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Brussels, 14-20 May 2001

Country presentation

by

THE GOVERNMENT OF TUVALU

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Presentation of the Government of Tuvalu

**ACTION PROGRAMME FOR THE
DEVELOPMENT OF TUVALU
2001-2010**

March 2001

Note: This report has been prepared under the responsibility of the Economic Research and Policy Division of the Ministry of Finance and Economic Planning following consultations with members of the Development Coordinating Committee, Chamber of Commerce, Tuvalu Association of Non Government Organizations, and the Tuvalu National Council of Women. The Government of Tuvalu has approved the report.

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Abbreviations

GDP	Gross Domestic Product
GNP	Gross National Product
TTF	Tuvalu Trust Fund
NBT	National Bank of Tuvalu
TNPF	Tuvalu National Provident Fund
DBT	Development Bank of Tuvalu
TANGO	Tuvalu Association of Non Government Organizations
EEZ	Exclusive economic Zone
WTO	World Trade Organization
SPARTECA	South Pacific Regional Trade and Economic Cooperation
EU	European Union
UN	United Nations
IMF	International Monetary Fund
BAU	Business Advisory Unit
TTIA	Tuvalu Trade and Investment Agency
HRD	Human Resource Development

I. INTRODUCTION

1 Tuvalu became an independent state in 1978 three years after separation from the British colony of Gilbert and Ellice Islands. On separation Tuvalu was left with very little by way of economic infrastructure with an exception of the inter-island vessel *Nivaga I*.

2 A small resource poor island state the Tuvalu Government has struggled to provide basic services to the people and run the machinery of a central administration. Exports of goods are virtually non-existent and the country depends on aid, fisheries licenses, leasing of telephone lines and its internet root domain name, and remittances and investment income for hard currency to buy consumer goods.

3 Economic growth has been fluctuating with real Gross Domestic Product (GDP) per head falling in the early eighties, but recovering in the latter part of the decade. Between 1990 and 1995 the real GDP grew at about 1.8 per cent per annum, reaching \$1246 (in 1988 prices). Gross National Product (GNP) was likely to be between 27 to 30 percent more than the GDP per head because of the remittances and investment income, which are paid to Tuvaluans from overseas.

4 The formation of the Tuvalu Trust Fund (TTF) marked the turning point in the Tuvalu's economic fortunes. The TTF, which was set up in 1987 to provide a source of revenue for the recurrent budget, had an initial capital of \$27 million. It began to have a significant impact on the Government expenditure from 1992. Between 1990 and 1996 the TTF contributed 19 percent of the Government's total revenue, which is little higher than import taxes (18%) and fisheries license fees (16%) the next most important resources.

5 The contributions from the TTF continued to grow and allowed the recurrent budget to expand. But most of these large distributions have been reinvested in the Fund, averaging about \$3.8 million over the past 5 years, with the biggest reinvestment made in 1998 of \$6 million. This reinvestment policy is a reflection of the prudent manner in which government has managed its financial resources.

6 Tuvalu government's fiscal management is sound and between 1980 and 1996 the Government ran a small surplus on the recurrent budget.

7 Land is scarce and land disputes arising from the customary system of land tenure, the lack of commonly accepted records, and inadequate legal institutions have prevented easy use of land as collateral for commercial borrowing. This is a constraint but being so central to Tuvaluan culture the prospect of freeing up of the land market is a very sensitive one.

8 Tuvalu's medium term national development strategy is set out in the *Kakeega o Tuvalu* (the National plan), 1995, supplemented by the 1997 "Vision 2015" statement. Priorities include:

- reform of the public sector;
- developing the outer islands
- developing private sector
- developing human resource; and
- building infrastructure.

9 Some of the other constraints to the development in Tuvalu are:

- Isolation
- Fragmentation
- An extremely small land area which is poor agriculturally and minerally
- Exposure to harsh marine environment
- Young nation with relatively immature institutions
- Low level of infrastructure, air and sea communications
- Relatively underdeveloped human capital
- Less than satisfactory legislative and institutional framework to support development
- Inefficient management and work practices

II. PERFORMANCE IN THE 1990S

10 Tuvalu became an independent state in 1978 three years after separation from the British Colony of the Gilbert and Ellice Islands. On separation Tuvalu was left with very little in the way of economic infrastructure.

11 The subsistence sectors provide around 70% of the employment with the remainder largely in the Government sector in Funafuti. There is a large pool of lower skilled people who are under-utilized, and overseas employment is a crucial safety valve. Wages in the public sector are low by regional standards.

12 As a small, resource scarce, island state the economic growth in Tuvalu has been sluggish and fluctuating. The real Gross Domestic Product (GDP) per head falling in the early eighties but recovering in the latter part of decade. Between 1990 and 1995 the real GDP per head has grown almost 2 percent, reaching \$1,000 in 1996 prices. GDP was expected to have increased by about 3.0 percent from 1996 to 1997. Gross National Product (GNP) was expected to be around 27 and 30 percent above the GDP because of the remittances and investment income.

13 Economy of the outer islands and also the rural areas in the capital island itself exists at a subsistence level. Cash employment on the islands is very limited and restricted to local government and the Community Fishing Centers, which are currently managed by the Fisheries Division.

14 The financial sector consists of the profitable National Bank of Tuvalu (NBT) that acts both as commercial bank and banker to the Government; the profitable National Provident Fund (TNPF) that has most of its assets held overseas in the form of Government securities and the struggling Development Bank of Tuvalu (DBT).

The DBT has specialized in stimulating private sector development. For the five years ending in 1998 the DBT had accumulated losses of more than \$600,000 and had a negative working capital of \$950,000. At the macro level there is little room for an independent monetary policy because Tuvalu uses the Australian dollar as its legal tender. Tuvalu at the present time does not contemplate having a central bank or issuing its own domestic currency.

15 There are eight public sector commercial enterprises in Tuvalu, two of them corporatized since 1992 under a commercialization and corporatization program which achieved the privatization of two government operations (government stores and the propane gas distribution). This program had been undertaken as part of a wider process of public reform and encouragement of private sector enterprise development. Public enterprises accounted for 51 percent of the marketed component of GDP in 1994 (an increase from 41.5 percent from 1990 while the civil service share fell from 35.5 to 29.2 percent. A review of the operational and financial performance indicates varied progress along the path of improved commercial operations. The most satisfactory performers have been the long-established NBT and the TNPF.

16 Tuvalu's biggest financial investment, the Tuvalu Trust Fund continues to perform well. The maintained value of the Trust Fund rose to A\$60.5 million as of September 2000. Thus leading to an automatic distribution of the Fund of A\$6 million that would be available to the government's budget for 2001. The current value of the Trust Fund as of March 2001 was A\$66.6 million.

17 The Government is currently in negotiation with the European Investment Bank on securing a soft loan of A\$700,000 for on lending by the Development Bank of Tuvalu to small businesses. DBT's rate of loan recovery has greatly improved in the first quarter of 2000 as a result of re-organization and closer supervision from the Ministry of Finance and this has prompted the DBT to commence lending to new clients.

18 The Government has recently reactivated the Interest Rate Review Committee to reassess the interest rate settings at the NBT, both on its deposit and lending sectors. The review shall take into account all relevant factors, including any changes that may have taken place within the domestic or overseas economic conditions.

19 The government has also concluded negotiations with the European Union on a project to commence in year 2000 called the Development Support Fund which is worth A\$3m and will pay for budgetary expenditures on education, protecting environment and provide support to the private sector and the non-governmental organizations such as the Tuvalu National Council of Women and the TANGO. The project will save government \$3m over the three year period. The money saved will be invested in the TTF.

DotTV.

