

**Committee for Development Policy
Expert Group Meeting
Review of the list of Least Developed Countries
16 – 17 January 2012**

**Monitoring of Graduated Countries from the
Category of Least Developed Countries***

Maldives

Note by the CDP Secretariat

I. Background

General Assembly resolutions 59/209 of 20 December 2004 and 65/286 of 28 June 2011 request the Committee for Development Policy (CDP) to monitor the development progress of countries that have graduated from least developed country (LDC) status, as a complement to its triennial review of the list of LDCs, and to report its findings to the Economic and Social Council (ECOSOC).¹

Guidelines on monitoring were established by the CDP and reported on its 2008 report to the Council.² The chief objective of the monitoring provision is to identify any signs of reversal in the development progress of the graduated country and bring them to the attention of the ECOSOC.

Maldives has graduated from the LDC category on 1 January 2011. Graduation became effective after a longer than usual transition period.

The CDP found the country met the graduation criteria in two successive triennial reviews of the list of the LDCs (2001 and 2004) on the basis of its high GNI per capita and human asset index (HAI) and recommended the country's graduation to the Council in 2004. The recommendation was endorsed by the Council (resolution E/2004/67) and taken note of by General Assembly (A/RES/59/2010). Graduation was originally scheduled to take place 3 years after the adoption of the GA resolution, on 20 December 2007. However, following the devastation caused by the Indian Ocean tsunami of 26 December 2004, the Assembly decided to defer the

* This note, presented at the expert group meeting in January 2012, has been updated to reflect recent developments in the country.

¹ See paragraph 12 in General Assembly resolution 59/209 and paragraph 5 in GA resolution in 65/286.

² See paragraphs 34 and 35 in Committee for Development Policy, *Report on the tenth session (17-20 March 2008)*, Economic and Social Council, Official Records, 2008, Supplement No. 13, 2008.

commencement of the three year period preceding graduation to 1 January 2008 (A/RES/60/33), thus pushing the country's graduation to 1 January 2011.³

II. Monitoring development progress of the Maldives since graduation

As indicated above, the country has recently graduated from the LDC category and, in view of time lags in the production of pertinent data, information and analysis derived thereof, the conclusions presented here should be considered as preliminary and not necessarily indicative of future trends. In particular, recent political developments taking place in Male, the capital island of the country could have adverse impacts on the country's short-term growth prospects.

The present monitoring includes updated information used in 2012 triennial review of the LDC list (see table 1). However, it is worth noting that data on most of the indicators that compose the criteria are available up to 2010 the latest, and as such, do not capture trends that occurred after graduation on 1 January 2011. Only a handful set of macroeconomic and trade data are available that can be used to assess any sign of reversal of progress achieved after graduation (see section below).

Maldives and the LDC criteria

Table 1 indicates that the average GNI per capita for the period 2008-2010 was \$5,473 – almost five times as much as the income graduation threshold. In fact, the gap between the country's income and the graduation threshold widened since the last triennial review when the country's per capita income was about 3.7 times higher than the graduation threshold. The country is classified as a high middle-income country by the World Bank.

The HAI remains high at 92 and far above the graduation threshold of 66 established for the 2012 triennial review. Compared to 130 developing countries, Maldives has the 32th highest HAI score. Additionally, Maldives has met 5 out of the 8 MDGs ahead of the 2015 deadline, elevating the country to South Asia's only MDG⁺ country.⁴ These achievements reflect the implementation of effective policies, support by the international community and the strong commitment to social development by the Government. At the same time, progress is still needed in terms of achieving the MDGs on gender equality and women's empowerment, and ensuring environmental sustainability.⁵

³ For additional details see CDP Secretariat, "Inventory of countries' arguments against recommendations by the Committee for Development Planning and the Committee for Development Policy (CDP), regarding the inclusion to, or graduation from, the list of least developed countries" (CDP08/EGM/06), January 2008. See also UNCTAD and UNESCAP, "Towards a "smooth transition" strategy in anticipation of Maldives' loss of Least Developed Country (LDC) status: Advisory note to the Government of Maldives by UNCTAD and UNESCAP" December 2009.

