Economic and Social Council
Official Records, 2014
Supplement No. 13

E/2014/33

Committee for Development Policy

Report on the sixteenth session (24-28 March 2014)

United Nations • New York, 2014

Note

Symbols of United Nations documents are composed of letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

ISSN 0257-0661

Summary

The present report contains the main findings and recommendations of the Committee for Development Policy at its sixteenth session. At the session, the Committee addressed the following themes: global governance and global rules for development in the post-2015 era as its contribution to the discussions on the 2014 annual ministerial review; review and fine-tuning of the criteria for the identification of least developed countries; monitoring of countries that are graduating and have graduated from the list of least developed countries; and the role of country groupings for development.

The Committee considered how intergovernmental cooperation through its various institutions, arrangements and rules could be reformed and strengthened to better manage the increasing interdependence among countries, reduce large inequalities that exist among and within countries that originate in part from incomplete and/or inadequate global governance and contribute to the fulfilment of internationally recognized social and environmental standards, while preserving the necessary policy space for government action at the country level. It proposed four main principles to guide the reform of global rules and global governance: common but differentiated responsibilities and respective capabilities; subsidiarity; inclusiveness, transparency and accountability; and coherence. It also recommended a greater role for the Economic and Social Council in advancing the reforms proposed in the present report.

In preparation for the 2015 triennial review of the list of least developed countries, the Committee re-examined the criteria for the identification of least developed countries and their application procedures. It reconfirmed the definition of least developed countries as low-income countries suffering from the most severe structural impediments to sustainable development. The Committee affirmed the validity of current criteria and introduced refinements, in particular to strengthen the measurement of health-related structural impediments. Thresholds for inclusion in and graduation from the category will be set at absolute rather than relative levels, focusing on the notion of development progress as the overcoming of absolute structural impediments.

In its monitoring of countries that are graduating and have graduated from the category, the Committee reviewed the development progress of Maldives, which graduated in 2011. It emphasized the importance of phasing out specific support measures to least developed countries and the active participation by graduated countries in monitoring the implementation of their transition strategy. The Committee acknowledged the sustained development progress of Samoa, which graduated in 2014, and welcomed the country's efforts towards the preparation of its transition strategy. It also noted the continued development progress of Equatorial Guinea and Vanuatu, both scheduled to graduate in 2017. It recommended that both countries initiate the preparation of their smooth transition strategy, and stressed the urgency of further attention to human development in Equatorial Guinea.

In its analysis of country classifications the Committee noted the proliferation of country groupings in an increasingly heterogeneous developing world. Many of these groupings are based on weak analytical foundations with low levels of effectiveness of the interventions designed to address the particular development challenges. Among existing groupings, the Committee affirmed that the least

developed country category has particularly strong analytical foundations as well as broad legitimacy. Development partners should consider allocating aid and other measures of support based on sound and objective socioeconomic criteria, preferably without creating new groups of countries. The Committee suggested that this could be achieved by considering the least developed country indicators as part of the criteria used by development partners in determining the allocation of assistance. Concrete recommendations were made in support of future discussions related to the creation of new categories.

[21 April 2014]

Contents

Chapter I

Matters calling for action by the Economic and Social Council or brought to its attention

A. Matters calling for action by the Council

Recommendations on global governance and global rules for the post-2015 era

1. Global cooperation, as exercised through its various institutions, arrangements and rules, needs to be reformed and strengthened to better manage the increasing interdependence among countries, reduce large inequalities that exist within and among countries and achieve sustainable development. Global rules have to provide sufficient policy space for national Governments to promote the development of societies and the reduction of inequalities. In this regard, the Committee for Development Policy calls on the Economic and Social Council to take a leadership role in reforming global governance and global rules, thereby making the Council's recent reform truly effective. It further recommends that the Council establish a strong monitoring and accountability mechanism that covers all development partners, including developed and developing countries, the private sector, non-governmental organizations and multilateral organizations. These reforms of global governance and rules should be at the centre of the global partnership for development.

2. The increasing mobility of capital, pervasive regulatory loopholes in tax systems and the proliferation of tax havens are major drivers of global tax avoidance and evasion. This results in substantial losses in government revenue in developed and developing countries, which continue to face deepening financing gaps. They undermine the capacity of national Governments to face global challenges and supply their populations with vital public goods and services. By shifting the tax burden to labour income and consumption, tax avoidance and evasion have important implications for equity and fairness. Existing international cooperation has produced limited results and needs urgently to be strengthened for the mobilization of domestic resources for development worldwide. In this regard, the Committee recommends that the Council: (a) continue to urge Member States to accelerate and broaden the dialogue on issues related to international cooperation in tax matters; (b) call for the establishment of implementation and monitoring mechanisms, including clear and measurable goals and targets, to track progress in the area of international cooperation in taxation; (c) strengthen the role and operational capacity of the Committee of Experts on International Cooperation in Tax Matters and consider converting that committee into an intergovernmental subsidiary body of the Council; and (d) promote an international convention against tax avoidance and evasion.

3. The United Nations has provided important intellectual leadership in addressing development challenges over the years. The Council, as a principal body for the follow-up on the implementation of the United Nations development agenda, can take on a greater role in promoting a dialogue on and providing guidance for the advancement of the reform agenda recommended in the present report, particularly in those priority areas such as the environment, international tax cooperation, technology transfer and diffusion, migration, regulation of cross-border capital flows, international monetary and trading regimes, and inequality. The Committee

recommends that these issues be included in the annual programme of work of the Council under the overarching theme of promoting the balanced integration of the economic, social and environmental dimensions of sustainable development, including through its new integration segment.

4. A major weakness in the response to the 2008 financial crisis has been the absence of steps to create a regular institutional debt workout mechanism for sovereign debts similar to those that help manage bankruptcies in national economies. Voluntary debt renegotiations pose serious problems in terms of aggregation of credit contracts and court demands by non-participants (“holdouts”). External debt relief has a role in freeing resources for sustainable development. As recognized in the Monterrey Consensus of the International Conference on Financing for Development, there is need for an international debt workout mechanism to restructure unsustainable debts in a timely and efficient manner, to minimize moral hazard and to promote fair burden-sharing. In this regard, the Committee recommends that the Council bring this issue to the centre of its annual dialogue with the international financial institutions.

