Briefing on the Comprehensive Review of the LDC criteria

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Standing CDP decision to review its LDC criteria periodically to reflect changes in development thinking and indicator availability

Specific mandate by Member States in 2016

“We recognize the importance of the reviews by the Committee for Development Policy of the graduation criteria for the least developed countries. We recommend that the reviews be comprehensive, taking into account all aspects of the evolving international development context, including relevant agendas.” GA resolution 70/294

In 2017, CDP decided to embark on multi-year (2017-2020) work plan for the criteria review

- First steps at Plenary
- No work at Plenary due to triennial review
- Stocktaking and agreement on way forward at Plenary
- Finalization of LDC criteria and adoption at Plenary
- Application at the 2021 triennial review
Scope of this multi-year programme

1. Assess the relevance of the LDC category in the current development thinking
2. Review the concept and basic rules for LDC graduation
3. Review the LDC criteria and their indicators
4. Review the procedures governing the application of the LDC criteria
5. Assess ways to capture vulnerabilities and other relevant factors not covered by the LDC criteria
6. Review rules for graduation of highly vulnerable countries
Principles for criteria reviews

*Long-standing principles re-confirmed by CDP in 2017*

- Ensure inter-temporal consistency of the list and equitable treatment of countries
- Don't invalidate recent decisions (concerns both LDCs and ODCs)
- Ensure stability of the criteria
  - Change should lead to clear improvement
- Ensure methodological robustness and complete data availability of indicators
  - Preference for well-established indicators, but data availability often key constraint
- ‘Flexibility’
  - Room for additional information outside the criteria (vulnerability profiles, impact assessments, country views)
Key findings:

Relevance of category
Relevance of LDC category in SDG era

**LDC category remains relevant in the current development thinking**
- 18 SDG targets of Agenda 2030 refer explicitly to LDCs
- Current LDC criteria already cover large part of Agenda 2030, LDC indicators linked to 95 SDG targets
- LDC criteria cover also other relevant development agendas

**Continued relevance is no coincidence**
- CDP has always used multi-dimensional development concept
- LDC criteria have frequently been refined (last in 2017)

**Relationship between progress towards SDGs and LDC graduation**

- **Progress towards SDGs brings LDC closer to graduation**
- **Progress towards graduation signifies progress towards achieving SDGs**

⚠️ **Graduation does not mean achieving the SDGs, but reaching a milestone**
- LDC criteria capture progress on addressing structural impediments
- Achieving the SDGs requires to also overcome non-structural impediments and adopt improved governance and policy choices
Coverage of Agenda 2030 by LDC indicators
Linkages between LDC indicators and SDG targets

Evolving understanding of LDC graduation

Timeline of graduation recommendations by the CDP:
Key findings:

Basic graduation rules and LDC criteria
Concept and graduation rules

LDC definition

LDCs are low-income countries suffering from the most severe structural impediments to sustainable development

LDC identification criteria

The list of LDCs is reviewed triennially by the CDP using the following three criteria:

- Per capita Gross national income (GNI)
- Human assets index (HAI)
- Economic vulnerability index (EVI)

Eligibility for graduation (graduation rules)

The CDP may recommend an LDC for graduation based on the following rules:

- Graduation threshold must be met for two of the three LDC criteria at two consecutive triennial reviews (‘2 out of 3’ rule)
- Alternatively, per capita GNI is at least twice the graduation threshold (‘income-only exception’)

No automatic application of graduation rules: Additional information to be taken into account for graduation recommendation (‘flexibility principle’)
## Changes to LDC criteria framework

### Three criteria for LDC identification

- Per capita GNI
- Human assets index (HAI)
- Economic vulnerability index (EVI)

### Retain three criteria framework

- Three criteria highlights multidimensional definition of LDCs
- Expanded criteria framework (e.g., four criteria) not suitable for graduation because:
  - Stricter rule (e.g., ‘3 out of 4’):
    - Graduation much more difficult; ‘income-only’ most likely the only graduation scenario
  - Looser rule (e.g., ‘2 out of 4’):
    - Graduation without progress
Changes to basic graduation rules

‘2 out of 3’ graduation rule
- Strengthen ‘2 out of 3’ rule
  - Graduation for countries with highly skewed development is justified only if it has passed both graduation thresholds with a sufficient margin
    → provides safeguard against premature graduation
  - ‘3 out of 3’ rule (or making vulnerability a mandatory graduation criterion) unreasonable because:
    → contradicts definition
    → violates intertemporal consistency and equitable treatment of countries
    → prevents graduation of most LDCs

‘Income-only’ exception
- Strengthen ‘income-only’ exception
  - Requires explicit assessment of the sustainability of the income level
    → ensures country has the means to address the impediments to its development without LDC-specific support
Improvement to application of basic graduation rules

‘Flexibility’ principle:

No automatism: *impact assessment, vulnerability profile, country views* taken into account before making recommendations for graduation

Consolidated graduation assessment based on vulnerability profile, impact assessment, additional UN inputs, country views
LDC criteria and their indicators