⁴ See Department of National Planning, Ministry of Finance and Treasury, *Millennium Development Goals: Maldives Country Report 2010*, Department of National Planning, Male, Maldives, 2010. The goals achieved are; eradicating poverty, universal primary education, reducing child mortality, improving maternal health and combating HIV/AIDS, malaria and other diseases.

⁵ The MDG 8 refers to global partnership and, in large part, requests donors and trade partners of developing countries to strengthen aid and trade support measures for developing countries.

Structural economic vulnerability continues to be a challenge for the country as indicated by the country's high economic vulnerability index (EVI). Maldives has the eleventh highest EVI among a group of 130 developing countries, largely on account of the country's high exposure to shocks due to the small size of its population (320 thousand), the share of population living in low elevated coastal zones (100 per cent) and high export concentration.

Information on the variables used to constructing both indices above, however, are only available at most up to 2010 and thus do not capture developments of socio-economic conditions since graduation. But, given the relatively positive macroeconomic performance and absence of a major exogenous shock in 2011, these indices are unlikely to have changed during the past year.

Table 1. Maldives: GNI per capita, EVI and HAI, 2006, 2009 and 2012 triennial reviews			
	2006	2009	2012
GNI per capita (\$)			
Graduation threshold	900	1,086	1,190
Maldives' GNI per capita	3,130	4,007	5,473
Highest GNI per capita	3,393	8,957	15,090
Lowest GNI per capita	90	100	153
Maldives' ranking (highest to lowest score) in the review group (65 countries in 2006, 60 countries in 2009 and 2012)	2nd	2nd	2nd
Human Asset Index (HAI)			
Graduation threshold	64	65	66
Maldives' HAI	81.9	87.5	92
Highest HAI	91	92	93
Lowest HAI	5	9	1
Maldives' ranking (highest to lowest score) in review group (65 countries in 2006, 60 countries in 2009 and 2012)	5th	4th	2nd
Economic Vulnerability Index (EVI)			
Graduation threshold	38	34	32
Maldives' EVI a/	51	58	55
Highest EVI a/	92	75	82
Lowest EVI a/	19	17	21
Maldives' ranking (highest to lowest score) in the review group (65 countries in 2006, 60 countries in 2009 and 2012)	26th	18th	11th
Note a/: The higher the EVI, the more economically vulnerable a country is.			

Recent macroeconomic developments

Since the country was recommended for graduation in 2004, GDP has continued to grow, despite two major exogenous shocks (see table 2). In December 2004, the country was hit by a tsunami following the 2004 Indian Ocean earthquake. The tsunami left a total of 108 people dead and about 12,000 persons displaced. It also caused property damage of about \$400 million, or some 40 per cent of the GDP in 2004. GDP per capita contracted by 11.3 per cent in 2005. Subsequently, as a result of the global financial crisis in 2008, fewer tourists visited the country negatively

impacting on the tourism industry -- the dominant sector in the island economy.⁶ After contracting by 4.7 per cent (in dollar terms) in 2009, the economy rebounded strongly in 2010. It recorded a growth rate of 9.9 per cent, largely driven by tourism.

Notwithstanding the recent positive economic performance, the country is facing twin deficits in the fiscal and external fronts. The current account deficit decreased temporarily in 2009, as a result of the recession in that year, but widened since then. It reached \$463 million in 2010 (see table 2) and is estimated to further worsen to \$647 million in 2011, about 30 per cent of GDP.⁷ The increasing deficit reflects higher global commodity prices as well as larger import demand, triggered by the economic recovery in 2010, which offset the positive impact the rebound in tourism had on the current account.

