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Review of the List of LDCs*

by

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I. Introduction

1. The Committee for Development Policy is required by Economic and Social Council resolution 1991/46 to conduct triennially a review to determine the countries to be added or graduated from the list of least developed countries (LDCs). Since the previous review was conducted in 2000, the Committee conducted another review in 2003.

2. The Committee bases its identification of the LDCs on the consideration of three dimensions of a country's state of development - its income level, its stock of human assets and its economic vulnerability. The Committee thus uses (a) Gross National Income (GNI) per capita as an indicator of income; (b) the Human Assets Index (HAI) as an indicator of the stock of human assets; and (c) the Economic Vulnerability Index (EVI) as an indicator of economic vulnerability. In addition, because the underlying concept of the LDC category excludes large economies, in 1991 the Economic and Social Council (ECOSOC) endorsed the principle that no country with a population exceeding 75 million should be considered for addition to the list.

3. For each review, the Committee determines threshold levels for each of the three indicators. These thresholds are used to identify countries to be added or graduated from the category. To be added, a country must satisfy all three criteria. To become eligible for graduation, a country must meet an adjusted set of thresholds for two of the same three indicators; to qualify for graduation, it must do so in two consecutive reviews. The Committee understands that its role is to assist in identifying which countries are eligible or qualify for graduation from LDC status, based on the application of the criteria adopted by the Committee and endorsed by ECOSOC. The decision on .whether the countries should be graduated is the responsibility of the Council and, ultimately, the General Assembly.

4. The Economic and Social Council, in its resolution 2002/36 of 26 July 2002, endorsed the recommendations of the Committee regarding three major changes to the criteria for the identification of the LDCs. First, Gross National Income (GNI) per capita should replace Gross Domestic Product (GDP) per capita as the indicator of income. Second, as it is a better indicator of the level of education, the gross secondary school enrolment ratio should replace the gross combined primary and secondary school enrolment ratio in the HAl (previously called Augmented Physical Quality of Life

Index - APQLI). Third, the percentage of the population displaced by natural disasters should be used as a supplement to the EVI when suitable data become available.

5. The Committee has made improvements to the new criteria for the identification of the LDCs adopted in 2000. However, it considers that there is scope for further methodological improvements in this before the next triennial review. Particular attention should be given, as in the past, to the quality and reliability of individual indicators and the way in which the criteria are applied.

II. Criteria for identification of the least developed countries in 2003

A. Gross National Income (GNP) per capita

6. The initial list of countries to which the criteria for identifying the LDCs were applied during the 2003 review comprised all countries classified by the World Bank as low-income in any one of the three most recent years.[1] The Committee gave special attention to the low-income countries of Eastern Europe and in Central Asia (EITs) that became independent in the 1990s, but found that none of them should be included in the initial list for the reasons given in *Box 1.* As a result, 65 countries have been retained for consideration during the 2003 review, comprising the 49 current least developed countries and 16 low-income countries not currently included in the LDC list, including one new Member State of the United Nations, Timor-Leste.

7. The Committee decided that the threshold for inclusion in the present review should be a three-year (1999-2001) average GNI per capita of US$ 750.[2] With regard to the threshold for graduation, the Committee increased the margin from 15 per cent to 20 per cent above the threshold for inclusion, primarily to avoid the possibility that graduating countries rejoin the category as a result of short-term fluctuations in their GNI per capita arising from exogenous shocks. It was thus agreed that, in the 2003 review, the threshold for graduation would be a three-year average GNI per capita of US$ 900. Six current LDCs would be above the graduation threshold for this criterion (see *Table* 1).

[1] The World Bank's list of low-income countries changes from year to year as a result of changes in the cut-off point and the differences in growth among countries over time.
[2] The World Bank cut-off points for low-income countries during these three years were US$ 755, 755 and 745, respectively.

B. Human Assets Index (HAD

8. The Committee agreed that HAI should continue to reflect the following: (a) *nutrition,* measured by the average calorie consumption per capita as a percentage of the minimum requirement; (b) *health,* measured by the under-five child mortality rate; and (c) *education,* measured by (i) the adult literacy rate and (ii) gross secondary school enrolment ratio.

