The sub-index demonstrates that the outcomes of sound macroeconomic policies, including robust domestic saving rates, low rates of inflation, and low unemployment, have a positive impact on average levels of income and wellbeing. It further shows that investment in physical capital, high-tech exports, and a competitive economy attractive to foreign investment, are essential to boosting per capita income.

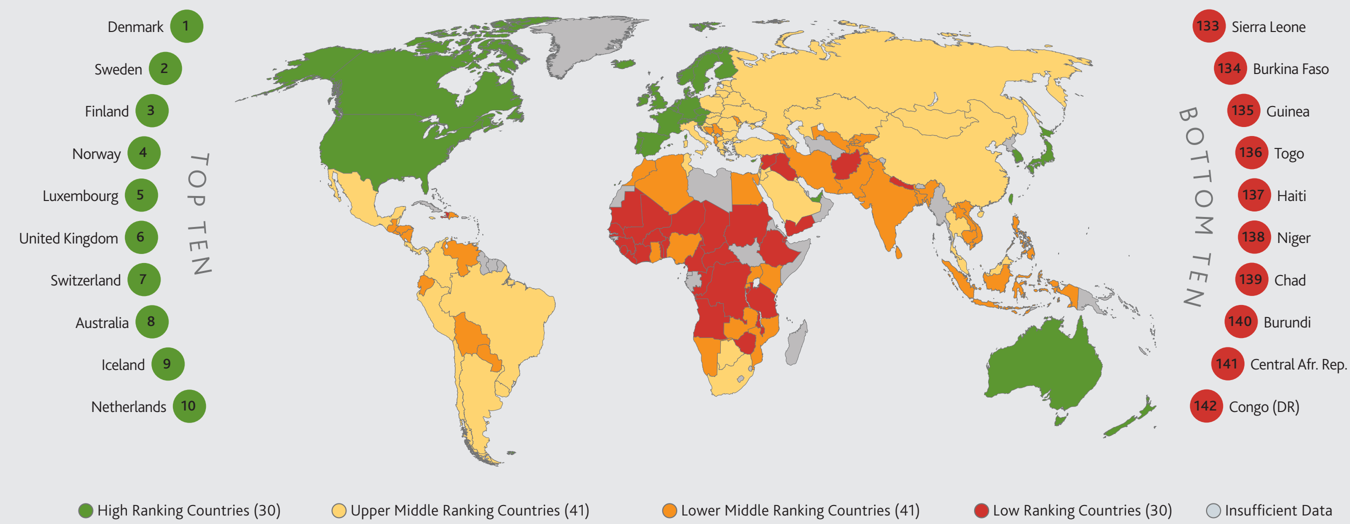
Positive expectations about the future of the economy and satisfaction with living standards contribute to the overall wellbeing of a country's citizens. However, while gradually increasing economic strength is generally beneficial for all, our research finds that rapid increases in GDP are related to lower levels of happiness, as people struggle to adjust to the sudden changes triggered by such growth.

VARIABLE WEIGHTS

Variables are ordered from largest to smallest within each category. Income and wellbeing bar sizes are not comparable due to differences in scale. These variables are positively or negatively correlated to income or wellbeing indicated by a plus (+) or minus (-) sign.

and : Darker lines indicate a variable that is included in both income and wellbeing regressions.
and : Lighter lines indicate a variable that is included in only one regression.

SUB-INDEX: **ENTREPRENEURSHIP & OPPORTUNITY**



A strong entrepreneurial climate in which citizens can pursue new ideas and opportunities to improve their lives leads to higher levels of income and wellbeing. The Entrepreneurship & Opportunity (E&O) sub-index captures these effects by measuring countries' performance in three areas: entrepreneurial environment, innovative activity, and access to opportunity. As illustrated in the chart on the right, the variables of the sub-index are categorised according to these areas.

Low business start-up costs and a positive perception of a country's entrepreneurial environment contribute to improving citizens' economic prospects and overall wellbeing. The sub-index also evaluates a country's ability to commercialise innovation and measures the technological and communication infrastructure that is often essential to successful commercial endeavours. It further provides a snapshot of access to opportunity by tracking inequality and by asking citizens whether they believe their society to be meritocratic.

The E&O sub-index builds upon research on how entrepreneurship drives innovation and generates economic growth, and the positive effects that result from an individual realising his or her entrepreneurial potential. When a country improves the likelihood that entrepreneurial initiative will pay off and individuals experience the satisfaction of entrepreneurial success, a society's prosperity increases overall.

