



Regional meeting on financing graduation gaps of Asia-Pacific LDCs
Dhaka, 28-30 October 2014

The LDC Criteria: Refinements and Gaps

Ana Cortez
Matthias Bruckner
Committee for Development Policy
UN-DESA

Structure of presentation

1. Background
2. Rules
 1. Inclusion
 2. Graduation
3. The criteria
4. The gaps
5. Additional considerations

1. Background

The LDCs

- **The concept:** Low-income countries facing structural impediments to sustainable development

- **The process:** identified triennially (LDC criteria + other information); inclusion to and graduation from the category
 1. Committee for Development Policy
 2. Economic and Social Council
 3. General Assembly

Fine-tuning: why?

- Procedures rely on best methods and information
- Incorporate new pertinent theoretical insights and developments
- Reflect updates data availability
- Improve overall soundness
- Evolution of the category and the intergovernmental process

Fine-tuning: principles

- Inter-temporal consistency
- Equity of treatment among countries
- Stability of the criteria
- Flexibility in the application

2. Rules

Inclusion

- Country satisfies LDC criteria
- Population < 75 million
- Recommended by the CDP
- Country agrees to inclusion
- Endorsed by ECOSOC and UNGA
- Effective immediately

Inclusion rules confirmed

Graduation

- Country meets eligibility criteria
- **Eligibility:**
 - ✓ Country no longer meets any 2 criteria; OR
 - ✓ Income > double income graduation threshold
- Not a mechanical process:
 - Country consultations
 - DESA ex-ante impact assessment
 - UNCTAD vulnerability profile

Asymmetries:

- Graduation > Inclusion
- Failing 2 rather than 1 criterion
- Eligibility ascertained twice
- Country need not to agree
- Graduation effective after 3 years

Graduation rule confirmed

3. The criteria

LDCs: definition and indicators

Definition:

Least Developed Countries = Low-income countries + facing structural handicaps to sustainable development

Criteria:

1. GNI per capita (as a measure of income)

Structural impediments to sustainable development:

2. Level of human development measured by the Human Asset Index (HAI),
3. Structural vulnerability to shocks proxied by the Economic Vulnerability Index (EVI)

Selecting indicators: requirements

- Relevance
- Observations
- Methodologically robust
- Comparable
- Coverage
- Frequency

The LDC criteria

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

GNI per capita

Human Asset Index (HAI)

- Percentage of population undernourished
- Under five mortality rate
- Gross secondary enrolment ratio
- Adult literacy rate

Economic Vulnerability Index (EVI)

- Population
- Remoteness
- Merchandise export concentration
- Share of agriculture, forestry and fisheries in GDP
- **Share of population in low elevated costal zones**
- **Victims of natural disasters**
- Instability of agriculture production
- Instability of exports of goods and services

Review outcomes

- **No change** in the **LDC indicators**:
 - Criteria will be kept under review in the future
- Refined method to **establish thresholds** for inclusion and graduation:
 - **New thresholds are absolute rather than relative**

Thresholds: GNI

Confirmed methodology:

- **Inclusion:** World Bank low-income threshold (3-year average)
 - Anticipated 2015 triennial review: \$1,035
- **Graduation:** 20 % above inclusion
 - Anticipated 2015 triennial review: \$1,242
- **'Income only' graduation:** twice the above
 - Anticipated 2015 triennial review: \$ 2,484

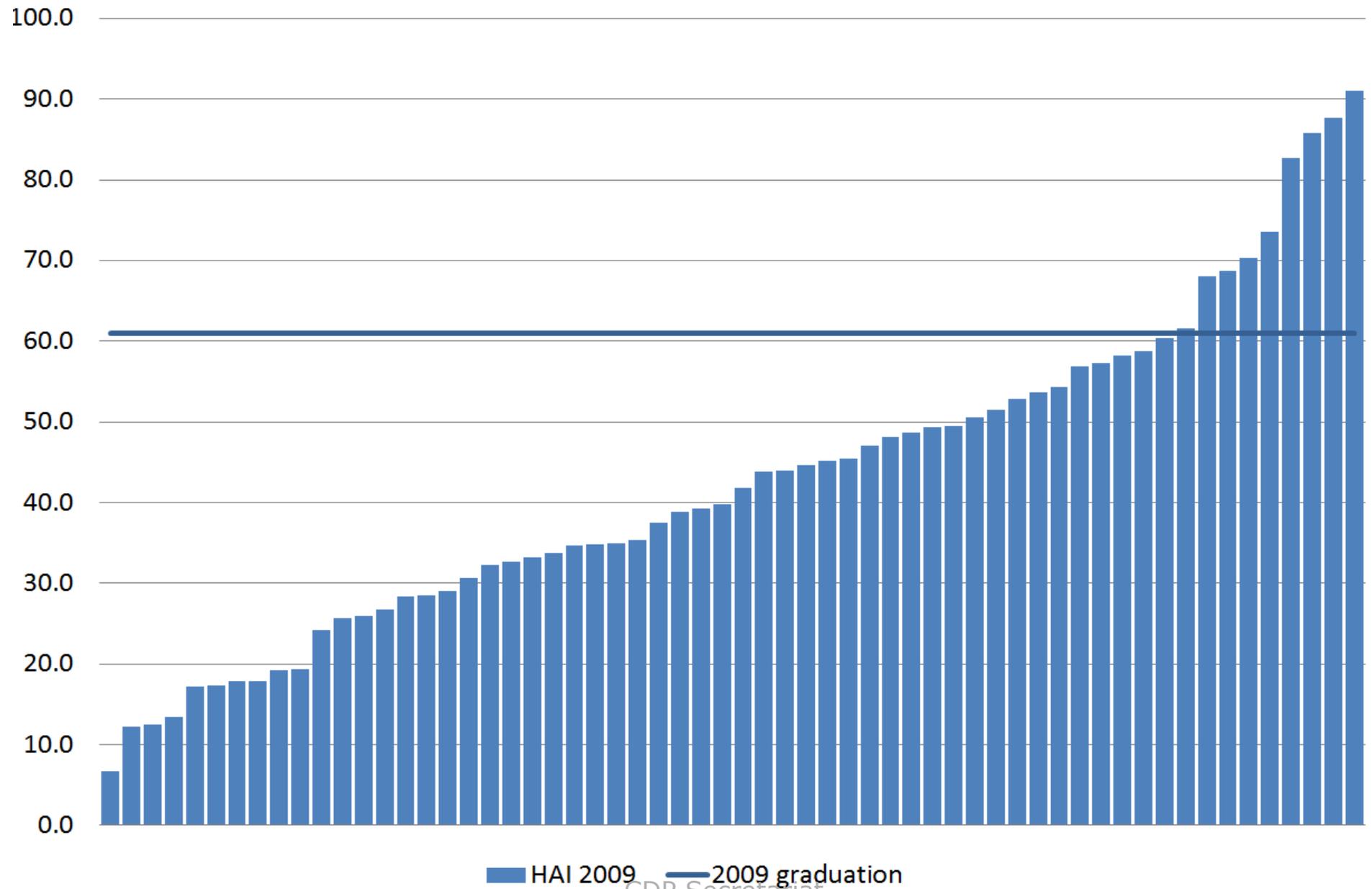
Note:

- ✓ WB thresholds are **updated with inflation**
- ✓ Thresholds **are fixed over time** in real terms

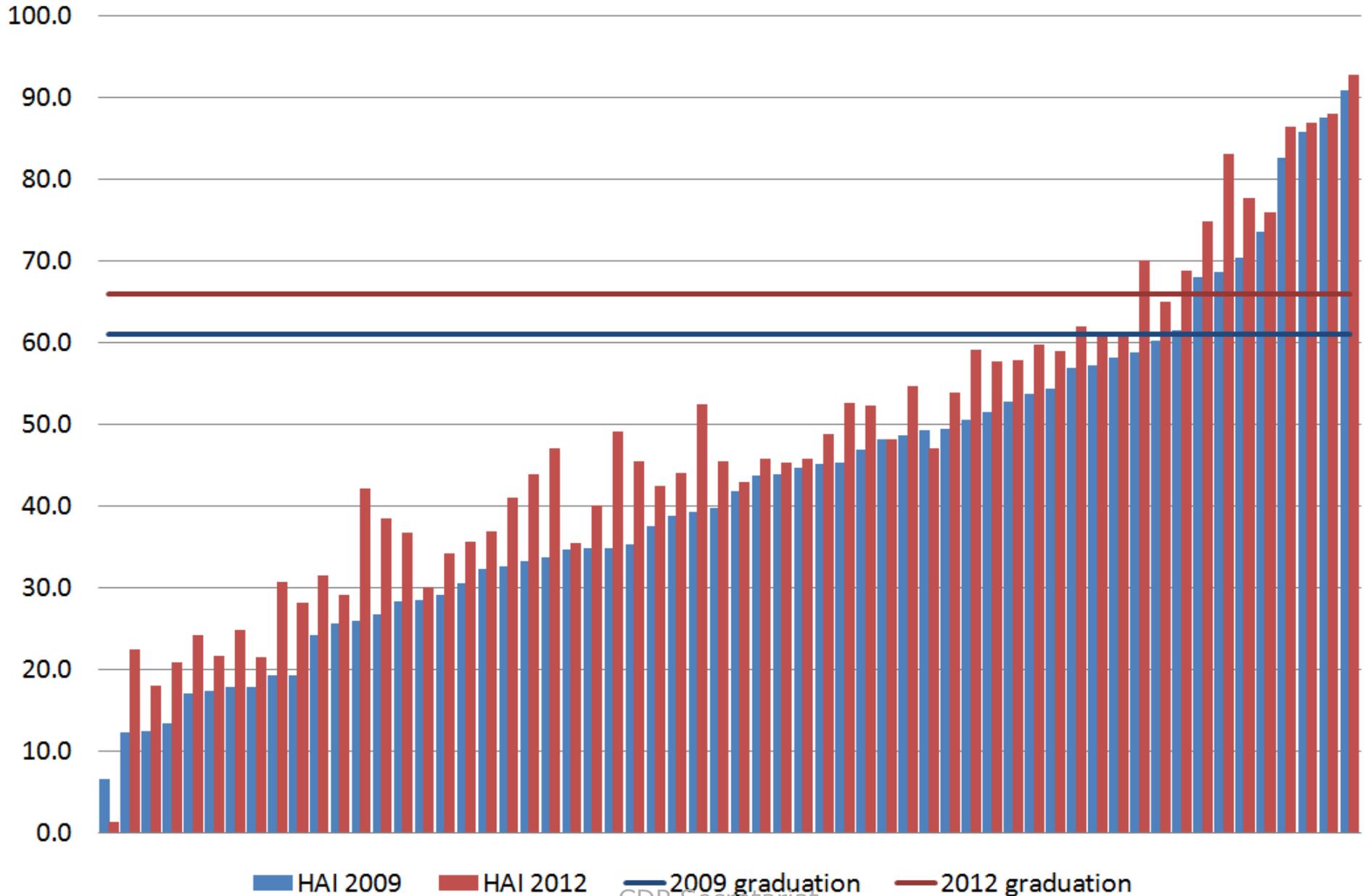
Thresholds: HAI and EVI

- Up to TR 2012 thresholds were relative: set on basis of distribution of scores within a **reference group**:
 - LDCs and other low-income countries
 - Number of non-LDC low-income countries **shrinking**: 25 in 2001; 4 in 2012
 - Meeting threshold depends not only on **own** performance but also on performance of **others**
 - Passing threshold difficult; may not indicate progress
 - ‘Income only’ becomes dominant main option for graduation in the future
- **HAI and EVI could become irrelevant in the future**

HAI 2009



HAI 2009 and 2012



Thresholds: HAI and EVI

- **Thresholds will be absolute**

- Fixed at their **2012 levels**

- Maintains continuity in the thresholds and internal consistency of the category
- Adjustments to be done for changes in indicators or data sources

