

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

**Ex-ante impact assessment of likely consequences of
graduation of**

Kiribati

from the least developed country category

2015 triennial review

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**Impact assessment:
Kiribati
2015 triennial review**

Abstract

The Committee for Development Policy considered Kiribati eligible for graduation for the first time in 2012. This present report finds that the graduation of Kiribati from the LDC category does not appear to affect donors' aid policies significantly as they have their own criteria for providing development and trade-related aid. On the other hand, the country will lose access to the GEF-LDC Fund (except for projects already approved at the time of graduation). The country's fishery industry, the main activity of the economy, will need support to enhance its productive capacity and its contributions to the generation of foreign exchange, thus decreasing the country's reliance on ODA, migrant remittances and the Revenue Equalization Reserve Fund (RERF). The extreme vulnerability of Kiribati to climate change and natural disasters calls for continuing international support, which will remain crucial in assisting the country to mitigate and adapt to the negative impacts.

1. Background

In its review of the list of LDCs in 2012, the CDP found that Kiribati met two criteria for graduation: gross national income (GNI) per capita and the human asset index (HAI), therefore meeting eligibility for graduation (see table 1).¹ Accordingly, the Committee requested the Department of Economic and Social Affairs (DESA) to prepare an ex-ante impact assessment of the likely consequences of graduation for Kiribati.² The impact assessment is undertaken in conjunction with, and as a supplement to, the report on Kiribati's vulnerability profile which is prepared by the United Nations Conference on Trade and Development (UNCTAD).

¹ At the same time, the country had the highest score on the economic vulnerability index (EVI) among the countries reviewed (most vulnerable). Previously, the country was found eligible for graduation in the 2006 triennial review. Eligibility was not confirmed at the subsequent 2009 review, thus Kiribati was not recommended for graduation. See Committee for Development Policy, 9-13 March 2009 (E/2009/33), Economic and Social Council, Official Records, 2009, Supplement No. 13. The ex-ante impact assessment of Kiribati conducted by the CDP Secretariat Kiribati in 2008 is available at http://www.un.org/en/development/desa/policy/cdp/ldc/profile/ia_kiribati.pdf.

² See Report on the fourteenth session of the Committee for Development Policy, 12-16 March 2012 (E/2012/33, Supplement No. 13), and ECOSOC resolution (E/2012/32) on the Report of the Committee for Development Policy on its fourteenth session.

Insert table 1

According to specifications laid out by the CDP,³ the ex-ante impact assessment aims at examining the likely consequences of graduation for countries' economic growth and development. It should identify potential risk factors, or gains, that countries may face after graduating in view of the possible change in the nature of support extended by development and trading partners. As such, the impact assessments are to provide a better understanding of the relation between the benefits received by the country due to its status as an LDC (preferential markets access, special treatment regarding WTO obligations, ODA and other forms of assistance) and a country's economic growth and development.

One important element of the ex-ante impact assessments is to gather information not only through research, but also from countries' main development and trading partners on the amount and/or type of preferences, benefits and assistance accorded to a given country due to its LDC status.

The country's development partners were invited by DESA to provide inputs for the impact assessment in August 2014. Partners were asked for their views with respect to the likely treatment they would extend to Kiribati, in particular, concerning the continuation of development aid, technical cooperation and trade preferences if the country's graduation were confirmed at the next review in 2015 and implemented in 2018, the earliest date the country would graduate. DESA received responses from Australia, the European Union, Japan, New Zealand and the United States of America. The DESA is very grateful to those Governments and institutions that participated and contributed to this exercise.

This report was finalized on 20 January 2015. It has greatly benefitted from comments received from the Government of Kiribati on a previous version (see Annex 1). This, however, does not necessarily imply that the Government of Kiribati either aligns itself with the main findings and conclusions of this report or is responsible for remaining errors and omissions. This revised version is available for all participants of the CDP expert group meeting in 28-30 January 2015 in preparation for the triennial review on 23-27 March 2015.

2. Methodology

The purpose of the ex-ante impact assessments is to provide an indication of possible outcomes, should trade preferences, assistance and support be withdrawn or changed.

³ Committee for Development Policy (2007). Report on the ninth session, 19-23 March 2007 (E/2007/33, Supplement No. 33), and ECOSOC resolution (E/2007/34) on the Report of the Committee for Development Policy on its ninth session.

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

The 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 general support. 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).

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) of the European Union and other similar initiatives, or the support provided by the UN in terms of caps to budget contribution and participation at various UN-sponsored meetings. A comprehensive catalogue of available LDC specific international support measures is available at [http: www.un.org/ldcportal](http://www.un.org/ldcportal).

However, in some other instances, it is not possible at all to make a distinction between LDC specific measures and “regular” development assistance for which all developing countries are eligible. For example, it is difficult to specify how much and which ODA flows go to LDC exclusively on the basis of countries’ LDC status. Hence, this report will identify major bilateral and multilateral donors and briefly provide an overview of their development assistance strategies *vis-à-vis* Kiribati and highlight those areas (if any) that could be potentially affected.

The qualitative analysis employed in this report is supplemented by quantitative data to an extent possible. Every effort has been made to collect most up-to-date information from national, regional and international sources on socio-economic data of Kiribati and on relevant trade and external aid data of its development partners. As of late 2014, most data are available at least up to the end of 2012 or 2013.

Data availability is another important constraint for the undertaking of an impact assessment for Kiribati, though data are now more readily available than in 2008 when the similar exercise was conducted by the Committee. Yet, there are considerable differences among data sources on export values of small island States in the Pacific. This is largely due to significant under-reporting of exports of these countries, including fishery trade data,⁴ and mistakes related to data processing (misallocation of country

⁴ Gillett, Robert and Cris Lightfoot (2001). The Contribution of Fisheries to the Economies of Pacific Island Countries: A Report Prepared for the Asian Development Bank, the Forum Fisheries Agency, and the World Bank.

codes, partners, etc.) In fact, the value of merchandise exports as reported by Kiribati, as recorded in the UN Commodity Trade Statistics, have been significantly lower than the value of imports from Kiribati reported by its trading partners (mirror data).⁵

3. Support measures special treatment related to trade

3.1. World Trade Organization related benefits

WTO Members grant reciprocal Most Favoured Nations (MFN) treatment to each other's exports, which attempts to ensure non-discriminatory and equal treatment among all signatories with respect to market access conditions. This notwithstanding the Enabling Clause was introduced in 1979, which allows developed countries to extend more favourable, non-reciprocal treatment towards the exports of developing countries in general (thereby giving the legal basis to the Generalised System of Preferences – GSP) and deeper margins of preferences for LDCs which may or may not be WTO members. In 1999, Members of the WTO adopted a waiver that allows developing countries to extend preferential treatment to the imports from LDCs.⁶ The possibility of receiving preferential treatment has also been extended to services and services suppliers of LDCs⁷ although the operationalization of the Services waiver has not yet been finalized.⁸

Besides preferential market access, LDCs are entitled to a series of benefits and special measures related to international trade when they accede to the World Trade Organization. These measures aim at enabling LDCs to negotiate membership of the Organization more quickly and easily. They include; (i) benchmarks for agricultural and industrial goods; (ii) broad parameters for market access for services; (iii) transparency in accession negotiations; (iv) access to special and differential treatment provisions and favourable consideration of requests for additional transition periods, and; (v) technical assistance for the accession process.⁹

Kiribati is not a member of WTO, nor is the country in process of acceding to the Organization. Thus, the country does not have access to special and differential treatment available in the various Agreements sponsored by the Organization. At the same time, while the WTO rules allows for higher than MFN tariffs on imports from non-members, WTO Members generally do not do so in the case of LDC imports. Kiribati has been enjoying preferential market access available for the LDC category. Beyond market access, graduation could imply loss of differential treatment during Accession

⁵ According to the Commodity Trade Statistics, total merchandise export value of Kiribati in 2013, the latest date for which data are available, was \$6.7 million while total value of merchandise imports from Kiribati by all trading partners reached \$91.7 million.

⁶ WTO, WT/L/304/17, 17 June 1999.

⁷ WTO, TN/S/37, 29 November 2011.

⁸ See also LDC Portal at <http://esango.un.org/ldcportal/trade/all-isms> for global system of trade preferences among developing countries and preferential treatment for services and service supplies.

⁹ WTO, WT/COMTD/LDC/W/55/Rev.2, 29 June 2012. See also www.un.org/ldcportal.

negotiations, should the country decide to join the Organization at a later stage. According to existing guidelines, the process of accession is facilitated for LDCs.¹⁰

3.2. LDC status and preferential market access

As an LDC, Kiribati can have access to preferential treatment extended to LDCs by developed countries such as the Everything but Arms (EBA) initiative of the European Union. As an LDC, Kiribati also receives preferential market access in other developed countries' GSP schemes, as is the case of Australia, Japan, New Zealand and the United States, among others. Similar preferences have also been granted to LDCs by emerging and higher income developing countries and duty-free treatment has been increasing in recent years.¹¹

Besides concessional market access it receives due to its status as LDC, Kiribati also enjoys preferential treatment in some markets through membership in regional agreements. For example, Kiribati is signatory to the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), through which Australia and New Zealand offer non-reciprocal concessional access for most exports of Pacific island countries (small island states who are the signatories of the Agreement).¹² Kiribati enjoys non-reciprocal duty-free access to these developed country markets for goods that are wholly obtained or partly manufactured in Kiribati.