VARIABLE WEIGHTS

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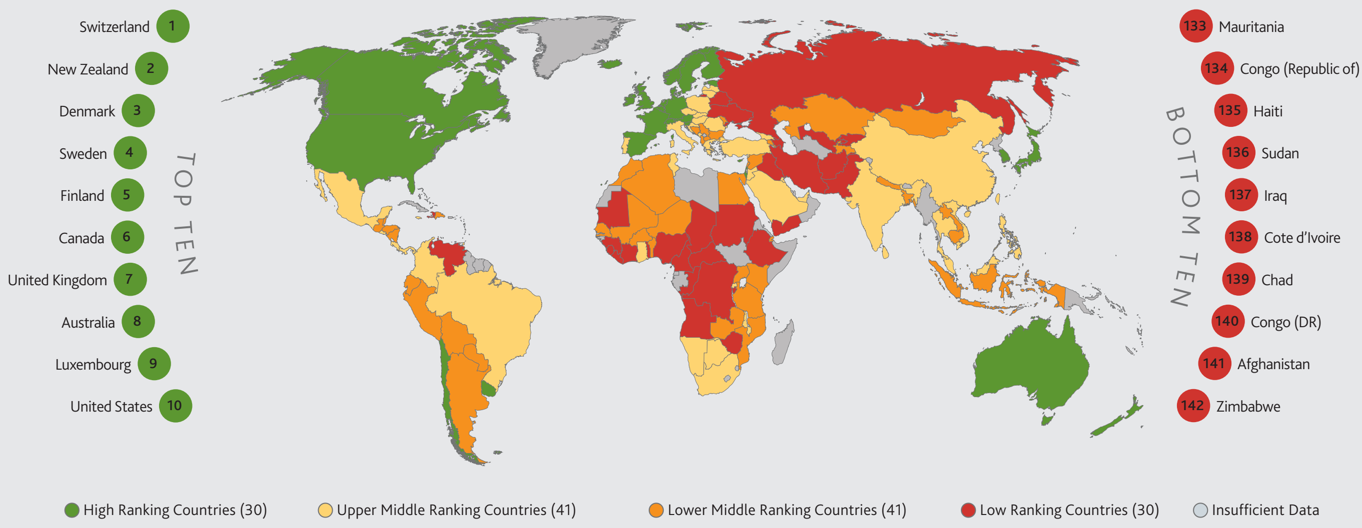
and : *Darker lines indicate a variable that is included in both income and wellbeing regressions.*
and : *Lighter lines indicate a variable that is included in only one regression.*

LEGATUM INSTITUTE

SUB-INDEX: **GOVERNANCE**



Well-governed societies enjoy higher levels of economic growth and citizen wellbeing. The Governance sub-index measures countries' performance in three areas: effective and accountable government, fair elections and political participation, and rule of law. As illustrated in the chart on the right, the variables in the sub-index are categorised according to these areas.

Stable and democratic governing institutions safeguard political and economic freedom and create an environment of civic participation, leading to higher levels of income and wellbeing. The Governance sub-index assesses levels of government corruption and competition, and citizens' confidence in the honesty of elections, the judicial system, and the military.

Government stability and accountability benefit citizens' wellbeing. Further relevant factors include people's perception of how well the government addresses poverty and preserves the environment. Academic research has found that, in general, political freedom, strong institutions, and regulatory quality contribute significantly to economic growth. Effective, fair, and accountable governments increase public confidence, and, ultimately, result in higher levels of life satisfaction among citizens.

