



Vulnerability Profile of Kiribati

December 2014

Prepared by UNCTAD
in anticipation of the 2015 review by the Committee for Development Policy of
the United Nations list of Least Developed Countries

This profile was prepared in accordance with resolution 59/209 of the General Assembly, which decided that "after a country has met the criteria for graduation for the first time, the Secretary-General of the United Nations will invite the Secretary-General of the United Nations Conference on Trade and Development to prepare a vulnerability profile on the identified country to be taken into account by the Committee for Development Policy at its subsequent triennial review".

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Vulnerability profile of Kiribati

1. Introduction

In its 2012 review of the UN list of Least Developed Countries (LDCs), the Committee for Development Policy (CDP) found Kiribati "*eligible*" [for graduation] *as it met the GNI per capita and HAI criteria*". The Committee recalled that Kiribati "*had already been found eligible for graduation in 2006, but not in 2009*¹". The CDP, in accordance with the graduation procedure, noted that the potential graduation case of Kiribati would be examined in the next review of the list of LDCs, in 2015. The observation in 2012 of Kiribati's pre-eligibility for graduation was equivalent to a "first time" observation of eligibility, although Kiribati, before 2012, had already met two graduation thresholds twice, in 2003 and 2006. The CDP did not recognize Kiribati's pre-eligibility for graduation from Least Developed Country status as valid until 2012.

This profile has been prepared in accordance with General Assembly resolution 59/209 of 20 December 2004, which mandates UNCTAD to prepare a vulnerability profile of the country for consideration by the CDP at its subsequent triennial review². The views expressed in this profile are based on factual observations, to assist the CDP in its understanding of the situation underlying the context of Kiribati's pre-eligibility for graduation.

Section 2 describes the institutional context surrounding and justifying the graduation case of Kiribati. Sections 3, 4 and 5 examine the situation of Kiribati under the graduation thresholds relevant to the three criteria for identifying LDCs, namely, the per capita income criterion, the human assets criterion, and the economic vulnerability criterion, respectively. Concluding remarks will make up Section 6.

¹ Committee for Development Policy, Report on the fourteenth session (12-16 March 2012), Economic and Social Council, Official Records, 2012, Supplement No. 13, E/2012/33, para. 95.

² General Assembly resolution A/RES/59/209, "Smooth transition strategy for countries graduating from the list of least developed countries", para. 3(b).

2. Institutional context

Kiribati was added to the UN list of LDCs in 1986³. The question of graduation from LDC status was conceptualized by the United Nations in 1991, when the first major revision of the criteria for identifying LDCs took place. The methodological elements of the graduation rule were also adopted in that year, a move that has paved the way for four cases of graduation from LDC status: Botswana in 1994, Cabo Verde in 2007, Maldives in 2011, and Samoa in 2014.

In 1990, the Second United Nations Conference on the Least Developed Countries in Paris had envisaged graduation from LDC status as a natural prospect for countries that would eventually demonstrate enough economic progress to be able to remain on the same development path with a lesser need for concessionary treatment. In 2001, the Third United Nations Conference on the Least Developed Countries in Brussels contemplated graduation as a criterion on the basis of which the success of the Programme of Action for the Least Developed Countries for the Decade 2001-2010 would be "judged"⁴. An unprecedented leap forward was made by UN member States ten years later, at the Fourth United Nations Conference on the Least Developed Countries in Istanbul (May 2011), with a bold pronouncement on the matter, namely, "the aim of enabling half the number of Least Developed Countries to meet the criteria for graduation by 2020"⁵.

The rationale for graduation

Understanding the rationale for graduation is particularly important in the analysis of a potential graduation case such as Kiribati. Graduation from LDC status ought to be synonymous with structural progress. A graduating country will necessarily be expected to have demonstrated, through an unambiguously improved economic and social performance, enough structural progress to be able to pursue its development efforts with less external support. Indicators of such progress could relate to the domestic saving capacity, to productive capacities and export competitiveness, and even to institutional capacities. If the decision to take a country

³ Addition of Kiribati to the list was made official on 8 December 1986, the day on which the United Nations General Assembly adopted resolution 41/186. The other countries which were granted LDC status in that year (by virtue of the same resolution) are Mauritania and Tuvalu.

⁴ UN General Assembly, Third United Nations Conference on the Least Developed Countries, Brussels, Belgium, 14-20 May 2001, Programme of Action for the Least Developed Countries for the Decade 2001-2010, para. 21(e)

⁵ United Nations, Programme of Action for the Least Developed Countries for the Decade 2011-2020, May 2011, para. 28.

out of the list of LDCs is well founded, the graduating country, with enhanced institutional capacities, will be expected to remain undisturbed as development partners may deny it privileged access to technical assistance programmes. Whether the LDC graduation rule allows structural progress to be appropriately assessed or measured and recognized remains a question in the international debate on the treatment of developing countries.

