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Department of Economic and Social Affairs
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Ex-ante impact assessment of likely consequences of graduation of
Tuvalu
from the least developed country category

2012 triennial review

United Nations, New York, November 2011

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Abstract

This impact assessment considers the likely impact of graduation on Tuvalu from the list of the least developed countries (LDCs). A recommendation to graduation is to be considered by the Committee for Development Policy (CDP) at its triennial review of the LDC in 2012 and implemented in accordance with current graduation procedures adopted by the Economic and Social Council. This report updates the previous assessment conducted for the 2009 triennial review and examines the implications of possible changes in international support measures, including trade preference and official development assistance (ODA), as a result of graduation of the country from the LDC category. It argues that the impact of eventual loss of preferential market access due to LDC status on Tuvalu's exports would be limited due to the country's underdeveloped export sector. On the other hand, Tuvalu depends heavily on ODA and could be exposed to risks associated with the possible reduction of ODA. However, consultations with the country's major donors have suggested that most of bilateral and multilateral donors' ODA flows will not be affected by Tuvalu's graduation. At the same time, graduation may lead to the loss of access to a few LDC-specific funds and/or reduced access to concessional financing where LDC status is binding. In all, the impact of graduation on the support extended by development and trading partner seems to be limited. Nevertheless, and regardless of its LDC status, it is critical that the international donor community continues to provide the country with financial and technical support in particular to reduce Tuvalu's high vulnerability to the adverse impact of climate change.

1. Background

This report updates information available in the 2009 ex-ante impact assessment which was prepared by the Department of Economic and Social Affairs (DESA) for the Committee for Development Policy (CDP).[1] As its predecessor, this report examines the likely consequences of graduation from the Least Developed Country (LDC) category for Tuvalu.

The Committee found Tuvalu eligible for graduation for the first time in 2006 when it established that Tuvalu met two criteria for graduation: gross national income (GNI) per capita and the human asset index (HAI). Of the countries reviewed, while the country was among those with the highest levels of HAI, Tuvalu had the highest score on the economic vulnerability index (EVI).

[1] See DESA/CDP Secretariat, *Ex-ante impact assessment of likely consequences of graduation of Tuvalu from the least developed country* category, February 2009 available at http://www.un.org/en/development/desa/policy/cdp/ldc/ldc_impact_assessment.shtml

In the 2009 review of the list of LDCs, the CDP considered that the country met the graduation requirements for the second consecutive time. The country's per capita GNI was $2,544 in 2005-2007, well above the graduation threshold ($1,086). The HAI was also above the graduation threshold level. Tuvalu thus fulfilled two of the criteria as required for graduation. However, in view of the insufficiently developed productive capacity, the CDP questioned the sustainability of the country's level of income and did not recommend Tuvalu for graduation at the 2009 review.

This ex-ante impact assessment report focuses on the likely consequences of graduation for the country's economic growth and development and on potential risk factors, or gains that countries may face after graduating. It analyses and assesses information from several sources including the country's main official development partners, multilateral organizations and trading partners.

In September 2011, 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 review in 2012 and implemented by 2015. As of 10 November 2011 DESA had received responses from the European Union, France, Japan, New Zealand, and the United States.

The first draft of the 2012 impact assessment of Tuvalu was finalized and circulated to the country in November 2011. According to established procedures, the country, if it so wishes, can make an oral presentation on its views on the possibility of graduation at the expert group meeting of the CDP on 16-17 January 2012 which will take place in preparation for the triennial review in March 2012.

2. Methodology

Methodological considerations underlying the ex-ante impact assessment were established in the 2009 report and will be followed here.[2]

The LDCs derive special support measures both from the donor community, including bilateral donors and multilateral organizations, as well as from the special treatment accorded to them by trading partners and certain multilateral and regional trade agreements. These measures fall into three main areas: international trade; official development assistance, including development financing and technical cooperation; and other forms of assistance. Currently, the major support measures extended owing to LDC status vary among development partners and are mostly related to trade preferences and the volume of official development assistance (ODA).[3]

[2] DESA/CDP (2009), op. cit.
[3] For more information, see United Nations (2008), Handbook on the Least Developed Country Category, available at http://www.un.org/en/development/desa/policy/cdp/cdp_publications_archive.shtml

It is important to emphasize that the analysis carried in this report involves the identification of support measures that are made available to the country concerned exclusively *on the basis of its LDC status alone*. Some of those measures can be easily identified, for instance, the preferential market access granted to LDCs, such as in the 'Everything but Arms (EBA)' and other similar initiatives, or the support provided by the United Nations in terms of caps to budget contribution and participation at various international meetings.

However, in some other instances, it is not possible to make a distinction between LDC specific measures and "regular" development assistance. For example, it is difficult to specify LDC-specific ODA flows. Hence, this report will identify major bilateral and multilateral donors and briefly provide an overview of their development assistance strategies vis-à-vis Tuvalu. Then the report will focus on the main areas where donor assistance is received and highlight those that could be potentially affected.

3. Support measures and special treatment related to trade

Due to Tuvalu's LDC status, its exports can receive special treatment including preferential and duty-free rates. In 1968, the United Nations Conference on Trade and Development (UNCTAD) recommended the creation of the Generalized System of Preferences (GSP). Under this system, selected products originating in developing countries would be granted zero or reduced tariff rates instead of the Most-Favoured-Nation (MFN) rates of duty, and wider product coverage and deeper tariff cuts for LDCs. In 1971, the contracting parties to the General Agreement on Tariffs and Trade (GATT) granted a temporary waiver from Article 1 of the GATT which prohibits discrimination, in order to allow preferential treatment to exports from developing countries. In 1979, GATT contracting parties adopted the decision on "Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries" (the so-called Enabling Clause), which allows developed members to give differential and more favourable treatment to developing countries.[4] In this regard, several developed countries established special programmes for LDCs within their GSPs. The EU's 'Everything but Arms' Initiative which was launched in 2001 is a case in point.

