Tuvalu presentation to the Expert Group meeting of the CDP on the review of the list of LDCs

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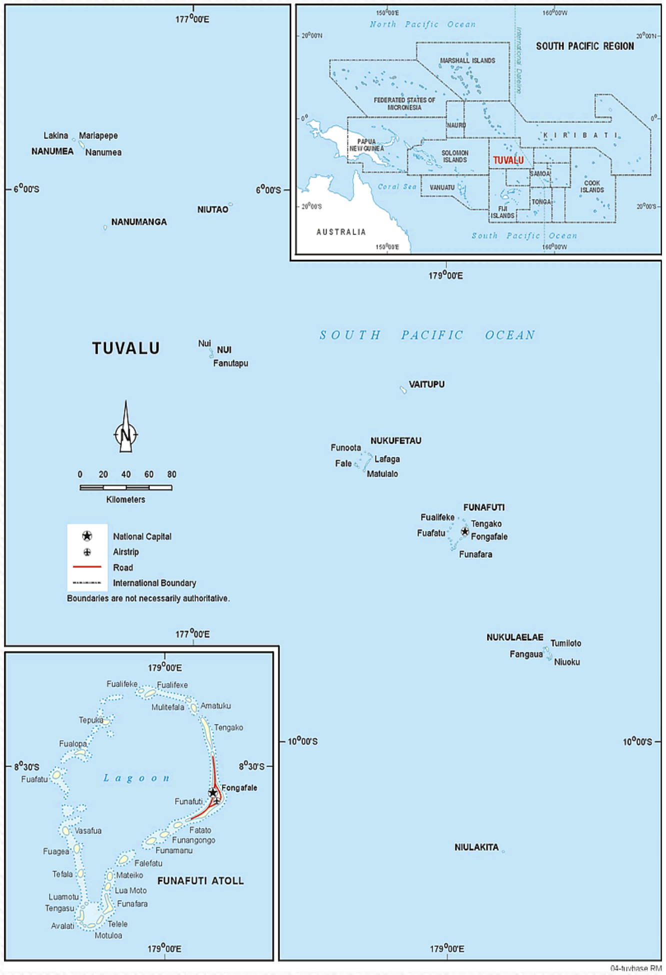
Overview of Tuvalu

- Tuvalu - one of the smallest countries in the world with a population of 11,000 people and a land area of 26km2
- Land poor and flat - highest point 4 meters above sea level
- GDP around US$30 million (US)
- Isolated and remote - nearest metropolitan 4,000 kilometers away
- Tuvalu different to most countries in the LDC category



Low income criterion

- GNI per capita measure depicts a wealthy Tuvalu
- GNI per capita measure is inappropriate for small countries like Tuvalu
- GNI per capita measure ranks Tuvalu alongside countries like China, Thailand, Peru and Columbia
- However, these countries have large, export-driven economies, militaries, and many other characteristics that Tuvalu doesn’t have
- Tuvalu does not even have its own plane to service its international and domestic travel needs

Low income criterion (cont')

- GNI almost two times the size of GDP
- Remittances from seafarers working abroad make up most of the difference between GNI and GDP
- Steady and sharp decline in inflows from remittances due the ongoing global financial crisis
- Other net income factor transfers from abroad such as fishing license revenue and distributions from the Tuvalu Trust Fund also affected by the global financial crisis
- Tuvalu Trust Fund not able to make any distribution since 2009 and is forecasted to continue until 2014
- Transfers from abroad highly volatile

Low income criterion (cont')

- Growing disparity in the distribution of income as remittances continuously declined
- In 2004, the gini-coefficient in Tuvalu was 0.24
- Increased to 0.34 between 2004 and 2010 as people receives less income due to the global financial crisis
- Economy driven by public sector
- private sector is small and underdeveloped

Low income criterion (cont')