In a high-level panel discussion on small island developing States and the question of graduation from LDC status during the Third International Conference on SIDS (Samoa, 2nd September 2014), the plea for a graduation rule that would allow for the exceptional circumstances of SIDS was strongly voiced by SIDS leaders, including the President of Kiribati and the Prime Minister of Tuvalu (both of them panelists in the high-level event). Among subjects of particular importance addressed by panelists during that event was the issue of extreme economic vulnerability being insufficiently taken into consideration when the question of graduation arises: graduation on grounds of apparent prosperity (in per capita income terms) in SIDS that are at the same time highly vulnerable was vocally denounced as highly debatable, if not unfounded. Equally vocal within the same panel were SIDS leaders who regretted that the debate on graduation, in recent years, had generated more rhetoric on "smooth transition" than progress toward the long-standing quest for a special treatment of SIDS after graduation, a plea consistently unanswered by the United Nations.

The "graduation-implies-structural-progress" equation naturally raises the following question regarding Kiribati: is the pre-eligibility for graduation observed since 2012 a sign of structural transformation? In the event of the answer being yes, the economic and social progress would not only be measurable in per capita income terms, it also ought to be visible under the two graduation criteria that are structural in nature, namely, the human assets and economic vulnerability criteria. Expecting to observe elements of structural progress in Kiribati should therefore be a normal way of reading this profile. The question of Kiribati's graduation raises the widely known issue of the "island paradox", i.e. the difficulty of maintaining steady economic progress in the islands when vulnerability (sometimes to extreme proportions) is always there to dilute the chances of prosperity. In an extreme case of island vulnerability such as Kiribati, is the prosperity only there at all, behind the income figures? Are the latter themselves credible? Is vulnerability an ordinary indicator or a paramount criterion?

The graduation rule

The graduation rule applies specific thresholds to the indicators relevant to the three criteria (gross national income per capita; human assets index; economic vulnerability index). For each of these indicators, there is a margin between the threshold for adding a country to the list and the threshold for graduating a country. The margin is considered a reasonable estimate of the additional socio-economic progress that ought to be observed if one assumes that the graduating country is effectively engaged on a path of improvement: not only is the graduating country expected to have risen to the threshold under which non-LDCs would be admitted into the category, but it is additionally expected to exceed this threshold by at least the relevant margin. This dispels the risk that graduation be dictated by temporary or insignificant economic circumstances.

Two other elements of the graduation rule also imply durable structural progress in the graduating country:

- at least two of the three graduation thresholds must normally be met for the relevant LDC to qualify for graduation, whereas a symmetrical application of the admission rule and graduation rule would imply that only one criterion for LDC status ceased to be met, since all three criteria should be met for a country to be added to the list;
- while eligibility for the graduation of an LDC can be observed on the occasion of any review of the list (subject to the threshold margin and asymmetrical rule referred to above), a recommendation to graduate the country would not be made until the relevant graduation thresholds have been met in at least two consecutive reviews of the list of LDCs.

An amendment was brought to this normal rule in 2005: it states that a country will be deemed pre-qualifying or qualifying for graduation if its per capita GNI has reached or surpassed a level double the normal graduation threshold (in a convincingly durable manner), regardless of the country's performance under the other two criteria (human assets; economic vulnerability). This rule is commonly referred to as the "income only" criterion. With its performance stably above the graduation threshold relevant to human assets and well above the graduation line relevant to per capita income, Kiribati would not be referred to as an "income only" case even if

exceeded the relevant graduation border ("doubling" the threshold in 2015), as its current pre-eligibility for graduation is grounded in the "two-threshold" rule.

The graduation criteria to be used by the United Nations in the 2015 review of the list of LDCs are summarized in Table 1.

Table 1
Graduation criteria and indicators

Graduation criteria to be used in the 2015 review of the UN list of LDCs	Relevant indicators
Per capita income criterion	<p>Gross national income (GNI) per capita: * based on a 3-year average (2011-2013 in the 2015 review) * graduation threshold was \$1,190 in 2012 (likely to near \$1,300 in 2015)</p>
Human assets criterion	<p>Human Assets Index (HAI): A composite index based on the following 4 indicators: * percentage of undernourished people in the population * under-five mortality rate * gross secondary school enrolment rate * adult literacy rate</p>
Economic vulnerability criterion	<p>Economic Vulnerability Index (EVI): A composite index based on the following 8 indicators: * population * average distance from major markets * share of population living in low-lying areas * share of agriculture, forestry and fisheries in GDP * merchandise export concentration index * share of victims natural disasters in the population * index of instability of agricultural production * index of instability of exports of goods and services</p>
Summary of the graduation rule	<p>For all three criteria, different thresholds are used for identifying cases of addition to, and cases of graduation from, the list of LDCs. A country will qualify to be added to the list if it meets the addition thresholds on all three criteria and does not have a population greater than 75 million. Qualification for addition to the list will effectively lead to LDC status only if the government of the relevant country accepts this status. A country will normally qualify for graduation from LDC status if it has met graduation thresholds under at least two of the three criteria in at least two consecutive triennial reviews of the list. If the per capita GNI of an LDC has risen to a level at least double the graduation threshold and is deemed sustainable, the country may (will normally) be found eligible for graduation regardless of its performance under the other two criteria.</p>

