

**Pacific Update 2014**  
**Development Policy Centre, Crawford School of Public**  
**Policy, Australian National University**

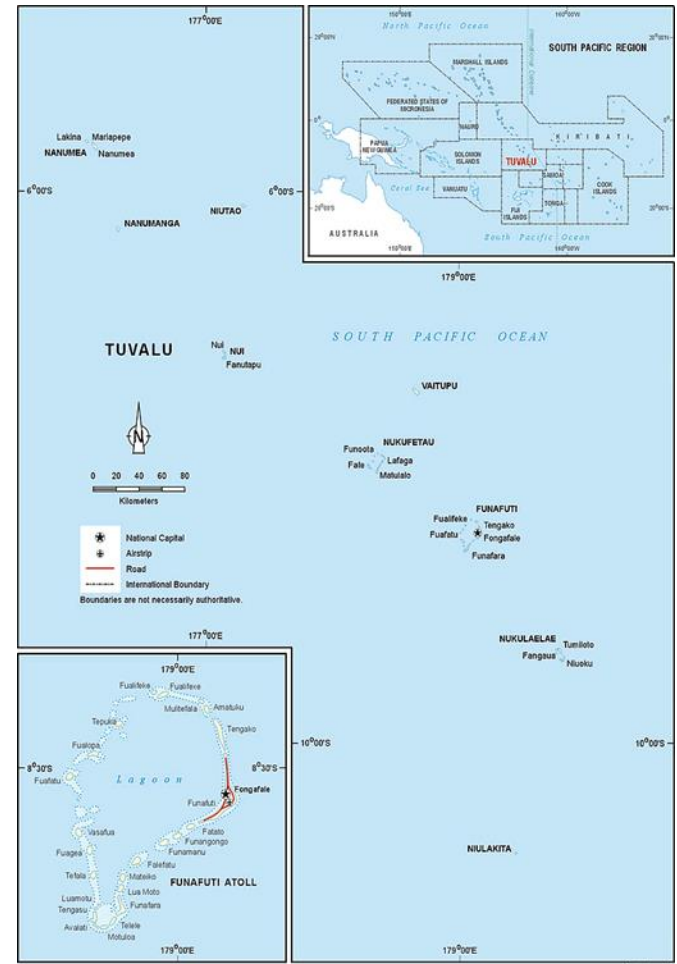
# **Aid dependent economies: Prospects in the region's smaller states - Tuvalu**

Letasi Iulai

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# 1. Tuvalu: Key features (and challenges)

- **Small and remote** (26km<sup>2</sup> total land area ; just over 11,000 people; highest point 5 meters above sea level; arguably world's most remote country)
- **Limited Productive Capacity** (because of smallness, isolation, and lack of economically viable natural resources; soil is extremely poor and porous; export activities almost non-existent)
- **Vulnerable to External Shocks** (most incomes are received from abroad through the Tuvalu Trust Fund (TTF), fishing licenses, .TV, remittances, and ODA).
- **Large Public Sector** (roughly 80% of GDP).
- **Experiencing significant climate change stresses** (Climate change and sea level rise impacts having serious implications on Tuvalu's overall development and national security)



