

TUVALU

TE KAKEEGA II

2005 - 2015

**NATIONAL STRATEGIES FOR SUSTAINABLE
DEVELOPMENT**

FIRST DRAFT

FOR REVIEW BY STEERING COMMITTEE

AUGUST 16, 2004

Foreword

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Abbreviations

ADB	Asian Development Bank
CFC	Community Fishing Centre
CIF	Consolidated Investment Fund
CPI	Consumer Price Index
CSD	Central Statistics Department
DBT	Development Bank of Tuvalu
DCC	Development Coordination Committee
DOA	Department of Agriculture
DSAP	Development of Sustainable Agriculture Project
EEZ	Exclusive Economic Zone
EFL	Education for Life
EIB	European Investment Bank
EKT	Ekalesia Kelisiano Tuvalu
FAO	Food and Agriculture Organisation
FEM	Forum Economic Ministers
FFA	Forum Fisheries Agency
FJC	Fiji Junior Certificate
FTF	Falekaupule Trust Fund
GDP	Gross Domestic Product
GNP	Gross National Product
HDI	Human Development Index
HH	Household
HIES	Household Income and Expenditure Survey
HPI	Human Poverty Index
MCT	Ministry of Communications and Transport
MDG	Millennium Development Goals
MESC	Ministry of Education, Sports and Culture
MoH	Ministry of Health
MWE	Ministry of Works and Energy
NAFICOT	National Fishing Corporation of Tuvalu
NBT	National Bank of Tuvalu
NCD	Non-communicable disease
NEMS	National Environmental Management Strategy
NGO	Non Government Organisation
NSSD	National Summit for Sustainable Development
PACER	Pacific Agreement on Closer Economic Relations
PGI	Poverty Gap Index
PHDR	Pacific Human Development Report
PICTA	Pacific Islands Trade Agreement
PIF	Pacific Islands Form
PMH	Princess Margaret Hospital
PPP	Purchasing Power Parity
PSCE	Public Sector Commercial Enterprises
PSIP	Public Sector Investment Programme
PSR	Public-Sector Reform
ROC	Republic of China
RPFS	Regional Project for Food Security
SDE	Special Development Expenditure
SEGHA	Strategies for Equitable Growth and Hardship Alleviation
SOE	State Owned Enterprise
SPBEA	South Pacific Board for Education Assessment
SPC	Secretariat of the Pacific Community

SPREP	South Pacific Regional Environment Programme
STI	Sexually Transmitted Infection
STR	Student Teacher Ratio
TANGO	Tuvalu National Association of NGOs
TCS	Tuvalu Cooperative Society
TEC	Tuvalu Energy Corporation
TMC	Tuvalu Media Corporation
TMTI	Tuvalu Maritime Training Institute
TNPF	Tuvalu National Provident Fund
TTC	Tuvalu Telecommunications Corporation
TTF	Tuvalu Trust Fund
UNDP	United Nations Development Programme
USP	University of the South Pacific
WTO	World Trade Organisation

Part 1

The Vision, Strategic Directions and Outcomes

THE VISION

The principal objective of government's national development policies and strategies is to promote improvements in the standard of living of all the people of Tuvalu. To this end a Vision for the future of Tuvalu was unanimously endorsed at the National Summit for Sustainable Development. Contained in the *Malefatuga Declaration*¹, the Vision states:

We, the representatives at the Tuvalu National Summit for Sustainable Development; comprising all island Head Chiefs and Presidents of Island Councils, Cabinet Ministers and Members of Parliament, representatives of the civil society and private sector, government ministries and departments, development partners and Tuvalu expatriates;

Recognise the importance of sustainable development – development without compromising the ability of future generations to meet their needs - and endorse the Vision of “By 2015, guided by strong spiritual values enshrined in its motto – ‘Tuvalu mote Atua’ – we will have achieved a healthy, educated, peaceful and prosperous Tuvalu”.

Every segment of Tuvalu society has a role to play in transforming this vision into reality. There must be genuine cooperation and participation between the public sector, the private sector, and those who represent civil society. With the right commitment by each individual, and the community each represents, together the standards of living in Tuvalu can be raised, especially for those who are at the greatest disadvantage. To reach our vision, strategic directions were chosen by consensus at the National Summit for Sustainable Development (NSSD), as were the areas of development priority. These areas include better governance; more employment; more economic opportunity; better health and education; better basic infrastructure; and lastly, maintaining social stability. Making headway in each priority area will help to improve the standard of living in Tuvalu as a whole. The analogy is a rising tide lifts all boats, even those boats lowest in the water, or most disadvantaged. This will result in a healthier, more educated, peaceful and prosperous Tuvalu. In other words, reaching the vision.

The Vision is a statement of commitment and intent to achieving these ends.

¹ The complete text of the *Malefatuga Declaration* is at Appendix 1.

CHAPTER 1

STRATEGIC DIRECTIONS AND OUTCOMES

1. Setting the Scene

Since the expiry of the "*Kakeega o Tuvalu 1995 - 1998*", Tuvalu has been without an up-to-date set of agreed national development priorities and strategies, or a prioritised public sector investment programme (PSIP). This has hindered the coordinated development of the country and has led to a number of projects being implemented without the full cost and operational implications being adequately considered.

This National Summit for Sustainable Development held in June - July 2004 has now provided a clear Vision, a policy and strategy framework and a set of priorities and strategies, for the future development of Tuvalu over the next ten years.

These strategies set out the broad priorities and directions for the development of Tuvalu over the next ten years. They do not present detailed projects. These will be developed in the sector plans and strategies and in the PSIP. The formulation of the sector plans and the PSIP will be the next stage in the process.

The sector strategies and projects to be formulated must all be consistent with the achievement of the Vision and the eight national strategies and themes that are outlined in the following sections.

Recognising the need for greater public participation in and ownership of the development and policy making process, the government undertook a wide ranging consultative process throughout all the islands of Tuvalu in the lead-up to, and conduct of the Summit. This has resulted in a very clear focus in the national strategies based on the issues that the people themselves regard as priorities. The people identified eight focal themes or directions and areas of expected Strategic Outcome for national development:

1. **Good Governance**
2. **Macroeconomic Growth and Stability**
3. **Social Development: Health, Welfare, Youth, Gender, Housing and Hardship and Poverty Alleviation**
4. **Outer Island and Falekaupule Development**
5. **Employment and Private Sector Development**
6. **Human Resource Development**

- 7. Natural Resources: Agriculture, Fisheries, Tourism and Environmental Management**
- 8. Support Services and Utilities**

The people wish for more employment and economic opportunities through which to earn income; they also want better health, education and other basic infrastructure for themselves and especially for their children; and they also want social stability. Running through these themes are a number of cross-cutting issues: outer island depopulation and urbanisation of Funafuti; declining rural agriculture and weakening national food security; increasing youth unemployment; declining standards of nutrition and increasing incidence of non-communicable disease (NCDs); the growing threat of HIV/AIDS and the increasing incidence of hardship and poverty being experienced by a growing number of families. These must all be addressed in the formulation of sector strategies. Provision of these services is costly, resources are limited. How can these be allocated most effectively to maximise the benefits to the people.

Broadly based sustainable development and real economic growth is essential. Achievement of these requires a continuing process of promoting structural change and economic reform. Further it necessitates the acceptance and promotion of innovation and change in both the public sector and private sectors. Outward looking, private sector focused strategies that will both broaden and deepen the economic base of the nation are needed. Progress and development are dynamic processes; today's institutions and traditions were yesterday's innovations.

Standards of governance and the efficiency of the public service need to be improved. More cost-effective and better service delivery, together with a more customer oriented approach to dealings with the public, and particularly with potential investors, needs to be institutionalised in the public service. Public enterprises need to be operated in accordance with genuine commercial principles, and with the objective of privatisation at an opportune time. Education needs to be targeted towards providing young people with the technical and vocational skills needed to meet the demands of private enterprises. Health services need to be able to meet the challenges of increasing incidence of NCDs and HIV/AIDS. Welfare services need to be able to provide for the needs of youth, the elderly and the otherwise disadvantaged. These form the core of future strategies.

2. Constraints and Challenges

The principal development constraints facing Tuvalu, highlighted in Box 1.1, are mostly external and beyond government's immediate ability to influence. But through appropriate policies and international cooperation government can help to alleviate the adverse impact of

many of these constraints. The structural weaknesses, Box 1.2, are issues over which the government can exercise some policy control and guidance. These weaknesses are all amenable to change through government intervention.

Although Tuvalu is a small, open economy with many development constraints and structural weaknesses, it does nevertheless possess some valuable advantages:

- The Tuvalu Trust Fund (TTF) and the Falekaupule Trust Fund (FTF); with sound investment management and a stable and growing world economy these should provide a solid funding base for government policies and for outer island development respectively;

<p>Box 1.2</p> <p>Principal Structural Weaknesses In the Tuvalu Economy</p> <ul style="list-style-type: none"> • Large and continuous trade imbalance, with exports representing only a small fraction of the value of imports; • Large public sector characterized by low productivity and lack of customer service focus; • Pervasive government ownership of enterprise activities, many of which require fiscal concessions and/or subsidies to survive; • Deteriorating fiscal situation; • Small and under-developed private sector which accounts for only around one-quarter of GDP; • High tax rates and import duties; • Investment approval process that is non-transparent and burdensome for investors; • Underdeveloped financial system characterized by low domestic resource mobilisation; • Growing labour force experiencing high levels of under-employment especially on Funafuti; • A land tenure system which makes it very difficult to obtain land for commercial development.

<p>Box 1.1</p> <p>Key Development Constraints</p> <ul style="list-style-type: none"> • Limited natural resource base; • Widely scattered and sparsely populated island geography; • Small domestic market with little potential for economies of scale; • Access to major international markets is expensive; • Increasingly competitive international markets for seamen, tourism and investment; • Social and cultural system with limited understanding and experience of business concepts and practices; • Limited economic opportunity in the domestic economy; • Land and capital market development constrained by small size, and social values and traditions; • Low absorptive capacity for major investments.
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- An extensive Exclusive Economic Zone (EEZ) which generates substantial fish licence revenues;
- A strong market presence for international seamen; and
- A strong traditional culture which promotes social stability and family welfare.

Tuvalu is fortunate to have these advantages, it must try to build on these as well as strengthening its links with the international community. The continuing process of liberalisation, deregulation and globalisation in the international economy offers both opportunities and challenges that Tuvalu cannot ignore.

The fragile nature of the Tuvalu economy is a consequence of these developmental constraints and structural weaknesses. This has led to a heavy reliance on

outside development assistance and has led to a degree of complacency in fiscal and financial management. However development assistance, together with TTF revenues, fishing license fees and dotTV revenues, has enabled the nation to balance its external account and to cover the resource gap in the budget. But has done little to promote the non-government domestic economy.

Lack of innovative policy development and a reluctance to embrace economic and structural reforms will lead to further stagnation in economic growth and development; it will mean few domestic employment opportunities being created, thereby leading to greater unemployment amongst young people. It will likely lead to further out-migration from the outer islands with consequent further increases in dependency ratios. The consequence of this will be slow growth and a likely failure to improve the quality of life of the people.

3. Strategic Directions and Outcomes for National Development

To realise the Vision, eight **Strategic Outcomes** will be targeted initially for the 2005-2007 period. These strategic outcomes are built around a sound and coordinated framework. The three pillars of **Good Governance, Social Development and Equitable, Pro-poor Growth** aimed at achieving equitable growth and hardship alleviation provide such a framework at the overall national (macroeconomic) level.

The Strategic Outcomes focus on key results or changes that must be achieved in the society and economy in order to create the “**enabling environment**” that will permit the nation to realise its Vision. For example, enhanced capacity in education and training institutions will be required to provide people with the education and job skills needed to meet the requirements of a growing and diversifying private sector. Limited training capacity and low levels of educational attainment will result in potential investors deciding not to make investments because they cannot fill their job openings with productive workers. Without new investment, growth in employment cannot be achieved, taxes and government revenues cannot be increased to meet operating costs of new initiatives.

Presenting strategic outcomes in the national development strategies (NDS) informs all stakeholders (e.g., development partners, non-governmental organizations, private investors as well as government), of what is expected to be achieved. It provides a basis for mobilizing broad support for achieving the targeted outcomes. Another important purpose for focusing on strategic outcomes is to provide guidance to ministries to enable them to formulate consistent sector-level policies and strategies required to allow achievement of the targeted outcomes.

In the Participatory Assessment of Hardship (PAH) conducted in 2003 and in the more recent consultative process in the lead-up to the NSSD, the people clearly expressed their

priorities. These have been adopted as the core directions for national development and are summarised in the eight strategic priorities and outcomes. Although the strategic directions/outcomes are divided into eight separate sectors they are all inter-linked, some in complementary ways, some in ways which may cause conflict. All require resources, human, physical and financial. The challenge is to allocate scarce domestic development resources, complemented by external development assistance used in focused and innovative ways which will maximise benefits and meet the needs of the people.

1. Good Governance

Good governance: good governance, which includes inspired leadership and sound management, as well as honesty, transparency and consistency in the rule of law is a pre-requisite for all other strategies to be implemented effectively.

2. Macroeconomic Growth and Stability

Sound economic management, strong institutions and fiscal discipline; without the right economic policy environment (fiscal, monetary and regulatory), strong and well-managed institutions and a high standard of governance providing a cost-effective, efficient and customer oriented public sector, none of the sector priorities/outcomes can be successfully addressed.

3. Social Development: Health, Welfare, Youth, Gender, Housing and Hardship and Poverty Alleviation

Health and Social Welfare, including issues of nutrition, youth, gender, age and other special needs; good health and ensuring that the social and welfare needs of the various sections of society are catered for will help to ensure a stable social environment; HIV/AIDS, NCDs and hardship and poverty are emerging issues and need to be considered as potential threats to the achievement of the Vision.

4. Outer Island and Falekaupule Development

The **outer islands** have always been regarded as the heart of the nation, however in the last decade the heart has become weaker as outer island populations have declined and production in the traditional subsistence economy has fallen; to counter this the Falekaupule Trust Fund has been established; the challenge is to identify strategies that will reverse the out-migration and falling output from the outer islands and to help ensure that the outer island economies are sustainable in the long term.

5. Employment and Private Sector Development

Private sector development and employment creation, including in tourism, agriculture and fisheries; creating an environment in which economic opportunities can be created has to be at the core of the national development strategies; good education and good health, important as they might be, are not ends in themselves; they provide individuals with the skills, knowledge and physical ability to contribute to the creation of economic wealth and social welfare through employment and economic activity in both the formal and informal sectors.

6. Human Resource Development

Education, training and human resource development are essential to the achievement of each individual's own potential and aspirations; they are also central to the nation's ability to achieve sustainable development; education and training must be targeted towards meeting the skill and manpower demands in the different sectors of the economy; however it has to be recognised that education can also be a catalyst for change, yesterday's innovations are today's accepted practices, society, culture and institutions need to be ready to embrace new ideas and make them work to their best advantage.

7. Natural Resources: Agriculture, Fisheries, Tourism and Environmental Management

The traditional structure of Tuvalu society and its subsistence economy have been built on the sustainable use of the nation's limited, but nevertheless valuable **natural resources**, and the conservation and careful exploitation of the fragile atoll eco-systems; these are now under threat from changing attitudes in society and from the increasing monetisation of the economy; traditional subsistence production has been declining; the challenge is to reconcile these conflicting factors to enable sustainable growth and stability to be achieved.

8. Support Services and Utilities

Reliable and competitively priced **economic infrastructure** and utilities are an essential requirement for sustainable development; without these supporting services it will be impossible to attract investment, create employment and generate additional wealth and opportunities for the people; the strategies need to put in place arrangements for the provision

of support services which provide the people with a satisfactory quality of service at a reasonable price.

4. Performance Monitoring

The details of the strategic planning and monitoring processes are outlined and discussed in Chapter 10 where the linkages between the national strategies, which are developed in this document, and the sector plans, the public sector investment programme and the departmental corporate plans are outlined.

The overall monitoring of the implementation of the national strategies will be overseen by a National Task Force which will include the island Pule Fenua and Ulu Alik. This Task Force will meet every two years to review progress.

Progress will be monitored in respect of individual sectoral/strategy indicators as well as through the achievement of the Millennium Development Goals (MDGs).

CHAPTER 2

GOOD GOVERNANCE

1. Overview and Summary

The delivery of good governance, one of the three pillars for sustainable development, is a pre-requisite for the achievement of other components of national development strategies. Good governance includes the need for sound and responsive institutions and processes to deliver quality services to the people. These must be built on strong, visionary leadership and a commitment at the highest levels to give priority to the implementation and achievement of equitable growth strategies. The responsible level of government must create an enabling environment conducive to economic growth, whilst the private sector and markets must work to efficiently allocate resources to commercially viable, employment generating, investments.

Public sector reform, has long been a stated government priority. Such reform envisaged improving public administration, public financial management, and public enterprise performance. In 1998 a review of progress observed that the governance environment was sound by regional standards, but went on to note that

- the effectiveness of the public sector could still be improved;
- the impetus for public sector reform had waned largely because of practical constraints on implementation capacity, reconsideration of public enterprise reform, and a lack of capacity for coordinated action; and
- the future large windfalls of revenue from dotTV might pressure the ethical conduct of politicians and government officials.

These three observations still apply. Since that time the civil service has grown well beyond the level targeted in the original public sector reform programme. The 1998 review concluded that there was need to upgrade both the capacity to brief Cabinet on technical aspects of cross-ministry submissions, and Cabinet's capacity to monitor and drive implementation of its key decisions and priorities. Also, Development Coordination Committee's (DCC) functioning and understanding between ministers, permanent secretaries, and special ministerial advisers of their roles and responsibilities both needed improvement—especially in governance issues. The latter concerned basic matters, such as ministries ceasing to prepare annual reports for tabling in Parliament.

The review further concluded that there was need to

- clarify ministers and public servants roles in directing public enterprises;
- improve procedures for appointing boards and management; and

- implement public sector reform for promoting private sector development, given that the private sector identified slow decision-making and administrative action in the public service as major concerns.

The 1998 review went on to recommend

- adopting a leadership code;
- introducing non-statutory guidelines to standardize current practices for release of public records;
- agreeing to the annual release of accountable allowances and outstanding imprests for politicians and others;
- establishing an independent body to review office holders' pay and conditions;
- enacting an Audit Act and introducing a requirement for ministers to report to Cabinet on responses to audit management letters;
- adopting peer group review of the Audit Office;
- developing guidelines for preparing annual departmental reports to Parliament;
- coordinating annual "bids" for overseas travel and approving an annual travel program;
- disclosing details of individuals' overseas travel expenses;
- running seminars on working with ministers and secretaries; and
- clarifying and communicating the role and tasks of special ministerial advisors.

Whilst progress has been made in some of these areas there remain many in which where there is much further to go.

In recent years, notably between 2000 and end 2003 Tuvalu experienced a period of political instability with three Prime Ministers in as many years. This led to a degree of policy inertia, a lack of clear priorities and strategies, and a perceived weakening in governance standards, particularly in respect of fiscal management. Concerns regarding a perceived decline in transparency and accountability in some government decision-making processes were expressed in the NSSD. Ironically the period of declining governance coincided with a period of relative abundance in budgetary revenues from fishing licenses, dotTV, and distributions from the TTF to the Consolidated Investment Fund (CIF). Albeit this period of plenty appears to have now come to a rather abrupt end and weaknesses in the system are now becoming apparent.

A feature of public administration in Tuvalu is the often poor state of record keeping. Key policy and strategy documents are often unavailable. Files may appear to have been lost and are not always up to date. The widespread use of personal computers has encouraged a casual practice in record keeping, while simultaneously the capacity to better manage information using computers has not been exploited fully. Improving the efficiency of the public service requires getting such basics right.