20 Income from dot tv comes from the DotTV Corporation, the Internet Company based in Los Angeles, which was instrumental in setting up the whole scheme. Under the agreement negotiated by the government, US\$1m was paid on signing the

agreement in November 1999. Regular quarterly payments of US\$1m is payable with effect from January 2000. However of the \$1m, \$250,000 is kept in escrow for the first five years of the Licensing Agreement to cover contingencies, and after five years Tuvalu will get the moneys held in escrow and will commence receiving \$1m quarterly. Until July of 2000 Tuvalu has received about A\$3m in quarterly payments. In February 2000 the Government received a windfall payment of A\$19.3 million. There is a chance that the DotTV Corporation will go public and with Tuvalu's 20% holding in the Corporation's common stock, there is a possibility of the value of the stock could be worth more than the value of the TTF.

Infrastructure

21 The government has ambitious plans to expand and improve infrastructure. The largest civil works project is the construction of roads involving 18.6 kilometers of Funafuti roadway being rebuilt and tar sealed. This may involve compensating landowners once preliminary survey work is completed. The project had gone to international tender in June 2000 with work commencing in early 2001 and completion before year-end.

22 Concurrent with the road construction works consideration is being made toward the possible inclusion of the resurfacing and extension of the airstrip to be undertaken to enable larger aircraft to service the nation and this will hopefully open the markets within the region and beyond. The limited cargo space in the aircraft servicing the nation is a major constraint to the development the country's export of its marine produce. Having a very large EEZ, the nation is not able to exploit the resources to the full by exporting fresh marine products.

23 The new government office building, being funded by the Republic of China is in the final stages of planning stage. The three-story building will have large enough office space to house 50% of the public service currently spread over a number of buildings in Funafuti and also capture 360,000 gallon of rain water in the underground tanks. This project is due to go for tender with works starting in mid-2001.

24 In 1999 the government installed a water desalinator in Funafuti to deal with the severe water shortage faced in the second half of the year. Three more desalinators have been purchased for other islands. Additional solar pumps with the total capacity of 27,000 litres per day are being installed on the outer islands to improve the water supply for the nation. There are several other initiatives the government is putting in place to enhance the living standard and the quality of life of the people of Tuvalu.

25 Early in 2000 a major tragedy struck this small nation; eighteen young female students of the only high school and their matron lost their lives in a fire of their dormitory. This was one single tragedy that will take a long time to get over and has set the nation so much poorer in their effort to build up their human resources in a nation with a small population base. The government is finding ways how best such a tragedy should not repeat itself and which has inflicted so much agony and distress on the families whose loved ones perished in the tragic fire, and the nation as a whole. The government has agreed to compensate those families who lost their loved ones.

26 Government is committed to not only raising the standard of education at every level of the society, and in every occupation, but also to ensuring that all children have access to primary and secondary schooling. In fact, all children attending schools at primary and secondary levels are exempted from paying school fees. The government has set aside A\$2.5m for pre-service overseas scholarships, and A\$650,000 together with over A\$1.5m from donors for in-service overseas scholarships.

Integration into Multilateral Trading System

27 Tuvalu is perhaps the newest and smallest member of the United Nations. Tuvalu's formal admission to the UN family took place September 2000 meeting of the UN General Assembly at its 54th Meeting. Tuvalu has also been admitted to the Commonwealth of Nations. Tuvalu is also member of all the regional organizations such as the Pacific Islands Forum, South Pacific Regional Environment Program based in Samoa, Forum Fisheries Agency, South Pacific Tourism Organization, South Pacific Applied Geoscience Commission etc.

28 Tuvalu is contemplating the need to join the World Trade Organization [WTO] on the belief that WTO can assist the government in dealing with the increasingly complex issues of globalization in the international market place. Tuvalu has been involved in negotiations with other Forum island nations on a free trade agreement (PARTA) that has been endorsed by the Pacific Forum Leaders. This is a major trade initiative that involves a wide range of trade measures, including a gradual elimination of trade restrictions such as import duties over a period of 10 years. This will certainly have an immense impact on the Government's tax revenues, given that over 40% of all taxation revenue consists of import duties. The Government will therefore approach this PARTA with caution to ensure that any adverse impact on Tuvalu is minimized. In exercising this caution, the Government may need to assess other forms of indirect taxation such as VAT and GST. Such a review will need to consider, among other things, the applicability, relevancy and practicality of each tax regime.

29 Like most Pacific Island countries Tuvalu in the 1980s also had a very protectionist trading system (bearing in mind that when Tuvalu gained independence some 20 years ago it had very limited infrastructure and export potential). Whilst Tuvalu allows for free imports from all over the world, it has not been able to take advantage of the very many import concessions available to other Pacific island countries, such as SPARTECA and LOME. The only export of substance is the tuna fishing licences and leasing of telephone lines and the dot tv site and these are not open-ended export commodities.

30 The country since independence had to develop its own human resources, infrastructure, and other institutions of the government to get the government established and running. The assistance of the development partners has been most helpful and generous in helping a relatively young nation to establish.

31 Tuvalu is very well exposed to the international community and derives a great amount of value and benefits from these associations.

32 Tuvalu seaman have been working in the merchant navy for a long time and they transmit a great amount of foreign exchange earnings to the nation and they have established associations all over the world. A large number of Tuvaluan students are studying abroad in Fiji, Australia and New Zealand. With regular flights to and from Fiji and beyond makes the Tuvalu community relatively mobile in the international arena.

33 The modern information technology in the nation has brought the people of this nation close to the rest of the world and has facilitated the movement of people and goods and Tuvalu has not lagged behind to capitalize on the benefits of this.

34 With the admission of Tuvalu to the United Nations a full time embassy will be established in New York and this will bring the Nation closer to every one in the world.

III. ASSESSMENT OF FACTORS THAT HAVE FACILITATED OR CONSTRAINED THE COUNTRY'S DEVELOPMENT

1 Policy Reforms

35 Over the last decade the government of Tuvalu has initiated a comprehensive agenda of reforms covering the following:

- Reform of the public sector including the corporatisation and privatization of the government business;
- Re-orientation of the economy towards private sector growth;
- Improved economic infrastructure
- Devolution of responsibility for island development to local government;
- Implementing the education for life program;
- Improving human settlements.

36 These elements of the reform program were outlined as priority areas in the medium term national development strategy 1995-1998 in August 1995. These were reiterated by the new government in December 1997 when emphasis was given to education, health and good governance and a more equitable income distribution among the islands.

37 While progress has been made with the public sector reform program, the first priority program i.e. the process of commercialization/ corporatisation of the public sector enterprises needs more emphasis. Although a number of government services have been corporatized, many of these corporations have yet to deliver the expected outputs in a cost-effective and efficient manner, as evident from the ongoing heavy reliance on government's financial assistance and subsidy. Greater efficiency in the public administration and policy implementation should receive increased attention with further improvement in the financial management information system to ensure timely and appropriate information for decision-making. In this regard, the government has begun a major review of its general administrative and financial rules

and regulations (i.e. General Administrative Orders, Public Service Commission regulations, Financial Instructions and Stores procurement regulations) to ensure they are still relevant and that they seek to promote efficiency in service delivery and performance.

38 Restructuring of the economy toward export-oriented business investment was implemented through the establishment of a Business Advisory Unit with the assistance of the UNDP. The Foreign Investment Act has been passed and efforts were directed toward promoting foreign investment.

39 Improvement of the telecommunication sector was implemented with the earth satellite communications established in the outer islands. However inter-island shipping remains a major concern cutting across all sectors of the economy. This issue is under constant review with plans already in train to privatize shipping services and the acquisition of a new multi-purpose vessel built with the assistance of Japan, which is expected to arrive in early 2002.

40 Some progress has been made in implementing the education for life and upgrading human settlement but all the programs are hindered with the lack of sufficient resource allocation and the development of a proper working system with emphasis on sustainability.

Domestic Resource Mobilization

41 Government's fiscal policy has been relatively sound since independence. Government runs a surplus or a balanced recurrent budget. On the Development Budget the government undertakes a substantial amount of financing on its own and also relies on aid funds. Domestic production in Tuvalu has been much lower than demand. Tuvalu always has a trade deficit. Aid, remittances, and investment income have been the main sources of revenue for underwriting the trade deficit.