The history of Kiribati's non-graduation

The 2003 review of the list of LDCs was the first occasion when the country technically exceeded two graduation lines, at 103% and 111% of the thresholds relevant to per capita income and human assets, respectively. However, the CDP, in its triennial review of the list in that year (April 2003), questioned the stability of per capita income in Kiribati (with a significant decline between 1998 and 2001), while recognizing that the country was one of the "two economically most vulnerable countries" according to the Economic Vulnerability Index⁶. For these reasons, the Committee recommended that Kiribati "should not be considered"⁷ as a country pre-eligible for graduation from LDC status.

In 2006, the CDP had a different reading of Kiribati's situation: it observed an unchanged performance under the income criterion (at 102% of the graduation threshold), and a much improved score under the Human Assets Index (at 141% of the graduation line), while recognizing the extreme vulnerability of the nation under the Economic Vulnerability Index (a fact nevertheless not deemed disturbing enough by the Committee, despite the calls by member States for a reform of the graduation rule that would give exceptional weight to the vulnerability criterion). The Committee accordingly, and for the first time, considered Kiribati "eligible for graduation"⁸.

The next review of the list in 2009 was again a time of reservation on the question of Kiribati's graduation. The CDP noted that the performance under the graduation threshold relevant to the income criterion had marginally deteriorated, yet enough to bring back the country's score under the graduation threshold (at 96.5% of the line). In an act of prudence over what it analyzed as a borderline case to be handled with care, the Committee opted for the safe

⁶ The Committee noted that: (i) the country exceeded the graduation threshold only marginally with regard to the low-income criterion; (ii) Kiribati's GNI per capita had been continuously decreasing between 1998 and 2001 (latest data available); and (iii) the country's economic vulnerability as measured through the EVI was one of the highest in the world.

⁷ Committee for Development Policy, Report on the fifth session (7-11 April 2003), Economic and Social Council, Official Records, 2003, Supplement No. 13, E/2003/33, para. 23. The same Committee, in the next triennial review of the list three years later (March 2006), will remember that the technical eligibility had been noted but not acted upon in 2003, due to "uncertainty at that time regarding the quality of the data". Yet the 2003 decision not to consider Kiribati as qualifying for graduation had been explicitly grounded in the Committee's observation of a severe decrease in the country's per capita income over a number of years, and of a per capita GNI score only marginally above the threshold, not in reservations about the the quality of data.

⁸ Committee for Development Policy, Report on the eighth session (20-24 March 2006), Economic and Social Council, Official Records, 2006, Supplement No. 13, E/2006/33, para. 21.

technical conclusion that "Kiribati [now fulfilled] only one of the criteria [for graduation, and was thus] no longer found eligible for graduation"⁹.

The borderline nature of the case could no longer be leaned upon in 2012, when the CDP took note of the rocketing performance of Kiribati under the per capita income criterion (at 163% of the graduation threshold, from 96.5% in 2009), while the country's score under the human assets criterion was remaining unchanged (133% in 2009; 132% in 2012). This triggered the finding of pre-eligibility for graduation, an observation synonymous with a promise to carefully re-examine the case three years later, in 2015.

3. Kiribati and the per capita income criterion

Graph 1 illustrates Kiribati's situation over time under the graduation threshold relevant to the per capita income criterion. The data indicate the country's distance from the graduation threshold, as well as the distance from the admission threshold (the level for admitting new countries into the list). All data through the seven triennial reviews of the list of LDCs (1994, 1997, 2000, 2003, 2006, 2009, 2012) have been standardized into indices, with the graduation threshold as the 100 basis. For example, the score of 163 observed in 2012 indicates that Kiribati, at that time, was standing at 163% of the graduation threshold.

Progress in plateaux

Two plateau levels and two surges characterize Kiribati's evolution under this criterion. The sharp rise to 103% of the graduation threshold in 2003 (from 59% in 2000) was almost entirely explained by a change of income indicator in 2003 (from gross domestic product/GDP per capita to gross national income/GNI per capita). GNI has been consistently higher than GDP in Kiribati (by 48% on average between 2000 and 2013). Without this methodological change, the country's score would have declined further in 2003 (GDP per capita declined from \$606 in 1999 to \$539 in 2000 and \$485 in 2001¹⁰). After regression to a level marginally lower than the graduation line had taken place in 2009, the 2012 peak at 163% was explained by a post-crisis

⁹ Committee for Development Policy, Report on the eighth session (9-13 March 2009), Economic and Social Council, Official Records, 2009, Supplement No. 13, E/2009/33, para. 23.

¹⁰ For the sake of consistency, all estimates within this section originate from the same source, namely, the World Bank's online data base.

