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The Legatum Prosperity Index™

2015

Contents

Rankings **3**

Key Findings **5**

Seven-Year Trends **9**

Mapping Prosperity *with fold-out infographic* **11**

Special Report: Nordics **17**

Special Report: Russia **21**

Regional Analysis **25**

Methodology **37**

Acknowledgements **41**

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Foreword



The Prosperity Index tells us that the story of human progress goes beyond economics. It tells us that for nations to flourish they must provide opportunity and freedom to their citizens. It shows how access to quality healthcare and education provide the foundations on which nations can grow. It proves that effective and transparent government empowers citizens to take control of their lives. And it shows that protection from violence and oppression, as well as strong social bonds, are crucial to a thriving society.

The 2015 Prosperity Index highlights the continued rise of many South East Asian economies—with Singapore climbing to first place in the Economy sub-index. Indonesia stands out as the top performer overall, having climbed 21 places in the global rankings in the last seven years. This has been driven by big improvements in the Economy and Entrepreneurship & Opportunity sub-indices.

While many developed economies, particularly those in Europe, remain in the doldrums, there is further evidence that some countries are escaping the worst of the financial crisis. Since 2013, the UK has improved the most economically of any major EU economy. This is partly because full time employment amongst the poorest has risen from being the second lowest of any major developed economy in 2009, to the highest of any major economy in the EU.

Last year the Prosperity Index struck an optimistic tone, explaining that the world was becoming increasingly prosperous. This remains true, but the 2015 Prosperity Index reveals that the world is becoming an increasingly dangerous place.

The rise of Islamic State has changed the nature of global security, particularly in the Middle East. The prelude to this in both Iraq and Syria was the fragmenting of social bonds. Worryingly, other countries in the region are seeing similar fissures emerging. A dramatic decline in the Safety & Security sub-index in Africa and the Middle East has been driven by increased tensions and violence between different social groups as well as an increase in refugees and internally displaced persons.

Falling levels of safety and security also blight the United States' performance this year. The US has fallen one place in the overall rankings to 11th but one finding stands out: the US ranks outside the top 30 in the Safety & Security sub-index, down two places to 33rd this year. In contrast, Canada has risen to first place in the Personal Freedom sub-index this year, reflecting high scores in measures of tolerance and civil liberties.

I hope you enjoy this edition of the Prosperity Index.
To interact with the data, rankings, and analysis visit **www.prosperity.com**



Sian Hansen

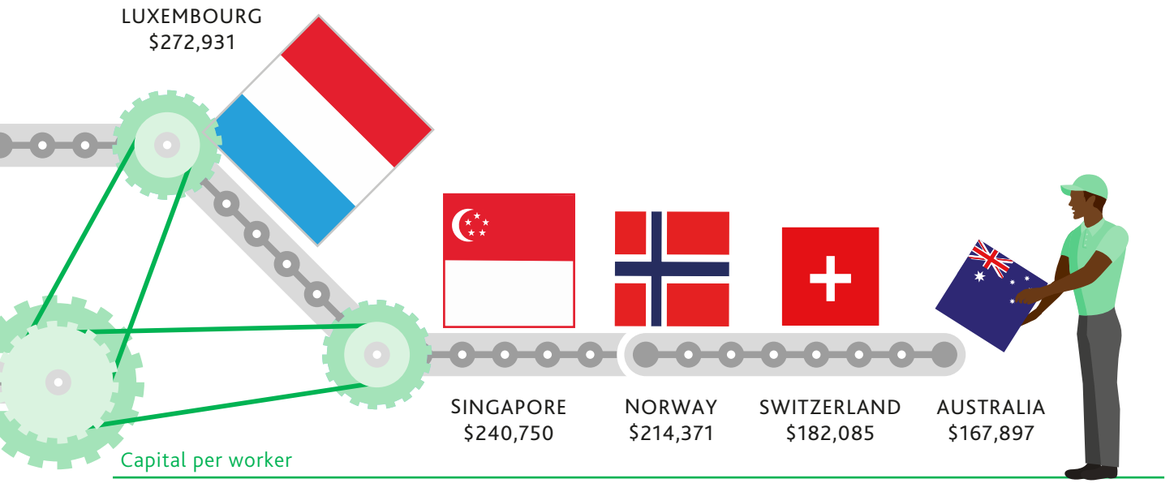
Executive Director, Legatum Institute

THE LEGATUM PROSPERITY INDEX™ **RANKINGS 2015**

HIGH (1ST - 30TH) | UPPER MIDDLE (31ST - 71ST) | LOWER MIDDLE (72ND - 112TH) | LOW (113TH - 142ND)

OVERALL PROSPERITY RANK	COUNTRY	ECONOMY	ENTREPRENEURSHIP & OPPORTUNITY	GOVERNANCE	EDUCATION	HEALTH	SAFETY & SECURITY	PERSONAL FREEDOM	SOCIAL CAPITAL
1	Norway	4	5	8	5	4	8	3	2
2	Switzerland	2	3	1	18	3	13	11	9
3	Denmark	9	2	3	3	16	7	8	3
4	New Zealand	14	17	2	6	19	11	2	1
5	Sweden	7	1	4	17	12	5	7	8
6	Canada	8	15	7	2	11	9	1	6
7	Australia	12	14	10	1	15	15	9	4
8	Netherlands	10	13	12	4	5	19	13	7
9	Finland	33	8	5	7	13	3	18	5
10	Ireland	18	18	14	8	17	4	6	10
11	United States	11	11	11	9	1	33	15	11
12	Iceland	31	4	18	10	18	2	5	13
13	Luxembourg	6	9	6	43	2	10	4	24
14	Germany	5	16	16	12	6	21	17	16
15	United Kingdom	19	6	9	25	20	23	12	12
16	Austria	22	7	15	24	9	16	19	18
17	Singapore	1	12	13	15	14	12	38	25
18	Belgium	23	24	17	21	10	20	20	20
19	Japan	25	22	19	28	7	22	33	29
20	Hong Kong	24	10	22	53	28	1	26	27
21	Taiwan	20	21	36	22	23	6	31	22
22	France	30	19	20	26	8	31	21	53
23	Malta	27	20	21	42	25	29	23	19
24	Spain	37	30	27	19	24	25	22	23
25	Slovenia	58	25	33	11	27	14	25	40
26	Czech Republic	26	29	34	13	26	24	45	66
27	Portugal	62	31	32	46	31	18	16	47
28	Korea, Rep.	17	23	35	20	21	17	66	85
29	Poland	34	36	39	33	33	26	29	34
30	United Arab Emirates	21	28	28	36	34	34	65	39
31	Estonia	35	26	23	39	40	36	61	30
32	Uruguay	47	55	31	60	41	28	10	43
33	Chile	40	32	24	64	49	38	24	62
34	Costa Rica	45	47	29	54	46	49	14	45
35	Slovakia	36	34	46	14	30	32	63	58
36	Kuwait	13	33	44	27	37	35	84	52
37	Italy	44	41	42	47	22	39	48	42
38	Israel	16	27	25	16	32	98	98	36
39	Cyprus	84	39	26	38	35	45	46	86
40	Latvia	48	38	41	35	47	40	73	83
41	Lithuania	63	45	40	30	44	30	97	64
42	Saudi Arabia	29	49	50	23	43	73	110	26
43	Trinidad and Tobago	72	35	47	77	64	44	28	56
44	Malaysia	28	40	37	51	52	60	114	33
45	Hungary	52	50	38	34	36	37	99	98
46	Panama	49	44	60	75	72	52	34	49
47	Argentina	67	58	104	40	45	50	30	60
48	Thailand	15	66	56	69	54	88	106	15
49	Greece	102	46	49	32	29	27	108	100
50	Romania	69	48	63	61	69	46	37	109
51	Bulgaria	79	43	81	44	48	42	96	67
52	China	3	59	67	63	56	100	120	28
53	Croatia	64	51	52	41	39	41	104	120
54	Brazil	43	53	62	84	53	85	41	75
55	Vietnam	32	64	59	57	90	68	77	70
56	Kazakhstan	54	56	107	55	51	66	85	46
57	Uzbekistan	66	93	117	70	62	67	55	17
58	Russia	55	42	106	29	42	91	111	50
59	Mongolia	94	60	76	48	94	43	89	31
60	Montenegro	112	62	69	50	60	48	76	68
61	Sri Lanka	65	85	58	59	77	113	43	32
62	Jamaica	132	61	68	91	81	51	35	38
63	Belarus	89	54	121	31	38	53	128	37
64	Belize	88	83	64	73	70	62	42	94
65	Macedonia	86	57	70	74	50	58	83	96
66	Kyrgyzstan	113	76	118	52	71	83	95	14
67	Mexico	42	81	61	87	66	103	68	74
68	Colombia	41	63	66	80	74	130	57	63
69	Indonesia	39	90	78	78	93	70	123	21
70	Ukraine	127	52	120	37	79	54	91	41
71	Azerbaijan	51	70	94	82	68	71	92	80
72	Ecuador	46	75	89	67	75	90	47	113
73	Serbia	121	82	77	45	55	64	59	107
74	Philippines	59	78	55	76	95	122	53	72
75	South Africa	95	37	54	83	109	112	54	61
76	Dominican Republic	74	79	82	79	91	92	62	57
77	Botswana	118	77	30	95	111	72	36	87
78	Turkey	87	67	51	85	57	109	100	102
79	Morocco	38	80	72	104	80	79	102	71
80	Georgia	119	71	43	66	82	57	72	139
81	Paraguay	53	91	114	100	78	89	60	69
82	Peru	56	74	83	88	89	101	71	111
83	Albania	109	73	91	71	65	47	82	138
84	Bolivia	57	98	97	93	99	78	44	93
85	Nicaragua	93	100	88	90	88	81	49	91
86	Bosnia-Herzegovina	116	95	108	68	58	61	112	88
87	Guatemala	70	88	90	105	92	96	80	55
88	Jordan	97	72	57	58	61	84	136	110
89	Nepal	90	103	100	94	97	75	58	81
90	El Salvador	78	89	73	102	85	94	75	103
91	Tajikistan	122	108	113	62	96	65	105	44
92	Moldova	128	68	101	72	83	69	113	106
93	Armenia	126	69	92	49	86	55	119	124
94	Namibia	110	84	45	99	117	80	50	112
95	Laos	68	106	75	101	106	63	86	84
96	Algeria	50	97	102	81	63	82	135	105
97	Tunisia	91	65	86	86	73	76	118	136
98	Lebanon	71	86	109	89	59	99	124	123
99	India	61	94	53	92	107	114	79	129
100	Senegal	106	112	74	123	103	87	32	51
101	Rwanda	73	118	48	110	102	95	81	99
102	Ghana	129	101	65	103	101	59	69	116
103	Bangladesh	77	105	98	97	98	107	52	137
104	Honduras	98	102	112	98	87	86	116	95
105	Venezuela	103	96	138	56	76	108	132	92
106	Iran	105	92	122	65	67	120	131	115
107	Burkina Faso	60	130	87	127	118	93	40	97
108	Kenya	117	99	93	109	112	133	51	73
109	Benin	111	125	80	117	120	56	27	140
110	Egypt	100	87	116	96	84	105	140	118
111	Mali	96	127	111	139	119	110	56	35
112	Cambodia	80	111	79	108	104	97	122	126
113	Zambia	123	110	84	106	136	119	88	79
114	Niger	75	140	85	140	116	102	67	76
115	Uganda	108	120	103	116	123	132	64	77
116	Cameroon	83	119	123	114	110	121	90	108
117	Tanzania	114	116	95	125	122	116	94	78
118	Cote d'Ivoire	82	104	125	131	126	118	39	132
119	Mozambique	99	114	105	129	134	111	74	117
120	Djibouti	130	136	96	130	115	77	109	89
121	Mauritania	115	117	129	128	105	106	134	59
122	Malawi	138	131	71	118	113	104	107	122
123	Iraq	81	123	131	111	114	135	125	90
124	Sierra Leone	135	133	110	126	139	125	78	54
125	Nigeria	104	107	126	122	130	134	121	82
126	Ethiopia	92	137	99	132	121	126	101	119
127	Congo, Rep.	85	129	130	113	135	115	103	130
128	Zimbabwe	124	126	133	107	124	127	126	104
129	Togo	125	132	124	119	129	74	70	142
130	Pakistan	101	109	119	124	127	138	129	135
131	Guinea	141	138	136	136	133	117	87	121
132	Liberia	142	115	128	138	132	124	117	101
133	Angola	107	128	127	135	131	129	137	128
134	Sudan	131	122	137	137	125	137	141	48
135	Yemen	134	121	134	121	108	128	142	131
136	Syria	137	124	135	112	100	140	139	127
137	Congo (DR)	120	134	140	133	137	142	127	65
138	Burundi	139	135	115	120	138	131	130	134
139	Chad	76	141	141	141	141	136	115	114
140	Haiti	136	139	139	115	140	123	138	125
141	Afghanistan	140	113	142	134	128	141	133	133
142	Central African Republic	133	142	132	142	142	139	93	141

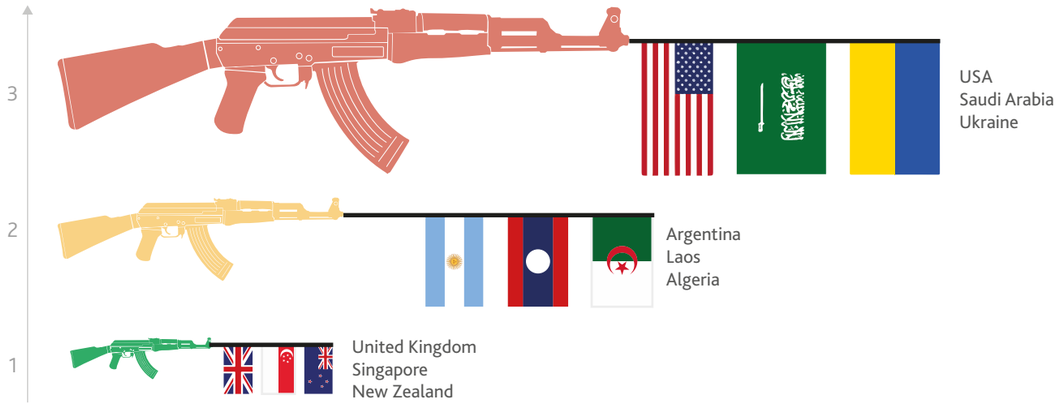
Key Findings



Capital per worker

SINGAPORE RISES TO 1ST IN THE ECONOMY SUB-INDEX

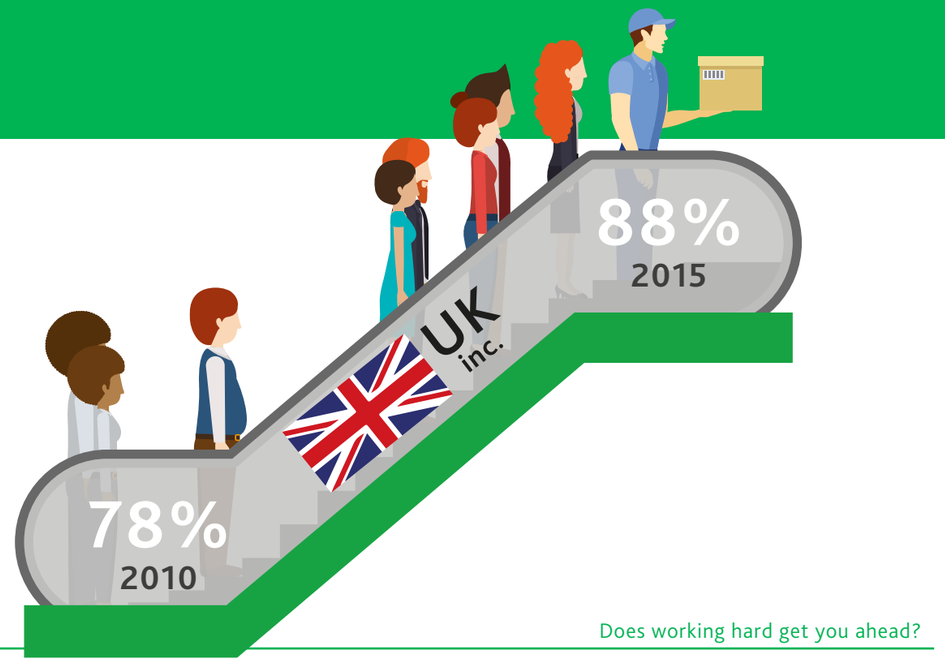
This year Singapore ranks 1st in the Economy sub-index, up from 2nd last year, displacing Switzerland. The country has the second highest capital per worker in the world: $240,750 per worker. 47% of the country's manufactured exports are classified as 'high-tech', the third highest in the world.