Independent of its LDC status, Tuvalu can access markets on a preferential basis due to its participation in bilateral and regional free trade agreements (FTA). Tuvalu is one of the Forum Island Countries signatories to the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), which allows duty free and unrestricted or concessional access for most products markets in Australia and New Zealand. Tuvalu also participates in the Pacific Islands Trade Agreement (PICTA) which

[4] For more information, see United Nations (2008), *Handbook on the Least Developed Country Category;* World Trade Organization (2007), Market Access For Products And Services of Export Interest to Least Developed Countries (WT/COMTD/LDC/W/41) available at http://www.mdg-trade.org/WTCOMTDLDCW41_english.pdf

grants benefits to signatory countries not associated with LDC status.[5] PICTA was signed in 2003 by 12 of the countries of the Pacific Island Forum (Australia and New Zealand excluded) and aims to reduce tariffs on goods imports from Pacific island countries to zero by 2021.

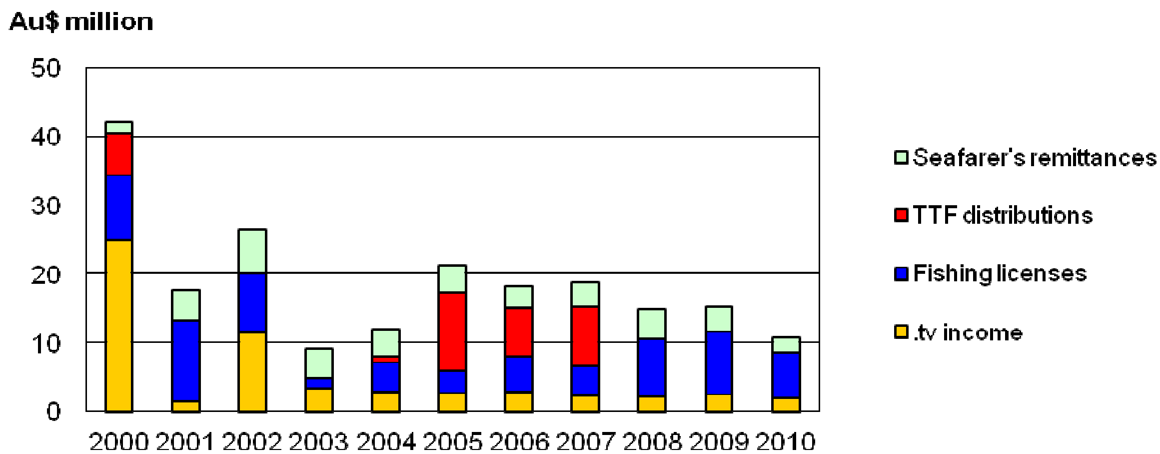
Main export products

The exports of goods generate little foreign currency earnings for the country. According to the International Monetary Fund (IMF), the value of Tuvalu's merchandise exports was estimated between Au$400,000 and Au$ 600,000 per year from 2004 to 2009, which corresponds to less than 2 per cent of GDP—one of the lowest export to GDP ratios among the Pacific island economies.[6] Apart from fish resources, Tuvalu has limited natural resources and a small and poor quality land area. Additionally, data on the total value of exports are not reliable or easily available.

Possible impact of loss in preferences

Tuvalu's main sources of foreign exchange come from fishing license fees paid by foreign fishing fleets, the ".tv" internet domain name lease, remittances, ODA and income received from the Tuvalu Trust Fund (TTF) which was established in 1987 by donor countries (see Figure 1).

Figure 1 Tuvalu: Foreign exchange earnings, 2000 - 2010 (millions of Australian dollars)



Source: IMF (2011), Tuvalu: 2010 Article IV Consultation.

[5] Integrated Framework (2011), Tuvalu Diagnostic Trade Integration Study: 2010 Report, available at http://www.enhancedif.org/documents/DTIS%20english%20documents/english/Tuvalu%20DTIS%20Report%202010.pdf

[6] IMF (2010), Tuvalu: Calculation of Quota; Integrated Framework (2011), Tuvalu Diagnostic Trade Integration Study: 2010 Report. Trade data vary across the sources, but in general the total value of Tuvalu's export is very small. UNCTAD data indicate the value of Tuvalu's export at about Au$700,000 on average per year during the period 2005-2009. See UNCTADstat online database.

Due to the limited productive capacity and insufficient development of the export sector, Tuvalu has not been able to take advantage of preferential access arrangements.

In this regard, should the country develop some export capacity in the future, exports to Australia and New Zealand would receive preferential treatment despite the possible graduation from LDC category as exports would enter those markets duty free owing to Tuvalu's membership in SPARTECA. Tuvalu can also engage in trade with neighbouring island countries under PICTA. But trade creation under PICTA is likely to be minimal due to the low level of intra-regional trade and lack of capacity of the island countries for effective implementation of the agreement.[7]

LDCs are also granted differential and special treatment related to World Trade Organization (WTO) disciplines which is additional and beyond the special treatment accorded to developing countries.[8] Tuvalu is not a member of the WTO, and thus the country does not benefit from the special considerations for LDCs. Should Tuvalu join the WTO in the future, it can still benefit from preferential treatment being extended to developing countries.

Capacity building in trade

Tuvalu's LDC status allows access to the Enhanced Integrated Framework (EIF) to receive financial and technical assistance on removing obstacles to trade development. Under the EIF, Tier 1 funds can be used to fund the preparation of DTIS and provide operational support to National Implementation Units. Tier 2 funds will be available to finance priority small-scale projects to build up trade-related and supply-side capacities.

Tuvalu joined the EIF in 2007 and undertook preparations for a Diagnostic Trade Integration Study (DTIS) in 2010. The 2010 DTIS argues that Tuvalu has little choice but to be more proactive in identifying new sources of economic growth, which means mainstreaming trade policy into the overall development strategy and devoting more resources to trade-related initiatives, particularly in the area of services. The EIF can make a useful contribution in this area, primarily through capacity-building in the Department of Trade.[9]

As of October 2011, documents for EIF Tier 1 funding are being finalised and the Tier 1 projects are likely to be scheduled to start in 2012. The projects also include an activity to formulate Tier 2 proposals and Tuvalu will seek Tier 2 funding for projects to be implemented by the end of 2012.[10]

Possible impact of graduation on capacity building in trade

[7] IF (2011), op cit
[8] See for more information, the UN LDC information portal. http://www.un.org/ldcportal
[9] IF (2011), op cit.
[10] The information is based on a communication received from EIF and UNDP.

