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LDC and other country groupings: How useful are current approaches to classify countries in a more heterogeneous developing world?

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ABSTRACT

The proliferation of country groupings indicates the need to assess the effectiveness of the current system for development cooperation and to explore better ways to manage the international system, as heterogeneity among developing countries increases. Great caution should be exercised in devising new country categories. Donors can use sound criteria for aid allocation without creating new groupings. If new categories are created at all, issue-based classifications should be preferred to comprehensive categories; support should be issue-specific. Among the existing comprehensive classifications, the LDC category has significant advantages but it needs to better address the problems and incentives associated with graduation.

JEL Classification: F35, F55, O19, O57

Keywords: Country groupings, country classifications, international aid, least developed countries, country eligibility, graduation

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1 Introduction

The developing world has become increasingly heterogeneous. There are still extreme international inequalities, but the economic situation of developing countries is much more diverse than previously. In contrast to a clear North-South divide that underpinned development approaches in the past, there is now a much wider and graduated spectrum of development between countries. It is, therefore, understandable that analysts, governments and institutions aim to tackle that diversity by establishing categories for classifying countries to better analyse and organize the complexity of the international system. In fact, there has been a mushrooming of classification systems and country categories all striving to put some order in the new complex international reality, but not fully succeeding. Instead, the international panorama has become more confused and disorganised, with several overlapping classifications.[1]

The first official attempt to classify developing countries took place at the United Nations, which identified the least developed countries (LDCs) in the early 1970s. Since then, several other proposals followed and were formulated in terms of diverse criteria, including:

- per capita income level: high, middle and low income, the criteria used by the World Bank since 1980s,
- human development level: very high, high, medium and low human development, defined by the UNDP since 1990,
- country indebtedness: Heavily Indebted Poor Countries (HIPCs) as defined by the World Bank in the 1990s,
- responsibility to address climate change issues: Annex I and non-Annex I countries, defined by the UN Framework Convention on Climate Change in 1992,
- state of governance: Fragile States (FS), which replaced the category Low-Income under Stress (LICUS) both generated by the World Bank and adopted by the OECD-DAC in the early 2000s),
- specific geographical features: Small Island Developing States (SIDS) and Landlocked Developing Countries (LLDCs) put forward by the United Nations, and,
- access to and weight in international trade: Small and Vulnerable Economies (SVEs) defined by the WTO in 2002.

These official and semi-official forms of classification come in addition to classifications related to organizing work programs and differentiate resource flows within international organizations or also bilateral aid agencies. Here many categories persist, depending also on the bureaucratic necessities of these organizations. The two most prominent examples are the World Bank regional classification (East Asia and Pacific, South Asia, Sub Saharan Africa, Middle East and North Africa, Latin America and Caribbean, Eastern Europe and Central Asia), as well as the World Bank classification into countries

1 In this paper, we focus particularly on classifications of the universe of developing and emerging economies. Of course, there has also been a multiplication of classifications and groupings at the rich end of the income spectrum, ranging from official groupings defined, for example, by membership in the OECD, to informal groupings such as the G8 or now the G20.

eligible for its soft-loan IDA window, those eligible for near-market IBRD conditions, and 'blend' countries that receive funds from both programs.

The net result of this proliferation of categories is that a single country can belong to various groups depending on the classification criteria adopted. For example, Burundi belongs to the following groups: the LDCs, LLDCs, FS, Low-income, Low Human Development, HIPCs, and IDA-eligible; and Comoros belongs to LDCs, SIDS, Low-income, Low Human Development, IDA-eligible, and HIPCs.

The complexity of the classification systems is underlined, on occasions, by the fact that institutions do not always coincide in their lists of countries that belong to a group. For example, SIDS category has as many as six different lists depending on which institution has produced it; the World Bank (13 countries), the UNCTAD non-official list (29 countries), the UNDESA (39 countries), the Alliance of Small Island States (AOSIS, 44 countries), the UNESCO (45 countries) and the UN Office of the High Representative for LDCs, LLDCs and SIDS (UN-OHRLLS, 52 countries). Similarly, in the case of FS, criteria and country lists do not always coincide in the three organisations that use this category the most: the World Bank, the OECD-DAC and the British Department for International Development (DFID), (Harttgen and Klasen, 2012).

Diverse factors explain the existence of multiple country classifications. On the one hand, donors have approached country categories as a tool to allocate resources and support for development on the basis of supposedly technical criteria, even though the aid allocation processes are primarily political. On the other hand, the developing countries have found in country categories a way to attract donors' attention to their respective problems and to facilitate the process of lobbying that takes place in international fora and organisations. Lastly, the dynamics of the multilateral bureaucracies, and of their experts, has also contributed to the proliferation of criteria and categories since those processes helps to justify the relevance of their task of organizing the complex international reality. In the end, categorisation and classification are important source of power for multilateral bureaucracies (Vaubel, 1990). In fact, van Bergeijk and van Marrewijk (2013) argue that some international institutions seem to be involved in an intellectual competition to invent new acronyms to re-classify and rearrange groups of developing countries.

Not all the classifications were created to fulfil similar objectives. Some categories were generated for analytical purposes only or for pushing a particular view on development, seeking to find common patterns among countries, in order to classify the heterogeneous international reality (for example, the classification of countries in terms of income levels or human development levels). In other cases, however, categories were created with an explicit international policy goal, linked to the definition of countries´ eligibility for some particular means of support (that is the case, for instance, with the definition of the LDCs or the HIPCs). Obviously, classifying countries becomes more relevant in the context of policy discussions on designing benefits for different groups of countries. However, distinguishing among the various motivations that give origin to classifications may be of limited relevance. Experience has shown that even classifications initially formulated for analytical purposes only end up being used to set guidelines for international action. That is the case, for example, with the World Bank´s income classification which, together with other criteria, is used by a lot of donors (multilateral and bilateral) give countries access to official development assistance and other forms of support (preferential market access, for instance) and graduate countries from these support systems.[2]

The proliferation of classification systems also indicates limitations of these systems in organizing the international landscape in a satisfactory manner.

2 For example, the IDA allocation formula of the World Bank considers the low-income status of countries, combined with the confidential Country Performance Institutional Assessment (CPIA) to determine eligibility to concessional finance from the Bank.

In fact, most if not all, of existing available systems share, to some extent, three basic problems. Firstly, they are based on fragile analytical and doctrinal foundation. In many cases, the criteria used to classify countries are not firmly based on insights from the economic development literature. In several instances, there is no explanation of the theoretical foundations supporting the creation of the categories proposed or of the criteria used to classify countries. Secondly, the very process of classifying countries implies a political and normative choice (even if hidden in technicalities) about what is understood as development and about which problems or countries deserve special attention by the international community. The classifications, therefore, imply political choices; that explains why no single classification attracts unanimous acceptance.

Lastly, some of the adopted criteria have been of very limited use in tracking the growing diversity of the international system in a coherent way. The tension between the need for any given criteria to be stable and the rapidly changing reality of countries has led to very noticeable difficulties in the classification systems. In some of the categories, the level of diversity among countries belonging to a single group has progressively grown, reducing the relevance of the classifications themselves. The LDC category is a case in point: the group currently includes not only 31 low-income countries, but also15 lower-middle and two upper-middle countries, as well as one high-income country which is earmarked to graduate in 2017. Similarly, as shown in Harttgen and Klasen (2012), the various attempts to define 'fragile' countries have led to groupings where the heterogeneity in several developmental dimensions within the fragile and non-fragile subgroups is much larger than the average difference between fragile and non-fragile states. In other cases, the problem is not so much with the diversity within a given group but the progressive loss of relevance of some of the categories. The income classification offered by the World Bank is a case in point: as a result of the growth of the world economy during the last decade, as well as of the setting of absolute thresholds to classify income, the group of low-income countries now includes just 36 countries, representing barely 11 per cent of the world's population.

The above shortcomings suggest that it is time for a careful diagnosis of the current situation. It is also necessary to ask whether there is a better way to manage and organize the increasingly complex international system. Several issues come to fore: should we persist in looking for a convincing classification system for countries or, instead, should we focus on identifying critical development issues and then define the corresponding ad hoc groups when discussing cooperative responses to these issues? How could we improve the current categories to make them more useful? How could we make classifying developing countries less complex and more rigorous?

This paper is concerned with answering these questions. We argue that great caution should be exercised when devising new categories. We also argue that the LDC category has a range of advantages as a comprehensive classification system but needs to solve the problems and incentives associated with graduation. Notwithstanding this, we have problems with creating additional categorizations that classify countries in a comprehensive fashion and are then used for aid allocation or general development rankings. Instead, we argue for issue-based classifications which often lead to more clearly targeted special support measures to tackle the issue in question. Among the existing comprehensive (or country-based) categories, we argue that the LDC classification has significant advantages but it needs to solve some problems and incentives associated with graduation.

This paper is divided into seven sections. Section 2 provides evidence about the growing diversity that currently characterises the developing world; section 3 analyses the main features of the LDC category; section 4 discusses the foundations and limitations of selected classifications; section 5 analyses the problems linked to the use of comprehensive classifications; section 6 discusses possible alternatives and, finally, some closing comments are made in section 7.

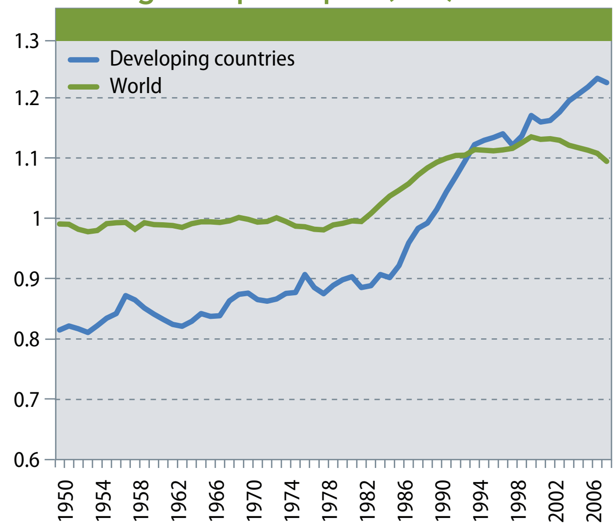
2 Increasing heterogeneity in the developing world

Development theory was born in the 1950s, based on the conviction that developing countries confronted a socially specific reality that was relatively homogeneous within the group, but different from that of the industrialised countries. In Corbridge's (2007) terms, the "principle of difference" justified the need for development economics as a separate field of studies. International aid was built on the same assumption, implying the existence of a sharp North-South divide. That was quite a reasonable assumption then. As estimated by Maddison (2007), per capita income levels among European countries, the USA, Canada, Australia, and New Zealand were more than twice as high as the next richest group, Latin America, and about 8 to10 times higher than the levels observed in Asia and Africa. This reality is very different nowadays: the heterogeneity among developing countries has increased, with economies located along a more continuous scale of levels of development (Alonso, 2013). As Hirschman (1981: 20) argued, "the concept of a unified body of analysis and policy recommendations for all underdeveloped countries (…) became in a sense victim of the very success of development and of its unevenness".

