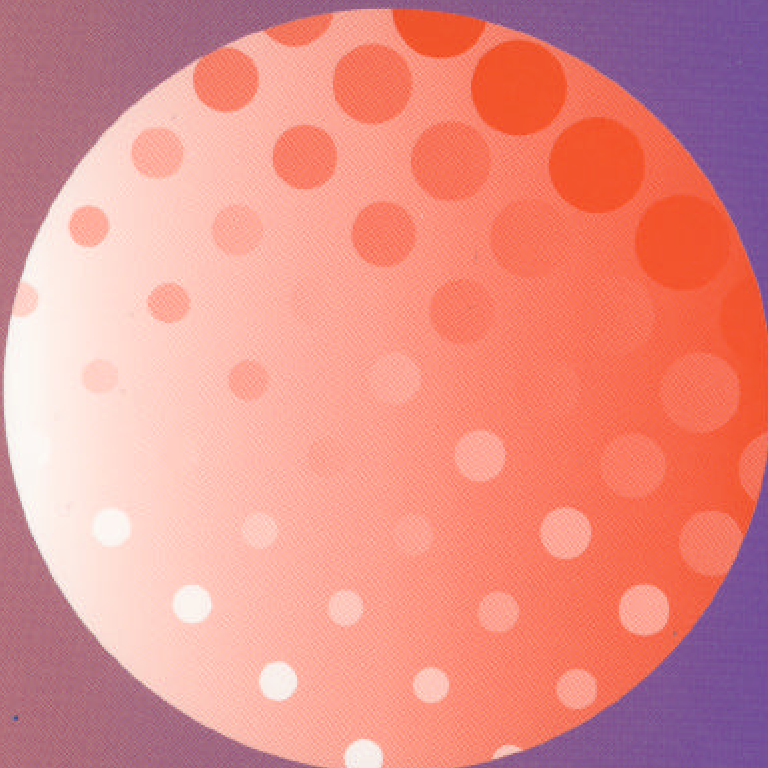
Poverty amidst Riches: The Need for Change

Report of the Committee for Development Policy
on the second session (3-7 April 2000)



United Nations

DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS

Poverty amidst Riches: The Need for Change

Report of the Committee for Development Policy on the second session (3-7 April 2000)

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FOREWORD

At its second session held from 3 to 7 April 2000, the Committee for Development Policy, as requested by the Economic and Social Council in its resolution 1999/67 of 16 December 1999, focused on three issues: the role of information technology in development; an international development strategy for 2001-2010; and the triennial review of the list of least developed countries, based on the revised criteria proposed by the Committee in 1999 for this purpose. Members of the Committee agreed on a number of recommendations intended to contribute to the discussion in the Council on these issues and to allow the Council to decide on a revision of the list of least developed countries.

The recent wave of technological change, particularly in information technology, has opened new possibilities for economic growth and for improvements in the quality of life in all regions of the world. To share the benefits of technological development more justly is one of the major tasks for the beginning of the new century. The Committee focused on the needs of developing countries and on national and international policies for reducing the inequalities in the distribution of knowledge, information and information technology.

There has been some progress in accelerating economic growth and human development in recent decades, but there also have been serious setbacks with devastating consequences for poor countries. The targets of the international development strategies have not been met. In considering the possibility of a new international development strategy for 2001-2010, the Committee recommends that a new strategy should be based on a review of the successes and failures of previous development strategies. The Committee emphasizes that a revitalized flow of development finance from the developed countries, through official channels as well as from private institutions, is necessary in order to enhance economic performance and improve the standard of living in developing countries, especially in the least developed countries. Democratic processes of good governance in developing countries, as well as the openness of national borders to flows of goods and services from all over the world, are also among the critical preconditions for a peaceful and prosperous world. More effective integration of the developing countries into the global trading system is another major challenge that has to be met to ensure equitable economic development in the coming millennium. Increased access to and improvement of education, skills and infrastructure are increasingly needed to secure a higher level of development and standard of living.

In its review of the list of least developed countries, the Committee was particularly conscious of the need to ensure credibility of the criteria used for this purpose. The Committee therefore made special efforts to review the underlying concepts, methodology and data in making its recommendations regarding the countries to be included in the list of least developed countries.

It is hoped that the analysis and recommendations of the Committee contained in the present report will contribute to the multilateral discussions of and solutions to the problems addressed.

Nitin Desai

Nitin Desai
Under-Secretary-General for
Economic and Social Affairs

PREFACE

The Committee for Development Policy is a high-level advisory body, established by the Economic and Social Council in 1966 as the Committee for Development Planning and renamed in 1998.[a] The Committee consists of 24 experts from the fields of economic development, social development and environmental protection. The members are appointed in their personal capacity by the Council upon the nomination of the Secretary-General of the United Nations. The current members, who were appointed for the term starting on 1 January 1999 and expiring on 31 December 2000, are:

Ms. Mária AUGUSZTINOVICS (Hungary): Institute of Economics, Hungarian Academy of Sciences;

Ms. Maria Julia ALSOGARAY (Argentina);

Mr. Makhtar DIOUF (Senegal): Researcher, Institut Fondamental d'Afrique Noire, Cheikh Anta Diop, University of Dakar;

Mr. Essam EL-HINNAWI (Egypt): Research Professor, Natural Resources and Environment, National Research Centre, Cairo;

Mr. Just FAALAND (Norway): Member, The CHR Michelsen Institute, Department of Social Science and Development, Bergen (Chairman of the Committee);

Mr. Eugenio FIGUEROA (Chile): Professor of Economics and Director, Center of Environmental and Natural Resource Economics (CENRE), School of Economic and Administrative Sciences, Universidad de Chile, Santiago;

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[a] See Economic and Social Council resolution 1998/46 of 31 July 1998.

Mr. Albert FISHLOW (United States of America): Professor, School of Management, Yale University, and Senior Economist at Violy, Byorum and Partners, New York;

Mr. GAO Shangquan (China): Chairman, China Society for Economic Restructuring, Beijing;

Mr. Leonid M. GRIGORIEV (Russian Federation): Bureau of Economic Analysis Foundation, Moscow;

Mr. Patrick GUILLAUMONT (France): Director, Centre for Study and Research for International Development, Clermont-Ferrand;

Mr. Ryokichi HIRONO (Japan): Professor of Economics, Teikyo University, Tokyo;

Mr. Taher KANAAN (Jordan): Consultant in Economics and Business, Computer and Communications Systems, Amman;

Ms. Louka T. KATSELI (Greece): Professor of Economics, Department of Economics, University of Athens, Athens (Vice-Chairman of the Committee);

Mr. Nguyuru LIPUMBA (United Republic of Tanzania): Dar es Salaam;

Ms. Solita C. MONSOD (Philippines): Professor of Economics, University of the Philippines, School of Economics, Quezon City (Rapporteur of the Committee);

Mr. P. Jayendra NAYAK (India): Chairman and Managing Director, UTI Bank, Mumbai;

Ms. Mari Elka PANGESTU (Indonesia): Member, Board of Directors, Centre for Strategic and International Studies, Jakarta;

Mr. Milivoje PANIĆ (United Kingdom of Great Britain and Northern Ireland): Fellow of Selwyn College, University of Cambridge, Cambridge;

Mr. Eul Yong PARK, (Republic of Korea): Professor of Economics, Handong University, Kyeongbuk;

Mr. Bishnodat PERSAUD (Guyana): Professor, University of the West Indies and Economic Consultant, London;

Mr. Akilagpa SAWYERR (Ghana): Director of Research, Association of African Universities, Accra-North;

Mr. Udo Ernst SIMONIS (Germany): Head, International Institute for Environment and Society, Science Centre Berlin, Berlin;

Mr. Ruben TANSINI (Uruguay): Director, Department of Economics, University of Uruguay, Montevideo;

Mr. Miguel URRUTIA MONTOYA (Colombia): Governor, Banco de la Republica, Santafe de Bogota D.C.

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CHAPTER I

MAIN FINDINGS AND RECOMMENDATIONS

1. In accordance with Economic and Social Council resolution 1999/67 of 16 December 1999, the Committee for Development Policy at its second session (3-7 April 2000) deliberated on the role of information technology (IT) in development and made suggestions regarding a draft of a new international development strategy to be submitted by the Secretary-General to the Council and the General Assembly. The Committee also conducted its triennial review of the list of least developed countries.

A. The role of information technology in development

2. The Committee recognizes the potential of IT as a source of economic growth and as an input to development. IT is a source of new economic activities, namely, the production of information technology goods and services. IT also has a potentially strong impact on existing economic activities by improving resource allocation and increasing efficiency. As a result of the IT revolution, a new kind of economy is emerging: the information-based economy, in which information—along with capital and labour—is a critical resource for the creation of income and wealth.

3. IT is paving the way for greater ease of movement of technical and financial services and is instrumental in accelerating the globalization process. A few developing countries are successfully taking advantage of the opportunities IT offers and have already reaped tangible benefits; many more are beginning to derive some of the potential benefits. However, the impact of the IT revolution on overall development, in particular its contribution to the reduction of poverty, remains uncertain. Recent experience, as well as most projections for the future, shows widening gaps in income, wealth and welfare both within and among countries; the evolving "digital divide" is both a cause and a consequence of these growing inequalities.

4. For most developing countries, the benefits of IT remain a distant promise. In many developing countries and particularly in the least developed countries, the educational and other preconditions for effective participation in the IT revolution are weak. This is particularly true of access to IT and information-based technologies, as well as the transfer of IT knowledge at the international and national levels.

5. There are also growing concerns about accessibility of IT, intellectual property protection, fair competition, content regulation, and cultural preservation. Furthermore, the power of IT, which has so much potential for social good, can also be harnessed for selfish, dangerous or even destructive ends. This raises legal and ethical questions at the national, regional and international levels; effective and binding mechanisms have yet to be formulated, adopted and implemented, both nationally and internationally.

6. The Committee acknowledges that the primary responsibility for a country's timely and effective entry into, and progress within, the global information-based economy rests with the people of the country itself. Governments should formulate national strategies to create or enhance the information infrastructure and the productive side of IT in all sectors of the economy and human capital formation. However, developing countries should be assisted in their efforts to achieve this goal. The Committee therefore welcomes General Assembly resolution 54/231 of 22 December 1999, which emphasizes the importance of facilitating access to information and communication technology and corresponding knowledge for developing countries, including access on preferential and concessional terms.

B. Towards an international development strategy for the first decade of the new millennium

7. The Committee recognizes that, for a new international development strategy to mobilize and sustain the political support necessary for it to be an effective framework for action, nationally and internationally, it must have a clear and convincing thrust; it must also be so formulated as to ensure that

implementation can be readily monitored, progress measured and—where progress is found wanting—needs for change and for supplementary actions identified.

8. The Committee stresses the need to ensure that the formulation of a new IDS is fully informed by a thorough review of what was attempted for previous development decades and of what was—and what was not—achieved. The Committee recommends that economic and social developments and policies affecting the achievement of the objectives of previous development decades should be reviewed not only for the developing countries, but equally for the developed countries and for the international economic system generally. Without such a balanced review, the analysis of past and current potentials and constraints, as well as establishment of targets and commitments for the future, would be incomplete and neither the review nor a new IDS would reflect the joint and shared international commitments of an effective strategy.

9. The Committee believes that there should be targets for achievements and policy performance in a new international development strategy. The Committee recognizes that much of the target-setting in the past was not backed up by the policy prescriptions and resource commitments necessary to give credibility to and confidence in the strategies. Target-setting of that nature gives no basis for effective monitoring of performance, and should be replaced by professional and realistic analysis.

10. The Committee welcomes the approach taken in the preparation of the Secretary-General's draft, namely, to build the IDS on the strategies, commitments and programmes of action of the United Nations conferences of the 1990s, on the Agenda for Development adopted by the General Assembly in its resolution 51/240 of 20 June 1997 and contained in the annex thereto, and on the respective analyses of progress so far. The Secretary-General's report for the Millennium Assembly of the United Nations entitled "We the peoples: the role of the United Nations in the twenty-first century" (A/54/2000) of 27 March 2000, released while the Committee was meeting, also provides useful proposals on several elements for a new strategy.

11. The Committee stresses that peace and democratic processes are crucial for equitable development. The 1990s saw an escalation of internal and regional armed conflicts and social tensions in developing countries. This led to tragic devastation and degradation in the economies of affected countries and in the lives of their populations. It also led to higher allocations of donor resources towards conflict resolution and humanitarian aid, while donor support for development declined significantly from already low levels. In the coming years, greater efforts at conflict prevention are called for so that all these trends can be reversed.

C. Review of the list of least developed countries

12. Drawing on the work of the Secretariat and an Expert Group, and on the basis of its own further deliberations, the Committee has formulated a number of recommendations responding to the request of the ECOSOC for revised criteria for the identification of the least developed countries. The Committee has adopted a three-year average of per capita gross domestic product (GDP) as the first criterion and confirms its earlier recommendations on the revised criteria of the Augmented Physical Quality of Life Index (APQLI) and economic vulnerability index (EVI). The Committee stresses the importance of comparability and reliability in the data used in the application of these criteria.

13. The Committee has identified three additional countries—the Congo, Ghana and Senegal—that meet all three criteria for inclusion in the list of least developed countries. The Committee recommends that Senegal be added to the list of least developed countries, subject to the concurrence of the Government of Senegal. The Committee has decided, however, for reasons elaborated in the report, not to recommend the Congo or Ghana for inclusion at this time. These countries will be given special attention at the next triennial review.

