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.

C. Equatorial Guinea

Equatorial Guinea was found eligible for graduation due to its relatively high level of GNI per capita. At the time of the 2006 Review, the country's GNI per capita was almost 4 times higher than the GNI graduation threshold. By 2009, it was eight times higher than the income graduation threshold ($1,086) Consequently, on the account of its per capita income—and according to the procedure adopted by the Committee to consider for graduation countries that have a per capita income at least twice as high as the graduation threshold—Equatorial Guinea was recommended for graduation from the LDC category while the country did not meet either the EVI or HAI criteria. The recommendation was endorsed by ECOSOC (resolution E/2009/35) but not yet acted upon by the General Assembly. At the time of this writing, it is not clear when the graduation of Equatorial Guinea will take place.

The country's development progress is very much tied to the oil industry. Crude oil production grew rapidly from 5,000 barrels per day (bpd) in 1995 and peaked at 365,000 bpd in 2004 and was around 325,000 bpd in 2009. With 1.1 billion barrels of proved oil reserves (as of January 2009), Equatorial Guinea is the third largest oil producer in sub-Saharan Africa (after Nigeria and Angola). The industry originates about 91 per cent of the country's total output of goods and services (see table 5) and a comparable share of the government's fiscal resources.

Increased oil production has taken place in period of strengthening of nominal oil prices providing the country with significant windfall gains from the exploitation of its hydrocarbon resources and allowing for the accumulation of a significant level of international reserves. According to the IMF International Financial Statistics, international reserves reached a peak of $4.7 billion in August 2008 but lowered to $3.9 billion in September 2009, the most recent available data.

Despite large oil revenues, social development is lagging in the country with the majority of population lacking access to basic social and infrastructural services, while over 75 per cent of the population was estimated to live below the national poverty line in 2006.[3]

The availability of social indicators is rather limited and not frequently updated, but in general there is a sharp discrepancy between the country's level of per capita income—the highest in Africa, and higher than all Latin American economies in 2008— and social outcomes. Among 130 developing countries evaluated during the 2009 review, Equatorial Guinea was ranked 15th in terms of per capita income but 98th in relation to the human asset index. A development fund was established by the country in 2006 to finance the implementation of projects in the areas of health, education, women's affairs and the environment. As of May 2009, 26 projects had been approved but overall implementation has been slow due to funding and approval delays.[4]

[3] African Economic Outlook 2010 available at http://www.africaneconomicoutlook.org/en/countries/central-africa/equat-guinea/

[4] USAID, Technical Support Project For Social Investment And Capacity Building In Equatorial Guinea, Weekly Report: May 25-31, 2009 available at http://pdf.usaid.gov/pdf_docs/PDACO244.pdf

Table 5: Equatorial Guinea, selected indicators, 2000, 2005-2010

	2000	2005	2006	2007	2008	2009 (a)	2010 (b)
GNI per capita, Atlas method (current US$)	1,250	5,210	6,870	9,710	14,980	n.a.	n.a.
GDP (Current US$ billion)	1.2	7.2	8.5	10.7	17.9	n.a.	n.a.
GDP growth (annual %)	13.1	8.9	5.3	23.2	15.2	-1.8	2.0
Value added (% of GDP)							
Agriculture	8.3	5.0	4.4	4.2	4.1	n.a.	n.a.
Industry	87.1	90.0	90.6	90.7	90.8	n.a.	n.a.
Exports, fob (current US$ million)	1,097	6,991	8,216	10,100	14,700	n.a.	n.a.
Imports, cif (current US$ million)	451	2,109	2,621	3,100	3,500	n.a.	n.a.
Total Reserves minus Gold (US$ million)	23	2,102	3,066	3,845	4,431	n.a.	n.a.
External debt (US$ million)	n.a.	n.a.	n.a.	136	129	125	119

Sources: IMF, IFS data base and 2008 Article IV Consultation, Staff Report; World Bank WDI database, UNSD national account database, EIU.
(a) Estimates
(b) Projections

According to the World Bank WDI database, the GNI per capita is estimated to have reached $14,980 in 2008 but appeared to have declined somewhat in 2009. Oil production contracted in real terms in both 2008 (2.5 per cent) and 2009 (4.1 per cent) due to declining output in at the country's main oil field and no new fields coming into production.[5] At the same time, the global economic crisis and the overall negative prospects for the world economy led to a sharp decline in oil prices in the summer of 2008. Average crude oil prices plummeted from $132 per barrel in July 2008 to $41 per barrel in February 2009 significantly affecting the country's export revenues (see figure below). Merchandise export revenues accumulated in the first nine months of 2009 corresponded to half of the exports recorded over the same period in 2008.

Oil prices (and export revenues) have recovered since early 2009 and are currently hovering around $75 per barrel. Average oil prices are expected to increase by some 30 per cent in 2010 and an additional 4.5 per cent in 2011 as a mild global economic recovery is expected to gradually tighten up the world oil market. World consumption of oil is forecast to increase by 2.7 per cent in 2010 and 3.6 per cent in 2011.[6]

[5] Energy Information Administration, January 2010 International Petroleum Monthly, and Economic Intelligence Unit, Equatorial guinea, February 2010.
[6] US Energy Information Administration, Short-term Energy Outlook, February 2010.

Equatorial Guinea: merchandise trade exports and average crude petroleum prices
January 2007 - November 2009 ($ million and $ per barrel)

Source: IMF, Direction of Trade Statistics and International Financial Statistics data bases

Conclusion: These emerging trends are favourable for the country. In fact, after contracting by an estimated 1.8 per cent in 2009, GDP is expected to grow by 2 per cent in 2010 and by 3.7 per cent in 2011. The recovery of oil prices, associated with a modest increase in oil output in 2011-2012 (due to investments coming to fruition) will allow the government to maintain an expansionary fiscal policy and implement its long-term development strategy (National Development Plan, 2007). The strategy includes improvements in the infrastructure sector, the development of human resources, good governance and the promotion of social welfare.

While the country's prospects are tied to trends in the oil markets, revenues brought about by oil exports have provided the country with a unique opportunity to finance its development—an opportunity not readily available to other economies. Equatorial Guinea was recommended for graduation due to its high income per capita which, as mentioned earlier, is well above the income graduation threshold. Looking ahead, this large difference between Equatorial Guinea's per capita income and the LDC income graduation threshold can very likely be maintained as the government continues to adopt prudent economic policies and promotes the diversification of the economy.