

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

Ex-ante impact assessment of likely consequences of graduation of
Tuvalu
from the least developed country category
2012 triennial review

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Ex-ante impact assessment - Tuvalu

2012 triennial review update

November 2011

Abstract

This impact assessment considers the likely impact of graduation on Tuvalu from the list of the least developed countries (LDCs). A recommendation to graduation is to be considered by the Committee for Development Policy (CDP) at its triennial review of the LDC in 2012 and implemented in accordance with current graduation procedures adopted by the Economic and Social Council. This report updates the previous assessment conducted for the 2009 triennial review and examines the implications of possible changes in international support measures, including trade preference and official development assistance (ODA), as a result of graduation of the country from the LDC category. It argues that the impact of eventual loss of preferential market access due to LDC status on Tuvalu's exports would be limited due to the country's underdeveloped export sector. On the other hand, Tuvalu depends heavily on ODA and could be exposed to risks associated with the possible reduction of ODA. However, consultations with the country's major donors have suggested that most of bilateral and multilateral donors' ODA flows will not be affected by Tuvalu's graduation. At the same time, graduation may lead to the loss of access to a few LDC-specific funds and/or reduced access to concessional financing where LDC status is binding. In all, the impact of graduation on the support extended by development and trading partner seems to be limited. Nevertheless, and regardless of its LDC status, it is critical that the international donor community continues to provide the country with financial and technical support in particular to reduce Tuvalu's high vulnerability to the adverse impact of climate change.

1. Background

This report updates information available in the 2009 ex-ante impact assessment which was prepared by the Department of Economic and Social Affairs (DESA) for the Committee for Development Policy (CDP).¹ As its predecessor, this report examines the likely consequences of graduation from the Least Developed Country (LDC) category for Tuvalu.

The Committee found Tuvalu eligible for graduation for the first time in 2006 when it established that Tuvalu met two criteria for graduation: gross national income (GNI) per capita and the human asset index (HAI). Of the countries reviewed, while the country was among those with the highest levels of HAI, Tuvalu had the highest score on the economic vulnerability index (EVI).

¹ See DESA/CDP Secretariat, *Ex-ante impact assessment of likely consequences of graduation of Tuvalu from the least developed country category*, February 2009 available at http://www.un.org/en/development/desa/policy/cdp/ldc/ldc_impact_assessment.shtml

In the 2009 review of the list of LDCs, the CDP considered that the country met the graduation requirements for the second consecutive time. The country's per capita GNI was \$2,544 in 2005-2007, well above the graduation threshold (\$1,086). The HAI was also above the graduation threshold level. Tuvalu thus fulfilled two of the criteria as required for graduation. However, in view of the insufficiently developed productive capacity, the CDP questioned the sustainability of the country's level of income and did not recommend Tuvalu for graduation at the 2009 review.

This ex-ante impact assessment report focuses on the likely consequences of graduation for the country's economic growth and development and on potential risk factors, or gains that countries may face after graduating. It analyses and assesses information from several sources including the country's main official development partners, multilateral organizations and trading partners.

In September 2011, the country's development partners were approached by DESA for an input to the impact assessment. Donors were asked for their views with respect to the likely treatment they would extend to Tuvalu, in particular, concerning the continuation of development aid, technical cooperation and trade preferences if the country's graduation were confirmed at the review in 2012 and implemented by 2015. As of 10 November 2011 DESA had received responses from the European Union, France, Japan, New Zealand, and the United States.

The first draft of the 2012 impact assessment of Tuvalu was finalized and circulated to the country in November 2011. According to established procedures, the country, if it so wishes, can make an oral presentation on its views on the possibility of graduation at the expert group meeting of the CDP on 16-17 January 2012 which will take place in preparation for the triennial review in March 2012.

2. Methodology

Methodological considerations underlying the ex-ante impact assessment were established in the 2009 report and will be followed here.²

The 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 trading partners and certain multilateral and regional trade agreements. These measures fall into three main areas: international trade; official development assistance, including development financing and technical cooperation; and other forms of assistance. 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).³

² DESA/CDP (2009), *op. cit.*

³ For more information, see United Nations (2008), *Handbook on the Least Developed Country Category*, available at http://www.un.org/en/development/desa/policy/cdp/cdp_publications_archive.shtml

It is important to emphasize that the analysis carried in this report 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, for instance, the preferential market access granted to LDCs, such as in the ‘Everything but Arms (EBA)’ and other similar initiatives, or the support provided by the United Nations in terms of caps to budget contribution and participation at various international meetings.

However, in some other instances, it is not possible to make a distinction between LDC specific measures and “regular” development assistance. For example, it is difficult to specify LDC-specific ODA flows. Hence, this report will identify major bilateral and multilateral donors and briefly provide an overview of their development assistance strategies vis-à-vis Tuvalu. Then the report will focus on the main areas where donor assistance is received and highlight those that could be potentially affected.

3. Support measures and special treatment related to trade

Due to Tuvalu’s LDC status, its exports can receive special treatment including preferential and duty-free rates. In 1968, the United Nations Conference on Trade and Development (UNCTAD) recommended the creation of the Generalized System of Preferences (GSP). Under this system, selected products originating in developing countries would be granted zero or reduced tariff rates instead of the Most-Favoured-Nation (MFN) rates of duty, and wider product coverage and deeper tariff cuts for LDCs. In 1971, the contracting parties to the General Agreement on Tariffs and Trade (GATT) granted a temporary waiver from Article 1 of the GATT which prohibits discrimination, in order to allow preferential treatment to exports from developing countries. In 1979, GATT contracting parties adopted the decision on “Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries” (the so-called Enabling Clause), which allows developed members to give differential and more favourable treatment to developing countries.⁴ In this regard, several developed countries established special programmes for LDCs within their GSPs. The EU’s ‘Everything but Arms’ Initiative which was launched in 2001 is a case in point.

Independent of its LDC status, Tuvalu can access markets on a preferential basis due to its participation in bilateral and regional free trade agreements (FTA). Tuvalu is one of the Forum Island Countries signatories to the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), which allows duty free and unrestricted or concessional access for most products markets in Australia and New Zealand. Tuvalu also participates in the Pacific Islands Trade Agreement (PICTA) which

⁴ For more information, see United Nations (2008), *Handbook on the Least Developed Country Category*; World Trade Organization (2007), *Market Access For Products And Services of Export Interest to Least Developed Countries (WT/COMTD/LDC/W/41)* available at http://www.mdg-trade.org/WTCOMTDLDCW41_english.pdf

grants benefits to signatory countries not associated with LDC status.⁵ PICTA was signed in 2003 by 12 of the countries of the Pacific Island Forum (Australia and New Zealand excluded) and aims to reduce tariffs on goods imports from Pacific island countries to zero by 2021.

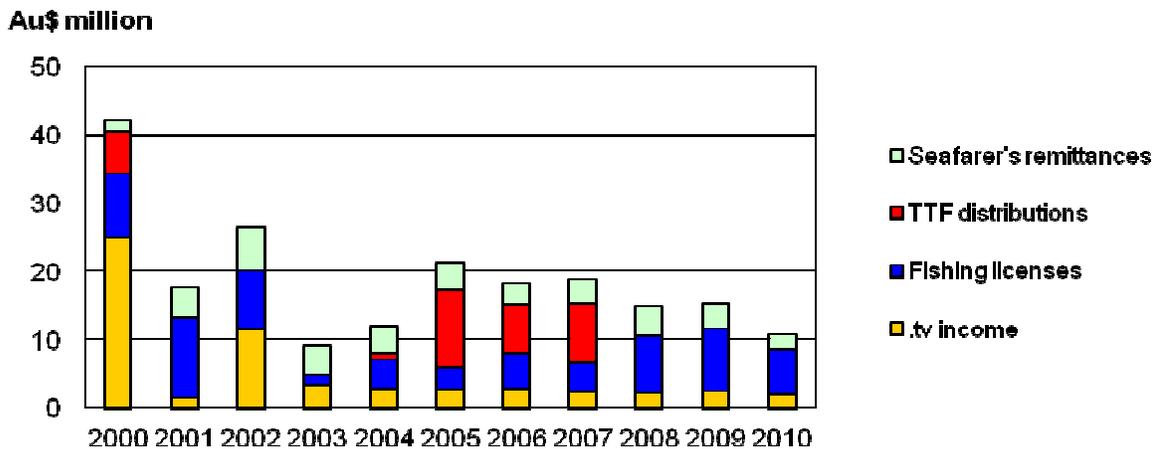
Main export products

The exports of goods generate little foreign currency earnings for the country. According to the International Monetary Fund (IMF), the value of Tuvalu’s merchandise exports was estimated between Au\$400,000 and Au\$ 600,000 per year from 2004 to 2009, which corresponds to less than 2 per cent of GDP—one of the lowest export to GDP ratios among the Pacific island economies.⁶ Apart from fish resources, Tuvalu has limited natural resources and a small and poor quality land area. Additionally, data on the total value of exports are not reliable or easily available.

Possible impact of loss in preferences

Tuvalu’s main sources of foreign exchange come from fishing license fees paid by foreign fishing fleets, the “.tv” internet domain name lease, remittances, ODA and income received from the Tuvalu Trust Fund (TTF) which was established in 1987 by donor countries (see Figure 1).

Figure 1 Tuvalu: Foreign exchange earnings, 2000 - 2010 (millions of Australian dollars)



Source: IMF (2011), Tuvalu: 2010 Article IV Consultation.

⁵ Integrated Framework (2011), Tuvalu Diagnostic Trade Integration Study: 2010 Report, available at <http://www.enhancedif.org/documents/DTIS%20english%20documents/english/Tuvalu%20DTIS%20Report%202010.pdf>

⁶ IMF (2010), Tuvalu: Calculation of Quota; Integrated Framework (2011), Tuvalu Diagnostic Trade Integration Study: 2010 Report. Trade data vary across the sources, but in general the total value of Tuvalu’s export is very small. UNCTAD data indicate the value of Tuvalu’s export at about Au\$700,000 on average per year during the period 2005-2009. See UNCTADstat online database.

Due to the limited productive capacity and insufficient development of the export sector, Tuvalu has not been able to take advantage of preferential access arrangements.

In this regard, should the country develop some export capacity in the future, exports to Australia and New Zealand would receive preferential treatment despite the possible graduation from LDC category as exports would enter those markets duty free owing to Tuvalu's membership in SPARTECA. Tuvalu can also engage in trade with neighbouring island countries under PICTA. But trade creation under PICTA is likely to be minimal due to the low level of intra-regional trade and lack of capacity of the island countries for effective implementation of the agreement.⁷

LDCs are also granted differential and special treatment related to World Trade Organization (WTO) disciplines which is additional and beyond the special treatment accorded to developing countries.⁸ Tuvalu is not a member of the WTO, and thus the country does not benefit from the special considerations for LDCs. Should Tuvalu join the WTO in the future, it can still benefit from preferential treatment being extended to developing countries.

Capacity building in trade

Tuvalu's LDC status allows access to the Enhanced Integrated Framework (EIF) to receive financial and technical assistance on removing obstacles to trade development. Under the EIF, Tier 1 funds can be used to fund the preparation of DTIS and provide operational support to National Implementation Units. Tier 2 funds will be available to finance priority small-scale projects to build up trade-related and supply-side capacities.

Tuvalu joined the EIF in 2007 and undertook preparations for a Diagnostic Trade Integration Study (DTIS) in 2010. The 2010 DTIS argues that Tuvalu has little choice but to be more proactive in identifying new sources of economic growth, which means mainstreaming trade policy into the overall development strategy and devoting more resources to trade-related initiatives, particularly in the area of services. The EIF can make a useful contribution in this area, primarily through capacity-building in the Department of Trade.⁹

As of October 2011, documents for EIF Tier 1 funding are being finalised and the Tier 1 projects are likely to be scheduled to start in 2012. The projects also include an activity to formulate Tier 2 proposals and Tuvalu will seek Tier 2 funding for projects to be implemented by the end of 2012.¹⁰

Possible impact of graduation on capacity building in trade

⁷ IF (2011), op cit

⁸ See for more information, the UN LDC information portal. <http://www.un.org/ldcportal>

⁹ IF (2011), op cit.

¹⁰ The information is based on a communication received from EIF and UNDP.