Additionally, Kiribati is a member of the African, Caribbean and Pacific (APC) countries under which, until 1st January 2008, had enjoyed special non-reciprocal trade preferences from the EU under the Cotonou Partnership Agreement. At present, special trade arrangements between the EU and ACP countries are being covered by WTO-compatible Economic Partnership Agreements (EPA), which will be in effect until 2020. Currently, Kiribati is negotiating an EPA with the EU.¹³ Once agreed, it would cover trade in goods and services, development cooperation and trade-related issues. In January 2014, EU introduced changes in its GSP scheme and Kiribati continues to be guaranteed duty- and quota-free access to the EU market under the EBA initiative.

3.3 Main products and markets

Table 2 shows the balance of payments of Kiribati for the period 2007-2013. The current account balance of the country continues to be in deficit. Significant deficits in goods and service trade have been financed by inflows of government capital transfers, fishing

¹⁰ WTO, Recommendations by the sub-Committee on LDCs to the General Council to further strengthen, streamline and operationalize the 2002 LDC accession guidelines (WT/COMTD/LDC/W/55/Rev.2; 29 June 2012).

¹¹ See WTO, WT/COMTD/LDC/W/58, 10 September 2013. Information of preferential treatment for LDCs in developing country markets is also available at <http://www.un.org/ldcportal>.

¹² The Pacific Island Countries plus Australia and New Zealand form the Pacific Islands Forum, The Pacific Agreement on Closer Economic Relations (PACER) provides an umbrella agreement among the Forum countries, with an overall framework for the development of trade cooperation in the future.

¹³ <http://ec.europa.eu/trade/policy/countries-and-regions/regions/pacific/>, accessed on 16 September 2014.

license fees and remittances. Implementation of the donor infrastructure projects in 2013 contributed to the increased import demand and, as its corresponding financing account, official capital transfers. The smallness of the country in a remote location and its very narrow production and export base limit export's contribution to the balance of payments. Remittances, primarily by seafarers, are an important source of foreign currency for Kiribati. However, they dropped significantly in 2008 and, as a share to GDP, have recorded a slow decline since then due to the shrinking number of seafarers employed overseas (see figure 1).¹⁴

 Insert table 2 and figure 1

Details of the merchandise export values for the most recent available years (period 2011-2013) were derived from the UN Commodity Trade data base (COMTRADE) of the United Nations Statistical Division and reflect export values reported by Kiribati according to the Harmonized System (HS-2002) classification of commodities. Data was retrieved for all tariff lines (at the HS 6-digit level) and for all countries identified as Kiribati's major trading partners in the UN Commodity Trade Statistics.

Table 3 shows Kiribati's major export destinations. According to the COMTRADE data base, Morocco is the major importer of coconut oil from Kiribati, and absorbed 26 per cent of total Kiribati's merchandise exports for the period 2011-2013. It is followed by Australia, Hong Kong, Viet Nam and Fiji, whose combined share in total merchandise exports by Kiribati reached about 27 per cent during the period.

 Insert table 3

It should be noted that there is a great deal of year-to-year variation in trading partners for Kiribati. This may be attributable to the small amount of total values of Kiribati's exports. Thus a single contract with a single fish or coconut oil importer could easily change major export destinations for the country.

Using a different approach (mirror data), the 2008 ex-ante assessment had identified the European Union, Japan, Thailand and the United States of America as Kiribati's major export destinations in the 2009 review.¹⁵ If the same approach were used for this review Thailand and Japan would have remained two major export destinations. However, the Government of Kiribati indicated in its comments (see Annex) that it had not exported to

¹⁴ Seafarers' contracts contain commitments on the amounts to be remitted. The contracts have been negotiated with their families prior to departure. See Browne, Christopher and Aiko Mineshima (2007), "Remittances in the Pacific Region", IMF Working Paper, WP/07/35 (February).

¹⁵ See footnote 1 for the 2008 ex-post impact assessment.

Thailand in the last two decades. This observation further highlights the difficulties and challenges associated with export data accuracy and prompted the change in approach employed for the current report. Nonetheless, some of the products indicated on table 4 do not seem to be produced in Kiribati, which may signal additional data problems or, alternatively, the recording of re-exports by the country.

Table 4 shows Kiribati's main export products for its five largest export destination.

 Insert table 4

Analysis of the country export composition indicates that Kiribati has a highly concentrated export structure (table 5). Fish (HS 03), coconut-based products (HS 15), and seaweeds and other algae (HS 12) generated between 60 and 80 per cent of merchandise export revenues during the period 2011-2013. Coconut oil (HS 1513) has been the largest contributor to merchandise exports, but the value of exports has been declining lately (see figure 2).

 Insert table 5 and figure 2

3.4 Possible impact of loss in preferences

Morocco has been the largest export market for Kiribati, importing coconut oil. Morocco applies MFN tariff rate of 2.5 per cent. Thus, graduation from the LDC category will not affect the rate currently applied to Kiribati's exports.¹⁶

Australia provides duty-free and quota-free access to all Pacific Island Forum countries, including Kiribati, as part of the agreement under the South Pacific Regional Trade and Economic Cooperation Agreement. Kiribati will continue to receive the same preferential treatment, regardless of LDC status.¹⁷

Hong Kong, SAR, is a major importer of frozen or dried fish from Kiribati. Hong Kong applied MFN tariff rates of zero per cent to both types of fish. Graduation from LDC status thus will not affect the tariff treatment applied to Kiribati's exports. **Viet Nam** already applies MFN tariff rates of 20 per cent to fish imports and of 10 per cent to

¹⁶ International Trade Centre, Market Access Map, available at <http://www.macmap.org/QuickSearch/FindTariff/FindTariff.aspx>.

¹⁷ Letter dated 20 October 2014 from the Permanent Representative of Australia Mission to the United Nations to the Under-Secretary General for Economic and Social Affairs.

seaweeds,¹⁸ and thus graduation of Kiribati from the LDC category will not affect the rates. Fiji applied MFN tariff rates between 5 and 15 per cent to imports of the commodities listed in table 4. These tariffs will continue to be applied if the country graduates from the LDC category.

On the base of the information above, it can be argued that graduation will not have a major impact on the current access of Kiribati to its export markets. The markets accessed, if the exception of Australia, do not offer DFQF or other forms of preferential access to Kiribati.¹⁹

3.5. Capacity building in trade

Kiribati joined the *Enhanced Integrated Framework* (EIF) in May 2008. EIF allows its member countries to receive financial and technical assistance on removing obstacle to trade development.²⁰ Tier 1 funds are used to finance the preparation of Diagnostic Trade Integration Study (DTIS), and to set up and provide support to National Implementation Units (NIU). There is a funding ceiling per country over the first five year of EIF: pre-DTIS support up to \$50,000 for a new entrant; DTIS financing is up to \$400,000 for the first time; DTIS update up to \$200,000 to be approved by the Executive Director of the EIF Secretariat (when exceeding \$200,000, an approval of the EIF Board is required), and support to the National Implementation Arrangements and other assistance up to \$300,000 per year for the first three years and additional funding for the next 2 years with an approval according to the period review set out in the EIF monitoring modalities.²¹

Tier 2 funds, on the other hand, can be used to finance priority small-scale projects to build trade-related and supply capacity. The total amount of funding for a Tier 2 project is expected to be in the range of \$1.5- 3 million.²²

Kiribati prepared its DTIS with assistance from UNDP and support from the EIF. The NIU has been set up.²³ With a two-year hiatus, the Government of Kiribati validated the

¹⁸ Vietnam's custom tariff schedule – 2014, available at

http://www.itpc.gov.vn/importers/how_to_import/tax/folder_listing/?set_language=en.

¹⁹ Kiribati is currently a potential beneficiary of the EBA arrangement of the EU. If the country graduates from the LDC category, it would no longer benefit from the arrangement following the transitional period of three years in the case of EU. The EU, however, states that, in view of the currently limited volume of exports from Kiribati, the impact for Kiribati of being removed from the EBA should be negligible. (European Union, Delegation to the United Nations, a letter of 10 October 2014 to the Under Secretary-General for Economic and Social Affairs). Kiribati is also a potential beneficiary of US GSP, which however has expired in July 2013 and has not yet been renewed. Kiribati has also access to Japan's GSP scheme. Access however ceases immediately following graduation.

²⁰ For detail, see LDC Portal at http://esango.un.org/ldcportal/web/10447/-/enhanced-integrated-framework?groupId=19799&redirect=http%3A%2F%2Fesango.un.org%2Fldcportal%2Ftrade%3Fp_p_id%3D101_INSTANCE_78e8mKZJiwkM%26p_p_lifecycle%3D0%26p_p_state%3Dnormal%26p_p_mode%3Dview%26p_p_col_id%3Dcolumn-4%26p_p_col_count%3D1.

²¹ For detail, see http://enhancedif.org/en/system/files/uploads/eif_tier_1_project_guidelines.pdf.

²² For additional information, see http://enhancedif.org/en/system/files/uploads/eif_tier_2_project_guidelines.pdf.

DTIS in 2012. Since then, UNDP has been assisting the country with Tier 1 projects, which are currently in the final stage of project formulation (as of late September 2014).

Should Kiribati be recommended for graduation at the 2015 review, graduation will not take place before 2018? The EIF Board adopted smooth transition provisions in July 2000 for countries graduating from the LDC category. According to these provisions, a graduating EIF country automatically continues to access EIF benefits for three years following graduation, with a potential extension of two additional years, if necessary. Since the inception of the EIF in 2006, the Board included Cape Verde, Maldives and Samoa as beneficiaries of the EIF for 3 years, with a potential extension of 2 additional years, if necessary.²⁴

Aid for Trade (AfT) is an initiative that assists developing countries, particularly LDCs, in building their supply-side capacity and trade-related infrastructure to expand their trade opportunities and to integrate better into the multilateral rules-based trading system. Total Aid-for-Trade disbursed stood at \$23.4 billion in 2011, of which \$9.4 billion allocated to LDCs. Kiribati received \$13.1 million in 2011.²⁵ The country will continue to have access to the Aid-for-Trade as this support measure does not depend on LDC status. The EU noted in its letter of 10 October 2014 to the Under-Secretary General for Economic and Social Affairs that AfT remains a priority and, in fact, its share in total aid has regularly increased since 2006.