Graduation of Tuvalu from the LDC category will not immediately affect the current programme in effect or under consideration, because the graduation will take place in 2015 at earliest. Additionally, the EIF adopted smooth transition provisions in July 2010 for countries leaving the LDC category. Accordingly, a graduating EIF country has access to full EIF benefits for three years and an additional two years subject to justification and approval by the EIF Board.[11]

Specialized training and technical assistance in trade will continue to be provided to Tuvalu under the framework of the Aid-for-Trade, if the country graduates from the LDC category. Aid-for-Trade is available to all developing countries[12] According to the WTO, the total Aid-for-Trade amounted to $12 billion for LDCs, and to $20.8 billion for other developing countries in 2009 (commitments in 2009 constant price).[13]

4. Official Development Assistance

The Istanbul Programme of Action for the Least Developed Countries for the Decade 2011-2020 was adopted by the Fourth UN Conference on the Least Developed Countries in 2011. At Istanbul, the international community agreed to implement actions to enhance the resources for LDCs and reaffirmed donors' commitments in meeting established ODA targets by 2015. Donors also agreed to reviewing their ODA commitments for further enhancing resources to LDCs after 2015. As an LDC, Tuvalu will potentially benefit from the priority being assigned to this group of countries.[14]

ODA flows to Tuvalu are considerable: on average, the country's ODA/GNI ratio reached 36 per cent over the period 2007-2009. Tuvalu received $17.8 million as ODA in 2009 (see Annex table 1).[15] 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 Tuvalu's national development strategy "TeKakeega II" (2005-2015). The strategy focuses on eight priority 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. However, the Government has insufficient fiscal capacity to fund its national development strategy and heavily replies on development partners for development assistance.

Bilateral Flows

[11] IF (2011), op cit.
[12] WTO (2011), Aid-for-Trade and LDCs, available at http://www.wto.org/english/tratop_e/devel_e/a4t_e/aid4trade_e.htm
[13] WTO (2011), Aid for Trade At a Glance 2011: Showing Results, available at http://www.wto.org/english/res_e/booksp_e/a4t11_23_stat_notes_e.pdf
[14] United Nations (2011), Programme of Action for the Least Developed Countries for the Decade 2011-2020 (A/CONF.219/3), available at http://ldc4istanbul.org/uploads/IPoA.pdf
[15] The ODA/GNI ratio excludes aid flows from Taiwan, Province of China.

Australia, Japan and New Zealand are Tuvalu's major bilateral donors during the period 2005-2009 (see Annex table 1). Taiwan Province of China is also an important bilateral donor. As described below, most bilateral donors have development assistance 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, economic or political considerations.

Overall, bilateral ODA has been allocated on government and civil society support (23 per cent of the total ODA receipts), transportation and storage (17 per cent), education (16 per cent), energy (14 per cent), and commodity aid (13 per cent) during the period 2005-2009 (Annex table 2). Annex table 3 provides data on ODA receipts of Tuvalu by sector and main donors (excluding Taiwan Province of China).

Japan

Japan is Tuvalu's largest donor, contributing $8.6 million in 2009 (58 per cent of the total ODA to Tuvalu, excluding Taiwan Province of China). Japanese ODA to Tuvalu focuses on projects in the fisheries sector. The Japanese aid program has also been active in supporting projects that are of indirect value for the tourism sector. Support to the improvement of the Tuvalu National Council of Women's Craft Centre and to the construction of the inter-island vessels are cases in point.[16] Annex table 3 presents Japan's ODA disbursements by sector.

The Government of Japan indicated that Tuvalu's graduation from the LDC category will not have immediate impacts on the level of development aid and technical co-operation of Japan. However, special treatment such as concessional interest rates available for LDCs on the funds provided though International Yen Loans, would no longer be accessible for Tuvalu if the country graduates. The Government of Japan also remarked that there is no recent project utilizing such loans since all the projects in Tuvalu are funded by grant or technical assistance.[17]

Australia

Australia is Tuvalu's second largest OECD donor with a total aid allocation of $4.6 million in 2009 (see Annex table 1). Australia's aid has been directed mainly toward supporting the government and civil society, health and water sectors. The total ODA from Australia to Tuvalu for 2011–2012 is anticipated to be around $9.9 million and will focus on addressing the implications of climate change, government budget support, gender balance, and work force improvement.[18] For the detailed breakdown of Australia's ODA to Tuvalu, see Annex table 3.

[16] IF (2011) op cit.
[17] Letter from the Permanent Mission of Japan, dated 28 October 2011, in response to inquiry by DESA concerning support measures provided to countries identified for graduation.
[18] AusAid, Country programs, available at http://www.ausaid.gov.au/country/country.cfm?CountryId=22

The Government of Australia had previously indicated to the Secretariat that LDC status in itself did not determine Australia's ODA allocation. Therefore, Tuvalu's graduation is not likely to alter the level of development assistance and technical cooperation provided by Australia.[19]

New Zealand

At 52 per cent of total ODA flows, New Zealand's assistance to Tuvalu was heavily concentrated in the education sector in 2009. The 2010/2011 allocation of New Zealand's aid to Tuvalu is $3.5 million. The New Zealand aid programme supports the priorities set out in TeKakeega II and focuses on three core areas: financial management, outer island development, and workforce skills development.[20] See Annex table 3 for a detailed breakdown of New Zealand's ODA by sector.

Graduation from the LDC category may not impact on New Zealand's ODA policies to the country. The Government of New Zealand confirmed that Tuvalu's graduation would not influence New Zealand's policy stance vis-à-vis the country as development assistance will continue to be determined by a negotiated agreement based on New Zealand's aid priorities and partner country's needs.[21]

Taiwan, Province of China

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's assistance accounts for a significant share of the total assistance to Tuvalu, with a particularly active role in the area of agricultural development.[22] According to the data provided to the Asian Development Bank (ADB) by the Government of Tuvalu, ODA grants from Taiwan amounted to about 13 per cent of the total government budget and about 20 per cent of the grant component of the government revenue in 2009.[23] It is unlikely that Taiwanese assistance will be affected by a change in Tuvalu's status as an LDC.

