

## Monitoring of Graduating Countries from the Category of Least Developed Countries

*Note by the Secretariat*

### I. Background

ECOSOC resolution E/2010/9 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).<sup>1</sup> 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.

Currently, Samoa is the only country earmarked for graduation by the General Assembly (GA). Equatorial Guinea was recommended for graduation by the Committee in 2009. The recommendation was endorsed by the Council in July 2009 but not yet taken note of by the GA. In expectation that the GA takes note of the recommendation, the CDP Secretariat included the country in its monitoring exercise.

To the extent permitted by available data, 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.<sup>2</sup> However, as most components of the HAI and EVI indices capture long-term structural features, these indicators do not register significant variations in the short run. The monitoring exercise will, therefore, look into few selected trends that can be related to GNI, HAI and EVI, where applicable, but are more of a short term nature and whose indicators are more easily available.

It is worth recalling that recommendation to graduate a country from the category has a number of checks and balances to make sure that eligibility to graduation 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

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<sup>1</sup> Resolution adopted by ECOSOC on the Report of the Committee for Development Policy on its eleventh session (E/2009/35 of 31 July 2009).

<sup>2</sup> 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.

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, HAI and EVI, the CDP also relies on two critical assessments: a vulnerability analysis by UNCTAD and an ex-ante impact analysis of graduation by UN-DESA. These two reports bring in additional country-specific information that is not necessarily captured by the HAI and EVI and may be relevant for the decision process. 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.

## **II. Samoa**

In 2006, the CDP recommended to ECOSOC that Samoa be graduated from the LDC category. ECOSOC endorsed the recommendation in July 2007. Subsequently, the GA adopted the resolution on the graduation of Samoa, which was scheduled to take place in December 2010. However, on 29 September 2009 Samoa was hit by a devastating tsunami, threatening to disrupt the socio-economic progress for several years. Consequently, the GA adopted a resolution on 7 September 2010 (A/RES/64/295), which extends the transition period by three years. Samoa will graduate on 1 January 2014.

Prior to the recent global economic and financial crisis and the tsunami, Samoa's national income was increasing steadily. Gross national income per capita, one of the criteria to determine LDC status, had been rising until 2008 (see table 1), before a decline in 2009. Despite this decline, Samoa's per capita income is well above the threshold for low income countries established by the World Bank (US\$ 995 in 2009) and it is also very likely to be much higher than the income graduation threshold to be established at the 2012 triennial review of the list of the LDCs.<sup>3</sup> Samoa is also anticipated to be above the income-only graduation threshold, which is set as at least twice the income graduation threshold.

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<sup>3</sup> The income graduation threshold is set at 20 per cent above the three-year (2008-2010) average of the low income threshold determined by the World Bank.

Table 1: Samoa, Gross national income per capita

	2005	2006	2007	2008	2009
<b>GNI per capita, Atlas method (current US \$)</b>	2110	2410	2570	2930	2840
<b>GNI per capita, annual rate of change (per cent)</b>	12.83	14.22	6.64	14.01	-3.07
<b>World Bank Low income threshold (current US \$)</b>	875	905	935	975	995

Source: World Bank, World Development Indicators Database, accessed 23 February 2011.

The relatively strong and robust economic growth (see table 2), which Samoa enjoyed until the fiscal year 2008/2009, is often attributed to prudent economic and fiscal policy.<sup>4</sup> According to IMF estimates, economic growth is projected to become positive in 2010/11 and to remain positive for the coming years.<sup>5</sup> The global economic and financial crises lead to a marked decline in production and employment in the manufacturing sector in 2008 and early 2009. While the economy started to recover in the second quarter of 2009, the tsunami in September caused widespread physical damage and economic loss that disrupted the recovery path. The economic damage of the tsunami, which killed 148 persons, has been estimated at US\$ 150 million, corresponding to more than 26 per cent of Samoa's GDP in that year.<sup>6</sup>

Table 2: Samoa, selected economic indicators

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
<b>Real GDP rate of change (per cent)</b>	6.56	4.90	-5.10	-0.02	3.0	2.2
<b>Current account as per cent of GDP</b>	-15.55	-6.31	-2.74	-8.13	-20.0	-15.7
<b>Remittances as per cent of GDP</b>	21.60	23.64	25.50	23.97	n.a.	n.a.
<b>Fiscal balance as per cent of GDP</b>	1.15	-1.83	-4.11	-7.80	-9.5	-5.6
<b>ODA as percent of GDP</b>	10.66	7.60	6.96	15.60	n.a.	n.a.

