



Policy Paper

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Niue: Country Classification

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CURRENCY EQUIVALENTS

(as of 26 October 2021)

Currency unit	–	New Zealand dollars (NZ\$)
NZ\$1.00	=	\$0.7163
\$1.00	=	NZ\$1.3960

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
DMC	–	developing member country
GDP	–	gross domestic product
GNI	–	gross national income
HIPC	–	heavily indebted poor country
IBRD	–	International Bank for Reconstruction and Development
IDA	–	International Development Association
IMF	–	International Monetary Fund
LDC	–	least-developed country
OCR	–	ordinary capital resources
ODA	–	official development assistance
OECD	–	Organisation for Economic Co-operation and Development
PEFA	–	Public Expenditure and Financial Accountability
PFM	–	public financial management
SIDS	–	small island developing state
WGI	–	World Governance Indicators

NOTES

In this report, "\$" refers to United States dollars unless otherwise stated.

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I. INTRODUCTION

1. Niue joined the Asian Development Bank (ADB) in 2019 as a regional developing member country (DMC).¹ This paper examines the relevant factors to determine Niue's country classification under the 1998 paper entitled A Graduation Policy for the Bank's DMCs,² as further refined by the 2008 paper entitled Review of the 1998 Graduation Policy of the Asian Development Bank (Graduation Policy).³ The assessment focuses on the fundamental factors affecting Niue's medium-term prospects, i.e., for the next five years or longer. Where possible, the paper includes data reflecting the impact of the coronavirus disease (COVID-19) pandemic.

II. CLASSIFICATION POLICY

2. The Graduation Policy classifies DMCs into three groups. In general,

- (i) group A DMCs are eligible only for concessional assistance, i.e., Asian Development Fund (ADF) grants or concessional loans, depending on country debt sustainability assessments;
- (ii) group B DMCs are eligible for a blend of concessional and regular ordinary capital resources (OCR) loans plus limited access to ADF 13 grants;⁴ and
- (iii) group C DMCs are eligible for regular OCR loans only.

3. The Graduation Policy provides a decision matrix (Appendix 1) to guide country classification based on per capita gross national income (GNI) estimated using the Atlas method and creditworthiness.⁵ The policy also considers a DMC's status as a least-developed country (LDC), which takes vulnerability into account. A DMC may also be considered for graduation from regular ADB assistance based on (i) per capita GNI, (ii) access to commercial capital flows on reasonable terms, and (iii) attainment of certain levels of development for key economic and social institutions.

4. ADB uses the same per capita GNI thresholds used by the International Development Association (IDA) and the International Bank for Reconstruction and Development (IBRD) to determine lending eligibility. The threshold for concessional assistance eligibility is currently set at \$1,205 in 2020 prices. Per capita GNI exceeding \$7,155 (2020 prices) triggers a process for analyzing a country's readiness to graduate from regular ADB assistance.

III. COUNTRY BACKGROUND

5. **Location and culture.** Niue is a raised coral atoll in the South Pacific with a land area of 259 square kilometers and an exclusive economic zone of 450,000 square kilometers.⁶ Its nearest neighbors are the Cook Islands, Samoa, and Tonga. The Polynesian islands have strong historical and cultural links; Niue's strongest present-day associations are with New Zealand.

¹ ADB. 2018. [Resolution of the Board of Governors of the ADB No. 394—Membership of Niue and Increase in Authorized Capital Stock](#). Manila.

² ADB. 1998. *A Graduation Policy for the Bank's DMCs*. Manila.

³ ADB. 2008. *Review of the 1998 Graduation Policy of the Asian Development Bank*. Manila.

⁴ Eligibility and allocation of concessional assistance resources including ADF and concessional OCR is guided by ADB's Concessional Assistance Policy (2020).

⁵ The Atlas method converts estimates of the size of economies to US dollars by using a three-year moving average, price-adjusted conversion factor. It is the method used by the World Bank for official estimates of GNI.

⁶ Government of Niue. 2016. *Niue National Strategic Plan 2016–2026*. Alofi.

6. Niue is part of the Realm of New Zealand.⁷ It became part of New Zealand in 1901. In 1974, a majority of its residents voted to establish Niue as a self-governing territory. Under the Niue Constitution Act, all Niueans are also citizens of New Zealand,⁸ which provides the necessary economic and administrative assistance to Niue, as well as assistance with foreign affairs, defense, and security, if requested by the Government of Niue.

7. **Demographics.** Niue's population started to decline in the late 1960s. From a peak of more than 5,000 in 1968, the population fell below 4,000 in 1975 and below 2,000 by the late 1990s.⁹ It stabilized at about 1,600 from 2013 onward, supported by an uptick in economic growth. Population estimates for 2020 range from 1,618 to 1,888.¹⁰ The government also introduced a scheme in 2013 to provide returning university graduates with a resettlement allowance of NZ\$10,000 and assistance with repayment of student loans. Nonetheless, most working age people leave for better opportunities elsewhere. Niueans have open access to work and residence in Australia and New Zealand. About 30,000 people of Niuean descent live in New Zealand, and 5,000 in Australia.¹¹ Niue has a dependency ratio of 88%, with 28% of the population below the age of 15 and 20% aged 60 and above.

8. Niue provides an old age pension with fortnightly payments of NZ\$410–NZ\$430 according to the age of the recipient. Recent changes in New Zealand pension policy may also allow and encourage older Niueans to return without losing their New Zealand pensions.

9. **Environment.** Environmental pressures from economic activity could be a concern because Niue's economy relies heavily on tourism, with annual visitor arrivals—mostly from New Zealand—about seven times the number of residents. However, Niue has the lowest population density among Pacific Island DMCs.¹² The transient nature of tourist traffic minimizes the potential impact on the environment, and the economic gains are important.¹³ Niue also has a strong awareness of the need to protect the environment, which is reflected in the nature of the tourism experience offered. Niue is one of the few countries with 40% of its exclusive economic zone designated as marine protected area.¹⁴ About 20% of its land is protected as a forest conservation area.¹⁵ Niue is one of five Pacific countries to approve national State of the Environment reports in 2020. The report demonstrates Niue's commitment to protecting the environment and highlights its achievements in decreasing imports of ozone-depleting substances while increasing the percentage of protected areas and the share of renewable energy.

10. **Poverty and human development.** Niue has high levels of human development and zero poverty as defined by the international poverty line of \$1.90 a day in 2011 prices, which was set

⁷ The Realm of New Zealand comprises New Zealand, Tokelau, the Ross Dependency, and the self-governing states of the Cook Islands and Niue.

⁸ Changes to New Zealand citizenship laws in 2006 require at least one parent to be a New Zealand citizen or resident.

⁹ United Nations Department of Economic and Social Affairs, Population Division. 2019. [World Population Prospects 2019](#). Geneva.

¹⁰ The lower estimate is from the United Nations World Population Prospects 2019 while the higher estimate is from ADB. 2021. [Key Indicators for Asia and the Pacific 2021](#). Manila.

¹¹ Stats NZ Tatauranga Aotearoa. [2018 Census data for the Niuean ethnic group](#) and Australian Government Department of Foreign Affairs and Trade. [Niue Country Brief](#).

¹² Among ADB's DMCs, only Mongolia has a lower population density.

¹³ South Pacific Tourism Organization. 2020. [2020 Annual Visitor Arrivals Snapshot](#). Suva. Visitors by air in 2019 stayed eight nights each on average, about a quarter less of time than the Pacific average of 10.6 nights.

