A proposal for stronger TOSSD eligibility criteria
Mexican Delegation to the International TOSSD Task Force[1], February 2022

This paper seeks to contribute to discussions around the eligibility criteria for Total Official Support for Sustainable Development (TOSSD). It **invites the TOSSD Task Force to revisit the indicators used to determine the list of TOSSD recipient countries** and to establish criteria that could make it more consistent, coherent, legitimate, and more politically acceptable to South-South co-operation (SSC) providers, in particular in Latin America and the Caribbean.

The need for a list of TOSSD countries

TOSSD aims to record the flow of official external resources for *sustainable development*; that is, flows that somehow contribute to the well-being of developing countries. To track them, some type of criteria is needed to identify these countries. It is on this basis that the development cooperation agenda has functioned since its origins in the early post-war era, when the UN started producing "lists of developing countries". This is the way in which the ODA definition works, South-South co-operation operates in practice and the TOSSD metric is being conceived. It is true that today the idea of a boundary between developing and developed countries —North and South— is being contested. Yet we consider that it continues to be the bulwark of the whole development agenda as we know it. Thus, rather than throwing away this boundary, and wade into dangerous and unchartered waters, we should aim at defining better the criteria for distinguishing between these groups and strengthen its legitimacy. This is what we are aiming to achieve with this proposal.

The current TOSSD recipient list

Currently, to count as TOSSD (pillar I and mobilised private finance), an activity should involve a cross-border resource flow to a country on the list of TOSSD recipient countries. For any reporting year, this list includes:

i. All countries and territories included on the "DAC List of ODA recipients".
ii. Other countries and territories that have activated the TOSSD opt-in procedure.

The DAC list is (mostly) determined by the GDP per capita criterion as defined by the World Bank (WB).[2] Thus, a country that according to the WB graduates from Upper Middle Income to High Income status will be removed from both the DAC and the TOSSD lists. The only difference is that any country that has been removed from the TOSSD list can "opt in" back into it by making the case that, for reasons related to its objective conditions, it still needs or wishes to be on such list for a limited period of time.

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[2] Having said this, it is true that the DAC list includes a category of "least developed countries", defined by the UN, which is built on criteria that consider, but are not limited to GDP per capita. Yet TOSSD aims to measure all developmental external flows available to developing countries, which makes irrelevant the different categories among them within the list. Indeed, from this "developing country perspective", countries in the list are there on an equal footing, so the only graduation that counts is that of leaving the list altogether.

The problem with the DAC list and its per-capita income indicator

For decades, the all-powerful GDP metric and its GDP per capita variant have been called into question in different quarters. There is now a widespread consensus that GDP per capita fails to capture many dimensions of a country's well-being and/or its economic and social progress. The past years have seen the emergence of new, more complex indicators that consider factors other than GDP such as the UN index on human development, the OECD index of well-being and the index that defines Least Developed Countries.

The criticism to the limitations of the GDP concept has particularly flourished in Latin America. ECLAC has played a key role in advocating for an alternative multidimensional concept of development, which underpins the novel "development in transition" narrative and also the agenda of Middle-Income Countries at the UN.[3] These criticisms came recently into the fore in the wake of the graduations of Chile and Uruguay from ODA and the DAC list. As the concept implies, graduation is meant to be celebrated. Yet the very countries involved --with the decisive backing of the whole Latin American continent-- openly questioned it. The argument goes that GDP per capita is no longer —and perhaps never was— a reliable indicator of development. Countries can achieve relatively high levels of per-capita income and still face a myriad of development challenges, including skewed distribution of income, underdeveloped labour markets, faulty education, health and security systems, poor public services, low taxation rates and under-productive economies. This problematic criterion leads countries being "prematurely graduated" and thus prone to receive less support than they need. Instead of this flawed unidimensional criterion, *multidimensional* criteria --in which GDP per capita is an important data point but not the only one-- is needed It should be noted that this argument is relevant for all developing countries and that the MICs movement brings together countries not only from Latin America but from other regions as well.