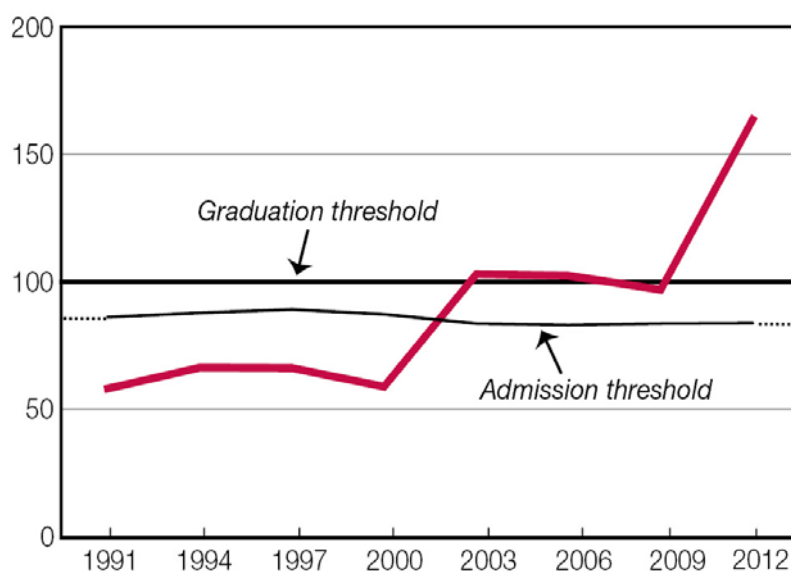
income recovery in 2010, with a 15% increase in GNI from 2005-2007 to 2008-2010 (the three-year averages relevant to the 2009 and 2012 reviews of the list, respectively).

Table 2
KIRIBATI: Gross national income per capita in US \$

2002	2005	2006	2007	2008	2009	2010	2011	2012	2013
1410	1800	1750	1870	2030	1950	1980	2100	2520	2620

Source: World Bank, World Development Indicators database online (GNI: Atlas method), December 2014

Graph 1
KIRIBATI: distance from the graduation threshold under the per capita income criterion (based on GNI per capita)



The question of Kiribati's GNI calculation

Table 3 shows the 30 highest GNI/GDP ratios among developing countries in 2013. It reveals that Kiribati has the highest ratio in the world (followed by Tuvalu)¹¹. Having a gross national income exceeding the gross domestic product by such a large margin (59% in 2013) is highly unusual, as most countries have a differential smaller than 10%. In this context, the hypothesis of an over-estimation of Kiribati's GNI arises.

¹¹ Even if developed countries were added to this table, Kiribati and Tuvalu would still be on top of the list.

GDP is the total value added generated by a country on its domestic economic territory, irrespective of the nationalities of income beneficiaries. "Net factor income" (the difference between GDP and GNI), if considered on the "credit" side, is the remuneration of all factors of production outside the domestic economic territory, accruing to "national" factors, that is, persons or entities who are nationals, have been acting outside the domestic territory, but have not been permanently based abroad (less than a year). Seamen's wages are a typical example of Kiribati's factor income. Factor income in "net" terms designates what flows in (belonging to nationals) minus what flows out (income accruing in the domestic economy to non-nationals who do not reside in the country permanently).

The National Accounts of Kiribati show the components explaining the difference between GDP and GNI (net "compensation of employees", and net "property income"). Net compensation of employees is small compared with net property income --the latter was seven times greater than the former in 2012. At the same time, the IMF's 2014 staff report (Table 4: Kiribati Balance of Payments, 2009-2019) indicates net factor income as containing three components that corroborate the factor income elements in Kiribati's National Accountants' table, albeit with a different breakdown: "remittances", "investment income", and "fishing license fees"¹².

Net factor income, the key to GNI calculation, implies two necessary conditions:

- (i) the relevant income (remuneration of production factors) was generated outside the domestic economic territory (to be subsequently injected into it);
- (ii) and this income accrued to production factors (workers or capital owners) who at that time were nationals abroad but not permanently based abroad (absent from the domestic territory less than a year). Remittances to Kiribati from iKiribati people permanently residing outside of Kiribati would not be regarded as factor income, whereas remittances from Kiribati seamen on contract overseas, say, for 6 months, are genuine factor income entering GNI. Profit repatriated

¹² What the National Accountants refer to as net "Compensation of employees" is called net "Remittances" by IMF (A\$11.5 million and A\$10.4 million, respectively, in 2012), and what the National Accountants call net "Property income" without breaking it down is broken down by IMF in two components: "Investment income" (A\$22.3 million in 2012, which can be described as net repatriation of --private and public-- profit from whatever was invested abroad), and "Fishing license fees", the latter accounting for an estimated A\$58.8 million in 2012 (the country's number one revenue earner, larger than merchandise exports, or service exports, or investment income, or remittances, or official development assistance).

to Kiribati by a Kiribati national K from a country (other than Kiribati) where K had invested will also be regarded as factor income if K has not been residing outside of Kiribati more than a year.

