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

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

Revision 1.0

United Nations, New York, February 2009

List of contents

Abstract

This impact assessment considers the likely impact on Tuvalu if the country's graduation were confirmed at the next review in 2009 and implemented in 2012 in accordance with current graduation procedures of the Committee for Development Policy (CDP). The report examines the possible changes in international support measures as a result of graduation of the country from the LDC category. The international support measures associated with LDC status are related to trade preferences and the volume of official development assistance (ODA) including development financing, technical cooperation and other forms of assistance. The document considers Tuvalu's exports and reviews the possible impact of LDC related trade preferences. It is argued that the impact of graduation on Tuvalu's exports would be limited due to the very low (absolute and relative) value of the country's exports. On the other hand, Tuvalu depends heavily on ODA and is exposed to risks associated with the possible withdrawal of ODA after graduation from the LDC category. At the same time, it is argued that bi-lateral donors do not attach significant importance to Tuvalu's LDC status and have cooperation strategies in place independent of the country's status as an LDC. At the multilateral level, the impact of Tuvalu's graduation can be expected in the loss of UN LDC-related travel benefits, and a slight increase in the contribution to the UN peacekeeping budget. Of critical importance for the future of Tuvalu is the threat of climate change and the resulting rise in sea level. Any reduction in assistance from the international development community to address this vulnerability should be avoided.

1. Background

1. The Department of Economic and Social Affairs (DESA) has been requested by the Committee for Development Policy (CDP) to prepare an ex-ante impact assessment of the likely consequences of graduation for LDCs found eligible for graduation for the first time.[1] The impact assessments are undertaken in conjunction with, and as a supplement to, UNCTAD's vulnerability profiles.

2. In its review of the list of LDCs in 2006, the Committee for Development Policy found that Tuvalu met two criteria for graduation: gross national income (GNI) per capita and the human asset index (HAI). Of the countries reviewed, Tuvalu had the highest score on the economic vulnerability index (EVI) and was classified among the highest levels of HAI. The Committee found Tuvalu eligible for graduation for the first time in 2006, thus resulting in the preparation of this ex-ante impact assessment.

3. Whereas the vulnerability profiles by UNCTAD focus on factors of a country's vulnerability not necessarily captured by the economic vulnerability index (EVI), the impact assessments focus on the likely consequences of graduation for countries' economic growth and development and potential risk factors, or gains that countries may

[1] See Report on the ninth session of the Committee for Development Policy, 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.

face after graduating. As such, the impact assessments should provide a better understanding of the relation between the benefits received (preferential markets access, special treatment regarding WTO obligations, ODA and other forms of assistance) and a country's economic growth and development.

4. One important element of the impact assessments is to gather information not only through research, but also from countries' main official development partners (multilateral organizations, multilateral and bilateral donors) on the amount and/or type of preferences, benefits and assistance accorded due to the LDC status.

5. In May 2008, the country's development partners were approached by DESA for an input to the impact assessment. Donors were asked for their views with respect to the likely treatment they would extend to Tuvalu, in particular, concerning the continuation of development aid, technical cooperation and trade preferences if the country's graduation were confirmed at the next review in 2009 and implemented in 2012. As of October 2008 DESA had received responses from Australia, the European Union, France, Japan and New Zealand.

6. The first draft of the impact assessment of Tuvalu was finalized on October 2008 to give the country the opportunity to make an oral presentation at the expert group meeting of 27-29 January 2009 prior to the triennial review of 9-13 March 2009. This revised draft takes into account the exchange of ideas and information made available at the expert group meeting.

7. Every effort has been made to collect up-to-date information from national, regional and international sources on socio-economic data of Tuvalu and on the relevant aid flows from their development partners.

2. Methodology

8. 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 international support measures related to their status as an LDC.

9. The present impact assessment undertaken by DESA is an ex-ante assessment. Generally, ex-ante impact assessments can be defined as the process of identifying the anticipated effects of a development intervention on the social, economic and environmental factors which the intervention is meant to affect, or may unintentionally affect. In the case of LDCs identified for graduation, the interest in undertaken impact assessments lies in identifying the potential consequences of the withdrawal of the special international support measures.

10. Different methodologies have been developed according to the purpose of the assessment, not all necessarily model-based involving strictly quantitative methods. In the case of

LDCs, the available models incorporate certain assumptions and only give a generalized insight into the possible outcomes of graduation under different scenarios and assumptions. More importantly, there are also data limitations with respect to the representation of individual LDCs in the databases used by existing econometric models.

11. Given the above limitations, in assessing the complex types of economic, social and developmental implications of a possible reduction in international support measures this report assess these measures not on the basis of a model, but qualitatively. Where available, the qualitative analysis is supported by quantitative data on trade, ODA and other support measures. In doing so, the report will first identify the support measures being made available and used by Tuvalu. Once these measures are identified, and considered to be significant for the country, the report addresses the potential reduction and/or phasing out of such measures. When feasible and supported by available data, the report will identify the sectors where these measures have been applied and evaluate the possible implications of their withdrawal.

12. This type of analysis is not without complications. First, it 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 such as, for instance, the preferential market access granted to LDCs in programmes such as the European Union's "Everything but Arms" initiative.

13. Other support measures such as those provided by the UN in terms of budget contribution and participation at various meetings are also easily identified. With respect to these two particular measures, information is collected on the rate of utilization and on whether the country's contribution to the UN budget would change in view of its potential graduation.

14. However, in some other instances, it is not possible to make a distinction between LDC specific measures and "regular" development assistance. Some ODA flows are a case in point. Owing to the difficulty in specifying LDC-specific ODA, this report will identify major bilateral donors and briefly provide an overview of their development assistance strategies vis-à-vis Tuvalu. In doing so, the report will focus on the main areas where donor assistance is received and highlight those that could be potentially affected. A similar approach is taken with respect to multilateral donors.