14. In 1997, the Committee for Development Planning recommended Vanuatu for graduation from the list of least developed countries and identified Cape Verde, Maldives and Samoa as candidates for graduation in 2000. The Committee has

carefully reviewed the situation of these four countries. It concludes that Vanuatu and Samoa now meet only one of the necessary criteria and, therefore, they are not recommended for graduation from the list of least developed countries at this time. Cape Verde meets two criteria and is therefore formally eligible for graduation at this time. Nevertheless, because of its high economic vulnerability and dependence on foreign aid and workers' remittances, the Committee recommends that its graduation from the list of least developed countries be postponed and reconsidered at the next triennial review.

15. Maldives meets two criteria and the Committee recommends its graduation from the list of least developed countries. However, the Committee also recognizes the country's main concern over the consequences of a possible rise in the sea level over the longer term. The Committee therefore suggests that the Economic and Social Council consider what special assistance might be provided in response to the exceptional challenge that the country faces from climatic change.

CHAPTER II

THE ROLE OF INFORMATION TECHNOLOGY IN DEVELOPMENT

A. Introduction

16. In resolution 1999/67, paragraph 6, the Economic and Social Council requested the Committee for Development Policy to include in its report to be submitted to the Council in 2000 its views on the theme for the high-level segment of the Council in 2000, namely "Development and international cooperation in the twenty-first century: the role of information technology in the context of a knowledge-based global economy". In its resolution 54/231, paragraph 14, the General Assembly requested the Secretary-General to prepare a report containing recommendations on the role of the United Nations in enhancing the integration of developing countries in the emerging global information network, facilitating access for developing countries to information and communication technology, including access on preferential and concessional terms, where appropriate, and promoting the participation of developing countries, including through infrastructure facilities, in knowledge-intensive sectors of the global economy.

17. For the purposes of the present report, IT is defined as the electronic means of capturing, processing, storing and communicating information, as well as the products and services that provide or support such activities. It thus encompasses computer hardware and software, telecommunications equipment, and electronically-based industries, as well as information applications in all economic sectors.

B. Potential benefits and risks

18. IT has the potential to be a major driving force behind economic growth through two paths: first, by generating new economic activity, notably through the production of IT goods

and services; and second, through its potentially strong restructuring impact on existing economic activities. Thus, IT may affect economic activities in a variety of ways: improving the quality of existing services; creating new services; raising labour productivity; increasing capital intensity; enhancing economies of scale; and creating new economic structures. The attendant increase in labour productivity enhances international competitiveness in both goods and services. In manufacturing, and also in agriculture to some extent, many processes have already become automated, whether by computer-aided design, by the management of resources and stocks, or through modes of production using flexible manufacturing systems.

19. IT is also paving the way to greater ease of movement of technical and financial services and is instrumental in driving the rapid globalization process. From the IT revolution, a new kind of economy emerges: the information-based economy, in which information—along with capital and labour—is a critical resource for the creation of income and wealth and for the enhancement of competitiveness.

20. IT has already manifested a significant impact on the political and social dimensions of development, specifically by enhancing participation in decision-making processes at the corporate, local and national levels. Also in developing countries, it can be a powerful tool for empowering individuals, promoting their initiatives, decentralizing management and exposing the diversity of views and interests in respect of the political, social and economic issues facing their communities.

21. A few developing countries are successfully taking advantage of the opportunities IT offers and have made significant improvements in their economies, and many more are beginning to derive some of the potential benefits. For most of the developing world, however, IT remains just a promise and, it seems, a distant one at best. There is little evidence from past experience of national and international development policies, strategies and programmes to suggest that much will change for large segments of the world's poorest people. The preconditions for taking advantage of new knowledge and technologies at the country level, for access to IT, for technologies and transfer of IT knowledge at the international and national levels and, more

fundamentally, for access to education and health, remain weak for most of the world's poor and for the least developed countries generally. Thus, the realization of the promise of the IT revolution requires much effort by Governments, international agencies, non-governmental organizations and the private sector.

22. While those who have access to IT may forge ahead, the rapid globalization process also opens up opportunities for increased concentration of market power from which, inevitably, the economically advanced countries would reap a disproportionate share of profits. At present, the production and use of IT are highly concentrated in the developed countries, which account for more than 90 per cent of the global market. For example, in the high-income countries in 1998, per 1,000 people, there were 567 main telephone lines, 265 mobile phones and 311 personal computers; and per 10,000 people, there were 607 Internet hosts. In low-income countries, in contrast, the corresponding figures were 37 main telephone lines, 8 mobile phones, 6 personal computers and 0.3 Internet hosts.[1] Furthermore, such disparities in IT exist not only according to income level, but also according to human development level, with countries that rank high on the human development index (HDI) showing far greater use of IT than those with low HDI ranks.[2]

23. The full impact of the IT revolution on poverty—the central problem of developing countries—remains uncertain: experience so far, as well as most projections for the future, clearly shows that there are very real prospects of widening gaps in income, wealth and welfare within and among countries, and of new and escalating challenges of economic, social and political governance at national and international levels.

24. There are also growing concerns about the future of “the information economy” and of “the information society”. These include risks and costs of information “overload” resulting from the vastly increased flows of information; questions of

[1] World Bank, *2000 World Development Indicators* (Washington, D.C., World Bank, 2000), tables 5.10 and 5.11.
[2] See United Nations Development Programme, *Human Development Report 1999* (New York, Oxford University Press, 1999), table A1.3.

accessibility, intellectual property protection, fair competition, content regulation, and cultural preservation. There are also concerns that the power of IT, which has so much potential for social good, can also be harnessed for selfish, dangerous or even destructive ends. This raises legal and ethical questions at the national, regional and international levels, including the right to know, to collect information, to acquire or withhold information, to control its release, to profit from information, to protect or to destroy or expunge it and to correct or alter information, as well as to distribute and disseminate it. Information ethics (or Infoethics) is a subject that has been discussed in various forums, but effective and binding mechanisms have yet to be formulated, adopted and implemented, both nationally and internationally.

25. In order for the benefit of IT to permeate and transform conditions of competitiveness and wealth, the technologies and infrastructure must be accessible and the population must include trained and attuned cadres of workers and specialists, who are able to avail themselves of the opportunities presented by the IT revolution. This calls for both national and international policies, as well as funds and other resources, to install and maintain the necessary telecommunication facilities and other infrastructure. Given the poverty of many developing countries, the costs involved pose a major constraint on their capacity to take advantage of the new opportunities.

26. Even with the availability of the necessary infrastructure, the exploitation of IT to productive advantage depends on a number of other factors, including adequate levels of education and income and supportive policies. It takes a certain minimum level of literacy and numeracy in a significant proportion of the population to create conditions for the assimilation, adaptation and application of relevant knowledge to production and social life in a manner that makes a difference and can be sustained. Thus, tackling the perennial problem of illiteracy must be regarded as an important prior condition for the realization of the IT potential. Given the very low levels of income of the general populace in most developing countries, and the absence of a critical mass of people with adequate means for the application of these technologies, the use of IT will continue to be restricted. Under such circumstances, the potential inherent in IT

development and application to ensure economic development and assist social integration will not be realized.

27. Even developing countries that have benefited from IT are concerned with the IT impact on the volume and pattern of employment. While production of new goods and services generates new employment, these jobs typically require skilled—to a large extent, highly skilled—labour. Furthermore, with IT, whole categories of jobs in a wide range of industries can disappear. This is particularly true for unskilled workers, as well as for those who cannot be retrained to match the requirements of the new types of employment opportunities that evolve. In countries where the IT revolution is just about to take hold, moreover, a new wave of "brain drain" may emerge with large numbers of IT-skilled labour migrating to economically more advanced countries in search of better opportunities and higher earnings. This may have serious repercussions on the capacities of such developing countries to integrate their own wider production system into the information-based global economy.

28. In countries, that have entered the information age (or are at least beginning to do so), concerns about the negative impact of IT are growing. Such concerns include the possible health effects of exposure to computer screens and video terminals, and to non-ionizing radiation from cellular telephones and antennas of telecommunications distribution systems. There is also growing concern about the management of hazardous waste generated in manufacturing IT hardware, and regarding the management of solid waste (for example, obsolete equipment and components). Other fears include the loss of social competence and growing isolation of the individual. Furthermore, if the economic promises of IT ever became a reality throughout the developing world, the scale effect of the increase in global economic activity could have a serious detrimental impact on the environment worldwide. This possibility does not call for restricting economic growth or indeed for slowing globalization and the progress of the IT revolution itself, but rather for conscious precautionary environmental policies.

C. Production and application of information technology in the developing countries

29. IT production and application vary widely among developing countries. A few are well advanced in the use of IT in the process of production of goods and services generally, while others are advanced in the production of specialized IT products and services. Still, many other developing countries are lagging behind in both areas. Thus, there is a widening "digital divide" among developing countries, as well as between developing and developed countries.

30. Utilization of IT applications reflects, in general, stages reached by countries in their economic and social development. Surveys undertaken by the Asian and Pacific Development Centre show that IT application in those developing Asian countries where it is taking hold mainly occurs in three major functions of both public and private organizations: the delivery of clerical services, management services, and the public participation system.

31. The first major function for IT application, the delivery of clerical services to introduce order and timeliness into routines, can result in a significant improvement in the productivity of clerical work. It is found in statistical compilations for various uses such as population censuses, livestock surveys, company databases, consumer price surveys, household income and expenditure surveys, trade and investment surveys and crop reports. Here, speed and accuracy have been the main advantages of the IT application. It is also found in the periodic generation and reporting of high-volume transactions of, for example, tax collection administration, vehicle registration, personnel administration and banking, accounting and auditing administration. This way, organizations, public or private, are able to reduce costs, increase speed and release staff for more productive use. IT is also increasingly used for office automation, speeding up organizational decision-making via word-processing and electronic mail among different departments and units of an organization.

32. The second major IT application, assisting corporate and government managers in improving their management capability

through better control and planning, is also of importance in some Asian countries. Thus IT is now increasingly used, for example, in planning decisions by building computer models that provide managers with an experimental laboratory set-up. Such IT applications are found most frequently in building and revising models for macroeconomic planning for the national, sectoral and regional economy, as well as models for investment decisions.

33. IT is beginning to play a role in some developing countries in environmental assessment and management, such as tele-monitoring of environmental media and systems to allow early detection of potentially hazardous events, so as to trigger a timely response. Geographical information systems (GIS) are increasingly being used to manage natural resources such as forests, land and water.

34. The third major area for IT application in developing countries—public information disclosure and participation—is found less frequently. This is an area where most Governments are under mounting public pressure at home and abroad to allow a higher level of openness. Developing countries, notably those that depend on official development assistance (ODA) support, are frequently exposed to pressures and conditionalities urging the move towards a greater degree of transparency and accountability that would include more open access to government information at national and local levels through the introduction and use of IT facilities. The use of IT in recent national elections in some developing countries appears to have enhanced the collective power of voters, enabling them to participate in elections more widely both in urban and in rural areas, and to have made the whole electoral process more transparent and less susceptible to rigging, notably in ballot-counting.

D. Prospects and policies for development

35. The Indian experience (see box) underlines the importance of distinguishing between the production and consumption of IT, particularly in software. Demand constraints are unlikely to be readily addressable by

Governments, as the consumption of IT is typically led by its usage in industry. As IT investments in established industries are seen to be increasingly profitable and as real incomes rise, the demand for IT can be expected to increase.

36. The very low levels of income of a substantial proportion of people in developing countries also keep demand for the usage of IT constrained. This restricts the scale on which the infusion of knowledge can spread and the transformation in production, management and service delivery can occur, so as to effectively spur economic development and lead to a sustained improvement in the quality of life of the economically disadvantaged. It is thus vital that the potential of IT for enhancing economic and social development be located within the overall development problematique. Successfully attacking the problem of persistent illiteracy is clearly a precondition for fully realizing the potential of IT in developing countries.

37. However, supply bottlenecks can be directly addressed by Governments: IT businesses should be readily able to raise resources and have access to a range of infrastructure necessary for their growth. Access to financial resources requires the ability to tap venture capital, capital markets and bank debt. For developing countries, these resources are sometimes accessible overseas, before domestic financial markets acquire depth. Where strict exchange control restrictions exist, a more open currency regime may become necessary in order for IT businesses to access finance abroad.

38. The integration of computing with communications also requires the installation of a robust telecommunications network. In some successful developing countries, where this sector has been largely controlled or dominated by the public sector, privatization and deregulation have been introduced to facilitate the mobilization of the sizeable investment required. Deregulation and privatization are often politically contentious issues, and the process can take time to be implemented, thus delaying the rapid and widespread IT-led growth process.

The case of India

A striking example of a country where the software industry has grown explosively, particularly in the last decade, is India. India has been successful in the production of IT services, most notably in the creation of a software export industry. The Indian experience is of interest, as it raises issues of whether there were conditions specific to that country that facilitated the growth of its software industry, which may or may not be replicable in other developing countries. These conditions include the role of technical education and research support, and the ability of larger numbers of programmers to write software fluently in English, as well as the existence of a professionally educated Indian diaspora in the United States of America. Such factors may be at least as important as supportive government policy and investments in infrastructure for the growth of the software business.

In its initial years, the software industry in India began to generate substantial export revenue without very much support from the Government. It was only after the software business had acquired strength that fiscal support began to be provided and constraints on raising resources—domestically and overseas—were eased.

The software boom in India has occurred as a production rather than as a consumption activity. Recently, however, enhanced consumption of software is beginning to be apparent, partly owing to infrastructural development and the process of telecommunications deregulation which began as late as 1999.