Fishing license fees (FLF) do not meet the first of these two conditions and cannot be regarded as part of "factor income". They are the remuneration of capital situated within the domestic economic territory, which therefore differs from externally generated income. This domestically situated capital, the territorial waters of Kiribati, are "rented out" to foreign fishing companies, the same way a bungalow in Kiribati could be rented out to foreign tourists, thereby generating a rental income that is essentially an exported service. Yet FLF appear to be part of the net factor income used by the Government of Kiribati for GNI calculation purposes. FLF in the Government's national accounts are the bulk of the estimated net factor income, thereby inflating the GNI estimate considerably.

FLF are conventionally classified as part of "current transfers" (though they could also be regarded as a form of service export). In a footnote attached to Table 4 of its 2014 Staff Report (Kiribati Balance of Payments), the IMF admits that the net Factor Income segment of the Balance of Payments "*includes fishing license fees, which should be shown as current transfers under conventional international guidelines*".

The direct consequence of having FLF within net factor income, therefore within GNI, is a double counting of FLF, which as a large non-tax revenue to Government is already accounted for in GDP, as a key revenue counterpart of government wages and salaries. Given the size of FLF (the country's leading revenue earner), the overestimation is of no small proportion. In the 2012 review by CDP of the list of LDCs (a review which found Kiribati pre-eligible for graduation), FLF alone inflated Kiribati's GNI by 19% (based on a three-year average of GNI per capita 2008-2009-2010).

Table 4 indicates that for 2012 alone, the overestimation of Kiribati's GNI was 30% (possibly 49% in 2013). The 2015 review of the potential graduation case of Kiribati is an opportunity to clarify the question of GNI estimation. A revised GNI per capita without fishing license fees would generate a (three-year average) per capita GNI of US \$1,645 instead of US \$2,084.

Table 3
The 30 developing countries with the highest GNI to GDP ratio in 2013

Countries	Ratio	Countries	Ratio	Countries	Ratio
Kiribati	1.586	Botswana	1.062	Comoros	1.027
Tuvalu	1.526	Bangladesh	1.059	Tonga	1.015
Lesotho	1.333	Nepal	1.050	Saudi Arabia	1.012
Iran	1.213	Guinea-Bissau	1.049	Mauritius	1.010
Malawi	1.193	India	1.044	Mozambique	1.008
Marshall Islands	1.188	Brazil	1.043	Guyana	1.004
Philippines	1.183	Afghanistan	1.036	Senegal	1.002
South Africa	1.086	Gambia	1.033	Fiji	0.999
Micronesia (FS of)	1.073	Namibia	1.0310	St. Vincent & the Gr.	0.997
Pakistan	1.064	Indonesia	1.0307	Lebanon	0.994

Source: raw data from the World Bank, World Development Indicators (gross national income and gross domestic product series, 2013); calculations of the ratio by UNCTAD

The income distribution status

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.

Estimates of the Gini coefficient of Kiribati, as reflected in the 2006 Household Income and Expenditure Survey (HIES), indicate a lower degree of inequality in South Tarawa than in the rest of the Gilbert group of islands, by 17%. Overall, Gini coefficient figures indicate relatively low levels of inequality in the country "by Pacific standards¹³", with a national coefficient of 0.39 (0.35 for South Tarawa). The Poverty Gap Index used in the same HIES reveals a greater depth of poverty below the basic needs poverty line in the rest of the Gilbert group than in South Tarawa¹⁴.

¹³ Kiribati National Statistics Office and UNDP Pacific Centre, Kiribati: Analysis of the 2006 Household Income and Expenditure Survey, March 2010, p. 34.

¹⁴ The Poverty Gap Index is one of the indicators recommended by the United Nations to measure the fulfilment of Millennium Development Goal 1 (Reducing extreme poverty and hunger by half).

Table 4
A 30% overestimation of Kiribati's Gross National Income in 2012
(all estimates in current prices: Australian dollar or US dollar)

