Sixteenth Plenary Session of the Committee for Development Policy
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Note by the Secretariat on Monitoring of Graduated Countries from the Category of Least Developed Countries

Maldives

I. Background

General Assembly resolution 67/221 of 21 December 2012 requests the Committee for Development Policy (CDP) to monitor the development progress of countries that graduated from least developed country (LDC) category. The monitoring is to be conducted, in consultation with the Governments of those countries, on a yearly basis for a period of three years after graduation becomes effective, and triennially thereafter, as a complement to two triennial reviews of the category of least developed countries. CDP has also been requested to include its findings in its annual report to the Economic and Social Council (ECOSOC). In this regard, by increasing the frequency of the reporting and including graduated countries in the monitoring exercise, resolution 67/221 strengthens a similar provision contained in resolution 59/209 of 20 December 2004 which, among other things, requested CDP to monitor graduated country's development progress as a complement of the triennial review and with the assistance and support of relevant organizations.

Guidelines on how such progress is to be monitored were first outlined in the *2008 CDP Report* to the Council.[1] The procedures relating to the reporting requirements of graduated (together with graduating) countries were further clarified in the 2013 CDP Report to the ECOSOC,[2] which was endorsed by Council resolution E/RES/2013/20 (25 October 2013). 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.

Monitoring time line

Maldives graduated from the LDC category on 1 January 2011, on the basis of its high GNI per capita and human asset index (see the table 1).[3] The first CDP monitoring report was prepared as a complement of the triennial review of the list of LDCs in 2012 and submitted to the ECOSOC in that year, in accordance to resolution 59/209. No monitoring report was

[1] See paragraphs 34 and 35 in Committee for Development Policy (2008), *Report on the tenth session (17-20 March 2008)*, Economic and Social Council, Official Records, 2008, Supplement No. 13.
[2] Committee for Development Policy (2013), *Report on the fifteenth session (18-22 March 2013), Economic and Social Council, Official Records, 2013, Supplement No. 13*, chapter V.
[3] For history of the country's graduation, see CDP (2012), "Monitoring of graduated countries from the category of lease developed countries: Maldives", a report presented at the CDP Expert Group Meeting on Review of the List of LDCs, 16-17 January.

submitted in 2013, as resolution 67/221 was adopted after the CDP plenary meeting in that year. The current report is the second overall, but the first (and last) annual report prepared in response to the request in the GA resolution 67/221. Subsequently, monitoring reports will be submitted to the Council as a complement to triennial review in 2015 and 2018.

Table 1: Time line for monitoring reports: Maldives

	Event	Relevant GA resolution
January 2011	Country graduated	60/33 of January 2008
March 2012	Report submitted as a complement to triennial review	Requested by 59/209 and 65/286
December 2013	Current reporting system introduced	Resolution 67/221 adopted
March 2014	Annual monitoring report to be submitted	Requested by 67/221
March 2015	Monitoring report to be submitted as a complement to triennial review	Requested by 67/221
March 2018	Monitoring report to be submitted as a complement to triennial review	Requested by 67/221
Source: CDP Secretariat.		

II. Monitoring development progress of the Maldives since graduation

As mentioned above, most of updated information used in the triennial review of the LDC list is not available for this monitoring review. Thus it is not possible to evaluate current position of Maldives' HAI and EVI scores in relation to other developing countries, as reported in the first monitoring report on the country in 2012. However, a set of available macroeconomic and trade data as well as a few of the indicators that comprise HAI and EVI could help the CDP assess any sign of reversal of progress achieved after graduation.

Recent macroeconomic developments

Since the last monitoring report in March 2012, the country experienced economic slowdown in 2012, owing to the weak economic performance in Western Europe, the main source of tourism revenues for the country (see table 2). While the number of tourist arrivals increased by 3 per cent in 2012, the average duration of stay declined, resulting in lower occupancy rate. Nonetheless, the economy continued to grow in 2012, albeit slowly, due to the improved performance of the fishing industry and the manufacturing sector. In 2013, the tourism and transport industries benefitted from a large increase in tourist arrivals from China, pushing real GDP growth rate to 3.7 per cent in 2013. The Government forecast that the economy will grow by 4.5 per cent in 2014, due to continuing strong performance of the tourism and transport industries and a recovery of the construction industry.[4] Inflation in Male, the