Is the Indian experience in the software sector replicable elsewhere? While India does draw from a substantial reservoir of trained engineers, much of the software it produces consists of services and not products, is low down the value chain, and is written by less highly trained professionals. Diminishing marginal returns are also likely in respect of the ability of Indian software engineers to write in English. More successful Indian companies move up the value chain by producing more specialized software; the international market for the basic applications software is likely to become competitive, and other developing countries are likely to compete successfully through low wages.

39. The IT revolution induces new needs for developing countries that must be addressed. The Committee acknowledges that the primary responsibility for a country's timely and effective entry into, and progress within, the information age rests with national Governments. However, developing countries should be assisted in their efforts in this area. The following gives a broad spectrum of strategies and policies that should be adopted to accelerate the integration of developing countries in the knowledge-based global economy and, in particular, to strengthen the installation, management and utilization of IT and concomitant applications at the corporate, local and national levels.

1. Recommendations for national action

40. Governments should formulate national strategies to create or enhance the information infrastructure and the productive side of IT in all sectors of the economy. Such strategies should be based on a broad and effective partnership between central and local governments, and universities and the educational system generally, as well as private sector and non-governmental organizations.

41. Governments should make every effort to create an IT environment, characterized by coherent telecommunications reform and information policies; laws protecting investment and intellectual property rights; open and well-regulated IT markets; and effective regulatory and standard-setting institutions.

42. Governments should pay considerable attention to human capacity-building generally, and basic human capital formation for the IT age in particular. Thus, even at an early stage of development, Governments should seek ways and means to improve their educational systems to facilitate the use of the new techniques in the teaching process.

43. Ways and means, including incentives and disincentives, should be put in place to ensure that IT facilities are in fact widely and generally accessible, so as to reduce disparities between urban and rural areas and within these areas. Also, the development of low-cost options that extend the reach of the global information infrastructure to under-served rural and urban areas should be pursued.

44. Countries that succeed in attaining these objectives stand to gain in terms of overall employment, given that software production is directly employment creating. The introduction of IT in established production lines would initially tend to reduce the demand for labour. As software consumption increases, however, and firms realize productivity gains and increased competitiveness, the associated growth, if sustained, will in turn lead to a greater demand for labour. In such cases, the faster productivity gains are realized, the quicker will be the absorption of labour.

2. *Recommendations for international action*

45. In its resolution 54/231, the General Assembly emphasized the importance of facilitating access to and transfer of information and communication technology and corresponding knowledge, in particular to developing countries, on favourable terms. It also emphasized the need for the regional and national capacity-building programmes of the United Nations system, the regional commissions, United Nations funds and programmes, and the specialized agencies to have a strong component that was oriented towards assisting developing countries in the areas of IT.

46. The Secretary-General in his report for the Millennium Assembly of the United Nations (A/54/2000) emphasized the importance of bridging the gaps in IT between developed and developing countries. He announced the establishment of a Health InterNetwork for developing countries and of a United Nations Information Technology Service (UNITeS) which intends to focus on training groups in developing countries in the uses and opportunities of IT.

47. Once firmly implemented, such United Nations interventions will also facilitate electronic communication by ensuring greater uniformity between countries with respect to legal support systems, which might otherwise constrain "e-commerce" in developing countries. Most cross-border transactions are supported by a legal structure that defines territorial jurisdiction for resolving disputes. Territorial jurisdiction is more difficult to identify for Internet transactions,

however, and hence would need to be defined afresh. For example, the law of contracts needs to be extended, with protection against third party fraud. Internet domain registrations are currently subject to restrictive practices, which sometimes complicate market access. Laws dealing with the protection of intellectual property need to be continually reassessed as e-commerce transactions grow. Taxation of such transactions raises particularly difficult issues of enforcement; hence, cooperation between Governments will be essential for the development of a credible fiscal system governing e-commerce.

48. In all these areas, the United Nations could help start, intensify and broaden the debate. In the allied area of developing uniform technical norms and standards for the way in which technologies are developed and become operational, industry associations within the IT sector may take the lead. Here United Nations intervention appears less needed.

49. Action by the United Nations could also help build the competitiveness of domestic software production in developing countries by focusing attention on the need for institutional capacities and infrastructure-building. It is necessary to create a reservoir of skilled personnel through investments in engineering colleges and software training institution; to ensure that infrastructure bottlenecks are quickly identified and addressed; to facilitate the convergence between computing and communications, including provision of support for the deregulation of the telecommunications sector; and to ensure that the development of the IT sector is broad-based and effective in assisting the poor and other disadvantaged sections of society.

50. In sum, efforts by United Nations bodies and bilateral donors should include assistance to the developing countries in the following areas:

(a) Widespread and equitable access to communication and information services through an accelerated deployment of a national information infrastructure and its integration into international communication and information networks;

(b) Improvements in the functioning and competitiveness of key sectors of the economy through wider application of IT in design, production and distribution of goods and services;

(c) Use of ITs to help solve the most pressing problems of human and economic development—in areas such as education, health, poverty alleviation and rural development;

(d) Formulation of country-specific solutions, not only generic models, for telecommunications and information strategies;

(e) A focus not just on technology, but on information systems that consider in an integrated manner the full context of data, technology, people, policies, processes, institutions and infrastructure;

(f) Building human and organizational capabilities for the productive use of ITs, not only leading to the increased use of IT throughout the economy, but also taking into account gender equity and the need to help ensure the empowerment of women in cyberspace;

(g) Developing low-cost options that extend the reach of the global information infrastructure to under-served rural and urban areas;

(h) Actively exploring ways and means to enable the least developed countries to partake over a wide front in the IT revolution, including the development of distance education, protection and promotion of their cultural heritage, strengthening and extending basic and technical education, and building scientific capabilities.

CHAPTER III

TOWARDS AN INTERNATIONAL DEVELOPMENT STRATEGY FOR THE FIRST DECADE OF THE NEW MILLENNIUM

51. The United Nations is engaged in a process of formulating an international development strategy for the first decade of the new century. The General Assembly, in its resolution 54/206 of 22 December 1999, requested the Secretary-General in collaboration with all concerned organs and organizations of the United Nations system, in particular the Committee for Development Policy, to submit to the Assembly for consideration at its fifty-fifth session, through the Economic and Social Council, a draft text of an international development strategy for the first decade of the new millennium. The Council, in its resolution 1999/67 of 16 December 1999, specifically requested the Committee to collaborate in the preparation of such a draft text. At its second session in early April, the Committee was informed by the Secretariat of progress made so far in the preparation of the Secretary-General's draft text, which was then at a very early stage.

52. The Committee in its deliberations covered a range of issues relating to the purpose, thrust and content of an effective strategy. In order to formulate a set of commentaries for the consideration of the Secretary-General, the Committee established a Working Group that met in a separate session for a day and a half during the week of the session.

53. The Committee recognized that for a new international development strategy to respond to the needs of the new decade, it must be both comprehensive and balanced. It also must be flexible enough to reflect the different constraints and opportunities of countries in very different circumstances and at different stages in their development. Even so, for a new international development strategy to mobilize and sustain political support for an effective framework for action, nationally and internationally, it must have a clear and convincing thrust. It also must be formulated so as to be readily monitored and

assessed, in order that progress may be measured, and—where progress is found wanting—needs for change and for supplementary actions beyond what is formulated in the agreed strategy may be identified.

54. In formulating its suggestions for a new international development strategy, the Committee in its deliberations drew on insights gained and recommendations made in the course of work of the Committee on other tasks and issues, both in the current and in previous sessions. For instance, the Committee's search for principles and criteria, and their application with respect to designating the countries to be considered least developed, has focused the Committee's attention on the defining characteristics and structural handicaps of those developing countries that have been marginalized in the process of growth and globalization, and in the age-old fight against hunger and poverty. In preparing its comments on a new international development strategy, the Committee also drew on the contributions of the former Committee for Development Planning at its twenty-fifth session[3] to the formulation of the international development strategy for the decade of the 1990s and on that Committee's other reports and recommendations bearing on today's problems. Unfortunately, however, the Committee was unable, within the time allotted to the meeting, to fully marshal, collectively discuss and reach a consensus on this material.[4]

55. The Committee stressed the need to assure that the formulation of a new international development strategy be fully informed by a thorough review of what had been attempted for prior United Nations development decades, and of what was—and what was not—achieved. The Committee strongly suggested that economic and social developments and related policies, as they affected the achievements or otherwise of previous

[3] See *Official Records of the Economic and Social Council, 1989, Supplement No. 11.*
[4] The Committee suggests that this material might be of some value in the substantive preparation for the Third United Nations Conference on the Least Developed Countries, including reference to the four themes advocated by the Committee for the international development strategy for the 1990s: accelerated economic growth, greater concern for human development, reduction in the number of people living in absolute poverty, and prevention of further deterioration of the natural environment.

international development strategy objectives and targets, should be reviewed not only for the developing countries, individually and in groups, but equally for the developed countries and indeed for the international economic system generally. Without such a balance, the analysis of disappointments and shortcomings of the strategies for the previous development decades, and of potentials and constraints as well as targets and commitments for the future, would be grossly incomplete. Moreover, neither the review nor a new strategy would reflect the international character of the commitments required for an effective strategy.[5]

56. The Committee welcomed the approach taken in the preparation of the Secretary-General's draft of a new strategy, namely, to build it firmly on the strategies, commitments and programmes of action of the United Nations conferences held during the 1990s and on the respective analyses prepared of progress achieved so far in their implementation. Equally, the 1997 Agenda for Development (General Assembly resolution 51/240, annex) and the Secretary-General's recent report prepared for the Millennium Assembly of the United Nations (A/54/2000) would provide useful guidance on the structure and content for an international development strategy for the new development decade.

57. Target-setting for achievements and policy performance was a central feature at the global United Nations conferences and summit meetings in the 1990s. The Committee would welcome such targets being set also in a new international development strategy. The Committee urges that this be done with reference to careful professional analysis of current economic and social structures, trends and built-in momentum of change, and in a framework of realistic expectations and ambitions for policy decisions and implementation. The Committee also emphasizes that much of the target-setting for the previous development decades was not backed up with sufficient policy commitments to give credibility to and confidence in the strategies and targets announced. Such target-

[5] The Committee suggested that this was an important point to make also for the preparations for the Third United Nations Conference on the Least Developed Countries.

setting is useless, or worse, it gives no useful basis for monitoring of performance by developing countries themselves to increase rates of economic growth and improve livelihoods or for establishing and implementing supportive policies of trade and aid in industrialized countries.[6]

58. The Committee recognizes that formulating an effective international development strategy requires that weaknesses and biases in the global system be identified and addressed. At this time, as globalization rapidly extends and deepens, it is particularly important that developing countries have a supportive international environment in which to develop and sustain their economies.[7] The Committee previously highlighted the need to improve the international financial architecture and called for the establishment of a world financial organization to provide overall guidance, supervision and monitoring of international standards for sound principles and practices in both national and international finance.[8]

59. The Committee stressed that, in general, democratic processes were crucial for equitable development. A lack of good national and local governance and transparency and accountability has led to ever-more-unequal distribution of the benefits of development. For healthy and sustainable growth and development, also, the private sector generally and the multinational corporations in particular must meet the challenges

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[6] Illustrations abound. For example, the "0.7 per cent target" for official development assistance (ODA), has been repeatedly advanced without at any point matching the commitments being made by donor countries and agencies to move towards reaching this target (or even to avoid slipping further back). Another example concerns the repeatedly stated objective to bring about a halving of the number of the world's population living in a state of undernutrition and food insecurity (from over 800 million today to 400 million 15 years hence): again, no concrete, credible and monitorable commitments on resource availability, institution-building and policy have been made.

[7] This was amply demonstrated by the setback experienced by developing countries in the course of the recent international financial crises, and by the Third Ministerial Conference of the World Trade Organization held at Seattle, Washington, in November-December 1999, where the felt lack of concern for the interests of developing countries contributed to the failure of negotiations to further advance the process of globalization.

[8] See report of the Committee for Development Planning on its thirty-first session, New York, 5-9 May 1997, *Official Records of the Economic and Social Council 1997, Supplement No. 15* (E/1997/35).

of transparency and accountability. Without effective accountability in their pursuit of innovation and growth, market shares and profits, development is liable to become inequitable and unbalanced and, eventually, socially and economically unsustainable.

60. Governments have an important role to play in setting "the rules of the game", in monitoring adherence to these rules and in ensuring that they are updated and changed as necessary for effectiveness. Moreover, this applies not only at the level of individual countries, but, importantly, also to governance and monitoring of the global system. To create the institutions and to establish the procedures needed at national and international levels to ensure effective accountability of both public and private sectors, is a daunting task—one that is never completed. The Committee suggests that the process of elaborating an international development strategy for the next decade provides an opportunity for a searching review of the efficiency and adequacy of the institutional arrangements for the implementation of a strategy.

61. Finally, the Committee wishes to stress the importance of having regard for the connectivity of peace and development. The decade of the 1990s saw an escalation of internal and regional armed conflicts and social tensions in developing countries. This led to tragic devastation and degradation in the economies of affected countries and in the lives of their populations. It also led to higher allocation of donor resources towards conflict resolution and humanitarian aid, while donor support for development declined significantly from already low levels. In coming years, greater efforts for conflict prevention are called for. Peace is a crucial component of achieving development.

