United Nations

Committee for Development Policy

Report on the fifth session
(7-11 April 2003)

Economic and Social Council

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Chapter I
Organization of the session

1. The fifth session of the Committee for Development Policy was held at United Nations Headquarters from 7 to 11 April 2003. Fifteen members of the Committee attended: Ms. N'Dri Thérèse Assié-Lumumba, Mr. Albert Binger, Mr. Olav Bjerkholt, Mr. Eugenio B. Figueroa, Mr. Leonid M. Grigoriev, Mr. Patrick Guillaumont, Mr. Ryokichi Hirono, Ms. Marju Lauristin, Ms. Mona Makram-Ebeid, Mr. P. Jayendra Nayak, Mr. Milivoje Panić, Ms. Suchitra Punyaratabundhu, Ms. Sylvia Saborio, Mr. Udo Ernst Simonis and Ms. Funmi Togonu-Bickersteth. Nine members were unable to attend: Ms. Lourdes Benería, Mr. Shangquan Gao, Ms. Louka T. Katseli, Ms. Mari Elka Pangestu, Mr. Eul Yong Park, Mr. Delphin G. Rwegasira, Mr. Nasser Hassan Saidi, Mr. Ruben Tansini and Ms. Dorothéa Werneck.

2. The officers of the Bureau at the fifth session were:

Chairman:
Mr. Ryokichi Hirono

Vice-Chairman:
Mr. Eugenio B. Figueroa

Rapporteur:
Ms. Mona Makram-Ebeid

3. Mr. Ryokichi Hirono, Chairman of the Committee, opened the session. Mr. Nitin Desai, Under-Secretary-General for Economic and Social Affairs, made an introductory statement emphasizing the importance of the Committee in adding value to the topics that were to be discussed. He pointed to the need for a broader socio-economic perspective at both the global and local levels, and for coherence in different dimensions of policy. One such example was the overall approach to human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS): the priority given by the international community to this problem was in some ways being contravened by the difficulties in incorporating the treatment of HIV/AIDS into the Agreement on Trade-related Aspects of Intellectual Property Rights.[1] Such issues could not be addressed by limited sectoral approaches but needed to be reflected in all aspects of policy.

4. The main items in the agenda were: the promotion of an integrated approach to rural development for poverty reduction and sustainable development in developing countries; global public goods; and the identification of the least developing countries.

5. It was suggested that both Governments and the market have a role in improving the status of rural populations in the developing countries. The Committee might produce new models of rural development where all issues (such as self-employment, income transfer, wage employment, infrastructure) can complement each other.

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[1] See *Legal Instruments Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, done at Marrakesh on 15 April 1994* (GATT secretariat publication, Sales No. GATT/1994-7).

6. Concerning global public goods, it was suggested that these might serve as a means of strengthening the United Nations system, as people and States could be brought together to address issues of international concern such as water shortages and investment in renewable energy. It was further emphasized that there was a need to clarify the way in which global public goods are discussed as the current debate is very diffuse. The fact that public goods such as health and education, which are particularly important, need international action, brings to the fore the international dimension of trade and aid. In addition, the preservation of cultural diversity was also seen as an important aspect of global public goods.

7. The topic of the graduation of least developed countries was addressed and the growing sensitivity of the issue was emphasized by noting the resistance to graduation of countries qualifying for it. It was also recommended that the question on how the international community could assist least developed countries "cushion" or absorb potential shocks of graduation in order to prevent disruptions in their development process be examined as a theme.

8. The Committee benefited from the active participation of a number of United Nations entities. The Department of Economic and Social Affairs of the United Nations Secretariat provided substantive services for the session. The following bodies, agencies, programmes and funds of the United Nations system were represented:

- Commonwealth Secretariat
- Food and Agriculture Organization of the United Nations
- United Nations Conference on Trade and Development
- United Nations Children's Fund
- United Nations Development Programme
- United Nations Educational, Scientific and Cultural Organization
- United Nations Environment Programme
- United Nations Industrial Development Organization
- Population Division, Department of Economic and Social Affairs of the United Nations Secretariat
- Least Developed Countries Coordination Unit, Economic and Social Commission for Asia and the Pacific
- Department of Economic and Social Affairs of the United Nations Secretariat
- Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States
- Economic and Social Commission for Asia and the Pacific
- International Labour Office
- International Monetary Fund
- World Bank
- World Food Programme
- World Health Organization

Chapter II
Promoting an integrated approach to rural development in developing countries for poverty eradication and sustainable development

A. Introduction

1. The attainment of the Millennium Development Goals[2] will not be possible without development's making a substantial impact on rural poverty, since three quarters of the extreme poor in the world live in rural areas, and urban areas are unable to absorb all potential poor rural migrants. It is even more imperative to focus on the eradication of rural poverty now that economic growth worldwide is faltering, pushing millions more into poverty and causing tens of thousands of children to die from malnutrition and deprivation. Eradicating poverty would also contribute to the elimination of the causes of conflict and terrorism. Poverty eradication is a long-term proposition but the alternative is a never-ending cycle of poverty and violence.

2. Rural development as a strategy to eradicate poverty must reflect the multidimensional nature of poverty and thus must be multi-targeted. It has to extend across different disciplines and must encompass demographic, economic, social, institutional and political factors, thus constituting an integrated approach. This integrated approach would differ from previous, more sector-specific but context-neutral ("one size fits all") experiences in rural development. Thus, although the concept of an integrated approach has not changed, the understanding of what it entails has changed.

3. Among the major causes of the persistence of rural poverty in most developing countries are low or stagnant economic growth in rural areas, often below the rate of population growth, inadequate investment in human capital, agricultural technology and infrastructure, and inadequacies in institutional mechanisms that address the needs of the rural poor. These causes are also often seen as the consequences of poverty — inadequate economic growth limits the amounts available to be invested in human and physical capital, technology and institutions. The rural poor can then be seen as caught in a vicious circle or "poverty trap". In order to tackle rural poverty and help the rural poor escape this trap, it is necessary to look at these old problems with new lenses in order to address the new challenges. A fundamental reorientation of integrated rural development should focus on enhancing rural employment and income-generation so as to create the conditions for decent living conditions in rural areas. More resources should also be directed towards rural areas which currently receive only 25 per cent of major donors' expenditures.

4. The enormous heterogeneity of conditions under which the rural poor live and work requires creativity and flexibility in project design and implementation which have to be achieved locally through decentralization, capacity-building and participation. Decentralization needs to be carefully conducted to ensure that rural elites do not appropriate for themselves most of the benefits of rural development. Institutions serving the rural poor have to be strengthened in order to empower poor people, and give them a stronger voice in processes of decision-making on resource

[2] See General Assembly resolution 55/2; and A/56/326, annex.

mobilization, allocation and utilization. Strengthened institutions should help foster self-respect and respect for local culture and values consistent with environmental sustainability in order to preserve social cohesion, as reiterated at the World Summit on Sustainable Development held in Johannesburg, South Africa, in August-September 2002. To achieve the full benefits of this integrated approach to rural development, Governments, the international community, civil society, the business community and local communities must work in partnership.

B. The background situation and major consequences of rural poverty

1. The poor state of health and education

5. Underlying all analysis of the possibility of escape from rural poverty is the situation with respect to health and education. Rural people in developing countries have long suffered from a variety of water-borne and insect-borne diseases which have reduced their capacity for productive work and thus diminished their chances of escaping from poverty.

