

Department of Economic and Social Affairs  
Secretariat of the Committee for Development Policy

Ex-ante impact assessment of likely consequences of graduation of  
**the Republic of Kiribati**  
from the least developed country category

United Nations, New York, October 2008

# Impact assessment: Kiribati

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# Impact Assessment: Kiribati

## Summary

*The Committee for Development Policy considered Kiribati eligible for graduation for the first time in 2006, which triggered the preparation of this ex-ante impact assessment report. The LDC status does not seem to significantly affect donors' development cooperation policies towards Kiribati as they have their own criteria for providing development and trade-related aid. It should be noted, however, that (i) ODA dependence is high while it is impossible to be precise about how much of these flows are due to the country's status as LDC, (ii) the country will lose UN-related travel benefits and will face a slight increase in its contribution to the UN peacekeeping operations, (iii) access to concessional funds and technical assistance for adaptation to climate change is critical, (iv) exports of fish to Japan may face a small tariff after graduation.*

## 1. Background

In its review of the list of LDCs in 2006, the Committee for Development Policy (CDP) found that Kiribati met two criteria for graduation: gross national income (GNI) per capita and the human asset index (HAI). Of the countries reviewed, Kiribati had the second highest score on the economic vulnerability index (EVI) and the highest level of HAI. Consequently, Kiribati was considered eligible for graduation for the first time in 2006, and CDP requested the Department of Economic and Social Affairs (DESA), in cooperation with UNCTAD, to prepare an ex-ante impact assessment of the likely consequences of graduation for Kiribati<sup>1</sup>. The impact assessment is undertaken in conjunction with, and as a supplement to, UNCTAD's vulnerability profile.

Whereas the vulnerability profiles by UNCTAD focus on factors of a country's vulnerability that are not necessarily captured by the economic vulnerability index (EVI), the impact assessments examine the likely consequences of graduation for countries' economic growth and development and potential risk factors, or gains that countries may face after graduating. As such, the impact assessments should provide a better understanding of the relation between the special support measures received (preferential markets access, special treatment regarding WTO obligations, ODA and other forms of assistance) and a country's economic growth and development.

One important element of the impact assessments is to gather information not only through desk research, but also from consulting with the country's main official development

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<sup>1</sup> See Report on the ninth session of the Committee for Development Policy, 19-23 March 2007 (E/2007/33, Supplement No. 33), and ECOSOC resolution (E/2007/34) on the Report of the Committee for Development Policy on its ninth session.

partners (multilateral organizations, multilateral and bilateral donors) on the amount and/or type of preferences, benefits and assistance accorded due to the LDC status.

Kiribati's development partners were approached by DESA for an input to the impact assessment on 16 May 2008. Donors were asked for their views with respect to the likely treatment they would extend to Kiribati, in particular, concerning the continuation of development aid, technical cooperation and trade preferences if the country's graduation were confirmed at the next review in 2009 and implemented in 2012. As of 23 October 2008 DESA received a response from Australia, Japan, New Zealand and the European Commission. DESA would like to thank those Governments and institutions that participated and contributed to this exercise.

The impact assessment of Kiribati was finalized in October 2008 to give the country the opportunity to make an oral presentation at the expert group meeting in 27-28 January 2009, prior to the triennial review of 9-13 March 2009.

## **2. Methodology**

Despite a wide array of existing impact assessment methodologies to draw on, there is no internationally recognized methodology for identifying and assessing actual or potential consequences incurred by graduating countries as a result of a reduction in receiving special international support measures related to their status as an LDC.

The present impact assessment undertaken by DESA is an ex-ante assessment. In the case of LDCs identified for graduation, the interest in undertaken impact assessments lies in identifying the potential consequences of the withdrawal of the special support measures.

Different methodologies have been developed according to the purpose of the assessment, not all necessarily model-based involving strictly quantitative methods. In the case of LDCs, however, available models incorporate certain assumptions that may diverge from real-world conditions. In any case, models can only give a generalized insight into the possible outcomes of graduation under different scenarios and assumptions. More importantly, there are also data limitations with respect to the representation of individual LDCs in the databases used by existing econometric models.

A feasible option to assess the complex types of economic, social and developmental implications of a possible reduction in international support measures is to consider the importance of these measures qualitatively, that is to say not on the basis of econometric models. In doing so, the report will first identify the support measures being made available and used by Kiribati. Once these measures are identified, properly quantified (where practical) and considered to be significant for the country, the report will address the potential reduction and/or phasing out of such measures. When feasible and supported by available data, the report will identify the sectors where these measures have been applied and evaluate the possible implications of their withdrawal.

This type of analysis is not without complications. First, involves the identification of support measures that are made available to the country concerned *exclusively on the basis of its LDC status alone*. Some of those measures can be easily identified: preferential market access granted to LDCs in such programmes as the European Union's "Everything but Arms" initiative is one of them. In this regard, information is collected on export flows (markets and commodities) so as to identify which exports receive preferential treatment and how important these exports are for generating foreign exchange revenues (data on employment generation is often unavailable).

Other support measures (such as those provided by the UN in terms of budget contribution and participation at various meetings) are also easily identified. With respect to these two particular measures, information is collected on the rate of utilization and on whether the country's scale of assessment would change in view of its potential graduation.

However, in some other instances, it is not possible to make a distinction between LDC specific measures and "regular" development assistance. Some ODA flows are a case in point. Owing to the difficulty in specifying LDC-exclusive ODA, this report will identify major bilateral donors and briefly provide an overview of their development assistance strategies vis-à-vis Kiribati. In doing so, the report will focus on the main areas where donor assistance is received thus highlighting those that could be potentially affected. This report does not assume however that all ODA reaching the country is due to its status as LDC. A similar approach is taken with respect to multilateral donors, as in the case of the European Community, among others.

Second, the exercise requires the specification of the impact one wants to measure. There is a wide variety of special support measures available targeting different instances of a country's development. Some of them may imply multiple positive impacts. For example, the extension of trade preferences would, in principle, help a country to diversify its economy, increase access to foreign exchange, promote exports, employment and growth. Others may also bring benefits that may not be easily measurable. In fact, it may be difficult to establish the macro results of special measures such as the flexibilities that LDCs may have in implementing WTO commitments or the special consideration LDCs are to receive from other WTO members in their trade relations.

Lastly, not all of the LDC specific support measures can be measured or summarized in a meaningful way into a single variable, say, the rate of economic growth. These considerations further support the use of the qualitative approach employed here. It allows the analysis to consider the various channels through which the eventual suspension and/or phase out of these special support measures—which are so distinct in nature-- may influence the sustainability of development progress achieved by Kiribati so far.

#### *Data sources:*

Data availability is an important constraint for the undertaking of an impact assessment for Kiribati. Statistics are not readily available and, when existing, vary considerable among sources. Extreme care was taken in collecting the information presented here. In some instances,

however, it was necessary to make some adjustments to the data (discussed below) in order to address obvious problems and/or incongruence across the various sources used in this report.

The following main data sources were used:

The United Nations Commodity Trade Statistics Database (Comtrade, available at: <http://comtrade.un.org/db/default.aspx>) was the main source of data for exports (commodities and markets). Information on tariff structure of main trading partners was obtained from the World Integrated Trade Solutions (WITS) data base a collaborative programme among UNCTAD, the World Bank and WTO ([http://wits.worldbank.org/witsnet/StartUp/Wits\\_Information.aspx](http://wits.worldbank.org/witsnet/StartUp/Wits_Information.aspx)). In some instances, information was complemented by consulting relevant data bases of main trading partners. ODA flows were compiled from OECD Statistics (available at <http://stats.oecd.org/wbos/Deafault.aspx?usercontext=sourceoecd>).

Other useful sources of data included: Kiribati National Statistics Office/Key Economic Indicators (<http://www.spc.int/prism/Country/KI/Stats/Economic/econ-keyind.htm>), the Asian Development Bank (<http://www.adb.org/statistics>) and the World Bank, World Development Indicators data base.

### **3. Special support measures due to LDC status**

The least developed countries (LDCs) derive special support measures both from the donor community, including bilateral donors and multilateral organizations, as well as from the special treatment accorded to them by certain multilateral and regional trade agreements. Currently, the major support measures extended owing to LDC status vary among development partners and are mostly related to trade preferences and the volume of official development assistance (ODA). These measures fall into three main areas: international trade; official development assistance, including development financing and technical cooperation; and, other forms of assistance.

#### **3.1. World Trade Organization related benefits**

LDCs are entitled to a series of benefits and special measures related to international trade when they accede to the WTO. These include (i) provisions requiring WTO Members to safeguard the interest of LDCs; (ii) provisions allowing flexibility to LDCs in rules and disciplines governing trade measures; (iii) provisions allowing longer transitional periods to LDCs; and, (iv) provisions for technical assistance.<sup>2</sup>

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<sup>2</sup> For detailed information on special support measures derived from WTO membership consult Committee for Development Policy, *Handbook On The Least Developed Country Category: Inclusion, Graduation And Special Support Measures*, forthcoming

Kiribati is not a member of WTO, nor is the country in process of acceding to the Organization, thus graduation does not imply any loss regarding WTO special treatment. On the other hand, should Kiribati decide to apply to WTO membership after graduation, the country will no longer have access to the special flexibilities granted to LDCs in complying with certain WTO-rules.