CHAPTER IV

REVIEW OF THE LIST OF LEAST DEVELOPED COUNTRIES

A. Introduction

62. When the Economic and Social Council, in its resolution 1998/46 of 31 July 1998, decided to reconstitute the Committee for Development Planning as the Committee for Development Policy, it also mandated the new Committee for Development Policy to continue the triennial review of the status of least developed countries (annex I, sect. B, para. 9), with the next review to be held in the year 2000.[9]

63. During its 1997 session, the Committee for Development Planning put in its agenda the improvement of criteria for the identification of least developed countries and the usefulness of a vulnerability index as an element of these criteria. Contributions were made by the Committee for Development Planning, through a Working Group in December 1997, the following session of the Committee in May 1998, and an Expert Group meeting in March 1999.

64. In its report on its first session in April 1999, the Committee for Development Policy recognized that vulnerability should be taken explicitly into account in the least developed countries identification criteria,[10] and spelt out in some detail its proposed methodology and procedure for conducting the triennial review in 2000. In this regard, the Committee proposed to construct an economic vulnerability index (EVI) to replace the previous economic diversification index (EDI) as one of the criteria for the identification of least developed countries, and to consider specifically "vulnerability profiles", to be prepared by

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[9] Since 1991, when two composite indices were introduced to replace two single indicators so as to better reflect the structural weaknesses of low level of human resources and low degree of economic diversification, the review has been conducted every three years.

[10] See *Official Records of the Economic and Social Council, 1999, Supplement No. 13* (E/1999/33), para. 117.

the United Nations Conference on Trade and Development (UNCTAD), of the countries eligible for graduation or close to the threshold of the quantitative criteria. The Committee also proposed improvements in the other criteria for the designation of least developed countries in view of the availability of better statistical indicators.

65. In its resolution 1999/67 of 16 December 1999, the Economic and Social Council welcomed the report of the Committee on its first session, the views contained therein regarding the criteria for the identification of the least developed countries and the recognition that vulnerability should be explicitly taken into account in the identification criteria for the least developed countries. In the same resolution, the Council requested the Secretary-General to facilitate an expert group meeting of members of the Committee in January/February 2000 in order to enable them to carry out the necessary diagnostic testing and simulations of the proposed criteria for the designation of least developed country status, in particular the EVI. The Council also requested the Committee, on the basis of the report of the expert group, to recommend, as appropriate, revised criteria for the identification of the least developed countries for the consideration of the Council as soon as possible, but no later than its substantive session of 2000, so that the review and decision on the list of least developed countries could be completed by the end of 2000.

66. At the invitation of the Secretariat, an expert group meeting was held from 29 February to 2 March 2000 in Paris. In its deliberations, the Expert Group Meeting on Testing and Simulation of the Economic Vulnerability Index was aided by statistical and methodological work prepared by the Secretariat. The report of the Expert Group Meeting was made available to the full Committee on arrival for its second session held from 3 to 7 April 2000 in New York and was subjected to further review by a working group of the Committee during this session. The report of the Expert Group Meeting, thus amended, is attached to the present report as annex I.

B. Testing the revised criteria for the identification of the least developed countries

1. Recommendations of the Committee in 1999

67. In its 1999 report[11], the Committee proposed that the least developed countries category should—as a general characterization—include countries with low per capita income, and suffering from a low level of human resource development and a high degree of economic vulnerability. The Committee recognized that the EDI used in earlier reviews had in fact reflected some elements of vulnerability, but felt that this reflection was inadequate to cover the Committee's notion of vulnerability as "structural vulnerability", which is defined as the risk of being negatively affected by unforeseen events beyond the control of a country.

68. The Committee therefore recommended that the EDI be replaced by an EVI based on five indicators—export concentration, instability of export of goods and services, instability of agricultural production, share of manufacturing and services (including transportation and communications) in gross domestic product (GDP), and population size. Two of these indicators were included in the EDI—export concentration and the share of manufacturing in the GDP—except that the latter would now include services.

69. The Committee recognized the desirability of having an indicator to represent natural shocks (such as hurricanes, floods, droughts, tidal waves, earthquakes, volcanic eruptions and locust invasions). However, in view of problems in constructing such a composite index on the basis of reliable, appropriate and comparable data, the Committee introduced the instability of agricultural production as a proxy measure, recognizing that some effects of natural shocks would also be reflected in the instability of exports of goods and services.

70. The Committee recognized that the EVI as an initial construct would need to be progressively refined and, because of its proximate nature, complemented by case studies—vulnerability profiles—for countries that had been identified as

[11] Ibid.

candidates for inclusion in or graduation from the list of least developed countries. Meanwhile, UNCTAD provided such profiles, which included supplementary information relating to the criteria used to identify least developed countries.

71. The Committee made specific recommendations for improvements regarding the two other criteria—level of per capita income and level of human resources.

72. In the case of GDP per capita, the Committee proposed the replacement of the three-year average of per capita GDP, expressed in United States dollars at current official exchange rates, by per capita GDP for the benchmark year, converted to United States dollars at the country's average exchange rate over three years, adjusted by the relative rate of inflation (the World Bank Atlas method).

73. The Committee proposed two changes in relation to the Augmented Physical Quality of Life Index (APQLI): per capita daily calorie intake would be replaced by per capita daily calorie intake as a percentage of daily requirement; and life expectancy at birth would be replaced by the under-five child mortality rate. In the case of the former, the Committee would have preferred to use the percentage of population undernourished, but adequate statistics are not yet available for many countries. The latter was regarded as a better index in respect of both data reliability and responsiveness to change in the quality of life in a country.

2. *Dialogue with other international organizations*

74. In its resolution 1999/67, the Economic and Social Council requested the Committee to continue its dialogue with other international organizations working on vulnerability issues. A member of the Committee was invited to participate in a meeting of experts called by the South Pacific Applied Geoscience Commission (SOPAC) in September 1999 to advance their work on the development of an ecological vulnerability index. The United Nations Secretariat Expert Group, which met in late February 2000, benefited from presentations by the Commonwealth Secretariat on its vulnerability index and by SOPAC on its continuing work on an ecological vulnerability index, as well as by UNCTAD on its work on vulnerability

profiles. The United Nations Secretariat has provided considerable technical support by undertaking rigorous diagnostic testing and simulations of the proposed components of the EVI, as well as of others that were considered possible alternatives. The derived EVI was transmitted also to other interested organizations for comments and a favourable response has been received from the European Commission.

3. Application of the revised criteria

75. Drawing on the work of the Expert Group as well as its own deliberations, the Committee has formulated the following commentaries and recommendations.

4. Availability and use of data

76. The Committee stressed the importance of data comparability, reliability, ready availability for most countries, transparency, satisfactory methods of filling in missing data and, for some indicators, the availability of long time series. For various reasons, the required data have been missing for a few countries. The Committee was satisfied, however, with the proxies and estimation methods used, and this was confirmed by sensitivity tests.

5. Per capita gross domestic product (GDP)

77. The Committee confirmed the recommended change to the World Bank Atlas method for conversion of per capita GDP in national currency into internationally comparable United States dollars. This helps to smooth the impact of fluctuations in the exchange rates. However, upon further study, the Committee decided to retain the use of three-year averages.

6. The Augmented Physical Quality of Life Index (APQLI)

78. The Committee found data readily available for the shift to per capita calorie consumption as a percentage of requirements. The Committee decided to convert these data to logarithms, in part to give greater weight to undernutrition than to overconsumption.

79. Regarding education, the Committee has introduced no change in the two components of the indicator—the combined gross primary and secondary enrolment ratio and the adult literacy rate. While a shift to the level of "mean years of schooling" might have given a better measure, the Committee found that this was not yet practicable for reasons of data limitations.

7. The Economic Vulnerability Index (EVI)

80. Based on the work of the Secretariat and the Expert Group, the Committee, in its deliberations, confirmed the robustness of the choice made of components and of the construct of the EVI. The Committee noted that data for 128 developing countries had been used for the testing exercise, which also showed that each component had added information reflecting structural handicaps.

81. In the case of population, logarithms of absolute numbers are used, to better reflect the greater significance of vulnerability for small countries.

82. Instability of agricultural production is used as a proxy for natural shocks. The Committee revisited the issue, examined in the 1999 Committee report, whether a more direct measure of economic impact of natural shocks, such as economic damage, could be introduced in the EVI. The Committee found that that was not practicable at this stage, given the heterogeneity of natural shocks.

83. In respect of instability in export of goods and services, the current dollar proceeds (based on International Monetary Fund (IMF) balance-of-payments statistics) are deflated by an index of import unit value (also IMF data), so as to reflect fluctuations in purchasing power.

84. For both instability indices—agricultural production, and export of goods and services—a 20-year time-series was used. For the future, a rolling 20-year period is envisaged.

C. Identification of least developed countries

85. In accordance with the principles and practice adhered to by the Committee in the past, four steps were followed in this review of the list of least developed countries.

Step 1: Determination of cut-off point for per capita GDP

86. The level of GDP per capita is a primary factor in determining the countries to be designated as least developed countries. As a starting point in determining the set of low-income countries to be considered, the Committee identified all those countries that had been classified as low-income countries by the World Bank in any of the past three years.[12] The Committee added to this list other countries that were currently least developed countries, producing a list of 67 countries for examination.

87. The Committee's GDP cut-off point for inclusion in the list of least developed countries was increased by $100 in the 1994 review and by a further $100 in the 1997 review, when it was set at $800. Consistent with these earlier decisions to use absolute increments of $100, the Committee adopted for this review a cut-off point of $900 for inclusion in the list of least developed countries.

Step 2: Determination of thresholds of APQLI and EVI for inclusion in the list of least developed countries

88. As agreed in 1991 and in conformity with the principle that least developed countries are low-income countries with a low level of human resources and high level of economic vulnerability, the Committee decided that the cut-off point for inclusion for the APQLI would be the value of the index for the upper quartile of the group of 67 low-income countries as identified above. In the case of the EVI (where high values signify high vulnerability), the cut-off point would be the value

[12] It should be noted that the World Bank's cut-off point for low-income countries has increased over time (for example, from $695 in 1995 to $785 in 1999) and that the World Bank uses gross national product (GNP), not gross domestic product (GDP), in determining this category of countries.

of the index for the lower quartile. According to these guidelines, the Committee decided to adopt a threshold for inclusion in the list of least developed countries of 59 for APQLI and 36 for EVI.

Step 3: Determination of the thresholds for graduation from the list of least developed countries

89. It had been agreed in the past to allow a margin between the threshold for inclusion and that for graduation. The Committee noted that, in the three previous reviews, the margins had been between 11 and 17 per cent, with differences across years and among the criteria. The Committee also noted that the ratio of aid to GDP was very high in many of the countries under consideration[13] and that removal from the list could result in these aid flows, being abruptly reduced. This would tend to reduce GDP per capita, as well as have adverse effects on the APQLI, which in turn might result in the country's being readmitted to the list. Taking into account this factor and the previous margins, the Committee decided to adopt a 15 per cent graduation margin for all three criteria. This results in a graduation threshold of $1,035 for GDP (15 per cent more than $900), 68 for APQLI (15 per cent higher than 59) and 31 for EVI (15 per cent lower than 36).

Step 4: Determination of potential cases for inclusion in or graduation from the list of least developed countries

90. Three current non-least developed countries—the Congo, Ghana and Senegal—meet all three of the criteria for inclusion in the list of least developed countries as set out above.

91. In the case of the Congo, the statistics show that its levels of income (per capita GDP) and of human resources (APQLI) are now just below the thresholds for inclusion in the list of least developed countries, reflecting a recent general deterioration in its economic and social situation associated with civil war. Its high level of economic vulnerability is associated with its status as an oil exporter. The Committee therefore decided not to recommend the Congo for inclusion in the list of least developed

[13] On average, the aid-to-GDP ratio was above 20 per cent among current least developed countries in the mid-1990s.

countries at this time, but to give special attention to its case at the next triennial review.

92. In its 1994 review (but not in 1991 or in 1997) the Committee for Development Planning had found that Ghana was eligible for inclusion in the list. At that time, however, Ghana declined to be included. In the current review, Ghana is again found to be eligible for inclusion: the statistics show this to be the case with a considerable margin for both GDP per capita and economic vulnerability, while for its human resource base the margin is very slim. The CDP recommends that a decision to invite Ghana to be included in the list of least developed countries be delayed to the next triennial review.

93. Senegal is well below the thresholds for per capita GDP and APQLI, and is more than 10 per cent above the EVI threshold. Hence, Senegal is clearly eligible for inclusion in the list of least developed countries.

94. According to the rule for graduation used since 1991, a country qualifies for graduation from the list of least developed countries when it meets two out of the three criteria and would be recommended for graduation if it met these criteria in two consecutive triennial reviews. In 1997, the Committee had recommended Vanuatu for immediate graduation (it qualified for graduation in 1994) and identified Cape Verde, Maldives and Samoa for re-examination in 2000 since they met the graduation criteria at that time. The Committee carefully reviewed these four countries accordingly.

95. Vanuatu was first considered eligible for graduation from the list of least developed countries in 1994 because it exceeded the thresholds for both GDP per capita and APQLI; it did not meet the graduation threshold for the EDI. The same applied in 1997. In the current review, its GDP per capita of over $1,400 is well above the threshold for graduation. On the other hand, its APQLI is lower by a small margin than the graduation threshold used in this review, reflecting a decline in the position of this country relative to other developing countries. Also, Vanuatu's EVI is higher than the threshold for graduation. Vanuatu therefore fully meets only one of the graduation criteria (GDP per capita) and consequently is not now recommended for

graduation from the list of least developed countries. The vulnerability profile corroborates this assessment.