Recommendation on the refinement of the criteria for identifying the least developed countries

5. The Committee confirmed its definition of least developed countries as low-income countries suffering from severe structural impediments to sustainable development. After a comprehensive review of the indicators and approaches used for the identification of the least developed countries, the Committee affirmed the validity of the current criteria and introduced refinements. The most significant is to amend the method for establishing the thresholds for inclusion and graduation by setting absolute rather than relative values for the non-income criteria. The Committee invites the Council to take note of the proposals contained in chapter III of the present report for implementation at the 2015 triennial review of the least developed country category.

B. Matters brought to the attention of the Council

Country groupings for international development cooperation

6. There is an increasing proliferation of country groupings and classifications for development cooperation. Countries often belong to multiple, overlapping groupings, compromising consistent and effective international cooperation. The Committee recommends greater caution in the use of these country groupings for development cooperation activities. In addition, the Committee suggests that donors could allocate specific support to address particular issues, such as vulnerability, without creating new country groupings.

7. The least developed country category stands out as a comprehensive category created and officially recognized by the General Assembly. It is based on clear criteria, grounded on sound analysis and with carefully established processes of inclusion and graduation. The Committee recommends that bilateral and multilateral donors incorporate the least developed countries criteria more consistently in their process of aid allocation.

Monitoring the development progress of graduating countries

8. The Committee reviewed the development progress of Samoa, which graduated from the least developed country category in January 2014. It notes the country's continuous progress despite recent environmental shocks and welcomes the effort made by the Government of Samoa in the preparation of its transition strategy to minimize the possible negative impacts due to graduation.

9. The Committee also reviewed the development progress of Equatorial Guinea and Vanuatu, earmarked for graduation in June 2017 and December 2017, respectively. It notes with concern the significant deficits in human development in Equatorial Guinea, which are considerably higher than in countries with comparable per capita income and history and which constitute serious challenges to the sustainability of the country's progress. In accordance with General Assembly resolution 67/221, the Committee encourages both countries to prepare strategies for transition from the least developed country category, with the assistance of their development and trading partners.

Monitoring the development progress of graduated countries

10. The Committee reviewed the development progress of Maldives. It found that the country sustained economic and social progress after graduation despite the redirection of aid flows away from the health and education sectors and the abrupt, rather than gradual, phasing out of preferential market access specific to least developed countries. The Committee stresses the importance of gradually phasing out specific support measures for countries that have graduated from the least developed country category, in accordance with the provisions of General Assembly resolution 67/221. The Committee reiterates the importance of countries participating in the monitoring process in order to ensure the accuracy, representativeness and effectiveness of this process.

Chapter II

Global governance and global rules for development in the post-2015 era

A. Introduction

11. Intergovernmental cooperation is at the centre of the global partnership for development and has a vital role to play in the achievement of global development goals, not only in terms of the resources and technical assistance it can provide, but also in policy decision-making and norm-setting. Existing proposals to strengthen global governance and global rules to support development do not seem to be comprehensive enough and have not received sufficient attention by the international community as it discusses the development agenda for the post-2015 era.

12. The "institutional view", as embodied in various reports of the United Nations System Task Team on the Post-2015 United Nations Development Agenda and of the Secretary-General, seems to reduce the tasks of the global partnership for development to goal-setting, monitoring and the provision of means of implementation (with participation from several actors besides Governments) without, however, considering how adequate are the rules and institutions that shape the environment where economies operate.

13. Deliberations at the Open Working Group of the General Assembly on Sustainable Development Goals include consideration of the issue of governance, but its discussions have become subsumed under "rule of law", largely applicable to national contexts, particularly "failed" States and post-conflict situations. When transposed to the global level, the concept seems to apply to means of implementation, accountability and monitoring with few isolated suggestions in the areas of technology transfer, trade and official development assistance (ODA).

14. Lastly, the High-level Panel of Eminent Persons on the Post-2015 Development Agenda seems to reduce the global partnership to a collection of multi-stakeholder partnerships contributing to the implementation of each specific goal rather than a systemic view of rules that govern international economic relations.

15. The present report aims to provide a contribution to fill this gap. It will look more specifically at how international cooperation through its various institutions, arrangements and rules could be reformed and strengthened to achieve and sustain development gains in the post-2015 era.

B. Global governance and global rules: why reforms?

16. The term "governance" denotes the regulation of interdependent relations in the absence of overarching political authority, such as in the international system. It encompasses the totality of institutions, policies, norms, procedures and initiatives by which States and their citizens try to bring more predictability, stability and order to their responses to transnational challenges. Effective global governance cannot be achieved without effective international cooperation. Global governance reflects actions and decisions taken by the various agents participating in the international

cooperation framework, in which Governments have a central role. Besides being a manifestation of international solidarity, international cooperation is a means to promote common interests and shared values and to manage increased interdependence.

17. International cooperation for development is an obligation of States. In 1945, States Members of the United Nations already recognized the centrality of "international co-operation in solving international problems of an economic, social, cultural, or humanitarian character, and in promoting and encouraging respect for human rights and for fundamental freedoms for all without distinction as to race, sex, language, or religion", as stated in Article 1 of the Charter of the United Nations.

18. International cooperation and the resulting governance mechanisms are not working well. First, the current global governance system is not properly equipped to manage the growing integration and interdependence across countries. Globalization tends to accentuate interdependencies among countries, widening the scope of global public goods and other goods with strong spillover effects. Market mechanisms are not capable of providing global public goods. Collective action is therefore necessary. There is currently an insufficient supply of global public goods, with negative consequences for all. The lack of adequate financial regulation and the resulting volatility in capital markets, with its adverse impacts on output, income and employment, is a case in point. Other examples include an incomplete international tax cooperation system, lack of technologies and innovations to address the needs of the poor, absence of an international debt workout mechanism. Meanwhile, global public "bads" are not sufficiently constrained or properly regulated, including emission of greenhouse gases, tax havens, biodiversity losses and human trafficking.

19. Second, global governance structures and rules are characterized by severe asymmetries. There are marked asymmetries of access to the various decision-making processes, with developing countries having limited influence in shaping the rules and regulations they must abide by and/or shoulder the effects of. For instance, representation of developing countries' shares in International Monetary Fund (IMF) quotas and World Bank capital does not reflect their shares in the world economy today. Even the moderately ambitious reform approved by the IMF Board in 2010 has not yet been implemented. In any case, decisions on global monetary cooperation seem to have bypassed IMF and taken place in the "Group" sphere (G-5, G-7, etc.). The G-20 includes some major developing countries, but the vast majority of developing countries are still excluded. This represents the continuation of a pattern that could be called "elite multilateralism", which raises serious concerns about representativeness, inclusiveness and accountability.