- Enables countries to qualify for graduation if they make significant progress

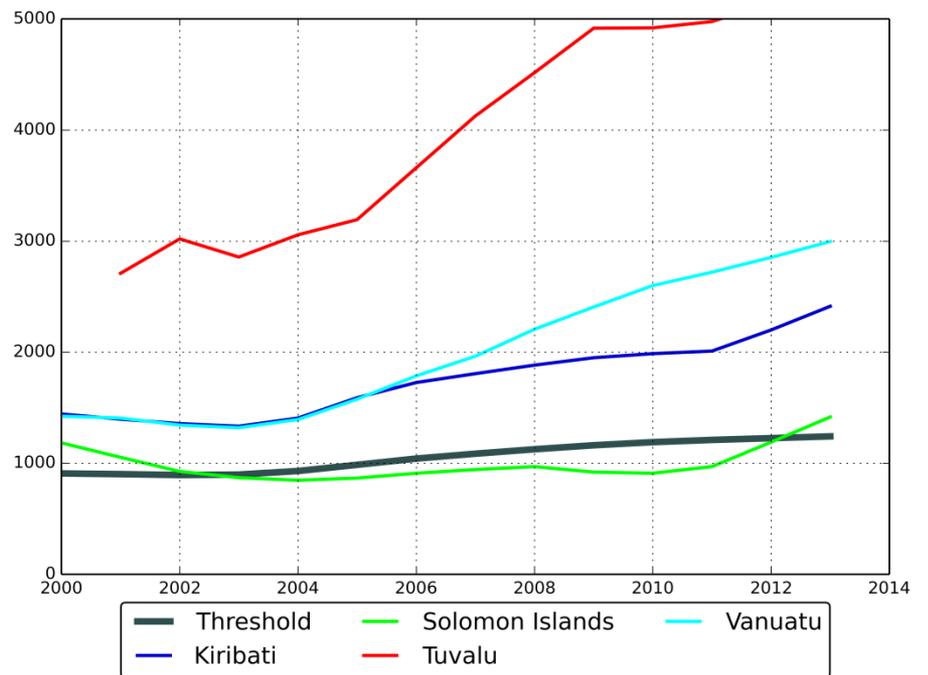
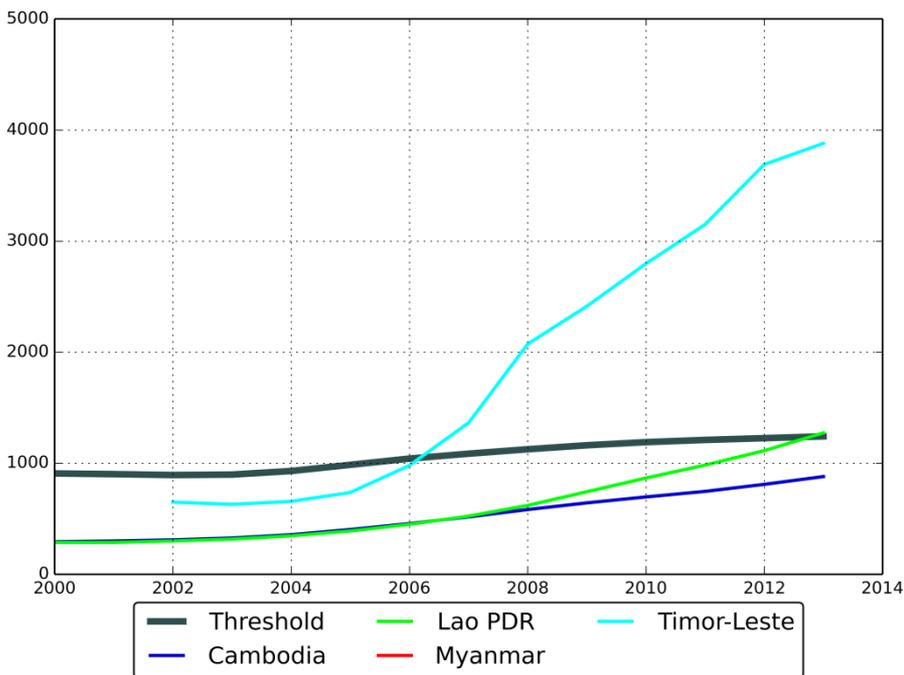
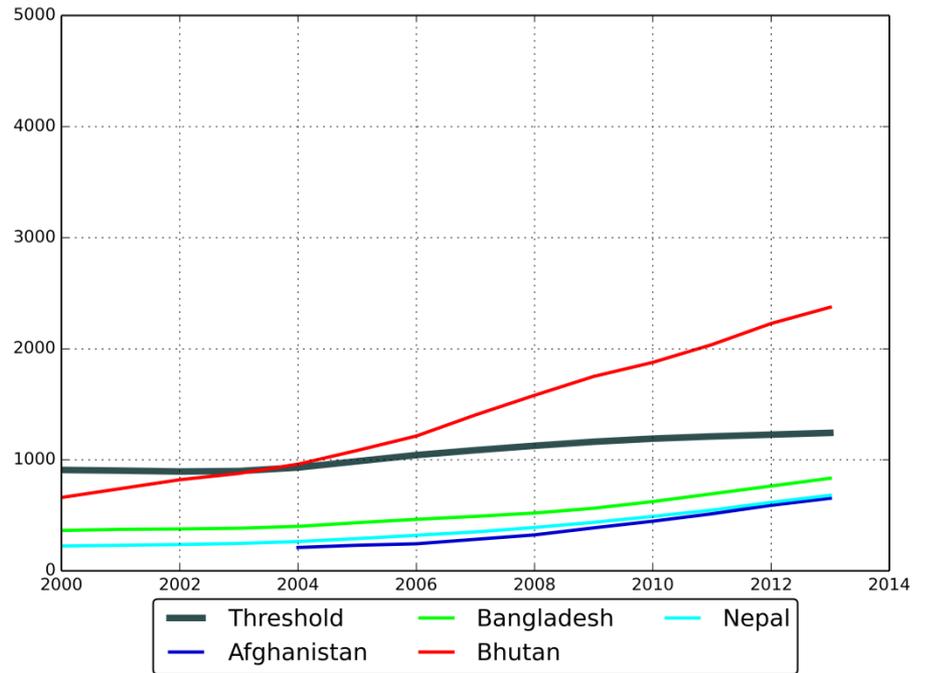
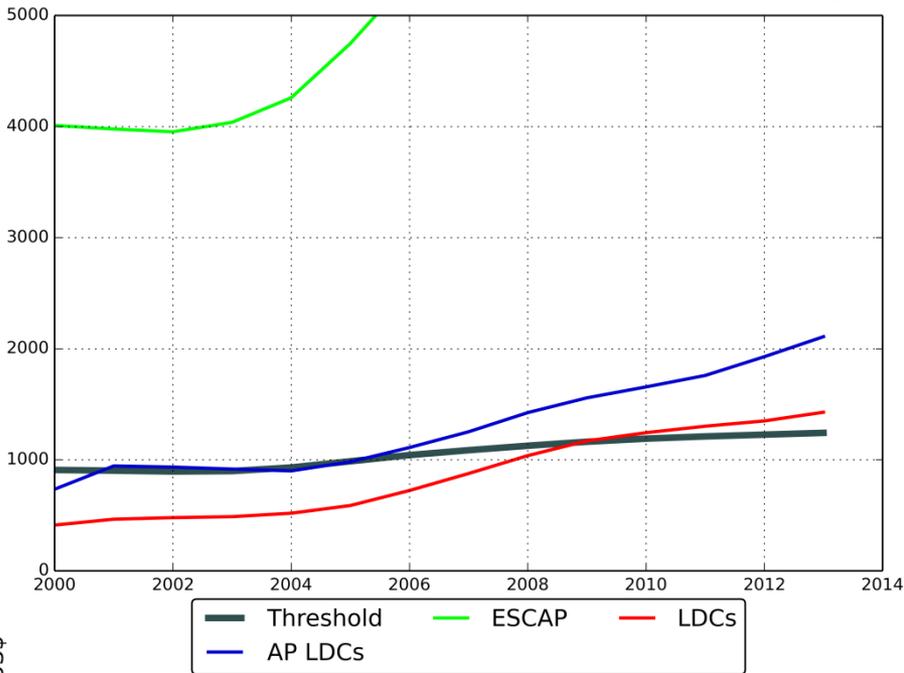
- Eligibility **no longer** depends on progress or regress of **other countries**
- Increases predictability for countries

4. Identifying gaps: GNI, HAI and EVI

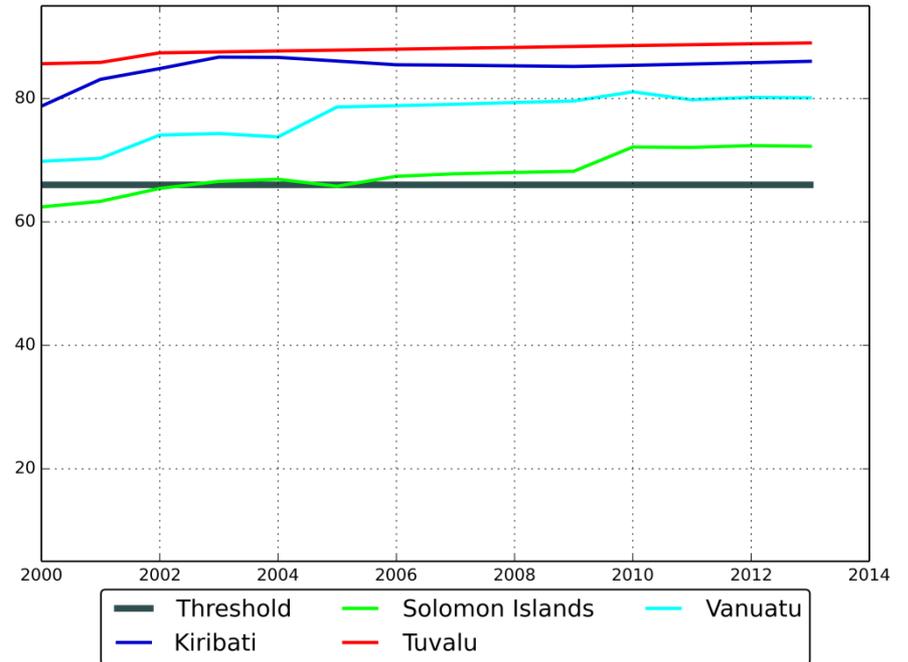
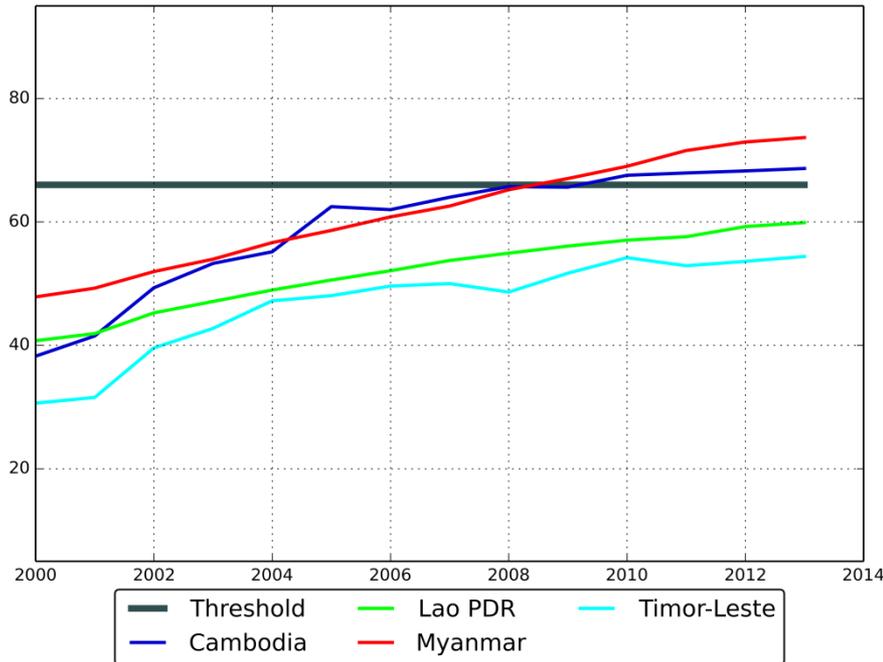
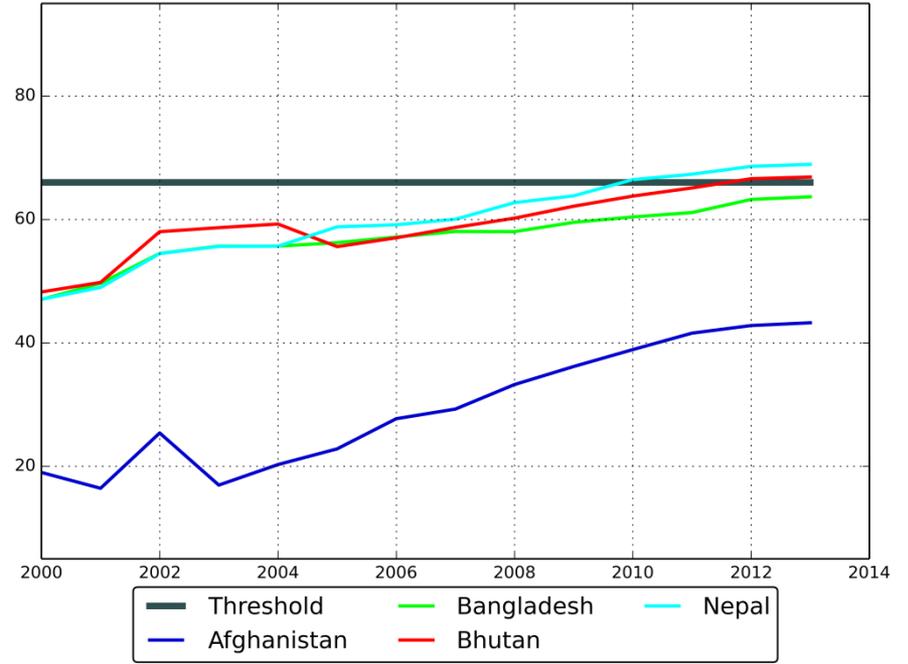
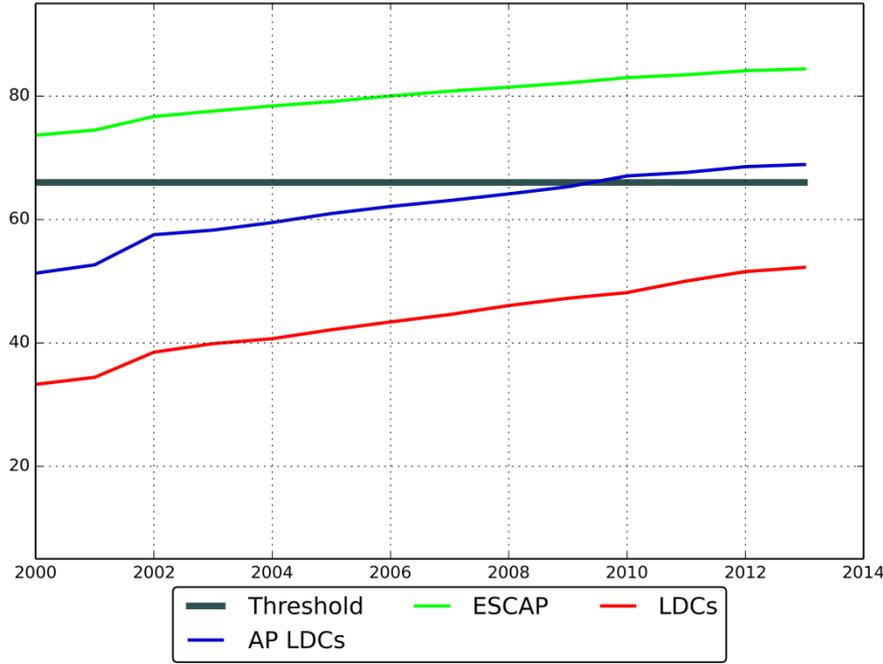
Gaps

- **LDCs in Asia and the Pacific** have made significant progress over the past decade in **all three criteria**.
- For most countries, **gaps** to graduation thresholds are **narrowing or have been closed**.
- The following graphs show the **trend in LDC criteria** by country.
 - Based on recent refinement of the criteria.
 - Use data available as of 1 October 2014.
- **Note:**
 - **The data is different from past review data.**
 - **There are likely differences to the 2015 review data.**