VARIABLE WEIGHTS

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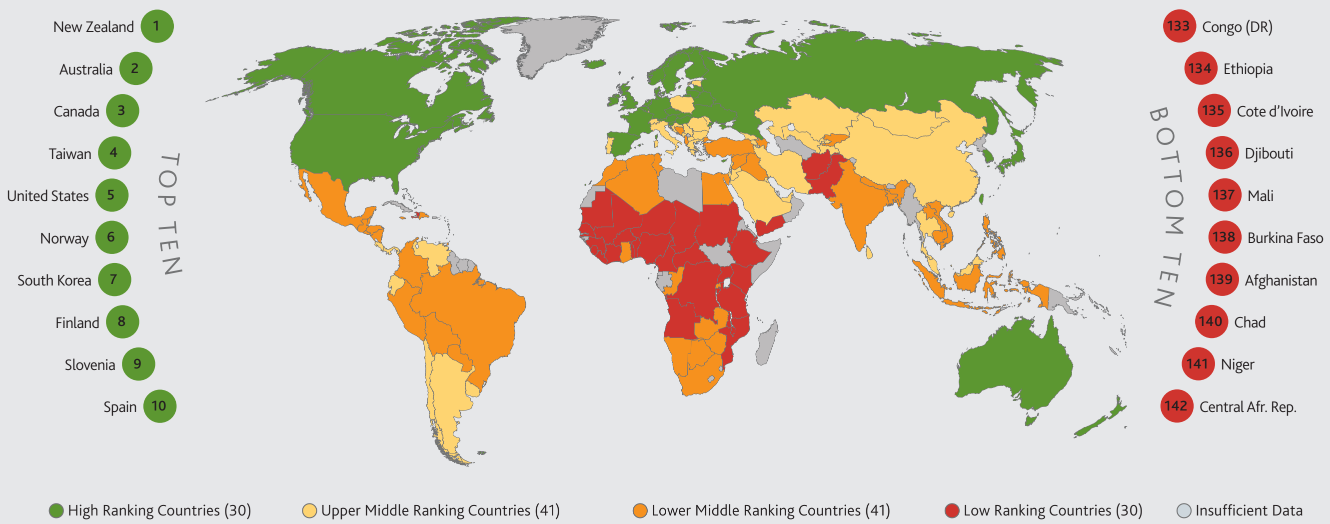
and : Darker lines indicate a variable that is included in both income and wellbeing regressions.
and : Lighter lines indicate a variable that is included in only one regression.

SUB-INDEX: **EDUCATION**



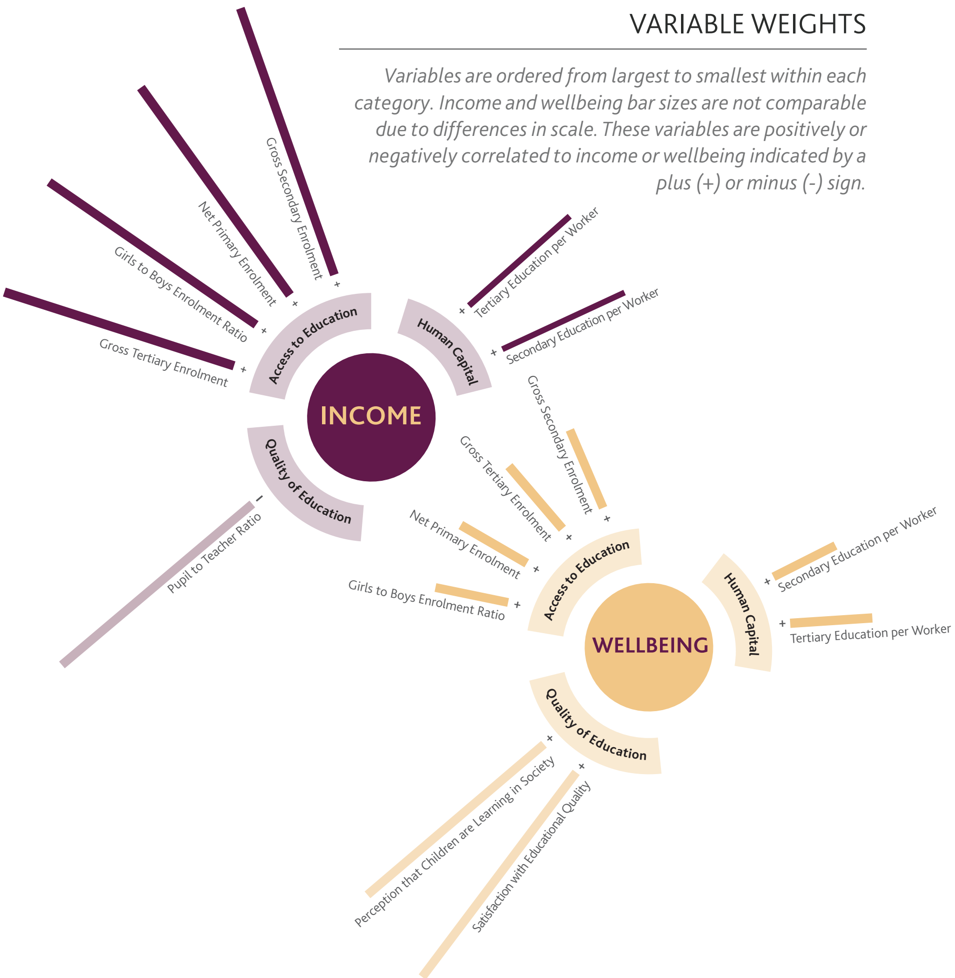
Education is a building block for prosperous societies. The Education sub-index measures countries' performance in three areas: access to education, quality of education, and human capital. As illustrated in the chart on the right, the variables in the sub-index are categorised according to these areas.