15. Second, the exercise requires the specification of the impact one wants to measure. There is a wide variety of special support measures available targeting different instances of a country's development. Some of them may have multiple positive impacts. For example, the extension of trade preferences would, in principle, help a country to diversify its economy, increase access to foreign exchange and promote exports, employment and growth. Others may also imply benefits that may not be easily measurable. In fact, it may be difficult to establish the macro results of special measures such as the flexibilities that LDCs may have in implementing WTO commitments or the special consideration LDCs are to receive from other WTO members in their trade relations.

16. Lastly, not all of the LDC specific support measures can be measured or summarized in a meaningful way by a single variable, say, the rate of economic growth. These considerations further support the use of the qualitative approach employed here. It allows the analysis to consider the various channels through which the eventual suspension and/or phase out of these special support measures - which are so distinct in nature - may influence the sustainability of development progress achieved by Tuvalu so far.

3. Specific trade preferences related to the LDC category

17. In 1979, a decision was adopted by the GATT allowing developed countries to apply preferential and duty-free rates to imports from developing countries (commonly known as the Enabling Clause), while MFN rates continued to apply to imports from other countries. The Enabling Clause provides the legal basis for the Generalized System of Preferences (GSP) and for special treatment for LDCs.

18. Tuvalu also is a member of the group of African, Caribbean and Pacific (ACP) countries consisting of former colonies of European Union (EU) member states. Through the Lomé Agreements and the Cotonou Partnership Agreement (the successor to the Lomé Agreements) the ACP countries established special relations with the EU in the areas of trade (particularly through non-reciprocal preferences) and development cooperation. Since 1st January 2008, trade between the EU and ACP countries is no longer covered under the 2000 Cotonou Partnership Agreement, but under WTO-compatible trading arrangements which are either Economic Partnership Agreements (EPAs), or the Everything but Arms initiative for LDCs not signing an EPA.[2] As of January 2008, Tuvalu had not signed an EPA. However, due to the country's LDC status, its exports can enter the EU market duty and quota free under the provisions of the EU's 'Everything but Arms' Initiative.[3]

19. The South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) is a nonreciprocal trade agreement under which Australia and New Zealand offer duty free and unrestricted or concessional access for most export products from the pacific island developing countries (the so-called Forum Island Countries - FICs) which are member of the Pacific Island Forum.[4] Tuvalu is a FIC signatory to SPARTECA.

20. The above details on Tuvalu's preferential access to its main trading partners illustrate the rather complex set of preferential arrangements. In order to benefit from the arrangements, exporters have to understand the hierarchy between preferential schemes,

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[2] Source United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN OHRLLS).

[3] The Everything but Arms Initiative contains temporary exceptions: rice and sugar.

[4] The Forum's member states are: Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

deal with different rules of origin requirements, and be able to comply with additional and potentially cumbersome administrative paperwork.

a. Main export products

21. Apart from the fish resources in its exclusive economic zone, Tuvalu has limited natural resources and a small and poor quality land area. The country's merchandise export base is narrow and, according to recent data from UNCTAD, limited to sea cucumber by one enterprise, at a frequency and for a total value that is not officially known.[5] The importance of exports as a source of foreign exchange receipts for Tuvalu is limited. The lack of economies of scale and high transportation costs have prevented Tuvalu from developing a vibrant export sector.

b. Possible impact of loss in preferences

22. A review of Tuvalu's income from abroad puts the impact of the loss in preferences into perspective: the country's main sources of foreign exchange come from fishing license fees paid by foreign fishing fleets, the sale of the "dot TV" internet domain name, remittances, ODA and income received from the Tuvalu Trust Fund (TTF).

23. Tuvalu has not been able to take advantage of preferential access arrangements. Despite almost free market access under the various preferential arrangements the development of a significant export sector has been constrained. Obstacles to the utilization of trade preferences may include supply-side constraints, rules of origin restrictions, and difficulties in complying with product standards and/or the costs and difficulties of providing the necessary documentation.

24. In case the country develops some export capacity in the future, EBA preferences can be accessed for up to 3 years after graduation from LDC status.[6] Alternatively, if EPA negotiations between the EU and Tuvalu are concluded and in place, the country will be able to benefit from duty and quota free access equivalent to EBA treatment, but with less strict rules of origin.

25. Future exports to Australia -an important regional market - are unlikely to be affected by a possible graduation from LDC status because they would enter that country duty free as a result of Tuvalu's preferential arrangements under SPARTECA which is independent

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[5] Vulnerability profile note by UNCTAD, January 2009. The United Nations COMTRADE database and the data used by UNCTAD for calculating its export concentration indices record a wider variety of products exported by Tuvalu. Some of these discrepancies can be explained by the inclusion of re-exports of Tuvalu in the import figures reported by partner countries and/or misattributions in the partner data.

[6] Cape Verde graduated from the LDC category in 2008 but was granted a 3-year period of transition allowing it to benefit from the EU's EBA.

of its LDC status (see above). The Government of Australia confirmed that should Tuvalu graduate the level of trade preferences would not alter.[7]

4. WTO related benefits

a. Overview of benefit options

26. WTO Members must grant Most Favoured Nation (MFN) treatment to the products of other WTO Members with respect to tariffs and other trade-related measures. Tuvalu is not a member of the WTO. Higher non-MFN tariff rates could be applied to all non-WTO member countries but, generally, non-MFN duties are not enforced on non-WTO members.

27. The WTO grants certain benefits to LDCs regarding the implementation of WTO agreements. As Tuvalu is not a WTO member, the country does not benefit from the special considerations for LDCs.

b. Possible impact of graduation

28. Should Tuvalu graduate and, thereafter, wish to become a WTO member, its status as a non-LDC would not allow it access to WTO related LDC benefits.[8]

5. Support measures related to capacity building in trade

a. The Enhanced Integrated Framework (EIF)

29. Tuvalu is eligible to benefit from the Enhance Integrated Framework (EIF) for trade-related technical assistance to LDCs. Under the EIF, Tier 1 funds can be used to build the capacity for and provide operational support to National Implementation Units. It can also be utilised to finance a Diagnostic Trade Integration Study (DTIS), and support activities on mainstreaming trade. Tier 2 funds will be available to finance selected priority areas.