Level of state-sponsored political violence (1-5)

THE UNITED STATES IS AN INCREASINGLY DANGEROUS PLACE

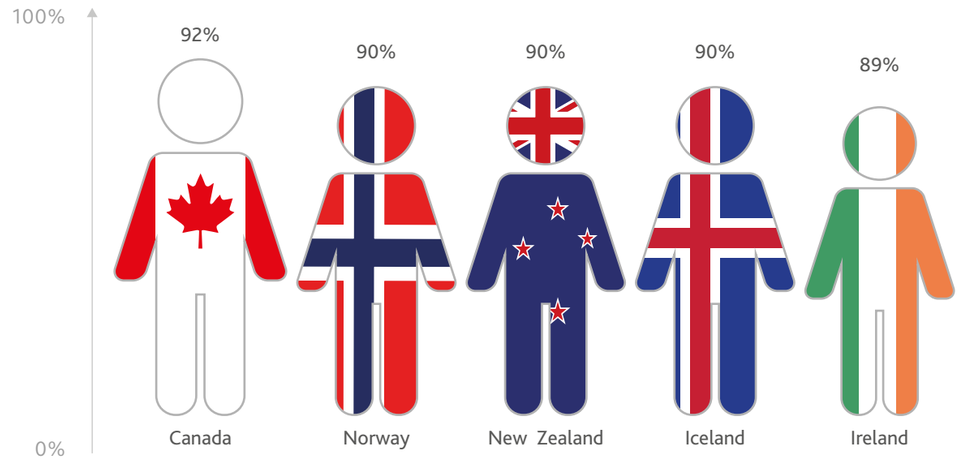
This year the United States ranks 33rd on the Safety & Security sub-index, down from 31st last year. Safety & Security is the only sub-index in which the US ranks outside the top 30. It is also the only Western country to register high levels of state-sponsored political violence. According to Amnesty International the country has the same level of political violence as Saudi Arabia.



Does working hard get you ahead?

THE UK IS AN INCREASING WORLD-LEADER IN ENTREPRENEURSHIP

This year the UK ranks 6th on the Entrepreneurship & Opportunity sub-index, up from 8th last year. The country now ranks the best in Europe for people starting businesses and 88% of Britons believe that if you work hard you can get ahead in life, up from 84% last year, and 78% in 2010.



Is your country a good place for immigrants?

TOLERANCE REIGNS

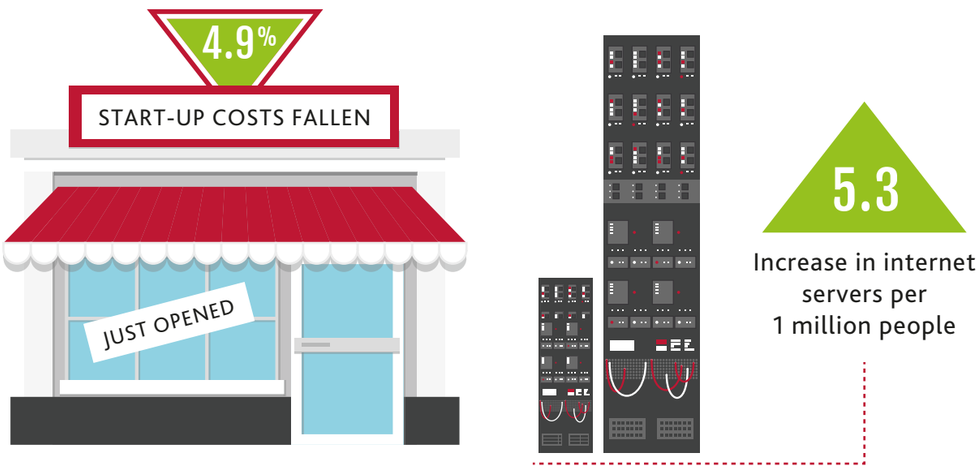
Canada, Norway, New Zealand, Iceland, and Ireland are the five most tolerant countries towards immigrants. The UK comes in at 17th. 92% of Canadians believe that their country is a good place for immigrants; this figure is 90% for Norway, New Zealand, and Iceland; and 89% for Ireland.

Key Findings



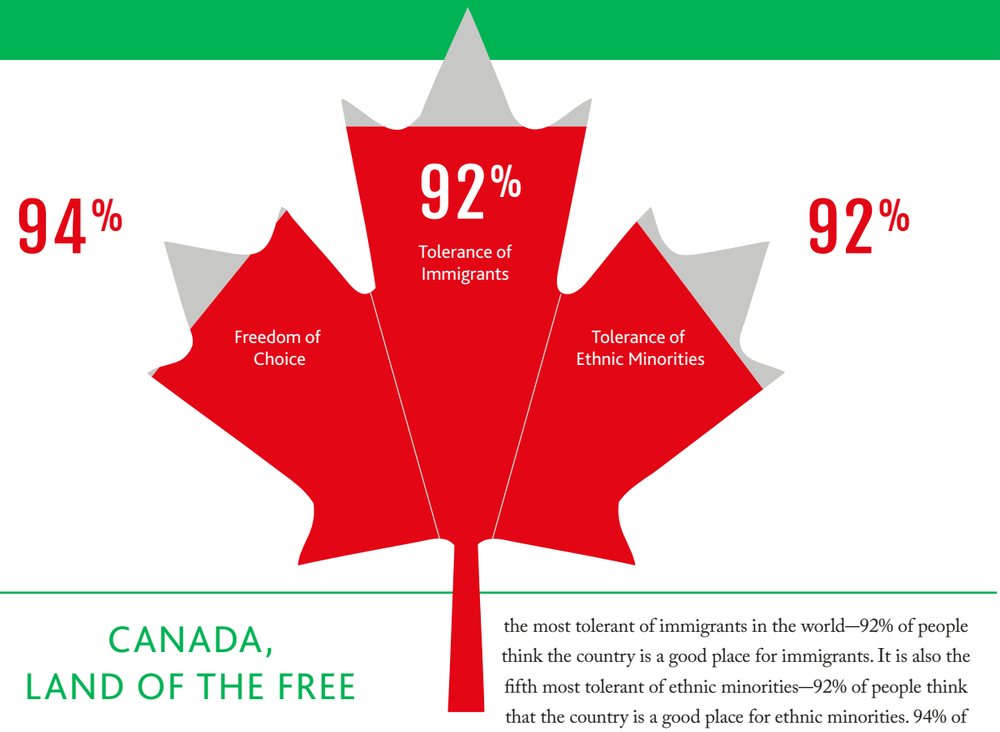
SINCE 2009 THE WORLD HAS BECOME A MORE DANGEROUS PLACE

The Prosperity Index shows that the world has become a more dangerous place since 2009. In the last seven years there have been dramatic declines in the Safety & Security sub-index in Africa and the Middle East, and all other regions except Europe have witnessed some decline. This has been driven by increased tension, violence, and displaced people.



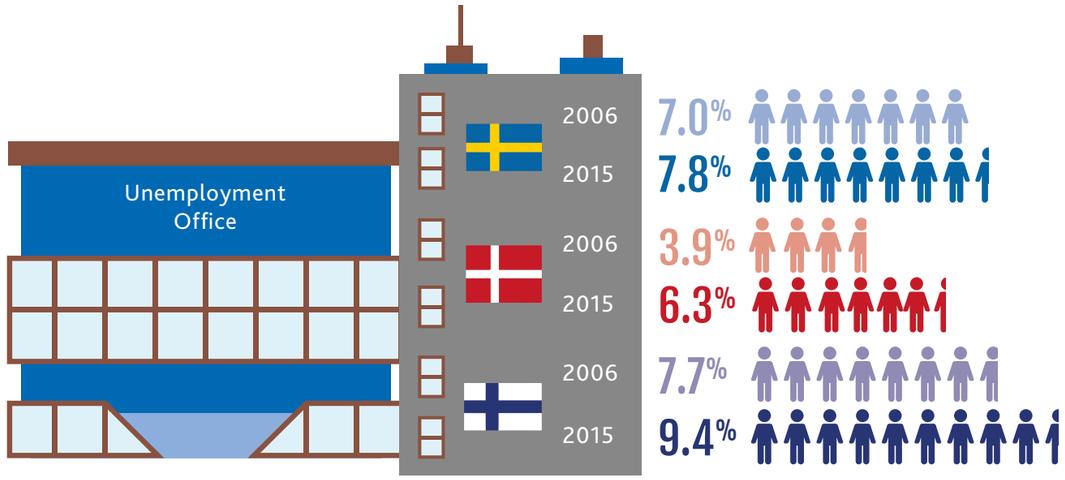
INDONESIA IMPROVING

Indonesia has climbed 21 places up the Prosperity Index in the last seven years—the most of any country in the world. The country's success is the result of a vibrant economy, rising 23 places in the Economy sub-index and 14 places in the Entrepreneurship & Opportunity sub-index. Start-up costs have fallen from 26% to 21.1% of gross national income per capita, the number of secure internet servers has increased by 5.3 (per 1 million people), and the number of people satisfied with their living standards has increased from 63% to 71%.



CANADA, LAND OF THE FREE

Canada is now the freest country in the world, having risen five places to 1st in the Personal Freedom sub-index. The country is the most tolerant of immigrants in the world—92% of people think the country is a good place for immigrants. It is also the fifth most tolerant of ethnic minorities—92% of people think that the country is a good place for ethnic minorities. 94% of Canadians believe that they have the freedom to choose the course of their own lives—the fifth highest in the world.

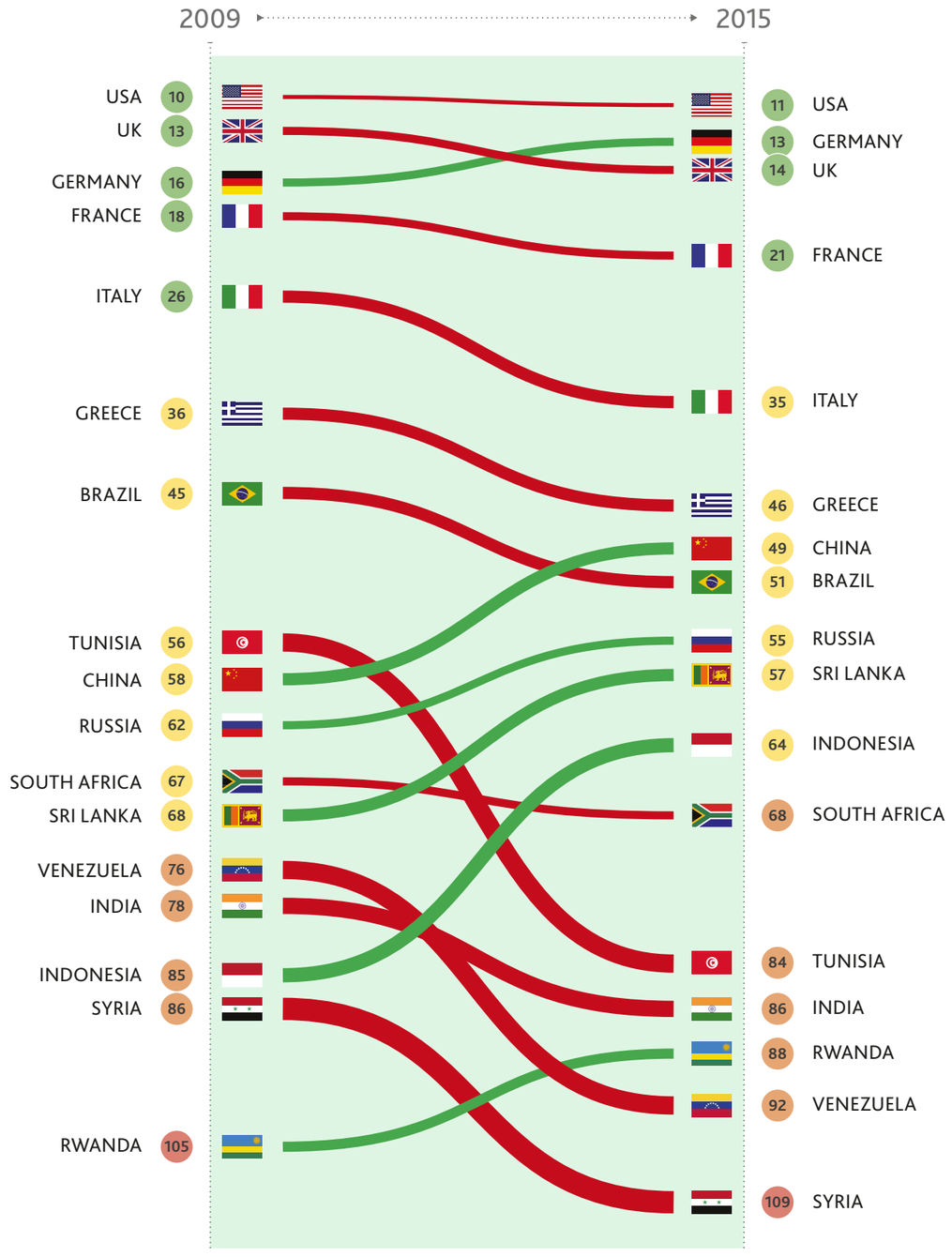


STRUGGLING VIKINGS

Three of the five Nordic countries have slipped down the Economy sub-index rankings since 2009 and the one that has improved, Iceland, remains low at 29th. The countries are failing to address unemployment. Unemployment stands at 7.8% in Sweden, 9.4% in Finland, and 6.3% in Denmark. Across all the Nordic countries employment is only 59.3%.

PROSPERITY INDEX RANKINGS 2009–2015

This graphic is based on the 110 countries originally included in the Prosperity Index. It excludes the 32 countries added in 2012 and therefore rankings may differ from the 2015 reported rankings.



YEAR-ON-YEAR PROSPERITY RANKINGS 2009–2015

In 2012 the number of countries in the Index increased to 142 (from 110 countries in 2009–2011). This should be borne in mind when looking at ranking movement over the seven years. This is particularly relevant for lower ranking countries that appear to have declined significantly in 2012. This may be due to the addition of 'new' countries above them.

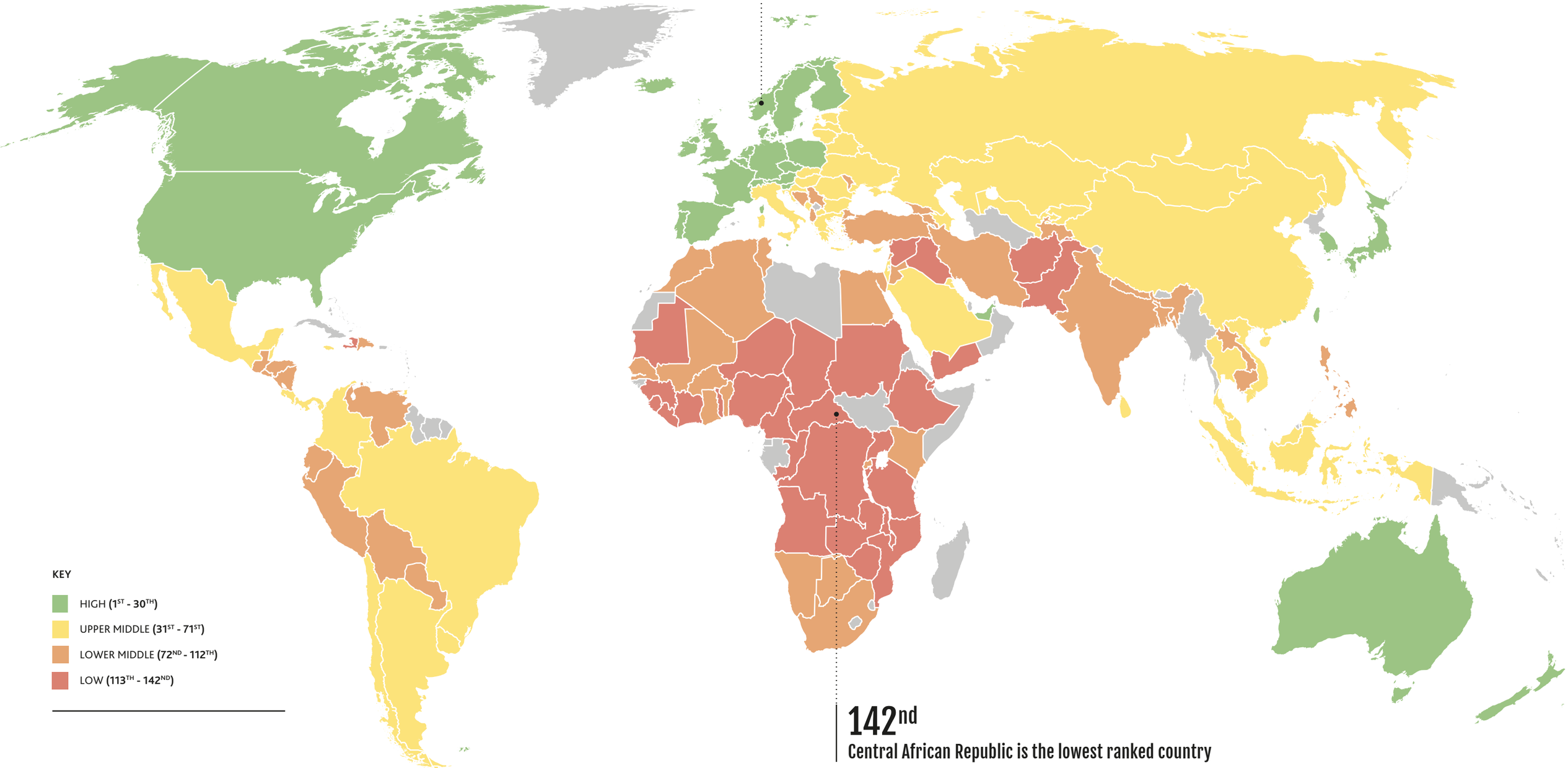
COUNTRY	COUNTRY RANK						
	2009	2010	2011	2012	2013	2014	2015
Norway	1	1	1	1	1	1	1
Switzerland	8	8	8	9	2	2	2
Denmark	2	2	2	2	6	4	3
New Zealand	3	5	4	5	5	3	4
Sweden	7	6	5	3	4	6	5
Canada	6	7	6	6	3	5	6
Australia	5	4	3	4	7	7	7
Netherlands	11	9	9	8	9	9	8
Finland	4	3	7	7	8	8	9
Ireland	9	11	11	10	12	12	10
United States	10	10	10	12	11	10	11
Iceland	12	12	12	15	13	11	12
Luxembourg	/	/	/	11	10	16	13
Germany	16	15	15	14	14	14	14
United Kingdom	13	13	13	13	16	13	15
Austria	14	14	14	16	15	15	16
Singapore	17	17	16	19	18	18	17
Belgium	15	16	17	17	17	17	18
Japan	19	18	21	22	21	19	19
Hong Kong	21	20	19	18	19	20	20
Taiwan	22	22	20	20	22	22	21
France	18	19	18	21	20	21	22
Malta	/	/	/	25	25	23	23
Spain	20	23	23	23	23	26	24
Slovenia	23	21	22	24	24	24	25
Czech Republic	24	24	26	28	29	29	26
Portugal	25	26	25	26	27	27	27
Korea, Rep.	29	27	24	27	26	25	28
Poland	28	29	28	32	34	31	29
UAE	27	30	27	29	28	28	30
Estonia	31	35	33	35	36	32	31
Uruguay	32	28	29	31	30	30	32
Chile	35	32	31	34	35	33	33
Costa Rica	30	33	34	37	31	34	34
Slovakia	37	37	32	36	38	35	35
Kuwait	34	31	35	38	33	36	36
Italy	26	25	30	33	32	37	37
Israel	33	36	38	40	39	38	38
Cyprus	/	/	/	30	37	40	39
Latvia	41	47	51	47	48	44	40
Lithuania	40	42	44	43	43	42	41
Saudi Arabia	57	49	49	52	50	47	42
Trinidad and Tobago	46	44	47	51	42	43	43
Malaysia	43	43	43	45	44	45	44
Hungary	38	34	36	39	41	39	45
Panama	42	40	37	42	40	41	46
Argentina	44	41	39	41	45	46	47
Thailand	54	52	45	56	52	51	48