Most importantly, WTO members grant reciprocal Most Favoured Nations (MFN) treatment to each others' exports, which attempts to ensure non discriminatory and equal treatment among all signatories with respect to market access conditions. Higher non MFN tariffs could be imposed on non WTO members, but in most cases non MFN duties are not enforced on non-WTO members.

### **3.2. LDC status and preferential market access**

An enabling clause was introduced in 1979 to the GATT disciplines which allows developed countries to extend more favourable, non-reciprocal treatment towards the exports of developing countries in general (thereby giving the legal basis to the Generalised System of Preferences – GSP) and deeper margins of preferences for LDCs ( which may or may not be WTO members).

Kiribati has access to preferential treatment extended to LDCs by developed countries such as the Everything but Arms (EBA) initiative of the European Union, and the special programmes that other developed countries have for LDCs, within their GSP schemes, as is the case of Australia, Canada, Japan, and the United States, among others.

Additionally, Kiribati has enjoyed preferential treatment in some markets through membership in regional agreements. A case in point is the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) where Australia and New Zealand offer non-reciprocal concessional access for most exports of Forum Island Countries (small island states who are the signatories of the Agreement), to which Kiribati is signatory.

Kiribati is also a member of the African, Pacific and Caribbean (APC) countries, which until 1st January 2008 had enjoyed special non-reciprocal trade preferences from the EU under the Cotonou Partnership Agreement. Special trade arrangements between the EU and ACP countries are now to be covered by WTO-compatible Economic Partnership Agreements (EPA). Kiribati has not yet negotiated an EPA with the EU, but duty- and quota-free access to the EU market is still possible under the EBA initiative, while the country maintains its LDC status.

#### **3.2.1. Main products and markets**

Merchandise export values for the most recently available years (period 2004-2006) were derived from the United Nations Commodity Trade Statistics Database (UN Comtrade) according to information reported by Kiribati's trading partners and using the Harmonized

System (HS-2002) classification of commodities. Data was retrieved for all commodities (at the HS 6-digit level) and all partners for export values above \$50 thousand in order to identify main trading partners and major export commodities. Lower values were not considered in this exercise.

During that period, Kiribati's merchandise exports averaged roughly \$9 million per year which corresponded, also on average, to about 13 per cent of the country's GDP. Data on direction of Kiribati's exports are presented on table 1. Although some "year-to-year volatility" is noticeable in terms of Kiribati's trade partners, Australia, the European Union, Japan, Thailand and the United States were the main export markets for the country during the period.

Kiribati has a concentrated export structure. Fish and crustaceans, oil seeds and vegetable fats and oils generated around 70 per cent of merchandise export revenues during the period (see table 2).

Trade matrices (partners and commodities) for the period are presented in Annex tables A.1, A.2 and A.3. Table 3 summarizes that information for Kiribati's major trade partners and the main commodities imported by them.

**Japan** is the largest export market for Kiribati, importing yellow fin tuna and skipjack or bonito. Japan accords preferential treatment to developing countries through its GSP and within that scheme extends additional preferences to some products exported by LDCs. Exports frozen yellow fin tuna ((Japan's commodity code 030342000) and frozen big eye tuna (030344000) by LDCs receive preferential treatment in Japan.<sup>3</sup> Thus, if Kiribati graduates from the LDC list, it may face a 3.5 per cent of tariff on its tuna exports to Japan.

According to UN Comtrade data, less than one percent of Japan's imports of yellow fin tuna and about 2.5 per cent of skipjack/stripe bellied bonito come from Kiribati.

Other countries that benefit from the same preferential arrangement—and therefore would be in a relative advantage to tap Kiribati's market share, *ceteris paribus*—include the Maldives (for both types of tuna) and Vanuatu (only for yellow fin tuna). The Maldives's tuna exports Japan are only a fraction of Kiribati's. The Maldives is earmarked to graduate in 2011, when it is supposed to lose its preferential treatment in the Japanese market.

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<sup>3</sup> Based on the Japan Commodity Trade Statistics. It should be noted that Japan's system employs a 9-digit coding, of which the first 6 digits correspond to the HS 6-digit coding and the last 3 to the Japan's domestic coding.

Table 1: Kiribati: value of merchandise exports, 2004-2006								
US\$ thousand								
	2004		2005		2006		Average 2004-2006	
							Value	%
Australia	191		388		1,178		586	6.5
Bangladesh	1,177		0		0		392	4.4
Hong Kong SAR	0		172		196		123	1.4
European Union	977		1130		606		904	10.1
Fiji	0		599		134		244	2.7
Japan	5,387		1,256		2,127		2,923	32.6
Malaysia	0		379		0		126	1.4
New Zealand	198		0		0		66	0.7
Samoa	309		0		0		103	1.1
Taiwan, POC	0		319		346		222	2.5
Thailand	995		0		1,025		673	7.5
USA	1,670		1,296		1,544		1,503	16.8
World	11,471		7,160		8,278		8,970	100.0
<b>memo items:</b>								
exports to the EU:								
	2004		2005		2006			
Belgium	419	Belgium	864	Denmark	249	(includes Greenland)		
Denmark	106	Denmark	266	Germany	421			
Germany	451							
Source: Comtrade data base								
Note: Total exports for 2005 do not include \$11 million of exports to the Republic of Korea (largely machinery and electrical equipment, which only took place in this year) and was assumed to represent a misallocation of trading partner.								

		2004	2005	2006	Average 2004-2006	
					value	%
<b>All products</b>		11,471	7,160	8,278	8,970	100
of which,						
Fish and crustaceans, molluscs and other aquatic invertebrates	<i>Total</i>	7,222	2,709	4,448	4,793	53.4
	<i>030110</i>	931	1,109	858	966	10.8
	<i>030342</i>	1,862	410	1,431	1,234	13.8
	<i>030343</i>	4,429	805	1,631	2,288	25.5
	<i>030559</i>	0	87	123	70	0.8
	<i>060612</i>	0	-	137	46	0.5
	<i>030799</i>	0	298	268	189	2.1
Coconuts, other than desiccated	<i>080119</i>	309	526	123	319	3.6
Oil seeds and oleaginous fruits	<i>120300</i>	1,177	-	-	392	4.4
	<i>120890</i>	106	-	-	35	0.4
Coconut (copra) oil, crude	<i>151311</i>	1,592	2,371	1,872	1,945	21.7
Oil-cake and other solid residues from the extraction of coconut/copra	<i>230650</i>	-	-	153	51	0.6
Women's jackets and blazers	<i>620433</i>			156	156	1.7
Commodities not specified	<i>999999</i>	-	-	389	130	1.4
Source: Comtrade data base						
Note: Data for 2005 exclude imports from Kiribati reported by the Republic of Korea						

Table 3		
Kiribati: Major export markets and commodities, 2004-2006		
Country	HS 2002	Definition
Australia	030799	frozen/dried/salted/in brine; incl. flours/meals/pellets of aquatic invertebrates other than crustaceans
	151311	Coconut (copra) oil, crude
	230650	Oil cake and other solid residues from extraction of coconut/copra
European Union	151311	Coconut (copra) oil, crude
	620433	Women's/girls' jackets & blazers (excl. knitted or crocheted), of synthetic fibers
Japan	030342	Yellowfin tunas
	030343	Skipjack or stripbellied bonito
Thailand	030342	Yellowfin tunas
	030343	Skipjack or stripbellied bonito
United States	030110	Ornamental fish
	030612	Lobsters
Source: tables A.1, A.2 and A.3		

Meanwhile, Vanuatu's exports of yellow fin tuna to Japan are roughly 9 times as large (in real terms) as those of Kiribati's and fetch, on average, a higher price per tonne (\$1,750) than those of Kiribati's (\$1,428), which probably indicates differences in product quality and the fact that these two countries may not necessarily compete in the same market segment. In any case, one could speculate that—due to its more prominent presence in the Japanese market—it could be relatively easy for Vanuatu to absorb Kiribati's share in that market. Vanuatu, however, is also being reviewed for graduation together with Kiribati. It could also lose this preferential treatment in Japan if this eligibility is reconfirmed by CDP and subsequently approved by the General Assembly. If both countries graduate, *ceteris paribus*, they will continue to compete under similar conditions as far as preferential access is concerned.

The relatively small tariff to be applied (3.5 per cent, if the country were to graduate today) may not necessarily give Kiribati a substantial disadvantage vis à vis its major (MFN) competitors, and perhaps could be offset with increases in productivity. Nonetheless, it would affect a significant share of the country's merchandise export revenues (some 30 per cent on average during the period 2004-2006, which corresponds to 2.5 per cent of the country's GNI).

In the case of the *United States*, imports of ornamental fish and lobster carry a zero tariff for both MFN and non-MFN trade partners. Thus, market access—in relation to the products currently being exported by Kiribati—seem not to depend on preferential treatment and will not be affected by graduation. The same applies to Kiribati's exports to *Australia and New Zealand* (zero per cent tariff for MFN partners), besides the fact that Kiribati enjoys preferential access in these markets due to SPARTECA.