Some small island developing states (SIDS) have also criticised the DAC list for a different reason. Their issue was not the soundness of the GDP indicator to capture development, but that the DAC list was not geared to capture the event of a catastrophic drop in their income and well-being due to sudden extreme weather events –which are set to become ever more frequent and devastating due to climate change. Indeed, until recently, the DAC had no clear procedure to promptly reinstate on its list a SIDS (or any other country) going through such a catastrophic experience, depriving them of resources, since donors would not be able to count as ODA their efforts to help them.

Towards new criteria for the TOSSD list.

To identify more adequate and legitimate criteria for the TOSSD list, we have to take into account the recent concerns of both SIDS and MICs. Regarding the former it seems to us that the existing "opt-in mechanism" – to promptly reinstate on the TOSSD list countries that have (recently) graduated or are in transit to graduation but have suddenly lost a good chunk of their income/welfare due to an extreme natural event such as a hurricane – can properly work as such and address the SIDS' concerns. This mechanism, however, does not really address the concerns of the MICs. It is true that according to current rules, these countries could "opt in" back into the

[3] All Latin-American and Caribbean countries except Haiti are classified as Middle Income or High Income countries.

TOSSD list on reaching High Income Country status --just as the SIDS after being hit by a natural disaster. To do so, however, they should themselves make an argument on why and for how long they still need to stay on the list. But this procedure, though apparently effective, is shallow and does not address the fundamental concern on how we should properly and objectively measure development. Mexico is convinced that we can do better. We can and should address the well-grounded Latin American criticisms to the DAC list by bringing on board multidimensional criteria beyond GDP per capita. This would allow us to have more robust, legitimate and scientifically sound criteria for determining the list of TOSSD recipients. This issue of legitimacy is crucial. A significant weakness of the existing criteria for the TOSSD list is its reference to the DAC list, which is produced exclusively by DAC donors. By omitting this reference and moving towards multidimensional criteria, we will have another entry point into the UN narrative (ECLAC and UNDP), enhance the political legitimacy of TOSSD, and allow for Southern countries to have more ownership over the initiative.

We recognize that the list of TOSSD recipients has been discussed on several occasions at the Task Force. We also acknowledge that it was important in the early stages of TOSSD to start implementing the statistical framework, so the "opt-in" mechanism was established as a simple and easy way to start collecting data on TOSSD activities. Finally, we are also aware that at those preliminary discussions on the TOSSD list, some thought was given to the possibility of moving away from a unidimensional GDP per capita perspective, but that it was deemed challenging to define alternative multi-dimensional criteria that would be applicable to all developing countries. We are convinced, however, that there is a way to tackle this concern. We consider that now is a good time to re-discuss the issue and identify more adequate criteria for the TOSSD list.

A first proposal for new criteria for constructing the TOSSD list of countries

For the reasons discussed above, we present a proposal to **construct the TOSSD list based on multidimensional criteria**, which would address the concerns of both the Latin American countries and of the SIDS, while keeping its rules simple and manageable. The basic idea is to **keep the World Bank's GDP per capita as the basic indicator for graduation**. Yet once any given country achieves the High-Income Country (HIC) status (and graduates from ODA), additional criteria should be considered that better capture the complexity of development to determine whether it should be removed from TOSSD list as well. The TOSSD secretariat would not need to collect data for these additional criteria, as this information would be needed only when a country reached HIC status –in most cases, the data would already be available as such a country would be developed enough to have good statistics. In other words, the **multidimensional character of the TOSSD list would come into play only at the moment of per-capita graduation**, which would greatly simplify matters. The current opt-in rule would be reserved for TOSSD-graduated countries, such as SIDS, that need to return promptly to the list in face of exceptional circumstances.