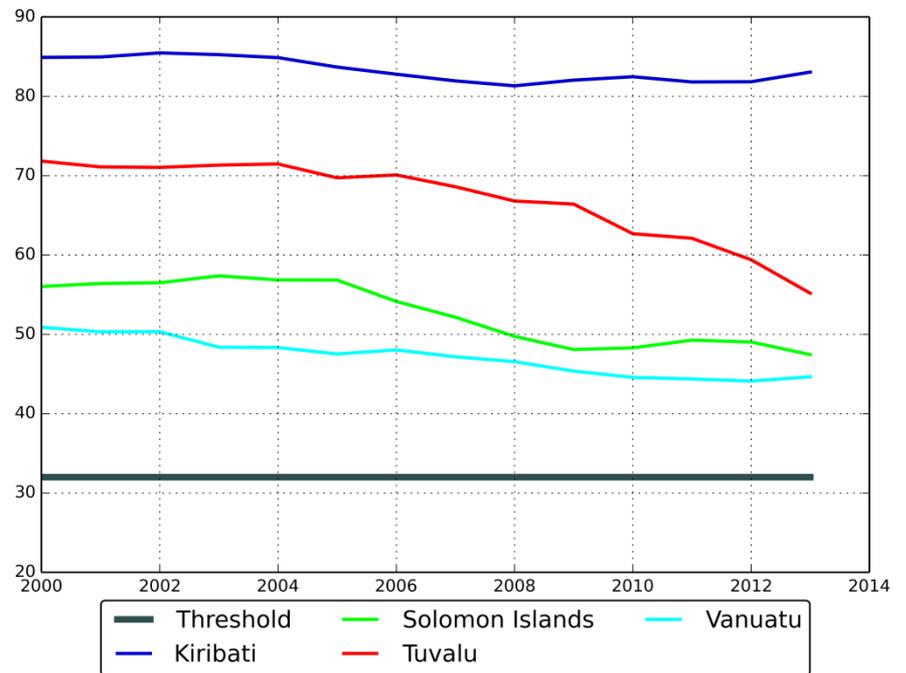
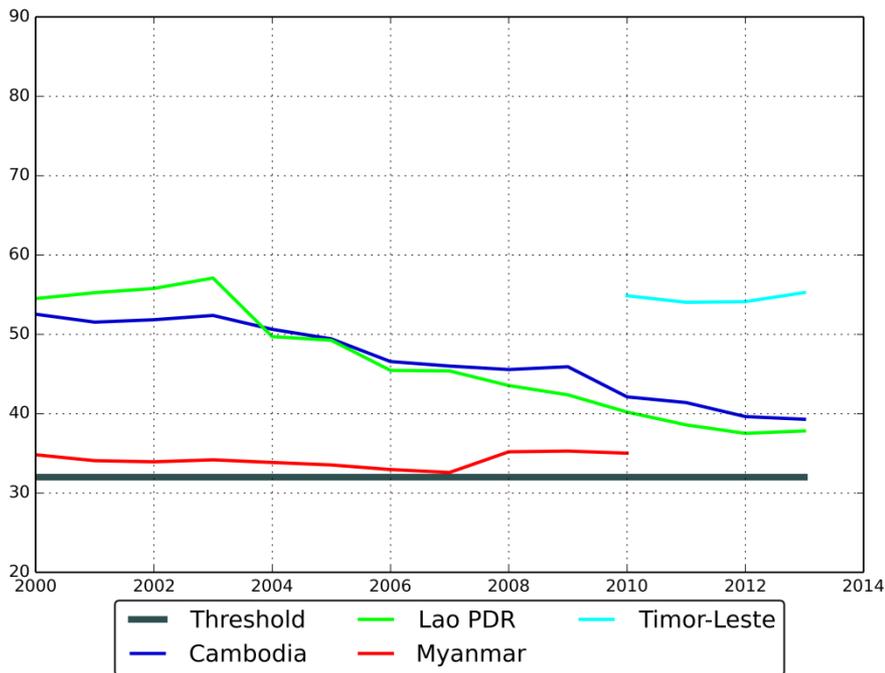
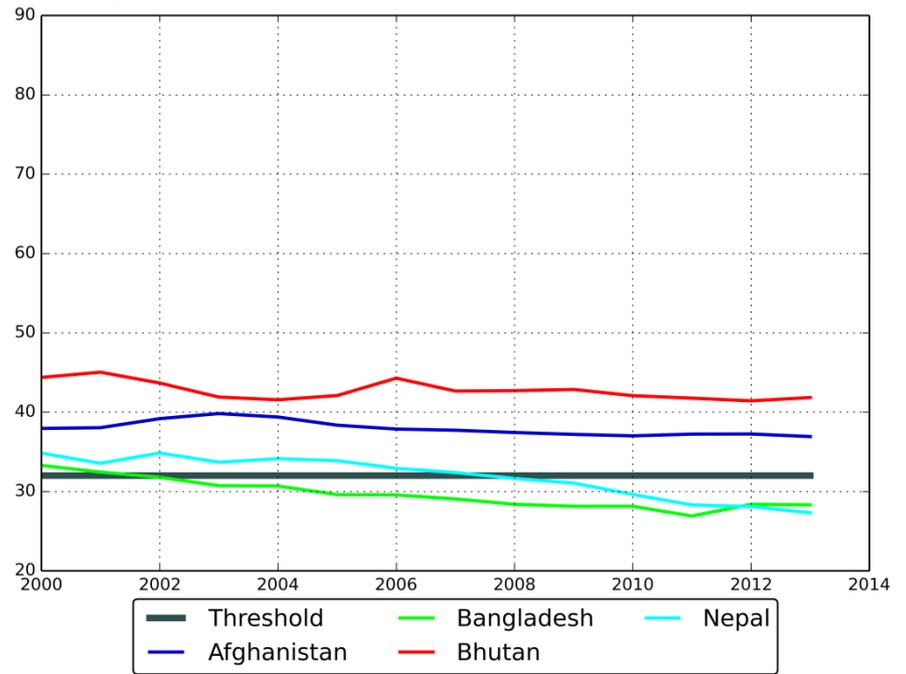
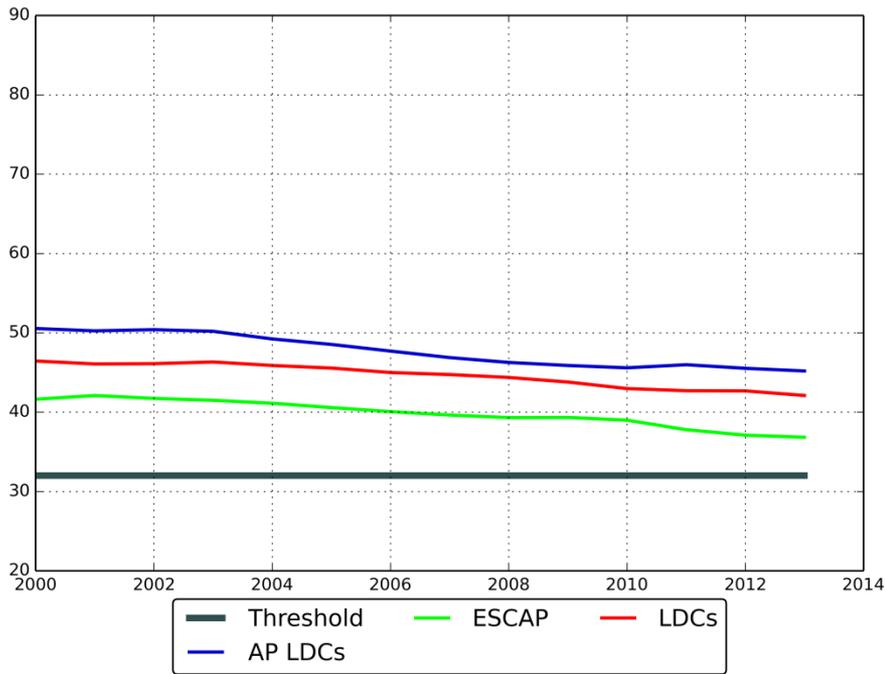
GNI per capita (US\$)



Human Asset Index



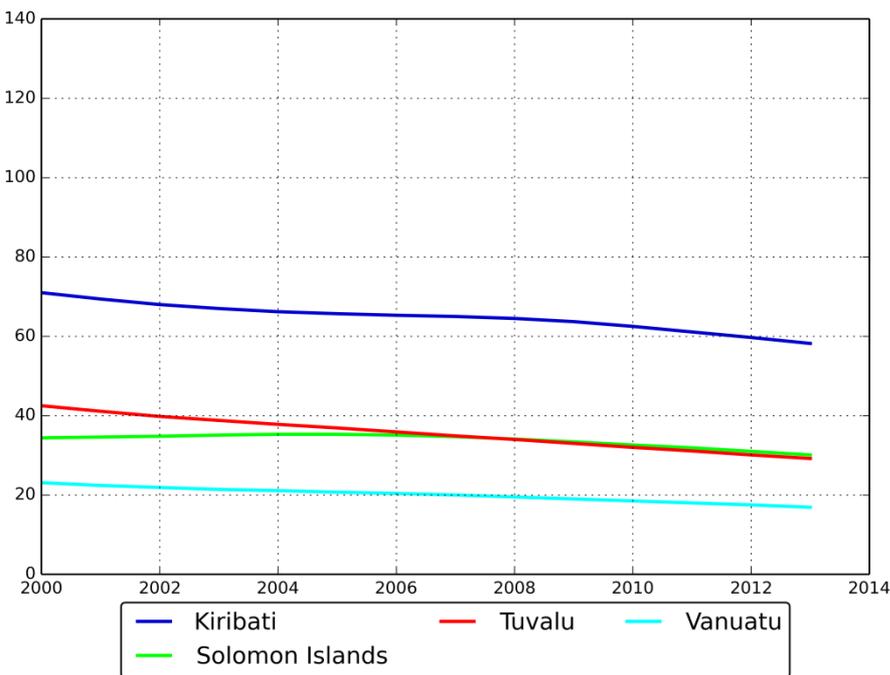
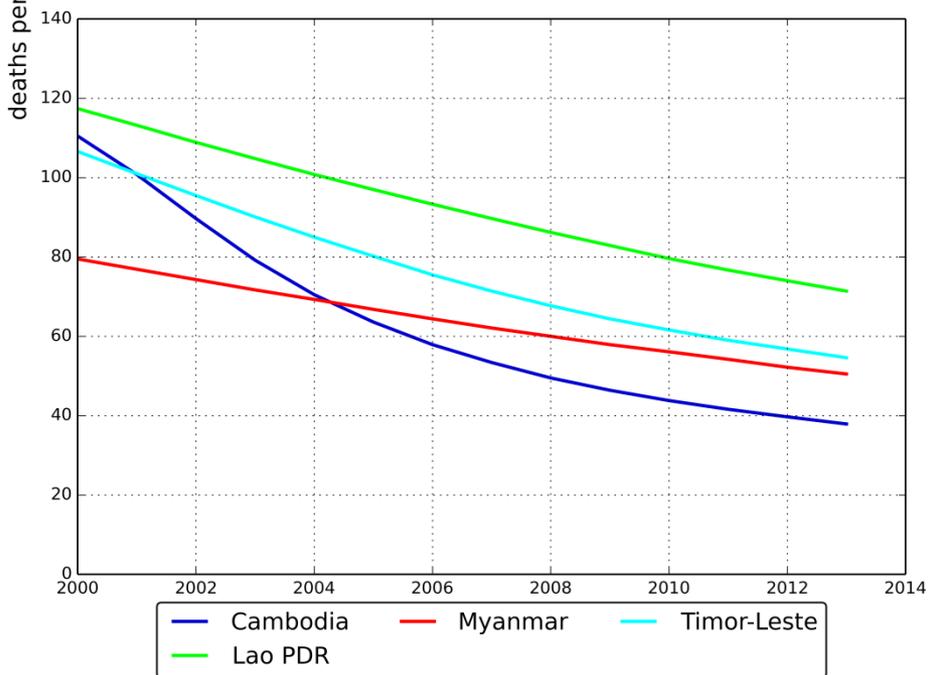
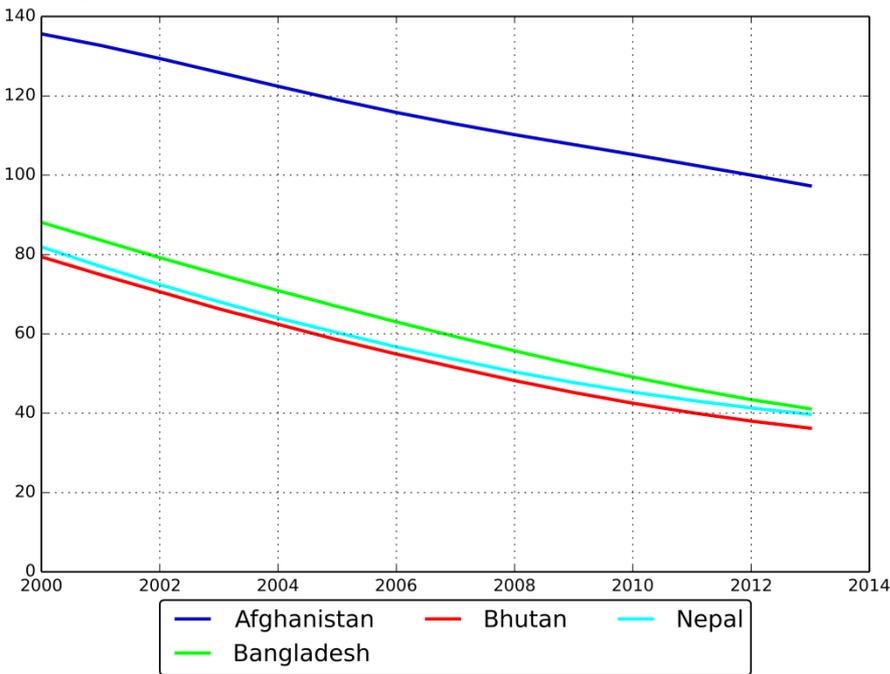
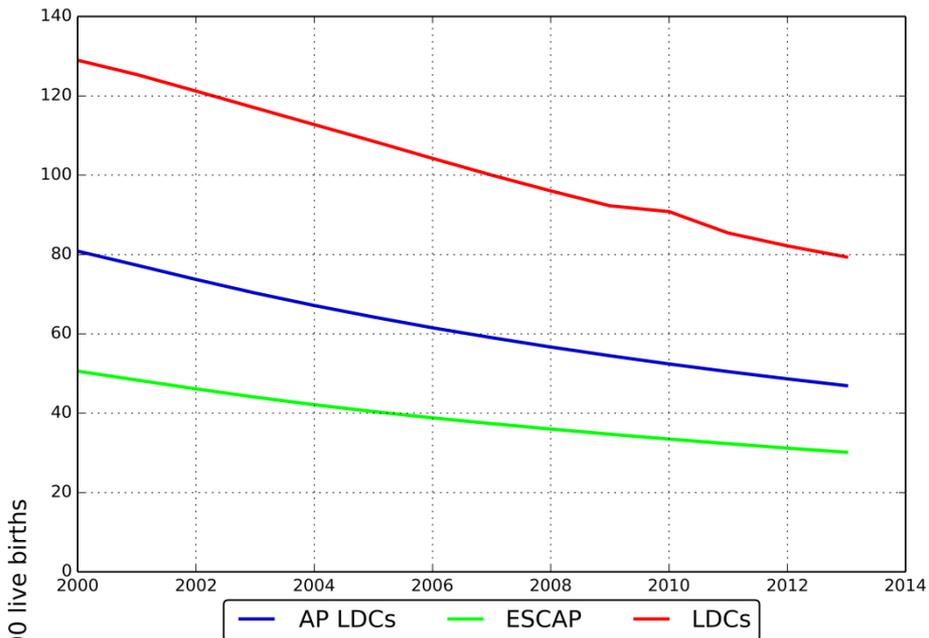
Economic Vulnerability Index