[4] See Maldives Monetary Authority. *Monthly Economic Review*, Vol. VII, No. 12 (December 2013).

capital city of the country, subdued to 4 per cent in 2013, a significant improvement over 11.3 and 10.5 per cent experienced in 2011 and 2012, respectively.[5]

Maldives continues to face twin deficits in the fiscal and external fronts. In 2012, current account deficits widened due to the weak performance of the tourism industry as mentioned above. The balance of services is estimated to have improved in 2013, owing to the recovery of the tourism industry, which accounted for about 77 per cent of total exports of goods and services. Imports of goods (such as food items, petroleum products and transport equipment), however, are expected to increase in 2014, thus exercising downward pressure on the current account balance. As of November 2013, foreign reserves were sufficient to cover 2.3 months of imports compared to 2.7 months at the end of 2011 and 2.4 months at the end of 2012. On the fiscal front, the government deficit as percentage of GDP improved significantly in 2011 as a result of various new revenue measures implemented, with IMF assistance since 2009. The fiscal deficit worsened in 2012, reflecting lower revenues from goods and services tax (GST) and import duty as a result of the slow economic growth in that year. The Government estimates that tax revenues from GST and business profit tax have increased and fiscal deficits have been reduced to 4.7 per cent of GDP in 2013. While the revenue measures have secured a wider tax base, it is still a challenge for the Government to maintain fiscal sustainability because government current expenditures are expected to continue to grow in order to keep the current levels of health and education status.

Developments related to indicators in the LDC criteria

As mentioned before, updated information on the complete set of indicators that constitute the LDC criteria is not available. Thus, it is not possible to assess socio-economic development of Maldives in terms of the LDC criteria at this time. Table 2 shows updated information on GNI per capita and available HAI- and EVI- related indicators. GNI per capita was almost 5 times as high as the income graduation threshold in 2012 ($1,190), while it declined by $50 in 2013.[6] Three out of four HAI components (adult literacy rate is not available) appear to have improved over time. When these latest values of the three components are applied to HAI calculations, HAI would be 98.9, compared to 91.7 as reported in the 2012 CDP Report. The value is well above the HAI graduation threshold in 2012 (66) and places Maldives amongst developing countries with highest HAI scores.

[5] Maldives Monetary Authority (2014), Monthly Statistics 2014, available at http://www.mma.gov.mv/Monthly%20Statistics/jan14.pdf.

[6] In its consultations with the CDP Secretariat, the Government of Maldives indicated that per-capita income estimates by international organizations are likely to be inflated, as they do not include an estimated 100,000 expatriate workers living in the country. Instead, they employ the domestic population reported in the census. It further noted that the fact that per-capita income is above a certain threshold level does not suggest how capable a country is in dealing with redistribution of income to fight against poverty.