Graduation of Tuvalu from the LDC category will not immediately affect the current programme in effect or under consideration, because the graduation will take place in 2015 at earliest. Additionally, the EIF adopted smooth transition provisions in July 2010 for countries leaving the LDC category. Accordingly, a graduating EIF country has access to full EIF benefits for three years and an additional two years subject to justification and approval by the EIF Board.¹¹

Specialized training and technical assistance in trade will continue to be provided to Tuvalu under the framework of the Aid-for-Trade, if the country graduates from the LDC category. Aid-for-Trade is available to all developing countries¹² According to the WTO, the total Aid-for-Trade amounted to \$12 billion for LDCs, and to \$20.8 billion for other developing countries in 2009 (commitments in 2009 constant price).¹³

4. Official Development Assistance

The Istanbul Programme of Action for the Least Developed Countries for the Decade 2011-2020 was adopted by the Fourth UN Conference on the Least Developed Countries in 2011. At Istanbul, the international community agreed to implement actions to enhance the resources for LDCs and reaffirmed donors' commitments in meeting established ODA targets by 2015. Donors also agreed to reviewing their ODA commitments for further enhancing resources to LDCs after 2015. As an LDC, Tuvalu will potentially benefit from the priority being assigned to this group of countries.¹⁴

ODA flows to Tuvalu are considerable: on average, the country's ODA/GNI ratio reached 36 per cent over the period 2007-2009. Tuvalu received \$17.8 million as ODA in 2009 (see Annex table 1).¹⁵ Tuvalu's donors have been involved in the Government's Development Partners Agreement (DPA) which aims at improving aid coordination and effectiveness and ensuring support for the implementation of Tuvalu's national development strategy "TeKakeega II" (2005-2015). The strategy focuses on eight priority areas: good governance; economic growth and stability; social development; outer island development; employment and private sector development; human resource development; development of supportive infrastructure and utilities; and natural resource management for agriculture, fisheries, tourism, and the environment. However, the Government has insufficient fiscal capacity to fund its national development strategy and heavily relies on development partners for development assistance.

Bilateral Flows

¹¹ IF (2011), op cit.

¹² WTO (2011), Aid-for-Trade and LDCs, available at http://www.wto.org/english/tratop_e/devel_e/a4t_e/aid4trade_e.htm

¹³ WTO (2011), Aid for Trade At a Glance 2011: Showing Results, available at http://www.wto.org/english/res_e/booksp_e/a4t11_23_stat_notes_e.pdf

¹⁴ United Nations (2011), Programme of Action for the Least Developed Countries for the Decade 2011-2020 (A/CONF.219/3), available at <http://ldc4istanbul.org/uploads/IPoA.pdf>

¹⁵ The ODA/GNI ratio excludes aid flows from Taiwan, Province of China.

Australia, Japan and New Zealand are Tuvalu's major bilateral donors during the period 2005-2009 (see Annex table 1). Taiwan Province of China is also an important bilateral donor. As described below, most bilateral donors have development assistance plans and strategies in place which seem to have been established regardless of Tuvalu's status as an LDC. Generally, the bilateral assistance appears to be guided by humanitarian, economic or political considerations.

Overall, bilateral ODA has been allocated on government and civil society support (23 per cent of the total ODA receipts), transportation and storage (17 per cent), education (16 per cent), energy (14 per cent), and commodity aid (13 per cent) during the period 2005-2009 (Annex table 2). Annex table 3 provides data on ODA receipts of Tuvalu by sector and main donors (excluding Taiwan Province of China).

Japan

Japan is Tuvalu's largest donor, contributing \$8.6 million in 2009 (58 per cent of the total ODA to Tuvalu, excluding Taiwan Province of China). Japanese ODA to Tuvalu focuses on projects in the fisheries sector. The Japanese aid program has also been active in supporting projects that are of indirect value for the tourism sector. Support to the improvement of the Tuvalu National Council of Women's Craft Centre and to the construction of the inter-island vessels are cases in point.¹⁶ Annex table 3 presents Japan's ODA disbursements by sector.

The Government of Japan indicated that Tuvalu's graduation from the LDC category will not have immediate impacts on the level of development aid and technical co-operation of Japan. However, special treatment such as concessional interest rates available for LDCs on the funds provided through International Yen Loans, would no longer be accessible for Tuvalu if the country graduates. The Government of Japan also remarked that there is no recent project utilizing such loans since all the projects in Tuvalu are funded by grant or technical assistance.¹⁷

Australia

Australia is Tuvalu's second largest OECD donor with a total aid allocation of \$4.6 million in 2009 (see Annex table 1). Australia's aid has been directed mainly toward supporting the government and civil society, health and water sectors. The total ODA from Australia to Tuvalu for 2011–2012 is anticipated to be around \$9.9 million and will focus on addressing the implications of climate change, government budget support, gender balance, and work force improvement.¹⁸ For the detailed breakdown of Australia's ODA to Tuvalu, see Annex table 3.

¹⁶ IF (2011) op cit.

¹⁷ Letter from the Permanent Mission of Japan, dated 28 October 2011, in response to inquiry by DESA concerning support measures provided to countries identified for graduation.

¹⁸ AusAid, Country programs, available at <http://www.ausaid.gov.au/country/country.cfm?CountryId=22>

The Government of Australia had previously indicated to the Secretariat that LDC status in itself did not determine Australia's ODA allocation. Therefore, Tuvalu's graduation is not likely to alter the level of development assistance and technical cooperation provided by Australia.¹⁹

New Zealand

At 52 per cent of total ODA flows, New Zealand's assistance to Tuvalu was heavily concentrated in the education sector in 2009. The 2010/2011 allocation of New Zealand's aid to Tuvalu is \$3.5 million. The New Zealand aid programme supports the priorities set out in TeKakeega II and focuses on three core areas: financial management, outer island development, and workforce skills development.²⁰ See Annex table 3 for a detailed breakdown of New Zealand's ODA by sector.

Graduation from the LDC category may not impact on New Zealand's ODA policies to the country. The Government of New Zealand confirmed that Tuvalu's graduation would not influence New Zealand's policy stance vis-à-vis the country as development assistance will continue to be determined by a negotiated agreement based on New Zealand's aid priorities and partner country's needs.²¹

Taiwan, Province of China

Data on Taiwan Province of China's assistance are not recorded by OECD and are difficult to obtain. There are indications that Taiwan Province of China's assistance accounts for a significant share of the total assistance to Tuvalu, with a particularly active role in the area of agricultural development.²² According to the data provided to the Asian Development Bank (ADB) by the Government of Tuvalu, ODA grants from Taiwan amounted to about 13 per cent of the total government budget and about 20 per cent of the grant component of the government revenue in 2009.²³ It is unlikely that Taiwanese assistance will be affected by a change in Tuvalu's status as an LDC.

Multilateral Flows

European Union

¹⁹ United Nations (2011), Bilateral Official Development Assistance (ODA) Survey on LDC-specific International Support Measures, Australia, Summary Results, available at http://webapps01.un.org/ldcportal/c/document_library/get_file?uuid=01101fc4-41ba-4d89-a602-e6f0d18e93d3&groupId=10136

²⁰ New Zealand Ministry of Foreign Affairs and Trade, Aid Program on Tuvalu, available at <http://www.aid.govt.nz/programmes/c-tuvalu.html>

²¹ Letter from Permanent Mission of New Zealand to the UN, dated 28 October 2011, in response to inquiry by DESA concerning support measures provided to countries identified for graduation.

²² IF (2011) op cit.

²³ Calculations are based on data received from the ADB.

Development cooperation between Tuvalu and the European Union has steadily increased since the Lomé Agreement (1975) and, subsequently, the Cotonou Partnership Agreement (2000) between African, Caribbean and Pacific (ACP) countries and European Union member States. Sustainable management of natural resources has been a key element in EU's development agenda for Tuvalu. Reliable provision of water and sanitation, waste management, coastal protection, disaster preparedness and renewable energy are important issues for Tuvalu-EU development cooperation. The priority area of co-operation under the 10th European Development Fund (EDF) is water and sanitation, including waste management and renewable energy. The European Commission's total allocation for Tuvalu under 10th EDF funding (2008-2013) amounts to €5.4 million of which €4.4 million are earmarked for the priority sector. Additional assistance will be provided for programmes in support of non-state actors and trade-related issues.²⁴

The EU indicated to the CDP Secretariat that there would be no change regarding current programmes under 10th EDF. A change in the country's LDC status might have consequences under 11th EDF (2014-2020), but in view of Tuvalu being a small island state, and the disadvantages this entails, the EU would expect to have special consideration and discussion on the next programming cycle.²⁵

United Nations Framework Convention on Climate Change (UNFCCC)

Under the United Nations Framework Convention on Climate Change (UNFCCC), financing sources have been created to address the special needs of developing countries in the area of climate change mitigation and adaptation. Among others, the Global Environment Facility (GEF) Trust Fund was made operational in 1994.²⁶ In 2001, the parties to the UNFCCC established the Least Developed Countries Fund (LDCF) to support LDCs in carrying out the preparation and implementation of national adaptation programmes of action (NAPAs).²⁷ The Special Climate Change Fund (SCCF) was established in 2004 to finance activities, programs and measures relating to climate change.²⁸ The Adaptation Fund, made operational in 2009, has been established by the parties to the Kyoto Protocol of the UNFCCC to finance concrete adaptation projects and programmes in developing countries.²⁹ Among these funds, the LDCF is available exclusively for LDCs, while the GEF Trust Fund, SCCF and Adaptation Fund are available for all developing countries.

²⁴ Tuvalu and European Commission (2007), Country Strategy Paper for Tuvalu (2008-2013), available at http://ec.europa.eu/development/icenter/repository/scanned_tv_csp10_en.pdf?CFID=160883&CFTOKEN=66219861&jsessionid=24309d464799196e8774

²⁵ Letter from European Union Delegation to the UN, dated 8 November 2011, in response to inquiry by DESA concerning support measures provided to countries identified for graduation.

²⁶ The GEF Trust fund has received a total of \$15.225 billion during its five replenishments. See http://www.thegef.org/gef/trust_funds

²⁷ The voluntary contributions of about \$180 million have been made for the LDCF. See http://unfccc.int/cooperation_support/least_developed_countries_portal/lcd_fund/items/4723.php

²⁸ As of 2011, the GEF has received voluntary contributions of about \$120 million for the SCCF. See <http://go.worldbank.org/4BAWXIM100>

²⁹ As of 2011, total amount deposited to the Adaptation Fund is \$249.86 million. See <http://www.adaptation-fund.org/about>

Most recently, parties adopted the Cancun Adaptation Framework (CAF) as the outcome of the conference of the parties (COP) meeting in Cancun, Mexico, in 2010. At Cancun, parties affirmed that adaptation must be addressed with the same level of priority as mitigation. The Cancun Adaptation Framework components are likely to come in force in 2012, pending a successful conclusion of the COP 17 in December 2011. Its implementation cluster includes a process to enable LDCs Parties—building upon their experience with the NAPAs—to formulate and implement national adaptation plans (NAPs). The NAP process is designed to address medium and long term concerns which are not taken over in NAPAs (immediate needs).

The Cancun Agreements also established the Green Climate Fund, which will support projects, programmes, policies and other activities in developing countries using thematic windows. Both mitigation and adaptation will be covered. The Fund is expected to be fully operational several years from now. In general, all developing countries will be eligible to access funds, which will channel a significant share of new multilateral funding for adaptation. The Cancun Agreement notes that for adaptation funding, priority will be given to the most vulnerable developing countries, such as LDCs, small island developing States (SIDS) and Africa. Hence priority is to be given on the basis of vulnerability, and it is unclear whether a possible graduation would affect eligibility or allocation of funding under the Green climate Fund in the future.³⁰

Tuvalu has prepared a NAPA in 2007. The LDCF has supported the country with US\$200,000 on the NAPA preparation. Currently, Tuvalu is implementing a \$3 million project on increasing resilience of coastal areas and community settlements to climate change, supported also by LDCF.³¹

It is uncertain at this stage how much access Tuvalu would have to the LDC-specific funds, if the country graduates from the LDC category. The current practice is that project proposals funded by LDC-specific resources will continue to completion, even though a country may have graduated while the project was still being processed or implemented. But this might be the case for a limited number of projects. For instance, Cape Verde graduated in 2007 and is implementing a NAPA project funded with resources from the LDC Fund. Cape Verde, however, would not be able to access funding and support for the NAP process which is designed for LDCs.³² Should Tuvalu graduate, new projects may not be eligible to be funded by LDCF but the country remains eligible to access funds available at other financing sources, such as the GEF Trust Fund, SCCF and the Adaptation Fund.

Multilateral Development Banks and International Financial Institutions

World Bank

³⁰ UNFCCC. See

http://unfccc.int/cooperation_and_support/financial_mechanism/green_climate_fund/items/5869.php

³¹ GEF Project Details, available at <http://www.gefonline.org/projectDetailsSQL.cfm?projID=3694>

³² The information is based on a communication received from UNFCCC.

Tuvalu became the 187th member of the World Bank in 2010. The World Bank is currently in the process of formalizing the country's access to International Development Association (IDA) resources which is the World Bank's concessional financing arm for the poorest countries. The review process has been necessary since Tuvalu's GNI per capita (Atlas method) is \$3,700 in 2010, a level that significantly exceeds the current IDA threshold for inclusion of \$1,175.