30. Tuvalu has already received approval for the request for assistance (technical review) and was approached to start drafting a Tier 1 programme and concrete project proposals for funding.[9] Country access to the Tier 1 funds are allocated as follows: Up to $50,000 for

[7] Letter from the Permanent Mission of Australia, dated 1 July 2008, in response to inquiry by DESA concerning support measures provided to countries identified for graduation.
[8] For an overview of WTO related benefits for LDCs see Committee for Development Policy, "Handbook on the least developed countries category – Inclusion, Graduation and Special Support Measures", 2008 (forthcoming).
[9] See Letter from the WTO Deputy Coordinator, Programme Implementation Unit, Development Division to the Government of Tuvalu, dated 30 May, 2008 (accessed on 17 June at

Pre-DTIS support for newcomers in the IF process, up to $400,000 for LDCs where the DTIS has not yet been prepared, up to $200,000 for DTIS updates when required, and up to $1,500,000 to support the National Implementation Arrangements.[10]

b. Possible impact of graduation on EIF funding

31. LDCs graduating from the LDC category and applying to Tier 1 during the transitional period will be considered by the integrated framework Board for funding on a case-by-case basis.[11] At this stage it is not clear whether graduated LDCs would still have access to Tier 2 funds after graduation.

6. Official Development Assistance

32. Tuvalu's national development strategy "Te Kakeega II" (2005-2015) focuses on eight strategic areas: good governance; economic growth and stability; social development; outer island development; employment and private sector development; human resource development; development of supportive infrastructure and utilities; and natural resource management for agriculture, fisheries, tourism, and the environment. Generally, the Government has insufficient fiscal capacity to fund its national development strategy and relies on its development partners for financial and technical assistance.

33. Tuvalu's donors have been involved in the Government's Development Partners Agreement (DPA) which aims at improving aid coordination and effectiveness and ensuring support for the implementation of Te Kakeega II. ADB, Australia and New Zealand were expected to sign the Agreement early 2008 and the other development partners in the course of the year.

34. ODA flows to Tuvalu are considerable: on average, the country's ODA/GNI ratio reached more than 40 per cent over the period 2004-2006 (excluding Taiwan). The relatively large aid flows have a significant impact on the country's economy and Government revenue (see figure 1), contributing to economic and employment growth and social progress.

35. The fish resources in Tuvalu's exclusive economic zone appear to be among the few viable options to reduce the country's high aid dependency. Currently, Tuvalu grants fishing rights and the licensing provides an important source of foreign exchange for the country. Although the fisheries sector has potential for development, developing capacity

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http://www.integratedframework.org/files/english/EIF%20Preparations/Tuvalu_Preparations%20for%20EIF_pre-DTIS.pdf).

[10] Enhanced Integrated Framework for LDCs, Draft guidelines for the implementation of the enhanced integrated framework for LDCs, Geneva, 1 May 2007, page 2. Available from http://www.integratedframework.org/files/non-country/Compendium_182_08_ENG.pdf.

[11] Ibid, page 3.

for the sector appears to be limited by the negative impact of climate change on fish stocks. Moreover, the development of a vibrant fisheries sector is hindered by the typical constraints experienced by most small island economies: high transportation and communication costs, expensive infrastructure due to the small size, and limited prospects to create economies of scale.

36. Other sources of foreign exchange are the dot TV internet domain, TTF distributions and remittances. However, the future revenue stream of the internet domain is uncertain and revenues from the trust fund may decrease due to the global economic crisis. Income from remittances may also fall as a result of the economic downturn.

a. Bilateral

37. According to the OECD's creditor reporting system, Tuvalu's major bi-lateral OECD-country donors (over the period 2002-2006) were Australia, Japan and New Zealand (see Annex table 1). Taiwan Province of China is also an important bi-lateral donor. As described below, most bilateral donors have development plans and strategies in place which seem to have been established regardless of Tuvalu's status as an LDC. Generally, the bilateral assistance appears to be guided by humanitarian reasons, economic or political considerations.

38. One important contribution from bilateral donors is the Tuvalu Trust Fund (TTF). The TTF was established in 1987 with donations from Australia, Japan, New Zealand, South Korea and United Kingdom to provide budgetary support for the Government from the interest earnings of the fund's investments. The original donations from these countries amounted to \$17.9 million. Contributions from the donors increased to a total of \$47.4 million in 2006. The TTF is often used by the country's development partners to allocate aid and to assist the country in ensuring future financial stability. It is also seen as an efficient way to work with other key donors. The objective of the fund is to maintain its real capital value. Distributions are made from the return of the fund in excess of this objective. Since the establishment of the fund, an average annual distribution of about US\$2.3 million was made to the Government. Distributions from the TTF are used by the Government to fund recurrent budget expenditures, development projects and reinvestments in the fund. The increased Government income available from the fund has enabled the country to increasingly become an important contributor to its own national development programme. However, the impact of the global financial crisis may reduce the value of the TTF and its distributions in the coming years.

39. In recent years (2002-2006, see Annex table 2), the development assistance from OECD countries were all grants and has focussed on education (20 per cent of all ODA receipts), the health sector (13 per cent), energy (15 per cent), the fishery sector (10 percent) and for economic and development planning by the Government (9 per cent). Annex table 3 provides data on ODA receipts of Tuvalu by sector and main donors (excluding Taiwan Province of China). Annex table 4 provides data on the donor-funded part of Tuvalu's

Public Sector Investment Programme in 2007-2008 (including Taiwan Province of China).