9. As agreed in 1991, the HAI threshold for inclusion is the value of the border between the third and fourth quartiles of the group of 65 countries identified in *Table 1.* In the 2000 review, the threshold for graduation was 15 per cent above the inclusion threshold. The Committee decided, however, that the margin between thresholds for inclusion and graduation be decreased from 15 per cent to 10 per cent because this margin is sufficient to distinguish the countries which had developed significantly better human assets. According to the agreed guidelines, the threshold for inclusion in the list of least developed countries under this index is an HAI value of 55. The threshold for graduation under this index is 61.

C. Economic Vulnerability Index (EVI)

10. Economic vulnerability can take a variety of forms. The vulnerability that has to be considered in the identification of the least developed countries is structural economic vulnerability. For this purpose, the EVI should reflect the relative risk posed to a country's development by exogenous shocks, the impact of which depends not only on the size of the shocks, but also on structural characteristics that determine, the extent to which the country would be affected by such shocks. The EVI used by the Committee is, therefore, an average of five indicators: (a) merchandise export concentration, (b) instability of export earnings, (c) instability of agricultural production; (d) share of manufacturing and modern services in GDP, and (e) population size.

11. The Committee was informed that the quality of internationally comparable data on the number of people displaced by natural disasters had improved significantly. The Committee thus agreed that this information be included in a modified EVI as a supplement to data on the instability of agricultural production.

12. The Committee fully recognized that small countries are economically more vulnerable to external shocks than large ones because their economies are heavily dependent on external trade, are less diversified and suffering from diseconomies of scale. In particular, most small island LDCs face a range of structural handicaps - such as high international transportation costs, and relative isolation from main markets - that makes them more vulnerable to external shocks. For that reason, it was suggested that the remoteness of countries might also be taken into consideration in future reviews.

13 As in the case of HAI, the Committee decided that the EVI margin between thresholds for inclusion and graduation be decreased from 15 per cent to 10 per cent. According to these guidelines, the threshold for inclusion in the list of least developed countries is an HAI value of 37. The threshold for graduation under this index is 33. With the inclusion of the percentage of population displaced by natural disasters, the threshold for inclusion would be a value of 38, and for graduation 34.

III. Eligibility for inclusion and graduation

A Country to be added to the list

14. Timor-Leste is the only country eligible for addition to the list. Its EVI cannot be calculated because of lack of data, but the country has both an GNI per capita and HAI well below the thresholds for inclusion. The Committee recommends that it be included in the list of least developed countries.

B. Countries to be considered for graduation

(a) *Countries qualifying for graduation*

15. The Committee agreed that two countries - Cape Verde and Maldives - qualify for graduation since they have met two graduation criteria in two consecutive reviews.

1. *Cape Verde*

16. In 1997, the Committee indicated that Cape Verde would become eligible for graduation in the following review as it met two graduation criteria (income per capita and human capital

indices) at that time. The 2000 review confirmed that Cape Verde met these two graduation criteria and qualified for graduation. However, it ranked as one of the most economically vulnerable developing countries according to the EVI. Because of its high economic vulnerability and the high dependence of the country on foreign aid and workers' remittances, the Committee recommended that the graduation of Cape Verde from the list of least developed countries be postponed for reconsideration at the 2003 review.

17. Cape Verde now has the fourth highest GNI per capita and the fourth highest HAI among the 65 countries. Both measures are well above the graduation threshold. In contrast, it is economically vulnerable, with an EVI score of 55.5, compared with a graduation threshold of 33. Nevertheless, given that the country meets two of the three graduation criteria - and that it has done so in three consecutive reviews - the Committee agreed that it qualifies for graduation from the list.