## 2. Economic and Social Situation .. and Prospects

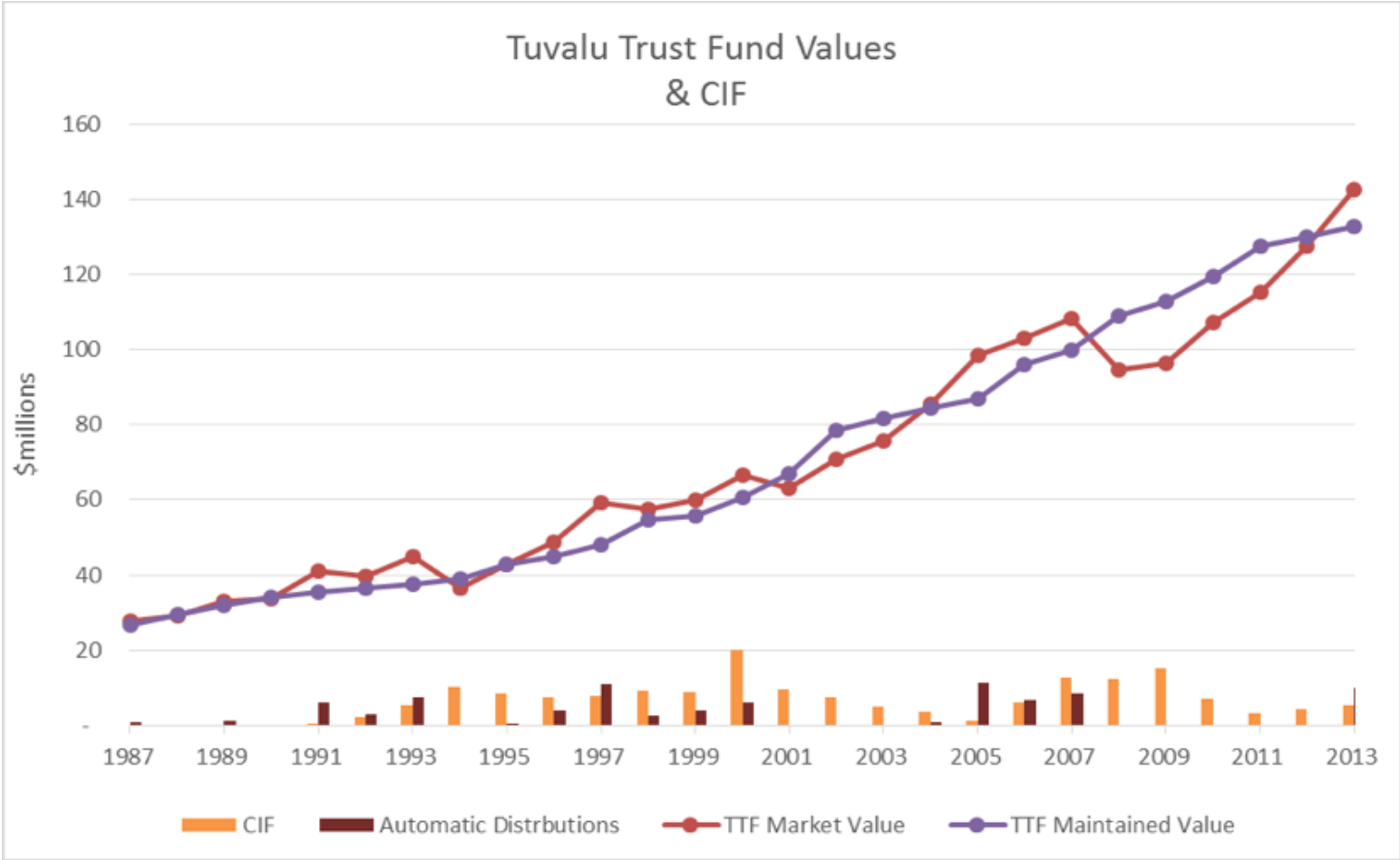
**Table 1: Tuvalu - Selected Social and Economic Indicators, 2009-2016**

Population (2013 est):	11,000							
Per capita GDP (2012):	US\$3,552							
Main Exports:	Fish							
Key export markets:	Fiji, Australia, Japan							
Poverty rate (2010):	26.3 percent							
Life expectancy (2012):	65 years							
Primary school enrollment:	100 percent							
Secondary school enrollment:	52 percent							
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Real Sector</b>	<b>Percent change</b>							
Real GDP Growth	(4.4)	(2.7)	8.5	0.2	1.3	2.3	2.5	2.5
CPI Inflation	(4.0)	(0.3)	(1.9)	0.5	1.4	2.0	4.2	4.0
<b>Government Finances (selected indicators)</b>	<b>In percent of GDP</b>							
Revenue excluding grants	58.9	55.5	47.8	56.6	81.5	65.4	63.6	61.2
Grants	29.9	16.4	21.2	29.3	24.7	51.9	22.3	22.8
Fisheries revenue	26.3	21.5	14.9	21.2	24.4	34.4	31.7	N/A
Expenditure	102.7	95.7	77.9	75.0	76.7	101.1	93.3	89.4
Tuvalu Trust Fund	273.8	314.0	301.8	337.7	339.2	339.1	337.2	N/A
CIF	41.5	16.9	2.9	12.2	4.3	42.5	42.2	N/A
<b>Balance of Payments (selected indicators)</b>	<b>In percent of GDP</b>							
Current account balance	22.5	(6.7)	(36.0)	1.3	(3.0)	(9.6)	(1.2)	N/A
Trade balance	(45.2)	(48.8)	(44.4)	(45.2)	(45.3)	(45.2)	(41.9)	N/A
Remittances	15.0	9.6	8.7	7.0	6.8	6.9	6.3	N/A