Australia

40. Australia is Tuvalu's second largest OECD donor (after Japan, in 2006) with a total aid allocation of $3 million in 2006 (see Annex table 1). Through direct assistance and the Tuvalu Trust Fund, Australia's development assistance programme aims to support Tuvalu's national development strategy "Te Kakeega II" particularly in the areas of management and education. Recent development assistance data (2006) indicates that the majority of Australia's aid was directed towards social infrastructure projects (education and government). Annex table 3 gives a detailed breakdown of Australia's ODA to Tuvalu by sector. The Government of Australia confirmed that in the event of Tuvalu's graduation from the LDC list, the level of development assistance and technical cooperation would not alter.[12]

Japan

41. Japan provides general grant aid to Tuvalu mainly on projects in the fisheries sector. Japan also gives grants to projects for grassroots communities and emergency assistance for natural disasters.[13] In 2006, most of Japan's development cooperation was directed to the energy sector for the upgrading of electric power supply. Annex table 3 gives a breakdown of Japan's ODA disbursements by sector. The Government has indicated that graduation "does not directly affect the development aid extended by the Government of Japan".[14] However, the Government also indicated that graduated countries would no longer be able to benefit from special interest rates applied to concessional loans for LDCs.

New Zealand

42. New Zealand's development cooperation programme for Tuvalu was outlined in a five-year framework (2002-2007). Priority areas are human resource development, outer island development, and economic development. Data for 2006 indicate that the emphasis of New Zealand's assistance to Tuvalu was on the education and infrastructure sectors. Annex table 3 gives a detailed breakdown of New Zealand's ODA by sector. The Government of New Zealand indicated that its ODA and technical cooperation would not be materially influenced should Tuvalu be confirmed as eligible for graduation in 2009.[15]

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[12] Letter from the Permanent Mission of Australia, dated 1 July 2008, in response to inquiry by DESA concerning support measures provided to countries identified for graduation.

[13] See http://www.fj.emb-japan.go.jp/eco_corporation/eco_tuvalu.html

[14] Letter from the Permanent Mission of Japan, dated 30 June 2008 in response to inquiry by DESA concerning support measures provided to countries identified for graduation.

[15] Letter from the Permanent Mission of New Zealand, dated 9 October 2008, in response to inquiry by DESA concerning support measures provided to countries identified for graduation.

Assistance from New Zealand would continue to be determined by mutual agreement against New Zealand's development policy settings and Tuvalu's development priorities and needs.

Taiwan, Province of China

43. Data on Taiwan Province of China's assistance are not recorded by OECD and are difficult to obtain. There are indications that Taiwan Province of China assistance amounted to about 25 percent of total assistance (2002)[16] and it is reported to be among the two main donors for capital investment projects.[17] According to information collected by UNCTAD at the country level, assistance from Taiwan Province of China amounted to about 60 percent of total ODA flows in 2007-2008 (see Annex table 4).

b. Multilateral

Asian Development Bank (ADB)

44. Tuvalu is classified by the ADB as a "Group A" borrower. Through this classification Tuvalu has full access to the Asian Development Fund (ADF) which is the ADB's primary source of concessionary lending. Developing country members of the ADB which are not an LDC can also be classified as "Group A" borrowers.

45. The aid allocation by the Asian Development Fund to Tuvalu for the period 2008-2012 is $5.1 million. The ADB's assistance to Tuvalu focuses on effective fiscal management and aims at contributing to improve Tuvalu's education system, vocational skills development (including the Tuvalu Maritime Training Institute) and health care.

European Union

46. Cooperation between Tuvalu and the European Union dates back to 1978 and funding under the successive ACP-EU agreements has steadily increased. As part of the current EU development cycle (2008-2013) of the European Development Fund (EDF), Tuvalu was allocated a budget of €5.4 million. The main focus is on sustainable development, in particular water (sustainable country-wide rainwater harvesting), a legal framework for environmental protection and waste management, and energy (increasing use of renewable energy). Annex table 3 indicates that, in 2006, the EU focussed its assistance to Tuvalu on education.

47. The European Community has indicated that in the future "LDC status should only have a very limited impact compared to other needs and performance based variables".[18]

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[16] Asian Development Bank, Technical Assistance Consultant's Report, "Tuvalu: Country Economic Study and Strategy Development", October 2001, page 37.
[17] Asian Development Bank, Country Partnership Strategy Tuvalu 2008-2012, February 2008.
[18] Letter from European Union, dated 1 July 2008 in response to inquiry by DESA concerning support measures provided to countries identified for graduation.

United Nations Framework Convention on Climate Change (UNFCCC)

48. The parties to the United Nations Framework Convention on Climate Change (UNFCCC) established the Least Developed Countries Fund (LDCF) to support LDCs in carrying out the preparation and implementation of national adaptation programmes of action (NAPAs). The Global Environment Facility (GEF) was assigned the operation of the UNFCCC's financial mechanism and also operates the LDCF.

49. Tuvalu has developed a National Adaptation Programme of Action (NAPA). The Plan's primary objective is to promote activities that address the urgent needs for adapting to the negative impacts of climate change on the country. In May 2007, the NAPA was submitted to UNFCCC for the funding of $8.7 million. The current practice is that project proposals in the pipeline of the GEF will continue to completion, even though a country may have graduated while the project was being processed and implemented.

c. Other forms of international support measures

Contributions to the regular budget of the United Nations

50. Contributions to the UN regular budget are based on gross national income. The contributions of least developed countries are capped at a maximum rate of 0.01 per cent (e.g. amounting to contributions of about $189,900 per country to the 2007 budget[19]), regardless of their national income and other factors determining the Member State's assessment rate.[20]

51. Tuvalu is assessed at the minimum rate of 0.001 per cent (i.e. below the maximum cap of 0.01 for LDCs). Under the assumption that future assessment are based on the same criteria for estimating the gross national income and applying maximum and minimum values, the actual assessments for Tuvalu may very well continue to remain close to the minimum assessment rate of 0.001 per cent (e.g. contributions of about $18,990 to the 2007 regular budget). Thus, as Tuvalu's assessment is well below the 0.01 per cent cap for LDCs, a graduation from the LDC category does not appear to affect Tuvalu's contribution to the UN regular budget.

