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COUNTRY ASSISTANCE STRATEGY

FOR

TUVALU

FOR THE PERIOD FY 2012-2015

November 4, 2011

**Papua New Guinea, Pacific Islands and Timor-Leste Country Management Unit
East Asia and Pacific Region**

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CURRENCY EQUIVALENTS

(Exchange Rate Effective as of 21 October, 2011)

Currency Unit: Australian Dollar (AUD)

US\$1 = AUD 0.98

FISCAL YEAR

Tuvalu's Fiscal Year: January 1-December 31

ACRONYMS AND ABBREVIATIONS

AAA	Analytical and Advisory Activities
ACP-EU	Africa Caribbean Pacific – European Union
ADB	Asian Development Bank
ADF	Asian Development Fund
CAS	Country Assistance Strategy
CEWG	Core Economic Working Group
CIF	Consolidated Investment Fund
DPO	Development Policy Operation
EDF	European Development Fund
EU	European Union
FY	Fiscal Year
GDP	Gross Domestic Product
GNI	Gross National Income
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IFRC	International Federation of Red Cross and Red Crescent Societies
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
MDG	Millennium Development Goal
ODA	Overseas Development Assistance
PAIP	Pacific Aviation Investment Program
PNA	Parties to the Nauru Agreement
PRIF	Pacific Regional Infrastructure Facility
PV	Present Value
SDR	Special Drawing Rights
TANGO	Tuvalu Association of Non-Governmental Organizations
TMTS	Tuvalu Medical Treatment Scheme
TTF	Tuvalu Trust Fund
RSE	Recognized Seasonal Employment

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EXECUTIVE SUMMARY

- i. ***This is the first Country Assistance Strategy (CAS) for Tuvalu, the World Bank's 187th Member.*** The World Bank has been scaling up its assistance throughout the Pacific and has decided to transition from the previous umbrella approach characterized by a regional strategy, to individual country strategies that permit a more detailed analysis of a country's specific development challenges. This CAS aims to assist Tuvalu in: (i) mitigating the effects of economic isolation; and, (ii) building resilience against exogenous shocks. The CAS accompanies the country's first IDA investment and initiates the World Bank's relationship with Tuvalu.
- ii. ***Tuvalu is one of the world's smallest, most isolated and most vulnerable nations and is already beginning to experience the impact of climate change.*** Tuvalu, comprised of 9 islands and atolls, has a total land area of just 26km² although this is spread across an area of ocean around 757,000 km². With a population estimated at less than 10,500, only the sovereign states of Vatican City and Nauru are less populous. At its highest point, the country is just 4.5 meters (15ft) above sea level making it the second lowest-lying nation in the world after the Maldives and highly vulnerable to sea level rise. Few atolls are more than 800m wide. The country has already begun to experience "king tides" that raise the normal sea level and cause flooding in low-lying areas, and it suffers regularly from severe water shortages.
- iii. ***To help address the country's geographic isolation, the World Bank will seek to assist Tuvalu in taking fuller advantage of the opportunities from closer regional and global integration.*** Tuvalu will participate in a regional IDA operation designed to rehabilitate the country's aviation infrastructure, bring the facilities into compliance with international safety regulations and safeguard Tuvalu's principal connection to the outside world. The World Bank will also focus on measures to help Tuvaluans take full advantage of temporary employment opportunities in New Zealand and Australia.
- iv. ***Tuvalu is on the margins of the global economy, heavily reliant on external assistance and volatile sources of revenue.*** Fishing licenses, external assistance, income from the Tuvalu Trust Fund and the lease of the country's ".tv" internet domain name make up the majority of government revenues but are, by their very nature, prone to volatility and often determined by factors outside the control of the Government. Tuvalu's fiscal position is parlous and the country faces uncertain prospects in 2012. The Government has requested budget support to help strengthen fiscal management and undertake urgent fiscal adjustment and the World Bank has been in initial dialogue with development partners, to outline the coordinated interventions that will anchor the World Bank's program in this CAS period.
- v. ***World Bank support to Tuvalu will require an adaptive and flexible approach that is closely aligned with aid effectiveness principles.*** The application of *Paris Declaration* principles in Tuvalu poses a formidable challenge. The 2009 *Cairns Compact* committed the Pacific countries and their development partners to coordinate their resources more effectively and to accelerate progress towards the MDGs. A recognition of these principles and an appreciation of the country's extraordinary capacity challenges will guide all World Bank interventions in Tuvalu.

I. INTRODUCTION

1. *The World Bank has been scaling-up analytical and financial support throughout the Pacific and is now well-positioned to provide IDA support to Tuvalu.* Tuvalu joined the World Bank (IBRD and IDA) in June 2010, becoming the World Bank’s 187th and smallest member. Despite a GNI per capita that exceeds the IDA operation cutoff, Tuvalu is characterized by many of the factors that warrant the country’s access to IDA16 under the small island economies exception and will receive IDA-only resources with effect from FY12. This Country Assistance Strategy (CAS) will be presented together with the first phase of a regional aviation safety investment program in which Tuvalu, Tonga and Kiribati will participate, and which is supported with regional IDA resources and by the Government of Australia through the Pacific Regional Infrastructure Facility (PRIF)¹.

2. *This country strategy outlines a World Bank program that is directly responsive to Tuvalu’s needs and that is informed by the broader themes guiding the World Bank’s engagement in the Pacific.* The decision to move to individual country strategies in the Pacific reflects an acknowledgement that while Pacific island countries face many common challenges, development performance across this region is mixed. Through this CAS, the World Bank aims to adapt its program and instruments carefully to Tuvalu’s singular country context and to signal the institution’s long-term commitment to supporting Tuvalu’s development. Notwithstanding the World Bank’s recent expansion across the Pacific, strategies for “micro-states” such as Tuvalu will necessarily be concise, highly flexible and will draw upon the range of available instruments—but the future program cannot be detailed with the same level of precision as that might be expected of the World Bank’s larger clients. The Government of Tuvalu is strongly supportive of the preparation of an individual CAS and of the program outlined.

3. *As the World Bank deepens its knowledge of Tuvalu’s context and priorities, the CAS and the program proposed will draw on the analytical work and operational experience of Tuvalu’s more established development partners.* Tuvalu’s application for IMF and World Bank membership has initiated a close collaboration with all missions to date having been undertaken jointly. Similarly, the World Bank program has been shaped through consultations with the Asian Development Bank (ADB), AusAID, the New Zealand Aid Program, the Government of Japan, the European Union, the UN System and others.

II. COUNTRY CONTEXT AND DEVELOPMENT CHALLENGES

Sociopolitical Context

4. *Tuvalu is a Polynesian Island nation with a history of settlement stretching back 3,000 years when the islands were first inhabited by Samoan and Tongan voyagers.* The country was first sighted by a Spanish explorer in 1568, but was not claimed for Great Britain until 1819 when the Captain of an armed brigantine sailing under British colors named it the Ellice Islands after the Member of Parliament Edward Ellice who owned the vessel’s cargo.

¹ PRIF is a Regional partnership whose main development objective is to provide a framework for better engagement of countries and development partners to ensure more effective use of available funding and deliver better infrastructure service.

5. ***Tuvalu became fully independent in 1978, since which time it has been governed as a Parliamentary democracy.*** From 1892-1916, Tuvalu was administered as a British protectorate and later as part of the Gilbert and Ellice Islands (1916-1974). In 1974, Ellice Islanders voted for separate British dependency status and to separate from the Gilbert Islands (now the independent Republic of Kiribati). There are just 15 Members of Parliament in the unicameral legislature, each serving a four-year term. There are no formal political parties and floor crossing by MPs is always possible.