Table 2: Maldives: Socio-economic indicators, 2007-2014	2007	2008	2009	2010	2011	2012 a/	2013 b/	2014 b/
GDP growth rate (%, constant price in local currency)	10.6	12.2	-3.6	7.1	6.5	1.3	3.7	4.5
Gross disbursement of ODA (Millions of dollars)	38.2	31.5	48.2	126.3	49.6	70.0	n/a	n/a
Government revenue (millions of rufiyaa)	7571.2	7456.5	5734.8	6546.9	9904.6	10138.1	11735.8	15129.0
Government expenditure (millions of rufiyaa)	8283.2	10176.0	10953.4	10815.1	12264.7	13110.0	13393.7	16420.5
Government balance	-712.0	-2719.5	-5218.6	-4268.2	-2360.1	-2971.9	-1657.9	-1291.5
Government balance as % of GDP	-3.6	-11.2	-20.5	-15.6	-7.5	-9.2	-4.7	-3.2
Balance of Payments (Millions of dollars) c/								
Current Account	-227.5	-610.2	-226.3	-189.5	-414.9	-484.3	-469.3	-562.5
Goods, Credit (Exports)	227.0	331.4	169.0	197.5	346.4	314.4	372.8	388.8
Goods, Debit (Imports)	1304.8	1649.0	1081.7	1241.8	1725.3	1731.1	1898.6	2022.1
Balance on Goods	-1077.8	-1317.6	-912.7	-1044.3	-1378.9	-1416.7	-1525.8	-1633.3
Services, Credit (Exports)	1576.9	1642.9	1546.2	1814.6	2017.7	2044.6	2221.6	2346.4
Services, Debit (Imports)	330.9	431.0	406.8	449.4	494.6	493.5	541.4	608.9
Balance on services	1246.0	1211.9	1139.4	1365.2	1523.1	1551.1	1680.2	1737.5
Balance on Goods and Services	168.2	-105.7	226.7	320.9	144.2	134.4	154.4	104.2
Balance on income	-239.2	-289.8	-272.4	-311.3	-358.7	-370.3	-347.4	-364.8
Balance on current transfers	-156.5	-214.7	-180.6	-199.1	-200.4	-248.4	-276.3	-301.9
Capital Account	46.1	51.2	29.3	9.3	0.2	9.1	7.7	n/a
Financial Account	220.3	181.3	173.2	153.5	24.4	74.5	244.8	n/a
Direct investment (net)	132.4	181.3	158.0	216.5	256.5	284.0	303.3	n/a
Portfolio investment (net)	3.3	11.4	-12.0	-12.2	0.1	0.1	-	n/a
Other investment (net)	84.6	-11.4	27.2	-50.8	-232.2	-209.6	-58.5	n/a
Memorandum item:								
Reserves	308.5	240.6	261.0	350.2	334.9	304.6	340.3	375.0
LDC criteria indicator								
GNI per capita ($, Atlas method)	4,040	4,870	5,050	5,490	5,800	5,750	n/a	n/a
Gross secondary enrolment ratio (%)	93	101	n/a	n/a	n/a	n/a	n/a	n/a
Under-five mortality rate (per 1,000 live births)	19	16	15	13	12	11	9	n/a
Prevalence of undernourishment (%)	10.1	8.7	7.7	6.5	5.8	5.4	n/a	n/a

Sources: Department of National Planning,, Maldives; Maldives Monetary Authority, World Bank, FAO and UNICEF.

Notes: a/ estimates. b/ projection. c/ Data on balance of payments have significantly revised due to data coverage issues in 2012.

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Evidence of the high level of human capital asset is also supported by the national statistics provided by the Government of Maldives, even though their reported numbers do not necessarily compatible with what the CDP employs for the identification of LDCs. For example, percentage of population that is undernourished was 6 per cent in 2013, the level typically found among middle-income countries. Infant mortality rate was 9 per 1,000 live births and under-five mortality 11 per 1,000 live births for 2008 – 2012, levels equal to some of upper middle-income countries. For the education aspect, status is equally high. Net enrolment ratio in lower secondary schools increased from 37 per cent in 2000 to about 81 per cent in 2012 and the same ratio in higher secondary schools from 1.3 per cent to 19.3 per cent over the same period.

The CDP Secretariat has updated a few of the EVI indicators and has preliminary estimates for 5 out of the 8 components of EVI in 2013. With these updates, the country's EVI score would be 53.8, compared to 55.2 as reported in the 2012 triennial review. Lower EVI scores indicate lower structural economic vulnerability. Thus, the country has reduced its vulnerability marginally, but the improvement still leaves the country well below the EVI graduation threshold of 32 thus indicating the persistence of the country's vulnerability to economic and natural shocks, owing to a narrow industrial base and limited scope for the expansion of the agricultural sector. The devastation brought by the 2004 Indian Ocean tsunami to the country is still fresh in the country's memory. In all, on the basis of available information, it is possible to argue that there are no signs of deterioration in HAI and GNI, the two criteria that made possible for the country graduate from the LDC category. There is a slight improvement in the country's EVI, but Maldives continues to experience high economic vulnerability. In its consultations with the CDP Secretariat, the country highlighted that a great deal of its vulnerability is related to its geographic and physical characteristics as a SIDS. These characteristics manifest in the considerable impact of environmental disasters on a country that is low lying and largely dependent on tourism and fisheries, which are dependent on natural environment. Development in Maldives is constrained by all these factors like other small island states. The monetary value of physical damages caused by the Indian Ocean Tsunami is estimated to be around 62% of GDP. Comparatively, in the other tsunami-affected countries that are not SIDS, the damage was much more localized, and not felt nationwide, a stark contrast to what Maldives experienced.