20. The current global governance structure also reflects the asymmetries generated by the unbalanced nature of globalization. There are areas of common interest that are not covered, or are sparsely covered, by global governance mechanisms, while other areas are "over-determined or over regulated" by a myriad of arrangements with different rules and provisions; the latter contribute to fragmentation, increased costs and reduced efficiency. International trade is a case in point, with the mushrooming of bilateral and regional free trade agreements with different rules of origin and standards requirements. While there have been increased mobility of capital and of goods and services, there are restrictions on the

movement of labour, and access to knowledge and innovation is subject to the costs associated with intellectual property rights. In turn, capital mobility has been associated with declining taxation on capital, both in developed and emerging countries, while labour, the less mobile factor of production, and consumers shoulder an increasing share of the tax burden.

21. Asymmetries in decision-making and in process coverage have important implications for asymmetries of outcomes. There is an international dimension to domestic or national inequalities. While inequalities within countries are mainly the domain of national Governments, there are several instances where global rules, or the lack thereof, may enhance those inequalities or constrain government action at the national level to reduce them. For instance, initiatives to promote internationally agreed minimum social standards in developing countries are supported by financial and technical resources provided by international cooperation. The development of vaccines and improved medical treatments for tropical diseases as well as for global pandemics such as HIV/AIDS has greatly assisted countries in improving the welfare of their populations. Meanwhile, stringent patent protection increases the cost of essential medicines in developing countries, making it more difficult for them to improve the health outcomes of their populations, particularly the low-income and poor segments. Lack of international fiscal cooperation facilitates tax avoidance by transnational corporations and wealthy individuals and reduces the pool of resources available for Governments to implement poverty reduction and distributive policies. Unregulated capital flows contribute to increased employment and output volatility in developing countries, usually affecting the most disadvantaged sectors of society.

22. Inequalities are not self-correcting. Instead, they perpetuate and reproduce inter-generational inequalities and cumulate and combine to recreate systematic disadvantages for certain groups and individuals. As interdependence increased, countries and people were left behind, participating at best at the margin of the global economy and/or unable to realize its potential benefits. At the global level, the income gap between the developed and the developing countries remains considerable, and has even deteriorated over the past quarter century in the cases of sub-Saharan Africa, Latin America and the least developed countries. Those countries that succeeded in narrowing the gap have opted for a strategic participation in international trade and tactical association with foreign investors with a view to promoting domestic backward and forward production linkages and the accompanying structural transformation of the economy by shifting from low to higher productivity sectors. These experiences often rested on the adoption of a wide range of policy instruments and innovative institutional arrangements.

23. Finally, and directly related to the above, global rules have led to a shrinking of the policy space of national Governments, particularly of the developing countries, in ways that impede the reduction of inequalities within countries and are beyond what is necessary for the efficient management of interdependence. Overall, there is a marked trend towards the standardization of rules and disciplines, usually those prevailing in developed countries. Standardization pressures have paralleled the fragmentation of production and distribution worldwide and the emergence of the global value chains as a main business model. Global value chains have also led to an explosion of regional and bilateral preferential trade agreements that often go beyond what has been agreed at the multilateral level, further constraining policy space and rules over areas well beyond trade flows. Further policy constraints

originate in bilateral investment treaties, which go well beyond the obligation of providing prompt, effective and adequate compensation in case of expropriation, and effectively limit the capacity of countries to raise environmental standards and regulate volatile capital flows.

C. Principles for reform and selected examples of their application

24. A few critical principles are recommended to guide the reforms of global governance and global rules, and selected examples of their application to the reform process are highlighted below.

25. *Common but differentiated responsibilities and respective capacities*. This principle recognizes differences in the contribution to and historical responsibilities in the generation of common problems as well as the divergences in financial and technical capacity across countries to address shared challenges. It acknowledges the diversity of national circumstances and of policy approaches that should be embedded in the architecture as an intrinsic feature of the global community, not as exceptions to general rules. Some critical areas are the following:

- In reaching a new international consensus on the United Nations Framework Convention on Climate Change, it is necessary to recognize the variety of development trajectories across countries and responsibility based on historic emissions, current and projected total and per capita emissions.

- Differential treatment in the World Trade Organization (WTO) has been recognized, but significantly weakened. In the current context it means little more than longer implementation periods and non-binding provisions for technical assistance. Developing countries might be better off negotiating rules that are suitable to their development trajectory, and not exceptions to the rules. To guarantee this, the negotiating capacity of developing countries, particularly of the least developed countries, needs to be scaled up.

26. *Subsidiarity*. This implies that issues ought to be addressed at the lowest level capable of addressing them. The subsidiarity principle implies that some problems can be handled well and efficiently at the national and local levels, reducing the number of issues that need to be tackled at the international and supranational levels. Subsidiarity implies an important role for regional cooperation to address issues of mutual concern. Some critical areas are:

- A multilayered architecture for international monetary cooperation should be considered, with the active participation of regional and subregional institutions, reproducing, in the case of the international monetary system, the "denser" architecture that characterizes the system of multilateral development banks. The essential advantage of the denser architecture is that it provides both more voice and alternative financing opportunities for emerging and developing countries.

- Regional agreements on migration should be encouraged, in some cases taking advantage of the existing regional integration mechanisms. The fact that there is a greater similarity between economies in regional frameworks means that deals on migration would be more feasible. That could facilitate the path to incorporating the issue in global governance, even if this happens through more diffuse structures and with a set of agreements that would not necessarily be uniform.

- A feasible avenue to enhancing tax cooperation is to work with existing institutions and capitalize on experiences in policy coordination at the regional level. The European Union can offer some lessons that could be emulated in other regions and eventually scaled up at the global level.

27. *Inclusiveness, transparency, accountability*. To have universal legitimacy and effectiveness, global governance institutions need to be representative of, and accountable to, the entire global community while decision-making procedures need to be democratic, inclusive and transparent. As stated in the Monterrey Consensus, developing countries need to have a greater voice in relevant decision-making processes as well as in the formulation of global standards, codes and rules. Robust governance implies mutual accountability, verified by transparent and credible mechanisms and processes to ensure that agreed commitments and duties are being fulfilled. In this regard:

- There is need to design a more representative apex organization than the G-20, possibly by transforming it into a global economic coordination council, as proposed by the Commission of Experts of the President of the General Assembly on Reforms of the International Monetary and Financial System, and by advancing further in the reform of "voice and participation" of developing countries in the Bretton Woods institutions and the Financial Stability Board.