Source: Ministry of Finance of the Government of Samoa, Quarterly Economic Review, various editions; World Bank; OECD; IMF (for 2010/11 and 2011/12 data). The ODA figures refer to the calendar year, all other figures to the fiscal year from 1 July to 30 June.

<sup>4</sup> IMF (2010). *Samoa. 2010 Article IV Consultation – Staff Report*.

<sup>5</sup> It should be noted that the 2009/10 figures from the Government of Samoa show smaller decline in GDP and lower current account and fiscal deficits than projected by the IMF (data not reported here).

<sup>6</sup> DESA calculations, based on World Health Organization Collaborating Center for the Research on the Epidemiology of Disasters (CRED) and IMF.

The tsunami had a severe impact on the tourism sector, whose contribution to GDP is estimated to range between 9 to 14 per cent<sup>7</sup>. According to estimates, capacity in terms of rooms and beds has declined by more than 20 per cent.<sup>8</sup> Hotels and restaurants recorded a decline of 20.2 per cent in value added in 2009/2010 compared to the preceding year. Tourism revenues were 8.8 per cent lower over the same period.<sup>9</sup> In addition to the damages in capacity and overall tourism infrastructure, a possible damage to the country's reputation as safe vacation destination has been mentioned as possible factor affecting the tourism sector also in the medium-term.<sup>10</sup>

The re-bouncing of the manufacturing sector after the global economic crisis plus the reconstruction efforts after the tsunami had a stabilizing effect on GDP. Moreover, private transfers from abroad as well as international cooperation to support reconstruction efforts have had a stabilizing effect on disposable income as well as on the balance of payments. Whereas the response by the Government to the economic crisis and the tsunami have led to an increase of the budget deficit to 7.2 per cent in the fiscal year 2009/10 and to an increase in external public debt, the overall debt burden is deemed to be sustainable.<sup>11</sup>

The recommendation of the CDP to graduate Samoa was based not only by the relatively high income levels, but also on the country's HAI level. In fact, Samoa had the second-highest score of the human asset index of all LDCs in 2006 and the highest one in the 2009 review. Samoa had the most positive scores with regard to undernourishment, under five mortality rate and literacy. In secondary school enrolment, it was ranked fourth, after Kiribati, Tuvalu and Maldives. Whereas new figures for the HAI will become available only in 2012, currently, there are no indications that the high ranking of Samoa in terms of HAI will be reversed.

The recent national Millennium Development Goals (MDGs) report by the Government of Samoa<sup>12</sup> reveals further progress towards the MDGs related to human capital. The under-five mortality rate is reported as 15 (per 1000) in 2009, compared with a figure of 31 used in the 2009 LDC review. Prevalence of undernourishment remains below 5 per cent, the minimum value utilized by FAO. However, the increase of dietary energy consumption could also be linked to the increase in obesity, a

<sup>7</sup> IMF (2010). *Samoa. Selected issues*.

<sup>8</sup> *ibid.*

<sup>9</sup> Ministry of Finance of the Government of Samoa (2010). *Quarterly Economic review. Issue 49*. It should be noted that tourism revenues include revenues from all visitors, not only tourists on vacation.

<sup>10</sup> IMF (2010). *Samoa. Selected issues*.

<sup>11</sup> IMF (2010). *Samoa. 2010 Article IV Consultation – Staff Report*.

<sup>12</sup> Government of Samoa (2010). *Millennium Development Goals. Second Progress Report 2010*.

major health concern in Samoa. Literacy rate of 15-24 years-old is reported as falling, but the decline has been linked to changes in the definition of literacy rather than a real decline in capabilities. There has been recent progress towards the goal of achieving universal primary education (with an increase in the net enrolment rate from 85 per cent in 2005 to 96 per cent in 2009), whereas secondary education remains an area of concern as drop-out and repetition rates are high. UNESCO reports a slight decline in the gross enrolment rate of secondary education, from 80 in 1999 to 76 in 2009.<sup>13</sup>

The progress made by Samoa in achieving its sustainable development goals is further evidenced by the high and increasing access rates to basic services, which stand at 93.5 per cent in case of basic sanitation<sup>14</sup>, 97.3 per cent in case of improved water sources<sup>15</sup> and 98 per cent in case of electricity<sup>16</sup>. At the same time, declining marine resources due to unsustainable fishing practices, continuing land degradation and deforestation, waste management and loss of biodiversity and ecosystems services are concerns for achieving environmental sustainability. Samoa is not only threatened by geophysical disasters such as the 2009 tsunami, but also by prone to other natural disasters such as cyclones, making disaster risk reduction a priority. Risks due to climate change have also been identified as major risk factor for sustainable development.

