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Committee for Development Policy

Report on the first session (26–30 April 1999)

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Note

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Chapter I
Main findings and recommendations

1. In accordance with the request of the Economic and Social Council in its resolution 1999/2 of 5 February 1999, entitled "Work programme for the Committee for Development Policy", the newly constituted Committee for Development Policy considered the theme of the role of employment and work in poverty eradication in the context of globalization: the empowerment and advancement of women. In the light of the Council's request that the Committee complete its work on the vulnerability index, the Committee also addressed the increased vulnerability and inequality that accompany the evolving and accelerating process of globalization. The financial crises analysed by the former Committee for Development Planning are but one of the manifestations of this vulnerability. There are others which, though less dramatic, have at least equally insidious effects on poverty and employment, with women often bearing the greater burden. In line with the ongoing assessment of the implementation of the outcome of the World Summit for Social Development, the present report addresses some of these other manifestations of globalization.

A. The role of employment and work, particularly of women, in poverty eradication in the context of globalization

2. The increase in trade, investment and information flows that characterize the globalization of the world economy can yield many benefits and open up many opportunities. However, despite its positive effects, globalization has also brought with it increased vulnerability. The financial crises of 1997 and 1998 graphically illustrate that even countries that have benefited from globalization in the past, such as those in East Asia, are vulnerable. The increase in poverty and unemployment brought on in these countries as a consequence of this vulnerability is almost as stunning as the previous decreases, which were consequences of the opportunities and benefits derived from globalization. The changes caused by globalization have also increased ecological fragility.

3. The Committee noted that globalization increases vulnerability through a variety of channels, including trade and financial liberalization. It also emphasized that, without strong corrective action by Governments, inequality is likely to increase and, thus, there is a risk that political and social instability will erode the acceptance of the globalization process. However, partly as a result of globalization, the ability of Governments to implement policies to mitigate the effects of globalization on unemployment, poverty and inequality is increasingly constrained. Some Governments are constrained in respect of deficit financing because of international agreements and the effect that deficits will have on financial markets. Additionally, they are faced with lower taxes from international trade and with limits on their ability to raise taxes because of the mobility of production facilities, of labour and particularly of capital. As a result, policies that have traditionally been used to reduce poverty and inequality have been curtailed or have not been able to keep pace with needs.

4. One of the most important channels through which globalization influences an economy is its effects on employment opportunities and the structure of labour markets. Taking into account the role that employment plays in alleviating poverty and generating growth, the Committee stressed the importance of reinstating the generation of employment, and of its stability and quality as key strategic dimensions of development policy. Evidence suggests that poverty is especially prominent among women, thereby making it essential that policies to combat gender inequalities form an important component of all efforts to reduce poverty.

B. Policies

5. The Committee concluded that if globalization was to proceed smoothly, the major imbalance between short-term adjustment and long-term development needed to be addressed. Thus, preventive strategies should be developed and appropriate policies should be adopted to create employment and reduce inequalities in income, in opportunity and in capabilities at the domestic and international levels.

1. Policies for growth and job creation

6. Governments must maintain a consistent commitment to public investment in education, health, infrastructure and research. Equally important, they must ensure macroeconomic stability. In countries suffering from unemployment or low-income underemployment, taxes and subsidies should be used to favour production methods and industries that are labour-intensive, and self-employment and small and medium-sized enterprises should be encouraged. Governments can also increase the export orientation of industries through various measures.

7. The current low levels of inflation in the developed countries create the possibility of shifting from the apparently dominant focus on the dangers of inflation towards growth-stimulating policies for the benefit of the global economy as

a whole. It is also crucial that developed countries maintain levels of official development assistance (ODA) and orient it particularly towards the poorest and most vulnerable countries and those sectors that lack private finance. Donor countries and international organizations should assist developing countries to further improve the effectiveness of ODA, while meeting growing requirements for humanitarian emergency assistance.

2. Policies to improve capabilities

8. In the developing countries, ensuring basic and secondary education and fundamental reforms in the methods, content, and quality of education are essential for growth in the context of a globalized world. The provision of appropriate tertiary education is critical to creating adequate research and technological capabilities to take advantage of globalization.

9. It is essential to increase the access of women and girls to education and training. It is also necessary to provide new training channels in order to break down gender segregation. Also critical in this regard is the improvement of women's access to productive resources, such as credit, technology and marketing techniques.

10. Donors and international agencies must support national efforts to enhance education and training and to develop a gender dimension in employment-promotion policies. Moreover, there should be increased support for international organizations to enable them to improve national capabilities in this regard.

11. The international community is urged to accelerate the implementation of the Heavily Indebted Poor Countries (HIPC) Debt Initiative and to expand the resources and number of countries that are eligible, allowing these countries to release domestic funds for education and training.

3. Policies on income distribution and the alleviation of poverty

12. Social safety nets play an important role in protecting the living standards of those people who have not been able to take advantage of the opportunities of the globalized economy and those who are more vulnerable.

13. It is necessary to improve the working conditions of women, specifically focusing on occupational safety and health measures, as well as promote family-friendly workplaces. Employment security for women working in part-time, contract, seasonal, temporary or home-based situations needs to be strengthened, as does social protection provided for particularly vulnerable and marginalized groups of women workers.

14. Legislative actions are required to reduce discrimination and inequities based on gender, ethnicity and religion.

15. Donors and international financial institutions should assist countries in creating cost-effective and equitable social protection schemes and non-discriminatory legislation.

4. Policies to correct for market failures and to smooth adjustment

16. At the national level, new institutions should be created or existing institutions strengthened, in order to improve the functioning of markets and adaptability to globalization. Steps towards the liberalization of markets should be accompanied by actions at the national and international levels to improve oversight and prudential regulation, particularly of short-term capital flows, in order to reduce their volatility.

17. The considerable cooperation among national regulatory and supervisory authorities that is already taking place should be extended and improved and, where necessary, appropriate institutions should be created.

18. An institution such as a world financial organization is needed to strengthen supervisory and regulatory activities to improve the functioning of the world's financial system. Doubts remain within the Committee whether the size of the new International Monetary Fund (IMF) Contingency Fund, as now established, and the speed with which such credit needs can be met, are sufficient. The Committee also recommends that the size of the General Arrangements to Borrow should be increased.

5. Policies to strengthen governance

19. At the national level, steps need to be taken so that individuals and institutions will be held accountable more readily for their actions. Existing institutions, rules and conventions should be adapted and, where appropriate, new institutions, rules and conventions should be created in order to enhance the functioning of markets, increase political participation, and the national capacity to take advantage of economic opportunities, and reduce inequality.

20. International institutions should be provided with adequate resources to fulfil their mandates; and new international arrangements and mechanisms should be developed to cope with the new challenges arising from the process of globalization.

C. Economic vulnerability as a criterion for identification of least developed countries

Economic vulnerability index

21. In July 1998, the Economic and Social Council in its resolution 1998/39 of 30 July 1998 requested the Committee for Development Planning to report on the usefulness of a vulnerability index as a criterion to designate least developed countries. Given current understanding of the relationships between economic vulnerability and development and the present quality and coverage of the data, the Committee for Development Policy considered that the best possible means of taking explicit account of economic vulnerability in the designation of least developed countries would be to replace the current economic diversification index (EDI) by a composite economic vulnerability index (EVI). In the proposed EVI, five indicators — export concentration, the instability of export earnings, the instability of agricultural production, the share of manufacturing and modern services in gross domestic product (GDP) and population size — would be given equal weight. In the future, the EVI will need to be refined progressively as to its content.

22. The Committee considered that, since the EVI could give only a partial and approximate measure of the relative level of vulnerability of a country, a document — to be called "a country vulnerability profile" — should be prepared, for some countries, to provide a more detailed assessment of the impact of external economic and natural shocks on their economic performance and economic structure. Such a vulnerability profile would help the Committee make its judgements about the inclusion of countries, particularly in cases where a country's situation with regard to any of the three main quantitative criteria being used in the least developed countries identification fell close to the threshold, while it clearly met the other two criteria. For graduation, such consideration could be taken if a country exceeded two of the three thresholds criteria, but remained close to its threshold for at least one of these two.

Other improvements in the criteria for identification of least developed countries

23. To improve the existing criteria, the Committee proposed to replace the three-year average of per capita GDP, expressed in United States dollars at current official exchange rates, by per capita GDP for a benchmark year (in other words, the same year for all countries) converted to United States dollars at the country's average exchange rates over three years which also take into account inflation rate differentials relative to the Group of Five (G-5) countries.[1]

24. The Committee proposed making two changes to the Augmented Physical Quality of Life Index (APQLI). Since adequate statistics on "percentage of the population undernourished" are not available for enough countries, the measure used in future will be the average calorie intake per capita as a percentage of average calorie requirements per capita. The other change regarding the APQLI would be to use data on child mortality under five in place of life expectancy at birth.

Further work

25. The Committee considered that further research was needed on the various aspects of economic vulnerability, particularly those resulting from globalization, and on their impacts on the economic growth potential of developing countries, and of least developed countries in particular. The results of such research could be taken into account, if appropriate, in the determination of the list of least developed countries if the data necessary to assess these relationships were available for all, or nearly all, developing countries. The Committee concluded that broader issues of vulnerability of developing countries, particularly least developed countries, including its ecological and social as well as economic aspects, should be a priority for international research activities and for the work of the Committee.

Chapter II
The role of employment and work, particularly of women, in poverty eradication in the context of globalization

A. Introduction

26. The report of the Committee for Development Planning at its thirty-first session (5–9 May 1997)[2] focused on globalization in the 1990s, noting the opportunities that it offered, its negative impacts and the challenges for development policy.

27. One of the dangers of globalization underlined by that report, as well as by other analysts, namely, the volatility of financial flows, was realized somewhat sooner than had been expected, with the onset of the Asian financial crises. The 1998 Committee for Development Planning report of the Committee, on its thirty-second session (4–8 May 1998),[3] focused on these crises, listing appropriate policy actions to prevent crises in the future or to mitigate their costs.