Source: IMF, Tuvalu National Budget 2014, TTFAC Report 2014

# 2. Economic and Social Situation .. and Prospects cont.

Figure 1: TTF Values and CIF (the government’s counter-cyclical reserve fund): 1987-2014

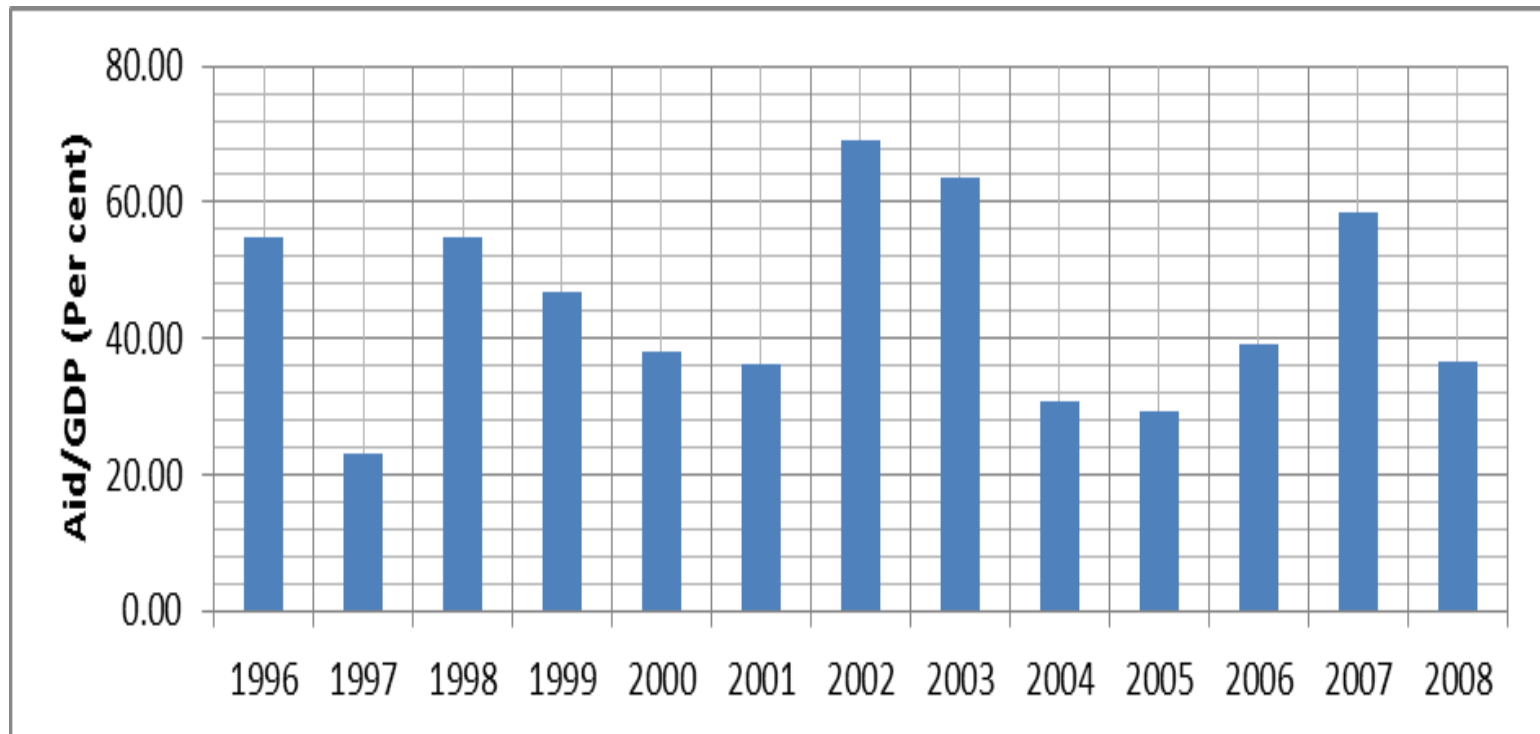


Source: TTFAC April 2014 Report

### 3. Aid to Tuvalu

- Significant and Important
  - aid/GDP is very high

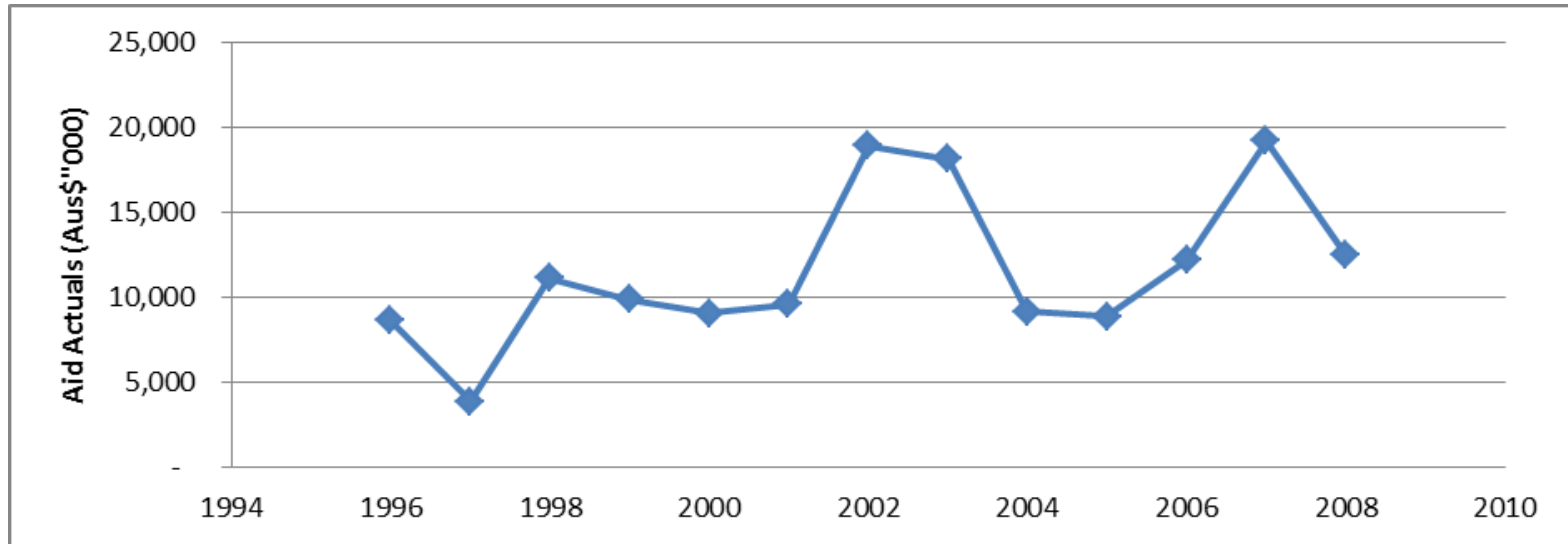
Figure 2: Ratio of foreign aid to GDP, 1996-2008 (per cent)



Source: *Aid Volatility: Is it a problem in Tuvalu?*

### 3. Aid to Tuvalu ... cont

Figure 3 Year-on-year aid receipts, 1996-2008



Source: *Aid volatility: is it a problem in Tuvalu?*

- Highly volatile
- Aid volatility matters (contributes to incomplete projects and cost overruns of projects, and problems in fiscal planning, Dutch disease-like problems, and lowered economic and social value of aid)
- Overall aid effectiveness can be improved in Tuvalu (aid is still fragmented, uncoordinated, incur high transactions costs, highly volatile, unpredictable, place huge constraint on the limited local capacity, and donor driven)

## **4. Policy Considerations**

- Strengthen and sustain the TTF
- Continue current efforts on public sector reform
- Support regionalism
- Human Resource Development and Vocational Training
- Make aid more effective
- Maximise benefits and opportunities offered from information technology
- Private Sector Development