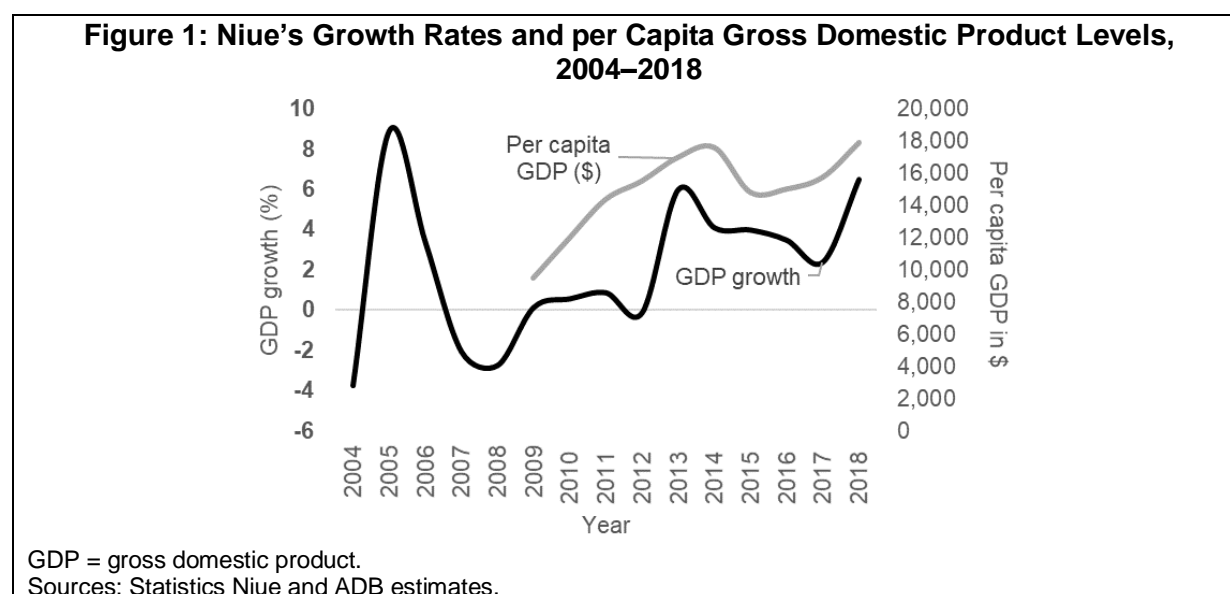
¹⁴ Government of Niue. 2020. [Reg.2020/04 Niue Moana Mahu Protected Area Regulations 2020](#). Alofi.

¹⁵ Government of Niue Department of Environment. 2020. [Niue's Sixth National Report Convention on Biological Diversity](#). Alofi.

by the World Bank and incorporated into the Sustainable Development Goals.¹⁶ All of Niue's Millennium Development Goals were achieved. Access to clean water and improved sanitation is almost universal. All residents have access to free health care services on the island for primary and secondary health services. Tertiary medical treatment is provided through transfers to New Zealand and through visiting specialists. Life expectancy was reported as 76 years in 2017, and universal coverage for vaccinations against diseases such as measles and COVID-19 are provided. Niue has not reported any maternal deaths since the 1980s, with 100% of births having a skilled attendant. However, noncommunicable diseases such as obesity (61% of population), hypertension (34%), and hyperglycemia (38%) are an increasing concern.¹⁷

11. Education is free for all children up to the age of 16. There is one primary school and one secondary school. Niue uses an adapted form of the New Zealand school curriculum and has achieved 100% enrollment for primary education, as well as gender parity in both primary and secondary education.

12. **Growth, 2004–2019.** Data on gross domestic product (GDP) in constant prices from Statistics Niue go back to only 2003, with the latest data only for 2018. In early 2004, category 5 cyclone Heta devastated the capital city of Alofi. Reconstruction led to a sharp rebound the following year as official development assistance (ODA) increased by 50% per year over 2 consecutive years in 2004–2005. Post-reconstruction GDP growth was volatile but with a gradual uptrend from 2008 onward (Figure 1). Growth averaged 4.4% from 2013 to 2018 on rising tourist arrivals, which peaked at about 12,000 (including excursionists) in 2018.¹⁸ The 2019 accounts are not yet available but as an early indicator, visitor arrivals dropped by 11%. In 2019, imports declined by 20% and exports dropped by 3%. However, nominal GDP growth was reported to be 7.4%, and if the consumer price index inflation estimated at 1.9% is any indication of the GDP deflator, real growth could be about 5.5%. Future growth prospects and the impact of COVID-19 are discussed as part of the creditworthiness assessment.



¹⁶ F. Ferreira et al. 2015. [A Global Count of the Extreme Poor in 2012: Data Issues, Methodology, and Initial Results](#). Policy Research Working Paper. No. 7432. Washington, DC: World Bank.

¹⁷ World Health Organization. 2017. *Niue–WHO Country Cooperation Strategy 2018–2022*. Manila (Western Pacific Regional Office).

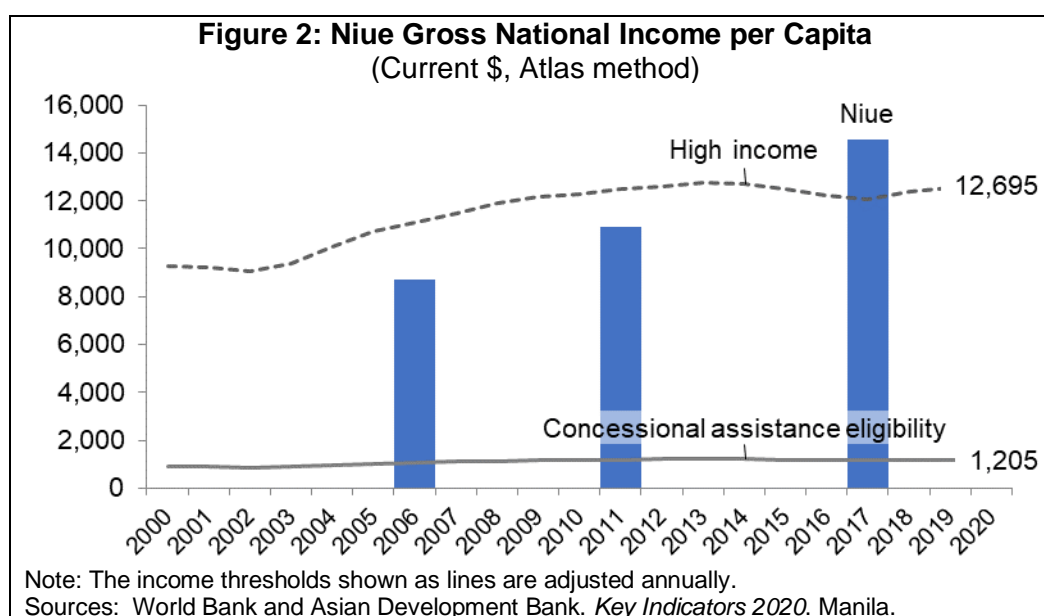
¹⁸ ADB. 2021. [Key Indicators for Asia and the Pacific 2021](#). Manila. The latest available estimate of per capita GDP at market prices was NZ\$25,117 for 2019, about \$16,500 equivalent.

13. **Small island developing state.** Niue is a small island developing state (SIDS) and faces many interrelated development constraints common to other small Pacific Island countries, including a small domestic market, limited supply of skilled labor, inadequate infrastructure, geographical isolation, elevated costs, weak governance, lack of data, and vulnerability to external shocks.¹⁹ High income and human development notwithstanding, these challenges pervade the assessment of Niue's creditworthiness. The assessment of Niue's creditworthiness pays close consideration to its SIDS status. ADB and the global development community recognize SIDS' growing vulnerability and their limited policy response options following large macroeconomic shocks or natural hazards.