28. This year, pursuant to the request of the Economic and Social Council in resolution 1999/2, the newly constituted Committee for Development Policy again focuses on globalization, in particular on the increased vulnerability that accompanies this evolving and accelerating process. The financial crises analysed in the 1998 report of the Committee for Development Planning are but one of the manifestations of this vulnerability. There are others, which, though less dramatic, have at least equally insidious effects on poverty and employment, with women often bearing the greater burden. In line with the request of the Council in resolution 1999/2 and with the ongoing assessment of the implementation of the outcome of the World Summit for Social Development in 1995, the present report addresses these other manifestations of globalization.

29. The following section briefly reviews the benefits, actual and potential, accruing to globalization. The report then proceeds, in section C below, to discuss the negative effects, starting with vulnerability, its manifestations and the processes by which it evolves. Section D points out another weakness of the globalization process: the fact that there is a tendency for inequality to increase not only between countries, but within them, which could trigger political and social instability. Section E focuses on the effects of globalization on employment opportunities and the structure of labour markets. Finally, section F suggests policy actions at the national and international levels to take advantage of the opportunities and to mitigate the negative effects of globalization.

B. The benefits of globalization

30. The increase in trade, investment and information flows that characterizes the globalization of the world economy can yield many benefits and open up many opportunities for export expansion and diversification.

31. In trade, it is generally presumed that the exposure to competition and the drive to produce for larger global markets enhance learning, productivity and efficiency, particularly in small, open economies. Especially in smaller or poorer domestic markets, there is little scope for stimulating competition, reaping economies of scale and accumulating industrial knowledge outside of export markets, and thus to increase employment opportunities and to reach higher standards of living through income growth. For the world as a whole, the results of the Uruguay Round of multilateral trade negotiations of the General Agreement on Tariffs and Trade (GATT) are expected to increase world income between 1995 and 2001 by an estimated $212 billion to $510 billion as a result of expanded trade and increased efficiency. Some of this will accrue to the developing countries.

32. In investment, integration into rapidly expanding international capital and financial markets could greatly improve the prospects for growth of countries with scarcities of domestic savings and foreign exchange which constrain investment and limit the importation of inputs needed for production. Countries can also gain from the transfer of technology, which is closely tied to foreign direct investment (FDI).

33. In information, the revolution in information technology brings centres of excellence in research, medicine, or education within easy reach, increasing the speed at which knowledge and information are accessed. Moreover, it opens up income, business and employment opportunities, particularly for small and medium-sized enterprises.

34. Countries in East Asia have benefited significantly from globalization in terms of high growth of output, employment and exports and high levels of domestic and foreign investment and technology standards, which have ultimately led to significantly higher levels of living standards for their people. The high economic growth also resulted in almost full employment, at least until 1997. Poverty reduction in these countries has been nothing short of phenomenal. Between 1975 and 1995, the number of people living below the poverty line fell by 300 million in China (now the largest recipient of FDI in the developing world, and which in the last 15 years increased its exports nearly nine times), by 65 million in Indonesia, to less than 200,000 from 1.9 million in Malaysia, and to less than 500,000 from 3.4 million in Thailand. Moreover, these countries also showed marked improvements in their respective human development indices, reflecting increased welfare and expanded choices.

35. There is also evidence that export promotion and trade liberalization policies have led to greater feminization of the labour force, particularly in East Asia. Women's labour force participation in paid employment has not only increased, but also come to dominate labour-force growth in many countries. The beneficial effect of this on human development may be large, to the extent that paid employment improves the income of women and their status and influence within the household. Studies have shown that women's expenditure patterns are more oriented towards human priorities (health, education) than those of their male counterparts, with greater long-term effects on capability- building and poverty reduction.

C. Globalization and vulnerability

36. The Committee noted that the overall net economic benefits of globalization worldwide have been positive, but that the distribution of these gains have not been even, neither between nor within countries. For example, countries that account for 70 per cent of world population receive only 10 per cent of FDI flows. The least developed countries, with 10 per cent of the world's people, have less than 2 per cent of world trade. While globalization offers many opportunities, not all possess the full capability to take advantage of them.

37. Moreover, despite its positive effects, globalization has also brought with it the risk of increased vulnerability. Cases in point are the financial crises of 1997 and 1998, which graphically illustrate that even countries that have benefited from globalization in the past, such as those in East Asia, can become vulnerable, and even more so than others. The increase in poverty and unemployment brought about in these countries as a consequence of this vulnerability is almost as stunning as the previous growth and human development that they experienced as a consequence of the opportunities and benefits derived from globalization.

38. Vulnerability may be defined as the risk of being negatively affected by shocks. Shocks can be caused by nature — for example, a cyclone, earthquake, drought or locust invasion. Such shocks can perhaps be anticipated but often cannot be prevented. However, countries can also be adversely affected by economic shocks that are outside their control, such as a rapid decline in the price of their major export, changes in interest rates on international capital markets or reduced access to credit.

39. In an ideal world, with Governments' having perfect foresight and advanced administrative systems, they should be able to anticipate some shocks and to take the appropriate action to mitigate at least part of their adverse impact. However, Governments in many cases do not have the capacity to anticipate shocks, are unprepared to act decisively when the shocks occur or make what later are seen to have been mistakes in reacting to them. Policy mistakes can thus provide a further adverse shock to the system on top of that coming from purely outside sources.

40. Because of their geographical position, geological formations or economic and social structures, countries vary in their degree of vulnerability to shocks, in the frequency with which shocks occur, in the magnitude of shocks and in the ability of domestic societies and economies to respond to shocks. A distinction should also be made between the dimensions of vulnerability that refer to the probability that a shock will occur and those that refer to the magnitude of the impact.

41. It must also be recognized that vulnerability to economic shocks is primarily a consequence of microeconomic conditions, while responses to shocks involve the exercise of macroeconomic policies. Economic agents, such as international fund managers, banks and transnational entrepreneurs, predominantly determine global financial flows and trade in goods and services, which take place between (and increasingly within) firms. Governments must be prepared, through the exercise of appropriate policies at the micro- and macrolevels to reduce vulnerability and to mitigate the consequences of economic shocks.

42. The extent of vulnerability at any one time depends partly on initial conditions and partly on the policies subsequently pursued to reduce vulnerability. Generally, globalization increases vulnerability. It does so through a variety of channels and in a number of ways.

43. One channel is trade liberalization. Trade liberalization and increased competition force changes in labour markets as firms strive to keep, or gain, competitiveness. In developing countries, the fact that trade liberalization has drawn people from the informal into the formal labour market can have positive effects on their incomes. Yet, this has increased the exposure of many workers, especially those with fewer skills, to external shocks. At the same time, non-standard forms of work (temporary, part-time, home-based) have increased. This can also increase the vulnerability of those involved if these forms of work are associated with lower levels of social security coverage, and worse job security, working conditions and employment rights. Women have generally fewer skills and account for a much higher share of non-traditional workers; they are therefore even more vulnerable than men.

44. Another channel through which globalization increases vulnerability is financial liberalization and the resulting greater integration of countries in international capital markets. The volatility of financial flows has risen owing to the heightened importance of short-term private capital movements. Sudden changes in expectations by financial market participants can lead to dramatic reversals of capital flows. This can be especially serious when the financial system is undeveloped, poorly regulated and therefore fragile. Financial liberalization has thus increased the instability of income and employment.

45. The forces behind globalization — technological change, liberalization and increased competition — are all intensifying the need for restructuring all aspects of the economy. Restructuring can in turn reduce social cohesion

and disrupt the formal or informal social contracts that exist between Governments, employers and employees. This may diminish the ability to build the political and social consensus that is necessary for policy formulation, implementation and credibility.

46. The changes caused by globalization have also increased ecological fragility, for example, as a result of pressures to industrialize or raise export revenues through the overexploitation of natural resources. Under such conditions, the costs to society of such resource use may be considerably larger than the private net gains (of firms).

47. To further exacerbate the situation, Governments may find themselves constrained in their ability to respond to shocks. These constraints pertain to the exercise of monetary, fiscal and exchange rate policies, the requirements of bilateral, regional, and global arrangements and agreements, and the limited financial resources at their disposal. At the same time, the need for financial resources to promote rapid adjustment increases.

D. Globalization and inequality

48. Without strong corrective actions by Governments, inequality is likely to increase as a result of globalization. If inequality rises, there is a risk that political and social instability will erode the legitimization of the globalization process. The Committee emphasized the importance of Governments taking action to mitigate any tendency towards rising inequality.

49. Income inequality is an outcome that results from a complex process involving several factors, such as asset distribution, education, market processes, government policies, social norms and institutions. Each of the above factors have varying degrees of importance in different parts of the world.

50. As previously pointed out, the opening of economies to trade, finance and technology, as well as the rapid increase in international trade and capital flows in the 1990s, has created new opportunities. But while globalized markets may provide equal opportunities, they do not equalize the different capacities of individuals and countries to benefit from them. Certain countries, industries or individuals are better able to compete in the global environment than others. The winners are predominantly those who are well educated and skilled and know how to create and use technologies. For those with the skills and capacity, incomes are likely to increase. The very poor, who do not have the skills to take advantage of the opportunities offered by expanding markets, remain outside this process. As a result, globalization is likely to lead to more inequality both between and within countries. It does so through a variety of mechanisms.

51. First, technological change, which is characterized increasingly by knowledge-based processes and industries, is apt to increase inequality even further as a result of differences in skills and technical and professional competence between countries, within countries and between men and women. Indeed, most decisions regarding investment in human capital are made within the household. Many cultures and societies traditionally favour boys and tend to invest less in the education and training of girls, thereby reducing the employment possibilities and incomes of women, and thus reproducing and perpetuating the inequality between men and women.

52. Second, the expansion of exports and the higher wages that production for export often earns (compared with production for the domestic market) have resulted in an increase in the earnings of many. However, while the earnings of those with skills and capacity have risen, the wages of the unskilled have increased less, stagnated or even declined. Moreover, the fact that imports or unskilled workers abroad can be more easily substituted for domestic unskilled workers has reduced the bargaining power of these workers and increased the downward pressure on their wage levels. The growing wage gap between skilled and unskilled workers is a nearly universal phenomenon.