It is not clear whether *Thailand* has any special scheme for LDCs. There is, however, a considerable difference in terms of the tariff rate applied if a country is entitled to MFN treatment (tariff rate at 5 per cent) or fall under the general duty scheme (tariff at 60 per cent - see table A.4) Thus, it seems Kiribati is not currently enjoying any special market access treatment in Thailand, but one could speculate that its exports are entering the Thai market under a MFN tariff.

The analysis of exports to the *European Union* is complicated somewhat by the differences in reporting: while the maximum level of detail reported by Comtrade is at the 6-digit level of the HS classification, the tariff structure of the EU is more detailed and available at the 10-digit level of that same classification (see table A.5). Thus, on the basis of Comtrade data it is not possible to know which product at the 10-digit level Kiribati is exporting to the EU. While the EU does report data on imports, there seem to be some discrepancies between EU and Comtrade information, which makes it difficult to be precise how the export of those products will be affected by the potential change of Kiribati's status.

According to tables A.1 to A.3 exports to the EU seem to be dominated by *crude coconut oil* (roughly some 60 per cent of EU imports from the country) all receiving duty free treatment under the Everything but Arms initiative but subject to 4 different tariff lines under the GSP scheme—under which Kiribati will probably fall if it graduates but, as discussed below, only after 3 years of effective graduation—ranging from 0 to 4.4 per cent. This compares with a tariff range of 2.5 per cent to 12.8 per cent under the MFN scheme.

The specific type of crude coconut oil product that Kiribati exports to the EU seems to fall in the category receiving a tariff of 2.2 per cent under the GSP scheme (151311-9900, crude coconut oil, in packings > 1 KG , as Eurostat reports some imports from Kiribati during the period, although values are not compatible with those reported by Comtrade). Over the period of 2004 – 2006, the average share of Kiribati in Belgian and German imports of crude coconut oil was about 1.3 and 0.2 per cent, respectively, based on Comtrade data.

A tariff of 2.2 per cent may not be a factor that will significantly affect the price of Kiribati product for the European importers. This tariff, if incurred, could be perhaps offset if copra producers in Kiribati could improve productivity. Alternatively, larger producers, particularly Indonesia and the Philippines -- world's two largest producers of copra – may be capable of increasing their own market shares at the expense of smaller producers, such as Kiribati.

The other Kiribati export to the EU seems to be less frequent, occurring just in one year during the period. *Women's/girls' jackets and blazers* carries zero per cent tariff for LDCs but a tariff of 9.6 per cent for GSP countries and 12 per cent for MFN countries. Exports were at \$78 thousand in 2006 according to Comtrade—which corresponds to less than 1 per cent of the country's total merchandise exports in that year.

In sum, exports of apparel, should they continue, and assuming they had entered the EU market under EBA, could be affected by graduation as tariff to be imposed is relatively high at 12 per cent. But, in this case, it can be argued that exports are too small to have any significant impact on the economy of Kiribati. Copra, on the other hand, is a more significant export product for Kiribati. Its copra exports to the EU averaged some \$660 thousand, corresponding to 34 per cent of total copra exports, or 7 per cent of total merchandise exports during 2004-2006 (or 0.6 per cent of the country's GNI). Assuming that all copra it exports would be subject to a GSP tariff of 2.2 per cent and that Kiribati does not adjust the price of its copra exports, exports to EU may also be affected by slightly higher tariff rates after the country graduates.

The possibility of facing tariffs in the EU market would not be immediate; countries will continue to receive EBA preferential treatment for up to 3 years after graduation from LDC status.<sup>4</sup> Should Kiribati's graduation become effective as of the end of 2012, the country would still enjoy EBA treatment up to the end of 2015 and from then on benefit from the GSP treatment.

Another possibility for the country—as far as access to the EU market is concerned—is to negotiate the required protocols (sustainable development and good governance) to access the EC's GSP+ scheme under which all goods covered by the general GSP scheme are granted duty free entry to the EU market. The desirability of such scheme for Kiribati depends, naturally, on the products covered and on the future tariff regime that will prevail beyond 2015, when the current GSP expires. Besides the GSP+ possibility, the country may wish to consider the advantages of negotiating an Economic Partnership Agreement with the EU which allows for duty and quota free treatment equivalent to the EBA.

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<sup>4</sup> COUNCIL REGULATION (EC) No 980/2005 of 27 June 2005: applying a scheme of generalised tariff preferences, article 12 (7). Available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2005:169:0001:0043:EN:PDF> (accessed on 25 September 2008).

On the base of the above considerations, it is possible to say that although as most products the country currently exports either received a zero tariff at the MFN level or are already incurring non preferential tariff treatment, some 30 to 37 per cent of the merchandise trade of Kiribati could be affected by graduation. These are exports currently receiving preferential treatment (tuna in Japan and possibly copra in the EU) which would incur a small tariff at the GSP schemes (2.2 per cent in the case of EU imports of copra and 3.5 per cent in the case of Japan's imports of tuna). Such tariffs—should they still prevail when (and if) the country graduates—could perhaps be offset by increased productivity.

Data limitations are apparent in the case of international trade statistics for Kiribati. UNCTAD on the basis of information made available by the government of Kiribati arrives at a slightly different trade matrix for the country (see annex table A.6). This difference however does not change the conclusions reached above. UNCTAD analyses point out to a negligible – if not absent- impact of the loss of preferential market access should the country graduate.

According to data collected by UNCTAD (see annex table A.6), exports consist of six products (coconut oil, which accounts for 53 per cent of the total export value of the six; frozen fish; copra; bêche-de-mer; shark fins; salt), with four destinations (Australia, Hong Kong SAR, Japan, Taiwan Province of China). The remaining share of Kiribati's total 2006 exports (5.5 per cent) amounts to seaweed exports to the Philippines (1 per cent MFN tariff, with no preferential treatment to LDCs), copra to Bangladesh (5 per cent MFN tariff, with no preferential margin to other LDCs), and frozen fish to China, a country that does offer zero-tariff preferential treatment to LDCs. China's market, which involves only 1.1 per cent of Kiribati's total export receipts in the latest known export structure, appears to be the only case of a possible loss of preferential margin in the event of graduation (10 per cent margin loss for MFN treatment; 40 per cent loss for non-MFN treatment). In all, UNCTAD concludes that with Australia and Hong Kong SAR accounting for two thirds of Kiribati's total exports, and limited prospects for expansion in the export structure of Kiribati, the anticipated negative impact on the country's exporters of a loss of LDC status is nearly non-existent.

### **3.3. Support measures related to capacity building in trade**

Kiribati qualifies to assistance from the *Enhanced Integrated Framework*. A total of \$77 million is available at the Enhanced Integrated Framework Trust fund for Tier 1 financing, with a funding ceiling of \$2 million per country. Tier 1 is a financing arrangement to support, among other things, national implementation arrangements (NIA) and to prepare diagnostic trade integration studies (DTIS).

Kiribati has applied to become an IF beneficiary country in July 2007; the technical review was approved and the country accepted into the Integrated Framework Programme in May 2008. A UNDP-led pre DTIS mission was scheduled to take place in July 2008.

Should Kiribati be confirmed for graduation at the 2009 review, graduation could take place sometime in 2012. Once Tier 1 and 2 funds become available, all IF countries irrelevant of their status within the programme (technical review approved/DTIS completed) become eligible

for Tier 1 funds. All countries that had their DTIS endorsed by their Government become eligible for Tier 2 funding. On the other hand, eligibility of LDCs applying to Tier 1 resources during the transitional phase (graduation takes place three years after the General Assembly take note of after the General Assembly take note of the decision of the Council to endorse the recommendation for graduation by CDP) will be decided by the EIF Board on a case by case basis<sup>5</sup>.

### **3.4. Official Development Assistance**

In its 2004-2007 national development strategy the Government of Kiribati identified 6 key policy areas:

1. economic growth
2. equitable distribution
3. public sector performance
4. human resource development
5. sustainable use of physical assets
6. protecting and using financial reserves to finance development

Donors have increasingly aligned their programmes with the country's priorities. Several of them focus on education and human resources and on the reduction of existing disparities between Tarawa and the outer islands. In most of them, support extended to the country does not seem to be linked to its status as least developed. The overall objectives of the development assistance by Kiribati's major donors and the main sectors where cooperation is concentrated are discussed below.

Official development assistance flows to Kiribati averaged some \$20 million a year during the period 2002-2006 corresponding to roughly 30 per cent of the country's GDP. Official development assistance by the members of the Development Assistance Committee of OECD were about \$15 million during the period, all delivered as grants. Multilateral cooperation provided the remainder of the funds, the majority of which also in the form of grants. Kiribati's major bilateral donors are Australia, Japan, New Zealand and the United States. The European Community (EC) and the Asian Development Bank (ADB) were the largest among the multilateral donors during the period (see table 4).