18. The Committee was informed that the Government of Cape Verde had expressed reservations about the accuracy of data on nutrition used in the calculation of its HAL In the Government's view, the calorie intake data presented by FAO - based on food balances that compute data on national food production and food imports rather than on household consumption surveys - do not reflect the nutritional reality of the country. As a result, the Government believes that adjustments should be made in the calculation of its HAI score. The Committee took note of this concern but was informed by FAO that its calorie intake figure was the most reliable statistic on an internationally comparable basis. The Committee stresses the credibility of its triennial review of the list is partly dependent on the fact that it uses data collected on an internationally comparable basis by specialized agencies of the United Nations system, such as FAO, UNESCO and WHO.

2. *Maldives*

19. ECOSOC resolution 2002/36 requested "the Committee to continue its work on the re-examination of its recommendation to graduate Maldives from the list of least developed countries at its fifth session and to submit its recommendations to the Council at its substantive session of 2003 in the context of the triennial review of the list of least developed countries, taking into account the information referred to above and further information to be provided by relevant development partners and multilateral organizations."

20. The Committee re-examined its recommendation - made in its 2000 review – that Maldives be graduated, and the subsequent consideration of the case of Maldives by the Committee in 2001 and 2002. The Committee recalls that, in the 1997 and 2000 reviews, the country met two graduation criteria: its income per capita and HAI (formerly APQL1) were both well above the graduation thresholds. In the present review, its GNI per capita is not only the highest amongst the 65 countries but also more than twice the graduation threshold. Its HAI score ranks as the seventh highest and is also above the graduation threshold. Its EVI (33.6) is also very close to the graduation threshold (33 or less). Given that Maldives meets two graduation criteria for a third consecutive time, the Committee concludes that the country qualifies for graduation.

21. The Committee was informed that the Government of Maldives had expressed procedural and substantive concerns to the Secretary-General about the interim vulnerability profile of Maldives that had been made available to the Committee. For its part, UNCTAD informed the Committee that the profile had been prepared with substantial cooperation from the Government. The preliminary reaction of the Government to the interim vulnerability profile did not contain any material evidence to reverse the Committee's view that the Maldives technically qualifies for graduation. The Committee recognizes that Maldives faces special difficulties and costs because it is a small, widely dispersed island economy and that it may lose important international benefits if it graduates from the list of LDCs.

(b) *Other countries meeting two graduation criteria in 2003*

22. Samoa has the second highest average GNI per capita and the highest HAI among the 65 countries. Although the country is considered economically vulnerable - as reflected in its EVI score (41), compared with a graduation threshold of 33 (or lower) - it is now the seventh least vulnerable LDCs on this criterion. Since it meets two graduation criteria, the Committee recommends that it be considered eligible for graduation. As a result, it might qualify for graduation should it fulfil the graduation criteria again in the 2006 review.

23. The data for two countries - Kiribati and Tuvalu - indicate that they meet two graduation criteria (GNI per capita and HAI). However, while they are technically eligible for future graduation, the Committee recommends that they should not be considered. In the case of Kiribati - whose three-year average GNI per capita (US$ 923) is just above the graduation

threshold of US$ 900 - GNI per capita has been falling constantly over the past four years, from US$ 1,130 in 1998 to only US$ 830 in 2001. In the case of Tuvalu, only GDP per capita data are available. In addition, the Committee stresses that these are the two most economically vulnerable countries in the initial list according to the EVI.

IV. Smooth transition of countries graduating from least developed country status

24. The fact that a country that has long been recognized as "least developed" qualifies for graduation is an indication of some success in its development and in its ability to achieve a degree of structural change in its economy. These successes, in turn, are likely to have been largely attributable to a mix of sound domestic policies and propitious external conditions. With regard to the latter, international support has frequently played a central role and the capacity to use world market opportunities may also have been important.

25. Despite the progress they have achieved, countries that qualify for graduation from LDC status are likely to continue to have a limited capacity to withstand exogenous shocks. A sudden withdrawal of external support is likely to constitute such a shock and to have negative effects, possibly reversing some of the development progress achieved. Countries that qualify for graduation from the LDC category should be commended for their success and not penalized for it by the imposition of such a shock.