Figure 1 illustrates the trend mentioned above. The level of heterogeneity among countries is measured by the coefficient of variation of the per capita GDP (converted in PPP) for the period 1950-2008. The world´s coefficient follows a visible increase after the 1980s up to mid-2000s, when it became stagnant. In the case of the developing countries, the coefficient of variation experienced a sustained increase from 1950, which became particularly intense after the 1980s. This trend underlines the increase of heterogeneity among developing countries.[3]

Figure 2 offers another way to illustrate the same phenomenon. In this case, four density functions of the countries' GDP per capita (in PPP) are presented,

Figure 1
Heterogeneity: coefficient of variation among GDP per capíta (PPP)



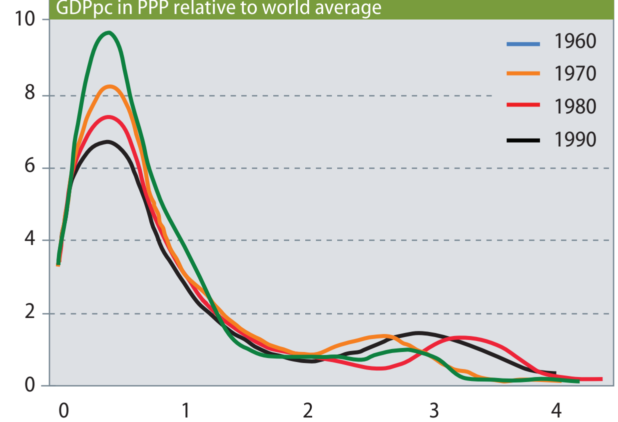
Source: Maddison (www.ggdc.net/MADDISON/oriindex.htlm)

with data for 1960, 1970, 1990, and 2008. The figure reveals that the level of concentration in the lower tail of the distribution (the left hand of the graph, corresponding to the bulk of developing countries) decreases over time; and, conversely, the level of dispersion in the upper tail (the richest countries) increases, particularly in the last density function for 2008.

As a consequence of this trend, the very term "developing world" has lost part of its accuracy, as it now refers to very different national realities. In fact,

Figure 2
Kernel density functions of GDP per capita (PPP)

Vertical axis: number of countries; Horizontal axis countries´ GDPpc in PPP relative to world average



Source: Maddison (www.ggdc.net/MADDISON/oriindex.htlm)

3 Using market exchange rates, leads to an even larger increase in heterogeneity of per capita incomes among developing countries.

some developing countries have a GDP per capita that is closer to developed than to developing country levels. For example, Portugal (an OECD country) has a GDP per capita in PPP that is 1.35 times that of Argentina's (a developing country belonging to the middle-income group); but Argentina has a GDP per capita that is 15 times that of Zambia's (another middle-income country) and 43 times that of Burundi's (a low-income country). On the whole, the ratio of per-capita income between the richest and the poorest country is 3 to 1 for the group of industrialised countries, but that relationship is close to 50 to 1 for the developing world (both in PPP).

This heterogeneity is somewhat less when studying non-income dimensions of well-being, such as life expectancy, infant mortality or education outcomes. But even here, the dispersion among developing countries is very large, much larger than among rich countries, and also larger than the average difference between high-income and developing countries.

The need to respond to this growing heterogeneity is challenging for any system of classification of the developing world. All taxonomies will have to choose between two extremes: either defining too many categories in order to preserve certain homogeneity among countries within the groups, or defining only a few categories and accepting high levels of heterogeneity among the countries within the groups. In the first case the taxonomy will be rather difficult to use (because of the large number of groups) and in the second case it will be of limited use (because of the heterogeneity within the groups). The challenge is to find a well-defined option in-between.

3 The LDCs

The origins of LDC category dates back to the first session of the United Nations Conference on Trade and Development (UNCTAD I), held in Geneva in 1964, when member countries recognized that international policies and measures for promoting the development needed to take consider individual country characteristics. Special attention was to be "paid to the less developed among them [the developing countries], as an effective means of ensuring sustained growth with equitable opportunity for each developing country". In 1969, the UN General Assembly acknowledged the need to alleviate the problems of underdevelopment of the less developed countries to enable them to draw full benefits from the Second United Nations Development Decade (IDS-II). In this context, it requested the Secretary-General to carry out a comprehensive examination of the special problems of underdevelopment of developing countries and to recommend special measures to tackle these problems. In 1970, a separate section is devoted to the "least developed among the developing countries" within the framework of the IDS-II. Subsequently, the Assembly invited the relevant entities, including the Committee for Development Planning (the predecessor of the current Committee for Development Policy (CDP)), to give high priority to the question of the identification of such countries and to report back on their findings.

In its reply to this request, the CDP indicated that there was a substantial gap between the poorest and the relatively more advanced developing countries. The LDCs could not always be expected to benefit fully or automatically from the measures adopted in favour of all developing countries in IDS-II. They required special supplementary support to remove the handicaps that limited their ability to benefit from that initiative. Apart from very low level of per capita income, which indicated severe financial constraints, the CDP identified other common features among the LDCs:

- Agriculture or primary activities dominate the generation of the GDP and in the absorption of the labour force; predominance of subsistence activities (limited capacity for mobilizing domestic resources) with low level of labour productivity, in particular in food production;
- Limited manufacturing and an undiversified production structure also reflected in the high export concentration and dependence on two or three primary commodities and high volatility of export earnings (upon which fiscal revenues rely).

Accordingly, LDCs cannot benefit from trade measures for manufactures unless these measures are accompanied by support to stimulate industrial production and diversification;

- Low level of education and an overall shortage of skills to organize and manage development; limited capacity to absorb technological advances; poor health and nutrition outcomes;
- Lack of adequate physical and institutional infrastructure for development;
- Economically small (by population or national income), undiversified natural resource base (CDP, 1971).

Three indicators were selected as criteria to classify countries as LDCs:

- GDP per capita, which gives a general indication of the dimensions of poverty and overall level of development;
- The share of manufacturing in GDP, which conveys information on the extent of structural transformation of the economy; and,
- Adult literacy rate, which indicates the size of the base for enlarging a skilled labour force.

To these three indicators, CDP added the average rate of GDP growth (real terms) to facilitate decisions on border line cases. The application of the criteria, done in a flexible manner, led to a suggested list of 25 countries, to be reviewed again in 1975. The Committee's list was approved by both the Economic and Social Council and the General Assembly in 1971.

With respect to special measures in favour of LDCs, CDP suggested a balanced, country-by-country approach covering both social and economic constraints to development and which would require coordination of actions at both the national and international levels. Three main areas of support are suggested: (i) Technical cooperation to improve countries' capacity to widen its development efforts; (ii) Financial assistance at appropriate terms (long term, grace period and concessional rates of interest); and, (iii) International trade measures and regional co-operation to allow for the expansion of production base in the countries given their limited domestic markets.

3.1. The category: criteria and processes

a) The LDC list

The LDC category currently comprises 48 countries (see table 1). The list grew over the years as countries gained independence and faced severe developmental challenges which were, in some cases, compounded by the devastating effects of independence war and conflict. Eritrea, Timor-Leste and South Sudan are cases in point. Others were added due to a sustained deterioration in economic conditions (Angola, Liberia and Senegal). In the early years of the category, there were no systematic reviews of the list. Decisions of inclusion often followed an assessment of specific countries— on the base of the established criteria— but which was initiated by a request from the country itself through ECOSOC or the General Assembly (Cape Verde, Comoros, Djibouti, Equatorial Guinea, Kiribati, Mauritania, Sierra Leone, Togo, Tuvalu, and Vanuatu). Not all countries forwarded for CDP's consideration were found eligible for inclusion, either because they did not meet the criteria or because the Committee was unable to make a decision in view of lack of corroborating data (Angola, Liberia, Sao Tome and Principe) and opted to defer its decision. Inevitably most, if not all, of these countries eventually were included in the list. In other instances, the Committee on its own initiative reviewed specific country cases as additional and more reliable information became available which confirmed that countries should be added to the list (Bangladesh, Central African Republic and Yemen).

A systematic review –the first of the triennial reviews—was conducted in 1991, the year when major refinements were introduced to the criteria (introduction of two composite indices on structural handicaps, the precursors of human assets index, HAI, and economic vulnerability index, EVI). As a

Table 1

List of Least Developed Countries as of May 2014

Country	Year of inclusion	Country	Year of inclusion
Afghanistan	1971	Madagascar	1991
Angola	1994	Malawi	1971
Bangladesh	1975	Mali	1971
Benin	1971	Mauritania	1986
Bhutan	1971	Mozambique	1988
Burkina Faso	1971	Myanmar	1987
Burundi	1971	Nepal	1971
Cambodia	1991	Niger	1971
Central African Republic	1975	Rwanda	1971
Chad	1971	Sao Tome and Principe	1982
Comoros	1977	Senegal	2000
Dem. Rep. of Congo	1991	Sierra Leone	1982
Djibouti	1982	Solomon Islands	1991
Equatorial Guinea[a]	1982	Somalia	1971
Eritrea	1994	South Sudan	2012
Ethiopia	1971	Sudan	1971
Gambia	1975	Timor-Leste	2003
Guinea	1971	Togo	1982
Guinea-Bissau	1981	Tuvalu[b]	1986
Haiti	1971	Uganda	1971
Kiribati	1986	United Rep. of Tanzania	1971
Lao PDR	1971	Vanuatu[a]	1985
Lesotho	1971	Yemen	1971
Liberia	1990	Zambia	1991
Memo item: graduated countries			
Botswana	1994	Maldives	2011
Cape Verde	2007	Samoa	2014

a Scheduled to graduate in 2017

b Recommended to graduate by the CDP in 2012. Ecosoc decision postponed to 2015

result, five countries joined the list (Cambodia, D.R. Congo, Madagascar, Solomon Islands and Zambia). Ghana was also recommended for inclusion in 1991 but declined to join.[4]

The 1991 review also established graduation rules. Among the five countries meeting graduation thresholds in 1991, only Botswana was recommended to graduation which was to take place three years later. Since 1994, three other countries graduated from the category (Cape Verde, Maldives and Samoa), while two other countries (Equatorial Guinea and Vanuatu) are scheduled to graduate in 2017(see table 1). Graduation is faced with much concern by most LDCs, and some countries recommended to graduate have tried to delay the process at the intergovernmental level or to persuade the decision-making bodies that graduation was premature and unwarranted. Most of countries' concerns had to do with uncertainties surrounding the withdrawal of LDC specific measures, despite the fact that there has

4 Besides Ghana, other countries declined to be included in the list at subsequent triennial reviews (Zimbabwe and Papua New Guinea).

been a great deal of misunderstanding of what these measures actually are and, with very few exceptions, available measures have often not been used.[5] Graduated countries have been routinely monitored by the CDP and thus far, there has been no noticeable deterioration to the development progress of those countries due to graduation (CDP reports: 2009, 2012 and 2014).

b) The criteria

Since it was first applied in 1971, the criteria to identify LDCs was refined and updated on several occasions to incorporate new development concerns, relevant advances in economic theory and greater data availability. Yet, the criteria have always included the three components mentioned above: income, social progress and economic vulnerability. Inclusion and graduation procedures have also evolved over the years.

The CDP defines LDCs as low-income countries suffering from severe structural handicaps to sustainable development, whose identification is based on three criteria:

a. Per capita gross national income (GNIpc), converted by exchange rates in constant terms; and two composite indices of structural handicaps:

b. The human assets index (HAI), which gives an indication of the availability and quality of human capital; and

c. The economic vulnerability index (EVI) which measures economic structural vulnerability to exogenous shocks (figure 3).[6]

5 See various ex-ante impact assessment reports prepared by DESA discussed further below and available from the CDP website.

6 Detailed information on how the indices are calculated and respective data sources are available at the CDP website http://www.un.org/en/development/desa/policy/cdp/ldc_info.shtml and UNDESA/CDP, 2011. For a comprehensive historical background see Guillaumont (2009).