**Conclusion:** Samoa was severely hit by the tsunami in September 2009, which caused large human and economic losses. At the time of the Tsunami, Samoa was recovering from the negative impacts of the global financial and economic crisis of 2008/2009. Whereas growth has returned, rebuilding of the economy, in particular the vital tourism sector, requires continuing attention by the Government and the international community. The relatively high level of human capital in Samoa should prove to be an important asset in this regard. The extended graduation period will allow Samoa and its partners to intensify the efforts to effectively prepare for the graduation from the LDC category in January 2014.

### III. Equatorial Guinea

Equatorial Guinea was found eligible for graduation due to its high level of GNI per capita. In the 2006 review, the country's GNI per capita was almost 4 times higher than the graduation threshold.

<sup>13</sup> UNESCO Institute for Statistics, [stats.uis.unesco.org](http://stats.uis.unesco.org) accessed on 23 February 2011.

<sup>14</sup> See Government of Samoa (2010). *Millennium Development Goals. Second Progress Report 2010*.

<sup>15</sup> Ibid.

<sup>16</sup> Government of Samoa (2008). *Strategy for the Development of Samoa 2008-2012*.

Equatorial Guinea did not fulfill the graduation requirements either for HAI or EVI. In the 2009 review, the country had an income level more than eight times the graduation threshold - GNI per capita of \$8,957 (2005-2007 average), relative to the graduation threshold of \$1,086. The CDP found the country eligible for graduation on the income criteria and forwarded its recommendation in its report to the Council in 2009 (E/2009/33). The recommendation was endorsed by ECOSOC in July 2009 (E/2009/L.43) but not yet acted upon by the General Assembly.

The economic outlook is favourable for Equatorial Guinea. According to the World Bank WDI database, the GNI per capita decreased in 2009 comparing to the previous year mainly due to lower oil price and reduced production of crude oil, but still remained as high as \$12,420.<sup>17</sup> The World Bank now classifies Equatorial Guinea as a high-income country as the country's GNI per capita is above the Bank's income threshold used to classify countries as high income (\$12,196). IMF estimates that the real GDP growth would have been modest at 0.9% in 2010, but expected to rise to 2.1% in 2011. The large fiscal deficit in 2009 was the result of unprecedented public sector investment, and is anticipated to have declined in 2010. The fiscal balance is forecast to continue to improve in 2011.

**Table 1 Equatorial Guinea, selected indicators (2006-2011)**

Indicator	2006	2007	2008	2009	2010	2011
GNI per capita, Atlas method (current US\$) <sup>a</sup>	6,870	9,710	14,980	12,420	n.a.	n.a.
GDP (Current US\$ billion) <sup>b</sup>	9.6	12.6	18.4	12.2	14.5	15.4
Real GDP growth (annual %) <sup>b</sup>	1.2	21.4	10.7	5.3	0.9	2.1
GDP growth by sector (% real change) <sup>c</sup>						
Agriculture	3.7	10.0	-1.3	1.0	2.0	1.0
Industry	.9	22.4	11.8	5.9	1.8	2.4
Services	8.1	11.3	9.9	2.0	4.0	3.0
Current account balance (US\$ billion) <sup>b</sup>	0.7	0.5	1.7	-1.9	-0.4	-1.8
Central government balance (% of GDP) <sup>c</sup>	23.4	19.2	15.4	-8.0	-1.4	-0.5

Note: 2010 figures are estimates and 2011 figures are projections.