26. The Committee recalls the importance that it has consistently attached to "smooth transition" measures for graduating countries, as elaborated in the reports of its third session and fourth session.[3] It also recalls that ECOSOC, in its resolution 2002/36, reiterated the importance of smooth transition, which it had emphasized in earlier resolutions (2000/34 and 2001/43), in keeping with the observation made in 1991 by the General Assembly on the importance of ensuring that graduation from LDC status would not disrupt the progress in their development (resolution 46/206).

27. The Committee was informed that the importance of securing smooth transition for graduating countries had begun to be taken into account by the multilateral trading system, as the question of the treatment of graduating member States is on the agenda of the "Work Programme on Small

[3] Report of the Committee for Development Policy on the third session (2-6 April 2001), paragraphs 114-117, United Nations, New York, 2001 and Report of the Committee for Development Policy on the fourth session (8-12 April 2002), paragraphs 158-163, op. cit.

Economies" of the World Trade Organization (WTO). The Committee suggests that, with the general trend towards freer trade and erosion of trade preferences for all developing countries, LDC benefits should be maintained when a country graduates, as the cost to trading partners would be negligible and the benefit to the graduating country will gradually dissipate as trade barriers for all developing countries fall. The Committee recommends that ECOSOC should encourage relevant development partners and multilateral organizations to accelerate progress in their treatment of graduation issues, including the provision of technical assistance through the "Integrated Framework for Trade-Related Technical Assistance" to Least Developed Countries.

28. The Committee, therefore, recommends that a *Meeting of Experts* on the overall question of smooth transition be organized in order to cast light on the likely treatment of graduating countries by their main bilateral and multilateral partners.

29. It was stressed that the treatment of graduating countries by their bilateral and multilateral partners - notably with regard to trade preferences - can be decided upon only in international organizations, such as the World Trade Organization (WTO). It was recalled that graduation would imply the loss of a number of significant advantages, in particular, preferential market access and extended deadlines for implementation with regard to WTO obligations. The Committee also recommends that, in each case, graduation should trigger the convening by the United Nations of a round-table meeting in which the graduating country and its development partners would identify measures to ensure a smooth transition.

30. The Committee has benefited from a document submitted by the Commonwealth Secretariat, -drawing attention to the general resistance to graduation amongst LDCs. This document stresses the particular disadvantages to be faced by graduating Small Island Developing States. (SIDS) and their need for assistance in maintaining access to traditional markets and securing access to new markets.

31. Bearing in mind that all countries meeting the graduation criteria in this review are SIDS, the question of smooth transition was recognized by the Committee as being a particular aspect of wider considerations relating to the special treatment of SIDS. The Committee calls upon the forthcoming international meeting on the sustainable development of SIDS in 2004 (see General Assembly resolution 57/262) to give consideration to the special needs of SIDS. The Committee urges ECOSOC, in considering the questions of graduation and smooth transition at its substantive session

of 2003, to underline the need for a more differentiated treatment of developing countries that face special disadvantages and vulnerabilities, such as SIDS.

V. Conclusions and recommendations

32. The Committee for Development Policy maintains its position that, in addition to the current LDCs, the initial list of countries to be considered during the triennial review should be those identified by the World Bank as low-income in any one of the three most recent years. Among these countries, the Committee found that the comparatively high stocks of human assets in the low-income countries with EITs made them ineligible to join the list of LDCs.

33. The Committee adopted a three-year average of US$ 750 per capita as the threshold for inclusion in the category under the GNI per capita criterion. It also decided to increase the margin for graduation from 15 per cent to 20 per cent above the threshold for inclusion; the graduation threshold under this criterion thus became a three-year average of US$ 900 per capita.

34. The Committee agreed that the threshold for inclusion with regard to both the HAI and EVI criteria should be chosen so that three-quarters of the most disadvantaged countries would be eligible under each of these criteria. The Committee also decided that the margin between the thresholds for inclusion and graduation should be decreased from 15 per cent to 10 per cent for these indicators.

