

(23 January 2009)

Vulnerability profile of Kiribati

Note by UNCTAD

1. **Institutional context**

1.1 Date of independence:

The Gilbert Islands reached full self-government from the United Kingdom in 1977; gained independence on 12 July 1979.

1.2 Date of admission in the LDC category: 1986

1.3 History of qualification for graduation

Kiribati met one graduation threshold (human assets) in 1991, 1994 and 1997; met no graduation threshold in 2000; then met two thresholds (GNI pc; human assets) in 2003, but was not considered pre-eligible for graduation; again met two thresholds (GNI pc; human assets) in 2006, thereby pre-qualifying for graduation.

Same observation in 2009 as in 2006.

2. **Low income criterion**

2.1 GNI per capita, in US \$ (3-year average used in 2009): \$1,193

2.2 GNI per capita, in US \$ (latest year available, World Bank online database)

\$1,170 (2007)

NB: GNI is 38% greater than GDP, mainly as a result of remittances from seamen working abroad.

2.3 Income distribution status (based on household income and expenditure surveys or poverty surveys)

The 2006 Kiribati Household Income and Expenditure Survey has revealed relatively small contrasts, among the various groups of islands making up the country, in terms of annual per capita income, ranging from A\$1,053 in the Southern Gilbert group to A\$1,531 in Southern Tarawa where the capital is located. The survey also revealed that households in Kiribati spend more than they earn (are indebted), and that a large majority of the islanders are financially supported by the small minority with a regular income.

2.4 Distance from the graduation threshold (per capita income score)

2000: 58.8% of the threshold

2003: 102.6% of the threshold

2006: 101.9% of the threshold

2009: 109.9% of the threshold

3. **Human assets weakness criterion**

3.1 Population (*Source: UNCTAD*): 95,000 (2007)

3.2 Population growth rate (per annum over the 2005-2010 period): 1.58%

3.3 Percentage of population undernourished (*component of the HAI*)

CDP estimate in 2006: 6% (2000-2002)

No national data available. A WHO survey, in 2004, noted that 69.6% of adults between 25 and 44, and 75.3% of adults between 45 and 64 are affected by dietary imbalances (often overweight or obese).

Other nutrition indicator: The number of serious cases of malnutrition (cause of morbidity) may vary sharply from one year to the other (e.g., 2004: 191; 2005: 318; 2006: 527).

3.4 Child (under 5) mortality rate (*component of the HAI*)

CDP estimate in 2006: 65 per 1,000 (2000-2005)

The national 2007 MDG report confirms this estimate (66 per 1,000) and anticipates a reduction only to 60 per 1,000 by 2015. As such, Kiribati's rate remains among the highest in the Pacific. This points to the need for better child health programmes and improved sanitation.

3.5 Secondary school enrolment rate (*component of the HAI*)

CDP estimate in 2006: 100% (2002-2003)

A recent survey by the Ministry of Education (KEMIS database) indicates gross secondary school enrolment rates of 32.7% for junior secondary students and 16.0% for senior secondary students. The overall gross secondary school enrolment rate is estimated at 25.3%, a figure considerably lower than the (unrealistic) 2006 CDP estimate.

Other school enrolment indicator: Gross primary school enrolment rate according to the same source: 61.3%.

3.6 Adult literacy rate (*component of the HAI*)

CDP estimate in 2006: 92.5% (2000-2004)

No national data available.

3.7 Distance from the graduation threshold (*HAI score*)

2000: 97% of the threshold
2003: 110.7% of the threshold
2006: 141.4% of the threshold
2009: 132.7% of the threshold

4. **Economic vulnerability criterion**

4.1 Natural shocks (*overview*)

Considerable adverse impact of climate change, given the low level of the atoll islands:

- . coastal erosion
- . coastal inundation
- . loss of mangroves and coral reefs
- . serious impact on fresh water resources
- . serious impact on agriculture
- . serious impact on public health

4.2 Instability of agricultural production (*component of the EVI*)

Instability of agricultural production has been 65% higher in Kiribati than in other developing countries. Copra production, between 1997 and 2007, fluctuated between 5,165 tonnes (in 1997) and 12,334 tonnes (in 2004). Likewise, sharp fluctuations were recorded in the production of seaweed (e.g., 1,167 tonnes in 2001; 147 tonnes in 2006).

4.3 Homeless population as a result of natural disasters (*component of the EVI*)

CDP, in 2006, observed a level of homelessness 3.5 times higher in Kiribati than in other developing countries. Homeless people have been suffering from extreme poverty for a range of reasons, some of which directly relate to coastal erosion and the lack of sanitation.