IDA financing for Tuvalu is being sought under the small island economy exception -- a provision that acknowledges that despite the much higher income level, small island economies share many of the same characteristics with larger low income countries, including severe capacity constraints, high economic vulnerability, and so on. The proposal under consideration is that Tuvalu will have access to IDA16 resources totaling SDR3.3m (US\$5 million equivalent) on 100% grant terms. The World Bank is currently working on the outline of the Country Assistance Strategy laying out the program for the country over the medium-term. The main focus might be on budget support, and investment operation to help bring Tuvalu's aviation infrastructure up to international safety standards.³³

The World Bank's operations in Tuvalu will not be affected if Tuvalu graduates to non-LDC status. The determination on IDA eligibility, allocation amount, and terms are factors that are evaluated on an annual basis and are not contingent on LDC status.³⁴

International Monetary Fund (IMF)

Before joining the IMF, Tuvalu was already benefiting from technical assistance provided by the Pacific Financial Technical Assistance Centre (PFTAC), which is operated by the IMF, in a number of areas: tax policy and administration (2007, 2008, and 2010); financial sector supervision (2008); and balance of payments and national accounts statistics (2006, 2009, and 2010).³⁵

Tuvalu became a member of the IMF in 2010. The Special Drawing Rights quota is 1.80 million. An Article IV mission was conducted in 2010 jointly with the World Bank, and the Debt Sustainability Analysis is in progress.

There are no LDC-specific financing modalities available in the IMF. Thus regardless of its LDC status, as a member of IMF, Tuvalu will have access to the organization's financing and expertise when necessary.

Asian Development Bank (ADB)

³³ World Bank (2011) IDA Allocation, available at <http://go.worldbank.org/F5531ZQHT0>. The information is also based on a communication received from the World Bank.

³⁴ The information is based on a communication received from the World Bank.

³⁵ IMF (2011) Tuvalu: 2010 Article IV Consultation.

Since the country joined ADB in 1993, the Bank has provided Tuvalu with two loans and one grant totaling \$11.06 million from the Asian Development Fund (ADF) and 21 technical assistance programs with the total budget of \$5.91 million. The ADB's most recent activities in Tuvalu include a grant of \$3.24 million and two technical assistance projects (\$1.13 million) in 2008. In recent years, the ADB's operational strategy for Tuvalu has focused on improving governance and economic management, as well as providing skills development to enhance employment opportunities. Improvement of services on the outer islands, where most of the poor and vulnerable groups are concentrated, has also been undertaken.³⁶

The LDC status is not the primary consideration for determining a country's access to the ADF which is the ADB's main source of concessionary lending. ADF eligibility takes into consideration, per capita GNI, access to private capital, and the level of development of institutions. Additionally, the ADB classifies countries-- for the purposes of access to different financing modalities -- based on their risk of future debt distress, and general credit worthiness criteria.³⁷ Currently, Tuvalu is classified by the ADB as a country at high risk of debt distress. This suggests that it is highly unlikely that Tuvalu's eligibility for the ADF grants would change if it were removed from the LDC list.³⁸

Other forms of international support measures

Contributions to the budget of the United Nations

All Member States have to contribute to the UN regular budget. Assessments to the budget are established on the basis of gross national income and other considerations, such as debt-burden adjustment. Contributions by an LDC are capped at 0.01 per cent (ceiling) of the total UN budget, regardless of the country's national income or other factors. A minimum contribution of 0.001 per cent (floor) is, however, required for all Member States. For 2011, Member States at the floor (0.001 per cent) were assessed at \$23,487 for the regular UN budget.³⁹

Tuvalu is assessed at the minimum rate of 0.001 per cent for the 2011 budget.⁴⁰ Assuming that the assessment methodology remains unchanged, Tuvalu is very likely to remain close to the minimum assessment rate of 0.001 per cent, far below the maximum rate of 0.01 per cent for LDCs. Since the maximum assessment rate of 0.01 per cent for LDCs is not applied to Tuvalu, the graduation will not affect Tuvalu's contribution to the UN regular budget.

³⁶ ADB (2011) Tuvalu: Country Profile; IMF (2011) Tuvalu: Article IV Consultation.

³⁷ ADB (2009) the 2008 Review of the Graduation Policy, available at <http://www.adb.org/Documents/Policies/Graduation/graduation-policy.asp>

³⁸ The information is based on a communication received from ADB.

³⁹ United Nations (2011), Report of the Committee on Contributions (A/66/11), available at <http://daccess-dds-ny.un.org/doc/UNDOC/GEN/N11/408/12/PDF/N1140812.pdf?OpenElement>

⁴⁰ United Nations (2010), Assessment of Member States' contributions to the United Nations regular budget for the year 2011 (ST/ADM/SER.B/824), available at http://www.un.org/ga/search/view_doc.asp?symbol=ST/ADM/SER.B/824

United Nations peacekeeping budget contributions

Contributions to the UN peace keeping budget are based on gross national income and other considerations, such as the LDC status. Tuvalu is included in the J level group of countries which consists of the LDCs, receiving a 90 per cent discount on its regular budget assessment of 0.001 per cent.⁴¹ Should Tuvalu graduate from the LDC category, it will be included in the I level which consists of the non-LDCs with GNI per capita below US\$6,708 (2010-2012) threshold, receiving 80 per cent discount rate. The ten percentage point margin of the discount rates would translate to an extra contribution of the amount of \$7,060, calculated from the total peacekeeping budget of \$7.06 billion for the fiscal year, 1 July 2011-30 June 2012.⁴²

Attendance to UN General Assembly meetings

The United Nations offers air tickets for up to five representatives of each Member State designated as a LDC to attend the regular sessions of the General Assembly.⁴³ If Tuvalu were to graduate from the LDC list, this benefit would be extended, if requested, within existing resources of UN, to Tuvalu for a period appropriate to the development situation of the country and to a maximum of three years.⁴⁴

The potential graduation of Tuvalu may not impact on its eligibility for most of the UN related travel benefits, because, as a small island developing state (SIDS), Tuvalu would continue to access to benefits made available through voluntary trust funds to assist LDCs, SIDS and landlocked developing States, to attend meetings of the UN consultative process.⁴⁵ The UNFCCC trust fund also facilitates the participation of LDCs and SIDS in the Convention process.

Possible impact of graduation on ODA

Regardless of whether Tuvalu graduates, the country remains highly vulnerable to abrupt changes in aid flows. As seen above, development aid is a critical source of income for

⁴¹ United Nations (2009), Implementation of General Assembly resolutions 55/235 and 55/236 (A/64/220), available at http://www.un.org/ga/search/view_doc.asp?symbol=A/64/220

⁴² United Nations (2011), Approved resources for peacekeeping operations for the period from 1 July 2011 to 30 June 2012 (A/C.5/65/19), available at http://www.un.org/ga/search/view_doc.asp?symbol=A/C.5/65/19

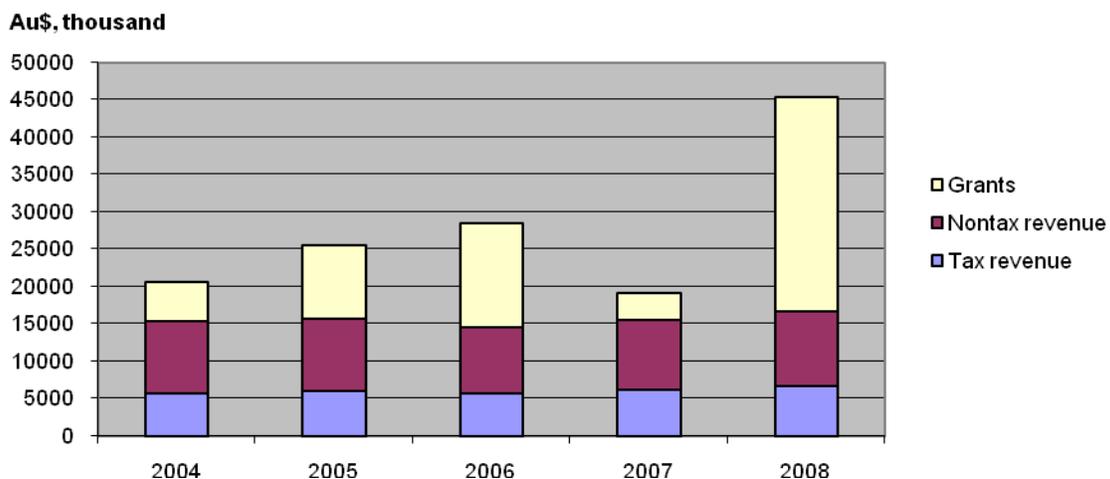
⁴³ United Nations (1991), Rules governing payment of travel expenses and subsistence allowances in respect of members of organs or subsidiary organs of the United Nations (ST/SGB/107/Rev.6), available at <http://documents-dds-ny.un.org/doc/UNDOC/GEN/NS0/000/21/img/NS000021.pdf?OpenElement>

⁴⁴ United Nations (2011), Implementing the smooth transition strategy for countries graduating from the list of least developed countries (A/65/L.66/Rev.1), available at http://www.un.org/en/development/desa/policy/cdp/cdp_res_dec/a65_l66rev1.pdf

⁴⁵ Codex Alimentarius Commission and Convention of Biological Diversity are the examples of such meetings.

the country. Reductions in development assistance from major donors may have a significant effect on government revenues (see Figure 2) and could impact on the country negatively, particularly on those sectors receiving relatively large amounts of ODA such as education and health (see Annex table 2). According to the ADB and IMF, Tuvalu's fiscal performance has worsened significantly in 2010 mainly due to poor fiscal management, weak demand for services provided by seafarers, which has resulted in a steady decline in remittances.⁴⁶ Distributions from the Tuvalu Trust Fund (TTF) are not anticipated to contribute significantly to the government budget in the next few years.⁴⁷ The income flows generated from the internet domain lease are not likely to be sustained, as the value of the ".tv" domain name may diminish over time with emergence of more generic internet domain names.⁴⁸ Given this fiscal situation, many of the public investment projects and the provision of basic services might be negatively affected if there are abrupt changes in ODA flows following the country's graduation.

Figure 2 Tuvalu Government Revenues (2004-2008)



Source: Asian Development Bank (2011) Outlook 2011: Update

Note: Nontax revenue includes interests and dividends; Grants includes distribution from Tuvalu Trust Funds.

⁴⁶ ADB (2011) Outlook 2011 Update; IMF (2011) Tuvalu: 2010 Article IV Consultation.

⁴⁷ The TTF was signed in 1987 by Australia, New Zealand, Tuvalu, and the United Kingdom as original parties, and Japan and Republic of Korea joined the initiative afterwards. When the market value of the TTF exceeds its targeted value, the surplus is distributed to be used by the Government to fund recurrent budget expenditures, development projects and reinvestments in the fund. In recent years, however, no distributions from the TTF have been made, because the global financial crisis and the weak recovery of the global economy have reduced the market value of the TTF. See IMF (2011), Tuvalu: 2010 Article IV consultation.

⁴⁸ The Government of Tuvalu has a contract on domain name lease with Verisign, a company in USA, until 2016. The company pays \$2-3 million per year to Tuvalu from 2003 and 2010. In recent years, more general top level domain names, such as ".biz", ".museum", ".travel", etc., are allowed to be registered, and they are likely to reduce demand for the limited number of premium domain names, including ".tv". See Internet Corporation for Assigned Names and Numbers (ICANN) <http://www.icann.org/en/tlds/>; Asia Pulse (2010), Tuvalu's Dot-Tv Domain Code to Diminish in Value.

Several of the country's main bilateral donors have indicated to the Secretariat that a change in Tuvalu's LDC status would not affect their level of assistance to the country. In fact, development assistance strategies do not seem to be associated with the country's LDC status. Instead, donors appear to be guided by political and economic considerations in determining their aid priorities for Tuvalu.

At the multilateral level, it is not clear how Tuvalu's graduation would affect access to development finance. While the country may not be able to access to some LDC-specific financing sources, the overall impact will depend on the availability of alternative sources of financing which, although not providing exclusive access, entail much larger sums of funding. For instance, Tuvalu access to EIF funding will be phased out but the country still has access to a much larger pool of resources under Aid-for-Trade. Similarly, Tuvalu would not have access to LDCF (for new projects), but would retain access to GEF Trust Fund, SSCF and Adaptation Fund which are available for all developing countries.

Tuvalu's eligibility for concessional lending by multilateral development banks and international financial institutions is not likely to be affected by the country's graduation from the LDC category. For example, it is highly unlikely that Tuvalu's eligibility for the ADF grants of the ADB would change, because of the country's high risk of debt distress. The IDA allocation of the World Bank and the intervention of IMF are not influenced by a change in the country's LDC status.