4. Official Development Assistance

The 2012-2015 Kiribati Development Plan focuses on 6 key priority areas:²⁶

- i. human resource development,
- ii. economic growth and poverty reduction,
- iii. health,
- iv. environment,
- v. governance, and
- vi. infrastructure.

According to the Pacific Islands Forum Secretariat, the Government of Kiribati has strengthened its leadership of its development and aid programmes, and development partners have indicated interest in channelling their funds through the country's Public Financial Management (PFM).²⁷ The country is also holding regular dialogues with

²³ Letter of 19 September 2014 from the EIF Executive Director.

²⁴ Information provided the EIF Secretariat. See also Enhanced Integrated Framework for Trade-related Assistance for Least Developed Countries, *Compendium of EIF Documents: A User's guide to the EIF* (Draft), 2011.

²⁵ WTO and OECD (2013). Aid for Trade at a Glance 2013: Connecting to Value Chains, available at http://www.wto.org/english/res_e/booksp_e/aid4trade13_e.pdf.

²⁶ Available at <http://aid.dfat.gov.au/countries/pacific/kiribati/Documents/kiribati-development-plan-2012-2015.pdf>.

²⁷ Pacific Islands Forum Secretariat (2012), Forum Compact Peer Review: Countries Progress Report 2012.

donors to discuss PFM reform plan and water and sanitation programmes. These dialogues provided opportunities for the Government to update development partners on the implementation of the Development Plans, to raise some concerns about aid coordination and to present on-going major project requirements. A most recent example of such dialogues is the Kiribati Development Partners Forum (March 2014), in which 27 bilateral and multilateral donors participated.

4.1 Bilateral flows

Official development assistance flows to Kiribati averaged some \$41 million a year during the period 2008-2012 (see table 6), and is significantly higher than the annual average of \$20 million the CDP Secretariat reported for the period 2002 - 2006. ODA corresponded to 37 per cent of the country's GDP in 2012 (see figure 3). Three major donors, Australia, Japan and New Zealand, provided nearly 90 per cent of the total ODA during the period. The EC and the Global Environmental Facility (GEF) have been two major multilateral donors.

 Insert table 6 and figure 3

Official development assistance has been playing an important role in Kiribati's development (see table 7). It is anticipated to finance as much as 50 per cent of the central government expenditure in 2014 while its shares stood around 40 per cent in recent years. Aid disbursement to Kiribati had remained relatively stable until 2011, but increased significantly since then.

 Insert table 7

Australia, the largest donor, and Kiribati signed the Kiribati-Australia Partnership for Development in January 2009 and established a shared vision of cooperation by which both Governments would work together to raise the standard of living. In particular, the partnership seeks to advance Kiribati's six priority areas mentioned above. The Government of Australia has established a new aid policy to promote prosperity, reduce poverty and enhance stability. It also introduced a new performance framework, called *Making Performance Count*, to enhance the accountability and effectiveness of Australian aid.²⁸ The new policy and framework will determine Australia's future aid allocations. Its aid programme will increase the geographical focus on the Indo-Pacific region, with funding linked to progress against a rigorous set of targets and performance benchmarks at the national and other levels.

²⁸ A letter of 20 October 2014 from the Permanent Representative of Australia Mission to the United Nations to the Under-Secretary General for Economic and Social Affairs.

The other two major donors also strengthened their assistance along with the country's priority areas. Japan started implementing infrastructure projects in sea ports in 2012, while New Zealand signed with Kiribati a joint Commitment for Development in April 2014 to accelerate their joint efforts towards “a more prosperous, resilient, healthier and better educated Kiribati”.²⁹ In 2013/14, ODA to Kiribati accounted for 61 per cent of all New Zealand ODA. New Zealand is currently in the process of designing or implementing multi-year development activities in the areas of housing, water and sanitation, health, population, fisheries and economic reform and infrastructure.

Table 8 shows that donors have focused on economic infrastructure, education and health, and water-supply and sanitation, as well as government budget support (included in government and civil society).

 Insert table 8

According to IMF estimates, Kiribati recorded budget deficits for the period 2009 – 2012, but it is projected to have had a budget surplus in 2013, largely owing to significant increases in fishing licence fees. (See table 7). Fiscal balance is, however, expected to face significantly large deficits in 2014. To enhance domestic resource mobilization, the Government introduced value-added tax (VAT) in April 2014 but, at the same, abolished custom duties.³⁰ The introduction of VAT is expected to increase the collection of revenue and improve compliance and collection of business tax. Fishing license fees have increased since the implementation of minimum fishing license fees (\$5,000 per vessel per day and \$6,000 since January 2014) under the Parties to the Nauru Agreement.³¹ Nonetheless, license fee revenues continue to be highly volatile (see table 7)

Despite these efforts, the country's fiscal deficit is projected to remain high at 11.9 per cent of the GDP in 2019, according to the IMF. To cover the fiscal deficit, the Government is expected to rely on withdrawals from its Revenue Equalization Reserve Fund (a sovereign wealth fund established in 1956) in the future. As a result, the Fund's asset is projected to decrease from A\$ 4,837 per person in 2014 to A\$4,075 per person in 2019.³² During this period, accumulated reserves are projected to remain above the established benchmark of real per capita income level in 1996, but large withdrawals may undermine the fund's capacity to serve as source of budget support in the long run.³³ In this regard, budget support by bilateral donors has been and will remain instrumental in

²⁹ Letter from New Zealand Permanent Mission to the United Nations to the Under-Secretary General for Economic and Social Affairs, United Nations, 14 September 2014.

³⁰ Government of Kiribati (2014). “Kiribati Development Partnership Forum, Tarawa, 13-14 March: Draft Summary Record”.

³¹ The signatories of the Agreement are: Kiribati, the Marshall Islands, Micronesia, Nauru, Palau, Papua New Guinea, Solomon Island and Tuvalu.

³² In 2006 constant Australian dollar, IMF (2014), *Staff Report for the 2014 Article IV Consultation*, May.

³³ Asian development Bank, *Asian Development Outlook 2008*, p. 248

sustaining a certain level of expenditures for the provision of necessary social and infrastructure services.

4.2 Multilateral cooperation

The *Asian Development Bank* is one of the several donors whose programme implementations are in line with the Kiribati's national development plans, mentioned above. ADB's country partnership strategy (2010-2014) for Kiribati is aligned with the goals and objectives of the Plan by ADB special funds. Lending terms for the special fund are characterized with long maturities, long grace periods and low interest rates. The Asian Development Fund, the largest among the special funds, has the following terms, for example; 32-year maturity, an 8-year grace period and 1 per cent interest charged during the grace period, with 1.5 per cent during the amortization period. Its programmes aim at reducing poverty and promote economic opportunities by improving public financial management and delivering sustainable infrastructure services.³⁴ As many of the infrastructure services are provided by state-owned enterprises, improving corporate governance arrangements and the commercial focus of these enterprises is another key objective of ADB's support to the Kiribati government's structural reform programme. LDC status is not explicitly considered for the eligibility for the special funds.

EU bilateral development cooperation has been provided for Kiribati for the period 2014-2020 under the 11th European Development Fund, which is the main instrument for providing aid for development cooperation in the Africa, Caribbean and Pacific (ACP) States. The primary objectives of the EU development policy are on social aspects (particularly health), vulnerability (low lying atolls) and the low level of economic diversification. The bilateral assistance has been decided based on EU own criteria, which are different from those used for the graduation.³⁵

An important support measure offered by the international community to LDCs is the Least Developed Country Fund (LDCF) of the *Global Environment Facility* under the United Nations Framework Convention on Climate Change (UNFCCC). The parties to the UNFCCC established the LDCF to support LDCs in carrying out the preparation and implementation of National Adaptation Programmes of Action (NAPAs). The LDCF currently has a flexible ceiling up to \$30 million, and Kiribati accessed two projects worth \$8.3 million. For the country, about \$21.7 million is still available for project financing under the LDCF.³⁶ At present, the country is developing several new projects from the NAPA to the LDCF, including one on food security and the other on health.

³⁴ Asian Development Bank, <http://www.adb.org/countries/kiribati/main>.

³⁵ European Union, a letter of 10 October 2014, addressed to the Under-Secretary General for Economic and Social Affairs.

³⁶ GEF, Kiribati and the GEF, available at, <http://www.thegef.org/gef/sites/thegef.org/files/publication/Kiribati%20-%20Fact%20Sheet%20-%20From%20Rawleston.pdf>A letter of 29 September 2014 from GEF..

According to the UNFCCC Secretariat, the two projects – which worth less than \$21.7 million -- are likely to be approved before graduation.³⁷

In November 2010, the 16th session of the Conference of the Parties to the UNFCCC adopted the Cancun Adaptation Framework (CAF) as part of the Cancun Agreement. Parties agreed to establish a process to enable LDC Parties to formulate a national adaptation plans (NAPs), building upon their experiences with NAPAs. The NAP process is designed to address medium- and long-term adaptation to complement the NAPA for urgent and immediate needs. Kiribati employed the process for developing a joint national action plan for climate change and disaster risk management. It developed the Kiribati Joint Implementation Plan (KJIP) to facilitate the implementation of the recently endorsement Disaster Risk Management Plan and the National Framework for Climate Change and Climate Change Adaptation Framework (August 2014). Kiribati will receive preferred access to funding and technical support as long as the country prepares NAP while it is still an LDC. Once it graduates, however, the country may not be able to access the financial resources and technical support available from the Least Developed Countries Expert Group for the NAP process.