4.4 Economic shocks (*overview*)

Kiribati is continuously constrained by price and demand-related shocks (e.g., food and oil prices in 2008) in addition to the serious socio-economic effects of global environmental shocks.

4.5 Instability of exports of goods and services (*component of the EVI*)

CDP observed, in 2006, a level of export instability 3 times higher in Kiribati than in all other developing countries. Export instability affects copra (e.g., A\$9.0 million in 1999; A\$1.9 million in 2007) and seaweed (A\$1.7 million in 2000; A\$0.1 million in 2006), more for supply-related than for price-related reasons. Tourism has also undergone sharp fluctuations associated with the international demand (e.g., 11,338 arrivals in 1998; 4,724 in 2006).

4.6 Economic specialization (*overview*)

Because of its very small size and the severe geographical and environmental constraints it is faced with, Kiribati's economy can hardly specialize further than the few existing crops (copra, seaweed, etc.) and the limited tourism industry. The latter is likely to remain a small sector of the economy (1.7% of GDP in 2007).

4.7 Primary activities as a percentage of GDP (*component of the EVI*)

CDP's 2006 estimate of the share of agriculture and fisheries in GDP: 17.3% (2003 or 2004 data).

Government estimate for all years between 2003 and 2007: 4 to 5% of GDP.

Agriculture, fisheries and seaweed production together account for 2.8 times more than the hotel and restaurant industry (2008 national accounts).

4.8 Merchandise export concentration (*component of the EVI*)

CDP, in 2006, observed a merchandise export concentration 47% higher in Kiribati than in all other developing countries. The narrow export base is a determining factor of economic vulnerability in Kiribati.

4.9 Economic smallness (*component of the EVI*)

Kiribati's smallness (whether measured economically or demographically) is a critical factor of the country's economic vulnerability.

4.10 Economic remoteness (*component of the EVI*)

Kiribati's score in the remoteness index the CDP used in 2006 revealed that the country had been 20% more remote than all other developing countries. As for many other countries in the Pacific, economic remoteness is a major structural handicap for Kiribati (both internationally and in terms of inter-island transport domestically).

4.11 Environmental vulnerability (*overview*)

As noted above (under "Natural shocks"), Kiribati is among the most environmentally fragile countries in the world. Climate change and the ensuing sea level rise phenomenon increasingly affect coastal areas (therefore the living conditions of most people); access to fresh water; farming (which accounts for a decreasing share of GDP); and the people's health.

4.12 Distance from the graduation threshold (*EVI score*)

2000: 41.8% of the threshold

2003: 50.8% of the threshold

2006: 45.2% of the threshold

2009: 50.6% of the threshold

5. **Anticipated consequences of graduation**¹

5.1 In the area of development financing

Two of Kiribati's development partners (Taiwan and the European Union, presently the two largest donors), maintain a substantial flow of ODA to Kiribati (79% of total ODA) on political grounds. This inflow is unlikely to be affected in any significant manner, if at all, by the eventuality of graduation.

The two most important regional partners of Kiribati, namely, Australia and New Zealand, are equally likely to maintain a stable pattern of aid to Kiribati, irrespective of the country's status, in keeping with their pattern of special attention to the problems of SIDS of the Pacific.

The approach to Kiribati's graduation other bilateral donors such as the US and France will have is unclear, but it is unlikely to affect the country in any event, given the limited ODA programmes involved.

Four regional organizations provide technical assistance to Kiribati because the country is a member of these organizations, irrespective of LDC status.

Four agencies and programmes of the UN system are among the development partners of Kiribati (UNDP, WHO, UNICEF, UNFPA, together accounting for 2.6% of total ODA); in the event of Kiribati's graduation, they would be bound to the most exemplary adherence to the UN General Assembly's call for a "smooth transition" for graduating countries.

National policy makers are confident that the overall inclination of development partners is to determine their ongoing support to the country in the light of the special challenges it is faced with.

5.2 In the area of trade

Based on the latest export data made available by the Government (2006), 94.5% of the total value of Kiribati's merchandise exports involves zero-tariff treatment on an MFN basis, therefore no preferential margin for Kiribati, and accordingly, no loss of preferences in the event of graduation.