Governance is a cross-cutting issue, it touches on, and underpins, all aspects of government policy-making and implementation. Property rights are an important governance issue. The original *Kakeega* national strategy document published in 1995 observed: “*Management of land is currently a source of confusion and uncertainty, for all sectors of the economy, Government, community, and business. The very high value put on land by owners, the customary system of land tenure, the lack of commonly accepted records, and inadequate legal institutions have meant that land disputes are common*”. As a result, land is not used as collateral in securing commercial loans and is not easily leased. These constraints substantially inhibit private sector development, particularly the prospects of joint ventures with foreign investors in the export sectors of fisheries and tourism. Land is central to Tuvalu culture and society. Any freeing-up of the land market has to be seen as a long-term goal to be approached gradually with what is politically and administratively feasible. The short- to medium-term need is for access to small areas of leasehold land so that these can become available for potential domestic and foreign investors, and to ensure that such property rights are secure. This will require the promotion of land surveys, title registrations, and dispute resolution for parts of urban Funafuti.

Urban management is another important governance issue. This includes the need to deal with the issues of urban planning and land management, and waste management on Funafuti. Many Funafuti landowners are losing access to their traditional lands, either through agreed gifting of access and use to incoming families, or through unauthorised squatting or use of resources. The situation for government is complicated by the fact that many of its own land-leases are due for renegotiation and renewal. A programme for the systematic reclamation of the war-time “borrow-pits” could provide an appropriate opportunity to address this issue. The continuing urbanisation of Funafuti is beginning to cause tensions between the traditional Funafuti landowners and those from the outer islands. Land for housing, business and development purposes is becoming increasingly scarce. Many families now experience problems and hardship emanating from poor housing and living conditions. A system of urban planning and management is needed.

Local government and governance standards in the outer islands have always been rather weak. Whilst some devolution of authority occurred in 1999, and devolution of financial resources to the outer islands commenced with the establishment of the FTF in 2000, the capacity of the islands to plan and manage their own development remains weak in most islands. Continuing capacity building is needed. This is an important aspect of governance that must have a successful outcome if the continuing flow of people from the subsistence economies of the outer islands to public service based cash economy of Funafuti is to be arrested. Tuvalu has both formal and informal consultation systems. The formal process includes representative local and national government and the links between the two. The

informal system is based on the traditional process of consensus building that draws a wide cross section of the community into the process. Given the importance of the national government in the collection, management and allocation of funds there is a tendency for the decision making process to become centralized in Funafuti. Outer island governance and the management of the FTF resources therefore also need to be strengthened and monitored. Because the Tuvalu culture and Falekaupule system ensures wide consultation on most important developments, the public-sector reform (PSR) program has been progressing slowly. The objectives of the reform program have been: (i) corporatisation and privatization of government enterprise activities; (ii) improvement in the efficiency of public administration; (iii) restructuring of the economy towards private sector-led growth.

The Government has had a long-standing policy of trying to ensure that all Tuvaluans have access to basic services. The implementation of this policy has resulted in a relatively low level of inequity across Tuvalu. However there remain marked differences between the quality and availability of education and health services and of economic opportunities

<p>Box 2.1</p> <p>Policy Objectives for Good Governance</p> <p>Public Administration</p> <ul style="list-style-type: none"> • Reform public service commensurate with available resources and • Institute sound management principles and practices • Strengthen oversight of public administration • Improve transparency and accountability • Increase participation in budget and decision making process <p>Fiscal Stability</p> <ul style="list-style-type: none"> • Restore fiscal management and discipline • Establish medium term fiscal framework <p>Public Enterprises</p> <ul style="list-style-type: none"> • Reduce subsidies through improved management, operations and business planning <p>Local Government/Falekaupule</p> <ul style="list-style-type: none"> • Institutionalise good governance practices at the Falekaupule level through the Act • Institute other reforms to improve availability of land for development and improve urban planning and management 	<p>between Funafuti and those in the Outer Islands. Leadership and management in the delivery of services to the public are in need of improvement. Tuvalu is also very vulnerable to external factors. Tuvalu is exposed to the vagaries of international investment markets, demand for shipping and levels of world trade, and global demand for fish. The provision of good governance whilst not necessarily overcoming these vulnerabilities does nevertheless provide a sound base on which other policies can be built and strategies implemented</p> <p>2. Key Issues and Challenges</p> <p>The challenge for government is to restore public confidence in the political and administrative process; to put in place a policy and regulatory environment that will enable the economy to create opportunities and generate economic</p>
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growth and greater prosperity for the people - and to achieve the national Vision and

strategic outcomes. Fiscal discipline must be restored and the budget process made more transparent and participatory. The public service must be restructured and reformed to enable it to operate efficiently and cost-effectively within the budget constraints which now exist. Public enterprises must also be restructured and made more commercially viable to reduce the subsidies which are presently required to keep them operational. This means that prices must be allowed to increase, but efficiencies must also be delivered and competition introduced. Enterprises must produce business plans to show how they will operate and become viable. Those that are not viable should be allowed to cease operations. In such circumstances where jobs might be lost social safety nets will be required.

Governance at the local level also needs to be strengthened. The legislation and basic processes have been established, the challenge is to institutionalise them. Policies and financial decisions are often taken by government without adequate information and analysis, thus unintended outcomes and additional costs frequently arise. The challenge is to improve the information and data availability and ensure that all decisions are based on full analysis of the options and likely outcomes. In the wider economy government needs to play a leading role in addressing the difficult issues of land and urban planning and management.

3. Policy Objectives

The policy objectives for good governance are summarised in Box 2.1. They are aimed at meeting the challenges highlighted in the previous section. The objectives focus on restoring public confidence, creating an attractive policy environment in which the national strategies and the Vision can be realised, restoring the fiscal situation through fiscal discipline, public sector/service reform and the restructuring of public enterprises to minimise subsidies. Improved governance standards at the local level is also an important objective, as is addressing the difficult issues of land and urban planning.

4. Priorities and Strategies

To increase the efficiency and effectiveness of the public sector, including public enterprises, a further extensive public sector reform programme is being developed, Box 2.2. To this end government has endorsed the Eight Principles of Accountability adopted by the Pacific Islands Forum. These call on governments to improve levels of transparency, accountability and good governance. The budgeting system is being revised and strengthened especially in improving programme/output definitions and performance standards to enable them to be focussed on core functions, and in performance monitoring and management. The key strategies for improving fiscal and financial management are set out in Box 2.3. Ministries need to ensure that each programme/output is consistent with core functions, that their

performance standards and measures are well defined, and that data can be collected and assessed for monitoring purposes. Outputs must be consistent with the achievement of the broad national strategies.

In addition to strengthening the output budgeting system, there is a need to make sectoral planning at the ministry level more effective. Strategic planning is an important element of good management, and for ministries strategic planning **is** sectoral planning. The reason for this equivalence is that ministry programmes/outputs constitute the goods and services that typically contribute to the growth and development of the sectors that fall within the responsibility of the Ministry. The strategies for improving public administration are set out in Box 2.4. Sector planning must be institutionalised and carried out on an on-going basis in accordance with specific guidelines and procedures. For the public sector to be more effective and efficient, it is important that Ministries identify and focus on their **core functions**. Focusing on core functions is about government being responsive to public needs by becoming more customer focused, i.e. delivering the right services (or goods) to satisfy customer demand; and by becoming more efficient by delivering services more cost-effectively. Restructuring ministries and public enterprises follows from the core-function focus. Whilst an immediate objective of restructuring is to *right size* the public service and thereby reduce government expenditure, the ultimate objective is to increase its effectiveness and efficiency. This should, at the same time, facilitate growth and development of the private sector by transferring from government those functions and activities that can be provided more efficiently by the private sector. The strategies for improving the performance of public enterprises are summarised in Box 2.5. Improving governance standards and instituting a more transparent, consistent and open policy environment with restore public confidence and will help to encourage new investment and employment creation in the economy

5. Performance Monitoring

The performance of the strategies for improving governance will be measured against the implementation of the specific actions detailed in the strategies. In particular the timely completion, auditing and tabling in parliament of government and public enterprise accounts for public scrutiny.

Progress will also be measured against the establishment of the Ombudsman, and of the Leadership Code. The formulation of a medium term fiscal policy and a multi-year budget framework will also be monitored.

Box 2.2

Strategies for Public Sector Reform

- Realign the role and size of the public service
- Identify departments that can be reorganised for commercialisation
- Contract out senior public service posts
- Clarify the roles of Minister/Secretary/HOD with the view of eliminating political interference
- Strengthen performance appraisal process
- Review policy towards civil servants operating or owning private businesses

Box 2.3

Strategies for Fiscal Management

- Ensure strict compliance to fiscal targets and guidelines, and with Public Finance Act and Financial Instructions
- Review Public Finance Act, Financial Instructions, Stores Regulations and other related legislation,
- Formulate medium term fiscal policy framework (including a multi-year budget framework) to guide budgetary performance towards achieving a balanced budget).
- Establish a Macroeconomic Policy Committee to monitor economic performance and recommend policy adjustments
- Improve stakeholder consultations and awareness in the formulation of the budget
- Implement the FEM Eight Principles of Accountability

Box 2.4

Strategies for Public Administration

- Establish Office of the Ombudsman
- Establish Leadership Code
- Promote public awareness on the Constitution and relevant legislation and make changes, as appropriate, to ensure political stability
- Strengthen effectiveness of Parliamentary Committee System including Public Accounts Committee
- Strengthen the Office of the Auditor General
- Assess the suitability of formalising a monitoring role for Te Fale Ulu Alikī/Pule Fenua
- Formalise a process for public and other stakeholder participation in the formulation of policy, planning and performance monitoring
- Maintain a foreign policy promoting cooperation and regional and international partnerships
- Ensure a fair, impartial and independent media

Box 2.5

Strategies for Public Enterprise Management

- Provide capacity building for management and staff
- Strengthen effective management
- Annual reports and accounts to be produced and audited in accordance with legislation and made available to the public
- Role of subsidies to be clearly defined, costed and better targeted
- Viability of privatising selected SOEs will be assessed
- Improve selection process of Boards of Directors of public enterprises and broaden membership
- Establish clear guidelines on the roles and responsibilities of Ministers/Board/Management of public enterprises

CHAPTER 3

MACROECONOMIC FRAMEWORK, FISCAL POLICY AND ECONOMIC DEVELOPMENT CHALLENGES

1. Introduction

Revised national accounts (Gross Domestic Product (GDP) at factor cost and market prices) for the years 1996 through 2002 have recently been published. These figures provide a valuable and up-to-date picture of economic developments in Tuvalu over the past seven years. They also provide a basis for the development of future economic policies and strategies. An understanding of the structure of the economy and the future growth prospects for its component sectors is critical not only for future general economic policy development but also for sound budget development and fiscal management. Growth in the domestic economy generates employment and income for individuals which in turn generates income tax, sales and company taxes and import duties, as well as revenues from fees, licences and other charges. These all go to make up government's domestic revenues which provide the core for government's budget expenditure.

The Tuvalu economy is unusual in that a substantial amount of both government revenues and private incomes are generated from "factor income from abroad". That is revenues generated by "factors of production"² belonging to, or normally resident in Tuvalu but which earn income from activities undertaken outside the country, or by non-residents exploiting Tuvalu's assets. For government, revenues come primarily from the income of the TTF (capital), dotTV (asset) and from fishing licence fees paid by foreign fishing vessels (natural resources). For families the income derives from remittances from overseas seamen (labour)³. Whilst these items do not appear in the GDP directly their contribution to the domestic economy is captured when they are spent on goods and services in Tuvalu. Key economic indicators are provided in Appendix 2.1.

² Land/natural resources/other assets, labour and capital

³ Remittances from family members who are living overseas but who are not on formal employment contracts originating in Tuvalu are deemed to be "unrequited private transfers" and do not form part of national accounts, but do feature in the Balance of Payments.

1. Recent Economic Performance

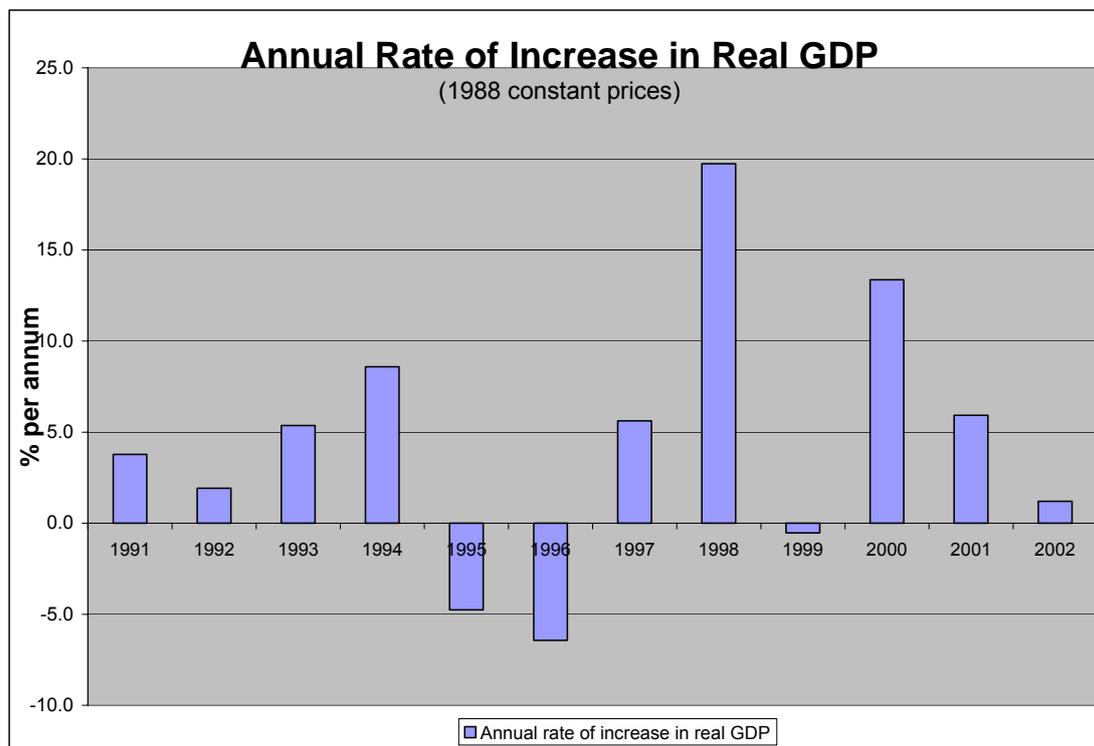
a. Macroeconomic Performance

Between 1996 and 2002 annual real growth in GDP averaged 5.6% per annum; however this figure hides wide year to year variations: from highs of 19.4% and 13.7% in 1998 and 2000 respectively, to lows of - 6.4% and - 0.5% in 1996 and 1999 respectively. For the latest two years, 2001 and 2002 growth rates were 5.9% and 1.2% respectively. Underpinning recent economic performance has been the average annual increase in government's contribution to GDP of 11.3% per annum. This has increased government's share of GDP from 24% in 1996 to 30% in 2002. The growth in public enterprises, at 11.2% per annum over the 1996 - 2002 period, was the same as that of central government. Public enterprises contributed 39% of total GDP in 2002, up from 32% in 1996. Finance, transport and utilities were the main components in public enterprise GDP. The volatility in the growth of GDP between 1991 and 2002 is illustrated in the first Chart below.

Government's influence on the economy has not been a steady one; annual growth fluctuated widely from a high of 55.8% between 1997 and 1998, to a low of -6.0% between 2001 and 2002. Such fluctuations in the growth rate of the largest sector of the economy make economic management difficult. When this sector is also the government, and the largest employer, the difficulties are compounded. Besides government, other sectors of the domestic economy have also shown steady, if similarly volatile growth over the period. Between 1996 and 2002 the best performing sectors were Utilities which increased its contribution to GDP from 4.6% in 1996 to 7.2% in 2002; Transport and Communications increasing from 9.6% to 13.3% of GDP, and Finance and Real Estate increasing its share from 7.6% to 11.4% of GDP. Manufacturing, Retail Trade & Hotels and Community & Personal Services all showed low to moderate growth.

The private sector domestic economy is small accounting for only an estimated 31% of GDP in 2002, down from around 44% in 1996. Although the decline in the private sector's contribution to GDP is primarily the result of the rapid increase in the contribution of the public sector, there has nevertheless been little underlying growth in private sector activity. Private sector monetary activities increased by an average of 4% per annum between 1996 and 2002 and accounted for only 14% of GDP in 2002, down from 17% in 1996. Private sector activities are dominated by trade, personal services and local cottage industry-type manufacturing. In 2002 these accounted for 47%, 29% and 11% respectively of private sector monetary GDP. Some 55% of this private sector contribution to GDP was accounted for by non-market production, with the balance of 45% (equivalent to about A\$2.4 million) being contributed by private sector monetary output. In 2003 the TNPF had approximately 100 active private sector businesses (excluding churches and education institutions) with

approximately 1200 employees/fund members contributing to the fund. The development of the private sector is discussed in Chapter 6.



The household non-market component in the economy (the subsistence sector) has been declining steadily, by an estimated 0.8% per annum between 1996 and 2002. In 1996 household non-market production accounted for 27.2% of real GDP; by 2002 this had declined to only 16.9%, a reduction of just over one-third. This is reflected in the latest census data (for 2002) which records that nationally only 53% of the economically active population were engaged in subsistence/household activities compared with 70% in 1991. For subsistence production alone the census records that nationally only 21% of the economically active population were engaged in these activities. On Funafuti the proportion was 6% compared with 32% in the outer islands.

The declining level of subsistence production is indicative of other trends in the economy: a) increasing monetisation, that is the growing importance of cash in meeting daily needs; b) the steadily declining outer island populations (excluding Funafuti and Vaitupu), down from 44.3% of the total population in 1991 to 36.4% in 2002, and c) the increasing dependency ratios⁴ in the outer islands, averaging 0.9 compared to 0.7 on Funafuti. The subsistence, non-market, component of the economy has thus performed poorly. The negative growth in subsistent production has caused overall growth to be lower in the economy as a whole. The

⁴ Dependency ratios: the ratio of the number of 'dependents' aged 0 - 14 years and over 60 years to the number of people in the "labour force" aged between 15 and 59.

continued population drift to Funafuti, and increasingly overseas where non-resident Tuvaluans are now estimated to number around 30% of the resident population, raises many serious policy issues concerning the long-term sustainability and future development of the outer islands. The reversal of the migration from the outer islands and the promotion of increased subsistence agriculture, and the creation of more economic opportunities in the outer islands are major challenges and high priorities in the national strategies.

In 2002 GDP per capita at factor cost was estimated to be around A\$2871 (US\$1602) in current prices and A\$1770 (US\$988) in constant 1988 prices. The 1991 constant price GDP per capita was estimated at A\$1180 (US\$896), thus real per capita incomes in A\$ terms increased by an average of 3.8% over the period 1991 - 2002. Whilst this represents a reasonable rate of increase it hides the fact that much of the growth was in the public sector, and that incomes for those in the rural and informal sectors are likely to have declined. In US\$ terms the rate of increase in per capita incomes was much less, only 0.9% per annum.

b. External Account

Tuvalu uses the Australian dollar, which effectively eliminates the possibility of using monetary policy as a tool of economic management. The Australian dollar devalued by more than 20% against the US dollar during 2000 and 2001. This had a favourable impact on Tuvalu's externally generated fish licence and dotTV revenues, and on TTF/FTF valuations. However in the eighteen months or so to mid-2004 the situation has been reversed with the Australian currency regaining all the lost ground of the previous two to three years. This appreciation has compounded the budgetary problem of Tuvalu's US\$ denominated revenues which are declining both in absolute and exchange rate terms.