COUNTRY	COUNTRY RANK						
	2009	2010	2011	2012	2013	2014	2015
Greece	36	39	40	49	54	59	49
Romania	48	51	58	60	55	60	50
Bulgaria	47	46	48	48	49	48	51
China	58	58	52	55	51	54	52
Croatia	39	38	41	50	53	50	53
Brazil	45	45	42	44	46	49	54
Vietnam	50	61	62	53	62	56	55
Kazakhstan	51	50	46	46	47	55	56
Uzbekistan	65	76	64	64	63	57	57
Russia	62	63	59	66	61	68	58
Mongolia	60	60	60	59	57	52	59
Montenegro	/	/	/	57	71	65	60
Sri Lanka	68	59	63	58	60	62	61
Jamaica	52	55	55	62	56	61	62
Belarus	55	54	50	54	58	53	63
Belize	53	56	56	65	65	58	64
Macedonia	70	72	76	75	79	69	65
Kyrgyzstan	/	/	/	88	80	74	66
Mexico	49	53	53	61	59	64	67
Colombia	64	65	61	69	67	66	68
Indonesia	85	70	70	63	69	71	69
Ukraine	63	69	74	71	64	63	70
Azerbaijan	/	/	/	94	81	79	71
Ecuador	77	77	83	76	74	73	72
Serbia	/	/	/	79	76	77	73
Philippines	61	64	66	67	66	67	74
South Africa	67	66	69	74	77	81	75
Dominican Rep.	71	68	72	81	70	72	76
Botswana	59	57	67	70	72	75	77
Turkey	80	80	75	89	87	86	78
Morocco	66	62	71	73	82	85	79
Georgia	/	/	/	93	84	80	80
Paraguay	69	67	57	68	68	70	81
Peru	72	73	68	72	75	78	82
Albania	/	/	/	92	83	84	83
Bolivia	84	82	85	95	86	87	84
Nicaragua	73	87	86	91	73	76	85
Bosnia-Herzegovina	/	/	/	99	97	91	86
Guatemala	82	81	84	97	90	90	87
Jordan	75	74	65	77	88	82	88
Nepal	88	91	93	108	102	96	89
El Salvador	81	78	77	90	85	83	90
Tajikistan	/	/	/	86	94	94	91
Moldova	83	86	79	84	89	89	92
Armenia	/	/	/	98	95	95	93
Namibia	74	71	80	83	93	88	94
Laos	/	/	/	82	92	93	95
Algeria	91	79	88	100	99	97	96

COUNTRY	COUNTRY RANK						
	2009	2010	2011	2012	2013	2014	2015
Tunisia	56	48	54	78	91	92	97
Lebanon	90	84	82	85	98	101	98
India	78	88	91	101	106	102	99
Senegal	92	94	92	118	104	106	100
Rwanda	105	98	98	111	105	99	101
Ghana	89	90	78	87	100	98	102
Bangladesh	95	96	95	103	103	104	103
Honduras	79	85	87	96	96	105	104
Venezuela	76	75	73	80	78	100	105
Iran	93	92	97	102	101	107	106
Burkina Faso	/	/	/	112	112	103	107
Kenya	97	104	102	116	116	109	108
Benin	/	/	/	119	113	108	109
Egypt	87	89	89	106	108	116	110
Mali	94	93	90	104	111	113	111
Cambodia	101	95	94	107	110	112	112
Zambia	98	101	101	110	107	110	113
Niger	/	/	/	114	109	114	114
Uganda	102	99	100	117	114	111	115
Cameroon	99	102	99	115	115	115	116
Tanzania	96	97	96	109	117	117	117
Cote d'Ivoire	/	/	/	126	131	121	118
Mozambique	104	103	103	124	121	120	119
Djibouti	/	/	/	121	120	119	120
Mauritania	/	/	/	122	125	124	121
Malawi	/	/	/	105	119	118	122
Iraq	/	/	/	131	130	128	123
Sierra Leone	/	/	/	128	129	134	124
Nigeria	103	106	104	123	123	125	125
Ethiopia	108	107	108	133	126	126	126
Congo, Rep.	/	/	/	120	118	122	127
Zimbabwe	110	110	109	135	124	123	128
Togo	/	/	/	136	137	136	129
Pakistan	107	109	107	132	132	127	130
Guinea	/	/	/	127	135	133	131
Liberia	/	/	/	130	127	131	132
Angola	/	/	/	129	133	132	133
Sudan	106	100	105	125	128	130	134
Yemen	100	105	106	134	136	138	135
Syria	86	83	81	113	122	129	136
Congo (DR)	/	/	/	141	140	140	137
Burundi	/	/	/	137	138	139	138
Chad	/	/	/	139	142	141	139
Haiti	/	/	/	138	134	135	140
Afghanistan	/	/	/	140	139	137	141
Central African Rep.	109	108	110	142	141	142	142

Mapping Prosperity in 2015

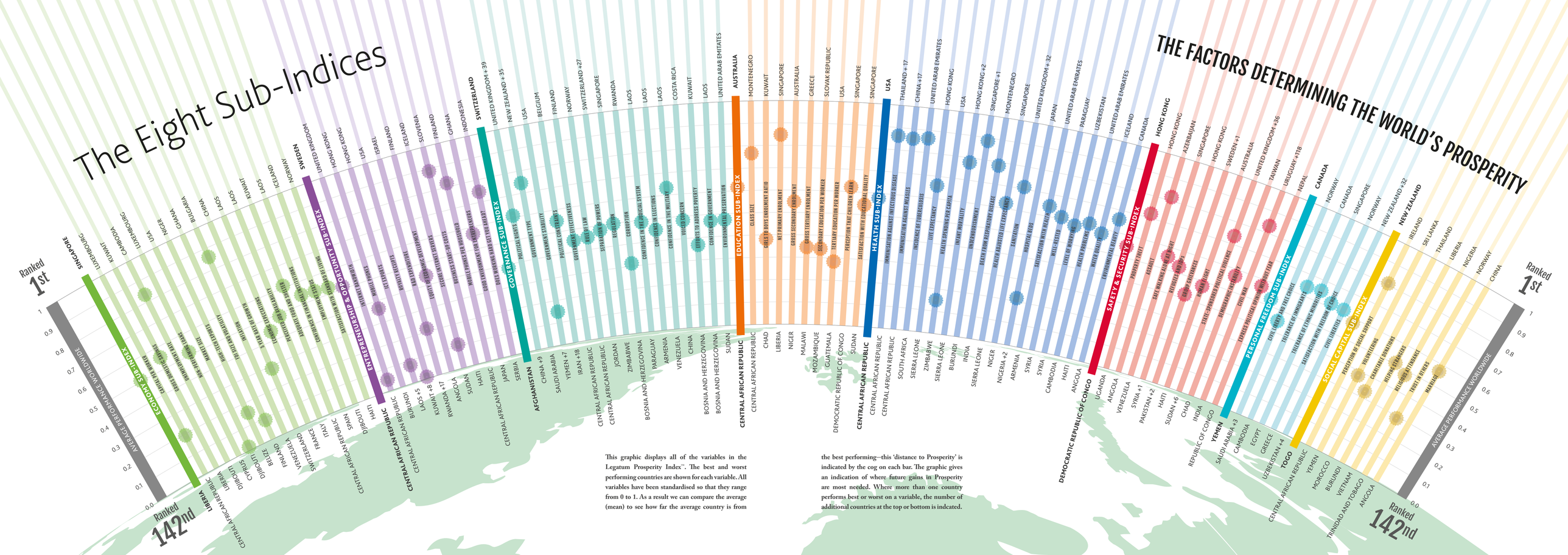
1st
Norway is the highest ranked country



KEY

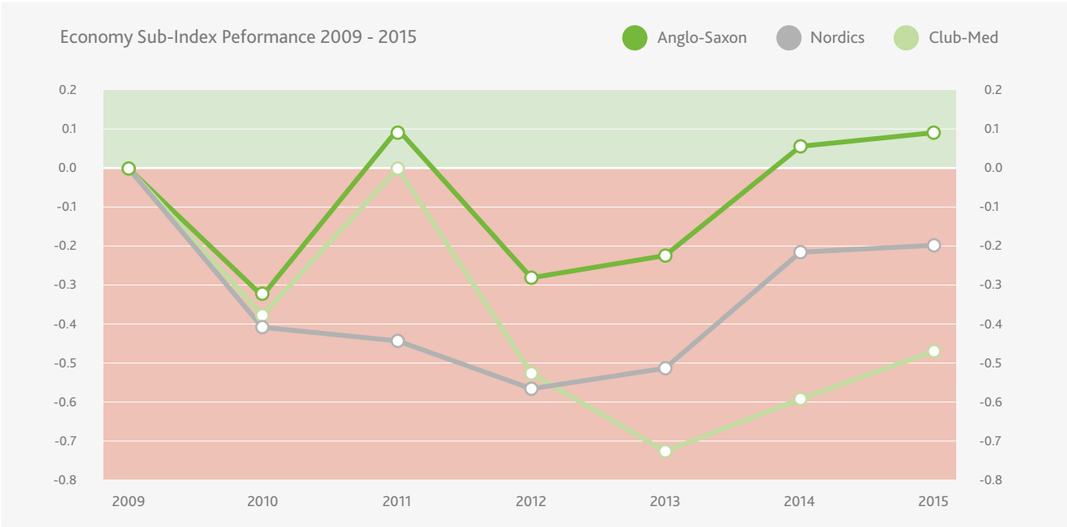
- HIGH (1ST - 30TH)
- UPPER MIDDLE (31ST - 71ST)
- LOWER MIDDLE (72ND - 112TH)
- LOW (113TH - 142ND)

142nd
Central African Republic is the lowest ranked country


The Eight Sub-Indices
THE FACTORS DETERMINING THE WORLD'S PROSPERITY
Ranked 1st
Ranked 142nd
AVERAGE PERFORMANCE WORLDWIDE
ECONOMY SUB-INDEX
ENTREPRENEURSHIP & OPPORTUNITY SUB-INDEX
GOVERNANCE SUB-INDEX
EDUCATION SUB-INDEX
HEALTH SUB-INDEX
SAFETY & SECURITY SUB-INDEX
PERSONAL FREEDOM SUB-INDEX
SOCIAL CAPITAL SUB-INDEX
SINGAPORE
LUXEMBOURG
KUWAIT
CAMBODIA
LAOS
CHINA
GHANA
NIGERIA
USA
BULGARIA
LIBERIA
CENTRAL AFRICAN REPUBLIC
SWEDEN
NORWAY
ICELAND
LAOS
KUWAIT
LAOS
CHINA
GHANA
NIGERIA
USA
BULGARIA
LIBERIA
CENTRAL AFRICAN REPUBLIC
SWITZERLAND
UNITED KINGDOM +39
NEW ZEALAND +35
USA
BELGIUM
FINLAND
NORWAY
SWITZERLAND +27
SINGAPORE
RWANDA
LAOS
LAOS
LAOS
COSTA RICA
KUWAIT
LAOS
UNITED ARAB EMIRATES
AUSTRALIA
MONTENEGRO
KUWAIT
SINGAPORE
AUSTRALIA
GREECE
SLOVAK REPUBLIC
USA
SINGAPORE
SINGAPORE
USA
THAILAND +17
CHINA +17
UNITED ARAB EMIRATES
HONG KONG
USA
HONG KONG +2
SINGAPORE +1
MONTENEGRO
SINGAPORE
UNITED KINGDOM +32
JAPAN
UNITED ARAB EMIRATES
PARAGUAY
UZBEKISTAN
UNITED ARAB EMIRATES
ICELAND
CANADA
HONG KONG
HONG KONG
AZERBAIJAN
SINGAPORE
HONG KONG
SWEDEN +1
AUSTRALIA
UNITED KINGDOM +36
TAIWAN
URUGUAY +118
NEPAL
CANADA
NORWAY
CANADA
SINGAPORE
NORWAY
NEW ZEALAND +32
NEW ZEALAND
IRELAND
SRI LANKA
THAILAND
LIBERIA
NIGERIA
NORWAY
CHINA
Ranked 1st
Ranked 142nd
AVERAGE PERFORMANCE WORLDWIDE
ECONOMY SUB-INDEX
GDP PER CAPITA
GDP GROWTH
LABOUR PRODUCTIVITY
UNEMPLOYMENT RATE
GOODS MARKET EFFICIENCY
LABOUR MARKET EFFICIENCY
FINANCIAL MARKET DEVELOPMENT
MARKET SIZE
HIGH-TECH EXPORTS
R&D EXPENDITURE
INFLATION
STATE OWNED ENTERPRISES
FINANCIAL CRISES
ENTREPRENEURSHIP & OPPORTUNITY SUB-INDEX
STARTING A BUSINESS
BUREAUCRATIC BURDEN
INTERNET USERS
ENTREPRENEURIAL CULTURE
GENDER EQUALITY
ETHICAL BEHAVIOUR OF FIRMS
REGULATION OF SECURITIES
REGULATORY BURDEN
EFFECTIVE ANTI-MONOPOLY POLICY
EFFECTIVE ANTI-DUMPING POLICY
EXTENT OF MARKET DOMINANCE
EXTENT AND EFFECT OF TAXATION
TOTAL TAX RATE
GOVERNANCE SUB-INDEX
PUBLIC TRUST IN POLITICIANS
IRREGULAR PAYMENTS AND BRIBES
JUDICIAL INDEPENDENCE
FAVORITISM IN DECISIONS OF GOVERNMENT OFFICIALS
WASTE OF GOVERNMENT SPENDING
AGRICULTURE SUBSIDIES
BURDEN OF GOVERNMENT REGULATION
EFFICIENCY OF LEGAL FRAMEWORK
TRANSPARENCY OF GOVERNMENT POLICYMAKING
BUSINESS COSTS OF TERRORISM
BUSINESS COSTS OF CRIME AND VIOLENCE
ORGANIZED CRIME
RELIABILITY OF POLICE SERVICES
EDUCATION SUB-INDEX
GOVERNMENT PRIORITIZATION OF EDUCATION
SECONDARY EDUCATION ENROLLMENT
TERTIARY EDUCATION ENROLLMENT
EDUCATIONAL EXPENDITURE
EFFECTIVE EDUCATION SYSTEM
QUALITY OF PRIMARY EDUCATION
QUALITY OF MANAGEMENT SCHOOLS
INTERNET ACCESS IN SCHOOLS
HEALTH SUB-INDEX
HEALTHY LIFE EXPECTANCY
INFANT MORTALITY
MALARIA
DEATHS FROM TUBERCULOSIS
HIV/AIDS PREVALENCE
SEXUALLY TRANSMITTED DISEASES
SAFETY & SECURITY SUB-INDEX
PERSONAL FREEDOM SUB-INDEX
EXPRESS POLITICAL OPINION WITHOUT FEAR
CIVIL LIBERTY AND FREEDOM
TOLERANCE OF IMMIGRANTS
TOLERANCE OF ETHNIC MINORITIES
SATISFACTION WITH FREEDOM OF CHOICE
SOCIAL CAPITAL SUB-INDEX
PERCEPTION OF SOCIAL SUPPORT
VOLUNTEERING
CHARITABLE DONATIONS
HELPING STRANGERS
RELIGIOUS ATTENDANCE
TRUST IN OTHERS
MARRIAGE
This graphic displays all of the variables in the Legatum Prosperity Index™. The best and worst performing countries are shown for each variable. All variables have been standardised so that they range from 0 to 1. As a result we can compare the average (mean) to see how far the average country is from the best performing—this 'distance to Prosperity' is indicated by the cog on each bar. The graphic gives an indication of where future gains in Prosperity are most needed. Where more than one country performs best or worst on a variable, the number of additional countries at the top or bottom is indcated.