Multilateral Flows

European Union

[19] United Nations (2011), Bilateral Official Development Assistance (ODA) Survey on LDC-specific International Support Measures, Australia, Summary Results, available at http://webapps01.un.org/ldcportal/c/document_library/get_file?uuid=01101fc4-41ba-4d89-a602-e6f0d18e93d3&groupId=10136

[20] New Zealand Ministry of Foreign Affairs and Trade, Aid Program on Tuvalu, available at http://www.aid.govt.nz/programmes/c-tuvalu.html

[21] Letter from Permanent Mission of New Zealand to the UN, dated 28 October 2011, in response to inquiry by DESA concerning support measures provided to countries identified for graduation.

[22] IF (2011) op cit.

[23] Calculations are based on data received from the ADB.

Development cooperation between Tuvalu and the European Union has steadily increased since the Lomé Agreement (1975) and, subsequently, the Cotonou Partnership Agreement (2000) between African, Caribbean and Pacific (ACP) countries and European Union member States. Sustainable management of natural resources has been a key element in EU's development agenda for Tuvalu. Reliable provision of water and sanitation, waste management, costal protection, disaster preparedness and renewable energy are important issues for Tuvalu-EU development cooperation. The priority area of co-operation under the 10th European Development Fund (EDF) is water and sanitation, including waste management and renewable energy. The European Commission's total allocation for Tuvalu under 10th EDF funding (2008-2013) amounts to €5.4 million of which €4.4 million are earmarked for the priority sector. Additional assistance will be provided for programmes in support of non-state actors and trade-related issues.[24]

The EU indicated to the CDP Secretariat that there would be no change regarding current programmes under 10th EDF. A change in the country's LDC status might have consequences under 11th EDF (2014-2020), but in view of Tuvalu being a small island state, and the disadvantages this entails, the EU would expect to have special consideration and discussion on the next programming cycle.[25]

<u>United Nations Framework Convention on Climate Change (UNFCCC)</u>

Under the United Nations Framework Convention on Climate Change (UNFCCC), financing sources have been created to address the special needs of developing countries in the area of climate change mitigation and adaptation. Among others, the Global Environment Facility (GEF) Trust Fund was made operational in 1994.[26] In 2001, the parties to the 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).[27] The Special Climate Change Fund (SCCF) was established in 2004 to finance activities, programs and measures relating to climate change.[28] The Adaptation Fund, made operational in 2009, has been established by the parties to the Kyoto Protocol of the UNFCCC to finance concrete adaptation projects and programmes in developing countries.[29] Among these funds, the LDCF is available exclusively for LDCs, while the GEF Trust Fund, SCCF and Adaptation Fund are available for all developing countries.

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[24] Tuvalu and European Commission (2007), Country Strategy Paper for Tuvalu (2008-2013), available at http://ec.europa.eu/development/icenter/repository/scanned_tv_csp10_en.pdf?CFID=160883&CFTOKEN=66219861&jsessionid=24309d464799196e8774

[25] Letter from European Union Delegation to the UN, dated 8 November 2011, in response to inquiry by DESA concerning support measures provided to countries identified for graduation.

[26] The GEF Trust fund has received a total of $15.225 billion during its five replenishments. See http://www.thegef.org/gef/trust_funds

[27] The voluntary contributions of about $180 million have been made for the LDCF. See http://unfccc.int/cooperation_support/least_developed_countries_portal/ldc_fund/items/4723.php

[28] As of 2011, the GEF has received voluntary contributions of about $120 million for the SCCF. See http://go.worldbank.org/4BAWXIM100

[29] As of 2011, total amount deposited to the Adaptation Fund is $249.86 million. See http://www.adaptation-fund.org/about

Most recently, parties adopted the Cancun Adaptation Framework (CAF) as the outcome of the conference of the parties (COP) meeting in Cancun, Mexico, in 2010. At Cancun, parties affirmed that adaptation must be addressed with the same level of priority as mitigation. The Cancun Adaptation Framework components are likely to come in force in 2012, pending a successful conclusion of the COP 17 in December 2011. Its implementation cluster includes a process to enable LDCs Parties—building upon their experience with the NAPAs—to formulate and implement national adaptation plans (NAPs). The NAP process is designed to address medium and long term concerns which are not taken over in NAPAs (immediate needs).

The Cancun Agreements also established the Green Climate Fund, which will support projects, programmes, policies and other activities in developing countries using thematic windows. Both mitigation and adaptation will be covered. The Fund is expected to be fully operational several years from now. In general, all developing countries will be eligible to access funds, which will channel a significant share of new multilateral funding for adaptation. The Cancun Agreement notes that for adaptation funding, priority will be given to the most vulnerable developing countries, such as LDCs, small island developing States (SIDS) and Africa. Hence priority is to be given on the basis of vulnerability, and it is unclear whether a possible graduation would affect eligibility or allocation of funding under the Green climate Fund in the future.[30]

Tuvalu has prepared a NAPA in 2007. The LDCF has supported the country with US$200,000 on the NAPA preparation. Currently, Tuvalu is implementing a $3 million project on increasing resilience of coastal areas and community settlements to climate change, supported also by LDCF.[31]

It is uncertain at this stage how much access Tuvalu would have to the LDC-specific funds, if the country graduates from the LDC category. The current practice is that project proposals funded by LDC-specific resources will continue to completion, even though a country may have graduated while the project was still being processed or implemented. But this might be the case for a limited number of projects. For instance, Cape Verde graduated in 2007 and is implementing a NAPA project funded with resources from the LDC Fund. Cape Verde, however, would not be able to access funding and support for the NAP process which is designed for LDCs.[32] Should Tuvalu graduate, new projects may not be eligible to be funded by LDCF but the country remains eligible to access funds available at other financing sources, such as the GEF Trust Fund, SCCF and the Adaptation Fund.