**Human assets index (HAI)**
- **Health index (1/2)**
  - Percentage of population undernourished (1/6)
  - Under-five mortality rate (1/6)
  - Maternal mortality ratio (1/6)
- **Education index (1/2)**
  - Gross secondary school enrolment ratio (1/4)
  - Adult literacy rate (1/4)

**Economic vulnerability index (EVI)**
- **Exposure index (1/2)**
- **Economic structure subindex (1/8)**
- **Location subindex (1/8)**
- **Environment subindex (1/8)**
- **Trade shock subindex (1/4)**
- **Natural shock subindex (1/4)**
- **Shock index (1/2)**

**GNI per capita**

**Human assets index (HAI)**

**Economic vulnerability index (EVI)**

**LDC criteria and their indicators**

**Human assets index**

**Economic vulnerability index**

**GNI per capita**
Identifying new or alternatives indicators – guidelines and challenges

Guidelines for identification of new/alternative indicators

- Indicators should address **structural** constraints to development
- These structural constraints are among the **most severe** for most LDCs
- Indicators must be **methodologically robust**
- Indicators must have (almost) **complete data coverage** for all developing countries with sufficiently frequent updates

Data sources of new/alternative indicators (and existing challenges)

**SDG indicators:**
- Many measure policy actions rather than structural handicaps
- Almost half of the indicators are still either:
  - tier 2 indicators (existing methodology, but no data)
  - tier 3 indicators (no methodology yet)
- Limited data availability for LDCs for tier 1 indicators

**Regularly updated databases from international organizations:**
- Limited availability of suitable indicators fulfilling the identification guidelines
<table>
<thead>
<tr>
<th>Criteria</th>
<th>Changes</th>
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<tbody>
<tr>
<td>Per capita GNI</td>
<td>Retain per capita GNI</td>
</tr>
<tr>
<td></td>
<td>• GNI closer to LDC definition</td>
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<tr>
<td>Human assets index (HAI)</td>
<td>Refine HAI</td>
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<tr>
<td></td>
<td>• Capture gender inequities in education</td>
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<td></td>
<td>• Focus on long term malnutrition</td>
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<tr>
<td>Economic vulnerability index (EVI)</td>
<td>Refine EVI</td>
</tr>
<tr>
<td></td>
<td>• Separate into economic and environmental vulnerability sub-index</td>
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<td></td>
<td>• Applies also for small-size vulnerabilities</td>
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<tr>
<td></td>
<td>• Simplify structure and weights</td>
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<tr>
<td></td>
<td>• Broaden coverage of environmental/climate change vulnerability</td>
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<tr>
<td><strong>NEW PROPOSAL</strong>: Additional set of graduation assessment indicators</td>
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Key findings:

Graduation procedure and additional information
## Current graduation procedure

<table>
<thead>
<tr>
<th>Year 0</th>
<th>First finding at CDP triennial review</th>
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<tbody>
<tr>
<td>• Preliminary review by CDP subgroup</td>
<td></td>
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<tr>
<td>• Triennial review by full CDP membership establishes that country has met the graduation criteria for the first time</td>
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<td>• CDP informs ECOSOC and notifies country</td>
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<tr>
<td>• ECOSOC takes note</td>
<td></td>
</tr>
<tr>
<td><strong>Years 0 to 3</strong></td>
<td><strong>Analysis and information gathering</strong></td>
</tr>
<tr>
<td>• UNCTAD prepares vulnerability profile</td>
<td></td>
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<tr>
<td>• UN/DESA prepares impact assessment</td>
<td></td>
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<tr>
<td>• Government and development and trading partners invited to provide inputs</td>
<td></td>
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<tr>
<td><strong>Year 3</strong></td>
<td><strong>Second finding, recommendation and endorsement</strong></td>
</tr>
<tr>
<td>• Preliminary review by CDP subgroup (confirms that country meets criteria; government invited to present views)</td>
<td></td>
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<tr>
<td>• Triennial review by full CDP membership</td>
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<tr>
<td>• CDP recommends graduation to ECOSOC and notifies country</td>
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<tr>
<td>• ECOSOC endorses the CDP recommendation</td>
<td></td>
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<tr>
<td>• GA takes note of the CDP recommendation</td>
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<tr>
<td><strong>Years 3 to 6</strong></td>
<td><strong>Preparing for graduation</strong></td>
</tr>
<tr>
<td>• Graduating country establishes consultative mechanism, prepares smooth transition strategy and optionally reports to the CDP on the preparation of the strategy with assistance from United Nations system</td>
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<tr>
<td>• Development and trading partners participate in consultative mechanism and provide targeted assistance</td>
<td></td>
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<tr>
<td>• CDP monitors development progress of the country during the period and reports annually to ECOSOC</td>
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<tr>
<td>• Graduation becomes effective in principle 3 years after the GA takes note</td>
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**Year 6: Graduation becomes effective**
Improved graduation procedure – streamlining the process

### Information gathering (Year 0-3)

- Graduation preparation (Year 3-6)