53. Moreover, for those economies that have participated in the trade expansion of recent years, the growth of trade has brought more and more people into the market place, pulling people out of non-market activities into formal and informal labour-market arrangements. Yet, market-based economic systems by their very nature generate more inequality than non-market-based systems because they offer large opportunities and reward differences in productivity, whether based on assets, effort, skills or natural abilities. Thus, the movement towards a market-based economic system in the transition economies has also led to higher inequality in each country. A similar phenomenon can also be observed in China.

54. The speed and sequence with which economies have opened affect both output and employment. These have differed dramatically across the world. In East Asia, for example, the fact that export promotion often preceded import liberalization allowed these countries to build capacity to be competitive before they were exposed to competition from imports. This has limited the negative effects on employment and output of import liberalization. In several countries in Africa, exposure to international competition in general increased much faster and before the capacity to export manufacturing goods was developed. In economies in

transition, exports and domestic production — protected and distorted for long periods of time through preferential agreements, subsidies, taxes, quotas or negative interest rates — crumbled as a result of increased competition. Thus, in many developing countries as well as in economies in transition, liberalization brought sharp reductions in output and employment.

55. Third, rapid rises in private financial flows and increasingly integrated financial markets, fuelled by extensive financial liberalization and technological advances, have led to higher volatility and a higher incidence of financial crises. These have led to severe output and employment contractions, as the situation in East Asia attests. As both the richer and poorer segments of the population may suffer from such a financial crisis, it is not immediately clear whether income inequality increases or declines. Yet, there is evidence that higher volatility of workers' earnings and employment has been associated with higher inequality. It is also more likely that richer segments of the population possess greater capacity to diversify portfolios and hedge risks from financial instability. In addition, there is some evidence that during periods of economic decline, income inequality more often rises than falls.

56. Fourth, it has also been argued that globalization is affecting the social norms and institutions that are important determinants of income distribution. Restructuring, modernization and mobility which accompany globalization tend to erode the social norms and institutions of traditional societies which rely on mutual support from family and village relations. Thus, kinship networks tend to be disrupted, increasing the income distribution disparities among family or village members. Furthermore, traditional sources of inequality, those associated with inherited assets, are likely to be replaced by those associated with acquired human capital.

57. The ability of Governments to implement policies to mitigate the effects of globalization on unemployment, poverty and inequality are increasingly constrained, partly as a result of globalization. Governments are constrained in deficit financing either by international agreements (for example with IMF) or by the effects that deficits will have on financial markets. Additionally, tax revenues from international trade are lower in the short term as a result of trade liberalization, at the same time that the ability to impose domestic taxes is reduced because of the mobility of production facilities, labour and, particularly, capital. As a result, policies that have traditionally been used to reduce poverty and inequality, including public works, credit, training, education and capacity-building programmes, have been curtailed or have not been able to keep pace with needs.

E. Globalization, employment and the labour market

58. One of the most important channels through which globalization influences economic welfare is via its effects on employment opportunities and the structure of labour markets. This is because employment has a significant role to play in poverty alleviation and in improving the quality of life. Clearly, not all poverty is related to employment or the lack thereof. However, policies to increase the quantity and quality of employment are a crucial element of any strategy designed to eradicate poverty, to reduce inequality and vulnerability, to improve living standards and to increase gender equality. Because of the role that employment may play in alleviating poverty and generating growth, the Committee stresses the importance of reinstating the generation of employment, and its stability and quality, as key strategic variables in development policy.

59. Increasing gender equality is crucial to successful efforts to reduce poverty, because evidence suggests that poverty appears to be overwhelmingly female. Data based on a number of indicators of the gender gap for different regions show that, for developing countries as a whole, the adult literacy rate is 16 percentage points higher for men than for women; female school enrolment — even at the primary level — is 13 per cent lower than the level for males; and women's share of earned income is a third of the total.

60. While opinions are divided about whether "jobless growth" is a myth or a real phenomenon, the converse is not possible: job-creation without economic growth is not a viable proposition. It follows that sustained economic growth is a most important precondition for increasing employment. Macroeconomic stability is, in turn, a necessary — although not a sufficient — condition for economic growth.

61. Employment has been defined by the Thirteenth International Conference of Labour Statisticians in 1982 as comprising paid employment — that is to say, persons who receive wages or salaries (in cash or in kind) — and self-employment, which includes employers, own-account workers, members of a cooperative and unpaid contributing family workers.[4] In addition to making this distinction between paid and self-employment, the Committee considers that it is important to differentiate between formal and informal employment, especially given the role of informal employment in providing a social safety net. The informal sector is very diverse and there is no one criterion that can define it; rather, it is usually characterized by very small

enterprises, little or no fixed capital, low level of technology, no registration and operation outside the tax system.

62. The expansion of trade and the inflow of foreign capital and technology in an increasingly globalized world economy, which together enhance output in developing countries, also help to increase employment in the formal sector, which, in turn, contributes to poverty alleviation. Globalization thus accelerates the rate of transformation of informal into formal market activities. In the process, this transformation increases the tax base, and consequently government's resources, thus allowing it to strengthen public social safety nets.

63. However, as previously noted, the integration of financial markets in the 1990s has been accompanied by higher volatility and crises. When a crisis (be it financial or of any other type) leads to a contraction of output, formal employment declines as well, in some cases to an even larger extent than the decline in output. Under such circumstances, the informal sector expands during an economic downturn and allows people to avoid being openly unemployed. This process affects women more extensively than men, as women are often the first to be laid off. Employment in the informal economy thus serves as a buffer, sustaining incomes. The same holds when formal employment does not increase as fast as the labour supply and the informal sector absorbs surplus labour. Unfortunately, jobs in the informal sector have generally a lower productivity and lower income-generating capability.

64. In cases where the formal sector has been protected from international competition, as in Africa, in Eastern Europe, and in the former Union of Soviet Socialist Republics, increased exposure necessitates restructuring. In such cases, formal employment declines and informal sector participation increases.

65. Output and exports are increasingly "knowledge-based" and technology-intensive. This has shifted the demand towards skilled labour all over the world. Countries with better-educated and -trained labour forces are more likely to benefit from expanding trade; skilled workers are better placed to benefit from the job-creating effects of growth accompanied by structural changes. Therefore, enlarging and improving basic education, as well as directing secondary and tertiary education as well as training towards basic skill formation, are of primary importance for employment-generation.

66. There is also a trend towards tertiarization in many economies. This is partly a result of increasing demand for services, which usually accompanies a rise in GDP per capita. It also reflects the higher demand for knowledge-based goods and services, which are mostly produced in the tertiary sector. Tertiarization creates positive effects on employment, especially for women, because of the labour-intensity of production methods. However, in certain tertiary industries, particularly those with high female employment, productivity and wages are relatively low.

67. Globalization, increased competition and technological change have also transformed the organization of production processes as a consequence of the need for greater flexibility and quick responses to changes in consumer demands and shifting markets. As a result, a dominant trend towards so-called flexible labour markets has emerged. These include atypical or non-standard employment arrangements, outsourcing and out-contracting, as well as temporary and part-time work.

68. A number of positive as well as negative effects are already visible owing to the increase of these kinds of work. On the one hand, flexible labour markets facilitate firms' and countries' adjustment to changes in markets or to shocks. New communication and information technologies also expand productive opportunities, allowing, for example, developing countries to process data for firms in developed countries. Moreover, women and partially disabled persons, *inter alia*, have benefited from part-time and/or home-based work opportunities. Part-time and temporary employment and home-based work may make it easier for women and men to combine work and family responsibilities. On the other hand, flexible labour markets usually offer reduced job security, less training, lower pay and benefits, deteriorating labour standards and increased volatility of labour income.

69. Yet, it is difficult at this point in time to assess the full long-term economic and social consequences of such working arrangements — for example, on the tax base, on social security schemes or on income inequality. However, since globalization speeds up the spillover of these trends to developing countries, it is crucial for Governments to be aware of them and to continuously monitor their spread and consequences.

70. For example, International Labour Organization (ILO) figures indicate that, since 1980, women's labour-force growth has been substantially higher than that of men, for every region except Africa.[5] While superficially this trend appears to reflect a narrowing of the gender gap in employment, the new and enlarged role of women in the labour market is not an unmitigatedly positive development for women themselves. The primary reason is that the increase in employment growth has not been matched by quality improvements, since the main sources of their employment have been in the expanding informal sector, as well as in non-standard and precarious forms of employment, including home-based, temporary or casual employment.

Similarly, women provide up to 80 per cent of the labour force in export processing zones[6] because women accept lower wages and constitute a more flexible workforce than their male counterparts. There are serious concerns about the quality and stability of such employment even though female wage levels in export processing zones often compare favourably with those under local conditions.

71. There is a danger that international competition among countries to attract globally mobile capital could lead to the lowering of real wages and deteriorating labour standards all over the world. Such tendencies could be disguised under calls for more "flexible labour markets". This consideration reinforces the need to keep a close watch on such emerging trends.

72. While there are important new trends in labour markets, a number of old problems persist. Discrimination (based on gender, ethnicity or religion) is one of the most prevalent of such problems. Such discrimination leads to divisions within society, aggravates inequality and increases the poverty of those discriminated against. Devising programmes and policies to rectify such biases constitutes a major challenge for employment policy at the turn of the millennium.

F. Policies

73. If globalization is to proceed smoothly, the major imbalance between short-term adjustment and long-term development needs should be overcome. Thus, preventive strategies should be developed and appropriate policies should be adopted at the domestic and international levels to create employment opportunities and capabilities and reduce vulnerability and inequality of income. These policies can either prevent the negative effects of globalization or mitigate them, or do both.