42 The Tuvalu Trust Fund (TTF) has been very successful in building up the resource base as a source for financing recurrent expenditure. On average during most of 90s TTF revenue has been contributing the major portion of the recurrent budget revenue. With limited domestic resource mobilization mechanism in place the future economic potential for securing resources will depend on the pragmatic management of deal-making opportunities as and when these arise, extracting maximum rental and donation benefits. In this respect continued good management of the TTF and other similar contractual financial arrangements such as the dot tv, APT and fishing access fees will enable Tuvalu secure a continued stream of revenue.

43 Given the level of liquidity in the banking system there is a possibility of developing a small capital market to meet short term government deficits and local government cash needs but since the need for borrowing to finance budget deficit does not exist, such a capital market would need to target the business and private sector entrepreneurial community.

44 There are other impediments to mobilizing domestic capital for investments. The tendency for wealth to be accumulated in communal savings vehicles means that it is difficult for individuals to access commercial capital. The communal ownership of land and lack of formal records of agreements makes it very difficult to use land

leases as collateral for raising commercial finance. In combination with the perceived lack of bankable projects these factors have meant that the bulk of Tuvalu's savings are invested overseas.

45 One way the government proposes to tackle these problems is by promoting alternative high quality savings vehicles such as Credit Unions. Improvements to the system of land management and the legal system governing lands will assist individual investors to access commercial loans by using land as collateral.

46 Another way of mobilizing community savings would be to encourage community based companies to undertake more domestic investment. The government plans to improve the information flows to community leaders about investments that may have greater potential returns than the very low returns on the interest bearing deposits.

47 Number of bankable investment opportunities and the capital base will be increased by direct foreign investment.

48 The government also took steps to improve availability of capital to private sector through the Development Bank of Tuvalu. To assist the larger scale high-risk commercial projects (such as commercial fishing) the government may investigate the provision of special assistance to domestic investors through access to soft loans either from overseas institutions or via the DBT.

49 The government also promotes savings directly and indirectly through the Tuvalu Provident Fund.

2 Governance

50 In the **Kakeega o Tuvalu (national development strategy) 1995-98** the government regarded public sector reform as the key to improving governance in Tuvalu. These were complemented by measures to encourage self-motivation through well-managed devolution of responsibility to local government, and encouragement of increased community involvement in development projects. The government was also committed to provide legal framework consistent with development aspirations. The review of the Constitution was an important aspect of this program.

51 The public sector reform included a reduction of public service employment by 7.5% from April 1995 and the rate of growth was limited to population growth. Further improvement in the public sector efficiency is being passed to the community by way increased services rather than increased government savings. The government has established institutions that enabled an on-going review of the government functions and agencies. The key feature was the institutional strengthening of the Public Service Commission. Specific reforms which included:

- Improvement in the structure and role of government. The government moved out of those services, which were better, provided by corporations, the private sector, or the community. These included housing, large part of construction services and some repair and maintenance services; transport

and travel services; commercial fishing and marketing; part of the banking sector; broadcasting and information; and the hotel.

- Improvement in the efficiency and effectiveness of the public sector. This involved the adoption of a better administrative process and better work and management practices in the public service. Administrative, management and specialist skills are being upgraded through education and training.
- Measures have been put in place to ensure that right levels of public services are provided. The prices of public sector goods and services have been set to better reflect the economic values. Subsidies in the social sector have been retained bearing in mind the principle that the benefits would be equitably distributed among the community.

52 These reforms were complemented by a lift in performance by local government and the community. Achieving this required the decentralization of responsibility to local government and encouragement of greater community involvement in development. The government believes that the returns on development programs and projects can be maximized if they are built on the strengths of the existing social structures and customs rather than if they attempt to replace them. The Plan envisaged establishing institutional framework that enables cultural considerations to be incorporated within all government policies, programs and activities.

Peace and social stability

53 The people of Tuvalu are mainly Polynesians who arrived through migrations from the south. The exception is the island of Nui, where people have links with the Micronesian peoples of Kiribati. Whilst the local language, Tuvaluan is widely spoken English is the official language in commerce and government.

54 The traditional Tuvaluan social structure conforms to a pattern common to most Pacific island countries- the 'Chiefly System' which provides a very significant input into the management of the island's affairs, providing stability and guidance. The appointed members of these families form the *Falekaupule* or the Council of Elders. The Government in the early 1960s removed official administrative and development power from the Council of Elders and placed it with the newly constituted Islands Councils or *Kaupule*, formed of representatives elected by registered voters. However bearing in mind the importance of this institution the government reaffirmed the power of the Council of Elders with the passing of the *Falekaupule Act* in 1997.

55 Tuvalu has been, like most other Pacific Island countries (with an exception of a few in the more recent times) blessed with stable political environment and stability and which has been the cornerstone of its progress since independence. However, given the demands brought by external forces of globalization, information technology, and western democratic principles of governance, it is imperative that the government carefully assesses the impact these have on Tuvalu and take appropriate action that ensures the socio-economic and political stability of the nation.

Women

56 The Tuvalu Medium-Term Economic Framework 1992-1994 stated as one of its development objectives the promotion and increase of the role of women in development process. The National Development Strategy 1995/98 recognizes women's important contribution in the national development process. In targeting its social programs, the Tuvalu government 'aims to ensure that women are able to fully participate in the development process and in all walks of life in Tuvalu, and enjoy the benefits of that participation'.

57 The Kakeega o Tuvalu provided for all development programs and activities together with recurrent administration to incorporate gender sensitization. Women are encouraged to formulate gender specific projects such as a Women's Credit Union, and to participate more fully in programs aimed at increasing business investment. To assess needs and to help develop more informed policies the Statistics Division is charged with the responsibility to systematically prepare data on social and economic conditions by gender.

58 The Government endorsed the National Women's Policy in June 1998. In its introduction it is stated it expects the policy to be a "working tool and a guide for the government ministries/departments and non-government agencies to utilize, when planning, implementing and evaluating their programs and projects." It's policy vision is to: "promote the status of women and to recognize and increase their participation as active agents and beneficiaries in all aspects of development in Tuvalu"

59 With respect to institutional and capacity building, the policy lists, amongst others, the following operational strategies:

- ❑ Produce gender-responsive planning guidelines for the Economic Research and Policy Division and other agencies to use in monitoring the overall impact of development strategies and policies on women.
- ❑ Departments to produce and incorporate the Women's Policy into their development plans.
- ❑ Upgrade the capacity of the Department of Women's Affairs in order to be able to provide policy advice and disseminate relevant information to other government departments
- ❑ Government departments and other agencies to devise work programs and other workplans as monitoring tools for the implementation of the women's policy, projects and related activities.
- ❑ When required to do so, the departments and other agencies should provide a breakdown of their data on gender composition for their customers and beneficiaries of their program/projects for analysis.
- ❑ The Department of Women's Affairs to inform government departments and other agencies about issues concerning women and for them to take into account these issues in project design and implementation.

60 Tuvalu, by endorsing the Platform for Action in 1994, made an international commitment to promote the advancement of women in thirteen practical and strategic areas of development.

61 Tuvalu ratified the Convention on the Rights of the Child in September 1995.

62 In July 1998 the Government gave approval to review the processes necessary to ratify the Convention on the Elimination of Discrimination against Women. (CEDAW).

63 The National Women's Policy advocates that Government "monitor the consistency of existing laws, new laws and any other laws with the CEDAW articles".

3 Economic infrastructure

64 Tuvalu's overall economic development continues to be hampered by poor social and physical infrastructure. Whilst Tuvalu has made significant strides in certain sectors of the economy such as having satellite communications and power generation available in all islands, there are still major improvements still needed in the areas of transportation, environmental protection and preparedness, education and health. The successful achievement of Tuvalu's overall national development goals depends heavily on how Tuvalu goes about addressing these major development constraints.