III. Smooth transition from the LDC category

General Assembly resolution 67/221, paragraph 20, invites the Government of graduating countries, after graduation becomes effective, to provide concise annual reports on the implementation of the smooth transition strategy for a period of three years, and triennially thereafter, as a complement to the two triennial reviews of the list of LDCs carried out the CDP (see table 1 above). Maldives facilitated the extension and gradual phasing out of LDC-specific measures for graduated countries and very active in drafting and adopting the above-mentioned GA resolution. However, the country is yet to participate in the monitoring exercise. Thus, this section was drafted based on information available from other sources.

Maldives has been concerned with impacts of graduation from the LDC category in the following areas: (i) loss of preferential market access made possible by LDC specific special and differential treatment provisions under WTO/GATT; (ii) loss of other preferential treatment in WTO legal texts; (iii) possible decline in official development assistance, including development financing and technical corporation; and (iv) loss of other forms of special support measures given to LDCs, such as loss of support for travel expenses to participate in international meetings (including UN General Assembly). Accordingly, the country embarked in developing a comprehensive strategy aiming at three levels:

(A) International: informing partners about the country's concerns regarding graduation, making its voice heard in several international fora and engaging donors and development partners in the process through a series of fora and consultative meetings. For example, in March 20, 2010 the Government hosted a Donors' Forum, in which it stated several challenges the country faced: macroeconomic restructuring, reforms of the public sectors and increasing socio-economic vulnerability largely due to climate change. Additionally, there has been noticeable active engagement by the country in negotiating and/or exploring the possibility of special provisions within the small vulnerable economies (SVE) framework at the WTO, particularly in agriculture and non-agricultural market access, as well as for the small island developing states (SIDS) framework within the UN system[7], including sponsoring ECOSOC resolutions requesting CDP views on how to enhance existing UN initiatives for SIDS. The country has also been instrumental, as mentioned above, during the negotiations on the strengthening smooth transition provisions as contained in General Assembly resolution A/67/221.

(B) National: developing specific plans which detail out strategic decisions with a view to mitigate anticipated negative impacts and establishing a coordination mechanism. This included putting in place mechanisms (for example, sustaining fiscal expenditure in education and health, introduction of new social protection schemes targeting social vulnerabilities) to ensure progress achieved were sustained as well as developing long-term strategies to address structural issues. Towards this end, the country has formulated a 10 year National Economic Diversification Strategy plan in August 2013 and developed sectoral master plans for key sectors including tourism and maritime transport. [8]

(C) Agency level: identifying action focal points for implementation, follow-up and monitoring of key impact areas as well as reaching out and getting various stakeholders on board.[9]

[7] Statement by Mr. Ahmed Sareer, Permanent Representative of the Maldives to the United Nations, the Follow-up to the Fourth United Nations Conference on Least Developed Countries, New York, 21 October 2013.
[8] See Ministry of Economic Development, Republic of Maldives (2013). Maldives: Economic Diversification Strategy, Male, Maldives: Ministry of Economic Development, available at http://www.trade.gov.mv/downloads/aaaaaaaaaaaa77_MEDS.pdf.
[9] Maldives Experience: Presentation by Ms. Saeeda Umar, Coordinator, National Implementation Unit for EiF and Aid for Trade, Maldives Ministry of Economic Development at the Asia-Pacific Regional Workshop on Graduation Strategies, 4-6 December 2013, Siem Reap, Cambodia. Available from http://www.unescap.org/pdd/calendar/CSN-LDC-SiemReap-Dec2013/Presentations/Session%20V/4%29%20Maldives%20-%20Umah.pdf

As a result of these actions, Maldives succeeded in securing the extension of a few LDC-specific support measures as follows:

- The European Union granted Maldives an extension of 3 years duty-free, quota-free access to the EU area under the Everything-But-Arms (EBA) Initiative until the end of 2013. During 2014, the country enjoys the standard GSP preference, with duties on its tuna exports as high as 18.5 to 22 per cent. Regulation (EU) No.1421/2013 (30 October 2013) further established that, since Maldives has been classified as an upper-middle income country for 3 consecutive years by the World Bank, it will cease to benefit from the GSP preferences altogether at the end of 2014. The country will then face equal or even higher duties than the GSP rates, depending on its export basket to the EU market. The EU market has been a major destination of Maldives' tuna exports, accounting for about 40 per cent of total tuna exports (in value terms) from the country in 2011.[10] Meanwhile, the country has applied to join another preferential scheme offered by the EU, (the GSP+), but the schemes required, among other things, that the country removed its reservations to the International Covenant on Civil and Political Rights and Convention on Elimination of all Forms of Discrimination against Women.[11] In particular, the former stipulates, in its article 18, the freedom of religion for everyone, while article 10 (b) of the Constitution of the Republic of the Maldives states that "[n]o law contrary to any tenet of Islam shall be enacted in the Maldives." Due to this constitutional provision, Maldives opted to withdraw its application to GSP+, instead.