1. Policies for growth and job creation

(a) National policies

74. Fast and sustained growth of output is a necessary condition for the expansion of employment opportunities. Factors such as human resource development, technology, investment in physical capital and infrastructure are important determinants of long-term growth. To develop these factors takes much time in itself and requires a consistent commitment from Governments — for example, by way of a long-term development strategy. It also requires public investment in education, health, infrastructure and research. However, at the same time, Governments need to establish and maintain macroeconomic stability, including low inflation, sustainable low budget deficits and stable exchange rates. In the short term, macroeconomic stability is a necessary condition for fostering savings, increasing investment and attracting foreign capital — factors that are important determinants of economic growth. Macroeconomic stability is even more important for countries that have an internationally integrated capital market. One of the most difficult tasks for government policy is to make the necessary public investment expenditures while safeguarding macroeconomic stability. The promotion of national saving, the restructuring of government expenditures, the strengthening of market activities and the expansion of the tax base are useful policy measures in this direction. As the 1997 report of the Committee for Development Planning emphasized, the negative effects of adjustments, on employment, for example, can be reduced by a proper speed and sequencing of liberalization and economic reforms.

75. National policies can also influence the labour-intensity of economic growth. In some countries, there exist taxes and subsidies that favour capital-intensive methods of production. These should be removed. Indeed, taxes and subsidies can be used to favour production methods and industries that are labour-intensive. Moreover, Governments should encourage self-employment entrepreneurship and small and medium-sized enterprises because they use labour-intensive production methods and are important in the creation of employment. Governments can, for example, create institutions that support small and medium-sized enterprises and self-employment through credit, training, extension services, marketing advice, technological support and assistance to small-scale entrepreneurs (including informal-sector participants) who want to organize themselves. Finally, the legal and regulatory framework also should create an enabling environment. These policies should pay careful attention to the gender dimensions in order to increase the opportunities for women and reduce gender inequalities.

76. Governments can also increase the export-orientation of industries, through following an appropriate exchange-rate policy, adopting export targets, extending subsidies and credit, providing infrastructure, creating agencies that promote exports through appropriate distribution networks and marketing and, finally, assisting in the development of technological capabilities. Developing the capacity to export is particularly crucial in light of the fast expansion of international trade and the limited size of the domestic market of many developing countries.

77. Governments thus need to devise a development strategy that emphasizes the importance of employment-creation for men and women as the most effective instrument to alleviate poverty, reduce inequalities and increase living standards.

(b) International policies

78. Growth in the developing countries is to some extent dependent on growth in the developed countries. Yet, growth in most developed countries has been rather slow. It appears that the current low levels of inflation in the developed countries create the possibility of shifting away from the current one-dimensional focus on inflation reduction towards growth-stimulating policies for the benefit of the global economy as a whole.

79. Many developing countries — the least developed and small countries in particular — have only limited access to international capital markets and remain dependent on ODA for their external financing needs. Moreover, certain development priorities, such as education, training and health care, will largely be ignored by private finance. It is thus crucial that developed countries maintain adequate levels of ODA and orient it particularly towards the poorest and most vulnerable countries and those sectors that lack private finance. Donor countries and international organizations should assist developing countries in further improving the effectiveness of ODA, while meeting growing requirement for humanitarian emergency assistance.

2. Policies to improve capabilities

(a) National policies

80. Education and training can play pivotal roles in assisting countries in meeting the challenges of globalization in a manner that ensures sustained economic growth, continued job creation, reduction of vulnerabilities and inequalities, and the empowerment of women.

81. In the era of globalized markets, training, education and skill enhancement — all of which constitute ways to improve capabilities — are integral to any programme designed to enhance competitiveness. Indeed, studies have confirmed the strong impact of training on competitiveness at the firm level. Moreover, a country's ability to attract and benefit from FDI — which may entail technology transfers — is strongly influenced by its own "capabilities", of which the education and skills of its workforce are a critical component.

82. In general, there is increasing evidence that the educational level of a country's workforce is a significant determinant of its economic growth and productivity performance. A variety of studies point specifically to the positive impact of primary and secondary education on economic growth.

83. Ensuring basic and secondary education for the population is thus essential for growth in the context of a globalized world. A fundamental restructuring is needed to reform and improve the character of basic and secondary education to create skilled workers who are highly literate in twenty-first century technological tools and skills of problem-solving, acquisition of knowledge and adaptability to ever-changing training requirements for new skills. Moreover, this assumes an equal importance from the perspective of equality and equity.

84. While basic and secondary education are essential, tertiary education should not be ignored. The latter has an important role to play in enabling an economy to move towards higher value added production, and more skill-intensive and more technologically advanced products. Conversely, a relatively poor skill base can make it extremely difficult for an economy to take advantage of emerging global opportunities. The provision of appropriate tertiary education is critical to creating adequate research and technological capabilities, in order to take advantage of globalization.

85. Given the large skill gap between men and women, it is imperative to address barriers to women's skill development as an integral part of any effort to build a competitive labour force for the future. As part of this effort, it is thus essential to increase the access of women and girls to education and training.

86. While women are entering the labour force in record numbers, many continue to face barriers of discrimination and occupational segregation. It is therefore necessary to provide new training channels to break down gender segregation — including, for instance, training of women in the skills needed for entrepreneurship. It is also critical in this regard to improve women's access to productive resources, such as credit, technology and marketing techniques.

87. Education, of course, is a human right and has been recognized as essential for achieving equality, development and peace. Its role thus goes far beyond enhancing an economy's position with respect to taking advantage of globalization. Indeed, education increases political participation and supports democracy. For these and equity reasons, the financing of education should be "poor-friendly". Moreover, other social variables — such as primary health care, sanitation and nutrition — not only improve productivity, but are essential to an improved quality of life and hence must continue to be prime development objectives.

(b) International policies

88. While domestic efforts regarding education and training are critical, the international environment has an additional role to play. Donors and international agencies, including the Bretton Woods institutions, must support national efforts to enhance education and training and to develop a gender

dimension in employment promotion policies. Moreover, there should be increased support for international organizations to enable them to improve national capabilities in this regard.

89. Debt relief can — as Uganda has shown — benefit developing countries by releasing domestic funds for, *inter alia*, education and training. The international community is thus urged to accelerate the implementation of the Heavily Indebted Poor Countries Debt Initiative and to expand the resources and number of countries that are eligible.

3. Policies on income distribution and the alleviation of poverty

(a) National policies

90. In addition to employment-creation, education and training, there are a number of other areas where Governments can take measures that reduce inequalities and vulnerabilities and alleviate poverty. Firstly, social safety nets play an important role in protecting the living standards of those people who have not been able to take advantage of the opportunities of the globalized economy and of those who have been negatively hit by an economic crisis or downturn. This need is particularly salient as a result of the increased vulnerability of large segments of the population with regard to the income and job insecurity that is a consequence of globalization. The need for social protection schemes exists even in countries that have benefited from globalization and achieved nearly full employment, as was the case in East Asia before the financial crises. ILO studies suggest that unemployment insurance can be established at a very modest level of payroll taxes, can be self-financing and can provide critical income support in case of job losses. Moreover, increasing the tax base, for example, through formalization of the informal sector, can generate additional government revenues which can be used for social protection schemes. In certain areas, the private sector and markets can play an important role in improving social protection schemes, for example, in respect of the provision of pensions. In other areas, government intervention is required. Public employment schemes, for example, can be extremely important in extending social protection for the poor, provided that they are designed in such a way as to target only the poor. Governments also perform an essential role in delivering savings and credit facilities to the poor; these allow poor people to smooth consumption, cover emergency expenditures and make small investments.

91. Social insurance and protection schemes need to pay particular attention to the gender dimension. Women's needs and vulnerabilities, particularly those of women who head households, are somewhat different from those of men. This needs to be reflected in the design of protection policies. For example, women's unemployment risk and duration are usually different from men's. Particular attention needs to be paid to women who are engaged in non-standard forms of work.

92. Secondly, various legislative actions are required to reduce discrimination and inequities based on gender, ethnicity and religion. Legislation should eliminate all forms of discrimination against women, including discrimination with respect to employment, occupation, earnings and training. For example, restrictions on women's work in certain professions or at certain times (for example, during nights shifts) should be removed. Moreover, in order to enable women to overcome the occupational segregation that many face in the workplace, it is crucial that Governments adopt an equal-employment-opportunity policy.

93. Women have entered the labour force in large numbers. However, the issue for women is not only access to employment, but the quality of employment as well. To this end, it is necessary to improve the working conditions of women, specifically focusing on occupational safety and health measures, and to promote family-friendly workplaces. Furthermore, it is critical to provide social protection for particularly vulnerable and marginalized groups of women workers — such as immigrants or long-term-unemployed older women. Moreover, Governments should take measures to improve employment security for women working in part-time, contract, seasonal, temporary or home-based situations.

(b) International policies

94. Donors and international financial institutions should assist countries in creating cost-effective and equitable social protection schemes and non-discriminatory legislation.

4. Policies to correct for market failures and to smooth adjustment

(a) National policies

95. The Asian crisis highlighted the fact that, with the rapid globalization and liberalization of economic activity, market failures can not only be disastrous to individual countries, but threaten the stability of the global economy. Whereas some Asian crisis economies undoubtedly required adjustments to emerging economic problems, the punishment was disproportionate to the crime because of the panicked way in which individuals acted once difficulties became apparent. The countries suffered a major crisis with significant losses in output, and increases in unemployment and poverty. At some points, the stability of the global financial system was threatened. Policies at the national and international levels

are therefore required to identify and correct for market failures and to ensure that adjustment paths are smooth.

96. In the 1998 report of the Committee for Development Planning, many of these policies were identified and discussed at length. It was pointed out that, at the national level, new institutions should be created or existing institutions strengthened with a view to improving the functioning and adaptability of markets. These markets include those in goods and services, labour and financial flows. Steps towards the liberalization of markets at the national level should be accompanied by measures to improve oversight and prudential regulation. The Asian crisis showed the damage that could result from massive shifts in short-term capital flows, and Governments might need to consider measures to regulate these particular financial flows in order to reduce their volatility.

(b) International policies

97. Measures to improve oversight and regulation at the national level can be effective only if backed up by corresponding action at the international level. The considerable cooperation among national regulatory and supervisory authorities that is already taking place should be extended and improved and, where necessary, backed up by appropriate institutions. In their supervisory and regulatory activities, existing bodies should pay particular attention to adopting measures to reduce the volatility of short-term capital flows.