- Trade rules should not perpetuate or intensify current asymmetries. The overall transparency and fairness of the WTO dispute settlement mechanism could be further improved if the trade policy reviews, which provide an assessment of the state of trade policies of member countries with the largest shares of world trade, were geared towards the identification of practices incompatible with WTO and that are harmful to the export interests of developing countries, in particular of the smaller countries and/or of those countries without established WTO legal competence.

28. *Coherence*. The definitions of global rules and processes need to rest on comprehensive approaches, including the assessment of possible trade-offs, so that actions in one area will not undermine or disrupt progress in other areas but rather reinforce one another. Enhanced coherence is also needed between the international and national spheres of policymaking. This also requires improved coordination among various stakeholders and enhanced information sharing. In this regard:

- Environmental problems do not have frontiers. Yet, some countries compete for FDI by lowering environmental standards while transnational corporations favour countries with lax or "business-friendly" environmental regulations.

- There is need of a system, recognized by WTO and incorporated in bilateral investment agreements and free trade agreements, that promotes and enforces internationally agreed standards, regulations and codes of conduct on FDI, including the capacity of countries to protect the environment and regulate financial flows.

- Assistance to developing countries needs to move beyond increasing budgetary allocations to foreign aid, and consider ways to help developing countries mobilize domestic resources. Improved international tax cooperation can help developing countries increase their tax revenue by curbing tax evasion by multinational corporations, negotiating a fairer share in natural resource rents, stemming illicit financial flows and collecting tax on private assets held abroad by their residents.

D. Global governance for development: the role of the United Nations

29. In the increasingly complex system of global governance, questions arise on how effective institutions have been in identifying and handling global issues, especially from a development perspective, and how these institutions fulfil desirable criteria such as effectiveness, representativeness, participation, transparency and coherence. This is of particular importance for addressing ongoing and emerging challenges to meeting the Millennium Development Goals by 2015, for securing the reforms for global governance identified above, and for sustainable development in the post-2015 era according to the principles presented in section C above. Currently, the system of global governance does not meet these desirable criteria. The General Assembly, with its universal membership and democratic decision-making process, should function as the main political forum for managing global challenges, in close interaction with the Economic and Social Council and its subsidiary bodies on economic, social and environmental issues. But for the United Nations to utilize its distinct advantages, it would be important to strengthen its position in global governance.

30. There have been several proposals on how to enhance the central role of the United Nations in global governance as an essential element in achieving a broad development agenda, including all dimensions of sustainable development. The key issue here is finding the right balance between representativeness and participation, on the one hand, and effectiveness on the other.

31. The Charter gives the Economic and Social Council the role of coordinating the United Nations system. The Council should therefore play an essential role in global economic and social policymaking, and should be the principal body for the follow-up on the implementation of the United Nations development agenda. In this regard, the Council should take on greater responsibility for advancing the global governance reform agenda. It should provide guidance to the work of the entire United Nations system in addressing deficiencies in current governance in areas requiring improved international cooperation, such as the environment, international monetary and financial architecture, capital and labour flows, trade rules and inequality.

32. The Council's ability to coordinate and guide should be strengthened by appropriate follow-up and monitoring mechanisms for bridging the gap between agreements on commitments and the implementation of commitments. Such an accountability mechanism would focus on the three dimensions of sustainable development (economic, social and environmental), while taking into account the principles presented here. It would also provide an important basis for discussions in the high-level political forum on sustainable development, created in 2013, on how to further improve the outcome of the post-2015 development agenda, both in countries as well as within the United Nations system. The layout of such a system will require special attention in relation to the quantification of targets, data

collection, and definitions and indicators measuring representativeness, inclusiveness, transparency and coherence of global governance.

33. The implementation of the post-2015 development agenda ultimately depends on the political will of Member States. Success will depend on whether all countries contribute to the reform of global governance and use their policy space to implement policies for achieving common goals. The probability of failing will remain high while global challenges are approached from the narrow national perspective. Responsible sovereignty — Governments taking steps beyond narrowly defined national interests — is urgently needed for States to cooperate in creating the conditions for the realization of internationally recognized rights and freedoms and to act according to the key principles put forward in this report.

Chapter III

Issues related to the least developed countries and the graduation process

A. Introduction

34. In preparation for the 2015 triennial review of the list of least developed countries, the Committee for Development Policies re-examined the criteria for the identification of least developed countries. It reconfirmed its definition of least developed countries as low-income countries suffering from the most severe structural impediments to sustainable development.

35. The identification of least developed countries is based on three criteria: per capita gross national income (GNI), human assets and economic vulnerability to external shocks. The latter two criteria are measured by two indices of structural impediments to sustainable development: the human assets index and the economic vulnerability index.

36. After a comprehensive review of the indicators and approaches used for the identification of the least developed countries, the Committee reconfirmed the soundness of the criteria in assessing the inclusion as well as the graduation of countries from the list of least developed countries. It also reconfirmed the need (a) to maintain inter-temporal consistency of the list and equity among countries; (b) to maintain stability in the criteria; (c) for flexibility in the application of the criteria; and (d) for indicators used in the calculation of the indices to be methodologically robust and available for all countries concerned.

B. Refinement of the existing indicators

1. Gross national income per capita

37. The Committee confirmed that the income criterion is measured by a single indicator, the GNI per capita expressed in current United States dollars. National currencies are converted into United States dollars according to the World Bank Atlas method, which uses three-year averages of market exchange rates to reduce the impact of exchange rate volatility. The three-year averages are adjusted for relative inflation between a given country and the main developed countries. The Committee uses three-year averages as the income measure.

38. The Committee noted that purchasing power parity (PPP) exchange rates could in principle allow for better comparability of income across countries. However, the Committee is concerned that different rounds of the International Comparison Program can lead to massive swings in PPP rates. Therefore, the use of PPP rates in the calculation of GNI could violate the principle of inter-temporal consistency of the least developed country category. The Committee will continue to follow the work of the International Comparison Program in order to review the choice of exchange rates in future reviews.

39. The Committee decided to switch the data source for GNI per capita from the World Bank World Development Indicators database to the United Nations Statistics Division National Accounts Main Aggregates Database. While the latter currently does not publish Atlas exchange rates, it includes all information required for

calculating those rates. The new data source is the only one with complete data coverage. It also strengthens the consistency within the least developed country criteria, as it is the source for all national accounts-related components of the economic vulnerability index. Moreover, its data release dates are more attuned to the timing of the triennial reviews.

40. The Committee suggested considering data on household income, private consumption as well as on income and wealth inequality as additional information when recommending countries for inclusion or graduation.