Tuvalu, with other island countries in the Pacific region, is experiencing disruptive consequences of global climate change, including increased frequency and severity of coastal erosion, floods, drought, storm surges, ground water degradation, saline intrusion, coral bleaching, more widespread and frequent occurrences of vector-borne diseases, and periods of exceptionally high sea levels. These climate change impacts will increase over time and are likely to threaten food security as well.⁴⁹ Given Tuvalu's high vulnerability to climate change, continuous support in this area are of critical importance.

5. Conclusions

On the basis of available information, the graduation of Tuvalu from the LDC category is unlikely to have a large negative impact on the country's development achievements as far as the withdrawal of *LDC-specific support measures are concerned*.

With respect to trade, the possible graduation of Tuvalu from the LDC category does not appear to be a concern for the country's limited merchandise exports. Preferential market access enabled by the country's participation in free trade agreements will continue to be in effect because these advantages are not contingent on LDC status.

Most of the current support with respect to ODA will likely remain unaffected by the country's graduation from the LDC category. Replies by major donor countries and organizations suggest that a vast majority of Tuvalu's ODA flows from bilateral and

⁴⁹ ADB (2011), Food Security and Climate Change in the Pacific: Rethinking the Options.

multilateral donors will not be affected by a change in the country's LDC status. Financial assistance and technical support by the ADB, the IMF, and the World Bank would not be influenced by the possible graduation.

Graduation may have some negative impact on the country's access to LDC specific financing, such as some concessional flows available exclusively for LDCs made available by some donor countries (e.g., Japan) and some multilateral LDC-specific funding (EIF, climate change), which will be phased out after graduation takes place. Currently Tuvalu has a few development projects in effect or in process of being financed by such funds. The overall impact of graduation on project finance in certain specific areas (trade capacity building and climate change adaptation) is thus contingent on how easy access to alternative –and often larger-- sources of finance will be. Many of the multilateral financing sources for climate change related programs and trade capacity building projects will be unaffected, as the access to those funds is not associated with the LDC category.

The most immediate and measurable impact of Tuvalu's graduation would be limited to the loss of LDC-related travel support for General Assembly sessions (to be phased out over the period up to three years after graduation) and a slight increase in the contribution to the UN peacekeeping budget.

It is worth emphasizing that the Istanbul Programme of Action for LDCs calls upon the international community to avoid any abrupt reductions in financial and technical assistance and should consider extending trade preferences to the graduated country on a bilateral basis. The measures and benefits associated with the LDC membership status need to be phased out consistent with their smooth transition strategy, taking into account each country's particular development situation.⁵⁰ In the case of Tuvalu, any abrupt reduction in development assistance is likely to have a significant effect on the economy and on the delivery of social services, given its high dependency on ODA and high vulnerability to climate change. Regardless of its LDC status, reducing vulnerability to natural shocks will be a key issue of the economic development of Tuvalu. Accordingly, it is critical that development partners continue to support the country in addressing its developmental challenges.

⁵⁰ United Nations (2011), Programme of Action for the Least Developed Countries for the Decade 2011-2020 (A/CONF.219/3).

Annex table 1. Tuvalu: Composition and distribution of ODA flows by donors, 2005-2009.
(gross disbursements)

	Million US\$ (current)					Percentage in total				
	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
A. Bilateral DAC donors										
1. Grants										
Australia	2.91	3	3.54	4.27	4.58	49	24	39	29	31
Canada	0.2	0	0.34	0.02	0.12	3	0	4	0	1
France	0.07	0	0	0	0	1	0	0	0	0
Greece	0.04	0.01	0.04	0	0	1	0	0	0	0
Japan	1.04	8.28	2.94	5.76	8.58	18	65	33	39	58
Republic of Korea	0.04	0	0	0.2	0.1	1	0	0	1	1
New Zealand	1.63	1.41	2.16	4.49	1.32	27	11	24	30	9
Switzerland	0	0	0	0	0.06	0	0	0	0	0
United States	0	0	0	0	0.01	0	0	0	0	0
Total bilateral DAC grants	5.93	12.7	9.02	14.74	14.77	100	100	100	100	100
2. Total DAC non-grants	0	0	0	0	0	0	0	0	0	0
Total (A.1 + A.2)	5.93	12.7	9.02	14.74	14.77	100	100	100	100	100
B. Multilateral donors										
1. Multilateral Grants										
AsDF	0	0	0	0.09	1.61	0	0	0	9	54
EU Institutions	2.05	1.31	1.41	0.32	0.41	63	50	52	31	14
GEF	0.22	0	0	0	0.5	7	0	0	0	17
UNTA	0.09	0.15	0.19	0.03	0.03	3	6	7	3	1
Total multilateral grants	2.36	1.46	1.6	0.44	2.55	72	55	59	42	86
2. Total multilateral non-grants	0.91	1.18	1.12	0.6	0.43	28	45	41	58	14
Total (B.1 + B.2)	3.27	2.64	2.72	1.04	2.98	100	100	100	100	100
ODA total										
	9.2	15.34	11.74	16.36	17.76					

Source: OECD (2011) OECD.StatExtracts online database.

Annex table 2. Tuvalu: Total receipts of ODA by sector, 2005-2009 (gross disbursements in current US\$ million)

	2005	2006	2007	2008	2009	Average
I. SOCIAL INFRASTRUCTURE & SERVICES	4.35	4.70	6.07	6.42	3.40	4.99
I.1. Education	3.12	1.91	2.57	1.11	0.89	1.92
I.2. Health	0.22	0.12	0.04	0.14	0.43	0.19
I.3. Population Pol./Progr. & Reproductive Health	0.18	0	0	0	0	0.04
I.4. Water Supply & Sanitation	0	0	0	0	0.31	0.06
I.5. Government & Civil Society	0.70	2.62	3.44	5.15	1.73	2.73
I.6. Other Social Infrastructure & Services	0.13	0.04	0.01	0.02	0.03	0.05
II. ECONOMIC INFRASTRUCTURE AND SERVICES	0.58	6.82	2.54	4.03	6.10	4.01
II.1. Transport & Storage	0.03	0.26	0.43	3.86	5.81	2.08
II.2. Communications	0.03	0.01	0.01	0.14	0.19	0.08
II.3. Energy	0.50	6.55	1.07	0.03	0.01	1.63
II.4. Banking & Financial Services	0.01	0	1.03	0	0.08	0.22
II.5. Business & Other Services	0	0	0	0	0.02	0
III. PRODUCTION SECTORS	0.34	0.46	0.40	0.40	0.43	0.41
III.1. Agriculture, Forestry, Fishing	0.31	0.37	0.39	0.39	0.34	0.36
III.1.a. Agriculture	0.01	0	0	0.01	0	0
III.1.b. Forestry	0	0	0	0	0	0
III.1.c. Fishing	0.30	0.37	0.39	0.38	0.34	0.36
III.2. Industry, Mining, Construction	0	0.07	0	0	0	0.01
III.2.a. Industry	0	0.07	0	0	0	0.01
III.2.b. Mineral Resources & Mining	0	0	0	0	0	0
III.2.c. Construction	0	0	0	0	0	0
III.3.a. Trade Policies & Regulations	0.03	0.02	0.01	0.01	0.09	0.03
III.3.b. Tourism	0	0	0	0	0	0
IV. MULTISECTOR / CROSS-CUTTING	0.51	1.49	0.73	0.60	0.74	0.81
V. TOTAL SECTOR ALLOCABLE (I+II+III+IV)	5.78	13.46	9.73	11.45	10.67	10.22
VI. COMMODITY AID / GENERAL PROG. ASS.	0.56	0.25	0.17	3.13	3.81	1.58
VIII. HUMANITARIAN AID	0	0	0	0.07	0.56	0.13
VIII.1. Emergency Response	0	0	0	0	0.18	0.04
VIII.2. Reconstruction Relief & Rehabilitation	0	0	0	0	0	0
VIII.3. Disaster Prevention & Preparedness	0	0	0	0.07	0.38	0.09

Source: OECD (2011) OECD.StatExtracts online database.

Annex table 3. Tuvalu: receipts of ODA by sector and main bilateral and multilateral donors, 2009 (gross disbursements).

	Australia		Japan		New Zealand	
	US\$ million	%	US\$ million	%	US\$ million	%
I. SOCIAL INFRASTRUCTURE & SERVICES	2.19	47.9	0.26	3.1	0.87	65.8
I.1. Education	0.20	4.3	0	0.1	0.69	52.1
I.2. Health	0.39	8.5	0	0	0.04	3.1
I.3. Population Pol./Progr. & Reproductive Health	0	0	0	0	0	0
I.4. Water Supply & Sanitation	0.29	6.3	0.02	0.2	0	0
I.5. Government & Civil Society	1.31	28.7	0.21	2.5	0.14	10.6
I.6. Other Social Infrastructure & Services	0	0	0.03	0.4	0	0
II. ECONOMIC INFRASTRUCTURE AND SERVICES	0	0	5.77	68.1	0.31	23.5
II.1. Transport & Storage	0	0	5.58	65.8	0.23	17.7
II.2. Communications	0	0	0.19	2.2	0	0
II.3. Energy	0	0	0	0	0	0
II.4. Banking & Financial Services	0	0	0	0	0.08	5.8
II.5. Business & Other Services	0	0	0	0	0	0
III. PRODUCTION SECTORS	0	0.1	0.30	3.6	0	0
III.1. Agriculture, Forestry, Fishing	0	0.1	0.27	3.2	0	0
III.1.a. Agriculture	0	0	0	0	0	0
III.1.b. Forestry	0	0	0	0	0	0
III.1.c. Fishing	0	0.1	0.27	3.2	0	0
III.2. Industry, Mining, Construction	0	0	0	0	0	0
III.2.a. Industry	0	0	0	0	0	0
III.2.b. Mineral Resources & Mining	0	0	0	0	0	0
III.2.c. Construction	0	0	0	0	0	0
III.3.a. Trade Policies & Regulations	0	0	0.03	0.4	0	0
III.3.b. Tourism	0	0	0	0	0	0
IV. MULTISECTOR / CROSS-CUTTING	0.54	11.7	0	0	0.14	10.7
V. TOTAL SECTOR ALLOCABLE (I+II+III+IV)	2.73	59.7	6.33	74.7	1.32	100
VI. COMMODITY AID / GENERAL PROG. ASS.	1.67	36.4	2.14	25.3	0	0
VIII. HUMANITARIAN AID	0.18	3.9	0	0	0	0
VIII.1. Emergency Response	0.18	3.9	0	0	0	0
VIII.2. Reconstruction Relief & Rehabilitation	0	0	0	0	0	0
VIII.3. Disaster Prevention & Preparedness	0	0	0	0	0	0
Total	4.58	100	8.47	100	1.32	100

Source: OECD (2011) OECD.StatExtracts online database.

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

"Impact Assessment Tuvalu - Country Response"

United Nations, New York, January 2012



TUVALU

**Tuvalu's response to the 'Ex-ante impact assessment
of likely consequences of graduation of Tuvalu from
the LDC category – 2012 triennial review'**

Introduction

Tuvalu should not be recommended for graduation from the group of Least Developed Countries (LDCs). According to the latest review of the UN list of LDCs, Tuvalu's situation in 2012 appears to have improved compared with that of 2009. However, the range of acute vulnerabilities to external shocks beyond domestic control has in fact recently expanded, with the severe drought that struck the country in the second half of 2011, and the ongoing implications of the global financial crisis and economic downturn. Tuvalu is exposed to silent shocks (drought, sea-level rise, coastal erosion...) as dramatically as it is exposed to violent shocks (cyclones, etc.). The scope for improvements in the economic specialization of the country remains extremely limited, as demonstrated by the absence of merchandise export, and the very narrow range of service export opportunities. Attempts to develop a productive capacity are frustrated by the scarce and limited resources and heavy, permanent constraints on competitiveness.

The country's performance well above the graduation thresholds relevant to the **per capita income criterion** and the **human assets criterion** is no reflection of any structural progress in the country, progress that would have been the result of strengthened capabilities and productive capacities. The apparent prosperity (based on gross national income per capita) is the reflection of relatively steady "rental income" (aid, remittances, royalties, etc.), not of any intrinsic capacity to generate income from productive activity. As for the seemingly enviable situation regarding human assets, it is the reflection of a hard dual reality: the fact that no one in Tuvalu lives in absolute poverty, combined with the fact that the average situation of households is a zero-progress situation in terms of well-being. This is not to say that Tuvaluans are unhappy, rather, that the severe challenges of daily life (beginning with fresh water supply) are unchanged for a large majority of the people. At the same time, the country's performance under the **economic vulnerability criterion** remains that of a State the UN unambiguously recognizes as being among the most vulnerable country in the world.