6. Progress has been made in reducing the incidence of schistosomiasis, but malaria, tuberculosis and HIV/AIDS still constitute major obstacles, given the vulnerability of the rural poor. The prevalence of HIV/AIDS, in sub-Saharan Africa in particular, has reduced the number of adults able to support their families and the broader rural economy.[3]

7. Malaria aggravates rural poverty because of the costs of treatment and of lost work time. Much more effort is needed from the international community, Governments and the private sector — as called for by the Abuja Declaration on HIV/AIDS, Tuberculosis and Other Related Infectious Diseases[4] and the Roll Back Malaria campaign (involving the World Health Organization (WHO), the World Bank, the United Nations Development Programme (UNDP) and the United Nations Children's Fund (UNICEF)) — to implement treatment and prevention and, in view of the increasing resistance of parasites and mosquitoes, to promote needed research on better drugs and insecticides.[5]

8. Another consequence — and cause — of rural poverty is a low level of educational provision in rural areas and a high dropout rate, as children leave school because their parents either cannot afford to pay for their attendance or require their labour to assist in maintaining the family budget. Dropouts from schools tend to remain poor throughout their lives and to transmit poverty to future generations. This is particularly true for girls, as the education of girls and women has a wide impact, given their role as family and community caregivers.

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[3] For example, in Burkina Faso, it is estimated that 20 per cent of rural families have reduced their agricultural work or even abandoned their farms because of AIDS (Joint United Nations Programme on Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome (UNAIDS), *Report on the Global HIV/AIDS Epidemic*, 2002 (Geneva, UNAIDS, July 2002), p. 49).

[4] Available at http://www.uneca.org/adf2000/Abuja%20Declaration.htm.

[5] The Roll Back Malaria campaign notes that spending an additional 1 billion dollars a year — one third of 1 per cent of sub-Saharan Africa's gross domestic product (GDP) — on cost-effective forms of malaria control would be fully justified, as estimates suggest that malaria's economic costs exceed 1 per cent of the region's GDP.

2. Excessive rural-urban migration

9. For individuals, one possible path out of the rural poverty trap is through migration to the urban areas, but this often worsens the situation in both the urban and the rural areas. In many countries, especially those with rapid population growth, urban areas are not able to provide all migrants from rural areas, particularly the uneducated and unskilled, with productive employment. This has caused a growing incidence of unemployment and underemployment and an expansion of slums in urban areas, leading to a growing sense of personal insecurity and uncertainty and creating a breeding ground for social discontent, unrest, crime, including organized crime, and, in some cases, recruitment for terrorist activities. Excessive rural-urban migration often leads to a further increase of urban poverty and the ruralization of urban areas, whereby the poverty and lack of skills of the rural areas are reproduced in the shanty towns of urban conglomerations.

10. The migration of the heads of poor rural households to urban areas has resulted, in many cases, in the weakening of family values and of the fabric of rural society, and in an increase in delinquency and crime among the youth because they are insufficiently supervised by the family. Furthermore, migration of the male heads of rural households has major implications for the composition of the rural labour force, agricultural production, social cohesion and overall rural development. In many countries in sub-Saharan Africa, the women left behind have to provide for their families. The task is complicated by gender inequalities in accessing resources, such as land and credit, which further contribute to the feminization of poverty.

11. Most rural migrants are adults in their most productive years. As a consequence, a large part of the elderly are left behind in rural areas and lack the day-to-day support of adult children. The care of grandchildren often prevents the elderly, predominantly grandmothers, from the pursuit of their own normal economic activities. Thus, the migration of adults from the rural communities leads to a decline in the productivity and income level of rural areas and to a decrease in the stock of human capital, further reinforcing poverty in rural areas. This situation assumes even more serious dimensions in those communities affected by the HIV/AIDS pandemic.

12. Individuals who are forced by poverty to seek a livelihood in an environment unfamiliar to them, exemplified by members of rural populations migrating to urban areas, are exposed to a range of unaccustomed risks. These include various forms of exploitation and abuse, such as sub-standard working conditions and trafficking. Trafficking in human beings is a fast-growing form of transnational organized crime to which migrants from rural areas are particularly vulnerable. Women and children, particularly girls, are especially vulnerable to this form of abuse and slavery. Victims often end up contracting life-threatening diseases, such as HIV/AIDS. Their life prospects are greatly reduced. Child labour — either in the towns to which the rural poor migrate or in the rural areas themselves where children are used to supplement the family income — is another serious consequence of rural poverty.

3. Environmental degradation

13. Rural poverty is resulting in environmental degradation, since poor rural inhabitants are exerting increasing pressure on natural resources. Forests are being depleted in many African, Asian and Latin American countries to provide fuel for cooking and heating of houses. Soil erosion is an increasing problem in many

developing countries owing to forest depletion, overcultivation of unstable soils and agricultural malpractices. Underground- and surface-water extraction, on the one hand, and water contamination, on the other, are increasing in many areas, reducing agricultural production and aggravating health problems in rural areas. Poor people lack the human, financial and institutional resources to ensure the sustainable use of their natural resources. The result is another "vicious circle of poverty".

C. Major findings and recommendations

14. The above considerations underline the urgency of addressing rural poverty. As indicated above, this is a complex and multifaceted task, requiring intensive efforts in a large number of areas by a wide range of actors. Within this range of issues, the Committee believes that both developing countries and the international community should focus on the following priority areas:

(a) Expanding education and health services and providing incentives for rural people to take advantage of them;

(b) Increasing agricultural productivity and non-farm activities through the use of technology, diversification and access to inputs and credit;

(c) Improving access to local, national and global markets;

(d) Examining all policies through "rural lenses" with a special focus on women.

1. Expanding education and health services and providing incentives for rural people to take advantage of them

15. As discussed in the Committee's 2002 report,[6] improvements in the status of health and education have synergetic effects on other development objectives — individual and collective empowerment, protection of the environment and good governance. Moreover, social capacity-building fosters attitudinal changes and new ways of thinking about sustainable development. Greater gender equity and avoidance of discriminatory measures against women would make a strong contribution to rural poverty reduction.

16. Sometimes it is the prohibitive opportunity cost of attending school or securing medical treatment, rather than the supply of these services, that is detrimental for rural families and communities. This cost needs to be offset through incentives. A good example is publicly provided school lunches which have an additional beneficial impact on community income when they are produced locally.

17. **The Committee therefore recommends that efforts should be made by Governments, multilateral organizations and development partners to build the capacities of rural people and empower them to utilize fully their potential by providing relevant education and accessible and acceptable health-care services, particularly for women. Education and health policy in rural areas should aim at building capacity in rural communities and should be tailored to their needs. Educational opportunities should enable them to acquire relevant**

[6] See *Official Records of the Economic and Social Council, 2002, Supplement No. 13* (E/2002/33), chap. I, sect. B.

knowledge and skills, including in information and communication technologies (ICT), for farm and non-farm work. Policy should include a broad-based expansion of schooling, with parental and community involvement in nutrition programmes, mother and child health programmes, vaccination and other health interventions. Community-based schemes to protect water resources and other elements of the natural environment should be promoted.

18. **Multilateral organizations and development partners should invest in enabling the rural population to gain access to information and to enhance their productive activities by utilizing the new knowledge.**

2. Increasing agricultural productivity and non-farm activities through the use of technology, diversification and access to inputs and credit

19. There are many policies that can improve agricultural productivity, such as land reform, ensuring access to water and other inputs, and establishing a regime where property rights are respected and enforced. However, these are usually country-specific and so will not be dealt with below. Challenges of universal applicability include the following.