The international air links at the present time continues to be only through Fiji on a twice-weekly basis. Being the only airline that services the country airfares could perhaps be one of the highest per nautical mile. It restricts the movement of people and any airfreight cargo e.g. fresh fish, which has great potential for export. Plans are under way to extend the runway on both ends to allow for larger aircrafts to land so that fresh fish could be exported and vegetables for which there is great shortage can be imported.

The government is currently evaluating an offer by the Air Fiji airline to purchase shares and become a majority partner in the company. The government is seriously considering this investment option given the fact that Air Fiji is the only carrier linking Tuvalu with the outside world. Tuvalu would continue to explore other alternative air services arrangements such as the idea of having a sub-regional service serving the northern Pacific island nations of Micronesia.

65 Also, with the recently built, government owned hotel, constructed with assistance from the Republic of China, tourist arrivals are also likely to rise. Lack of sufficient air services greatly hinders tourist development as forecast in the Tuvalu Tourism Master Plan.

66 Lack of inter-island air services also hinders tourism development in the outer islands.

67 International shipping is also restricted by the total demand for trade. Foreign shipping come in mainly to bring in imports with very little to take out as export. Inadequate container and cargo handling facilities at the only deep-sea port in the capital, Funafuti, also handicap Tuvalu.

68 Inter-island shipping is also insufficient with only one ship (Nivaga II). Whilst it has improved the services somewhat, there is a lot that is needed to improve inter island shipping to promote development on these small islands. In this regard, a new

multi-purpose vessel built with the assistance of Japan is expected to arrive in early 2001. This vessel will be available for supplementing Nivaga II's inter-island passenger and freight services, including the transportation of fish from the outer island CFCs to market in Funafuti.

69 Tuvalu's telecommunications provide for international communications with direct dialing overseas with Internet connections.

70 Due to the geographic make up of the island Tuvalu has to depend heavily on rainwater, as the well water can be very salty. The country also relies heavily on the desalinated water, which is an expensive way of water treatment.

71 Due to lack of proper refuse collection disposal of refuse is a problem and this is further aggravated by the introduction of more and more non degradable plastics. This is one area government will take as priority to address.

Private Sector Development

72 Investment and Business Development Project is designed to actively promote business in Tuvalu through the establishment of Business Advisory Unit (BAU) and the Tuvalu Trade and Investment Agency (TTIA). Its purpose is to contribute to creating employment, improving income generation and export earning activities through business skills training and export earning activities. It is also designed to provide training and practical advice on business opportunities, technology and finance. Institutional infrastructure BAU was created to advise on local investment. Foreign investment was supposed to be facilitated through the TTIA to act as 'a one stop shop' to facilitate approvals to foreign investors and promote Tuvalu overseas. Efforts are being made to establish such office.

Agriculture and Rural Sector

73 In 1989 total expenditure on agricultural products was about \$3.m. The cash market is considerably smaller than this as 75% of the domestic agricultural production is supplied by the subsistence sector –about \$1.4m. About 37% of the total domestic spending is on foodstuffs, and about two thirds of the domestic cash expenditure were supplied by imports. This emphasizes the severe supply side constraints on food production in Tuvalu such as very poor soils, harsh climate and very narrow product base. These problems are further exacerbated by land tenure system, which ensures that agricultural activity remains very labor intensive utilizing extremely small plots. Apart from this constraint there is the problem of inadequate inter-island transportation links, lack of agricultural data and research in the field of coral atoll cultivation, dependency on imported agricultural inputs and the lack of infrastructure to support the development of this sector.

The objectives for agriculture are:

74 *Assist local producers to meet a larger proportion of the expanding food market in Tuvalu and to generate income earning opportunities for producers including import replacement and if possible export.*

75 In line with this objective the Agriculture Department has identified a number of medium term strategic objectives, including:

To:

- Assist with developing commercial agricultural production, primarily for the Funafuti market;
- Increase the productivity of subsistence farming;
- Increase the amount and variety of locally produced foods;
- Promote alternative farming methods which generate cash returns for farmers; and
- Develop and improve the capacity of the Department of Agriculture to support agricultural development on all islands of Tuvalu.

76 Livestock Development focuses on breeding of pigs and poultry and the exploitation of associated products. To improve these areas a program has been identified for expansion and consolidation. This will include: expansion of the pig breeding units on other islands of the group; the establishment of a pig slaughterhouse; the development of a poultry cross-breeding program; the mobilization of poultry breeders on the main island with the establishment of a local incubator for locally produced eggs; and the extension of the bee-breeding program on other islands.

77 A review of legislation relating to the keeping of animals has been conducted to overcome some impediments restricting production for subsistence and income generation.

78 Crop development is severely limited by poor soil and because of this the government will focus only on a small number of activities in this area.

79 Multi-crop development in one of the smaller islands has been a success in the development of tree crops in Tuvalu. Further support for this project will be made available with the view of expanding its production.

80 Nurseries based on the successful Funafuti model were planned to have been established on other islands. This program would also develop the cultivation of taro using new techniques of composting, and support the introduction of tree crops with nutritious and marketable produce. However, there were problems with availability of personnel and funding following the expiration of the Pacific Regional Agriculture Program that affected continuation of this program.

81 Small units of hydroponics will be established to provide vegetables and greens to the growing population on Funafuti and provide income-generating opportunities for interested farmers on Funafuti.

82 Coconut-scale pest problem is being isolated on other islands. Eradication of this pest is matter of priority, and an entomologist will be recruited to assist in this task, and to establish effective pest control mechanisms on all islands.

Industrialization and Technological Development

83 Industry development was supposed to have been a focus during the last decade and was targeted on creating several relatively large-scale export-oriented

commercial ventures using foreign direct investment to supply inputs that are not readily available in Tuvalu. These ventures were meant to directly increase economic activity, employment, investment, and productivity. Sectors identified as having potential for commercial ventures included commercial fishing, tourism and small-scale manufacturing. However, given the development constraints identified earlier, principal among them were the lack of supporting physical infrastructure, unavailability of adequate development finance and absence of skilled manpower, there was not much progress made in establishing these commercial ventures. Government is committed to assist in this process by improving the policy environment for business enterprise, providing the supporting physical infrastructure, improving the availability of finance and through the provision of technical assistance and training to domestic business people.

4 Human resources development

84 Recognizing the importance of having an educated and skilled workforce for the achievement of its national development goals, the government has devoted much effort and resources to education and training initiatives. Major renovations and construction of classroom buildings at Motufoua and primary schools in all islands, overseas training of teachers, and increased budgetary allocations for scholarships to Tuvaluans to study abroad are some of the major undertakings that the government has achieved. A major education sector is planned for the end of 2001 that will review, among other things, the philosophy, goals and direction for the education system in Tuvalu.

85 The maritime training school has been corporatized and restructured into a Tuvalu Maritime Technical Institute enabling TMTI to attain “White List” status with the International Maritime Organization. The IMO White List has a standardized school curriculum, which ensures that Tuvalu seaman graduates are qualified to continue to be employed and earn income on foreign merchant vessels. This restructuring will involve significant capital outlay for construction and renovation at the school, and technical assistance to improve the Institute’s management and raise the overall standard of instruction and learning.

86 The Tuvalu government’s *Population Policy* has three main objectives. These are:

- To lower the aggregate population growth;
- To achieve a sustainable distributions of population between rural and urban areas;
- To improve the health and welfare of the existing population.

87 Improvements in primary health care, particularly the continued promotion of the of voluntary fertility regulation methods, are critical to the achievement of these objectives. Raising the status of the women, improving demographic data collection, analysis and dissemination, and the incorporation of population concerns within development planning are also emphasized in the policy.