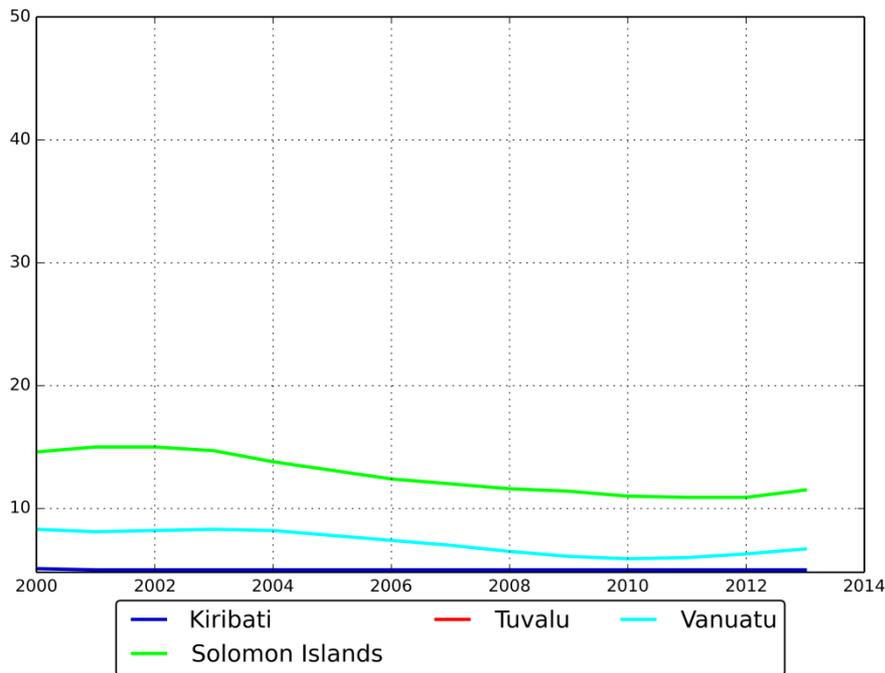
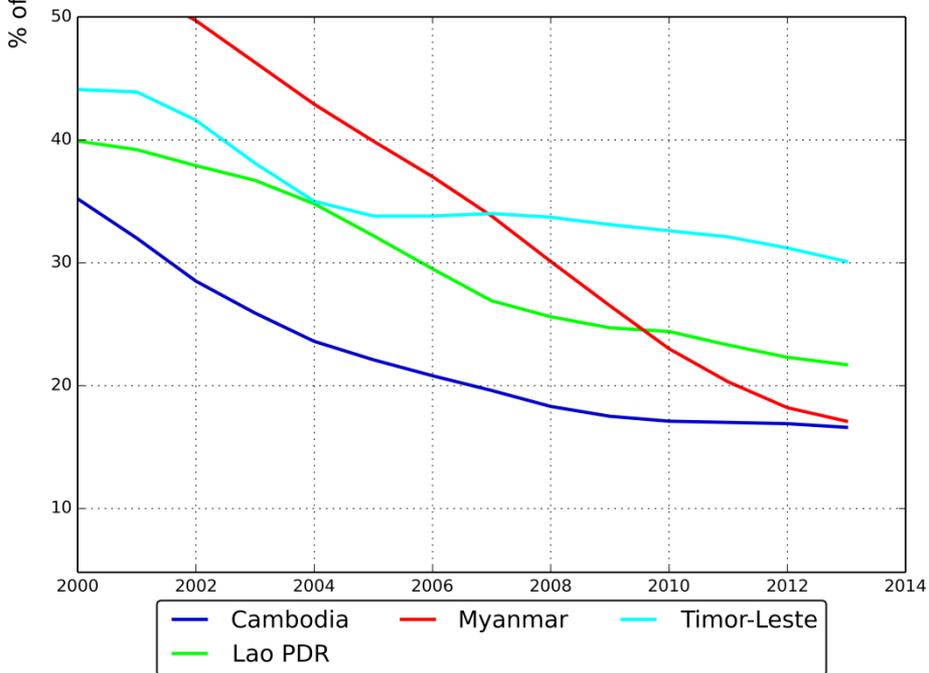
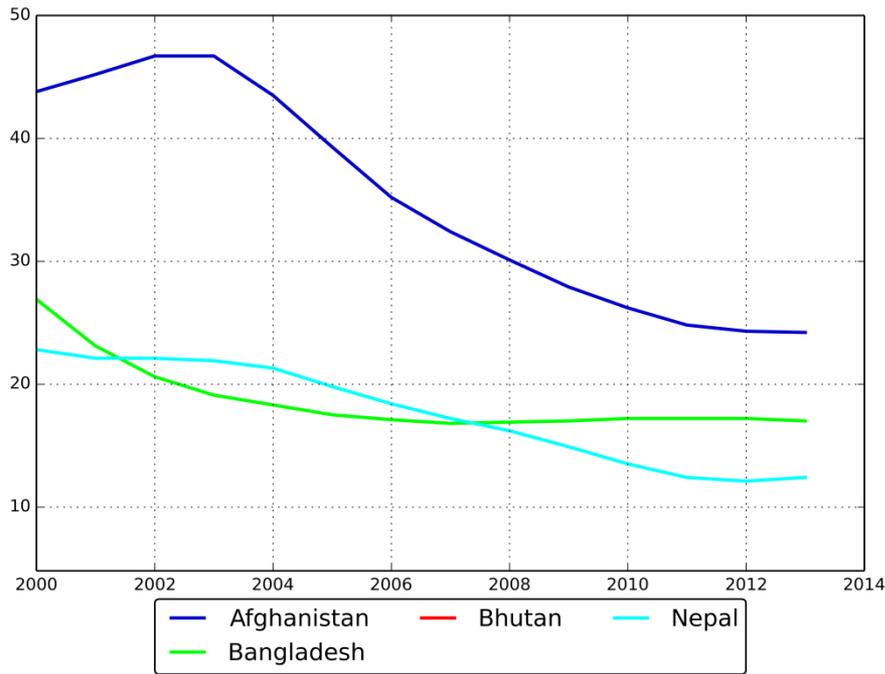
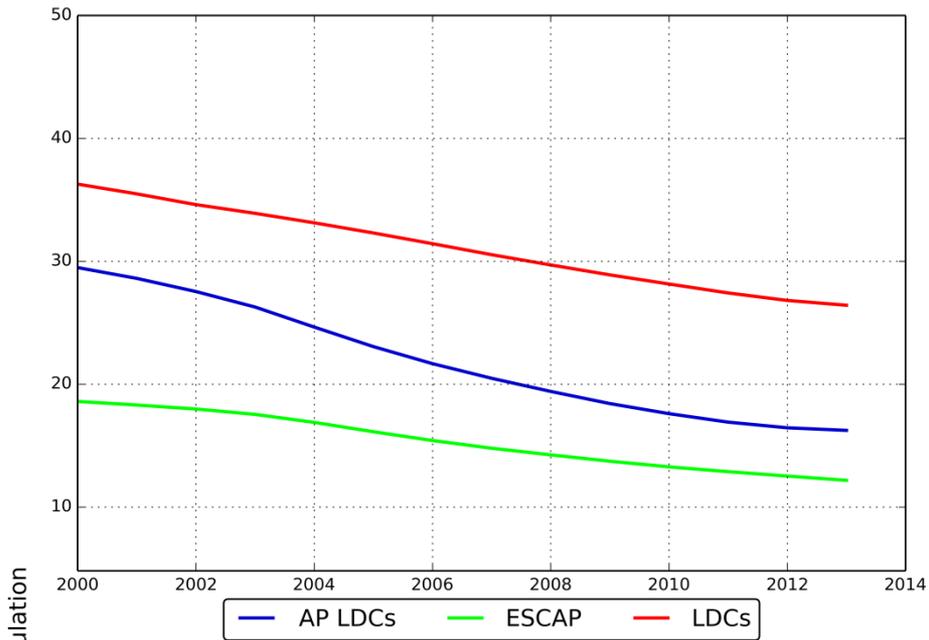
Observed Pathways of Asia-Pacific LDCs to Closing the Criteria Gaps: GNI per capita

- **Natural resource based growth**
 - Often associated with fast economic growth
 - Sustainability can be an issue
 - Ambiguous impact on EVI
 - Export concentration ↑ , Share of agriculture ↓ , Export instability ambiguous
 - Impact on HAI can be slow
 - Depends on policy choices and structural characteristics
- **Economic diversification**
 - Growth rates can be smaller than with NR based growth
 - Typically, leads to improvement in EVI
- **Specialization (e.g., tourism)**
 - Ambiguous impact on EVI

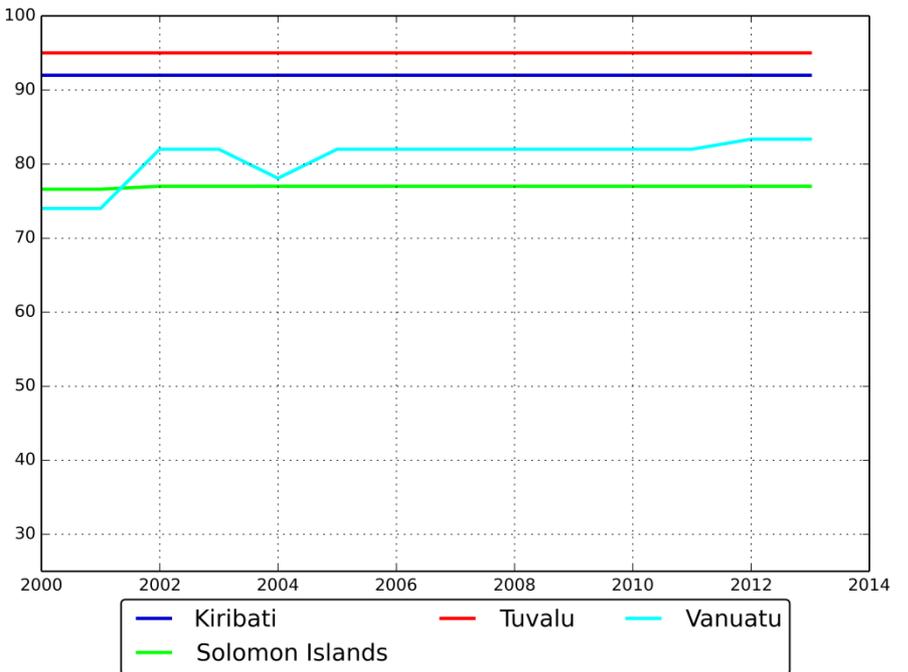
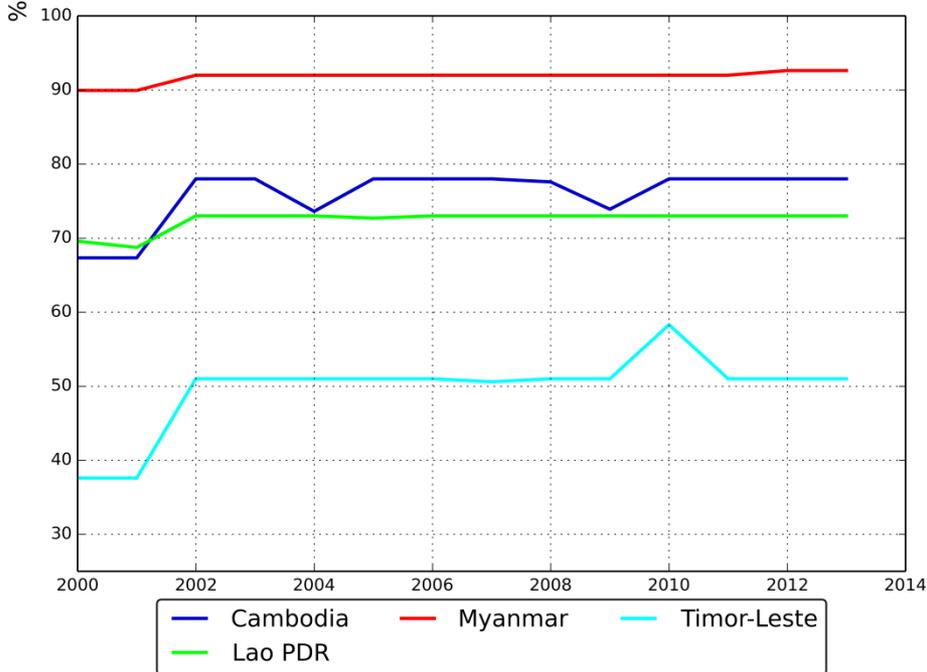
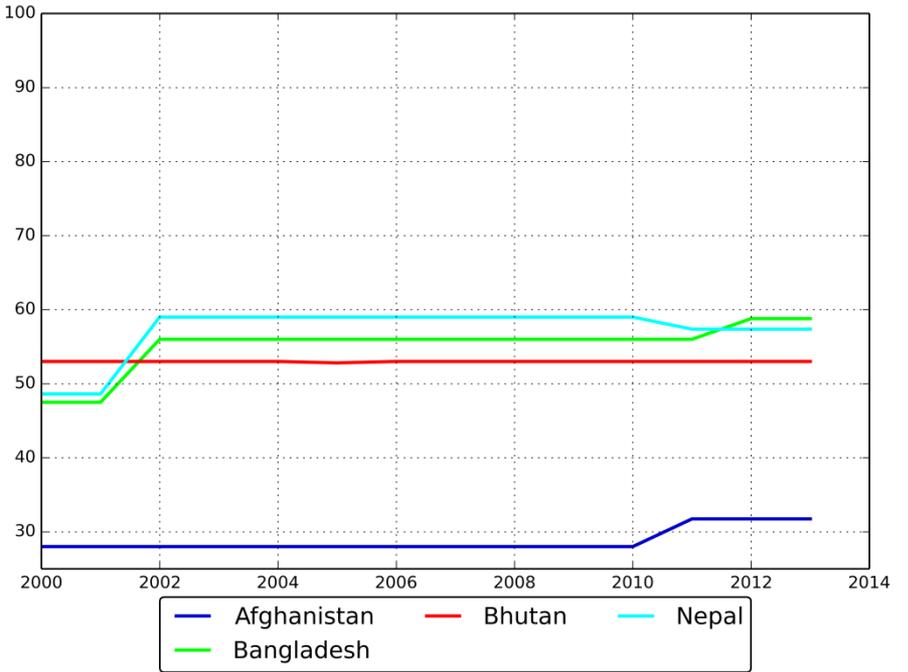
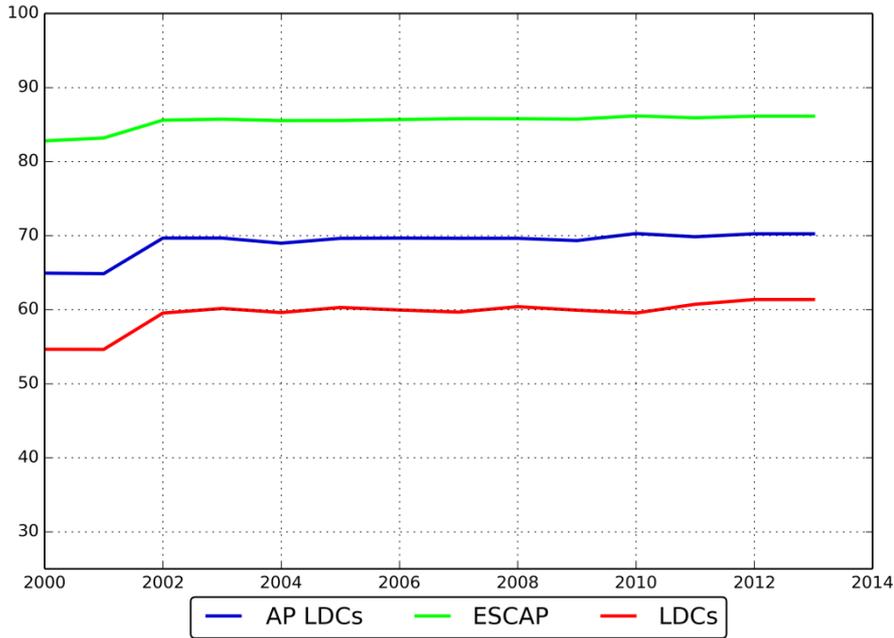
Under 5 mortality rate