IV. ASSESSMENT OF COUNTRY CLASSIFICATION

A. Gross National Income per Capita

14. Niue's per capita GNI was \$14,546 in 2017, the latest available estimate using the Atlas method. This is above the currently set threshold for concessional assistance eligibility of \$1,205 in 2020 prices.²⁰ It also exceeds the high-income threshold (Figure 2). Niue's high income, while reflecting its living standards and lack of poverty, does not correspond with creditworthiness.



B. Creditworthiness

15. The Graduation Policy emphasizes that an assessment of creditworthiness is multidimensional. It is not based on formulas or algorithms, but on a qualitative judgment that integrates all the relevant factors. Four quantitative and five qualitative variables are used as a starting point, and other considerations are taken into account. Assessments include comparisons with peers but do not rank DMCs in sequential order (Appendix 2).

¹⁹ SIDS are a group of 38 United Nations (UN) member states and 20 non-UN members or associate members of UN regional commissions that face unique social, economic, and environmental vulnerabilities.

²⁰ The 2017 cutoff for concessional assistance was \$1,145.

1. Quantitative Variables

16. Generally, the creditworthiness of DMCs under the Graduation Policy is associated with (i) larger economic size in terms of GNI, (ii) a higher gross domestic savings rate, (iii) more private financial inflows, and (iv) stronger debt sustainability. Niue is a very small economy, has a low savings rate, and relies more on official than private financial inflows, which all indicate a lack of creditworthiness. Although Niue has no national debt, the country's lack of history of borrowing and public debt management policies and frameworks highlight potential weaknesses in this area.

a. Economic Size

17. Niue is ADB's smallest DMC by economic size with a GNI of about \$24 million in 2017, the latest available estimate by the Atlas method.²¹ The next largest DMC is Tuvalu, an upper middle-income country with a GNI of \$69 million in 2020 and a population of about 12,000. Other high-income Pacific DMCs are larger: Nauru (\$180 million), Palau (\$298 million), and the Cook Islands (\$337 million), all with populations of more than 10,000. Even among microstates—defined by the World Bank and the International Monetary Fund (IMF) as having a population below 200,000—these DMCs are small and Niue exceptionally so. Niue's extremely small economic size makes the country more vulnerable than other microstates.²²

b. Gross Domestic Savings Rate

18. Niue does not report national accounts by expenditure, but the balance of payments suggests the domestic savings rate is low. The current account balance is in surplus (16% of GDP) but mainly as a result of official transfers.²³ As with many SIDS, Niue depends heavily on imports of goods. The external balance on goods is in deficit by 41% of GDP; even with services included, the balance remains in deficit. This indicates that Niue consumes much more than it produces and is likely to have a negative savings rate.

c. Private Financial Inflows

19. The share of private capital in total capital inflows is low, based on available data. Niue's financial account from the balance of payments shows a net lending balance, or outflows. Despite the large Niuean diaspora, large informal inward flows of personal remittances are not evident. Formally reported personal transfers mirror the financial account and show a net outflow. Data from the Organisation for Economic Co-operation and Development (OECD) show that ODA flows to Niue during 2017–2019 were about three-quarters the size of its economy.

20. Niue's private financial outflows were observed in a 2005 study on remittances in the Pacific.²⁴ In other DMCs, personal remittance outflows are usually from migrant workers sending earnings to their home countries. In Niue's case, it is mainly assistance that Niueans provide to those resettling in New Zealand. While not unique to Niue, the relative volume of the private

²¹ ADB. 2021. [Asian Development Outlook 2021](#). Manila.

²² Microstates typically do not have the economic size necessary to maintain sufficient buffers to ensure repayment capacity in the event of large macroeconomic shocks or natural hazards. Due to a lack of regular borrowing activity, microstates may lack a repayment track record or sufficient public financial management, or debt management capacity required to borrow at flexible regular OCR lending terms.

²³ Government of Niue. 2019. [Statistical Release Balance of Payments and International Investment Position Estimates of Niue 2017/2018](#). Alofi.

²⁴ J. Connell and R.P.C. Brown. 2005. [Remittances in the Pacific: An Overview](#). ADB. Manila.

outflows contrasts starkly against the large official inflows. Official inflows are reflected in the primary and secondary income accounts and contribute to Niue's current account surplus.

d. Debt Sustainability

21. **Debt management.** Niue has no debt and has never borrowed.²⁵ This is considered by Niue as its implicit debt management strategy, pending a medium-term fiscal and debt strategy.²⁶ Niue's legislation imposes some checks but does not prohibit borrowing. Niue's Government Loans Act of 1980 indicates that the assembly may authorize the cabinet to raise loans for a specified purpose by a resolution. The absence of specific procedures for contracting debt and issuing guarantees was recognized in the 2011 Public Expenditure and Financial Accountability (PEFA) assessment as a potential weakness of Niue's public financial management (PFM) system.²⁷ A reform road map was prepared by Niue after the 2011 PEFA report identified a range of weaknesses concerning PFM more broadly, but the 2020 self-assessment suggests that most of the weaknesses have not been addressed.²⁸ An updated PFM reform plan is being drafted by Niue, which includes the formulation of a medium-term fiscal strategy.²⁹

22. **Debt sustainability analysis.** Niue does not have any public debt and limited capacity and policies for effective public debt management. Based on Niue's economic prospects and assuming no overhang from the deficits up to FY2022, a resumption of normal levels of expenditure, and a balanced budget by FY2023, Niue should start to build financial buffers by FY2024—although further adverse events could affect this optimistic outlook. The Niue International Trust Fund, established in 2006 by the governments of Australia, New Zealand, and Niue, provides some limited fiscal buffers and support for capital and recurrent expenditures, and could be leveraged with prudence.³⁰ If proper debt management plans are established, a limited amount of external debt may be sustainable. Niue's high reliance on grants, lack of borrowing experience, and PFM weaknesses pose potential challenges to debt sustainability. Starting with smaller amounts for initial incurrence of debt would help lower risks and build capacity. Niue's debt sustainability will need to be carefully reassessed as plans change. Should Niue consider borrowing, a detailed debt sustainability analysis will be required along with a medium-term debt management plan validated by ADB and the government.

23. **Fiscal policy.** Niue officially has a policy of achieving balanced budgets. Budget guidelines include clear direction to restrain expenditure. Its small size limits Niue's ability to increase its own-source revenues outside of tourism and it relies heavily on grants. New Zealand provides about one-quarter to one-third of Niue's total recurrent revenues.³¹ While this is a

²⁵ An advance was made at least once previously by New Zealand.

²⁶ Government of Niue. Forthcoming. *Niue PEFA Performance Report 2020*. Alofi.

²⁷ PEFA Secretariat. 2011. *Niue Public Financial Management—Performance Report*. Washington, DC.

²⁸ The weaknesses from 2011 include the use of external audit and legislative scrutiny of audit reports; timeliness of accounts reconciliation and financial statements; payroll controls and internal audit; competition, value for money, and controls in procurement; public access to key fiscal information; and orderliness and participation in the annual budget process.

²⁹ The draft 2020 update to the PFM reform plan identifies the following critical areas, based on the order of priority: (i) annual financial reports, (ii) fiscal risk reporting, (iii) revenue administration, (iv) fiscal strategy, (v) budget preparation process, (vi) public access to fiscal information, (vii) procurement, (viii) internal audit, (ix) predictability of in-year allocation, and (x) public investment management. These remain broadly in line with the conclusions of the 2011 PEFA.

³⁰ The reported available distribution from the Niue International Trust Fund for the FY2020 supplementary budget was NZ\$1.6 million. Niue estimates these could be NZ\$2 million–NZ\$3 million per year in the future.