In this context, placing Tuvalu on the graduation list would be giving the international community a very erroneous signal about the reality (the fallacy) of Tuvalu's progress. At the same time, premature graduation would dampen the faith Tuvaluans have in the UN's ability to understand the acute challenges of atoll economies, after 17 years of UN advocacy in favour of small island developing States (SIDS).

As a result, the following response will demonstrate that Tuvalu is not eligible for graduation from the LDC category. First, in the background section, this response will outline the country conditions that make Tuvalu extremely vulnerable to economic shocks and resistant to lasting economic development. Second, the losses that Tuvalu will suffer should it graduate from the LDC category will be outlined. In addition, the collateral damage that these losses will have on Tuvalu, which were not addressed in the ex-ante impact assessment, will be explored. The response will then provide a critique of the DESA

Report and the criteria used to determine Tuvalu's eligibility for graduation. Finally, this commentary will recommend that Tuvalu remain in the LDC category, as there is limited room for economic improvement on the islands, and the economic situation is only further complicated by climate change and non-communicable diseases - which will only increase the vulnerability of Tuvalu and its people over-time.

Background

Tuvalu is a small, remote island country in the Pacific. It has 26km² of land area and a population of just over 11,000 people. The highest point in the country is approximately 5 meters above sea level. With these characteristics, Tuvalu is the fourth smallest nation in the world, and the smallest of the LDC category. According to the earlier ex-ante report¹, Tuvalu is arguably the world's most remote country, as measured by access, distance, transport costs, and other factors.

Like most other small Pacific Island countries, Tuvalu has a dual economy consisting mainly of a traditional sector based on fishing and the harvesting of few agricultural crops, and a smaller, modern and cash-oriented sector. Tuvalu is also a MIRAB² nation. This is because the majority of government's revenues and private incomes are received from abroad through distributions from the Tuvalu Trust Fund (TTF)³, proceeds from fishing licenses granted to foreign fishing vessels, revenues from the .TV Internet domain⁴, remittances, and official development assistance (ODA). Yearly inflows from these sources show significant fluctuations because of their susceptibility to external factors (economic and environmental).

This unpredictability is expected to continue. The Asian Development Bank notes that more frequent occurrences of El Nino and La Nina will increase risks to vital fishing license revenues. In addition, due to market value limitations on the TTF, "[t]here have been no payments from the trust fund since 2008 (and no distributions from the fund are likely while there is still uncertainty and volatility in international financial markets)."⁵ Both revenue from the trust and seafarers' remittances will continue to be negatively impacted by the financial crisis. As a result of these factors, many of Tuvalu's limited income sources are at risk in the wake of both environmental and financial uncertainties.

¹ UN 2009, 'Ex-ante impact assessment of likely consequences of graduation of Tuvalu from the least developed country category'

² A model explaining the economies of small island nations, economies characterized by and dependant on Migration, Remittances, Aid and Bureaucracy.

³ The TTF, initially set up by Australia, New Zealand, United Kingdom, and Tuvalu in 1987, is a capital fund invested overseas, with distributions paid back to the Government of Tuvalu to support its annual budget.

⁴ internet country code top-level domain (TLD) for Tuvalu operated by the VeriSign Company in the US

⁵ Asian Development Bank and Tuvalu, Fact Sheet, December 31, 2010, http://www.adb.org/Documents/Fact_Sheets/TUV.pdf.

Indeed, a recent UNCTAD report indicated that: "Tuvalu is one of the countries suffering the most extreme environmental stresses in the context of climate change."⁶ Climate change, sea level rise, saltwater intrusion, and ocean acidification have serious implications for both Tuvalu's food security and economic development. Because global efforts to reduce emissions have been grossly inadequate, Tuvalu must prepare for unavoidable climate change impacts. In light of these impacts, access to multilateral technical bodies and funds for LDCs are essential for the economic development and survival of its residents.

As a small island country with all its reef and atoll islands built on a porous coral foundation, Tuvalu is extremely vulnerable to the effects of climate change. Saltwater is infiltrating Tuvalu's limited ground water supply, undermining water security and increasing reliance on other sources. According to the Tuvalu National Adaptation Programme for Action (NAPA), "Groundwater used to be an alternative source of water in the past, which supplements public water demands, especially during drought and prolonged periods of water shortages. Groundwater is also the main source of water for agriculture, plants and crops. Saltwater intrusion has increased the salinity of groundwater, thus, destroying traditionally important pulaka pit gardens."⁷

The fisheries and marine resources on which people of Tuvalu depend as their livelihood are also vulnerable to an increasing number of impacts ranging from: ocean acidification, coral bleaching, to warming ocean waters. Acidifying ocean waters will seriously harm fish populations.⁸ As fish from coral reefs make up an important portion of the population's diet⁹, increasing ocean acidification will greatly affect food security in Tuvalu. One declining stock, tuna, represents the largest and most economically important fish stock harvested in Tuvalu waters. However, from 2000 to 2006, US fleet and Japanese fleet catches of tuna dropped over 90% and by 89% respectively.¹⁰

In addition to the impacts of climate change, non-communicable diseases (NCDs) present significant barriers to economic development in Tuvalu. Indeed, NCDs such as diabetes, cancer, chronic respiratory disease, heart disease and stroke have all reached astronomical, epidemic proportions in the Pacific region including Tuvalu. It must be noted that NCDs are not simply health problems "but they also lead to entrenched poverty and

⁶ UNCTAD, Vulnerability Profile of Tuvalu, 23 January 2009.

http://www.un.org/esa/policy/devplan/profile/vulnerabilityprofile_tuvalu.pdf.

⁷ Tuvalu NAPA as prepared under UNFCCC, in cooperation with the United Nations Development Program and Global Environmental Facility. <http://unfccc.int/resource/docs/napa/tuv01.pdf>

⁸ Roessig et al. 2004. The effects of global climate change on marine and estuarine fishes and fisheries. *Reviews in Fish Biology and Fisheries*, 14: 251-275.

⁹ Sauni, S. & Sauni, L.F. 2005. Vulnerability and dependence: The nearshore fisheries of Tuvalu. *SPC Women in Fisheries Information Bulletin* 15: 1-3.

¹⁰ Western and Central Pacific Fisheries Commission. 2006. Tuvalu National Tuna Fisheries Report. Annual Report - Part 1. Science Committee Meeting report. Manila, Philippines. Available at, <http://www.ffa.int/node/395>

are a threat to [...] economic development."¹¹ Unfair trade and global imbalances can be attributed as the root causes of NCDs, especially concerning the dependence on food imports. In Section III.21 of its 66th session, the United Nations General Assembly states that "the epidemic of non-communicable diseases creates serious socio-economic consequences by increasing individual and household impoverishment and thwarting human and economic development."¹² NCD costs are multi-faceted and capable of seriously impacting a small island's economy like Tuvalu. Required payment for NCDs treatment can often trap "households in cycles of debt, impoverishment and illness."¹³ As can be seen, the economic effects of NCDs are capable of draining a country's "economic potential by adversely affecting the four main factors of economic growth, i.e. labour supply, productivity, investment, and education."¹⁴ The estimated economic loss in AUD for Nauru, an island similar to Tuvalu in many aspects, due to NCDs totaled \$5,455,365.¹⁵

The above overview of the current situation in Tuvalu demonstrates how insecure and vulnerable the country is to external shocks because of its smallness and isolation. The CDP found Tuvalu eligible for graduation in 2006 and 2009 after having met two criteria for graduation, gross national income (GNI) per capita and the human asset index (HAI). However, Tuvalu failed significantly on the remaining criterion of economic vulnerability index (EVI) scoring the highest. Moreover, the CDP noted insufficiently developed productive capacity in the country and questioned the sustainability of the country's income and therefore did not recommend Tuvalu to graduate in 2009. Furthermore, issues with environmental and climate change impacts, and NCDs, pose significant threats to the livelihoods and survivability of Tuvalu and its people. These underlying factors have not changed in any significant respect in the intervening three years. Tuvalu therefore requests, that upon this further review in 2012, that the committee again, not recommend Tuvalu's graduation from the LDC category.

Impacts of Proposed LDC Graduation on Tuvalu

Trade Support Measures

1. Tuvalu agrees with most of the assessments on the implications to Tuvalu with regards to the support measures and special treatment related to trade if Tuvalu graduates from the LDC group. Nevertheless, there are some arguments in this section of the report, which need to be revisited. For instance, although it is true that Tuvalu has not been able to take advantage of preferential access arrangements because of its limited productive capacity and insufficient development of the export sector, Tuvalu will lose the special support provided to LDCs under the Istanbul Plan of Action (IPoA) to strengthen

¹¹ Pacific Islands Forum Secretariat. *Pacific Plan Action Committee (PPAC) Meeting*. 16-17 August, 2011, Suva, Fiji, 2.

¹² United Nations General Assembly. Prevention and Control of Non-Communicable Diseases. Session 66, Item 119. 19 May, 2011, 8. <<<http://www.un.org/en/ga/president/65/issues/ncdiseases.shtml>>>

¹³ Pacific Islands Forum Secretariat. *Pacific Plan Action Committee (PPAC) Meeting*. 16-17 August, 2011, Suva, Fiji, 2.

¹⁴ Robert Beaglehole et al. UN High Level Meeting on Non-Communicable Diseases: Addressing four questions for the Lancet NCD Action Group, www.thelancet.com published online, 13 June, 2011, 3.

¹⁵ *IBID*, 3.

its productive capacity in all sectors, if it graduates from the LDC category. Therefore, Tuvalu will undoubtedly be affected if it graduates as it will no longer have access to such special support.

2. Moreover, the report argues that the graduation of Tuvalu from the LDC category will not immediately affect the European Integrated Framework (EIF) programme because the graduation will take place in 2015, plus the EIF programme provides smooth transition for countries graduating from LDC category. However, a lot still needs to be done in accessing the EIF Tier 1 and Tier II funding due to limited capacity in Tuvalu. Therefore, it is uncertain whether Tuvalu would be able to obtain the full funding assistance provided in the EIF programme.

3. Finally, Tuvalu requires the LDC preferential treatment on trade in order to fuel the kind of export-led growth that has lifted other small island states out of poverty. Tuvalu currently does not have a large export sector for goods, but policies should be forward-looking. Sustained economic growth will require Tuvalu to develop export industries. Tariffs for non-LDCs averaged 3 percent between 2007 and 2010; tariffs for LDCs on the other hand averaged 1.6 percent. As a country with a highly underdeveloped export sector, Tuvalu clearly requires continued preferential treatment in order to encourage export-led development in the future.

Overseas Development Assistance

4. Tuvalu's largest donors have scaled down their ODA in response to the 2008-2009 financial crisis and recession. Non-LDCs have borne the brunt of these cuts. Japan, which provides 41 percent of Tuvalu's ODA, eliminated approximately \$150 million in funding between 2008 and 2009. All of this funding was cut from non-LDCs programs; meanwhile, funding for LDCs programs actually increased. Likewise, New Zealand, which contributes 18 percent of Tuvalu's ODA, eliminated \$50 million from non-LDCs programs in 2009, leaving LDCs funding untouched.

5. Tuvalu's largest donors have also responded to previous graduations from LDCs category by reducing the amount and quality of aid. New Zealand withdrew from a bilateral program with Cape Verde, when Cape Verde graduated in 2008, while funding for countries that remained LDCs increased.¹⁶ Likewise, Japan will no longer include the Maldives, Samoa, and Cape Verde in programs targeted toward LDCs, and planned assistance post-graduation has been scaled back and re-purposed.¹⁷

¹⁶ DESA/CDP Secretariat, Bilateral Official Development Assistance (ODA) Survey on LDC-specific International Support Measures: New Zealand, April 2011. Available at: http://webapps01.un.org/ldcportal/c/document_library/get_file?uuid=cd3f76ca-e946-42e9-88b2-acd169791aeb&groupId=10136.

¹⁷ DESA/CDP Secretariat, Bilateral Official Development Assistance (ODA) Survey on LDC-specific International Support Measures: Japan, April 2011. Available at: http://webapps01.un.org/ldcportal/c/document_library/get_file?uuid=98527e5e-25b8-46c7-9695-11b8ab4c0f1e&groupId=10136.

6. In addition, if Tuvalu graduates from the LDC category, aid may switch from grants to loans. The 1978 Development Assistance Committee (DAC) Terms and Conditions Recommendation specifies an average grant element to LDCs. If LDC status is taken away, countries are free to award a higher percentage of loans. Tuvalu's largest donors have done this in the past. The Japanese government responded to Cape Verde's graduation from LDC category by shifting ODA to loans, and the grant element is expected to decline gradually in the future.¹⁸ ODA currently provides 36 percent of Tuvalu's GDP; the consequences of a shift from grants to loans could thus be serious.