Relevant variables	2008	2009	2010	2011	2012	2013
GDP at market prices, in million A\$ (Kiribati authorities)	167.3	166.6	167.0	169.6	174.6	...
Exchange rate of the A \$ for 1 US\$ (average market rate, IMF source)	1.1922	1.2822	1.0902	0.9695	0.9658	1.0358
GDP at market prices, in million US\$ (Kiribati authorities)	140.3	129.9	153.2	174.9	180.8	...
GDP in million US\$ (World Bank)	135.0	127.1	150.4	172.3	175.0	169.0
GDP in million US\$ (UNSD)	134.7	127.0	150.5	173.2	175.9	172.3
GNI in million A\$ (Kiribati authorities)	247.9	235.2	244.0	234.7	268.2	...
GNI in million US\$ (Kiribati authorities)	207.9	183.4	223.8	242.1	277.7	...
GNI in million US\$ (World Bank, Atlas method)	192.3	188.0	194.0	208.4	254.2	267.7
GNI in million US\$ (UNSD)	167.2	143.9	173.1	207.5	209.3	...
Net factor income according to Kiribati authorities, in million A\$ (1)	80.6	68.6	77.0	65.1	93.6	...
Net factor income according to Kiribati authorities, in million US\$	67.6	53.5	70.6	67.1	96.9	...
Net factor income according to IMF, in million US\$ (2)	75.2	68.2	66.9	56.4	84.3	(113.8)
Fishing license fees as recorded by IMF (3)	32.2	29.5	41.7	29.1	58.8	(88.6)
GNI in million US\$ according to Kiribati authorities, without fishing license fees as recorded by IMF	175.7	153.9	182.1	213.0	218.9	...
Rate of overestimation of GNI based on Kiribati authorities calculations of GNI	+18.3%	+19.2%	+22.9%	+13.7%	+26.9%	...
GNI in million US\$ according to World Bank, without fishing license fees as recorded by IMF	160.1	158.5	152.3	179.3	195.4	(179.1)
Rate of overestimation of GNI based on World Bank calculations of GNI	+20.1%	+18.6%	+27.4%	+16.2%	+30.1%	(+49.5%)
GNI in million US\$ according to UNSD, without fishing license fees as recorded by IMF	135.0	114.4	131.4	178.4	150.5	...
Rate of overestimation of GNI based on UNSD calculations of GNI	+23.9%	+25.8%	+31.7%	+16.3%	+39.1%	...
GNI per capita in US\$ (World Bank, Atlas method)	2,030	1,950	1,980	2,100	2,520	2,620
Corrected GNI per capita in US\$ based on WB, without fishing license fees	1,690	1,644	1,555	1,807	1,937	(1,753)
GNI per capita in US\$ (UNSD)	1,763	1,494	1,771	2,091	2,077	...
Corrected GNI per capita in US\$ based on UNSD, without fishing license fees	1,424	1,188	1,344	1,798	1,493	...

Sources: World Bank, World Development Indicators, 2014; UNCTADstat from UNDESA National Accounts Database; IMF, Kiribati: 2014 Article IV Consultation --Staff Report, IMF Country Report No. 14/138, May 2014, p. 21; Kiribati authorities: Gross National Income & Gross National Disposable Income, 2001-2012.

A\$: Australian dollar; US\$: United States dollar; UNSD: United Nations Statistics Division; GDP: Gross Domestic Product; GNI: Gross National Income

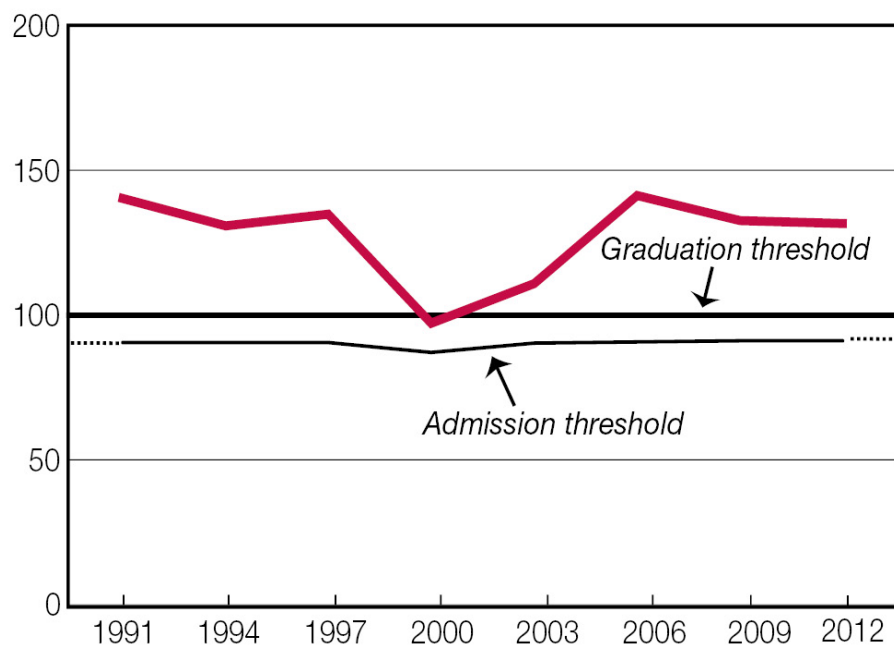
(1): consisting of (net) "Compensation of employees" + "Property income" (the latter comprising Fishing license fees)

(2): consisting of (net) "Fishing license fees" + "Investment income" + "Remittances"

(3): Fishing license fees as recorded by the IMF are assumed to be net (though recorded by IMF under "Credit" only), as Kiribati does not incur factor income outflows under this item.