35. Applying the agreed thresholds and taking into account other information and considerations, the Committee concludes that:

(a) Timor-Leste qualifies inclusion in the list of LDCs;
(b) *Cape Verde* and *Maldives* qualify for graduation;
(c) *Samoa* is eligible to be considered for graduation in 2006.

36. The Committee strongly emphasizes the need for a smooth transition for countries that are graduated from the list of LDCs and calls upon the international community, including bilateral donors and trading partners, to give urgent attention to this matter. Since all countries that either qualify or are eligible for graduation under this review are Small Island Developing States (SIDS), the Committee considers it imperative that the international meeting on SIDS in 2004 make substantial progress in formulating policies and actions that will address the particular set of

development challenges faced by this group of countries, particularly those that succeed in qualifying for graduation from LDC status.

Box 1: The case of countries with economies in transition

Nine countries with economies in transition (EITs) have been classified as low-income countries by the World Bank in at least one of the past three years. Owing to the major political and economic changes that took place during their transition to market economies, these countries suffered deep recessions. During the 1990-2000 period, for example, GDP per capita fell by over 50 per cent in each of these. Their three-year average GNI per capita range from US$ 173 in Tajikistan to US$ 780 in Turkmenistan (see *Table B.1* below).

GNI per capita is within the current threshold for inclusion in eight of the nine EITs. Similarly, seven of these countries would also be eligible for inclusion under the EVI criterion. However, as former socialist republics, they still have high HAI scores due to past social policies, and should not be recommended for inclusion in the list of least developed countries.

The Committee agreed that considering EITs for inclusion in the 2003 triennial review of the list of least developed countries would also create distortions in the establishment of thresholds for inclusion and graduation of HAL It was recalled, however, that the economic decline in these countries lasted longer than was expected. It was also noted that a few of these countries now have lower GNI per capita than many current least developed countries. If the economies of these low-income EITs do not improve in the near future, erosions of social progress may be difficult to reverse, leading to a possible lowering of HAL The Committee thus emphasized the importance of monitoring of the economies in transition with low incomes and decreasing HAI scores.

Table B.1 - Economies in Transition:

Data and the criteria used in determining eligibility for least developed countries status

	Population 2002 (millions)	Per capita GNI (US $)	HAI	EVI	EVI (modified)
Armenia	3.8	523	79.4	30.7	34.0
Azerbaijan	8.1.	607	72.8	38.9	40.6
Georgia	5.2	647	76.2	47.6	48.2
Kyrgyzstan	5.0	287	77.6	38.2	39.9
Moldova, Republic of	4.3	397	81.1	39.6	. 39.1
Tajikistan	6.2	173	69.5	37.7	39.1
Turkmenistan	4.9	780	84.5	60.9	53.8
Ukraine	48.7	723	86.3	23.8	26.1
Uzbekistan	25.6	607	81.3	40.3	36.3

Least developed and non-least developed countries:

Data and the criteria used in determining eligibility
for least developed countries status