SPECIAL REPORT

Struggling Vikings

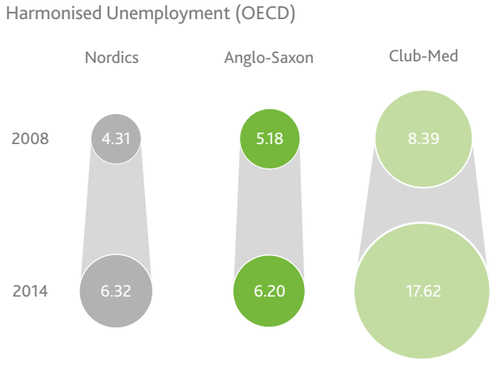


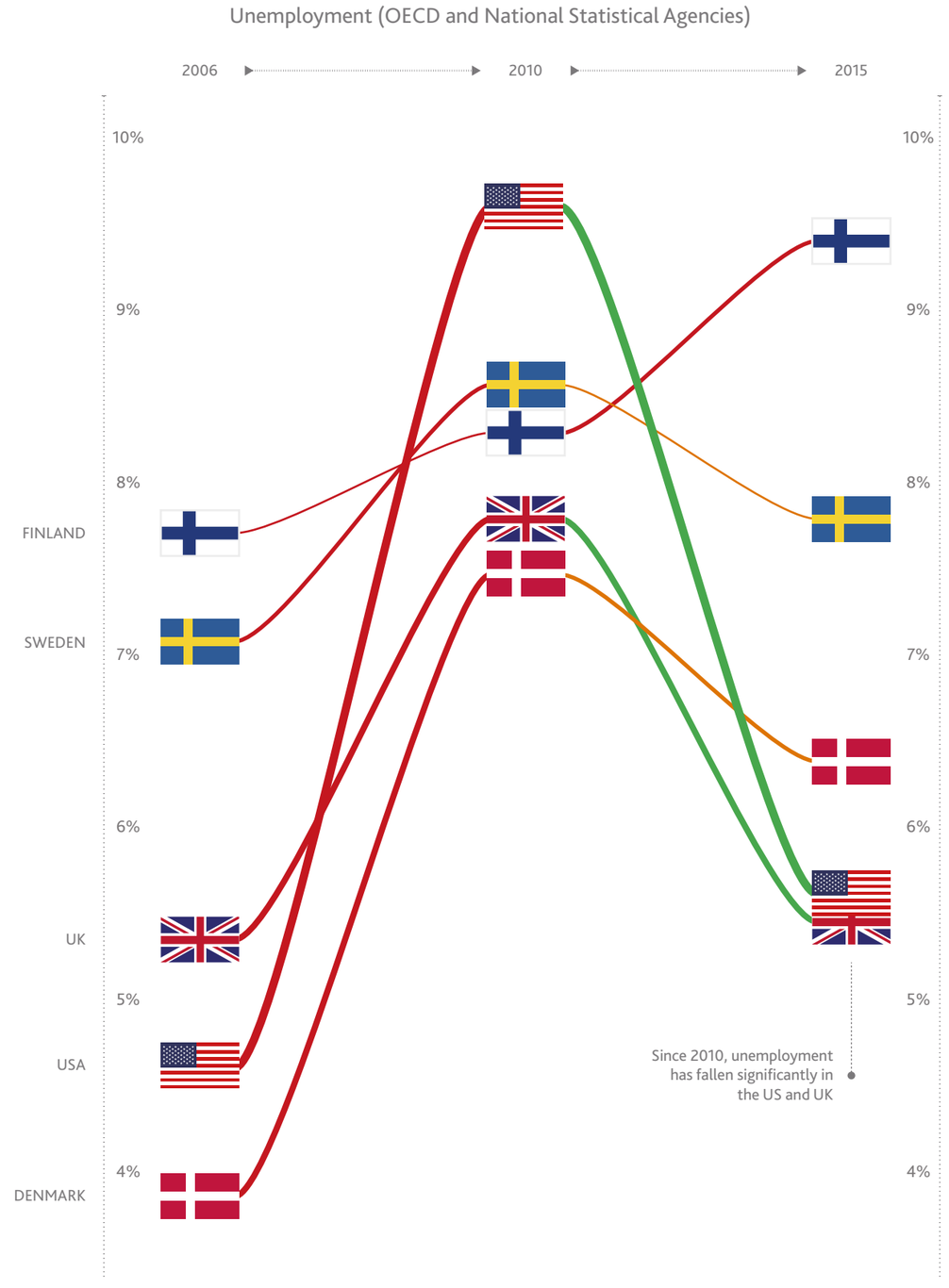
The Nordic countries feature heavily at the top of the Prosperity Index. Norway tops the Index (for the seventh year running), Denmark is 3rd, Sweden 5th, Finland 9th, and Iceland is 12th. However, there is one area where the performance of these countries over the past seven years has been decidedly unexceptional. While many other advanced economies have made progress on the Economy sub-index since 2009, the Nordics have been going backwards. Three of the five Nordic countries have slipped down the Economy sub-index rankings since 2009 and the one that has improved, Iceland, remains ranked 31st.

Their performance stands in stark contrast to that of the 'Anglo-Saxon' countries, which, as a group, have risen up the Economy sub-index. Particularly striking is the fact that the economic performance of the Nordic countries is closer to that of the Mediterranean states (see graph above).

Data from the Prosperity Index can pinpoint the primary source of the Nordic malaise. The countries are being let down by their poor labour market performance. During the crisis they, along with many other advanced economies, suffered a sharp rise in unemployment. Yet, while other countries have seen unemployment fall—often to pre-crisis levels—it has either not budged or declined only slowly in many Nordic countries.

Since 2008 the vast majority of advanced economies have seen a spike in unemployment. The table below contrasts the performance of countries embracing three different labour market models: the Club-Med countries, the Nordic countries, and the Anglo-Saxon countries. While the Club-Med countries are clearly the worst performers, the Nordic countries have also struggled to bring down unemployment. The Anglo-Saxon countries saw a similar growth in unemployment to the Nordic countries, but have since seen improvements in their labour markets—some dramatic (see figure opposite).

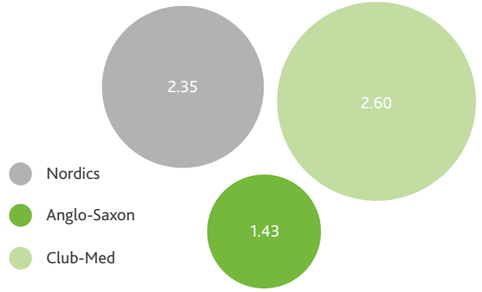




The IMF has identified three broad types of labour market model (Blanchard 2014):

- **An 'Anglo-Saxon' model—this is based on low employment protection and unemployment insurance;**
- **A 'Nordic' model—this is based on a higher degree of employment protection, generous, but conditional unemployment insurance, and strong active labour market policies (schemes that help the unemployed find work);**
- **A 'Continental' model—this is based on higher employment protection, generous unemployment insurance but limited active labour market policies. The 'Club-Med' countries are often thought of as representative of the 'Continental' model.**

Degree of Employment Protection 2013 (OECD)

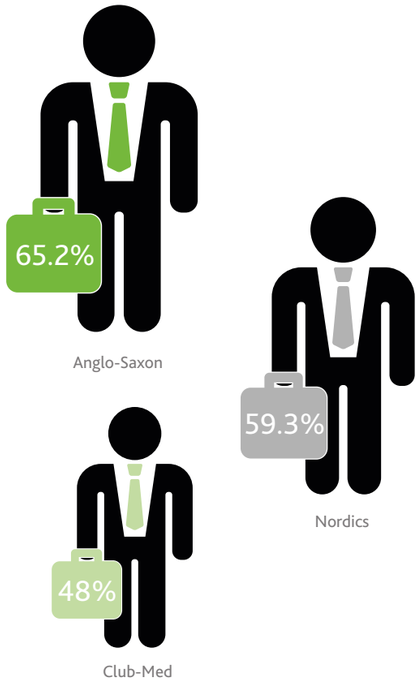


The OECD grades the degree of employment protection in each member country and finds that the Nordics and Club-Med countries have distinctly higher levels of protection than the Anglo-Saxon countries.

The sankey graph on the previous page compares the three largest Nordic countries and the two countries most often thought to epitomise the 'Anglo-Saxon' model of capitalism—the United Kingdom and the United States. Sweden and Denmark have failed to bring unemployment back to pre-crisis levels, while Finland continues to see a rise in unemployment. In contrast, the United Kingdom and the United States have seen unemployment fall to near pre-crisis levels.

Furthermore, and perhaps of more concern, are the lower levels of employment in the Nordic countries. The number of people reporting that they are employed is lower in the Nordic countries than in the Anglo-Saxon countries. Again, the Club-Med countries stand out as the worst-performers (see figure right).

% of people in Employment in 2014 (Gallup World Poll)



Despite the fact that the Nordic states have struggled to bring down unemployment after the financial crisis, some will retort that it remains the case that these countries tend to have very low unemployment rates. However, as the research of Nima Sanandaji (opposite) shows, there is evidence that many Nordic countries are 'hiding' unemployment.

The experience of the Nordics since the financial crisis, highlighted by data from the Prosperity Index and beyond, adds to the debate over which labour market policies are best. There was (and remains) a lot of vocal support for the Nordic model. The labour market performance of these countries since the crisis, and even before it, undermines this.

The merits of the Nordic versus the Anglo-Saxon model will continue to be a point of intense contention. Yet, there is growing evidence that the Nordic economies are failing, at least compared to some other advanced countries, to create jobs. This matters for prosperity and Finland's plight should act as a warning. The Prosperity Index shows that the Nordics are prosperous places, however, prosperity cannot be taken for granted and without robust job growth the Nordics will struggle to remain at the top of the pile.

Blanchard, O. J., Jaumotte, F., Loungani, P. "Labor market policies and IMF advice in advanced economies during the Great Recession." *IZA Journal of Labor Policy*, 2014.

HIDING UNEMPLOYMENT THE NORDIC WAY

Nima Sanandaji, PhD. Royal Institute of Technology, Stockholm
Research Fellow at the Centre for Policy Studies, London

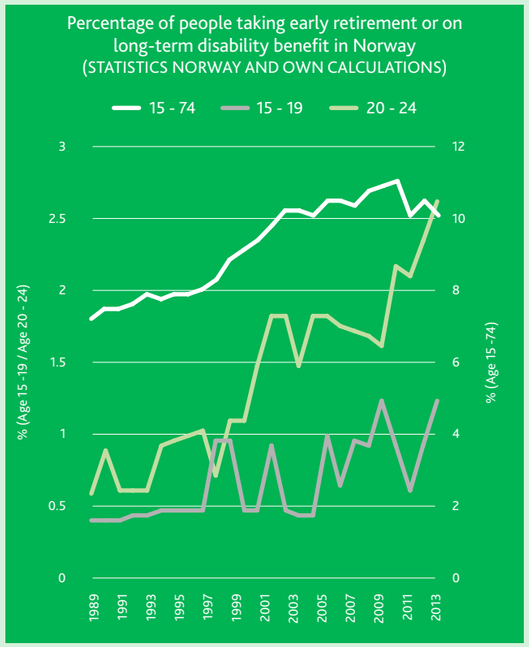
At first glance, the unemployment rate in Norway seems unusually low. The oil-rich country is often praised for its ability at keeping unemployment rates down. One key reason however, is that early retirement through disability pension is routinely used to classify long-term unemployed individuals who are healthy enough to work as being outside of the labour force. This coincides with an unusually generous benefit system. A study from the OECD in 2010 reached the conclusion: "No other OECD country has such a high level of sickness absence and, at the same time, such a generous sickness benefit scheme." The study noted that the share of Norwegians of working age receiving disability benefits in 2008 was five times the number of unemployed (OECD 2010).

The Norwegian labour market is characterised by high taxes, unusually generous benefit systems, and rigid labour market rules. As a result immigrants find it challenging integrating into the economy. However, international data shows that the unemployment rate of the foreign-born labour force in Norway is merely 7% amongst men and 8% amongst women, the same low level as the United States (OECD 2013). Yet again, much of the true level of unemployment is hidden in the system. An in-depth study by Bjørgulf Claussen, Lisbeth Smeby, and Dag Bruusgaard (Claussen 2012) looked at individuals aged between 30 and 55 who were granted disability pensions between 1992 and 2003. They noted that fully 25% of the men and 24% of the women granted disability pensions were born in the Middle East and North Africa.

Brita Kaltenbrunner Bernitz and co-authors (Bernitz 2013) have shown that it is also common practice in the Nordic countries to support young individuals through early retirement. Early retirement amongst the young is higher in regions with higher unemployment rates. Furthermore, Norway, which has the most generous benefit system in the region, has a higher rate of youth early retirement than other Nordic countries. According to Brita Kaltenbrunner Bernitz the share of youth (18-29 year olds) in early retirement in Norway increased from close to 2% in the late 1990s to 5% in 2011 (Bernitz 2013). Data from Statistics Norway shows, as illustrated in the figure opposite, that it is becoming ever more common to take early retirement, particularly for those under the age of 25. In 1989, 0.6% of Norwegians between 20 and 24 were classified as on early retirement. In 2014 the figure had increased to 2.6%. More than 10% of all working-age Norwegians have been on early retirement since 2003 (Statistics Norway 2015).

Early retirement is one of the main, but not the sole, tactics used in the Nordic welfare systems to hide true unemployment. Another

Percentage of people taking early retirement or on long-term disability benefit in Norway
(STATISTICS NORWAY AND OWN CALCULATIONS)



example is that unemployed individuals participate in labour market programmes with limited prospects of gaining employment, or are excluded from the labour force for various reasons. The high hidden unemployment rate was a key reason why a centre-right government won power in Sweden in 2006. 2013 data from Statistics Sweden shows that at the time, 20% of the working-age population in the country was supported by at least one form of government benefit. During the following six years the Swedish economy was significantly affected by the global financial crisis. Despite this, the share of the working-age population supported by government benefits fell to 14% as reforms that reduced the generosity of the benefits system and reduced taxes, encouraged people into work. In Norway the share of the population depending on public benefits was also 20% in 2006. In 2012 it had been reduced by less than 1%. That Sweden, but not Norway, managed to reduce the true unemployment rate is likely explained by the fact that Norway, which relies on massive oil-wealth, did not introduce work-fare reforms as in Sweden.

Bernitz, B.K., N. Grees, M.J. Randers, U. Gerner and S. Bergendorff. "Young adults in disability benefits in 7 countries." *Scandinavian Journal of Public Health* 41 (12), 2013: 3-26.

Claussen, B., L. Smeby and D. Bruusgaard. "Disability pension rates among immigrants in Norway." *Journal of Immigrant and Minority Health* 14 (2), 2012: 259-263.

OECD. "International Migration Outlook, Foreign-born unemployment." 2013.

OECD. "Sickness, disability and work: breaking the barriers – Norway." 2010.

Statistics Norway. "Population (1 000 persons), by age, main activity, part-time employment, time and contents." 2015.

SPECIAL REPORT

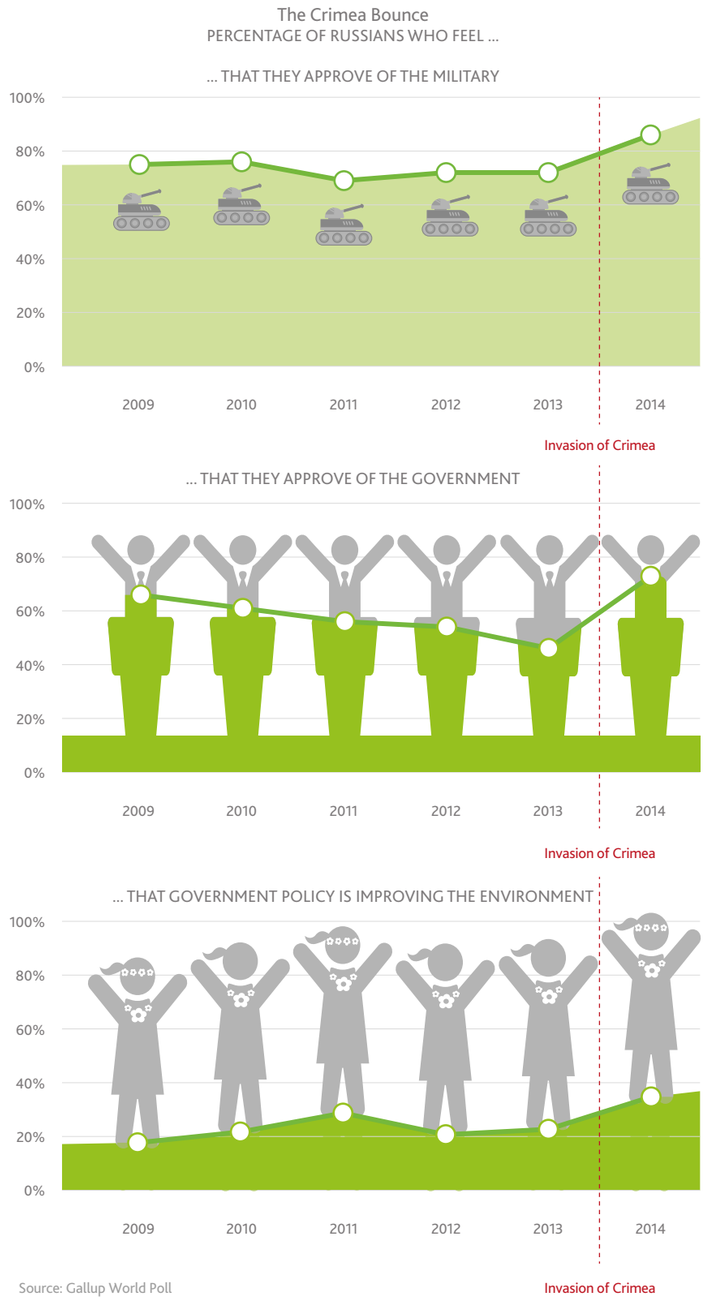
The Russian Enigma

Perhaps the most frequently cited quote about Russia's unpredictability is that of Winston Churchill describing the "action of Russia" as "a riddle wrapped in a mystery inside an enigma".