4. Kiribati and the human assets criterion

Graph 2
**KIRIBATI: distance from the graduation threshold
under the human assets criterion
(based on the *Human Assets Index*)**



Kiribati was standing well above the graduation line relevant to human assets at the time of the 2012 review of the list of LDCs, with a score at 132% of the graduation threshold. Kiribati fares better than other small island developing States (SIDS) that are LDCs, or ex-LDCs, or low-income non-LDCs: (i) by 66% in its undernourishment ratio; (ii) by 39% in secondary school enrolment; and (iii) by 14% in adult literacy. The success achieved in fighting the mortality of children under five (with a 19% decrease in the relevant ratio within the 2000 decade) brought an end to the lasting delay Kiribati had recorded, in this area, behind countries of the same comparative group. Maintaining a momentum of human assets development is a considerable challenge to the dispersed Kiribati nation.

The country's performance with regard to the human assets criterion was always above the graduation threshold except in 2000, when Kiribati's score suddenly dropped to 97% of the

threshold, from 135% in 1997 (as a result of statistical inconsistencies regarding the adult literacy rate¹⁵).

Whereas the change of per capita income aggregate in 2003 was a prevailing factor of the sudden rise above the low-income threshold in that year, the change of demographic variable (child mortality replacing life expectancy at birth in 2000) within the human assets index of that time (called *Augmented Physical Quality of Life Index/APQLI*) was not a determining factor of performance change.

Percentage of population undernourished (component of HAI)

CDP estimate in 2012: 5% (2006-2008)

The 2006 Household Income and Expenditure Survey indicated that 4.9% of the population had difficulties to meet their basic food needs. A WHO survey, in 2004, had noted that 70% of adults between 25 and 44, and 75% of adults between 45 and 64 were affected by dietary imbalances (often overweight or obese).

The number of serious cases of malnutrition (cause of morbidity) has always varied sharply in Kiribati (e.g., from 191 cases in 2004 to 318 in 2005 and 527 in 2006). The number of admitted malnutrition cases in 2013 was 61, 15 of which were recorded as "severe", while 13 related to low birth weight.

Child (under 5) mortality rate (component of HAI)

CDP estimate in 2012: 52.5 per 1,000 (2005-2010)

The latest known national estimate of Kiribati's child mortality rate (2012) is 70.6 deaths per 1,000 live births, a figure more than double the relevant national target under the 2012-2015 Kiribati Development Plan (30). Measles has been one of the leading causes of child mortality in the country, despite progress in the proportion of children immunized against this infectious disease (from 56% in 2004 to 91% in 2012).

¹⁵ The figure that was used for this variable in 2000 was a third lower than the normal adult literacy rate that would have been used in 1997 and re-emerged in 2003.

Secondary school enrolment rate (component of HAI)

CDP estimate in 2012: 85.6% (2006-2011)

2014 data from the Kiribati Ministry of Education indicate, for 2013, gross secondary school enrolment rates of 86% for junior secondary school students (Forms 1 to 3), and 44% for senior secondary school students (Forms 4 to 7). The overall (weighted) gross secondary school enrolment rate (with 7,038 junior students and 4,745 students in that year) is estimated at 69.1%. It should be noted that the gender imbalance in secondary school enrolment is largely in favour of female students, with gross enrolments rates of 94% and 53% at female junior level and female senior level, respectively, and 78% and 36% at male junior level and male senior level, respectively.

Adult literacy rate (component of HAI)

CDP estimate in 2012: 92% (2005-2010)

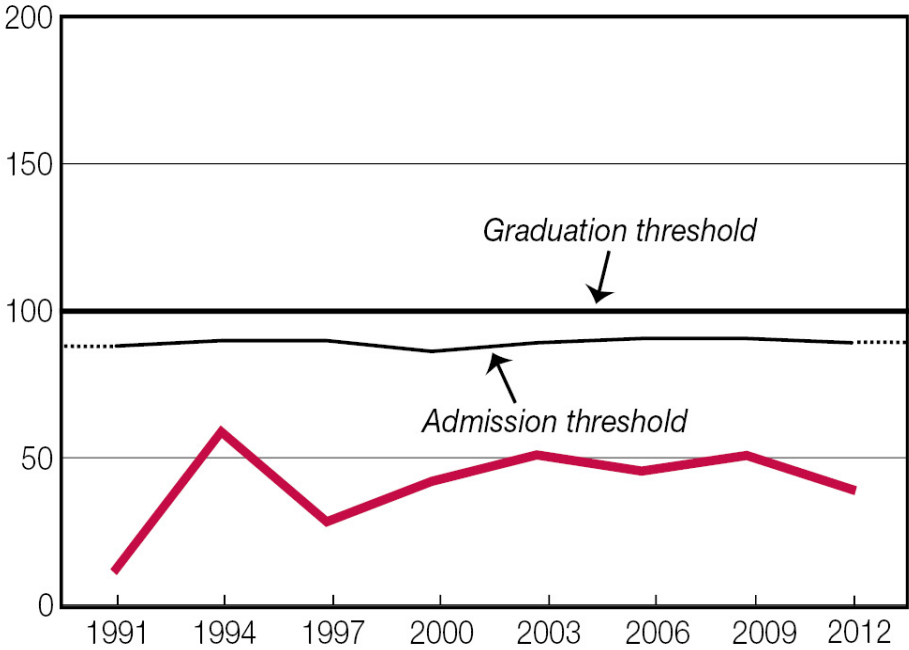
The 2010 Kiribati population census defined literacy as a person's ability to read and write in either Kiribati language, or English, or other languages. Kiribati's overall literacy rate at that time (2010) was estimated at 97.7%, with marginal differences between urban areas (98.6%) and rural areas (96.9%). The female rate, in 2010, was consistently higher than the male rate between teenage and age 30 (by 6% on average). There is no gender-based difference between age 30 and age 40, and males still demonstrate a higher adult literacy rate above age 40.