- The UN Assembly adopted resolution 65/286, extending travel-related benefits for a period of at most 3 years, which ended last year. Maldives was instrumental in negotiating and ensuring the extension of the benefit.

- The country continued to have full access to trade capacity building through the Enhanced Integrated Framework Program until the end of 2013. It will continue to have access to project financing on a case-by-case basis for an additional 2 years until end of 2015. Maldives played an instrumental role in negotiating the extension for recently graduated LDCs.

- The country prepared a National Adaptation Programme of Action (NAPA) and submitted to UNFCCC in March 2008 while it was still an LDC. Currently, a project entitled "Increasing climate change resilience of Maldives through adaptation in the tourism sector", which was approved under Least Developed Country Fund (LDCF) by the Global Environment Facility (GEF), is under implementation. According the information provided by UNFCCC, the country can access to fund available at LDCF for the continued implementation of this project. After this project is completed, the

[10] Based on Commodity Trade Statistics. It should be noted that total tuna exports of Maldives were estimated by the sum of tune imports by importing countries from Maldives and may differ from the total exports reported by the Government of Maldives.
[11] Statement by Mr. Sareer, *op. cit*.

Fund will be no longer available to Maldives, though other funds under the GEF will be accessible.

Some of the above LDC-specific support measures have just been phased out or undergone changes at the end of 2013 and it is too early at this moment to assess any impacts of these changes. Maldives, however, as a developing country is entitled to receive financial and technical assistance from the international donor community and also to continue to benefit from special provisions for small island countries from international conventions or programmes, such as Convention on Biodiversity and Global Climate Change Alliance as well as at World Bank (small island exception in the international development association (IDA) window)

Japan is a noticeable exception among Maldives' major development and trade partners as it did not extend duty-free, quota-free access after the country's graduation: Japan applied MFN tariff rate of 3.5 per cent to its tuna imports from Maldives starting in July 2011. Japan has been a minor importer of tuna from Maldives, accounting for about 3 per cent of total tuna exports from Maldives in 2011.[12] Figure 1 shows Japan's imports of tuna from Maldives for the period 2008 – 2013. Tuna imports to Japan declined in 2012, but significantly increased in 2013. These fluctuations reflect annual variations in tuna output and changes in unit prices of various types of tuna.[13] Thus far, no visible impacts of the higher tariff on tuna imports from Maldives have been observed in Japan.

Maldives has been concerned that its tuna industry, one of the largest employers of the county, may collapse due to the loss of preferential access to developed countries' markets, particularly in the EU market,[14] as it is one of the major destinations of the country's tuna exports.[15] As seen above, the country lost the duty-free, quota-free access to EU market at the end of 2013 and information on the impact of such change is not yet available in early 2014. In addition, tuna production has been on the decline in the long run, due to stocks depletion as a result of overfishing, and it has become a major threat to the tuna industry of the country. Thus the CDP will need to monitor the future developments on tuna exports from Maldives.

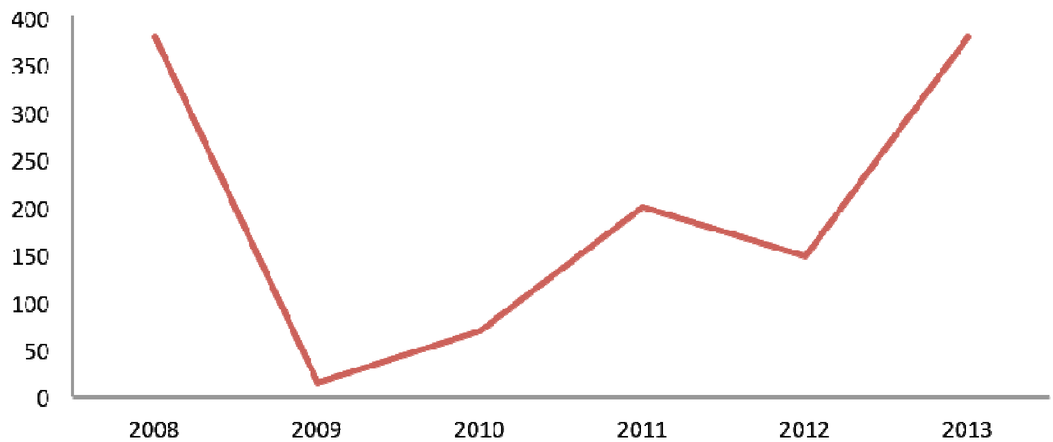
[12] See footnote 6.