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<sup>5</sup> Communication received from Sari Laaksonen, Deputy Coordinator, Programme Implementation Unit for the Integrated Framework on September 3, 2008 and Draft guidelines for the implementation of the Enhanced Integrated Framework for Least Developed Countries (LDCs), 1 May, 2007 (see [http://www.integratedframework.org/files/Compendium\\_182\\_08\\_ENG.pdf](http://www.integratedframework.org/files/Compendium_182_08_ENG.pdf))

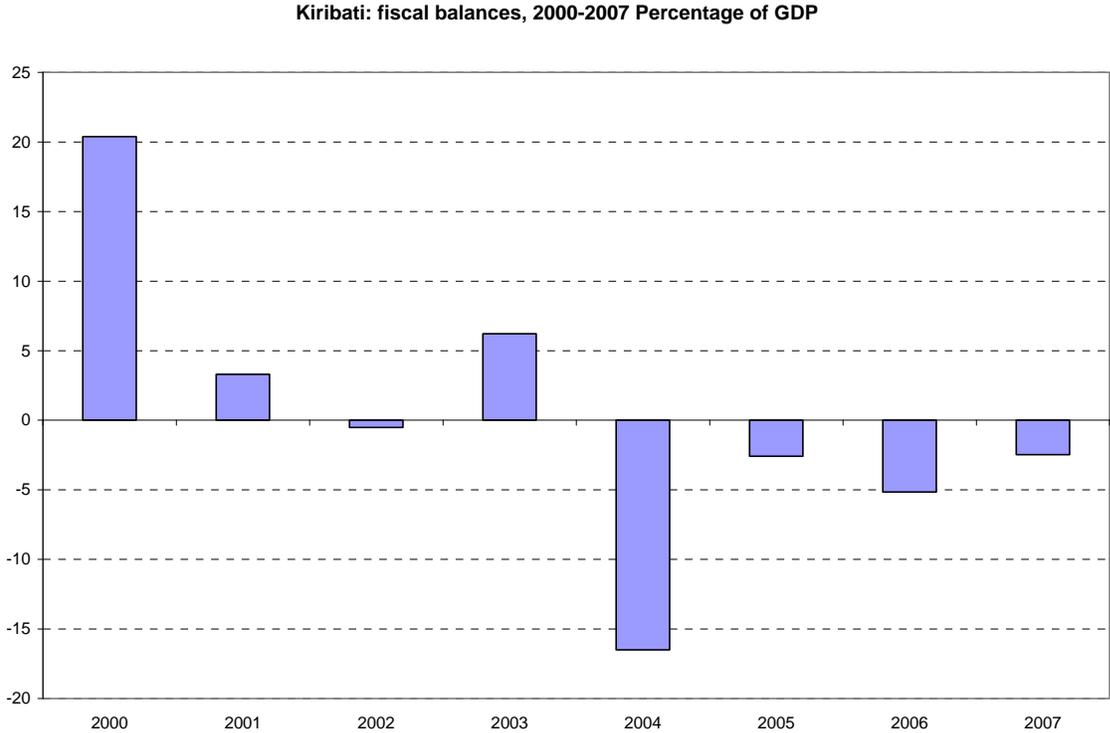
Table 4. Composition and distribution of financial flows (gross disbursements) to Kiribati										
	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006
	<i>millions US\$</i>					<i>percentage in total</i>				
<b>A. Bilateral DAC donors</b>										
<i>1. Grants</i>										
Australia	7.17	6.03	5.43	7.01	0 *	38	47	54	33	0
France	0.06	0.04	0.04	0	0	0	0	0	0	0
Germany	0.03	0.06	0.04	0.08	0.01	0	0	0	0	0
Greece	0	0	0	0.02	0.01	0	0	0	0	0
Japan	8.84	3.70	1.18	11.69	9.88	47	29	12	55	77
Netherlands	0.02	0	0	0	0	0	0	0	0	0
New Zealand	1.56	2.13	2.05	1.68	2.08	8	17	20	8	16
Norway	0.02	0	0	0	0	0	0	0	0	0
United Kingdom	0	0	0	0	0.09	0	0	0	0	1
United States	0.98	0.87	1.32	0.84	0.77	5	7	13	4	6
<i>Total bilateral DAC grants</i>	18.68	12.83	10.06	21.32	12.84	100	100	100	100	100
<i>2. Total DAC non-grants</i>	0	0	0	0	0	0	0	0	0	0
<b>Total (A.1 + A.2)</b>	18.68	12.83	10.06	21.32	12.84	100	100	100	100	100
<b>B. Multilateral donors</b>										
<i>1. Multi-lateral Grants</i>										
EC	0.58	2.51	3.39	3.89	4.46	26	45	51	58	76
GEF	0	0	0	0.08	0.25	0	0	0	1	4
UNDP	0.07	0	0	0	0	3	0	0	0	0
UNFPA	0.06	0	0	0	0	3	0	0	0	0
UNTA	0.39	0.47	0.45	0.72	0.37	18	8	7	11	6
<i>Total multi-lateral grants</i>	1.10	2.98	3.84	4.69	5.08	50	53	57	69	87

<i>2. Multilateral non-grants</i>										
AsDF (Asian Dev.Fund)	0.81	2.42	2.49	1.56	0.15	37	43	37	23	3
EC	0.28	0.23	0.37	0.50	0.63	13	4	6	7	11
<i>Total multilateral non-grants</i>	1.09	2.65	2.86	2.06	0.78	50	47	43	31	13
<b>Total (B.1 + B.2)</b>	2.19	5.63	6.70	6.75	5.86	100	100	100	100	100
<b>All ODA</b>	<b>20.87</b>	<b>18.46</b>	<b>16.76</b>	<b>28.07</b>	<b>18.70</b>					
* -63.44 on OECD website										
Source: OECD.Stat at <a href="http://stats.oecd.org/wbos/Default.aspx?usercontext=sourceoecd">http://stats.oecd.org/wbos/Default.aspx?usercontext=sourceoecd</a>										

Official development assistance has played an important role in Kiribati’s development while also financing a significant share of the government expenditure. Over the past few years (2004-2007) Kiribati recorded budget deficits (see figure 1) due to declining fishing license fees (due cyclical downturn in the catch and depreciation of the US dollar) and import duties (due to trade liberalisation) and had to rely on withdrawals from its Revenue Equalization Reserve Fund. Accumulated reserves remained above the established benchmark of real per capita income level in 1996, but continued and large withdrawals may undermine the fund’s capacity to serve as source of budget support in the long run.<sup>6</sup> In this regard, budget support by bilateral donors has been instrumental in sustaining a certain level of expenditures for the provision of necessary social and infrastructure services.

On average, according to OECD data, over 35 per cent of ODA goes to social infrastructure and services, particularly education and support for government and civil society, with a strong component on improving institutional capacity and governance. The development of economic infrastructure absorbs another 26 per cent of ODA, while support for economic sectors, largely fisheries, takes some 15 per cent of ODA receipts (see table 5)

Figure1



Source: Asian Development Outlook 2008

<sup>6</sup> Asian development Bank, Asian Development Outlook 2008, p. 248

**Table 5.**  
**Total receipts of ODA (gross disbursements) by sector, Kiribati**

	US\$ million	Share(%)						
	2002	2003	2004	2005	2006	Average (2002-2006)	%	
I.Social Infrastructure & Services	7.75	5.69	5.57	4.57	12.52	7.22	36.9	
I.1 Education	5.09	4.11	3.15	3.75	3.87	4.00	20.4	
I.2 Health	0.18	0.09	0.48	0.03	2.60	0.68	3.5	
I.3 Population Programmes	0.05	0.01	0.10	0.01	0.00	0.03	0.2	
I.4 Water Supply & Sanitation	0.80	0.17	0.00	0.02	0.02	0.20	1.0	
I.5 Government & Civil Society	1.63	1.28	1.77	0.52	5.76	2.19	11.2	
I.6 Other Social Infrastructure & Services	0.00	0.04	0.06	0.23	0.26	0.12	0.6	
II.Economic Infrastructure	7.93	4.46	2.83	7.65	3.50	5.28	26.9	
III.Production Sectors	0.33	2.52	1.41	4.89	6.08	3.05	15.6	
III.1 Agriculture - Forestry - Fishing, Total	0.21	1.57	1.27	4.87	6.06	2.79	14.3	
III.1.a) Agriculture	0.15	0.47	0.67	0.20	0.15	0.33	1.7	
III.1.b) Forestry	0.00	0.00	0.00	0.00	0.00	0.00	0.0	
III.1.c) Fishing	0.06	1.10	0.60	4.67	5.91	2.47	12.6	
III.2 Industry - Mining - Construction Tot.	0.09	0.01	0.09	0.01	0.00	0.04	0.2	
III.2.a) Industry	0.09	0.01	0.07	0.01	0.00	0.04	0.2	
III.2.b) Mining	0.00	0.00	0.02	0.00	0.00	0.00	0.0	
III.2.c) Construction	0.00	0.00	0.00	0.00	0.00	0.00	0.0	
III.3 Trade Policy and Regulations	0.03	0.94	0.06	0.02	0.02	0.21	1.1	
III.4 Tourism	0.00	0.00	0.00	0.00	0.00	0.00	0.0	
IV. Multisector	1.75	2.31	3.10	1.16	2.59	2.18	11.1	
VI. Commodity Aid / General Prog. Ass.	0.00	0.00	0.00	0.01	0.00	0.00	0.0	
VI.1 General Budget Support	0.00	0.00	0.00	0.00	0.00	0.00	0.0	