The Education sub-index illustrates how access to education, as measured by enrolment rates, allows citizens to develop their potential and contribute productively to their society. In addition, it shows that human capital stock, measured by the average levels of education in the workforce, encourages research and development, and adds knowledge to society. Citizens' perceptions of the educational opportunities available to them are also key to assessing the quality of education in a given country.

This sub-index is inspired by research on economic growth that has found human capital to be an engine for growth, making a case for the non-diminishing effect of education on rising GDP levels. Academic research also shows that basic education enhances peoples' opportunities to increase life satisfaction.

VARIABLE WEIGHTS

Variables are ordered from largest to smallest within each category. Income and wellbeing bar sizes are not comparable due to differences in scale. These variables are positively or negatively correlated to income or wellbeing indicated by a plus (+) or minus (-) sign.

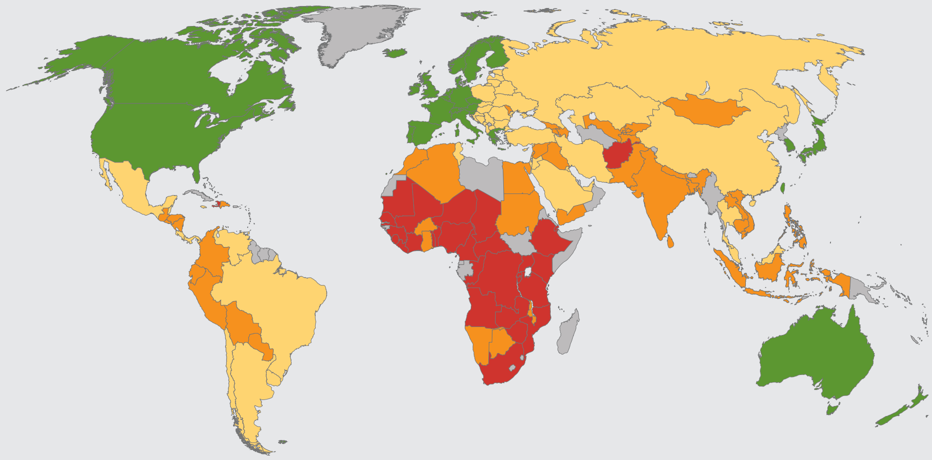


and : Darker lines indicate a variable that is included in both income and wellbeing regressions.
and : Lighter lines indicate a variable that is included in only one regression.

SUB-INDEX: **HEALTH**

TOP TEN

Luxembourg	1
United States	2
Switzerland	3
Norway	4
Germany	5
Japan	6
Netherlands	7
Belgium	8
France	9
Austria	10



BOTTOM TEN

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

High Ranking Countries (30) · Upper Middle Ranking Countries (41) · Lower Middle Ranking Countries (41) · Low Ranking Countries (30) · Insufficient Data

A strong health infrastructure which enables citizens to enjoy good physical and mental health leads to higher levels of income and wellbeing. The Health sub-index measures countries' performance in three areas: basic health outcomes, health infrastructure and preventative care, and physical and mental health satisfaction. As illustrated in the chart on the right, the variables in the sub-index are categorised according to these areas.

The Health sub-index evaluates countries on the basis of indicators that reflect strong health infrastructure, such as rates of immunisation and public expenditure. Countries are also assessed on average life expectancy, rates of infant mortality, and undernourishment. The sub-index further includes measures of individual satisfaction with health, and the effects on health from environmental factors such as water, air quality, and environmental beauty.

Researchers have found that self-reported wellbeing and self-reported health are strongly and significantly correlated to a society's overall health, further fostering human capital creation, which is favourable to higher economic growth. Mentally and physically healthy citizens are the bedrock of a productive workforce, which in turn increases levels of income per capita.

