Vulnerability Profile of Kiribati

December 2014

Prepared by UNCTAD
in anticipation of the 2015 review by the Committee for Development Policy of the United Nations list of Least Developed Countries

This profile was prepared in accordance with resolution 59/209 of the General Assembly, which decided that "after a country has met the criteria for graduation for the first time, the Secretary-General of the United Nations will invite the Secretary-General of the United Nations Conference on Trade and Development to prepare a vulnerability profile on the identified country to be taken into account by the Committee for Developm5.3(m)46 06icy at its

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1. Introduction

In its 2012 review of the UN list of Least Developed Countries (LDCs), the Committee for Development Policy (C

2. Institutional context

Kiribati was added to the UN list of LDCs in 1986[3]. The question of graduation from LDC status was conceptualized by the United Nations in 1991, when the first major revision of the criteria for identifying LDCs took place. The methodological elements of the graduation rule were also adopted in that year, a move that has paved the way for four cases of graduation from LDC status: Botswana in 1994, Cabo Verde in 2007, Maldives in 2011, and Samoa in 2014.

In 1990, the Second United Nations Conference on the Least Developed Countries in Paris had envisaged graduation from LDC status as a natural prospect for countries that would eventually demonstrate enough economic progress to be able to remain on the same development path with a lesser need for concessionary treatment. In 2001, the Third United Nations Conference on the Least Developed Countries in Brussels contemplated graduation as a criterion on the basis of which the success of the Programme of Action for the Least Developed Countries for the Decade 2001-2010 would be "judged"[4]. An unprecedented leap forward was made by UN member States ten years later, at the Fourth United Nations Conference on the Least Developed Countries in Istanbul (May 2011), with a bold pronouncement on the matter, namely, “the aim of enabling half the number of Least Developed Countries to meet the criteria for graduation by 2020”[5].

The rationale for graduation

Understanding the rationale for graduation is particularly important in the analysis of a potential graduation case such as Kiribati. Graduation from LDC status ought to be synonymous with structural progress. A graduating country will necessarily be expected to have demonstrated, through an unambiguously improved economic and social performance, enough structural progress to be able to pursue its development efforts with less external support. Indicators of such progress could relate to the domestic saving capacity, to productive capacities and export competitiveness, and even to institutional capacities. If the decision to take a country

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[3] Addition of Kiribati to the list was made official on 8 December 1986, the day on which the United Nations General Assembly adopted resolution 41/186. The other countries which were granted LDC status in that year (by virtue of the same resolution) are Mauritania and Tuvalu.
[4] UN General Assembly, Third United Nations Conference on the Least Developed Countries, Brussels, Belgium, 14-20 May 2001, Programme of Action for the Least Developed Countries for the Decade 2001-2010, para. 21(e)
[5] United Nations, Programme of Action for the Least Developed Countries for the Decade 2011-2020, May 2011, para. 28.

out of the list of LDCs is well founded, the graduating country, with enhanced institutional capacities, will be expected to remain undisturbed as development partners may deny it privileged access to technical assistance programmes. Whether the LDC graduation rule allows structural progress to be appropriately assessed or measured and recognized remains a question in the international debate on the treatment of developing countries.

In a high-level panel discussion on small island developing States and the question of graduation from LDC status during the Third International Conference on SIDS (Samoa, 2nd September 2014), the plea for a graduation rule that would allow for the exceptional circumstances of SIDS was strongly voiced by SIDS leaders, including the President of Kiribati

The graduation rule

The graduation rule applies specific thresholds to the indicators relevant to the three criteria (gross national income per capita; human assets index; economic vulnerability index). For each of these indicators, there is a margin between the threshold for adding a country to the list and the threshold for graduating a country. The margin is considered a reasonable estimate of the additional socio-economic progress that ought to be observed if one assumes that the graduating country is effectively engaged on a path of improvement: not only is the graduating country expected to have risen to the threshold under which non-LDCs would be admitted into the category, but it is additionally expected to exceed this threshold by at least the relevant margin. This dispels the risk that graduation be dictated by temporary or insignificant economic circumstances.

Two other elements of the graduation rule also imply durable structural progress in the graduating country:

- at least two of the three graduation thresholds must normally be met for the relevant LDC to qualify for graduation, whereas a symmetrical application of the admission rule and graduation rule would imply that only one criterion for LDC status ceased to be met, since all three criteria should be met for a country to be added to the list;

- while eligibility for the graduation of an LDC can be observed on the occasion of any review of the list (subject to the threshold margin and asymmetrical rule referred to above), a recommendation to graduate the country would not be made until the relevant graduation thresholds have been met in at least two consecutive reviews of the list of LDCs.

An amendment was brought to this normal rule in 2005: it states that a country will be deemed pre-qualifying or qualifying for graduation if its per capita GNI has reached or surpassed a level double the normal graduation threshold (in a convincingly durable manner), regardless of the country's performance under the other two criteria (human assets; economic vulnerability). This rule is commonly referred to as the "income only" criterion. With its performance stably above the graduation threshold relevant to human assets and well above the graduation line relevant to per capita income, Kiribati would not be referred to as an "income only" case even if exceeded the relevant graduation border ("doubling" the threshold in 2015), as its current pre-eligibility for graduation is grounded in the "two-threshold" rule.

The history of Kiribati's non-graduation

technical conclusion that "Kiribati [now fulfilled] only one of the criteria [for graduation, and was thus] no longer found eligible for graduation"[9].