United Nations peacekeeping budget contributions

52. Tuvalu receives a 90 per cent discount on its regular budget assessment of 0.001 per cent. To illustrate, this would translate to the amount of $5,246 (or 0.0001 per cent) on the July

[19] See General Assembly, Programme budget for the biennium 2006-2007. A/RES/60/247 A-C. Expenditures for the biennium 2006-2007 were expected to be 3,799 million dollars.

[20] See General Assembly resolution "Scale of assessments for the apportionment of the expenses of the United Nations", A/RES/61/237, 13 February 2007.

2006 - June 2007 peacekeeping budget of $5,246 million.[21] If Tuvalu would graduate then it should still receive an 80 per cent discount rate based on its current level of gross national product. In the above example, its contribution to the peacekeeping budget would then amount to 0.0002 per cent, or $10,492.

Travel to United Nations meetings

53. The United Nations pays the travel, but not subsistence expenses, for LDC participation in the General Assembly. The total travel cost to the UN for the participation of qualifying LDC members to General Assembly sessions for the years 2005 and 2006 was respectively $1,124,407 and $980,417. This corresponds to an average of about $20,000 per year per country. If Tuvalu were to graduate from the LDC list, the country would no longer have access to these travel benefits. Over the period 2003-2007 Tuvalu used these benefits for four out of five General Assembly sessions.

54. In addition to the travel entitlements to participate in General Assembly sessions, United Nations organizations and conventions have established financial mechanisms to fund the participation of LDCs. For example, a specific trust fund was established for the travel and daily subsistence allowance of 2 representatives from each LDC to attend the annual review of the Programme of Action for the LDCs for the Decade 2001-2010. Other examples include the United Nations Convention to Combat Desertification (UNCCD), the Convention on Migratory Species (CMS), the Ramsar Convention on Wetlands, the Stockholm Convention on Persistent Organic Pollutants (POPs Convention), the Vienna Convention for the Protection of the Ozone Layer and its Montreal Protocol, the Codex Alimentarius Commission, and the Commission on Crime Prevention and Criminal Justice.

In contrast to the above LDC specific travel benefits, the graduation of Tuvalu does not seem to impact on some other UN related travel benefits because of the country's small island developing State (SIDS) status. One example is the voluntary trust fund to assist developing countries, in particular least developed countries, small-island developing States and landlocked developing States, to attend meetings of the UN consultative process on oceans and the law of the sea. Also, through the United Nations Framework Convention on Climate Change (UNFCCC) trust fund for facilitating the participation of parties in the Convention process, funding is provided to developing countries, in particular the least developed among them, and small-island developing States.

d. Possible impact of loss in ODA benefits

55. From the analysis of Tuvalu's economy and information from development partners it is clear that development aid is an essential source of income for the country and that Tuvalu is exposed to risks associated with the possible withdrawal of ODA. Australia, the

[21] General Assembly "Approved resources for peacekeeping operations for the period from 1 July 2006 to 30 June 2007", A/C.5/61/18.

European Community and New Zealand have indicated that a possible change in the LDC status of Tuvalu would not alter (in the case of Australia and New Zealand) or only have a limited impact (EC) on the level of bilateral assistance. Pending the receipt of answers from Tuvalu's other development partners to the inquiry by DESA concerning the possible changes in development assistance as a result of Tuvalu's graduation, a preliminary review of donors' development aid strategies appears to indicate that bilateral donors do not attach much importance to the country's LDC status. In their aid allocation to Tuvalu, some donors appear to be guided by political and economic motivations. Several have development plans and strategies in place which seem to have been established regardless of Tuvalu's status as an LDC.

56. At the multilateral level, some impact of Tuvalu's graduation can be expected in the receipts of UN LDC-related travel benefits and a slight increase in contributions to the UN peacekeeping budget.

57. A country's LDC status is one of the many factors that are taken into account in determining a country's eligibility for concessional lending under the Asian Development Fund (ADF). If Tuvalu were not on the list of LDCs, assuming everything else remains the same, under the most recent policy of the ADB for the classification of its developing member countries, Tuvalu could still possibly have been classified by ADB as a "Group A" borrower.[22]

58. Given Tuvalu's high vulnerability to climate change, support measures in this area are of critical importance. The current understanding is that after graduation Tuvalu would no longer be able to submit new requests to the LDC Fund. The need for continued assistance from the international development community in the area of climate change is of critical importance (see vulnerability profile).

59. Regardless of whether Tuvalu graduates, it will keep its status as a small-island development state. SIDS are recognized by the UN as countries that share similar development challenges, including small population, limited resources, remoteness, susceptibility to natural disasters and vulnerability to external shocks. However, international support measures in favour of SIDS are limited. An exception is the financing from the World Bank's International Development Association through which small island countries may continue to benefit from concessionary terms even though they have risen above the IDA income threshold. But, as Tuvalu is not a member country of the World Bank group, it is currently not eligible to receive concessionary financing resources from IDA.

60. To put Tuvalu's graduation in perspective, among the SIDS, Tuvalu measures the eighth lowest per capita income (average 2004-2006, see table 1). Several SIDS with a lower per capita income are non-LDCs (including Cape Verde). However, Tuvalu stands out for its high dependency on ODA (measured in ODA as a percentage of GNI) which underscores the country's vulnerability to any abrupt reductions in ODA

[22] This information is based on a communication received from ADB.