These exports consist of six products (coconut oil, frozen fish; copra; bêche-de-mer; shark fins; salt), with four destinations (Australia, Hong Kong, Japan, Taiwan). The remaining share of Kiribati's total 2006 exports (5.5%) amounts to seaweed exports to the Philippines (1% MFN tariff, with no preferential treatment to LDCs), copra to Bangladesh (5% MFN tariff, with no preferential margin to other LDCs), and frozen fish to China, a country that does offer zero-tariff preferential treatment to LDCs. China's market, which involves only 1.1% of Kiribati's total export receipts, appears to be the only case of a possible loss of preferential margin in the event of graduation (10% margin loss for MFN treatment; 40% loss for non-MFN treatment). Overall, with Australia and Hong Kong accounting for two thirds

¹ Findings summarized in this section result from an UNCTAD mission to Kiribati in July 2008.

of Kiribati's total exports, and limited prospects for expansion in the export structure of Kiribati, the anticipated negative impact on the country's exporters of a loss of LDC status is nearly non-existent.

In the multilateral arena and outside the sphere of technical assistance, the benefits Kiribati derives from LDC status are also nearly non-existent, as the country is neither a member nor an observer of the WTO.

In region-wide negotiations among Pacific States, toward free trade within the region or in the framework of "North-South" negotiations (Economic Partnership Agreement with the European Union; Pacific Agreement on Closer Economic Relations with Australia and New Zealand), LDC status seems to carry no weight as a criterion for special treatment, although a case for non-reciprocity in free-trade arrangements could in theory be made by the five LDCs of the region. No LDC-specific case has so far been made within the region in the framework of trade negotiations, and Kiribati never pursued any separate plea for special consideration on LDC grounds. Having gained nothing from LDC status on this front, Kiribati would have no reason to fear a loss of special consideration in the event of graduation.

A loss could be foreseen in the area of trade-related technical assistance, with specific reference to the "Enhanced Integrated Framework" (EIF) for LDCs. However, with three UN entities among its sponsors, the EIF would not depart from the paramount principle of "smooth transition" for graduating countries as prescribed by the General Assembly.

5.3 In the area of UN budgetary support by virtue of LDC status

The estimated total UN coverage, by virtue of LDC status, of UN-related travel costs for Kiribati's delegations may amount to US \$150,000. This potential loss is a serious concern to national policy makers, who already suffer from the non-existence of a permanent representation of the Republic of Kiribati to the UN in New York.

6. **Has the country demonstrated structural progress?**

This section raises, and briefly answers, six important questions relevant to the country's structural progress (the irreversible and catalytic progress logically expected to be observed, at least to some extent, in any graduating country). These questions are not graduation criteria, but supplementary considerations the LDC criteria could not underpin. The aim is to enhance the understanding of graduation cases.

6.1 Human assets and productive capacities

(Question 1:) Has the health and education infrastructure already reached investment levels sufficient to generate human capabilities?

Developing the health and education infrastructure is extremely difficult in Kiribati, for economic reasons and considering the shortness of space and scarcity of fresh water resources, and the sanitation-related constraints.

6.2 Infrastructure and productive capacities

(Question 2:) Has a minimum public infrastructure already been developed as a catalyst for enhanced productive capacities through all populated regions of the country?

The public infrastructure, albeit limited everywhere by the geographical and environmental constraints inherent to the country, is essentially concentrated on South Tarawa, where a majority of the people live. The infrastructure is to no extent a catalyst for enhanced productive capacities on that island, let alone in the rest of the country.

6.3 Institutional development and productive capacities

(Question 3:) Has government managed to create an enabling environment that already proved efficient in encouraging private investment through all populated regions of the country?

Though generally limited, institutional capacities mainly benefit the capital island area (South Tarawa). At least half of the country's population throughout the country is totally remote from any enabling environment, not only for entrepreneurship but also for mere individual purposes.

6.4 Productive capacities and economic specialization

(Question 4:) Has the specialization of the economy already evolved toward products less dependent on trade preferences and/or more resilient international service activities?

Kiribati's economic specialization is too narrow and limited in scope to be analyzed in terms of its capacity to evolve. However, tourism in the Line group of islands could develop further as a viable specialization.

6.5 Employment-based or jobless growth?

(Question 5:) Has the increase in per capita income been fuelled primarily by enhanced productive capacities and employment opportunities?

Per capita income never increased significantly in Kiribati: the rise above the graduation threshold in 2003 was only the result of the substitution of GNI pc for GDP pc in that year.

6.6 Equitably distributed prosperity?

(Question 6:) Has poverty reduction, all things being equal, already taken place in an equitable manner?

Poverty reduction on any sizeable scale is difficult to foresee in a country so heavily constrained by smallness, remoteness and environmental pressure. Equity among the many islands of the country is not a realistic development objective.

6.7 Conclusion

The limited developments in the tourism industry can hardly be referred to an as example of enhanced productive capacity. Poverty reduction, for a vast majority of the dispersed islanders, is beyond reach, despite the rental income (fishing licenses) accruing to the central government and benefiting many households.