[13] Maldives Monetary Authority (2013). *Annual Economic Review 2012*. To address the environmental concern, the country now employs sustainable fishing practices.

[14] See, for example, Permanent Mission of the Republic of Maldives to the United Nations (2000), "Memorandum containing observations and comments of the Government of the Republic of Maldives on the recommendation by the Committee for Development policy to graduate the Maldives from the list of LDCs" (July), para. 15.

[15] The other major export markets are Thailand, Sri Lanka and India.

Figure 1: Fish imports of Japan from Maldives, 2008-2013 (Millions of yen)



Source: DESA, based on Ministry of Finance, Trade Statistics of Japan, available at http://www.customs.go.jp.

ODA flow (disbursement base) to the country declined to $49.6 million in 2011 from $126.3 million in 2010 (see table 2), but this was due to the completion of major infrastructure projects, such as port infrastructure and sewage systems. In 2012, ODA flows increased in nominal terms. Historically, health, education and infrastructure have attracted relatively large shares of ODA. Upon the graduation of Maldives from the LDC category, EU and Japan – two major donors – announced their plans to re-direct their aid more into climate-change related areas, such as construction of renewable energy systems, wetland and drainage management, ecotourism and community rainwater harvesting. But they did not suggest any reductions of total ODA allocated to Maldives. In fact, according to a survey conducted by the CDP Secretariat in 2010, several bilateral donors stated that LDC status of a recipient is just one of the criteria that they employ when deciding aid allocation among countries and the graduation would not change their policy stance towards the country. It should be noted that while the graduation is not expected to lead to overall decline in ODA to Maldives in the near future, the aid that was previously used to supplement the Government's budget and contribute towards basic health and education provision in remote islands declined as aid flows are now directed towards climate-change related areas. To fill the slack, the Government needs to increase the expenditure out of the domestic Government budget.

In this regard, the Government is concerned that the redirecting ODA towards building climate resiliency and mitigation and adaptation measures could deplete fiscal resources available for health and education, and thus could have adversely impacts on the two areas that are key for achieving inclusive and sustainable growth.

IV. Conclusions

Overall, no sign of significant reversal in socio-economic development of Maldives has been so far observed since graduation in January 2011. An important short-term concern is the implications of the loss of the EBA status at the end of 2013. Furthermore, Maldives will face even higher tariff rates in some fish products from 2015 and on, if it does not qualify to GSP+ status. For the long term, the Country is concerned that shifting ODA flows to the area of climate resiliency with high technical expertise content -- such as renewable energy and wetland and drainage management – may undermine the sustainability of recent gains in health and education outcomes. . The reallocation of aid flows away from the health and education sectors reduces fiscal space for the Maldives at a time when more resources are needed to make growth more inclusive and sustainable.

Despite economic slowdown due to the recession in the Euro zone in 2012, the country continues to maintain its GNI per capita well above the 2012 graduation threshold and its high levels of health and education status – components of the HAI. Though there have been no natural calamity reported, a level of EVI is likely to continue to be high due to the export structure of the country, a high portion of low lying areas in country's total land, and its small population size on EVI. Besides tackling its structural vulnerabilities, the country needs to address continuing twin deficits in fiscal and current accounts. At the fiscal front, higher level of GST and business profits taxes contributed to the narrowing of the deficits, but the Government needs to continue its efforts to control current expenditure while maintaining the provision of basic services. As mentioned earlier, this will be a challenge for the Government because of the phasing out of aid flows to the health and education sectors by traditional donors, while maintaining and improving upon the supply of public services in these sectors throughout the country. According to the Government, basic services are still not available in all islands. To reduce current account deficits, address the economic vulnerability and the weak institutional infrastructure, the international community needs to strengthen and increase its assistance to the country to support economic diversification, institutional capacity building and increased resilience.