The fiscal deficit reached 23.3 per cent of GDP in 2009, largely due to expansionary fiscal policies to support the depressed domestic demand but is expected to subsequently fall to 12.8 per cent of GDP in 2011 in view of the fiscal adjustment measures, supported by the IMF.⁸ The IMF programme calls for fiscal adjustments to improve the country's fiscal sustainability. It includes tax reforms, cuts in wages of public workers, increases in electricity tariffs and subsidy cuts. The weakening of the global economy in the second half of 2011 could further worsen the country's fiscal and external positions, due to possible declines in tourist arrivals and lower fiscal revenues as a result of a slow down in economic activities.⁹

⁶ IMF, "Maldives: 2010 Article IV Consultation – Staff Report; Staff Statement and Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Maldives", IMF Country Report No. 11/293, September 2011.

⁷ Department of National Planning, Ministry of Finance and Treasury, Maldives at a Glance, May 2011, available at http://planning.gov.mv/en/images/stories/publications/mag/2011/MAG_May%202011.pdf.

⁸ IMF, "IMF Executive Board concludes 2010 Article IV consultation with Maldives", Public Information Notice, No.11/26, 28 February 2011, p. 4. UNESCAP already noted the precarious fiscal situation as the most immediate challenge in its report of 2009. See UNESCAP, "ESCAP mission to the Republic of Maldives on issues relating to graduation from least developed country status (14-18 December 2008)", 14 January 2009.

⁹ IMF, "Maldives: 2010 Article IV Consultation ..." *op. cit.*, p. 8. In its report, the Fund also expressed its concerns about the delays in the implementation of key tax reforms and public employment restructuring.

Table 2. Selected macroeconomic indicators	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP per capita at constant 2003 prices (dollars)	2687	2674	2979	3250	2882	3293	3441	3707	3583	3704 a/	3855 b/
CURRENT ACCOUNT (millions of dollars)	-59	-36	-31	-122	-273	-302	-438	-647	-419	-463	....
A. GOODS	-236	-212	-262	-384	-494	-590	-737	-890	-682	-798	....
Credit	110	132	152	181	162	225	228	331	169	180	....
Debit	-346	-345	-414	-565	-655	-815	-965	-1221	-851	-978	....
B. SERVICES	244	252	312	350	110	321	380	370	373	462	....
Credit	354	363	432	508	323	552	649	721	660	769	....
Debit	-110	-111	-120	-157	-213	-231	-269	-351	-286	-306	....
C. INCOME	-37	-35	-38	-35	-31	-41	-67	-64	-53	-60	....
D. CURRENT TRANSFERS	-30	-40	-42	-54	142	8	-14	-63	-57	-67	....
Credit	20	11	13	8	211	91	91	65	59	43	....
General government	20	11	13	8	211	91	91	65	59	43	....
Debit	-50	-50	-55	-61	-70	-83	-105	-128	-116	-110	....
General government	....	....	....	....	....	....	....	....	....	....	....
Other sectors	-50	-50	-55	-61	-70	-83	-105	-128	-116	-110	....
Workers' remittances	-50	-50	-55	-61	-70	-83	-105	-128	-116	-110	....

Trade (Millions of rufiyaa) c/	2010/April	May	June	July	August	Sept.	Oct.	Nov.	Dec.	2011/January	Feb.	March
Exports (f.o.b.)	71	74	97	75	66	55	107	79	129	228	139	92
Imports (c.i.f.)	1090	1238	1066	1222	1158	1287	1316	1109	1335	1316	1208	1394
Trade balance	-1018	-1163	-969	-1147	-1092	-1232	-1210	-1030	-1206	-1089	-1069	-1302

Sources: Department of National Planning, Republic of Maldives, IMF and DESA.

Notes: a/ Estimates.

b/ Provisional.

c/ \$1 = 15.7 Maldives rufiyaa in December 2011.

III. Relations with development and trading partners

Loss of LDC status implies in an eventual phasing out of LDC-specific international support to the Maldives, such as preferential market access priority in ODA allocation and special eligibility for technical and financial assistance.