VI.2 Food Aid/Food Sec. Ass.	0.00	0.00	0.00	0.01	0.00	0.00	0.0
VI.3 Other Commodity Assistance	0.00	0.00	0.00	0.00	0.00	0.00	0.0
VII. Action Relating to Debt	0.00	0.00	0.00	0.00	0.00	0.00	0.0
VIII. Emergency Ass. & Reconstruction	0.00	0.00	0.00	0.00	0.00	0.00	0.0
VIII.2 Other Emergency & Distress Relief	0.00	0.00	0.00	0.00	0.00	0.00	0.0
VIII.3 Reconstruction relief	0.00	0.00	0.00	0.00	0.00	0.00	0.0
VIII.4 Disaster prevention & preparedness	0.00	0.00	0.00	0.00	0.00	0.00	0.0
IX. Administrative costs of donors	0.01	0.00	0.00	0.01	0.00	0.00	0.0
X. Support to NGO's	0.02	0.00	0.14	0.37	0.11	0.13	0.7
XI. Refugees in Donor Countries	0.02	0.00	0.00	0.00	0.00	0.00	0.0
XII.Unallocated/Unspecified	0.01	0.03	0.24	0.50	0.66	0.29	1.5
Unknown	0.22	0.32	0.05	6.56	0.00	1.43	7.3
<b>All</b>	<b>18.05</b>	<b>15.33</b>	<b>13.35</b>	<b>25.72</b>	<b>25.45</b>	<b>19.58</b>	<b>100.0</b>
Source: OECD.Stat at <a href="http://stats.oecd.org/wbos/Default.aspx?usercontext=sourceoecd">http://stats.oecd.org/wbos/Default.aspx?usercontext=sourceoecd</a>							

According to information collected by UNCTAD at the country level (see annex table A.7), ODA dependence is high: two thirds of the multi-year development programme of Kiribati is funded by development partners in the form of ODA, while the remaining third is financed by the Government of Kiribati and some non-governmental funding sources. The question of graduation relates to the donor-funded part of the development programme only. The latter consists of nearly 250 approved projects, which can be classified in six areas of expenditure, as identified in the Kiribati Development Plan (2008-2011): governance, infrastructure, health, education and human resource development, poverty reduction, environment. Sixteen bilateral, regional and multilateral donors make up the range of Kiribati's development partners, with the three largest in terms of ODA allocations (Taiwan Province of China; the European Union; Australia) accounting for 83 per cent of the total donor-funded development budget of the country.

### 3.4.1 Multilateral cooperation

Several donors have focused their programmes on the improvement of social service delivery in the outer islands (due to existing disparities) as the capital remains a magnet for people and resources. The *Asian Development Bank* is a case in point with its programme for Kiribati for 2006-2007 centring on supporting the government efforts to promote a balanced growth throughout the country and focusing on improving the economic environment in the outer islands and strengthening to health services throughout the country.<sup>7</sup> LDC status is not an explicit consideration underlining the bank's partnership with the country.

In the case of the member States of the European Union, individual development cooperation with Kiribati is limited and takes place through the *European Commission* (EC). Development cooperation is conducted within the framework given by the European Development Fund (EDF), which is the main instrument for providing aid for development cooperation in the Africa, Caribbean and Pacific (ACP) States. The primary objective of the EU development policy is the eradication of poverty in the context of sustainable development inline with the international development agenda. The development assistance extended by the EC to Kiribati is governed by the Cotonou Agreement and does not seem to be influenced by the status of the country as LDC.

The EC has had a long term relationship with the country with development cooperation dating back to 1975 with 3<sup>rd</sup> EDF (1975-1980) even before the country was guaranteed independence from the UK in 1979. The EC cooperation has focused on the improvement of the quality of life in the outer islands. The 10<sup>th</sup> EDF foresees allocations of €2.7 million under envelope A—covering macroeconomic support and sectoral policies—and of €1.1 million under envelope B—emergency assistance—for the period 2008-2011.<sup>8</sup> Emphasis is being placed on the development of the water supply and sanitation and renewable energy in support of outer island development.

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<sup>7</sup> ADB, Country Strategy and Program Update, Kiribati, 2006-2007, January 2006

<sup>8</sup> Kiribati – European Community EDF 10: Country strategy paper and national initiative programme for the period 2008-2013, October 2007.

In the case of Kiribati, given its particular vulnerability to climate change, an important support measure offered by the international community to LDCs is the Least Developed Country Fund (LDCF) of the *Global Environment Facility* under the United Nations Framework Convention on Climate Change. The LDCF was designed to support projects addressing the urgent and immediate adaptation needs of the LDCs as identified by their National Adaptation Programme of Action (NAPA).

Kiribati had its NAPA approved on 31 January 2007. Kiribati's Napa specifies the implementation of projects amounting to about \$12 million for a period of 3 years. The country's first request for funding is \$5.8 million. Funds can be secured from GEF on the condition that there is co-financing, in particular from Kiribati recurrent budget. According to the UNFCCC, \$420 thousand were disbursed in May 2007.<sup>9</sup>

Projects already in the pipeline should not be affected by the eventual graduation of the country and are expected to be financed to completion. By graduating however the country no longer has access to the FDC fund. However, additional guidance may be issued at the Conference of Parties to the Climate Change Convention (COP 14) in December 2008 when the LDC Fund is reviewed by the COP, if the issue were to be raised by concerned Parties. The important of guaranteeing access to funds for financing adaptation to climate change in Kiribati cannot be over emphasized. According to the World Bank, "in the absence of adaptation, Kiribati could face economic damages due to climate change and sea level rise of US\$8-\$16 million a year by 2050, or 17-34 % of its 1998 GDP".<sup>10</sup> While GEF-LDC fund is not the only source of finance for activities related to adaptation to climate change, lack of access to concessional finance, including grants, could have important negative consequences for the country.

### 3.4.2. Bilateral assistance

1. Among bilateral donors, Australia and New Zealand are working towards combining their development assistance programmes in Kiribati. *New Zealand's* programme is focused on 4 areas: sustainable urban development, better educational outcomes (teachers' education programme), improving public sector performance and human resource development (vocational training: Kiribati Marine Training centre; scholarships). New Zealand's cooperation programme with Kiribati seems to reflect the country's geopolitical considerations due to its geographical focus on the Pacific region. It also reflects long terms commitment as the country has expressed it will remain engaged in the agreed sectors for periods of 10-15 years<sup>11</sup>. LDC status therefore does not seem to be a guiding principle followed by New Zealand in its partnership with Kiribati. In fact, in its communication with DESA, the Government of New Zealand indicated that its ODA and technical cooperation would not be influenced should Kiribati be confirmed as eligible

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<sup>9</sup> UNFCCC, Report of the Global Environment Facility to the Conference of the Parties (note by the Secretariat, FCCC/CP/2007/3, 27 November 2007) and Republic of Kiribati, National Adaptation Programme (NAPA), January 2007.

<sup>10</sup> Kiribati – Adaptation Program – Pilot Implementation Phase (KAP –II) p.2 .World Bank Report #36846 June 2006

<sup>11</sup> New Zealand Aid, Strategy for the New Zealand Development Cooperation Programme for Kiribati, 2002-2007

for graduation in 2009.<sup>12</sup> Assistance from New Zealand would continue to be determined by mutual agreement against New Zealand's development policy settings and Kiribati's development priorities and needs.

*Australia's* development assistance to Kiribati is concentrated in basic education, human resource development (Kiribati-Australia Nurses Initiative) and public sector management (financial management and increase revenue collection). Assistance in education for 2007-2008 includes support for improved policy, planning and coordination within the education ministry, curriculum and assessment reform maintenance for primary schools and a scholarship programme for university students<sup>13</sup>. The framework for Australia's bilateral assistance to Kiribati is given by the country's regional aid strategy for the Pacific which, among other things, has a strong component of continued support for basic service delivery services aiming at better outcomes in health and education<sup>14</sup>. As in the case of New Zealand, LDC status does not seem to be a consideration in the Australian assistance to Kiribati.

*Japan's* programme for Kiribati is also anchored in a regional initiative which has as main objective the "development of societies capable of sustainable development". Japanese development assistance to Kiribati is centred in the development of economic infrastructure (port maintenance, road improvement, upgrading electric power supply, etc) and production sections, fisheries in particular (see table 6). The basic underlying principle of Japan's ODA to the country is to support Kiribati's development strategy, with particular emphasis on growth, sustainable development and good governance. In addition, Japan acknowledges the fact that Kiribati is a least developed country, with a very small land territory, a number of islands spread over a vast area and is very far from any major international markets. Japan also notes that because of the poor soil condition, Kiribati needs to place fisheries and other marine activities as the core of economic development strategy.

In its letter to the Under-Secretary General for Economic and Social Affairs, the Government of Japan indicates that if a country graduates from the LDC list, it would face higher interest rates on loans from Japan than those special, lower rates charged to loans to LDCs. Japan's aid to Kiribati, however, has comprised only grants and technical cooperation.