6. ***Tuvalu is one of the world's smallest, most isolated and most vulnerable nations and is already beginning to experience the impact of climate change.*** Located in the Pacific Ocean between Australia and Hawaii and neighboring Kiribati, Samoa, and Fiji, the country is comprised of 9 islands (4 reef islands and 5 atolls). Tuvalu has a total land area of just 26km² although covers an ocean area of 757,000 km². With a population estimated at less than 10,500, only the sovereign states of Vatican City and Nauru are less populous. About half the population lives on the main atoll, Funafuti. At its highest point, the country is just 4.5 meters (15ft) above sea level making it the second lowest-lying nation in the world (after the Maldives) and highly vulnerable to sea level rise. Few atolls are more than 800m wide. The country has already begun to experience “king tides” that raise the normal sea level and cause flooding in low-lying areas. It is estimated that a rise in sea level of between 8-16 inches over the next century might submerge the nation entirely². Drinking water is primarily collected from rainwater and stored in tanks. In September 2011 the Government declared a state of emergency after “*la Niña*” weather patterns resulted in severe water shortages. In October 2011 desalination plants and water supplies were airlifted to the country to help alleviate the situation.

7. ***Tuvalu's development outcomes are mixed:***

- ***Poverty.*** Tuvalu's Gross National Income (GNI) per capita of \$4,670³ identifies the country as one of the more prosperous Pacific island countries, but does not acknowledge the sharp differences in income that exist between the main population center (Funafuti Atoll) and the less-developed outer islands where formal employment opportunities are extremely limited. While extreme poverty remains a rare phenomenon, the 2010 Household Income and Expenditure Survey, indicates that the proportion of the population living in poverty has risen significantly from 17.5 percent in 2005 to 25 percent.
- ***Education.*** Despite substantially meeting the Millennium Development Goal (MDG) of universal primary education (99%), significant issues of educational quality persist. Lack of basic skills and insufficient opportunities for vocational skills development are constraining the competitiveness of young Tuvaluans and their ability to access seasonal employment opportunities overseas. Moreover, recent analysis indicates that government spending on tertiary level scholarships (AUD2.1m; US\$2.1m equivalent) is not cost-effective, not always applied strategically, and is generating uneven results. The emphasis on scholarships has significantly reduced the level of government resources available for early childhood, primary (AUD1.3m) and secondary education (AUD1.5m).

² Patel, S.S.2006.“A sinking feeling”, *Nature*: 440. pp.734-736.

³ (2010; Atlas method).

- **Health.** The Tuvalu Medical Treatment Scheme (TMTS) that provides Tuvaluans with access to critical care overseas when unavailable domestically, has expanded rapidly in recent years. Expenditure has increased substantially from AUD0.5m in 2005 to AUD2.8m in 2010 (53 percent of the total health budget) and is acknowledged by Government and donors to be unsustainable at its current level. TMTS expenditure is placing a substantial fiscal burden on Government and will need to be addressed as a matter of urgency.
- **Gender.** Tuvalu is a signatory to the Convention for the Elimination of All Forms of Discrimination Against Women, and the Constitution provides equal opportunities for men and women to contest elections. This notwithstanding there is currently just one female MP, only the second woman have ever won in Tuvalu's Parliament. Gender Parity Index(GPI)⁴ scores for the period 2000-2009 indicate parity in terms of girls' enrolment at the primary and secondary levels (long-term average 1.07) and is even more pronounced in favor of women at the tertiary level (long-term average 1.46).⁵ Women account for 47 percent of the civil service cadre, but hold only 19 percent of senior positions and make up only 11 percent of Board Members in Public Enterprises, Boards and Government Committees.⁶ Of particular concern is the high level of violence against women recorded in the Demographic Health Survey (2007) which indicated as many as 4 out of every 10 women have been the subject of physical abuse and 1 in 5 the victim of sexual violence.⁷

Economic Context

8. ***Like other small, remote economies, Tuvalu has a relatively undiversified economic base, and has experienced uneven economic growth.*** In the past five years, real GDP growth ranged from -1.7 percent to +7.6 percent. Agriculture contributes approximately 23.5 percent of GDP⁸. Subsistence farming and fishing are the main economic activities, although these are constrained by poor soil quality, limited access to fresh water and the high cost of imported fuel. The recent drought situation (September 2011) is expected to have a significant negative effect on crop yields. The services sector dominates the economy, with retail trade and the public sector services accounting for the remaining two-thirds of GDP, as well as a majority of formal sector employment.

9. ***Expenditure by the Government is a key driver of economic activity.*** Government expenditure has averaged 90 percent of GDP in the past five years. On average, total expenditure is split 1:7 between capital and non-capital expenditure. Of the non-capital expenditure, 40 percent is spent on wages and salaries, 30 percent is used to purchase goods and services (mostly imported), and 25 percent spent on subsidies and transfers. Subsidies and transfers in particular, doubled from around 12 percent of GDP in 2006 to an estimated 25 percent of GDP in 2010. This can partly be explained by the expansion of the TMTS.

⁴ Gender Parity Index is calculated by dividing the Gross Enrolment Rate (GER) for females by the GER for men. A score of less than 1 indicates a gender disparity against females and a score of above 1 indicates a disparity in favor of females.

⁵ Government of Tuvalu. 2010. *Tuvalu: Millennium Development Goals Progress Report 2010/2011*. pp. 41-46

⁶ Ibid.

⁷ Ibid.

⁸ IMF estimates Tuvalu's GDP (2009) at US\$27.1m; GDP per capita at US\$2,447.

10. **Government revenue is dependent on a few volatile sources.** Total revenue and grants represented on average 76.5 percent of GDP in the past five years. Of this, 22 percent came from tax revenues, 50 percent from non-tax revenues, and 28 percent came from aid. Fishing license fees contributed to over two-thirds of non-tax revenue (or a quarter of non-capital expenditure). Income from the Tuvalu Trust Fund (TTF; *see Box 1*) and the lease of the country's ".tv" internet domain name are other sources of non-tax revenue. By their very nature, these revenues are prone to volatility and often determined by factors, such as exchange rates (much of Tuvalu's offshore revenue is US dollar denominated) and catch volumes that are beyond the control of the Government.

Box 1: The Tuvalu Trust Fund

Established in 1987, the Tuvalu Trust Fund (TTF) is considered one of the better managed national trust funds in the Pacific. The TTF was set up by the government to contribute to Tuvalu's financial stability by providing an additional source of revenue for recurrent expenditures and to set the country on a path towards greater financial autonomy. The fund's capital initially came from donors (Australia, New Zealand, Japan, the Republic of Korea and the United Kingdom), and the Government. In subsequent years, the TTF also benefited from contributions from windfall revenues, such as those from the lease of the ".tv" internet domain and fishing license sales.

The TTF's capital is held in the primary trust fund, which aims to generate a real rate of return of 4.5 percent in excess of the Australian Consumer Price Index. In years when the market value of the TTF exceeds its real maintained value, the surplus is transferred to the Consolidated Investment Fund (CIF). The CIF, which also serves as a repository for windfall revenues, can be used for budget financing as well as capital reinvestments that are back-transferred to the primary trust fund. In the past five years, the CIF has financed on average 1/5 of non-capital expenditure. The CIF targets a minimum balance equivalent to 16 percent of the TTF's real maintained value (or approximately 45 percent of GDP). This target aims at covering up to four years without transfers from the TTF.

To date, in line with the international deed that governs the TTF, no capital withdrawal has been made by the Government. The TTF's market value is projected to fall to 235 percent of GDP at the end of 2011, down from around 288 percent of GDP at the end of 2010. The TTF's market value has been below its real maintained value since 2008. In addition, the CIF balance as a percentage of GDP fell from 46 percent in 2009, to 21 percent in 2010 and, without corrective measures, faces depletion by 2012.

11. **Tuvalu faces a structural trade deficit and is vulnerable to international price fluctuations.** Merchandise exports amount to 1.7 percent of GDP, and prospects for increasing these are limited. Given very limited domestic production, Tuvalu is heavily dependent on imports (48 percent of GDP). All petroleum products and a very high proportion of food are imported, leaving the country extremely vulnerable to international commodity price shocks. The trade deficit in the past five years averaged 37 percent of GDP. Tourist arrivals, unlike many

other Pacific island countries, are very low (just over 300 visitors per year) due to poor infrastructure and very limited passenger capacity. The trade deficit is largely financed by seafarer remittances, investment income from the TTF, fishing license fees, as well as official grants. In the last five years, grants have amounted to nearly 36 percent of GDP. Reserves have remained adequate, above 8 months of imports.