98. Several proposals to improve the functioning of the world's financial system have been made and some have been implemented. Yet, the Committee regards the changes made so far as insufficient. As analysed in the 1997 report of the Committee for Development Planning and further elaborated in the 1998 report, an institution such as a world financial organization is needed to strengthen supervisory and regulatory activities and to improve the functioning of the world's financial system. The Committee has also recommended the creation of a contingency fund to provide substantial and early credit flexibly in cases of financial emergencies. The fund recently created by IMF is a step in that direction. Doubts remain within the Committee whether the size of this fund as now established, and the speed with which such credit needs can be met, are sufficient. The Committee also reiterates the recommendation that the size of the General Arrangements to Borrow should be increased.

5. Policies to strengthen governance

(a) National policies

99. Regulation and supervision are not the only issues that relate to the broader need to improve governance at all levels. At the national level, steps should be taken so that individuals and institutions may be more readily held accountable for their actions. Increasing accountability and transparency will in turn make it easier to obtain public support for the policies being pursued. Public support will also be more readily forthcoming and more optimal policies designed and implemented if decisions about economic, political and social matters are being taken by and in favour of those who are most affected. The participation of those who were previously grossly under-represented in decision-making processes — in particular women — should be enhanced. Existing institutions, rules and conventions should be adapted and, where appropriate, new institutions, rules and conventions created in order to enhance the functioning of markets, increase political participation, increase the capacity to take advantage of economic opportunities, and reduce inequality.

(b) International policies

100. At the international level, existing United Nations institutions should be provided with adequate resources to fulfil their mandates; and new international arrangements and mechanisms should be developed to cope with the new challenges that have arisen and will continue to arise with the process of globalization.

Chapter III
A vulnerability index as a criterion for the designation of least developed countries

A. Introduction

101. In July 1998, the Economic and Social Council in its resolution 1998/39 of 30 July 1998 requested the Committee for Development Planning to report on the usefulness of a vulnerability index as a criterion for designation of the least developed countries. Additionally, the Council asked the Committee to give consideration to the work done by relevant international organizations on the development of a vulnerability index for small States.

102. In February 1999, the Council stressed the crucial importance of the completion of the work of the Committee for Development Policy on the vulnerability index, and requested the Committee to continue, and to make all possible

efforts to complete, its work in that regard during its forthcoming (26–30 April 1999) session and to report thereon to the Council at its substantive session of 1999.[7]

103. An ad hoc expert group was convened by the Secretariat in March 1999 to consider the technical work done by the Secretariat on vulnerability indicators at the request of the former Committee for Development Planning, the possibility of including a vulnerability indicator in the identification criteria, and the work done by several relevant organizations on the measurement of vulnerability. The group included some members of the Committee for Development Policy and representatives of institutions that had undertaken work relating to the creation of a vulnerability index, notably the Commonwealth Secretariat, the Caribbean Development Bank, and the South Pacific Applied Geoscience Commission (SOPAC).

104. At its session (26–30 April 1999), the Committee for Development Policy reviewed the work of the expert group and the Secretariat, and made a number of recommendations for changes in the least developed countries identification criteria.

B. The relevance of vulnerability for the identification of least developed countries

105. Generally speaking, least developed countries are low-income developing countries that are in need of specific international measures to remove the handicaps constraining their development. The Committee recognized that vulnerability was an important issue for many developing countries, especially the least developed countries; but to capture all the complex components of vulnerability in just one index posed severe analytical and technical difficulties.

106. *Vulnerability* can be defined as *the risk of being negatively affected by unforeseen events*, but some ambiguity is attached to the use of this notion. The Committee for Development Planning at its thirty-second session agreed that a distinction needed to be made between *economic vulnerability* and *ecological fragility*. At the same time, the Committee also recognized that economic vulnerability originated partly from ecological factors (such as hurricanes, cyclones, earthquakes and drought). Thus the construction of an index of economic vulnerability should to some extent take the economic impacts of ecological factors into account, even if ecological fragility as such needs to be considered separately.

107. In considering economic vulnerability, an important distinction should be made between *structural* vulnerability, which results from factors that are relatively impervious to national policies, and the vulnerability deriving from economic policy, which results from choices made in the recent past, and is therefore *conjunctural*. For example, export instability (as a result of heavy dependence on a limited number of exports) is a structural factor of vulnerability. However, the capacity to manage instability of the revenue received from such exports depends on the economic policies pursued. Thus the vulnerability of the Asian countries, which has been so often discussed during the past two years, is very different from the vulnerability of small economies that export raw materials or of small islands: it is probably less structural. In selecting those developing countries whose difficult economic situations have to be brought to the attention of the international community (as is the case when identifying least developed countries), structural vulnerability should be emphasized.

108. Thus, to be relevant for least developed country identification, an index of vulnerability needs to be concerned with economic vulnerability resulting essentially from structural factors, and to reflect the main kinds of exogenous shocks faced by low-income countries and their exposure to these shocks. In addition, the index should be based on reliable, comparable data for developing countries, particularly those at low levels of income per capita.

C. Vulnerability as considered by the Committee for Development Planning

109. Vulnerability has not been, until now, an explicit criterion for the designation of least developed countries. Nevertheless, since the initial establishment of the list of least developed countries — when low GDP per capita, a small share of manufacturing in GDP and a low adult literacy rate were used as the criteria, and especially since the revision of the criteria in 1991 — vulnerability has been considered implicitly or additionally in determining least developed country status. The purpose of the 1991 revised criteria for least developed country status was to designate those low-income countries that were suffering from a low level of human resources and from structural weaknesses, specifically as reflected in a low degree of economic diversification. Least developed country status is in practice reserved for countries of small or medium size and since 1991 countries with over 75 million people have been excluded (Bangladesh was included before this population size limit was adopted). Thus, besides low per capita GDP, the 1991 revised criteria included education, nutrition and health indicators in an Augmented Physical Quality of Life Index (APQLI). With respect to structural weaknesses, the Committee identified the share of manufacturing in GDP, the share of employment in

industry, per capita electricity consumption and export concentration as the components of an economic diversification index (EDI).

110. In order to be included on the list of least developed countries, developing countries have to meet the population and per capita GDP criteria and also fall below specified thresholds for both the APQLI and the EDI. For countries meeting the population and GDP per capita criteria but not the APQLI or the EDI criterion, natural handicaps were to be considered, but in a qualitative way — they were not given the same status as GDP per capita, the APQLI or the EDI. Natural disadvantages or characteristics — such as being landlocked or geographically isolated (as is the case, for example, with island countries), being exposed to frequent incidence of droughts, cyclones and floods or having a small population (1 million or less) — were to be considered, but only as supplementary information.[8]

111. With regard to criteria for graduation, as established in 1991, countries with GDP per capita above the criteria thresholds are also assessed on the basis of the EDI and the APQLI: a country is no longer considered eligible for least developed country status when it exceeds *both* a given level of GDP per capita *and* the specified threshold for *either* the EDI *or* the APQLI for at least three years. (The thresholds for graduation are higher than those for inclusion.) Additionally, a country may be graduated if it exceeds the cut-off point for *both* EDI *and* APQLI even if its GDP per capita remains below the thresholds level for graduation. No indication was given for taking natural handicaps or other qualitative characteristics into account, even at the margin.[9]

112. In its resolution 46/206 of 20 December 1991, the General Assembly noted with appreciation the new criteria for identifying the least developed among the developing countries and the graduation rules recommended by the Committee for Development Planning, and requested the Committee to consider further possible improvements in the criteria and their applications and report thereon to the Assembly at its fifty-second session, through the Economic and Social Council. In subsequent triennial reviews of the least developed country list, in 1994 and 1997, these criteria were used, with one minor change in 1997, when commercial energy consumption per capita replaced electricity consumption per capita in the EDI.[10]

113. At its thirty-first session, the Committee for Development Planning decided to establish a working group to consider possible further improvements in the criteria and methodology for identifying the least developed countries and the usefulness of a vulnerability index as an element of these criteria.[11]

114. At its thirty-second session, the Committee for Development Planning considered several improvements in the criteria, including the transformation of the EDI so that it would mainly reflect economic vulnerability. It also considered the report of the Secretary-General on the development of a vulnerability index for small island developing States (A/53/65–E/1998/5) prepared in response to a request of the General Assembly in its resolution 51/183 of 16 December 1996. The Committee agreed with the recommendations made by the Ad Hoc Expert Group Meeting on Vulnerability Indices for Small Island Developing States (see A/53/65–E/1998/5, annex), and considered that the development of a comprehensive composite index of economic vulnerability and ecological fragility was not yet feasible. The Committee also considered the usefulness of a vulnerability index as a criterion for the least developed countries; but it postponed any formal recommendation, pending the results of additional statistical work and their examination by a working group.[12] The Committee recommended that its working group be reconvened, and that its findings be presented to the Committee at its next session.

D. An assessment of recent work by international organizations on vulnerability indices

115. Several international organizations have been involved in analytical work on vulnerability and related debates regarding the development and use of vulnerability indices. The most important of these are studies by SOPAC, the Caribbean Development Bank and the Commonwealth Secretariat. The Committee's review of this work largely reflected the outcome of a meeting of experts convened by the Secretariat in March 1999.

116. The Committee welcomed the efforts that these organizations had made in analysing an issue of concern to many developing countries. Taking into account the information emanating from the expert group meeting held in March 1999, the Committee concluded that the existing vulnerability indices are not yet suitable as a criterion for designating countries as least developed countries. The SOPAC index is still in its early stages of development; more testing and data development will be necessary before this index could be used by the Committee as a criterion. The indices formulated by the Caribbean Development Bank and the Commonwealth Secretariat are in a more advanced state of development, but neither index has the country coverage required by the Committee to determine least developed country status; and it would be difficult, if not impossible, to increase their country coverage sufficiently, because the

necessary data do not exist and are unlikely to be available in the foreseeable future.[13] The index developed by the Commonwealth Secretariat also suffers from conceptual and methodological deficiencies, while the Caribbean Development Bank's index reflects mainly external trade and finance characteristics (see Annex I for more detailed commentary on these indices).