The borderline nature of the case could no longer be leaned upon in 2012, when the CDP took note of the rocketing performance of Kiribati under the per capita income criterion (at 163%

GDP is the total value added generated by a country on its domestic economic territory, irrespective of the nationalities of income beneficiaries. "Net factor income" (the difference between GDP and GNI), if considered on the "credit" side, is the remuneration of all factors of production outside the domestic economic territory, accruing to "national" factors, that is, persons or entities who are nationals, have been acting outside the domestic territory, but have not been permanently based abroad (less than a year). Seamen's wages are a typical example of Kiribati's factor income. Factor income in "net" terms designates what flows in (belonging to nationals) minus what flows out (income accruing in the domestic economy to non-nationals who do not reside in the country permanently).

The National Accounts of Kiribati show the components explaining the difference between GDP and GNI (net "compensation of employees", and net "property income"). Net compensation of employees is small compared with net property income --the latter was seven times greater than the former in 2012. At the same time, the IMF's 2014 staff report (Table 4: Kiribati Balance of Payments, 2009-2019) indicates net factor income as containing three components that corroborate the factor income elements in Kiribati's National Accountants' table, albeit with a different breakdown: "remittances", "investment income", and "fishing license fees"[12].

to Kiribati by a Kiribati national K from a country (other than Kiribati) where K had invested

Table 3
The 30 developing countries with the highest GNI to GDP ratio in 2013

Countries	Ratio	Countries	Ratio	Countries	Ratio
Kiribati	1.586	Botswana	1.062	Comoros	
Tuvalu	1.526	Bangladesh	1.059	Tonga	
Lesotho	1.333	Nepal	1.050	Saudi Arabia	
Iran	1.213	Guinea-Bissau	1.049	Mauritius	
Malawi	1.193	India	1.044	Mozambique	
Marshall Islands	1.188	Brazil	1.043		
Philippines	1.183	Afghanistan	1.036		
South Africa	1.086	Gambia	1.033		
Micronesia (FS of)	1.073	Namibia	1.0310		
Pakistan	1.064	Indonesia	1.0307		

4. Kiribati and the huma2000assets critei aio

threshold, from 135% in 1997 (as a result of statistical inconsistencies regarding the adult literacy rate[15]).

Whereas the change of per capita income aggregate in 2003 was a prevailing factor of the sudden rise above the low-income threshold in that year, the change of demographic variable (child mortality replacing life expectancy at birth in 2000) within the human assets index of that time (called *Augmented Physical Quality of Life Index/APQLI*) was not a determining factor of performance change.

Percentage of population undernourished *(component of HAI)*

CDP estimate in 2012: 5% (2006-2008)

The 2006 Household Income and Expenditure Survey indicated that 4.9% of the population had difficulties to meet their basic food needs. A WHO survey, in 2004, had noted that 70% of adults between 25 and 44, and 75% of adults between 45 and 64 were affected by dietary imbalances (often overweight or obese).

The number of serious cases of malnutrition (cause of morbidity) has always varied sharply in Kiribati (e.g., from 191 cases in 2004 to 318 in 2005 and 527 in 2006). The number of admitted malnutrition cases in 2013 was 61, 15 of which were recorded as "severe", while 13 related to low birth weight.

Child (under 5) mortality rate *(component of HAI)*

CDP estimate in 2012: 52.5 per 1,000 (2005-2010)

The latest known national estimate of Kiribati's child mortality rate (2012) is 70.6 deaths per 1,000 live births, a figure more than double the relevant national target under the 2012-2015 Kiribati Development Plan (30). Measles has been one of the leading causes of child mortality in the country, despite progress in the proportion of children immunized against this infectious disease (from 56% in 2004 to 91% in 2012).

[15] The figure that was used for this variable in 2000 was a third lower than the normal adult literacy rate that would have been used in 1997 and re-emerged in 2003.

higher than the comparative SIDS group's average; and (iii) export instability is three times

Economic remoteness

Kiribati's score in the remoteness index the CDP used in 2012 revealed that the country was 16% more remote than the average of other small island developing States, which generally are among the most remote economies in the world. As in many other countries of the Pacific, economic remoteness is a major structural handicap for Kiribati (both internationally and in terms of inter-island transport domestically).

Environmental vulnerability

Kiribati is among the environmentally most fragile countries in the world. Climate change and the ensuing sea level rise phenomenon increasingly affect coastal areas (therefore the living conditions of most people); access to fresh water; farming (which accounts for a decreasing share of GDP); and the people's health.

6. Concluding remarks

In March 2006, the Committee for Development Policy (CDP) found Kiribati pre-eligible for graduation from LDC status, as the country was meeting two of the three graduation thresholds. In March 2009, the CDP observed that Kiribati's performance under the per capita income criterion had receded and fallen below the graduation line (at 96.5% of the threshold). This brought an end to Kiribati's expected qualification for graduation. The 2006 scenario repeated itself in 2012, when the CDP, for the second time in history, observed that Kiribati was meeting two graduation criteria. Should the same observation be made in 2015, Kiribati would appear to technically qualify for graduation from LDC status.

With flawed GNI estimates and a performance under the economic vulnerability criterion that shows all symptoms of extremity, Kiribati illustrates the fallacy of structural economic progress behind the question of graduation from Least Developed Country status. The case raises difficulties not less disturbing than the issues that caught the CDP's attention, for good reasons, in the four latest reviews of the list of LDCs (2003, 2006, 2009, 2012).