(a) Improving agricultural productivity, diversification and technology use

20. Increasing agricultural productivity is critical to achieving food security and increasing the incomes of the rural poor. The large benefits generated by the green revolution arose from the increased productivity of agricultural inputs (seeds, land, fertilizers etc.) that it brought about. The revolution helped provide food security in many parts of the world and released resources, including labour, for the expansion of other activities. Crop and product diversification is also crucial to increasing income and food security in agricultural areas. It reduces the risks associated with the cultivation of a few crops which can be negatively affected by natural phenomena or price variations. The experience of Chile, China, Malaysia and South Africa demonstrates that diversification may also open export opportunities for agricultural products.

21. Many new developments have occurred in agricultural technology and research and development (R&D). The trend has been towards greater private sector participation, including public-private participation, and more involvement of farmers themselves in the R&D process. Public involvement in agricultural R&D and extension services is still critical given its public good characteristic.[7] Maintaining public expenditures in agricultural and agriculture-related R&D should be regarded as a priority in the event of fiscal retrenchment in developing countries.

22. **The Committee recommends that the international community should make greater efforts to develop and transfer appropriate agricultural technologies to developing countries and foster better utilization of indigenous technologies. Agricultural research in poor countries should be directed towards pro-poor technology, that is to say, it should focus on cereal and root crops, which constitute 80 per cent of the nutritional intake of the poor; maximize the use of inputs that are available to poor households, including labour and biomass; focus on improving poor soils, as it is on marginal lands**

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[7] See *World Economic and Social Survey, 2002* (United Nations publication, Sales No. E.02.II.C.1), chap. V, entitled “Public-private interaction in agricultural technology”.

that the poor live; be geared towards mixed farming systems; and provide qualitative improvements to agricultural produce, including higher vitamin content.

(b) Enhancing non-farm activities

23. Small-scale industry in rural areas can help provide work for the landless and additional income for smallholders. Production techniques that take advantage of local knowledge would contribute to the empowerment of rural people, especially women. The promotion of agro-allied industries is essential to enhancing rural employment and income, but current rural development policies have not been effective in generating such enterprises in sub-Saharan Africa in particular. In this respect, it is vital to reduce incentives and subsidies that encourage the location of industries in urban areas. The township and village enterprises in China are one example of an undertaking that has encouraged non-farm employment and increased rural incomes.

24. **The Committee recommends that agro-industries should be established that adopt employment-creating technologies and processes, particularly in selected high value added sectors. For this purpose, there is an urgent need to provide rural communities with financial and tax incentives as well as with technical know-how. While encouraging non-farm activities, Governments should ensure that these do not result in further environmental degradation.**

25. Tourism — especially ecotourism, ethnic tourism and cultural tourism, which are in high demand and where communities can be involved — is now emerging in many developing countries. This kind of community-based and supply-driven tourism could be coupled with improvements in craftsmanship. Education in many countries is now geared towards providing skills for tourism services and local crafts production. This niche of the tourism industry needs to be marketed and ICT can be used for this purpose. ICT is increasingly required to facilitate networking among tourism providers so that they can improve the management of the natural and cultural resources that attract tourists. ICT can also help suppliers to learn best practices for the sale of local craft products via the Web, as has been the case in Bolivia, Chile, China, India and South Africa. **The Committee recommends that ICT should be promoted to ensure that information about tourist attractions is made available to potential visitors and that networking among tourism providers and local product suppliers is facilitated.**

(c) Improving access to credit

26. The rural poor find it difficult to obtain access to credit. Formal financial institutions frequently determine that rural areas are not profitable enough and the rates charged by moneylenders are often unaffordable. However, microfinance, which typically comprises credit services but is increasingly encompassing deposit and insurance services, provides affordable loans; although these loans are directed mainly towards the urban areas, they can be expanded, after suitable adaptation, to the rural poor. It is non-profit organizations that often provide microfinance, but some financial institutions do have microfinance departments. Microfinance has the potential to stimulate growth in incomes and assets and helps safeguard poor households against extreme vulnerability. Loans, savings and insurance help even out income fluctuations and maintain consumption levels during lean periods.

Evidence from microfinance clients demonstrates that access to financial services enables poor people to reduce vulnerability, increase their incomes and build assets.

27. **The Committee recommends that Governments should encourage the microfinance industry to expand into rural areas. Where necessary, Governments and the international community should provide funds to nurture the growth of a self-sustaining microfinance industry able to supply banking services, and especially credit, to the rural poor.**

3. Improving access to local, national and global markets

28. The inadequacy of rural infrastructure, such as transport, information and communication networks, often impedes smooth access to markets. Enhancing rural infrastructure would complement farmers' efforts to improve the marketability of their produce. The export of their products requires efficient and dynamic management on the part of the rural enterprises so that they are capable of dealing with such matters as certification and branding of products and contracts with overseas purchasers.

29. **The Committee recommends that public investment in rural infrastructure, such as road, transport, information and communications networks, should be expanded to connect rural with urban areas.** In this way, the products of farmers and rural entrepreneurs in small-scale industries would be distributed and marketed more widely and thus yield higher income and profits. **Donors and multilateral organizations should reassess their policies and ensure that a greater percentage of an expanding total of aid goes to rural areas.**

30. The export of many products is still constrained by distortions in international product markets: in particular, the subsidies given to their farmers by the developed countries amount to $340 billion a year, compared with a foreign aid budget of $60 billion.

31. **The Committee recommends the removal as soon as possible of obstacles to commercializing agricultural products from developing countries.** In this regard, the Committee feels that it is imperative for developed countries to remove all agricultural subsidies, distortions and barriers in the immediate future so that developing countries can expand their exports and see their domestic markets protected from dumping.

4. Examining policies through "rural lenses", with a special focus on women

32. The harmful effect of agricultural distortions in developed countries on the rural poor in developing countries shows that not just national but also international policy initiatives must be scrutinized through "rural lenses" — that is to say, from the point of view of their potential impact on rural areas and the sustainability of the increase in well-being of rural communities. In all cases, the gender dimension should be taken into special consideration, as women and girls often constitute a majority of the rural population and therefore stand to be the most important contributors to, as well as beneficiaries of, accelerated rural development; and in many of the poorest developing countries, women account for the largest share of agricultural output. **Specific needs of women and the issue of the removal of constraints on their full participation in economic activity should be addressed as a matter of urgency.**

Chapter III

Global public goods and innovative financial mechanisms in the pursuit of sustainable development

1. The deliberations of the Committee focused on the contribution of the perspective on global public goods to thinking regarding development in developing countries and, notably, to accelerated progress towards meeting the Millennium Development Goals.

A. The present situation

2. Increasing globalization of the world economy has encompassed greater trade, investment and financial flows among countries. It is also characterized by an increasing convergence of outcomes, whether with respect to consumption patterns and aspirations towards modern lifestyles or, more deleteriously, criminal activity. In substance, the production of and trade in private goods and services underpin this interdependence among countries.

3. This can lead, however, to cross-border externalities, some positive and some harmful. International cooperation to manage such externalities is therefore necessary. It can entail either the encouragement of the provision of global public goods[8] or, equivalently, the minimization of public "bads". The Committee considers global public goods (GPGs) as those goods that meet the following two criteria: first, "their benefits have strong qualities of publicness, that is, they are marked by non-rivalry in consumption and non-excludability"; and second, "their benefits are global in terms of countries, people … and generations".[9]

4. In a globalized world, the one-way donor-recipient relations that characterized linkages between rich and poor countries are changing into mutual dependencies. The emerging global society is also becoming a global risk society, where the risks of pollution, the spread of contagious diseases, the devastation of non-renewable biological and cultural resources and the rise of violent conflicts cannot be prevented without concerted international efforts.