96. Samoa, with a GDP per capita close to $1,000, no longer meets the GDP graduation criterion, albeit by a very small margin. The reason for this change since 1997 is that the country's per capita income has stagnated; and its relative position on this criteria has deteriorated. Moreover, it ranks as very vulnerable on EVI. This quantitative assessment is reaffirmed by the findings in the vulnerability profile. Samoa therefore fully meets only one of the graduation criteria (APQLI) and is consequently not recommended for graduation from the list of least developed countries.

97. The Committee noted that the changes since 1997 in its recommendations regarding Samoa and Vanuatu had been due not to the replacement of the EDI by the EVI, but to the relative deterioration in their positions in respect of another criterion.

98. Cape Verde meets the graduation criteria with regard to GDP per capita and the APQLI. However, it ranks as one of the most vulnerable among all developing countries according to the EVI. The vulnerability profile also highlights the country's high dependence on aid and remittances, which have been unstable in recent years. The Committee therefore recommends that the graduation of Cape Verde from the list of least developed countries be postponed for reconsideration at the next triennial review.

99. Maldives has a GDP per capita much higher than the graduation threshold, and an APQLI well above the graduation threshold. While its EVI remains marginally higher than the threshold for graduation, Maldives is clearly shown to be eligible for graduation from the list of least developed countries. The findings of the vulnerability profile corroborate this conclusion. However, the vulnerability profile also underlines the country's main concern over the consequences of a possible rise in the sea level over the longer term. The Economic and Social Council might therefore wish to consider what special assistance might be provided with regard to the exceptional challenge that the country faces from climatic change, for example, with regard to

the costs of insurance, infrastructure development and possible population relocation.

100. No other countries are eligible for inclusion in or graduation from the list of least developed countries on the basis of the criteria used for this review.

D. Further issues

1. Treatment of countries with large population size

101. Except for the special case of Bangladesh, no country with a population exceeding 75 million has been included in the list of least developed countries. The Committee noted, however, that at the time of the current review the values for all three indicators showed that Nigeria would have qualified for inclusion in the list of least developed countries, if not for the limit used by the Committee on population size of countries to be considered.

102. The Committee recommends that, in this review, the practice of not including new countries with large population size be maintained. Therefore, Nigeria is not added to the list of least developed countries proposed by the Committee. No other country with large population size qualifies for inclusion in the list of least developed countries. India and Pakistan qualify on the basis of statistics for levels of both income and human development, but fail to do so with respect to vulnerability.

103. Bangladesh, which also fails to meet the economic vulnerability criterion threshold for inclusion, is nevertheless retained on the list of least developed countries because under the rules it is already included and therefore needs to meet graduation thresholds for at least two of the three criteria.

2. Consideration of countries in transition

104. The Committee notes that countries in transition are not now considered for inclusion in the list of least developed countries. At a future date, the Committee proposes to review the implication of this practice and to consider what might be the consequences for the criteria adopted of the inclusion also of

countries in this group in the list of least developed countries, and thus in the preferential arrangements established.

3. Ensuring equal treatment

105. In its deliberations, the Committee also reflected on the consequences, for the list of least developed countries and for the need to treat alike countries in a similar position, of having adopted different rules on levels of income, human resource development and economic vulnerabilities for decisions on inclusion in and graduation from the list of least developed countries. The Committee is of the view that such differences, as well as the three-year observation period for graduation from the list of least developed countries, are well justified to ensure a measure of stability and continuity, but is concerned that the result over a series of triennial reviews may appear to not be fully consistent with the principle of treating countries in similar situations alike over time. The Committee proposes to give special attention to this issue in its next review.

E. Conclusions

106. On the basis of this review, the Committee makes the recommendation that the list of least developed countries now be composed of the same countries as are already included, but with the deletion from the list of Maldives and the addition of Senegal (subject to the Government's acceptance).

107. Of the current countries included in the list of least developed countries (see table), 39 meet all three criteria for inclusion; a further 3 (Bangladesh, Eritrea and Madagascar) are very low income countries that have been shown to be, economically, only moderately exposed to external shocks; the remaining 6 countries (Cape Verde, Equatorial Guinea, Liberia, Samoa, Tuvalu and Vanuatu) have levels of GDP per capita above those of the low-income category, but are retained on the list of least developed countries because they remain handicapped by high levels of economic vulnerability or by low levels of human resource development.

108. The attention of the Economic and Social Council is drawn to the Committee's specific judgements, as reported above, in

the cases of the Congo and Ghana; Samoa and Vanuatu; Cape Verde; and Maldives.

109. The Committee proposes, prior to the next triennial review, to consider the treatment given to countries with large population size and to countries in transition, and to revisit the practice by which different rules and thresholds for inclusion in and graduation from the list of least developed countries are applied, so as to ensure a measure of stability for the list and yet give equal treatment to countries in similar situations.

LIST OF THE LEAST DEVELOPED COUNTRIES

	Country	*Date of inclusion on the list*
1.	Afghanistan	1971
2.	Angola	1994
3.	Bangladesh	1975
4.	Benin	1971
5.	Bhutan	1971
6.	Burkina Faso	1971
7.	Burundi	1971
8.	Cambodia	1991
9.	Cape Verde	1977
10.	Central African Republic	1975
11.	Chad	1971
12.	Comoros	1977
13.	Democratic Republic of the Congo	1991
14.	Djibouti	1982
15.	Equatorial Guinea	1982
16.	Eritrea	1994
17.	Ethiopia	1971
18.	Gambia	1975
19.	Guinea	1971
20.	Guinea-Bissau	1981
21.	Haiti	1971
22.	Kiribati	1986
23.	Lao People's Democratic Republic	1971
24.	Lesotho	1971
25.	Liberia	1990
26.	Madagascar	1991
27.	Malawi	1971
28.	Maldives[a]	1971
29.	Mali	1971
30.	Mauritania	1986
31.	Mozambique	1988
32.	Myanmar	1987
33.	Nepal	1971
34.	Niger	1971
35.	Rwanda	1971
36.	Samoa	1971
37.	Sao Tome and Principe	1982
38.	Senegal[b]	2000
39.	Sierra Leone	1982
40.	Solomon Islands	1991
41.	Somalia	1971
42.	Sudan	1971

	Country	Date of inclusion on the list
43.	Togo	1982
44.	Tuvalu	1986
45.	Uganda	1971
46.	United Republic of Tanzania	1971
47.	Vanuatu	1985
48.	Yemen	1971
49.	Zambia	1991

[a] Recommended for graduation from the list the of least developed countries on 31 December 2000, subject to the approval of the General Assembly at its fifty-fifth session.

[b] Recommended for inclusion in the list of least developed countries, subject to the approval of the General Assembly at its fifty-fifth session.

CHAPTER V

WORKING METHODS AND PROGRAMME OF WORK OF THE COMMITTEE

110. The Committee welcomes the opportunity to again contribute to the work of the Economic and Social Council and reaffirms its willingness to continue to do so to the best of its ability. The Committee remains of the view that the nature of its work is such that meetings of Committee working groups must be called prior to the plenary session if the Council and other bodies are to obtain full value from the Committee and its efforts. Such preparatory work must begin well in advance of each plenary, so that the Committee has all the necessary analysis at hand and is able to devote its plenary discussions to formulating well-considered, meaningful and operational recommendations in its report to the Council.

111. During the year, some Committee members have communicated on issues before the Committee with each other and with the Secretariat, often aided by e-mail and other electronic means. Also, a home page, mainly for Committee documentation, has been established on the Internet. For the main business at hand, however, the Committee members have again found that this may be, at best, a supplementary facility, and is in no way a substitute for the stimulating and rewarding face-to-face meetings in Committee working groups.

112. For this to work to full effect, however, it is important that the Economic and Social Council be in a position to adhere to its decision to make its requests on the Committee agenda at its mid-year substantive session or soon thereafter. Early and timely decisions on themes to be covered by the Committee, should not, indeed, preclude later adjustments so as to take account of significant unforeseen developments in the course of the year.

113. Against this background, and with reference to proposals advanced in the 1999 Committee report, the Committee proposes the following work programme. First, considering the importance of the list of least developed countries and as called for by the

Economic and Social Council, the Committee will continue its triennial reviews of the designation of least developed countries. Based on its experience with the latest review, the Committee is of the view that the criteria for the designation of least developed countries should go beyond statistical calculations and that all the procedures involved should be subject to further examination from time to time. Therefore, in the period up to the next review in 2003, the Committee proposes to analyse and reconsider the principles and the practices employed in the 1991, 1994, 1997 and 2000 reviews and their implications for subsequent reviews. This would include reconsidering the treatment of countries with large population size and countries with economies in transition, as well as the appropriateness of applying more restrictive principles and thresholds determining initial inclusion of countries in the list of least developed countries as compared with those determining graduation. The objective would be to ensure equal treatment of countries in similar situations in each triennial review of the list of least developed countries.

114. Second, the Committee notes that its proposal in the 1999 Committee report that it be requested to contribute to the preparations for the Third United Nations Conference on the Least Developed Countries, to be held in the year 2001, has not been taken up. Nevertheless, the Committee continues to believe that it should give particular attention to this group of countries.

115. Third, the Committee proposes to choose for its focused attention the following issues, giving special attention to the concerns of least developed countries:

(a) The sequencing of financial and trade policies by developing countries, taking into account their initial conditions and the opportunities and challenges offered by the global economy;

(b) Securing sustainable development by improving institutional arrangements for meeting environmental and developmental vulnerabilities;

(c) Improving economic governance at the national, regional and international levels and international economic cooperation more generally.

CHAPTER VI

ORGANIZATION OF THE SESSION

116. The second session of the Committee for Development Policy was held at United Nations Headquarters from 3 to 7 April 2000. Nineteen members of the Committee attended: Mária Augusztinovics, Makhtar Diouf, Essam El-Hinnawi, Just Faaland, Eugenio Figueroa, Shangquan Gao, Leonid M. Grigoriev, Patrick Guillaumont, Ryokichi Hirono, Nguyuru Lipumba, Solita C. Monsod, P. Jayendra Nayak, Mari Elka Pangestu, Milivoje Panić, Eul Yong Park, Bishnodat Persaud, Akilagpa Sawyerr, Udo E. Simonis and Ruben Tansini. Five members were unable to attend: Maria Julia Alsogaray, Albert Fishlow, Taher Kanaan, Louka T. Katseli and Miguel Urrutia Montoya.

117. The session was opened and chaired by Just Faaland. The Director of the Development Policy Analysis Division, Department of Economic and Social Affairs of the United Nations Secretariat, made a statement in which he emphasized that the three issues to be addressed by the Committee, namely information technology and development, a new international development strategy, and the designation of least developed countries, were all of central concern to the international development community at the beginning of the new millennium. On behalf of the Economic and Social Council and the United Nations system as a whole, he looked forward to the independent contribution that the Committee could make to forthcoming intergovernmental deliberations on these matters.

118. The Committee was able to complete its work on three agenda items by organizing itself in three sub-groups for one day and a half for intense deliberations. The Committee's discussions benefited from the active participation of observers from a number of United Nations entities (see below).

119. Substantive services for the session were provided by the Department of Economic and Social Affairs. The following bodies, agencies, programmes and funds were represented at the session:

- United Nations Environment Programme;
- United Nations Development Programme;
- United Nations University;
- Economic and Social Commission for Asia and the Pacific;
- United Nations Conference on Trade and Development;
- World Food Programme;
- Population Division, Department of Economic and Social Affairs;
- Economic Commission for Africa;
- Regional Commissions New York Office;
- United Nations Industrial Development Organization;
- International Labour Organization;
- International Monetary Fund;
- World Health Organization;
- United Nations Educational, Scientific and Cultural Organization.

120. The agenda is contained in annex II.

Annex I

REPORT OF THE EXPERT GROUP MEETING ON TESTING AND SIMULATIONS OF THE ECONOMIC VULNERABILITY INDEX[a]

Paris, 29 February–2 March 2000

1. Background to the Expert Group Meeting

1. In 1998, the Economic and Social Council, in its resolution 1998/46 of 31 July 1998, annex I, sect. B, decided to reconstitute the Committee for Development Planning under the new name Committee for Development Policy (para. 7). It also mandated the Committee to continue the triennial review of the status of least developed countries (para. 9), with the next review to be held in the year 2000.

2. At its first session in April 1999, the Committee for Development Policy recognized that vulnerability should be taken explicitly into account in the least developed countries identification criteria.[b] In this regard, the Committee proposed to construct an economic vulnerability index (EVI) to replace the previous economic diversification index (EDI) as one of the criteria for identification of least developed countries, and to consider specifically "vulnerability profiles" of the countries close to the borderline of the quantitative criteria. The Committee also proposed improvement in the other criteria in its continuing search for better statistical indicators.

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[a] The present report has been prepared by the Secretariat, as informed and guided by an Expert Group Meeting held in Paris, 29 February-2 March 2000. A draft of the report was available on arrival for the Committee session in early April 2000. The analysis and conclusions in the report have been amended in some parts to better reflect the outcome of deliberations in the Committee session.

[b] See *Official Records of the Economic and Social Council, 1999, Supplement No. 13* (E/1999/33).

3. With regard to the income indicator, the Committee proposed the use of gross domestic product (GDP) per capita calculated by the World Bank Atlas method to replace three-year averages of GDP per capita converted at the official exchange rate. The Committee also recommended that life expectancy at birth and per capita daily calorie intake be replaced, respectively, with child mortality under five years of age and per capita daily calorie intake as percentage of daily requirement in the Augmented Physical Quality of Life Index (APQLI).