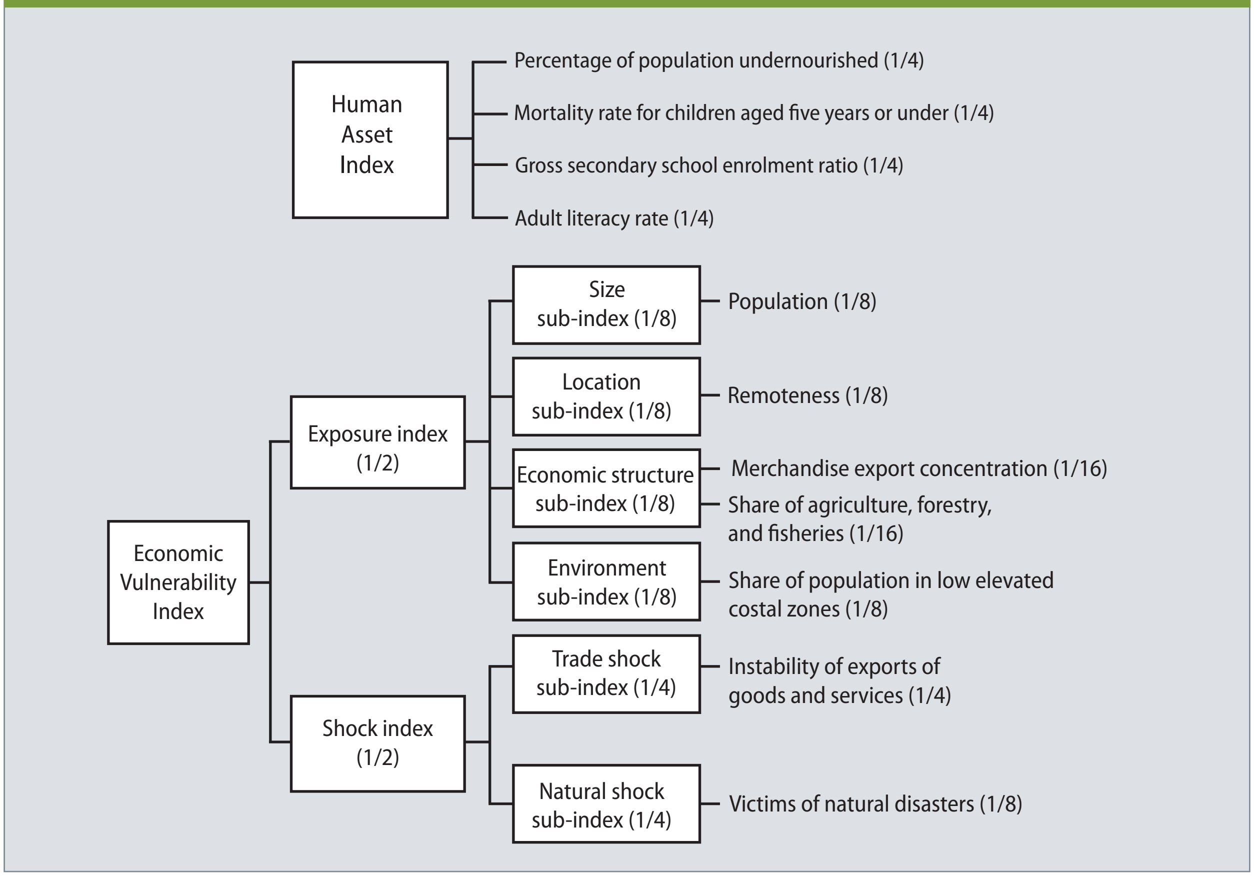
Every three years, the CDP undertakes a review of the list of LDCs, on the basis of which it advises the Economic and Social Council on countries that should be added to or those that could be graduated from the list. Threshold levels for each of the three criteria are defined, with the thresholds for graduation established at a higher level than those for inclusion. To be added to the category, a country must satisfy the inclusion threshold levels of all three criteria and have a population smaller than 75 million people. To be eligible for graduation, a country needs to fail two, rather than only one, criteria. Alternatively, a country may be eligible to graduation when its GNI per capita exceeds at least twice the graduation threshold on an anticipated sustained manner.

Additional information is used to support the CDP decisions besides the indicators in the criteria. In the case of inclusion, a *Country Assessment Note* is prepared by UN Department of Economic and Social Affairs (UN-DESA). The Note pays particular attention to the reasons for the recent deterioration of economic and social conditions in the country in order to determine whether that deterioration is due to structural or transitory factors. In the case of graduation, UNCTAD prepares a *Vulnerability Profile* (VP) of that country, which provides an overall background of the country's economic and development situation. The VP also identifies vulnerabilities not covered by the EVI, as well as other structural features of the country that are of relevance for the graduation decision. In addition, DESA prepares an *Ex-ante Impact Assessment* (IA) of the likely consequences of graduation for the country's economic growth and development, in particular on the expected implications of the loss of LDC status with regard to development financing, international trade and technical assistance.

c) The intergovernmental process

The CDP holds consultations with countries on inclusion and graduation decisions. Inclusion requires approval from the country concerned, whereas graduation does not. Additionally, graduation requires

Figure 3
HAI and EVI



Source: CDP Secretariat.
Note: Numbers in parenthesis denote the weight of each indicator in the composite index

that the country meets graduation thresholds in two consecutive triennial reviews. CDP recommendations on inclusion and graduation are forwarded to the Economic and Social Council for endorsement. Once endorsed, the General Assembly must take note of the recommendation before a country joins or leaves the category. Inclusion is immediate, while graduation takes place only three years after the GA acted on the recommendation. This provides the country with time to prepare a transition strategy, in cooperation with its development partners. The strategy—to be implemented after the country has officially graduated—aims at ensuring that the phasing out of support measures resulting from its change of status will not disrupt the country's continued development efforts as mandated by General Assembly resolutions 59/209 and 67/221. During this three year period, the country is still an LDC and has access to all special measures available to the category (UNDESA/CDP, 2008).[7]

3.2. How useful has the LDC category been?

Currently, the main support measures extended to countries with LDC status vary among development

7 On smooth transition see also CDP Secretariat (2012). Strengthening Smooth Transition for the Least Developed Countries. CDP Background Paper Series No. 14, available from http://www.un.org/en/development/desa/policy/cdp/cdp_background_papers/bp2012_14.pdf.

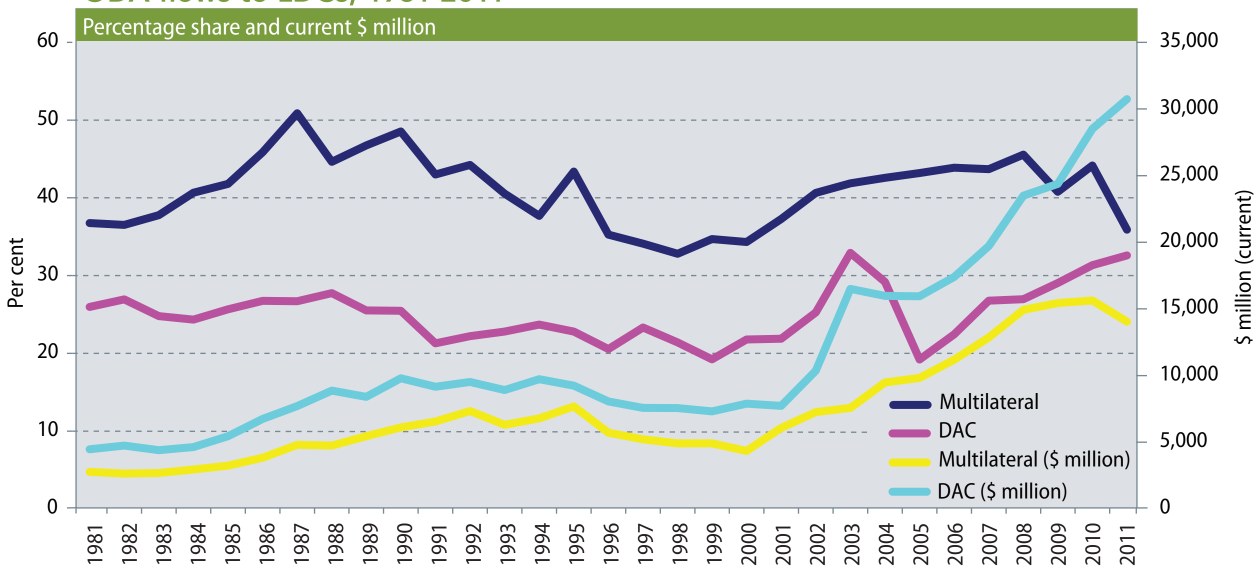
partners and relate primarily to trade preferences and the volume of official development assistance (ODA). These measures fall into three main areas: (a) international trade; (b) official development assistance, including development financing and technical cooperation; and (c) other forms of assistance (UNDESA/CDP, 2008). A critical evaluation of the usefulness and effectiveness of these measures is beyond the objectives of this paper. Suffice it to say that the special support granted to LDCs, including trade preferences within WTO, and earmarked support from the UN system has not worked as intended and has generated very limited results (CDP, 2010).

There is a significant problem with the way the support measures are designed, namely, they do not take into account the diversity within the group and, therefore, they are not adequately tailored to circumstances prevailing at the country level. Part of this diversity has to do with the asymmetries in the inclusion and graduation decisions as discussed above. In fact, the current list of LDCs – not considering those already recommended or identified for graduation for the first time—includes 17 countries that no longer meet the inclusion criteria, that is to say, they do not meet the inclusion thresholds in all three criteria. Accordingly, not all LDCs are low-income economies. As seen above, the current LDC list also includes 15 lower-middle-income, two upper-middle-income and one high-income economies (as per the 2013 World Bank classification). LDCs share many common features and, on average, have poorer outcomes in terms of income, human capital, or structural vulnerability than the average of developing countries, but these outcomes may reflect different circumstances at the country level (CDP, 2010). Among the current 48 LDCs, 8 are islands, while 16 are land-locked economies. There is wide range in population size: from tiny Tuvalu to Bangladesh. Twenty-three LDCs were identified to be in conflict or post-conflict situations in 2010 (Cortez and Kim, 2012). Economic structures also differ greatly across LDCs: six are fuel exporters, other 6 are manufacture exporters (largely textiles and garments), while 10 are mineral exporters, 8 are agricultural exporters and 10 are service exporters (classified according to which export category accounts for at least 45 per cent of exports of goods and services).

Another issue has to do with how much priority the LDC category influences donor's allocation decisions, and how much donors honor their allocation commitments. Few countries have consistently met the commitment of allocating 0.15 to 0.20 per cent of their GNI to LDCs over the years. On the other hand, commitments in terms of quality of ODA provided (grant element, untying, etc.) were generally met.

Overall, however, the category does not seem to have attracted special attention by bilateral donors. While the introduction of the category drew donors' attention in the 1970s, momentum was not maintained in the 1980s and the 1990s when ODA flows to LDCs grew less (or contracted more) than flows to other developing countries. This trend seems to have been reversed during 2000-2011, but it is not clear whether the change is due to increased recognition of the category or due to the adoption of the MDGs with its emphasis on poorer countries and on social targets whose indicators are included in HAI. Several other factors are taken into account in allocative decisions by donors, including conflict and post-conflict situation, development partnership history, governance performance, etc. In fact, the results of an econometric exercise indicate that a positive and significant correlation between ODA flows and the level of income per capita and HAI, while the association is statistically insignificant in the case of EVI (CDP, 2010). The results of a UN DESA-CDP survey on 17 donor countries confirm these overall findings (UN-DESA/CDP, 2011a). While the share of multilateral ODA going to LDCs is larger than the share allocated to LDCs by DAC donors (see figure 4), multilateral flows to LDCs seemed to have followed similar trends. Yet, they contracted more than the flows going to other developing countries in the 1990s and recovered in the 2000s but not sufficiently to compensate for the previous decline. Moreover, not all international organizations fully acknowledge the category or have programme specifically designed for the category. In as much as LDC

Figure 4
ODA flows to LDCs, 1981-2011



Source: OECD/DAC online database.

handicaps coincide with the specific areas addressed by these organizations, the countries receive priority. At the same time, there are no LDC-specific programmes in the World Bank, IMF or the regional development banks.

It thus seems that the LDC category—despite being the only category of countries officially recognized by the UN General Assembly— has not been fully adopted by the international development community or fully incorporated in the global regimes where LDCs operate. This brings adverse development impacts on LDC countries and compromises the effectiveness of any special measure adopted in their benefit (UNCTAD, 2010).