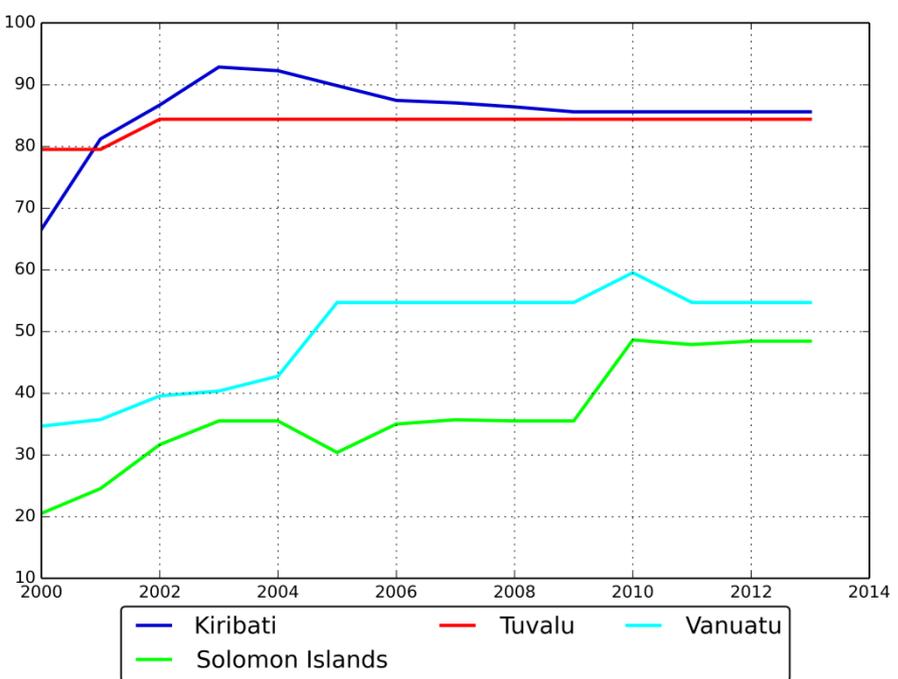
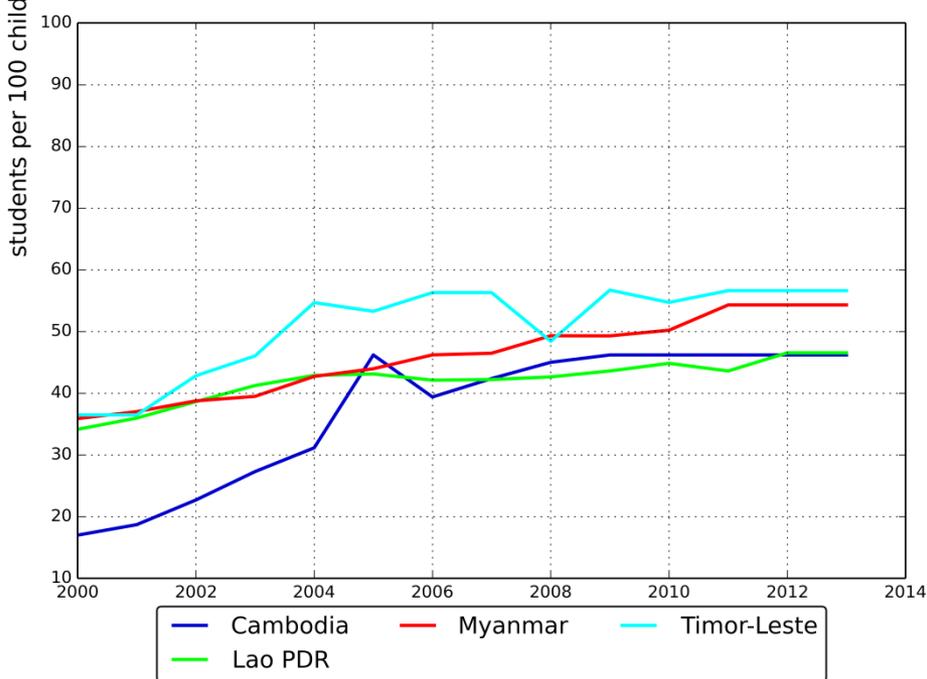
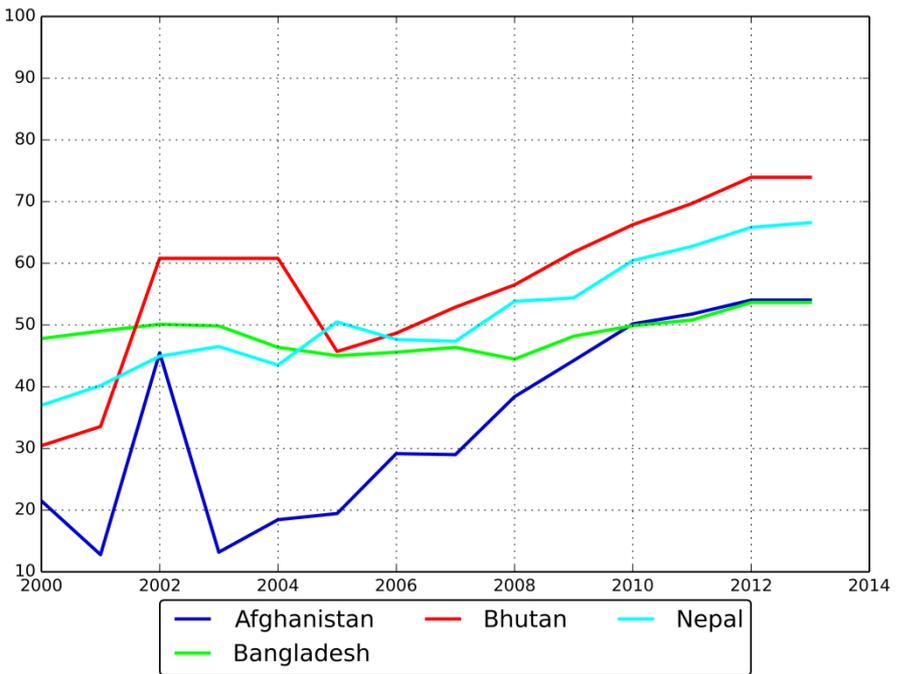
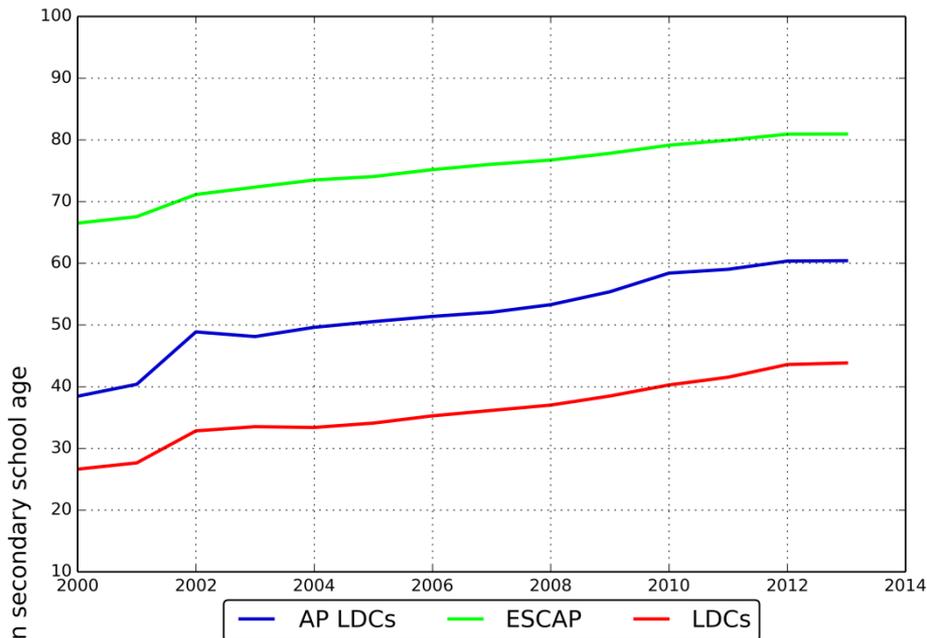
Prevalence of undernourishment



Literacy rate



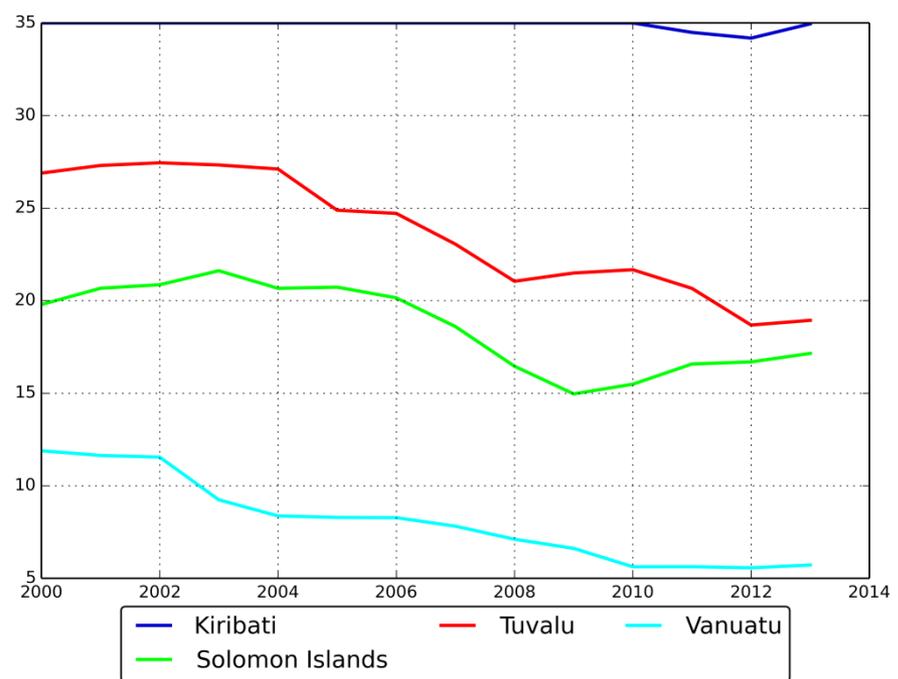
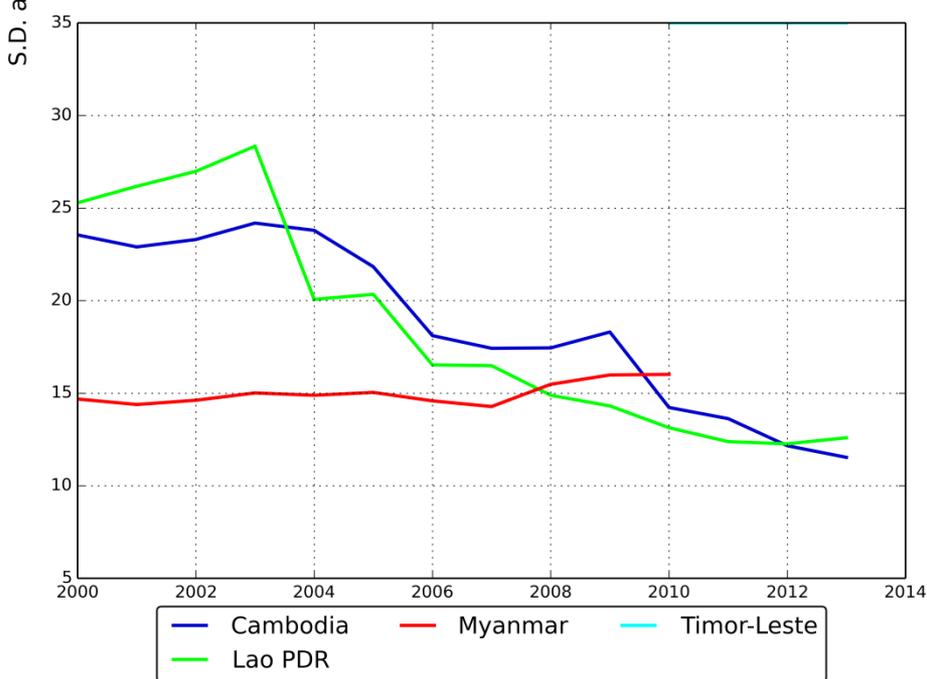
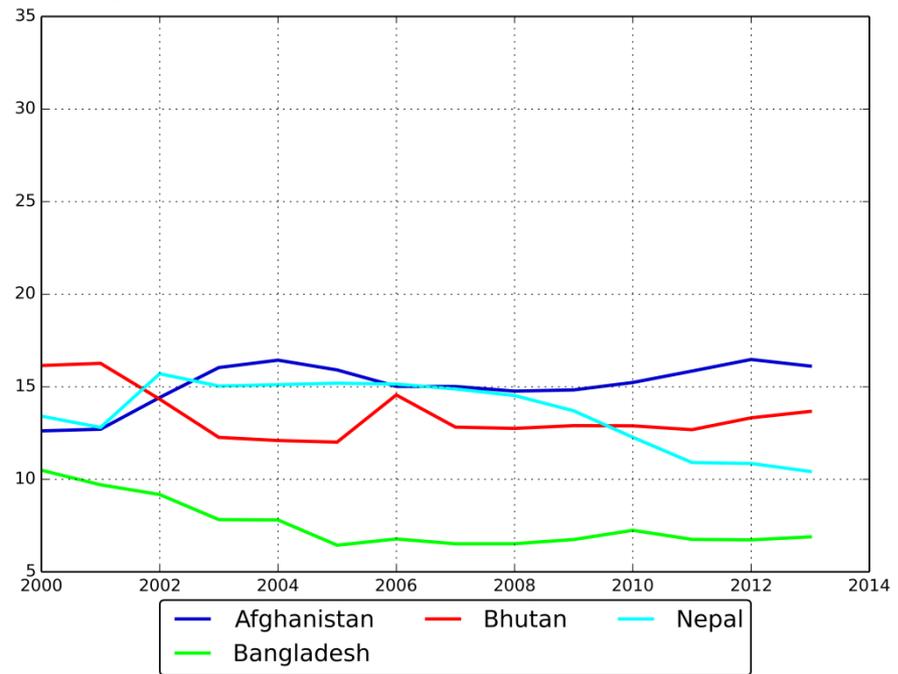
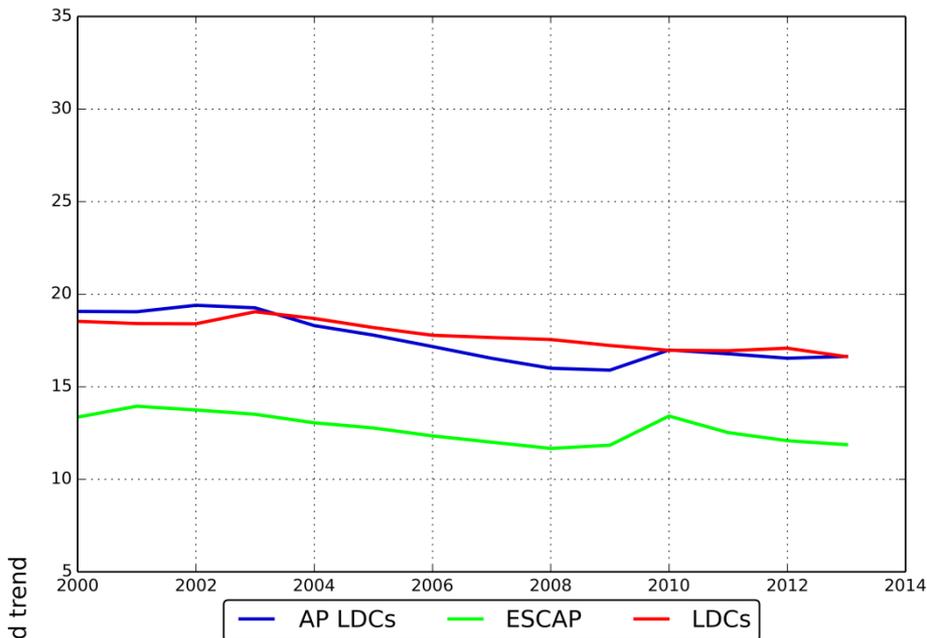
Gross secondary enrolment ratio