4. In its resolution 1996/67 of 16 December 1999, the Economic and Social Council welcomed the report of the Committee for Development Policy on its first session, the views contained therein regarding the criteria for the identification of the least developed countries and the recognition that vulnerability should be explicitly taken into account in the identification criteria for the least developed countries. In the same resolution, the Council requested the Secretary-General to facilitate an expert group meeting of members of the Committee in January/February 2000 in order to enable them to carry out the necessary diagnostic testing and simulations of the proposed criteria for the designation of least developed country status, in particular the EVI.

2. Terms of reference for the Expert Group Meeting

5. In its resolution 1999/67, the Economic and Social Council outlined the terms of reference for the expert group meeting as follows:

- To conduct diagnostic testing and simulations on possible changes to the criteria for least developed countries identification;
- To review and analyze the format and content of the "vulnerability profiles" developed by the United Nations Conference on Trade and Development (UNCTAD).

6. The Expert Group was also expected to take into consideration the following requests of the Economic and Social Council to the Committee:

- To continue its dialogue with other international organizations working on vulnerability issues;
- To make recommendations to the Economic and Social Council on revised criteria for the identification of the least developed countries for the consideration of the Council as soon as possible, but no later than its substantive session of 2000, so that the review and decision on the list of the least developed countries could be completed by the end of 2000;

7. The Expert Group Meeting was held from 29 February to 2 March 2000 in Paris. It included five members of the Committee, staff members from the United Nations Secretariat and UNCTAD and other experts (one each and for part of the first day only) from the Commonwealth Secretariat, the South Pacific Applied Geoscience Commission secretariat, France, Ireland and the United Kingdom of Great Britain and Northern Ireland, as well as the Chairman of the Committee. The list of participants is given in appendix I.

8. The Expert Group elected Patrick Guillaumont the Chairman, and Bishnodat Persaud the Rapporteur of the meeting.

3. Content of work

9. A brief review of the history of vulnerability discussions was given by the Chairman. He recalled the conclusion reached in April 1999 on this topic by the Committee. He noted previous contributions, in particular the meetings of the former Committee for Development Planning in 1997 and 1998, its working group in December 1997 and an expert group in March 1999. He also emphasized that the economic vulnerability index proposed by the Committee had been designed for feasibility and consistency with the concept of least developed countries. The criteria proposed by the Committee in 1999 had been given in

annex II of the 1999 Committee report. According to these criteria, least developed countries are essentially defined as low-income countries suffering from a low level of human resources (a low APQLI) and high economic vulnerability (a high EVI), the three main criteria thus being per capita GDP, APQLI and EVI.

10. The Secretariat presented results of diagnostic testing and simulations on the proposed EVI and other criteria.[c]

11. Experts from other organizations also made presentations on their work on vulnerability.

12. The Commonwealth Secretariat presented the latest version of the Commonwealth vulnerability index for 111 developing countries, a version not much different from that examined in the 1999 Committee report. Vulnerability is defined by the Commonwealth Secretariat as "predicted" income volatility and weights assigned to the variables selected were related to those variables' respective contributions to this income vulnerability. Added to this concept was the notion of resilience which necessitated another variable, namely, the GDP volume.

13. SOPAC briefed the meeting on the current developments in its environmental vulnerability index and further work still in the planning stages. The problem with availability of relevant data (natural disasters, damages, population affected and so forth) was highlighted, a factor already noted in the 1999 Committee report.

14. The representative of UNCTAD focused on the general methodology of the vulnerability profiles prepared by that organization, at the request of the Committee. Drafts of vulnerability profiles of four countries that had been identified for possible graduation in the past, namely, Cape Verde, Maldives, Samoa and Vanuatu, were presented and made available.

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[c] Owing to the limit on the length of the report, statistical tables, figures and other supporting material are not included here. They are available upon request from the Secretariat.

15. The meeting emphasized the relevance of the concept of vulnerability to developing countries and the least developed countries in particular. It noted that the objectives of the work by different organizations might not be identical, that the efforts were complementary and that no one index would be appropriate for all purposes. (For a more detailed commentary on the vulnerability indices developed by other organizations, see the 1999 Committee report, annex I.)

16. More detailed technical discussions on the testing and simulations of the EVI, as well as other criteria, are summarized in the following sections of the present report.

4. Common methodology issues in constructing the two composite indices

17. Both the general triennial review and the construction of an EVI required a revisit of the methodology for classifying countries as least developed. The transformation of the EDI into an EVI required the setting of new thresholds for inclusion and graduation in respect of this criterion. The CDP in its 1999 report also recommended a margin between the inclusion and graduation thresholds in the APQLI and the new EVI. These developments reinforced the case for a re-examination of these matters in relation to all the criteria.

18. During the deliberations, some issues arose that appeared to be common in constructing the APQLI and in constructing the EVI (the two composite indices) and, to a limited extent, in preparing the data used in the income criterion. Different options and simulations were presented by the Secretariat in each case, and the Expert Group carefully discussed the merits and appropriateness of these alternatives in the context of identification of least developed countries.

4.1 Data sources and filling in missing data

19. Data form the foundation of all quantitative criteria, and the quality, as well as country coverage, of relevant data series was re-emphasized as being of great importance in the Committee’s

work on identification of least developed countries. The Expert Group supported the Committee in its continuing emphasis on data comparability, reliability, comprehensive availability, transparency, satisfactory methods of filling in missing data and, in some cases, the availability of long time series.

20. It was recognized that, although the missing data problem could be reduced, it could not be eliminated. For various reasons, required data were missing for a few countries. The Secretariat outlined various means by which such gaps had been filled through its diagnostic testing and simulation exercise. A sensitivity test on estimates for social indicators derived from regressions was also performed with satisfactory results.[d] The experts agreed that the methods used by the Secretariat to fill in missing data were theoretically sound, transparent and reflected best efforts under practical constraints.[e]

4.2 Treatment of outliers and scaling

21. In constructing the two composite indices, scalar values of indicators or components of indices were converted to values on a scale of 0 to 100, and the final composite index number was an average of the converted values of each component. The Expert Group recommended the continuation of the use of scaling between maximum and minimum values for compiling the individual indices. This raised the question of possible distortions that could arise in cases where distributions were skewed or had long tails. Graphs of the distribution for each component of the two indices showed that, in most cases, outliers did not pose a problem. In cases where they did, however, the ranking of countries would be unduly bunched and would obscure the extent of the differences among the

[d] Estimated parameters of the regression were changed to their 95 per cent upper and lower confidence interval values, and the new estimates were used to compute indicators of APQLI for these countries. This did not change rankings of countries much, although the value of the index for some countries changed somewhat.

[e] Upon reviewing the implications for inclusion/graduation, the experts noted that filling in data gaps was generally not needed for those countries that were close to the threshold either for inclusion or for graduation.

majority of countries, resulting in distortions in the relative ranking of countries.[f]

22. The Secretariat presented different options for treating outliers. The first and most straightforward treatment was deletion of the extreme values, which was sometimes used in statistical and regression analysis. Another method was to compress the tails of a distribution. The decile compression had been recommended by the Committee for Development Planning in its 1997 report. This technique uses the average values of the top and the bottom deciles to replace actual data values greater than the upper decile average or smaller than the bottom decile average, thus compressing the tails of a distribution. Using this technique, the Secretariat presented results of the decile compression; and another compression using 5 per cent instead of the decile.

23. However, while these alternatives remedied some of the distorting effect of outliers, they entailed problems of their own, such as the loss of some information on relative positions, not only for outliers, whose values were to be replaced, but also for other observations. It was concluded that the presence of outliers should be tested before any treatment method was applied in order to preserve as much information as possible. Only when the presence of outliers appeared to entail significant distortions, was a correction to be made, according to the principle of either 5 or 10 per cent compression, whichever was indicated as being appropriate.

24. Simulations using different methods of scaling showed that final outcomes changed only marginally.

[f] For example, suppose the life expectancy at birth in all but one developing country falls within the range of 60-70 and in the exceptional country it is only 40 owing to prolonged civil strife and a breakdown in the health-care system. The fact that, using the max-min conversion method adopted, we would have the extreme country taking on an index value of 0, and the rest (more than 120 countries in the sample considered by Committee) bunching into the area of 66.7-100, would make the differences among them less visible.

4.3 Weights of the components in the composite indices

25. In developing the composite indices, EVI and APQLI, which consist of five and four indicators respectively, the issue of weighting arose. As had been the case in the introduction of the former indices, EDI and APQLI, as criteria for identification of least developed countries, both composite indices were constructed using equal weights for the components. The choice of equal weights was not as arbitrary as it sounded since the choice of indicators was based on careful deliberations carried out to identify the most important factors influencing structural handicaps. The Expert Group also noted that this was often the procedure in composite indices comprising a few indicators.

26. In the construction of some indices, it was possible to avoid arbitrary or judgemental weights, but this would have required a deeper conceptual, analytical and statistical exercise. The simplicity of equal weights was compared with the theoretical and conceptual advantage of weighting schemes based on factor analysis, growth regressions or even welfare economic theory. An on-site exercise was carried out to simulate the impact of different weights on the ranking of countries on the EVI. It was concluded that different plausible weights did not materially change the final result and did not justify the amount of statistical/econometric work that would be required to derive alternative weights. Moreover, the results of such exercises were subject to technical debate. Both the EDI and the APQLI used equal weights in a manner that had not been found unsatisfactory in the past. The Committee in its 1999 report therefore recommended equal weights for the EVI as well.

27. The experts also considered the use of ordinal values instead of cardinal index values in country ranking. The adoption of ordinal values would imply a departure from real indices and could change weights among components of a composite index. However, it would avoid the problem associated with statistical outliers by forcing unit increment in the ranking order regardless of the absolute difference in scalar values. The Expert Group decided against ordinal rankings on the ground that it would conceal the real differences in social and economic situations

among countries. This was especially true in the case of the APQLI.[g] It was felt that this method would lead to loss of important information on countries' values and could result in significant shifts in the position of some countries.[h]

4.4 Homogeneity of treatment for all indices

28. In the evaluation of alternative scaling methods and weighting schemes, the experts emphasized the importance of homogeneity in construction of both indices. This ensures methodological consistency between the two composite indices, and transparency in their derivation.

5. The adoption and calculation of the EVI

29. The Committee had recommended that the EDI should be replaced by an EVI with five indicators. They are export concentration, instability of export earnings, instability of agricultural production, the share of manufacturing and modern services in GDP, and population size. The Expert Group was asked to examine these recommendations in the light of diagnostic testing and simulations undertaken with assistance from the Secretariat.

30. The proposal for an EVI was seen as consistent with the meaning and intention of the designation of least developed countries and as representing an improvement in reflecting this meaning and intention.

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[g] An example can help to illustrate this point. Suppose the highest per capita daily calorie intake as percentage of requirement among developing countries is 170 and the next highest is 160. This 10 percentage-point difference would result in ordinal rankings of 1 and 2. Another pair of adjacent countries with values of 100 per cent and 90 per cent will also be separated by a unit difference in their respective rankings. The difference in nutritional supply, and thus in the quality of life, between the first pair is obviously much smaller than that between the second pair. However, this "real" difference is lost in ordinal rankings.

[h] A test was conducted by the Secretariat after the meeting using an APQLI calculated as the average of ordinal rankings. This did not change the graduation conclusions.

5.1 Choice of components of the index

31. The EVI should reflect the relative risk posed to a country's development by exogenous shocks, the impact of which depended not only on the size of the shocks, but also on structural characteristics, making the country more or less exposed to the shocks. Vulnerability considered in identification of least developed countries was seen as structural vulnerability rather than vulnerability due to policy. The usefulness of the index would depend on the reliability of the statistics and the relative simplicity and transparency of computations.

32. Exogenous shocks were considered to be of two main kinds: (a) weather-related ones; and (b) those emanating from the external economic environment. The proxies chosen to reflect these in low-income countries were the instability of agricultural production, the instability of the export of goods and services (measurement of instability is discussed in sect. 5.2) and the export concentration index. The structural factors that determined the exposure to these shocks were to be represented by the share of manufacturing and modern services in GDP and the size of the population. Export concentration and the share of manufacturing and services were used in the EDI, although, only recently, the latter has been revised to include other activities.[i]

33. The issue was raised whether data on agriculture production were adequate for reflecting exposure to natural disasters. It was considered that, although agricultural production data were used, the resulting index was a proxy that reflected damage in other sectors also, to the extent that what happened to agriculture reflected a more general situation. Most low-income countries had a substantial dependence on agriculture. Where this was not the case, a problem would arise only where the proportion of damage to agriculture was different from the proportion for other sectors, however small the agricultural sector. Thus, seen as a proxy, agricultural production instability was generally representative.

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[i] As used here, the services category is broader than in the conventional definition. It also includes communications and transportation in order to reflect the importance of infrastructure in the modern economy.

34. The experts also revisited the issue examined in the 1999 Committee report whether a more direct measure of the economic impact of natural disasters, such as economic damage or number of people made homeless, could be introduced in the EVI. They concluded that the availability of comparable data of natural disasters on a global basis was still inadequate for the purpose of identification of least developed countries. Moreover, important natural shocks such as reoccurring drought were not captured by this type of data.

35. In its general consideration of the EVI, the Expert Group discussed whether economic vulnerability could not have been represented in the criteria by the simple device of relying on an income volatility index—the instability of GDP growth rates. The argument for this was that all vulnerability factors would impact on the growth rate of GDP. It was considered, however, that such an indicator would be strongly influenced by policy factors and, in the case of natural disasters, their effect on the GDP would be dampened by emergency aid and other kinds of assistance. In the light of the discussion, the Secretariat was asked to undertake an analysis of correlation between income volatility and the EVI. The correlation did not prove strong, indicating significant conceptual differences between income volatility and the EVI. Thus, the Expert Group confirmed the choice of indicators for the EVI proposed by the Committee at its first session in 1999.