5. The contribution of the developing countries to the mitigation of global risks and their effective participation in the global knowledge society presume their access to the global information networks and innovative technologies. The participation of developing countries in the provision and consumption of global public goods is also an important aspect of attaining the Millennium Development Goals, in particular those targeted at achieving universal education, combating HIV/AIDS and ensuring environmental sustainability.

6. Many GPGs are provided by Governments at the national level because they recognize their value for society's well-being. However, since domestic financing is usually insufficient, there is typically under-provision of GPGs, with many countries attempting to freeride on the budgetary financing of other countries. Where the

[8] In the economic literature, global public goods are sometimes referred to as "global externalities".

[9] See Inge Kaul, Isabelle Grunberg and Marc Stern, eds., *Global Public Goods: International Cooperation in the 21st Century* (New York, Oxford University Press for the United Nations Development Programme (UNDP), 1999).

international financing of GPGs does occur, it is often included as part of official development assistance (ODA), in which case the donors themselves are also among the beneficiaries of such expenditures.

7. From the perspective of the development agenda, it is important to disentangle ODA from the financing of GPGs, with ODA retaining its rationale primarily as a mechanism for supporting developing countries in their national development efforts. The provision of GPGs to enhance global welfare, reduce global bads and mitigate global risks has its own rationale. Accordingly, it is essential to ensure that financing the provision of GPGs is not carried out at the expense of development aid meant to provide for national public goods that developing countries need and/or at the expense of these countries' private goods. Additional resources need to be mobilized to provide GPGs. In addition, institutional arrangements and decision-making processes for the provision of GPGs should take into account the interests and concerns of developing countries, both as consumers and as potential providers of GPGs.

8. It has been estimated that, currently, up to about one third of the annual global allocation of ODA,[10] which has itself declined significantly in recent years to about $50 billion a year, is used to finance global public goods. In the opinion of the Committee, there are a number of potential sources from which revenue could be generated to provide additional funding for GPGs without diverting ODA.

9. In order to meet urgent needs, a number of new financing arrangements for GPGs were created in the recent past, for example, the Global Environment Facility (GEF), the Multilateral Fund for the Implementation of the Montreal Protocol, the Global Fund to Fight AIDS, Tuberculosis and Malaria, the clean development mechanism and the emissions trading mechanisms under the Kyoto Protocol[11] to the United Nations Framework Convention on Climate Change.[12] So far, these measures have emerged in a more or less ad hoc fashion. Proposals for new funding mechanisms (including international taxes, charges, user fees and compensation mechanisms) have also been put forward. Thus, the examination of what has been accomplished to date and whether the right tools are in place for today's challenges and those that are foreseen for the future, is timely.

10. The Committee is of the opinion that there is a strong need to raise global awareness about the nature and role of GPGs in the age of globalization and to develop a methodology for the assessment of the level of demand and provision of GPGs by sectors and categories. It is also important to create and apply sound analytical tools for evaluating the global components and effects in respect of the provision and consumption of national public goods.

[10] Estimates of the total amount and its distribution vary according to sources. According to one estimate, funds covering GPGs are distributed as follows: "(g)lobal environmental public goods attract about half, with health, knowledge management, governance, and conflict prevention sharing the other half". See Inge Kaul and others, eds., *Providing Global Public Goods: Managing Globalization* (New York, Oxford University Press for UNDP, 2003).

[11] FCCC/CP/1997/7/Add.1, decision 1/CP.3, annex.

[12] United Nations, *Treaty Series*, vol. 1771, No. 30822.

B. Action required at the national and international levels

11. Many global problems — diseases, pollution and financial crisis contagion — are the result of externalities spilling across borders. In addressing these problems, it is important to follow the principle of subsidiarity, by placing the responsibility on the agents with the most at stake and the ability to lower transaction costs, in order to avoid overcentralization and the inefficiencies and inequities resulting from taking corrective action.[13] What can be done nationally ought to be done at that level; but the provision of international assistance ought to be considered for developing countries lacking the resources to internalize externalities that are deemed vital to their economic and social development.

12. The concept of GPGs provides a useful framework within which to explore the institutional arrangements at all levels and the financing mechanisms for the provision or containment of cross-border externalities.

13. Governments have a key role, albeit often only a facilitating one, in the provision of GPGs. To better understand what can be done nationally and internationally, it is useful to distinguish between core and complementary activities related to the provision of public goods.

14. *Core activities* aim at producing GPGs that are made available through international cooperation, such as programmes undertaken with a transnational or multi-country interest in mind, as well as activities focused in one country with benefits to others. *Complementary activities* (the primary responsibility for which lies within each country) enable States to be prepared to reap the benefits of GPGs that core activities make available, while simultaneously creating valuable national public goods (NPGs). Research, for example, is a core activity in the production of knowledge, but education is complementary to its production; the provision of schools and teachers is complementary to the use of knowledge (see table 1).

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[13] For a discussion on the concepts of financing mechanisms of GPGs, see, for example, F. Sagasti and K. Bezanson, *Financing and Providing Global Public Goods: Expectations and Prospects* (Stockholm, Ministry of Foreign Affairs of Sweden, November 2001).

Table 1
Classifying public goods by sector, and core and complementary activity

		Complementary activity	
Public good and sectors	*Core activity*	*Production*	*Consumption*
Environment			
International	Emissions reduction	Research	
National	Conservation	Agriculture support	Poverty reduction
Knowledge			
International	Research centres	Internet services	Global networks
National	Educational services	Universal education	Schools
Health			
International	Elimination of disease	Research on disease	
National	Preventive health care	Health-care system	Health clinics
Security			
International	Conflict prevention	Peacekeeping	
		Security Council	
National	Crime reduction	Policing	Poverty reduction
Governance			
International	Global institutions	Research	Financial stability
National	"Good government"	Government capacity	Equity

Source: Oliver Morrissey, Dirk Willem te Velde and Adrian Hewitt, "Defining international public goods: conceptual issues", in *International Public Goods: Incentives, Measurements and Financing*, M. Ferroni and A. Mody, eds. (Dordrecht, Netherlands, Kluwer Academy Publishers and International Bank for Reconstruction and Development/World Bank, 2002).

C. Institutional and financial arrangements

15. The existing institutional arrangements and financing mechanisms of GPGs need to be examined. Although national and local public goods receive funding, as they are viewed as infrastructure-creation worthy of financing, there is an institutional vacuum and very low financing of GPGs by the international financial institutions. The "purer" a GPG, the more pronounced the financing gap, since it would then usually be considered common property, with a greater number of users prone to becoming freeriders. GPG financing therefore requires international mediation; but in the absence of institutional support at this level, there is also a stronger need for efforts at the national level, for example, collection of revenues.

16. In the absence of a global government with tax-raising powers, voluntary cooperation and collective action are the main instruments for supplying GPGs. In the view of the Committee, financing should not pose insurmountable problems for many GPGs, given the existence of untapped potential resources. The efficient provision of different types of GPGs also requires different institutional

arrangements depending on the “technology of aggregation”.[14] The provision of pure public goods, for example, would be most efficiently carried out by the international community through international treaties and regimes; others goods, like research undertaken to find cures for disease, may require public-private partnerships; still other group-specific goods can be provided through the development of private collectives that finance the shared good through fees or tolls, and the development of robust yet flexible regional institutions. Therefore, the Committee notes the need to explore the feasibility of taxes, user fees, and charges for use of the global commons.