E. An economic vulnerability index as a criterion for the identification of least developed countries

117. Notwithstanding the limitations of the existing vulnerability indices, the Committee recognized that vulnerability should be taken explicitly into account in the least developed countries identification criteria. After reviewing the work of the Secretariat on various indicators that could be considered for inclusion in a vulnerability index, and on related limitations as well as methodological difficulties involved in this work, the Committee concluded that it would be useful and feasible to include some indicators of exogenous instability in an index of economic vulnerability. At the same time, the Committee noted that the current economic diversification index (EDI) criterion already reflects some aspects of vulnerability. The Committee proposed to replace this EDI by an economic vulnerability index (EVI), as defined below. The least developed countries category would then cover low-income countries suffering from a low level of human resources and from a high degree of economic vulnerability. The EVI is intended to reflect, in a better manner than the EDI, the economic vulnerability of low-income countries. It retains those component indicators used for the calculation of EDI that already express vulnerability, and adds some relevant new indicators of vulnerability.

118. As noted above, structural economic vulnerability of a country depends on the size of the exogenous shocks that it faces and on its exposure to these shocks. The indicators contained in the new EVI are expected to reflect both aspects. Many low-income countries are heavily dependent on a few exports, usually unprocessed primary commodities, and are therefore vulnerable to exogenous shocks to the volume and/or the price of their exports. The export concentration coefficient, published by the United Nations Conference on Trade and Development (UNCTAD) in the annual *Handbook of International Trade and Development Statistics*, which was previously included as a component of the EDI, is an appropriate, universally available and well-defined proxy of the exposure of merchandise exports to external shocks. However, it does not cover the export of services, which are increasingly important in a number of developing countries. Because of the lack of data on the components of the service sector, it is not possible to construct a coefficient of concentration of exports of different types of goods and services. The Committee therefore proceeded to consider an index of the instability of total exports of goods and services, defined as the variance of exports along its trend and calculated over a long period of time.

119. Another type of shock comes from natural disasters (such as hurricanes, floods, droughts, tidal waves, earthquakes, volcanic eruptions and locust invasions). A natural-disaster index, defined as the frequency of these events, possibly weighted by the percentage of the population affected by them, was considered by the Committee for Development Planning in 1998. However, comparable and reliable data were not available for all developing countries[14] to produce such an index for least developed country identification. In order to address vulnerability to natural disasters, the Committee considered alternative possible proxy measures and decided to propose the use of a measure of the instability of agricultural production for this purpose. This specific measure of instability is the variance of agricultural production along its trend and calculated over a long period of time. It was recognized that some effects of natural disasters would be also reflected in the instability of exports of goods and services.

120. It is also necessary to take into account the degree of exposure to any given shock. For this purpose, the Committee considered two indicators. One is the share of manufacturing in GDP. This was previously included in the EDI, but the Committee has proposed that this measure should include the share of modern services (transportation, communications, finance, insurance, business services and real estate). The larger this share, it is assumed, the less a country is exposed to shocks, other things being equal. Such data are available for almost all countries. The second indicator of exposure is the size of the population. This affects exposure in that the smaller the country, the greater its exposure to shocks (both economic and natural). This proxy is also better at excluding the effect of economic policy than are such alternative indicators as the share of the external sector in GDP.

121. The Committee recommends that these five indicators — export concentration, the instability of export earnings, the instability of agricultural production, the share of manufacturing and modern services in GDP and population size — be given equal weight in the composite EVI. In the future, this EVI will need to be refined progressively, as to its content, and to be supplemented by the consideration of other important elements of vulnerability which, as explained below, are not yet taken into account in the new EVI.

F. Other vulnerability aspects and handicaps: a "vulnerability profile"

122. The Committee considered that an index of economic vulnerability could give only a partial and approximate measure of the relative level of vulnerability of a country. Elements of structural vulnerability and handicaps, besides those covered by the indices used as criteria, need to be considered on a case-by-case basis. Such a consideration seems needed to decide both on the inclusion of those countries that are close to the thresholds of the criteria and on the graduation of countries already on the list of least developed countries.

123. The Committee recommended that a document — to be called a country "vulnerability profile" — should be prepared for that purpose on a regular basis. UNCTAD has indicated its readiness to provide such profiles which would assess the impact of external economic and natural shocks on the economic performance and economic structure of a country. Relevant information from other United Nations bodies will also be welcomed. The profiles should be designed so as to allow a comparative assessment of the situation in the countries near the thresholds of the criteria, and would present the relevant information that reflects various dimensions of vulnerability. Thus, not only the factors of economic vulnerability of a country, but also information about possible ecological fragility, would be included. It should also give information about other possible structural handicaps, specific to the country and not yet covered by the main quantitative composite indicators.

124. The information given in such a vulnerability profile would help the Committee make its judgements about the inclusion of countries on the list of least developed countries, particularly in cases where a country's situation falls close to the threshold with regard to any of the three main quantitative criteria, while clearly meeting the other two. For graduation of countries, such consideration could be taken if a country exceeds two of the three thresholds criteria, but remains close to its threshold for at least one of these two.

G. Other improvements in the criteria gross domestic product (GDP) per capita and Augmented Physical Quality of Life Index (APQLI) for identification of least developed countries

125. The information requested by the Committee for Development Planning, at its thirty-second session, regarding possible improvements in the quantitative criteria used for least developed countries identification, was presented by the Secretariat at the expert group meeting in March 1999. On the basis of a review of this material, the Committee reached the following conclusions.

126. First, the Committee proposes to replace the three-year average of per capita GDP, expressed in United States dollars at current official exchange rates, by per capita GDP for a benchmark year (in order words, the same year for all countries) converted to United States dollars at the country's average exchange rates over three years which also take into account inflation rate differentials relative to the G-5 countries.[15]

127. Second, after considering the present state of available statistics relating to the APQLI, the Committee proposes to make two changes on this index. Since adequate statistics on "percentage of the population undernourished" are not available for enough countries, the measure used in future will be the average calorie intake per capita as a percentage of average calorie requirements per capita. The other change regarding the APQLI is to use data on child mortality under five in place of life expectancy at birth. Although "mean years of schooling" is considered a better indicator of the average level of education of the population, such a change is not possible because of the lack of reliable data. The primary and secondary school enrolment ratio (combined) and the adult literacy rate will therefore continue to be used.

128. The new set of criteria, which result from the foregoing proposals, are summarized in annex II, and compared with the previous criteria.

129. For use in establishing the list of least developed countries, specific numerical benchmarks for the two composite indicators, APQLI and EVI, also have to be decided. This can be done only when the preparatory work for the triennial review, to be conducted next year, is completed. At that time, the Committee for Development Policy will apply the same principles that were used in the past.[16] These include the use of higher benchmarks for graduation from the list of least developed countries than for inclusion, to about the same extent as before. Thus, for instance, the per capita income cut-off points for graduation would still be about $100 higher than the threshold level for inclusion; for the APQLI and the EVI, the cut-off points would be around 20 per cent higher than the inclusion benchmarks.

H. Further work

130. In the year 2000, the Committee is expected to undertake the triennial review of the list of least developed countries, which will include consideration of possible new additions to and graduations from the list. The Committee requests the Secretariat to make all the necessary calculations of the country values for the recommended criteria for inclusion in and graduation from least developed country status, well in advance of the Committee's next session, currently scheduled for April 2000.

131. The Committee recognizes that the review of the list of least developed countries as proposed will require not only a good deal of technical statistical work by the Secretariat, but also an exercise of overall judgement by the Committee. The ultimate new list of least developed countries — and thus of proposed new inclusions and graduations — will depend on the levels chosen as benchmarks for GDP per capita, APQLI and EVI and also, in marginal cases, on the assessment of information provided in the proposed country vulnerability profiles. The Committee notes that more than one round of discussions will be necessary in order to finalize the review: initial discussions are bound to bring out the need for further specific information, including the elaboration of alternative calculations of indices. Moreover, the vulnerability profiles, to be prepared by UNCTAD for marginal cases, will have to be brought into the overall judgement on inclusion or graduation.

132. For the Committee to take responsibility for the forthcoming review of the list of least developed countries, therefore, arrangements must be made for the convening of a sub-group of the Committee in January or February 2000 to ensure that the foundation is laid for the Committee's deliberations and conclusions in April. If for any reason such preparation is not practicable, the Committee stands ready to review the work and any recommendations on the list of least developed countries brought to the attention of the Committee. Such comment as the Committee might have on the analysis then available would be forwarded to the Economic and Social Council along with the recommendations made to the Committee.

133. The Committee considers that the proposed index of economic vulnerability (EVI) is the best possible means of taking explicitly into account economic vulnerability in the designation of least developed countries, given current understanding of the relationships between economic vulnerability and development and the present quality and coverage of the data. Further research is needed on the various aspects of economic vulnerability, particularly those resulting from globalization, and on their impacts on the economic growth potential of developing countries and of least developed countries in particular. The results of such research could be taken into account, if appropriate, in the determination of the list of least developed countries if the data necessary to assess these relationships were available for all developing countries. More generally, the Committee concludes that broader issues of vulnerability in developing countries, particularly in least developed countries, and including the ecological and social as well as economic aspects, should be a priority for international research activities and for the work of the Committee in particular.

Chapter IV
Working methods and programme of work of the Committee

134. The Committee welcomes the opportunity to contribute to the work of the Economic and Social Council. The Committee's identification and review of emerging development issues can place at the disposal of the Council, the United Nations system and the wider development community the reflections of a group of independent experts on a wide range of issues, particularly in fields cutting across the responsibilities of different international bodies.

135. However, in the course of their work during the five-day plenary session in April 1999, members of the Committee quickly became aware that their work was seriously handicapped by the lack of prior preliminary discussions among themselves (including on how to address the large theme assigned by the Economic and Social Council), of specialized inputs for the Committee's consideration and of adequate time during the plenary session for analysis and formulation of agreed recommendations. As a result, it was felt that less than optimal use had been made of the considerable body of expertise and experience brought together in the Committee. While this did not prevent members from working to formulate what it is hoped will be a worthwhile contribution to the work of the Council and other bodies, the Committee felt strongly that reconsideration of its methods of work was urgently needed.