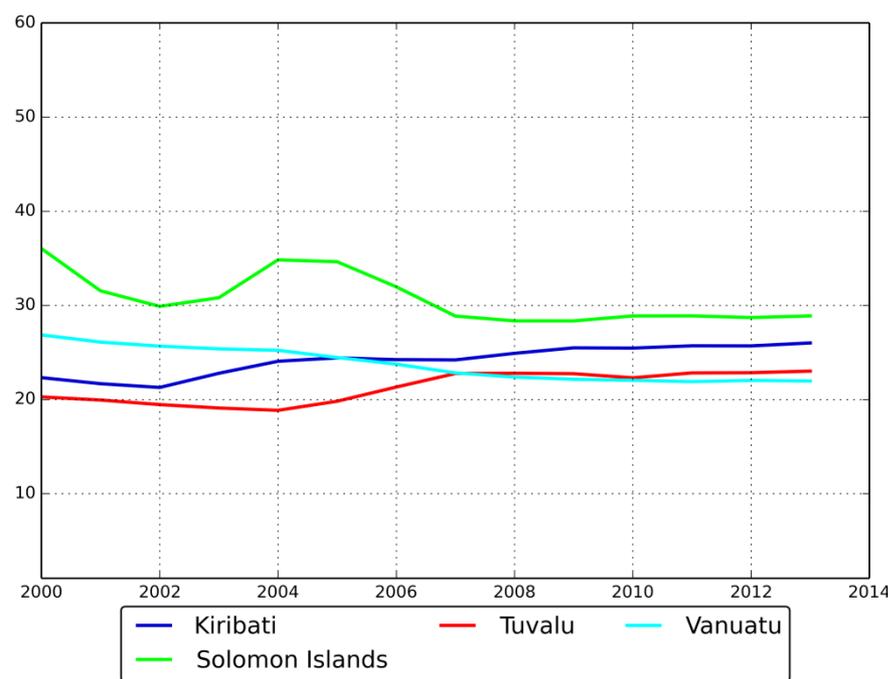
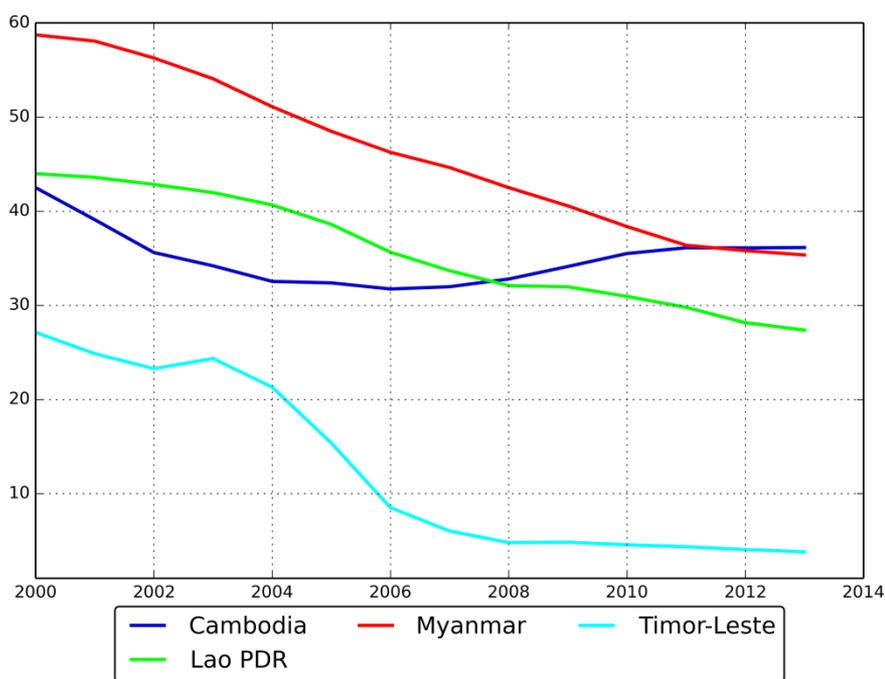
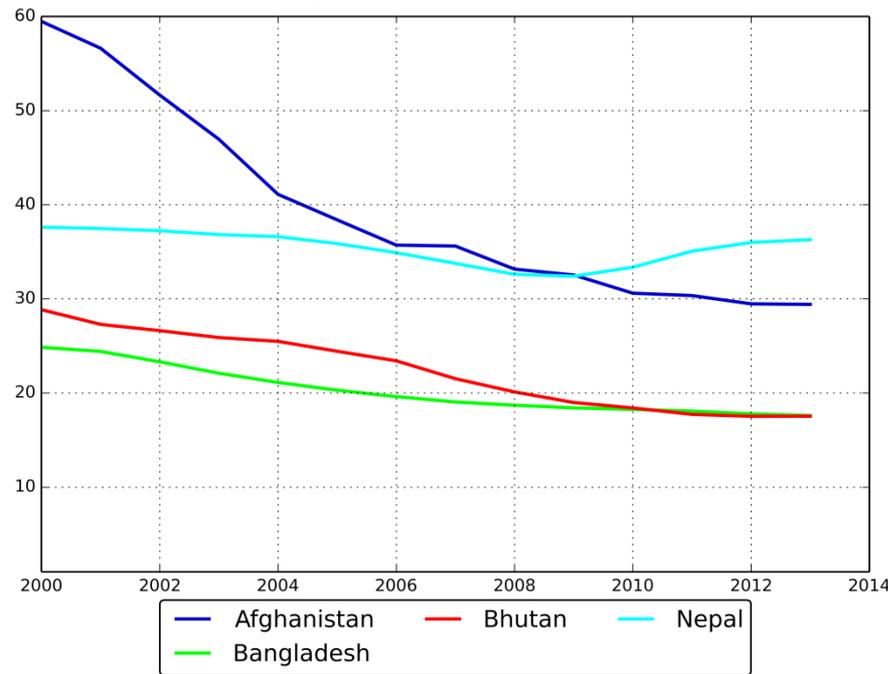
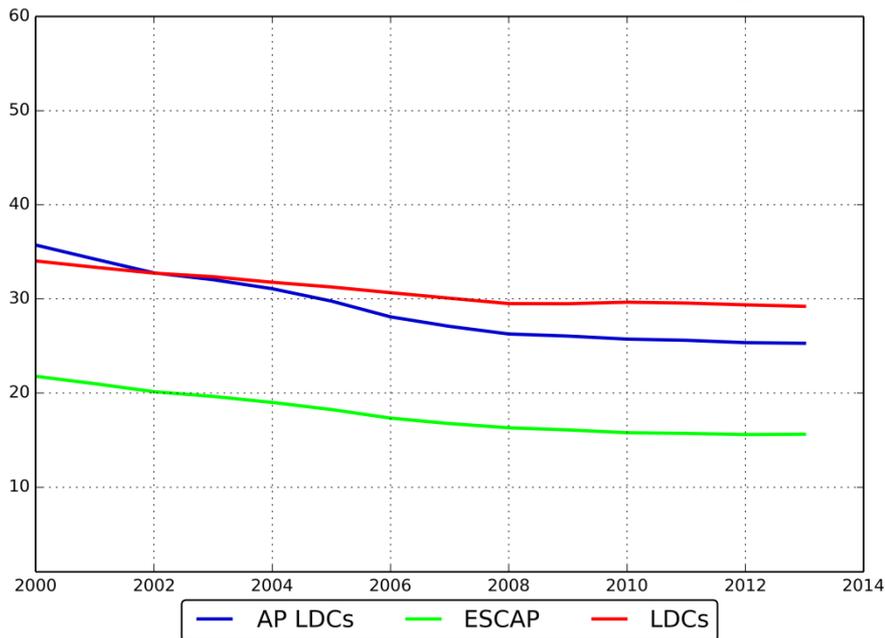
Observed Pathways of Asia-Pacific LDCs to Closing the Criteria Gaps: Human Asset Index

- **Under five mortality rate**
 - Improvement basically everywhere
 - Strengthened health systems
 - Progress also at low income levels
- **Prevalence of undernourishment**
 - Positive trends in most countries
 - Need to address availability, accessibility and affordability
- **Adult literacy rate**
 - Only small increases observed
 - Response to policies is slow
 - Note: Data only infrequently updated
- **Gross secondary enrolment ratio**
 - Generally improving
 - Strong progress in some countries
 - Can be increased relatively quickly
 - Responsive to policy

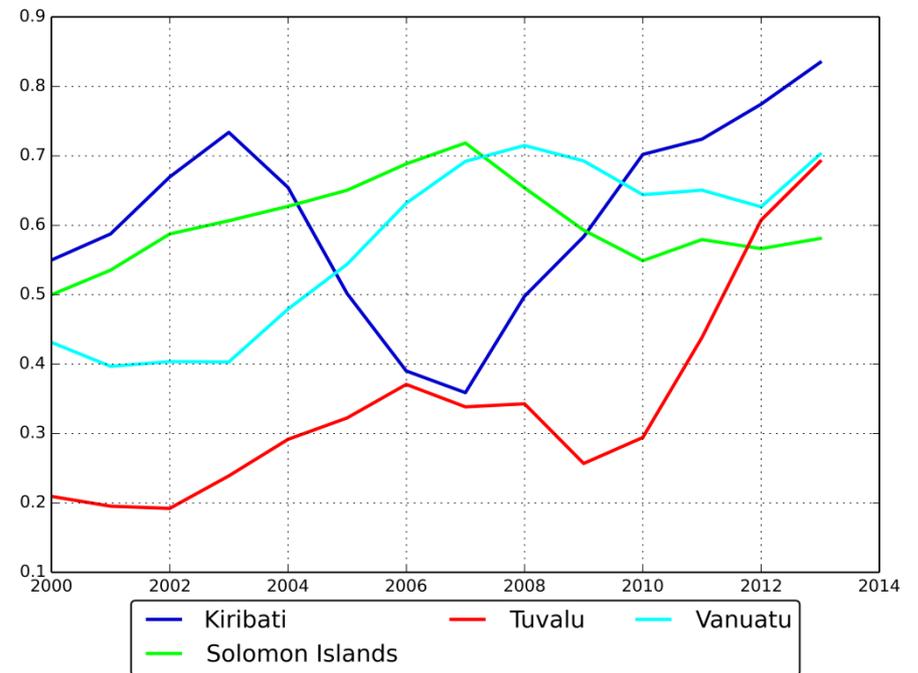
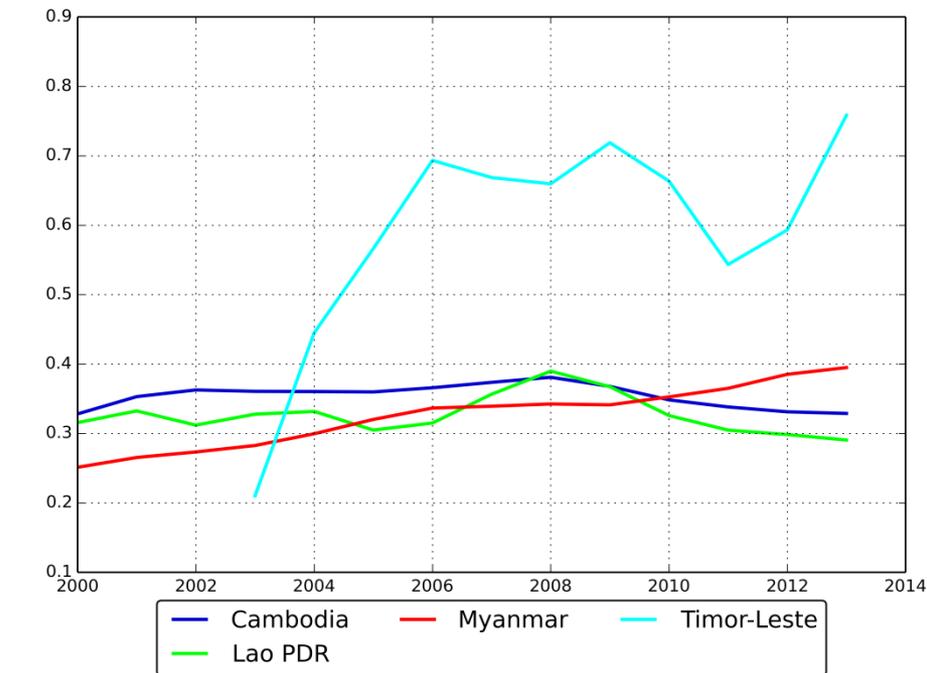
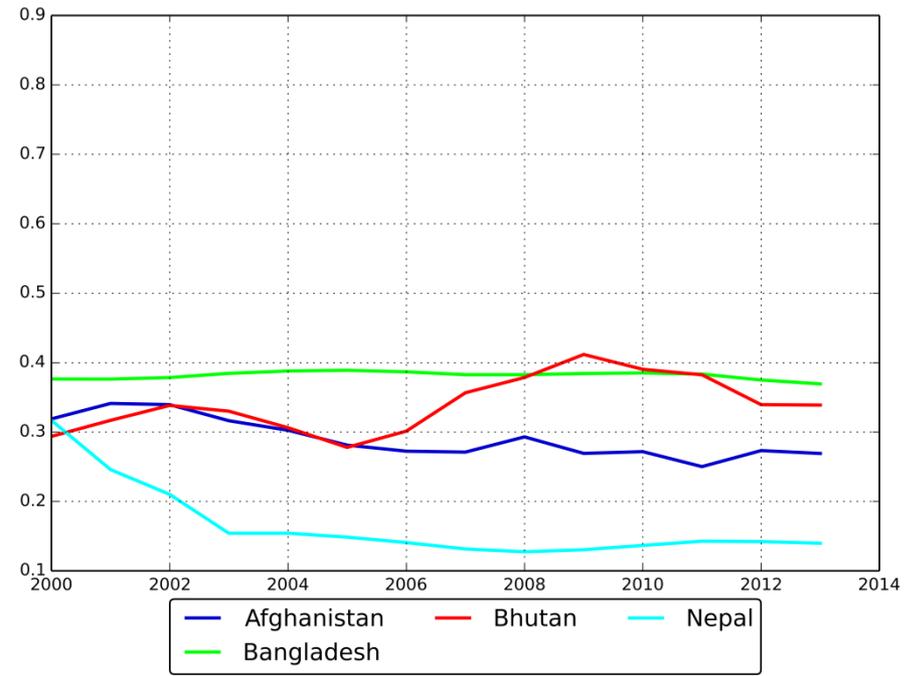
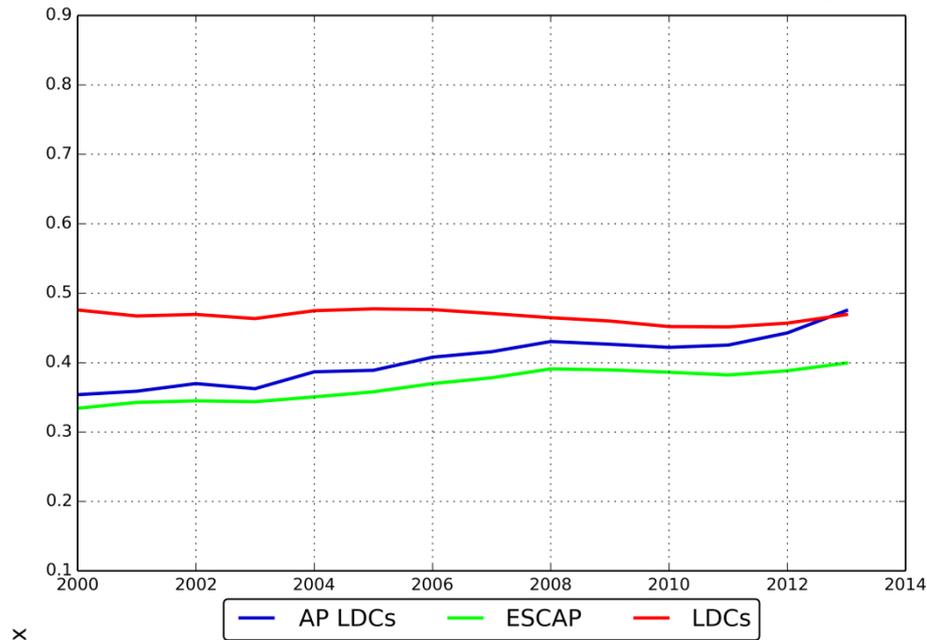
Export instability