Recent Economic Developments and Issues

12. ***Despite its remoteness, the global economic crisis has affected Tuvalu's economy.*** The impact of the crisis was felt most acutely through falling external income. Remittances from seafarers, traditionally one of the most important sources of household income, fell sharply from around 10 percent of GDP to 6 percent of GDP since the onset of the global crisis. The TTF lost an estimated 9 percent of its value in 2009 following a slump in international financial markets and, as a result, investment income fell from 15 percent of GDP in 2008 to 9 percent of GDP in 2009. The overall economy contracted by 1.7 percent in 2009, followed by a further 0.5 percent contraction in 2010. Annual inflation on the other hand has been negative since mid-2009 due to lower global food prices and the strong Australian dollar (the national currency).

13. ***The Government has supported the economy by increasing spending, but the fiscal situation is becoming precarious.*** Spending pressures were exacerbated by the Government having to make payments on guaranteed debt for an airline company. Owing to weak domestic revenue and offshore income, as well as increased spending, the fiscal deficit increased sharply from 3 percent of GDP in 2009 to almost 38 percent of GDP in 2010. As a result, CIF resources (*see Box 1*) were substantially reduced, bringing it to the verge of exhaustion. In 2011, expenditure as a percentage of GDP is expected to remain elevated, but the fiscal deficit is estimated to narrow to 23 percent of GDP due to increased aid flows.

14. ***Tuvalu requires continued access to grants to finance key development expenditures.*** A debt sustainability analysis suggests that in the absence of substantial grant financing, Tuvalu faces a high risk of debt distress. The Present Value (PV) of external public debt stood at 28 percent of GDP as at the end of 2010, close to the indicative threshold of 30 percent. It is projected that, by 2021, the PV of external public debt will exceed the threshold were grant financing to be substituted by concessional debt. In particular, given Tuvalu's negligible export base, the PV of external public debt as a percentage of exports is currently more than twice the indicative threshold and likely to remain above this level for the foreseeable future.

15. ***In order to ensure sustained increases in living standards, Tuvaluans need to be better prepared for overseas job opportunities.*** With limited domestic employment opportunities and demand for Tuvaluan international maritime seafarers declining in the face of greater competition from other countries, education and vocational training systems need to be strengthened to enable Tuvaluans to compete effectively.

16. ***Assessments of the quality of governance in Tuvalu present an uneven picture.*** Compared against its 11 Pacific neighbors and 8 other East Asian economies on the six broad

dimensions of governance⁹ measured in the latest World Governance Indicators¹⁰, Tuvalu rates in the 90th-100th percentile in two indicators (political stability, a metric that measures the likelihood of government overthrow, and the rule of law); in the 50th-75th percentile for two other indicators (voice and accountability; control of corruption); in the 25th-50th percentile for one indicator (government effectiveness), and in the lowest percentile (0th-10th) for regulatory quality. The relatively weak performance on the measure of regulatory quality is not surprising as this is intended to assess perceptions of a government's ability to formulate and implement sound policies and to promote private sector development. In this comparison, of Tuvalu's Pacific neighbors, only the Solomon Islands and Kiribati are rated lower.

Government Priorities and Development Framework: Te Kakeega II

17. *The Government of Tuvalu's vision for achieving sustainable development and "a healthy, educated, peaceful and prosperous Tuvalu" is outlined in Te Kakeega¹¹ II: National Strategy for Sustainable Development 2005-2015.* The strategy was endorsed in 2005 and is rooted in a commitment to attaining the MDGs. *Te Kakeega II* provides the basis for this CAS. The strategy is underpinned by eight strategic areas: (i) good governance; (ii) economic growth and stability; (iii) social development; (iv) Falekaupule¹² and outer islands development; (v) employment and private sector development; (vi) education and human development resources; (vii) natural resources; and, (viii) infrastructure and support services. A wide ranging review of the implementation progress of Te Kakeega II is underway and is scheduled to be completed at the end of November 2011. In discussions with the World Bank and development partners, the Government has identified economic growth and stability and infrastructure development as priorities for World Bank assistance.

Development Partner Engagement

18. *Given the geographic and economic constraints the country faces, development assistance is unlikely to be a transitional phenomenon in Tuvalu.* Tuvalu, in common with other small island states, is heavily reliant on overseas development assistance with net flows to Tuvalu in recent years reaching slightly under US\$13m¹³ *per annum* equivalent to about 40 percent of GDP. The objective for the World Bank should be to support and sustain a strong policy environment in which well-targeted and predictable levels of foreign assistance help enhance living standards and service delivery. Of equal importance will be assisting Tuvalu in harnessing the benefits of closer economic integration with the metropolitan countries in the region, increasing the returns from the sustainable management of Tuvalu's pelagic fish stocks, and by providing greater opportunities for young Tuvaluans to access overseas employment opportunities. The World Bank has collaborated closely with Tuvalu's development partners and hopes to continue to draw on their expertise and experience as the Bank looks to align its assistance with existing programs and Tuvalu's development priorities.

⁹ These are: Voice and accountability; political stability and absence of violence; Government effectiveness; regulatory quality; rule of law; and, control of corruption.

¹⁰ 2010. <http://info.worldbank.org/governance/wgi/index.asp>.

¹¹ Te Kakeega is defined as the "act of climbing or scaling upwards".

¹² Falekaupule refers to traditional meeting houses, literally "the house in which the Chiefs make decisions".

¹³ Source: OECD.StatExtract, 2006-2009, total ODA disbursement.

- Asian Development Bank. The Country Operations Business Plan for Tuvalu (2012-2014) maintains the strategic focus of ADB assistance to Tuvalu on strengthening public sector management. Tuvalu's 2012-2014 Asian Development Fund (ADF) grant allocation will total US\$2.35m, which includes a carryover of US\$1.36m from the previous period and will be provided in the form of budget support. In addition, Tuvalu is expected to receive an allocation of around US\$300,000 for technical assistance that is likely to focus on strengthening public financial management and the implementation of public enterprise reforms supported through previous ADB assistance.
- Australia. Australia is one of Tuvalu's larger development partners whose 2011-2012 country program is estimated at AUD7.4m, (US\$7.5m equivalent). Tuvalu also benefits from a proportion of the AUD2.5m that AusAID provides in regional assistance. The priorities for Australia's assistance to Tuvalu are set out in the *Partnership for Development* signed with the Government of Tuvalu in August 2009. The *Partnership* identifies three areas of priority: economic governance, education and human resources, and climate change and the environment. Australia has also contributed approximately AUD6.93m to the Tuvalu Trust Fund over the period 2008-2010. Australia provides substantial support for tertiary education through a program of overseas scholarships to institutions in the Pacific and in Australia, as well as emergency assistance in response to natural disasters such as the 2011 drought emergency. In 2010, Australia established Tuvalu's first Women's Crisis Center to provide shelter and counseling to victims of domestic violence. Australia has also taken a lead role in assisting the Government to outline a Policy Reform Matrix that will inform future budget support operations by development partners.
- European Union (EU). The European Union has been active in Tuvalu since the country's independence in 1978. The current program under the ACP-EU 9th European Development Fund (EDF; 2003-2007) totaled €5.2m (US\$7.2m equivalent) and reflected the EU's longstanding focus on outer islands development. Activities supported included: primary school construction and provision of equipment and supplies, waste collection and disposal in Funafuti, and household and municipal water storage improvements. Under EDF 10, EU assistance will focus on water and sanitation with an indicative allocation of €5m. In recognition of the impact of the global financial slowdown, the EU's Vulnerability FLEX program is providing an additional €1.5m in general budget support tied to the ADB's ongoing program of public enterprise reform.
- Government of Japan. Japan provides development assistance to Tuvalu on a rolling basis. The current program (2009-2014), envisages providing support through regional and national programs and focuses on areas including: climate change and disaster risk management; environmental conservation; health and education services; economic development; and, governance. Japan provides Tuvalu Electricity Corporation (the state-owned electricity utility) with an annual fuel grant that in 2011 was equivalent to three months fuel supply. JICA is the largest single donor in education through its support for the rehabilitation of the national secondary college.
- New Zealand. New Zealand is one of Tuvalu's longstanding development partners and has a 2011/2012 allocation for Tuvalu totaling NZ\$5m (US\$2.8m equivalent), which includes

