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,

[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.

B. Maldives

The Maldives was identified for graduation in two consecutive reviews and will graduate from the list in January 2011.

GNI per capita has steadily increased during the period 2000-2008 with a growth interruption in 2004-2005 as a result of the tsunami (see table 5). The tsunami considerably impacted on the Maldives' development progress. Apart from the tragic loss of lives, the disaster resulted in total damages of nearly $0.5 billion, equivalent to about 62 per cent of the country's GNI (see table 2 for more data).[1]

The Maldives has become a country with one of the highest per capita income in the region. Its success, not only in economic development, but also regarding social progress is reflected in the criteria used by the CDP for the identification of LDCs and noted by CDP in its report to ECOSOC in 2009. In fact the country scored the fourth highest HAI among the countries reviewed in 2009 (60 countries) and has improved its relative position the larger group of developing countries (130 countries) moving from number 52 in 2006 to number 39 in 2009. However, more recently, the country's economic growth has decelerated and income is expected to decrease in 2009. Economic vulnerability remained high and has increased, owing to the impact of the tsunami on its components. As indicated by a relatively high economic vulnerability index, the small and open economy is vulnerable to external shocks, in particular regarding fluctuation in external demand for its goods and services and the volatility in the prices of key commodity imports such as food and fuel.

The country's income and foreign exchange earnings are directly linked to the tourism sector (see table 4). The reduction in tourism arrivals as witnessed after the tsunami and more recently as a result of the global economic downturn have had an effect on the macroeconomic performance of the country. As a result of decreasing revenues from the tourism sector and the related slump in construction, GDP is estimated to have declined by 4 per cent in 2009. Foreign direct investment into the tourism sector is also reported to have declined in 2009.

The large scale reconstruction efforts after the tsunami and the corresponding increase in public expenditures led to a large fiscal deficit. Raises in public sector salaries, the number of public sector employees and power subsidies have lead to further increases in

[1] Asian development & Maldives – Fact Sheet, 31 December 2008.

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.[2]

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.[3]

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:

[2] 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).
[3] 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.