Population Targets

88 To enable measurement of the success of the Population Policy, targets have been set. Among these are:

- Reducing the annual domestic population growth rate from 1.7% (1991) to 1.5% by 1997 and below 1% by 2004
- Increasing contraceptive-user prevalence rate from the currently estimated 50% to at least 65% by 2004.
- Reducing the total fertility rate from 3.6 (1991) to below 3.0 by the year 2004
- Achieving a reduction in infant mortality rate from 57/1000 live births in 1992 to 30/1000 or less by 1997 and the maternal mortality rate from 3.7/1000 to zero.
- Population census to be conducted every ten years, (the last census being held in 1991)

89 The Government of Tuvalu recognizes that human resource development (HRD)

is central to the achievement of all other programs. Key elements include:

- 1) a private sector led economic growth strategy,
- 2) a need to create employment opportunities (at home and abroad),
- 3) a need to support and improve the environment in human settlements, and
- 4) adoption of a less centralized approach to development.

90 These demands need to be met within the existing constraints of geographical fragmentation and the need to restrain growth in government expenditure.

91 The Tuvalu Government is convinced that human resource development, especially education and training has a key role in the future prosperity of the nation. The broad mission of the human resource development strategy is to enable the future economic growth, ensure efficient and effective delivery of education and training services, and provide for long term sustainability.

92 Enabling future economic growth will call for:

- The monitoring of a highly skilled, flexible work force including well-educated, trainable school graduates,
- The expansion of private-sector oriented vocational training
- The complementary formulation of effective wage policies and structures
- The development of demand driven, quick-response, and flexible training strategies and mechanisms
- The assurance of equitable access to training for all including women and rural people.

93 Cost-effective service delivery will necessitate:

- The monitoring and review of post-school training patterns and costs
- The enhancement of public-sector efficiency through improved management of education and training

- The provision of a strong basic education foundation consistent with meeting internationally recognized school standards
- The expansion of effective low cost services, e.g. part-time distance learning

94 Long term Sustainability will require:

- The ongoing review of education policies, plans and priorities
- The rigorous screening of the operating and financing costs of on-going and new projects
- The harnessing of community and employer support for education and training programs
- The strengthening human resources planning capabilities
- The retention of highly-trained managers, planners and teachers for education and training programs
- Ensuring that there are equitable opportunities for women to participate in the work force
- Ensuring the educational services remain responsive to national cultural traditions

HIV/AIDS Control

95 Although due to the size of the nation and its remoteness one would have thought that there would be very little if any incidence of HIV/Aids prevalent in Tuvalu. However this is not so. The event of globalization has not spared our little island nation from this. One possible cause would be our seamen traveling in foreign vessels and others traveling around the world.

96 The government has put in place a very active HIV/Aids awareness program for the people of the nation.

5 Vulnerability to Shocks

97 The single most serious threat to Tuvalu in terms of shocks is its exposure to unpredictable harsh weather conditions which can be in the form of cyclones or drought and which can destroy the country's social and economic life. For example if the international airport that is close to the sea is destroyed or damaged during cyclones the country will be cut off from international links by air. This will isolate the nation completely. Similarly if the only deep-water harbor is destroyed the imported food supply on which Tuvalu is so heavily dependent will be cut off and this can bring massive miseries on the people of the country.

98 Such cyclones can also have damaging affects on the local food supplies through the destruction of coconuts and livestock and other fruit bearing trees upon which the population is so heavily dependent for their daily livelihood.

99 On the longer term there is the threat of the rising sea levels, which needs the international consensus to reduce the gas remission into the atmosphere to stop further damage to the ozone layer.

100 At the present time there is no formal mechanism set in place to meet any such eventualities and fortunately the nation has so far been spared from any major

catastrophe. However the government will need to look into setting up a formal structure to meet such events.

Environment

101 The government adopted the National Environment Management Strategy. Environmental issues will be incorporated in all development proposals either informally or through environmental impact assessments. Environmental legislation will be strengthened and environmental education and information dissemination has been improved. The Government will ratify appropriate international conventions to enhance the world environment and continue to draw attention to the potential impacts of the “Green house effect” on Tuvalu. The government will continue to act globally to protect the environment and will continue to be an active member of the following treaties and conventions affecting the global environmental practice:

- Convention on Climate Change , 1992
- South Pacific Nuclear Free Zone Treaty, 1985
- South Pacific Regional Program Convention,1985
- Convention for the protection of the Ozone layer, 1985

102 The Government has signed the Convention on Biological Diversity, 1992 and the following two conventions shall be ratified soon:

- The Convention for the Prohibition of Fishing with Long Driftnets in the Pacific, 1989, and
- The United Nations Law of the Sea Convention, 1982

103 Recognizing the threat of a rise in the sea-levels to Tuvalu, the government will continue to support programs that monitor sea levels and gather meteorological data for monitoring the “green-house effect”.

6 External Financing

[a] Official Development Assistance

104 The major donors to Tuvalu have been Australia, New Zealand and Japan. UNDP, the United Kingdom, Canada, Japan, France, the EU the Asian Development Bank and other UN Agencies have provided technical as well as other forms of assistance. Tuvalu is not a member of the International Monetary Fund (IMF) of the World Bank, but has recently become member of the United Nations and the Commonwealth of Nations.

105 With regard to island development, the donors have the same problems as the government in identifying and implementing island community projects that are self-sustaining and provide ongoing benefits to the people. Examples of assistance provided to the outer islands include: inter-island transportation (*Nivaga11.*); co-operatives training; revolving funds; small scale support to woman’s groups; scholarships and training; infrastructure such as reef blasting, spillways and harbor development; small business development training and funds; village fisheries support; primary and secondary schools; rest houses for visitors; clinics; satellite

communications; relocation of Departments of Education and Agriculture to Vaitupu. (an outer island).

106 UNDP is assisting Tuvalu with one United Nations Volunteer for three years to develop a Rural Development Program, and to strengthen local governance. The European Community is assisting outer island primary school rehabilitation on Nanumea and Nukufetau and implementing a coastal protection project. Japan has assisted high school rehabilitation and fishing harbor improvement in Vaitupu and funded a study on the electrification of outer islands. Under an Australian grant, all islands were connected by satellite-based telecommunications in 1996. New Zealand assistance is mainly concentrated in small business development and training through the New Zealand Small Business Fund and small-scale support to women's groups. In addition, both Australia and New Zealand have substantial ongoing financial assistance for scholarships for Tuvaluans to study abroad. There are numerous other projects that have benefited from the generosity of the aid donors.

107 As an LDC Tuvalu has benefited a lot from the donor community but as of late the country is finding that the donors are shying away from funding major development projects and are concentrating on providing assistance to institutional strengthening and providing support rather than financing capital intensive projects; for example the major upgrading of roads and the improvement to the airport runway in Funafuti has to be undertaken through the Government's own resources by drawing upon the TTF.

108 This and several other projects have been sitting with the donors for consideration but in the absence of any positive response the government decided to proceed with these projects to provide the much needed improvement to the roads and the airport which impact on the lives of the people of Tuvalu.

109 There are several other projects which the Government feels are important for the well being of its people and where the donor community can assist but in many cases Tuvalu ends up doing it alone due to the lack of interest by the donors.

110 The feeling here is perhaps that Tuvalu is such a small nation that it has very little to offer in return to the donor community apart from its only saleable asset being the large EEZ for marine products.

111 The above point was re-emphasized in the 2001 Budget Speech by the Minister of Finance "the budget continues to receive support from the development partners at about A\$8 to A\$10 million per year on average, although over the past two years there has been marked decline in the development assistance to about \$6 to \$7 million. This is a reflection of the Government assuming more of the capital development budget through increased Special Development Expenditures."

112 Apart from the above comments Tuvalu is grateful for the assistance provided by the donors and the government wishes to express its thanks to all the donors for their assistance.

113 The UNDP in reviewing their Country Cooperation Framework has identified certain weaknesses in the manner the programs are run and managed. Citing one example of poor planning and implementation was the Project under their Sustainable

Livelihoods through Investment and Business Development (Tuv/97/001). This project was designed to actively promote business in Tuvalu through the establishment of a Business Advisory Unit [BAU] and the Tuvalu Trade and Investment Agency [TTIA]. Its purpose was to contribute to creating employment, improving income generation and export earning activities. It is also designed to provide training and practical advice on business opportunities, technology and finance. Institutional infrastructure was to be created through BAU, which would advise on local investment. Foreign investment would be facilitated through the TTIA to act as a 'one stop shop' to facilitate approvals to foreign investors and promote Tuvalu overseas.