In addition, Kiribati could update their NAPA with information from the KJIP to produce an updated priority list of projects under the NAPA, so that these projects can be supported by the balance that will remain in the LDCF, as mentioned above. The UNFCCC Secretary notes that access to funding is more constrained by country's capacity to absorb climate funding than availability of funding.

The Cancun Agreement 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 in several years. 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. In fact, the GCF Board decided in its meeting in Indonesian in February 2014 that 50 per cent of the funding will be allocated to adaption (with the rest to mitigation), of which at least 50 per cent will be channelled to vulnerable developing countries, including LDCs, SIDS and African States.³⁸ Hence, as Kiribati is a SIDS, it is unlikely that a possible graduation would significantly affect eligibility or allocation of funding under the Green climate Fund in the future, should the fund become operational. As of 31 March 2014, the pledges and contributions to the Green Climate Fund Trust Fund amounted to \$54.9 million, of which \$36.7 million has been delivered by 12 donors.³⁹

³⁷ Letter of 6 November 2014 from the UNFCCC to the CDP Secretariat.

³⁸ See http://gcfund.net/fileadmin/00_customer/documents/pdf/GCF_Press_Release_fin_20140222.pdf.

³⁹ Green Climate Fund, http://gcfund.net/fileadmin/00_customer/documents/MOB201406-7th/GCF_B07_Inf__04_Trust_Fund_Financial_Report_fin_20140501.pdf.

The UNFCCC also facilitates the participation of LDCs and small-island developing states (SIDS) in the Convention process. Graduation of Kiribati may not affect its eligibility for the related travel benefits, because Kiribati, also being a SIDS, would continue to access, as a SIDS, to the benefits made available through voluntary trust funds to assist LDCs, SIDS and landlocked developing States, to attend meetings of the UN consultative process.⁴⁰

4.3 Possible impact of graduation on ODA

The bilateral donors and the EU have indicated to the CDP Secretariat that Kiribati's graduation will not affect their policies of assistance to the country. They have their own criteria for development assistance, which are not strictly associated with LDC status. All the donors, however, listed the economic and environmental vulnerabilities – components of the EVI -- as important consideration for aid allocation. For example, the European Union has that “specific situation and vulnerability” of Kiribati will be taken into account in the discussion of EU's future programming cycles.

Kiribati, on the other hand, will no longer have access to the LDCF/GEF if the country graduates from the LDC category. But projects which have already been approved will continue to be implemented. Funds under the UNFCCC that are open to all developing countries, such as the Adaptation Fund, the Special Climate Change Fund or the GEF Trust Fund will still available to the country. The greatest concern for Kiribati at present, however, may not be the issue of general availability of funding. The country is concerned that, once graduated and no longer having preferential access, it has to compete against other developing countries in accessing climate funding and it may be in disadvantage in that competition, due to weak administrative and technical capacity. Furthermore, at present, except for the LDCF, there is no available funding primarily focusing on adaptation to climate change, the major concern of the country (see Annex). In fact, the Green Climate Fund is not yet in operation.

UNDP gives particular attention to LDCs in its operational activities as part of its corporate strategy.⁴¹ Allocation of the core budget to each country is determined by the country's GNI level and population size, with greater weight given to LDCs. According to the current rules, should Kiribati graduate from the LDC category, the share in the core budget allocated to the country could be lower. But it is not clear how the lower weight is translated into actual disbursement of funding beyond the current programme period (2014-2017) because the graduation, if it happens, would take place only in 2018 or later. Moreover, the provision of technical support by other UN agencies does not depend on

⁴⁰ Other various trust funds, such as the FAO/WHO Codex Alimentarius Commission and the Convention of Biological Diversity, also facilitate the participation of LDCs and SIDS in international or regional meetings.

⁴¹ See “United Nations Development Programme” in LDC Portal at http://esango.un.org/ldcportal/web/16736/-/united-nations-development-programme-undp-?groupId=19804&redirect=http%3A%2F%2Fesango.un.org%2Fldcportal%2Fdevelopment%2Fall-isms%3Fp_p_id%3D101_INSTANCE_AuRAMSiMt8zf%26p_p_lifecycle%3D0%26p_p_state%3Dnormal%26p_p_mode%3Dview%26p_p_col_id%3Dcolumn-1%26p_p_col_count%3D1

LDC status and, therefore, it is unlikely to be affected by an eventual change of status. UNDP and UNFPA are the only two UN entities that specifically set aside budget allocations for LDCs. Similarly, development assistance from Asian Development Bank and GAVI will not be affected by the graduation of Kiribati.

5. General Support

The United Nations provides financial support for the participation of LDC representatives in regular, special and emergency special sessions of the General Assembly.⁴² According to ST/SGB/107/Rev.6, 25 March 1991, travel (tickets, but not daily subsistence allowance - DSA) is provided to LDCs for up to 5 representatives when attending a regular session of the GA, and one representative for attending a special and an emergency special session of the GA. Member States of the UN committed, in the Istanbul Declaration and the Programme of Action for the least developed countries for the decade 2011-2020,⁴³ to assisting the 48 LDCs with a goal of enabling half of them to meet the criteria for graduation from that category by 2020. To this end, the General Assembly of the UN (General Assembly resolution, A/65/L.66/Rev.1/Add.1, 20 June 2011) decided that the long-standing benefit of travel-related support the UN made available to the LDCs would be extended, if requested, to graduating countries, for a maximum of three years. Thus the eventual graduation of Kiribati will not lead to the immediate loss of the benefits.

LDC contributions to the regular budget of the United Nations are capped at 0.01 per cent of the total UN budget (e.g. amounting to contributions no larger than \$255,196 per country to the 2014 budget, regardless of their national income and other factors determining a Member State's assessment rate). On the other hand, the minimum contribution of 0.001 per cent of the total UN budget is required for all member States, regardless of their ability to pay (which depends on national income and external debt burden). In 2014, Kiribati's contribution is assessed at the minimum rate of 0.001 per cent of the regular budget, or \$25,520. Graduation will not affect the assessment rate, given the country's level of GDP, and per-capita income that is lower than world average per-capita income around \$9,000.⁴⁴

LDCs are also entitled to a 90 per cent discount in their contributions to a UN peacekeeping operation or a mission (i.e. they pay 0.0001 per cent -- one millionth -- of a

⁴² In accordance with General Assembly resolution 1798 (XVII), as amended by resolutions 2128 (XX), 2245 (XXI), 2489 (XXIII), 2491 (XXIX), 41/176, 41/213, 42/214, section VI of 42/225, section IX of 43/217 and section XIII of 45/248. See also ST/SGB/107/Rev.6, 25 March 1991.

⁴³ See United Nations (2011), Programme of Action for the Least Developed Countries for the Decade 2011-2020 (A/CONF.219/3). <http://ldc4istanbul.org/uploads/IPoA.pdf>.

⁴⁴ United Nations (2012). Report of the Committee on Contribution, Seventy-second session (4-29 June 2012), General Assembly Official Records, Supplement No. 11 (A/67/11). See also LDC Portal at <https://www.un.org/ldcportal>

peacekeeping operation).⁴⁵ If Kiribati graduates from the list, the discount rate associated with peacekeeping operations will be reduced to 80 per cent (i.e., at 0.0002 per cent) (A/Res/55/235, 30 January 2001).⁴⁶

6. Concluding Remarks

On the basis of the information gathered in this report, and bearing in mind the difficulties related to data reliability and availability, graduation of Kiribati from the LDC category does not appear to have a significant adverse impact on the level of support received. This statement, however, critically hinges on the promise that the major bilateral and multilateral donors continue to provide development assistance to the country after graduation. The financial and technical assistance have proved to support advances in health and education status of Kiribati in the past and also contributes to strengthening the country's resilience against adverse impacts of climate change. In this regard, it cannot over-emphasize the importance of maintaining the uninterrupted and predictable aid flows to the country even after graduation.

The trade and development support that the country has been receiving from the international community do not appear to be largely influenced by the country's status as an LDC. This particularly applies to the aid and trade policies by Australia and other major donor countries. Several of the major export markets for Kiribati – Morocco, Hong Kong, SAR, Viet Nam and Fuji – do not have LDC-specific preference treatments and thus graduation will not affect the tariff rates currently being applied.

Kiribati will continue to access EIF benefits for three years after graduation, with a potential extension of two additional years, if necessary. It is important to notice that funds available from the EIF are limited as indicated above. Kiribati will also continue have access to funds under the UNFCCC that are open to all developing countries, such as the Adaptation Fund, the Special Climate Change Fund or the GEF Trust Fund. Kiribati, however, will no longer have access to the LDCF if it graduates from the LDC category, which can be a source of concern due to the country's considerable vulnerability to the impacts of climate change. As noted before, projects which have already been approved will continue to be implemented, however. It is worthwhile to re-state that there is concern that, once graduated, the country will lose preferential access to climate financing and will have to compete with other countries for funding from a disadvantaged position due to its weak administrative and technical capacity.

Last, but not least, it should be noted that the country's per-capita income level, though high enough to satisfy the income graduation threshold, has widely fluctuated, largely

⁴⁵ See General Assembly resolution A/RES/55/235 on the scale of assessments for the apportionment of the expenses of the United Nations peacekeeping operations. See A/64/220 (23 September 2009) for the Secretary-General's latest assessment of the implementation of the above-mentioned resolution.

