# Monitoring of Graduating Countries from the Category of Least Developed Countries

***Note by the CDP Secretariat***

## Background

ECOSOC resolution E/2009/35 requests the CDP to monitor recent socio-economic development progress of countries earmarked for graduation from the LDC category and to include its findings in its annual report to the Economic and Social Council (ECOSOC).[1] The main purpose of the monitoring is to assess any signs of deterioration in the development progress of the graduating country and bring it to the attention of the Council as early as possible.

Two countries are currently earmarked for graduation: Maldives and Samoa. Equatorial Guinea was also recommended for graduation by the Committee. The recommendation was endorsed by the Council in July 2009 but not yet taken note of by the General Assembly (GA). In expectation that the General Assembly is likely to take note of the recommendation, the CDP Secretariat included the country in its monitoring exercise.

To the extent permitted by available data, and taking into account the diversity of the countries concerned, the monitoring includes updated data used in the criteria for determining LDC status – GNI per capita, human asset index (HAI) and economic vulnerability index (EVI), which underlined the CDP recommendation of graduation.[2] However, as most components of the HAI and EVI indices capture long-term structural features of the economies concerned these indicators do not register significant variations in the short run. The monitoring exercise will, therefore, look into a few selected trends that can be related to GNI, HAI and EVI, where applicable, and are more of a short term nature and easily available.

It is worth recalling that recommendation to graduation itself has a number of checks and balances to make sure that this change of status is not the result of transitory shifts in the underlying indicators. First, a country must meet threshold of two (not only one) of the classification criteria to be graduated from the list. Secondly, the graduation thresholds are set above the inclusion threshold to minimize the possibility short-term reversals in status. Thus,, the GNI per capita threshold for graduation is 20 per cent higher than the inclusion threshold. For HAI and EVI, the graduation thresholds are 10 per cent higher than the respective inclusion thresholds. Moreover, indices used for the inclusion in and graduation from the LDC category are based on component variables that are considered to be stable, with reliable data quality and availability. Thirdly, besides estimates for GNI,

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[1] Resolution adopted by ECOSOC on the Report of the Committee for Development Policy on its eleventh session (E/2009/35 of 31 July 2009)

[2] DESA/CDP, *Handbook on the Least Developed Country category: Inclusion, Graduation and Special Support Measures*, United Nations sales, publication No. E.07.II.A.9.

HAI and EVI, CDP members also rely on two critical assessments: a vulnerability analysis by UNCTAD and an ex-ante impact analysis of graduation by UN-DESA, both of which bring in additional country-specific information that may be relevant for the deciding on the country's graduation and that is not necessarily captured by the HAI and EVI. Lastly, a country should be found eligible for graduation in two successive rounds of the triennial evaluation of LDC status before a recommendation is made to the Economic and Social Council.

## A. Samoa

In 2006, the CDP recommended to ECOSOC that Samoa be graduated from the LDC category. In July 2007, the Council endorsed the recommendation and transmitted its decision to the GA. In December 2007, the GA subsequently adopted the resolution on the graduation of the country. According to the procedures for graduation, Samoa is to graduate from the category in December 2010.[3]

On 29 September 2009 Samoa was hit by a tsunami that devastated its south eastern coastal villages. The tsunami is expected to affect progress in socio-economic development of the country, at least in the short to the medium term.

The economy of Samoa experienced robust growth until 2008. GNI per capita grew by 9.8 and 11.8 per cent in 2006 and 2007 -- the first 2 years after the recommendation for graduation – respectively (see table 1). The IMF attributes this high growth period to prudent fiscal policies and structural reforms.[4] In 2008, however, surges in fuel and food prices led to high level of consumer price index and lower growth rate in the first 3 quarters. The fishing industry, the main exporter of the country, faced adverse climatic impacts which combined with higher fuel prices led to a significant decline in its production, but seemed to have recovered already in the first half of 2009.

The adverse impacts of the global economic crises started to be felt in the last quarter of 2008 as lower global demand led to production cuts in the manufacturing sector and in the construction industry, whereas the tourism industry—as well as remittances, a significant source of foreign exchange for the country and income for its population--showed signs of resilience, at least for a while. The agricultural sector experienced unpredictable price movements, leading to volatile levels of food supplies to national markets. GDP declined by 3.8 per cent in the first half of 2009, compared to the first half of 2008, but the downturn seemed to have reached a bottom in the second quarter of

[3] Resolution adopted by ECOSOC on the Report of the Committee for Development Policy on its eighth session (E/2007/35 of 27 July 2007) and Resolution adopted by the General Assembly on the Graduation of Samoa (A/RES/62/97 of 17 December 2007.