³¹ In addition, project-specific donor grants at 88% of recurrent revenues were included in the FY2020 budget. Niue received NZ\$31 million in total grant aid from New Zealand in FY2020, including the NZ\$7.5 million for direct budget

weakness, the support from New Zealand is a source of overall stability. Another weakness is that government expenditures have consistently been higher than revenues (including grants) since 2017 (Table 1), most likely reflecting short-term accounts payable. The Assembly passed the FY2021 budget with a deficit of NZ\$5.7 million (about 11% of GDP).³² The FY2022 budget, passed by the Assembly in July 2021, again has a deficit of NZ\$4.6 million (about 8% of GDP).

Table 1: Public Revenues and Expenditure of Niue
(as percent of gross domestic product)

Item	2016	2017	2018	2019	2020
Revenues	70	58	69	81	50
Expenditures	70	63	70	82	55
Fiscal balance	0	(5)	(1)	(1)	(5)

() = negative.

Source: Asian Development Bank. 2021. *Asian Development Outlook 2021*. Manila.

24. **Public financial management.** Among small Pacific DMCs, Niue's PEFA scores are generally better than group A (Nauru) but worse than group C (the Cook Islands). The most fundamental weakness identified in the 2011 PEFA is the need to eliminate the backlog of financial statements. The 2020 assessment confirms that this continues to be the main area of weakness. The latest financial statements submitted for audit are for 2015. This delay has serious implications. The New Zealand Auditor-General has raised concerns regarding the soundness of financial management. The Government of Niue has acknowledged these concerns and is taking steps to expedite the completion and audit of its financial statements, and to address the various issues raised. The government revised its timetable to have all financial statements through 30 June 2020 completed by November 2021. However, Niue reported in March 2021 that the situation remains fluid due to the constraints arising from the COVID-19 crisis. Nonetheless, PFM commitments and capacity building are important to ensure that financial management standards of ADB operations will be met.

2. Qualitative Variables

25. A DMC's creditworthiness is positively associated with the following qualitative variables: (i) classified by the World Bank as IBRD-only (i.e., does not have access to IDA funds); (ii) not classified as a heavily indebted poor country (HIPC); (iii) external financing mainly from private or diversified sources, not official transfers; (iv) less and least vulnerability to fluctuations in export growth; and (v) rated by international credit rating agencies. Niue is not rated and remains highly reliant on official aid for external financing; these are qualities associated with lack of creditworthiness. However, it is not an HIPC (and is not eligible for the Debt Service Suspension Initiative). Niue is moderately vulnerable to export fluctuations, after taking other vulnerabilities into account, in line with the Graduation Policy's classification system.

support, plus another NZ\$3 million in grants from other donors. However, FY2020 was an unusual year as donors stepped up assistance to help with the COVID-19 response. Normally, Niue receives around NZ\$20 million per year from New Zealand. For 2021–2024, New Zealand's approved international development cooperation funding allocation to Niue averages NZ\$20 million per year.

³² The Government of Niue reports that this deficit "excludes creditors" and led to cash flow problems by midyear. This is taken to mean that the budgeted deficits are not backed by any borrowing plan and appears to make the case for more aid. In the case of FY2021, the financing gap was only partially filled by donors and partly by adjusting the planned spending downward.

a. Access to International Development Association

26. To assess the degree of access to IDA funds, the Graduation Policy prescribes a three-level country categorization for access to IDA financing based on the World Bank's classification of its borrowing members: (i) IDA-only, (ii) IDA–IBRD blend, and (iii) IBRD-only. IDA-only countries generally have the weakest borrowing capabilities while IBRD-only countries are stronger. Niue is not a member of the World Bank.

27. **Classification by other institutions.** Niue is not considered an LDC. It is also not a member of the IMF. Niue remains on the 2021 list of ODA recipients of the OECD.

b. Categorization as a Heavily Indebted Poor Country

28. The Graduation Policy has a two-level categorization based on whether the DMC is an HIPC. HIPCs comprise a group of countries considered by the IMF and the World Bank for their debt relief initiative, known as the HIPC Initiative. The HIPC classification was introduced in the *World Economic Outlook 1998* and has been updated since.³³ Niue is neither a HIPC nor eligible for the Debt Service Suspension Initiative.³⁴

c. External Financing

29. Under the Graduation Policy, three categorizations are used based on external financing sources: (i) official financing, (ii) diversified financing, and (iii) private financing. Niue relies heavily on official financing, with ODA at 77% of GNI for 2017–2019. ODA inflows reflected in the balance of payments primary and secondary income accounts have consistently been higher than receipts from tourism. Although the gap has narrowed since FY2012, Niue's external financing source is still mainly official, primarily from New Zealand.

d. Fluctuations in Export Growth

30. The Graduation Policy prescribes four categorizations based on exports of goods and services.³⁵ For Niue, the measure of variability of its growth in exports of goods and services from 2010 to 2019 is below the median for borrowing DMCs, which means it experienced relatively less volatility; and its exports-to-GDP ratio is near but above the median, so it is not inactive. The measurement reflects mostly Niue's export of services, which is six times larger than merchandise exports, and has risen steadily since 2013. However, this measure does not fully capture the vulnerabilities faced by Niue (Appendix 3).

³³ International Monetary Fund. 1998. [World Economic Outlook: Financial Turbulence and the World Economy](#). Washington DC.

³⁴ In response to the devastating impact of the COVID-19 pandemic, the Group of 20 has established a Debt Service Suspension Initiative for the most impacted and vulnerable countries, starting on 1 May 2020. Under the initiative, 73 countries became eligible for a temporary suspension of debt service payments owed to their official bilateral creditors. The Group of 20 is an intergovernmental forum comprising 19 countries and the European Union. It works to address major issues related to the global economy, such as international financial stability, climate change mitigation, and sustainable development.

³⁵ The four categorizations are (i) highly vulnerable: above median coefficient of variation of export growth and below median level of exports; (ii) moderately vulnerable: below median coefficient of variation of export growth and below median level of exports; (iii) less vulnerable: above median coefficient of variation of export growth and above median level of exports; and (iv) least vulnerable: below median coefficient of variation of export growth and above median level of exports.

31. The abrupt closure of borders and ongoing suspension of tourism for more than a year as a result of the COVID-19 pandemic should have affected Niue drastically. However, Niue is measured relative to other DMCs, which would have experienced a similarly sharp change in 2020. Tourist arrivals are an early indicator showing the common experience of Niue and other DMCs. This was estimated to have dropped by more than 80% in Asia and the Pacific from 2019 to 2020, roughly the same as reported by Niue.³⁶ Nonetheless, the COVID-19 pandemic highlighted Niue's vulnerability from having tourism as the main source of foreign exchange earnings. Considering Niue's vulnerabilities, Niue's export growth is classified as *moderately vulnerable*.

e. Rating for Sovereign Borrowing

32. To indicate access to capital markets, two categorizations are used: rated and not rated. Niue is not rated by international credit rating agencies and has no sovereign borrowing. The lack of international credit ratings reflects a lack of commercial debt and borrowing market participation. This generally indicates a limited level of creditworthiness at best. Niue does not have a country risk classification for export credits from the OECD.

3. Other Considerations

33. Additional considerations include growth and development prospects, the economic structure, monetary and exchange rate policy, finance sector development, governance and risk of conflict, and vulnerability to disasters caused by natural hazards.³⁷ Overall, Niue's growth prospects are limited but positive. On the one hand, it still faces uncertainty from COVID-19, has an undeveloped finance sector, and exhibits weak governance capacity. On the other hand, the stability provided by the low risk of conflict, the lower degree of disaster risk compared to other Pacific DMCs, and the support provided by New Zealand through grants and stabilizing monetary policy are favorable factors for Niue's creditworthiness for regular OCR.

a. Growth and Development Prospects

34. Niue's economy is dominated by the public sector. Services, including public services, account for more than three-quarters of the value of GDP. The public sector directly employs more than 60% of the labor force on a 4-day work week since 2014. The government is also involved in trading operations, including bulk fuel supply, public broadcasting, tourism, telecommunications, electricity, banking, philatelic services, noni production and processing, quarrying, and alcohol sales.