In anticipation of the need to adjust to changes in development and trading partners' support, the UN Economic and Social Commission for Asia and the Pacific (UNESCAP) and United Nations Trade and Development Conference (UNCTAD) recommended the Government of Maldives to adopt several "smooth transition policies" to avoid any possible disruption in its development progress.¹⁰ In this regard, the Maldives Donor Forum was held in 28-29 March 2010, in which the Government of the country introduced the challenges it faces and the measures it has taken to its development partners.¹¹ It also presented 5 priority development areas – macroeconomic reform, public sector reform, social development, governance and climate change -- which require external resources to ensure positive outcomes.

The international community has adopted provisions to phase out some LDC-specific support measures in an orderly manner:

- At the Maldives initiative, the UN General Assembly adopted resolution A/65/L.66/Rev.1/Add.1, extending travel-related benefits, if so requested by the graduated country for a period appropriate to the development situation of the country but not exceeding 3 years.
- In July 2010, the Board of the Enhanced Integrated Framework (EIF) established that graduated countries could have access to full Enhanced Integrated Framework benefits for a period of three years and an additional extension of two could be requested by the country. Under EIF, the Maldives submitted a Tier 1 project proposal for approval and a Tier 2 project on the partial privatization of the international airport in the capital city and development of the custom services.¹² So far, the Board approved projects on establishing a trade information system, upgrading Maldives' the Advanced System for Custom Data (ASYCUD), and supporting services negotiations in the South Asian Association for Regional Cooperation and WTO.¹³
- The European Union grants at least a 3-year extension of duty-free, quota-free access to the EU area under the Everything-But-Arms Initiative¹⁴. Maldives will therefore continue to have access to the EU markets at least until the end

¹⁰ See UNCTAD, "Securing a "smooth transition": UNCTAD recommendations to the Government of Maldives in anticipation of Maldives' graduation from least developed country (LDC) status", June 2009.

¹¹ For detail, see donorconference2010.egov.mv/Index.aspx.

¹² See <http://www.enhancedif.org/EG> web pages/Where we work/Maldives.html.

¹³ See <http://www.enhancedif.org/EN%20web%20pages/Where%20we%20work/Maldives.htm>.

¹⁴ "Article 12(7) of Regulation (EC) No 980/2005 provides for the withdrawal of a country from the special arrangement for least developed countries, when that country is excluded by the United Nations from the list of least developed countries. That Article also provides for the establishment of a transitional period of at least three years, to alleviate any adverse effects which may be caused by the removal of the tariff preferences granted under the special arrangement for least developed countries." From COMMISSION REGULATION (EC) No 1547/2007 of 20 December 2007.

of 2013, which will allow the country to have a longer period to adjust to the eventual removal of preferential market access.

Japan is a noticeable exception to the trend of offering smooth transition provisions. It now applies the GSP tariff rate of 3.5 per cent to tuna imports from Maldives, while such imports used to enter the Japanese market at zero tariff rate.¹⁵ However, according to latest available data, exports of the Maldives to Japan do not seem to have been adversely affected by the loss of LDC status.