NZ\$1m carried over from the previous fiscal year. Assistance identified under Tuvalu and New Zealand's *Joint Commitment for Development* focuses on sustainable economic development (SED) and human resource development (HRD). Within the scope of the SED focus, emphasis will be given to improving the efficiency and safety of inter-island shipping, increasing renewable energy use, and better management of fisheries resources. HRD encompasses workforce skills development. Tuvalu also receives assistance through New Zealand funded regional health, environment and disaster risk reduction and management programs – usually delivered by regional agencies. New Zealand (along with Australia, the United Kingdom, Japan, South Korea, and Tuvalu) was an original contributor to the Tuvalu Trust Fund (*see Box 1*) and has made periodic contributions to the Trust Fund. In recognition of the impact of the global financial crisis, New Zealand provided NZ\$4.4m in direct budget support to the Government for the period 2009-2012.

- Taiwan, China. Taiwan, China is a longstanding donor partner of Tuvalu and provides a range of technical assistance including in the areas of household agriculture and medical assistance. Financial assistance is provided in the form of general budget support at an annual level of US\$5m. Taiwan, China provided an additional US\$1.5m in 2011 in response to a government request, although support is expected to revert back to US\$5m in 2012.
- United Nations. UN System agencies continue to provide support to Tuvalu in a range of areas. In response to the recent drought situation, OCHA and UNICEF have provided Tuvalu with emergency assistance. UNDP is providing support to implement the National Adaptation Plan of Action with a GEF-funded project that aims to increase the resilience of coastal areas and communities to the impact of climate change.
- Civil Society. In addition to Church groups that have a traditional and important role in their communities, the Tuvalu Association of Non-Governmental Organizations (TANGO) is also active throughout Tuvalu in such areas as: promoting good governance; assisting communities in managing conservation and coastal areas, fauna and reef preservation; supporting regional HIV/AIDS initiatives at the community level; and acting as a focal organization for the Global Environment Facility. TANGO is affiliated with the Pacific Island Association of NGOs (PIANGO) which has members in 21 Pacific countries and territories. PIANGO receives funding from New Zealand and Australia among other development partners.

III. WORLD BANK ENGAGEMENT IN THE PACIFIC

Transforming World Bank Engagement in the Pacific Region

19. *The World Bank's engagement in the Pacific island countries reflects the fact that these clients' development trajectories will be shaped – perhaps more than any other nations in the world – by their economic geography.* The World Bank's Pacific island member countries¹⁴ have a total population of about 2 million, spread across hundreds of islands, and scattered across an area equivalent to 15 percent of the globe's surface. Given their extreme vulnerability to

¹⁴ Fiji, Kiribati, Palau, Marshall Islands, Micronesia, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

economic shocks, natural disasters and the effects of climate change, achieving sustained development progress is a long-term proposition requiring collaboration with international partners.

20. ***The World Bank has significantly expanded its presence and program throughout the Pacific as a part of a renewed commitment to the region.*** In recent years, IDA (as well as IFC – although Tuvalu is not currently a member) has expanded its engagement and activities in established clients (for example Samoa and Tonga) and has been placing particular emphasis on deepening engagement in new or less-established clients such as Tuvalu. Reflecting the common challenges faced by many Pacific countries, World Bank engagement across the Pacific has been tightly focused on four overarching themes: (i) strengthening regional/global integration; (ii) building resilience to economic shocks, natural disasters and climate change; (iii) encouraging economic reform and private sector development; and (iv) improving education, health and the social services. The way in which these objectives are interpreted will vary according to country circumstances, the government’s development priorities and the extent to which World Bank assistance can complement existing development programs. Translating these themes into a program that responds to Tuvalu’s needs is the purpose of this CAS.

21. ***The World Bank is committed to the Cairns Compact agreed by Pacific leaders to ensure better use of all development resources, and will work closely with clients and partners to improve development effectiveness.*** The total level of aid from all donors to the Pacific is increasing substantially, a fact that underscores the need for effective coordination (in terms of co-financing as well as in coordinating mission schedules) and collaboration between clients and donors. As part of Cairns Compact monitoring, Tuvalu benefitted from a peer review (by other Pacific Islands Forum members) of MDG progress that has helped identify target areas for future assistance. Tuvalu, although small, has not been immune to aid fragmentation. A recent assessment of donor support to the health and education sectors in Tuvalu¹⁵ reports a total of nearly 90 projects, indicating considerable scope for further harmonization and alignment. The value of the World Bank’s engagement in Tuvalu is not principally defined in terms of its size, but rather by the extent to which the World Bank can bundle its expertise and funding, collaborate with other development partners, transfer global knowledge, develop capacity and support changes that will improve the lives of Tuvaluans.

Translating the Pacific Themes into the Tuvalu Program

22. ***Reflecting the Government’s development priorities and the themes underpinning the World Bank’s engagement in the Pacific, the program in Tuvalu will focus on:***

- ***Strategic Area 1:*** Mitigating economic isolation by encouraging regional and global integration; and
- ***Strategic Area 2:*** Building resilience against exogenous shocks

23. ***Tuvalu’s extreme vulnerability to climate change and sea level rise makes the systematic consideration of these issues an imperative in all World Bank activities.***

¹⁵ Government of Australia study prepared for the Government of Tuvalu. June 2011. *Medium Term Expenditure Framework for Education and Health 2009-2014.*

Strategic Area 1: Mitigating economic isolation by encouraging regional and global integration

24. *The initial focus of the World Bank's program will be Tuvalu's inclusion in a regional Pacific Aviation Investment Program (PAIP).* Whereas many other Pacific island countries' air links serve to bring tourists to their country, Funafuti International Airport provides a critical lifeline for Tuvaluans whose strategic significance is hard to overstate. A shortage of employment opportunities in Tuvalu has resulted in a migrant work culture where Tuvaluans travel overseas for extended periods and a significant proportion of Tuvalu's tertiary students receive their education in overseas institutions. Critically ill patients that cannot be offered treatment in Tuvalu depend on reliable air travel to access specialist care in Fiji or New Zealand. Air travel also serves a Tuvaluan Diaspora that extends through the Pacific and beyond, as Tuvaluans seek employment, education and other opportunities overseas. This intervention responds directly to the CAS objective of facilitating Tuvalu's deeper integration with their larger Pacific trading partners.

25. *The investments proposed under PAIP, which mobilizes regional and national IDA resources, will safeguard Tuvalu's principal connection to the outside world.* These investments are expected to promote regional integration (with additional funding provided by the Pacific Regional Infrastructure Facility, PRIF), expand markets for goods and services, and facilitate trade and labor mobility. The program will also support the Government in strengthening their aviation regulatory oversight and operations. Mindful of the technical complexity of the operation and Tuvalu's unfamiliarity with World Bank processes, particular care has been given to simplifying project design and to ensuring an appropriate level of implementation support – considerations that will be applied to all future World Bank operations in Tuvalu.

26. *Across the Pacific, the World Bank Group will work with clients and partners to help island states derive greater benefits from regional cooperation and from closer integration with larger metropolitan countries.* In common with its Pacific neighbors, there are significant potential benefits from closer regional cooperation in improving the sustainable management of pelagic fish stocks and opportunities for temporary labor migration.