[4] IMF (2009), "Request for disbursement under the Rapid-Access Component of the Exogenous Shocks Facility" (23 November).

that year, reflecting the modest improvement in the global economic environment.[5] In fact, the IMF pre-tsunami forecast had predicted an economic rebound in fiscal 2009.

Table 1. Samoa, selected indicators, 2005-2009.

| | 2005 | 2006 | 2007 | 2008 | 2009 Pre-tsunami | 2009 Post-tsunami |
|---|---|---|---|---|---|---|
| GNI per capita, Atlas method (current US$) | 2,240 | 2,460 | 2,750 | 2,780 | 3,150 | n.a. |
| GNI per capita, annual rate of change (per cent) | 14.3 | 9.8 | 11.8 | 1.1 | 13.3 | n.a. |
| Fiscal balance as % of GDP | 0.3 | 0.3 | 1.1 | -3.3 | n.a. | n.a. |
| Remittances as % of GDP | 29.7 | 23.9 | 21.5 | 24.4 | 26.9 a/ | n.a. |
| Memo items b/ | | | | | | |
| GDP, constant 2002 prices, annual rate of change (per cent) | 2.2 | 2.3 | 5.0 | -5.5 | 1.5 | -3.0 |
| GDP per capita (current US$) | 2,540 | 2,918 | 2,861 | 3,055 | 3,187 | 3,039 |
| Nominal GDP per capita, annual rate of change (per cent) | 11.8 | 14.9 | -2.0 | 6.8 | 4.3 | -0.5 |

*Source*: UN/DESA, based on national and international sources.
*Note*:.a/ Second quarter of 2009
b/ IMF. Refers to fiscal year, which begins July 1

Physical damage and economic losses caused by the tsunami in September 2009 appear to have disrupted the recovery path. Physical damage estimates of capital, including equipment, building and housing and other infrastructure, and economic losses are estimated to be between 10.5 (by IMF) and 12.5 per cent (by UNDP/World Bank) of GDP . Table 2 provides information on selected indicators of the impact of the tsunami. Data on the Maldives is also provided for comparison and information purposes (the country was hit by a tsunami in December 2004). The IMF predicts that the tsunami devastation has lowered Samoa's growth by 4.5 percentage points from the original projection leading to an estimated GDP contraction of some 3 per cent. Maldives, however, experienced a speedy recovery (in terms of annual rate of GDP growth) following the tsunami (see section below on the Maldives).

The extent and duration of the impact of the tsunami on the economy is unknown.. The tourism industry often suffers (at least in the short term) from the adverse impacts of natural disasters. In the case of Samoa the affected area included between 20-25 per cent of the hotel room capacity of the country. The revenue losses by the tourism industry in the affected area are estimated to correspond to about 0.7 to 0.8 per cent of GDP on an annual basis.[6] Higher estimates have been suggested by the IMF which places losses from tourism at about 1.5 to 3.5 per cent of GDP, based on cross-country recovery

[5] Based on Ministry of Finance, Samoa (2009). Quarterly Economic Review, Issue No.45 (October).
[6] Ministry of Finance, Samoa and UNDP (2009). Early Recovery Framework: Submitted to the Prime Minister of Samoa (October).

experience and Samoa-specific structural patters of tourism demand.[7] Beyond the tourism industry, the physical damages will drag production and service deliveries of the service and agricultural sectors. The loss of contribution of fisheries due to damages to the fishing fleet has been estimated to amount to 0.03 per cent of GDP.[8]

Table 2. Human and economic costs of two tsunamis: Samoa and Maldives

| | Samoa (September 2009) | Maldives (December 2004) |
|---|---|---|
| Number of people killed | 143 | 82 |
| Number of people missing | 5 | 25 |
| Population affected | 5 274 | 29 000 |
| As % of population | 2.9 | 3.5 |
| Physical damages and economic losses (Millions of US$) | 104 | 470 |
| As % of GDP | 12.5 | 62.0 |

*Sources*: Minister of Finance, Samoa and UNDP (2009). Early Recovery Framework: Submitted to the Prime Minister of Samoa (October).and the Asian Development Bank; Republic of the Maldives (2005), "Tsunami: impact and recovery" (8 February), and; Government of Maldives and others (2005), *The Maldives: One year after the Tsunami*, Ministry of Planning and National Development, Maldives.

