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 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$)	2,240	2,460	2,750	2,780	3,150	n.a.
GNI per capita, annual rate of change (per cent)	14.3	9.8	11.8	1.1	13.3	n.a.
Fiscal balance as % of GDP	0.3	0.3	1.1	-3.3	n.a.	n.a.
Remittances as % of GDP	29.7	23.9	21.5	24.4	26.9 a/	n.a.
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GDP, constant 2002 prices, annual rate of change (per cent)	2.2	2.3	5.0	-5.5	1.5	-3.0
GDP per capita (current US$)	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 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

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.

- 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

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