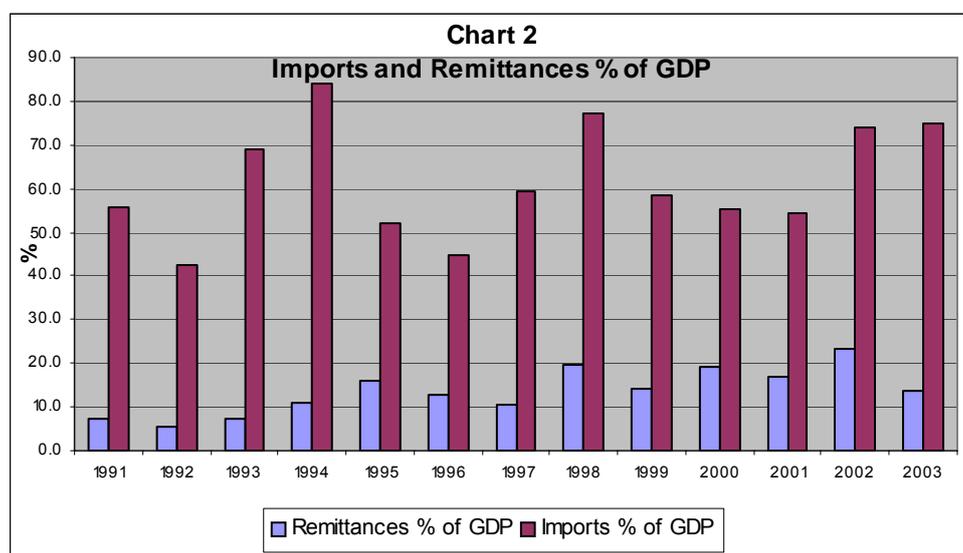
In over the two years 2002 - 03, the trade deficit was equivalent to an average of 78% of GDP. Exports represent less than 1% of the value of imports. Trade openness⁵ averages about 80%. However, foreign exchange earnings from fishing licences, remittances from seamen, aid revenues, and returns from the TTF have generally covered the trade deficit. In 1998, the latest year for which full data are available there was a current account surplus of 2.1% of GDP. In 2003 the value of imports per capita was around A\$2500 (equivalent to 86% of GDP per capita), amongst the highest in the region. Food and beverage imports were valued at around A\$655 per capita in 2003, equivalent to about 23% of per capita GDP. This high level of food imports leads to concerns regarding Tuvalu's declining level of food security, further discussed in Chapter 8. The country's only major domestic export commodity has been copra, however this has been subject to a high level of price volatility

⁵ The average of exports and imports as a percentage of GDP

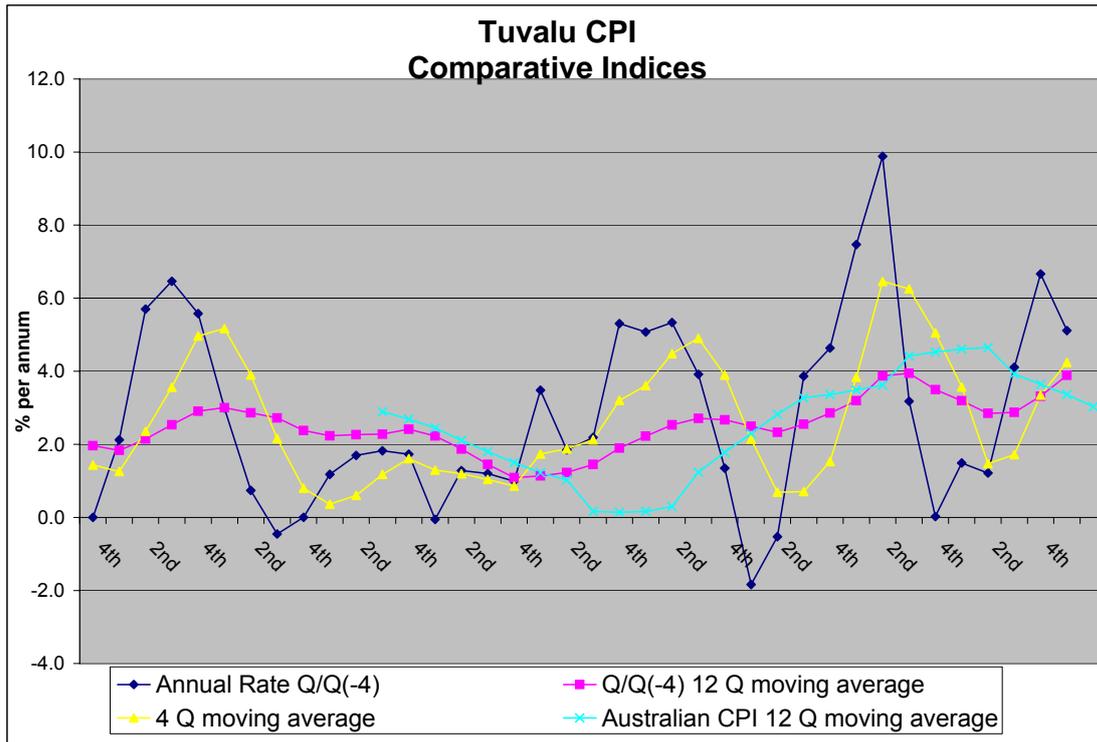
and volumes have declined markedly in recent years. High levels of subsidy were paid to growers in the outer islands but this still failed to stimulate sustained increases in production.

Remittances from seamen (and other less formal remittances from other Tuvaluans resident overseas) make a very significant contribution to the economy in general and to individual families in particular. According to census data 44.2% and 34.2% of all Tuvalu households received remittances from abroad in 1991 and 2002 respectively. In the outer islands 35% of households reported receiving overseas remittances compared with 34% of those on Funafuti. In 2002 just over half of those families receiving remittances from overseas (18% of the total) relied on them as their primary source of income. For those outer island families receiving remittances from overseas some 75% reported that this was the primary income source. In addition 12% of households reported receiving remittances from other households within Tuvalu. The census data also indicates that the number of families with no remittance income (either domestic or external) increased from 43.1% in 1991 to 46.9% in 2002. Nationally half of those families receiving remittances from overseas (18.1% of the total) relied on them as their primary source of income, however this comprised 26% of outer island households but only 7% of those on Funafuti. This demonstrates the importance to the outer islands of income from overseas seamen.

Although the number of seamen sending remittances increased significantly between 1991 and 2002, the loss of employment in Nauru reduced the number of overseas workers



significantly, thus accounting for the decline in the overall number of families receiving remittances. According to the 1996 – 1998 Balance of Payments, remittances from seamen averaged around \$3 million per annum over this period. Other estimates indicate that seamen’s remittances increased to around \$4 million in 2001 and to between an estimated \$4.5 – 5.0 million in 2002 and 2003. The decline in the US\$:A\$ exchange rate and the lower



numbers currently on active duty suggest that the amount remitted might fall to around \$3 – 3.25 million in 2004. A very high proportion of remittances is spent on imports and this contributes substantially to government revenue through duties and sales tax. Chart 2 below illustrates the relationship between imports and remittances as a proportion of GDP. Imports have fluctuated widely largely as a result of imports of construction materials for major projects. Seamen's remittances have also fluctuated from year to year but have, overall, shown a general upward trend. The appreciation of the US\$ helping the A\$ value in the years between 1997 and 2002, but working very much against it during the subsequent period of US\$ depreciation in 2003.

c. Prices

On a long-term moving-average basis inflation in Tuvalu has generally been similar to the Australian rate, see Chart, increasing at an average annual rate of 2.6% over the period 1995-2003. The year-on-year rate has, however, fluctuated widely around this average. In 2003 the annual average rate rose to close the year at 4.2%.

2. Fiscal Performance

a. Background to Fiscal Development

In the early years of Independence Tuvalu struggled to shake-off the need for the annual grant-in-aid (Special Budgetary Assistance) negotiations with UK. The budget was kept tight and there was little growth in recurrent expenditure or the size of government. It has been estimated (ADB Economic Report 1997) that recurrent expenditure experienced no real

increase between 1980 and 1987. Between 1987, when the TTF came into being, and 1996 the combination of the contributions from the TTF and the increasing importance of fishing licence revenues in particular, resulted in a period of sustained growth in recurrent expenditure, an average of 5% per annum in real terms over the period. As the boom in share prices continued through the late 1990s, providing higher distributions from the TTF, and as Tuvalu was also able to develop additional revenues such as dotTV, the growth in recurrent expenditure also jumped sharply.

b. Fiscal Performance Since 1996

Between 1996 and 2002 the recurrent component of the budget increased by two-and-a-half times in nominal terms, and at an average annual real rate of increase of around 12.5%. As revenues increased so they became much more volatile. Between 1980 and 1987 the ratio between the highest and lowest revenue years was 1.5. This rose to 1.8 in the years 1988 - 1996 but jumped to 2.9 in the years from 1997 though 2002. In such circumstances budget planning and management should have remained cautious and conservative to avoid the development of an unsustainable level of expenditure. In the event expenditure increased rapidly. As revenues have declined since 2002, the resulting deficits have reached what are likely to be unsustainable levels. The current downturn in fish licence revenues, lower income from dotTV and the inability of TTF to make a distribution have brought this sharply into focus. For 2003 it is estimated that the budget deficit amounted to A\$4.0 million, equivalent to about 15% of GDP. For 2004 government approved a deficit in the annual budget appropriations amounting to around 12% of GDP. Deficits of this level are widely regarded above prudent levels (normally be in the 2 – 3% of GDP range) and are therefore likely to be unsustainable.

Within the annual budgets payments in subsidies, primarily to public utilities, have been an increasing drain on resources. In 1996 subsidies were equivalent to 9.2% of GDP at factor cost, declining to 4.8% in 1997. However in 1998 the figure jumped to 10.7% and to a peak of 24.6% in 2000. Public utility performance is discussed further in Chapter 9. In 2001 and 2002 subsidies were equivalent to 19.8% and 15.3% of GDP respectively. These are very high levels and lead to serious distortions in the allocation of scarce budget resources. Funds which might have gone to priority sectors, such as education and health, go instead to supporting inefficient public enterprises.

c. Public Sector Investment

Since 1998 large amounts of the "windfall" revenues from dotTV and fishing licences have been invested in new economic and social infrastructure, including primary schools, outer island community fishing centers (CFC), electrification and improved communications on the outer islands, and the sealing of roads and the runway on Funafuti. In addition other major

investment projects including a second outer island passenger/cargo vessel, a new national referral hospital, the new central government office complex, sports field and stadium on Funafuti and an ongoing upgrade of the TMTI facilities have been, or are being financed by external sources. Projects for a new power station on Funafuti and the reconstruction of the main wharf are in the pipeline. The total investment in these various projects has already totaled over A\$100 million. Although much of this infrastructure provides essential services the future operational sustainability and maintenance costs of these assets will be a major budgetary expense in the coming years.

d. External Debt

The level of external debt at end 2003 was relatively low, amounting to an estimated 30% of GDP and comprising of one ADB loan for the FTF and two European Investment Bank (EIB) loans to Development Bank of Tuvalu (DBT). However the ADB loan for the renovation and expansion of Tuvalu Maritime Training Institute (TMTI) and the new EIB loan to DBT will almost double this level by the time the two projects are completed. In addition government has domestic debt outstanding to the National Bank of Tuvalu (NBT) for its acquisition of shares in Air Fiji and also for the National Fishing Corporation of Tuvalu's (NAFICOT) long-line fishing venture, as well as a long-term overdraft. This domestic debt amounts to an estimated 12.5% of GDP. Government also guarantees the overdrafts and debt of public enterprises. Although the ADB and EIB loans are on concessionary terms, with little growth in the economy expected in the short-to-medium term, the scope for additional borrowing, either domestic or external, is limited.

3. Structural and Public Enterprise Reform

The high level of subsidies required for public enterprises indicates there is still much to be done to improve efficiency and cost-effectiveness. In an environment which protects and subsidises public enterprises, there is little opportunity for significant private sector development. However, government has made progress in improving equity of opportunity between the public and private sectors. Most of government's principal enterprise activities have all been corporatised, a Foreign Direct Investment Act has been passed, and public enterprises no longer receive special exemption from import taxes. However, the realities of increasing unemployment and low rates of job creation remain and are unlikely to be solved without private sector growth. Private sector growth, in turn, will not be possible until significant structural and public enterprise management reforms have been undertaken and market competitiveness introduced. The purpose of public enterprise reforms and corporatisation is to increase the productivity of resource use, which will ultimately be reflected in lower subsidies and more cost-effective and higher quality services. Higher productivity also potentially permits higher staff wages. Corporatisation must be judged by

whether or not the purpose is achieved. Two critical factors in this are the shortage of knowledgeable and experienced people to act as directors of enterprises, and the shortage of skilled accounting staff to ensure adequate financial reporting for management purposes. Public utility performance is discussed in Chapter 9.

With the ratification of the Pacific Island Countries Trade Agreement (PICTA) and Pacific Agreement on Closer Economic Relations (PACER) agreements government is reviewing proposals for the restructuring of the tax and tariff regime to comply with the requirements of the two agreements. It will be important for steps to be taken in the near term to consider the options and make plans for the sequencing and implementation of the necessary changes to minimise the impact which compliance might have on domestic revenues. The challenge for the government is to minimise the adverse impacts and maximise the positive benefits from the country's global linkages.

4. Emerging Macroeconomic Issues and Policy Objectives

Current levels of domestic economic growth appear to be low; little major employment-generating construction activity, reduced remittances, lower public expenditure. Structural reforms in the public sector, including further cost cutting measures, efficiency improvements and refocusing on those activities which are core-functions and which have high returns, are essential. However if further expenditure reductions and, more effectively, refocusing is to be undertaken it is inefficient to make “across-the-board” cuts. These affect both essential/priority programmes as well as less essential activities. Every sector suffers, none gains. Budget policy and resource allocations need to be set on the basis of clear priorities, building on strengths. Priority programmes which provide high rates of return to the nation

Macroeconomic Policy Objectives
<ul style="list-style-type: none"> • Sound macro-economic management; • Fiscal discipline and balanced budget; • Private sector share of GDP to increase by 50% by 2015; • Inflation to be kept below 3%; • External debt to not exceed 60% of GDP; • Subsidies to public enterprises to not exceed 5% of GDP.

need to be strengthened e.g. primary education and primary health care; employment oriented technical/vocational education e.g. TMTI. Those programmes that are less essential or have lower priority should be cut and resources saved or directed to areas of higher priority.

As has been seen from recent budget outturns revenues have been volatile. Since the budget has been the driving force of recent economic growth, a reduction in budget revenues and consequently in expenditure, is likely to have an adverse impact on the remainder of the domestic economy. With uncertainties

surrounding the budget and little to drive the non-government domestic economy the prospect is for low rates of growth in the short to medium term. The combination of lower

domestic employment, from fewer public sector projects, and fewer active seamen is likely to have a material impact on the domestic economy in 2004 and 2005. Major public sector investments financed in recent years need to be sustained in the future to ensure they continue to benefit the lives of all Tuvaluans, in particular the disadvantaged and lower income groups in the outer islands. The emergence of what appear to be very serious and looming budget constraints, means that if a sharp downturn is to be avoided, then the non-government sectors of the economy need to be promoted. Levels of domestic (non public-sector) employment have fluctuated from year to year in line with public sector investment making it hard for many families to meet their financial needs and increasing hardship for those who have lost their jobs as projects have been completed.

The medium term strategic plan and prioritised PSIP will help to ensure that scarce resources are allocated to priority activities. A tightening in the general budgetary situation will emphasise the importance of the need to prioritise. It will also be necessary to develop a medium term budget framework based on the priority sectors identified in the national strategies. Ensuring that public sector investments are properly prioritised, costed and accommodated in the budget is a major fiscal and governance issue for the future. The deteriorating fiscal situation is likely to be the critical constraining factor in the implementation of the strategies. Development assistance must be targeted to sectors and specific projects according to the priorities and on the basis of careful analysis of costs and benefits. The country's capacity for additional borrowing is limited, its ability to meet the calls for counterparts funds to capital projects and for future operational costs are also limited by the fiscal situation. The emphasis in determining sector plans and strategies must therefore be on maximising economic benefits.

Recognising its limited domestic resource base Tuvalu has been a leading innovator in development management. The TTF, FTF and the EU Development Support programme were new concepts, developed to meet the specific needs of Tuvalu. They are now widely recognised as being valuable models that might be suitable for replication elsewhere. The need to focus the budget on core and priority activities and the continuing constraints on domestic development resources require that an innovative approach be continued. In this the country's development partners have an important role to play in also being willing to consider further innovations to the development management process.

The performance of the macroeconomy will be monitored through regular updating of the key indicators at Appendix 2.1.

CHAPTER 4:

SOCIAL DEVELOPMENT: HEALTH, YOUTH, WELFARE, GENDER, HOUSING, AND HARDSHIP AND POVERTY ALLEVIATION

1. Overview and Summary

Good health, for both adults and especially children, a stable and harmonious social environment, acceptable levels of access to adequate basic health and welfare services, and a reasonable standard of housing are all important contributors to supporting efforts towards achieving sustainable economic development.

However, population growth and migration patterns, alongside rapid social change, make it difficult and costly to provide satisfactory services to small isolated communities, can frustrate employment plans, increase pressure on urban centres, adversely affect social safety nets, exacerbate domestic violence and generally hamper development efforts. The issue of disaffected and unemployed youth is increasingly coming to public and government attention as an issue which must be addressed. Key social indicators are summarised at Appendix 2.2.

1. Health

At Independence in 1978, Tuvalu hoped to establish high quality health facilities in all outer islands but this was unaffordable so resources were concentrated in a single national facility, the Princess Margaret Hospital (PMH) in Funafuti. A new central hospital facility was completed on Funafuti in 2003 with support from Japan. This new facility provides a larger capacity to cater for the increasing population of Funafuti. It is also likely to add considerably to the costs of curative services, requiring an appropriate balance between primary/preventative services and the costs of the central hospital to be developed. Resources are limited and need to be allocated to priority services so as to maximise benefits to people in the outer islands as well as those on Funafuti. There are no doctors permanently posted outside Funafuti and the Ministry of Health (MoH) provides all medical services, there are no private practitioners. Medical visits to outer islands are infrequent and some health clinics need to be upgraded and others lack regular replenishment of essential medicines. Health services on the outer islands therefore continue to be poor compared to those on Funafuti and are a source of hardship for many families.

Despite the difficulties a minimum standard of basic health services is provided to communities in all islands. Infant and maternal mortality rates have declined over the last decade and life expectancy has improved over time. Tuvalu is on target to meet the

Millennium Development Goals for these indicators. Infectious and communicable diseases are largely under control, although sexually transmitted infections (STI) are increasing, particularly among Tuvalu's overseas workers (especially seamen) who are at risk of contracting HIV/AIDS. It is also estimated that twenty percent of the population are carriers of the filariasis bacterium.

Traditional infectious and communicable diseases have been gradually brought under control through a primary health care system which has provided a minimum standard of basic health care (including essential drugs) to people in all the islands. In 2000, the MoH reported 100% immunisation coverage for BCG, 95% for OPV3, 90% for DTP3 and 85% for Hepatitis B. As traditional infectious and communicable diseases have been brought under control, non-communicable diseases have increased. These now constitute a major public health issue, both in their impact on personal health and on health-care costs. The rising incidence of these so-called lifestyle diseases is generally

<p style="text-align: center;">Box 4.1</p> <p style="text-align: center;">Tobacco and Alcohol Consumption</p> <p>The 2002 census indicates that 49% of males and 3% of females on Funafuti regularly consume alcohol, for the outer islands the proportions were 45% for males and 1% for females. Amongst the 15 - 19 and 20 - 49 year age groups 59% and one-third of males reported being regular consumers respectively.</p> <p>For smokers the census indicates that on Funafuti two-thirds of all males over 15 years and one-quarter of similar aged females were smokers. On the outer islands the proportions were 58% and 24% respectively. Nationally in the 15 - 19 year age group the use of tobacco was 28% for males and 4% for females, for those between the ages of 20 - 49 and the rates 60% and 25% for males and females respectively.</p>

attributable to the consumption of excess quantities of food; a shift from traditional diets of fish, breadfruit, bananas and other local crops toward diets including imported food that is low in fibre and high in refined carbohydrates, fat and salt (sugar, white rice, mutton flaps, canned beef); greater consumption of alcohol and tobacco, see Box 4.1; and insufficient physical exercise. Various cardio-vascular diseases are the main recorded causes of death.

The issues for health may be summarised as the increasing incidence of so-called non-communicable lifestyle diseases, HIV/AIDS, water and sanitation especially on Funafuti, and the balance between primary/preventative and curative services for the allocation of scarce budget resources. Nutrition education and the encouragement of a healthier lifestyle could also make a significant difference to overall health standards.