7. Moreover, a 2001 OECD-DAC Recommendation specifies that aid to LDCs must not be tied. With LDC status taken away, that condition no longer applies. Tied aid could force Tuvalu to buy products manufactured in the donor country for aid projects, increasing the cost for those projects and decreasing effectiveness.

Climate Change Related Funds: NAPAs, NAPs, and the LDC Fund

8. Tuvalu requires substantial international assistance to deal with the challenges presented by climate change, but removal of its LDC status could close off some sources of funding. In particular, Tuvalu will no longer be able to access the UNFCCC LDC Fund for adapting to the effects of rising CO₂ emissions that it needs for continued viability and survival.

9. At COP 7 in 2001, Parties recognized that many LDCs required immediate adaptation action, but did not have the capacity to report these needs. In response, the COP created National Adaptation Programmes of Action (NAPAs) for LDCs to communicate these urgent needs and prioritize them based on the increase in vulnerability or costs if action is not taken.¹⁹ Following LDC guidelines for NAPA creation, Tuvalu submitted its NAPA in May 2007, identifying the nation's urgent and immediate adaptation needs. This involved synthesizing and compiling information, as well as a vulnerability assessment addressing potential barriers to implementation and key adaptation measures. This process resulted in a greater understanding of Tuvalu's vulnerabilities to climate change.

10. While compiling information for creating and implementing NAPAs, as a LDC, Tuvalu had access to technical support and advice from multilateral organisations. Such support will be unavailable if Tuvalu graduates from the LDC category. For example, the LDC Expert Group (LEG) and the Global Environment Fund (GEF) Agency both provide a significant level of assistance to LDCs for creating and implementing their NAPAs. Tuvalu also had access to the United Nations Institute for Training and Research through its

¹⁸ DESA/CDP Secretariat, Bilateral Official Development Assistance (ODA) Survey on LDC-specific International Support Measures: Japan, April 2011. Available at: http://webapps01.un.org/ldcportal/c/document_library/get_file?uuid=98527e5e-25b8-46c7-9695-11b8ab4c0f1e&groupId=10136.

¹⁹ Decision 7/CP.7

Climate Change Programme and regional centres and NGOs, which have programmes designed specifically to support LDCs.

11. By completing its NAPA, Tuvalu became eligible for funding, under the LDC Fund, to implement the NAPA. The LDC Fund is intended to provide the full cost of adaptation for NAPAs, both preparation and implementation of the plans solely for LDCs. To access this assistance, a LDC must partner with one of the ten GEF Agencies and a GEF Operational Focus Point to endorse the project concept. The LDC must also obtain co-financing, which is funding for the cost of business-as-usual development and other activities, which would be implemented even in the absence of climate change.

12. Tuvalu has submitted seven projects that reflect the nation's urgent and immediate adaptation needs.²⁰ One of these projects, titled "Increasing Resilience of Coastal Areas and Community Settlements to Climate Change," has been funded. It was submitted in May 2008 and has received US\$3.69 million from LDC Funds to meet the project's goal of increasing the protection of livelihoods in coastal areas in all inhabited islands of Tuvalu from dynamic risks related to climate variability. These projects protect the basic needs of Tuvalu and the availability of funding sources will remain very important in funding the remaining 6 projects, which total US\$8.196 million for implementation.

13. The CDP Report is over-optimistic regarding continued access to LDC Fund (LDCF). Tuvalu will lose access to these funds if it graduates from the LDC category. The November 2011 DESA Ex-Ante Impact Assessment states on, page 12: "It is uncertain at this stage how much access Tuvalu would have to the LDC-specific funds, if the country graduates from the LDC category." The Assessment overstates this uncertainty. The GEF's guidance document on access to the LDC Fund states, "Any LDC who is party to the UNFCCC and has completed its [NAPAs] is eligible for project funding under the LDCF."²¹²² This statement echoes the fact that the LDCF was established for the express purpose of providing financial resources to support the preparation and implementation of LDCs' NAPAs. It is an improper financial resource for non-LDCs. In fact, bilateral donors such as Japan and New Zealand have expressly stated that it would be inappropriate for recently graduated countries to continue to have access to LDC-specific funds.²³

14. It is true that Tuvalu would continue to have access to the GEF Trust Fund and other other funds. However, the GEF allocates the vast majority of its funds to mitigation

²⁰ Status of NAPA implementation under the LDCF

http://unfccc.int/cooperation_support/least_developed_countries_portal/ldcf_napa_projects/items/5632txt.php

²¹ Global Environment Facility, Accessing Resources under the Least Developed Countries Fund (May 2011), page 7.

²² UNFCCC COP decision, 7/CP.7.

²³ DESA/CDP Secretariat, Bilateral Official Development Assistance (ODA) Survey on LDC-specific International Support Measures: Japan, April 2011. Available at: http://webapps01.un.org/ldcportal/c/document_library/get_file?uuid=98527e5e-25b8-46c7-9695-11b8ab4c0f1e&groupId=10136; DESA/CDP Secretariat, Bilateral Official Development Assistance (ODA) Survey on LDC-specific International Support Measures: New Zealand, April 2011. Available at: http://webapps01.un.org/ldcportal/c/document_library/get_file?uuid=cd3f76ca-e946-42e9-88b2-acd169791aeb&groupId=10136.

projects, not adaptation. In addition, Tuvalu does not have the personnel capacity to navigate these funds, and it is likely that it will miss out on funding opportunities without outside assistance. LDC specific enabling mechanisms are vital to ensuring that Tuvalu has access to climate adaptation funds. In addition, funding from all sources is tight; the purpose of the LDC Fund is to supplement these other sources for the countries that require funding the most. It is unlikely that other sources will sufficiently increase funding to Tuvalu to fully compensate for its loss of access to the LDCF, as that would require reducing funds allocated to other deserving recipients.

Travel Funds

15. Funding for travel of Tuvalu delegates to UN General Assemblies and other international conferences has greatly assisted Tuvalu since joining the UN in 2000. This has enabled Tuvalu to voice its concerns and views in the UN family. Given the current difficult financial situation in Tuvalu, funding for travel has been greatly reduced. Should Tuvalu lose this funding assistance, it will not only have budget implications but will also affect its equal representation at the UNGA and other international conferences.

Loss of LDC-specific special treatment on interest rates, loans, and tax-waivers

16. As a LDC, Tuvalu has access and benefits to special treatment such as concessional interest rates for loan funds. Tuvalu also has access to technical cooperation provided by sponsoring organizations including among others; the International Monetary Fund, United Nations Development Programmes, and the World Trade Organization. Tuvalu will certainly lose such benefits when it graduates from the LDC category.

17. Furthermore, a change in Tuvalu's LDC status would definitely affect its benefits from the European Union's (EU) 11th European Development Fund (EDF) (2014-2020). Under the Cotonou Partnership Agreement, the EU grants duty-free access to imports of all products from African, Caribbean, and Pacific LDC member states without any quantitative restrictions, except for arms and munitions. Loss of LDC status would definitely result in Tuvalu's loss from such benefits.

Collateral damage due to the loss of LDC-specific funding

18. The loss of LDC-specific funding will have a number of collateral effects on other development goals the world community hopes to see achieved by Tuvalu.

19. First, Tuvalu's achievement of the MDGs Goal 1 to 7 by 2015 is highly dependent on development partners' ODA commitments. The MDGs are comprised of eight goals, 18 targets with clear boundaries to be achieved by 2015, and 48 indicators that are measurable. The goals and targets are interrelated and should be seen as a whole. Goal 8 specifically highlights the need to develop a global partnership for development amongst

its development partners. Currently, Tuvalu is on track to meeting Goal 8 and has strong partnership relations with its development partners. However, the need to sustain ODA poses a risk and a challenge if Tuvalu graduates from the LDC category.

20. Further, graduation from the LDC category will contribute to the non-achievements of the Brussels Programme for Action (BPOA) goals between the decade 2001-2010 and the IPOA for the decade 2011-2020. The implementation of such programmes has not succeeded as commitments by both LDCs and development partners remain unfulfilled. Tuvalu has made some progress in meeting some of its commitments and goals of BPOA. This has been attributed to the full integration and mainstreaming of the BPOA commitments into the Government's development strategies detailed in its National Development Strategy for Sustainable Development 2005 -2015 known as the "Kakeega II" (TK II). One of the crucial roles played within the BPOA is the renewing of our commitments and partnership with our development partners. Loss of LDC status will eventually undercut aid assistance, which will jeopardize the economy, and put a drag on future development.

21. Finally, graduation from the LDC category will contribute to the non-achievements of the TK II goals. Currently, the Government of Tuvalu has established successful planning tools in the form of a Matrix to focus and intensify donor assistance, better coordinate such assistance within the framework and objectives of the TK II, and work within the context of each donor's unique aid policies, budgets, strengths, development interest, administrative procedures, and other issues that bear on Tuvalu-donor cooperation. Graduation from the LDC category would definitely result in Tuvalu's incapability of meeting the priorities as set out in the TK II by 2015.

Critiques of the 2011 DESA Ex-Ante Impact Assessment

22. Tuvalu believes that the report missed vital information on Tuvalu's current country conditions and that the eligibility criteria used to determine LDC status are fundamentally flawed and disfavour Tuvalu's case. In summary, the studies performed and relied upon in the report, such as the CDP ex-ante assessment report, lack information on the recent drought, the economic downturn following the spike and collapse in revenue from the .TV internet domain, and the prevailing health problems facing Tuvalu. Consequently, the CDP index paints an inaccurate picture of the reality in Tuvalu, as well as projected outcomes due to climate change, in which the people of Tuvalu are facing what may be the greatest threat to their survival.

Missed context: Tuvalu's state of emergency due to extreme water shortage and the necessity for an environmental vulnerability index

23. The report did not make any reference to the recent state of emergency declared in Tuvalu on September 28th, 2011 due to ongoing drought conditions, which resulted in

critically low community water supplies.²⁴ However this has an ongoing impact on the overall development of Tuvalu, which requires the assistance from its development partners.

24. The rainfall problems are thought to be attributable to the La Nina climate system, which sparks trade winds that push rainfall to the west, leaving Tuvalu dry.²⁵ Rationing of drinking water was implemented over the course of few weeks, with families (average size of nine) in the capital of Funafuti being allocated 40 liters of water per day--an amount below international sphere standards.²⁶ Reports in early October quoted a Red Cross team leader as saying the situation was "quite dire," with only 16 gallons of fresh water remaining at one point for the 350 residents of the island of Nukulaelae.²⁷

25. On Funafuti Island, two desalination plants were installed with aid from the Government of Japan to help provide water during droughts. The residents of the island now regularly depend on the plants to supplement rainwater supplies. The cost of operation is estimated to be AUD 30,000 per month, which is very expensive and unsustainable in the context of Tuvalu. In general, desalination is a comparatively expensive, complex, and energy intensive option for obtaining freshwater for small islands.²⁸

26. The Red Cross arrived on September 24th with an aid and assessment team. A \$4 million Japan-New Zealand joint aid package in November allowed for the purchase and delivery of one 100m³ and two 10m³ desalination plants, which are suitable to furnish only emergency supplies of drinking water.²⁹ ³⁰ An existing desalination plant donated by Japan in 2006 was also serviced. Aid arms of the New Zealand, Australian, and South Korean governments and private companies from Fiji supplied bottles or tanks of fresh water following the declaration of emergency.

27. The adverse impacts of climate change that Tuvalu continues to encounter through droughts and sea level rise represent immense barriers to its overall development and graduation from the LDC category. In this context, the current graduation criteria require an "Environment Vulnerability Index" to take into account the vulnerability of LDCs like Tuvalu. Without consideration of Tuvalu's immense environmental vulnerabilities, any recommendation for its graduation will be unrealistic.

²⁴ UN Office for the Coordination of Humanitarian Affairs, Situation Update-Tuvalu Drought-4 October 2011, at pg. 1, available at http://www.pacificdisaster.net/pdnadmin/data/original/TUV_20111004_DR_Sitrep.pdf.

²⁵ Nick Perry, South Pacific Faces Water Shortages, Fouled Reserves Liked to Climate Change, The Huffington Post, October 4, 2011, http://www.huffingtonpost.com/2011/10/04/south-pacific-water-shortage-climate-change_n_993836.html.

²⁶ International Federation of Red Cross and Red Crescent Societies, Information Bulletin: Tuvalu, October 14, 2011, at pg. 2, <http://www.ifrc.org/docs/appeals/rpts11/IBTV14101102.pdf>.