Table 1
Small Island Development States (SIDS)
Gross national income and official development assistance

			GNI (current) US$ million	GNI/capita	ODA (net) US$ million	ODA/GNI per cent
			2004-2006 averages			
1		Antigua and Barbuda	839.3	10100.0	4.2	0.5
2		Barbados	2986.0	10226.3	8.7	0.3
3		Belize	929.0	3369.7	9.1	1.0
4	*	Cape Verde	974.3	1920.7	147.9	15.2
5		Cuba	45724.7	4061.0	88.2	0.2
6		Dominica	271.3	3998.3	23.1	8.5
7		Dominican Republic	24808.7	2613.0	71.5	0.3
8		Fiji	2797.7	3378.0	61.3	2.2
9		Grenada	383.0	3642.3	31.6	8.3
10		Guyana	806.3	1090.7	148.4	18.4
11		Jamaica	8925.0	3327.0	53.0	0.6
12	**	Kiribati	127.7	1386.0	-0.1	-0.1
13	***	Maldives	772.7	2613.0	47.6	6.2
14		Marshall Islands	180.0	3168.3	54.2	30.1
15		Mauritius	6370.3	5133.3	28.4	0.4
17		Nauru	76.7	7567.7	13.4	17.5
18		Palau	150.3	7459.0	26.8	17.8
19		Papua New Guinea	4958.7	816.0	271.0	5.5
20	***	Samoa	402.7	8192.3	40.6	10.1
21		St. Kitts and Nevis	813.7	5044.3	13.1	1.6
22		St. Lucia	405.7	3405.7	2.5	0.6
23		St. Vincent and the Grenadines	385.7	2095.7	2.4	0.6
24		Seychelles	666.0	7791.0	6.5	1.0
25		Tonga	211.0	2120.7	24.2	11.5
26		Trinidad and Tobago	14719.3	11114.7	3.0	0.0
27	**	**Tuvalu**	**24.7**	**2339.0**	**10.8**	**43.7**
28	**	Vanuatu	326.7	1515.0	42.0	12.9

Source: UNSD, OECD STAT

Notes: The countries presented in the table form part of the UN group of Small Island Development States (SIDS). Due to lack of data, or high levels of GNI/capita, some SIDS are not included in the table.

* Cape Verde graduated from the LDC category in December 2007.

** Identified for graduation for the first time by the Committee for Development policiy in the 2006 triennial review.

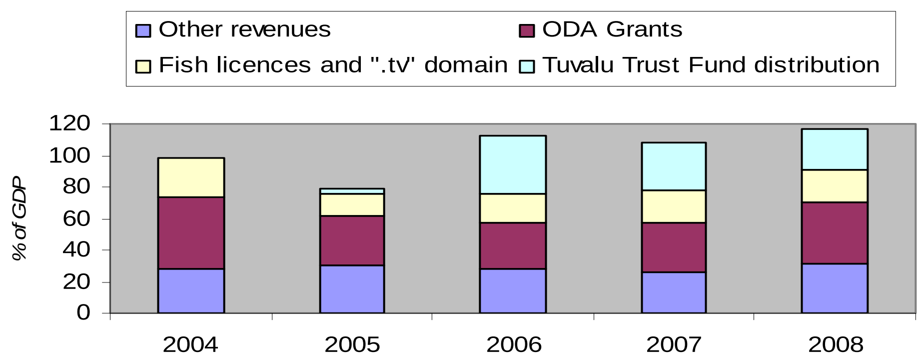
*** Samoa will graduate from the list in December 2010, Maldives will graduate in January 2011.

61. Reductions in development assistance from major donors may have a significant effect on Government revenues (see figure 1) and could impact the country negatively, particularly those sectors receiving relatively large amounts of ODA such as education and health (see Annex table 2).

62. Also according to information collected by UNCTAD at the country level, ODA dependence is high: 58 percent of the revolving public sector investment programme (PSIP) of Tuvalu over the 2007-2008 period was funded by development partners through approved projects, while the rest of the PSIP either relied on governmental or

non-governmental funding sources, or consisted of projects for which funding remained unidentified. The question of graduation relates to the donor-funded part of the PSIP only. The information collected by UNCTAD indicates that the latter consists of nearly 100 approved projects which were classified in six areas of expenditure: governance, infrastructure, health, education and human resource development, poverty reduction, environment. The UNCTAD data indicates that two bilateral donors (Taiwan Province of China and Japan) accounted for 80 per cent of the total donor-funded PSIP in 2007-2008 (see Annex table 4).

Figure 1. Government revenues



Source: Asian Development Outlook 2008

7. Conclusion

63. The possible graduation of Tuvalu from the LDC list does not appear to be a concern for the country's limited merchandise exports.

64. With respect to ODA, the impact of a possible graduation depends on the measures taken by bilateral and multilateral donors. An analysis of the framework agreements, strategy papers, and partnership strategies of some of the major bilateral and multilateral donors gives an indication that donors are committed to the long term development goals of the island regardless of the country's status as an LDC. Furthermore, in some other cases, commitments from donors seem to be motivated by economic or political considerations rather than by concerns about the country's LDC status. But, there is no guarantee that Tuvalu's graduation will not result in an eventual decline in ODA receipts. Graduation will involve some reductions in support measures from multilateral donors in the area of travel benefits, and increases in contributions to the UN peacekeeping budget.

65. In the case of Tuvalu, given its high dependency on ODA, abrupt reductions in development assistance are likely to have a significant effect on the country's economy and on the delivery of social services and, consequently, negatively impact the GNI and HAI indicators used by the Committee for Development Policy in identifying Tuvalu for graduation. General Assembly resolution 59/209 urged donors to avoid any abrupt

reductions in either official development assistance or technical assistance provided to the graduated country. Cape Verde's recent experience with graduation shows that some donors may reduce development cooperation, whereas others may increase their assistance.

66. Reducing vulnerability to natural shocks is a key issue of the economic development of Tuvalu. It is of critical importance that the international donor community continues to provide support to the country's high vulnerability to climate change.