VARIABLE WEIGHTS

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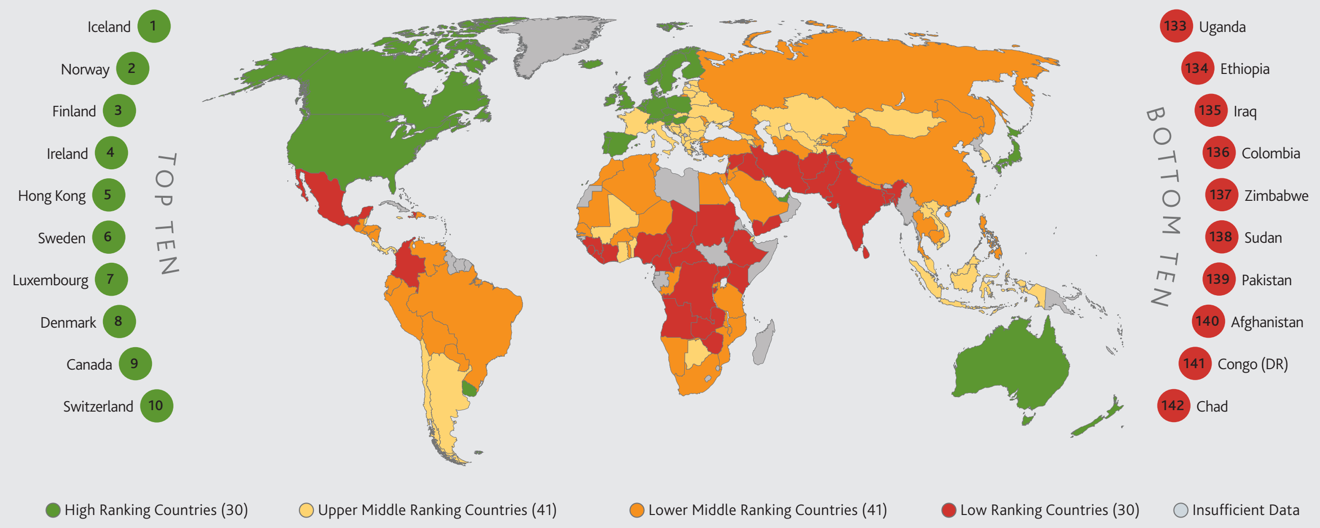
and : Darker lines indicate a variable that is included in both income and wellbeing regressions.
and : Lighter lines indicate a variable that is included in only one regression.

SUB-INDEX: **SAFETY & SECURITY**



Threats to national security and personal safety jeopardise levels of income and wellbeing. The Safety & Security sub-index measures countries' performance in two areas: national security and personal safety. As illustrated in the chart on the right, the variables in the sub-index are categorised according to these areas.

A stable social and political environment is necessary for attracting investment and sustaining economic growth. When citizens worry about their personal safety their overall wellbeing suffers. The Safety & Security sub-index combines objective measures of security and subjective measures of personal safety. Factors such as instability resulting from group grievances and demographic pressures limit GDP growth. Similarly, the opportunity to express political opinions without fear of persecution, and feeling safe walking alone at night, are positively correlated with higher levels of wellbeing.

When people and basic institutions are unsafe and unstable, capital, investment, and people flee. Academic research shows that organised political violence such as coups or civil war, as well as crime and mistrust stemming from poor social cohesion, hinder economic growth. In addition, an environment of fear and uncertainty negatively affects life satisfaction.

VARIABLE WEIGHTS

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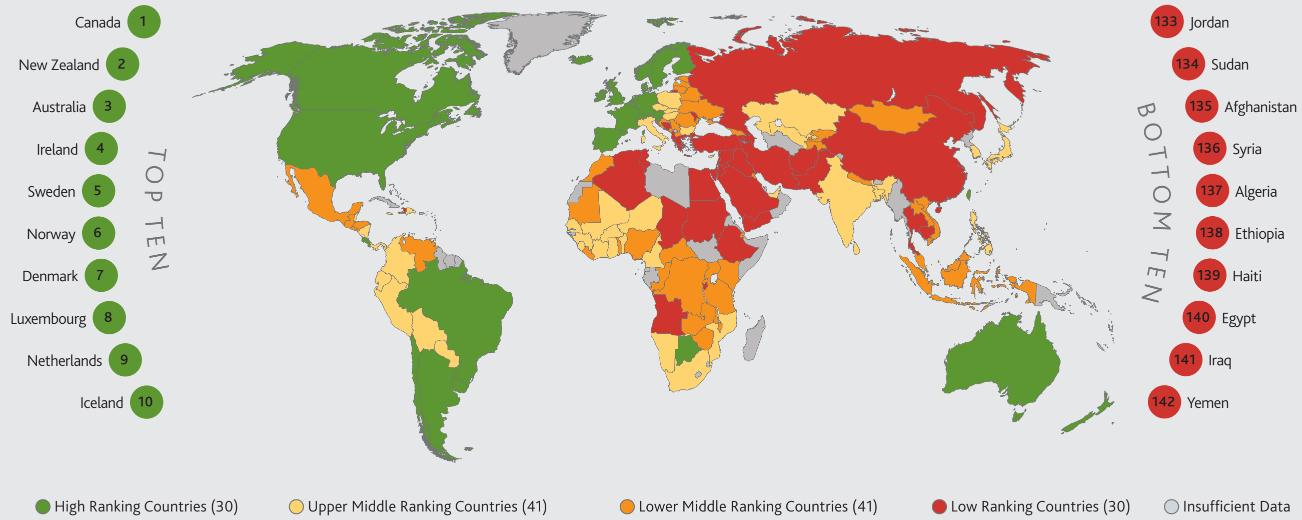
and : *Darker lines indicate a variable that is included in both income and wellbeing regressions.*
and : *Lighter lines indicate a variable that is included in only one regression.*