4 Other classifications

4.1. The World Bank's country classification

The World Bank's income groupings are originally based on the Bank's operational lending categories and related to a country's eligibility for concessional financing. Initially, the World Bank defined eligibility through judgment-based criteria, but after a few years it decided to move toward a more rule-based system, taking into account the economic capacity of countries as a criterion for defining lending conditions from the Bank.[8] GNI per capita was considered to be the best broad measure of a country's economic capacity. This was partly because other variables related to development achievements (such as infant mortality, literacy or poverty) seemed to be highly correlated to GNI per capita. While this is a case on average, there are many outliers as has been pointed out by Drèze and Sen (1989) and UNDP (1990), among many others. In any case, the World Bank chose GNI per capita as the main criterion for classifying countries.

In the early 1980s, the IBRD put forward its analytical country classification related to its operational lending categories. The initial classification

8 In fact, in 1960, when the International Development Association (IDA) was created, two groups of countries were defined: Part I: countries that were expected to contribute financially to IDA, and Part II: countries that could be expected to draw on the concessional resources. But the definition of these two lists was a political (more than technical) exercise in which an initial proposal was submitted for negotiation to the various executive directors. In 1964 an income threshold was defined for eligibility to access IDA resources (Nielsen, 2011, taken from Mason and Asher, 1973).

distinguished between developing countries, industrialised countries and capital-surplus oil-exporting countries.[9]. In 1989, the current classification (low, lower-middle, upper-middle and high income) was defined. The process of setting the original per capita income thresholds for defining categories for countries was related to the Bank's previous lending activities, although the specific criteria used for determining the thresholds have never been published. Thereafter, the original thresholds have been updated to incorporate the effects of international inflation (measured by the average inflation of Japan, the United Kingdom, the United States and the Euro zone).

As the World Bank explains, the categories were defined as following. The economies whose GNI per capita falls below the Bank's operational cut-off for "civil works preference" are classified as low-income countries (LICs); those economies whose GNI per capita is higher than the LICs' threshold, but lower than the threshold for 17-year IBRD loans, are classified as lower-middle income countries (LMICs); and those economies whose GNI per capita is higher than the LMICs' threshold, but lower than the threshold for high-income economies, are classified as upper-middle income countries (UMICs). The border between middle-income and high income was redefined in 1989, establishing the threshold (in a discretionary way) at $6000 per capita in 1987 prices.[10]

For classifying countries, GNI per capita in US dollars is calculated using the World Bank's Atlas conversion factor. This factor takes into account in any year the average of the country's exchange rate for that year and those for the two preceding years, adjusted for the difference between the rate of inflation in the country and in a group of industrialized economies[11]. This last rate of inflation is measured by the change in the Special Drawing Rights (SDR) deflator; and this deflator is a weighted average (in terms of the amount of each country's currency in one SDR unit) of the selected economies' GDP deflators in SDR terms. Weights can vary over time in relation to the composition of the SDR or the relative exchange rates of each currency. By using three-year averages, the Atlas method is trying to reduce the bias introduced by short-term exchange rates fluctuations.

There are, however, two more serious problems. Firstly, as long as there has been a significant shift in the distribution of the world wealth, a wider spectrum of countries, including China and other emerging economies, should be taken into account in the determination of international inflation. Secondly, as is well-known, market exchange rates underestimate purchasing power in low-income countries (due to the systematic undervaluation of non-traded goods and services in these countries). The International Comparison of Prices Project has, since the 1980s, provided purchasing power parity adjusted levels of GNI which are, for example, used by the IMF in its annual World Economic Outlook and by UNDP in its Human Development Index. While the PPP estimates of GNI provide a more realistic picture of relative per capita incomes across the world, they are not without problems.[12] Thus the choice to use the Atlas

9 The World Bank initially used membership of the OECD, with some unexplained exceptions, as the criterion to define the category of industrialised countries.

10 It has not been explained why the World Bank preferred GNI per capita rather GDP per capita as a criterion, although there are good reasons to use an income-based concept such as GNI rather than a production-based concept such as GDP.

11 Initially, international inflation was defined by the average rate of inflation in the G-5 countries; after 2000, the average rate of inflation of the Euro Zone, Japan, and the United States was used.

12 Among the main problems, PPP factors of conversion are estimated based on complex and contested procedures. Second, they are only valid for particular benchmark years. Comparing per capita incomes across benchmark years can, however, lead to estimates that are inconsistent with the real growth rates measured in national currencies in the intervening period. Also, sometimes the estimates from benchmark years have led to massive revisions of PPP adjusted per capita income levels. For example, in the revisions made as a result of the 2005 benchmark year, China's and India's PPP adjusted GDP per capita was estimated to be 40% lower than previously believed. For a discussion, see Klasen (2013), Reddy and Pogge (2009).

method by the World Bank has clear drawbacks and biases, but the alternative also has some drawbacks.

In any case, the use of GNI per capita Atlas method introduces well-known biases in determining the real development level of countries development in comparative terms. If we compare the variable used to define World Bank´s categories with countries' levels of GDP per capita or GNI per capita, both in PPP terms, we could observe that an important group of countries move outside of their respective category (figure 5 a and b). In fact, if one used the World Bank thresholds and considered PPP incomes, there would hardly be any low-income country and many lower-middle income countries would move to the upper-middle income category. But as can be seen, there would not only be a general shift upwards (in PPP terms), but this differs greatly by country, suggesting that the biases of market exchange rates inherent in the Atlas method are not linear, but rather heterogeneous, making this categorization particularly unreliable.

Based on GNI as the income concept and the Atlas method for exchange rates, all thresholds for the different income categories have been maintained constant in real terms over time. Therefore, the relationships between the thresholds are constant too. The threshold between low and lower-middle income is approximately 8.1 per cent of that which defines high-income countries; and the border between lower-middle and upper-middle is 32.3 per cent of that which defines high-income countries. As the thresholds are constant, the classification criteria are subject to a downward trend relative to average world income (figure 6). In fact, from 1987 to 2010, the level of each threshold about doubled, but the world per capita income increased by 2.3 times.

This system has two related problems: if the world income level continues to grow, (i) the thresholds risk losing their initial significance: for example, the high-income threshold could fall below the average world income level in the future, and; (ii) the number of countries belonging to the lower levels of income categories will fall further (and those belonging to higher levels of income will increase). That is what has happened in the last 10 years. Although the number of reported countries has changed over time, the proportion of those belonging to the low-income and lower-middle income categories has reduced significantly, while the proportion of those belonging to the upper-middle and high income categories has increased.

In 2000, LICs (some 64 countries) represented 40 per cent of the world's population, and close to 11 per cent of the aggregated world GDP, when measured in PPP (see table 2). However, over the period 2000 to

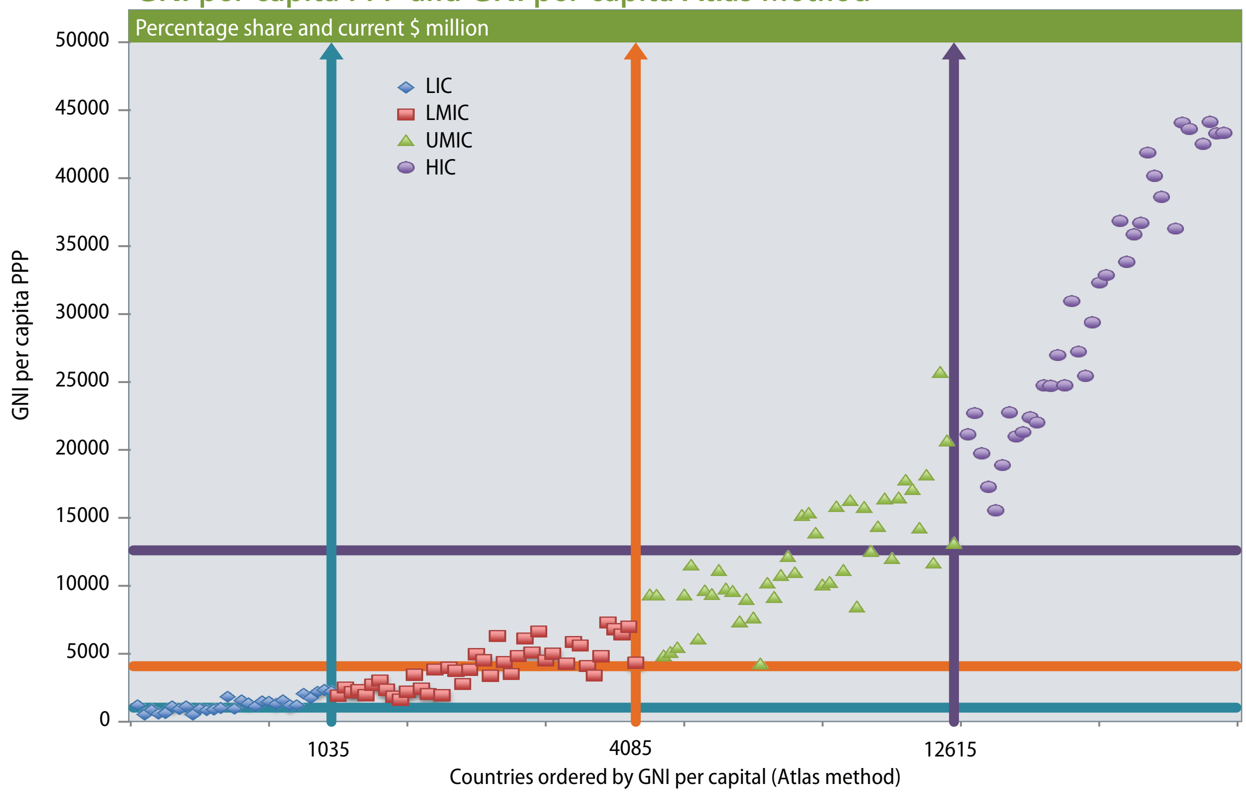
Table 2
Changes in the World Bank´s income categories (1990-2012)

	Number of countries				Population (in %)				GNI (PPP) (in %)			
	1990*	2000	2010	2012	1990*	2000	2010	2012	1990*	2000	2010	2012
Low Income Countries	49	64	43	32	57.9	40.6	11.9	12.0	4.8	11.0	1,3	1,4
Lower-Middle Income Countries	57	55	55	56	11.9	33.8	36.0	35.6	4.3	21.1	12.0	11.5
Upper-Middle Income Countries	31	38	46	54	8,7	10.7	35.7	33.9	7.0	13.3	32.0	30,0
Middle-Income Countries	88	93	101	110	20.6	44.5	71.7	69.5	10.9	34.2	44.0	41.5
High-Income Countries	44	50	67	71	15.5	14.9	16.4	18.5	72.1	55.7	55.1	57.5
Total	184	207	211	213	100	100	100	100	100	100	100	100