5.2 Measurement of instability and robustness of the results

36. The two instability indicators in the EVI were not included in the EDI. The use of such indicators as proxies for exogenous shocks for a large sample of developing countries with different patterns of growth of agricultural production or exports required a proper interpretation of instability indicators and appropriate measurement.

37. The economic literature offered several methods according to which instability could be measured. One feature that differentiated these measures was the choice of trend value

around which the deviations were calculated. Another one was the choice of the time period.

38. Six countries with distinctively different patterns of agricultural production during 1979-1998 were used to compare the various measurements of instability. The simulation results were not significantly different in terms of the resulting relative ranking of countries. Therefore, the experts recommended the use of the standard error of a mixed trend regression[j], which was easy to understand and to compute, as measurement of instability in the EVI.

39. The Committee had also recommended that indicators of the instability of agricultural production and exports be calculated over a long period of time so that short-term effects would not dominate the ranking of countries. In other words, the ranking result should be robust when a few more years of observations were added in each subsequent triennial review of the list of least developed countries.

40. A partial test of the robustness of the country ranking by the instability indicators was carried out. The ranking results for the whole period 1979-1998 and for the sub-period 1987-1997 were consistent, although the EVI values for 128 countries were not all identical over the two periods. Thus, both the methodology and the estimates were judged robust for the purpose of the exercise.

41. The distribution of the EVI values for 128 developing countries showed that current least developed countries and non-least developed countries appear to be significantly different as groups, with the former group exhibiting a much higher average value than the latter[k]. This confirmed the a priori

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[j] It combines a deterministic factor with a stochastic one. For more details, see CDP/2000/Plen/21 entitled "The economic vulnerability index: explanatory note".

[k] A similar graph was prepared for the APQLI. The least developed countries group again appears to have a different mean value, in this case a lower one, indicating that the index captures the structural handicap of low human resource development in the least developed countries.

assessment that least developed countries were economically more vulnerable, and the robustness of the measure.

5.3 Simulations of five indicators

42. For the simulation exercise on the instability indices — agricultural production and the export of goods and services— time-series data for 20 years were used. For the future, in the case of adoption of the EVI, a rolling 20-year period was recommended. For the other three indicators, comparable data for the most recent years were used.

43. In the case of the export of goods and services, since the intention was to show fluctuations in purchasing power, the current dollar revenue (based on International Monetary Fund (IMF) balance-of-payments statistics) was deflated by an index of developing countries' import unit value (also from IMF data).

44. Population size was also carefully considered by the experts regarding its inclusion in the EVI. Since small size was associated with persistent structural difficulties, it included a dimension that might not be adequately represented by the other indicators. However, it was felt that population size differed widely among countries and it had a special significance for small countries, although very large populations also had disadvantages.[1] Using its logarithm in the EVI would better reflect this.

45. The simulations undertaken by the United Nations Secretariat supported the choice of the five indicators. The five components constructed for 128 developing countries revealed weak but statistically significant cross-correlations. No strong correlation was found that would have raised the possibility of multicollinearity or redundant indicators. Each indicator seemed to add information that reinforced the existence of structural handicap. Moreover, each sub-index was strongly correlated with the sum of the others, which confirmed its relationship with

[1] For instance, a difference of 10 million people between two small countries would imply significant economies of scale for the more populous one, while this would not be the case between two large countries like India and China.

vulnerability. On the whole, the index was deemed to be robust and had the right specification. Moreover, its application did not lead to any radical shifts in the current list of least developed countries. In relation to countries close to the threshold, the outcome seemed to reflect in a better way structural vulnerability, as elucidated and confirmed in the four draft vulnerability profiles.

6. Implementation of other criteria

46. The Expert Group also discussed implementation of the improvement of other criteria for identification of least developed countries, as proposed by the Committee in 1999. The group recalled that least developed countries were considered to be low-income developing countries suffering from a low level of human resource development and economic vulnerability, two structural handicaps to economic growth. In addition to the EVI, there are two other criteria used to identify least developed countries, namely per capita income and the Augmented Physical Quality of Life Index (APQLI).

6.1 Per capita income

47. In its 1999 report, the Committee had proposed the use of the World Bank Atlas method[m] to convert per capita GDP in national currency into internationally comparable United States dollars. After reviewing the methodology of the new indicator, the Expert Group concluded that the advantage of this conversion method, smoothing short-term fluctuations in the inflation-adjusted exchange rate, justified its adoption by the Committee.

48. A related matter is the definition of the low-income group, the delineation of which corresponded to the first criterion for inclusion and formed the relevant grouping for the determination

[m] The World Bank Atlas method converts figures (such as GNP and GDP) in national currency at an exchange rate that is defined as the three-year moving average of official exchange rate adjusted by the rate of inflation relative to the average of the Group of Five (G-5) countries over the same period.

of threshold for the other two criteria. As recalled above, the use of this group as the relevant set for threshold determination resulted from the definition of least developed countries and was consistent with past practice of the Committee. The experts recommended that a country be included in this low-income group if it had been classified as such by the World Bank in any one of the three most recent years. This would take into consideration possible short-term fluctuations in income level that might change a country's classification from one year to the next. However, the group of low-income countries in Eastern Europe and Central Asia that became independent in the 1990s would remain excluded owing to the special considerations mentioned in paragraph 79 of this report.

49. On the determination of the threshold for graduation, the experts reconsidered the question of whether to use per capita GDP in a single year or the average over a three-year period (as in the past). Recent events such as the Asian financial crisis and its aftermath had caused sudden changes in the exchange rate and real income levels in some developing countries. However, since the category of least developed countries aimed to highlight long-term structural impediments to growth, not short-term factors that might cause fluctuations in income levels, the three-year average of income per capita was recommended as the preferred measure.

50. The Secretariat was requested to take into account these recommendations in preparing the statistical report to be considered by the Committee in its review of the list of least developed countries.

51. Another issue discussed was the distribution of income within a country. It was pointed out that measures such as per capita GDP would overstate the average income level of a country (meaning that enjoyed by the "average person" in a country) if income distribution was highly unequal. However, internal income distribution was considered largely a policy variable and thus not deemed necessary for these purposes. Moreover, the four indicators making up the APQLI indirectly reflected income distribution and poverty in a country.

Furthermore, there were difficulties of data availability and comparability in respect of reflecting income distribution and poverty. The experts recommended that income distribution and poverty dimensions be left out in the current GDP criterion, although they might be considered in later refinements of both this criterion and the APQLI.

6.2 APQLI

52. The review of the APQLI took place in the context of the recommendation of the Committee that the health and nutrition indicators should be revised. The Committee would have preferred, for nutrition, the percentage of the population undernourished; but these data were not available for many countries. Hence the measure recommended was the average calorie consumption per capita as a percentage of the average calorie requirement per capita. Under health, it recommended, instead of life expectancy at birth, the under-five child mortality rate. The Expert Group checked the adequacy and feasibility of this choice.

53. In relation to calorie consumption per capita, estimates were available for many countries. They were based on food balances. Useful additional information would have been distribution data; but data comparability problems made the use of distribution and poverty estimates difficult at this stage. The Expert Group agreed, therefore, that moving to calorie intake per capita as a percentage of requirement would be an achievable improvement.

54. They agreed that life expectancy at birth was not the best indicator of the state of health of the population, owing to data quality concerns. It also reflected changes in health and nutrition too slowly. The Expert Group therefore supported the use of the under-five child mortality rate for which more reliable data were available.

55. In relation to education, the Expert Group supported continuation of the present criteria. It agreed that average years of schooling would have been a better indicator, but noted

serious data problems were still involved in terms of availability and comparability.

56. In conclusion, the experts agreed that the changes recommended would improve the APQLI both conceptually and in terms of data availability as a composite indicator of human resource capacity.

57. They suggested that the logarithm of the calorie intake indicator be used when constructing the APQLI because it better reflected the relative differences among countries. It would allow greater differentiation among lower values, which were much more relevant to the identification of least developed countries[n].

58. The Secretariat outlined the results of diagnostic testing and simulations on the APQLI (see section 4 above). Recalculation of APQLI was performed on-site and the Expert Group agreed on the recommended improvements—the changes to two indicators and the use of the logarithm in the case of calorie intake as percentage of requirement.

59. In general discussions, the Expert Group revisited the issue of possible substitution of the relevant human development index (HDI) components for the APQLI. It was reaffirmed that the HDI and its components were not appropriate for the purpose of identification of least developed countries. In addition, the APQLI strove to capture human resource development in a broader context (two indicators each for education and health) and the chosen indicators were more reliable and more appropriate for its purpose than some components of the HDI.

60. The quality of data and how accurately a particular indicator measured welfare or human capacity were also discussed. The experts concluded that, given that such concerns could not be adequately addressed by available data from the most authoritative sources such as major international

[n] The proposal was based on the observation that the difference in the quality of life implied between meeting 130 per cent of daily calorie intake requirement and 140 per cent was not the same as that between meeting 90 per cent of the requirement and 100 per cent; and the logarithm would reflect the relative difference properly.

organizations specializing in these fields, great care and caution should be exercised when quantitative criteria were applied in order to determine a country's status.

7. Supplementary use of UNCTAD vulnerability profiles

61. In recommending in its 1999 report the incorporation of an EVI, the Committee had recognized that an index of economic vulnerability could give only a partial and proximate measure of the relative level of vulnerability of a country. A deeper assessment of vulnerability would need to be considered on a case-by-case basis. Such consideration would be needed for cases of both inclusion and graduation. The Committee therefore recommended that a document, to be called a country "vulnerability profile", should be prepared for cases close to the threshold. The profile should be designed so as to allow a comprehensive assessment of the situation for countries near the threshold of the criteria and would present information that reflected various dimensions of vulnerability, including ecological fragility.

62. The profiles would be used not only as supplementary information in considering a country's position in relation to the EVI, but also with regard to the overall results of the three main criteria.

63. The UNCTAD secretariat presented to the Expert Group draft studies for the four countries that in CDP reports either had been recommended for graduation or were being considered for graduation—Cape Verde, Maldives, Samoa and Vanuatu.

64. These reports were prepared at the request of the Committee, as stated in its 1999 report, to supplement quantitative criteria in the designation of least developed countries. UNCTAD indicated that the reports were based on information gathered from field missions to the countries in question, with the cooperation of country authorities.

65. The UNCTAD reports confirmed their usefulness and the value of the vulnerability concept, and provided valuable

insights into the structural and wider vulnerabilities of these countries. The reports were very informative. The Expert Group found that the studies were clearly relevant to a consideration of a country's vulnerability and included dimensions that had been covered only in a proxy way in the EVI, especially in relation to ecological fragility. Further information was provided in other areas such as export price instability, variability in aid flows, crop failures, dependence on a narrow range of exports and transportation difficulties. The Expert Group recommended that such profiles be prepared for all cases of potential graduates from the list of least developed countries and, to the extent practicable, of possible inclusions, as a necessary precaution against premature change in a country's status as a result of data quality limitations.

66. After careful review and discussions, the experts made a few recommendations regarding the content and format of future vulnerability profiles. They were:

- Add a summary table of basic data/information for each case, including population, geographical location and climate;
- Make greater use of vulnerability studies by other organizations regarding these countries, if available and relevant; incorporate insurance cost and infrastructure construction costs, if available;
- Examine in greater depth recent changes, especially in relation to qualification for inclusion or graduation;
- Check statistics used in the Committee's work on quantitative indicators;
- Add a summary of conclusions to highlight the most important vulnerability and structural constraints.

8. Recommendations and implications for inclusion and graduation

67. The Group considered that a fuller incorporation of the concept of vulnerability through the EVI and the vulnerability profiles, as recommended by the Committee, meant a significant improvement in capturing persistent structural difficulties associated with stagnating economic growth and slow poverty reduction.

68. In reviewing the threshold levels of APQLI and EVI, the Expert Group followed principles agreed upon in 1991 by the former Committee for Development Planning[o] and endorsed in 1999 by the Committee. Specifically, the inclusion threshold for a composite index was to be set at the index value of a criterion for the upper quartile of all low-income countries. The Expert Group was also anxious to ensure that criteria and methodological changes did not result in any excessive disturbance of the current list of least developed countries, so that there would be continuity over time. In determining threshold levels for inclusion, the Expert Group did not see the need for any change from the principle agreed in the past as guidance for determining these levels. In the case of the EVI as proposed in 1999, where high values signified high vulnerability, the cut-off point would be the lower quartile value.

69. In the light of the information provided by the indicators and the vulnerability profiles, it was the conclusion of the Expert Group that the review of the list of least developed countries should be carried out as follows.

70. First, a graduation threshold for GDP had to be established by adding 15 per cent to the cut-off point for inclusion. This was, in principle, the per capita GDP equivalent of the gross national product (GNP) per capita cut-off point of the World Bank low-income group. In the 1997 review, this had been set at $800, that

[o] At that time, the Committee had felt that the cut-off points should be somewhat lower than the highest values calculated for the low-income countries; and decided to set the benchmark at the third quartile on each index for the low-income countries (see *Official Records of the Economic and Social Council, 1991, Supplement No. 11* (E/1991/32), para. 241).

is to say, \$100 more than the 1994 cut-off point, which had itself been \$100 higher than the criterion of 1991. The increments were added to reflect price inflation as well as real growth in per capita income in developing countries since least developed countries was a relative concept. The experts also noted that the cut-off GNP level in the World Bank's low-income country group had increased over the years. It was agreed that \$900 would be consistent with past practice.