114 The UNDP Review Team was advised that this project was not properly developed for local conditions, and this was introduced into the country without adequate adaptation from schemes operating elsewhere. This led to several design problems with the project. The BAU and Business Awareness Programs are seen as both valuable and relevant to Tuvalu's development. In contrast the TTIA program was seen as premature and is currently under review. Although Tuvalu would like to earn foreign income through exports and overseas investment, the scope for such programs is currently small and experience with business in general is not sufficiently developed. Foreign trade and investment would probably have been better introduced once the local business scene has properly developed.

115 The design of the project also failed to take into account the local environment at the time for financing. The Tuvalu Development Bank had not been lending money for establishing new businesses for some years. This meant that although training was available, it had not been possible for the people to actually move to the stage of putting the theory they have learnt into practice and starting their own business and improve local economy as a result of the project. [Report of Tuvalu Country Assessment 20 July-5 August 2000]

116 In terms of benefiting from the trade-preferences available to the Tuvalu these have been insignificant as Tuvalu's export base is so small with hardly any developed industry that can effectively use the various concessions available, unlike some of Tuvalu's more developed neighbors who are using these preferential concessions to the full. Tuvalu is in a somewhat unfortunate position in that regard.

117 By agreeing to the use of the Tuvalu Trust Fund for financing the recurrent expenditures, which have implication for the quality of life in the outer islands, all the donors contributing to the Trust Fund have impacted on island development.

118 Part of the reason Tuvalu has had difficulties in the implementation of donor-financed programs has been the lack of internal aid coordination and management. It seems that responsibilities for aid administration are spread out between the Aid Coordination Unit, the Support Services Unit, the DCC and Foreign Affairs. This apparent overlap and duplication of efforts has resulted in certain aid programs to Tuvalu not being able to be fully utilized by the end of the donor's financial year. It is imperative therefore that responsibilities for aid coordination be clearly defined and assigning the appropriate resources and mandate for whichever Office identified to be able to manage Tuvalu's foreign aid programs. Related to this is the issue of

specifying a proper sequencing of development activities or programs given Tuvalu's level of absorptive capacity.

b] **External debt burden:** Tuvalu has a very small external debt and as such is spared the burden of carrying such a problem.

c] **The export sector** of Tuvalu is very weak with export according to the balance of payments table showing total exports for the years 1996, 1997, 1998 of A\$754,000, \$638,000, \$620,000 respectively, comprising mainly of general exports, philatelic sales, and bunkering. [Balance of Payment Table Appendix IA].

d] **Foreign direct investment** also has been very slow given the size of the market and the remoteness of the country to encourage any sizable foreign direct investment. This is a major constraint that hinders development in the country despite government's incentive programs, which can be tailored to meet individual needs.

e] **Regional cooperation:** Tuvalu is a member of a number of regional organizations such as the Pacific Forum Secretariat, South Pacific Commission, Forum Fisheries Agency, South Pacific Environment Project, SOPAC, South Pacific Tourism Organization and derives substantial benefits from these institutions in terms of technical assistance, training, etc. export markets support including studies and research for trade and investment opportunities.

119 **Good Governance:** The UNDP are assisting Tuvalu through their program of good governance in developing sound procurement policies as there has been some known difficulties and abuse in the area of procurement. The establishment of a Chapter of the Transparency International could be one way of introducing the subject of good governance and accountability. Transparency International is actively being promoted in the region.

IV. EXAMPLES OF SUCCESSFUL/BEST PRACTICES

The Tuvalu Trust Fund: A success story

120 Performance achieved by the Tuvalu Trust Fund (TTF) is considered a replicable example of dealing with the needs of small island economies. It is being examined by several other developing Pacific Island countries to use for their own outer island development purposes.

121 Formation of TTF marked the turning point in Tuvalu's fortunes [for details see Appendix II]. The TTF was set up in 1987 to provide revenue for recurrent budget had an initial capital of A\$27million of which Australia, New Zealand and the UK contributed over A\$8m each and Tuvalu \$1.6m. It began to have significant impact on the government expenditure from 1992.

122 The TTF is governed by the 'the Agreement Concerning an International Trust Fund for Tuvalu' ratified by the Governments of Tuvalu, Australia, New Zealand and the United Kingdom in 1987. This international agreement, among other things, has set up a management board to oversee the Fund and an advisory committee to monitor

Tuvalu's use of the distributed income from the Fund. The Board has set a conservative medium-term budget figure for the real return from the TTF resulting in a lower budgeted drawdown than would otherwise be the case. This is in fact a dividend policy. The actual average real rate of return is around double the budgeted return 8% compared to 4%]. The other effect of a smaller drawdown is that Government expenditure has grown at a slower rate than would otherwise be the case.

123 The TTF has contributed an average of over \$3 million per year to the Budget since 1990, with a contribution of a significantly higher amount of \$6 million in 2001. This has allowed the recurrent budget to expand. However most of the large distributions have been reinvested in the TTF and capital as of March 2000 was A\$63.6m.

124 Through such reinvestment the Government is exceeding its aim of maintaining the real value of the TTF on a per capita basis although this policy comes at some cost to the alternative of social expenditures to to-day's generation. Based on the strength of the TTF and the current dividend policy, the government is in a position to consider using some of the distributions from the Fund for development purposes.

V. PROGRAM OF ACTION

VISION 2015

125 In 1997 the government of Tuvalu launched the country's vision called – **Vision 2015, aiming to become by year 2015 a 'developed island developing country', which in practical terms meant government's pledge to be more performance oriented and be alert to and be prepared to cope with the changes that are occurring in the region and around the world in the wake of globalization and its impact on the future of Tuvalu.**

126 The eight major challenges to be tackled in the "Vision 2015" are:

- A free, spiritually sound, and self-confident Tuvaluan society that is respected by other nations;
- A progressive, highly educated and healthy society;
- A society that takes greater responsibility for its own development;
- Democratic institutions that govern within the cultural and traditional norms of Tuvalu and give greater autonomy to island communities;
- A unifying and stable political environment;
- A government and public service that is dedicated to serving the needs of the people of Tuvalu;
- A sound economy that distributes the fruits of development equally across all island communities;
- Tuvalu's progression out of both the UN's list of Least Developed Countries and the Forum's grouping of Small Island States.

127 The above challenges embody the nation's aspirations for a better society, a well-run government, and a more vibrant and prosperous economy. To turn these aspirations into action it is necessary that the authorities devote a greater portion of

their resources to actually make things happen rather than being involved in too much planning.

128 To achieve this it was intended to free up the public service by eliminating the burden of having to draft large, cumbersome and time-consuming planning documents such as the National Development Strategy. Instead for it to draw up short, clear and simple national policy statements setting out key performance indicators for the national economy over each four year periods. This will include drawing upon the other plans including island development plans, with extensive consultation with the business and civic leaders. This is absolutely necessary if the Government is to face the challenges that lay before the nation.

129 National policy statement issued in 1998 covered the following key areas:

- Human resource development
- Public sector reform
- Private sector development
- Outer-island development, and
- Infrastructure development.

Human resource development

130 Government plans to strengthen the school system and formed a Ministry of Education and Culture. It proposes to increase the level of education to form seven and to recruit overseas teachers to fill the gaps while local teachers are undergoing overseas training.

131 Further support will be given to increase educational opportunities by:

- Increasing support for pre-school education;
- Increased subsidies to private students so that they can enroll on distance learning with the regional University of the South Pacific based in Fiji;
- substantial increase in the primary and secondary school teacher pay scales; and
- substantially increasing the number of overseas scholarships and training awards.

132 The Government also made a strong commitment to the Tuvalu Maritime School to ensure it meets the International Maritime Organization merchant training standard to ensure continued employment of Tuvaluans in the merchant navy, which is the major source of foreign earnings.