17. The Committee recognizes, however, that financing GPGs may imply not only new resource mobilization, but also resource reallocation. For example, current budgetary allocations could be restructured in such a way as to eliminate harmful subsidies (for example, the subsidization of coal production), which today are estimated at about $900 billion a year worldwide. Likewise, instead of merely addressing the consequences of the underprovision of a GPG (for example, in the containment of financial crises), efforts could be reoriented towards enhancing the provision of the GPG itself (for example, through national capacity-building for banking supervision to enhance financial stability). Regulation and other actions could be used to change the incentive structures that enlarge a set of options for enhancing the provision of GPGs. For example, efforts to fight global communicable diseases could become more affordable if medicines were priced differentially, according to the ability to pay in developed and developing countries.

18. In addition, it would be advisable to focus on non-rival GPGs, insofar as the provision of these goods can, by nature, be increased at a low cost, making them more politically viable. One example is knowledge. Lack of knowledge is often a key obstacle to development. While there is a need to provide incentives to inventors, there is room for additional innovative arrangements to foster the widest possible diffusion of development-relevant knowledge without compromising the incentives for its generation, as for example, through global health initiatives or a more flexible Agreement on Trade-related Aspects of Intellectual Property Rights. These innovative arrangements would enhance both efficiency and equity of access, and could cover such priority areas as: ICT, communicable disease control, renewable energy development and energy efficiency, water scarcity, food security, and community development.

19. In general, the main potential sources for financing GPGs of priority interest to developing countries are: (a) additional financial allocations by donors; (b) increased support by the World Bank and regional development banks; (c) debt relief under the extended Heavily Indebted Poor Countries (HIPC) Initiative; (d) freeing up of resources, for example, through removal of energy, water and other similar subsidies; (e) speeding up of macroeconomic reforms in order to create a more favourable investment climate so as to attract foreign direct investment (FDI); (f) grants from both for-profit and non-profit foundations; and (g) private-public partnerships.

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[14] For a review of the techniques on how to best provide different types of GPGs, see for example, P. B. Anand, “Financing the provision of global public goods”, Discussion Paper, No. 2002/110 (Helsinki, United Nations University/World Institute for Development Economics Research Research (UNU/WIDER), November 2002).

20. As stated above, the Committee is of the opinion that a clearer differentiation between ODA and GPG financing is necessary, and that new and additional resources should be provided to meet the growing needs for the latter. However, notwithstanding their positive externalities for all countries, some GPGs benefit primarily development in developing countries (for example, better anti-malaria medicines), in which case their provision should be met from ODA funds. On the other hand, if the industrialized countries are also beneficiaries of a GPG, those countries should make additional resources available so as to increase its supply.

D. Major findings and recommendations

21. Based on its review, the Committee agreed that the concept of GPGs has the potential for generating a better formulation of effective, efficient and equitable paths towards development. However, there is also a further need to clarify the concept of GPGs so that it lends itself to open and transparent policy dialogue and policy-making purposes.

22. Until recently, discussion of public goods provision was limited to national or local public goods. However, the concept has already been extended to the international context, strongly suggesting that GPGs tend to be undersupplied if left to the decisions of individuals, companies and Governments.

23. **Therefore, the Committee suggests that:**

(a) **There is a need to increase public awareness and understanding regarding GPGs in order to create the necessary conditions for Governments and other actors, including the private sector, to raise resources for provision of GPGs;**

(b) **Since the present modality of financing GPGs by diverting ODA is not an efficient way of providing GPGs, new institutional and finance arrangements must be developed;**

(c) **To this end, it is necessary to identify the financing gap and develop realistic estimates of the financing requirements for the provision of GPGs, by category (for example, health, education and environment);**

(d) **Financing mechanisms should be mapped to ensure better and more flexible use of existing resources and their match to urgent needs;**

(e) **It is necessary to consider the use of new potential sources to supplement existing resources so as to help ensure provision of GPGs (for example, the carbon tax and international financial transfers);**

(f) **International-level decision-making should be strengthened to overcome many of the problems of underprovision existing today, especially in the global environmental domain, by involving all concerned stakeholders, including developing countries, in determining the priority of each GPG, the appropriate production level and its net benefits;**

(g) **The role of the private sector in the provision of GPGs should be increased by changing incentives and correcting market failures.**

Chapter IV
Review of the list of least developed countries

A. Introduction

1. The Committee for Development Policy is required, pursuant to Economic and Social Council resolution 1998/46 of 31 July 1998, annex I, paragraph 9, to conduct triennially a review to determine the countries to be added to or graduated from the list of least developed countries. Since the previous review was conducted in 2000, the Committee conducted another review in 2003.

2. The Committee bases its identification of the least developed countries on the consideration of three dimensions of a country's state of development: its income level, its stock of human assets and its economic vulnerability. The Committee thus uses (a) gross national income (GNI) per capita as an indicator of income; (b) the Human Assets Index (HAI) as an indicator of the stock of human assets; and (c) the economic vulnerability index (EVI) as an indicator of economic vulnerability. In addition, because the underlying concept of the least developed country category excludes large economies, in 1991 the General Assembly in its resolution 46/206 endorsed the principle that no country with a population exceeding 75 million should be considered for addition to the list, as had been set forth in the report of the Committee for Development Planning on its twenty-seventh session.[15]

3. For each review, the Committee determines threshold levels for each of the three indicators. These thresholds are used to identify the countries to be added to or graduated from the category. To be added, a country must satisfy all three criteria. To become eligible for graduation, a country must meet an adjusted set of thresholds for two of the same three indicators; to qualify for graduation, it must do so in two consecutive reviews. The Committee understands, however, that its role is to assist in identifying which countries are eligible or qualify for graduation from least developed country status, based on the application of the criteria adopted by the Committee and endorsed by the Economic and Social Council. The decision on whether the countries should be graduated is the responsibility of the Council and, ultimately, the General Assembly.

4. The Economic and Social Council, in its resolution 2002/36 of 26 July 2002, took note of the recommendations of the Committee regarding three major changes to the criteria for the identification of the least developed countries: first, that gross national income (GNI) per capita should replace gross domestic product (GDP) per capita as the indicator of income; second, that, as it was a better indicator of the level of education, the gross secondary school enrolment ratio should possibly replace the gross combined primary and secondary school enrolment ratio in the Human Assets Index (HAI) (previously called the Augmented Physical Quality of Life Index (APQLI)); and third, that the percentage of the population displaced by natural disasters could be used as a supplement to the economic vulnerability index (EVI) when suitable data became available.

5. The Committee has made improvements to the new criteria for the identification of the least developed countries adopted in 2000. However, it considers that there is

[15] See *Official Records of the Economic and Social Council, 1991, Supplement No. 11* (E/1991/32), para. 242.

scope for further methodological improvements in this before the next triennial review. Particular attention should be given, as in the past, to the quality and reliability of individual indicators and the way in which the criteria are applied.