SUB-INDEX: **PERSONAL FREEDOM**

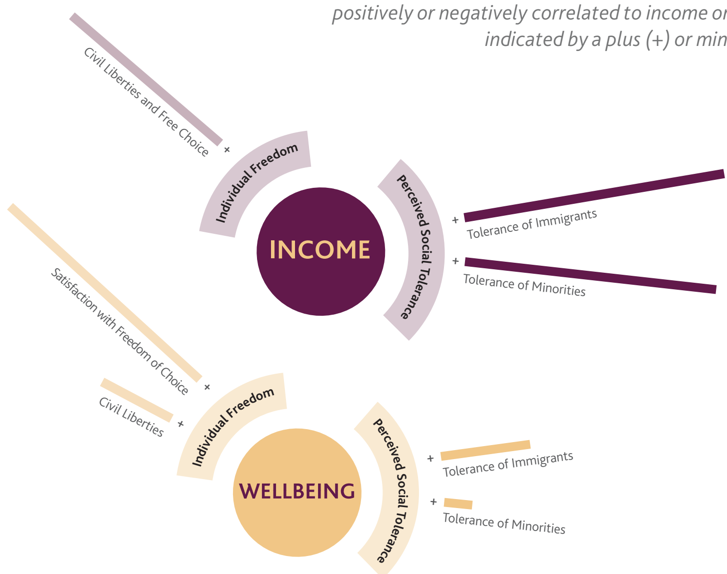


When citizens enjoy freedom of expression, belief, and organisation, as well as personal autonomy in a society welcoming of diversity, their country experiences higher levels of income and wellbeing. The Personal Freedom sub-index measures countries' performance in two areas: individual freedom and social tolerance. As illustrated in the chart on the right, the variables in the sub-index are categorised according to these areas.

The Personal Freedom sub-index captures the effects of freedom of choice, expression, movement, and belief, on a country's per capita GDP and the subjective wellbeing of its citizens. It also assesses how levels of tolerance of ethnic minorities and immigrants impact countries' economic growth and citizens' life satisfaction. Societies that foster strong civil rights and freedoms have been shown to enjoy increases in levels of satisfaction among their citizens. When citizens' personal liberties are protected, a country benefits from higher levels of national income.

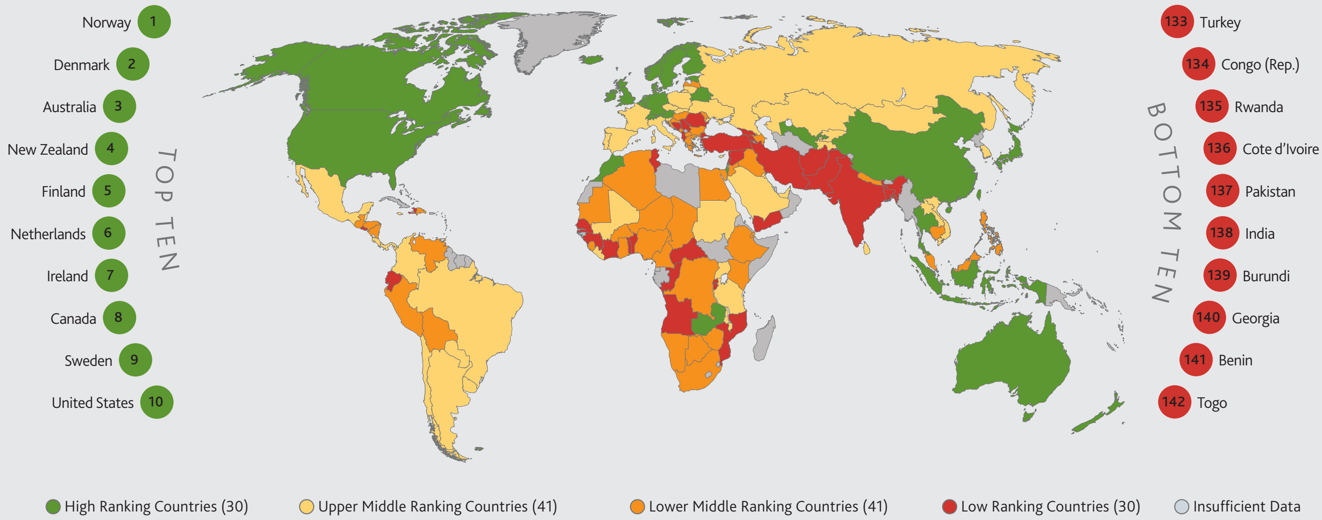
VARIABLE WEIGHTS

Variables are ordered from largest to smallest within each category. Income and wellbeing bar sizes are not comparable due to differences in scale. These variables are positively or negatively correlated to income or wellbeing indicated by a plus (+) or minus (-) sign.



and : Darker lines indicate a variable that is included in both income and wellbeing regressions.
and : Lighter lines indicate a variable that is included in only one regression.