71. In a list of 48 least developed countries and 19 other low-income countries, or 67 countries in all, the threshold for the APQLI would be the value around the seventeenth country in the list of countries ranked by the index in descending order. In the case of EVI, the threshold would be the value around the seventeenth country in the list of countries ranked by the index in ascending order. For graduation, the 1999 Committee report had suggested the thresholds for these two indices for graduation would be about 20 per cent higher than the inclusion threshold for the APQLI and 20 per cent lower than the inclusion threshold for the EVI. In keeping with homogeneous treatment of all criteria, the Expert Group felt that the benchmark of GDP per capita for graduation should be higher than the level for inclusion by the same percentage, although the Committee had suggested a \$100 margin in 1999.[p] However, the Expert Group noted that in previous reviews the margin between inclusion and graduation had been between 11 and 17 per cent, depending on the specific values of the criteria and the year.[q] The Expert Group therefore recommended a 15 per cent margin for all three criteria. The Expert Group was satisfied that this would not create a more liberal graduation condition than in the past.[r]

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[p] The 20 per cent margin for GDP per capita was also motivated by the consideration that some least developed countries received developmental aid equivalent to a large percentage of total GDP, which could be reduced if the country lost its least developed countries status.

[q] For example, the margin for GDP had been about 17 per cent in 1991, 14 per cent in 1994 and 11 per cent in 1997. The margin for the APQLI was about 11 per cent in all three reviews, while that for EDI was 14 per cent in 1991, and 12 per cent in 1994 and in 1997.

[r] Lowering the margin from 20 to 15 per cent did not change the outcome with regard to the graduation cases considered in this review.

72. The Expert Group also reaffirmed the recommendation of the Committee in its 1999 session to supplement quantitative indicators with a vulnerability profile for each of the borderline cases and for all cases identified for possible graduation.[s]

73. If these changes to the criteria were applied to the information available to the experts at the Paris meeting, the implications for the list of least developed countries would be as described below:

- Only one additional country, Senegal, clearly appeared to be eligible for inclusion. Two countries, Ghana and the Congo, also met the criteria but were close to the threshold of the APQLI;
- In considering possible inclusions, the Expert Group recalled that Ghana had declined to be included after the 1994 review and the recent decline in economic and social indicators in the Congo, an oil exporter, had been associated with civil war. Such considerations and further information should be taken into account when the Committee made its recommendation regarding these borderline cases;
- In keeping with the rule whereby a country could be proposed for graduation only if it met graduation criteria in two consecutive reviews of the list, the Expert Group also examined the implications of the new criteria for the four countries considered for graduation in the year 2000.

[s] In its report on its first session, the Committee noted that the information given in such a vulnerability profile would help the Committee make its judgements about the inclusion of countries on the list of least developed countries, particularly in cases where a country's situation fell close to the threshold with regard to any of the three main quantitative criteria, while clearly meeting the other two. For graduation of countries, such consideration could be taken if a country exceeded two of the three thresholds criteria, but remained close to its threshold for at least one of those two (see *Official Records of the Economic and Social Council, 1999, Supplement No. 33* (E/1999/13, para. 124).

74. In the case of Vanuatu (see box), first considered eligible for graduation in 1994 with respect to both GDP and APQLI, the level of GDP per capita was still clearly above the threshold for graduation, but the APQLI was lower than the new graduation threshold. Moreover, the EVI was higher than the threshold. According to these new criteria, Vanuatu would not qualify for graduation. The findings of the vulnerability profile corroborated the above assessment.

75. Samoa (see box), with GDP per capita close to $1,000, no longer met the GDP graduation criterion. Moreover, it ranked as very vulnerable on EVI. Again, this quantitative assessment was reaffirmed by findings in the vulnerability profile. It should not, therefore, be recommended for graduation.

76. Cape Verde appeared as a borderline case with regard to GDP per capita. It met the APQLI graduation criterion but it ranked as one of the most vulnerable low-income countries on EVI. The vulnerability profile highlighted the country's high dependence on aid and remittances, which appeared to have been unstable in recent years. In such a case, it would be a matter of judgement by the Committee whether Cape Verde was eligible for graduation.

77. Maldives had a per capita GDP much higher than the graduation threshold, and an APQLI well above the graduation threshold, so that it could be eligible for graduation even if its EVI did not meet the graduation threshold. In fact, its EVI was the lowest among the four potential graduation cases and only marginally higher than the threshold. The findings of the vulnerability profile corroborated the conclusion based on quantitative indicators, to the extent that Maldives was less affected than the other three countries by exogenous shocks. However, the profile also underlined the country's main concern over the consequences of rising sea levels in the longer term. The Committee might wish to take this information, and the specific long-term challenge faced by this country highlighted by the profile, into account in deciding whether it should be graduated. It was felt that the challenge this country faced from climatic change was very special for both the country and the

Why Samoa and Vanuatu should no longer graduate

For Samoa, the reason is that, in 1997, its per capita gross domestic product (GDP) was above the graduation threshold and now it is below. Per capita GDP of Samoa in real terms has stagnated since the previous review, pulling the country closer to the borderline of the category of low-income countries identified by the World Bank. It should also be noted that, in the 1997 review, per capita GDP of Samoa was above those of Cape Verde, Liberia and Maldives, but it is now lower than per capita GDP in these countries. Since it does not meet the economic vulnerability index (EVI) graduation threshold either, just as it did not meet the economic diversification index (EDI) graduation criterion in the 1997 review, it should no longer be recommended for graduation.

The case of Vanuatu is different. Vanuatu meets the per capita GDP graduation threshold, as was the case in the 1994 and 1997 reviews. It does not meet the EVI graduation criterion in the current review and it did not meet graduation criterion with regard to EDI in the 1994 and 1997 reviews. In fact, its EVI is significantly above the threshold ("above" here denotes higher vulnerability). However, Vanuatu no longer meets the Augmented Physical Quality of Life Index (APQLI) threshold for graduation.

The reason for Vanuatu is not meeting the APQLI graduation threshold in this review is that the social indicators in Vanuatu have stagnated or improved less than in other developing countries, making the relative position of this country less favourable than it had appeared in the previous reviews. This relative deterioration is consistent with the findings of the vulnerability profile. It is reflected in the ratio of Vanuatu's APQLI to the average value of APQLI of current least developed countries and other low-income countries: for this review, it is 1.38, whereas in the 1997 review, it was 1.46.

It should be noted that the difference between APQLI thresholds for inclusion and graduation has changed in this review. However, the new rule of 15 per cent difference between them, compared with about 11 per cent in past reviews, does not affect the Vanuatu case: the level of the APQLI of Vanuatu is only about 8 per cent higher than the inclusion threshold. It would not meet the graduation criterion for the APQLI even if the former 11 per cent rule was applied.

international community. It might entail population relocation, infrastructural cost and high insurance cost, for which special assistance might be provided in a broader context of international cooperation.

78. No other countries appeared to be eligible for inclusion or graduation according to these new criteria (see appendix II).

79. The Expert Group also discussed whether to include countries in Eastern Europe and central Asia that had become independent States in the 1990s for review in its consideration of the list of least developed countries. The situation in these countries warranted special consideration. As republics or States of formerly socialist countries, they typically ranked high on the APQLI as a result of past social policies. Owing to the major political and economic changes that had taken place during their transition to independence and striving to build market economies, these economies suffered deep recessions. Although their income might be low in some cases, they would not have met all three criteria for inclusion on the list of least developed countries. Moreover, as "new" countries, the historical data required to construct the EVI were inadequate. As a result of these considerations, they were currently excluded from the sample of developing countries eligible for inclusion. However, the economic decline in these countries lasted longer than most had expected. If their economies do not improve, erosions of social progress will be difficult to reverse, leading to possible lowering of the APQLI. The experts suggested that these countries be included in the 2003 review of the list of least developed countries.

Appendix I

LIST OF PARTICIPANTS

Members of the Committee for Development Policy

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Observers/participants for only part of first day

Mr. Pierre Buzeaud, Ministry of Foreign Affairs, France
Mr. Christopher Easter, Commonwealth Secretariat, London
Mr. Just Faaland, Chairman, Committee for Development Policy
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Appendix II

Least developed and other low-income countries: the criteria used in determining eligibility for least developed countries status

		Population 1997 (millions)	Per capita GDP (US $)	APQLI	EVI
LDC	Afghanistan	20.9	286	12.8	44.9
LDC	Angola	11.7	596	30.9	55.2
LDC	Bangladesh	122.7	337	40.7	**23.8**
LDC	Benin	5.6	378	40.0	58.7
LDC	Bhutan	1.9	197	43.3	42.3
LDC	Burkina Faso	11.0	241	21.7	44.6
LDC	Burundi	6.4	143	21.7	51.6
LDC	Cambodia	10.5	296	40.7	61.0
	Cameroon	13.9	656	50.1	31.6
LDC	Cape Verde	0.4	**1 089**	**72.6**	57.0
LDC	Central African Republic	3.4	316	36.2	42.4
LDC	Chad	7.1	227	31.1	64.4
	China	1 244.2	705	78.2	4.2
LDC	Comoros	0.6	394	40.4	55.4
	Congo	2.7	850	57.2	46.9
	Côte d'Ivoire	14.1	757	43.6	32.8
	Democratic People's Republic of Korea	23.0	232	61.6	32.3
LDC	Democratic Republic of the Congo	48.0	132	42.7	51.9
LDC	Djibouti	0.6	773	29.1	46.6
LDC	Equatorial Guinea	0.4	**1 093**	51.9	55.8
LDC	Eritrea	3.4	172	27.3	**27.1**
LDC	Ethiopia	58.2	106	21.3	44.6
LDC	Gambia	1.2	348	32.6	61.8
	Ghana	18.7	390	57.0	43.1
LDC	Guinea	7.3	575	26.2	45.8
LDC	Guinea-Bissau	1.1	221	34.2	55.9
	Guyana	0.8	835	73.4	51.4
LDC	Haiti	7.8	385	38.2	45.6
	Honduras	6.0	727	64.5	35.7
	India	966.2	407	56.2	12.2
	Indonesia	203.4	1 010	74.1	17.4
	Kenya	28.4	335	53.6	27.8
LDC	Kiribati	0.1	609	65.9	74.3
LDC	Lao People's Democratic Republic	5.0	379	44.4	45.7
LDC	Lesotho	2.0	463	59.6	53.1
LDC	Liberia	2.4	**1 242**	39.9	63.6

		Population 1997 (millions)	Per capita GDP (US $)	APQLI	EVI
LDC	Madagascar	14.6	261	39.9	**26.8**
LDC	Malawi	10.1	193	45.8	41.6
LDC	Maldives	0.3	**1 311**	**76.0**	32.2
LDC	Mali	10.4	255	18.4	48.4
LDC	Mauritania	2.5	458	42.2	41.4
	Mongolia	2.5	389	61.0	49.7
LDC	Mozambique	18.4	171	23.3	37.4
LDC	Myanmar	43.9	274	64.9	49.8
LDC	Nepal	22.3	212	49.1	36.4
	Nicaragua	4.7	473	59.6	43.2
LDC	Niger	9.8	199	16.4	59.0
	Nigeria	103.9	299	54.3	58.4
	Pakistan	144.0	502	48.3	22.2
LDC	Rwanda	6.0	216	36.9	55.9
LDC	Samoa	0.2	1 021	**70.0**	52.5
LDC	Sao Tome and Principe	0.1	336	46.5	59.1
	Senegal	8.8	545	40.0	40.9
LDC	Sierra Leone	4.4	170	21.9	46.3
LDC	Solomon Islands	0.4	846	58.2	53.9
LDC	Somalia	8.8	169	16.7	58.0
	Sri Lanka	18.3	793	75.5	26.2
LDC	Sudan	27.7	328	45.4	44.5
LDC	Tanzania, United Republic of	31.4	193	42.7	36.2
LDC	Togo	4.3	337	52.5	45.3
LDC	Tuvalu	0.01	**1 320**	57.7	73.7
LDC	Uganda	20.0	315	39.3	56.5
LDC	Vanuatu	0.2	**1 419**	64.3	41.3
	Viet Nam	76.4	316	70.1	31.0
LDC	Yemen	16.3	305	41.3	49.5
LDC	Zambia	8.6	379	48.4	51.8
	Zimbabwe	11.2	708	63.4	40.9

Note:

Thresholds for inclusion in the list of least developed countries (LDCs) are: population less than 75 million; per capita gross domestic product (GDP) less than $900; Augmented Physical Quality of Life Index (APQLI) less than 59; economic vulnerability index (EVI) greater than 36. A country must meet all the criteria.

Thresholds for graduation from the list of least developed countries are: per capita GDP greater than $1,035; APQLI greater than 68; EVI less than 31. A country must meet at least two criteria to be eligible for graduation.

The letters “LDC” before a country name indicates 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.

Country name in italics indicates other low-income country that meets all three criteria for inclusion in the list of LDCs.

Annex II

Agenda for the second session of the Committee

1. Adoption of the agenda and organization of work.
2. Discussion of the role of information technology and development.
3. Review of the draft of the report of the Secretary-General on the new international development strategy.
4. Formulation of the Committee's views on agenda items 2 and 3.
5. Review of the report of the Expert Group Meeting on Testing and Simulations of the Economic Vulnerability Index.
6. Review of the list of least developed countries and formulation of the Committee's recommendations on the list.
7. Suggestions for future work.
8. Discussion and adoption of the report of the Committee for Development Policy on its second session.