2. Human asset index

41. Human assets, lack of which is a major structural impediment to development, are measured by indicators related to the status of health and nutrition and to the education status. Four indicators are currently used, all with equal weights, in the calculation of the human assets index:

- Percentage of population undernourished
- Under-five mortality rate
- Gross secondary enrolment ratio
- Adult literacy rate.

42. The Committee discussed the possibility of replacing the current indicator on undernourishment with an indicator on proportion of children under 5 years that are stunted. As currently calculated, undernourishment is an indicator on food availability. It is derived from food balance sheets and adjusted by empirical or theoretical distributions of food intake within populations. An indicator on stunting would better reflect the structural impediment of malnutrition to sustainable development. However, by relying exclusively on indicators related to child health, the Committee is concerned that the introduction of stunting would introduce a bias in the human assets index that could distort the identification of least developed countries. It therefore decided to retain the undernourishment indicator at this time, but to consider the question of alternative nutrition indicators in its future work on the least developed country criteria.

43. The Committee explored the possibility of including an indicator on maternal mortality as an additional component of the human assets index. While highlighting the importance of reducing maternal mortality for making progress towards sustainable development, the Committee noted that estimates of the maternal mortality ratio remain unstable, owing primarily to a lack of vital registration systems with complete coverage in most least developed countries. The Committee also considered a proxy indicator, namely, the percentage of births attended by skilled health personnel, but noted that that indicator would cover only a single determinant of maternal mortality. Moreover, the definition of skilled health personnel varies across countries. The Committee therefore decided not to include an indicator related to maternal mortality at this time and to reconsider the feasibility of including such an indicator in its future work on the least developed country criteria.

44. The Committee reconfirmed the under-five mortality rate as a comprehensive indicator on the health status of a population. Data from the Inter-agency Group for

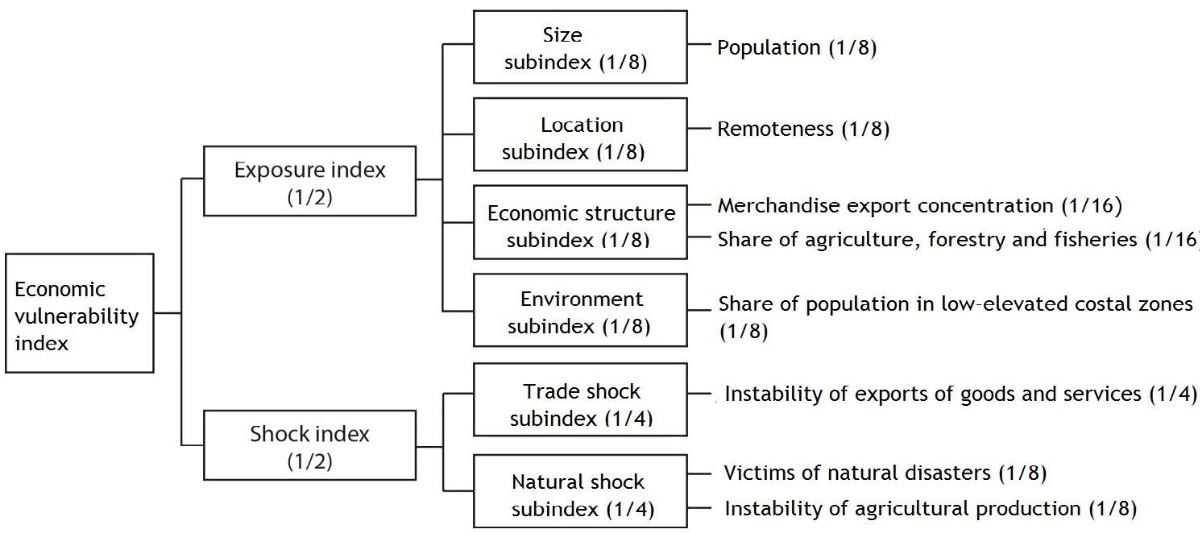
Child Mortality Estimation will be the primary data source, as these data are published on an annual basis.

45. The Committee confirmed the two education indicators (gross secondary enrolment rate and adult literacy rate), as they measure important aspects of human development capacity. While noting that these indicators insufficiently capture either educational outcomes or quality and welcoming the progress made in data availability on alternative indicators such as mean years of schooling and expected mean years of schooling, it decided not to change the education indicators before these alternatives have found widespread coverage and acceptance by statisticians and development practitioners at the international and national levels.

46. The Committee noted with concern that the availability of data on fundamental development questions is still very limited. It regrets the lack of progress in establishing universal vital registration systems in many developing countries.

3. Economic vulnerability index

47. The economic vulnerability index measures the vulnerability of countries to economic, in particular trade, and environmental shocks. It is a structured index consisting of two main subindices: one reflects exposure to shocks and the other measures the impact of such shocks. The Committee confirmed the current structure and composition of the index as follows:



48. The Committee reconfirmed the relevance of population size, remoteness from global markets and the share of agriculture, forestry and fisheries as indicators for the exposure of countries to shocks. It also decided to maintain the current indicator of merchandise export concentration. The indicator comprises goods only, although exports of services are important for several least developed countries. However, no suitable indicator covering both goods and services is currently available for better measuring the exposure to shocks resulting from a concentrated export structure.

49. The Committee also confirmed the indicator on the percentage of the population living in low-elevated coastal zones, defined as areas contiguous to the

coast below a certain elevation threshold. In order to ensure availability of reliable and comparable data for all countries, an elevation threshold of 5 m will be used for the 2015 review.

50. The Committee did not identify any further suitable indicators to measure exposure to environmental shocks, as all candidate indicators had insufficient data coverage or quality or did not adequately measure structural vulnerabilities. However, the Committee will continue to work on the economic vulnerability index to further improve the capacity to reflect structural vulnerabilities related to environmental phenomena. Future work may include the review of indicators on issues such as dry lands, energy access as well as water and sanitation.

51. The Committee confirmed the indicator on instability of exports of goods and services, which measures the variability around their trend. In order to increase the internal consistency of the indicator, the indicator will be computed from data on export earnings in constant prices and in United States dollars, instead of deflating nominal exports by merchandise import unit prices as in past reviews.

52. The Committee reconfirmed the indicator on victims (people affected or killed) of natural disasters and the indicator on instability of agricultural production. The Committee also noted that the latter indicator provides complementary information on the vulnerability of countries to climate and weather extremes and variability, including droughts.