<u>Multilateral Development Banks and International Financial Institutions</u>

World Bank

[30] UNFCCC. See http://unfccc.int/cooperation_and_support/financial_mechanism/green_climate_fund/items/5869.php
[31] GEF Project Details, available at http://www.gefonline.org/projectDetailsSQL.cfm?projID=3694
[32] The information is based on a communication received from UNFCCC.

Tuvalu became the 187th member of the World Bank in 2010. The World Bank is currently in the process of formalizing the country's access to International Development Association (IDA) resources which is the World Bank's concessional financing arm for the poorest countries. The review process has been necessary since Tuvalu's GNI per capita (Atlas method) is $3,700 in 2010, a level that significantly exceeds the current IDA threshold for inclusion of $1,175.

IDA financing for Tuvalu is being sought under the small island economy exception -- a provision that acknowledges that despite the much higher income level, small island economies share many of the same characteristics with larger low income countries, including severe capacity constraints, high economic vulnerability, and so on. The proposal under consideration is that Tuvalu will have access to IDA16 resources totaling SDR3.3m (US$5 million equivalent) on 100% grant terms. The World Bank is currently working on the outline of the Country Assistance Strategy laying out the program for the country over the medium-term. The main focus might be on budget support, and investment operation to help bring Tuvalu's aviation infrastructure up to international safety standards.[33]

The World Bank's operations in Tuvalu will not be affected if Tuvalu graduates to non-LDC status. The determination on IDA eligibility, allocation amount, and terms are factors that are evaluated on an annual basis and are not contingent on LDC status.[34]

International Monetary Fund (IMF)

Before joining the IMF, Tuvalu was already benefiting from technical assistance provided by the Pacific Financial Technical Assistance Centre (PFTAC), which is operated by the IMF, in a number of areas: tax policy and administration (2007, 2008, and 2010); financial sector supervision (2008); and balance of payments and national accounts statistics (2006, 2009, and 2010).[35]

Tuvalu became a member of the IMF in 2010. The Special Drawing Rights quota is 1.80 million. An Article IV mission was conducted in 2010 jointly with the World Bank, and the Debt Sustainability Analysis is in progress.

There are no LDC-specific financing modalities available in the IMF. Thus regardless of its LDC status, as a member of IMF, Tuvalu will have access to the organization's financing and expertise when necessary.

Asian Development Bank (ADB)

[33] World Bank (2011) IDA Allocation, available at http://go.worldbank.org/F5531ZQHT0. The information is also based on a communication received from the World Bank.
[34] The information is based on a communication received from the World Bank.
[35] IMF (2011) Tuvalu: 2010 Article IV Consultation.

Since the country joined ADB in 1993, the Bank has provided Tuvalu with two loans and one grant totaling $11.06 million from the Asian Development Fund (ADF) and 21 technical assistance programs with the total budget of $5.91 million. The ADB's most recent activities in Tuvalu include a grant of $3.24 million and two technical assistance projects ($1.13 million) in 2008. In recent years, the ADB's operational strategy for Tuvalu has focused on improving governance and economic management, as well as providing skills development to enhance employment opportunities. Improvement of services on the outer islands, where most of the poor and vulnerable groups are concentrated, has also been undertaken.[36]

The LDC status is not the primary consideration for determining a country's access to the ADF which is the ADB's main source of concessionary lending. ADF eligibility takes into consideration, per capita GNI, access to private capital, and the level of development of institutions. Additionally, the ADB classifies countries-- for the purposes of access to different financing modalities -- based on their risk of future debt distress, and general credit worthiness criteria.[37] Currently, Tuvalu is classified by the ADB as a country at high risk of debt distress. This suggests that it is highly unlikely that Tuvalu's eligibility for the ADF grants would change if it were removed from the LDC list.[38]

Other forms of international support measures

Contributions to the budget of the United Nations

All Member States have to contribute to the UN regular budget. Assessments to the budget are established on the basis of gross national income and other considerations, such as debt-burden adjustment. Contributions by an LDC are capped at 0.01 per cent (ceiling) of the total UN budget, regardless of the country's national income or other factors. A minimum contribution of 0.001 per cent (floor) is, however, required for all Member States. For 2011, Member States at the floor (0.001 per cent) were assessed at $23,487 for the regular UN budget.[39]

Tuvalu is assessed at the minimum rate of 0.001 per cent for the 2011 budget.[40] Assuming that the assessment methodology remains unchanged, Tuvalu is very likely to remain close to the minimum assessment rate of 0.001 per cent, far below the maximum rate of 0.01 per cent for LDCs. Since the maximum assessment rate of 0.01 per cent for LDCs is not applied to Tuvalu, the graduation will not affect Tuvalu's contribution to the UN regular budget.

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[36] ADB (2011) Tuvalu: Country Profile; IMF (2011) Tuvalu: Article IV Consultation.
[37] ADB (2009) the 2008 Review of the Graduation Policy, available at http://www.adb.org/Documents/Policies/Graduation/graduation-policy.asp
[38] The information is based on a communication received from ADB.
[39] United Nations (2011), Report of the Committee on Contributions (A/66/11), available at http://daccess-dds-ny.un.org/doc/UNDOC/GEN/N11/408/12/PDF/N1140812.pdf?OpenElement
[40] United Nations (2010), Assessment of Member States' contributions to the United Nations regular budget for the year 2011 (ST/ADM/SER.B/824), available at http://www.un.org/ga/search/view_doc.asp?symbol=ST/ADM/SER.B/824

United Nations peacekeeping budget contributions

Contributions to the UN peace keeping budget are based on gross national income and other considerations, such as the LDC status. Tuvalu is included in the J level group of countries which consists of the LDCs, receiving a 90 per cent discount on its regular budget assessment of 0.001 per cent.[41] Should Tuvalu graduate from the LDC category, it will be included in the I level which consists of the non-LDCs with GNI per capita below US$6,708 (2010-2012) threshold, receiving 80 per cent discount rate. The ten percentage point margin of the discount rates would translate to an extra contribution of the amount of $7,060, calculated from the total peacekeeping budget of $7.06 billion for the fiscal year, 1 July 2011-30 June 2012.[42]