27. *A fisheries management strategy for the Pacific is being developed, following a request for support from the Parties to the Nauru Agreement (PNA) Office.* Tuvalu and the other seven Pacific island members of the PNA collectively account for approximately 40 percent of the world's tuna stocks. This group, for whom fisheries remain their primary resource, is undertaking measures to improve the management of the tuna resource and to ensure that members receive a more equitable share of benefits. These include: agreements to cut licensed fishing days by 30 percent in 2011; the closure of high seas pockets that previously complicated the control of fishing activities in the Pacific; improved vessel monitoring systems to reduce illegal, unregulated and unreported fishing; and preferential treatment for domestic vessels or those that comply with specific requirements for local crew and unloading. In formulating a fisheries strategy, the Bank will work closely with the existing regional architecture managing fisheries in the Pacific, including the Forum Fisheries Agency (FFA), Secretariat of the Pacific

Community (SPC) and the Western Central Pacific Fisheries Commission (WCPFC), as well as other donor partners (including Australia and New Zealand who are already active in the sector).

28. ***The World Bank will continue to work closely with Tuvalu, other Pacific island countries and partners, to help expand seasonal and other international employment opportunities.*** Labor is one of Tuvalu's few viable exports. New Zealand's Recognized Seasonal Employment (RSE) scheme, for which Tuvalu is eligible, has already provided over 9,000 Pacific islanders with opportunities to work for up to nine months in the horticultural industry. Tuvalu's participation in the RSE scheme has been limited to date with around 200 workers having been recruited in the first three seasons of the scheme – a reflection of the higher barriers to participation that Tuvaluans face. Transportation costs are high (often by Government vessel to Fiji and then by air to New Zealand), and made more so as the Government seeks to provide Tuvaluans in the outer islands with these opportunities. More than a logistical challenge however, Tuvaluans have little experience of formal employment and are less competitive than applicants from other countries. In September 2011, the Australian Government announced the eligibility of Tuvaluans to participate in an expanded Pacific Seasonal Workers pilot scheme. The World Bank will work closely with donors already working on education and skills development programs to help enable Tuvaluans – particularly women – to take full advantage of this and similar schemes.

Strategic Area 2: Building resilience against exogenous shocks

29. ***Tuvalu has requested budget support to help strengthen fiscal management and undertake urgent fiscal adjustment.*** Despite its isolation, Tuvalu continues to feel the effects of the global slowdown and remains highly vulnerable to exogenous shocks. Tuvalu's fiscal position is parlous. With the CIF likely to be exhausted in 2011, and with few additional sources of external financing anticipated, the country faces uncertain prospects in 2012. The World Bank has been in initial dialogue with both the Government and development partners (several of whom have valuable experience with budget support operations in Tuvalu), a reform program that will likely anchor the World Bank's program in this CAS period. The Australian High Commission in Suva, Fiji will host a meeting of Government and development partners in December 2011, the first such meeting since 2008, to discuss a policy matrix prepared by Government with Australian support. Policy actions might include measures to: reduce government expenditure on tertiary education; reorient expenditures to correct underinvestment in primary, secondary and post secondary skills development; reducing unsustainable expenditure on the TMTS; rebalance investment in national primary and preventative health services; contain budget expenditures and manage public debt more efficiently; and increase levels of revenue collection. Wherever possible, the monitoring the achievement of prior actions will be linked to existing processes and development partner missions.

30. ***Tuvalu faces an existential threat from the impact of climate change and will need sustained and coordinated assistance to mitigate these challenges.*** Climate change concerns cut across all aspects of Tuvalu's development. A majority of Tuvalu's established development partners identify climate change as a central focus of their programs of support. Australia and the European Union have provided water storage tanks throughout Funafuti and in communities in the Outer Islands. Tuvalu's National Adaptation Plan of Action provides the framework for

coordinated development assistance for climate change around which the ongoing multi-donor program supported by UNDP, the Secretariat of the Pacific Community, Australia, and the Global Environment Facility is organized. The Government of Japan is pioneering technology to increase foram sand production to help island formation and to prevent sea level rise, and the Asian Development Bank is including Tuvalu in its regional climate change interventions. The scope of the challenge will require the World Bank to develop an appreciation of the Government's priorities before undertaking more complex activities. The World Bank will also seek to work with other partners to mobilize grant financing for climate change investments. All planned World Bank activities will incorporate climate resilience measures such as the introduction of efficient water resource management practices, rain water harvesting and water storage measures as integral elements of project design.

31. ***The frequency of drought conditions in Tuvalu underscores the need for a systematic assessment of water resource management practices.*** The World Bank aims to support the preparation of a drought management plan that will identify practical mitigation measures at government and household levels. These might include maximizing rainwater capture and storage, improving weather forecasting, and to outline local planning measures such as water rationing and securing alternative water supplies. The World Bank would seek to coordinate and collaborate with technical agencies already active in this area such as the Secretariat of the Pacific Community Applied Geoscience and Technology Division (SPC/SOPAC) an approach that would also facilitate exchange with Kiribati and other countries that are confronting similar challenges. If identified by the Government as a priority, the World Bank and development partners could include broader disaster risk management and climate change measures in future development policy operations.

Implementation: Coordination, Selectivity and New Ways of Doing Business

32. ***In Tuvalu, the operational experience of established development partners argues for coordinated dialogue.*** Pacific clients have required development partners to reassess and adapt their conventional operational approaches. In the Solomon Islands, the Core Economic Working Group (CEWG), established in 2009 and led by the Ministry of Finance, has brought together government officials across ministries with representatives of the ADB, AusAID, New Zealand Aid Program, European Union, the Regional Assistance Mission, IMF and the World Bank. Originally convened to support the Government's efforts to improve spending, promote economic growth and sound public financial management, the CEWG has provided a forum in which Government and partners have jointly developed a three-year reform matrix that is effectively aligned to the Government's budget processes. The Government of Tuvalu is seeking to establish a model for donor coordination similar to the CEWG that should assist both Government and donors to make progress in fulfilling their Paris, Accra and Cairns Compact commitments.

33. ***While World Bank experience with Development Policy Operations (DPO) in the Pacific is limited, the instrument has been shown effective in supporting reform and in strengthening Pacific countries' resilience.*** The successive impacts of the food and fuel crises together with those caused by a prolonged global economic downturn have placed severe strains on highly vulnerable Pacific countries. In this context, budget support operations have helped to provide

predictable resources in a relatively rapid manner while sustaining reform momentum that might otherwise have stalled in the face of further economic and fiscal stresses. The Government of Tuvalu has welcomed the proposal to develop a coordinated budget support operation, and to work together with the World Bank and existing development partners, to structure a DPO that, if successful, could lead to further operations.

34. ***In providing support to Tuvalu, the World Bank will exercise a high degree of selectivity.*** As Tuvalu’s newest development partner, the World Bank does not yet have the depth of country experience that would enable it to contribute equally to all Tuvalu’s development priorities. The program outlined in this CAS is, thus, closely focused on activities that are either directly relevant to the themes guiding the World Bank’s engagement in the Pacific (for example strengthening regional and global integration through the PAIP), or that aim to replicate successful experience elsewhere in the region (such as the experience with budget support approaches in the Solomon Islands, Tonga and Samoa). Acknowledging the risks of aid fragmentation or overreach, initial activities will be carefully designed and sequenced with the aim of building credibility with the Government.

35. ***Selectivity will be accompanied by close collaboration with development partners.*** Development partners have asked the World Bank to provide an overview of experience with budget support in the Pacific as this is being considered in Tuvalu. In particular, the World Bank has been invited to outline the processes, approaches and principles that have characterized successful budget support operations elsewhere in the Pacific. The World Bank also expects to make available its regional analyses where these can inform and enhance overall support to Tuvalu. Equally, the World Bank will also look to draw on or contribute to analysis being undertaken by other partners in areas where the World Bank may have a useful role to play.