**Information gathering and analysis:**
- Starts late, finishes at the end of year 3
- No coordination between different UN entities during this process
- Very limited role of local UN entities
- Results shared with country very late

**Graduation preparation:**
- Transition strategy planning starts in *year 3*, or later

### Advance timing and better integrate the decision-making process

**Improved information gathering and analysis:**
- Starts after first finding in *year 0*
- Better coordination among UN entities
  - → Graduation assessment
- **Better and earlier** consultation with country
- Stronger role for UN Resident Coordinator
- Strong role for Inter-agency Task Force on LDC graduation

**Improved graduation preparation:**
- Transition strategy planning starts at first identification in *year 0*
- Early involvement of development partners
## Improved graduation procedure – the graduation assessment

<table>
<thead>
<tr>
<th>Current procedure</th>
<th>Graduation assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Individual documentation: DESA’s impact assessment</td>
<td><strong>Consolidated document</strong> prepared by CDP Secretariat based on</td>
</tr>
<tr>
<td>UNCTAD’s vulnerability profile</td>
<td>• UNCTAD’s vulnerability profile</td>
</tr>
<tr>
<td>Country views</td>
<td>• DESA’s impact assessment</td>
</tr>
<tr>
<td>Prepared only shortly before second finding of graduation eligibility</td>
<td>and enriched by inputs from</td>
</tr>
<tr>
<td></td>
<td>• Graduating country</td>
</tr>
<tr>
<td></td>
<td>• UN country team and other relevant organizations</td>
</tr>
<tr>
<td></td>
<td>• Bilateral development and trading partners</td>
</tr>
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<td></td>
<td><strong>Currently piloted</strong> for Lao PDR and Myanmar</td>
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</tbody>
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### Advantages:

- Serves a **dual purpose**:
  - prepares **country** better for graduation
  - improves the information basis for the **CDP** to make its graduation recommendation
- **Consolidates** information from different sources
- Prepared much **earlier**, after first finding of graduation eligibility
- Provides country with better information to **identify areas for research as well as support** needed during and after graduation
- **Dispels uncertainty** and concerns on graduation
# Improved graduation procedure – length of preparatory period

<table>
<thead>
<tr>
<th>Rule for preparatory period</th>
<th>Clarification of the rule</th>
</tr>
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<tbody>
<tr>
<td><strong>Strict rule:</strong></td>
<td>• Proposal: <strong>3 years standard period</strong>, additional <strong>2 years</strong> in exceptional situations</td>
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<tr>
<td>• Preparatory period is <strong>in principle</strong> 3 years after GA took note of recommendation (‘one size fits all’)</td>
<td></td>
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<tr>
<td><strong>But flexible application:</strong></td>
<td><strong>CDP statement</strong> on length of preparatory period based on planning capacity and overall situation of country regarding graduation as part of the CDP graduation recommendation</td>
</tr>
<tr>
<td>• In practice, there have almost always been extensions (of various length)</td>
<td>→ <strong>Eliminates discrepancy</strong> between strict rule and its flexible application</td>
</tr>
<tr>
<td><strong>Rules for extension:</strong></td>
<td>→ <strong>Removes confusion</strong> about the overall process</td>
</tr>
<tr>
<td>• No rules exist for validity of granting initial extensions and their length, <strong>ad-hoc</strong> decision by GA based on country request</td>
<td>→ <strong>Tailors</strong> preparatory period to country situation</td>
</tr>
<tr>
<td><strong>Emerging practice:</strong></td>
<td>→ <strong>Codifies</strong> recent practice</td>
</tr>
<tr>
<td>• In 2018, CDP commented on requests by some graduation candidates</td>
<td></td>
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</tbody>
</table>
Improved graduation procedure – New set of graduation assessment indicators

Wider set of additional indicators

- Online statistical annex to graduation assessments prepared for triennial review
- Contain methodological sound indicators covering most LDCs and other developing countries
- Relevant for graduation, but not requirement for graduation
- Complement the current LDC criteria
- No new indices

Purpose

- Cover vulnerabilities and relevant factors not adequately captured in LDC criteria
- Complement, not replace analysis of idiosyncratic vulnerabilities in graduation assessment/vulnerability profile
- Screening device for identifying discrepancies between criteria performance and broader vulnerabilities and factors
- Entry point for identifying priorities for managing graduation
Summary and implications for recommending highly vulnerable countries

**Modified basic graduation rules**

- Graduation of **highly vulnerable countries** is possible if and only if thresholds of the other two criteria are met with a sufficiently large margin.
- For ‘income-only’ graduation **sustainability of income** must be assessed.

⇒ Explicit statement by the CDP necessary

**Improved support framework**

CDP will utilize graduation assessment and additional graduation assessment indicators for stronger graduation narrative:

- Suggestions for priorities and support needs to ensure smooth transition
- Move graduation debate beyond pure classification
- For highly vulnerable countries, focus graduation narrative on addressing vulnerabilities and resilience building

⇒ Preparatory period of **up to five years** if necessary
⇒ **Improved basis** for country to manage graduation

Additional CDP proposals for improved graduation support under development