With respect to the support extended by the United States, Department of State mentions that US development assistance is delivered through multilateral organizations. For fiscal 2009 priorities are improving Kiribati's security force capabilities in its Exclusive Economic Zone (see vulnerability profile on describe limited land mass and vast oceanic area) including enforcement, port security, coastal patrolling and combat search and rescue. Assistance reflects the United States commitment to regional security and appreciation for Kiribati's support to many aspects of United States policies.<sup>15</sup> LDC status does not seem to play a role in the development assistance the United States extends to Kiribati.

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<sup>12</sup> Letter from the Permanent Mission of New Zealand, dated 9 October 2008, in response to inquiry by DESA concerning support measures provided to countries identified for graduation.

<sup>13</sup> AusAID, Kiribati; Aid Activities in Kiribati

<sup>14</sup> Australia, Pacific Regional Aid Strategy, 2004-2009

<sup>15</sup> United States Department of State, Kiribati: Program Overview.

*Taiwan Province of China* is another relevant bilateral donor to Kiribati, but information about its development assistance activities is difficult to be obtained and not monitored by OECD-DAC. According to information reported in the EC report on Kiribati, Taiwan had an on-going cooperation programme with Kiribati amounting to some A\$38 million in 2006<sup>16</sup>. Kiribati established diplomatic ties with Taiwan POC in November 2003.

The above is neither comprehensive nor intended to evaluate the effectiveness of the international cooperation to Kiribati. The complexity of the task is beyond the objectives of this report. Suffice it to say that international cooperation has been important in supporting the delivery of social services, most likely contributing to the improvement of the country's Human Asset Index,<sup>17</sup> and also helping in supporting economic growth in general. Sustaining and improving upon these results are required in today's increasingly competitive global environment particularly in view of the country's young population and the increasing number of economically active population entering the work force. At the same time, the major donors have developed a long term relationship with Kiribati, and for most of them, based on geopolitical or historical considerations. The LDC status does seem to be the overriding principle guiding development cooperation.

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<sup>16</sup> Kiribati-European Community EDF 10. Country Strategy Paper and National Indicative Programme (for the period 2008 -2013).

<sup>17</sup> Kiribati had the highest HAI among the 65 low income and LDC countries considered in the 2006 Review of the list of last developed countries.

**Table 6. Receipts of ODA (gross disbursements) by sector and main bi-lateral and multi-lateral donors, Kiribati, 2006**

	Main bi-lateral donors								Main multi-lateral donor	
	Japan		Australia		New Zealand		United States		EC	
	2006, millions US dollars (current) and percentage (%)									
	Value	%	Value	%	Value	%	Value	%	Value	%
I. Social Infrastructure & Services	0.94	9.5	6.27	82.9	1.32	63.3	0.77	100.0	3.94	77.5
I.1 Education	0.04	0.4	1.29	17.1	1.06	50.9	..	..	1.47	28.9
I.2 Health	0.01	0.1	1.40	18.5	0.05	2.4	..	..	1.13	22.3
I.3 Population Programmes	..	..	..	..	..	..	..	..	..	..
I.4 Water Supply & Sanitation	..	..	0.02	0.3	..	..	..	..	..	..
I.5 Government & Civil Society	0.86	8.7	3.45	45.6	0.08	3.8	..	..	1.34	26.3
I.6 Other Social Infrastructure & Services	0.03	0.3	0.11	1.4	0.13	6.2	..	..	..	..
II. Economic Infrastructure	3.07	31.0	..	..	0.10	4.8	..	..	0.33	6.6
III. Production Sectors	5.82	58.9	0.07	0.9	..	..	..	..	0.18	3.6
III.1 Agriculture - Forestry - Fishing, Total	5.80	58.7	0.07	0.9	..	..	..	..	0.18	3.6
III.1.a) Agriculture	..	..	0.03	0.3	..	..	..	..	0.12	2.4
III.1.b) Forestry	..	..	..	..	..	..	..	..	..	..
III.1.c) Fishing	5.80	58.7	0.04	0.6	..	..	..	..	0.06	1.2
III.2 Industry - Mining - Construction Tot.	0.005	0.05	..	..	..	..	..	..	..	..
III.2.a) Industry	0.005	0.05	..	..	..	..	..	..	..	..
III.2.b) Mining	..	..	..	..	..	..	..	..	..	..
III.2.c) Construction	..	..	..	..	..	..	..	..	..	..
III.3 Trade Policy and Regulations	0.02	0.2	..	..	..	..	..	..	..	..
III.4 Tourism	..	..	..	..	..	..	..	..	..	..
IV. Multisector	0.03	0.3	1.22	16.2	0.56	26.8	..	..	..	..
VI. Commodity Aid / General Prog. Ass.	..	..	..	..	..	..	0.77	100.0	..	..
VI.1 General Budget Support	..	..	..	..	..	..	..	..	..	..
VI.2 Food Aid/Food Sec. Ass.	..	..	..	..	..	..	..	..	..	..
VI.3 Other Commodity Assistance	..	..	..	..	..	..	..	..	..	..
VII. Action Relating to Debt	..	..	..	..	..	..	..	..	..	..
VIII. Emergency Ass. & Reconstruction	..	..	..	..	..	..	..	..	..	..
VIII.2 Other Emergency & Distress Relief	..	..	..	..	..	..	..	..	..	..
VIII.3 Reconstruction relief	..	..	..	..	..	..	..	..	..	..
VIII.4 Disaster prevention & preparedness	..	..	..	..	..	..	..	..	..	..

IX. Administrative costs of donors	..	..	0.0003	0.003	..	..	..	..	..	..
X. Support to NGO's	..	..	..	..	0.11	5.1	..	..	..	..
XI Refugees in Donor Countries	..	..	..	..	..	..	..	..	..	..
XII. Unallocated/Unspecified	0.03	0.3	..	..	..	..	..	..	0.63	12.3
Unknown	..	..	..	..	..	..	..	..	..	..
ALL	9.88	100.0	7.57	100.0	2.08	100.0	0.77	100.0	5.09	100.0
Source: OECD. Stat at <a href="http://stats.oecd.org/wbos/Default.aspx?usercontext=sourceoecd">http://stats.oecd.org/wbos/Default.aspx?usercontext=sourceoecd</a>										

### 3. 5. Other support measures

All Member States of the United Nations are supposed to finance the expenses of the United Nations as apportioned by the General Assembly. The minimum assessment rate is 0.001 per cent. LDC contributions to the regular budget of the United Nations are capped at 0.01 per cent of the total UN budget (e.g. amounting to contributions no larger than \$206,063 per country to the 2008 budget<sup>18</sup>), regardless of their national income and other factors determining a Member State's assessment rate. Kiribati's contribution to the 2008 budget is assessed at the minimum of 0.001 per cent, which corresponds to \$20,606 of gross contributions for 2008.<sup>19</sup> Graduation therefore will not affect the country's scale of assessment to the UN general budget.

Every LDC is also entitled to a 90 per cent discount in their contributions to peacekeeping operations (i.e. they pay only 10 per cent of their regular budget rate, level J threshold).<sup>20</sup> Should the country graduate, its contributions to peace keeping budget would be assessed at the same level of countries whose per capita GNP is under \$4,797 and receive an 80 per cent target discount. In the case of Kiribati, this would imply contributing 0.0002 per cent (instead of the current 0.0001 per cent) to the financing of those operations. Approved resources for peace keeping operations for the period 1 July 2007 to 30 June 2008 amounted to \$6.75 billion to which Kiribati is expected to contribute with \$6,750 (0.0001 per cent). If the country were not an LDC that contribution would have amounted to \$13,500 (0.0002 per cent).

The United Nations provide travel assistance for up to five representatives of LDC attending the General Assembly. The total travel cost to the UN for the participation of qualifying LDC members to General Assembly sessions for the years 2005 and 2006 was respectively \$1,124,407 and \$980,417. This corresponds to an average of about \$20,000 per year per country. Over the past 5 GA sessions (58<sup>th</sup> to 62<sup>nd</sup> session), Kiribati made use of its travel entitlement only once (61<sup>st</sup> session). Kiribati does not have a permanent mission to the United Nations and its vote is cast by New Zealand by a proxy arrangement.

Besides this assistance to travel to the annual session of the General Assembly, the United Nations and its organizations also provide travel benefits for LDC to support their attendance at special sessions of the General Assembly and other consultative processes relevant for LDCs<sup>21</sup>. Kiribati would lose access to such support upon graduation except to those also extended to small island developing states, a category it will continue to belong.

## 4. Conclusions

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<sup>18</sup> See General Assembly, Programme budget for the biennium 2006-2007. A/RES/60/247 A-C. Expenditures for the biennium 2006-2007 were expected to be 3,799 million dollars.

<sup>19</sup> United Nations Secretariat, Assessment of member States's advances to the working capital fund for the biennium 2008-2009 and contributions to the regular budget for 2008. (ST/ADM/SER.B/719, 24 December 2007).

<sup>20</sup> See General Assembly resolution A/RES/55/235 on the scale of assessments for the apportionment of the expenses of the United Nations peacekeeping operations.

<sup>21</sup> Committee for Development Policy, *Handbook On The Least Developed Country Category: Inclusion, Graduation And Special Support Measures*, forthcoming.