35. Lack of opportunities in Niue and the relative accessibility of New Zealand has led to emigration, "brain drain," and a decline in population, although the population has stabilized since 2013. There are challenges that need to be addressed to better promote and support the private sector as a viable driver of sustainable growth and development. Regulatory clarity on the use of real property and working permits for migrants, as well as reliability of imported supplies, electricity, and internet are a few areas that can be improved. On internet connectivity, the Manatua fiber optic cable was declared ready for service in July 2020. Niue expects significantly

³⁶ South Pacific Tourism Organization. 2020. [2020 Annual Visitor Arrivals Snapshot](#). Suva.

³⁷ Para. 37 of the 2008 review includes other areas of consideration that overlap and have been incorporated into the quantitative and qualitative variables: fiscal policy and public debt burden (under debt sustainability); and current and capital account vulnerability (under fluctuations in export growth, and also external financing, private financial flows, and gross domestic savings).

improved data speed and capacity pending agreement on data and interconnection arrangements.

36. The economy is highly dependent on development assistance, primarily from New Zealand. Recognizing a potential growth area, New Zealand established the Niue Tourism Property Trust in 2011 to fund the development of the Matavai Resort to support tourism. By 2019, tourism earnings were about 20% of GDP.³⁸ Additional contributions to the trust in 2020 helped address the negative impact of COVID-19. The outlook for 2021 and beyond will depend on the recovery of the tourism industry and of construction, which were affected by COVID-19 in 2020.

37. **Impact of COVID-19.** The lack of timely data hinders the assessment of the impact of the COVID-19 pandemic on Niue. There are a few leading indications. Visitor arrivals dropped by 83% in 2020, imports by 13%, and exports by 66%.³⁹ This suggests that Niue's economy contracted in 2020, but it would be offset by the high levels of ODA Niue received: New Zealand aid to Niue increased by 50% in 2020. Based on a rough estimate, the loss of tourism earnings of about 20% of GDP would be more than offset by the increase in ODA of about 40% of GDP.⁴⁰

38. Niue remains COVID-19-free as of July 2021. One-way quarantine-free travel to New Zealand has been allowed since March 2021, to enable access to essential health care, education, economic opportunities, and families in New Zealand. The first delivery of vaccines arrived in Niue in June 2021, and by mid-July, Niue had fully vaccinated close to 100% of its population. Preparations for two-way quarantine-free travel with New Zealand are underway but no date has been set given New Zealand's lockdown.

39. New Zealand plans to reopen in early 2022. As of January 2021, Niue reported that "internal tax revenue continues its favorable trend...due to the direct financial assistance to the private sector which further filtered into the economy."⁴¹ This appears to be a positive indication that the worst scarring to the economy may yet be avoided, but the projected positive trend diminishes as resumption of travel and normalcy is further delayed. Overall, it is difficult to give an accurate view of what the coming post-pandemic years might hold for Niue, and there is reason to err on the side of caution until the medium-term outlook becomes clearer.

b. Monetary and Exchange Rate Policy

40. Niue uses the New Zealand dollar as currency. This limits Niue's monetary policy options but provides stability and is suitable given the size of the economy and its close integration with New Zealand. Interest rates are set by the two banks operating in Niue.

c. Finance Sector Development

41. **Limited finance sector.** Niue established an offshore financial center in the 1990s and continues to offer registration for offshore businesses but no longer houses offshore financial service providers.⁴² Deposit and payment services are provided by a branch of Kiwibank, a New

³⁸ Statistics Niue reports tourism earnings in 2019 of about NZ\$10 million, or 20% of nominal GDP (NZ\$47 million) for the same period as estimated by ADB.

³⁹ Government of Niue, Department of Finance and Planning. 2021. [Financial Snapshot: 1 July 2020–31 January 2021](#). Alofi.

⁴⁰ Tourism contributed about 20% of GDP in 2019. ODA is roughly 80% of GDP; an increase of 50% would be 40%.

⁴¹ Government of Niue Department of Finance and Planning. 2021. [Financial Snapshot 1 July 2020– 31 January 2021](#). Alofi.

⁴² The International Banking Repeal Act of 2002 resulted in the termination of all offshore banking licenses.

Zealand bank, through an agency arrangement with Niue Commercial Enterprises Ltd., a Niue state-owned holding company established in 2013.⁴³

42. Lending services are provided by the Niue Development Bank, the executing arm of Niue Commercial Enterprises Ltd. The Niue Development Bank's loan portfolio stood at NZ\$12 million in 2020, about one-quarter of GDP.⁴⁴ Approximately 49% of loans were to businesses, with a further 27% for housing, and the remainder for other uses. Loans are secured using charging orders and debentures. Nonperforming loans before the COVID-19 pandemic were relatively low. Annual lending has dropped by more than 50% in FY2021, and the loan mix also changed, with decreasing corporate loans and increasing personal loans. As part of the COVID-19 response, the Niue Development Bank deferred loan repayments of companies.

d. Governance and Risk of Conflict

43. **World Governance Indicators.** Governance indicators are often closely correlated with a country's creditworthiness. The World Bank's World Governance Indicators (WGI) are a composite measure of governance quality across six dimensions. It uses a scale of -2.5 to 2.5, with larger numbers indicating higher quality governance. The most recent assessment for Niue was in 2013. A comparison of Niue's WGI ratings with ratings for ADB's DMCs suggests that Niue is not an outlier on any of the six dimensions considered by the WGI. However, as Table 2 shows, Niue was below the Pacific average on all indicators except political stability and absence of violence. Acute capacity constraints in the small public administration of Niue (and Pacific DMCs in general) are mostly reflected in low scores on indicators for government effectiveness and regulatory quality.⁴⁵

Table 2: Worldwide Governance Indicators for Niue and other Pacific Islands

Item	Voice and Accountability	Political Stability and Absence of Violence	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
Niue	-0.46	+1.32	-0.99	-0.92	-0.79	-0.42
Mean for Pacific DMCs ^a	+0.39 (2013) +0.74 (2019)	+0.69 (2013) +0.85 (2020)	-0.69 (2013) -0.36 (2019)	-0.91 (2013) -0.49 (2019)	-0.05 (2013) +0.13 (2019)	-0.28 (2013) +0.02 (2019)
Mean for Other DMCs (2019)	-0.54	-0.23	+0.01	-0.09	-0.22	-0.25

DMC = developing member country.

Note: Niue has governance effectiveness ratings from 2013, except for "political stability and absence of violence," which was from 2010.

^a Pacific DMCs = Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, Niue, Palau, Papua New Guinea, Republic of the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu.

Source: World Bank. 2020. *World Governance Indicators*. Washington DC.

44. **Low political risks.** Niue's relations with neighboring countries are good and particularly strong with New Zealand. Elections are orderly and held regularly. Niue is governed by a 20-member legislative assembly. All permanent residents over the age of 18 and present in Niue on the day of the election are eligible to vote. A speaker is selected by the elected assembly members

⁴³ Papua New Guinea's Bank South Pacific used to be the sole provider of commercial banking services in Niue until the branch closed in 2013.

⁴⁴ Data from Niue Development Bank.

⁴⁵ The Pacific average is below the overall DMC average for government effectiveness and regulatory quality.

from outside their ranks. The assembly members also elect a premier, who chooses a cabinet of three ministers from the assembly. The country does not have a party system or formal opposition party, although individual assembly members may oppose the government.