2. Youth

Youth, in the age group 15 - 24 comprise about 16% of the total population, and 17% of the population on Funafuti. Youth unemployment is a growing problem with few new jobs being created. In 2002 around ten percent of those in the 15 - 24 age group indicated that they were unemployed, being available for work but not actually working. In 1991 unemployment in this sense was virtually non-existent as anyone not in formal employment was absorbed

into the subsistence or household economy. By 2002 greater urbanisation and changing attitudes have resulted in unemployment being more common.

During the participatory assessment of hardship undertaken in 2003 youth were identified as amongst the most disadvantaged in Tuvalu society. Practical policies are needed to improve opportunities for the growing numbers of young Tuvaluans who will remain in the informal sector. Wider provision of basic education and training in essential skills and in terms of behavioural changes in relation to health, employment and rural economic activity are required. Additional sports facilities are being constructed in Funafuti and whilst this will be welcomed by all, it is also likely to act as a further attraction for youth to migrate to the capital. Further it will add both directly and indirectly to expenditure for operation and maintenance.

3. Housing

Housing in Tuvalu has generally improved in recent years. In 1991 half of all houses had thatched roofs, by 2002 the proportion had fallen to only about 15%. On Funafuti the 2002 census recorded that less than 2% of houses had thatched roofs compared with about one-quarter in the outer islands. However, in Funafuti temporary squatter-type housing is increasing, with many such houses being constructed near the 'borrow pits', which collect rubbish and are contaminated by nearby piggeries. According to the 2002 census 7% of Funafuti households had no toilet facilities and 16% did not have access to a piped water supply. The low-standard of many of these squatter houses and the high levels of overcrowding suggest increased health risks for people living there. The recently tar-sealed road on Funafuti has encouraged new housing developments in areas to the north and south of the main village in areas which are close to traditional storm surge embankments. The removal of sand and aggregates from the beaches adds to the vulnerability of housing in these areas. The continuing urbanisation of Funafuti raises many serious issues for government in respect of urban management, urban health and education, as well as social stability and in the growing levels of unemployment amongst youth on Funafuti.

4. Gender

In the 1999 *Pacific Human Development Report*, Tuvalu rated first among 15 Pacific Island countries in UNDP's gender development ratio, a rough measure of gender equality. Education is reasonably gender-balanced through secondary school and an average of about 45% of all overseas tertiary scholarships since 1991 have gone to women. Notable numbers of women hold mid- and senior-level civil service posts, although there are currently no women in parliament and only one woman has ever held a ministerial position. In the more traditional outer islands gender equality is also proceeding well, but more slowly.

In 2002 women reportedly held 51% of professional and technical jobs and 25% of managerial and administrative positions. These compare with 46% and 16% respectively in 1991. Overall, females occupied 35.5% of all formal employment in 2002, slightly lower than the 36.7% recorded in 1991. Tuvalu has shifted towards more equal social, economic and political status between women and men. Tuvalu has ratified the *Convention on All Forms of Discrimination Against Women* (CEDAW), and signed the *Beijing Platform for Action* and the *Pacific Platform for Action*.

5. Hardship and Poverty Alleviation

The perception in Tuvalu has been that poverty does not exist, as traditional exchanges provided effective social protection against absolute poverty. Those who live on outer islands, members of large families, the disabled, the poorly educated and those without access to land (where they reside), however, tend to be disadvantaged and suffer from 'poverty of opportunity'. Tuvalu's remoteness – and the outer atolls' remoteness from Funafuti – limits the availability of economic opportunities in Funafuti and even more, the opportunities in the outer islands. Access to basic services is also poorer in the outer islands, contributing to the rural-urban migration.

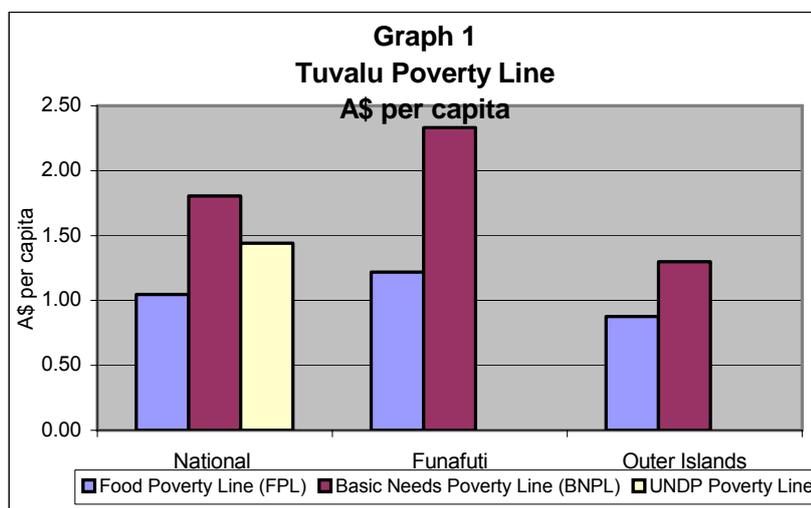
Analysis of the 1994 Household Income and Expenditure Survey data suggests that around one-in-four households in both Funafuti and the outer islands had incomes below the respective basic needs poverty lines. About 17% of households had incomes below the equivalent of US\$1 per day, see Table 1 and Chart 1. This does not necessarily imply that people who had incomes below the poverty lines were going hungry. It means, rather, that on a day-to-day basis they would have had insufficient income to meet their average expenditure needs for a basic diet plus the costs of other non-food items⁶. Such families have to make daily choices about expenditure priorities; food purchases or school fees, social and community obligations or power and communications bills. In the light of the changes which are taking place in Tuvalu society the issues of hardship and poverty can no longer be ignored. Hardship and poverty are multi-dimensional, they are not just concerned about income levels, although this is a key measure of poverty. For many people, particularly those living in the outer islands, hardship is about poor access to services and opportunities, or of being unable to realise their own potential and aspirations. The gradual depopulation of the outer islands suggests that those who leave do so because of hardship and lack of opportunity.

Tuvalu's traditional cultural-based social safety net means that there is little obvious poverty in the narrow sense. However the traditional social structure and associated safety nets are

coming under strain as external influences affect attitudes, education broadens horizons and aspirations are raised. The continued migration of outer island people to Funafuti (and overseas) is depopulating the outer islands and increasing the dependency ratios amongst those remaining. This means that there are fewer working age people in relation to the very old and very young. There are fewer people to do the construction and house maintenance, gardening and fishing, and to take care of the elderly. At the same time the increasing population is generating social tensions and land disputes on Funafuti. Increasing hardship and poverty of opportunity is therefore being experienced throughout society, both on Funafuti where population pressure is high, and in the outer islands, where employment opportunities and incomes are lower.

TABLE 1
TUVALU POVERTY INCIDENCE
(Head Count Index)
 1994 HIES Survey Data

% of households below	Recorded Expenditure	
	Food Poverty Line (FPL)	Poverty Line (BNPL)
National	13.9	29.3
Funafuti	8.6	23.7
Outer Islands	15.1	23.4



There is a gradual weakening in traditional systems which has elsewhere been described as a “poverty of social spirit” as people become less inclined to help others. The steady

⁶ Housing, power, transport and communications, education and health costs and contributions to church and

monetisation of the economy also introduces strains into traditional customs and practices. Traditional cultural and family exchanges are increasingly involving money as well as traditional crops, handicrafts and such similar gifts. There is also growing concern that traditional skills are being lost as the younger generation are reluctant to engage in the hard work of a traditional subsistence lifestyle. Thus despite the strong traditional society there are signs that traditional social safety nets are beginning to weaken. This means that sometimes the most disadvantaged are not always being cared for as well as they might have been in the past. Often those with good jobs in Funafuti are themselves under financial pressure from relatives who are staying with them, and who expect support from their better-off family members⁷. Many of those with formal employment are therefore experiencing personal hardship because of the pressures from traditional systems where they cannot refuse requests for assistance. Moreover the population pressure on Funafuti is leading to some Funafuti landowners (especially those without jobs) to be marginalised from their own lands and to increase their degree of hardship on their home island.

2. Key Issues and Challenges

The key issues and challenges for social development all follow clearly from the current situation in each of the sub-sectoral components described. Poor management of health services results in PMH, and outer island clinics especially, running out of basic drugs and medical supplies. The new hospital provides first-class medical facilities but these can only be used effectively if adequate resources and trained staff are available. At the primary health care level some clinics are not well maintained and nurses' quarters in the outer islands are often poor. These working conditions, plus the lack of supplies results in poor service delivery despite the dedication and commitment of most nurses and other medical staff. Many emerging health problems arise because of poor lifestyle choices by individuals, the increase in non-communicable diseases and HIV/AIDS, being amongst the most serious. Considerable resources are devoted to overseas referrals but no detailed analysis has been undertaken to determine whether this is cost-effective, especially when the central hospital is under-funded, understaffed at the specialist level and not operating to capacity. The overseas treatment scheme has been a large, and often seemingly open-ended budget commitment which, like subsidies, has diverted scarce resources away from what might otherwise have been higher priority activities. A review of the scheme would allow a detailed analysis of the equipment and skill needs at PMH to be fully assessed.

family/village/community functions.

⁷ In 2002 seventeen percent of outer island households received remittances only from other family within the country. A further 11% received remittances both from outside and within Tuvalu.

The lack of jobs, other economic opportunities and sporting and youth facilities on outer islands are amongst the main reasons for youth migration to Funafuti. The challenge for the future viability of the outer islands is to arrest the migration to the capital, and overseas. For women the key issues are the burden of traditional chores, the lack of proper market places to sell products including handicrafts. The need to improve representation of women in community decision-making is a challenge, as is the need to revise laws governing the distribution of land and unfair custodial rights.

There are two separate challenges for housing. The first centres around the generally poor standard of accommodation provided to government staff working in the outer islands, most notably for teachers and nurses working away from their home islands. Poor accommodation can have an adverse effect on general staff performance. On Funafuti the problem not only affects civil servants, but also all those who have moved to Funafuti but who have no, or only limited access to land. Areas of sub-standard housing are now becoming common on Funafuti, with houses being constructed on exposed beaches and over the rubbish-filled borrow-its. Few of these locations are served by either power or water; those living there, especially children, are vulnerable to accidents and ill-health.

Poverty and hardship are emerging challenges for many families. The causes are multiple; poor housing and sanitation, poor health, poor education, lack of safe water, lack of employment, income earning opportunities or access to land for subsistence cropping. The increasing monetisation of the economy requires families to have access to cash incomes, those without income or without remittances are likely to experience increasing hardship. The challenge in addressing hardship alleviation embraces all aspects of the national strategies.

3. Policy Objectives

The key policy objectives identified for social development and hardship alleviation are:

Health and Nutrition

- Promote health education and nutrition awareness for healthy lifestyles;
- Review the operation and cost-effectiveness of the overseas referral scheme;
- Improve quality of curative services at PMH;
- Enhance effective delivery of health services, especially primary health care.

Youth

- Formulate and implement a National Youth Policy.

Gender

- Promote gender equity and the role of women in development.

Housing

- Improve housing standards;
- Improve provision and availability of housing;

Poverty and Hardship

- Monitor the incidence of poverty and hardship through regular household surveys

These policy objectives for social development make up one of the three pillars for hardship and poverty alleviation.

4. Priorities and Strategies

a. Management and Operation of Health Services

- Strengthen the management and operation of health services particularly in relation to:
- Procurement and adequate and timely supply of drugs and other essential items to the hospital and clinics
- The cost-effective and efficient operation of the hospital to provide adequate curative services
- Maintenance of the hospital and health facilities, especially for maternal and child health care in the outer islands
- Provide adequate primary health care services to all islands, and especially the most disadvantaged in the islands
- Staffing of clinics and ensuring availability of health services to key national institutions, TMTI and Motufoua
- Improve coordination and cooperation between Ministry of Health, falekaupule, NGOs and civil society in the delivery of adequate health services to the public
- Salaries and conditions of doctors and nurses to improve motivation of staff and encourage more qualified local staff to remain in Tuvalu
- Creating a regulatory environment enabling private medical services to be offered to the public, including treatment, pharmacy supplies and other health related services.
- The cost effectiveness of the overseas medical treatment scheme compared to the reallocation of these resources to domestic capacity building.

b. Health Education

- Strengthen health education and awareness programmes to promote healthy lifestyles and better nutrition, and to address the threats of HIV/AIDS and NCDs.

c. Equity of Access

- Provide healthcare services to the elderly, disabled and otherwise disadvantaged
- Ensure that people throughout the country have equal access to basic health care services

d. Consumer Protection

- Introduce regulations to protect consumers from sale of sub-standard, or date expired products

e. Youth

- Engage stakeholders in the preparation of a National Youth Policy; such a policy will address all aspects of youth; including training, healthy lifestyles, the threat of HIV/AIDS, sport and recreation, traditional knowledge and skills, role of NGOs and the churches, creation of income earning opportunities and the availability of credit, and the greater role which youth could play in the Falekaupule decision-making process.

f. Women

- Ensure that the role of women, gender and development are integrated into the implementation of the national strategies
- Provide small business and entrepreneurial training and access to appropriate credit facilities for women

g. Sports and Recreation

- Stakeholders will be engaged in the preparation of a National Sports Policy; this will include:
- an Examination of Tuvalu's participation in the International Olympic Committee and other international sporting associations;
- a review of the adequacy of sports and recreation facilities in Tuvalu;
- the promotion of sports and recreational activities as a part of a healthy lifestyle; and
- the role which sports can play in further the achievement of the national Vision.

h. Housing

- Review, finalise and implement a national building code, taking into account issues such as security, water and sanitation, traditional building standards and natural hazards, and ability to pay
- Ensure Kaupule bye laws and national legislation on housing and land issues are consistent
- Assess the necessity of establishing a housing authority
- Review land leases under the home ownership scheme
- Develop an urban management plan for Funafuti to enable land to be available for further residential development within the building code.

5. Performance Monitoring

The performance of strategies for social development will be monitored through the MDGs and the key social indicators in Appendix 2.2. Other specific indicators will include records of

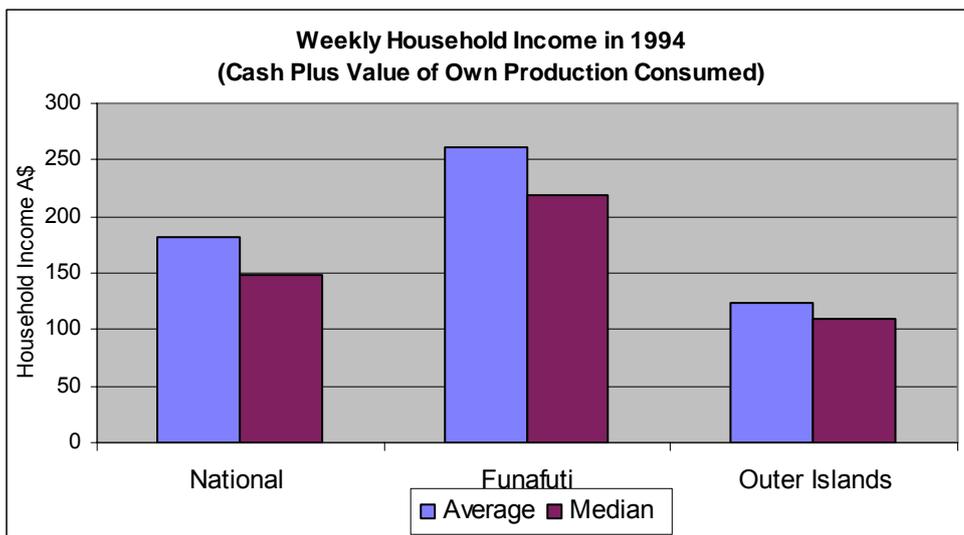
the incidence of NCDs, especially diabetes, and the results of household surveys estimating the incidence of poverty amongst households.

CHAPTER 5

FALEKAUPULE AND ISLAND DEVELOPMENT

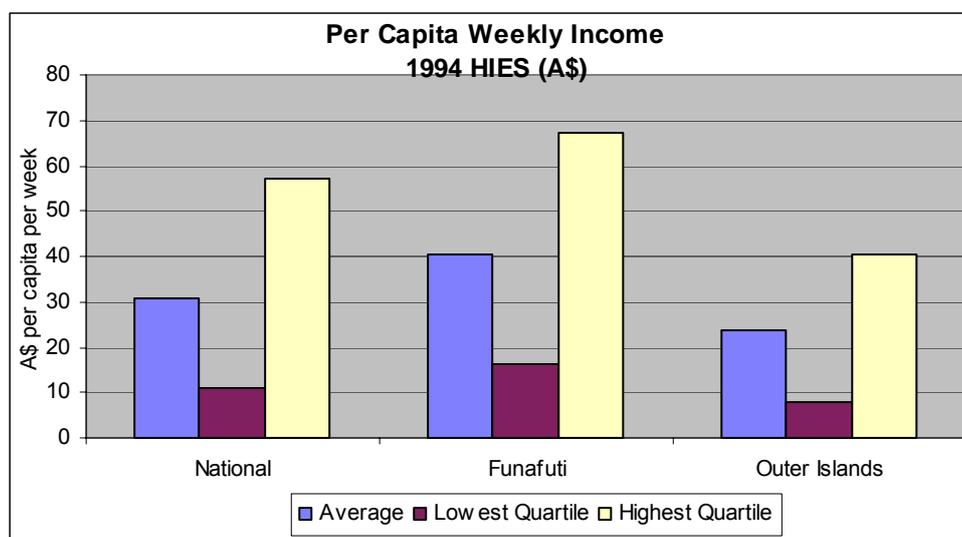
1. Overview/Summary of Sector

During the last decade, the pace of outer island development has accelerated. Telephonic communication has improved with the introduction of satellite sub-stations. Community fishing centers, first established on Nukufetau and Nanumea, have been constructed on each island. A harbor has been built at Vaitupu; and electricity power supply has been extended to all islands except Niulakita. Additionally, a second inter-island vessel was provided through Japanese aid in 2002. As a result of these developments the ownership of household assets in the outer islands rose markedly in the period between 1991 and 2002. According to the 2002 census more than 40% of all outer island households owned either a fridge or a freezer, and half owned a washing machine. At least one-third of outer island households also owned either a stereo system and/or a tv/video. There has also been a marked increase in the ownership of motorbikes in outer island households. In 1991 only about 5% of outer island households had a motorbike, by 2002 this had increased to 43%, with ownership extending to more than half of all households on Nanumea and Vaitupu, (but by only 6% of households on Nukulaelae and Nukufetau).



However despite these improvements to infrastructure and asset ownership, the standard of basic services notably health and education services and facilities for youth, remain generally lower than those available to the residents of Funafuti. Also the availability of economic opportunities and levels of cash income on islands away from Funafuti, has

continued to be below those of the capital. The proportion of men in Funafuti working in cash employment in 2002 was double the rate in outer islands; for females triple: 59% of males on



Funafuti were in receipt of wages compared to 31% in the outer islands, for females the corresponding proportions were 37% on Funafuti and 11.5% in the outer islands. Comparative per capita and household incomes for 1994 are illustrated in the charts⁸.

1. Outer Island Development

In 1999, the Government began implementing an Island Development Programme, the primary objectives of this are summarised in Box 5.1. Despite this programme and the

Box 5.1

Outer Island Development Programme Objectives

- Increased autonomy for the outer islands;
- An improved standard of governance and administration on the outer islands;
- Delivery of sustainable financial resources to support island autonomy (primarily through the Falekaupule Trust Fund);
- Improved delivery of public sector services to the outer islands (primarily through better electricity supplies, shipping services, and extension services); and
- Promotion of business development (mainly by increasing maritime training and employment, greater availability of business advisory services and microfinance, and contracting out of government services).

improvements in infrastructure and services, the populations of all the outer islands, except Nukulaelae and Vaitupu, declined by an average of 5% over the last decade. In 2002 the population of Funafuti accounted for 42% of the total, up from 35% in 1991. However of those living on Funafuti, only one-quarter claimed it as their home island, thus three-quarters of those living on Funafuti are from the outer islands. Over the period the out-migration from the outer islands was accompanied by an increase in the

⁸ More recent data is unavailable, a new HIES is planned for 2004.

dependency ratios of those remaining, that is the number of people on the outer islands who were under 15 or over 60 compared to those in 15 - 59 age group. For the outer islands the ratio rose from 0.8 in 1991 to 0.9 in 2002. In comparison the ratio for Funafuti was 0.7 in both years.