5. Kiribati and the economic vulnerability criterion

At 39% of the graduation threshold relevant to this criterion, Kiribati demonstrates the lowest score among LDCs (stands out as the country economically most vulnerable). Exposure to forces beyond domestic control is greater in Kiribati than in the other SIDS that are, or were, LDCs. This is particularly true in the light of three of the eight vulnerability indicators entering the EVI. These three weighed heavily in the 2012 downturn: (i) Kiribati, an atoll island nation, incurs extreme coastal exposure, a handicap captured through a ratio of low-lying zones that was not a component of the EVI before 2012; (ii) the country's disaster victims ratio is four times

higher than the comparative SIDS group's average; and (iii) export instability is three times higher in Kiribati than in the same group, for reasons relating to commodity exports (coconut oil, copra, sea products...).

Graph 3
KIRIBATI: distance from the graduation threshold
under the economic vulnerability criterion
(based on the *Economic Vulnerability Index*)



Kiribati's performance has been more consistent, over time, under the graduation threshold relevant to this criterion than under the other two graduation lines.

Natural shocks

The adverse impact of climate change on Kiribati has been considerable, largely as a result of the nature and geography of the islands (atolls). The main issues severely faced by Kiribati, largely in relation to the consequences of climate change, are: coastal erosion, coastal inundation, loss of mangroves and coral reefs, serious impacts on fresh water resources, serious impacts on agriculture, and serious impacts on public health.

Instability of agricultural production and of exports of goods and services

Because of its very small size and the severe geographical and environmental constraints it is faced with, Kiribati's economy can hardly specialize beyond the few existing crops (copra, seaweed, etc.) and the limited tourism industry. The latter has remained a small sector of the economy (accounting for 0.5% of GDP at market prices in 2012). 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.

Instability of agricultural production has been higher in Kiribati than in other small island developing States by 13%. Copra production and seaweed production have always fluctuated sharply (for example, copra production rose from 5,165 tonnes in 1997 to 12,334 tonnes in 2004, while seaweed production dropped from 1,167 tonnes in 2001 to 147 tonnes in 2006).

The observed level of export instability, in 2012, was three times higher in Kiribati than in other small island developing States. Export instability has been caused by supply-related factors and price-related factors alike. Tourism has also undergone sharp fluctuations associated with the international demand (e.g., 11,338 arrivals in 1998; 4,724 in 2006; 4,907 in 2012).

Victims of natural disasters

The ratio of disaster victims per 100,000 people, an exposure indicator used the CDP since 2012, has been 4.2 times higher in Kiribati than in other small island developing States over the past 20 years. Among victims, 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.

Merchandise export concentration

One observes a degree of merchandise export concentration 26% higher in Kiribati than in all other small island developing States. The narrow export base is a determining factor of economic vulnerability in Kiribati.

Economic remoteness

Kiribati's score in the remoteness index the CDP used in 2012 revealed that the country was 16% more remote than the average of other small island developing States, which generally are among the most remote economies in the world. As in many other countries of the Pacific, economic remoteness is a major structural handicap for Kiribati (both internationally and in terms of inter-island transport domestically).

Environmental vulnerability

Kiribati is among the environmentally most 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.

6. Concluding remarks

In March 2006, the Committee for Development Policy (CDP) found Kiribati pre-eligible for graduation from LDC status, as the country was meeting two of the three graduation thresholds. In March 2009, the CDP observed that Kiribati's performance under the per capita income criterion had receded and fallen below the graduation line (at 96.5% of the threshold). This brought an end to Kiribati's expected qualification for graduation. The 2006 scenario repeated itself in 2012, when the CDP, for the second time in history, observed that Kiribati was meeting two graduation criteria. Should the same observation be made in 2015, Kiribati would appear to technically qualify for graduation from LDC status.

With flawed GNI estimates and a performance under the economic vulnerability criterion that shows all symptoms of extremity, Kiribati illustrates the fallacy of structural economic progress behind the question of graduation from Least Developed Country status. The case raises difficulties not less disturbing than the issues that caught the CDP's attention, for good reasons, in the four latest reviews of the list of LDCs (2003, 2006, 2009, 2012).