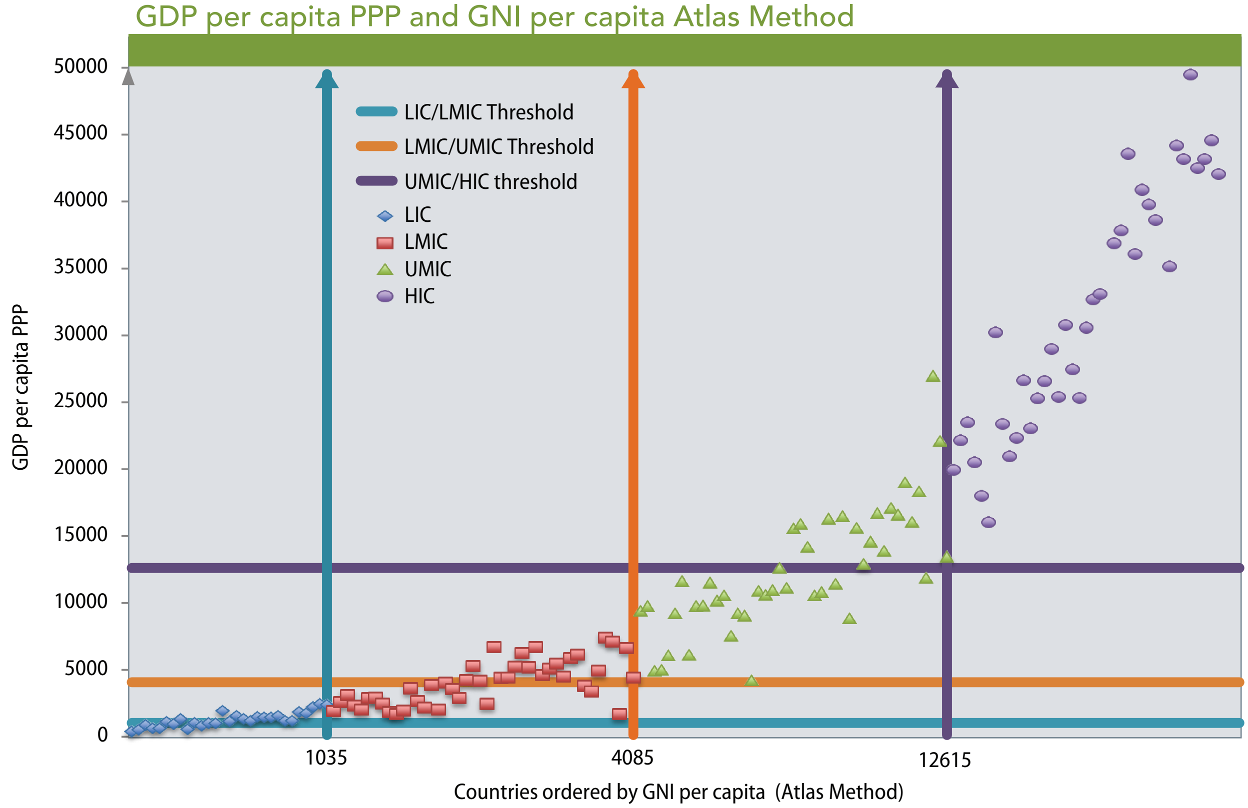
Note: 1990: GNI in Atlas method, countries with less than 1 million inhabitants included; without information on Cuba, North Korea and former URSS.
Source: *World Development Report*, several years (The World Bank).

Figures 5a and 5b

GNI per capita PPP and GNI per capita Atlas Method

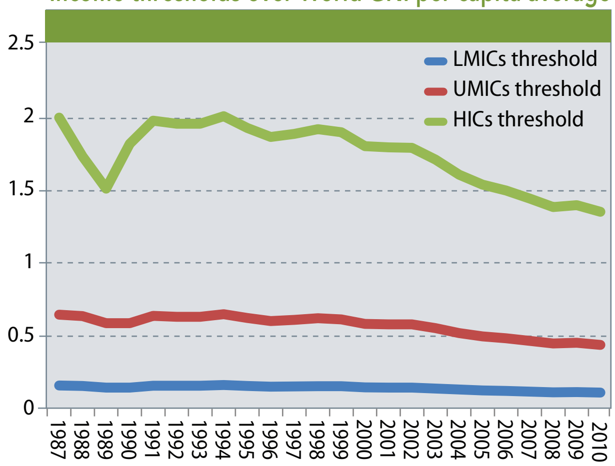


GDP per capita PPP and GNI per capita Atlas Method



Source: OECD/DAC online database.

Figure 6
Income thresholds over World GNI per capita average



Source: The World Bank: World Development Report (several years).

2012, a great shift occurred among these groups. As a consequence, by 2012, a smaller number of LICs (32 countries) represented just 12 per cent of the world population, and a minuscule 1.4 per cent of world GDP (PPP). On the other hand, between 2000 and 2012, MICs (93 countries in 2000 and 110 in 2012) increased their share of the world's population from 45 to 70 per cent, and their contribution to world GDP (PPP) rose from 34 to 42 per cent. Thus, the majority of the population of the developing countries no longer live in LICs (as in the past), but in the broader and more heterogeneous group of MICs. This is also the main reason why the majority of the world's income poor (using the $1.25 a day classification) now live in MICs (Sumner, 2012).

In summary, while the World Bank's income classification has the advantage of simplicity, there are a range of problems associated with the income indicator and the way groups are being formed.

4.2. Small Island Developing States (SIDS)

There is no UN officially recognized SIDS category. Nonetheless, the challenges of small islands have been on the international agenda for quite some time. Since 1985, the World Bank has been applying a "small island exception" in determining IDA eligibility. The Commonwealth Secretariat has a tradition of focusing a significant part of its activities on small islands and small states. The Non-aligned Movement has also pursued a specific focus on small island developing countries and so has the European Union through the ACP framework (Hein, 2004). The WTO recognizes the challenges and risks faced by small vulnerable economies (SVE), both insular and continental countries. In 2002 a special programme on SVE was created as a follow-up of Doha to help the integration of these economies in the multilateral trading system and to monitor the proposals by these countries submitted to the various negotiating groups within WTO. While there is an official definition of what WTO understands as SVEs, the existence of such definition does not imply the creation of an official subgroup or category of members.[13]

Within the UN, the term SIDS starts to gain currency with the adoption of Agenda 21 at the UN conference on sustainable development in Rio de Janeiro in 1992 and its section on "sustainable development of small islands" (chapter 17, section G). In 1994, the United Nations adopted the Barbados Programme of Action for the Sustainable Development of SIDS (BPOA), which identified 15 priority areas and the necessary actions to be taken at the national, regional and international levels. Progress on implementation of the BPOA was assessed by the UN in Mauritius in 2005 when the Mauritius Strategy for the Further Implementation of the Programme of Action for Sustainable Development of Small Island Developing States (MSI) was adopted. The MSI identifies critical areas for further attention in the BPOA and includes emerging issues that constitute development challenges considered to be relevant to SIDS. Thus, although there are no SIDS-specific international measures, these two programmes give the overall framework within which international support for SIDS operates.

13 The term applies to applies to WTO Members with economies that, in the period 1999 to 2004, had an average share of (a) world merchandise trade of no more than 0.16 per cent or less, and (b) world trade in non-agricultural products of no more than 0.1 per cent and (c) world trade in agricultural products of no more than 0.4 per cent

The fundamental development challenges of SIDS, as described in literature, are related to size and location. The size issue relates to the smallness of SIDS, regardless of the way size is defined. Population is the most commonly used measure of country size, although land area and volume of economic activity are also relevant indicators. The second major development constraint relates to location as many of these economies are remote from major international markets and/or located in zones subject to adverse weather phenomena.

However, development challenges emanating from these two features are also confronted by other developing countries (small domestic markets, reduced possibilities for economies of scale, limited natural endowments, vulnerability to adverse natural phenomena, remoteness, exposure to external economic shocks, import dependency, narrow export base, etc.) which makes identifying this group of countries on the base of their developmental challenges, or establishing a distinct category deserving special support measures, a complex issue (Hein, 2010; Bruckner, 2013). Moreover, there is no agreement of how much small a country should be to be considered as a "small developing economy". Membership in the group is largely by self appointment. Besides the programmes of action for SIDS, which specify a partnership between SIDS and development partners, there are no SIDS-specific support measures, no formal and measureable commitments exclusively conceived for this group of countries. Thus far, there has not been sufficient political support across the UN member States for the creation of a criteria-defined category. Donors, though sympathetic to the SIDS challenges, seem to have no desire to create additional country categories, or do not think it justified to have such a category. Developing countries, in turn, are often concerned that the creation of a particular category with specific benefits will be in detriment of the support they currently receive as a group. Finally, there is no consensus within the SIDS themselves (*latu sensus* defined, see below) on the need of a special category.

As a result, several unofficial lists of SIDS co-exist. The lists by UN-DESA and Office of Higher Representative for LDCs, land-locked developing countries and SIDS (OHRLLS) are based on the membership of the Association of Small Island States (AOSIS). The AOSIS list includes entities where most of the land mass is not situated on an island (for example Belize, Guinea-Bissau, Guyana, Suriname) and had become members of the association due to being "low-lying coastal states". It also includes several entities that are non sovereign states (e.g., New Caledonia). The OHRLLS list is based on AOSIS membership, but it differentiates UN member States from non-member States and adds Bahrain. UNCTAD's list is more restricted, being limited to 29 States, with populations not exceeding 5 million people, except for Papua New Guinea (see table 3).

With self-selection underlying the composition of the group, heterogeneity prevails. A cluster analysis and principal component exercise indicated that while SIDS (UN-DESA list but reduced to 33 countries due to data limitations) are more vulnerable to economic and natural shocks than other developing countries, there is a great deal of diversity. Geography is a major factor behind this, but there is substantial variation within and across SIDS clusters with respect to various vulnerability dimensions. Even within the more homogenous subgroups of SIDS, there seems to be necessary to have support measures designed to address specific development challenges (Bruckner, 2013).

4.3 Land-locked Developing Countries (LLDCs)

Land-locked developing countries constitute the third group of developing countries receiving special attention from the UN General Assembly and the UN system. Transport and transit issues of land-locked and transit countries were first addressed by the United Nations Conference on Transit Trade of Land-locked Countries in 1965, which was convened at the request of the General Assembly. The Conference adopted the Convention on Transit Trade of Landlocked Countries, a multilateral treaty on rules

Table 3
SIDS by UN-DESA, OHRLLS and UNCTAD

American Samoa	*Mauritius*
Anguilla	*Micronesia (Federated States of)*
Antigua and Barbuda	Montserrat
Aruba	*Nauru*
Bahamas	Netherlands Antilles
Barbados	New Caledonia
Belize	Niue
British Virgin Islands	*Palau*
Cape Verde	*Papua New Guinea*
Commonwealth of the Northern Mariana Islands	Puerto Rico
Comoros	*Saint Kitts and Nevis*
Cook Islands	*Saint Lucia*
Cuba	*Saint Vincent and the Grenadines*
Dominica	*Samoa*
Dominican Republic	*Sao Tome and Principe*
Fiji	*Seychelles*
French Polynesia	Singapore
Grenada	*Solomon Islands*
Guam	Suriname
Guinea-Bissau	*Timor-Leste*
Guyana	*Tonga*
Haiti	*Trinidad and Tobago*
Jamaica	*Tuvalu*
Kiribati	United States Virgin Islands
Maldives	*Vanuatu*
Marshall Islands	

Note: DESA: used to monitor sustainable development trends (51 countries); UNCTAD: used for analytical purposes (29 countries) with countries in italic font; OHRLLS: Member States that are SIDS (38 countries) with countries in underlined font plus Bahrain.

for LLDCs to transport goods to and from seaports. In 1970, the General Assembly, within the context of the Second UN Development Decade (IDS-II), included a section on special measures in favour of LLDCs. It calls on national and international financial institutions to "accord appropriate attention to the special needs of land-locked developing countries in extending adequate financial and technical assistance to projects designed for the development and improvement of the transport and communications infrastructure needed by these countries [...]." In 1995, the GA endorsed the "Global framework for transit transport cooperation between land-locked and transit developing countries and the donor community". The framework was conceived by a group of governmental experts to enhance the transit and transport systems of LLDCs and to facilitate their integration in the multilateral trading system. In 2003, a UN global conference is convened in Almaty, Kazakhstan to review the situation of transit transport systems, including the implementation of the Global Framework for Transit Transport Cooperation of 1995 and to formulate appropriate policy measures aimed at developing efficient transit transport systems in LLDCs. A Programme of Action is adopted as a result. It focuses on transport infrastructure development and maintenance, transit policies and trade facilitation measures.

