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Vulnerability profile of Tuvalu

Note by UNCTAD

1. **Institutional context**

1.1 Date of independence

The Ellice Islands separated from the Gilbert Islands, taking the name Tuvalu, in 1975; gained independence from the United Kingdom on 1st October 1978.

1.2 Date of admission in the LDC category: 1986

1.3 History of qualification for graduation

Tuvalu met one graduation threshold (human assets) in 1991, 1994 and 1997; met another --a different-- graduation threshold (GDP pc) 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 (NB: GNI pc estimate in 2009 = 2.3 times greater than the graduation threshold)

2. **Low income criterion**

2.1 GNI per capita, in US \$ (3-year average used in 2009): \$2,544

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

No World Bank estimate of GNI.

NB: GNI is estimated to be at least 4% 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)

An ADB report on Tuvalu's poverty status stated that "Tuvalu society and customs ensure that all are looked after and that income and wealth are distributed reasonably equitably". The study revealed a Gini coefficient of 0.43 as measured through total household income. It also pointed out that there has been a widening income gap between Funafuti and the outer islands. Since 1994, the bottom 10% of households has been receiving 1% of the total household income, while the top 10% of households received 30% of all income. Outer-island households account for 84% of the households in the lowest income quartile.

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

2000: 127.5% of the threshold

2003: 153.7% of the threshold

2006: 140.8% of the threshold

2009: 234.3% of the threshold

3. **Human assets weakness criterion**

3.1 Population (*Source: UNCTAD*): 11,000 (2007)

3.2 Population growth rate (per annum over the 2005-2010 period): 0.42%

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

CDP estimate in 2006: 3% (2000-2002)

No relevant data available in Tuvalu, including in the latest national MDG report.

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

CDP estimate in 2006: 51 per 1,000 (2000-2005)

The 2007 Tuvalu Demographic and Health Survey indicates a child mortality rate of 36 deaths per 1,000 live births.

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

CDP estimate in 2006: 84% (2002-2003)

The Ministry of Education estimates the gross secondary school enrolment rate at 69% (2006), an unprecedented performance that could be reached as a result of the re-opening in 2003 of a church school which allowed more enrolment. The Education officials also noted that this figure was inflated by the frequency of repeat students.

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

CDP estimate in 2006: 95% (2000-2004)

No national data available.

Ministry of Education officials however expressed doubts about the 95% estimate. They saw it based on simple questions at the time of the population census ("how many years of primary school did you attend?"). Eight years of primary school would be erroneously interpreted by census organizers as meaning literacy.

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

2000: 84.9% of the threshold

2003: 104.4% of the threshold

2006: 140.2% of the threshold
2009: 133.9% of the threshold

4. **Economic vulnerability criterion**

4.1 Natural shocks (*overview*)

High vulnerability to violent shocks.

Though not as frequently affected by cyclones as some other Pacific States are, Tuvalu endured 11 severely destructive cyclones between 1972 and 2004: Bebe 1972; Raja 1988; Ofa 1990; Joni 1992; Nina & Kina 1993-1994; Gavin & Hina 1997; Keli 1997; Ami 2003; Heta 2004. The country is also considerably affected by the consequences of climate change, given the low level of the atoll islands.

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

CDP, in 2006, observed a level of instability 2.8 times higher in Tuvalu than in other developing countries. This instability is essentially caused by climate-related factors.

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

CDP, in 2006, observed a level of homelessness 3.8 times higher in Tuvalu than in other developing countries. Many of the relevant people have been victims of climate-related factors as much as unemployment and poverty.

4.4 Economic shocks (*overview*)

Tuvalu is permanently affected by the severe economic impact of environmental constraints as well as the effects of global economic shocks (such as food and oil price shocks in 2008).

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

CDP observed, in 2006, a level of export instability 2.6 times higher in Tuvalu than in other developing countries. This is principally a reflection of fluctuations in service exports (tourism, transport, communications, business services). In 2003 (latest year for which balance of payments data are available), service exports were 4.5 times greater than merchandise exports.

4.6 Economic specialization (*overview*)

Because of its very small size and given the geographical constraints it is bound to face, Tuvalu's economy cannot evolve toward further specialization anywhere other than in the sphere of rental income based on the exotic characteristics of the country (which already comprises philatelic sales and the "dot tv" revenue). The idea of atoll tourism development (of the Maldives type) is in theory applicable to Tuvalu, but has been too costly to attract foreign investors.

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: 18.9%.

No government estimate beyond 2002 is available (2002: 16.6%).

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

CDP, in 2006, observed a merchandise export concentration 2.3 times greater in Tuvalu than in other developing countries. In the absence of physical export other than some sea cucumber, this estimated level of concentration can only be explained as incorporating philatelic sales, the only steady commercial activity (though not a genuine merchandise export).