B. Criteria for the identification of the least developed countries in 2003

1. Gross national income (GNI) per capita

6. The initial list of countries to which the criteria for identifying the least developed countries were applied during the 2003 review comprised all countries classified by the World Bank as low-income in any one of the three most recent years.[16] The Committee gave special attention to the low-income countries with economies in transition of Eastern Europe and in Central Asia that had become independent in the 1990s, but found that none of them should be included in the initial list for the reasons given in the box below. As a result, 65 countries have been retained for consideration during the 2003 review, comprising the 49 current least developed countries and 16 low-income countries not currently included in the list of least developed countries, including one new State Member of the United Nations, Timor-Leste.

7. The Committee decided that the threshold for inclusion in the present review should be a three-year (1999-2001) average GNI per capita of US$ 750.[17] With regard to the threshold for graduation, the Committee increased the margin from 15 to 20 per cent above the threshold for inclusion, primarily to avoid the possibility that graduating countries would rejoin the category as a result of short-term fluctuations in their GNI per capita arising from exogenous shocks. It was thus agreed that, in the 2003 review, the threshold for graduation would be a three-year average GNI per capita of US$ 900. Six current least developed countries would be above the graduation threshold for this criterion (see table 2).

2. Human Assets Index (HAI)

8. The Committee agreed that the HAI should continue to reflect the following: (a) *nutrition*, measured by the average calorie consumption per capita as a percentage of the minimum requirement; (b) *health*, measured by the under-five child mortality rate; and (c) *education*, measured by: (i) the adult literacy rate and (ii) the gross secondary school enrolment ratio.

9. As agreed in 1991, the HAI threshold for inclusion is the value of the border between the third and fourth quartiles of the group of 65 countries identified in table 2. In the 2000 review, the threshold for graduation was 15 per cent above the inclusion threshold. The Committee decided, however, that the margin between thresholds for inclusion and graduation should be decreased from 15 to 10 per cent because this margin would be sufficient to distinguish the countries that had developed significantly better human assets. According to the agreed guidelines, the

[16] The World Bank's list of low-income countries changes from year to year as a result of changes in the cut-off point and the differences in growth among countries over time.

[17] The World Bank cut-off points for low-income countries during these three years were US$ 755, US$ 755 and US$ 745, respectively.

threshold for inclusion in the list of least developed countries under this index is an HAI value of 55. The threshold for graduation under this index is 61.

The case of countries with economies in transition

Nine countries with economies in transition have been classified as low-income countries by the World Bank in at least one of the past three years. Owing to the major political and economic changes that took place during their transition to market economies, these countries suffered deep recessions. During the period 1990-2000, for example, GDP per capita fell by over 50 per cent in each of these. Their three-year average GNI per capita ranged from US$ 173 in Tajikistan to US$ 780 in Turkmenistan (see table below).

GNI per capita is within the current threshold for inclusion in eight of the nine economies in transition. Similarly, seven of these countries would also be eligible for inclusion under the EVI criterion. However, as former socialist republics, they still have high HAI scores owing to past social policies and should not be recommended for inclusion in the list of least developed countries.

The Committee agreed that considering economies in transition for inclusion in the 2003 triennial review of the list of least developed countries would also create distortions of the HAI in the establishment of thresholds for inclusion and graduation. It was recalled, however, that the economic decline in these countries had lasted longer than was expected. It was also noted that a few of these countries now have lower GNI per capita than many current least developed countries. If the economies of these low-income economies in transition do not improve in the near future, erosions of social progress may be difficult to reverse, leading to a possible lowering of HAI. The Committee thus emphasized the importance of monitoring the economies in transition with low incomes and decreasing HAI scores.

Economies in transition: data and criteria used in determining eligibility for least developed country status

	Population 2002 (millions)	*Per capita GNI (United States dollars)*	*HAI*	*EVI*	*EVI (modified)*[a]
Armenia	3.8	523	79.4	30.7	34.0
Azerbaijan	8.1	607	72.8	38.9	40.6
Georgia	5.2	647	76.2	47.6	48.2
Kyrgyzstan	5.0	287	77.6	38.2	39.9
Moldova, Republic of	4.3	397	81.1	39.6	39.1
Tajikistan	6.2	173	69.5	37.7	39.1
Turkmenistan	4.9	780	84.5	60.9	53.8
Ukraine	48.7	723	86.3	23.8	26.1
Uzbekistan	25.6	607	81.3	40.3	36.3

[a] EVI with sixth component: percentage of population displaced by natural disasters.

Table 2
Least developed and other low-income countries: criteria used in determining eligibility for least developed country status

		Population 2002 (millions)	*Per capita GNI (United States dollars)*	*HAI*	*EVI*	*EVI (modified)*[a]
LDC	Afghanistan	23.3	523	11.6	50.1	49.0
LDC	Angola	13.9	447	25.6	48.5	46.8
LDC	Bangladesh	143.4	363	45.3	22.9	29.5
LDC	Benin	6.6	367	40.2	57.0	56.4
LDC	Bhutan	2.2	600	40.4	40.6	41.0
LDC	Burkina Faso	12.2	217	26.5	49.3	47.0
LDC	Burundi	6.7	110	19.7	53.8	49.6
LDC	Cambodia	13.8	263	44.5	49.7	48.1
	Cameroon	15.5	583	43.8	31.9	31.2
LDC	Cape Verde	0.4	**1 323**	**72.0**	55.5	56.7
LDC	Central African Republic	3.8	277	29.9	43.1	42.0
LDC	Chad	8.4	203	26.1	59.2	56.6
LDC	Comoros	0.7	387	38.1	59.1	58.7
	Congo	3.2	610	55.2	50.3	46.8
	Côte d'Ivoire	16.7	687	43.0	25.4	25.9
	Democratic People's Republic of Korea	22.6	440	62.9	32.8	29.5
LDC	Democratic Republic of the Congo	54.3	100	34.3	40.8	42.3
LDC	Djibouti	0.7	873	30.2	48.6	49.5
LDC	Equatorial Guinea	0.5	743	47.2	64.4	55.8
LDC	Eritrea	4.0	190	32.8	51.7	50.2
LDC	Ethiopia	66.0	100	25.2	42.0	40.7
LDC	Gambia	1.4	340	34.0	60.8	56.5
	Ghana	20.2	337	57.9	40.9	41.9
LDC	Guinea	8.4	447	30.3	42.1	40.0
LDC	Guinea-Bissau	1.3	170	31.2	64.6	60.7
LDC	Haiti	8.4	493	35.3	41.7	43.5
	India	1 041.1	450	55.7	13.5	19.6
	Indonesia	217.5	610	73.6	18.1	21.9
	Kenya	31.9	350	49.3	28.4	29.0
LDC	Kiribati	0.1	**923**	**67.5**	64.8	60.4
LDC	Lao People's Democratic Republic	5.5	297	46.4	43.9	43.4
LDC	Lesotho	2.1	573	45.4	44.2	44.5
LDC	Liberia	3.3	285	38.7	63.1	58.3
LDC	Madagascar	16.9	253	37.9	21.6	27.0
LDC	Malawi	11.8	177	39.0	49.0	49.4
LDC	Maldives	0.3	**1 983**	**65.2**	33.6	37.5

