

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

Ex-ante impact assessment of likely consequences of graduation of

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

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

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

a. Main export products

21.

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.

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

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

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 Economic Study (CES) for Tuvalu, 2001, page 37.

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 budget¹⁹), 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.

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.

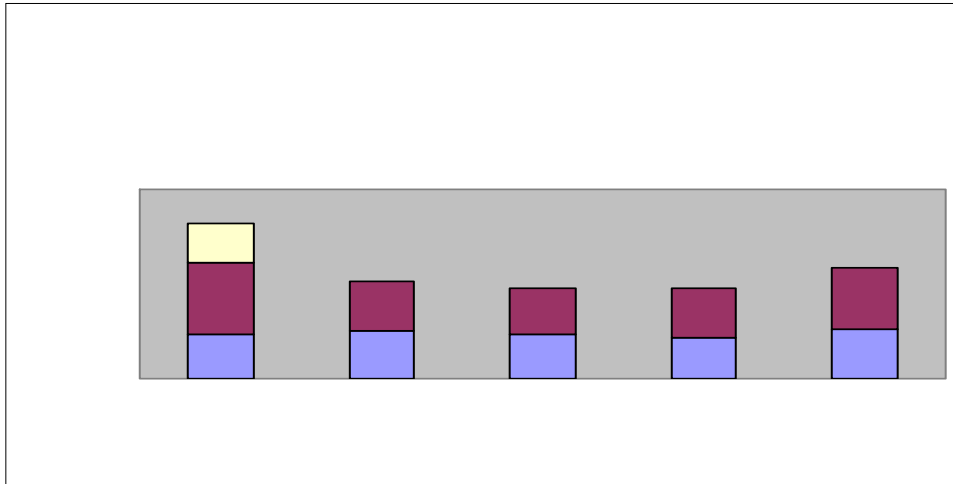
56. At the multilateral level, some impact of Tuvalu's graduation can be expected in the receipts of UN LDC-related travel benefits and a slight increase in contributions to the UN peacekeeping budget.
57. A country's LDC status is one of the many factors that are taken into account in determining a 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.

		GNI (current) US\$ million	GNI/capita	ODA (net) US\$ million	ODA/GNI per cent
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

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).



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
	<i>millions US\$ (current)</i>					<i>percentage in total</i>				
A. Bilateral DAC donors										
<i>1. Grants</i>										
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
<i>Total bilateral DAC grants</i>	11.16	5.49	5.36	5.89	12.7	100	100	100	100	100
<i>2. Total DAC non-grants</i>	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										
<i>1. Multi-lateral Grants</i>										
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
<i>Total multi-lateral grants</i>	0.56	0.22	2.59	2.14	1.46	100	63	98	70	55
<i>2. Multilateral non-grants</i>										
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
<i>Total multilateral non-grants</i>	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

	2002	2003	2004	2005	2006	Average (2002-2006)	Share percentage
	6.14	2.79	4.31	3.03	4.61	4.18	44.82
	1.28	0.45	3.27	2.63	1.91	1.91	20.49
	4.10	1.72	0.16	0.12	0.12	1.24	13.35
	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
	0.00	0.00	0.27	0.11	0.04	0.09	0.92
	0.49	0.72	0.36	1.20	7.15	1.98	21.27
	3.57	0.25	0.33	0.29	0.46	0.98	10.52
	3.54	0.24	0.30	0.29	0.37	0.95	10.17
	0.00	0.02	0.05	0.00	0.00	0.01	0.14
	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	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
	0.00	0.00	0.00	0.00	0.07	0.01	0.14
	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	0.03	0.01	0.03	0.00	0.02	0.02	0.21
	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	0.58	0.70	0.62	0.37	1.49	0.75	8.06
	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
	0.00	0.00	0.00	0.35	0.00	0.07	0.75
	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	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>

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

Sectors	AU		Bilateral donors				Multilateral donor	
			JAPAN		NZ		EC	
	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 Disaster prevention & 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	
	Health	50,000	1	
	Educ. & HRD	520,000	3	
	Poverty reduction	1,301,739	7	
	Environment	30,000	2	
	(Total)	(9,979,342)		

	Educ. & HRD	31,600	1	Review of curriculum
	(Total)	(110,480)		
SOPAC	Governance	62,000		
	(Total)	(62,000)		