36. ***A targeted program of World Bank analytical work is proposed in sectors where the World Bank is initiating engagement and in collaboration with the analysis being undertaken by other partners.*** Analytical and technical assistance anticipated during the first part of the CAS period is set out below:

Tuvalu: Proposed Analytical and Advisory Activities (AAA) - FY12-FY15

<p>FY12</p> <ul style="list-style-type: none"> • (Regional) Fisheries Engagement Strategy: Support to the PNA Secretariat • Drought Risk Management Strategy
<p>FY13</p> <p>Participation in the IMF 2012 Article IV</p>

37. ***With deeper understanding of the country context, the World Bank will be able to play a more active role collaborating closely with donors in areas where it has a comparative advantage.*** This is likely to be particularly significant in addressing the existential threat that Tuvalu faces from climate change. Whereas in the 2011 drought crisis, donors such as Australia, New Zealand, United States, the IFRC and UN system have been well-placed to respond to the humanitarian needs, the World Bank is exploring possible interventions in the area of water resource management that may serve to address the structural and medium-term challenges

Tuvalu faces and to complement the ongoing work of AusAID, SOPAC and the European Union (among others).

38. *Developing leadership and institutions in Tuvalu capable of successfully implementing reform demands the World Bank’s commitment to a long-term capacity enhancement effort.* Tuvalu—and governments throughout the Pacific—face significant challenges in recruiting and retaining domestic expertise. In micro-states such as Tuvalu the absolute size of the population and the pull of overseas opportunities only increase this challenge. By being selective and by adopting a pragmatic approach to these constraints, the World Bank will place a premium on coordination, intensive implementation support, and on projects whose design is carefully calibrated to the country’s capacity.

39. *Anticipated outcomes of the World Bank engagement in Tuvalu are set out in the results matrix in Attachment 1.* Given the initial nature of the World Bank’s dialogue with Tuvalu, the results matrix will be augmented and revised as implementation proceeds, and updated in the CAS Progress Report.

Financing Terms and Sources

40. *The indicative IDA resource envelope under the FY12-FY15 CAS amounts to SDR9.6 million* (equivalent to US\$14.4 million). The CAS covers the three years of IDA16 (FY12-14) and the first year of IDA 17 (FY15). It is assumed that the allocations to Tuvalu for FY13-FY15 will be equivalent to the FY12 level. The amounts for these fiscal years are indicative only. Actual allocations will depend on: (i) the country’s own performance; (ii) its performance relative to that of other IDA recipients; (iii) the amount of overall resources available to IDA; (iv) changes in the list of active IDA-eligible countries; (v) terms of financial assistance provided (grants or loans); and (vi) the amount of compensatory resources received for MDRI.

Tuvalu: Proposed IDA and Trust Fund Operations - FY12-FY15

	Year	IDA	Co-financed/Trust Fund
IDA-16 Period			
Pacific Aviation Investment Program	FY12	✓	PRIF
Development Policy Operation	FY12	✓	(ADB, EU, Australia, NZ) ¹⁶

IV. MANAGING RISKS

41. *Risks to the success and impact of the World Bank’s engagement in Tuvalu are high.* Belying its small size, Tuvalu is confronting a complex range of development challenges that threaten the country’s sustainability, and for which there are few precedents. These risks are magnified by the extreme limitations on capacity that exist when engaging in a sovereign state with a population of fewer than 11,000 people.

¹⁶ *To be confirmed.*

42. ***Institutional capacity could constrain program implementation.*** World Bank interventions will be informed by the pace of reform and designed to account for the present level of institutional capacity. As an example, arrangements have been made for a Technical and Fiduciary Service Unit, located in Tonga to assist with PAIP procurement recognizing its limited familiarity with World Bank procurement guidelines. This experience will help build capacity in Tuvalu to undertake future Bank-financed interventions. The initial experience with PAIP and budget support operations may also provide entry points for dialogue on public procurement and as a means to mitigate risks stemming from anticipated weaknesses in the public financial management system.

43. ***Tuvalu remains extremely vulnerable to external shocks and subject to many factors outside the country's control.*** Tuvalu is highly reliant on imported food and the country's electricity supply also depends upon imported petroleum products and has been significantly affected by recent global price shocks. While Tuvalu's economic geography cannot be fully overcome, the World Bank will assist Tuvalu in reaping the benefits of closer regional and global integration. Confronting climate change will require sustained and coordinated support. All World Bank activities will incorporate climate resilience measures.

44. ***To mitigate the above risks, the World Bank will draw on the experience and expertise of longstanding partners and find ways of adapting its approaches and operational models to the realities on the ground.*** The World Bank is proposing a pragmatic and flexible program that will draw on global and regional experience as well as that of partners with a longer track record in Tuvalu. Risks will also be managed through use, wherever possible, of regional approaches and replication of successful experience from elsewhere in the Pacific. Given development partners' limited in-country representation, donor coordination also presents a challenge that will need to be carefully and creatively managed.

45. ***Given the potential difficulties of sustaining reform commitment in Tuvalu, new activities will be carefully sequenced and linked to areas where there is demonstrated reform momentum.*** Decisions on subsequent operations will only be taken after an analysis of the World Bank's initial interventions. The Government's expressed support for this CAS and the program outlined will be critical in ensuring effective implementation.

Attachment 1: Tuvalu CAS Results Matrix¹⁷

Medium-Term Country Goals	Key Issues	Expected CAS Outcomes	Milestones	WBG Instruments and International Partners
<i>Strategic Area 1: Mitigating economic isolation by encouraging regional and global integration</i>				
Improved operational safety and oversight of critical air transport infrastructure.	<ul style="list-style-type: none"> Given Tuvalu’s extreme geographical isolation, investments in aviation safety will safeguard its citizens’ principal connection to the outside world. 	<ul style="list-style-type: none"> ICAO certification of airport 	<ul style="list-style-type: none"> Implementation of a AUD5 “safety levy” for each departing international passenger to cover costs of additional safety. Introduction and operation of PASNet regional air traffic monitoring and communications system. 	<ul style="list-style-type: none"> Pacific Aviation Investment Program (World Bank, Government of Australia through the Pacific Regional Infrastructure Facility).
Greater opportunities for Tuvaluans to benefit from overseas temporary labor migration.	<ul style="list-style-type: none"> Tuvalu’s participation in the RSE scheme has been limited to date with around 200 workers, a reflection of the higher barriers to participation that Tuvaluans face such as high transport costs. 	<ul style="list-style-type: none"> 80 Tuvaluan workers participating annually in temporary labor schemes in New Zealand and Australia. Increase in share of women participating by 30%. 	<ul style="list-style-type: none"> World Bank, Government and development partners to provide training opportunities to 100 Tuvaluans annually enhancing their competitiveness. 	<ul style="list-style-type: none"> Development Policy Operation prior actions addressing labor migration (World Bank, development partners).

¹⁷ The Tuvalu CAS Results Matrix reflects the initial scope of the World Bank’s program in Tuvalu and adjusted as additional activities are defined over the CAS period.

Medium-Term Country Goals	Key Issues	Expected CAS Outcomes	Milestones	WBG Instruments and International Partners
<i>Strategic Area 2: Building resilience against exogenous shocks</i>				
Strengthened fiscal management and improved fiscal position.	<ul style="list-style-type: none"> • Tuvalu continues to feel the effects of the global slowdown and remains highly vulnerable to exogenous shocks. • With few additional sources of external financing anticipated, the country faces a potential fiscal gap. 	<ul style="list-style-type: none"> • Reduced fiscal pressure and improved economic outlook through reorientation and rationalization of Government expenditure. 	<ul style="list-style-type: none"> • Government expenditure lowered to reduce fiscal gap • Tuvalu Consumption Tax increased from 3% to 6% • Reduce Government expenditure on TMTS to 2005 levels (17% of health budget) and increase non-salary expenditures for Primary and Preventative Health care by 5%. 	<ul style="list-style-type: none"> • Coordinated DPO series addressing key areas of Government expenditure (World Bank, development partners). • (Regional) Fisheries Engagement Strategy AAA. • Participation in 2012 IMF Article IV.
Improved resilience to climate change and natural disasters.	<ul style="list-style-type: none"> • Tuvalu is highly vulnerable to the effects of climate change and sea level rise. • Tuvalu is experiencing regular severe water shortages. 	<ul style="list-style-type: none"> • Effective medium-term planning and sustainable water resource management practices implemented. 	<ul style="list-style-type: none"> • Development of a medium-term Drought Risk Management strategy • Introduction of rain water harvesting and storage. 	<ul style="list-style-type: none"> • GFDRR support; potential follow-on investment supported by European Union. • Drought Risk Management Strategy AAA.