133 The government also took steps to improve the health care of the nation. To this end it has established the Ministry of Health, Women and Community Affairs to focus more attention on the health issues. It also improved the incentives for health workers by significantly increasing the salaries and allowances of health workers.

134 Government's plan for the four years ending 2002 in health sector is to improve:

- health facilities at the main hospital in the capital and at the outer island health centers,
- staff qualifications through staff training and nurses exchange scheme;

- bulk purchases of pharmaceuticals and other supplies and to encourage private sale of basic drugs;
- outer island health care by posting additional health care staff to serve the residents of these islands.

Public Sector Reform

135 After a comprehensive consultation with cross section of the population in August 1997 the government with general consensus identified further areas of public sector that could be restructured. These included:

- The privatization and commercialization of more government services;
- The corporatisation of the government services suitable for public ownership, such as The Tuvalu Maritime School, the Postal Division, and the shipping services;
- The improved operations and the management of the existing public entities- the Vaiaku Lagi Hotel, Tuvalu Electric Corporation, and Tuvalu telecommunication corporation;
- Management restructure of the Tuvalu Solar Electric Co-operative Society;
- The introduction of a result based “output budgeting”, to improve government accountability and performance and good governance.
- Progressive introduction of user-pay principles for the delivery of government services.
- The tendering out of government services such as maintenance and cleaning
- Transfer of responsibilities for serving the outer islands from government ministries to island communities, public corporations or private firms.

Private Sector Development

136 Tuvalu government has a strong commitment to private sector development and the move taken by the government to corporatise/privatise some of the government owned entities reflect that move. Other moves in that direction are supported by allocation of funds to set up small scale business development through the Ministry of Commerce, Trade and Tourism, and the Development Bank of Tuvalu to develop small commercial business start-ups rather than capital intensive enterprises.

137 Government has with the help of the UNDP set up a Small Business Advisory Unit within the Ministry of Trade, Commerce, and Tourism and the Tuvalu Trade and Investment Agency. The SBA Unit has played an important role in providing business advice and training to the business sector.

138 Apart from business advice and increasing the level of financing available for private sector development Tuvalu is exploring ways to make it easier for both local and foreign firms to set up business in Tuvalu with a view to increasing the profitability of the existing and new businesses.

Infrastructure Development

139 Government plans to continue to expand the country’s basic level of infrastructure in order to achieve its aspirations of development by the year 2015. The

government recognizes that better infrastructure is a pre-requisite for expanding economic development especially for the private sector

140 It is intended to improve internal shipping; roads on the main island of Funafuti; port and wharf facilities; reef channels; small-scale island infrastructure such as coastal protection, bridges and causeways; outer islands electrification; and air transport.

141 It is intended the measures proposed for the infrastructure development will significantly improve Tuvalu's basic level of economic infrastructure. It was envisaged that the cost of upgrading roads in Funafuti would partly come from ODA failing which government will make its own budgetary allocations.

142 Expanding electrification on the outer islands will be the centre-piece of the government's development. Within the next few years it is anticipated that each island community will have expanded access to electricity for basic household needs such as lighting, refrigeration, and household appliances. Meanwhile, the Government will continue to explore other forms of renewable energy such as solar, wind and wave energy with the view to assess those proven technologies that can be successfully applied in Tuvalu's situation.

OTHER GOVERNMENT INITIATIVES AND OPPORTUNITIES

143 The government also took a special initiative to meet the challenges set out the Vision 2015. It created **Special Development Expenditures Account**. Through this account the government has become a major contributor in the financing of national development for the first time. The government will continue using whatever resources of financing that are available to stimulate developments; some such sources that may be tapped are:

- Extra income available from the TTF;
- Revenue from the Telecommunications Licensing Agreement;
- Revenue from bilateral and multilateral fishing agreements ; and
- Revenue from the marketing of Tuvalu's top-level Internet Domain name "dot TV" which is potentially a major source of revenue.

In the Appendix III are listed projects for which the Government of Tuvalu shall be looking for donors over the next three years.

144 Finally, recognizing that international phenomena such as globalization and the information technology are encroaching on Tuvalu and will be here to stay regardless whether Tuvalu likes it or not, it is vital and imperative that appropriate strategies be developed to ensure that Tuvalu is able to cope, adapt and prepare for these new waves of globalization and IT. This cannot be overemphasized given the fact that much of Tuvalu's major incomes are externally sourced – the TTF, FTF, dot TV, APT, fishing license fees, overseas private remittances, etc. That Tuvalu should avoid being marginalized by these forces of globalization and IT, provides a further incentive for Tuvalu to strengthen existing and forge new cooperative partnerships with the international community to assist and provide guidance on how best to address these processes.

Appendix I-A**Balance of Payments****\$A, (000)**

	1996	1997	1998
Current Account Balance	-2600	7,035	4,276
Goods-balance	-11,063	-8,933	-12,711
Exports fob	754	638	620
Exports through bank record	309	103	110
Philatelic sales	190	276	247
Bunkering	254	258	263
Imports fob	11,816	9,571	13,331
Services-balance	-9,142	-9,102	-11,384
Receipts	1,529	1,757	1,610
Transportation	218	124	225
Travel	574	624	658
Communications	241	464	172
Business services	496	527	555
Payments	10,671	10,859	12,993
Transportation	2,569	2,971	4,330
Travel	3,925	4,271	5,632
Communications			335
Technical Assistance(1)			2,067
Government services			338
Other services			292
Income-Balance		4,060	4,910
Receipts	3,347	4,266	5,242
Compensation	3,561	2,720	3,703
Investment Income	2,282	1,546	1,540
Payment	214	206	332
Investment Income	214	206	332
Transfers	14,257	21,010	23,461
Receipts	17,307	23,588	25,856
Official Foreign Aid	15,092	11,707	4,726
Transfers from TTF A Account	180	3,893	11,100
Government Licence fees, and transfers	930	6,329	8,913
Private Transfers	1,105	1,659	1,117
Payments	3,050	2,578	2,396
Government	215	206	350
Private	2,835	2,373	2,046
Transfer from Tuvalu Govt. to TTF A Accounts			
	1,438	3,000	6,000
Reserves (Balance at end of year)			
Market value of Trust Fund A account.	51,451	59,916	
Market Value of Trust Fund B Account.	7,616	7,110	59,464
Overseas holdings of the National Bank of Tuvalu	9,275	13,075	10,840
			15,756

[Source: Tuvalu Balance of Payments 1996-1998]

Appendix I [B]**GROSS DOMESTIC PRODUCT at FACTOR COST, BY KIND OF ACTIVITY**

<u>Economic Activity</u>	<u>At Current Prices</u>		<u>A\$(000)</u>
	1996	1997	1998
1. Agriculture, Forestry, Fishing	3,087.6	3,352.4	3,484.2
2. Mining and quarrying	447.4	466.8	633.3
3. Manufacturing	533.9	710.6	881.0
4. Electricity, gas, and water	577.9	532.0	574.4
5. Construction	2,076.4	2,206.7	2,951.7
6. Trade, hotels and restaurants	2,857.5	2,625.1	2,971.8
7. Transport and communications	1,274.1	1,620.4	1,379.9
8. Finance and real estate	1,730.7	1,936.3	2,376.0
9. General Government	3,248.2	3,315.1	4,805.7
10. Community and personal services	1,167.2	1,188.6	1,207.4
11. <i>less</i> : Imputed bank charges	555.2	511.6	501.0
All Economic Activities	16,445.7	17,442.4	20,764.4
<u>At 1998 Prices</u>			
1. Agriculture, forestry and fishing	1,974.3	2,088.4	2,103.8
2. Mining and quarrying	398.9	410.7	524.0
3. Manufacturing	281.3	364.5	414.3
4. Electricity, gas and water	512.9	450.6	486.6
5. Construction	1,851.4	1,941.6	2,423.1
6. Trade, Hotel and restaurants	2,227.9	2,014.4	2,284.7
7. Transport and communications	993.3	1,251.5	1,039.1
8. Finance and real estate	1,44.0	1,588.3	1,877.0
9. General Government	3,002.6	2,988.3	3,962.9
10. Community and personal services	921.4	924.2	031.3
11. <i>Less</i> : Imputed bank service charges	538.4	397.9	386.5
All Economic Activities	13,168.6	13,624.5	15,660.1