136. The Committee is cognizant of the Economic and Social Council's request that it should explore the scope for effective preparations for its deliberations via informal networking arrangements. Having convened for the first time and agreed on working methods, the Committee will use such arrangements to the fullest extent possible during its future work. Nevertheless, the Committee remains of the view that the nature of its work is such that informal networking arrangements can be of only limited benefit and that additional group discussions are necessary if the Council and

other bodies are to obtain full value from the Committee and its work.

137. Significantly, this perception was common both to members with experience on the former Committee for Development Planning and to new members. As a result of sound preparatory work done in working group sessions prior to each plenary, the former Committee had been able to devote its plenary discussions to an exhaustive reflection on all aspects of the issues that it addressed in its report.[17] It was this that had made it possible for the former Committee for Development Planning to take full advantage of the independence, expertise and experience of its members, both in the selection of issues and in recommendations.

138. Members of the Committee agreed that they would be prepared to make their time available to contribute to a corresponding arrangement that would make more effective — and highly cost-effective — use of their varied experience, insight and background. If, at this time, the Economic and Social Council does not wish to avail itself of this opportunity, the Committee will dedicate its best efforts in its forthcoming plenary session to making worthwhile comments on issues placed before the Committee.

139. On the choice of themes to be addressed, the Committee shares the view that it can itself play a role in identifying emerging issues for consideration by the Economic and Social Council. It therefore welcomes the invitation contained in paragraph 10 of annex I to Council resolution 1998/46 to include proposals to the Council concerning its programme for the following year. However, it notes with some concern that such proposals are for consideration and approval at the next organizational session of the Council in January/February. In the view of the Committee, the selection of themes needs to be made soon enough, preferably in July of the preceding year, to enable adequate preparatory work in advance of its plenary session to be carried out by the Secretariat and, as the Committee proposes, by a sub-group of the Committee. Early and timely decisions on themes to be covered, however, should not preclude later adjustment to take account of significant unforeseen developments in the course of the year.

140. Against this background, the Committee proposes the following work programme.

141. First, as called for in Economic and Social Council resolution 1998/46, the Committee will continue the triennial review of the status of least developed countries. According to the existing schedule, this issue should be addressed by the plenary session (April 2000). As explained above (para. 131), the application of the agreed set of criteria for the designation of least developed countries goes beyond statistical calculations — particularly in otherwise marginal cases — to the careful assessment both of the numerical results and of supplementary information to be collected, especially a set of vulnerability profiles. Procedurally, this work is best undertaken by a sub-group of the Committee that is able to undertake a preliminary screening of the material and decide on any further preparations that are necessary to enable the plenary session of the Committee to complete its work.

142. Second, in response to the Economic and Social Council's view that one of the roles of members of the Committee should be to contribute to the multilateral process, the Committee proposes to organize itself so as to be able to make a special contribution over the coming years to the preparations for the Third United Nations Conference on the Least Developed Countries, to be held in the year 2001. During 1999–2000, the Committee would explore with UNCTAD in what areas and how best the Committee can make its contribution. This might include participation by some Committee members in working groups and other forms of interaction on substantive issues to be covered by the Conference, the preparation of analyses (through a working group and/or by the commissioning of studies) and the elaboration of policy options on central themes of the Conference, followed by intensive deliberations in the Committee's plenary, both in April 2000 and in April 2001.

143. The Committee was not in a position at the current session to propose the specific content of its work programme in respect of the Conference. It notes, however, that one of the tasks of the Conference is to consider the formulation and adoption of appropriate national and international policies and measures for sustainable development of the least developed countries and their progressive integration into the world economy as stated in paragraph 1 (a) (iii) of General Assembly resolution 52/187 of 18 December 1997. Tentatively, therefore, the Committee proposes to choose for its focused attention in the coming two years one of the following items or some related topics:

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

(b) The implications, in particular for the least developed countries, of changes in information technology and biotechnology and the rise of knowledge-based and service industries;

(c) Securing sustainable development: institutional requirements for meeting environmental and developmental vulnerabilities;

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

144. In the light of the guidance on this matter provided by the Economic and Social Council at its substantive session of 1999 (in July 1999), the Bureau of the Committee will immediately consult with the Committee membership, the Secretariat, UNCTAD and others in order to initiate the preparatory work necessary to ensure that a report conforming with the Committee's standards is prepared in time for consideration by the Council in July 2000.

Chapter V
Organization of the session

145. The first session of the Committee for Development Policy was held at United Nations Headquarters from 26 to 30 April 1999. Twenty-one members of the Committee attended: Maria Julia Alsogaray, Mária Augusztinovics, Makhtar Diouf, Just Faaland, Eugenio Figueroa, Albert Fishlow, Gao Shangquan, Leonid M. Grigoriev, Patrick Guillaumont, Ryokichi Hirono, Taher Kanaan, Louka T. Katseli, Nguyuru Lipumba, Solita C. Monsod, P. Jayendra Nayak, Milivoje Panić, Eul Yong Park, Bishnodat Persaud, Akilagpa Sawyerr, Udo Ernst Simonis and Ruben Tansini. Three members were unable to attend: Essam El-Hinnawi, Mari Elka Pangestu and Miguel Urrutia Montoya.

146. The officers elected at the first session for the term ending on 31 December 2000 were:

Chairman:
Just Faaland

Vice-Chairman:
Louka T. Katseli

Rapporteur:
Solita C. Monsod

147. The session was opened by the Chairman.

148. The Under-Secretary-General for Economic and Social Affairs of the United Nations Secretariat, Mr. Nitin Desai made a statement in which he summarized his views on the role of the Committee, reflecting recent discussions among member States in the Economic and Social Council and the decision of the Council to reconstitute the former Committee for Development Planning as the new Committee for Development Policy. He underlined the relevance of the Committee's work for ongoing and future work of the Council and the United Nations system as a whole; and suggested some possible themes for the future work of the Committee, emphasizing the importance of long-term economic, environmental and social aspects of development.

149. The Committee heard brief statements from representatives of the United Nations Development Programme (UNDP) and the United Nations Statistics Division of the Department of Economic and Social Affairs of the United Nations Secretariat concerning relationships among globalization, poverty and the employment of women.

150. Substantive services for the session were provided by the Department of Economic and Social Affairs. The following agencies, programmes and funds were represented at the session: International Labour Organization, United Nations Conference on Trade and Development, Economic Commission for Latin America and the Caribbean, Economic Commission for Europe, Office of the United Nations High Commissioner for Refugees, United Nations Industrial Development Organization, Food and Agriculture Organization of the United Nations, United Nations Educational, Scientific and Cultural Organization, World Bank, United Nations University, United Nations Population Fund and United Nations Development Programme. The agenda is contained in annex III.

Notes

[1] This is the World Bank Atlas method, which presents per capita gross national product (GNP) using a three-year average exchange rate.

[2] *Official Records of the Economic and Social Council, 1997, Supplement No. 15* (E/1997/35).

[3] Ibid., *1998, Supplement No. 14* (E/1998/34).

[4] See ILO, *World Employment Report, 1998–99: Employability in the Global Economy — How Training Matters* (Geneva, ILO, 1998), Statistical annex, Notes and definitions, tables 4 and 5.

[5] ILO, *World Employment Report, 1998–99* ..., figure 6.1.

[6] ILO, *World Employment Report 1998–99* ..., p. 142.

[7] Economic and Social Council resolution 1999/2. In its resolution 1998/46 of 31 July 1998, annex I, sect. B, the Council had reconstituted the Committee for Development Planning as the Committee for Development Policy.

[8] In 1991, the Committee also agreed that population size, GDP per capita, the APQLI and the EDI should not be used in an automatic manner as criteria for inclusion, but should be checked against other indicators "affecting the state and prospects of development of individual countries". It proposed additional indicators to take these factors into account: (a) a natural endowment index (agricultural land per capita, exports of minerals as percentage of total exports, average rainfall and rainfall instability); (b) the instability of agricultural production or specific climatic risks; (c) exports of petroleum as a percentage of total

exports; and (d) official development assistance (ODA) as a percentage of GNP (see *Official Records of the Economic and Social Council, 1991, Supplement No. 11* (E/1991/32)).

[9] However, some country-specific factors that may distort the measure of GDP per capita have been taken into consideration. Cape Verde, for instance, retained its least developed country status in 1994 owing to uncertainties related to its exchange rate, which could have resulted in an overestimation of its GDP per capita (*Official Records of the Economic and Social Council, 1994, Supplement No. 2* (E/1994/22), para. 261).

[10] See *Official Records of the Economic and Social Council, 1997, Supplement No. 15* (E/1997/35), chap. VI, sect. B.

[11] Ibid., para. 241.

[12] Ibid., *1998, Supplement No. 14* (E/1998/34), paras. 162–170.

[13] In undertaking its work, the Committee is concerned with practical as well as conceptual issues; the availability of accurate data that are comparable among countries is one such issue.

[14] Including a significant number of low-income countries, which need to be included in an index calculation to be used for least developed country identification.

[15] This is the World Bank Atlas method, which presents per capita GNP using a three-year average exchange rate.

[16] In 1991, "the Committee was motivated by three considerations. It sought to choose cut-off points where there were very few countries having nearly identical values; it also felt that the cut-off points should be somewhat lower than the highest values calculated for the low-income countries; finally, it felt that the cut-off point should be chosen in such a way as to minimize changes to the existing list, consistent with the principle of classifying equally disadvantaged countries equally". (See *Revolution and Reform in Eastern Europe and the Soviet Union: the Global Development Impact*, *The CDB Report 1991*, ST/ESA/229 (United Nations publication, Sales No. E.92.IV.2), para. 239).

[17] A summary of this process, as revised, was set out in the report of the Committee for Development Planning on its thirty-first session (5–9 May 1997) (see *Official Records of the Economic and Social Council, 1997, Supplement No. 15* (E/1997/35), chap. VI, sect. B, and chap. VII)).