Annex table 1. Composition and distribution of financial flows (gross disbursements) to Tuvalu

	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006
	millions US$ (current)					*percentage in total*				
A. Bilateral DAC donors										
1. Grants										
Australia	2.11	1.9	2.92	2.91	3	19	35	54	49	24
Canada	0	0	0.46	0.2	0	0	0	9	3	0
France	0	0.04	0	0.07	0	0	1	0	1	0
Germany	0.01	0.02	0.02	0	0	0	0	0	0	0
Greece	0	0	0.07	0.04	0.01	0	0	1	1	0
Japan	8.04	2.28	0.71	1.04	8.28	72	42	13	18	65
Netherlands	0.02	0	0	0	0	0	0	0	0	0
New Zealand	0.98	1.25	1.18	1.63	1.41	9	23	22	28	11
Total bilateral DAC grants	11.16	5.49	5.36	5.89	12.7	100	100	100	100	100
2. Total DAC non-grants	0	0	0	0	0	0	0	0	0	0
Total (A.1 + A.2)	11.16	5.49	5.36	5.89	12.7	100	100	100	100	100
B. Multilateral donors										
1. Multi-lateral Grants										
AsDF (Asian Dev.Fund)	0	0	0	0	0	0	0	0	0	0
EC	0.32	0	2.53	2.05	1.31	57	0	96	67	50
UNDP	0.09	0.01	0	0	0	16	3	0	0	0
UNFPA	0.1		0	0	0	18	0	0	0	0
UNTA	0.05	0.21	0.06	0.09	0.15	9	60	2	3	6
Total multi-lateral grants	0.56	0.22	2.59	2.14	1.46	100	63	98	70	55
2. Multilateral non-grants										
AsDF (Asian Dev.Fund)	0	0.13	0.05	0.1	1.18	0	37	2	3	45
EC	0	0	0	0.81	0	0	0	0	27	0
Total multilateral non-grants	0	0.13	0.05	0.91	1.18	0	37	2	30	45
Total (B.1 + B.2)	0.56	0.35	2.64	3.05	2.64	100	100	100	100	100
All ODA	**11.72**	**5.84**	**8**	**8.94**	**15.34**					

Source: OECD.Stat at http://stats.oecd.org/wbos/Default.aspx?usercontext=sourceoecd

Annex table 2. Total receipts of ODA (gross disbursements) by sector

	US$ million (current)						Share
	2002	2003	2004	2005	2006	Average (2002-2006)	percentage
I.Social Infrastructure & Services	6.14	2.79	4.31	3.03	4.61	4.18	44.82
I.1 Education	1.28	0.45	3.27	2.63	1.91	1.91	20.49
I.2 Health	4.10	1.72	0.16	0.12	0.12	1.24	13.35
I.3 Population Programmes	0.10	0.00	0.08	0.00	0.00	0.04	0.39
I.4 Water Supply & Sanitation	0.25	0.02	0.00	0.00	0.00	0.05	0.58
I.5 Government & Civil Society	0.41	0.60	0.52	0.17	2.53	0.85	9.08
I.6 Other Social Infrastructure & Services	0.00	0.00	0.27	0.11	0.04	0.09	0.92
II.Economic Infrastructure	0.49	0.72	0.36	1.20	7.15	1.98	21.27
III.Production Sectors	3.57	0.25	0.33	0.29	0.46	0.98	10.52
III.1 Agriculture - Forestry - Fishing, Total	3.54	0.24	0.30	0.29	0.37	0.95	10.17
III.1.a) Agriculture	0.00	0.02	0.05	0.00	0.00	0.01	0.14
III.1.b) Forestry	0.00	0.00	0.00	0.00	0.00	0.00	0.00
III.1.c) Fishing	3.54	0.22	0.25	0.29	0.37	0.93	10.03
III.2 Industry - Mining - Construction Tot.	0.00	0.00	0.00	0.00	0.07	0.01	0.14
III.2.a) Industry	0.00	0.00	0.00	0.00	0.07	0.01	0.14
III.2.b) Mining	0.00	0.00	0.00	0.00	0.00	0.00	0.00
III.2.c) Construction	0.00	0.00	0.00	0.00	0.00	0.00	0.00
III.3 Trade Policy and Regulations	0.03	0.01	0.03	0.00	0.02	0.02	0.21
III.4 Tourism	0.00	0.00	0.00	0.00	0.00	0.00	0.00
IV. Multisector	0.58	0.70	0.62	0.37	1.49	0.75	8.06
VI. Commodity Aid / General Prog. Ass.	0.00	0.00	0.07	0.00	0.00	0.01	0.16
VI.1 General Budget Support	0.00	0.00	0.07	0.00	0.00	0.01	0.16
VI.2 Food Aid/Food Sec. Ass.	0.00	0.00	0.00	0.00	0.00	0.00	0.00
VI.3 Other Commodity Assistance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
VII. Action Relating to Debt	0.00	0.00	0.00	0.00	0.00	0.00	0.00
VIII. Emergency Ass. & Reconstruction	0.00	0.00	0.00	0.35	0.00	0.07	0.75
VIII.2 Other Emergency & Distress Relief	0.00	0.00	0.00	0.35	0.00	0.07	0.75
VIII.3 Reconstruction relief	0.00	0.00	0.00	0.00	0.00	0.00	0.00
VIII.4 Disasterprevention & preparedness	0.00	0.00	0.00	0.00	0.00	0.00	0.00
All	**11.36**	**5.46**	**7.30**	**8.48**	**14.01**	**9.32**	100.00

Source: OECD.Stat at http://stats.oecd.org/wbos/Default.aspx?usercontext=sourceoecd

Note: The annual total receipts of ODA allocations to diffeent sectors do not add up to the same totals as in annex table 1 since some sectors were left out from annex table 2 (e.g. support to NGOs, administrative costs to donors, refugees in donor countries).