⁴⁶ The approved budget for peacekeeping operations for July 2014 – June 2015 is \$7.06 billion. See http://www.un.org/en/ga/search/view_doc.asp?symbol=A/C.5/68/26&referer=http://www.un.org/en/peacekeeping/operations/financing.shtml&Lang=E.

owing to the extreme smallness of the country. Furthermore, volatility in revenues from fishing licence, though strengthened recently, and some drawdowns of its sovereign wealth funds cast doubts on the sustainability of the country's fiscal position over the short and long runs. In addition, economic vulnerability has been amplified by physical environmental vulnerability, including regular periods of water shortage and adverse implications of climate change on the country with scattered chains of low lying atolls. While the vulnerability of the country will be fully addressed by the vulnerability profile to be prepared by the UNCTAD, the international community at large and donor countries in particular should be reminded that their financial and technical support will remain crucial in assisting the country to mitigate and adapt to the adverse impacts from climate change.

Table 1. Kiribati: Criteria for identification of least developed countries, 2009, 2012 and 2015 triennial reviews a/

Indicator	2009	2012	2015 b/
GNI per capita	1,048 (1,086)	1,937 (1,190)	2,489 (1,242)
Human Asset Index	87.6 (66.0)	86.9 (66.0)	86.3 (66.0)
Economic Vulnerability Index	75.3 (38.0)	82.0 (32.0)	71.5 (32.0)

Source: Committee for Development Policy, LDC Data Retrieval, available at http://www.org/en/development/desa/policy/cdp/ldc/lec_data.shtml.

Notes: a/ Graduation thresholds are in the parentheses.

b/ Preliminary.

Table 2: Kiribati: Balance of payments, 2007-2013 (Millions of Australian dollars)

	2007	2008	2009	2010	2011	2012	2013
Current account balance	-28.6	-32.3	-37.9	-27.6	-58.9	-44.5	-48.1
Trade balance	-71.5	-79.1	-80.9	-75.1	-80.6	-98.0	-102.0
Exports, f.o.b.	12.1	8.8	8.0	4.2	8.3	6.8	7.2
Imports, f.o.b.	83.6	87.9	88.9	79.3	88.9	104.8	109.2
Balance on services	-49	-56.4	-55.3	-49.7	-57.9	-70.5	-73.0
Credit	12.8	13.9	15.3	13.6	12.3	10.9	11.2
Debit	61.8	70.2	70.6	63.3	70.2	81.4	84.2
Balance on factor income	63.7	75.2	68.2	66.9	56.4	91.3	113.8
Credit	66.9	79.1	72.2	80.8	62.9	91.6	121.6
Fishing license fees	25.4	32.2	29.5	41.7	29.3	58.9	88.6
Investment income	30.0	34.2	21.6	23.2	3.2	22.3	22.4
Remittances	11.0	11.1	11.7	10.2	10.7	10.4	10.5
Debit	3.1	4.0	4.0	13.9	6.5	0.3	7.8
Balance on current transfers	28.2	28	30.0	30.6	28.2	39.8	13.2
Credit	32.5	32.5	34.5	34.9	32.6	44.6	18.4
of which: government	26.2	26.3	26.0	31.1	32.4	44.9	16.6
Debit	3.6	3.8	3.5	4.0	4.6	4.9	5.1
Financial and capital account balance	21.1	1.9	10.7	6.1	11.2	27.8	86.5
Government	8.2	9.2	11.5	6.4	10.9	17.5	57.9
Capital transfers	10.4	9.9	12.4	6.8	10.5	18.1	58.1
Loans (net)	-2.3	-0.7	-0.9	-0.4	0.4	-0.3	-0.3
Direct investment	0.4	0.4	0.4	-0.2	0.3	1.3	9.0
Financial institutions	12.6	-7.7	1.2	0.0	0.0	5.8	19.7

Source: IMF (2014). Kiribati: Staff Report for 2014 Article IV Consultation, IMF Country Report No. 14/138, table 4.

Table 3: Kiribati: Value of merchandise exports by selected destination, 2011-2013
(Thousands of US dollars)

Importer	2011	2012	2013	Average (2011-2013)	Share (%)
World	8598	5816	6675	7029	100
American Samoa	0	0	46	15	0.2
Australia	1137	272	629	679	9.7
Bangladesh	0	0	71	24	0.3
Fiji	19	340	808	389	5.5
Germany	14	5	0	6	0.1
Guam	0	0	159	53	0.8
China, Hong Kong SAR	580	621	113	438	6.2
Italy	0	9	9	6	0.1
Japan	0	19	214	77	1.1
Marshall Islands	0	0	854	285	4.1
Morocco	1213	2736	1616	1855	26.4
Nauru	19	100	0	40	0.6
New Zealand	104	104	301	170	2.4
Philippines	0	0	833	278	4.0
Solomon Islands	0	0	21	7	0.1
Sudan	0	0	96	32	0.5
Tuvalu	0	43	0	14	0.2
Viet Nam	504	362	368	411	5.9
USA	24	19	236	93	1.3
Other Asia, not elsewhere identified	4958	1186	272	2139	30.4

Sourced: UN Commodity Trade Statistics.

Table 4. Kiribati: Major export markets, 2011-2013
(Thousands of dollars)

Product Code	Product label	2011	2012	2013
Australia				
Total	All products	1136.9	271.7	629.1
271019	Petroleum oils & oils obtained from bituminous minerals (excluding crude)	0.0	0.0	158.4
730900	Reservoirs, tanks, vats & similar containers	145.2	0.0	0.0
840910	Parts for aircraft engines	0.0	155.2	0.0
890399	Yachts & other vessels for pleasure/sports	624.4	0.0	0.0
Morocco				
Total	All products	1213.4	2735.7	1616.2
151311	Coconut (copra) oil, crude	1213.4	2735.7	1616.2
Hong Kong				
Total	All products	579.8	620.8	113.3
030559	Dried fish other than cod	185.1	80.3	538.6
030569	Fish other than herrings, cod	382.9	538.6	111.3
Viet Nam				
Total	All products	504.5	361.8	368.0
030569	Fish other than herrings, cod	63.0	253.5	163.1
121220	Seaweeds and other algae	441.5	0.0	204.8
Fiji				
Total	All products	18.7	339.7	808.4
271019	Petroleum oils & oils obtained from bituminous minerals (excl. crude)	0.0	0.0	793.5
901320	Lasers (excl. laser diodes)	0.0	111.3	0.0
901480	Navigational instruments and appliances.	0.0	64.2	0.0
901540	Photogrammetric surveying instrument	0.0	51.4	0.0

Source: CDP based on Commodity Trade Statistics.

Table 5. Kiribati: merchandise exports, 2011-2013 (Thousands of US dollars)

2011			2012			2013		
Code	Commodity	Trade Value	Code	Commodity	Trade Value	Code	Commodity	Trade Value
030559	Dried fish other than cod	216.8	030559	Dried fish other than cod	792.1	030239	Tunas, skipjack & bonito	253.7
030569	Fish other than herrings , cod	556.1	151311	Coconut (copra) oil, crude	3775.7	030559	Dried fish other than cod	277.1
121220	Seaweeds and other algae	441.5	230650	Oil-cake & other solid residues	194.3	120300	Copra	833.2
151311	Coconut (copra) oil, crude	5785.7	761699	Articles of aluminium n.e.s.	135.5	121220	Seaweeds and oter algae	204.8
230650	Oil-cake & other solid residues	334.9	840910	Parts for use with the aircraft engines	155.2	151311	Coconut (copra) oil, crude	2256.2
730900	Reservoirs, tanks, vats & similar containers	145.9	901320	Lasers (excl. laser diodes)	111.3	230650	Oil-cake & other solid residues,	123
890399	Yachts & other vessels for pleasure/sports	624.4				271019	Petroleum oils & oils obtained from bituminous minerals	2166.6
						880390	Parts of balloons	158.6

Source: Commodity Trade Statistics.

Table 6. Kiribati: Composition and distribution of ODA flows by donor, 2008-2012.
(Net disbursements, millions of current US dollars)

	2008	2009	2010	2011	2012	Average flow (2008-2012)	Share (per cent)
All donors, total	27.1	27.14	22.82	63.93	64.66	41.13	100.00
DAC Countries, Total	20.13	22.47	21.25	59.16	60.85	36.77	89.40
Australia	8.12	10.07	14.53	40.98	30.35	20.81	50.60
Canada	0.03	0.1	..	0.72	..	0.28	0.69
Germany	..	..	0.1	0.05	..	0.08	0.18
Italy	0.06	..	..	..	..	0.06	0.15
Japan	7.68	6.79	3.47	3.84	17.38	7.83	19.04
Korea	0.11	0.13	0.21	0.64	0.51	0.32	0.78
New Zealand	3.63	5.33	2.88	12.9	12.58	7.46	18.15
United Kingdom	0.03	0.03	0.06	0.03	0.03	0.04	0.09
United States	0.47	0.02	..	..	..	0.25	0.60
Multilateral, Total	6.85	4.67	1.46	4.77	3.81	4.31	10.48
AsDB Special Funds	0.48	0.14	-0.36	0.36	-0.22	0.08	0.19
EU Institutions	6.22	1.94	0.79	3.31	2.21	2.89	7.04
GAVI	0.11	0.06	0.03	0.06	0.14	0.08	0.19
GEF	..	2.53	1	0.32	0.07	0.98	2.38
IDA	..	..	..	0.2	0.88	0.54	1.31
UNDP	..	..	..	0.2	0.14	0.17	0.41
UNTA	0.04	..	..	..	..	0.04	0.10
WHO	..	..	..	0.32	0.59	0.46	1.11
Non-DAC Countries, Total	0.12	..	0.11	..	..	0.12	0.28
Thailand	0.01	..	..	..	..	0.01	0.02
Turkey	0.11	..	0.11	..	..	0.11	0.27

Source: OECDstat.