SUB-INDEX: **SOCIAL CAPITAL**



Social networks and the cohesion a society experiences when people trust one another have a direct effect on the prosperity of a country. The Social Capital sub-index measures countries' performance in two areas: social cohesion and engagement, and community and family networks. As illustrated in the chart on the right, the variables in the sub-index are categorised according to these areas.

This sub-index evaluates how factors such as volunteering, helping strangers, and donating to charitable organisations impact economic performance and life satisfaction. It also measures levels of trust, whether citizens believe they can rely on others, and assesses how marriage and religious attendance provide support networks beneficial to wellbeing.

Empirical studies on social capital have shown that citizens' wellbeing improves through social trust, family and community ties, and civic group membership. Similarly, societies with lower levels of social capital have been shown to experience lower levels of economic growth. And so the term 'capital' in 'social capital' highlights the contribution of social networks as an asset that produces economic and wellbeing returns.

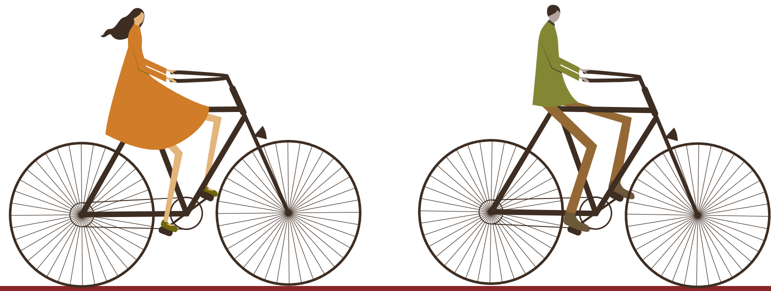
VARIABLE WEIGHTS

Variables are ordered from largest to smallest within each category. Income and wellbeing bar sizes are not comparable due to differences in scale. These variables are positively or negatively correlated to income or wellbeing indicated by a plus (+) or minus (-) sign.

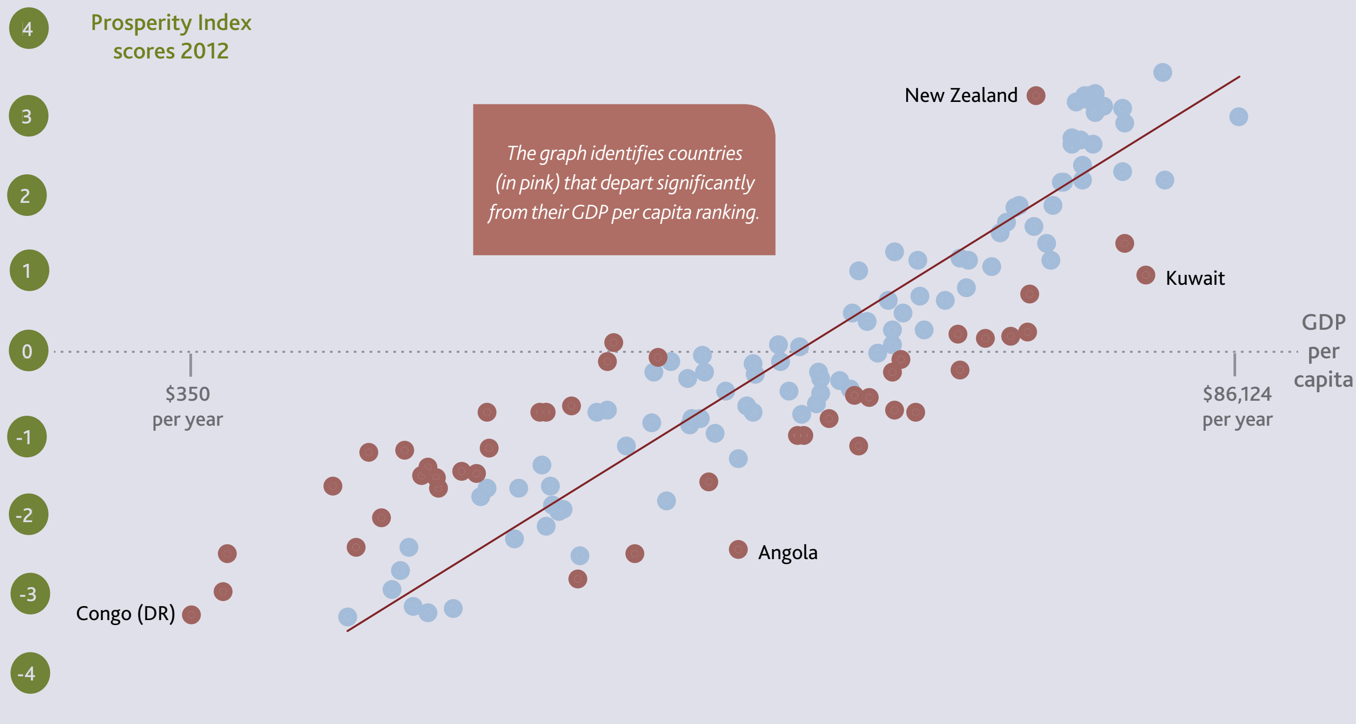
and : *Darker lines indicate a variable that is included in both income and wellbeing regressions.*
and : *Lighter lines indicate a variable that is included in only one regression.*