Attendance to UN General Assembly meetings

The United Nations offers air tickets for up to five representatives of each Member State designated as a LDC to attend the regular sessions of the General Assembly.[43] If Tuvalu were to graduate from the LDC list, this benefit would be extended, if requested, within existing resources of UN, to Tuvalu for a period appropriate to the development situation of the country and to a maximum of three years.[44]

The potential graduation of Tuvalu may not impact on its eligibility for most of the UN related travel benefits, because, as a small island developing state (SIDS), Tuvalu would continue to access to benefits made available through voluntary trust funds to assist LDCs, SIDS and landlocked developing States, to attend meetings of the UN consultative process.[45] The UNFCCC trust fund also facilitates the participation of LDCs and SIDS in the Convention process.

Possible impact of graduation on ODA

Regardless of whether Tuvalu graduates, the country remains highly vulnerable to abrupt changes in aid flows. As seen above, development aid is a critical source of income for

[41] United Nations (2009), Implementation of General Assembly resolutions 55/235 and 55/236 (A/64/220), available at http://www.un.org/ga/search/view_doc.asp?symbol=A/64/220

[42] United Nations (2011), Approved resources for peacekeeping operations for the period from 1 July 2011 to 30 June 2012 (A/C.5/65/19), available at http://www.un.org/ga/search/view_doc.asp?symbol=A/C.5/65/19

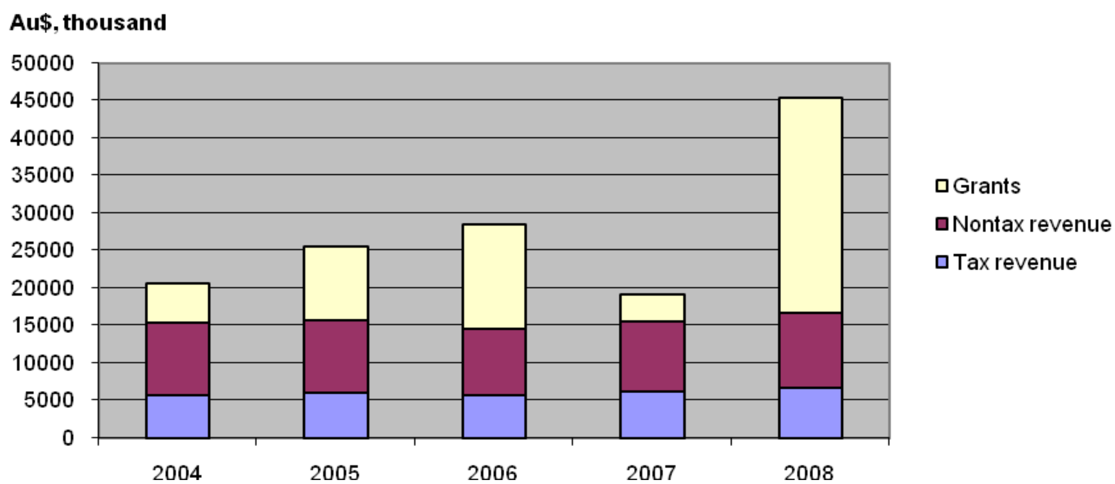
[43] United Nations (1991), Rules governing payment of travel expenses and subsistence allowances in respect of members of organs or subsidiary organs of the United Nations (ST/SGB/107/Rev.6), available at http://documents-dds-ny.un.org/doc/UNDOC/GEN/NS0/000/21/img/NS000021.pdf?OpenElement

[44] United Nations (2011), Implementing the smooth transition strategy for countries graduating from the list of least developed countries (A/65/L.66/Rev.1), available at http://www.un.org/en/development/desa/policy/cdp/cdp_res_dec/a65_l66rev1.pdf

[45] Codex Alimentarius Commission and Convention of Biological Diversity are the examples of such meetings.

the country. Reductions in development assistance from major donors may have a significant effect on government revenues (see Figure 2) and could impact on the country negatively, particularly on those sectors receiving relatively large amounts of ODA such as education and health (see Annex table 2). According to the ADB and IMF, Tuvalu's fiscal performance has worsened significantly in 2010 mainly due to poor fiscal management, weak demand for services provides by seafarers, which has resulted in a steady decline in remittances.[46] Distributions from the Tuvalu Trust Fund (TTF) are not anticipated to contribute significantly to the government budget in the next few years.[47] The income flows generated from the internet domain lease are not likely to be sustained, as the value of the ".tv" domain name may diminish over time with emergence of more generic internet domain names.[48] Given this fiscal situation, many of the public investment projects and the provision of basic services might be negatively affected if there are abrupt changes in ODA flows following the country's graduation.

Figure 2 Tuvalu Government Revenues (2004-2008)



Source: Asian Development Bank (2011) Outlook 2011: Update
Note: Nontax revenue includes interests and dividends; Grants includes distribution from Tuvalu Trust Funds.

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[46] ADB (2011) Outlook 2011 Update; IMF (2011) Tuvalu: 2010 Article IV Consultation.

[47] The TTF was signed in 1987 by Australia, New Zealand, Tuvalu, and the United Kingdom as original parties, and Japan and Republic of Korea joined the initiative afterwards. When the market value of the TTF exceeds its targeted value, the surplus is distributed to be used by the Government to fund recurrent budget expenditures, development projects and reinvestments in the fund. In recent years, however, no distributions from the TTF have been made, because the global financial crisis and the weak recovery of the global economy have reduced the market value of the TTF. See IMF (2011), Tuvalu: 2010 Article IV consultation.

[48] The Government of Tuvalu has a contract on domain name lease with Verisign, a company in USA, until 2016. The company pays $2-3 million per year to Tuvalu from 2003 and 2010. In recent years, more general top level domain names, such as ".biz", ".museum", ".travel", etc., are allowed to be registered, and they are likely to reduce demand for the limited number of premium domain names, including ".tv". See Internet Corporation for Assigned Names and Numbers (ICANN) http://www.icann.org/en/tlds/; Asia Pulse (2010), Tuvalu's Dot-Tv Domain Code to Diminish in Value.

