In the 2009 review of the list of LDCs, the CDP considered that the country met the graduation requirements for the second consecutive time. The country s per capita GNI was $2,544 in 2005-2007, well above the graduation threshold ($1,086). The HAI was also above the graduation threshold level. Tuvalu thus fulfilled two of the criteria as required for graduation. However, in view of the in

grants benefits to signatory countries not associated with LDC status.[5] PICTA was signed in 2003 by 12 of the countries of the Pacific Island Forum (Australia and New Zealand excluded) and aims to reduce tariffs on goods imports from Pacific island countries to zero by 2021.

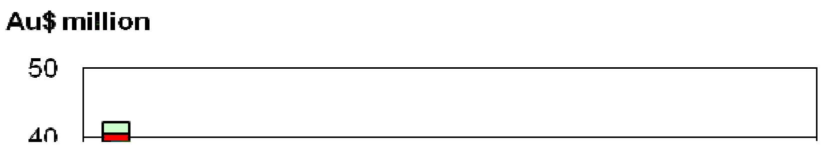
Main export products

The exports of goods generate little foreign currency earnings for the country. According to the International Monetary Fund (IMF), the value of Tuvalu s merchandise exports was estimated between Au$400,000 and Au$ 600,000 per year from 2004 to 2009, which corresponds to less than 2 per cent of GDP one of t he lowest export to GDP ratios among the Pacific island economies.[6] Apart from fish resources, Tuvalu has limited natural resources and a small and poor quality land area. Additionally, data on the total value of exports are not reliable or easily available.

Possible impact of loss in preferences

Tuvalu s main sources of foreign exchange come from fishing license fees paid by foreign fishing fleets, the .tv internet domain n ame lease, remittances, ODA and income received from the Tuvalu Trust Fund (TTF) which was established in 1987 by donor countries (see Figure 1).

Figure 1 Tuvalu: Foreign exchange earnings, 2000 - 2010 (millions of Australian dollars)



Due to the limited productive capacity and insufficient development of the export sector, Tuvalu has not been able to take advantage of preferential access arrangements.

In this regard, should the country develop some export capacity in the future, exports to Australia and New Zealand would receive preferential treatment despite the possible graduation from LDC category as exports would enter those markets duty free owing to Tuvalu s membership in SPARTECA. Tuvalu can also engage in trade with neighbouring island countries under PICTA. But trade creation under PICTA is likely to be minimal due to the low level of intra-regional trade and lack of capacity of the island countries for effective implementation of the agreement.[7]

LDCs are also granted differential and special treatment related to World Trade Organization (WTO) disciplines which is additional and beyond the special treatment accorded to developing countries.[8] Tuvalu is not a member of the WTO, and thus the country does not benefit from the special considerations for LDCs. Should Tuvalu join the WTO in the future, it can still benefit from preferential treatment being extended to developing countries.

Capacity building in trade

Tuvalu s LDC status allows access to the Enhanced Integrated Framework (EIF) to receive financial and technical assistance on removing obstacles to trade development. Under the EIF, Tier 1 funds can be used to fund the preparation of DTIS and provide operational support to National Implementation Units. Tier 2 funds will be available to

Australia, Japan and New Zealand are Tuvalu s major bilateral donors during the period 2005-2009 (see Annex table 1). Taiwan Province of China is also an important bilateral donor. As described below, most bilateral donors have development assistance plans and strategies in place which seem to have been established regardless of Tuvalu s status as an LDC. Generally, the bilateral assistance appears to be guided by humanitarian, economic or political considerations.