45. **Land use and ownership rights.** Management of land ownership rights presents some specific challenges that can constrain private sector development and contribute to social conflicts. Much of the land is collectively owned by families who exercise their ownership rights using collective and unanimous decision-making processes. Emigration of Niueans can make it harder for extended families to manage jointly owned land. A leasing framework for land exists, allowing lease periods of 30 years, which can be extended to provide a total lease period of up to 120 years. Land disputes can be adjudicated by a Maori land court from New Zealand, which hosts two sessions per year in Niue. The government has recognized that governance of land ownership requires further attention.

e. Vulnerability to External Shocks

46. Niue's Joint National Action Plan for Disaster Risk Management and Climate Change highlights the country's vulnerability to climate risks such as tropical cyclones and droughts; geological risks such as earthquakes and tsunamis; and human-caused risks such as disease outbreaks and contamination of the water supply.⁴⁶ As the world's largest elevated coral atoll, Niue's rocky and rugged coastline has steep cliffs, which offer some protection from risks such as tsunamis. As experienced in 2004, category 5 tropical cyclones can induce waves with the capacity to overtop the steep cliffs and wash boulders inland up to 25 meters above sea level. Niue's isolation, small population, reliance on donor aid, limited water resources, and marginal agricultural potential also contribute to its overall risk profile.

47. Niue is currently not included in most global vulnerability indices including the United Nations Economic and Multivariate Vulnerability Indices. The Pacific Catastrophe Risk Assessment and Financing Initiative risk profile for Niue estimates average losses of \$0.9 million per year from earthquakes and tropical cyclones.⁴⁷ Niue faces a lower degree of risk from disasters caused by natural hazards than most Pacific Island countries because of its geography.⁴⁸ However, its resilience to disasters is very low because of its lack of fresh water supplies and remoteness. Tropical cyclones are the most frequently occurring disaster. Niue is hit by a cyclone about every 4 years and experiences a severe cyclone about once in every 10 years.⁴⁹ In early 2020, Cyclone Tino damaged Niue's only wharf, disrupting fishing and business activity for several weeks.

48. Niue's size means that the likely impact of shocks would tend to be large relative to its economy even when shocks are gauged to be lower in frequency and severity. Niue's small economy and limited sources of domestic revenue do not enable it to maintain any sizable extra budgetary buffers or security funds in the event of adverse disasters triggered by natural hazards or other emergency events. Niue does not avail of insurance from the Pacific Catastrophe Risk Insurance Company. Trust funds such as the Niue International Trust Fund (with estimated value about NZ\$70 million as of end-2020), preconditioned on good governance, help to manage risks.

⁴⁶ Government of Niue. 2012. [Niue's Joint National Action Plan for Disaster Risk Management and Climate Change](#). Alofi.

⁴⁷ Pacific Catastrophe Risk Assessment and Financing Initiative. 2011. *Country Risk Profile: Niue*.

⁴⁸ United Nations Office for the Coordination of Humanitarian Affairs. [Niue](#).

⁴⁹ United Nations Development Programme. [Niue](#).

4. Overall Assessment of Creditworthiness

49. Appendix 4 provides a summary creditworthiness assessment of Niue considering its vulnerabilities as a SIDS. Aligned with the Graduation Policy, no fixed weights are assigned to indicators or factors because no weighting formula can always cover all country situations. The assessment finds Niue to be lacking in creditworthiness since Niue is small even among microstates, has low savings and private flows, relies mainly on official flows, and is not rated by credit rating agencies. Niue has no outstanding debt and is not an HIPC, indicating some borrowing headroom, but this also suggests a lack of borrowing and debt management capacity. It has high income, but mostly from aid and not from its own domestic production capacity. Its export growth—mainly tourism receipts—rose steadily before 2020, but as the COVID-19 crisis demonstrated, tourism can be an extremely volatile source of growth and revenues.

50. Prospects for future growth, while limited, are positive but highly uncertain. Niue remains highly vulnerable to external shocks because of its narrow economic base and small domestic market, inadequate infrastructure combined with remoteness, aid dependence, limited PFM capabilities, and absence of risk management arrangements or fiscal buffers other than reliance on donor partners.

51. Given the lack of debt management experience and limited fiscal buffers, Niue's capacity to sustainably mobilize external resource should be closely assessed. Should Niue consider borrowing, a detailed debt sustainability analysis will be required along with a medium-term debt management plan validated by ADB and the government. ADB should also ensure that Niue maintains strong and transparent debt management practices. ADB may provide technical assistance and staff advisory to support Niue in developing its public debt management policies and sharing knowledge on best practices. Appendix 5 is a summary of relevant creditworthiness benchmarks.

C. Summary Assessment of Classification

52. Niue has achieved high levels of human development with zero poverty, benefiting from grants provided by New Zealand and recently tourism-led growth. Despite its high income, Niue continues to need external financing but has limited, if any, access to commercial capital. Niue also still faces challenges in sustaining its social and economic development because of its institutional weaknesses and extremely small size.

53. In view of Niue's (i) high per capita GNI, (ii) non-LDC status, and (iii) lack of creditworthiness to borrow regular OCR, it is recommended that Niue be classified as group B in accordance with the decision matrix in Appendix 1. Niue's access to, and allocation of, resources will follow ADB's standard policies and procedures.

54. ADB has discussed the proposed classification with the Government of Niue.

55. Following Niue's classification as a group B country, ADB will make available a conservative initial allocation of \$5 million in concessional OCR during 2022 following the principles established in ADB's Concessional Assistance Policy (2020).⁵⁰ ADB will subsequently complete all concessional resource allocation requirements under the Concessional Assistance Policy including a country performance assessment in 2022. Any discrepancy in the initial

⁵⁰ ADB. 2020. [Concessional Assistance Policy for the ADF 13 Period](#). Manila.

allocation against the Concessional Assistance Policy allocation principles will be adjusted in subsequent allocations.

V. RECOMMENDATION

56. The President recommends that the Board approve the classification of Niue as a group B country, effective 1 January 2022.

DECISION MATRIX FOR CLASSIFICATION

Creditworthiness	Per Capita GNI		
	Below per Capita GNI Cutoff	Above per Capita GNI Cutoff	
		LDC ^a	Other
Lack of creditworthiness	Concessional assistance only (Group A)	Concessional assistance only (Group A)	OCR blend (Group B) ^b
Limited creditworthiness	OCR blend (Group B)	OCR blend (Group B)	OCR blend (Group B)
Adequate creditworthiness	OCR blend (Group B)	OCR blend (Group B)	Regular OCR only (Group C)

GNI = gross national income, LDC = least developed country, OCR = ordinary capital resources.

Note: The Graduation Policy of the Asian Development Bank adopts the International Development Association operational cutoff to determine eligibility for concessional assistance.

^a Based on the United Nations' list of least developed countries.

^b Where a country is assessed to be at moderate or high risk of debt distress, or in debt distress, under the debt sustainability framework for low-income countries, then it should be classified as a group A country.

Source: Asian Development Bank. 2008. *Review of the 1998 Graduation Policy of the Asian Development Bank*. Manila.