It should be noted that, despite the negative impact of the tsunami on the economy, the country's GNI/capita will remain well above the threshold level for graduation from the LCD category (established at $1,086 at the 2009 triennial review). With the reconstruction of the affected area, rebuilding and repairing the damages caused to the country's infrastructure, housing and businesses, economic growth in 2011 could become as strong as it was the case of the Maldives. This should be particularly the case if flows of remittances and official aid boost domestic expenditure.

The tsunami is also expected to exercise pressure on the fiscal balance. Samoa had been exercising prudent fiscal policies. It registered a small surplus in its fiscal budget until 2007. In 2008 (July 2008 – June 2009), it turned into deficit largely driven by delays in the disbursements of external funds for development projects which led to unexpectedly large deficits in development account in the central government balance sheet. IMF forecast that overall fiscal deficits could be as much as 12 per cent of GDP to meet the anticipated recovery costs, such as humanitarian relief and infrastructure repairing.[9]

Besides its relatively high GNI per capita, Samoa had been recommended for graduation on the basis of its HAI which reached 92.2, the highest among countries reviewed in 2009, compared to the graduation threshold of 66. The HAI is a composite index and includes 2 indicators on health and 2 indicators on education: adult literacy rate and secondary school enrolment ratio on education and, under-5-mortality rate and the share

[7] IMF (2009). "Request for disbursement under the Rapid-Access Component of the Exogenous Shocks Facility" (23 November)

[8] Minister of Finance, Samoa and UNDP (2009). Early Recovery Framework: Submitted to the Prime Minister of Samoa (October), p. 19.

[9] IMF (2009), "IMF supports Samoa after tsunami devastates nation" IMF Survey online (8 December). Available at http://www.imf.org/external/pubs/ft/survey/so/2009/car120809b.htm.

of malnourished people in population on health. These indicators do not change in the short term unless a country experiences a major catastrophic event, such as widespread civil war, pandemics or natural disasters, which is the case of Samoa, if mitigating measures are not put in place.

Government expenditure on health and education appeared to be increasing over the period 2005-2008, while external assistance declined from high levels in 2005 and 2006. (See table 3). ODA is expected to increase in 2010 after the devastation of the tsunami, though the extent to which aid increases is not known. The Asian Development Bank (ADB) announced US $ 26 million of new loans to Samoa and the World Bank would double its financial aid from US$ 20 to 40 million. The Government has also requested IMF disbursement under the Rapid-Access Component of the Fund's Exogenous Shocks Facility in the amount of SDR 5.8 million (about $8.9 million).[10]

Table 3. Samoa. Public expenditure on health and education and aid flows, 2005-2008.

| | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|
| **Government expenditure ( % of GDP)** | | | | |
| Education | 4.4 | 4.4 | 7.2 | 7.5 |
| Health | 3.3 | 3.8 | 3.5 | 4.1 |
| **ODA (millions of dollars)** | | | | |
| Bilateral donors | 30.05 | 38.35 | 29.33 | 26.67 |
| Multilateral donors | 13.5 | 8.73 | 8.14 | 12.78 |
| Total | 43.55 | 47.08 | 37.47 | 39.45 |
| Total as % of current GDP | 6.0 | 5.2 | 4.5 | 5.2 |
| Memo items: (ODA, millions of dollars) | | | | |
| Education | 12.9 | 10.9 | 6.4 | 6.1 |
| Health | 3.6 | 4.6 | 3.7 | 3.1 |

Source: UN/DESA, based on national and international sources.

***Conclusion:*** Samoa has suffered human and economic losses from the tsunami in September 2009. Over one hundred people lost their lives and a large portion of the population lost their homes. Infrastructure in the area affected by the tsunami has been damaged and economic activities, particular in the tourism, agriculture and fishing sectors, were disrupted. The balance of payments could face a shortfall in tourism receipts and surges in reconstruction imports. The health of public finances can be compromised by disruptions in the economic activities as well as by the reconstruction effort. Economic growth will suffer at least in the short term but could recover strongly as reconstruction-- supported by the international community—takes place.

[10] IMF (2009) "Request for disbursement under the Rapid-Access Component of the Exogenous Shocks Facility" (23 November).