Tuvalu at a glance

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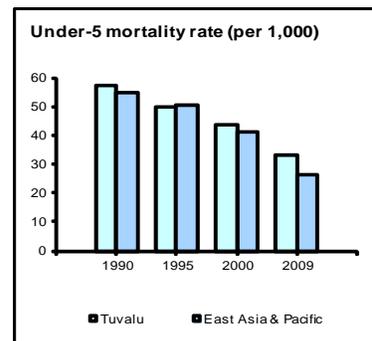
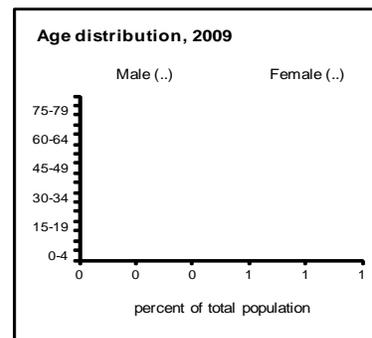
Key Development Indicators

(2010)

	Tuvalu	East Asia & Pacific	Lower middle income
Population, mid-year (millions)	0.01	1,944	3,811
Surface area (thousand sq. km)	0.0	16,302	31,898
Population growth (%)	0.2	0.7	1.2
Urban population (% of total population)	50	45	41
GNI (Atlas method, US\$ billions)	0.0	6,149	8,846
GNI per capita (Atlas method, US\$)	4,530	3,163	2,321
GNI per capita (PPP, international \$)	..	6,026	4,784
GDP growth (%)	-1.9	7.4	7.1
GDP per capita growth (%)	-2.1	6.6	5.9

(most recent estimate, 2004–2010)

Poverty headcount ratio at \$125 a day (PPP, %)	..	17	..
Poverty headcount ratio at \$2.00 a day (PPP, %)	..	39	..
Life expectancy at birth (years)	..	72	68
Infant mortality (per 1,000 live births)	27	21	43
Child malnutrition (% of children under 5)	2	9	24
Adult literacy, male (% of ages 15 and older)	..	96	87
Adult literacy, female (% of ages 15 and older)	..	91	74
Gross primary enrollment, male (% of age group)	102	111	109
Gross primary enrollment, female (% of age group)	98	112	105
Access to an improved water source (% of population)	97	88	86
Access to improved sanitation facilities (% of population)	84	59	50

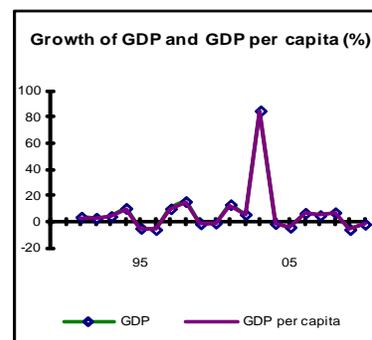


Net Aid Flows

	1980	1990	2000	2010 ^a
<i>(US\$ millions)</i>				
Net ODA and official aid	5	5	4	18
Top 3 donors (in 2008):				
Japan	0	1	1	9
Australia	1	2	2	5
New Zealand	0	1	1	1
Aid (% of GNI)	..	..	..	40.8
Aid per capita (US\$)	610	562	428	1,785

Long-Term Economic Trends

Consumer prices (annual % change)	..	..	..	..
GDP implicit deflator (annual % change)	..	2.6	14.5	4.0
Exchange rate (annual average, local per US\$)	..	1.3	1.7	1.1
Terms of trade index (2000 = 100)	..	..	..	..
Population, mid-year (millions)	0.0	0.0	0.0	0.0
GDP (US\$ millions)	..	9	14	31
		<i>(% of GDP)</i>		
Agriculture	..	25.6	18.0	21.8
Industry	..	14.5	13.6	8.7
Manufacturing	..	3.1	3.3	1.1
Services	..	59.8	68.4	69.5
Household final consumption expenditure	..	..	..	..
General gov't final consumption expenditure	..	..	..	..
Gross capital formation	..	..	..	..
Exports of goods and services	..	..	..	..
Imports of goods and services	..	..	..	..
Gross savings	..	..	..	..



1980–90 1990–2000 2000–10
(average annual growth %)

Population, mid-year (millions)	0.0	0.0	0.0
GDP (US\$ millions)	..	9	14
		<i>(% of GDP)</i>	
Agriculture	..	25.6	18.0
Industry	..	14.5	13.6
Manufacturing	..	3.1	3.3
Services	..	59.8	68.4
Household final consumption expenditure	..	..	..
General gov't final consumption expenditure	..	..	..
Gross capital formation	..	..	..
Exports of goods and services	..	..	..
Imports of goods and services	..	..	..
Gross savings	..	..	..

Note: Figures in italics are for years other than those specified. 2010 data are preliminary. Group data are for 2009. .. indicates data are not available. a. Aid data are for 2009.

Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade	2000	2010
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	0	1
Total merchandise imports (cif)
Net trade in goods and services
Current account balance as a % of GDP
Workers' remittances and compensation of employees (receipts)
Reserves, including gold

Central Government Finance

<i>(% of GDP)</i>		
Current revenue (including grants)	..	74.6
Tax revenue	..	..
Current expenditure	..	91.4
Overall surplus/deficit	..	-33.4
Highest marginal tax rate (%)		
Individual	..	..
Corporate	..	..

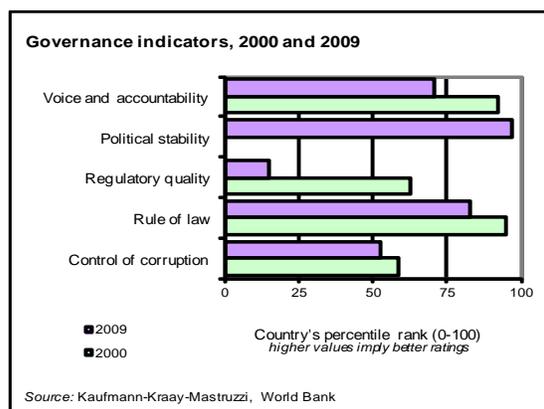
External Debt and Resource Flows

<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	..	..
Total debt service	..	..
Debt relief (HIPC, MDRI)	-	-
Total debt (% of GDP)	..	..
Total debt service (% of exports)	..	..
Foreign direct investment (net inflows)	..	..
Portfolio equity (net inflows)	..	..

**Composition of total external debt, 2009
(data are not available)**

US\$ millions

Private Sector Development	2000	2010
Time required to start a business (days)	-	..
Cost to start a business (% of GNI per capita)	-	..
Time required to register property (days)	-	..
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2010
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	..	..
Bank capital to asset ratio (%)	..	..



Technology and Infrastructure	2000	2009
Paved roads (% of total)	..	..
Fixed line and mobile phone subscribers (per 100 people)	..	21
High technology exports (% of manufactured exports)	27.8	15.0

Environment

Agricultural land (% of land area)	67	60
Forest area (% of land area)	33.3	33.3
Terrestrial protected areas (% of land area)	..	..
Freshwater resources per capita (cu. meters)	..	..
Freshwater withdrawal (billion cubic meters)	..	..
CO2 emissions per capita (mt)	..	..
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	..	..
Energy use per capita (kg of oil equivalent)	..	..

World Bank Group portfolio	2000	2009
<i>(US\$ millions)</i>		
IBRD		
Total debt outstanding and disbursed	-	-
Disbursements	-	-
Principal repayments	-	-
Interest payments	-	-
IDA		
Total debt outstanding and disbursed	-	-
Disbursements	-	-
Total debt service	-	-
IFC (fiscal year)		
Total disbursed and outstanding portfolio of which IFC own account	-	-
Disbursements for IFC own account	-	-
Portfolio sales, prepayments and repayments for IFC own account	-	-
MIGA		
Gross exposure	-	-
New guarantees	-	-

Note: Figures in italics are for years other than those specified. 2010 data are preliminary.