COMPARATIVE INDICATORS FOR NIUE WITH SMALL ISLAND DEVELOPING STATES

INDICATORS	COO	FSM	FIJ	KIR	RMI	MLD	NAU	NIU	PAL	PNG	SAM	SOL	TIM	TON	TUV	VAN	SOURCE
ADB Classification	Group C	Group A	Group C	Group A	Group A	Group A	Group A	Proposed Group B	Group B	Group B	Group A	Group A	Group B	Group A	Group A	Group A	ADB
Per capita income																	
GNI per capita (current \$, Atlas method)	19,804 2019	4,010 2019	4,720 2020	3,010 2020	5,081 2019	6,830 2020	16,630 2019	14,546 2017	16,500 2019	2,660 2020	4,070 2020	2,300 2020	1,830 2020	5,000 2019	5,820 2020	2,780 2020	WB / ADB-ADO
Income category	HIC since 2011	LMIC since 1991	UMIC since 2014	LMIC since 1987	UMIC since 2012	UMIC since 2012	HIC since 2019	HIC after 2011	HIC since 2016	LMIC since 2008	UMIC since 2016	LMIC since 2010	LMIC since 2010	UMIC since 2016	UMIC since 2011	LMIC since 1987	WB
Quantitative Indicators																	
Size of the economy by GNI Atlas method (in \$ million)	337 2020	456 2019	4,228 2020	359 2020	294 2019	3,691 2020	179 2020	24 2017	297 2019	23,829 2020	807 2020	1,582 2020	2,417 2020	523 2019	69 2020	853 2020	WB
GDP per capita (current \$)	15,840 2020	3,585 2019	4,882 2020	1,671 2020	4,073 2020	7,456 2020	10,983 2019	16,547 2019	14,908 2019	2,637 2020	4,067 2020	2,258 2020	1,381 2020	4,903 2019	4,143 2020	2,782 2020	WB / ADB
Gross domestic savings (% GDP)	No data	No data	18.5	(50.69)	(29.71)	38.55	No data	(4) (2018)	(3.61)	No data	No data	0.14	(1.76)	No data	No data	10.51	WB
FDI net inflows (% of GDP)	No data	No data	5.86 2019	(0.29) 2019	1.74 2019	17.04 2019	No data	No data	8.20 2019	1.35 2019	0.12 2019	2.09 2019	3.70 2019	0.34 2019	0.63 2019	3.74 2019	WB
Debt sustainability	Moderate risk	High risk	Moderate risk	High risk	High risk	High risk	Unsustainable	No debt	Sustainable ^a	High risk	High risk	Moderate risk	Low risk	High risk	High risk	Moderate risk	IMF
Risk of overall debt distress	Not rated	High 2019	Not rated	High 2019	High 2018	High 2018	Not rated	Not rated	Not rated	High 2020	High 2021	Moderate 2020	Low 2019	High 2021	High 2018	Moderate 2019	WB
Qualitative Indicators																	
Access to IDA	non-member	IDA	Blend	IDA	IDA	IBRD	IBRD	non-member	IBRD	Blend	IDA	IDA	Blend	IDA	IDA	IDA	WB
Categorization as HIPC	Not HIPC	Not HIPC	Not HIPC	Not HIPC	Not HIPC	Not HIPC	Not HIPC	Not HIPC	Not HIPC	Not HIPC	Not HIPC	Not HIPC	Not HIPC	Not HIPC	Not HIPC	Not HIPC	WB
External financing	Diversified	Official	Diversified	Official	Official	Diversified	Official	Official	Diversified	Diversified	Diversified	Official	Diversified	Diversified	Official	Diversified	ADB
Fluctuations in export growth	Least Vulnerable	Highly vulnerable	Least vulnerable	Highly vulnerable	Less vulnerable	Least vulnerable	Less vulnerable	Least Vulnerable	Less vulnerable	Less vulnerable	Highly vulnerable	Highly vulnerable	Highly vulnerable	Highly vulnerable	No data	Less vulnerable	ADB
Rating for sovereign borrowing	Highly Speculative B+ 2021-S&P	Not rated	Highly Speculative B1 2021-	Not rated	Not rated	Highly speculative B3 2020-	Not rated	Not rated	Not rated	Highly Speculative B- 2021-S&P	Not rated	Not rated	Not rated	Not rated	Not rated	Not rated	S&P / Moody's

INDICATORS	COO	FSM	FIJ	KIR	RMI	MLD	NAU	NIU	PAL	PNG	SAM	SOL	TIM	TON	TUV	VAN	SOURCE
			Moody's			Moody's											
Other Considerations																	
LDC status	No	No	No	LDC	No	No	No	No	No	No	No	LDC	LDC	No	LDC	No	UN
Population (2020) (in '000)	18	115	896	119	59	541	11	2	18	8,947	198	687	1,318	106	12	307	WB
Poverty at \$1.90 a day	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	WB
Net ODA received (% of GNI)	8 2019	19.98 2019	2.76 2019	14.85 2019	22.54 2019	1.42 2019	31.20 2019	77 2019	8.71 2019	2.81 2019	15.15 2019	14.41 2019	8.74 2019	20.08 2019	55.84 2019	13.27 2019	WB
Projected GDP growth (2022)	7.1	2.0	8.8	2.3	4.0	15.0	1.0	No data	8.8	4.1	3.1	4.5	4.0	1.8	3.0	5.0	ADB-ADO
External balance on goods and services (% of GDP)	28 2018	(37.61) 2019	(17.20) 2020	(79.13) 2018	(44.77) 2018	(8.94) 2019	(59.29) 2019	(36) 2019	(29.88) 2018	No data	(19.34) 2020	(8.40) 2020	(27.38) 2019	(45.51) 2019	No data	(23.58) 2020	WB
Current account balance (% of GDP)	(6.0) 2020	21.6 2020	(13.2) 2020	3.9 2020	13.4 2020	(29.8) 2020	4.2 2020	15.7 2018	(32.6) 2020	23.4 2020	1.2 2020	(1.7) 2020	(19.6) 2020	(3.8) 2020	3.8 2020	1.3 2020	ADB-ADO
Central government fiscal balance (% of GDP) (2020)	(2.8)	0	(8.2)	(0.7)	(4.9)	(27.5)	32.2	(4.9)	(11.2)	(8.1)	6.2	(2.5)	(9)	5.3	9.1	0.4	ADB-Basic Statistics
MVI ranking	Not ranked	8 (very high vulnerability)	26 (high vulnerability)	1 (very high vulnerability)	2 (very high vulnerability)	7 (very high vulnerability)	55 (medium vulnerability)	Not ranked	4 (very high vulnerability)	92 (medium vulnerability)	49 (high vulnerability)	33 (high vulnerability)	23 (high vulnerability)	5 (very high vulnerability)	6 (very high vulnerability)	13 (high vulnerability)	UNDP

() = negative, ADB = Asian Development Bank, ADO = Asian Development Outlook, COO = Cook Islands, DSA-MAC = Debt Sustainability Analysis for Market-Access Countries, DSF-LIC = Debt Sustainability Framework for Low Income Countries, FDI = foreign direct investment, FIJ = Fiji, FSM = Federated States of Micronesia, GDP = gross domestic product, GNI = gross national income, HIPC = heavily-indebted poor countries, IBRD = International Bank for Reconstruction and Development, IDA = International Development Association, IMF = International Monetary Fund, KI = Key Indicators, KIR = Kiribati, LDC = least developed country, MVI = Multidimensional Vulnerability Index, NAU = Nauru, NIU = Niue, ODA = official development assistance, PAL = Palau, PNG = Papua New Guinea, RMI = Republic of Marshall Islands, S&P = Standard and Poor's, SAM = Samoa, SOL = Solomon Islands, TIM = Timor-Leste, TON = Tonga, TUV = Tuvalu, UMIC = upper middle-income country UN = United Nations, UNDP = United Nations Development Programme, VAN = Vanuatu, WB = World Bank.

^a Last DSA conducted in 2019. Potential for revision following the coronavirus disease pandemic.

Sources: ADB, Australia Department for Foreign Affairs and Trade, IMF, United Nations Committee for Development Policy, UNDP, World Bank-World Development Indicators (accessed on 23 July 2021).