Overall, bilateral ODA has been allocated on government and civil society support (23 per cent of the total ODA receipts), transportation and storage (17 per cent), education

The Government of Australia had previously indicated to the Secretariat that LDC status in itself did not determine Australia s ODA allocation. Therefore, Tuvalu s graduation is

Development cooperation between Tuvalu and the European Union has steadily increased since the LomØ Agreement (1975) and, subsequently, the Cotonou Partnership Agreement (2000) between African, Caribbean and Pacific (ACP) countries and European Union member States. Sustainable management of natural resources has been a key element in EU s development agenda for Tuvalu. Reliable provision of water and sanitation, waste management, costal protection, disaster preparedness and renewable energy are important issues for Tuvalu-EU development cooperation. The priority area of co-operation under the 10th European Development Fund (EDF) is water and sanitation, including waste management and renewable energy. The European Commission s total allocation for Tuvalu under 10th EDF funding (2008-2013) amounts to 5.4 million of which 4.4 million are earmarked for the priority s ector. Additional assistance will be provided for programmes in support of non-state actors and trade-related issues.[24]

The EU indicated to the CDP Secretariat that there would be no change regarding current programmes under 10th EDF. A change in the country s LDC status might have consequences under 11th EDF (2014-2020), but in view of Tuvalu being a small island state, and the disadvantages this entails, the EU would expect to have special consideration and discussion on the next programming cycle.[25]

United Nations Framework Convention on Climate Change (UNFCCC)

Under the United Nations Framework Convention on Climate Change (UNFCCC), financing sources have been created to address the special needs of developing countries in the area of climate change mitigation and adaptation. Among gNFCN c5

Most recently, parties adopted the Cancun Adaptation Framework (CAF) as the outcome of the conference of the parties (COP) meeting in Cancun, Mexico, in 2010. At Cancun, parties affirmed that adaptation must be addressed with the same level of priority as mitigation. The Cancun Adaptation Framework components are likely to come in force in 2012, pending a successful conclusion of the COP 17 in December 2011. Its

Tuvalu became the 187th member of the World Bank in 2010. The World Bank is currently in the process of formalizing the country s access to International Development Association (IDA) resources which is the World Bank s concessional financing arm for the poorest countries. The review process has been necessary since Tuvalu s GNI per capita (Atlas method) is $3,700 in 2010, a level that significantly exceeds the current IDA threshold for inclusion of $1,175.

IDA financing for Tuvalu is being sought under the small island economy exception -- a provision that acknowledges that despite the much higher income level, small island economies share many of the same characteristics with larger low income countries, including severe capacity constraints, high economic vulnerability, and so on. The proposal under consideration is that Tuvalu will have access to IDA16 resources totaling SDR3.3m (US$5 million equivalent) on 100% grant terms. The World Bank is currently working on the outline of the Country Assistance Strategy laying out the program for the country over the medium-term. The main focus might be on budget support, and investment operation to help bring Tuvalu s aviation infrastructure up to international safety standards.

Since the country joined ADB in 1993, the Bank has provided Tuvalu with two loans and one grant totaling $11.06 million from the Asian Development Fund (ADF) and 21 technical assistance programs with the total budget of $5.91 million. The ADB s most recent activities in Tuvalu include a grant of $3.24 million and two technical assistance projects ($1.13 million) in 2008. In recent years, the ADB s operational strategy for Tuvalu has focused on improving governance and economic management, as well as providing skills development to enhance employment opportunities. Improvement of services on the outer islands, where most of the poor and vulnerable groups are concentrated, has also been undertaken.[36]

The LDC status is not the primary consideration for determining a country s access to the

the country. Reductions in development assistance from major donors may have a significant effect on government revenues (see Figure 2) and could impact on the country negatively, particularly on those sectors receiving relatively large amounts of ODA such as education and health (see Annex table 2). According to the ADB and IMF, Tuvalu s fiscal performance has worsened significantly in 2010 mainly due to poor fiscal management, weak demand for services provides by seafarers, which has resulted in a steady decline in remittances.[46]

multilateral donors will not be affected by a chang

Annex table 3. Tuvalu: receipts of ODA by sector and main bilateral and multilateral donors, 2009 (gross disbursements).

	Australia		Japan		New Zealand	
	US$ million	%	US$ million	%	US$ million	%
I. SOCIAL INFRASTRUCTURE & SERVICES	2.19	47.9	0.26	3.1	0.87	65.8
I.1. Education	0.20	4.3	0	0.1	0.69	52.1
I.2. Health	0.39	8.5	0	0	04	3.1
I.3. Population Pol./Progr. & Reproductive Health	0	0	0	0	0	0
I.4. Water Supply & Sanitation	0.29	6.3	02	0.2	0	0