Annex table 3. Receipts of ODA (gross disbursements) by sector and main bi-lateral and multi-lateral donors

Sectors	Bilateral donors						Multilateral donor	
	AU		JAPAN		NZ		EC	
	2006, millions US dollars (current) and percentage							
	value	%	value	%	value	%	value	%
I.Social Infrastructure & Services	1.72	57.5	0.87	10.5	0.70	50.0	1.31	100.0
I.1 Education	0.03	1.0	..	..	0.57	40.6	1.31	100.0
I.2 Health	0.02	0.7	..	..	0.10	7.4	..	..
I.3 Population Programmes	..	..	..	..	..	..	..	..
I.4 Water Supply & Sanitation	..	..	..	..	..	..	..	..
I.5 Government & Civil Society	1.67	55.8	0.86	10.4	..	..	..	..
I.6 Other Social Infrastructure & Services	0.00	0.1	0.01	0.1	0.03	2.0	..	..
II.Economic Infrastructure	..	..	6.73	81.3	0.42	30.0	..	..
III.Production Sectors	0.01	0.4	0.43	5.2	0.02	1.2	..	..
III.1 Agriculture - Forestry - Fishing, Total	0.01	0.4	0.35	4.2	0.02	1.2	..	..
III.1.a) Agriculture	0.00	0.0	..	..	..	..	..	..
III.1.b) Forestry	..	..	..	..	..	..	..	..
III.1.c) Fishing	0.01	0.3	0.35	4.2	0.02	1.2	..	..
III.2 Industry - Mining - Construction Tot.	..	..	0.07	0.8	..	..	..	..
III.2.a) Industry	..	..	0.07	0.8	..	..	..	..
III.2.b) Mining	..	..	..	..	..	..	..	..
III.2.c) Construction	..	..	..	..	..	..	..	..
III.3 Trade Policy and Regulations	..	..	0.02	..	..	..	..	..
III.4 Tourism	..	..	..	..	..	..	..	..
IV. Multisector	1.21	40.4	0.01	..	0.27	18.8	..	..
VI. Commodity Aid / General Prog. Ass.	..	..	..	..	..	..	..	..
VI.1 General Budget Support	..	..	..	..	..	..	..	..
VI.2 Food Aid/Food Sec. Ass.	..	..	..	..	..	..	..	..
VI.3 Other Commodity Assistance	..	..	..	..	..	..	..	..
VII. Action Relating to Debt	..	..	..	..	..	..	..	..
VIII. Emergency Ass. & Reconstruction	..	..	..	..	..	..	..	..
VIII.2 Other Emergency & Distress Relief	..	..	..	..	..	..	..	..
VIII.3 Reconstruction relief	..	..	..	..	..	..	..	..
VIII.4 Disasterprevention & preparedness	..	..	..	..	..	..	..	..
ALL	**3.00**	100.0	**8.28**	100.0	**1.41**	100.0	**1.31**	100.0

Source: OECD.Stat at http://stats.oecd.org/wbos/Default.aspx?usercontext=sourceoecd

Annex table 4. Tuvalu: Donor-funded part of the multi-year public sector investment programme in 2007-2008 (expenditure in Australian $)

Donors	Areas of expenditure	Anticipated expenditure (approved projects)	Number of projects	Examples or types of projects
Taiwan, Province of China	Governance	1,461,517	19	Provision of ICT equipment; Support to: aviation policy, law enforcement, official travel, NY P. Mission
	Infrastructure	6,616,086	19	Construction of bridges, causeways, jetties, Parliament complex; Upgrading of telecommunications
	Health	50,000	1	Procurement of medical equipment
	Educ. & HRD	520,000	3	Provision of educational equipment; Support to Education Ministry
	Poverty reduction	1,301,739	7	Tuvalu workers outstanding wages (Nauru employment); Support for small enterprises
	Environment	30,000	2	Land records microfilming
	(Total)	**(9,979,342)**		
Japan	Infrastructure	1,700,000	7	Provision of: aviation equipment, marine fuel; Construction of Fisheries Office
	Health	1,400,000	1	Provision of outer islands medical facilities
	Educ. & HRD	100,000	2	Construction of water cisterns for schools
	(Total)	**(3,200,000)**		
UNDP	Governance	637,061	11	Support to social development policy
	(Total)	**(637,061)**		
World Bank	Environment	481,500	3	Adaptation to climate change
	(Total)	**(481,500)**		
ADB	Governance	466,275	1	Support to customs modernization, law improvement
	(Total)	**(466,275)**		
European Union	Environment	434,290	2	Support to waste management
	(Total)	**(434,290)**		
New Zealand	Governance	60,000	1	Support to the judiciary (Court of Appeal)
	Health	276,400	1	Support to health policy
	Educ. & HRD	16,000	1	Strengthening capacities of the Auditor General's Office
	(Total)	**(352,400)**		
Turkey	Governance	200,000	1	Support to law enforcement
	(Total)	**(200,000)**		
WHO	Health	162,000	1	Support to health policy
	(Total)	**(162,000)**		
Korea	Governance	145,000	2	Provision of official vehicles
	(Total)	**(145,000)**		
SPC	Governance	144,426	1	Demography and health survey
	(Total)	**(144,426)**		
UNESCO	Governance	78,880	3	Office support

	Educ. & HRD **(Total)**	31,600 **(110,480)**	1	Review of curriculum
SOPAC	Governance **(Total)**	62,000 **(62,000)**	5	Support to energy policy, land management policy
Australia	Governance Educ. & HRD **(Total)**	20,000 20,000 **(40,000)**	1 1	Strengthening of Auditor General's Office School supplies
India	Governance **(Total)**	10,000 **(10,000)**	2	Support to inland revenue services, legal services
TOTAL		**16,424,774**	99	

Source: UNCTAD, based on: Government of Tuvalu, Public Sector Investment Programme 2008.

Notes:
ADB: Asian Development Bank
SOPAC: Pacific Islands Applied Geoscience Commission
SPC: Secretariat of the South Pacific Commission
UNDP: United Nations Development Programme
UNESCO: United Nations Educational, Scientific and Cultural Organization
WHO: World Health Organization