²⁷ Nick Perry, South Pacific Faces Water Shortages, Fouled Reserves Liked to Climate Change, The Huffington Post, October 4, 2011, http://www.huffingtonpost.com/2011/10/04/south-pacific-water-shortage-climate-change_n_993836.html

²⁸ Id. at pg. 13

²⁹ Radio New Zealand Broadcast, Dated 4 October 2011. Available: <http://www.rnzi.com/pages/news.php?op=read&id=63524>

³⁰ Japanese Ministry of Foreign Affairs Press statement, 4 November 2011. Available: http://www.mofa.go.jp/announce/announce/2011/11/1104_01.html

Missed context: NCDs require attention or will remain a further barrier to development

28. It is clear that Tuvalu requires investment from developed countries to combat NCDs, as their presence on the islands will continue to hinder their potential for growth. It has been estimated that a 2% reduction in NCD death rates per year can lead to an increase in economic growth by 1% per year after a decade.³¹ Furthermore, working to prevent NCDs promotes the Millennium Development Goals concerning poverty and hunger, primary education, gender equity, children's health, maternal health, decreasing HIV/AIDS, tuberculosis and malaria, and, finally, environmental sustainability. Each of these is affected by NCDs and can be improved with foreign investment. This problem requires global attention, and the CDP index must make note of the role NCDs play in Tuvalu before making decisions on the island's potential for graduation.

The three graduation criteria (HAI, EVI, and GNI) and the graduation rule require review

29. With respect to the GNI criterion, Tuvalu's high GNI is mostly attributed towards its high dependency on ODA. This dependency makes Tuvalu highly vulnerable to changes in aid flows. The report fails to highlight the actual problems and challenges Tuvalu faces such as aid fragmentation. Indeed, Tuvalu recently attended the High Level Forum on Aid Effectiveness 2011 in Busan, Korea in which it shared its experiences on aid fragmentation as a major challenge to its development agenda. Yet, issues with donor driven ODA funded programmes and the inaccessibility of international funds are some of the major development issues that are not highlighted in the DESA report. The report does not paint a true picture of the current aid situation in Tuvalu. Another important component of GNI is remittances from seafarers, which have been declining since their peak in 2003. About 15% of Tuvalu's population is dependent on remittances for their family income and with the continuing adverse impacts of the Global Economic and Financial Crisis that are now seriously felt in the country, this remittance revenue will not be brought back to its usual level.

30. The HAI criterion is also misleading as it only reflects access and universality levels of the MDGs and does not reflect quality measures. Indeed, prior CDP decisions reinforce the conclusion that Tuvalu's high EVI disfavors graduation, despite GNI and HAI values that meet graduation eligibility requirements.

31. For instance, despite the 2003 finding that Tuvalu met two graduation criteria (GNI and HAI) and was thus technically eligible for future graduation, the CDP decided against making a recommendation that Tuvalu be considered as eligible for graduation.³² In noting that Tuvalu's exceptionally high EVI score indicated that it was one of the two most

³¹ IBID, 4.

³² United Nations Committee for Development Policy. Report on the fifth session, CDP, 7-11 April 2003, E/2003/33. Page 23, para.23.

vulnerable countries (along with Kiribati, whose eligibility was similarly not considered), the CDP placed significant weight on economic vulnerability as a critical factor in determining a country's candidacy for graduation. The CDP considered Tuvalu's eligibility again in 2006, at which point Tuvalu's EVI score amounted to 91.9, making it the most economically vulnerable country in the world.³³

32. Based on CDP's prior decisions regarding Tuvalu's eligibility, and in light of the fact that Tuvalu's economic situation has not significantly improved, there is no reason that Tuvalu should be graduated at this point. In fact, based on a note by the UNCTAD, Tuvalu's EVI score is only 0.5% closer to the graduation threshold than it was in 2003 -- and it continues to be the most economically vulnerable country in the world.³⁴ This information, when viewed in totality, highlights the importance of a country's economic vulnerability as an indicator of its need to retain the benefits derived from LDC status, and strongly counsels against a recommendation in favor of Tuvalu's graduation.

The Report miscalculates Tuvalu's debt burden and therefore does not present an adequate picture of Tuvalu's GNI

33. *"Though Tuvalu is one of the smallest and most remote countries in the world, its economic performance is still highly susceptible to developments in the global economic and financial arena."*³⁵ - IMF Executive Director for Tuvalu. Tuvalu's recovery from the global economic crisis is slow. The government's cash balance is weak and likely to run out during 2012. In 2009, Tuvalu's economy contracted by about 2 percent.³⁶ Tuvalu's GDP fell by 0.5 percent in 2010, and estimated growth for 2011 is 1 percent.³⁷

34. Tuvalu's public debt remains high by regional standards at about 44 percent of GDP and external public debt is at over 30 percent of GDP.³⁸ Neither the World Bank nor IMF has been able to accurately capture Tuvalu's unfortunate debt situation because of unclear accounting for quasi-governmental organizations,³⁹ but it is evident that Tuvalu faces dire need for global assistance to help them service this debt. These financial institutions should consider the *National Fishing Corporation of Tuvalu* as part of Tuvalu's government because the *National Fishing Corporation of Tuvalu Act* gives the government broad power over the organization.⁴⁰ If included, it can be assumed that Tuvalu has additional external

³³ United Nations Committee for Development Policy. Report on the eighth session, CDP, 20-24 March 2006, E/2006/33. Page 19.

³⁴ Vulnerability Profile of Tuvalu, Note by UNCTAD, 23 January 2009.

http://www.un.org/esa/policy/devplan/profile/vulnerabilityprofile_tuvalu.pdf

³⁵ *Statement by Mr. Christopher Legg, Executive Director for Tuvalu* January 28, 2011, available at <http://www.imf.org/external/pubs/ft/sct/2011/cr1146.pdf>. Accessed 8 December 2012.

³⁶ *International Monetary Fund- Tuvalu: Staff Report for the 2010 Article IV Consultation*, Part II, Section 3. Pg.3, available at <http://www.imf.org/external/pubs/ft/sct/2011/cr1146.pdf>. Accessed 8 December 2011.

³⁷ *Tuvalu- Concluding Statement of the IMF Mission: IMF Staff Visit*, July 26 to August 2, 2011, available at <http://www.imf.org/external/np/ms/2011/080211.htm>. Accessed 8 December 2012.

³⁸ *International Monetary Fund- Tuvalu* at Part II, Section 5, Page 4.

³⁹ *Id.* at Part II, Section 3, Page 4.

⁴⁰ *National Fishing Corporation of Tuvalu Act*, CAP. 48:32, Part VI, Section 22, available at <http://faolex.fao.org/docs/pdf/tuv5216.pdf>. Accessed 8 December 2011.

debt relating to joint ventures with foreign fishing companies equaling US\$10 million (about 30 percent of GDP).⁴¹

35. *The Tuvalu Cooperative Society* (the main wholesaler and retailer in Tuvalu) also faces difficult financial conditions resulting in the government extending debt guarantees equivalent to 1.5 percent of GDP.⁴²

The purchasing power parity measure of GDP - not the World Bank Atlas Method - should be used to determine Tuvalu's gross national income (GNI).

36. In its assessment of Tuvalu's eligibility to graduate from the LDC category, CDP uses the World Bank Atlas Method to calculate GDP/GNI. This method produces a value that is on the high end of GDP estimates by international agencies. The UN reports Tuvalu's 2009 GDP to be \$2749, which is 25 percent lower than the World Bank Atlas Method estimate of \$3650. Calculations of GDP using purchasing power parity (PPP) are even lower: \$1100 per capita, or about \$3 per day per person. Purchasing power parity is the appropriate measure of Tuvalu's economic progress, as Tuvalu has a very high cost of living due to its heavy dependence on imported food and fuel, combined with its geographic isolation and underdeveloped physical infrastructure.

The report does not ascertain the reliability of ODA in the future, should Tuvalu graduate

37. The report relies on information from current donors to determine that ODA will not be affected by graduation, however, this one-sided consultation is unfair and does not produce binding protection for Tuvalu of these aid flows. There needs to be more consultation with the Government of Tuvalu regarding the consultations with and inputs from development partners. Joint meetings between the Government of Tuvalu and its development partners should have been considered to clarify some of the information provided in the report.

38. Furthermore, the ex-ante assessment report should not have considered the responses from the United States and France regarding their ODA to Tuvalu because the assistance from these countries is quite small, and some years they did not provide any assistance at all.

Conclusion and Recommendations

No one size approach fits all LDCs

39. Firstly, we must improve the graduation rule to better address different kinds of vulnerabilities. The current graduation criteria do not adequately account for a country's

⁴¹ *International Monetary Fund- Tuvalu* at Part II, Section 5, Page 4.

⁴² *Id.* at Part II, Section 3.

vulnerability profile by only combining a number of factors into a single, often misleading metric. Short-term improvements in economic and social indicators are not sustainable unless the underlying vulnerabilities of LDCs are adequately addressed. Tuvalu is particularly disadvantaged by the current graduation criteria because of the country's unique challenges.

40. Secondly, developed countries should maintain and gradually increase the flow of ODA to LDCs. For over 35 years, developed countries have repeatedly pledged to deliver ODA equal to 0.7% of their GNP, however few have actually fulfilled this modest goal. Many of these countries are facing domestic pressure to reduce foreign aid, putting at risk our own hard-won development gains. Sustainable development depends on a predictable flow of financial resources, without which decades of gains can be lost in a very short period. LDCs are by definition highly vulnerable. As a LDC and a low-lying small island country, Tuvalu faces a unique and particular set of challenges that compound its development challenges. Tuvalu's extreme vulnerability to external and environmental shocks is one of the greatest obstacles to its overall development. Tuvalu has a small and fragile economy that is heavily dependent on ODA. As developed countries grapple with stagnating economies, many have reduced their ODA at a time when LDCs like Tuvalu are most in need.

41. Third, the importance of improving access to international financial mechanisms, and other sources of support for LDCs cannot be over-emphasized. As the smallest LDC in terms of its physical size, population, resource and its economy, Tuvalu in many cases cannot access or fully utilize these international sources. This is where the special case and needs of LDCs like Tuvalu should be fully understood and well recognized by the donor community as a benchmark for determining their respective programme of assistance to LDCs. This need will only increase as the impacts of climate change worsen and Tuvalu faces greater threats to its existence.

Tuvalu's survival will be placed in jeopardy should graduation occur

42. Remaining within the LDC category is integral to the survival of Tuvalu's economy. As previously mentioned, Tuvalu has the highest EVI of any developing country according to the CDP's assessment. This economic vulnerability derives and is further impaired by its economic isolation, small population, and susceptibility to adversities. Thus, the CDP assessment must adequately review every factor applicable for Tuvalu's LDC status. Because the economic effects of graduation are not adequately represented, the assessment implies a misrepresentation of the consequences of graduation. The consequences of graduation would have grave effects on Tuvalu's isolated economy, while LDC status would maintain and ensure continued progress of Tuvalu's economy. Tuvalu should not graduate from LDC category, unless Tuvalu also meets the EVI graduation criteria. Despite high GNI and HAI measures, Tuvalu has such weak EVI measures that

graduation from the LDC category at this stage of Tuvalu's development is premature, unnecessarily exposes Tuvalu to greater risks, and increases the country's economic vulnerability. Further, the graduation criteria do not include an environmental vulnerability index, thus missing the greatest impediment to Tuvalu's economic sustainability, climate change.

43. Tuvalu does not agree with the recommendation for its graduation from the LDC category because of its extreme vulnerability to external shocks, its remoteness and acute susceptibility to the impacts of climate change and NCDs. On the basis of the available information, the graduation of Tuvalu from the LDC category--and thus the deprivation of LDC-specific support measures--is certain to have a substantial impact on the country's development achievements. In light of the adverse environmental, human health, and economic impacts that will result from the loss of its LDC status, a recommendation to graduate Tuvalu from the LDC category is not only socially irresponsible, but unjustifiably short-sighted. Simply put, without the benefits accorded to Tuvalu as a LDC, the survival of its people, and its existence as a sovereign State, will be placed in grave jeopardy.

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

"Impact Assessment Tuvalu - DESA reply"

United Nations, New York, January 2012

United Nations  Nations Unies

HEADQUARTERS • SIEGE NEW YORK, NY 10017

COMMITTEE FOR DEVELOPMENT POLICY
2 UNITED NATIONS PLAZA, ROOM DC2-2014
NEW YORK, NY 10017

TEL.: 1 (212) 963.4724 • FAX: 1 (212) 963.1061

10 January 2012

Excellency,

On behalf of the Committee for Development Policy (CDP), the Secretariat of the Committee presents its compliments to the Permanent Mission of Tuvalu to the United Nations and has the honour to draw attention to the review of the list of least developed countries (LDCs) undertaken by the Committee.

The Secretariat is grateful for having received the comments of your Government on the ex-ante impact assessment of likely consequences of graduation of Tuvalu from the least developed country category (the Report, hereafter). The Report was prepared by the Department of Economic and Social Affairs (DESA) for the triennial review of the list of the LDC which will be conducted by the CDP in 2012. It examined the likely consequences of graduation and potential risk factors and/or gains that Tuvalu may face after graduating, by analyzing the relation between the benefits received as an LDC and the country's economic growth and development. Your comments to the Report added valuable supplementary information regarding the status of Tuvalu's economic growth and development.