2. Falekaupule

The concept of decentralization and local autonomy requires that local governments should have sufficient devolved powers and authority, and be allowed a larger measure of independence to manage, decide and plan their own administrative, financial and developmental affairs. Achievement of this national goal began in 1997 with Parliament's passing of the Falekaupule Act, replacing the 1978 Local Government Act. Essentially the new Act institutionalised the local development planning process by conferring upon local government ("Kaupule"), in collaboration with the "Falekaupule" (community meeting house) and non-government and sectoral organizations, the responsibility and authority to design and implement island programs and projects. Effectively, the Act extends statutory

<p>Box 5.2</p> <p>Falekaupule Trust Fund Purpose</p> <ul style="list-style-type: none"> • Increase the ability to generate revenue within the community for the common good of the community; • Fund community projects that improve the living conditions of the communities; • Assist the acquisition and development of skills and self-reliance in the communities through local training; • Enable the communities to acquire, maintain and improve community assets and resources in order to further education and self-reliance.
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recognition of the Falekaupule as the primary social institution and the sovereign power in the islands by investing upon it the right to oversee local affairs – with the Kaupule as its executive arm.

The new Act encourages wider participation in the process of government by providing a framework for regular consultation between the Falekaupule and Kaupule, on the one hand, and with the non-government organizations, community groups and the private sector on the other. Ultimately, it is expected that implementation of the Act will transform the Kaupule from being simply providers of services such as law and order, roads, health and sanitation, into development planners,

managers and, to some extent, financiers of all aspects of island development. Through the annual Falekaupule Assembly, the Act gives all community residents over the age of 18 the right to participate in the community planning and decision-making process.

To provide financial support for decentralization, the FTF was created in July 1999, see Box 5.2. The operation of the FTF is governed through a trust fund deed. The fund is made up of contributions from the government, an ADB loan, contributions from island communities and donations from aid donors, notably New Zealand and Australia. The FTF, managed in Australia by three independent investment groups, follows investment and distribution

principles similar to the Tuvalu Trust Fund. So far the FTF has only been able to make one annual distribution to island Falekaupule (in 2000/01) as international capital markets, and consequently the FTF, have performed less well in the period since 2001. However recent performance gives hope that a further distribution might be possible in the near future.

2. Key Issues and Challenges

The key issues for outer island development centre around the need to bring greater development to the outer islands in order to halt the gradual depopulation of the islands and the consequent increases in dependency ratios. Accompanying these demographic trends has been a decline in outer island economic activity, as measured by subsistence agriculture output, and the creation of few employment or cash earning opportunities for the outer island based labour force. The challenge is to make the outer islands more attractive places for young people to stay and live traditionally oriented lifestyles. This means improving the standard of basic services available to the people, especially health, education and youth activities, increasing economic opportunities and providing greater avenues for participation in the development process. For Funafuti the challenges are those of increased population and spreading urbanisation, deteriorating environment, pressure on water resources, growing unemployment and increasing hardship being experienced by many families who have no incomes and no access to land.

Although the Falekaupule Act is intended to address many of the issues it has not yet had a material impact on people's understanding or awareness of the Falekaupule process or how it can benefit them. The FTF has so far been unable to make a significant contribution to island development resources, although the basic principle of the Fund remains valid. Continued gradual recovery in global capital markets should result in distributions from the fund in the short to medium term.

3. Policy Objectives

The policy objectives for outer island development, and for managing the orderly development of Funafuti, focus on addressing the identified challenges, see Box 5.3. The outer islands need to be made more attractive places for the modern generation to both live and find productive employment that meets with the aspirations that come from better education.

<p style="text-align: center;">Box 5.3</p> <p style="text-align: center;">Policy Objectives for Island Development</p> <ul style="list-style-type: none">• Halt outer island depopulation• Raise quality of basic service delivery to outer islands• Implement Falekaupule Act and other relevant legislation• Promote Tuvalu culture to increase living standards of the outer islands• Creation of opportunities for development in the outer islands• Manage Funafuti urbanisation more effectively

One of the primary difficulties facing outer development is the high cost, in both capital and recurrent terms of providing additional infrastructure and services to small isolated

communities. With low cash incomes, and traditional subsistence based lifestyles, the ability of outer island people to pay for services is severely limited. Government is therefore faced with difficult decisions with regard to social welfare benefits and the consequent subsidies required.

4. Priorities and Strategies

The priority strategies for outer island development focus on social and economic development:

- Provide better infrastructure such as water storage catchments, roads, jetties, causeways/bridges, seawalls, airfields, and other essential infrastructure, including supply and management of renewable energy sources, electricity communication and internet facilities, and of water resources and sanitation.
- Strengthen process for effective management of the urbanisation of Funafuti.
- Ensure that health facilities and schools are adequately supplied and equipped to meet the needs of the people.

<p>Box 5.4</p> <p>Strategies for Outer Island Governance</p> <ul style="list-style-type: none"> • Undertake public education awareness programmes and workshops on the Falekaupule Act and translate the Act into the languages of Tuvalu; • Encourage dialogue between all stakeholders in the island development process; • Encourage the integration of the traditional and modern governance institutions and structures. • Decentralise services where this is practical and cost effective; • Provide technical and vocational training for management and business, and help to integrate business and traditional culture and practices. <p style="text-align: center;">Culture and Traditions</p> <ul style="list-style-type: none"> • Promote Tuvaluan traditional knowledge and expressions of culture; • Revive and promote traditional skills and knowledge and documentation.

- Provide facilities for youth for sports and recreation.
- Identify and encourage revenue generating activities such as eco-tourism.
- Establish micro-financing schemes.
- Improve operational strategies of CFCs and NAFICOT
- Investigate viability of marketing centres similar to CFCs for other agricultural and maricultural products.

Other strategies will be directed towards improving governance and participation in the outer island development process, and in ensuring that traditional skills and knowledge are preserved and developed. These are set out in Box

5.4. Community groups, especially those based on the churches, together with NGOs also have a very important role to play in implementing the strategies and achieving the policy objectives for outer island development. These key stakeholders must be fully engaged in the development processes.

5. Performance Monitoring

Performance of the outer island development programme will be measured through population trends and future changes in dependency ratios for the outer islands, and from measures of subsistence agriculture and fisheries output. Other indicators could include changes in employment, levels of household income and sales of fish through the island CFCs. A regular (five-yearly) household income and expenditure survey programme will be instituted to enable these indicators to be monitored.

CHAPTER 6

EMPLOYMENT AND PRIVATE SECTOR DEVELOPMENT

1. Overview and Summary

Increased prosperity for the people of Tuvalu is a core component of the Vision. The creation of economic opportunity and employment through the private sector is therefore a central priority for the national strategies. Tuvalu has few areas of comparative advantage, one is the training of seafarers for employment on overseas merchant fleets. This provides vital support to the domestic economy in terms of remittances received by families, revenues generated for government and as a safety valve for young men seeking employment. It also poses some potential threats, for example the introduction of HIV/AIDS and other STI, but these need to be addressed so that the undoubted benefits of this employment are maintained.

More employment in the domestic economy is needed however, not just for young men but also for young women. Tuvalu also has to be prepared to accept the remaining 250 people still waiting repatriation from Nauru. Tuvalu must create an environment in which small-scale and micro-enterprises can be established by the people themselves with minimum interference from government. These will be the types of venture required to meet the people's priorities for more income generating opportunities. Complementing the creation of new domestic employment opportunities, TMTI will need to continue to produce high quality seamen to provide an employment "safety-valve" since it is unlikely that the domestic economy could ever absorb all those entering the labour market each year.

1. Employment

Employment by industry and gender as recorded by the 1991 and 2002 census is shown in Table 1. Between 1991 and 2002 the total number of people engaged in formal sector wage/salary employment (excluding seamen on foreign vessels) increased by 38.4%, an annual average rate of increase of 3%, or around 50 jobs per annum. This compares with approximately 200 young people entering the labour force each year, and of whom about 60 will have been trained at TMTI. In 2002 the government employed 38% of all those in formal employment with another 30% being employed in public enterprises. Thus the public sector accounted for just over two-thirds of all formal employment. Females held 36% of the total number of jobs, but 43% of those in the public service. The private sector and other non-government organisations therefore accounted for about one-third of domestic wage employment. These census data are supported by figures from the Tuvalu National

Provident Fund (TNPF) which indicate that there were some 2700 people engaged in formal employment in early 2003.

Looking at employment from another perspective, the usual activity of the economically active population aged 15 years and over at the time of the 1991 and 2002 Census is shown in Table 2. In 1991 seventy percent were engaged in either subsistence production or housework, with a further 2.5% obtaining supplementary cash income from the sale of handicrafts, fish and agricultural crops. By 2002 the proportion engaged in these non-monetary activities had declined to only 58%, although within this the proportion reportedly engaged in subsistence activities had risen from 17.1% in 1991 to 24.5% in 2002. The proportion engaged in home duties however had fallen from 52.8% to 31.2%. Overall the economically active population was 5064 and 5135 in 1991 and 2002 respectively. An increase of only 1.4% over the eleven year period.

Table 1
Tuvaluans in Wage Employment by Industry and Sex, 1991 and 2002

Industry	Males		Females		Total		% of Total	
	1991	2002	1991	2002	1991	2002	1991	2002
Professional & technical	170	270	146	277	316	547	22%	27%
Administrative & Managerial	81	135	16	44	97	179	7%	9%
Clerical & Related	83	42	151	187	234	229	16%	11%
Sales Workers	57	55	64	83	121	138	8%	7%
Service Workers	85	113	56	92	141	205	10%	10%
Agriculture & Fisheries	72	14	11	0	83	14	6%	1%
Production	369	682	93	38	462	720	31%	35%
Others	13	0	1	0	14	0	7%	0%
Total	930	1311	538	721	1468	2032	100.0	100.0

Source: Census 1991 & 2002.

2. Informal and Subsistence Employment

In 2002 as more than three-quarters of Funafuti residents were outer-islanders with little or no access to land only six percent of the labour force in Funafuti were classed as subsistence farmers. In the outer islands, 32% of men regarded subsistence farming as their primary economic activity. The type of employment was reflected in the primary source of household income. In 2002 just over three-quarters (76.5%) of Funafuti households reported that salaries/wages were the primary source of income compared with only 47.1% of outer

island households. In contrast 26% of outer island households reported remittances as their primary income source compared with only 7% of those of Funafuti. Households reporting no income accounted for 8.4% of outer island households and 3% of those on Funafuti. Chart 1

Table 2
Structure of Economic Activity
% of economically active population 15 years
and over

	1991	2002
Paid Employment	27.4	37.4
Subsistence	17.1	24.6
Combination Paid & Subs)	0.0	2.0
Sale of Goods	2.5	0.0
Home Duties	52.8	31.2
Not Working/Unemployed	0.2	4.7
Economically Active	100.0	100.0

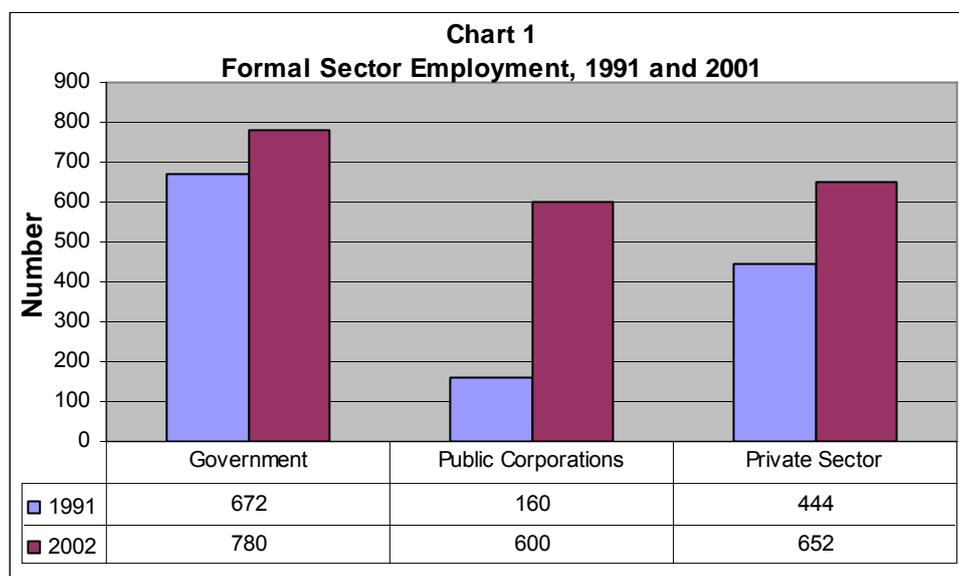
source 1991 & 2002 census (table 19)

illustrates the comparison between employment levels in the government, public corporations and non-government/private sector between 1991 and 2002. This shows that overall employment in the formal sector grew at the average annual rate of 2.2% between 1991 and 2001. There was relatively rapid growth in employment in public corporations, modest expansion in the number of established civil service positions, and limited growth in private sector activity. The growth in employment by public corporations was concentrated in the first half of the 1990s, whereas growth in civil service employment occurred in the late 1990s. In total there were 1380 public sector employees and 652 employed in the private sector. This represents about eight civil servants and a total of 14 public sector workers for every 100 people in 2002. This is relatively large in proportionate terms by regional standards and illustrates both the dominance of the public sector and, to a lesser extent, the difficulties of providing services to widely scattered communities. It also illustrates the fact that a minimum establishment level is often needed for a system to function adequately.

3. Unemployment

Unemployment is a very difficult concept to define in an economy that has a large subsistence sector. Many people move back and forth between the subsistence and formal sectors depending on the availability of work, notably in the construction sector. In the 1991 census only 9 people were classed as being unemployed, whereas in 2002 this number had increased to 239, equal to 3.9% of the labour force. Amongst the youth (15 - 24 year age group) the proportion indicating unemployment amounted to 10% in 2002; on Funafuti the proportion was 14%. This is a relatively high level of youth unemployment. In the past many of these youth would have been absorbed into subsistence or household activities. On

Funafuti the subsistence sector is now very small and thus genuine unemployment appears to be increasing.



4. Overseas Employment

There has been a heavy reliance on international jobs to provide new employment opportunities and there are now an estimated 350 - 400 seamen outside the country working on foreign vessels. This source of employment has seen significant growth since 1997 but is subject to fluctuations in global demand and competition from other countries. It is nevertheless a crucial source of income for many families. In 2002 thirty-four percent of all households received remittance income from overseas, and for half of these households it was their primary source of income. In the outer islands 35% of households received overseas remittances and for three-quarters of these it was their primary income source. This source of employment is therefore vital for the economy. The quality of training and the facilities at the TMTI must be maintained to the standards required for retention of Tuvalu's "White List" status. In addition to temporary migration of workers, up to 75 Tuvaluans are now permitted to enter New Zealand each year and take up permanent residence. This programme contributes to the estimated average net out-migration of around 100 persons per year. This relieves population pressure on Funafuti and potentially provides another source of remittances, although at the price of losing scarce skills from the domestic economy.

5. Private Sector Contribution to GDP

As discussed in Chapter 3 the private sector's contribution to the domestic economy is small, accounting for less than one-third of GDP. Formal private sector activity centers on non-traded goods and services, notably construction, retailing, entertainment, and transport.

Production for export is very low, being confined to small amounts of copra, and there is little import-replacement production. General retailing was the most common private sector activity in 2001 but, compared with 1991, there was an increase in the number of construction enterprises. The Well-Being Survey⁹ also records that there were some 360 private enterprises on Funafuti and 179 in the outer islands which also had a further 78 Co-op and jointly owned businesses.

6. Private Sector Development

The role of government in promoting private sector development is to supply the institutions and regulatory framework that provides a consistent and transparent basis for business activity. Institutions in turn define the transactions costs faced by business and ultimately the incentives provided to individuals to undertake entrepreneurial activity. Currently, such incentives in Tuvalu are poor, transactions costs are high, government and related institutions are intrusive and not supportive for potential and existing businesspeople. To overcome this it is necessary to follow growth-oriented, private sector-friendly policies. Globalisation is here to stay and government needs to establish an enabling environment which will help to ensure that the private sector can take advantage of whatever opportunities arise from the growth of the world economy. In many ways, the issues raised represent the confluence (or conflict) of tradition versus modernisation. Tuvalu like many other countries of the Pacific wishes to secure improved opportunities and incomes for the people but the fundamental question to be faced is whether they must modernise (and by implication give up cherished traditions and customs) in order to do so. The challenge is to accept that modernisation and change are inevitable, and are a necessary condition for development, but this modernisation does not necessarily mean giving up traditions and customs. Incentive structures can evolve to encompass customs, just as they have in other parts of the world. Tuvalu has already embarked along this road through ratification of PICTA and PACER, the issue for Tuvalu is how to now comply with its obligations. A report providing a review and proposals for restructuring Tuvalu's tax and tariff systems to be compliant with these two international trade agreements has recently been completed. The implementation of the proposals will embark Tuvalu on the road towards the acceptance of structural change and the modernisation of Tuvalu's regulatory environment.

7. Access to Credit

Credit is available through NBT which is located on Funafuti. Outer island entrepreneurs requiring credit are therefore at a significant disadvantage. NBT is constrained in its lending by an inability to accept land as collateral for loans. The bank is also heavily committed to

⁹ Social and Economic Well-Being Survey, Tuvalu 2001, Dianne Buchan and Nimmo-Bell

lending to government and public enterprises which raises prudential issues and can lead to the crowding-out of private sector credit needs. Financial intermediation and the range of financial services offered by NBT are limited. Partnership, or cooperation with an international commercial bank would help to expand the range of financial services available in Tuvalu. The DBT was created in 1993 to stimulate the private sector, but like many of its counterparts in other regional countries has failed to live up to deliver the expected benefits. The Bank's lending operations were suspended in 1998 and 1999 following a period of sustained losses. Lending recommenced in 2000 and despite concerted efforts by management DBT has still not become commercially viable. Proposals have been made to merge DBT with NBT to further strengthen management, reduce costs and improve repayments. This is still under consideration.

2. Key Issues and Challenges

Tuvalu's prospects for promoting commercial private sector development are limited by the:

- smallness of the local market;
- geographic and economic remoteness from major markets;
- insecurity of property rights and inability to access land for development;
- lack of tradition of private enterprise in Tuvalu society/culture;
- generally poor service delivery by the public sector; and
- dominance of many areas of enterprise activity by often un-commercial and subsidised public enterprises.

Opportunities for private sector development are therefore limited. It is unrealistic to expect a large and dynamic private sector to drive economic growth, however a solid domestic private sector is needed to underpin the economy against the possibility of external shocks. The challenges for government are to provide a suitable environment for private enterprise and to fulfil the core functions of:

- providing a stable macroeconomic environment;
- investing in, and operationally sustaining, essential and competitively priced economic and social infrastructure;
- providing institutional infrastructure (investment policy framework, law and order, property rights, contract and bankruptcy laws, and policies to promote competition and regulate imperfectly competitive markets);
- promoting education and technology, especially technical and vocational skills;
- providing a social safety net, including access to basic health services for vulnerable groups; and
- providing consumer protection.

Specifically government also needs to ensure that Tuvalu's comparative advantage in the training of seafarers is maintained.

3. Policy objectives

The policy objectives for employment and private sector development are to:

- Maintain macroeconomic stability and foster economic growth
- Create a conducive investment environment, including tax and tariff reform, land reform and provision of appropriate institutional and regulatory environment
- Reduce subsidies to public enterprises and create a level-playing-field for private sector investment
- Ensure adequate, efficient and cost-effective economic infrastructure is available; especially power, water and transport and communications services
- Maintain Tuvalu's "White List" status for employment of seafarers, and
- Create sufficient jobs and other areas of economic opportunity to meet the needs of the people
- Increase the private sector's share of GDP and of national employment by half by 2015.