On the basis of available information, it is possible to say that graduation may have some impact on the country, but it does not seem that that impact will be either significantly negative for the country's development prospects or that it is not possible to be addressed ex ante. The support the country has been receiving from the international community--to a large extent--does not seem to be influenced by the country's status as LDC, except perhaps for some types of multilateral technical assistance such as those financed through the LDC fund in GEF and some instances of preferential market access. Due to Kiribati's vulnerability to climate change (see vulnerability profile), guaranteeing the country's access to financial resources and expertise to implement required projects related to adaptation to climate change is of fundamental importance.

Bilateral donors' support to the country seems to be largely anchored on historical and geopolitical reasons and not on its LDC status. Thus, according to the replies received by several donors graduation should have a very limited impact on aid allocation. Yet, as the experience of Cape Verde has demonstrated, some donors may be inclined to reducing or even phasing out development cooperation once a country is not longer considered to be amongst the poorest ones.

In this regard, it is important to recognize that the country's fiscal position is fragile (see vulnerability profile) and to take into account that ODA grants have supplemented the government fiscal revenues in a significant way, covering a large share of the country's fiscal expenditures as mentioned above.

The external support has allowed for an expansion in the provision of important social and infrastructure services, and probably contributing to the improvements of the country's social indicators. It is important that such accomplishments are not only sustained but also enhanced. Accordingly, donors' continued engagement should take into account the need of additional efforts to further coordinate actions in the country not only among themselves but also with the country's own priorities.<sup>22</sup>

At the same time, it is also important to stress that there is an urgent need to strengthen fiscal revenues in particular and the formal economy in general. The country's GNP is about 60 per cent larger than GDP indicating limited productive capacity and the relevance of net factor income transfers from abroad. Moreover, GDP growth is strongly affected by movements in the public sector payroll (the public sector generates over 60 per cent of formal jobs in the economy while the majority of the population engaged in subsistence activities).<sup>23</sup>

The country's main sources of factor income from abroad are workers remittances (largely from seafarers), fishing licence fees (which may indicate untapped potential) and the revenues from the Revenue Equalization Reserve Fund. Yet, severe technical and financial constraints may prevent the country from fully exploring the resources it has at its disposal.

While it is not the objective of this brief report to make an assessment of the prospects and constraints of fisheries industry in Kiribati, it seems that obstacles in further developing this sector in the country, in particular technical and financial capacity constraints, need to be

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<sup>22</sup> Kiribati-European Community, EDF 10, annex 2, donor coordination.

<sup>23</sup> Republic of Kiribati, National Development Strategies, 2004-2007: Enhancing Growth and ensuring Equitable Distribution. November 2003

urgently addressed—an area where international cooperation would have much to contribute so as to enhance the country’s productive capacity and lower its dependence on development assistance flows (see box 1).

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Box 1:

Exclusive Economic Zones: missing opportunities?

Kiribati does not fully benefit from the vast marine resources available in its exclusive economic zone. The granting of fishing rights is a case in point. Despite the advantages provided by preferential treatment under the EBA, Kiribati does not seem to export fish and/or fish products to the EU. Instead, the country has a fishery partnership agreement with the EC (on behalf of the EU), which became effective in September 2006 and provides fishing possibilities (exclusively on tuna) for 16 vessels—most of them from Spain--during a period of 6 years.

The agreement includes an annual financial contribution of €178,400, of which €116 thousand are compensation for a reference tonnage of 6,400 tonnes of tuna catches per year (€55 per tonne from the EU, while vessel owners will pay €35 per tonne), and €62,400 to support fisheries policy in the country (first year only, subsequent years will see an increase in the share of the financial contribution towards the support of fisheries policy).<sup>24</sup>

According to Comtrade data, in 2006 Spain imported about 4,800 tonnes of tuna (yellowfin, bigeye and bluefin, fresh/chilled) at an average price of about \$5,000 per tonne (€3,900/tonne). While there is a wide range in the prices tuna can fetch in international markets (due to differences in types of tuna, quality, processing, etc), the price gap between what Kiribati receives when it grants fishing rights and what it could potentially obtain if the country would explore these resources itself is quite substantial. On the back-of –the envelope calculations indicate that, if the country had the capacity to fish the 6,400 tonnes of tuna it allows others to fish, that activity could potentially generate about \$32 million per year in foreign currency gross earnings (assuming an average price of \$5000/tonne), which is substantially above to the value of the country’s current merchandise export revenues and net ODA flows.

In its 2004-2007 National Development Strategy, the Government of Kiribati acknowledges that the domestic production of tuna could be double without jeopardizing stocks while other marine resources also offer commercial production possibilities. High costs related to small scale of existing operations and remote location are a challenge to expand tuna fishing capacity.<sup>25</sup>

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Turning to international trade, preferential market access is an important component in the package of LDC support measures. The country already enjoys free market access to two of

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<sup>24</sup> European Commission- Fisheries- EU and Kiribati initial new fisheries partnership agreement ([http://ec.europa.eu/fisheriespress\\_corner/press\\_releases/archives/com06/com06\\_45\\_en.htm](http://ec.europa.eu/fisheriespress_corner/press_releases/archives/com06/com06_45_en.htm) accessed on 27/03/2008).

<sup>25</sup> Republic of Kiribati, National Development Strategies, 2004-2007: Enhancing Growth and ensuring Equitable Distribution. November 2003, p.6

its main export markets (Australia and New Zealand) due to existing regional trade agreements, while no tariffs are applied on the products its exports to the United States.

While it is unlikely that most Kiribati's exports will be significantly affected by the loss of preferences related to LDC status, it is important to note that exports of coconut oil to the EU (should the country decided not to apply to GSP-plus status under which these exports enter that market duty free) and tuna to Japan will be subject to tariffs—albeit low—if the country graduates. Based on Comtrade database (partners reporting), the export of these products to these markets corresponds to a total of 37 per cent of the country's merchandise exports. There is a possibility that, *ceteris paribus*, exports of these products may become somewhat less competitive if Kiribati is not able to compensate for the new tariffs with increases in productivity. Information made available by UNCTAD - based on government data - indicates an even much smaller potential impact should the country graduate and lose preferential market access. This is largely because the country is not making use of preferential treatment. The majority of the country's current exports already incur a zero tariff rate (MFN tariff) in the country's main trading partners.

Table A.1  
 Merchandise exports of Kiribati by main commodity and trade partner, 2004  
 US\$ thousand

		All products	MAIN COMMODITIES , HS-6 digit						
			Fish and crustaceans, molluscs and other aquatic invertebrates (HS 03)	Coconuts, other than desiccated	Oil seeds and oleaginous fruits (HS 02)	Coconut (copra) oil, crude			
<b>Main trading partners</b>			<i>030110</i>	<i>030342</i>	<i>030343</i>	<i>080119</i>	<i>120300</i>	<i>120890</i>	<i>151311</i>
Japan	value	5,387	0	1,744	3,622	0	0	0	0
USA		1,670	919	0	0	0	0	0	0
Bangladesh		1,177	0	0	0	0	1,177	0	0
Thailand		995	0	117	807	0	0	0	0
Germany		451	0	0	0	0	0	0	448
Belgium		419	0	0	0	0	0	0	332
Samoa		309	0	0	0	309	0	0	0
New Zealand		198	0	0	0	0	0	106	0
Australia		191	0	0	0	0	0	0	0
Denmark		106	0	0	0	0	0	0	0
<b>World</b>	value	11,471	931	1,862	4,429	309	1,177	106	1,592

Source: Comtrade database

Table A.2  
 Merchandise exports of Kiribati by main commodity and trade partner, 2005  
 US\$ thousand

		All products	MAIN COMMODITIES (HS 6 digit)							
			Fish and crustaceans, molluscs and other aquatic invertebrates (HS 03)						Coconuts, other than desiccated	Coconut (copra) oil, crude
		\$ thousand	HS 03 total	030110	030342	030343	030559	030799	080119	151311
Main trading partners										
USA		1,296	1,100	1,100	0	0	0	0	0	0
Japan		1,256	1,216	0	410	805	0	0	0	0
Belgium		864	0	0	0	0	0	0	0	839
Fiji		599	0	0	0	0	0	0	526	0
Australia		388	203	0	0	0	0	203	0	0
Malaysia		379	0	0	0	0	0	0	0	379
Other Asia, nes		319	0	0	0	0	0	0	0	315
Denmark		266	0	0	0	0	0	0	0	0
China, Hong Kong SAR		172	172	0	0	0	85	87	0	0
<b>World</b>	value	7160.2	2,710	1,109	410	805	87	298	526	2,371

Note: It excludes all imports reported by the Republic of Korea  
 Source: Comtrade database

Table A.3

Merchandise exports of Kiribati by main commodity and trade partner, 2006, US\$ thousand

