TUVALU

Statement

Presented by

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at the

Expert Group Meeting of the CDP on the review of the list of LDCs

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Mr. Chairman
Distinguished Members of the Expert Group of the
Committee for Development Policy
Ladies and Gentlemen

Introduction

I am deeply honoured and privileged to have this opportunity on behalf of the Government of Tuvalu (GOT) to make an oral presentation on Tuvalu's graduation from the LDC category.

Allow me first to convey our appreciation and gratitude to the Secretariat of the Committee for Development Policy (CDP) for the kind invitation extended to my Government to participate in this important meeting.

I also wish to acknowledge and commend the important role and responsibility played by individual members of this distinguished Group in deciding and advising on countries' graduation from the LDC category.

I'm confident that in our meeting this morning, we would be able to share and appreciate the overall true picture of Tuvalu and the grave consequences that it will face should it graduate from the LDC category.

Brief Overview

Chairman, all our comments on the 'Ex-ante impact assessment of likely consequences of graduation of Tuvalu from the LDC category – triennial review 2012', and other related issues have been provided to the Secretary of the CDP, and I believe members of the Expert Group have also been provided with copies of such comments.

Therefore, my oral presentation will focus mainly on issues which my Government believes should be re-emphasised for greater understanding and appreciation of our meeting today.

As the group is fully aware, Tuvalu is one of the smallest countries in the world and smallest member of LDC. It has a population of 11,000 people and a land area of 26km2. The land is also poor and flat with the highest point of 4 meters above sea level. The economy, with a GDP of around US$30 million, is also among the smallest in the world.

Tuvalu is also isolated and remote with the nearest metropolitan some 4,000 kilometers away.

These simple statistics alone demonstrate how small and different Tuvalu is compared to other countries in the LDC category.

The low income criterion

Chairman, the low income criterion uses in determining the graduation of countries from LDC category paints a picture of a wealthy Tuvalu.

While we understand that Tuvalu's GNI was based on available information, we however think that the use of the GNI per capita measure does not reflect the real situation in Tuvalu.

It is important that this meeting appreciates the fact that when we use this measure, Tuvalu is rank alongside countries like China, Thailand, Peru and Columbia. However, these countries apparently have large, export-driven economies, militaries, and many other characteristics that are not attainable in Tuvalu.

In fact, Tuvalu does not own any airline and shipping services to cater for its international and domestic travel, and related needs.

The mere fact that the population is only 11,000 people has misleadingly portrays a prosperous Tuvalu through the use of the GNI per capita measure.

The meeting should also note that GNI in Tuvalu is almost two times the size of GDP, with remittances from seafarers working abroad making up most of the difference between GNI and GDP.

In recent years, there is a steady and sharp decline in inflows from remittances due to the ongoing impacts of the global financial crisis.

Other net income factor transfers from abroad such as fishing license revenue and distributions from the Tuvalu Trust Fund, have also been adversely affected by the global financial crisis and environmental shocks. For example, the Tuvalu Trust Fund has not been able to make any distribution since 2009 and is forecasted to continue until 2014.

These transfers from abroad are highly volatile and place huge uncertainty on the overall economic well-being of Tuvalu.

There is also a growing disparity in the distribution of income as remittances decline. The Tuvalu National Millennium Development Report 2011 notes that in 2004, the gini-coefficient in Tuvalu was 0.24. However, this has increased to 0.34 between 2004 and 2010 as people receives less income, particularly those in the rural areas and outer islands who normally received remittances before the global financial crisis.

The economy of Tuvalu is almost entirely driven by the Government. This is because the private sector is small and underdeveloped. However, a big portion of the Government budget is obtained from off-shore based sources including foreign aid. For example, the portion of the Government budget covered from ODA is usually around 50 per cent.

Any decline in these inflows will result in less government expenditures. Given that the economy in Tuvalu is mostly driven by the public sector, declining government spending would also mean decreasing GDP and GNI.

Chairman, Tuvalu fails substantially in the Economic Vulnerability Index (EVI) criterion. The EVI criterion has direct bearings on the GNI of Tuvalu as emphasized by the reliance of Tuvalu on overseas-sourced income and the government. Given the high EVI of Tuvalu, special consideration should also be accorded to the GNI as measure of low income in Tuvalu.

We therefore again believe that using the GNI per capita to determine the economic wellbeing of Tuvalu is an unreliable measure based on the issues I have highlighted above.

Limited productive capacity and capacity constraints

Chairman, Tuvalu lacks productive activities and capacities because of its smallness, isolation, and lack of economically viable natural resources.