The approach towards LLDCs seem to be similar to the approach on SIDS in the sense that there is a specific major framework umbrella governing the partnership relations among the various stakeholders, as well as there is identification of problems to be tackled and the ways to go about them, but no group-specific support measures. Conversely, the identification of developing countries that are LLDCs is much less problematic than in the case of SIDS. There is a unique list of developing countries recognized as LLDCs (31 countries, see table 4), but these countries do not constitute a category with inclusion and graduation rules as it is the case of the LDCs. Moreover, the LLDC programme of action specifically targets to the particular issue of transport and transit, and does not address the various other dimensions of development challenges confronted by these countries. As such, it is a programme devoted to addressing a very particular need of a group of developing countries.

Table 4
Land locked developing countries

Afghanistan	*Malawi*
Armenia	*Mali*
Azerbaijan	Moldova
Bhutan	*Mongolia*
Bolivia	*Nepal*
Botswana	*Niger*
Burkina Faso	Paraguay
Burundi	*Rwanda*
Central African Republic	*Swaziland*
Chad	Tajikistan
Ethiopia	*Turkmenistan*
Kazakhstan	*Uganda*
Kyrgyzstan	*Zambia*
Lao PDR	*Zimbabwe*
Lesotho	

Note: Countries in italics are also LDCs..

4.4. *Fragile States*

In the late 1990s and early 2000s, a new category of 'fragile' states was created. Initially, fragile states largely referred to countries in conflict or post-conflict, following the pioneering work of Collier and his co-authors on the economic costs of conflicts (for example, Collier and Hoeffler, 1998). To this, a group of countries was added, in which the state had basically ceased to function, or in which the writ of the state did not extend much beyond the capital city. Lastly, this discussion began to relate to an overlapping (but larger) group of countries, which the World Bank referred to as 'low-income countries under stress' (LICUS).[14] These countries have increasingly become a focus of some donors concerned about meeting the MDGs (Stewart and Brown, 2009; World Bank 2011).

The factors that lead to state fragility are diverse and manifest themselves in a variety of forms (see Carment et al. (2006) and Francois and Sud (2006) for literature overviews). Hence, the fragile states agenda is very broadly defined in terms of the emphasis on human security and peace building, the concern with poor development performance and state effectiveness, and the concern for the relationship between underdevelopment and insecurity.[15]

In recent years, a large body of literature has attempted to conceptualise and to define fragile states more precisely (for example, Stewart and Brown, 2009;

14 Apart from posing challenges for MDG progress, fragile states also pose challenges for development and aid policies as traditional models of engagement often do not work in fragile states. For example, the capacity to absorb aid is found to be lower in fragile states than in non-fragile states (McGillivray and Feeny, 2007), while the need for aid is, at the same time, considerably greater in fragile states than in non-fragile states. Consequently, in recent years, the international community has made a significant effort in attempting to develop strategies and instruments that effectively address the particular problems of fragile states (for example, World Bank, 2006a, 2011; ODI, 2006; Dollar and Levin, 2005).

15 For the political dynamics on how fragility affects human development, see, for example, Jakson and Rosberg (1982), Migdal (1998), and Collier (2000).

World Bank, 2006; ODI, 2006, ODI, 2010; DFID, 2005, USAID, 2005; Carment et al., 2006; OECD, 2008; Mata and Ziaja, 2009; CIFP, 2008; Rice and Patrick, 2008). However, a uniform approach is hindered by both a lack of data and a suitable framework to classify 'fragile states'. In addition, many definitions do not consider the structural causes for fragility, nor do they differentiate between short-term shocks and long-term problems in individual fragile states. The selection of indicators to define fragile states is clearly crucial for the validity of the list of fragile states (Adcock and Collier, 2001). Existing lists differ by their theoretical background concepts, but most concepts measure fragility along the four main dimensions: security, political, economic, and social dimensions. These lists sometimes use objective criteria, sometimes value judgement seems to be involved and, other times, a set of proxies is used to generate the list (see, also, Bourguignon et al., 2008).

Since 2006, the World Bank generated a list of fragile states using the CPIA rating of countries, thereby renaming countries previously referred to as LICUS (World Bank, 2006a, 2007a, 2009a) (table 5). The underlying concept of the CPIA approach is that fragility is characterised by weak state policies and institutions, which undermine the capacity of countries to deliver services to their citizen, control corruption, and provide sufficient accountability as well as of a high risk of violent conflict (Stewart and Brown, 2009). The CPIA rates countries against a set of 16 institutional and policy criteria grouped into four clusters: (a) economic management (three indicators); (b) structural policies (three indicators); (c) policies for social inclusion and equity (five indicators); and (d) public sector management and institutions (five indicators). In these lists, each indicator receives a subjective score of one to six from the World Bank staff members; the meaning of some of these indicators is clearly debatable (Arndt and Omar, 2006, or Alonso and Garcimartín, 2013). The overall CPIA is generated by taking the un-weighted average of the four components, which, in turn, are averages of the subcomponents. Countries that score less than 3.2 on the averaged indicator are defined by the World Bank as fragile states.

One of the main motivations of the fragile states category has been that these countries, as a group, need special and differential attention, particularly since they lag behind in achieving the MDGs. For example, the recent 2011 World Development on Conflict, Security, and Development (World Bank, 2011) as well as the Global Monitoring Report (World Bank 2010) clearly state that fragile states lag behind other countries in progress towards the MDGs compared to non-fragile developing countries.

Such statements about lower overall progress towards the MDGs have prompted some donors to use fragility measures to allocate aid. For example, the World Bank's CPIA definition of fragile states (see below) is also used by the EU Commission to benchmark EU aid.

But these statements have to be treated with considerable caution. In particular, as shown in Harttgen and Klasen (2012), it not the case that fragile states lag in MDG progress on average. Only if fragility is defined very narrowly and focuses on (relatively few) countries with multiple problems related to fragility, can one see somewhat slower progress.[16] Also, they show that the heterogeneity in performance on MDG progress among fragile states is so large that it does not make a lot of sense to treat them as a group. This is, of course, related to the great heterogeneity of the conditions and factors that contributed to countries being included in the label 'fragile'. In particular, some end up in the category due past or present conflicts. But in some, where the conflict is largely over (such as in Cambodia), this is no longer such a handicap in terms of preventing MDG progress, while in others (such as D.R. Congo) conflict remains a serious problem and prevents progress on many fronts. Similarly, some countries have institutional weaknesses that are serious barriers to MDG

16 At the same time, it is true that fragile countries, regardless of the definition, perform worse in terms of levels of MDG achievement. So they are further away from the goals, but their rate of progress has not been slower.

Table 5
Lists of fragile states using different fragility definitions

CPIA 2008	OECD	DFID	CIFP	Stewart and Brown (failure)	Stewart and Brown (at risk)	Conflict-affected between 2003 and 2007	Fragile in all definitions listed here
Afghanistan	Afghanistan	Afghanistan	Afghanistan	Afghanistan	Benin	Afghanistan	Afghanistan
Angola	Angola	Angola	Angola	Algeria	Cambodia	Algeria	Angola
Burundi	Burundi	Azerbaijan	Bangladesh	Angola	Cameroon	Angola	Burundi
CAR	Cambodia	Burundi	Burkina Faso	Azerbaijan	Colombia	Burundi	CAR
Chad	Cameroon	Cambodia	Burundi	Bahrain	Congo, Rep.	CAR	Chad
Congo, Rep.	CAR	Cameroon	Cameroon	Belarus	Djibouti	Chad	Congo, D. Rep.
Congo, D. Rep.	Chad	CAR	CAR	Bhutan	Gabon	Colombia	Congo, Rep.
Comoros	Comoros	Chad	Chad	Burkina Faso	Gambia, The	Congo, D. Rep.	Eritrea
Djibouti	Congo, Dem. Rep.	Comoros	Congo, D. Rep.	Burundi	Guinea	Congo, Rep.	Guinea
Côte d'Ivoire	Congo, Rep.	Congo, Rep.	Congo, Rep.	Cameroon	Indonesia	Eritrea	Nigeria
Eritrea	Djibouti	Congo, D. Rep.	Eritrea	CAR	Kyrgyz Republic	Ethiopia	Sierra Leone
Guinea	Equatorial Guinea	Cote d'Ivoire	Ethiopia	Chad	Madagascar	Georgia	Sudan
Guinea Bissau	Eritrea	Djibouti	Georgia	China	Malawi	Haiti	Zimbabwe
Haiti	Gambia, The	Dominica	Guinea	Congo, D. Rep.	Mauritania	India	
Kiribati	Guinea	Eritrea	Haiti	Congo, Rep.	Mozambique	Iraq	
Sao Tome & P.	Guinea Bissau	Ethiopia	Iraq	Cuba	Pakistan	Israel	
Sierra Leone	Haiti	Gambia, The	Kenya	Eritrea	Papua New Guinea	Liberia	
Sudan	Iraq	Georgia	Lao PDR	Ethiopia	Senegal	Mali	
Solomon Island	Kenya	Guinea	Liberia	Gambia, The	Singapore	Myanmar	
	Kiribati	Guyana	Madagascar	Guinea	Solomon Islands	Nepal	
Timor Leste	Korea, Dem. Rep.	Haiti	Malawi	India	Sri Lanka	Niger	
Togo	Lao PDR	Indonesia	Mali	Iraq	Sudan, The	Nigeria	
Zimbabwe	Liberia	Kenya	Mauritania	Israel	Tajikistan	Pakistan	
	Mauritania	Kiribati	Mozambique	Kenya	Tanzania	Peru	
	Myanmar	Lao PDR	Myanmar	Korea, Rep.	Thailand	Philippines	
	Nepal	Liberia	Nepal	Lao PDR	Togo	Rwanda	
	Niger	Mali	Niger	Liberia	Tunisia	Senegal	
	Nigeria	Nepal	Nigeria	Libya	Uganda	Somalia	
	Pakistan	Niger	Pakistan	Mali	Zambia	Sri Lanka	
	Papua New Guinea	Nigeria	Rwanda	Nepal		Sudan, The	
	Rwanda	Papua New Guinea	Sierra Leone	Niger		Thailand	
	Sao Tome & P.	Sao Tome & P.	Somalia	Nigeria		Uganda	
	Sierra Leone	Sierra Leone	Sudan, The	Oman		Uzbekistan	
	Solomon Islands	Solomon Islands	Tanzania	Philippines		Yemen, Rep.	
	Somalia	Somalia	Togo	Qatar			
	Sudan, The	Sudan, The	Uganda	Sierra Leone			
	Tajikistan	Tajikistan	Yemen, Rep.	Somalia			
	Togo	Timor Leste	Zimbabwe	Sudan, The			
	Tonga	Tonga		Swaziland			
	Uzbekistan	Uzbekistan		Turkmenistan			
	Yemen, Rep.	Vanuatu		Uganda			
	Zimbabwe	Yemen, Rep.		Uzbekistan			
		Zimbabwe		Vietnam			
				Zimbabwe			

Note: Countries in bold appear on all lists included in this table.

progress while others suffer institutional problems that are less constraining.

In short, it is unclear whether a category 'fragile states' is useful for classifying countries. The conditions under which these countries operate are so diverse that tailor-made approaches and solutions are required.

4.5. UNDP's Human Development classification

The UNDP's classification is based on the Human Development Index (HDI), defined by the institution in the *Human Development Report* in 1990. The HDI is part of the effort that the UNDP, led by ul Haq and with the support of Amartya Sen and a group of others well-known development thinkers, undertook for promoting a shift in the focus of development from the limited economic realm to a more "people-centred" approach. Human development underlines that the purpose of development is to enlarge people′s capabilities and choices, which are typically not fully reflected in income levels. As Sen wrote, human development is concerned with "advancing in the richness of human life, rather than the richness of the economy in which human beings live, which is only a part of it" (Sen 1999).

In spite of the difficulty to capture the full complexity of human capabilities in a single figure, the UNDP defined a composite indicator as empirical approach of countries′ level of human development and as a way to shift the attention of policy makers from economic-based objectives to more ample human well-being purposes. Therefore, three aspects – income, health and education – were identified as the most important dimensions for approaching human capabilities, being combined in a synthetic measure. Originally, these three dimensions were measured through the following indicators: GDP per capita in PPP (income); life expectancy (health); and adult literacy rate and the combined primary, secondary and tertiary gross enrolment rate (education).