C. Application of the criteria

53. The Committee recalled the basic rules for identifying countries for inclusion and graduation:

(a) For inclusion, all three criteria have to be satisfied at given threshold values. For graduation, eligibility requires a country to satisfy two criteria, rather than only one. However, countries with a sufficiently high and sustainable level of income may graduate even if they fail to satisfy the other two criteria, as they can be expected to have resources available to improve human assets and confront structural constraints;

(b) Graduation thresholds are established at a higher level than those for inclusion;

(c) To be recommended for graduation a country has to be found eligible at two successive triennial reviews.

54. The Committee reconfirmed that the asymmetry between graduation and inclusion rules is intentional. It aims to ensure that any country graduating from the least developed country category should be able to continue and sustain its progress with minimal risk of having its development disrupted or reversed. It also avoids frequent movements in and out of the category.

55. The Committee confirmed the rule for setting the thresholds for the income criterion. The inclusion threshold is the most recent three-year average of the low-income thresholds published by the World Bank. The graduation threshold is 20 per cent above the inclusion threshold. The "income only" threshold, which enables a country to become eligible for graduation even if it fails to meet the human assets index or economic vulnerability index criteria, is set at twice as high

as the ordinary graduation threshold. As the World Bank income thresholds are updated annually with the inflation rate of major developed countries, the inclusion and graduation thresholds for the income criterion are fixed in constant prices.

56. Whereas setting income thresholds is inherently difficult and involves some degree of arbitrariness, the World Bank income thresholds are widely used by the international development community, including the Committee in the context of identifying least developed countries.

57. The Committee noted that the human assets index and economic vulnerability index thresholds for inclusion and graduation are currently set on basis of the distribution of scores within a reference group consisting of all least developed countries and a restricted number of non-least developed low-income countries. Hence, the human assets index and economic vulnerability index are currently regarded as relative criteria. With relative thresholds, even significant progress could not ensure eligibility for graduation if other countries in the reference group also progressed at equal or faster rates. By the same token, least developed countries could also become eligible for graduation, even in the absence of progress, if other countries in the reference group regress. The issue would become more acute in future reviews owing to the general increase in income levels in most countries and the shrinking of the number of low-income countries. Consequently, the "income-only" rule would become the primary option to qualify for graduation, rendering measures for structural impediments almost irrelevant for meeting the graduation criteria.

58. In the future, the human assets index and economic vulnerability index will be treated as absolute criteria. Absolute thresholds enable countries to qualify for graduation if they make significant progress in overcoming the structural impediments they are facing, independent of the progress (or regress) of other countries. The index thresholds will be fixed at the 2012 review levels, which will be adjusted for the refinements of indicators discussed in section III.B of this report. Using the 2012 thresholds ensures continuity in the thresholds and thus the internal consistency of the category.

59. The Committee reiterates that the criteria are not applied in a mechanical way. Instead, before making recommendations on graduation, the Committee also reviews vulnerability profiles prepared by the United Nations Conference on Trade and Development (UNCTAD), impact assessments prepared by the Department of Economic and Social Affairs, as well as the views expressed by the countries' Governments. Both vulnerability profiles and impact assessments should be submitted in a timely manner, so as to allow potentially graduating countries to react and offer comments. Before making recommendations for inclusion, the Committee will review a detailed country assessment prepared by the Department and take the position of the Government into account.

Chapter IV
Monitoring graduated and graduating countries

A. Introduction

60. The Economic and Social Council, in its resolution 2013/20, requested the Committee for Development Policy to monitor the development progress of countries graduating from the least developed country category and to include its findings in its annual report. In its resolution 67/221, the General Assembly invited the Governments of graduating countries, with the support of the consultative mechanism, to report annually to the Committee on the preparation of the transition strategy. The main purpose of the monitoring is to assess any signs of deterioration in the development progress of the graduating country and bring it to the attention of the Council as early as possible. The present report includes the cases of Samoa, Equatorial Guinea and Vanuatu.

61. In the same resolution, the General Assembly requested the Committee to monitor the development progress of countries that have graduated from the least developed country category and to include its findings in its annual report. Accordingly, the Committee reviewed progress made by Maldives, which graduated in 2011.

B. Monitoring the development progress of graduating countries

62. Samoa, which graduated in 2014, continues to make progress despite the environmental shocks of the tsunami in 2009 and a cyclone in 2012. Income growth is expected to be modest but steady, owing to quick recovery from the disaster impacts as well as an expanding tourism sector. The country's GNI per capita is almost three times above the graduation threshold established at the 2012 triennial review. Samoa continues to further increase its human capital, experiencing improvement in the majority of the indicators that constitute the human assets index.

63. In accordance with General Assembly resolution 67/221, the Government of Samoa has submitted to the Committee its report on the preparation of the transition strategy. The Committee reviewed the information provided by the country and found that Samoa has been active in engaging its development and trading partners on the preparation of the transition strategy to minimize the possible negative impacts due to graduation. Most of its trading partners will continue to extend support measures after the country's graduation, but tariffs on fish, the main export of the country, are likely to increase in its main export market after its graduation. Development partners have indicated that the aid flows will not be affected by the graduation. However, changes in aid flows due to donors' budgetary constraints may have significant impacts on the country. The high vulnerability of Samoa results from its characteristics as a small island developing State, and is not necessarily addressed by support measures specific to least developed countries in an effective manner. Therefore, the Committee stresses that proper international support measures need to be provided to Samoa in order to address vulnerabilities specific to small island developing States.

64. Equatorial Guinea was recommended for graduation in 2009 in accordance with the "income-only" rule, as its GNI per capita was several times above the

graduation threshold. The country has continued to maintain high levels of national income, and the country is currently classified as high-income by the World Bank. However, the Committee noted with concern the relatively low level of attainment in human development compared to countries with a similar level of income and history, as suggested by the high child mortality rate, high prevalence of undernourishment and low secondary school enrolment rate of the country.

65. Equatorial Guinea's graduation is scheduled to take place in 2017 and it is unlikely to have substantial impacts on its development prospects, as the country's export structure implies little preferential market access specific to least developed countries, and the country has limited inflows of concessional financial aid. However, the Committee recognizes that the country's excessive dependence on the hydrocarbon sector may have adverse impacts, and recommends that it prepare, in collaboration with its development and trading partners, a transition strategy that promotes more effective natural resource management, including the introduction of a price stabilization mechanism to minimize the negative impacts of price shocks in the international oil market.

66. Vanuatu was recommended for graduation in 2012 on the basis of its income and human assets index scores. The country also met the "income-only" rule. It continues to improve its performance as measured by the indicators included in the income and human assets index criteria. However, the country remains very vulnerable owing to its small size, susceptibility to external economic shocks and exposure to recurring natural disasters.