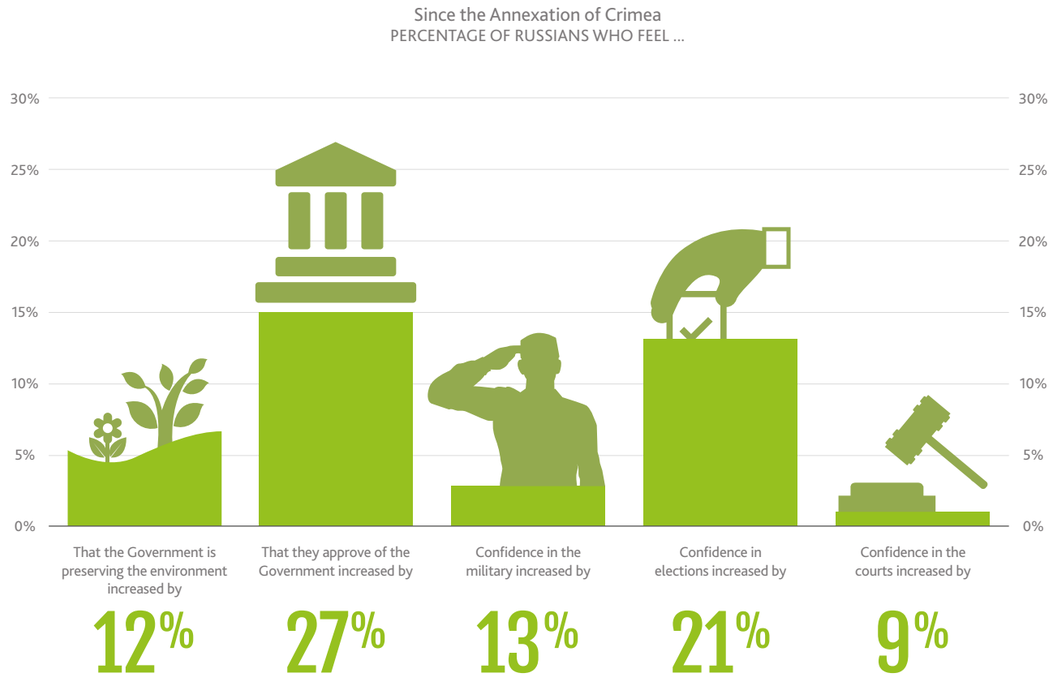
Indeed, anyone who has followed the "action of Russia" over the past two years will recognise the resonance of Churchill's words today. From its ongoing support of Syrian President Bashar al-Assad, to the annexation of Crimea, the action of Russia remains as unpredictable today as in 1939.

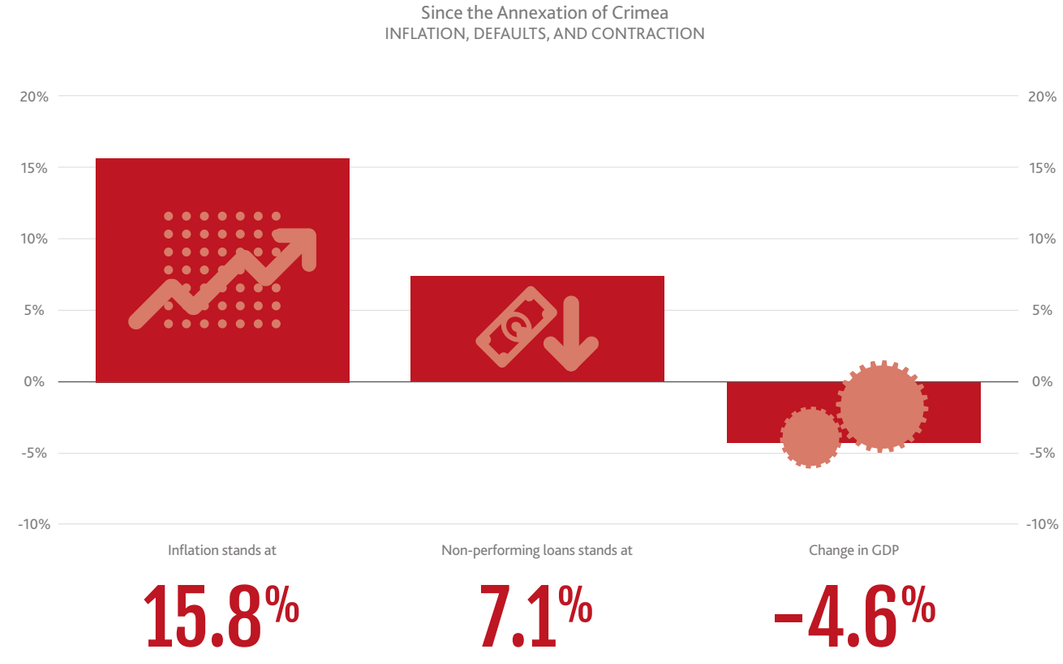
President Vladimir Putin's increasingly muscular approach to foreign policy masks a deterioration of the domestic reality. Economic conditions in modern-day Russia are getting worse: falling oil prices have hit the country's economy hard (oil constitutes 50% of government revenue and 70% of exports); interest rates shot up at the end of 2014 (although they have since fallen somewhat); Russia's credit rating has been downgraded to 'junk' status; and the IMF has predicted that Russia could lose up to 9% of GDP due to the economic sanctions imposed by the US and EU. The combination of sanctions, falling oil prices, and lack of diversification has contributed to the present malaise.

Up until this year, the Prosperity Index has tracked the country's decline. Last year we reported that the country had declined the most of all European states when it fell seven places to 68th on the Index. Between 2009 and 2014 the country saw declines in the Economy, Personal Freedom, and Social Capital sub-indices. Putin's Russia, the Index showed, was becoming increasingly less prosperous.



Source: Gallup World Poll





And so it may come as a surprise—an enigma even—that Russia's performance in the 2015 Prosperity Index has seen a marked improvement since last year, rising in the global rankings by ten places. But the overall rankings don't reveal the whole story. Digging into the underlying data reveals more.

The country's strong performance has been driven by big improvements in the areas of Social Capital, Governance, and Personal Freedom. However, these improvements have been caused predominantly by dramatic increases in the subjective data – put simply, despite living in a country in decline, the Russian people are responding to surveys more positively than they did a year ago (see graph previous page).

And so how can we square the difference between Russia's objective reality versus the buoyancy of its people? Peter Pomeranzev offers a compelling answer (opposite page) in what he describes as the battle of the 'television versus the fridge'. Put simply, Putin's Russia operates a very effective modern-day propaganda machine controlling the media (the television) to divert attention away from deteriorating living standards (the fridge).

And this is certainly borne out in the data from the Prosperity Index, in which we see "two Russias" emerging: the first Russia (using objective data) paints a gloomy picture of a country in decline (see graph previous page); the second Russia (based on the subjective data) paints a picture of optimism and hope for the future.

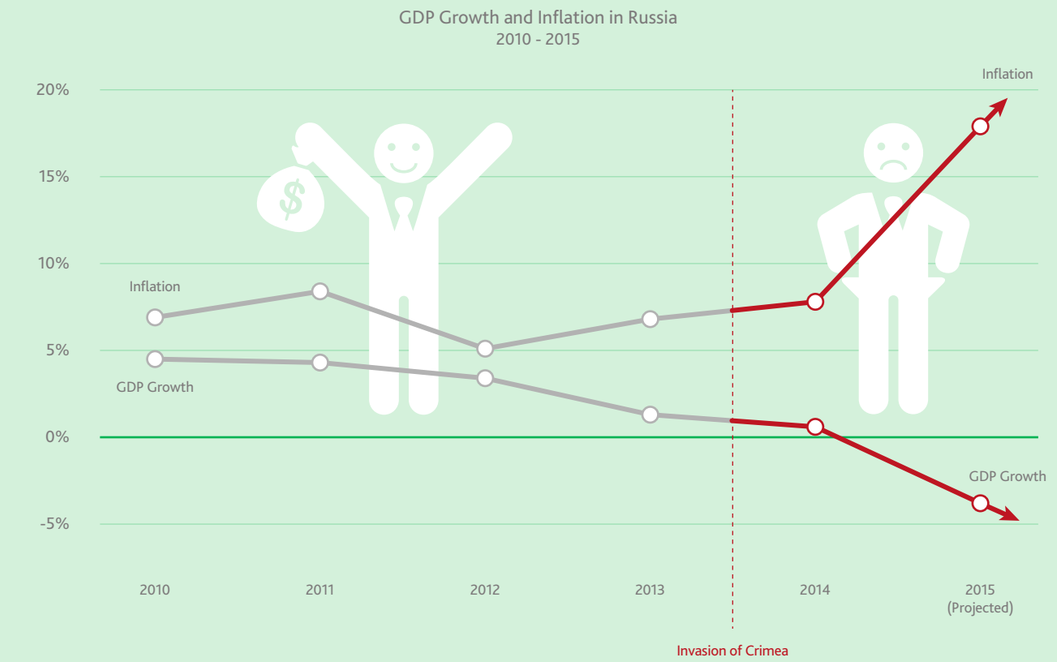
So which is the real Russia? In many respects they both are. One of the fundamental insights of the Prosperity Index is that the way people feel is often as important as their 'objective' conditions. If a person is afraid to walk the streets at night (something we measure in the Index) it can be as debilitating to their quality of life as living in a high-crime area.

However, the Prosperity Index also shows that a wide gulf between opinion and reality can only be sustained for so long. In the same year that Russia annexed Crimea, Ukraine overthrew a widely despised government. Yet, the sense of euphoria did not last long. With inflation currently running at more than 50% and the economy shrinking, the Prosperity Index shows that only 28% of Ukrainians are satisfied with their standard of living—the eighth lowest in the world. Ukraine is now ranked 70th on the Index, down seven places since last year.

Vladimir Putin is a master of misdirection and manipulation. To use Pomeranzev's analogy, it would appear at the moment that the television is winning the battle over the fridge. The data show that President Putin is successfully deflecting attention away from the harsh reality of declining living standards. But for how long can this continue?

THE TELEVISION VERSUS THE FRIDGE

by Peter Pomeranzev, Senior Fellow, Legatum Institute Transitions Forum



In Russia they call it the 'battle between the television and the fridge'—the tension between propaganda-fuelled patriotic euphoria and the darkening economic reality. This year's Prosperity Index, based largely on data from 2014, right after the annexation of Crimea and Putin's announcement of a new era of Russian greatness, shows how the battle is playing out.

First the case for 'the fridge'. Most of the objective data point to Russia doing badly. Inflation is up. Wages have fallen. Economic growth is not just down but shrinking. People and businesses are defaulting on loans. The currency has gone to the dogs. Life expectancy is still very low.

But when it comes to subjective data, how people perceive their country, things are looking positively balmy. Confidence in the military is up 13%. Government approval is up 27%. Despite the objective reality, satisfaction with living standards is up 13% while confidence in financial institutions is up 6%.

As a result Russia has surged up the Prosperity Index from 68th to 58th place.

The television, it appears, is more powerful than the fridge. Or to choose a different metaphor: Putin is a toreador using propaganda as his cape to avoid the bull of reality. So far very successfully—though it begs the question of what new patriotic and military flourishes he will need to dangle to keep the bull at bay.

There is, however, another factor worth bearing in mind: the difference not only between reality and perception, but perception and behaviour. For all the official public support of the Kremlin, capital outflow from the country doubled between 2013 and 2014, from $61bn to $151.5bn. Now that doesn't sound all too patriotic after all. A problem with perception polling in authoritarian regimes is it can be hard to tell how honest respondents are being. In a society such as Russia's, propaganda is not always about indoctrination; it can also be a signal sent to the population to follow a certain code, defining what you should and shouldn't say in public if you want to stay safe—especially when you're talking to a pollster.



REGIONAL ANALYSIS

Regional Analysis

The 142 countries in the Prosperity Index are divided into five regions. We have analysed developments in these five regions and chronicled the key trends and findings. Just as each country's path to prosperity is different, there are also regional differences in how prosperity is developing.

In the Americas, issues of governance and safety and security are sure to dominate electoral agendas this year and next. On current projections, the ASEAN economies could be more economically prosperous than their East Asian rivals by 2025.

A close examination of the Europe data reveals that an "Iron Curtain" of health and wellbeing continues to divide the continent. Some Middle Eastern states saw sharp declines in key social indicators before falling prey to the Islamic State. Worryingly, the same indicators are now falling in other countries in the region. Finally, it may not come as a surprise to find that West Africa is driving prosperity in the continent. However, it is not Ghana and Nigeria, but many of the small countries that have been most successful over the last couple of years.

LEGATUM INSTITUTE | The 2015 Legatum Prosperity Index™

THE AMERICAS

Governing the Americas

2015 and 2016 are decisive years in both South and North American politics. With Argentines, Canadians, Venezuelans, and US citizens scheduled to go to the polls in the last quarter of 2015 and through 2016, issues of political stability, approval rates, and government effectiveness dominate the landscape of many countries whose election results have the potential to affect the whole region.

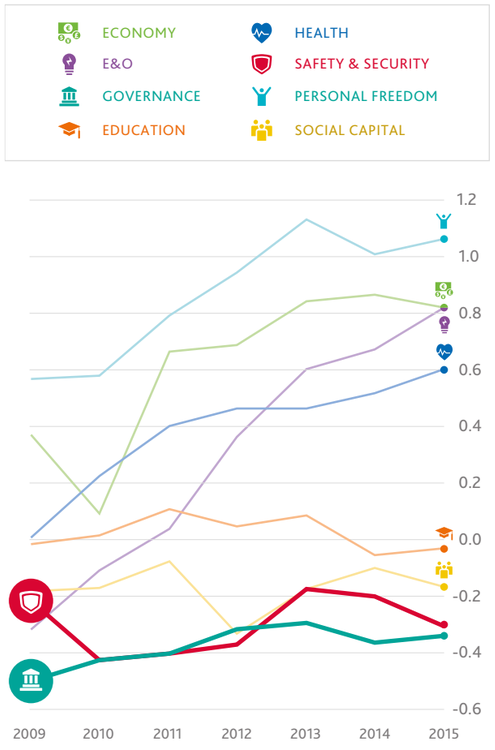
The Prosperity Index has some startling news for the Americas region: Governance is the lowest-scoring category (of the eight categories within the Index), and has been since 2013 (see graph right). Worryingly, in addition to Governance issues, Safety & Security challenges are evident across the region and are likely to dominate much of the political debate.

The poor performance in Governance is led mainly by Latin American and Caribbean countries. Besides Venezuela and Haiti having some of the lowest Governance levels in world—ranking 138th and 139th, respectively—Bolivia (97th), Argentina (104th), and Paraguay (114th) also highlight an issue which spans the entire region, with only a few exceptions. Venezuela has shown the third biggest decline in Governance in the world since 2009 (behind only Tunisia and Syria), and Argentina has shown the third biggest decline since last year.

The failure of governments to address safety and security issues has been demonstrated by recent unrest in the US and Brazil, both of which have contributed to the region's poor performance in the Governance sub-index. Safety & Security problems continue to pose a big threat in the Americas; it is the second worst performing sub-index and the region has witnessed a decline since 2009. The US's performance on this indicator has contributed to this trend.