COEFFICIENT OF VARIATION OF EXPORT GROWTH

Member Name	Least vulnerable	Less vulnerable	Moderately vulnerable	Highly vulnerable
Afghanistan				
Armenia				✓
Azerbaijan		✓		
Bangladesh				✓
Bhutan		✓		
Cambodia		✓		
China, People's Republic of			✓	
Cook Islands				
Fiji	✓			
Georgia				✓
India				✓
Indonesia			✓	
Kazakhstan		✓		
Kiribati				✓
Kyrgyz Republic		✓		
Lao PDR				✓
Malaysia	✓			
Maldives		✓		
Marshall Islands		✓		
Micronesia				✓
Mongolia		✓		
Myanmar				✓
Nauru		✓		
Nepal			✓	
Niue				
Pakistan			✓	
Palau		✓		
Papua New Guinea		✓		
Philippines			✓	
Samoa				✓
Solomon Islands				✓
Sri Lanka			✓	
Tajikistan	✓			
Thailand	✓			
Timor-Leste				✓
Tonga				✓
Turkmenistan		✓		
Tuvalu				
Uzbekistan				✓
Vanuatu		✓		
Viet Nam		✓		

Lao PDR = Lao People's Democratic Republic.

Note: Classification of developing member countries follows ADB's Graduation Policy (2008) and is based on data from 2000–2020. The four categories are: (i) least vulnerable—below median coefficient of variation of export growth and above median level of exports; (ii) less vulnerable—above median coefficient of variation of export growth and above median level of exports; (iii) moderately vulnerable—below median coefficient of variation of export growth and below median level of exports; and (iv) highly vulnerable—above median coefficient of variation of export growth and below median level of exports.

Source: Asian Development Bank estimates.

SUMMARY CREDITWORTHINESS MATRIX FOR NIUE

Item	Characteristics	Relevant Creditworthiness
Quantitative indicators		
Economic size	Microstate that does not maintain significant reserves or fiscal buffers to deal with shocks other than the trust fund currently valued at more than 100% of GDP	Lacking
Debt sustainability	No past borrowing Limited fiscal buffers under adverse event scenarios May exhibit some ability to service low levels of debt, subject to further analysis and medium-term debt plan	Limited
Private capital and savings	Low private capital inflows and limited remittances	Limited
	Low, potentially negative, domestic savings	Lacking
Qualitative indicators		
International classifications	Not a HIPC or LDC	Adequate or limited
	Unclassified by IBRD/IDA	N/A
External financing	High concentration of mostly ODA inflows. Lack of private inflows.	Limited
Volatility of exports	Moderate volatility, taking into account the qualitative variable and other considerations	Limited
Credit ratings	Unrated and without comparable alternative sovereign risk profile	Lacking
Other considerations		
Vulnerability index	High vulnerability to adverse events (no MVI index)	Limited or lacking
Economic indicators (exports, savings, FDI, ODA)	Macroeconomic framework exhibits some limited resilience to economic shocks with some capacity to service modest debt obligations during crisis	Limited
	Trust funds provide some support	
Overall creditworthiness		Lacking ^c

FDI = foreign direct investment, GDP = gross domestic product, HIPC = heavily indebted poor country, IBRD = International Bank for Reconstruction and Development, IDA = International Development Association, LDC = least developed country, MVI = multidimensional vulnerability index, N/A = not applicable, OCR = ordinary capital resources, ODA = official development assistance.

Note: The Graduation Policy of the Asian Development Bank adopts the International Development Association operational cutoff to determine eligibility for concessional assistance.

^a Based on the United Nations' list of least developed countries.

^b Where a country is assessed to be at moderate or high risk of debt distress, or in debt distress, under the debt sustainability framework for low-income countries, then it should be classified as a group A country.

^c Aligned with the Graduation Policy, no fixed weights are assigned to indicators or factors because no weighting formula can always cover all country situations. The assessment finds Niue to be lacking in creditworthiness since Niue is small even among microstates, has low savings and private flows, relies mainly on official flows, and is not rated by credit rating agencies.

Source: Asian Development Bank. 2008. *Review of the 1998 Graduation Policy of the Asian Development Bank*. Manila.

SUMMARY CREDITWORTHINESS MATRIX FOR SMALL ISLAND DEVELOPING STATES

	Adequate	Limited	Lack
Quantitative indicators			
Economic size	SIDS that are sufficiently large and diversified to satisfy qualitative and quantitative benchmarks Typically, not a microstate unless under exceptional circumstances including maintaining sufficient reserves to deal with major economic shocks	SIDS that maintain sufficient reserves and fiscal buffers to deal with moderate shocks	SIDS that do not maintain sufficient reserves and fiscal buffers to deal with moderate shocks
Debt sustainability	Ability to maintain low risk of debt distress under shock scenarios Published debt management strategy and borrowing plan including ceilings	Ability to maintain moderate risk of debt distress under shock scenarios Published or internal debt management strategy and borrowing plan including ceilings	Generally high-risk of debt distress Lack of published or unpublished debt management strategy
Private capital and savings	Strengthening and diversified private capital inflows and positive savings trajectory	Stable private capital inflows Stable but low domestic savings	Highly volatile private capital inflows with insufficient savings
Qualitative indicators			
International classifications	Not a HIPC or LDC IBRD-only Not DSSI-eligible	Not a HIPC or LDC IBRD-IDA blend DSSI-eligible	HIPC or LDC IDA-only DSSI-eligible
External financing	Stable and resilient to shocks Disaster insurance or contingent credit in place	Highly concentrated sources with moderate volatility Limited resilience to shocks or unexpected events	Reliance on ODA or a few official sources Lack of resilience to shocks
Volatility exports	Least or less vulnerable	Moderately vulnerable	Highly vulnerable
Credit ratings	International ratings agency rating of 'speculative' or higher	International ratings agency rating of 'highly speculative grade' or higher	International ratings agency rating of below 'highly speculative grade' Unrated DMCs

	Adequate	Limited	Lack
		Unrated DMCs with a comparable alternative sovereign risk profile	
Other considerations			
Vulnerability index	Demonstrates adequate resilience to shocks MVI rating of moderate vulnerability risk or above	Demonstrates limited resilience to shocks MVI rating of high vulnerability or above	Demonstrates lack of resilience to shocks MVI rating of very high vulnerability
Economic indicators (exports, savings, FDI, ODA)	Macroeconomic framework exhibits adequate resilience to economic shocks including a capacity to service market-based debt obligations during crisis events.	Macroeconomic framework exhibits some limited resilience to economic shocks including a capacity to service debt obligations during crisis events.	Macroeconomic framework exhibits weak resilience to economic shocks including a capacity to service market-based debt obligations during crisis events.

DMC = developing member country, DSSI = Debt Service Suspension Initiative, FDI = foreign direct investment, GNI = gross national income, HIPC = heavily indebted poor countries, IBRD = International Bank for Reconstruction and Development, IDA = International Development Association, LDC = least developed country, MVI = Multidimensional Vulnerability Index, OCR = ordinary capital resources, ODA = official development assistance, SIDS = small island developing states.

Notes: The table provides a summary of relevant yardsticks when assessing the ability of a borrower to repay a creditor on time and in full with a focus on SIDS. The Graduation Policy highlights that the assessment of creditworthiness should not be based on formulas or algorithms and that no fixed weights should be applied to any specific indicators. This reflects the fact that no weighting formula can cover all country situations and that in some cases a single factor can dominate otherwise satisfactory performance in all others.

^a Based on the United Nations' list of LDCs.

^b Where a country is assessed to be at moderate or high risk of debt distress, or in debt distress, under the debt sustainability framework for low-income countries, then it should be classified as a group A country.

Source: Asian Development Bank.