PROSPERITY INDEX '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. Depending on the case, these rankings may have been caused by one of the following:



GDP PER CAPITA vs. PROSPERITY INDEX SCORES



Data from the 2012 Legatum Prosperity Index™

1. DATA LAG

The Prosperity Index uses the most recent available datapoints, but because it relies on large global data sets the data are not always up to date. The 2012 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. DEVELOPED vs. DEVELOPING COUNTRIES

Some variables have a larger effect in developing countries than in developed countries (this is true, for example, of healthcare expenditure). For objectivity, we have opted to apply the same weights to all variables 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 example, when measuring socio-economic and political pressures in Israel, India, and Pakistan, Freedom House (from whom we receive data on civil liberties) excludes these territories. However, the Failed State Index (from whom we receive data on human flight) includes 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**.

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YEAR-ON-YEAR RANKINGS TABLE 2009–2012

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

COUNTRY	COUNTRY RANK			
	2009	2010	2011	2012
Greece	36	39	40	49
Croatia	39	38	41	50
Trinidad & Tobago	46	44	47	51
Saudi Arabia	57	49	49	52
Vietnam	50	61	62	53
Belarus	55	54	50	54
China	58	58	52	55
Thailand	54	52	45	56
Montenegro	/	/	/	57
Sri Lanka	68	59	63	58
Mongolia	60	60	60	59
Romania	48	51	58	60
Mexico	49	53	53	61
Jamaica	52	55	55	62
Indonesia	85	70	70	63
Uzbekistan	65	76	64	64
Belize	53	56	56	65
Russia	62	63	59	66
Philippines	61	64	66	67
Paraguay	69	67	57	68
Colombia	64	65	61	69
Botswana	59	57	67	70
Ukraine	63	69	74	71
Peru	72	73	68	72
Morocco	66	62	71	73
South Africa	67	66	69	74
Macedonia	70	72	76	75
Ecuador	77	77	83	76
Jordan	75	74	65	77
Tunisia	56	48	54	78
Serbia	/	/	/	79
Venezuela	76	75	73	80
Dominican Rep	71	68	72	81
Laos	/	/	/	82
Namibia	74	71	80	83
Moldova	83	86	79	84
Lebanon	90	84	82	85
Tajikistan	/	/	/	86
Ghana	89	90	78	87
Kyrgyzstan	/	/	/	88
Turkey	80	80	75	89
El Salvador	81	78	77	90
Nicaragua	73	87	86	91
Albania	/	/	/	92
Georgia	/	/	/	93
Azerbaijan	/	/	/	94
Bolivia	84	82	85	95
Honduras	79	85	87	96

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

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BUILDING A MORE PROSPEROUS WORLD THROUGH LIBERTY AND RESPONSIBILITY

'Gross National Product counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage. It counts special locks for our doors and the jails for the people who break them.

'It counts the destruction of the redwood and the loss of our natural wonder in chaotic sprawl. It counts… nuclear warheads and armored cars for the police to fight the riots in our cities…

'Yet the gross national product does not allow for the health of our children, the quality of their education or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials. It measures neither our wit nor our courage, neither our wisdom nor our learning, neither our compassion nor our devotion to our country, it measures everything in short, except that which makes life worthwhile.'

Senator Robert F. Kennedy

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