		Population 2002 (millions)	Per capita GNI (United States dollars)	HAI	EVI	EVI (modified)[a]
LDC	Mali	12.0	230	19.9	47.5	45.4
LDC	Mauritania	2.8	377	38.2	38.9	37.7
	Mongolia	2.6	393	63.3	50.0	48.9
LDC	Mozambique	19.0	220	20.0	35.6	39.2
LDC	Myanmar	49.0	282	60.0	45.4	45.6
LDC	Nepal	24.2	240	47.1	**29.5**	**31.0**
	Nicaragua	5.3	395	60.8	39.4	42.5
LDC	Niger	11.6	180	14.2	54.1	53.1
	Nigeria	120.0	267	52.3	52.8	51.1
	Pakistan	148.7	437	45.5	20.2	26.1
	Papua New Guinea	5.0	673	46.2	36.1	38.6
LDC	Rwanda	8.1	230	34.1	63.3	59.6
LDC	Samoa	0.2	**1 447**	**88.8**	40.9	50.8
LDC	Sao Tome and Principe	0.1	280	55.8	41.8	37.0
LDC	Senegal	9.9	490	38.1	38.4	38.8
LDC	Sierra Leone	4.8	130	21.7	45.7	43.3
LDC	Solomon islands	0.5	657	47.3	46.7	49.1
LDC	Somalia	9.6	177	8.5	55.4	53.1
LDC	Sudan	32.6	333	46.4	45.2	46.5
LDC	Tanzania, United Republic of	36.8	263	41.1	**28.3**	**30.2**
	Timor-Leste	0.8	478	36.4	[b]	[b]
LDC	Togo	4.8	293	48.6	41.5	42.8
LDC	Tuvalu	0.01	**1 383**	**63.7**	70.3	67.3
LDC	Uganda	24.8	297	39.8	43.2	41.6
LDC	Vanuatu	0.2	**1 083**	57.4	44.5	46.4
	Viet Nam	80.2	390	72.7	37.1	39.4
LDC	Yemen	19.9	423	46.8	49.1	49.0
LDC	Zambia	10.9	317	43.4	49.3	47.6
	Zimbabwe	13.1	463	56.5	33.7	30.3

Note: Thresholds for inclusion in the list of least developed countries are population less than 75 million; per capital gross national income (GNI) less than $750; Human Assets Index (HAI) less than 55; and economic vulnerability index (EVI) greater than 37. A country must meet all the criteria. Thresholds for graduation from the list of least developed countries are: per capita GNI greater than $900; HAI greater than 61; and EVI less than 33. A country must meet at least two criteria to be eligible for graduation.

The letters "LDC" before a country name indicate a country that is currently designated as a least developed country.

Figures in boldface type indicate a graduation criterion that has been met by a current least developed country.

[a] EVI with sixth component: percentage of population displaced by natural disasters; threshold for inclusion: greater than 38; threshold for graduation: less than 34.

[b] Data unavailable.

3. Economic vulnerability index (EVI)

10. Economic vulnerability can take a variety of forms. The vulnerability that has to be considered in the identification of the least developed countries is structural economic vulnerability. For this purpose, the EVI should reflect the relative risk posed to a country's development by exogenous shocks, the impact of which depends not only on the size of the shocks, but also on structural characteristics that determine the extent to which the country would be affected by such shocks. The EVI used by the Committee is therefore an average of five indicators: (a) merchandise export concentration; (b) instability of export earnings; (c) instability of agricultural production; (d) share of manufacturing and modern services in GDP; and (e) population size.

11. The Committee was informed that the quality of internationally comparable data on the number of people displaced by natural disasters had improved significantly. The Committee thus agreed that this information should be included in a modified EVI as a supplement to data on the instability of agricultural production.

12. The Committee fully recognized that small countries are economically more vulnerable to external shocks than large ones because their economies are heavily dependent on external trade, are less diversified and suffer from diseconomies of scale. In particular, most small island least developed countries face a range of structural handicaps — such as high international transportation costs and relative isolation from main markets — that make them less vulnerable to external shocks. For that reason, it was suggested that the remoteness of countries might also be taken into consideration in future reviews.

13. As in the case of the HAI, the Committee decided that the EVI margin between thresholds for inclusion and graduation should be decreased from 15 to 10 per cent. According to these guidelines, the threshold for inclusion is a value of 37. The threshold for graduation under this index is 33. With the inclusion of the percentage of population displaced by natural disasters, the threshold for inclusion would be a value of 38 and for graduation 34.

4. Eligibility for inclusion and graduation

(a) Country to be added to the list

14. Timor-Leste is the only country eligible for addition to the list. Its EVI cannot be calculated because of lack of data, but both its GNI income per capita and HAI are well below the thresholds for inclusion. The Committee recommends that it be included in the list of least developed countries.

(b) Countries to be considered for graduation

(i) Countries qualifying for graduation

15. The Committee agrees that two countries — Cape Verde and Maldives — qualify for graduation since they have met two graduation criteria in two consecutive reviews.

a. Cape Verde

16. In 1997, the Committee had indicated that Cape Verde would become eligible for graduation in the following review, as it met two graduation criteria (income per capita and human capital indices) at that time. The 2000 review confirmed that Cape Verde had met these two graduation criteria and qualified for graduation. However, it ranked as one of the most economically vulnerable developing countries according to the EVI. Because of its high economic vulnerability and the high dependence of the country on foreign aid and workers' remittances, the Committee recommended that the graduation of Cape Verde from the list of least developed countries be postponed for reconsideration at the 2003 review.

17. Cape Verde now has the fourth highest GNI per capita and the fourth highest HAI among the 65 countries. Both measures are well above the graduation threshold. In contrast, it is economically vulnerable, with an EVI score of 55.5, compared with a graduation threshold of 33. Nevertheless, given that the country meets two of the three graduation criteria — and that it has done so in three consecutive reviews — the Committee agrees that it qualifies for graduation from the list.

18. The Committee was informed that the Government of Cape Verde had expressed reservations about the accuracy of data on nutrition used in the calculation of its HAI. In the Government's view, the calorie intake data presented by the Food and Agriculture Organization of the United Nations (FAO) — based on food balances that compute data on national food production and food imports rather than on household consumption surveys — do not reflect the nutritional reality of the country. As a result, the Government believes that adjustments should be made in the calculation of its HAI score. The Committee took note of this concern but was informed by FAO that its calorie intake figure was the most reliable statistic collected on an internationally comparable basis. The Committee stresses that the credibility of its triennial review of the list is partly dependent on the fact that it uses data collected on an internationally comparable basis by specialized agencies of the United Nations system, such as FAO, the United Nations Educational, Scientific and Cultural Organization (UNESCO) and the World Health Organization (WHO).

b. Maldives

19. In its resolution 2002/36, the Economic and Social Council requested the Committee to continue its work on the re-examination of its recommendation to graduate Maldives from the list of least developed countries at its fifth session and to submit its recommendations to the Council at its substantive session of 2003 in the context of the triennial review of the list of least developed countries, taking into account the information referred to in the resolution and further information to be provided by relevant development partners and multilateral organizations.

20. The Committee re-examined its recommendation — made in its 2000 review — that Maldives be graduated, and the subsequent consideration of the case of Maldives by the Committee in 2001 and 2002. The Committee recalls that, in the 1997 and 2000 reviews, the country met two graduation criteria: its income per capita and HAI (formerly APQLI) were both well above the graduation thresholds. In the present review, its GNI per capita is not only the highest among the 65 countries but also more than twice the graduation threshold. Its HAI score ranks as the fourth highest among the least developed countries and is also above the

graduation threshold. Its EVI (33.6) is also very close to the graduation threshold (33 or less). Given that Maldives meets two graduation criteria for a third consecutive time, the Committee concludes that the country qualifies for graduation.