Although the HDI was quite well received, it has also been subject of some criticism. Firstly, because it adopted a partial approach to human choices, leaving out of its consideration crucial aspects such as those related to environmental sustainability and other immaterial components of human well-being (human rights, personal and political freedom, cultural roots, etc.) (McGillivray and White, 2006). Secondly, because it used diverse empirical procedures (such as the selection of the indicators, the way to combine the three dimensions, the processes of updating data and the thresholds among groups), the indicator was also subject to criticism; due to measurement error in health, education and income data, between 10 and 33 per cent of countries could be misclassified (Wolf, Chong and Auffhammer, 2011).

In part as a consequence of this criticism, the index has been refined over the years, including the introduction of changes to the indicators chosen to reflect the different development dimensions and to the procedures to calculate the aggregated index. In 2010, the UNDP embarked on the latest overhaul of the index. The revised composition of the HDI is now as follows: income is measured through GNI per capita with local currency estimates converted into US dollars using PPP; health is measured through life expectancy at birth; and education is measured through a combined measure of actual and expected years of schooling. Each component is transformed into a standardised scale so that the values of the sub-indices are bounded between zero and one. Finally, the aggregate index (the HDI) is a geometric average of the three components.

In the first *Human Development Report* in 1990, the UNDP classified the reported countries into three categories: low, medium and high human development, according to the country's HDI value. After 2009, the UNDP's classification added a new category, classifying countries in four groups: very high, high, medium and low human development. The UNDP did not explain the rationale of this classification, nor the thresholds that defined the different categories.

In the *2010 Human Development Report*, absolute thresholds were dropped in favour of relative ones.

The distribution of countries' HDI is now divided into four quartiles: developed countries are in the top quartile; the group of developing countries form the other three quartiles (low, medium and high human development) (table 6).

The new classification system allows the thresholds to keep pace with the aggregate global level of human development. Therefore, this classification does not have the problem of the downward trend that characterises those classifications that rest on absolute thresholds. On the other hand, it makes is harder for countries to 'progress' from one category to the next. As a result, UNDP is currently revisiting this issue.

4.6. Highly Indebted Poor Countries (HIPCs)

The HIPC Initiative was initiated by the International Monetary Fund and the World Bank in 1996, with the aim of offering highly indebted low-income countries special measures of debt relief and low interest loans to cancel or reduce external debt repayment obligations (largely to official multilateral and bilateral donors) to sustainable levels. To be considered for the initiative, countries must face an unsustainable debt burden that cannot be managed through traditional debt relief mechanisms (such as those implemented by Paris Club). Assistance is conditional on the national governments of these countries meeting a range of economic management and performance targets.

To receive debt relief under the HIPC, a country must first meet certain requirements that define the "decision point". The main criterion was that the country's debt remains at unsustainable levels despite full application of traditional, bilateral debt relief. Additionally, the country must be poor enough to qualify for loans from the World Bank's International Development Association or the IMF's Poverty Reduction and Growth Facility (PRGF). Finally, the country must establish a track record of reforms to help prevent future debt crises and must define a Poverty Reduction Strategy Paper (PRSP) through a broad participatory process. Once a country has made sufficient progress in meeting these criteria, the Executive Boards of IMF and World Bank formally decide on its eligibility for debt relief.

After criticism, a comprehensive review of the HIPC Initiative was agreed in 1999 in order to provide faster and broader debt relief. The review affected, firstly, the thresholds to define debt sustainability. Debt was deemed unsustainable when the ratio of debt-to-exports exceeded 150 per cent (previously was defined to 200-250 per cent) or when the ratio of debt-to-government revenues exceeded 250 per cent (previously 280 per cent) *and* had an exports-to-GDP ratio of no more than 30 per cent (from previous 40 per cent) and a ratio of fiscal revenues to GDP no higher than 15 per cent (from previous 20 per cent).

Table 6
UNDP´s human development classification

	Number of countries				Population (in %)				GDP PPP (in %)			
	1988	2000	2007	2012	1988	2000	2007	2012	1988*	2000	2007	2012
Low Human Development	44	36	24	45	31.0	39.5	5.8	18.2	2.8	10.7	0.5	2.8
Middle Human Development	40	84	75	47	40.0	44.1	65.6	49.9	8.5	34.2	25.9	26.2
High Human Development	46	53	45	47	28.9	14.5	13.8	14.7	88.8	55.0	17.4	17.0
Very High Human Development	-	-	38	47	-	-	14.8	16.1	-	-	56.1	54.0
Total	130	173	182	186	100	100	100	100	100	100	100	100

Source: UNDP
* In US $ (at exchange rates)

In addition to the modified threshold requirements, the 1999 revision introduced other changes. Firstly, the six-year structure was abandoned and replaced by a "floating completion point" that allows countries to progress towards completion in less than six years. Secondly, the revised HIPC allows for interim debt relief so that countries begin to see partial relief before reaching the completion point. Thirdly, the PRGF heavily modified the previously existing Enhanced Structural Adjustment Facility (ESAF) by reducing the number and the complexity of IMF conditions and by encouraging greater input from the local community into the programme's design. Finally, under the new practice of "topping up," countries that unexpectedly suffer economic setbacks due to external factors after the decision point, such as rising interest rates or falling commodity prices, are eligible for increased debt forgiveness above the decision-point level.

In order to receive full reduction in debt, a country must establish a further track record of good performance in programs supported by the IMF and the World Bank, implement satisfactory the key reforms agreed at decision point and implement its PRSP. Once a country has met these criteria, it can reach its completion point, which allows it to receive the full debt relief agreed at the decision point.

In 2005, the HIPC Initiative was supplemented by the Multilateral Debt Relief Initiative (MDRI), supporting debt relief to African countries. The MDRI allows for 100 per cent relief on eligible debts by the IMF, the World Bank and the African Development Bank for countries completing the HIPC Initiative process. In 2007, the Inter-American Development Bank (IDB) also decided to provide additional debt relief to the five HIPC in the Latin American and the Caribbean region.

There are now 39 countries classified as HIPC: 35 countries are at completion point and are receiving full debt relief; one country (Chad) has reached its decision point and has benefited from interim debt relief; and three countries are potentially eligible for HIPC Initiative but have not yet reached the decision point (table 7).

Table 7
Heavily Indebted Poor Countries (2013)

Completion point (35 countries)	**Between decision point and completion point (1 countries)**	**Pre-decision point (3 countries)**
Afghanistan	*Chad*	Eritrea
Benin		Somalia
Plurinational State of Bolivia		Sudan
Burkina Faso		
Burundi		
Cameroon		
Central African Republic		
Comoros		
Côte d'Ivoire		
Republic of Congo		
Democratic Republic of Congo		
Ethiopia		
The Gambia		
Ghana		
Guinea		
Guinea-Bissau		
Guyana		
Haiti		
Honduras		
Liberia		
Madagascar		
Malawi		
Mali		
Mauritania		
Mozambique		
Nicaragua		
Níger		
Rwanda		
São Tomé Príncipe		
Senegal		
Sierra Leone		
Tanzania		
Togo		
Uganda		
Zambia		

Source: World Bank.

In general terms, the HIPC initiative has proved reasonably effective in handling the severe indebtedness of poor countries. It has focused international attention on unsustainable debt, has mobilised resources for heavily indebted countries and defined mechanisms of dialogue and agreements between borrowers and lenders.

It is also a positive example of a grouping of countries that is based on a particular issue with direct (and substantial) measures of support attached to it, rather than an all-purpose categorization to group developing countries. As the debt issue has receded for most HIPCs, the category is also fading away which seems to be a good approach for an issue-based grouping of countries.

5 Problems with comprehensive classifications

The proliferation of systems for classifying countries is not coherent and represents a problem for international coordination and governance of the development cooperation system. Instead of creating predictability, order, rationality and transparency in terms of rules, principles and approaches, this multiple classification results in the uneven treatment of individual countries.

With so little coherence between categories, developing countries have been placed in several and often overlapping groups. Table 8 illustrates the extent of this overlap, indicating how many of the countries in each category also belong to other categories. This situation does not contribute to coherence in international development policy. Furthermore, in addition to a lack of coherence, country classifications could cause other problems when they are used as criteria for countries' eligibility and graduation for international aid.

In general terms, we could group the classification systems mentioned in the previous sections into two different types.

a. The first type refers to those systems that classify countries according to wide development criteria: in these cases, a variable (or a set of variables) is sought to characterize the country's level of development. These classifications aim to be comprehensive and to classify all countries participating in the world economy. We could call these comprehensive or "country-based" classifications. Examples include the World Bank income classification system and the UNDP's human development index classification.

b. The second type relates those systems based on defining a relevant development challenge and identifying countries that suffer from it. This is a selective, rather than comprehensive, classification of the international system; and it tends to be based on particular issues identified rather than on a country's general features. We could call these selective or "issue-based" classifications. HIPCs, SIDS, LLDCs and Fragile States

Table 8
Overlapping categories

	LDCs	SIDS[a]	LLDCs	LICs	LHDCs	FS[b]	IDA	HIPC
LDCs	48	8	17	30	37	24	44	29
SIDS		52	-	3	6	5	12	5
LLCs			29	15	15	8	18	11
LICs				36	30	26	32	26
LHDCs					45	33	42	33
FS						43	25	23
IDA							62	37
HIPCs								39

a SIDS by UN-DESA, ORHLLS and UNCTAD.
b FS by OECD

are examples of this type. But as argued above, only the HIPC category has largely stuck to its direct issue-based mission.

The LDCs classification is somewhere between these two systems. On the one hand, it can be understood as a classification based on identifying a specific type of problem (extreme structural impediments to growth), and grouping together those countries suffering from that challenge. However, on the other hand, the problems identified are so general and comprehensive that the system could be understood as a generic distribution system of countries' developmental levels[17].

As we highlighted at the start, some country classification systems are designed for purely analytical reasons, aiming to bring together countries that are relatively homogenous. Other classifications, however, are associated with defining criteria for countries' eligibility for certain international support measures. Frequently, though, even those classification systems that were not conceived to assign aid have ended up being used by some donors as part of their general processes of selecting which countries have access to international aid.

That is, particularly, the case of the World Bank´s income classification. There are hardly any bilateral donors that rely solely in the World Bank´s thresholds for country eligibility or aid allocation, as long as they usually employ, in a discretionary and flexible way, additional criteria for that, including those related to donor´s interest and strategic purposes. But most of donors take into consideration, and assign great importance to those income thresholds in their allocative decisions. In fact, there are many donors that have decided to graduate countries from their support system when these countries cross the somewhat arbitrary threshold from low- to middle-income countries. Based on that practice, in the last decade, a significant group of donors proceeded to close their development cooperation offices in middle-income countries.

The process of aid allocation is subject to more explicit rules in the case of the international financial institutions and global funds, mainly because they have to answer to different interests of their plural membership. In the case of the World Bank and other Regional Development Banks, GNI per capita is used as a central factor in establishing eligibility to and graduation from concessional windows (table 9). More precisely, IDA defines for eligibility a maximum level of GNI per capita ($1195) that is close to the threshold that the World Bank uses for defining LICs. The same threshold is employed by the International Fund for Agricultural Development (IFAD), the African Development Fund, the Asian Development Fund and the IMF´s Poverty Reduction and Growth Trust. In accordance with the level of development of the region in which operates (mainly composed by MICs), the Inter American Fund for Special Operation set the threshold in a higher level of GDP per capita ($2587). Among the global funds, GAVI Alliance, the Global Fund and the Global Agriculture and Food Security Program (GASFSP) also use GNI per capita (and a similar threshold too the World Bank threshold) as criterion for countries' eligibility.