The soil is extremely poor and porous and cannot support any stable and sustainable agricultural production. The impacts of climate change are also affecting production as farm lands are inundated by floods and saltwater as a result of the intrusion of groundwater by storm surges.

Export activities are therefore almost non-existed because of the above issues. The dependence of Tuvalu on imported food is also growing as domestic production is declining.

Most of the imported foods have been blamed for the increase in cases of non-communicable diseases that are now increasingly becoming a national problem.

Chairman, the capacity constraints of Tuvalu with its small population is also limiting our progress. For instance, 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 (economic and natural)

The IMF Executive Director for Tuvalu once rightly stated that "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."

As briefly mentioned earlier, most of Tuvalu's income are sourced from offshore through the Tuvalu Trust Fund, fishing license, revenue from dotTV, remittances, and ODA.

In addition, Tuvalu is also an import-dependent country.

Therefore, global events like the recent global economic crisis, hike in food and fuel prices have been hugely felt in Tuvalu.

Presently, Tuvalu's recovery from the global economic crisis has been slow; the government's cash reserves are weak and likely to run out during this year and will continue on for an unforeseeable future. Therefore, the Government will heavily rely on overseas support to continue maintaining its essential services to the public.

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.

Tuvalu is also extremely vulnerable to natural shocks, particularly to the effects of climate change and sea-level rise.

As is well known, sea-level rise is expected to exacerbate inundation, ground water intrusion, erosion and other coastal hazards. As I have revealed earlier, sea level rise and flooding threatens Tuvalu's limited agricultural production, undermining food security and increasing its vulnerability to supply disruptions.

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 six months without any adequate rainfall.

Public and communities water reservoirs were seized by the Government to control the rationing of water to households. A ration of 40 litres of water a day for each household was instituted for essential uses like drinking and cooking, while farming, laundry, and bathing needs had to be sought from other sources like seawater and contaminated groundwater.

The severity of the drought also saw unprecedented damages to the country's food crops, plants and trees.

Loss of LDC-specific supports

Chairman, our response to the 'Ex-ante impact assessment of likely consequences of graduation of Tuvalu from the LDC category – triennial review 2012' clearly detailed our views on the many losses such as EU 11^{th} EDF support, travel funds to UN General Assemblies, and trade support measures that we envisaged would happen if Tuvalu graduates.

In addition, we see the loss of access to the LDC Fund under the UNFCCC at some point in time if Tuvalu graduate is catastrophic for Tuvalu who is extremely vulnerable to climate change impacts and also highly dependent on foreign assistance. While the Green Climate Fund (GCF) is a potential source of fund for our climate change adaptation needs, the fact that it may take years to materialize would put our adaptation needs into jeopardy.

Secondly, Tuvalu will also stand to lose benefits from the South-South Cooperation supports pledged by countries like India and Turkey under the Istanbul Programme of Action for the next decade, if it graduates.

Conclusion

Mr. Chairman, your distinguished colleagues, I hope I have provided you with a clear overall situation of Tuvalu. A situation that is clear to us that the three mechanical benchmarks established to determine countries' graduation from the LDC category, in certain cases, are not applicable and inappropriate to Tuvalu's case.

The GNI measure in particular misleadingly portrays a wealthy nation of Tuvalu when in fact our GDP is one of the lowest, and not to mention other basic services that we do not have such as military force, airline, shipping and poor infrastructure.

We hope that your esteem Group 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, global events such as hike in food and fuel prices, and global financial crisis.

Graduation rules 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. As such, we feel that the EVI criterion must be a mandatory criterion of the three because it is a cross-cutting criterion that has direct bearing on the other two criteria.

Tuvalu's limited productive capacity and capacity constraints mean that Tuvalu still requires substantial support from outside. We see that the recommendation for graduation is premature given our acute economic dependence.

The likely loss of ODA support and LDC-specific supports would also have grave consequences for Tuvalu.

Naturally no one wishes to remain poor for the rest of his or her life. With the same token, no country wishes to remain poor forever as it strives to improve the standard of living of its people and its overall social and economic development. In this context, although Tuvalu have met the GNI and HAI criteria, its extreme smallness and isolation, continuous dependence on ODA, and its exposure to external shocks, continue as limitations to the sustainability of present level of income and progress of social and economic development in the long term.

Based on the issues highlighted above, the Government of Tuvalu wishes to reaffirm its stance and request your distinguished team to favourably consider recommending Tuvalu to remain as an LDC.

Again, may I reiterate that, without the continued 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.

I thank you for your attention.

"Tuvalu mo te Atua" – "Tuvalu for God"