			MAIN COMMODITIES (HS 6 digit level)										
Main trading partners		All products	Fish and crustaceans, mollusks and other aquatic invertebrates (HS 03)							Coconuts, other than desiccated	Coconut (copra) oil, crude	Oil-cake & oth. solid residues, whether or not ground/in pellets, from extr ...	Women's/girls' jackets & blazers (excl. knitted or crocheted), of synth. fi ...
			total HS 03	030110	030342	030343	030559	030612	030799	080119	151311	230650	620433
Japan	value	2,127	2,037	0	1,126	910	0	0	0	0	0	0	0
USA		1,544	939	802	0	0	0	137	0	0	0	0	0
Australia		1,178	251	0	0	0	0	0	251	0	715	153	0
Thailand		1,025	1,025	0	305	721	0	0	0	0	0	0	0
Germany		421	0	0	0	0	0	0	0	0	409	0	0
Other Asia, n.e.s.		346	0	0	0	0	0	0	0	0	346	0	0
China, Hong Kong SAR		196	179	56	0	0	123	0	0	0	0	0	0
Denmark		185	0	0	0	0	0	0	0	0	0	0	78
Fiji		134	0	0	0	0	0	0	0	123	0	0	0
Greenland		64	0	0	0	0	0	0	0	0	0	0	0
<b>World</b>	value	8,278	4,447	858	1,431	1,631	123	137	268	123	1,872	153	156
Source: Comtrade Database													

Table A.4				
Import tariff rates (%), 2006, HS2002				
Country	Category	030342 Yellowfin tunas	030343 Skipjack or stripbellied bonito	
<b>Japan</b>	General Rate	5.0	5.0	
	MFN Applied (Generated)	3.5	3.5	
	Non-MFN rates	5.0	5.0	
	WTO bound rate	3.5	3.5	
<b>Thailand</b>	ASEAN Rate	0.0	0.0	
	General Duty	60.0	60.0	
	MFN Duty	5.0	5.0	
<b>United States</b>		030110 Ornamental fish	030612 Lobsters	
	Most favoured nation tariff	0.0	0.0	
	Non-MFN tariff	0.0	0.0	
<b>Australia</b>		030799 *	151311 Coconut (copra) oil, crude	230650 **
	MFN rates	0.0	0.0	0.0
* 030799 Molluscs & invertebrates (excl. of 0307.10-0307.60), frozen/dried/salted/in brine; incl. flours/meals/pellets of aquatic invertebrates other than crustaceans, fit for human consumption				
** 230650 Oil-cake & oth. solid residues, whether or not ground/in pellets, from extraction of coconut/copra				
Source: WITS database				

Table A.5: European Union													
Import tariff rates (%), 2006, HS2002													
European Union	151311- 1010	151311- 1090	151311- 9100	151311- 9900	620433								
MFN duties (Applied)	2.5	2.5	12.8	6.4	12.0								
Preferential tariff for ACP countries	0	0	0	0	0								
Preferential tariff for countries benefiting from the special incentive arrangement for sustainable development and good governance	0	0	0	0	0								
Preferential tariff for GSP countries, excluding Indonesia and Malaysia (excluding China in the case of apparel)	0	0	4.4	2.2	9.6								
Preferential tariff for Least Developed Countries	0	0	0	0	0								
1513111010 Crude coconut oil, for technical or industrial uses (excl. for manufacture of foodstuffs) : for the manufacture of:													
mixtures of methyl esters of fatty acids of subheading 3824 90 99													
1513111090 Crude coconut oil, for technical or industrial uses (excl. for manufacture of foodstuffs) : Other													
1513119100 Crude coconut oil, in immediate packings of <= 1 kg (excl. for technical or industrial uses)													
1513119900 Crude coconut oil, in immediate packings of > 1 kg or put up otherwise (excl. for technical or industrial uses)													
620433 Women's/girls' jackets & blazers (excl. knitted or crocheted), of synth. fibers													
Source: WITS Database													

**Annex TABLE A.6: KIRIBATI EXPORTS**

HS	Product	Destination	2005 X (million Austr. \$)	2006 X (million Austr. \$)	MFN rate (%)	LDC rate	Other GSP rate	
	<b>FISH</b>							
3037900	Frozen fish	AUSTRALIA		0.4010	0			
3037900	Frozen fish	HONG KONG, CHINA		0.1540	0			
3037900	Frozen fish	CHINA		0.0300	10	0	40 (non-MFN)	
3037500	Shark fins	HONG KONG, CHINA		0.0990	0			
3037500	Shark fins	AUSTRALIA		0.0320	0			
	<b>AQUATIC INVERTEBRATES</b>							
03079900	Bêche-de-mer (Sea cucumber)	AUSTRALIA		0.0900	0	0	0	
03079900	Bêche-de-mer (Sea cucumber)	HONG KONG, CHINA		0.1260	0		0	
6011000	<b>SEAWEED</b>	PHILIPPINES		0.1150	1			
	<b>COPRA</b>							
12030000	Copra	BANGLADESH	0.0015		5		4 (APTA)	
12030000	Copra	AUSTRALIA		0.1460	0			
12030000	Copra	TAIWAN, CHINA		0.1170	0			
	<b>COCONUT OIL</b>							
15131100	Crude coconut (copra) oil	AUSTRALIA		0.7360	0			
15131100	Crude coconut (copra) oil	TAIWAN, CHINA		0.6280	0			
25010009	<b>SALT</b>	JAPAN		0.0420	0		0 (non-MFN)	
Source: UNCTAD, based on government data (July 2008)								

Annex table A.7

Kiribati: Donor-funded part of the multi-year development budget in 2008 (expenditure in Australian \$)

Donors	Areas of expenditure	Anticipated expenditure (approved projects)	Number of projects	Examples or types of projects
Taiwan, China	Governance	2,505,313	12	Support to: law enforcement authorities; sports; community transport; the disabled
	Infrastructure	44,816,515	65	Admin. buildings; Upgrading of airport; Social facilities ( <i>maneaba</i> ); Farming facilities (copra)
	Educ. & HRD	298,693	3	Public service training
	Poverty reduction	6,432,502	8	Support to agricultural and small community projects; Kiribati workers outstanding wages
	Environment	500,000	1	Coastal protection projects
	<b>(Total)</b>	<b>(54,553,023)</b>		
European Union	Infrastructure	29,000,000	3	Health services facilities; Outer island learning centres; Rural electrification projects
	Health	250,000	1	General support to the health sector
	Poverty reduction	2,400,000	1	Seaweed development
	<b>(Total)</b>	<b>(31,650,000)</b>		
Australia	Governance	6,415,500	6	Public sector improvement; Formulation of development strategy; Support to patrol boat operations
	Health	1,800,000	1	Support to nursing development
	Educ. & HRD	7,825,251	8	Training in policy-making; General support for education and apprenticeship (scholarships, etc.)
	<b>(Total)</b>	<b>(16,040,751)</b>		
New Zealand	Governance	876,397	6	Support to non-government organizations; Institutional strengthening
	Infrastructure	517,683	5	Urban renovation; Water tanks construction; School premises construction
	Health	150,000	1	Medical treatment scheme
	Educ. & HRD	4,550,800	11	Marine training; Public service training; Enhancement of general educational system
	Poverty reduction	298,202	3	Small project funding
	Environment	26,638	1	Pollution control systems
	<b>(Total)</b>	<b>(6,419,720)</b>		
World Bank	Environment	6,000,000	1	Adaptation to climate change
	<b>(Total)</b>	<b>(6,000,000)</b>		
United States	Educ. & HRD	2,500,000	1	Primary school teachers (Peace Corps)
	<b>(Total)</b>	<b>(2,500,000)</b>		
UNDP	Governance	1,081,000	1	Support to decentralized governance
	Health	44,930	1	Strengthening of reproductive health services

	Educ. & HRD Environment <b>(Total)</b>	111,642 379,491 <b>(1,617,063)</b>	2 9	Community training; Training for MPs (Climate change-related) national adaptation plan of action
WHO	Health Poverty reduction <b>(Total)</b>	991,136 2,177 <b>(993,313)</b>	57 1	Capacity-building in a vast range of health-related areas (70% under a technical coop. programme) Food-related workshop
FFA	Infrastructure Poverty reduction <b>(Total)</b>	424,962 200,000 <b>(624,962)</b>	2 1	Fish processing plants Fisheries sector development assistance
Forum Secretariat	Governance Poverty reduction <b>(Total)</b>	8,760 581,723 <b>(590,483)</b>	1 1	Formulation of national development strategy National workers' repatriation from Nauru
SPREP	Environment <b>(Total)</b>	570,615 <b>(570,615)</b>	7	Water programmes
UNICEF	Governance Health Educ. & HRD Poverty reduction <b>(Total)</b>	29,421 309,065 163,037 9,558 <b>(511,081)</b>	3 11 4 1	Child protection projects Breastfeeding sensitization; Immunization programme ... Job-related capacity-building
SPC	Governance Educ. & HRD <b>(Total)</b>	266,681 8,004 <b>(274,685)</b>	2 1	Family safety study; Household income and expenditure survey Business-related training
United Kingdom	Educ. & HRD Environment <b>(Total)</b>	150,000 3,602 <b>(153,602)</b>	1 1	Volunteers programme Environmental clean-up
UNFPA	Health <b>(Total)</b>	124,118 <b>(124118)</b>	1	Reproductive health information
France	Infrastructure <b>(Total)</b>	112,558 <b>(112,558)</b>	1	Preservation of water resources
<b>TOTAL</b>		<b>122,735,974</b>	247	

Source: UNCTAD, based on Kiribati Development Plan: 2008-2011; and Kiribati Government 2008, 2007 and 2006 budgets.