The Secretariat wishes to clarify that ex-ante impact assessment report—as specified by the CDP in its report on the tenth session and noted by the Economic and Social Council—should “address the expected implications of the loss of least developed country status, in particular to development financing, international trade and technical assistance”. In this regard, examination of the graduation criteria and their components, consideration of the graduation rules and an assessment of factors bearing on the country's vulnerability are beyond the scope of this report.

Additionally, the Secretariat would like to bring to your attention that besides the impact assessment prepared by DESA, a vulnerability profile is to be prepared by the United Nations Conference on Trade and Development (UNCTAD), also as an input to the CDP's deliberations

His Excellency Mr. Afelee F. Pita
Permanent Representative of Tuvalu
to the United Nations
New York

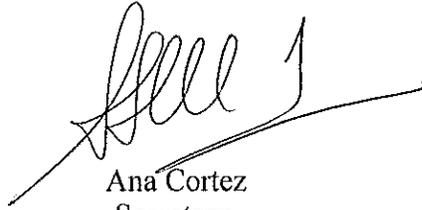
The vulnerability profile is expected to include factors of a country's vulnerability which may not necessarily captured by the economic vulnerability index (EVI), such as disaster emergencies like the present severe drought in Tuvalu you so kindly brought to our attention. Lastly, the Secretariat wishes to provide additional clarification, presented in the Annex to this letter, on a few issues you raised in your comments.

The comments forwarded by your Government will be made available to the expert group meeting (EGM) of the CDP meeting to be held at the United Nations Headquarters in New York from 16-17 January 2012 and will address issues regarding triennial review of the list of LDCs. The Secretariat acknowledges with thanks the confirmation that Tuvalu will send a high level delegation to the meeting and wishes to recall that the voluntary oral presentation by Tuvalu is scheduled for 17 January 2012 at 9.30 am.

Should you need any additional information, I am at your disposal by phone at 1-212-963-4724 or by email at cortez@un.org.

Please accept your Excellency the assurances of my highest consideration,

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Ana Cortez', with a long horizontal line extending to the right from the end of the signature.

Ana Cortez
Secretary
Committee for Development Policy

Annex

Selected issues raised by Tuvalu on the ex-ante assessment report

The Istanbul Plan of Action (IPoA) and the strengthening of productive capacity

The Istanbul Programme of Action (IPoA) charts out the international community's vision and strategy for the sustainable development of LDCs for the next decade with a strong focus on developing their productive capacities. The actions by LDCs and development partners to pursue the goals and targets in the priority area are set out in the IPoA.¹ Unfortunately, however, the information on new international support measures on this area is not yet available. Therefore assessment of the likely impact of possible changes in the LDC status is not possible at the moment.

LDC market access preferential treatment and export-led growth

Based on a previous research by the CDP, preferential treatment for LDCs did not seem to have played a major role in export-led growth in small island developing states (SIDS). Export-led growth in many SIDS is associated with services, largely tourism exports, which are typically not included in preferential trade regimes.²

The 1978 Development Assistance Committee (DAC) Terms and Conditions Recommendation and the grant element for LDCs

There is indeed a risk that donor countries may change how much grant they offer in their ODA once a country graduates from the LDC category, but the change is not anticipated to be significant. The grant element in the ODA to LDCs specified in the 1978 DAC Terms and Conditions Recommendation suggests two alternative guidelines: 90 per cent of annual commitment to all LDCs, and 86 per cent of three year average for each LDC. For other developing countries, the norm is that 86 per cent of ODA commitments should be delivered through grants.³ According to OECD/DAC statistics, the average grant element of total ODA to developing countries was 95.8, while the corresponding figure for LDCs was 99.4 in 2010. Official financial loans can only be considered ODA if they have a grant element of at least 25 per cent.⁴

¹ United Nations (2011), Outcome of the Fourth United Nations Conference on the Least Developed Countries, A/66/134

² Hein, Philippe (2010), "Views and perspectives of the Committee for Development Policy on United Nations support for small island developing States," CDP Background Paper No. 10 (ST/ESA/2010/CDP/10).

³ OECD (2011), Statistics on Resource Flows to Developing Countries, DAC Members' Compliance in 2009 and 2010 with the 1978 DAC Terms Recommendations are available at <http://www.oecd.org/dataoecd/30/24/47457711.xls>

⁴ OECD (2011), DAC Glossary of Key Terms and Concepts, available at <http://www.oecd.org/dac/glossary>

*The 2001 OECD-DAC Recommendation on tied aid ODA to the Least Developed Countries to the greatest extent possible*⁵

There is a risk that some donors might increase tied aid, although almost all the donors who participated in the DESA survey on LDC-specific support measures related to bi-lateral ODA indicated that they will continue to take measures on untying aid to graduated countries.⁶

The GEF-LDC Fund and the implementation of NAPAs

The LDC Fund (LDCF) was established to address the special needs of LDCs under the United Nations Framework Convention on Climate Change (UNFCCC). It finances the preparation and implementation of the National Adaptation Programmes of Actions (NAPAs) which use existing information to identify a country's priorities for adaptation actions.⁷ Not exclusive to LDCs, the Special Climate Change Fund (SCCF), and the Adaptation Fund are available for developing countries to finance adaptation projects. Meanwhile, the NAP process, established under the Cancun Adaptation Framework, is designed to address medium and long term concerns in LDCs which are not taken over in NAPAs as these address immediate needs.

It is encouraging to learn that Tuvalu has submitted six additional projects related to the implementation of its NAPA, in addition to the one being currently funded. As per the GEF, there are currently about US \$ 537 million available in the LDC Fund to finance NAPA-related projects.⁸ Hence, the LDCF could provide opportunities to finance the much needed activities to address Tuvalu's urgent and immediate adaptation needs in the near future.

The LDC Fund and access by graduated countries

Under established procedures, a country graduates from the LDC list three years after the United Nations General Assembly takes note of the endorsement by ECOSOC of the CDP recommendation. The UNFCCC Secretariat informed the CDP Secretariat that if a National Adaptation Plan (NAP) or National Adaptation Programmes of Action (NAPA) is prepared while a country is still an LDC, the country can access funds available at the LDCF for the implementation of a few projects. However, this extension will apply for a project or two, after which, the funds may no longer be accessible. This approach has been applied to Cape Verde and the Maldives. Both

⁵ DAC recommendation on untying official development assistance to the least developed countries is available at <http://www.oecd.org/dataoecd/14/56/1885476.pdf>

⁶ United Nations (2011), "Survey on LDC-specific International Support Measures related to Bi-lateral Official Development Assistance (ODA) Responses by Donor Countries," available at http://webapps01.un.org/ldcportal/c/document_library/get_file?uuid=2cf25aca-a16f-452e-b5ce-ebeea6906a66&groupId=10136

⁷ Least Developed Countries Fund, available at <http://www.thegef.org/gef/LDCF>

⁸ Ibid

countries got finance for implementing a NAPA-related project after they graduated from the LDC list. Undoubtedly, graduation from the LDC category will prevent access the LDCF at some point in time and could thus pose potential additional constraints on Tuvalu's ability to adapt to climate change.

Alternative sources of finance for climate change adaption

Access to funding from the Special Climate Change Fund (SCCF) and the Adaptation Fund (AF) may be indeed unlikely to fully compensate for a loss in access to the LDC Fund. Level of resources of these two funds are currently US \$ 229 million (AF) and US \$ 260 million (SCCF), which are available for a larger pool of potential beneficiaries when compared to the LDC Fund. Recently, the Conference of Parties to the UNFCCC adopted at Durban, South Africa, a decision that the Green Climate Fund should make provisions for allocating a minimum amount of resources for countries particularly vulnerable to climate change, such as the LDCs, SIDS and African countries. Based on Tuvalu's acute vulnerability to climate change, priority access of Tuvalu to the GCF would appear to be warranted. However, the Green Climate Fund is not yet operational and procedures for accessing have not been established.

Technical assistance by the IMF and LDC status

The technical cooperation provided by the IMF is not associated with LDC status. Therefore graduation from the category should not imply to lack of access to the Fund's assistance.

The European Union, the Cotonou Agreement, the everything-but-arms initiative (EBA) and LDC status

The duty-free access to imports of all products from LDCs, except arms and ammunitions, without any quantitative restrictions, to the European Union market is granted under the Everything But Arms (EBA) Regulation adopted in 2001 (EC/416/2001). This system of preferences is independent from and bears no relation with the preferences granted under the Cotonou Agreement. The latter is a treaty signed between the European Union and the African, Caribbean and Pacific (ACP) and forms the basis of the development cooperation between the EU and that group of countries.⁹ If Tuvalu were to graduate from the LDC list, it would continue to receive EBA benefits for at least three years as part of its smooth transition process. The EU and Pacific signatories of the Cotonou Agreement are currently negotiating a regional economic partnership agreement that is WTO compliant. Fiji and Papua New Guinea initialled an interim EPA with the EU in 2007. Papua New Guinea signed it in July 2009, while Fiji signed it on 11 December 2009.

⁹ European Commission, Trade, available at <http://ec.europa.eu/trade/wider-agenda/development/generalised-system-of-preferences/everything-but-arms/>

ODA targets in MDGs and LDC status

The MDG 8 refers to the global partnership for development. ODA from Development Assistance Committee (DAC) donors to LDCs has increased substantially to about \$37 billion in 2009 from \$21 billion in 2000. This reflects an increase in the DAC aid effort in favour of LDCs from 0.06 per cent of donors' GNI in 2000 to 0.10 per cent in 2009, with an overall target of 0.15 per cent.¹⁰ ODA flows from members of the OECD- DAC to Tuvalu amounted to \$14.7 million in 2009.¹¹ This corresponds to less than 0.05 percent of ODA flows to LDCs in that year. Reallocating these funds in favour of countries remaining in the LDC category – should LDC be recommended for graduation—is unlikely to have any measurable impact on donor's attempt to meet the 0.15 per cent target.

Tuvalu's state of emergency due to extreme water shortage and the economic vulnerability index (EVI)

The economic vulnerability index being used in the 2012 review has been recently refined by the CDP. It gives more attention to environmental vulnerabilities than its previous versions. It includes a new component on population living in low elevated coastal zones, and thus covers vulnerabilities especially pertinent in a country like Tuvalu. The refined EVI now includes an indicator on “victims to natural disasters” which, contrasting with “homelessness” used in past reviews, includes the impacts of droughts. Naturally, the impact of the most recent drought is not yet reflected in the EVI because the database used has data on “victims” available only up to 2010 (OFDA/CRED International Disaster Database available at <http://www.emdat.be>). In any case, country's vulnerabilities are expected to be analyzed in the vulnerability profile prepared by UNCTAD and not in the ex-ante impact assessment.

Non-communicable diseases and the human asset index

Non-communicable diseases can be a major development challenge in the Pacific area. However, the criteria used by the CDP to identify LDCs do not concentrate on any specific disease, whether communicable or non-communicable, but rather on major health outcomes that could express in a synthetic way the health status of populations across countries thus facilitating comparison. In this regard, the characterization of Tuvalu as a country whose human assets are significantly higher than those of other LDCs—as well as several other developing countries—is a robust finding.

GNI per capita

¹⁰ United Nations (2011), The Global Partnership for Development: time to Deliver, MDG Gap Task Force Report.

¹¹ OECD (2011), OECD.StatExtracts Online database.

The income criterion adopted by the CDP uses gross national income (GNI) as indicator. Tuvalu's GNI is significantly larger than its GDP, an issue likely to be covered in the vulnerability profile by UNCTAD. Recently, both the World Bank (using the Atlas Method to convert currencies) and the United Nations Statistics Division (using market exchange rates) revised their GNI estimates for Tuvalu upwards. The average 2008-2010 GNI per capita figure according to the World Bank is \$4,993, whereas the United Nations Statistics Division estimated the country's GNI at \$4,597.

Having considered the advantages and disadvantages of using PPP conversion rates on several occasions, most recently in 2008, the CDP has decided to keep the World Bank Atlas Method to convert national currencies in current U.S. dollars. GNI or GDP figures using PPP conversion factors for Tuvalu have not been available at either IMF or the World Bank. However, data available for developing countries, including Pacific Island Developing States, suggest that GNI (as well as GDP) is likely to be higher in US\$ terms if PPP conversion rates are used instead of market exchange rates or the World Bank Atlas factors.

The role of various donors in providing ODA

A standard letter was sent from DESA to development partners to invite them to provide their views with respect to the likely treatment they would extend to Tuvalu and Vanuatu if graduation were confirmed at the review in 2012 and implemented by 2015. France and United States did reply to our request and responded that their current aid levels to Tuvalu are negligible.