As a first proposal, we would suggest that the following indicators be considered on an equal footing:

- *The Gini coefficient on inequality*. The Gini coefficient is not only widely accepted but also available for most UMIC countries on track to graduation. Inequality in the distribution of income is the main reason why growth in per capita income does not accurately reflect the evolution of the living standard of the average citizen of any given country. Although the Gini coefficient has limitations (such as underestimating the concentration of wealth among the very richest individuals), it should be a criterion for TOSSD.

- *Informality.* Informality exists everywhere but is much more prevalent in developing countries. Two-thirds of the global workforce, 2 billion people, lack decent working conditions. This leads to structural issues, such as a lower tax in-take and poorer health and safety protection, as well as a negative impact on formal enterprises. Informality reflects limitations of the formal economy and 'predicts' economic and social problems on the horizon. The ILO generates the data.

- *The Human Development Index.* Another attempt to improve measures of progress is the Human Development Index, published annually in the UNDP's Human Development Reports. It seeks to capture three basic dimensions of well-being: a long and healthy life, access to knowledge and a decent standard of living. It is transparent and simple and has popular resonance around the world. This makes it a widely available complementary factor.

TOSSD proposed rules: Based on GDP per capita and the above three indicators, the criteria for the TOSSD list could be formulated as follows:

I) A country will be removed from the TOSSD list if, after having reached a World Bank HIC status for two consecutive years, it also complies with the following three indicators:
   1) A Gini coefficient below (or less inequality than) 0.38
   2) A share of informal work in its active labour force below 35%
   3) An index of human development above 0.820

II) A HIC country will promptly return to the TOSSD list by one of the two following rules or procedures:
   1) When it suffers a sudden fall in welfare and income in the event of a natural catastrophe (including pandemics) or an armed conflict. Using the opt in mechanism it will be reinstated on the list automatically
   2) When for whatever reason it falls back to an Upper Middle Income (UMIC) status for two years in a row.

As an exception all members of the European Union, which receive generous regional support – will be excluded of the TOSSD list.

The table below presents a list of selected countries. It shows how, even if there is a clear correlation between GDP per capita and the other variables, these additional criteria help to better define development. According to this set of criteria, both Chile and Uruguay, that are recipients of South-South co-operation from several LAC countries, would meet the criteria for TOSSD recipients. This is, of course, a first example. Other multidimensional criteria and threshold indicators could be put forward. The idea is to keep the principles that underpin this exercise.

Examples of countries and the suggested indicators

Country	WB classification by income level, 2021[4]	GDP per capita (current US$)	Gini Coefficient (year)	Share of informal employment in total employment	HDI Value
France	High Income	39,030	0.324 (2018)	9.8%	0.901
Korea	HIC	31,631	0.314 (2016)	31.5%	0.916
Spain	HIC	27,063	0.347 (2018)	27.3%	0.904
Portugal	HIC	22,176	0.335 (2018)	12.10%	0.864
Greece	HIC	17,522	0.329 (2018)	32.80%	0.888
Uruguay	HIC	15,438	0.397 (2019)	24.5%	0.817
Chile	HIC	13,232	0.444 (2017)	40.5%	0.851
Bulgaria	Upper-Middle	10,079	0.413 (2018)	15.9%	0.816
Mexico	UMIC	8,329	0.454 (2018)	53.4%	0.779
Serbia	UMIC	7,720	0.362 (2017)	22.1%	0.806
Thailand	UMIC	7,188	0.349 (2019)	64.4%*	0.777
Brazil	UMIC	6,797	0.534 (2019)	46.0%	0.765
Colombia	UMIC	5,335	0.513 (2019)	62.1%	0.767
Indonesia	Lower-middle	3,870	0.382 (2019)	85.6%	0.718

Sources:
For the GINI Coefficient: World Bank Stats
For Informal Employment: Women and men in the informal economy / ILO, 2018
*ILOSTAT 2021, based on the HSI Informal Employment Survey
For the Human Development Index Value: The 2020 Human Development Report
For GDP per capita: the WGB, 2020

[4] The WB Country classifications by income level in US dollars are $4,096 - $12,695 for high-middle income countries, and over $12,695 for high income countries.