The Safety & Security sub-index is the US's lowest rank at 33rd and it has been consistently the lowest for the country since 2009. The US is the only country in the top 20 of the Prosperity Index that is ranked outside the top 30 on the Safety & Security sub-index (see the map opposite). In light of events in the past year, such as the Baltimore protests or the Ferguson unrest, it is perhaps unsurprising that the indicator that measures group grievances has increased in the country. Also, since 2013, the US records some of the highest rates

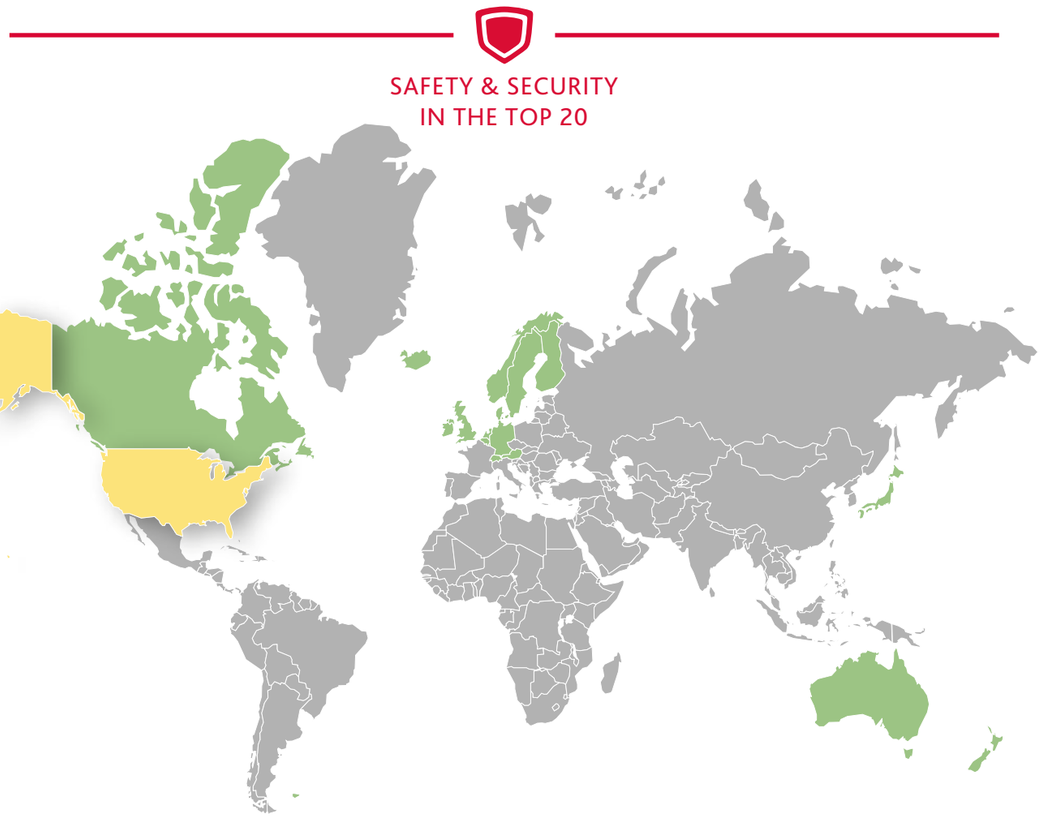
Sub-Index Performance in the Americas
2009 - 2015



Percentage of People Reporting to have had Property Stolen
2014



This map depicts the top 20 most prosperous countries in the world in 2015. The colours show where they rank on the Safety & Security sub-index. Only America ranks outside the top 30 in this sub-index.



of property theft in the world: 17% of US citizens report that they have been a victim of theft—close to the rate recorded in Nicaragua, Panama, and Brazil, which is 18% (see figure left).

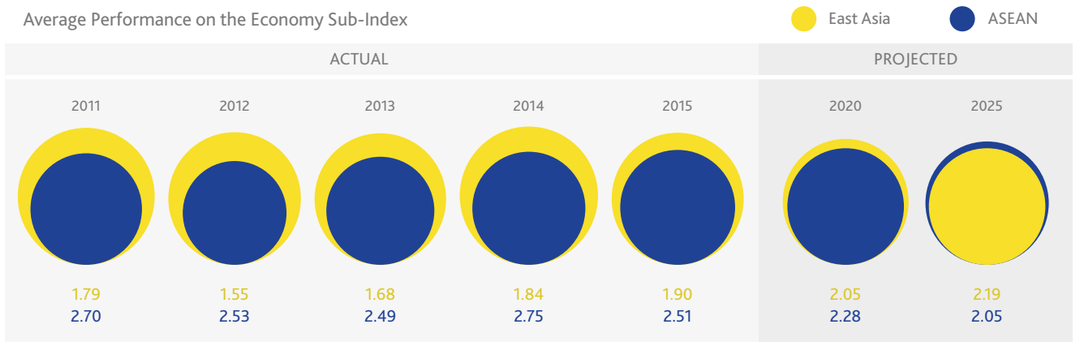
More worrying still is the level of state-sponsored violence recorded in the US: a level of 3 (on a 1 to 5 scale), equivalent to countries such as Venezuela, the Dominican Republic, and El Salvador. In fact, the US is one of the only Western countries that scores so poorly in this measure. Perhaps reflecting this, fewer people than ever feel safe. Only 74% of people report feeling safe walking alone at night, as low as in Egypt and Serbia.

Against this backdrop of Safety & Security problems, candidates in the 2016 US Presidential campaign—and indeed political candidates across the region—will have to work hard to convince an already concerned electorate that they will be able to overcome these challenges. Government approval in the US stands at just 35% and confidence in the honesty of elections is at 40% (placing between Cameroon and Albania).

Countries in the Americas region are very different, but issues of Governance and Safety & Security are common throughout. In the upcoming elections the candidates face an uphill battle to convince an electorate that they can be real actors of change capable of creating safer environments. Right across the region, indicators are heading in the wrong direction. Once elected, political leaders have an opportunity to turn this around.

ASIA-PACIFIC

The ASEAN Dragon Awakes



The magnificence of the Chinese economic miracle has long enticed the world. However, recent jitters are beginning to cast doubt on the virility of the Chinese dragon. The 2015 Prosperity Index casts that shadow beyond China to reach across East Asia,[1] and points instead to the ASEAN nations[2] as the light of economic prosperity in Asia.

In absolute terms, the East Asian economies still dominate the Economy sub-index, however their hegemony is under threat. 2015 sees the smallest ever gap between each bloc's average score in the Economy sub-index. If current trends continue, by 2025 the average ASEAN nation will be economically more prosperous than the average East Asian one (see figure above).[3] East Asia will no longer be the dominant economic bloc.

Underlying weakness in the Chinese economy, particularly in the labour market, has been apparent in long-term Index data. Whilst rising to 3rd in the Economy sub-index this year (reflecting 2014 data), this is predominantly a result of stable inflation, high domestic savings, broad satisfaction with living standards, and FDI inflows. However, unemployment has been ticking up (China risks falling into the region's bottom third) and job market expectations are still some of the lowest in the region.

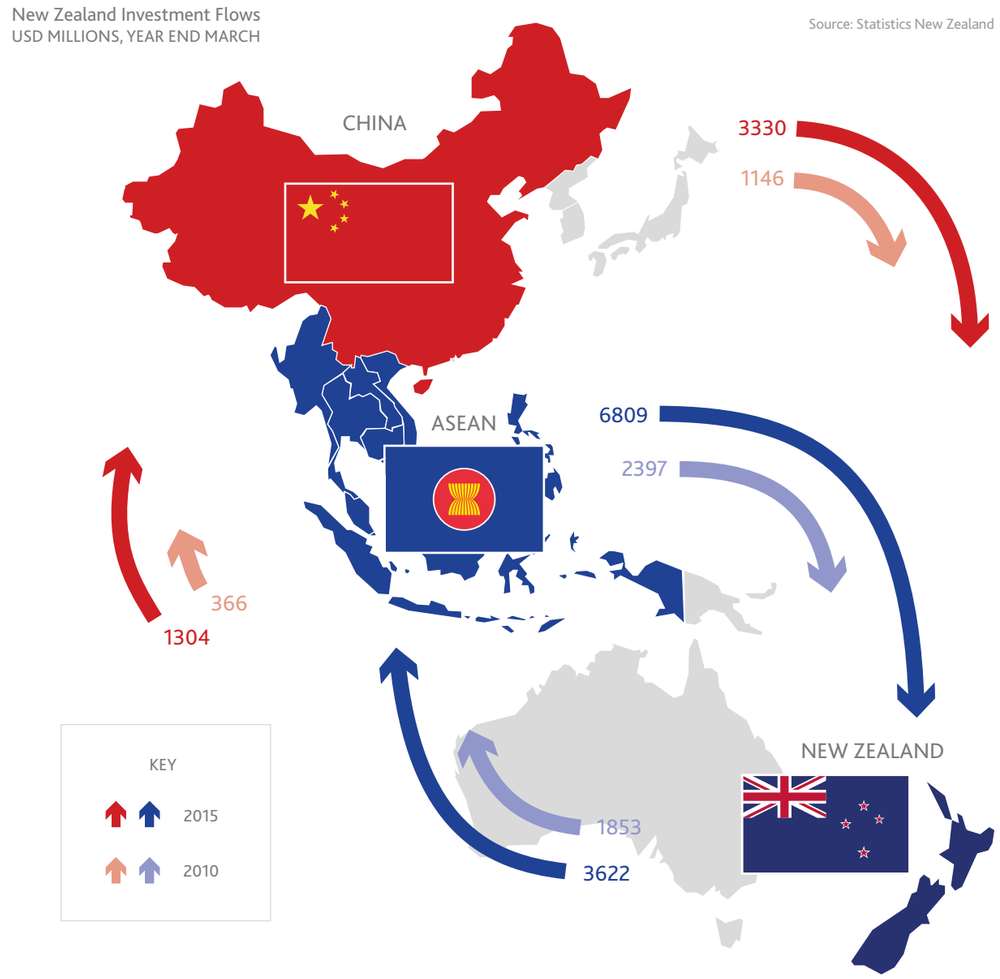
Yet, East Asia's problems don't stop at China. Japan has fallen from 7th to 25th in the Economy sub-index since 2009 and Hong Kong from 11th to 24th. In contrast, the ASEAN bloc is on the rise. Singapore has always ranked highly on the economy (1st this year), but other ASEAN nations have posted large seven-year improvements: Thailand rises from 27th to 15th, overtaking Hong Kong, Korea, and Taiwan, despite the latter two rising up the ranks. Vietnam rises from 41st to 32nd, Cambodia rises eight places to 80th, and Indonesia from 60th to 39th.

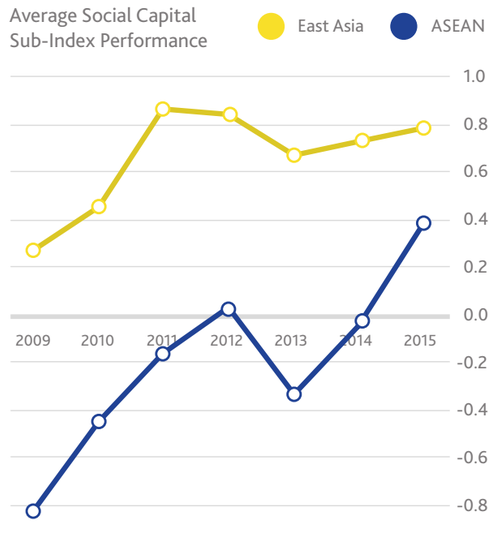
Within Asia-Pacific, the potential for the ASEAN rise to drive prosperity elsewhere through trade and investment has long been known among some nations. New Zealand, the first developed country in the world to sign a free trade agreement with China (2008), followed just a year later with a joint NZ-Australia FTA with the ASEAN bloc, after a number of Closer Economic Partnership Agreements in the 2000s. Whilst China remains the bigger trading partner, investment flows between New Zealand and ASEAN nations are far more significant than those with China, and rapidly growing (see opposite).

However, prosperity is not simply about economics. Yet neither is the ASEAN challenge to East Asia. The Index shows that its dominance is beginning to be challenged elsewhere too. 2015 sees the smallest gap between East Asia and other sub-regions, not just in the Economy, but in every sub-index except two.

In both Education and Social Capital, the ASEAN challenge is marked (see graph opposite). The educational lights of East Asia—South Korea and Taiwan—are slipping in their competitiveness, falling from 12th to 20th and 8th to 22nd respectively since 2009. At the same time, Vietnam has improved from 81st to 57th, Singapore from 39th to 15th, and Indonesia up nine places to 78th. Within Social Capital, ASEAN family networks are already stronger and ASEAN society is more generous with time and money than in East Asia.

Here too nations are recognising the potential for mutually beneficial opportunities to prosper. Indonesia's climb up the prosperity ranks is the biggest in the last seven years of any country in the Index. While Kiwi businesses are looking at infrastructure and energy as areas to invest, only last year the New Zealand Government added Education and Tourism offices to its existing trade presence in Jakarta.





For policy-makers in ASEAN nations, upward progress relies on sustaining the improvements we have seen, but also focussing on the areas where the region is making little impression on East Asian dominance, namely Health where the gap is fairly constant, and Safety & Security where the gap is widening. Here there may be chances for the likes of New Zealand to help drive prosperity growth. One of its notable tech companies, Orion Health, recently established a presence in the Philippines as a base for ASEAN investment.

Whilst the immediate outlook remains uncertain in the region, the underlying trends are clear. The ASEAN region is on the march. It is already mounting a marked challenge to its more developed peers in the East. If trends continue, the days of East Asian hegemony are certainly numbered.

[1] For this analysis we exclude Mongolia whose poor score distorts the average of China, South Korea, Hong Kong, Taiwan, and Japan.

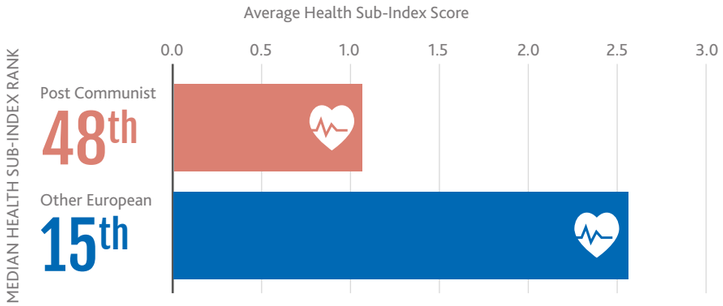
[2] Seven-year data covers Cambodia, Philippines, Indonesia, Vietnam, Thailand, Malaysia, and Singapore.

[3] Based on linear modelling from post crisis data (2011 onwards).

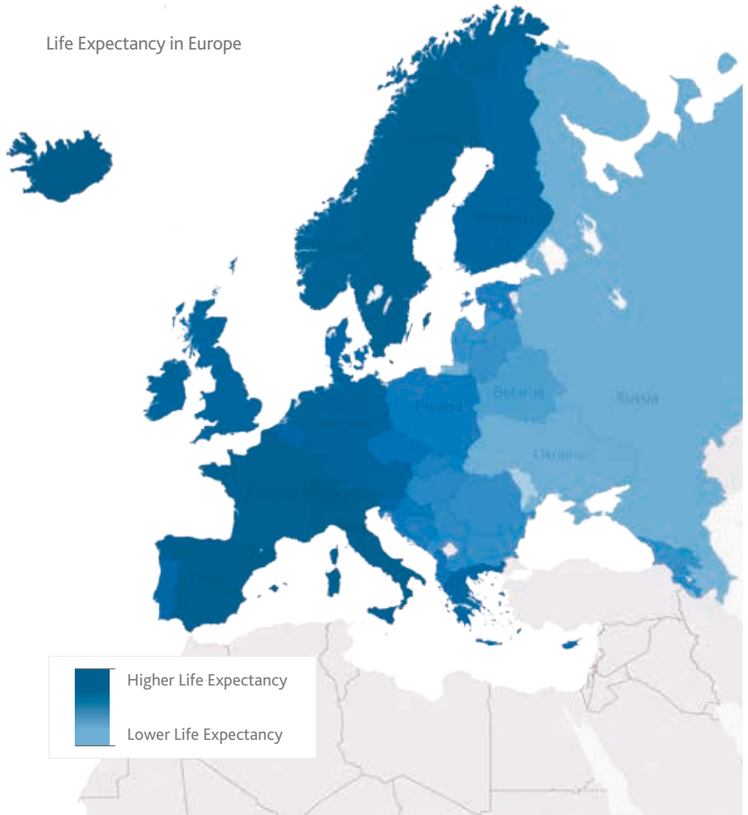
EUROPE

An Iron Curtain of Health and Wellbeing Divides Europe

Since the fall of the Berlin Wall the post-Communist countries of Eastern Europe have witnessed profound economic and social change. The relative success of their transitions from planned to market economies and from authoritarian to more democratic rule continues to be debated (Shleifer 2014). However, the Prosperity Index shows that in the areas of health and wellbeing the continent is still starkly divided and that this division has little to do with wealth.



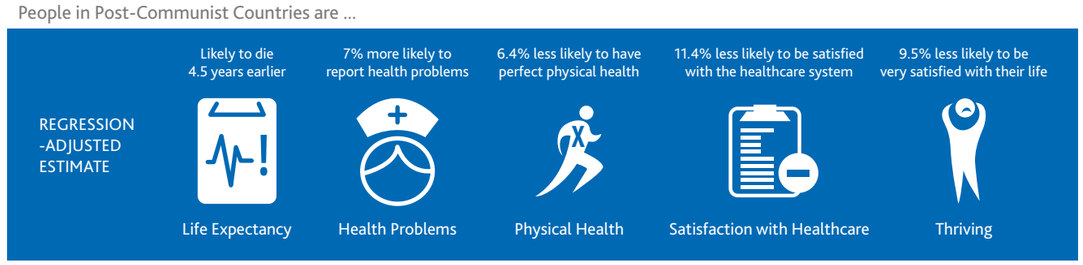
The division in the continent is highlighted by the Health sub-index. Post-Communist countries score an average of 1.01 on this sub-index and have a median rank of 48. In contrast the other European countries have an average score of 2.60 and a median rank of 15 (see graph above).



This division has been the subject of academic study. Research into wellbeing has revealed a post-Communist paradox: people in these countries report lower levels of life satisfaction than would be expected given their relative wealth (Inglehart 2013). In terms of health, a recent paper in the *Lancet* bemoaned the 'health divide' in Europe (Marmot 2012).

Data in the 2015 Prosperity Index sheds new light on these two issues—even controlling for GDP per capita the evidence indicates that the post-Communist countries of Eastern Europe are less healthy and less happy.