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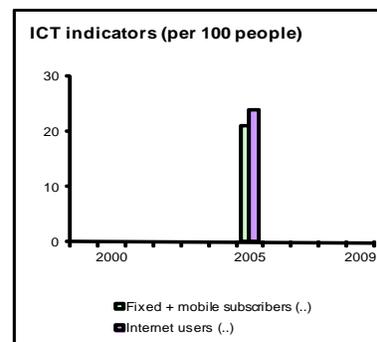
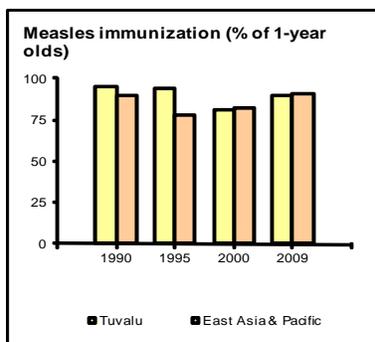
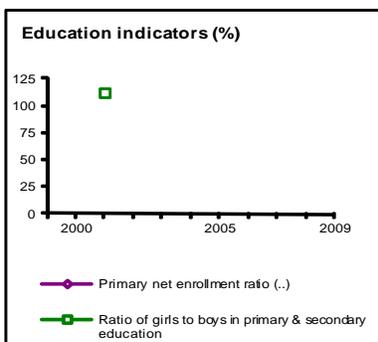
.. indicates data are not available. - indicates observation is not applicable.

Millennium Development Goals

Tuvalu

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Tuvalu			
	1990	1995	2000	2009
Goal 1: halve the rates for extreme poverty and malnutrition				
Poverty headcount ratio at \$1.25 a day (PPP, % of population)	..	..	..	..
Poverty headcount ratio at national poverty line (% of population)	..	..	..	..
Share of income or consumption to the poorest quintile (%)	..	..	..	..
Prevalence of malnutrition (% of children under 5)	..	..	..	16
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	..	..	..	..
Primary completion rate (% of relevant age group)	..	..	110	99
Secondary school enrollment (gross, %)	..	..	80	..
Youth literacy rate (% of people ages 15-24)	..	..	..	..
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	..	..	112	..
Women employed in the nonagricultural sector (% of nonagricultural employment)	..	..	34	..
Proportion of seats held by women in national parliament (%)	8	8	0	0
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	57	50	44	33
Infant mortality rate (per 1,000 live births)	44	39	35	27
Measles immunization (proportion of one-year olds immunized, %)	95	94	81	90
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	..
Births attended by skilled health staff (% of total)	..	..	100	98
Contraceptive prevalence (% of women ages 15-49)	39	..	32	31
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	296	250	211	155
Tuberculosis case detection rate (% all forms)	87	160	79	120
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	90	92	94	97
Access to improved sanitation facilities (% of population)	80	81	83	84
Forest area (% of land area)	33.3	..	33.3	33.3
Terrestrial protected areas (% of land area)	..	..	..	..
CO2 emissions (metric tons per capita)	..	..	..	..
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	..	..	..	..
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	..	..	..	8.5
Mobile phone subscribers (per 100 people)	..	..	..	12.5
Internet users (per 100 people)	..	..	..	23.9
Personal computers (per 100 people)	..	..	..	8.0



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

10/21/11

Development Economics, Development Data Group (DECDG).

Key Economic Indicators -- Tuvalu

Tuvalu: Selected Economic Indicators 1/						
	2006	2007	2008	2009	2010	2011
	Proj.					
	(Percent change)					
Real sector	2.9	5.5	7.6	-1.7	-0.5	1.0
Real GDP growth	4.2	2.3	10.4	-0.1	-1.9	0.5
Consumer prices (period average)						
	(In percent of total)					
Structure of economy	21.2	21.7	21.2	22.4	23.5	...
Agriculture	7.4	9.0	12.9	11.6	9.7	...
Manufacturing and construction	71.4	69.3	65.9	66.0	66.8	...
Services						
	(In percent of GDP)					
Government finance 2/						
Revenue and grants	70.8	69.2	75.2	93.3	74.0	85.2
Current Revenue	53.8	51.2	57.4	61.6	54.5	51.8
Grants	17.0	18.0	19.9	31.6	19.5	33.5
Expenditure and net lending	84.5	80.0	78.9	96.5	112.0	107.9
Current Expenditure	80.1	70.3	70.6	80.3	92.8	91.7
Capital Expenditure and net lending	4.4	9.7	8.3	16.1	19.1	16.2
Overall balance	-13.7	-10.8	-1.5	-3.2	-38.0	-22.7
Tuvalu Trust Fund	330.5	321.5	267.5	273.1	287.4	234.8
Consolidated Investment Fund	20.3	39.4	35.5	45.7	20.5	0.0
	(Percent change, unless otherwise indicated)					
Money and credit						
Deposits 3/	21.2	-10.5	21.7	-9.5	6.2	...
Credit to non-government 3/	-2.1	4.0	14.0	-9.6	0.8	...
Lending interest rate 4/	10.5	10.5	10.5	10.5	9.5	...
	(In millions of Australian dollars, unless otherwise indicated)					
Balance of payments						
Current account balance	4.3	0.1	-10.9	5.0	-5.3	-5.9
(In percent of GDP)	14.3	0.4	-31.4	14.9	-15.5	-16.9
Trade balance	-12.3	-11.2	-18.3	-16.0	-18.6	-18.9
Exports	0.6	0.5	0.6	0.6	0.5	0.6
Imports	12.9	11.7	19.0	16.6	19.1	19.5
Services balance	-13.7	-23.5	-26.9	-21.8	-22.4	-23.0
Income balance	20.2	25.3	24.1	27.3	21.3	21.3
Current transfers (net)	10.0	9.5	10.3	15.5	14.3	14.7
Gross official reserves 5/	17.4	20.3	30.7	30.3	25.6	27.0
(In months of imports of goods and services)	7.7	7.8	10.3	10.0	8.2	8.5
Debt indicators						
Total government debt (including guarantees)	20.3	19.7	21.7	15.6	15.1	19.1
(In percent of GDP)	67.6	61.2	62.5	46.7	44.3	54.9
<i>Of which:</i> External	13.9	13.6	16.8	12.3	10.8	9.9
(In percent of GDP)	46.5	42.3	48.4	36.7	31.6	28.4
NPV of external debt	...	...	...	10.2	8.6	8.2
(In percent of GDP)	...	...	...	29.4	24.7	23.2
(In percent of exports of goods and services)	...	...	...	285.7	221.0	199.2
External debt service	0.5	0.5	0.6	0.8	1.6	0.8
(In percent of exports of goods and services)	14.1	16.1	17.2	22.8	39.4	17.9
Exchange rates						
Australian dollars per U.S. dollar						
Period average 6/	1.328	1.195	1.192	1.282	1.086	1.0
End-period 6/	1.272	1.146	1.493	1.110	1.007	0.9
Real effective exchange rate (2005=100) 6/	99.4	105.2	103.5	100.7	115.2	81.7
Nominal GDP	30.0	32.2	34.6	33.5	34.2	34.8
Nominal GNI per capita (Atlas method, U.S. dollar)	4,110	4,780	5,100	5,210	4,670	...

Sources: Tuvalu authorities, PFTAC, Asian Development Bank, UNDP, CIA World Factbook, World Bank, and IMF staff estimates.

1/ Tuvalu uses the Australian dollar as its currency. It has no central bank operations.

2/ Data for 2011 are Tuvalu authorities and staff estimates.

3/ Data for 2010 are provisional estimates.

4/ Rates for personal and business loans.

5/ Defined as sum of foreign assets of the National Bank of Tuvalu, the Consolidated Investment Fund, and SDR holdings. Excludes the Tuvalu Trust Fund.

6/ Data for 2011 are as of end-June.

7/ Gross domestic product plus net compensation of employees, and investment income.