Annex I

Review of three vulnerability indices

The SOPAC environmental vulnerability index

1. Since 1998, the South Pacific Applied Geoscience Commission (SOPAC) has been engaged in preparing a pilot study on environmental vulnerability. SOPAC aims to develop an index that captures the state of the environment as determined by natural events and by human activity "for the purpose of ranking (States) and providing a single-figure

expression of their relative environmental vulnerabilities”.[a] The first phase of this project was completed in late January 1999.

2. The SOPAC study identifies three aspects of vulnerability: risks to the environment (natural and anthropogenic), the innate ability of the environment to cope with the risks (the resilience of the ecological system) and ecosystem integrity (the condition of the environment as a result of past impacts); 57 environmental indicators were identified and grouped into three sub-indices, one for each of the three aspects. These three sub-indices were combined into one synthetic, environmental vulnerability index. This index has been calculated, in a first round, for three countries (Australia, Fiji and Tuvalu).

3. It was concluded by the expert group that met in March 1999 that major conceptual and measurement issues would have to be addressed and that the analytical and statistical work would have to be expanded to include a much greater number of countries before the scheme proposed by SOPAC could be utilized for least developed country identification. Noting the importance of ecological fragility, at the present session (April 1999), the Committee for Development Policy concluded that these factors should be considered by means of vulnerability profiles of countries that were candidates for inclusion to or graduation from the list of least developed countries, and it recognized the usefulness and relevance of the SOPAC study in constructing such country profiles.

The Caribbean Development Bank’s economic vulnerability index

4. The main focus of the Caribbean Development Bank’s work on vulnerability has been directed at capturing the inherently greater susceptibility of developing countries, especially small island developing States, to external shocks that affect development. The exercise comprised 95 countries and territories for the year 1993. An economic vulnerability index has been constructed by using variables relating to trade, such as concentration of export and import markets and reliance on key imports, dependence on external sources of investment and relative isolation.[b]

5. This research has focused on inherent elements of vulnerability stemming from structural characteristics of a country, rather than from those attributable to past policy actions. The researchers recognized that in only a few instances is policy completely independent of events bearing on vulnerability. The choice of explanatory variables is therefore driven by the degree to which these variables can be regarded as less affected by policy-making. These variables are divided into six groups: peripherality and accessibility; export concentration; convergence of export destination; dependence upon imports of energy; reliance upon external finance; and proneness to natural disasters. The data concerning the impact or extent of natural disasters were judged to be insufficiently robust to derive a meaningful measure of this aspect of vulnerability. The aggregate index — an average of the indices for the other five groups — was found to be inversely related to population size. However, according to the Bank’s report, size alone cannot be taken as a good proxy for economic vulnerability.[c]

6. The Committee noted that the work of the Caribbean Development Bank on construction of a vulnerability index thus far has been focused on economic vulnerability related to the external sector. These efforts enrich the Committee’s consideration of vulnerability issues relevant to the least developed country criteria, but sufficiently comparable data for all developing countries are clearly not yet available. Moreover, the work itself raises several methodological problems about the appropriate indicators of structural vulnerability and their weighting.

The Commonwealth Secretariat composite vulnerability index

7. The Commonwealth Secretariat has undertaken work on the construction of a composite vulnerability index. The proposition underlying the exercise is that small States are particularly vulnerable to external shocks and natural catastrophes. The latter may not necessarily affect the level of per capita gross domestic product (GDP), but they are seen as critical in explaining fluctuations of the annual rates of growth of per capita GDP. Small States, it is argued, have a tendency to experience greater volatility of per capita GDP growth than large States. This greater volatility is a manifestation of these countries’ greater vulnerability.

8. The work defines output volatility as the standard deviation of the annual rates of growth of per capita GDP from 1981 to 1992. After experimenting with some 50 explanatory variables, an econometric exercise retained 3 variables reflecting vulnerability to explain this volatility for 32 small and 68 large countries. These variables are: country openness, as measured by the share of exports of goods and services in GDP; lack of economic diversification, as measured by the United Nations Conference on Trade and Development (UNCTAD) diversification index;[d] and susceptibility to natural disasters, as measured by the percentage of the population affected during 1970–1996.

(The model also uses a dummy variable that takes the value of one if the country is small, and zero otherwise.)

9. Using data for each of these three variables (and the dummy variable as appropriate), the econometric model derived "predicted" levels of output volatility for 110 countries. These 110 countries included 10 countries that had been excluded from the sample when the underlying model was estimated. This "predicted" level of output volatility, combined with GDP as an indicator of resilience, is referred to as the "composite vulnerability index", or CVI.[e]

10. There are some methodological issues that need to be addressed in deciding whether the CVI measures economic vulnerability appropriately. Volatility of annual rates of GDP per capita growth may not necessarily affect the level of development or the long-term growth rate of per capita GDP. Fluctuations in the rate of growth can occur at high or low levels of GDP per capita, and along a high or low trajectory of growth of per capita GDP. For example, economic stagnation, which characterizes many least developed countries, would imply lower vulnerability, other things being equal. Another issue is that one explanatory variable in the model — trade openness — is largely the result of policy.

11. On the basis of the information available to it, the Committee expressed some doubts on the soundness of the methodology and the data used in the construction of the CVI. Much of the GDP data is inferred or interpolated from the country data on purchasing power parities (PPPs) in the Penn World Tables, because many countries had not participated in the International Comparison Project which estimated the PPPs. Moreover, the data on the number of "persons affected" by natural disasters are unlikely to be comparable across countries. Moreover, as a practical matter, it would be difficult to apply the CVI in identifying least developed countries, as results are available for only 110 countries and territories, whereas all developing countries have to be examined by the Committee in determining least developed country eligibility, and the requisite data for making reliable inferences for the "missing" countries are not available.[f] On these grounds, the Committee considered that the CVI could not be used as one of the indices used to determine inclusion in or graduation from the list of least developed countries.

Notes

[a] See Ursula Kaly and others "Environmental vulnerability index (EVI) to summarize national environmental vulnerability profiles" (Suva: SOPAC Secretariat, 4 February 1999, SOPAC Technical Report 275), p. iii.

[b] See Tom Crowards, "An economic vulnerability index for developing countries, with special reference to the CARIBBEAN: alternative methodologies and provisional results" (Barbados, Caribbean Development Bank, 25 February 1999). It is noted in the report that it is the responsibility of the author and that the Caribbean Development Bank does not take responsibility for the specific views expressed.

[c] Loc. cit.

[d] Defined as "the absolute deviation of the country share from the world structure". As noted by UNCTAD, this index discriminates more finely than the concentration index between countries that are relatively more diversified, and conversely.

[e] Jonathan Atkins, Sonia Mazzi and Carlyn Ramlogan, "A study of the vulnerability of developing and island states: a composite index" (London, Commonwealth Secretariat, August 1998). A final technical paper was not expected to be available until late March 1999. The following comments are based on the August 1998 report. A second version of the index and its methodology is presented in "Small States: economic review and basic statistics" (Commonwealth Secretariat, December 1998). A third version was presented at the March 1999 London meeting, but was not made available in published form.

[f] Among the developing countries not covered are nine of the present LDCs (Afghanistan, Burundi, Eritrea, Guinea-Bissau, Kiribati, Lao People's Democratic Republic, Liberia, Somalia and Tuvalu).

Annex II

Criteria for the identification of least developed countries

Current quantitative criteria	*Proposed quantitative criteria*
Per capita GDP: three-year average, converted at each year's official exchange rate.	**Per capita GDP:** for one benchmark year, converted at three-year average exchange rate (World Bank Atlas method).
Population of 75 million or less	**Population of 75 million or less**
Augmented Physical Quality of Life Index (APQLI). Average of four components: *Education*, measured by: • Combined primary and secondary enrolment ratio; • Adult literacy rate; *Nutrition*, measured by: • Per capita daily calorie intake; *Health*, measured by: • Life expectancy at birth.	Augmented Physical Quality of Life Index (APQLI). Average of four components: *Education*, measured by: • Combined primary and secondary enrolment ratio; • Adult literacy rate; *Nutrition*, measured by: • Per capita daily calorie intake as percentage of daily requirement; *Health*, expressed in terms of: • Child mortality (under five years of age).
Economic diversification index (EDI). Average of four components: • Commercial energy consumption per capita; • Export concentration (UNCTAD index); • Share of manufacturing in GDP; • Share of employment in industry.	Economic vulnerability index (EVI). Average of five components: • Export concentration (UNCTAD index); • Instability of export of goods and services; • Instability of agricultural production; • Share of manufacturing and modern services in GDP; • Population size (in logarithms).
To be eligible for **inclusion** in the list of least developed countries, a country has	
• To have a population of 75 million or less; • To meet the three criteria: GDP per capita, APQLI and EDI below the respective thresholds; • When either the APQLI or the EDI criterion is not met, other qualitative elements can be considered.	• To have a population of 75 million or less; • To meet the three criteria: GDP per capita, APQLI, EVI below the respective thresholds; • If any of the three criteria is near the threshold, a vulnerability profile is to be taken into consideration.
To be eligible for **graduation** from the list of least developed countries, a country has:	
• To exceed: Two of the three criteria (with thresholds higher than for inclusion).	• To exceed: Two of the three criteria (with higher thresholds); • If any of these criteria is near its threshold, the vulnerability profile is to be taken into consideration.

Annex III

Agenda

1. Adoption of the agenda and organization of work, including selection of Chair, Vice-Chair, Rapporteur and drafting modalities.
2. Discussion of "the role of employment and work in poverty eradication in the context of globalization: the empowerment and advancement of women", as assigned to the Committee by the Economic and Social Council, together with the issue of vulnerability of special social groups.
3. Review of the report of the Secretariat on vulnerability, including the criteria and methodologies for determining the list of the least developed countries; consideration of possible vulnerability indices, and formulation of an economic vulnerability index.
4. Formulation of recommendations (on items 2 and 3).
5. Suggestions for future work.
6. Discussion and adoption of the report of the Committee for Development Policy on its first session.

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