21. The Committee was informed that the Government of Maldives had expressed procedural and substantive concerns to the Secretary-General about the interim vulnerability profile of Maldives that had been made available to the Committee. For its part, the United Nations Conference on Trade and Development (UNCTAD) informed the Committee that the profile had been prepared with substantial cooperation from the Government. The preliminary reaction of the Government to the interim vulnerability profile did not contain any material evidence to reverse the Committee's view that Maldives technically qualifies for graduation. The Committee recognizes that Maldives faces special difficulties and costs because it is a small, widely dispersed island economy and that it may lose important international benefits if it graduates from the list of least developed countries.

(ii) Other countries meeting two graduation criteria in 2003

22. Samoa has the second highest average GNI per capita and the highest HAI among the 65 countries. Although the country is considered economically vulnerable — as reflected in its EVI score (41), compared with a graduation threshold of 33 or lower — it is now the eleventh least vulnerable least developed country based on this criterion. Since it meets two graduation criteria, the Committee recommends that it be considered eligible for graduation. As a result, it might qualify for graduation should it fulfil the graduation criteria again in the 2006 review.

23. The data for two countries — Kiribati and Tuvalu — indicate that they meet two graduation criteria (GNI per capita and HAI). However, while they are technically eligible for future graduation, the Committee recommends that they should not be considered. In the case of Kiribati — whose three-year average GNI per capita (US$ 923) is just above the graduation threshold of US$ 900 — GNI per capita fell constantly over the past four years, from US$ 1,130 in 1998 to only US$ 830 in 2001. In the case of Tuvalu, only GDP per capita data are available. In addition, the Committee stresses that these are the two most economically vulnerable countries in the initial list according to the EVI.

C. Smooth transition of countries graduating from least developed country status

24. The fact that a country that has long been recognized as "least developed" qualifies for graduation is an indication of some success in its development and in its ability to achieve a degree of structural change in its economy. These successes, in turn, are likely to have been largely attributable to a mix of sound domestic policies and propitious external conditions. With regard to the latter, international support has frequently played a central role and the capacity to use world market opportunities may also have been important.

25. Despite the progress they have achieved, countries that qualify for graduation from least developed country status are likely to continue to have a limited capacity to withstand exogenous shocks. A sudden withdrawal of external support is likely to constitute such a shock and to have negative effects, possibly reversing some of the

development progress achieved. Countries that qualify for graduation from the least developed country category should be commended for their success and not penalized for it by the imposition of such a shock.

26. The Committee recalls the importance that it has consistently attached to "smooth transition" measures for graduating countries, as elaborated in the reports of its third and fourth sessions.[18] It also recalls that the Economic and Social Council, in its resolution 2002/36, reiterated the importance of ensuring a smooth transition from least developed country status, which it had emphasized in earlier resolutions (Council resolutions 2000/34 and 2001/43), in keeping with the observation made in 1991 by the General Assembly in its resolution 46/206 on the importance of ensuring that graduation from least developed country status would not disrupt the progress in the development of graduating countries.

27. The Committee was informed that the importance of securing smooth transition for graduating countries had begun to be taken into account by the multilateral trading system, as the question of the treatment of graduating member States was in the agenda of the Work Programme on Small Economies of the World Trade Organization. The Committee suggests that, with the general trend towards freer trade and erosion of trade preferences for all developing countries, least developed country benefits should be maintained when a country graduates, as the cost to trading partners would be negligible and the benefit to the graduating country will gradually dissipate as trade barriers for all developing countries fall. The Committee recommends that the Economic and Social Council encourage relevant development partners and multilateral organizations to accelerate the progress in their treatment of graduation issues, including the provision of technical assistance through the Integrated Framework for Trade-related Technical Assistance to Least Developed Countries.

28. The Committee therefore recommends that a meeting of experts on the overall question of smooth transition be organized in order to cast light on the likely treatment of graduating countries by their main bilateral and multilateral partners.

29. It was stressed that the treatment of graduating countries by their bilateral and multilateral partners — notably with regard to trade preferences — could be decided upon only in international organizations, such as the World Trade Organization. It was recalled that graduation would imply the loss of a number of significant advantages, in particular preferential market access and extended deadlines for implementation with regard to World Trade Organization obligations. The Committee also recommends that, in each case, graduation should trigger the convening by the United Nations of a round-table meeting in which the graduating country and its development partners would identify measures to ensure a smooth transition.

30. The Committee has benefited from a document submitted by the Commonwealth Secretariat, drawing attention to the general resistance to graduation among least developed countries. This document stresses the particular disadvantages to be faced by graduating small island developing States and their need for assistance in maintaining access to traditional markets and securing access to new markets.

[18] See *Official Records of the Economic and Social Council, 2001, Supplement No. 13* (E/2001/33), paras. 114-117; and ibid., *2002, Supplement No. 13* (E/2002/33), paras. 158-163.

31. Bearing in mind that all countries meeting the graduation criteria in the current review were small island developing States, the Committee recognized that the question of a smooth transition constituted a particular aspect of wider considerations relating to the special treatment of those States. The Committee calls upon the forthcoming international meeting in 2004 on the sustainable development of small island developing States (see General Assembly resolution 57/262 of 20 December 2002) to give consideration to their special needs. The Committee urges the Economic and Social Council, in considering the questions of graduation and smooth transition at its substantive session of 2003, to underline the need for a more differentiated treatment of developing countries that face special disadvantages and vulnerabilities, such as small island developing States.

D. Major findings and recommendations

32. The Committee maintained its position that, in addition to the current least developed countries, the initial list of countries to be considered during the triennial review should be those identified by the World Bank as low-income in any one of the three most recent years. Among these countries, the Committee found that the comparatively high stocks of human assets in the low-income countries with economies in transition made them ineligible to join the list of least developed countries.

33. The Committee adopted a three-year average of US$ 750 per capita as the threshold for inclusion in the category under the GNI per capita criterion. It also decided to increase the margin for graduation from 15 to 20 per cent above the threshold for inclusion; the graduation threshold under this criterion thus became a three-year average of US$ 900 per capita.

34. The Committee agreed that the threshold for inclusion with regard to both the HAI and EVI criteria should be chosen so that three quarters of the most disadvantaged countries would be eligible under each of these criteria. The Committee also decided that the margin between the thresholds for inclusion and graduation should be decreased from 15 to 10 per cent for these indicators.

35. Applying the agreed thresholds and taking into account other information and considerations, **the Committee concludes that:**

(a) **Timor-Leste qualifies for inclusion in the list of least developed countries;**

(b) **Cape Verde and Maldives qualify for graduation;**

(c) **Samoa is eligible to be considered for graduation in 2006.**

36. **The Committee strongly emphasizes the need for a smooth transition for countries that are graduated from the list of least developed countries and calls upon the international community, including bilateral donors and trading partners, to give urgent attention to this matter. Since all countries that either qualify or are eligible for graduation under this review are small island developing States, the Committee considers it imperative that the international meeting on small island developing States in 2004 make substantial progress in formulating policies and actions that will address the particular set of development challenges faced by this group of countries, particularly those that succeed in qualifying for graduation from least developed country status.**

Chapter V
Future work of the Committee

1. For its next session, to be held in 2004, the Committee proposes to consider the theme of creating capabilities at the local levels of societies. These capabilities would include enhancing levels of education for sustainable development, as well as providing local public goods.

2. Creating these capabilities would require the establishment of broad principles for their financing. Institutional arrangements for furthering the creation of these capabilities, including the advantages of political decentralization in support of these arrangements, would also be addressed.

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