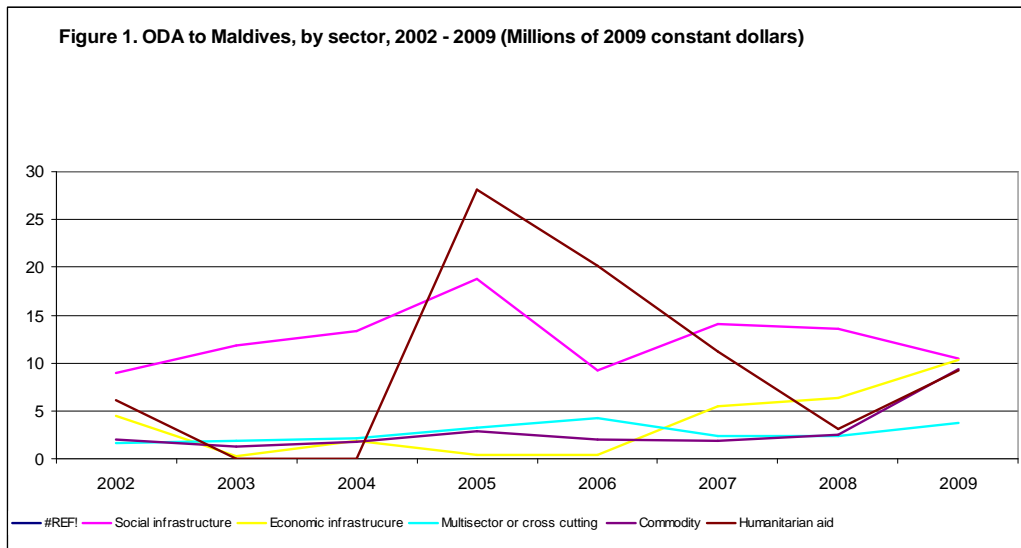
Total ODA to Maldives reached \$51 million in 2009, of which \$31 million was in grants form. Japan and the EU were two largest donors in 2009. Social infrastructure has been attracting the largest share of total ODA during the first decade of the new millennium, except in 2005 when donors increased humanitarian aid after the tsunami devastation (see figure 1).

According to the results of a survey conducted by the CDP Secretariat, several official donors stated they would not change their policy stance vis à vis the country after its graduation.¹⁶ Some donors indicated that changes introduced in their assistance to the country would reflect the priorities of the smooth transition strategy devised by the Maldives. In the case of Japan, for instance, ODA had been focusing on social infrastructure and social development (such as health care, education and community development) before graduation, while after graduation it would stress climate-change mitigation and technical cooperation, one of the priorities identified by the Maldives.¹⁷ Other donors foresaw no abrupt reductions in ODA and technical assistance. In this regard, some international organizations, such as UNFPA and UNEP, indicated that they would maintain pre-graduation policies and objectives towards the country after graduation until the end of 2011 and 2015, respectively.

¹⁵ Japan Customs, http://www.customs.go.jp/tetsuzuki/c-answer/imtsukan/1504_jr.htm, note 2, accessed on 1 December 2011.

¹⁶ Available at <http://webapps01.un.org/ldcportal/web/guest/footer1>.

¹⁷ Japan, Ministry of Foreign Affairs, "Maldives no gaiyo to kaihatsu kadai (A brief history and development issues of the Maldives), available at http://www.mofa.go.jp/mofaj/gaiko/oda/shiryo/kuni/10_databook/pdfs/02-07.pdf.



Source: OECD/DAC.

V. Conclusions

Overall, during the first 11 months of graduation, as anticipated by the Committee, no visible sign of reversal in country's development progress due to an abrupt withdrawal of support has been detected. Despite the current global economic turmoil, the GNI per capita continues to be well above the graduation threshold and country enjoys one of the highest HAI scores among developing countries. The EVI, on the other hand, remains high and climate change, one of the 5 challenges that the Government of Maldives listed in the Donors' Forum in 2010, may aggravate the country's vulnerability further.

Recent political developments in the country may have adverse impact on the country's growth in the short term. Several Governments in Europe – the major source of tourist visitors to Maldives – have issued travel advice against all but essential travel to Male, the capital island of the country. If political stability is not regained soon, the tourism industry and thus the entire economy may experience a deceleration of activities. Graduation from the LDC category however has no bearing on such developments.

The country has been very active in engaging the international community in continuing to extend support. In this regard, it has been instrumental in facilitating the phasing out of travel benefits offered by the UN and in securing assistance for a smooth transition out of the LDC category. However, it is still premature to draw any definitive conclusion on impacts of graduation on the development of Maldives in view of the very short post-graduation period. Further monitoring of development progress of the country is this recommended.