Although not being an exhaustive list, the cases mentioned are enough for confirming that the World Bank´s classification is used by an ample group of bilateral and multilateral donors as criterion for support allocation. It is, therefore, worth considering that associate international aid with a comprehensive classification, such as this one, can create severe problems in at least three areas: those related to equity, incentives and the necessary international coordination.

Problems of equity stem from the fact that the criteria for assessing eligibility and graduation of countries link a reality that is continuous and progressive - the developmental level of these various countries - to a discrete outcome: either a country is eligible or not (*in or out*). That can lead to situations where

17 In fact, the creation of the LDCs category seems to be linked to a desire by the international community to pay special attention "to the less developed among them [the developing countries]".

Table 9
SIDS by UN-DESA, OHRLLS and UNCTAD

Institution	Eligibility	Allocation	Graduation
IDA	GNI per capita ($1195) Lack of credit worthiness	GNI per capita Population CPIA	GNI per capita Creditworthiness
IFAD (highly concessional)	GNI per capita ($1195) Lack of credit worthiness	GNI per capita Rural population CPIA Portfolio performance Institutional and policy framework for sustainable rural development	GNI per capita
African Development Fund	GNI per capita ($1195) Lack of credit worthiness	GNI per capita Population CPIA	GNI per capita Creditworthiness
Asian Development Fund	GNI per capita ($1195) Lack of credit worthiness	GNI per capita Population CPIA	GNI per capita Creditworthiness
Inter American Fund for Special Operations	GDP per capita ($2587)	GNI per capita Population CPIA	GNI per capita
IMF Poverty Reduction and Growth Trust	GNI per capita ($1195) Lack of credit worthiness	GNI per capita Program-based conditionality	GNI per capita Creditworthiness
GAVI Alliance	GNI per capita ($1195)	DTP3 Coverage GNI per capita	GNI per capita
Global Fund	World Bank Income Categories Disease burden Non G20 Eligibility for ODA Population	Disease burden Indicative funding Performance	Transition to UMIC Member of the G20
European Commission	Income Categories Country Size	Income per capita (LICs and LDCs) Fragile States Other criteria	Member of the G20

Source: based on Salvado and Walz (2013).

countries with very similar conditions (and scores of classifying indicators) receive notably different treatment because they are on either side of a threshold that, in many cases, is arbitrary. That can cause comparative grievances that are difficult to justify.

Secondly, there are problems of incentives that come from the way the criteria of graduation are defined. These problems have to do with general synthetic variables (per capita income level or human development level) that underline the assessment of the need of support. Thus, the removal of international support seems to be associated with development achievements, and this is not the most ideal way to properly align the incentives of the international system. In some way, what the system is doing is penalising success (and rewarding failure) by tying achievements to the removal of international aid. That can also lead to incentives to distort statistics. When Ghana recently modernized its national accounts, it found itself 60 per cent richer, moving to the lower middle-income category and now no longer eligible for some types of international support (see Jerven, 2013; Devarajan, 2013).

Lastly, given the generic character of the classification criteria, there are many donors that share the same threshold for countries´ graduation for aid, which could lead to resources being simultaneously withdrawn, without proper coordination, affecting the stability and progress of a country. In fact, there is strong inter-dependence of donor giving (Davis and Klasen, 2012). Moreover, there are many donors (particularly multilateral ones) who base their graduation criteria on the per capita income of the recipient country, often defining the threshold for ending support eligibility close to that which defines middle-income countries. As a result, 41 countries will graduate from the IDA, 15 from the African Development Fund, 15 from the Asian Development Fund and about 38 from the GAVI Alliance between 2013 and 2030 (Salvado and Lah (2013)). The simultaneous graduation from various organisations suggests that some middle-income countries may lose between 25 and 40 per cent of the international aid funds they receive. Such an abrupt withdrawal of funds beyond severely limiting the total volume of resources available for the country, could affect the composition of spending since it will principally impact on those sectors - such as education and health - where aid financing is crucial (Salvado and Waltz, 2013).

In fact, where comprehensive classification systems are used, the graduation processes seem to be particularly inadequate. Nothing fundamentally has changed when a country surpasses an income (or HDI) threshold that is somewhat arbitrary, such as those that define income (or human development) categories (Alonso et al., 2014). In these cases, it would be better to substitute the current *graduation* procedure by a process of "*gradualness";* in other words, it would be better to support national efforts, modulating aid intensity (and its content) to the abilities and needs of the recipient. Furthermore, support should be maintained until the risk of a country slipping backwards in terms of development are small, something that is impossible to ascertain by a simple variable such as GDP per capita or the HDI. Additionally, a well-designed transition period should be defined, to allow for a gradual (rather than abrupt) withdrawal of international aid, offering the country clear alternative cooperation mechanisms and supervision of its evolution, in order to ensure that withdrawing aid does not have serious costs to the processes of development. In the case of the LDCs, General Assembly resolutions 59/209 and 67/221 are positive steps in this direction.

a. *The case of LDCs*

The LDC category is a particular case among existing country groupings. It is sanctioned by the UN General Assembly which takes decisions on inclusion and graduation. It has a long history and a clear set of criteria, grounded on sound analytical foundations and the CDP (an independent body of experts) plays a substantial role in monitoring the process of countries´ inclusion and graduation.

In contrast, most of the other groupings are either generated by a particular institution that is pushing a certain agenda with these categories, or by countries lobbying for a category. None of these categories have been officially approved by any global body, in most cases not even by the governing bodies of the institutions that promoted them.

The CDP category also relies on a set of approved procedures for phasing out LDC-specific support. Yet, development and trading partners' compliance with these provisions has been uneven. In general, ODA flows have been maintained to LDCs that have graduated. This seems to be a logical outcome since, as seen above, donors do not necessarily allocate ODA according to LDC status. Yet, other types of support --of which the most relevant is arguably preferential market access—have been discontinued, sometimes abruptly by some partners. It is worth noting, however, that several LDCs participate in regional free trade agreements, in which change of LDC status has no implications for market access. In any case, the potential loss of benefits creates a great deal of concern in graduating countries

6 Alternative classification by issues

The problems that affect "country-based" classification systems do not affect "issue-based" classifications in the same way, particularly when support measures are specifically designed to tackle the problems that define the category. Equity does not seem to be a concern if aid measures designed to tackle a particularly problem are not applied to a country that does not suffer from that problem (or one which no longer has the problem). For example, there does not seem to be any discrimination problem if measures designed to compensate the costs resulting from remoteness are not applied to a country that is close to a large international market; nor is there a problem if support measures for HIPCs, are not applied to countries that are not highly indebted. It is nevertheless important to ensure that the problems identified are considered as shortcomings deserving international support for the problem of equity not to arise. And support should focus on the particular issue and not become generalized. Issue-based systems do not seem to suffer from the problem of simultaneous withdrawal of international support, which appears in the graduation processes associated with the "country-based" system types (particularly in the income defined systems). Given that support is associated with specific problems, the fact that a country overcomes one of the problems addressed will not mean that it ceases to receive aid for the remaining challenges it confronts. Lastly, if issues and their respective measures of support are properly defined, the problems of poor incentives could also be avoided. For that, it is needed to target aid to countries where a particular issue exists and focus it on activities addressing the particular challenges associated with that particular issue.

Notwithstanding the above, "issue-based" systems have two disadvantages worth considering. One refers to the possible fragmentation of the international system, as long as there are numerous development issues deserving of preferential treatment by the international community. The other relates to the loss of a comprehensive approach to issues that are tightly interconnected

In order to avoid the risk of a disorderly proliferation of categories and aid measures four basic criteria should be followed:

- First, given the proliferation of country classifications, the creation of new categories should be subject to careful study. Some issues could give rise to support measures without necessarily defining a new group of countries subject to this treatment. For example, aid could be allocated in relation to the LDC Economic Vulnerability Index, without creating any category for that. This approach has already been acknowledged by the General Assembly, resolution 67/221, paragraph 23, which invites "development partners to consider least developed country indicators, gross national income per capita, the human assets index and the economic vulnerability index as part of their criteria for allocating official development assistance".
- Second, a category should be defined when the issue is important, deserves a specific set of support measures that is distinct from any other sets of measures applied to developing countries and requires certain international coordination (because implies a problem of collective action). It is important that the chosen issues do not raise problems of moral hazard (generating perverse incentives) nor link international support with policy options that should be freely decided by affected countries. For example, environmental vulnerability could be an acceptable issue, as long as it points to an important structural development obstacle that deserves international support and is, to some extent, out of government control. Meanwhile, a low tax effort should not be a criterion to allocate aid, as long as international support in these cases could reward government´s attempt to avoid the political cost of taxing the richest groups.
- Third, in order to evade the proliferation of groups, the issue-based classifications need to be designed from a relatively comprehensive view, with an aim at taking main crucial impediments

to development into account. Overall, the issue-based classification systems appear to better address development issues pertinent to developing countries, as long as issues are defined with objective criteria and monitored with sound data. The system can avoid disorderly increases in the number of categories as long as the issues at hand are kept minimal.

On the other hand, in order to avoid a fragmented treatment of the interlinked aspects of development, it could be useful to maintain a comprehensive category for the process of aid allocation. In this case, the LDCs category is the best option for preserving the required comprehensive approach to basic development problems for the reasons mentioned above: sound methodology includes a complex set of different development dimensions and applies to an ample list of countries with severe handicaps to development. Therefore, donors should strengthen the role of LDC category in their allocation of development assistance, avoiding the creation of new or alternative comprehensive categories that could compete or partly overlap with the LDCs category. This recommendation is compatible with donors that adopt an issue-based approach to identify sub-sets of countries within the LDCs group or in the developing world that face similar challenges, and design a set of specific support measures to each sub-set of countries, complementary to those that are associated to the LDCs group or the developing world.

A last point to consider is the legitimacy of particular categorizations. There is a strong case to be made that country groupings -- particularly those that are linked with countries eligibility for measures of international support -- ought to be transparent and carry legitimacy of the institutions that decide the eligibility for inclusion and exclusion. Here the LDC category has substantial advantages, too.

7 Concluding remarks

We have considered various ways to group developing countries and assessed the merits and problems of each of these systems of classification. Clearly, the recent proliferation of categories has created a lot of confusion and fragmentation, and many categories generate substantial problems. We have argued that many of the country-based groupings and some of the uses of issue-based groupings are deeply problematic (e.g., the FS grouping), create perverse incentives, and lead to problems of inequality in treatment. Additionally, these groupings do not often reflect homogeneity in the countries concerned and thus these groupings are simply not a valid way to sort countries. We would suggest two ways forward.

Firstly, the creation of new comprehensive, country-based classifications should be avoided. Donors can identify development issues that deserve international support, without defining any new category. In most of cases, international donors could allocate aid and other measures of support, based on sound and objective criteria linked to these identified issues. If new categories are needed at all, issue-based classifications are more useful and special support should be targeted to that issue. The HIPC category is a good example for such a grouping. Similarly, one could imagine that, instead of generating an 'all-purpose' SIDS category, it would be better to turn this proposal into a real issue-based categorization. For example, one could group countries that are severely threatened by rising sea levels, including not only pertinent small island states but also continental countries with a large land mass of low-lying areas. Such a category should then receive special support in particular programs of adaptation to climate change. Similarly, another group of small island states (and some other remote countries) which are particularly remote from large international markets and trade routes could receive special support in 'aid-for-trade' programs. Such issue-based groupings would be much easier to generate and maintain and would be more defensible for targeted support measures.

Secondly, for country-based systems, the LDC category has a range of advantages over other country-based groupings. They include a clear and transparent process and indicators, a track record and high legitimacy, and an independent body to monitor its implementation. In this regard, difficulties linked to graduation decisions in the intergovernmental process need to be addressed not to undermine the legitimacy of the category. At the same time, in view of the continuous or gradient nature of most development challenges, we also suggest that there should be no sharp distinctions between those on the list, and those that are slightly better off or have recently graduated. Instead, a more gradual approach to support measures is required to address some of the equity and incentive problems discussed above.

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