Table 7. Kiribati: Summary of Central Government Operations: 2009-2014
(Millions of Australian dollars)

	2009	2010	2011	2012 a/	2013 b/	2014 b/
Total revenue and grant	115.4	119.0	103.7	152.8	197.9	155.2
Revenue	69.6	78.4	61.9	91.3	122.6	72.4
Tax revenue	28.7	28.3	27.3	27.4	27.8	24.4
of which;						
Personal income	6.2	6.1	6.1	7.2	7.1	5.6
Company tax	7.0	7.3	5.7	4.7	4.6	4.8
Import duties	15.5	14.8	15.4	15.4	16.1	..
VAT and Excise	..	..	..	..	..	14.0
Nontax revenue	40.8	50.1	34.6	64.0	94.8	48.0
of which;						
Fishing license fees	29.5	41.7	29.1	58.8	88.6	42.2
External grants	45.8	40.6	41.9	61.5	75.3	82.8
Total expenditure	134.9	139.7	139.3	164.2	179.9	203.0
Memo: current fiscal balance as percentage of GDP	-12.0	-10.2	-21.0	-6.9	10.1	-22.6

Source: IMF (2014). *Kiribati: Staff Report for the 2014 Article IV Consultation (May)*.

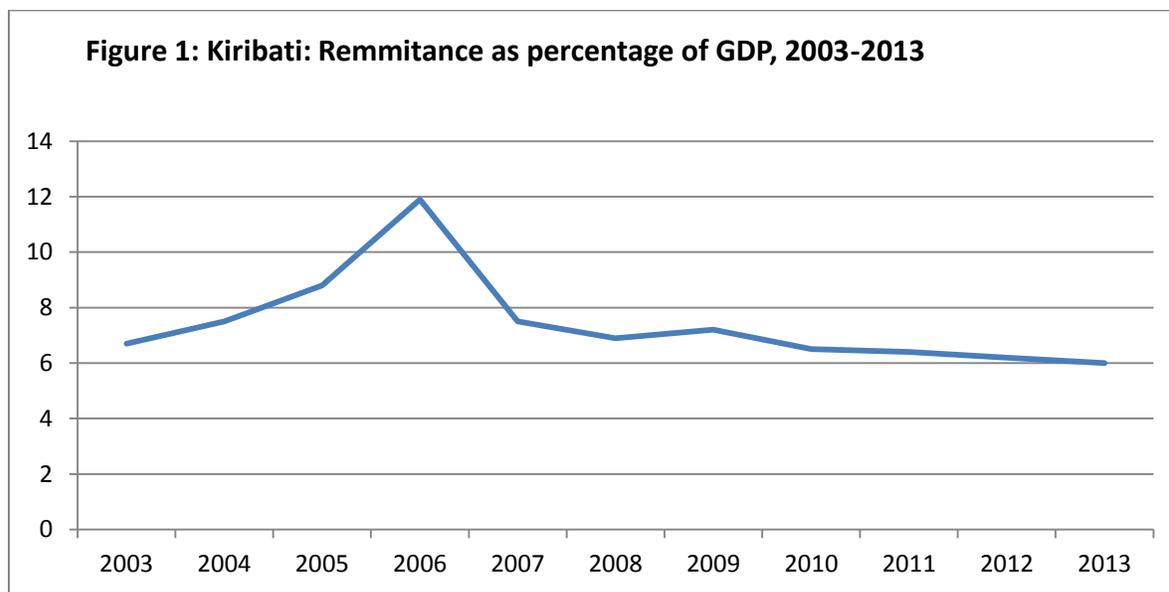
Notes: a/ Estimates.

b/ Projection.

Table 8: Kiribati: bilateral ODA by sector, 2008-2013 (commitment, current US millions)

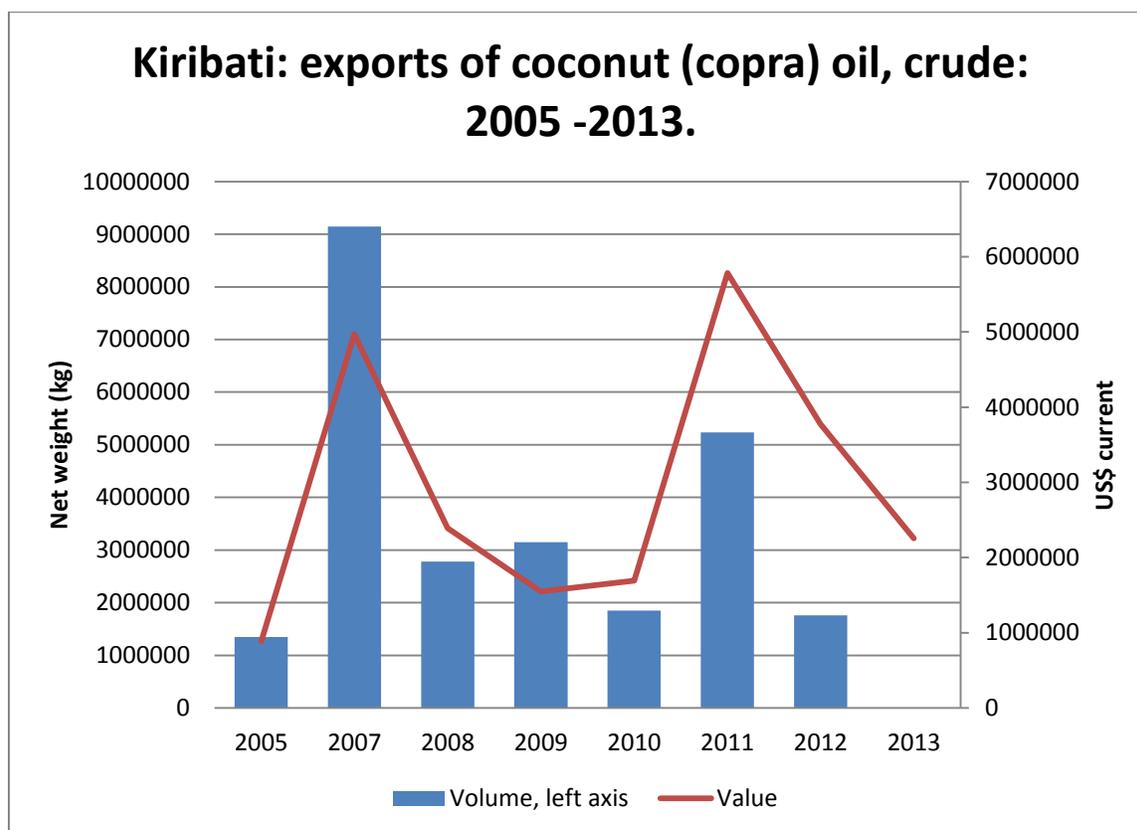
	2008	2009	2010	2011	2012	2103	Average
Total	32.1	18.6	26.7	104.7	51.4	40.7	45.7
Social Infrastructure & Services	21.4	4.8	18.2	37.7	29.5	22.1	22.3
Education	7.7	1.9	15.1	12.3	14.6	10.9	10.4
Health	10.4	0.1	0.4	4.1	5.1	3.0	3.8
Water Supply & Sanitation	..	0.0	0.2	10.7	5.4	4.7	4.2
Government & Civil Society	2.8	2.7	2.2	9.4	3.7	2.8	3.9
Other Social Infrastructure & Services	0.2	0.1	0.2	0.3	0.6	0.6	0.3
Economic Infrastructure & Services	3.8	1.2	1.7	53.0	4.6	10.4	12.4
Transport & Storage	3.5	1.0	1.6	52.8	0.4	7.1	11.1
Communications	0.0	0.1	0.1	0.2	3.7	3.1	1.2
Production Sectors	1.4	2.1	1.8	2.4	2.2	2.0	2.0
Agriculture, Forestry, Fishing	1.3	1.5	1.8	2.2	1.9	1.7	1.7
Multi-Sector / Cross-Cutting	4.9	5.0	4.9	10.3	15.0	6.2	7.7
Commodity Aid / General Programme Assistance	0.0	5.4	0.1	1.3	..	..	1.7

Source: OECDstat, accessed on January 2015.



Sources: IMF. Kiribati Staff Reports (various issues), and Browne, Christopher and Aiko Mineshima (2007), "Remittances in the Pacific Region", IMF Working Paper, WP/07/35 (February).

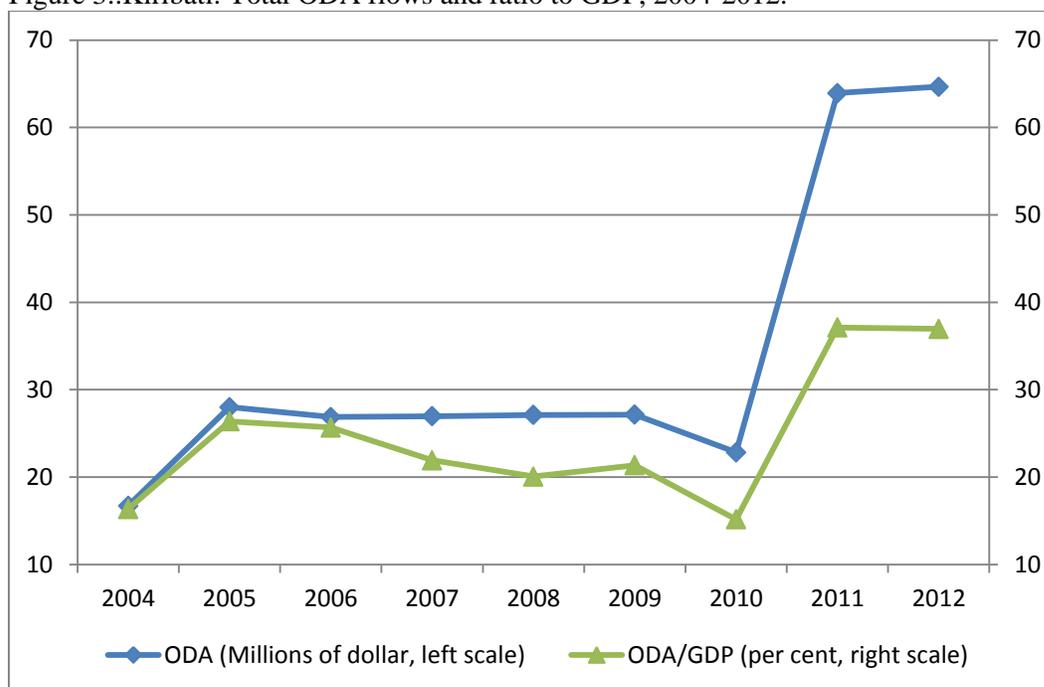
Figure 2



Source of data: UN Comtrade data base, accessed on 20 January 2015

Note: No data was reported for 2006.