- Big portion of Government budget obtained from off-shore based sources including foreign aid
- decline in these inflows will result in less government expenditures which will also result in decreasing GDP and GNI
- Tuvalu fails substantially in the Economic Vulnerability Index criterion
- EVI criterion has a direct bearing on the GNI of Tuvalu as emphasized by the reliance of Tuvalu on overseas-sourced income and the government budget
- Special consideration for the use of GNI measure on Tuvalu's case

Limited productive capacity and capacity constraints

- Tuvalu lacks productive capacities because of its smallness, isolation, and lack of economically viable natural resources
- Soil is extremely poor and porous
- Cannot support stable and sustainable agricultural production
- Impacts of climate change also affecting production as farm lands are inundated by floods
- Export activities almost non-existed

Limited productive capacities and capacity constraints(cont')

- Growing dependence on imported food is growing as domestic production is declining
- Imported foods caused increase in non-communicable diseases
- Capacity constraints; Example, my responsibilities being the Minister of Foreign Affairs, Trade, Tourism, Environment and Labour, demonstrates the magnitude of the challenge - in bigger countries, these responsibilities are handled by five different ministries

Vulnerability to external shocks

- "Though Tuvalu is one of the smallest and most remote countries in the world, its economic performance is still highly susceptible to developments in the global economic and financial arena." - IMF Executive Director for Tuvalu
- Tuvalu's income are sourced from offshore through the Tuvalu Trust Fund, fishing license, revenue from dotTV, remittances, and ODA
- Tuvalu - import-dependent
- Global events like the recent global economic crisis, hike in food and fuel prices hugely felt in Tuvalu

Vulnerability to external shocks (cont')

- Tuvalu's recovery from the global economic crisis has been slow
- Government's cash balance is also weak and likely to run out during this year
- In 2009, Tuvalu's economy contracted by about 2 percent. In 2010 Tuvalu's GDP fell by 0.5 percent, and the estimated growth for 2011 was 1 percent

Vulnerability to external shocks (cont')

- Extremely vulnerable to natural shocks, particularly to the effects of climate change and sea-level rise
- sea-level rise is expected to exacerbate inundation, erosion and other coastal hazards
- Tuvalu has witnessed the severity of the impacts of climate change on the country from current experiences with flooding, coastal erosion, water stress, and damage to coral reefs and marine ecosystems, cyclones and droughts

The recent drought in Tuvalu

- The severe drought in Tuvalu in 2011 triggered the Government to declare a state of emergency on 28th September 2011, after the country had endured more than 6 months without any adequate rainfall
- Public and communities water reservoirs seized by the Government to control the rationing of water to households
- Ration 40 liters/day for each household instituted
- Severity of the drought saw unprecedented damages to the country's food crops, plants and trees

Loss of LDC-specific supports

- Loss of access to EU 11th EDF support, travel funds to UN General Assemblies, and trade support measures
- Loss of access to LDC Fund under the UNFCCC
- Loss of access to South-South Cooperation supports pledged by countries like India and Turkey under the Istanbul Programme of Action

Conclusion and Recommendations

- mechanical benchmarks established to determine countries' graduation from LDC status, in certain cases, are not applicable and inappropriate to Tuvalu's case
- GNI measure in particular misleadingly portrays a wealthy nation of Tuvalu when in fact we only have a GDP of roughly US$30 million, no military force, no airline, etc
- Considers Tuvalu's situation in the context of how vulnerable it is to external shocks, especially to the impacts of climate change and sea level rise
- Graduation rule must be reviewed to better address different kinds of vulnerabilities
- Tuvalu is particularly disadvantaged by the current graduation criteria because of the country's unique challenges

Conclusion and Recommendations (cont')

- Tuvalu's limited productive capacity and capacity constraints mean that Tuvalu still requires substantial support from outside
- Recommendation for graduation is premature given our acute economic dependence
- The likely loss of ODA support and LDC-specific supports would have grave consequences for Tuvalu
- Tuvalu should remain in the LDC category
- Without the benefits accorded to Tuvalu as an LDC, the survival of its people, and its existence as a sovereign State, will be placed in grave jeopardy

Fakafetai Lasi – Thank You