[source: Tuvalu National Accounts]

Appendix II

TUVALU TRUST FUND [TTF]

A. Background

- 1 When Tuvalu achieved independence in 1978 it faced a bleak financial prospect with a very low capacity to earn foreign exchange and no financial reserves from the split up of the Gilbert and Ellice Islands Colony. Over an extended period Tuvalu, with its donor partners, developed and refined the case for a trust fund. The International Trust Fund Agreement was signed on 16 June 1987 by Tuvalu, New Zealand, Australia and the United Kingdom as the original parties. Since its establishment other contributors have been Japan and South Korea.
- 2 The Fund was set up to help finance chronic budget deficits, underpin economic development and achieve greater financial autonomy. Initial contributions amounted to A\$27. 1 million. The Agreement provides a mechanism for these and subsequent contributions to be held in trust for the benefit of current and future generations of Tuvaluans.
- 3 A key feature of the Agreement is the management structure including: the Board with Tuvalu in the chair and the other original parties providing member; professional funds management; monitoring of Fund performance by actuarial consultant; and advisory committee to monitor Tuvalu's economic performance and provide advice to the Government and the Board.
- 4 The capital of the Fund is held in the **A Account** which must be maintained in real terms before distributions can be made to Tuvalu. Distributions, if any, are held in a buffer account, the **B Account**, prior to being drawn down into the Budget.

B Governance and Administration

- 5 The Fund is governed by the Agreement which provides for:
 - (i) Board – which has overall responsibility for the Fund. There are four directors on the Board representing the original donors – Tuvalu (Chairman), Australia, New Zealand, and the United Kingdom. Japan has observer status.
 - (ii) Fund Management – which is carried out by professional fund managers currently based in Australia, against a set of objectives and guidelines established by the Board in accordance with the Articles of the Agreement. Fund managers are J.P. Morgan Investment, Australia.
 - (iii) Monitoring – which is carried out by consultant actuaries, currently William M. Mercer Pty. Ltd., whose brief is to review the investment performance of the Fund managers against that of other fund managers.?????
 - (iv) Audit- which is presently carried out by Ernst & Young

- (v) An Advisory Committee – which regularly evaluates and monitors the impact of the Fund on Tuvalu. Members Committee represents the original contributors to the Fund with one member each nominated by Australia, New Zealand and United Kingdom and two from Tuvalu.
 - (vi) A Secretariat-which provides administration services to the Board and is based in the Ministry of Finance in the capital.
6. The capital of the Fund is held in the A Account. This is invested primarily in Australia in a balanced portfolio of assets reflecting the requirements of the Fund to:
 - Maintain the real purchasing power of the Fund; and
 - Provide a regular stream of income to the Government of Tuvalu.
 - 7 The Fund managers have certain discretion as to the asset allocation of the Fund to meet the objectives and manage the risk of the various asset classes. Assets range from high return, high risk growth assets such as shares to low return, low risk defensive assets such as cash. From the beginning of the operation of the Fund it became clear that there was a need to provide a mechanism for holding distributions orientation follows the successful establishment of the B Account, to act as a buffer to smooth out the investment value fluctuations. With the comfort provided by the B Account, the A Account could be restructured towards more volatile, but higher yielding long term investments.
 - 8 In the first ten years of the operation the Fund grew to A\$45m. the real rate of return on the Fund averaged 6.5% per annum providing A\$25.1m. to the revenue of the Government.
 - 9 Since 1991 the government has been able to increase real expenditure by 8.6 per cent per annum, in large part due to the Fund. For example, from 1991 to 1996 real expenditure on Rural Development and Local Government has increased by 34.0 percent per annum, shipping, ports and harbors was up by 23 percent, education and training was up 13.6 percent per annum and health up by 11.7 percent per annum. At the same time the government paid its overdraft of A\$2.9 to the bank in 1992.
 - 10 In recent years the government has been able to establish specialist funds for insurance of the government assets and disaster preparedness and make capital injections into both the National Bank of Tuvalu and the Tuvalu Development Bank.

This fund has proved most valuable for Tuvalu.

[Source: ADB Fact Finding Mission September 1998]

APPENDIX III
PUBLIC SECTOR INVESTMENT PROGRAMME FOR 2001-2003

Name of the Government Department/Ministry	2001	2002	2003
			0
<u>Office of the Prime Minister</u>			
TMC Capital Improvement		0	
Cabinet Photocopier			
Computer			
TMC Transmitter			
Computer journals and Texts			
Local area network			
In- country training		30,000	
Dot TV. Shares			
<u>Legal Services</u>			
Motor Bike			
Office furniture			
<u>Finance and Economic Planning</u>			
Computer			
Office Furniture			
Office equipment			
<u>Works,Energy, and Communications</u>			
Nivaga II fire detection system			
National Water capacity Survey			
PWD Complex Maintenance			
Coastal protection			
Cement Shed			
Maritime Legislation			
Reef Channel Upgrading [NZ]			
Water tanks			
Nivaga II Fire Fighting System			
Ramp			
Road Construction			
W & F Maintenance			
New Cargo Shed			
Cargo Handling Equipment			
Solar System Rehabilitation		30,000	
<u>Health, Women, and community Affairs</u>			
Nurses training [WHO]			
Office equipment O/Is		11,000	11,000
Vehicle			
Office furniture			
Motorbike			

Computer			
Medical Equipment			
Medical Officer's training		12,000	12,000
Medical Treatment Scheme		30,000	30,000
Automatic processor		150,000	150,000
Office equipment O/Is			
Office equipment			
Wall mounted dental X-ray Unit			
Gender Streaming			
UNV			
Office Equipment O/Is		11,430	
Computer			
Office equipment O/Is			
Office equipment			
Motor bike			
<u>Natural resources and Environment</u>			
Tractor, fuel and spares			
Shredder			
Hydroponics consultant			
Coconut Research Program			
Quarantine Consultant			
Office equipment		50,000	
Office Building [Agri-vaitupu]			
Research equipment			
Office equipment		25,000	
Upgrading Land Records			
Mini-truck for Vaitupu			
In-county workshop			
In country Workshop		5,000	
Scuba Diving Training			
Pearl Culturing Trial			
Office Equipment		50,000	
TA for Fisheries			
Office Equipment		39,999	
Reef Fish stock Assessment			
Office Equipment			
Giant Clam Nursery			
Furniture		25,000	
Maritime Boundary			
Computer			
Family food production			
<u>Internal Affairs, Rural & Urban Development</u>			
Lotokava Water cistern			
Nukulaelae Pearl Farming			
Falekaupule Study Tour			
Tractor & Trailer			

<p>FTF Stabilization Fund Nanumea Causeway Backhoe & Loader Funafala Resthouse Nukufetau flush toilet Nanumea Local Market Office equipment Niutao resthouse Safety training Nukufetau beachramp Tofia bridge Flush toilet Niu Resthouse Nui backhoe TA Falekaupule [ADB]</p> <p><u>Police and Prison Services</u></p> <p>Grass cutter Computer Supply</p> <p><u>Tourism, Trade ,and Commerce</u></p> <p>Computer Printer Motor bike X 2 Office Equipment Computer/ Printer Trade Mission to SE Asia COC Office Building Office Equipment</p> <p><u>Education , Sports, and Culture</u></p> <p>Motufua van Motor bike X 3 Child Convention UNESCO Promotion Office Equipment Sports field Motor Vehicle Motofoua Oven Computer</p> <p><u>Judiciary</u></p> <p>Island Magistrate Computer Fax Machine Photocopier</p>			
			120,000