Figure 3: Kiribati: Total ODA flows and ratio to GDP, 2004-2012.



Source: CDP Secretariat based on OECDstat and World Development Indicators.

ANNEX



**Kiribati Comments
on CDP Secretariat, UNDESA Paper**

**“Ex-ante impact assessment of likely
Consequences of graduation of Kiribati from the
Least developed country category”**

Kiribati Permanent Mission to the United Nations
New York
31 December, 2014

Kiribati welcomes this opportunity to comment on this draft assessment paper prepared by the Secretariat of the Committee for Development Policy, UNDESA.

The context in which the assessment report is being prepared, the consideration for graduation by Kiribati from the LDC category, is a positive reflection (both national and with our development and multilateral partners) on our national endeavours to improve the quality of life of our people which we welcome. We are however, concerned that graduation at this time is premature and could very well serve to undermine our efforts towards sustainable development to date. We say this as we are of the strong view that, the basis on which graduation is recommended, from this draft report, does not accurately reflect the situation on the ground in Kiribati.

Statistics

The assessment report is heavily dependent on statistical data, availability of which the report itself acknowledges is a major constraint.

“Data availability is another important constraint for the undertaking of an impact assessment for Kiribati, though data are now more readily available than in 2008 when the similar exercise was conducted by the Committee. Yet, there are considerable differences among data sources.”

We wish to emphasise that statistics does not tell us the whole story. Statistics can help us measure the level of development only when data is readily available, accurate and up to date. This is often not the case in most LDCs, Kiribati included. Yet we sometimes see a tendency to treat statistics and data with reverence, as an end in itself, forgetting that development and graduation in this case, is really about PEOPLE.

National Statistical Data not used

Interestingly, statistical input for the report was sought and requested from all except the country under review, Kiribati. The Kiribati Permanent Mission to the United Nations now operational for over a year in New York, was never approached nor was it asked at any time for data or even made aware that an assessment report on Kiribati was being prepared. It was not until a meeting with the CDP Secretariat in November 2015 that we were made aware of the report, almost completed by then.

Consequently, almost all statistics quoted in the paper does not come from the National Statistics Office of Kiribati, which should be the national source of data, especially for an exercise this important. Quoting different international data source and using these to calculate Kiribati’s performance against the three criteria for graduation makes the analysis in the report suspect and one that we have major difficulty in accepting.

While we recognise that availability of statistical data is a major challenge for LDCs including Kiribati, it is no justification for total disregard for the need for consultation and reaching out for national statistical data, which does exist. We also recognise that there are data gaps and discrepancies, and Pacific Governments including Kiribati are addressing these through the strategic plans and work programs of the National Statistics

Offices. At the end of the day the best data is that with our own national statistics office and this should be used as the starting point in any assessment including this one. As it stands, there are major errors in the analysis that are discussed in the following paragraphs.

Erroneous conclusions on remittances

The paper states on page 8 that:

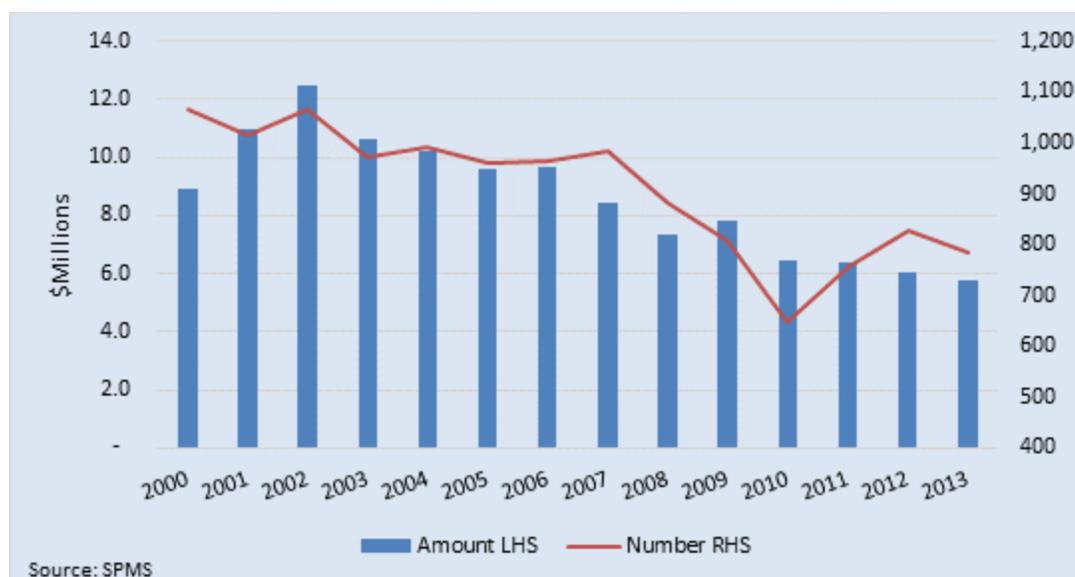
“Remittances, primarily from seafarers have been a stable source of finance, showing a relatively narrow range of fluctuations”.

This statement is totally false. Remittances from I-Kiribati seamen employed on overseas ships in the past have been a large source of income from abroad. However, since the Global Financial Crisis, the number of seamen employed overseas has steadily declined. Besides economic conditions, changes in vessel technology, where ships have become larger, and increased competition from Asian nations’ seamen have all contributed to this decline. Seamen’s remittances are estimated to be \$5.8 million at the end of 2013 compared with \$12.5 million at their peak in 2002. This is by no means a “relatively narrow range of fluctuation,” as reported in the UNDESA assessment report. An estimated 783 seamen were employed at the end of 2013. (Figure 1)

The IMF reports in its Article IV Consultations for Kiribati in May 2014, “Seafaring provides an important source of employment and remittances for Kiribati, which both having exhibited clear downward trends in recent years. While remaining sizable, employment fell sharply during the global financial crisis.”⁴⁷

Figure 1: Seamen’s Remittances, 2000 to 2013

47 IMF Country Report No. 14/138, Kiribati, May 2014, page 5



Erroneous Total Export values

The DESA draft paper states on pages 5 and 6’

“In fact, Kiribati’s total export values reported in the UN Commodity Trade Statistics have been significantly lower than the total import values of the country’s major trading partners. In some instances, it was necessary to make some adjustments to the data in order to address obvious problems and/or incongruence across the various data sources used in this report.”

Again the DESA paper is incorrect. Estimates sourced by UN Commodity Trade Statistics that Kiribati’s Exports are USD 91.68 million for 2013 are erroneous. Fishing licenses are granted to foreign vessels for a limited period of time of one year or less. These fishing vessels are non-residents, and the payment to the government of Kiribati for issuing licenses to catch fish should continue to be treated as rent in the primary income account (See BPM6, para 11.87 and 10.18). This case is specifically mentioned also in the manual SNA 2008, paragraph 17.335 as being common in the Pacific Islands, to which Kiribati belongs. Based on international standards, it is not correct to claim that Kiribati is deriving large export incomes from fish sales.

Again the IMF figures on export and imports in the Balance of Payments (Table 2 of the DESA paper) have been ignored.

Erroneous data on trading partners

The DESA report refers to Thailand, Mexico and Ecuador as trading partners. **This is not correct.** Thailand is not Kiribati’s major export market (page 9 of the DESA paper). In fact there were no exports to Thailand from Kiribati in the past two decades. Similarly Kiribati

does not export to either Mexico or Ecuador (page 10 of the DESA report). Table 1 shows the main export markets for Kiribati in 2013.

Volatility of Exports not captured

Economic vulnerability as defined by ECOSOC, includes the instability of exports of goods and services. Kiribati's exports are highly unstable, a fact which was ignored in the DESA report.

Table 2: Export Growth Rates, Kiribati, 2003 to 2013

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
-29.3%	-24.9%	68.0%	-40.7%	261.3%	-27.3%	-8.5%	-47.2%	96.2%	-18.6%	2.0%

Source: KNSO

In the past decade, exports of goods and services from Kiribati have risen from a high of 261.3% in 2007 to a low of -47.2% in 2010. Each year shows a pattern of wide disparity in the level of exports.

As well, exports from Kiribati are very low in comparison with GDP levels.

Table 3: Proportion of Exports to GDP, Kiribati, 2003 to 2013

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
	\$'001	\$'002	\$'003	\$'004	\$'005	\$'006	\$'007	\$'008	\$'009	\$'010
Exports	3,358	5,643	3,348	12,096	8,790	8,047	4,245	8,331	6,783	6,919
GDP	139,185	146,839	144,149	156,250	167,335	168,710	169,577	173,985	181,445	186,990
Proportion of exports to GDP	2.4%	3.8%	2.3%	7.7%	5.3%	4.8%	2.5%	4.8%	3.7%	3.7%

In fact, over the past decade, exports as a proportion of GDP, ranged from a low of 2.3% of GDP in 2003 to 7.7% in 2007.