4. Priorities and Strategies

The strategies required to achieve the policy objectives are wide ranging. Many of them

need to address institutional and process issues rather than physical infrastructure, although the latter are also important in supporting institutions. The primary area of strategy is the creation of a suitable investment policy and regulatory environment in which investors, be they domestic or foreign, have sufficient confidence in the system that they are willing to invest and create employment and wealth in the domestic economy.

It is also necessary to ensure that credit is available to potential investors, particularly domestic investors, who would not otherwise have access to finance. This means that government must ensure that it, and public enterprises, do not "crowd-out" the credit needs of the private sector. Thus government must ensure that its fiscal policy and budget management does not result in deficits which absorb too much domestic credit. Subsidies to public enterprises must be reduced. The institutional framework needs to include the ability

Box 6.1

Summary of Priorities and Strategies for Employment and Private Sector Development

- Establish clear investment policy and regulatory environment, and institutional framework and structure
- Ensure compliance with PICTA and PACER agreements
- Actively support foreign direct investment, as well as domestic investment in employment creating private enterprises
- Ensure that fiscal policy, including subsidy requirements of public enterprises, does not crowd-out needs of private sector
- Strengthening financial intermediation and domestic resource mobilisation for investment
- Enhance private sector participation in decision making process
- Facilitate provision of business and management training for local entrepreneurs
- Facilitate better access to markets and information on markets for Tuvalu business
- Enable TMTI to maintain "White List" status
- Investigate other offshore employment opportunities for Tuvaluans
- Strengthen consumer protection

of investors to have access to land for development purposes, and for credit providers to be able to accept land as collateral for loans.

If the institutional environment can be created and investment is encouraged, then entrepreneurs need to have information on, and access to markets. Improvements to internal transport and markets will be encouraged, however these must be demonstrably commercially viable and not require additional subsidies. With the limited size of the domestic market access to export markets must be improved. In this sense export markets mean not only places in which to sell products exported from Tuvalu, (e.g. marine products), but also sources from which demand for Tuvalu's tourism industry might derive customers.

Tuvalu's main export is presently seafarers, their export earnings received in the form of remittances. This is an increasingly competitive market with many nations now vying to get their seamen on foreign vessels. Competition is in terms of both cost and quality. Tuvalu must ensure that its seafarers remain competitive on both counts. Government needs to facilitate the cost side by assisting the industry to negotiate best-rate travel and visa costs in particular. On the quality issue government will ensure that TMTI has sufficient resources to maintain its "White List" status, and is able to develop the facilities at the Institute to meet the demands of the industry.

The strategies envisaged in all these areas requires an improvement in the relationship between the public and private sectors. A key strategy will therefore be to enhance the participation of the private sector in the decision making process. This will also require the strengthening of the Chamber of Commerce as a focal point for participatory contact. Many potential entrepreneurs lack the necessary business and management skills to make their ideas commercially successful. More training in these areas will be provided through appropriate means; NGOs or through private training institutions.

The increasing reliance on imported foods and other commodities, and the increasing number of retailers and personal service providers in the domestic economy, gives rise to concerns regarding consumer protection from sub-standard goods and services. Consideration will be given to establishing a Consumer Council to monitor product and service standards. Direct price control has long been a favoured policy, however the best policy is often to encourage competition amongst product and service providers, thereby encouraging enterprise rather than protecting existing, and often inefficient, service providers through price controls.

Offshore employment and migration, either from outer islands to Funafuti, or from Tuvalu to overseas (e.g. historically to Nauru and Ocean Island) has long been an important safety valve for the people. In recent years opportunities for migration to Niue and to New Zealand

have been available. A future strategy will be to seek improvements to the operation of these schemes and the exploration of other alternatives for Tuvaluans find offshore employment.

5. Performance Monitoring

Performance in achieving the policy objectives and strategies for the sector will be measured through the following indicators:

- Annual number of active employee accounts at TNPF
- Annual level of credit to private sector borrowers at NBT and DBT
- Annual number of seafarers employed on overseas ships
- Number of members of the Tuvalu Chamber of Commerce
- Number of participatory consultations held each year between government and the Chamber of Commerce
- Level of subsidy to each public enterprise in the annual budget
- Progress on legislative changes required for creation of investment environment:
 - Land reform
 - Investment policy
 - Consumer protection
- Employment and income data reported periodically from census and household surveys.
- Contribution of the private sector to GDP

CHAPTER 7:

HUMAN RESOURCE DEVELOPMENT

1. Overview and Summary

'Human resource development is fundamental to achieving an improved quality of life'.

'A well-educated and trained labor force is critical for enabling future economic growth'.

These two statements are commonly used to describe the importance of education in all societies. Tuvaluans have always considered the attainment of knowledge and the education of their children of paramount importance.

Successive governments have identified the development of Tuvalu's human resources as a priority. In spite of few natural resources and assets at the time of Separation and Independence, Tuvalu has successfully grown its economy and developed its services over the last 25 years. There are many areas in which Tuvalu has been a leader; in developing its skilled seamen, establishing the Trust Fund concept, negotiating fishing licence agreements, and developing revenues from its excess telecommunications and internet capacities. These things did not just 'happen' - all were the result of hard work and human ingenuity.

In the late 1980s, Tuvalu's human resource and training needs and the education system were reviewed, with the result that the Education for Life (EFL) program was introduced in 1990. The main goal of EFL was to create a system that provided compulsory quality education for all children to the age of 15 years. Special emphasis was placed on equal access for all Tuvaluans and the encouragement of parental and community participation and support. Under EFL universal secondary schooling was introduced and the system of Community Training Centres on each island, which had catered for non-academically gifted children, dismantled.

In August 2002 a National Education Forum, held in Funafuti, agreed that despite improvement in teacher-pupil ratios, increased expenditure on teacher training and school infrastructure, educational achievement had not improved under EFL. A key indicator of performance, the Fiji Junior Certificate examination, showed that the pass rate had dropped from 61% in 1994 to just 13% in 2001. With new management at Motufoua School the performance has however regained some of the lost ground in the last two years. The 2002 National Education Forum considered the reasons for the declining standards in education making a total of 97 recommendations to improve the sector. These recommendations, covered primary, secondary and early childhood education, and human resource planning, training and scholarships and formed the basis for the development of the new sector master

plan. Additionally the National Education Forum agreed to the adoption of a new overall objective [philosophy] for education as follows:

“To provide a system of quality education which endows Tuvalu people with the knowledge, skills and attributes necessary to achieve a higher degree of self reliance in a rapidly changing world, and one that is consistent with spiritual values”.

1. Primary and Secondary Education

Regional comparisons of literacy¹⁰ consistently show Tuvalu in the upper quartile, with 95% of its population literate. Tuvalu has also achieved the MDG targets of equality of opportunity at primary and secondary levels for boys and girls, and the balance has all but been achieved at tertiary level also. But there is progress still to be made in educating and training the population in the technical and vocational skills relevant to Tuvalu’s economic and social goals. These remain key development objectives.

The basic education system in Tuvalu consists of two years of preschool, eight years of primary, and four years of secondary schooling. There are 17 registered preschools in Tuvalu, which are voluntary managed by parent associations that employ teachers from their own resources. Historically, the Government has not been involved with preschools, but is now considering a more supportive and regulatory role. The Government now provides annual grants for salaries of up to three qualified teachers in each registered preschool, support for preschool infrastructure and materials have been provided through various donor programmes. According to the 2002 census an average of 90% of boys and 92% of girls in the 19 - 24 year age group had completed secondary school. This compares with 46% of men and 48% of women in the 25 - 39 year age group. However the proportion of females who reported completing secondary education falls sharply at age 40 and above. This illustrates the impact of the expansion of secondary facilities in the last two decades. In contrast less than 1% of the population reported that they had not completed any education.

Commitment to education as a priority sector is reflected in increased government expenditure in education. The share of recurrent expenditure on education as a percentage of total recurrent government expenditure averaged about 19 percent between 1996 and 2002, in 2002 the budget allocation was 22%. However the salary bill, inclusive of provident fund contributions, and housing allowances absorb some 90% of the government’s recurrent budget allocation to primary education. This leaves little for operations. Research suggests

¹⁰ Population aged 15 + completing minimum four years schooling.

however that the returns to spending on school materials¹¹ has a rate of return ten to one-hundred times larger than additional spending on teachers. Moreover recurrent expenditure on education is probably understated as it excludes post-secondary scholarships from Australia and New Zealand, which amount to around A\$2-3 million annually. In addition the *kaupule* on each island make significant contributions to maintaining primary schools which is not included in the budgetary allocation. Parents and communities also make unquantified but significant cash and in-kind contributions to primary education. Thus despite expenditure being a high proportion by regional standards, the quality of education has not shown any material improvement.

2. Post Secondary Education and Training

a. Tuvalu Maritime Training Institute

Skilled Tuvalu seafarers are in demand on the international market, and their contribution to national income is significant. Since its establishment TMTI in 1978 has produced a total of 1263 qualified seamen, by means of 63 courses (May 2004). Pre-service training consists of a 12-month course in one of three disciplines, Engineering, Deck Watch or Stewardship. Competition for places is high. An average of 200 applications is received for the 60 places available each year. Recruits are accepted strictly on the basis of examination results. No island quota is applied. However in the 22-year period 1979—2001, Nanumea produced the largest number of graduates, representing 19.8% of the total, followed by Vaitupu (14.3%), Funafuti (13.4%), Neuter (11.5%), UI (11.4%), Nanumanga (10.8%), Nukufetau (10.4%) and Nukulaelae (7.2%). In the early 1980s, recruits from Tokelau attended the school and these make up 1.2% of the total number of graduates.

The dropout rate is estimated by TMTI to be less than 1%. Sea training on the *MV Nivaga II* is mandatory for all course participants. On graduation, seamen apply for overseas employment through one of the three shipping agents. A Seamen's Union exists in Tuvalu and provides a useful mechanism through which collective concerns can be aired. This now extends to providing counseling services to both the seamen and their families to help each to cope with the stresses of this lifestyle. There are currently some 350-400 seamen on active duty. This compares with over 500 at end 2000, and an estimate of around 450 in mid 2003¹². The current figure, whilst down on the peak, is still considerably above the level of 272 in 1991. The contribution of remittances to macroeconomic balances and household incomes is discussed in Chapter 3.

¹¹ Pritchett, Lant and Deon Filmer. 1999. "What Educational Production Functions Really Show: A Positive Theory of Education Spending" *Economics of Education Review* 18, no. 2 (April): 223 - 239; quoted in Easterly 2002

¹² Assessment of Hardship and Poverty in Tuvalu, ADB, June 2003.

According to the industry the current downturn in numbers is temporary and the general employment prospects for Tuvalu seamen remain very good. Nevertheless although the demand for Tuvalu seamen continues to be high it is an increasingly competitive market. It is understood that competition inter alia from Philippine, Croatian, Ukrainian and Chinese seamen is increasing and therefore Tuvalu must maintain its standards and competitive edge. To do this it is necessary for TMTI to have its "White List" certification under the International Maritime Organisation's Standards of Training Certification and Watchkeeping (STCW) renewed. The inspection audit for this is expected at TMTI within the next one-to-two years.

b. USP Extension Centre

The University of the South Pacific (USP) center based on Funafuti provides a range of extension courses offering students the opportunity to continue their education at post-secondary level. In 2000, Center facilities were upgraded through connection to the USP Network that links all USP Centers to the main USP campuses in Suva, Apia and Port Vila and to each other. Courses offered at the Funafuti Center fall into the categories of certificate, diploma, vocational and degree. Although full degree courses are offered, except for the Bachelor of Education only the first two years of studies can be taken and students must attend the USP campus in Suva to complete their studies. The introduction of video conferencing facilities has allowed the Center to expand the range of courses on offer.

The student body consists of mature age people, the employed, the unemployed, and secondary school leavers who are unable to secure public or private funding for further studies. This resulted in an increase in annual enrollment from 210 in the early 1990s to 270 in 2000. Degree courses are the most popular, accounting for 46% of all enrollments. This is followed by preliminary studies (21%), foundation (18%), vocational (9.5%) and continuing education (5.5%). To supplement the foundation year studies offered by the Centre a Form 7 Foundation year programme has been instituted to be run complementarily.

c. Overseas Training And Education

The USP Extension Center and TMTI do not have the capacity to satisfy all of Tuvalu's needs for tertiary education. Consequently, the country relies heavily on overseas institutions to provide tuition, and on overseas governments for the funding of its students. In 1997 Tuvalu formalised its policy and procedure for scholarships and training awards through the introduction of an operations manual to guide the selection of candidates (OPM 1997). The manual stipulates that all scholarship awards are to be based on merit and are to be non-discriminatory between male and female. Prior to the adoption of the policy, female scholarship holders marrying foreigners would commonly have their scholarships terminated. The new policy removed this practice, giving women the same rights as men. The policy is

also aimed at remedying other system deficiencies such as inadequate selection procedures; poor orientation and preparation of students prior to commencement of tertiary studies; and the high incidence of students arriving late to their appointed overseas institutions. In-service scholarships are administered through the Personnel and Training Division of the Office of the Prime Minister. Pre-service scholarships are managed by the Ministry of Education and are allocated to students for senior secondary completion or for first-degree level training. In-service training scholarships are awarded on the basis of departmental training needs and can be for any type of training. The private sector and NGOs can also nominate candidates for in-service training scholarships: 10% of in-service scholarship awards are notionally reserved for the private sector, although the actual allocation depends on the number and quality of applications received. The target distribution of awards is generally 60% pre-service and 40% in-service. As in other Pacific Islands, the opportunity to win a scholarship is regarded as one of the major incentives for becoming a civil servant.

The number of scholarships awarded over the period 1991—2001 totaled 676. Females made up 45% of the total number of awardees. The distribution of scholarships per island group is broadly in line with population distribution. The 2002 census records 346 persons having completed Diploma or higher level tertiary courses, 36% of whom were females. In the 20 - 39 year age group the proportion of females completing tertiary level diploma/degree courses rises to 45%. Until 1996 Australia and New Zealand funded the majority of scholarships. Since then, government-sponsored awards have risen, most noticeably in the period 1999—2001. This reflects a re-emphasis in government policy on the upgrading of Tuvalu's human resources, and an increased capacity to fund scholarships through the windfall revenues received in those years.

2. Key Issues and Challenges

The key challenges for the education sector were extensively reviewed during the 2002 National Education Forum and in the more recently developed sector master plan. These focus on both the quality and quantity of education services. Inadequate and poorly maintained physical infrastructure, sometimes poor teaching standards and resource constraints of the Kaupule to adequately provide for island schools have been cited as key problems. Thus concerns about teaching standards, lack of resources for classroom materials, poor physical conditions and about the appropriateness of the curriculum have all combined to lower educational attainment levels of students. Despite the relatively high level of budget resources allocated to education there is widespread concern that the sector has failed to deliver the quality of service expected by the people. There has also been concern that bonding of returning students should be more rigorously enforced. Although most

students do return after qualification many are often tempted to leave the country for better pay and prospects overseas, within a short period, especially in the high-skill disciplines. The re-introduction of entrance examinations to Motufoua at year 8, effective from 2004, will result in the enrollment at secondary level declining sharply. It will also lead to a rise in the number of "push-outs" at the end of primary school who will effectively enter the labour force in search of work. These youth will have few skills, either for employment or for life and there will be a need to provide additional technical and vocational training opportunities if these young people are to have a chance of a productive future.

3. Policy Objectives

The policy objectives for the education sector aim to address the concerns and weaknesses identified in the recent reviews, and to strengthen the management and efficiency of the whole of the education sector and service. Ensuring that education meets the needs of the public, and provides the economy with young people appropriately educated and skilled to take advantage of the economic opportunities which are available, and which the national strategies expect to deliver, is essential if the whole development process is to be successful. Education is not an end in itself. Under the existing education system all children have access to primary education, some two-thirds also have the opportunity to attend secondary school and education is available to boys and girls equally. The TMTI provides an avenue for technical skills and employment for a relatively high proportion (around 50%) of young men entering the 17 age group each year. TMTI is one of the few areas in which Tuvalu has an international comparative advantage. The employment opportunities generated through TMTI are vital for the domestic economy, and for providing many families with a source of income. The maintenance of Tuvalu's international market position is therefore essential, and TMTI will be

<p>Box 7.1</p> <p>Policy Objectives for Education and Human Resource Management</p> <ul style="list-style-type: none"> • All teachers will be adequately trained and motivated to deliver quality teaching to pupils at all levels; • All schools will be adequately maintained, and have appropriate facilities for the children; • All schools will be supplied with sufficient curriculum and classroom materials to enable teachers to teach effectively and for pupils to learn; • The school curriculum will be made appropriate, consistent and targeted to meet the needs of the people and the economy; • Science teaching and technical and vocational training will be made central parts of the curriculum to ensure that skills are available to meet the needs of the economy; • Special needs will be catered for, including for pre-school and the disabled; • All overseas scholarship students should return to Tuvalu for at least five years after graduation; • A Human Resource Development Policy and Institutional Framework will be developed.

accorded a high priority for resources. The Tuvalu education system therefore has many strengths. The policies and strategies will aim to build on these and to re-establish the public satisfaction with the quality of education in the country.

4. Priorities and Strategies

Education development is a long-term process, changes to curriculums and teacher training programmes can take many years to have an impact on school outputs. However there are many short to medium term strategies that can yield significant benefits in improved performance. Better managed, maintained, equipped and resourced schools can very quickly lead to improvements in both teacher and pupil motivation, and consequently in the quality of outputs delivered. It is generally accepted that the highest returns to education are generated by universal quality primary education. This gives everyone the ability to read and write and therefore to participate in the wider economy. Those that have the ability can then progress to secondary level education, where technical and vocational training and greater academic focus provide the next highest returns. In Tuvalu technical training is focussed on TMTI which provides a vital source of training directly linked to employment opportunities. The maintenance and development of the training facilities and the standards of graduates from TMTI is critically important. Thus high priority will be given to ensuring that TMTI maintains its "White List" status.

The education sector masterplan focuses on Quality, Relevance and Access as its three themes. It provides for a comprehensive programme of improvements in all aspects of education service management and delivery. The core components of the strategies which will address the policy objectives previously outlined are:

Raise standards of teaching and learning through:

- teacher training and skill upgrading;
- provision of adequate classroom equipment and materials to support the curriculum, including libraries and text books.

Improve the environment for teaching and learning through:

- Upgrading and then maintaining all school facilities (including dormitories, quarters, kitchens etc) to an acceptable standard, conducive to teaching and learning in a healthy environment;
- Reviewing career and salary structure for education service to reflect high priority and importance placed on education.

Improve the relevance of the curriculum through:

- review and redevelopment of curriculum to meet needs of the people and the economy;
- strengthen vocational and technical education;

- strengthen maths, computing and science teaching;
- include components on traditional skills and culture;
- provide career counseling to pupils to guide career and personal development.

Ensure adequate availability of education services for special needs and situations

- provide support to private schools;
- support provision of special needs education for disabled and handicapped by NGOs.

Strengthen management of education system

- Increase the number and improve the quality of school inspections;
- Ensure that recommendations of inspections are complied with;
- Pre-schools to be regulated and managed under the auspices of the ministry;
- Ensure that needs of private sector for graduates and other skills are met through greater liaison between stakeholders;
- Ensure that TMTI is able to maintain its "White List" status;
- Review bonding policy to encourage greater retention of graduates;
- Provide greater information on labour market;
- Establish Human Resource Development Policy and Institutional Framework.

5. Performance Indicators

Education is not an end in itself, therefore the performance of the education sector should not focus just on the inputs, (budget funds, classroom equipment and materials) but should rather be concerned with the quality of the outputs. The performance of education strategies will therefore address both aspects.

Performance indicators for education will include: primary and secondary school enrollment rates and attendance, pass-marks and rates for students sitting FJC, entry standards required and achieved for acceptance to TMTI, number of TMTI graduates each year being accepted for employment.

