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23 February 2012

Ms Ana Luiza Cortez
Secretary
Committee for Development Policy
Department of Economic and Social Affairs
New York, NY 10017

Dear Ms. Cortez,

I have the honour to submit the attached written statement by the Government of Tuvalu (GOT) on the question of Tuvalu's graduation, for distribution to and consideration by the Committee for Development Policy (CDP), at its 14th plenary meeting scheduled for 12-16 March 2012, in New York.

Although the GOT regrets to note that its request to make an oral presentation at the CDP Plenary was not accepted according to the CDP existing procedures, the invitation extended to Tuvalu to submit a written statement is highly appreciated. The GOT further appreciates the confirmation as per your letter of 07 February 2012, that all its statements and power point presentation tabled at the recent Expert Group Meeting, will be circulated to the CDP members for further consideration.

In this regard, we hope that members of the CDP will consider more seriously the issues related to the case of Tuvalu, which we have highlighted in our statements, and we would be most grateful to be advised of the outcome of their deliberations as soon as it is known.

Yours sincerely,

Afelee Falema Pita
Ambassador and Permanent Representative

Copy: H.E. Mr. Apisai Ielemia
Minister of Foreign Affairs, Environment,
Trade, Labour & Tourism
Government of Tuvalu
Tuvalu

: H.E. Mr. Ban Ki-moon
Secretary-General
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: H.E. Mr. Cheick Sidi Diarra
Under-Secretary and High Representative for Least Developed Countries, Landlocked Developing Countries and Small Island Developing States,
UN - OHRLLS

TUVALU

Statement

to be

distributed to the Committee For Development Policy

at

its 14th Plenary Session (12-16 March 2012)

New York

The Government of Tuvalu is grateful for the opportunity to submit this written statement for distribution to, and consideration by, the Committee for Development Policy (CDP).

Much has been said and documented by the Government of Tuvalu, from its own perspective as a least developed country and a small island developing State (SIDS), on the question of Tuvalu's graduation from LDC status. Important issues related to this question were shared with the expert group of CDP members who convened to review the list of LDCs in January 2012. We are also grateful to the CDP secretariat for agreeing to circulate to the CDP at this plenary session, copies of our earlier statements.

Without repeating what was already highlighted in previous submissions as mentioned above, this statement will focus on what could be the Committee's approach to the case of Tuvalu in the 2012 review of the list of LDCs.

In its 2009 review of the list, the CDP paid special attention to the case of Tuvalu, which had been found "eligible for graduation" from LDC status three years earlier[1].

The Committee, in paragraphs 25 and 26 of its 2009 report, made the following factual observations.

(1) The report first described Tuvalu as "an extreme case of a small archipelagic island country" (para. 25). This "extreme smallness" was further underlined in para. 26.

[1] The finding of "eligibility for graduation" in 2006 resulted from the fact that Tuvalu, in that year, was considered as meeting graduation criteria "for the first time": Committee for Development Policy, Report on the eighth session (20-24 March 2006), E/2006/33, para. 21 of Chapter IV.

(2) The report rated Tuvalu's aid to GNI ratio as "exceptionally high" (para. 25), thereby recognizing one of the prevailing aspects of the high external dependence of the economy.

(3) The report further recognized the "volatility" of the revenue sources Tuvalu has been leaning on. It cited "remittances" from Tuvaluans working abroad, income from the Tuvalu Trust Fund, fishing licences, and revenue derived from the "dot tv" leasing arrangements (para. 25)[2]. The "high income" (implicitly "high income per capita") that was recorded despite this situation of volatility was emphasized by the Committee although the latter did not indicate what threshold underpinned their impression that the income level of Tuvalu (a lower middle-income country from the World Bank's viewpoint) could be regarded as "high".

(4) Finally, the report noted the "negligible primary income generated by productive domestic economic sectors" (para. 25), a statement subsequently summarized, in paragraph 26, through the Committee's recognition of Tuvalu's "lack of productive activities".

These factual observations are aptly summarized by the CDP in the first sentence of para. 26 of its 2009 report: "the Committee questions the sustainability of the present level of income".

The Government of Tuvalu would like to bring the following to the attention of CDP members:

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[2] The relevant sentence in the 2009 report reads as follows: "Tuvalu's other main sources of income are volatile (remittances, Trust Fund, fishing licence fees, dotcom revenues) but have given the country a high income..." (para. 25).

(i) all the factual economic observations (as recalled above) that were made and reported in 2009 by the Committee for Development Policy about Tuvalu's situation remain entirely valid three years later;

(ii) in this context, the Government of Tuvalu considers that all the elements that justified the CDP's 2009 decision not to recommend Tuvalu's graduation from LDC status are also equally valid in 2012.

Following is a set of further comments on the parameters of the 2009 decision.

The key geographical features (smallness, archipelago) and severe lack of productive capacities that were recalled by the Committee in 2009 explain Tuvalu's lasting inability, three years later, to achieve structural transformation. Beyond the absence of export capacity, there are serious limitations to the scope for domestic or foreign investment in productive activities, let alone for progress whereby the growth of one particular sector would have a beneficial multiplier impact on other sectors. The very small size of the tourism sector underscores this situation, which has never improved.

The volatility of income that had rightly been emphasized by the Committee in 2009 is another main feature of the Tuvaluan economy, namely, its near-total dependence on unrequited transfers (public and private aid) and rental income (fisheries licenses, "dot tv" revenue, philatelic revenue). The latter are forms of revenue unrelated to productive capacities. This makes the case of Tuvalu even more uniquely extreme than the smallness factor, which is common to several countries in the world, including many better endowed economies.

Overall, the reasons for questioning the "sustainability of [Tuvalu's] ... income" are not less valid in 2012 than they were in 2009. It is important to note that, if the level of Tuvalu's per capita income appears to have been statistically **sustained** for a number of years, its structural **sustainability** is highly debatable. Admittedly, sustainability would imply the existence of intrinsic income generation capacities, therefore, minimum progress in human capabilities and the physical infrastructure, and at least one pillar of economic specialization. With marine resources as the only significant natural resource of the country, yet a resource entirely leased to foreign operators, Tuvalu remains largely dependent on revenue sources that are unpredictable and volatile.

Moreover, the non-sustainability of the income accruing to Tuvaluans should be compared with the irreducible recurrent expenditure in the country (government and non-government imports; government wages and subsidies). The total irreducible expenditure in 2010 was over three times greater than the total revenue accruing from the limited "real economy" of Tuvalu, namely, its exports of services (one hotel) and fishing license revenue. This implies that Tuvalu is in a situation of permanently high dependence on more or less unpredictable sources of revenue, notably aid and remittances. The national state of emergency that was triggered by the drought in September 2011 was --beside the added evidence of acute susceptibility to natural shocks-- a reminder of the likelihood and frequency of treasury crises in Tuvalu. Such frequency is explained by the mismatch between the irreducible volume of recurrent expenditure on the one hand, and the insufficient level of stable or predictable revenue on the other.

Based on the issues highlighted above, and those already mentioned in our previous submissions, the Government of Tuvalu again wishes to reaffirm its stance to continue, in the absence of a special treatment of small island developing States, to benefit from Least Developed Country status.