Effects of Exchange rates not captured

The DESA assessment report uses \$US in its analysis. This however does not capture the real effect of currency fluctuation on the ground.

Because of fluctuations in the exchange rate between the US dollar and the Australian dollar which is the currency in use in Kiribati, using the US currency does not reflect the actual situation on the ground in Kiribati during the three year period. In fact when using the Australian dollar, and using GDP rather than GNI, the average GDP per capita over the three year period 2010 to 2012 was only \$1,621 and the growth rates were a negative 1.9% in 2010, negative 0.6% in 2011 and only 0.8% in 2012.

Relative Importance of the LCDF and impact of Climate Change on Sustainable Development downplayed

The draft assessment paper grossly downplays the significant importance of the LCDF and indeed the impact of climate change on sustainable development for the people of Kiribati. It ignores the estimates of sea level rise by the IPCC of one metre by the turn of the century

which makes Kiribati, a nation whose islands rise no more than 3 metres above sea level, one of the most vulnerable nations in the world to the consequences of climate change.

The DESA paper states on page 17:

“Kiribati on the other hand will no longer have access to the LCDF if the country graduates from the LDC category. But projects that have already been approved will still be implemented.”

This statement ignores the high reliance that Kiribati has on the LCDF for funds for adaptation projects. GEF funds in Kiribati are highly skewed towards mitigation projects rather than adaptation. Since 1992, Kiribati has accessed roughly US\$22 million in mitigation projects from the GEF compared to US\$8 million in adaptation projects.

Climate change is already affecting Kiribati and it is adaptation that will continue to be necessary to avoid the adverse impacts of natural calamities. So the scarce resources that are available to Kiribati should be directed towards adaptation so there is a better balance. Funds diverted from core adaptation priorities towards mitigation in the long run might not be worthwhile for Kiribati.

The Least Developed Countries Fund does address these problems. Kiribati has been able to access over \$8 million from this Fund since 2001. All of these funds go towards adaption. The Least Developed Countries Fund recognised the interconnectivity between development and adaptation and focuses on the need to reduce the vulnerability of sectors, for example, water, agriculture and food security, health, disaster risk, and coastal zone management. Therefore the impact of loss of access to the LCDF is greater than implied in the DESA report.

The DESA report notes (page 19)

“As a SIDS it is supposed to continue to have preferential access to some of these funds including the new Green Climate Fund.”

Access to the Green Climate Fund, which is not yet operational, is not necessarily easy as there are many conditions that a country has to satisfy before being provided with access. The DESA report grossly underrate the significant and major impact of climate change on sustainable development and on the people of Kiribati. The reality on the ground is, Kiribati is already addressing and examining the difficult questions of “What happens when we are no longer able to adapt to climate change and sea level rise?” and “What happens to our EEZs when land mass in Kiribati slowly go under water?”

Effect of graduation on UN assistance downplayed

The DESA report notes that UNDP will provide less funds to Kiribati should it graduate. It states (page 17)

“According to the current rules, should Kiribati graduate from the LDC category, the share in the core budget allocated to the country will be smaller. But it is not clear how the smaller share will be translated into actual disbursement of funding beyond the current program period (2014-17) because the graduation, if it happens, would take place only in 2018 or later”

However it notes that the UNDP only has a small share of the total ODA for Kiribati. This ignores the special technical advice that UNDP has provided to Kiribati in the past especially with regards to important Surveys such as the Household Income and Expenditure Survey. The report also totally ignores the effect on other UN agencies that play a significant part in assistance to Kiribati such as WHO, UNICEF, UNWOMEN and UNFPA. All are steady donors although their overall amounts are not high in comparison with other donors. Kiribati values the expertise that these organisations can bring to the country.

Vulnerability of agricultural production has also been ignored in the DESA report.

The share of agriculture, forestry and fisheries in GDP over the past decade has risen from a low of 20.3% in 2005 to 27.1% in 2009. Most of this type of industry is associated with the fishing industry as the coral islands do not provide sufficient nutrients for a more wide ranging agricultural industry.

Table 4: Proportion of Agriculture, Forestry and Fisheries to GDP, Kiribati, 2004 to 2013

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
23.0%	20.3%	22.4%	23.5%	24.8%	27.1%	24.5%	26.2%	26.3%	24.5%

Source: KNSO

As low level of lands are extensive in Kiribati the share of population in low elevated costal zones is 100%. All islands are low lying atolls (except Banaba) including South Tarawa and rise no more than 3 meters above sea level. The estimates of sea level rise by the IPCC of one metre by the turn of the century make Kiribati one of the most vulnerable nations in the world to the consequences of climate change.

Because Kiribati is on the equator, it does not experience cyclones or other disasters such as earthquakes which regularly occur in other Pacific nations. So natural disasters are not a common occurrence in Kiribati. However the effects of storms can have major consequences because of the low lying land with flooding and salt infestation causing damage to water lens, crops and coconut trees.

There is only minor agricultural production in Kiribati with the coconut industry the main source of revenue. The copra industry is sustained due to the large subsidies to that industry, which amounted to \$7.7 million in 2013 and \$7.95 million in 2014. Other agricultural production is limited to a few vegetables and fruit such as breadfruit and papaya.

CONCLUSIONS

In summary, the DESA paper does not acknowledge nor does it make use of up to date national statistics which should have been the starting point in an assessment of this nature. Consequently, the draft assessment contains several errors of fact, particularly on trade and seamen's remittances raising some serious questions on credibility of data.

The report also does not address the effect of fluctuation of currency exchange rates on the assessment and ignores areas of significance to Kiribati including ODA from UN agencies, access to funds for managing climate change and the problems associated with agricultural production.

Neither does it address the more pressing and difficult issue for Kiribati and its people of what next, when adaptation is no longer an option to the adverse effects of climate change and sea level rise.

United Nations Nations Unies

COMMITTEE FOR DEVELOPMENT POLICY
DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS
ROOM S-2529 UNITED NATIONS, NEW YORK, NY 10017
TELEPHONE (212) 963-4724; FAX (212) 963-1061
E-MAIL: cortez@un.org

REFERENCE:

12 January 2015

Excellency,

On behalf of the Committee for Development Policy (CDP), the Secretary of the CDP presents its compliments to the Permanent Mission of Kiribati to the United Nations and acknowledges with appreciation receipt of the comments of your Government on the draft report entitled "Ex-ante impact assessment of likely consequences of graduation of Kiribati from the LDC category". The assessment report has been prepared by the Department of Economic and Social Affairs for the 2015 triennial review of the list of LDCs by the Committee for Development Policy (CDP).

In this regard, it is worth recalling that the main objectives of the assessment report are to examine the likely consequences of graduation that the country may face and to address the expected implications of the loss of LDC status for accessing special measures made available for LDCs, on an exclusive basis, with respect to international trade, development financing, technical assistance and general development support. Accordingly, assessment report does not aim to address issues related to vulnerability and instability, some of which are highlighted in your letter. These matters are to be covered in a separate report, entitled Vulnerability Profile, which is being prepared by the United Nations Conference on Trade and Development (UNCTAD) and complements the analysis contained in the assessment report.

The objectives of both the assessment report and the vulnerability profile are spelled in the CDP Report to the ECOSOC on its 9th session in 2007 and endorsed by the Economic and Social Council. This information was conveyed to your Government on previous correspondences sent both to your capital (6 September 2012) and more recently to your representation (7 August 2014), and are annexed here for ease of reference.

H.E. Mrs. Makurita Baaro
Permanent Representative of the Republic
of Kiribati to the United Nations
800 Second Avenue, Suite 400A
New York, N.Y. 10017

While the Secretariat understands your reservations about the use of international data sources, I would like to inform you that, since the establishment of the category, the CDP has relied on data made available by reputable international organizations for calculating the LDC criteria. This approach aims to ensure that data are robust, and methodologies used in data processing are consistent so that indicators can be compared across countries and over time. In almost all cases, the international data providers (such as United Nations Statistics Division, United Nations Population Division, UNESCO, FAO, etc.) use original data submitted by national statistical offices and other relevant official national data sources, although they may make the necessary adjustments to ensure consistency and comparability.

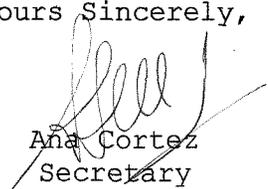
The comments received are an important input to the revision of the assessment report. They will be circulated to the CDP and made available at the CDP website, if you allow us to do so. I am particularly thankful to your Government for bringing to our attention the need to rectify our conclusions regarding remittances trends, value of exports and pertinent trade partners, as well as the relevance of continued access to the LDCF. Additionally, I would like to indicate that the Secretariat is fully aware of the important role that the UN system has been playing in providing technical advice to Kiribati. However, the provision of that support does not depend on LDC status and, therefore, it is unlikely to be affected by an eventual change of status. UNDP and UNFPA are the only two UN entities that specifically set aside budget allocations for LDCs.

A revised assessment report will be made available for CDP members and for your Government in time for the expert group meeting on the preparation for the triennial review. As indicated in my letter dated 25 November 2014 (also attached here), the meeting in January will provide an opportunity for Kiribati to present its views on the possible implications of graduation, so as to complement the information to be examined by the Committee. In this regard, I am pleased to attach here, for your consideration, our preliminary estimates on the LDC indicators for Kiribati. Finally, the Secretariat would like to reiterate the invitation to you (or your representative) to present the views of your Government on the possible implications of graduation for Kiribati on 28 January 2015 at 2:30 pm. I would be grateful if you could confirm your participation at your earliest convenience.

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

Please accept your Excellency the assurance of my highest consideration,

Yours Sincerely,


Ana Cortez
Secretary

Committee for Development Policy
Department of Economic and Social Affairs