67. The Committee identifies some potentially adverse impacts of the country's graduation in the areas of trade and development finance, as tariffs on fish export are likely to increase in the main destination and the country relies heavily on foreign aid to invest in economic infrastructure and human development. With graduation scheduled to take place in 2017, the Committee emphasizes the importance for the country to initiate the preparation of its transition strategy, in collaboration with its development and trading partners, to address and minimize the possible negative impacts of graduation.

C. Monitoring the development progress of graduated countries

68. Maldives has exhibited continued progress since its graduation. Its GNI per capita is almost five times higher than the graduation threshold established at the 2012 triennial review and the majority of indicators included in the human assets index have improved during the monitoring period, despite the redirection of aid from the health and education sector to climate change-related areas. There is a slight improvement in the country's economic vulnerability index score, but Maldives remains highly vulnerable to external economic and environmental factors.

69. The General Assembly, in its resolution 67/221, invited the Governments of graduated countries to provide concise annual reports on the implementation of the smooth transition strategy. Maldives has not submitted a report to the Committee, but provided its comments and views on the country monitoring report prepared by the Committee secretariat. The Committee notes with concern the abrupt termination of trade-related support measures provided to Maldives by its main trading partners after the graduation, or after the end of a transition period. The

Committee urges the country's trading partners to implement a gradual phasing out of support measures specific to least developed countries for graduated countries, in accordance with the provisions of resolution 67/221. The Committee also recommends that Maldives submit to the Committee its report on the implementation of the transition strategy for the next monitoring exercise.

Chapter V
The role of country groupings for development

A. Introduction

70. In response to the increasing heterogeneity of the developing world, the international community has sought to address progressively more complex development issues through the creation of country categories based on various classification criteria. Different sets of measures and interventions specific to each group have been developed. The establishment of the group of least developed countries by the United Nations in 1971 was the first such grouping. Since then, many other categories of countries have emerged, such as small island developing States, landlocked developing countries, fragile States, the four income groupings of the World Bank, the four human development categories of the United Nations Development Programme (UNDP) Human Development Report, the heavily indebted poor countries (HIPCs) and the countries eligible for support from the International Development Association (IDA). The multiplication of categories implies that countries often belong to multiple groupings. As a result, development challenges associated with a given category sometimes overlap with others and the priorities for international cooperation have become less clear.

71. Most of the existing classifications were created on the basis of weak analytical foundations or for political motives. Consequently, there are concerns about the effectiveness of policies and interventions designed to address the development challenges associated with these categories. A related problem pertains to the fact that classifications have not been able to accommodate the growing diversity among developing countries. The least developed country category is a case in point: originally composed of low-income countries only, the category now includes 31 low-income, 15 lower-middle income and 2 upper-middle income countries and 1 high-income country (in the process of graduation).

B. Increasing heterogeneity and number of country groupings

72. Development theory in the 1950s was based on the assumption that developing countries faced socioeconomic problems that were relatively homogeneous, but different from those of developed countries. International aid programmes and support measures were created on the observed existence of a “North-South” divide. The reality at present is very different, with developing economies now spread across a wide spectrum of levels of development.

73. The table below, based on a sample of eight country classifications, illustrates the often overlapping classifications created to respond to the growing heterogeneity among developing countries. The diagonal cells (in grey) show the number of countries that belong to the particular category, while the vertical cells show the number of countries that belong to the two corresponding categories at the same time.

Table 1
Overlapping country classification categories of developing countries

	Least developed countries	*Small island developing States*[a]	*Landlocked developing countries*	*Low-income countries*	*Low human development countries (UNDP)*	*Fragile States*[b]	*IDA-eligible countries*	*HIPCs*
Least developed countries	49	9	17	30	38	24	45	29
Small island developing States		52	0	3	6	5	12	5
Landlocked developing countries			29	15	15	8	18	11
Low-income country				36	30	26	32	26
Low human development countries (UNDP)					45	33	42	33
Fragile States						43	25	23
IDA-eligible countries							62	37
HIPCs								39

[a] Information from the Department of Economic and Social Affairs, the Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States and UNCTAD.
[b] Information from the Organization for Economic Cooperation for Development (OECD).

74. The classifications created over the last four decades can be grouped into two types:

- Classifications that group countries according to a general socioeconomic variable (or a set of variables) that are used to classify all countries (developing and developed). These can be referred to as “comprehensive” or “country-based” classification systems. The World Bank income-based groupings and the UNDP Human Development Index are examples.
- Classifications that group countries affected by specific development problems. These are selective, rather than comprehensive, classification systems which can be referred to as “selective” or “issue-based” classification systems. HIPCs, small island developing States, landlocked developing countries and fragile States are examples of issue-based categories.

75. Issue-based categories should rely on precise criteria. A good example of selective classification is the HIPC category. It recognizes an important development issue (the unsustainable debt burdens of some poor countries), defined by a clear set of criteria. Precise measures of debt relief were developed to alleviate the problem; however, precise criteria are not always used in all cases. For instance, fragile States are defined very broadly in terms of human security and peacebuilding, poor development performance and lack of State effectiveness. This is a reflection of reality: factors that may lead to State fragility are diverse and manifest themselves in a variety of forms. Moreover, the selection of indicators used to define fragile States reflects a combination of objective criteria and value judgements. As a result, several groups have been created around the concept of State fragility, and countries classified as fragile States differ among the World Bank, OECD and the Department for International Development of the United

Kingdom of Great Britain and Northern Ireland, the three entities that use this concept the most.

C. Classifications and international support measures

76. Country classifications are often associated with specific international support measures. In the comprehensive classifications, the association between criteria for identifying countries and eligibility (or non-eligibility in the case of graduation from the category) for support measures tends to create problems in at least three areas: equity, incentives and international coordination.

77. The equity issue refers to situations where countries of comparable development levels receive different treatment because they are located just above or below a given inclusion threshold which, in many cases, has been arbitrarily established. The approach disregards the fact that development is a continuous and gradual process while eligibility is discrete: a country is either in or out.

78. The problem of incentives comes from the way in which some non-eligibility (or graduation) criteria are defined, particularly in the comprehensive (or country-based) classification systems. Category-specific support such as access to concessional financial flows or preferential market access may be removed because of development progress. Recipient countries feel they are being penalized for their success — not the best incentive to encourage countries to improve outcomes.

79. The third problem, international coordination, emerges when development partners use the same eligibility criteria for accessing support. Thus, reaching graduation eligibility may trigger simultaneous withdrawal of support, which could affect the stability and progress of a country's development.