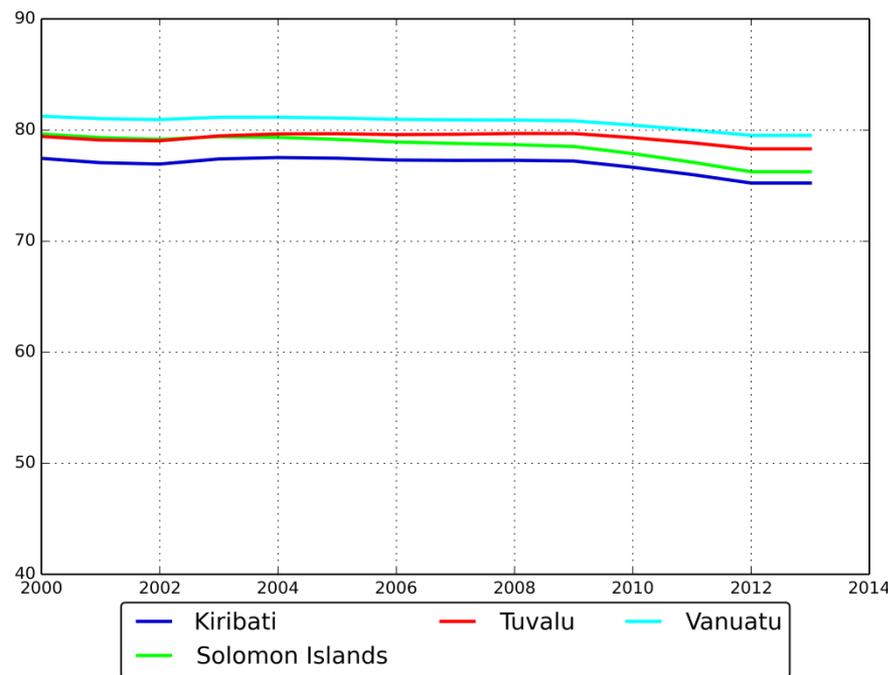
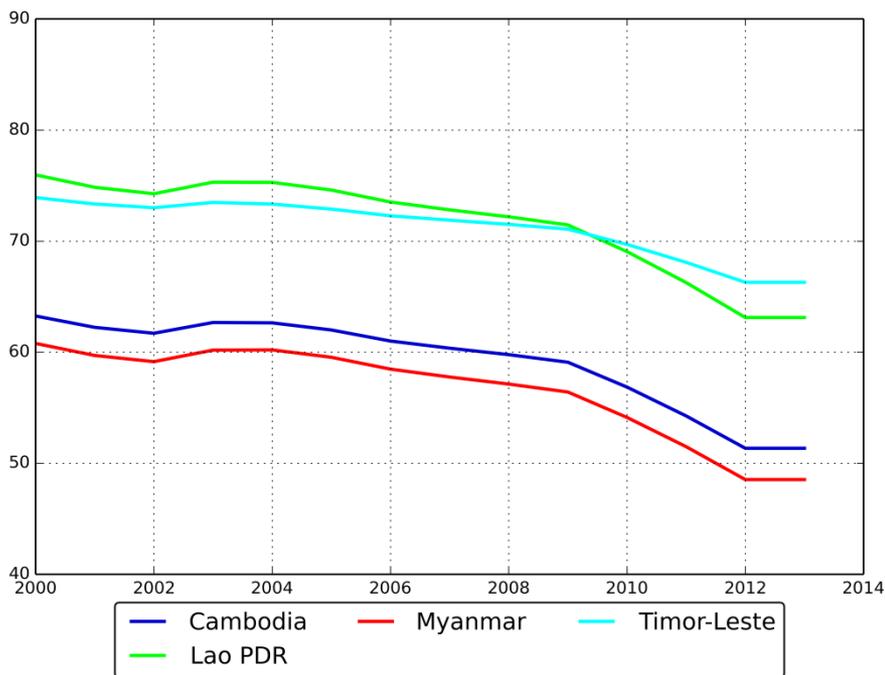
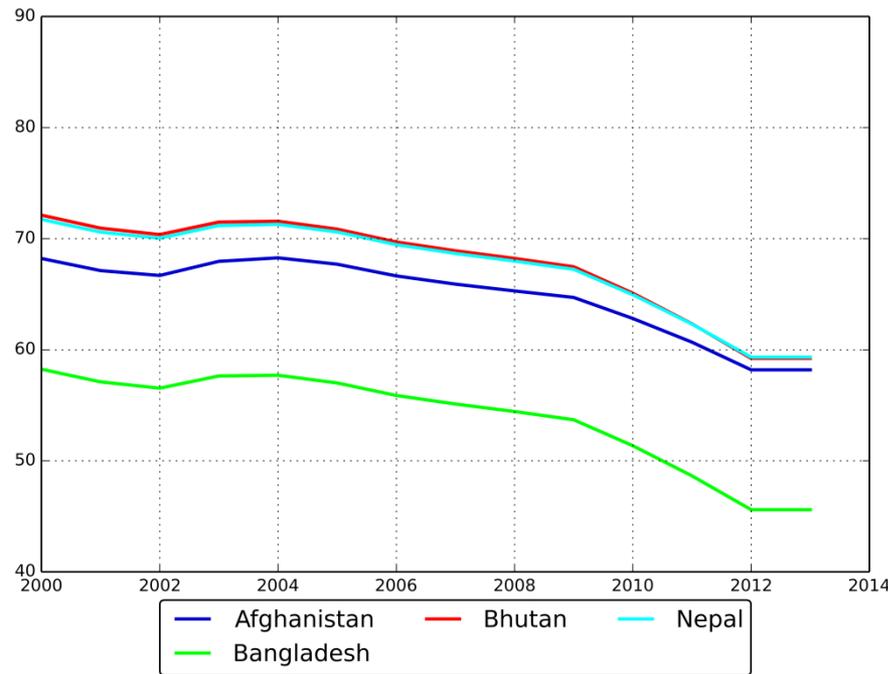
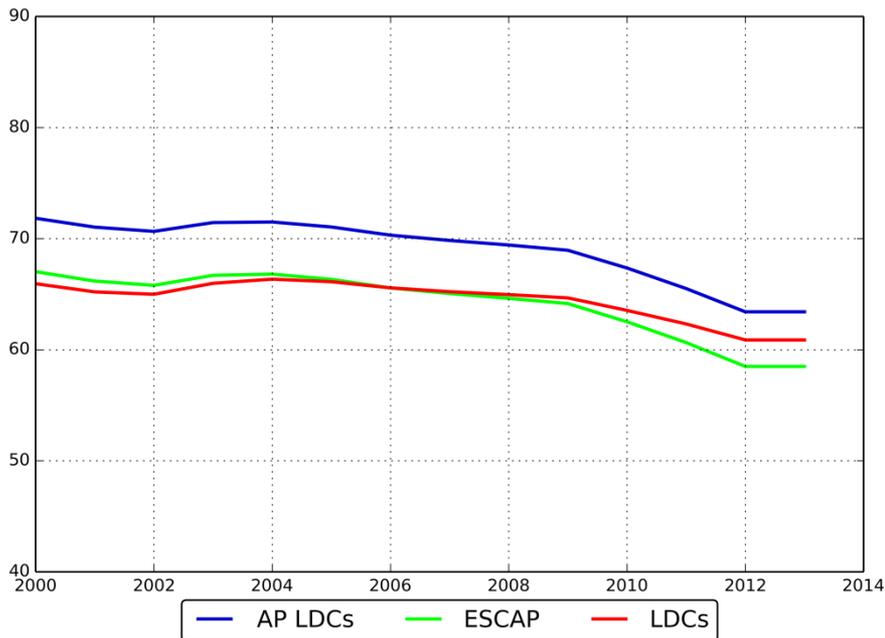
Share of agriculture, fisheries and forestry