Several of the country's main bilateral donors have indicated to the Secretariat that a change in Tuvalu's LDC status would not affect their level of assistance to the country. In fact, development assistance strategies do not seem to be associated with the country's LDC status. Instead, donors appear to be guided by political and economic considerations in determining their aid priorities for Tuvalu.

At the multilateral level, it is not clear how Tuvalu's graduation would affect access to development finance. While the country may not be able to access to some LDC-specific financing sources, the overall impact will depend on the availability of alternative sources of financing which, although not providing exclusive access, entail much larger sums of funding. For instance, Tuvalu access to EIF funding will be phased out but the country still has access to a much larger pool of resources under Aid-for-Trade. Similarly, Tuvalu would not have access to LDCF (for new projects), but would retain access to GEF Trust Fund, SSCF and Adaptation Fund which are available for all developing countries.

Tuvalu's eligibility for concessional lending by multilateral development banks and international financial institutions is not likely to be affected by the country's graduation from the LDC category. For example, it is highly unlikely that Tuvalu's eligibility for the ADF grants of the ADB would change, because of the country's high risk of debt distress. The IDA allocation of the World Bank and the intervention of IMF are not influenced by a change in the country's LDC status.

Tuvalu, with other island countries in the Pacific region, is experiencing disruptive consequences of global climate change, including increased frequency and severity of coastal erosion, floods, drought, storm surges, ground water degradation, saline intrusion, coral bleaching, more widespread and frequent occurrences of vector-borne diseases, and periods of exceptionally high sea levels. These climate change impacts will increase over time and are likely to threaten food security as well.[49] Given Tuvalu's high vulnerability to climate change, continuous support in this area are of critical importance.

5. Conclusions

On the basis of available information, the graduation of Tuvalu from the LDC category is unlikely to have a large negative impact on the country's development achievements as far as the withdrawal of *LDC-specific support measures are concerned*.

With respect to trade, the possible graduation of Tuvalu from the LDC category does not appear to be a concern for the country's limited merchandise exports. Preferential market access enabled by the country's participation in free trade agreements will continue to be in effect because these advantages are not contingent on LDC status.

Most of the current support with respect to ODA will likely remain unaffected by the country's graduation from the LDC category. Replies by major donor countries and organizations suggest that a vast majority of Tuvalu's ODA flows from bilateral and

[49] ADB (2011), Food Security and Climate Change in the Pacific: Rethinking the Options.

multilateral donors will not be affected by a change in the country's LDC status. Financial assistance and technical support by the ADB, the IMF, and the World Bank would not be influenced by the possible graduation.

Graduation may have some negative impact on the country's access to LDC specific financing, such as some concessional flows available exclusively for LDCs made available by some donor countries (e.g., Japan) and some multilateral LDC-specific funding (EIF, climate change), which will be phased out after graduation takes place. Currently Tuvalu has a few development projects in effect or in process of being financed by such funds. The overall impact of graduation on project finance in certain specific areas (trade capacity building and climate change adaptation) is thus contingent on how easy access to alternative –and often larger-- sources of finance will be. Many of the multilateral financing sources for climate change related programs and trade capacity building projects will be unaffected, as the access to those funds is not associated with the LDC category.

The most immediate and measurable impact of Tuvalu's graduation would be limited to the loss of LDC-related travel support for General Assembly sessions (to be phased out over the period up to three years after graduation) and a slight increase in the contribution to the UN peacekeeping budget.

It is worth emphasizing that the Istanbul Programme of Action for LDCs calls upon the international community to avoid any abrupt reductions in financial and technical assistance and should consider extending trade preferences to the graduated country on a bilateral basis. The measures and benefits associated with the LDC membership status need to be phased out consistent with their smooth transition strategy, taking into account each country's particular development situation.[50] In the case of Tuvalu, any abrupt reduction in development assistance is likely to have a significant effect on the economy and on the delivery of social services, given its high dependency on ODA and high vulnerability to climate change. Regardless of its LDC status, reducing vulnerability to natural shocks will be a key issue of the economic development of Tuvalu. Accordingly, it is critical that development partners continue to support the country in addressing its developmental challenges.

[50] United Nations (2011), Programme of Action for the Least Developed Countries for the Decade 2011-2020 (A/CONF.219/3).

Annex table 1. Tuvalu: Composition and distribution of ODA flows by donors, 2005-2009. (gross disbursements)

	Million US$ (current)					Percentage in total				
	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
A. Bilateral DAC donors										
1. Grants										
Australia	2.91	3	3.54	4.27	4.58	49	24	39	29	31
Canada	0.2	0	0.34	0.02	0.12	3	0	4	0	1
France	0.07	0	0	0	0	1	0	0	0	0
Greece	0.04	0.01	0.04	0	0	1	0	0	0	0
Japan	1.04	8.28	2.94	5.76	8.58	18	65	33	39	58
Republic of Korea	0.04	0	0	0.2	0.1	1	0	0	1	1
New Zealand	1.63	1.41	2.16	4.49	1.32	27	11	24	30	9
Switzerland	0	0	0	0	0.06	0	0	0	0	0
United States	0	0	0	0	0.01	0	0	0	0	0
Total bilateral DAC grants	5.93	12.7	9.02	14.74	14.77	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)	5.93	12.7	9.02	14.74	14.77	100	100	100	100	100
B. Multilateral donors										
1. Multilateral Grants										
AsDF	0	0	0	0.09	1.61	0	0	0	9	54
EU Institutions	2.05	1.31	1.41	0.32	0.41	63	50	52	31	14
GEF	0.22	0	0	0	0.5	7	0	0	0	17
UNTA	0.09	0.15	0.19	0.03	0.03	3	6	7	3	1
Total multilateral grants	2.36	1.46	1.6	0.44	2.55	72	55	59	42	86
2. Total multilateral non-grants	0.91	1.18	1.12	0.6	0.43	28	45	41	58	14
Total (B.1 + B.2)	3.27	2.64	2.72	1.04	2.98	100	100	100	100	100
ODA total	9.2	15.34	11.74	16.36	17.76					

Source: OECD (2011) OECD.StatExtracts online database.