80. This problem can be more easily prevented with the issue-based classifications because support measures are oriented only to a specific issue that supposedly has already been overcome when support is withdrawn. However, issues-based classifications may lead to further increases in the number of categories and the resulting fragmentation of the international support system as there are numerous development problems that deserve special attention by the international community.

81. Given the proliferation of country classifications, the creation of new categories should be avoided or, at least, subjected to careful study. In considering the merits of new categories (issue-based or comprehensive), three basic principles can be applied:

- In most cases, donors could allocate aid and other measures of support based on sound and objective criteria without defining any category of countries. For instance, in line with paragraph 23 of General Assembly resolution 67/221, the least developed country indicators (gross national income per capita, human assets index and economic vulnerability index) can be considered as part of the criteria used by development partners in determining their allocation of official development assistance.

- New issue-based categories should be created only when an issue is important, deserves a specific set of support measures that is distinct from any existing measures and requires internationally coordinated actions to address the issue.

Issue-based categories should focus on addressing a particular challenge and should not be treated as comprehensive categories.

- Development situations calling for the creation of new categories should be restricted to those instances when the international community recognizes a given emerging issue as a medium- or long-term threat to the development of a large number of countries. To preserve the legitimacy of issue-based categorizations, the criteria of eligibility and graduation should be decided with the participation of the affected countries, and based on transparent and objective factors.

D. Improving the least developed country category as a means to support national development strategies

82. The least developed country classification is a hybrid of the two aforementioned classifications. It can be understood as a classification based on identifying one specific type of problem (extreme structural impediments to growth), but also as a comprehensive system classifying every country in the world according to the set of least developed country indicators.

83. The least developed country category has significant advantages over the other categories. It was created and is recognized by the General Assembly, and final decisions on inclusion and graduation are made by the Assembly. The criteria for least developed countries are clearly defined, based on sound analysis and reviewed by an independent body of experts, the Committee on Development Policy. It should therefore be more broadly used as a criterion for global and bilateral development cooperation. The framework of international cooperation does not achieve this objective. First, this category is not as widely used as it should be; for example, it is not used by the World Bank or by most donor countries. Second, there are few ODA-related support measures specific to least developed countries and the trade-related support measures have not been effective. Lack of success may also be related to the increasing heterogeneity within the group, which implies that available support measures, even if accessible to all countries, may not necessarily respond to countries' most pressing needs.

84. The least developed country category can be strengthened as a more effective tool for supporting national efforts of those countries by alleviating the problems associated with the internationally uncoordinated withdrawal of support measures, as envisaged by the General Assembly in its resolutions on a smooth transition for countries graduating from the list of least developed countries, through a more predictable and coordinated gradual withdrawal of external support. Assembly resolution 67/221 offers a clear phasing-out framework to strengthen the smooth transition process. While it is still too early to evaluate the benefits of the new provisions, it is clear that a smooth transition from the category can only be ensured if development and trading partners pursue or intensify their efforts to contribute to the full implementation of the resolution.

Chapter VI
Future work of the Committee for Development Policy

85. The Committee for Development Policy will continue to align its work programme to the needs and priorities established by the Economic and Social Council with a view to contributing effectively to the Council's deliberations and assisting it in the performance of its functions.

86. At its seventeenth session, the Committee will follow up on its work on the post-2015 United Nations development agenda. It will analyse and provide recommendations on how to enhance accountability by all relevant actors and make it more effective and transparent for a successful implementation of that agenda. In this regard, it will also consider how to improve existing monitoring mechanisms.

87. The Committee will undertake a review of the list of least developed countries in 2015. In addition to measuring the progress of countries vis-à-vis the established criteria of the category, vulnerability profiles and impact assessment reports will be prepared for Angola and Kiribati. The Committee will also monitor the development progress of the countries graduating (Equatorial Guinea and Vanuatu) and graduated (Maldives and Samoa) from the list, in accordance with the provisions of General Assembly resolution 67/221 and Council resolution 2013/20.

88. In preparation for the mid-term review of the Istanbul Programme of Action for the Least Developed Countries for the Decade 2011-2020, the Committee will review the factors that have enabled or constrained countries in moving towards graduation from the least developed country category and how support for the category can be strengthened.

Chapter VII
Organization of the session

89. The Committee for Development Policy held its sixteenth session at United Nations Headquarters from 24 to 28 March 2014. Twenty members of the Committee, as well as observers from organizations of the United Nations system, attended the session. The list of participants is contained in annex I.

90. The Committee is saddened by the death of one of its members, Norman Girvan, on 9 April, and wishes to dedicate the present report to his memory.

91. The Department of Economic and Social Affairs provided substantive services for the session. The Secretary of the Committee opened the session and welcomed the participants. Subsequently, the Assistant-Secretary General for Policy Coordination and Inter-Agency Affairs, Thomas Gass, addressed the Committee. The Vice-President of the Economic and Social Council, Ambassador Oh Joon, Permanent Representative of the Republic of Korea to the United Nations, also addressed the Committee. Statements are available at www.un.org/en/development/desa/policy/cdp/cdp_statements.shtml.

92. The agenda for the sixteenth session is contained in annex II.

Annex I

List of participants

1. The following members of the Committee attended the session:

Lu Aiguo

José Antonio Alonso

Nouria Benghabrit-Remaoun

Diane Elson

Sakiko Fukuda-Parr (*Vice-Chair*)

Ann Harrison

Stephan Klasen

Keun Lee

Thandika Mkandawire

Adil Najam

Leonce Ndikumana

José Antonio Ocampo (*Chair*)

Tea Petrin

Patrick Plane

Pilar Romaguera

Onalenna Selolwane

Claudia Sheinbaum Pardo

Madhura Swaminathan

Zenebework Tadesse Marcos

Dzodzi Tsikata

2. The following entities of the United Nations system were represented at the session:

Regional commissions New York Office

United Nations Economic and Social Commission for Asia and the Pacific

Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States

United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women)

United Nations Conference on Trade and Development

World Food Programme

International Monetary Fund

International Telecommunication Union

World Bank

World Intellectual Property Organization

Annex II

Agenda

1. Inaugural session.
2. Organizational session.
3. Information session.
4. Global governance and global rules for development in the post-2015 era.
5. Fine-tuning the least developed countries criteria.
6. Monitoring of countries graduating and graduated from the least developed country category.
7. Country classifications for development.
8. Report of the Secretary-General on the theme of the 2014 annual ministerial review.
9. Programme of work of the Committee for Development Policy.
10. Adoption of the report of the Committee for Development Policy on its sixteenth session.

14-30548 (E) 140514