Analysing the 43 European countries in the Prosperity Index we find that people living in post-Communist countries live 6.5 years less than their counterparts in other European countries. However, this is just the crude difference, and is partly driven by the greater wealth and development of the majority of the Western European states. Using regression analysis we can control for the effect of wealth. Doing so reveals that people in the post-Communist states still live four and a half years less.



Repeating this analysis for a range of health indicators, while also controlling for the effect of wealth, we find that people in post-Communist countries have more health problems, enjoy less physical health, are less satisfied with the healthcare they receive, and are less likely to be satisfied with their lives. The regression-adjusted estimates show that these differences are not the result of income differentials (see table above).

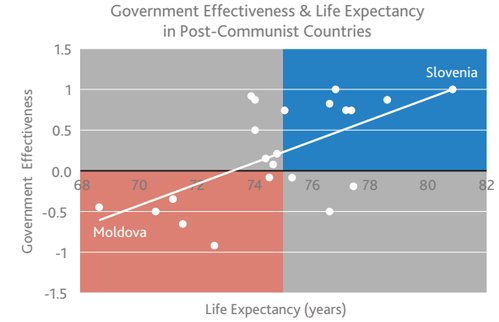
If not predominantly because of a lack of wealth, why are the post-Communist states failing to catch up with their West European counterparts?

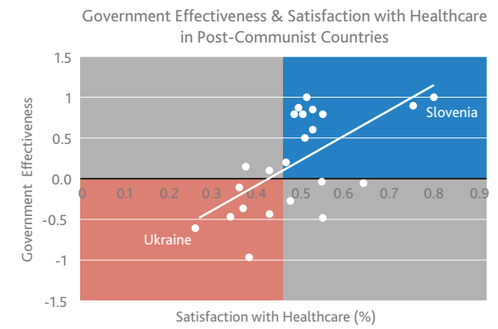
In terms of wellbeing and life satisfaction, some authors have suggested that the end of the Soviet Union saw the collapse of not just an empire, but of a belief system. This coupled with economic dislocation and a decline in national pride meant that many people were extremely miserable—in 1990 people in Russia, Belarus, Ukraine, Bulgaria, and Romania reported some of the lowest levels of subjective wellbeing in the world (Inglehart 2013). The effects of this dislocation may still be felt today.

In terms of health, there are a range of reasons why health outcomes are generally lower in the post-Communist states. Higher levels of alcoholism, poor diet, and other socio-demographic factors are clearly important. Studies also suggest that many post-Communist states have failed to build effective welfare states and health systems (Safaei 2012), and that those post-Communist states that have built more effective healthcare systems have better health outcomes.

The Prosperity Index provides support for this hypothesis. In post-Communist European countries where more effective governmental systems have emerged, health outcomes are better, and people are more satisfied with the healthcare they receive (see right).

After the fall of the Berlin Wall there was hope, and possibly expectation, that the newly independent countries would quickly resemble their Western European peers. The development of competitive markets would lead to greater wealth and in turn greater prosperity. The evidence is that even where markets have produced wealth, comparable to some Western European countries, they have not brought equivalent improvements in personal health and wellbeing. The gulf between Eastern and Western Europe in terms of health is often overlooked by commentators who prefer to focus on economic or political differences. The Prosperity Index shows that the gulf in health is real, wide, and needs to be addressed.





Inglehart, R., Foa, R., Eduard, P. & Welzel, C. "Understanding the Russian Malaise: The Collapse and Recovery of Subjective Well-Being in Post-Communist Russia." *Higher School of Economics Research Paper* No. 32, 2013.

Marmot, M., Allen, J., Bell, R., Bloomer, E. & Goldblatt, P. "WHO European review of social determinants of health and the health divide." *Lancet* 380, 2012: 1011–29.

Safaei, J. "Post-Communist Health Transitions in Central and Eastern Europe." *Economics Research International*, 2012.

Shleifer, A. & Treisman, D. "Normal Countries: The East 25 Years After Communism." *Foreign Affairs*, November/December 2014.

REGIONAL ANALYSIS: MENA

MIDDLE EAST AND NORTH AFRICA

How vulnerable are societies to Islamic State?

When the official declaration of the established Caliphate came from Abu Bakr al-Baghdadi in June 2014, the world began to ask itself how and why large swathes of Iraq and Syria could fall after two years of intensified insurgency and the gradual territorial advances of IS forces. As the violence spread to a Tunisian holiday resort and the streets of Europe, the question became, where would be next to fall to IS territorial control?

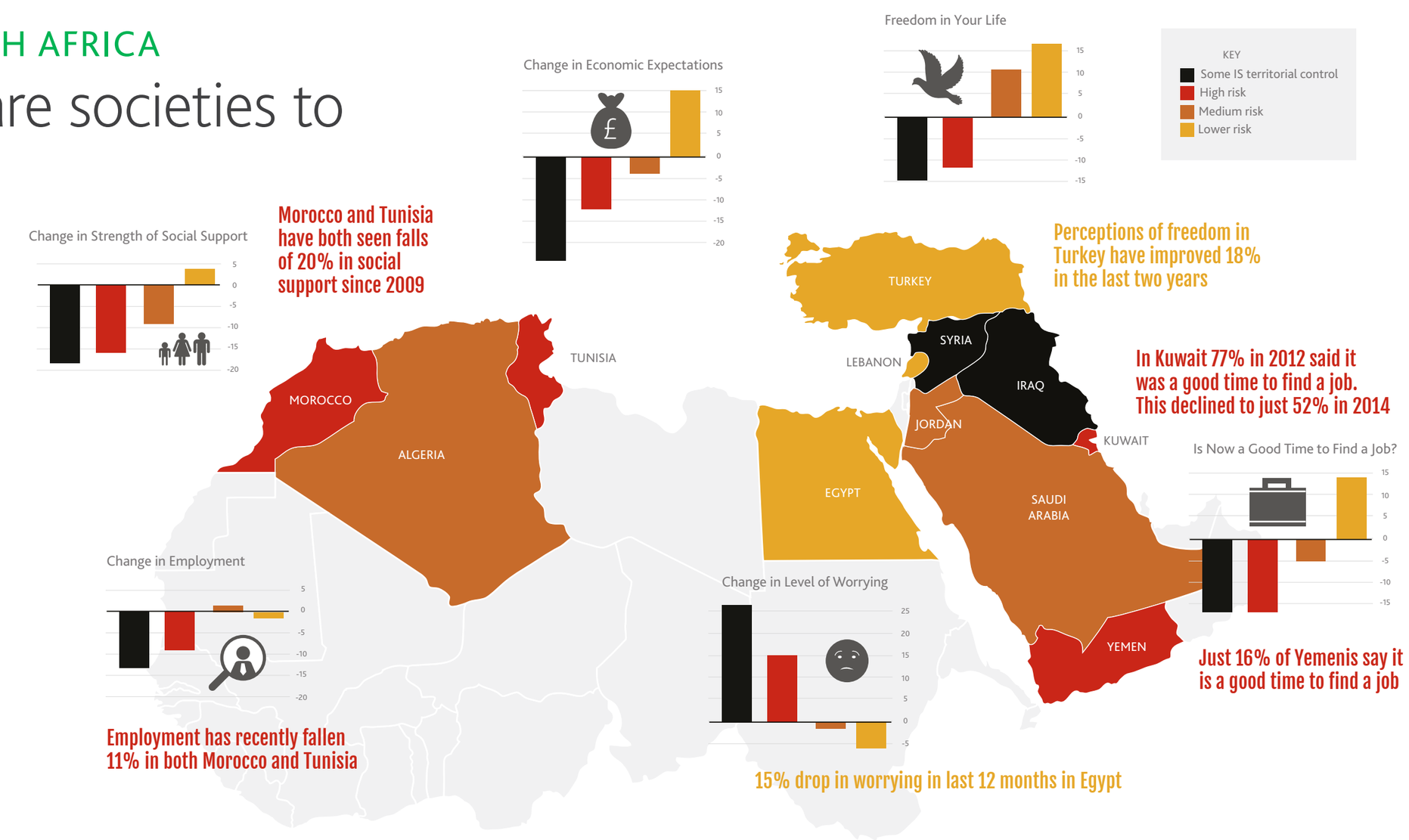
There is no shortage of possibilities. The territorial ambition of al-Baghdadi is well known and the reach of Islamic State is becoming increasingly apparent: attacks in Tunisia and Egypt, disrupted plots in Saudi Arabia and Morocco, and network expansion in Yemen. Insurgency is spreading.

Intelligence can point to active IS cells. Military analysts highlight the capabilities of national defences. Political and cultural experts point out the resolve of governments and the historical divisions that may ignite. All these factors matter.

But so too does the state of society. This is where the 2015 Prosperity Index can offer an unique insight. In Syria and Iraq prior to the Islamic State's advance, the Index records a distinct and significant pattern of decline. Falling family strength and social support, growing unemployment, economic scepticism, dissatisfaction with the level of freedom in everyday life, and increased levels of worrying all characterise society's fundamental weakening prior to the territorial advance of IS and the conversion of insurgency to rudimentary statehood.[1]

This social vulnerability is not just confined to those nations where IS retain some territorial control. Looking across the region, similar trends can be observed to a greater or lesser extent in many countries. Using the Prosperity Index, the changes in these key indicators can be mapped across the region, and—based on prevalence and magnitude—social vulnerability to IS can be estimated.

The region can broadly be categorised in three ways: High Risk (red), countries with trends similar to Iraq and Syria of similar or greater magnitude; Medium Risk (orange), countries with similar trends but of a lesser magnitude; and Lower Risk (yellow), countries with broadly opposite trends. The average change in the key variables by risk group (see graphs on the map) show the trends clearly.



Whilst Yemen and Kuwait both rank in the High Risk group, the weakening observed is less than was seen in Iraq prior to 2013. Most worrying are Tunisia and Morocco where the Index records greater social weakening (higher risk) than in Iraq. Given recent attacks in Tunisia, this is probably not surprising, but the trend in Morocco will concern European governments given its geographic proximity and popularity among holiday-makers. Social support has fallen 20 points here since 2009. Employment is down from 45% in 2012 to just 34% today, and unsurprisingly job market optimism is down from 43% in 2013 to just 20% today.

Yet there are positive trends too. Despite the attacks mounted by IS in Egypt and its activity in the country, Egypt shows remarkable resilience and improvement on the key indicators tracked. Whilst family strength has fallen, economic and job expectations have rocketed. Just 10% thought it a good time to find a job in 2012. Today that stands at 32%. IS may be active, but the Index demonstrates that Egyptian society may currently be less vulnerable than others.

Lebanon is also broadly positive, with smaller but sustained growth across the tracked variables. However, it is also a perfect example of the volatility of the situation. Things may have been improving on 2009, but with growing unrest and dissatisfaction with the interim government, the country's resilience could change almost overnight.

Islamic State faces significant challenges in transforming localised insurgency into territorial control and expansion. The Index can help illustrate where society is at its most vulnerable, and where it is more resilient.

Whilst Lebanon shows us that lower risk countries need to be monitored, the focus for counter-IS campaigns should certainly be on high risk nations like Morocco, but not simply on tackling IS as a symptom. What the Index shows is that attention also needs to be paid to the underlying fundamentals that are weakening society and increasing its vulnerability to extremism. The message to governments is clear: support family, give opportunity, increase freedom, and provide jobs to your citizens, and you make it harder for Islamic State to take root.

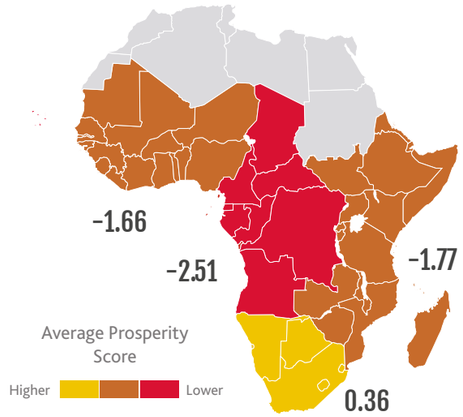
[1] Data trends from 2009 to 2013 in Iraq and Syria—due to data availability, some variable data range is 2009-2012.

SUB-SAHARAN AFRICA

Minnows swim faster in West Africa

It may come as no surprise that within sub-Saharan Africa the most prosperous region is Southern Africa. What may be surprising, however, is that West Africa is rising fastest, led not by the large economies of Nigeria and Ghana, but by smaller nations such as Senegal and Togo.

The vast majority of sub-Saharan African countries place in the bottom third of the global rankings. But those which perform best are in the south of the continent, which is far ahead of the others in its average prosperity score. South Africa, for instance, is 75th followed by Botswana at 77th.



Change in Overall Prosperity Score 12-15

Yet, West Africa is on the rise and is progressing significantly faster than any other region.

The progress in West Africa from 2014 to 2015 has been driven by significant gains in the Social Capital, Economy, Health, and Entrepreneurship & Opportunity sub-indices. These were also the main areas of growth from 2012 to 2015, following the pattern that we see on the continent as a whole, but at a greater pace.

Senegal has emerged as one West African success story. Despite having an economy two and a half times smaller than Ghana's (and more than thirty times smaller than Nigeria's), it has seen the biggest rise in overall prosperity in the region, climbing 18 places in the past four years.

One reason for Senegal's success is a steady improvement in the Governance sub-index, in which the country has risen 26 places since 2012. Driving this improvement are significant gains in regulatory quality, rule of law, and political rights. Its advance seems to have filtered through to the Senegalese people. In 2014, 67% of Senegalese citizens reported confidence in the national government (a 36% increase since 2012). Moreover, 79% of citizens say they are confident in the honesty of elections (up from 37% in 2012).

Senegal has also seen an improvement in the Health sub-index, rising 21 places since 2012. In that time period, the rate of immunisation against infectious diseases has risen from 70% to 92%, whilst child immunisation rates against measles have risen from 60% to 84%. Life expectancy has risen 4.4 years and infant mortality has fallen. It is perhaps unsurprising then that Senegal was praised by the WHO for a strong and decisive response to Ebola and its containment efforts were considered didactic to other nations: it suffered just one case and no deaths.

Togo, one of Africa's smallest countries with a population of less than seven million, has been another big driver of prosperity in West Africa. It has achieved the second largest increase in score over four years after Senegal, rising seven ranks in overall prosperity. This has been a consequence, in part, of the country becoming safer, making it stand out in sub-Saharan Africa and globally. It has risen 24 places in the Safety & Security sub-index over four years, led by falling levels of state-sponsored political violence, theft, and group grievances, as well as greater demographic stability. Togo is also becoming a freer country and has risen 15 ranks in the Personal Freedom sub-index since 2012, reflecting democratic gains since the successful legislative elections of 2007, which have followed years of political unrest.

But what can be said of the countries usually seen as the West African regional leaders? Nigeria and Ghana have been left behind and the common thread that ties their failure together is that, unlike Togo, they are rapidly becoming less free.

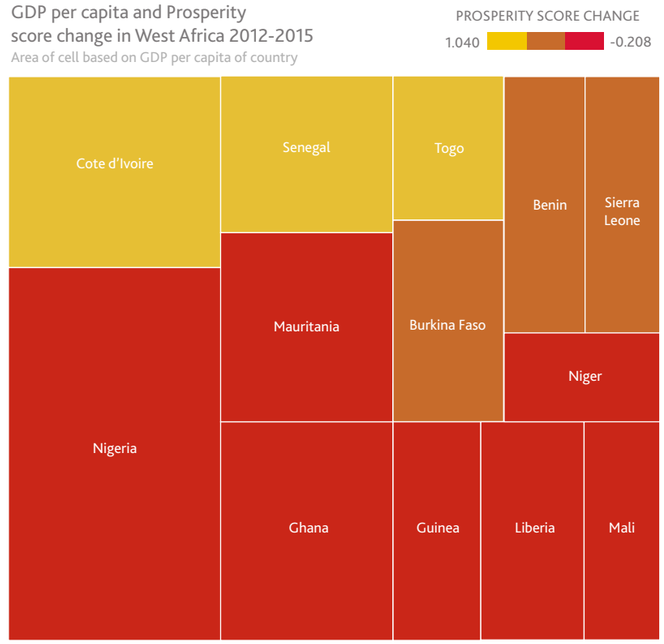
Indeed, despite success among others in the region, Ghana is actually declining in prosperity, falling 15 ranks since 2012. Its drop has been largely driven by a deterioration in the Personal Freedom sub-index where it has plunged 30 places. And as freedom in Ghana has spiralled downward, social bonds have also weakened as the country has fallen 22 places in the Social Capital sub-index over four years.

Also bucking the trend in West Africa, Nigeria is standing still in terms of prosperity. It did not rise or fall in rank over the past year, but has fallen by two places since 2012. As in Ghana, poor performance is largely driven by the country becoming less free. It has seen a massive decline in the Personal Freedom sub-index since 2012, tumbling 37 places down the rankings. All variables in this sub-index have worsened. Nigerians report to have less freedom to choose what to do with their lives and that the country is becoming a worse place to live for immigrants and ethnic minorities.