Export concentration



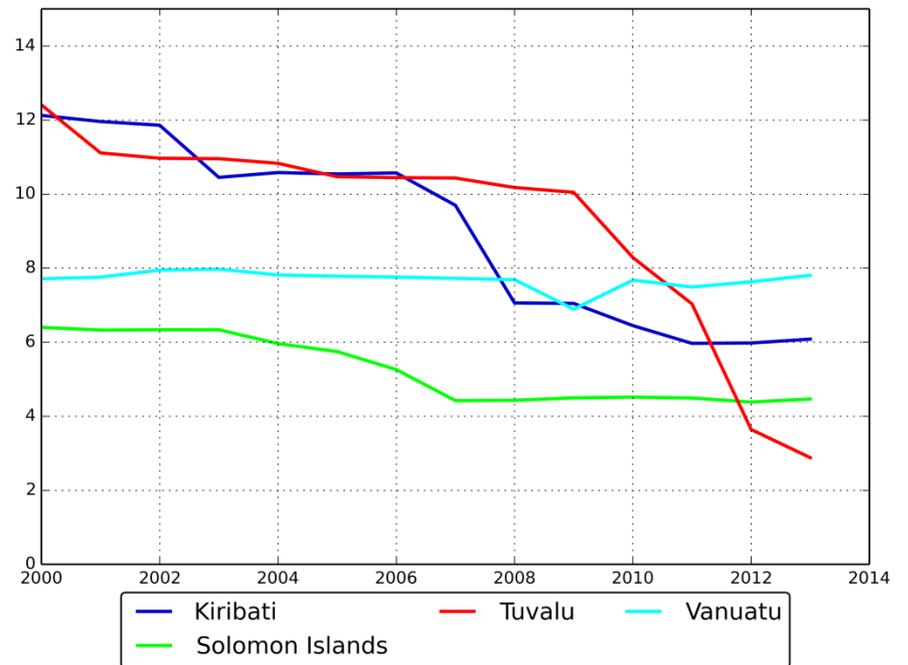
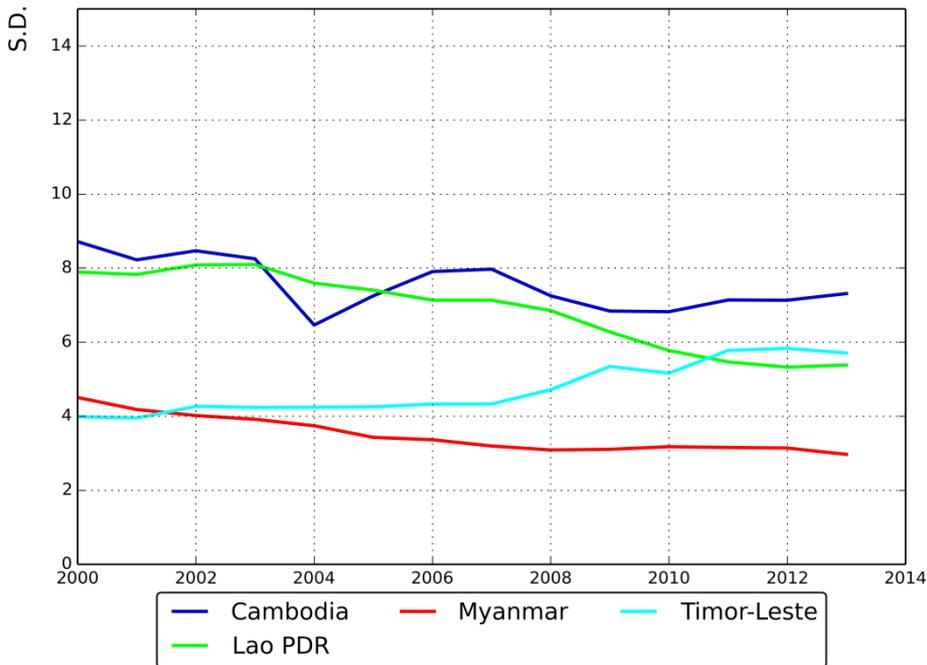
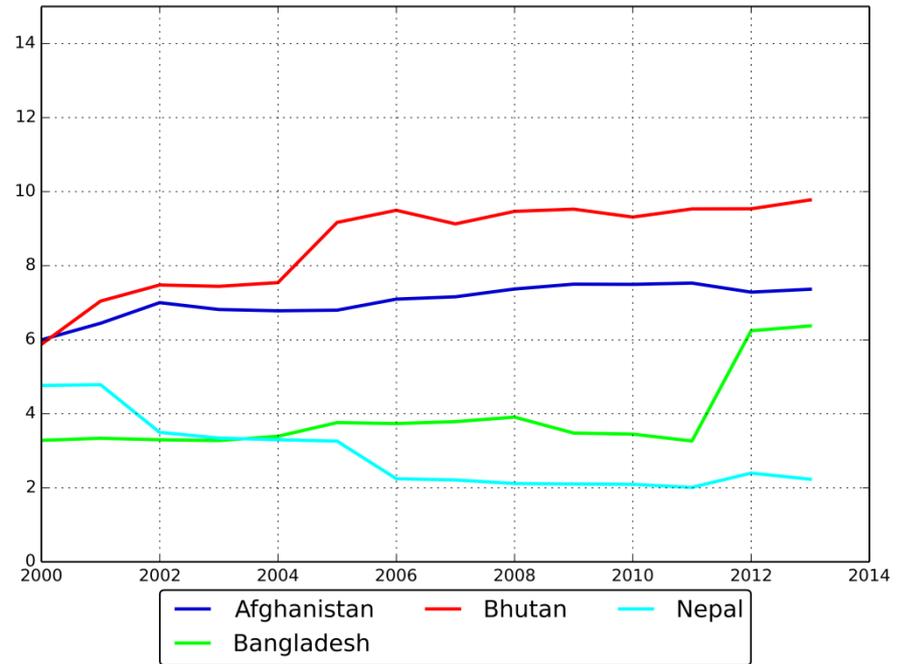
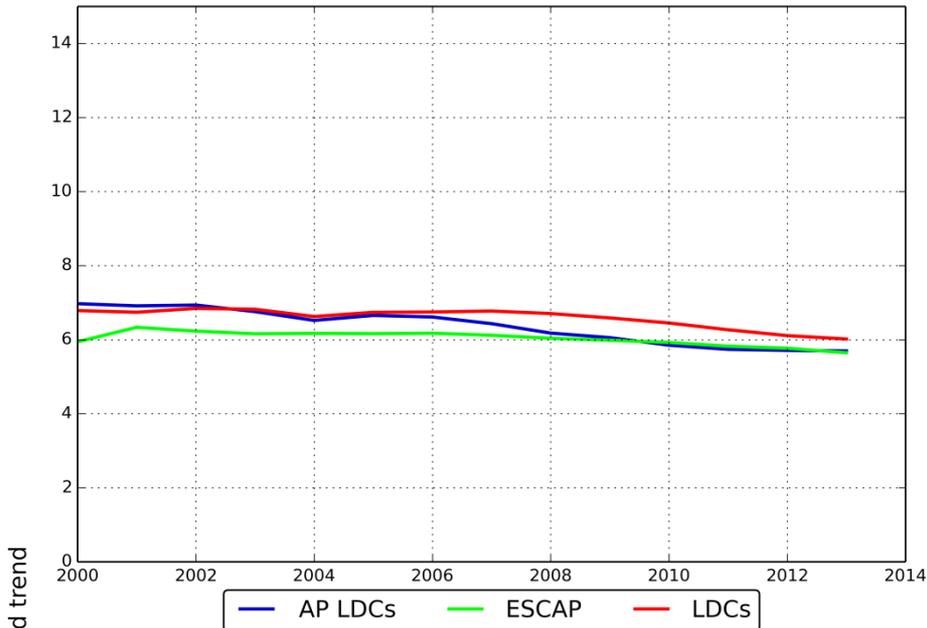
Remoteness



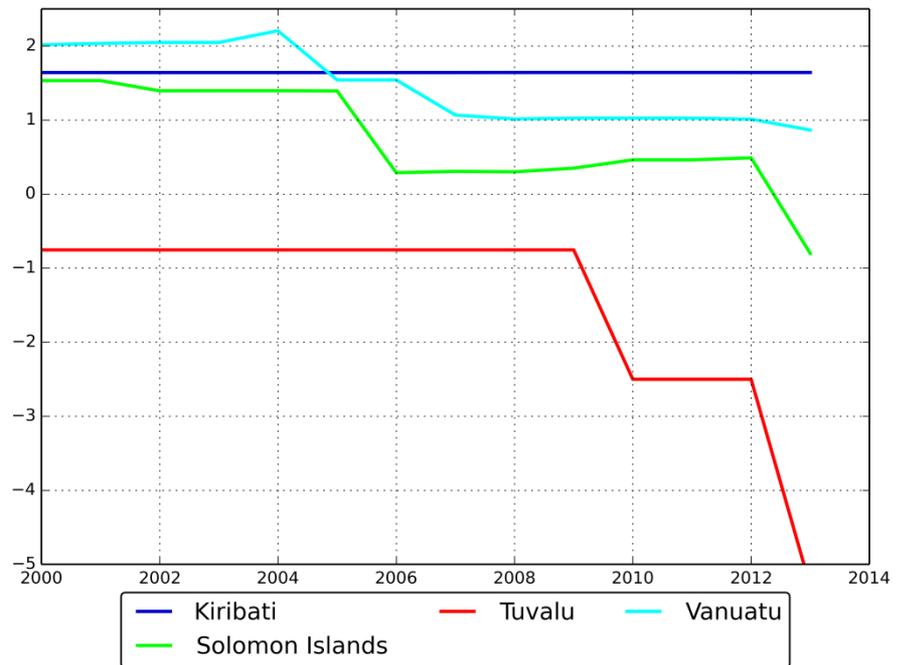
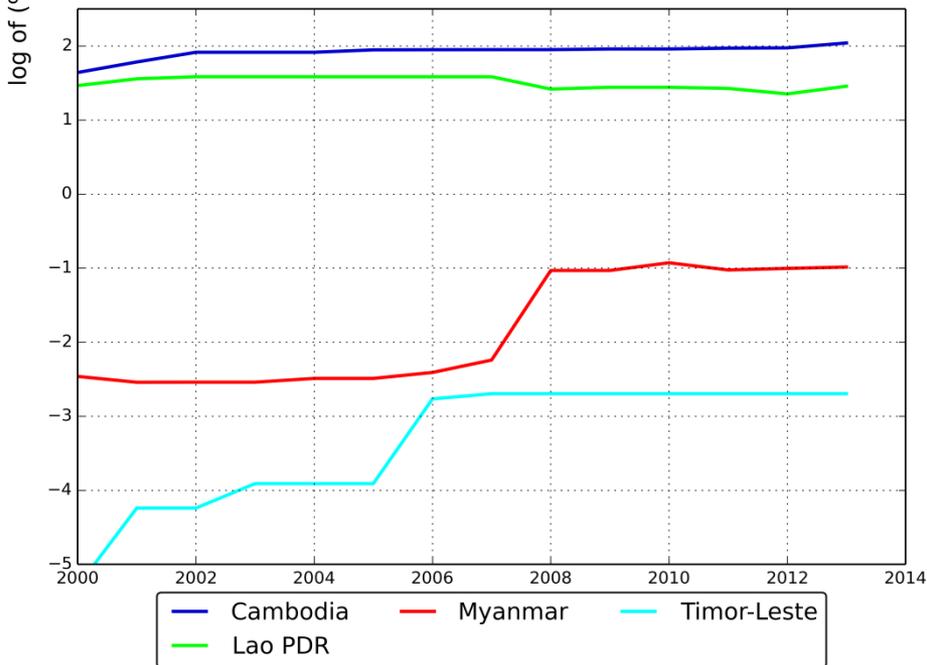
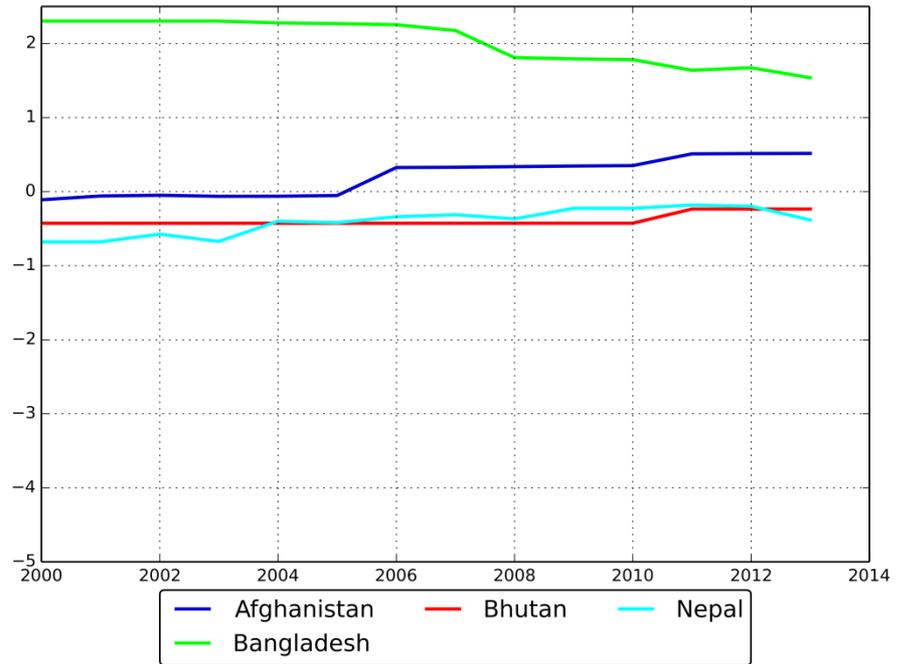
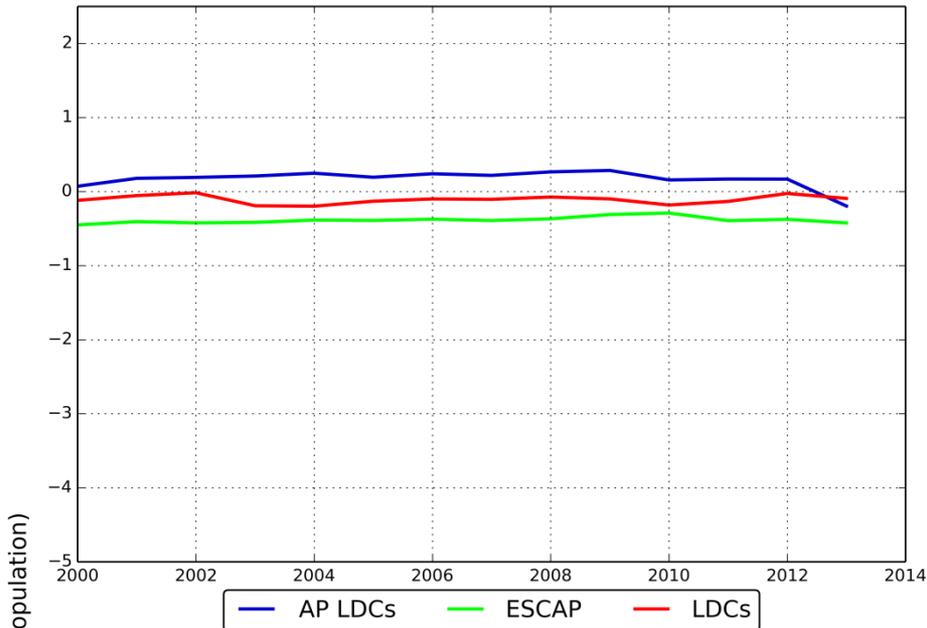
Observed Pathways of Asia-Pacific LDCs to Closing the Criteria Gaps: EVI (b)

- **Export instability**
 - Some countries reduced instability
 - Economic diversification plays a role
 - Stability of global markets is important
- **Share of agriculture in GDP**
 - Reduction of share in many countries
 - Higher growth in other sectors is important
 - Agricultural production can still be increasing
- **Export concentration**
 - Few countries achieved lower concentration
 - Export base remains limited
 - Note: Indicator does not capture services
- **Remoteness**
 - Asian LDCs are becoming less remote
 - Shift in global trade patterns benefits Asian economies
 - Indicator only marginally affected by domestic policies

Agricultural instability



Victims of natural disasters



Observed Pathways of Asia-Pacific LDCs To Closing the Criteria Gaps: EVI (b)

- **Agricultural instability**
 - Few countries reduced agricultural instability
 - Weather and climate shocks important
- **Victims of natural disasters**
 - Many countries see an increase in victims
 - Natural hazards often on the rise
 - Indicator affected by large scale events
 - Reducing exposure and building resilience are key
- **Size of population**
- **Share of population in low elevated coastal zones**
 - Difficult to change in the medium term

5. Additional considerations

The criteria and the SDGs

- **Proposal:** Mainstream LDC indicators as tools for SDG monitoring to accelerate closing the gap
- SDGs: 17 goals, 170 targets. Some with direct relation to LDC indicators
- Meeting those targets, as measured by LDC indicators, facilitates graduation goal
- Ensures proper attention to LDC issues within post-2015 development framework
- Currently, 2 out of 13 LDC indicators are MDG indicators

Mainstreaming: few examples

Goal/Target	LDC indicator
1.5. Build resilience to shocks	EVI
2.2. End malnutrition	% Pop. Undernourished (MDG)
3.2. End preventable deaths	U5MR (MDG)
4.2. Primary and secondary education	Gross secondary enrolment ratio
4.6. Adult literacy	Adult literacy rate
8.8. Productivity through diversification	Export concentration; % of agriculture, fisheries, forestry in GDP
11. Sustainable human settlements	% Pop living in LECZ
11.5. Death and affected by disasters	Victims
13.1. Resilience to natural disasters	Victims
17.11 Double % LDC exports	Export concentration; remoteness

Additional information

www.un.org/en/development/desa/policy/cdp