The outlook provided here is subject to much uncertainty, particularly because the exact scale of the damage and economic disruptions is not known. Without swift and coordinate international support, beyond humanitarian assistance, the country will face difficulties to return to the development progress it had once enjoyed before the tsunami.

current spending and have compounded the problem. Government expenditure as a share of GDP has steadily increased and amounted to about 70 per cent of GDP in 2009.[12]

Table 4. Maldives: selected indicators: 2000-2010

| | **2000** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | |
| **GNI per capita** (current US$) | 2140 | 2200 | 2290 | 2400 | 2580 | 2580 | 2980 | 3220 | 3630 | .. | .. |
| **GDP (2000 US$)** annual % change | | 5.9 | 9.6 | 6.9 | 7.8 | -6.2 | 16.0 | 5.5 | 4.0 | -4.0 | 3.4 |
| | | | | | | | | | | | |
| **Tourism revenues (% of total exports of goods and services)** | 71 | 71 | 69 | 69 | 68 | 59 | 66 | 68 | .. | .. | .. |
| **Tourism receipts (% of GDP)** | 51.4 | 52.3 | 52.6 | 58.1 | 60.7 | 38.3 | 55.9 | 55.6 | .. | | |
| | | | | | | | | | | | |
| | **ODA (net disbursement, million US$)** | | | | | | | | | | |
| DAC countries | 13.26 | 15.18 | 12.85 | 8.74 | 8.84 | 39.66 | 16.00 | 17.99 | 20.1 | .. | .. |
| non-DAC countries | -1.2 | -0.21 | -0.7 | 2.62 | 4.87 | 13.63 | 2.29 | -0.93 | 29.95 | .. | .. |
| Multilateral | 7.09 | 9.8 | 15.31 | 11.88 | 14.51 | 22.53 | 19.23 | 20.31 | 4.21 | .. | .. |
| All donors | 19.15 | 24.77 | 27.46 | 23.24 | 28.22 | 75.82 | 37.52 | 37.37 | 54.26 | .. | .. |

Source: CDP Secretariat. Tourism, GNI per capita and GDP data for 2000-2008 are based on World Bank Development Indicators. GDP data for 2009 to 2010 are from IMF World Economic Outlook for the years 2009 and 2010. ODA data from OECD Creditor Reporting System.

In response to the challenges faced by the Maldives' economy, the new Government (elected in November 2008) has adopted a package of economic policy measures for 2009-2011 in order to stabilize the economy. The broad program of the Government is supported by several international financial institutions, including the Economic Recovery Program of the Asian Development Bank and an IMF Stand-By Arrangement. Among the measures taken are those that aim to reduce the public debt, including a reduction in public wages and broadening of the tax base which can constrain domestic demand.[13]

Assuming that global economic activity picks up in 2010, tourism inflows and tourism-related investment are projected to recover. A renewed confidence in the economy combined with the Government's commitment to reducing the fiscal deficit is projected to lead to a GDP growth of about 3.5 per cent in 2010.

A few developments are worth mentioning with respect to the support currently received by the country from the international cooperation:

[12] Maldives – Assessment Letter for the Asian Development Bank and World Bank, November 24, 2009 (see http://imf.org/external/np/pp/eng/2009/112409.pdf).
[13] Maldives 2009 Consultations. IMF Country Report No. 10/28, January 2010.

- Total bilateral and multilateral ODA flows have increased from a total of $19 million in 2000 to $54 million in 2008 (see table 4).

- In December 2009, the IMF approved a $79.3 million stand-by arrangement as well as loans for policy support and financial assistance on concessional terms in the amount of $13.2 million.

- In December 2009, the Asian Development Bank approved a loan of $35 million for its Economic Recovery Program of the Maldives and a technical assistance package of $4.5 million in support of the Program.

- Following the country's graduation in January 2011 the country will continue to have access to the EU's Everything but Arms (EBA) preferences for a transition period of three years.

- South Asian Free Trade Area (SAFTA) participating countries agreed in 2004 that the Maldives shall be accorded the same treatment as provided to LDC members, notwithstanding the country's graduation from LDC status.

***Conclusion:*** Available information suggests that recent economic developments in the Maldives have had a negative impact on the country's growth. The Maldives' remains economically vulnerable and sustained efforts are needed to promote the country's structural transformation and upgrade the economy. This underscores the importance of continued support from the international community to assist the country in preparing for its graduation in January 2011 and to ensure a smooth transition from the least developed country category by maintaining or increasing market access and facilitating financing and development assistance. This is particularly important in the context of the recent surges in world food prices and the negative impact of the current global economic slowdown on the country's tourism sector and foreign direct investment in the sector.

While the outlook is cautiously positive, it is contingent on the revitalization of the world economy. The continuation of the global recession may further hinder economic and social progress achieved and impede on the country's achievements towards meeting the internationally-agreed development goals, including the MDGs. The positive development path achieved by Maldives over the past decades can only be sustained with the recovery of the global economy and a successful implementation of the Government's new economic policy measures.