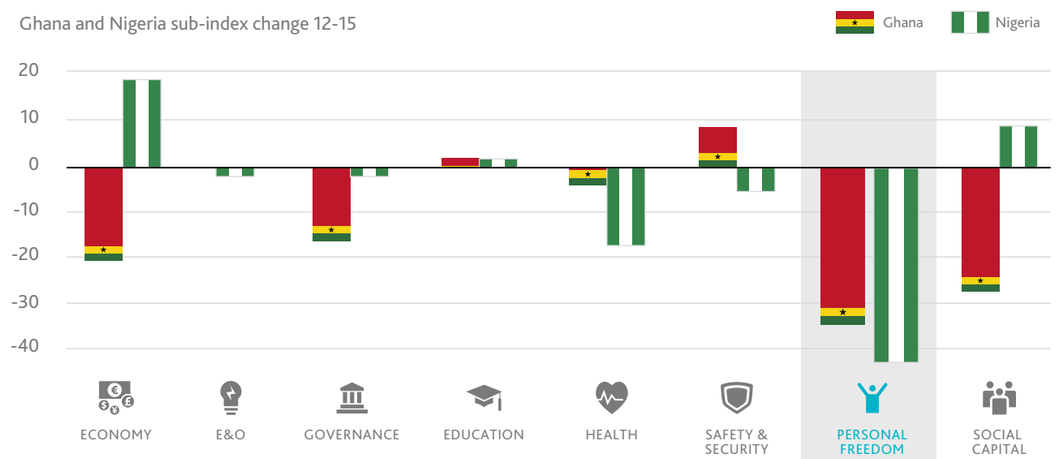
Though these two regional giants often dominate discussion of West Africa, with their economic growth rates taking the spotlight, the Prosperity Index goes beyond conventional analysis to show that they are failing in important respects. The question remains—will Nigeria and Ghana be held back in their overall performance by the absence of freedom? Whilst they stand still, smaller countries race ahead.

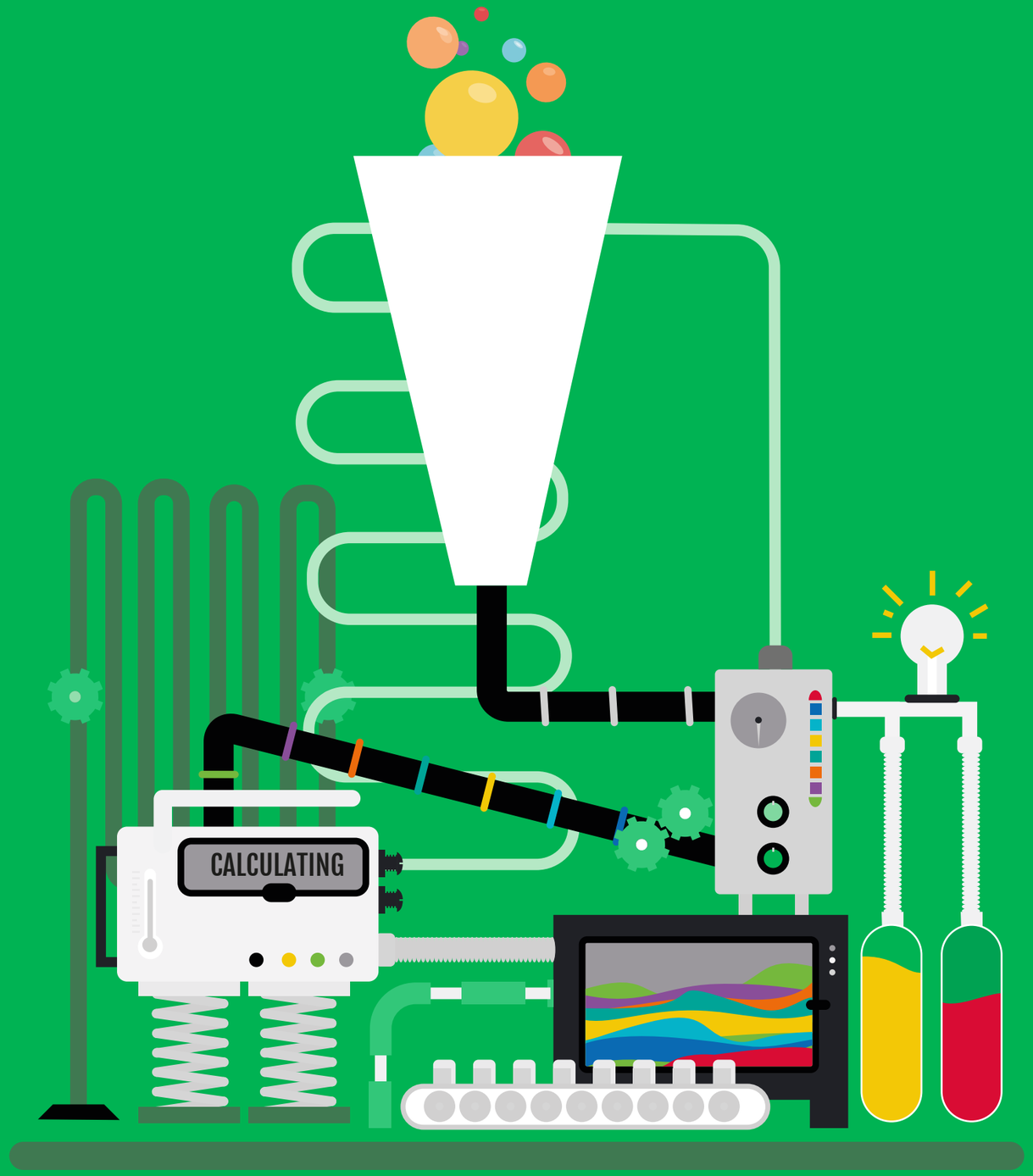
GDP per capita and Prosperity score change in West Africa 2012-2015

Area of cell based on GDP per capita of country



Ghana and Nigeria sub-index change 12-15





METHODOLOGY

Methodology

The 2015 Legatum Prosperity Index™ offers a unique insight into how prosperity is forming and changing across the world. The Index is distinctive in that it is the only global measurement of prosperity based on both income and wellbeing.

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

In recent years, governments, academics, international organisations, and businesses have increasingly moved their attention towards indicators that measure wellbeing as a complement to GDP.

Attempting to understand how we complement GDP, the so-called 'GDP and beyond' approach provides a stimulating challenge, one we strive to meet with academic and analytical rigour in creating the Legatum Prosperity Index™. Indeed, the Index recognises the need for a country to promote high levels of per capita income, but also advocates improvements in the subjective wellbeing of its citizens.

This short methodological overview provides an understanding of how the 2015 Legatum Prosperity Index™ is constructed by combining established theoretical and empirical research on the determinants of wealth and wellbeing.

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.

For more information on our methodology please refer to the Methodology and Technical Appendix published on www.prosperity.com.

Variables: capital per worker | market size | high-tech exports | gross domestic savings | unemployment | non-performing loans | inflation | FDI size & volatility | satisfaction with living standards | adequate food and shelter | perceived job availability | expectations of the economy | employed | confidence in financial institutions | 5-year rate of growth |

Variables: business start-up costs | secure internet servers | R&D expenditure | internet bandwidth | uneven economic development | mobile phones | royalty receipts | ICT exports | mobile phones per household | perception that working hard gets you ahead | good environment for entrepreneurs |

Variables: government stability | government effectiveness | rule of law | regulation | separation of powers | political rights | government type | political constraints | efforts to address poverty | confidence in the judicial system | business and government corruption | environmental preservation | government approval | voiced concern | confidence in military | confidence in honesty of elections |

Variables: gross secondary enrolment | pupil-to-teacher ratio | net primary enrolment | girls-to-boys enrolment ratio | gross tertiary enrolment | secondary education per worker | tertiary education per worker | satisfaction with educational quality | perception that children are learning |

E&O

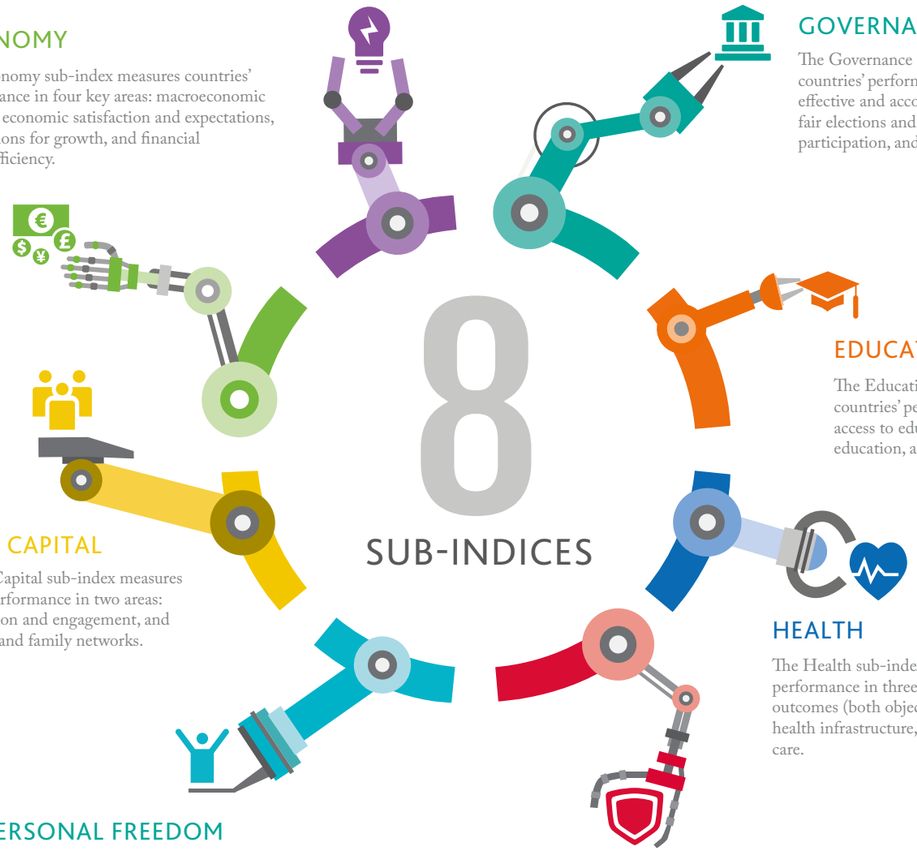
The Entrepreneurship & Opportunity sub-index measures a country's entrepreneurial environment, its promotion of innovative activity, and the evenness of opportunity.

ECONOMY

The Economy sub-index measures countries' performance in four key areas: macroeconomic policies, economic satisfaction and expectations, foundations for growth, and financial sector efficiency.

GOVERNANCE

The Governance sub-index measures countries' performance in three areas: effective and accountable government, fair elections and political participation, and rule of law.



EDUCATION

The Education sub-index measures countries' performance in three areas: access to education, quality of education, and human capital.

SOCIAL CAPITAL

The Social Capital sub-index measures countries' performance in two areas: social cohesion and engagement, and community and family networks.

HEALTH

The Health sub-index measures countries' performance in three areas: basic health outcomes (both objective and subjective), health infrastructure, and preventative care.

PERSONAL FREEDOM

The Personal Freedom sub-index measures the performance and progress of nations in guaranteeing individual freedom and encouraging social tolerance.

SAFETY & SECURITY

The Safety & Security sub-index measures countries' performance in two respects: national security and personal safety.

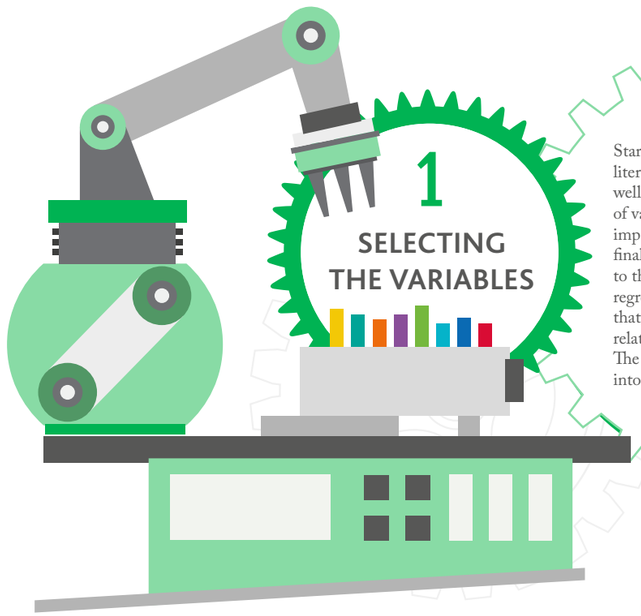
Variables: perceptions of social support | volunteering rates | helping strangers | charitable donations | social trust | marriage | religious attendance |

Variables: tolerance for immigrants | tolerance for minorities | civil liberty & free choice | satisfaction with freedom of choice |

Variables: group grievances | refugees and internally displaced persons | state sponsored political violence | property stolen | assault | safety walking alone at night | able to express political opinion without fear | demographic instability | human flight | civil war casualties |

Variables: infant mortality rate | life expectancy | DPT immunisation rate | incidence of TB | undernourishment | measles immunisation rate | health expenditure per person | satisfaction with health | level of worrying | satisfaction with environmental beauty | hospital beds | water quality | health-adjusted life expectancy | sanitation | death from respiratory diseases | well-rested | reported health problems |

Step-by-step guide to the methodology



1 SELECTING THE VARIABLES

Starting with the current academic literature on economic growth and wellbeing, we identified a large number of variables (200+) that have a proven impact upon wealth and wellbeing. The final variables were selected according to their global coverage and by using regression analysis to determine those that have a statistically significant relationship with wealth and wellbeing. The resulting 89 variables are divided into the eight sub-indices.

2 STANDARDISATION

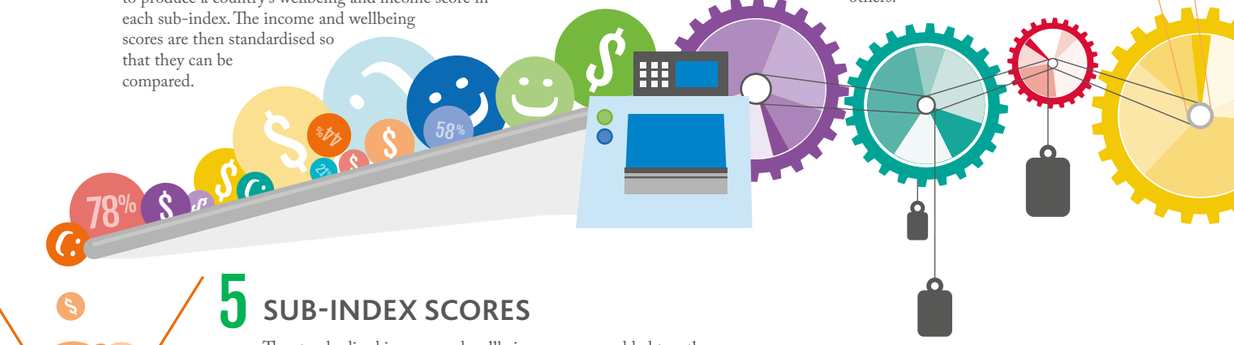
The variables use many different units of measurement. For example, citizens' confidence in financial institutions is measured in percentage terms, while capital per worker in US dollars. All variables are standardised by subtracting the mean and dividing by the standard deviation.

3 VARIABLE WEIGHTS

Regression analysis was used to determine the weight of each variable. 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.

4 INCOME AND WELLBEING SCORES

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

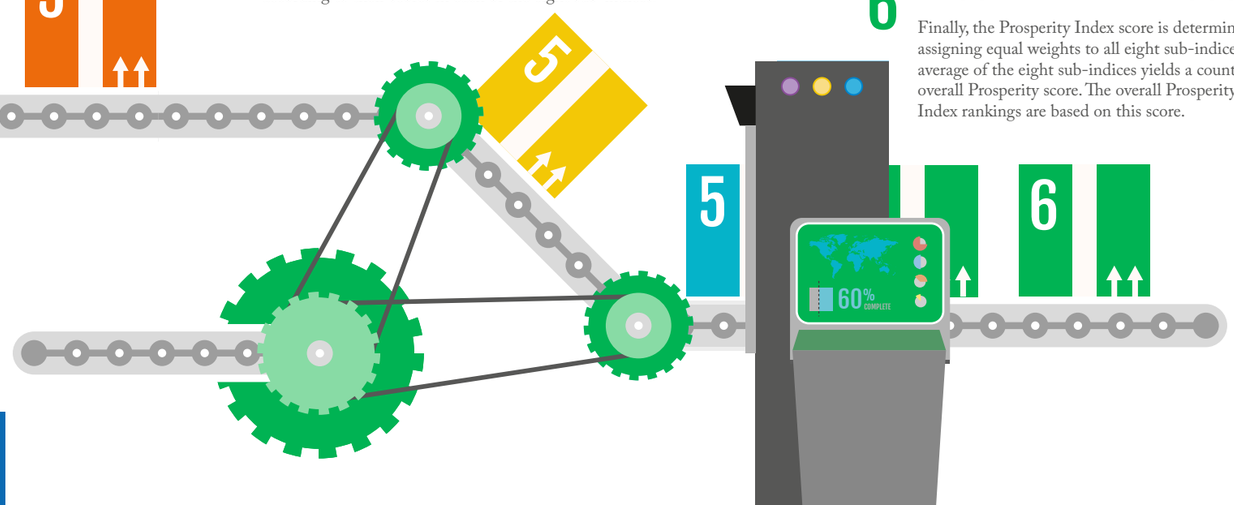


5 SUB-INDEX SCORES

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

6 PROSPERITY INDEX SCORE

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



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We encourage you to share the contents of this document. In so doing, we request that all data, findings, and analysis be attributed to the 2015 Legatum Prosperity Index™.

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Unless otherwise stated, all data is from the 2015 Legatum Prosperity Index™. All original data sources can be found in the Prosperity Index methodology report and online at www.prosperity.com.

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

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