		Population 2002 (millions)	Per Capita GNI (US $)	HAI	EVI	EVI (modified)
LDC	Afghanistan	23.3	523	11.6	50.1	49.0
LDC	Angola	13.9	447	25.6	48.5	46.8
LDC	Bangladesh	143.4	363	45.3	22.9	29.5
LDC	Benin	6.6	367	40.2	57.0	56.4
LDC	Bhutan	2.2	600	40.4	40.6	41.0
LDC	Burkina Faso	12.2	217	26.5	49.3	47.0
LDC	Burundi	6.7	110	19.7	53.8	49.6
LDC	Cambodia	13.8	263	44.5	49.7	48.1
	Cameroon	15.5	583	43.8	31.9	31.2
LDC	Cape Verde	0.4	1323	72.0	55.5	56.7
LDC	Central African Republic	3.8	277	29.9	43.1	42.0
LDC	Chad	8.4	203	26.1	59.2	56.6
LDC	Comoros	0.7	387	38.1	59.1	58.7
	Congo	3.2	610	55.2	50.3	46.8
	Cote d' Ivoire	16.7	687	43.0	25.4	25.9
	Dem. Peo. Rep. of Korea	22.6	440	62.9	32.8	29.5
LDC	Dem. Republic of the Congo	54.3	100	34.3	40.8	42.3
LDC	Djibouti	0.7	873	30.2	48.6	49.5
LDC	Equartorial Guinea	0.5	743	47.2	64.4	55.8
LDC	Eritrea	4.0	190	32.8	51.7	50.2
LDC	Ethiopia	66.0	100	25.2	42.0	40.7
LDC	Gambia	1.4	340	34.0	60.8	56.5
	Ghana	20.2	337	57.9	40.9	41.9
LDC	Guinea	8.4	447	30.3	42.1	40.0
LDC	Guinea-Bissau	1.3	170	31.2	64.6	60.7
LDC	Haiti	8.4	493	35.3	41.7	43.5
	India	1041.1	450	55.7	13.5	19.6
	Indonesia	217.5	610	73.6	18.1	21,9
	Kenya	31.9	350	49.3	28.4	29.0
LDC	Kiribati	0.1	923	67.5	64.8	60.4
LDC	Lao People's Dem. Rep.	5.5 .	297	46.4	43.9	43.4
LDC	Lesotho	2.1	573	45.4	44.2	44.5
LDC	Liberia	3.3	285	38.7	63.1	58.3

Least developed and non-least developed countries:

Data and the criteria used in determining eligibility for least developed countries status

		Population 2002 (millions)	Per Capita GNI (US $)	HAI	EVI	EVI (modified)
LDC	Madagaskar	16.9	253	37.9	21.6	27.0
LDC	Malawi	11.0	177	39.0	49.0	49.4
LDC	Maldives	0.3	1983	63.4	33.6	37.5
LDC	Mali	12.0	230	19.9	47.5	45.4
LDC	Mauritania	2.8	377	38.2	38.9	37.7
	Mongolia	2.6	393	63.3	50.0	48.9
LDC	Mozambique	19.0	220	20.0	35.6	39.2
LDC	Myanmar	49.0	282	60.0	45.4	45.6
LDC	Nepal	24.2	240	47.1	29.5	31.0
	Nicaragua	5.3	395	60.8	39.4	42.5
LDC	Niger	11.6	180	14.2	54.1	53.1
	Nigeria	120.0	267	52.3	52.8	51.1
	Pakistan	148.7	437	45.5	20.2	26.1
	Papua New Guinea	5.0	673	46.2	36.1	38.6
LDC	Rwanda	8.1	230	34.1	63.3	59.6
LDC	Samoa	0.2	1447	88.8	40.9	50.8
LDC	Sao Tome and Principe	0.1	280	55.8	41.8	37.0 .
LDC	Senegal	9.9.	490	38.1	38.4	38.8
LDC	Sierra Leone	4.8	130	21.7	45.7	43.3
LDC	Solomon Islands	0.5	657	47.3	46.7	49.1
LDC	Somalia	9.6	177	8.5	55.4	53.1
LDC	Sudan	32.6	333	46.4	45.2	46.5
LDC	Tanzania	36.8	263	41.1	28.3	30.2
	Timor Leste	0.8	478	36.4	N.A.	N.A.
LDC	Togo	4.8	293	48.6	41.5	42.8
LDC	Tuvalu	0.01	1383	63.7	70.3	67.3
LDC	Uganda	24.8	297	39.8	43.2	41.6
LDC	Vanuatu	0.2	1083	57.4	44.5	46.4
	Viet Nam	80.2	390	72.7	37.1	39.4
LDC	Yemen	19.9	423	46.8	49.1	49.0
LDC	Zambia	10.8	3.17	43.4	49.3	47.6
	Zimbabwe.	13.1	463	56.5	33.7	30.3

Notes:

The letters "LDC" before a country name indicate a country that is currently designated a least developed country. Figure in bold face type indicates a graduation criterion that is met by a current least developed country.