CHAPTER 8:

NATURAL RESOURCES: AGRICULTURE, FISHERIES, TOURISM AND ENVIRONMENTAL MANAGEMENT

1. Introduction and Overview

Traditionally the sustainable exploitation of Tuvalu's natural resources and the preservation of the atoll eco-system and environment provided the foundation of Tuvalu society and island based, subsistence lifestyles. In recent years this sustainable system has come under threat from both internal and external factors and development influences. As discussed in Chapter 5 steadily declining outer island populations and rising dependency ratios have been matched by steady increases in the population of Funafuti. Changing lifestyles and the increasing monetisation of the economy are leading to a loss of traditional agricultural and fisheries skills and an increasing demand for imported foods. Climate change and its consequent environmental impact are also believed to be affecting agriculture and fisheries potential. These various factors have combined to bring about a significant decline in the importance of agricultural and fishery activities in the Tuvalu economy. Between 1996 and 2002 the real value of primary sector output fell from \$2.5 million to \$2.1 million, an average annual rate of decline of 2.9%. Within this, the value of subsistence non-market production fell by an average of 3.3% per annum. The decreases in output are most noticeable in the agriculture component, with fisheries output actually showing a small increase of 0.7% per annum. At the overall macroeconomic level the contribution of the primary sector to GDP fell from 22.5% in 1996 to only 12.4% in 2002.

1. Agriculture Development

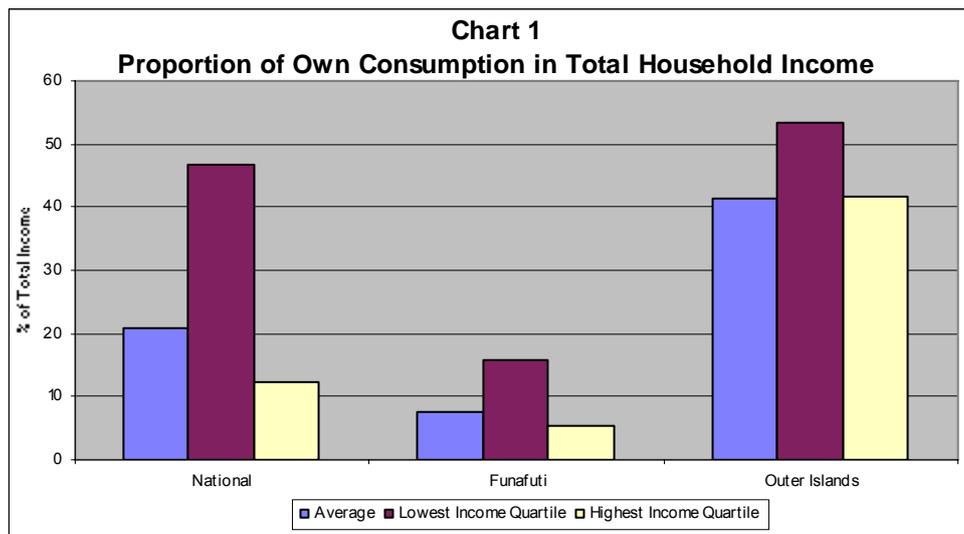
Notwithstanding these developments, the agriculture (and fisheries) sector continues to underpin the economies of the subsistence based outer islands. Chart 1 illustrates the relative importance of own-production (subsistence) in total household income from the 1994 Household Income and Expenditure Survey (HIES). For outer island households with the lowest incomes subsistence production accounted for just over 50% of their total household income. The maintenance and development of sustainable agriculture to promote better household food security has been the main focus of the programmes of the Department of Agriculture (DoA). To try to achieve the overall goals for this development, the department has taken the approach of working together with all Falekaupule (not always very successfully), and with other stakeholders and beneficiaries from each outer island.

The consultations leading up to the national summit in 2004 highlighted many concerns including:

- Poor agricultural extension service delivery to outer islands;
- Sometimes poor cooperation between Falekaupule and agricultural extension workers;
- Lack of proper facilities to keep and market poultry and livestock which has resulted in an increasing reliance on imported products;
- Lack of suitable land for gardening, especially on Funafuti, limiting the possibilities of producing cash food crops and even fruit and vegetables for home use;
- Diminishing traditional knowledge of farming *pulaka* and taro; and
- Deterioration in growing conditions in many *pulaka* pits through environmental changes including salination.

Two regional projects are assisting DoA in implementing strategies to address some of these issues: a) FAO through its Regional Programme on Food Security (RPFS); and b) SPC through its Development of Sustainable Agriculture Development Project (DSAP). On Funafuti, stakeholders and beneficiaries are able to learn and adopt vegetable farming methods through the ROC Agricultural Mission and demonstration vegetable garden.

Copra, which has traditionally been Tuvalu's only major export crop, has been of little



economic significance in recent years. Exports averaged almost 300 tonnes per annum in the decade or so after Independence, but fell to less than 50 tonnes per annum between 1991 and 1998. In 1999 the domestic price subsidy was increased substantially and in the two years 1999 and 2000 exports once again rose to more than 200 tonnes per annum. However despite a further increase in the domestic price to \$1000 per tonne (including a subsidy element of almost \$800 per tonne) in 2001, production fell back to less than 50 tonnes and has not recovered since. These output data are supported by the census figures which recorded that in 2002 more than half, 55.4% of outer island households and 71.7% of those on Funafuti were not engaged in any form of agricultural activity.

Declining food security is becoming a serious vulnerability issue. The increasing monetisation of the economy is changing the lifestyle pattern of many people. As the outer island populations age, young people leave and dependency ratios rise there is a loss of traditional subsistence skills. Subsistence production declines and people come to depend more on imported foods which requires greater access to cash and tends to lead to a deterioration in nutrition standards compared to a diet based on traditional foods. The participatory assessment of hardship undertaken in 2003 highlighted the concerns of many older people that the youth are no longer interested in fishing or tending plantations. The consequent weakening in food security could prove critical to the isolated outer islands, as well as to the densely populated Funafuti, in the event of some interruption to shipping services or supplies.

2. Marine Resources

Tuvalu's fish stocks in the EEZ, lagoons and inshore waters are its most valuable resource. This resource is sustainable if managed correctly. There are two main ways in which the resource is exploited. The first is by Tuvaluans fishing mainly lagoon and inshore waters for subsistence or sale locally. The second is by allowing foreign based fishing fleets to exploit the oceanic fish stocks in the country's 900,000 square kilometre (km²) EEZ. The maintenance of lagoon fish stocks for local consumption is an important issue. The Fisheries Department, advises communities on conservation strategies including establishing closed areas in lagoons and/or regulating fishing methods to enable island communities to ensure the health of local fish stocks. With the increased use of small outboard powered boats safety at sea is an issue of growing concern. Fishing still remains an important household activity however with almost three-quarters and just over half of outer island and Funafuti households respectively being engaged in fishing. The real value of the contribution of subsistence fisheries to GDP increased marginally from \$1.06 million in 1996 (9.6% of GDP) to \$1.09 million in 2002 (6.4% of GDP). The value of domestically marketed production doubled over the same period but still accounted for only 0.25% of GDP¹³.

a. Community Fisheries Centres

CFCs have been established on all islands with donor assistance. They are equipped with fish processing, cold storage, and sun drying facilities on each outer island. Much of the centres' production is purchased and consumed by islanders themselves, but some is marketed though NAFICOT. CFC managers are appointed by the Fisheries Department and between three and five other staff are employed during periods of fish supply. All the centres generally operate at a loss, and in 2001 wage costs exceeded the value of fish sales five of

the seven centres. There are also substantial hidden costs including the operating cost of the *Manau* as well as the salary costs of fisheries extension and development officers engaged in overseeing the centres from Funafuti. According to an assessment by the ADB¹⁴, CFCs cannot be justified as meeting fish demand on Funafuti when Funafuti lagoon and inshore waters have the capacity to generate between 40 and 50 tons of fish annually. This is equivalent to about six times the CFCs combined contribution to NAFICOT. The centres' cold storage facilities certainly make fish accessible to local communities all year round, but according to the 2002 census around 40% of all outer island households now have either a refrigerator or a freezer. It is therefore reasonable to assume that selling and storing fish would be taken up by private retailers if the centres did not exist. Fishermen would be paid by retailers or customers instead of by the centres and the price of fish would be more likely to reflect supply and demand.

The 2002 census data show that only in Nukulaelae (26.5% of households) and Nukufetau (28.8%) is commercial fishing important. In the other outer islands only 6% of households reported being engaged in commercial fishing. Whilst higher prices might stimulate production the argument that the subsidy to CFCs is necessary to transfer income to the outer islands is weak, because a large proportion of the subsidy goes in wages. An alternative operating system for CFCs needs to be investigated to reduce the need for government subsidy. It has been proposed to move CFCs towards financial sustainability by reducing contracted staff and seeking more community involvement. However, given the large losses sustained by CFCs and a lack of obvious social benefits, it may be preferable that the centers be leased to private operators or transferred to councils. The government subsidy might be better spent on observers and port sampling as part of a tuna management program. In 2004 NAFICOT acquired two reconditioned long-liners as the basis for a national tuna industry. The economics of this rests on the vessels operating in a fully commercial manner with Tuvalu crews but based out of Fiji where bait, ice, bunkering, markets and other essential supplies are readily available.

b. Exploitation by Foreign Fishing Fleets

Tuna fishing generates substantial revenues for Tuvalu through licensing of foreign fishing vessels which pay a resource rent as an access fee or as a royalty based on the value of catches. Between 1999 and 2002 license revenues averaged \$10 million per annum, equivalent to around 40% of annual recurrent revenues. However reflecting the volatility of the industry revenues declined very sharply to only \$1.5 million in 2003. The volatility of fish

¹³ The revenue received from Fish Licences does not appear in GDP, but is captured in Gross National Income as factor income from abroad.

¹⁴ Tuvalu 2002 Economic and Public Sector Review, Pacific Regional Department, ADB, Manila

licence revenues poses serious budget forecasting challenges for the government. Through the efforts of the patrol boat, the Forum Fisheries Agency (FFA) and its own bilateral arrangements, the government seeks to manage the exploitation of its marine resources and ensure that benefits are maximised for the country.

3. Tourism

Successive governments have acknowledged that tourism development has some potential for generating additional economic activity in Tuvalu. A Tourism Development Plan was approved in 1992 and reviewed in 1995. A further report in 1997 carried out an analysis of the constraints on tourism, the principal ones being high air fares and poor air services, low quality hotel accommodation and service standards, undeveloped eco-tourism operations, lack of visitor information, poor urban environmental management and a poorly manned and poorly situated tourism office. This report also made detailed recommendations to overcome some of these constraints, including revamping the hotel to make the most of its attractive situation, locating a tourist information office adjacent to the airport terminal, developing reef eco-tourism, and strengthening and developing human resources.

In the intervening period whilst the Marine Conservation Area in Funafuti lagoon has been established, little else has been done and many of the constraints remain. Tuvalu does not possess any special attractions not present in other parts of the region, except that it is small, isolated and parts of the country remain pristine; thus tourists have few special reasons to pay the costly fare to reach Funafuti from Suva. The Funafuti lagoon is the natural attraction that could form the basis for modest growth in the tourism industry. The Funafuti Conservation Area became operational in June 1997 with the assistance of South Pacific Regional Environment Program (SPREP) funding. The Funafuti Town Council (Kaupule) administers the area jointly with the traditional owners through the Conservation Coordinating Committee. Fishing, hunting (e.g. of seabirds, turtles, crabs) and the cutting or burning of trees are prohibited in the 33 km² zone. However current rate of tourist visitation to the conservation area is estimated to be only about 30 - 50 a year. Visitors on commercial or official business comprised just under three-quarters of all foreign visitors in 2003, with tourists making up the balance. Together these two categories comprised just under 50% of all visitors, the others being largely Tuvaluans visiting friends and relatives. In response to the general increase in foreign arrivals a number of small hotels/guest houses have been established on Funafuti. However these are of a generally low standard and would not be attractive to many but the hardiest of tourists. The challenges for increased tourism development identified in the earlier reports remain.

4. Environmental Management

The National Environmental Management Strategy (NEMS), endorsed by Cabinet in 1997, is the basis for the government's environmental policy and legislative development (SPREP 1997). The main environmental risks identified in NEMS were

- sea level rise as a result of climate change;
- high human population growth and densities;
- decline in traditional resource management;
- unsustainable use of natural resources; and
- poor waste management and pollution control.

While Tuvalu is not ranked on the composite vulnerability index for small island states, it faces a significant potential threat associated with rising sea levels caused by global warming. The UNDP (1994) ranked Tuvalu highly vulnerable to drought, which is a reflection of the impact of low rainfall and coralline atoll soils. In 2002 Kaly and Pratt also reviewed Tuvalu's vulnerability to environmental risk by comparing Tuvalu, Fiji Islands, Samoa, and Vanuatu for environmental risk. Tuvalu was ranked the most vulnerable, largely because of its low relief and small land area.

Waste management is one of the most pressing problems and has direct implications for Funafuti's environment and for the health of the population. Waste is often non-biodegradable, and can be dangerous to both human and ecosystem health unless collected and disposed of systematically. The 2002 census records that 16% of outer island households dispose of their domestic waste either in their backyards or in the sea. However even where households have their waste collected by councils, notably on Funafuti, this is no guarantee that it will be disposed of in an environmentally-friendly manner. Change that relies on voluntary compliance tends to be slow, while the opportunities for generating income from recycling waste are limited because of the small quantities of recyclable material generated and high freight costs. However, aluminium cans and green waste (compost) are exceptions. As population density continues to increase on Funafuti, waste management will become an ever more important issue, but it is not just a matter of collecting waste and burying it in borrow pits or inserting more septic tanks and flush toilets. An unmanaged approach to waste disposal will lead to:

- pollution of lagoon waters, making them potentially hazardous to human health and affecting fish stocks;
- accumulation of waste that encourages vermin and is a latent source of disease; and
- incineration of waste that itself poses a health risk.

A comprehensive, AusAID-supported Waste Management Project for Funafuti was begun in 1999. A mid-term review of the project (AusAID 2001) identified the most serious problem for

implementation as the uncertainty surrounding future institutional responsibility for waste management. A concern that appears to have been well justified. According to the 2002 census the Funafuti Town Council now collects household waste from 90% of households. A dedicated waste depository has been established at the northern end of Funafuti island but this needs to be carefully managed if it not itself to become an environmental problem. Some composting of household green waste occurs, and regulations regarding pig farming and treating hospital waste are also in place.

Climate change and the effects of global warming are also of considerable concern to Tuvalu. Salt-water inundation of pulaka pits, coastal erosion and flooding have all been blamed either wholly or partly on global warming. However there are many other influences affecting these local conditions including removal of aggregate for building materials from coastal areas, and changes in local topography through construction of roads and other infrastructure. Much of this has been associated with the continuing urbanisation of Funafuti, which is itself a major environmental issue. The deteriorating housing conditions on Funafuti is discussed in Chapter 3.

2. Key issues and Challenges

The development of agriculture in Tuvalu faces many fundamental problems; poor soils and growing conditions, small land areas and distance from markets. Also Tuvalu has few comparative advantages in agriculture, the only significant advantage being its freedom from major pests and diseases. Further the development of agriculture poses many challenges in terms of declining outer island populations and increasing urbanisation, the lack of interest in traditional agriculture by many youth, and poor access to markets for those who do wish to produce crops for sale. Notwithstanding all these challenges and problems there is still considerable scope for increasing production for local consumption, indeed for reversing the decline in output in recent years. The challenge is to revitalise the agriculture extension service so that it provides useful and practical advice and training, such that people are encouraged to engage in more agricultural production. A second challenge is to encourage people to once again turn to local rather than imported foods as part of a nutrition and health education programme. Improving transport and marketing of local produce is essential for this to be successful.

The challenge for fisheries is to improve resource management and the marketing of local fish catches. Outer island CFCs have needed subsidies and have therefore generated negative economic benefits overall. These need to be made commercial, and preferably privatized to remove government from an enterprise activity which should be undertaken by the private sector. The NAFICOT long-line fishing venture also presents a management and operating challenge if it is to be made commercial. There is unlikely to be any justification for

this to be subsidised. The management of fish licence revenues is another challenging area. The recent arrest of an unlicensed vessel fishing in Tuvalu's waters demonstrated, on the one hand that illegal fishing is a common occurrence and that arrests can be made, and on the other, how unprepared the country was to deal with the situation. The challenge is to strengthen regional cooperation in the management of fisheries resources, with the objective of maximising returns at both regional and national levels.

For tourism the challenge is to address the long standing issues of poor facilities and management, and to ensure that the environment for eco-tourism remains. Environmental management faces two primary challenges. Firstly to deal with the growing urbanisation of Funafuti, and secondly the national impact of climate change.

3. Policy Objectives

The policy objectives for the natural resources sector are to:

Agriculture:

- Reverse the decline in subsistence agriculture production;
- Increase production and consumption of marketed local produce.

Fisheries

- Improve management of fisheries resources, inshore and EEZ;
- Eliminate subsidies to CFCs through efficiency gains, privatisation or closure;
- Ensure NAFICOT becomes commercially viable.

Tourism and Environment

- Stop unregulated development and degradation of environment on Funafuti;
- Increase number and improve management of conservation areas;
- Minimise impact of climate change on Tuvalu;
- Increase number of tourists visiting Tuvalu thereby helping to support and develop new private sector tourism related enterprises.

4. Priorities and Strategies

Government's role in the natural resource and environment sector should be one of facilitation, regulation and resource management. The development and exploitation of the resources should be primarily in the hands of the private sector. The success of this will depend on the government putting in place the enabling framework for private sector economic opportunities to be created, as discussed in Chapter 5. In particular government's enterprise activities in the fisheries sector should not undercut the local commercial fishermen. The success of the strategies for the sector depends on close cooperation

between stakeholders, in transport, private sector development, in health and nutrition, education and training, with the island Kaupule and with international development partners.

The core strategies to be followed are:

Agriculture

- Improve agriculture extension and training programme and availability of implements;
- Implement strategies for private sector development to assist private entrepreneurs to provide marketing for local produce, including access to land and credit;
- Incorporate more agricultural subjects into school curriculums.

Fisheries

- Review operations of CFCs to reduce subsidies through efficiency gains, privatisation or closure;
- Develop and adhere to a properly costed business and management plan for the operation of NAFICOT's long-line venture so that no subsidy is required;
- Formulate and implement a clear, coherent and integrated fisheries sector development programme.

Tourism and Environment

- Develop and implement an urban and waste management plan for Funafuti;
- Establish national adaptation and mitigation policies;
- Encourage international adoption of Multilateral Environmental Agreements, including the Kyoto Protocol;
- Increase number of conservation areas and ensure compliance with regulations;
- Implementation of the long-standing recommendations for tourism, including possible privatisation or leasing of government owned hotel.

5. Performance Monitoring

The performance of the sector in achieving its policy objectives will be measured through the contribution of the agriculture and fisheries sectors to GDP. Also the subsidies provided to CFCs and NAFICOT will be closely monitored. The indicators for private sector development in respect of credit to agriculture and fisheries based enterprises will also support monitoring of this sector. The number of genuine tourists visiting Tuvalu will be an indicator of both the success of tourism promotion activities as well as improving the environment. Progress in formulating and implementing urban management, land reform and waste management programmes for Funafuti will be monitored.

CHAPTER 9

SUPPORT SERVICES: INFRASTRUCTURE AND UTILITIES

1. Introduction and Sector Overview

Reliable and competitively priced economic infrastructure and utilities are an essential requirement for sustainable development. Without these supporting services it will be impossible to attract investment, create employment and generate additional wealth and opportunities for the people. Issues relating to poor transport and communications, high costs, inefficient delivery of utilities and economic services and poor maintenance of infrastructure assets were amongst the priority concerns of the people during the national summit. There are eight major public enterprises (including TNPF) which collectively accounted for about two-thirds of marketed GDP in 1996. By 2002 this had risen to almost three-quarters (73.4%). Public enterprises have effective monopolies in the provision of power, communications, media and financial services. The performance of public enterprises therefore has a marked impact on economic efficiency and service delivery. The introduction of performance-oriented corporate planning in these enterprises, along with the formulation of appropriate pricing policies for public services has long been a component of government's reform programme. Additionally, the government has identified a range of new opportunities for commercialization, corporatisation, and contracting out of public services.