4.9 Economic smallness (*component of the EVI*)

Tuvalu's extreme demographic and economic smallness (combined with its remoteness) is naturally a determining factor of the economic vulnerability of the country.

4.10 Economic remoteness (*component of the EVI*)

Tuvalu's score in the remoteness index the CDP used in 2006 revealed that the country had been 20% more remote than other developing countries. Remoteness affects each atoll in relation to the others domestically, as well as the country as a whole, despite commendable recent progress in international air transport links.

4.11 Environmental vulnerability (*overview*)

Tuvalu is one of the countries suffering the most extreme environmental stresses in the context of climate change. The 2007 National Adaptation Programme of Action lists the following stresses and risks:

- . vulnerability to sea level rise and sea temperature change
- . vulnerability to saltwater intrusion and salinization
- . sea level rise and salinization
- . sea level rise altering habitats
- . sea level rise and intrusion
- . sea level rise and changing temperature.

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

2000: 42.1% of the threshold

2003: 46.9% of the threshold

2006: 41.4% of the threshold

2009: 47.5% of the threshold

5. **Anticipated consequences of graduation¹**

5.1 In the area of development financing

Tuvalu's largest development partner, Taiwan, maintains a substantial flow of ODA to Tuvalu (61% of total ODA flows in 2007-2008) on political grounds. This inflow is unlikely to be affected in any manner by the eventuality of graduation.

The European Union and the five main bilateral partners of Tuvalu in the Asia-Pacific region (Australia, India, Japan, Korea, New Zealand), accounting for 25% of the donor-funded public sector investment programme, are equally likely to maintain a stable pattern of aid to Tuvalu, irrespective of the country's status.

The South Pacific Commission provides technical assistance to Tuvalu because the country is a member of that organization, irrespective of LDC status.

Four agencies and programmes of the UN system are among the development partners of Tuvalu (UNDP, WHO, UNESCO, together accounting for 5.5% of total ODA); in the event of graduation, they would be expected to demonstrate exemplary adherence to the UN General Assembly's call for a "smooth transition" for graduating countries.

A natural inclination of Tuvalu's development partners has been to determine their ongoing support to the country in the light of the special challenges the latter is faced with. The hypothesis of graduation is generally regarded as ill-placed in Tuvalu's dialogue with its partners.

5.2 In the area of trade

Like all LDCs, Tuvalu is entitled to unilaterally granted preferential access to most of the substantial export markets in the world. However, this benefit is more prospective than real, as Tuvalu presently exports no merchandise other than small quantities of *bêche-de-mer* (sea cucumber) from only one enterprise, at a frequency and for a total value that is not officially known.

In the multilateral arena and outside the sphere of technical assistance, the benefits Tuvalu derives from LDC status are 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 Tuvalu never pursued any separate plea for special consideration on LDC grounds. Having gained nothing from LDC status on this front, Tuvalu has no reason to fear a loss of special consideration in the event of graduation.

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

Finally, it is highly improbable that a graduating Tuvalu would suffer any interruption in the implementation of the Enhanced Integrated Framework for LDCs, which started in 2008.

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

UN coverage, by virtue of LDC status, of UN-related travel costs for Tuvaluan delegations is estimated at US \$150,000. Losing access to UN budgetary support in the event of graduation would inevitably result in further marginalization of Tuvalu from the multilateral scene, although the country, despite its small size, has much international work to pursue in response to some of the most serious global issues.

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 Tuvalu, for economic as well as environmental and geographical reasons, considering the dispersion of the islands, the shortness of land space, the scarcity of freshwater 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 is principally concentrated on the capital island of Funafuti, where the largest community of islanders resides. The physical infrastructure can hardly be expected to enhance productive capacities significantly anywhere in 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?

The institutional capacities mainly benefit the capital island of Funafuti. This leaves a sizeable part of the nation throughout the islands (outside the capital area) more or less totally remote from what could be considered an enabling environment for enterprise development.

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?

The economic specialization of Tuvalu is bound to remain in the sphere of rental income based on the exotic characteristics of the archipelago. The only exception to this might be in the area of tourism development, yet a specialization avenue that was never fully explored.

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?

The progress observed in terms of per capita income has been explained by rental income, not genuine domestic productive capacities.

6.6 Equitably distributed prosperity?

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

Poverty reduction is possible in a rental income economy, but unlikely to benefit dispersed islanders in any equitable manner.

6.7 Conclusion

In the absence of any meaningful progress in the human capital, investment climate and public infrastructure, the scope for enhancing productive capacities is nearly non-existent. The environmental erosion the country will continue to suffer from raises the issue of survival more dramatically than the question of structural progress. The apparent prosperity is fuelled by rental income only (e.g. domain name "dot tv", stamps), which is hardly a poverty reduction factor.