Annex table 2. Tuvalu: Total receipts of ODA by sector, 2005-2009 (gross disbursements in current US$ million)

	2005	2006	2007	2008	2009	Average
I. SOCIAL INFRASTRUCTURE & SERVICES	4.35	4.70	6.07	6.42	3.40	4.99
I.1. Education	3.12	1.91	2.57	1.11	0.89	1.92
I.2. Health	0.22	0.12	0.04	0.14	0.43	0.19
I.3. Population Pol./Progr. & Reproductive Health	0.18	0	0	0	0	0.04
I.4. Water Supply & Sanitation	0	0	0	0	0.31	0.06
I.5. Government & Civil Society	0.70	2.62	3.44	5.15	1.73	2.73
I.6. Other Social Infrastructure & Services	0.13	0.04	0.01	0.02	0.03	0.05
II. ECONOMIC INFRASTRUCTURE AND SERVICES	0.58	6.82	2.54	4.03	6.10	4.01
II.1. Transport & Storage	0.03	0.26	0.43	3.86	5.81	2.08
II.2. Communications	0.03	0.01	0.01	0.14	0.19	0.08
II.3. Energy	0.50	6.55	1.07	0.03	0.01	1.63
II.4. Banking & Financial Services	0.01	0	1.03	0	0.08	0.22
II.5. Business & Other Services	0	0	0	0	0.02	0
III. PRODUCTION SECTORS	0.34	0.46	0.40	0.40	0.43	0.41
III.1. Agriculture, Forestry, Fishing	0.31	0.37	0.39	0.39	0.34	0.36
III.1.a. Agriculture	0.01	0	0	0.01	0	0
III.1.b. Forestry	0	0	0	0	0	0
III.1.c. Fishing	0.30	0.37	0.39	0.38	0.34	0.36
III.2. Industry, Mining, Construction	0	0.07	0	0	0	0.01
III.2.a. Industry	0	0.07	0	0	0	0.01
III.2.b. Mineral Resources & Mining	0	0	0	0	0	0
III.2.c. Construction	0	0	0	0	0	0
III.3.a. Trade Policies & Regulations	0.03	0.02	0.01	0.01	0.09	0.03
III.3.b. Tourism	0	0	0	0	0	0
IV. MULTISECTOR / CROSS-CUTTING	0.51	1.49	0.73	0.60	0.74	0.81
V. TOTAL SECTOR ALLOCABLE (I+II+III+IV)	5.78	13.46	9.73	11.45	10.67	10.22
VI. COMMODITY AID / GENERAL PROG. ASS.	0.56	0.25	0.17	3.13	3.81	1.58
VIII. HUMANITARIAN AID	0	0	0	0.07	0.56	0.13
VIII.1. Emergency Response	0	0	0	0	0.18	0.04
VIII.2. Reconstruction Relief & Rehabilitation	0	0	0	0	0	0
VIII.3. Disaster Prevention & Preparedness	0	0	0	0.07	0.38	0.09

Source: OECD (2011) OECD.StatExtracts online database.

Annex table 3. Tuvalu: receipts of ODA by sector and main bilateral and multilateral donors, 2009 (gross disbursements).

	Australia		Japan		New Zealand	
	US$ million	%	US$ million	%	US$ million	%
I. SOCIAL INFRASTRUCTURE & SERVICES	2.19	47.9	0.26	3.1	0.87	65.8
I.1. Education	0.20	4.3	0	0.1	0.69	52.1
I.2. Health	0.39	8.5	0	0	04	3.1
I.3. Population Pol./Progr. & Reproductive Health	0	0	0	0	0	0
I.4. Water Supply & Sanitation	0.29	6.3	02	0.2	0	0
I.5. Government & Civil Society	1.31	28.7	0.21	2.5	0.14	10.6
I.6. Other Social Infrastructure & Services	0	0	03	0.4	0	0
II. ECONOMIC INFRASTRUCTURE AND SERVICES	0	0	5.77	68.1	0.31	23.5
II.1. Transport & Storage	0	0	5.58	65.8	0.23	17.7
II.2. Communications	0	0	0.19	2.2	0	0
II.3. Energy	0	0	0	0	0	0
II.4. Banking & Financial Services	0	0	0	0	08	5.8
II.5. Business & Other Services	0	0	0	0	0	0
III. PRODUCTION SECTORS	0	0.1	0.30	3.6	0	0
III.1. Agriculture, Forestry, Fishing	0	0.1	0.27	3.2	0	0
III.1.a. Agriculture	0	0	0	0	0	0
III.1.b. Forestry	0	0	0	0	0	0
III.1.c. Fishing	0	0.1	0.27	3.2	0	0
III.2. Industry, Mining, Construction	0	0	0	0	0	0
III.2.a. Industry	0	0	0	0	0	0
III.2.b. Mineral Resources & Mining	0	0	0	0	0	0
III.2.c. Construction	0	0	0	0	0	0
III.3.a. Trade Policies & Regulations	0	0	03	0.4	0	0
III.3.b. Tourism	0	0	0	0	0	0
IV. MULTISECTOR / CROSS-CUTTING	0.54	11.7	0	0	0.14	10.7
V. TOTAL SECTOR ALLOCABLE (I+II+III+IV)	2.73	59.7	6.33	74.7	1.32	100
VI. COMMODITY AID / GENERAL PROG. ASS.	1.67	36.4	2.14	25.3	0	0
VIII. HUMANITARIAN AID	0.18	3.9	0	0	0	0
VIII.1. Emergency Response	0.18	3.9	0	0	0	0
VIII.2. Reconstruction Relief & Rehabilitation	0	0	0	0	0	0
VIII.3. Disaster Prevention & Preparedness	0	0	0	0	0	0
Total	4.58	100	8.47	100	1.32	100

Source: OECD (2011) OECD.StatExtracts online database.