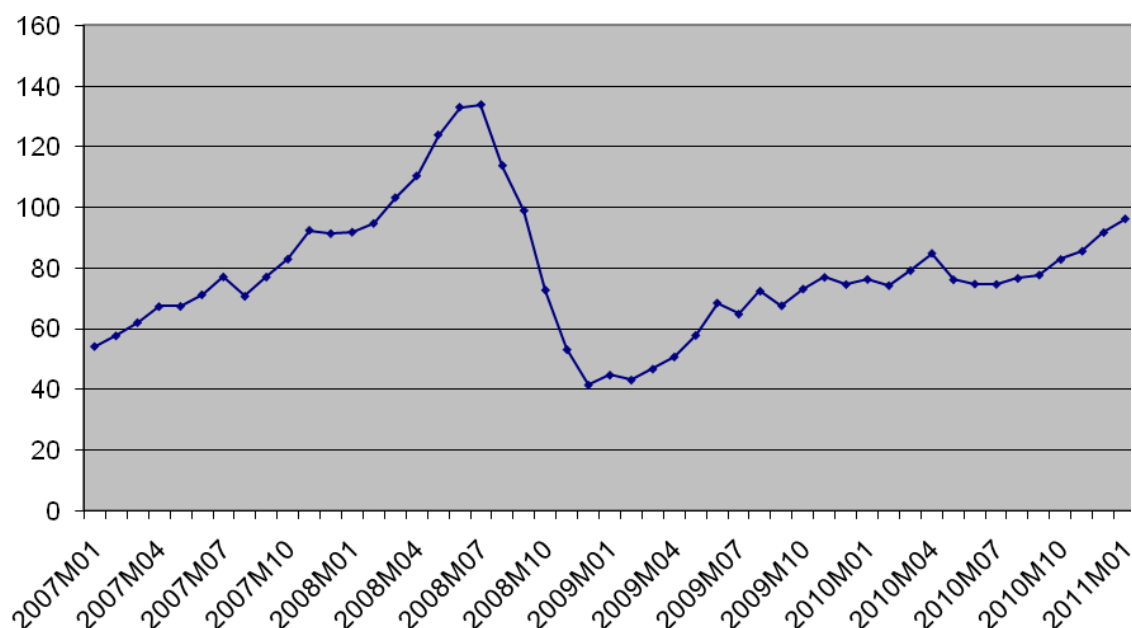
Source: <sup>a</sup> World Bank WDI database; <sup>b</sup> IMF, World Economic Outlook database; <sup>c</sup> Economic Intelligence Unit, February 2011, Country Report: Equatorial Guinea.

The favourable economic outlook is supported by the emerging trends in the oil prices, as the country's prospects are tied to trends in the oil markets. Oil prices have recovered since early 2009, and approach to \$100 per barrel as of January 2011 (see Figure 1). The world price of crude oil fluctuated around \$78 per barrel during 2010, up from an average of \$62 in 2009. Oil prices are expected to decrease

<sup>17</sup> After peaking in 2008, crude oil production fell by more than 11 percent in 2009 (IMF, May 2010, Republic of Equatorial Guinea: 2010 Article IV Consultation, p.4).

somewhat in 2011 as the fading of stimulus measures in developed markets, but continued solid demand expansion in emerging markets will provide support to crude oil prices. Furthermore, persistent instability in major producing areas can exert additional pressure for higher oil prices in the near future. Firm oil prices will allow Equatorial Guinea to continue to promote economic and social development policies.

**Figure 1 Average crude petroleum prices from January 2007 to January 2011 (US\$ per barrel)**



Source: IMF, Primary Commodity Prices database

Guided by the country's National Development Plan 2020, the country's economic and social policies aim to build up basic infrastructure in support of improved social welfare and greater diversification. The availability of data on social outcomes is limited and not frequently updated, but some components of HAI have improved in the past decade: Literacy rate increased from 88.3% in 2000 to 93% in 2008; Under-5 mortality was 168 per one thousand children in 2000, but it declined to 145 by 2009.<sup>18</sup> The Human Development Index (HDI) of Equatorial Guinea also shows a slow but steady improvement from

<sup>18</sup> UNESCO online database; UN inter-agency group, 2010, Levels and trends in child mortality: Report 2010.

.51 to .53 during the period of 2005-2010. The average HDI of Sub-Saharan Africa remained between .37 and .39 in the same period.<sup>19</sup>

**Conclusion:** The economic prospects are favourable for Equatorial Guinea. The country's income per capita is likely to be sustained at a very high level relative to the graduation threshold, due to the stabilization and even increase of oil prices sustained by the recovery of global economy. Some components of HAI suggest a slow but steady improvement in social indicators. The country is likely to continue to meet eligibility for graduation from the list of LDCs in the foreseeable future.

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<sup>19</sup> UNDP, 2010, Human Development Report 2010, online database.