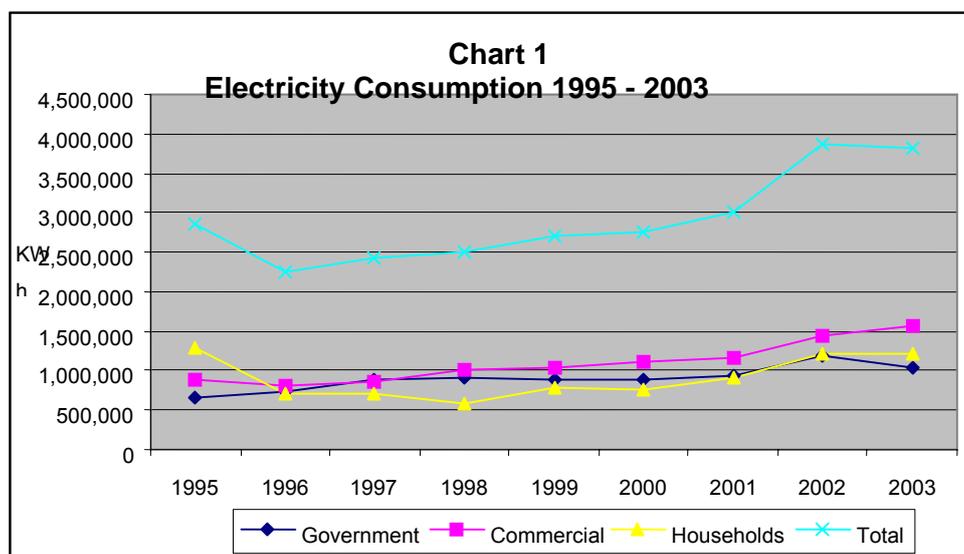
Whilst a number of government enterprises have been corporatised few have become commercial, and many enterprise activities still remain under government's control. Continuing subsidies have been a substantial drain on government's budget. In 1996 subsidies were equivalent to 9.2% of GDP at factor cost, declining to 4.8% in 1997. However in 1998 the subsidy allocation jumped to 10.7% and to a peak of 24.6% in 2000. In 2001 and 2002 subsidies were equivalent to 19.8% and 15.3% of GDP respectively, increasing to 22% of GDP in the 2003 budget. These are very high levels and lead to serious distortions in the allocation of scarce budget resources. Funds which could be used to improve priority sectors such as health and education are diverted to meet the subsidy needs of enterprises which should either be made commercial or closed. There is therefore still much to be done to improve the performance of both infrastructure and utilities.

In 1996 Utilities, all provided by public enterprises, contributed 9.5% to real marketed GDP, and 4.6% to total real GDP. BY 2002 these had increased to 18.3% and 9.2% of market and total GDP respectively. Public enterprise Transport and Communications activities contributed 18.8% of real market GDP in 1996, and 9.2% of total real GDP. By

2002 the levels of contribution of these activities had increased to 24.7% of real market GDP and 13.1% of total real GDP. Public financial enterprises (NBT and TNPF) contributed 14.4% and 7.0% of real marketed and total GDP in 1996. These proportions had increased to 20.2% and 10.8% respectively by 2002. Thus in total public enterprises accounted for 31.7% of total real GDP in 1996 and 39.1% in 2002.

1. Power

The Tuvalu Electricity Corporation (TEC) is responsible for the generation and distribution of electricity on Funafuti, Amatuku, and, since the rural electrification project of 2000, all outer islands except Niulakita. Power supply in Funafuti is reasonably reliable but, as a result of recent growth in electricity consumption on Funafuti, the limit of current generating capacity is now being reached. TEC is planning to expand capacity in the next two years with the reconstruction of the power station under Japanese aid. Between 1997 and 2003 total consumption increased by an average annual rate of 7.8%. During this period, household consumption grew at 9.5% per annum, commercial consumption at 10.8% pa, and government consumption at 2.9% pa. In 2003, private households accounted for 31.6% of total energy sales (compared with 29% in 1991), commercial and industrial users for 41.1%



(35% in 1991), and government for 27.3% (36.1% in 1991). The creation of generating capacity in the outer islands contributed to a sharp increase in power consumption in 2001, (see chart); but most of the growth was concentrated on Funafuti which accounted for 90% of total power consumption. According to the 2002 census over 90% of households throughout the country were connected to mains electricity, with a further 2.5% of outer island households having access to solar power. This is one of the highest levels of access to power in the region. The critical issue for government and TEC is to ensure the sustainability of the supplies in the outer islands. Despite the recent growth in power

consumption TEC has continued to operate at a loss largely as prices have not been raised sufficiently in the face of rising fuel costs. High fuel costs and environmental considerations suggest that greater attention should be given to the use of renewable energy. Such technologies include solar power, wind power and hybrid fuels using coconut oil. Solar power in particular has been successfully used in the outer islands. Tuvalu has been a leading advocate of alternative energy projects in regional fora.

2. Telecommunications

The Tuvalu Telecommunications Corporation (TTC) was established in February 1994 under the TTC Act of 1993, which grants TTC a monopoly of telecommunications service provision in Tuvalu. It also requires the corporation to operate as a commercial organisation. A mobile phone service was established on Funafuti in mid-2004. The exchange has a potential capacity to service over 2,000 subscribers, of which there were 740 at the end of 2002. Internet services are provided through an ISP in the Office of the Prime Minister and through two private "internet cafes". The registry for Tuvalu's top level domain name ".tv" has been privatized and is currently managed by Verisign, a company based in USA. The marketing of this, although not without its problems, nevertheless generated substantial returns for Tuvalu between 2000 and 2002. The continued marketing and promotion of dotTV promises to provide a steady core revenue flow for many years, especially if a more advantageous marketing and management agreement can be negotiated.

The telecommunications tariff structure has not changed materially since a 1998 analysis demonstrated that large losses were made on outer island and intra-Funafuti calls, while profits were made on international calls (Economic Insights 1998). This same analysis showed that full cost recovery would have entailed large increases in rates for outer island calls and for intra-Funafuti calls. Such increases were regarded as inappropriate, given that capital costs largely were funded by external grants and that there was a community service obligation to outer island populations. The TTC Board has maintained a policy of setting tariffs on the basis of affordability considerations and the need to cover critical costs. Through its involvement with dotTV Tuvalu has long recognised the benefits which can flow from the full exploitation of ICT. Government is committed to bridging the digital divide and improving the availability of ICT capabilities in a socially inclusive way. An ICT policy has been drafted and various ICT committees have been formed to pursue goals of the policy. A high priority is being given to assessing the costs and benefits of extending the existing internet service to the outer islands, beginning with Vaitupu and Motufoua. A project to improve the internet satellite bandwidth is being negotiated with the aim of routing to a direct internet VSAT through Pacific IP service (PanAm Sat) link that will place Tuvalu in the mainstreams of the US internet network. A high speed Wireless Network has been installed to serve the new government offices and it is planned to broaden connections from the

Tuvalu ISP to Funafuti households and Amatuku in the near future. Negotiations for an application for assignment of W-band Frequencies and Geosynchronous Orbital slot assignments with a US based company are continuing.

3. Transport

Until early 2002, domestic shipping services in Tuvalu were provided entirely by the government-owned *Nivaga II*. In 2000, a privately-owned ship began operating in the inter-island trade, but services soon ceased because of engine failure followed by the sinking of the vessel. In March 2002, Tuvalu took possession of a new ship donated by Japan, the *M/V Manu Folau*. This 46.5 meter vessel was built specifically to transport cargo and up to 160 passengers. The *Manu Folau* complements services provided by the *Nivaga*, in particular improving the frequency of visits to outer islands, and freight and passenger lifting from Suva. Both ships are run by the government through the Marine Division of the Ministry of Communications and Transport (MCT). The patrol boat *Mataili* provides back-up to the regular shipping service for medical emergencies and search and rescue operations. It also pursues its primary role of surveillance of the country's EEZ. In 2004 it apprehended an unlicensed vessel fishing in Tuvalu waters.

Various proposals for commercialization, corporatisation and privatization of domestic shipping services have been discussed in the past. Most recently, consideration was given to the government retaining the majority shareholding of a proposed limited liability company, with the remaining shares being offered to the public. The Falekaupules (island councils) were considered potential investors in the "Tuvalu Shipping Proprietary Limited", but community responses to initial approaches were not positive. A memorandum of incorporation and articles of association of the proposed company were drafted but no legislation has yet been brought to Parliament. Island communities' reluctance to invest in shipping is not surprising, given the financial results of *Nivaga* operations. During the period 1996—2001, the *Nivaga* recorded a surplus in only one year (1996). Since 1996, substantial losses have been made. Freight rates and passenger fares are well below the levels that would permit *Nivaga* operations to break even, leaving aside depreciation expenses (ADB 1998). Continued subsidies seem inevitable, even in the unlikely event that domestic shipping were privatized, and could be defended on equity grounds. Similar equity considerations lay behind the introduction of the Import Levy (Special Fund) Act 1997, which allows disbursements from the Fund to be made "to finance or assist to finance the transportation by ship within Tuvalu of goods in respect of which the import levy has been paid". Effectively the Act equalizes consumer prices within Tuvalu, meaning that consumers purchasing goods on Funafuti subsidize freight charges to the outer islands. Prior to introduction of the Act, the Tuvalu Cooperative Society had achieved much the same result by applying a freight equalization mark-up to all goods imported, ensuring that its retail

prices remained the same on each island irrespective of inter-island freight rates. The Act extended this concept to all importers and traders. One of the key issues in regard to domestic shipping is whether or not government subsidies are transparent and justified by the quality of service provision that they support. The national budget identifies improving the operations of *Nivaga* and *Manu Folau* as key outputs of the Marine Department, and lists a range of programme activities and performance indicators. A first step in making present shipping operations more accountable would be for the Ministry to review the appropriateness of these indicators, to monitor activities, and to report on results. To this end the Ministry has commissioned a thorough review of vessel operation and management systems and procedures.

Reef passages are important for safe shipping and cargo services to the outer islands. A review of the Reef Channels project has been conducted and has recommended further improvements including: channel markers at passages and landing points; cargo landing/handling options; beach ramps, jetties, harbors, coastal protection and EIAs. The review also provided firm recommendations for timely services, quicker turnaround of vessels and lower cargo damages without compromising environmental risks. The administration of Tuvalu's shipping registries in Germany and Singapore has been consolidated. The registries have been tasked to ensure adherence to international maritime conventions and to guard against potential risk of detainment by foreign port authorities for poor certifications of registered ships. In mid-2004 Tuvalu became a member of the IMO and will seek to implement the new safety codes that are due for implementation in July.

International air services are provided three times a week to and from the Fiji Islands, by Air Fiji. The government is the largest single shareholder in the company. Capacity on the service is limited and fares relatively expensive. Whilst consideration is being given to fleet upgrading there is a need to find a balance between protecting government's investment in the airline, developing capacity and a fare structure that will support wider development objectives for tourism and the private sector, and meeting the needs of the people for competitively priced and reliable international air services.

4. Water Supply

Public provision of water and sewage services is the responsibility of the Public Works Division of the Ministry of Works and Energy (MWE). A desalination plant operates on Funafuti and the new government offices have a large underground storage cistern. However most water supply comes from private rain-water storage and sewage disposal is provided through individual septic tank systems. With small land areas lacking an underground lens, water supply is a critical issue for all households. This is reflected in the number having access to their own household tanks or cisterns. Around 92% of households

in the outer islands and 94% of those on Funafuti. Only 12% of outer island households and 16% of those on Funafuti had to fetch water from locations away from their houses. The general level of access to safe water supplies in Tuvalu ranks at the higher end of the regional scale. However, most families do boil their water to minimise the risk of infection. Tuvalu has a high proportion of households with improved sanitation (flush, VIP or water seal systems). According to the 2002 census two-thirds of Funafuti households had mechanical flush toilets with a further quarter having pour flush facilities. In the outer islands the proportions were approximately reversed with 23% having mechanical flush facilities and 60% having pour flush. On the outer islands 17% of households had no toilet facilities compared with only 7% of those on Funafuti. On the outer islands some of the sanitation facilities are reported to be in poor condition so actual access to improved facilities may be lower than claimed.

5. Media

The Tuvalu Media Corporation (TMC) was established in 1999 as the corporatised Broadcasting and Information Division. It provides the national broadcasting service “Radio Tuvalu” and other printing and media services. Whilst it is a corporate entity it does not operate commercially and relies on government subsidies. Except for Niutao where household radio ownership was only 29% in 2002, in all other islands around half of households had radios. Thus radios provide an important, indeed very often the only source of information to the people and TMC provides an essential service in the absence of other information and media services. The radio is used for public announcements, broadcasts of parliamentary debates and for local and international news and weather summaries. It is also used for health, education and agricultural extension purposes and therefore provides an important support service to other sectors.

6. Accountability and Governance Standards

Lack of accountability and generally weak governance standards in the utility and public enterprise sector partly reflects two types of capacity constraint. One is the shortage of appropriately qualified and experienced board members who are not current or former government employees, and who are able to exercise a control function without being captured by public enterprise management. The other constraint is the shortage of qualified accountants able to operate a functioning accounting system that generates the information needed for sound decision-making, internal and external audit, and monitoring of financial performance. The process of corporatisation increases the demand for board members and accountants and cannot be expected to succeed unless there is a supply-side response that significantly eases these constraints. As the Auditor General has observed: “Every new corporation that is created will require accounting staff. Government should cease its

programme of creating new corporations until the problems within current corporations are under control” (Tuvalu Audit Office 2001). The practicality of corporatisation in the specific circumstances of Tuvalu is not easy. But in the interests of reducing subsidies, improving cost-effectiveness, efficiency and the quality of services delivered to the public some bold and innovative policy initiatives are required.

2. Key issues and Challenges

The challenges facing the government in providing adequate and efficient infrastructure, utilities and supporting services are both physical and structural. The country is isolated from its regional neighbours, and the islands within the country are small, lightly populated (apart from Funafuti) and distant from each other. The costs of providing infrastructure, transport, power and communications services in such circumstances are high and the economies of scale are small. Tuvalu is also prone to periodic droughts which can quickly lead to serious water shortages and consequent health risks, especially on Funafuti. The challenge for government is therefore to address the structural weaknesses in the management and operation of public infrastructure and utilities, and to seek more cost-effective and efficient alternatives where possible. Potential alternatives should be examined, efficiencies maximised, costs minimised and prices set competitively, commensurate with providing satisfactory standards of service to all islands, and providing support to the achievement of strategies in other sectors.

3. Policy Objectives

The policy objectives follow directly from the challenge:

- to ensure the provision of commercial, quality, efficient, and competitively priced infrastructure, utilities and services, either through public enterprises or through private sector partnerships and competition;
- to continue to corporatise, and where possible privatise, public enterprise activities to encourage the development of a competitive private sector;
- to minimise subsidy requirements for public utilities;
- to ensure economic infrastructure and support services are available to other sectors to enable all stakeholders to achieve their own sector objectives.

4. Priorities and Strategies

Inter-island shipping provides an essential and effectively life-line service to the people. Safe, reliable services are essential for the transport of children to and from school, medical cases and for the regular carriage of passengers and freight. Providing these services is costly, it must therefore be made more efficient and cost-effective to minimise the subsidy requirements. In addition it is necessary to investigate how the service could be improved to help promote other components of the national strategies. For example the freight levy fund

could perhaps be used to provide a reduced freight rate for local produce being sent from the outer islands to either Vaitupu or Funafuti for sale in local market or to improve the diet of the children at Motufoua. This would help to encourage greater agricultural production and thus economic opportunity in the outer islands.

Within the framework of the policy objectives to provide a good standard of competitively priced, cost-effective and efficient infrastructure, utilities and services, the strategies for the sector will aim to:

- Improve management, operation and maintenance of infrastructure and utilities throughout the country, and to provide additional infrastructure where economically viable;
- Eliminate subsidies to public utilities and seek alternative providers of infrastructure and utilities in the private sector to provide a competitive environment;
- Improve quality, frequency and cost-effectiveness of transport services to the outer islands;
- Improve international air service links;
- Improve and extend the provision of ICT services throughout the country, and especially to schools, clinics and island councils;
- Maximise collection and storage of water, and promote conservation measures, through education and awareness programmes, improving guttering and availability of water tanks to households, businesses and other buildings especially on Funafuti.

5. Performance Indicators

Performance of the sector in meeting its objectives and delivering on the strategies will be measured through the profitability, or subsidy reductions, achieved by shipping and public utilities in their provision of services. The rate of increase in power consumption and telecommunications traffic, both internal and external, will also be monitored and reported on a regular basis.

PART 3

CHAPTER 10

IMPLEMENTATION AND MONITORING

1. Development of Sector Plans and Strategies

The Strategic Planning process is illustrated in the diagram. **The Vision** sets the ultimate goal for the medium to longer term - ten years 2005 - 2015, the destination for the journey. Progress towards the realisation of the Vision needs to be measurable. A small number of specific indicators can be identified, e.g. changes in per capita GDP, incidence of selected NCDs, pass-mark standards achieved by school leavers at Form 4, number of selected crimes reported by the public. Each of these four indicators targets a specific aspect of the Vision; wealth health, education and peace. All are based on regularly collected data, they should therefore be easy to monitor and could be reported on each year in Parliament so that progress can be monitored by the people.

The Strategic Directions point to the broad path which is to be followed towards the goal. **The Strategic Outcomes** provide for periodic check-points along the way for the people to assess progress in more detail, check that the directions are still being followed - and are still pointing in the right direction toward the goal. The directions and outcomes, the priority sectors and strategies, will all start their journeys towards the Vision from different starting points. They will have differing distances to travel, different constraints to overcome, and will require different resources for the Vision to be reached. Thus other performance indicators need to be identified to provide a broader assessment of sector progress, the MDGs could be used for this purpose, other indicators can also be identified.

The Priorities and Strategies set out under the eight strategic directions/outcomes summarise the key areas identified in the NSSD process. These priorities and strategies address the macro-level issues; specific interventions, actions and initiatives needed for each sector will be developed during the sector planning process.

The Vision, Strategic Directions/Outcomes and the summary Priorities and Strategies comprise the **National Development Strategies (NDS)**. The ten-year Vision will, barring major catastrophes, remain unchanged. The Strategic Directions and Outcomes will have a shorter horizon 3 years, 2005 - 2007. This provides for the more frequent checkpoints, they will be reviewed every 18 months to two years.

In the NDS eight strategic directions/outcomes are identified, these are the sectors for which sectoral plans are needed. The desired Strategic Outcomes set the parameters for the

sector plans and strategies. Sector priorities and resource allocations within the framework of the national strategies will be agreed between the Ministry of Finance in setting macroeconomic policy, and sectoral ministries and departments in formulating specific sector strategies. **The Sector Plans** are the detailed road maps for each of the stakeholders making the journey; these also provide for additional checkpoints so that progress can be measured, by the stakeholders and the people on a regular basis. The sector plans cannot be formulated or achieved in isolation, each sector is linked to every other either by requiring support from it, or providing support to it. There must therefore be cooperation and consistency, one sector must reinforce the achievements of the others. Sector plans need to be consistent with each other and with the macroeconomic framework. A sector plan which is inconsistent will result in problems for implementation.

Strategies and sector plans must be based on sound information and data. The macroeconomic framework needs to identify the fiscal parameters (e.g. in terms of budget resources, development assistance, levels of debt). These are likely to be the primary constraints on the implementation of the national or sector strategies. Background information and data needs to be compiled for each sector. If data is lacking or is out-of-date new studies or surveys will be required to compile the data needed to enable the key problems and constraints to be analysed and addressed, and the performance targets to be achieved. Sector policies and strategies based on poor data and without supporting information and analysis are just guesswork. They will result in poor implementation and achievement.

Sectoral plans will give rise to policies, interventions and projects at the micro-level to achieve outputs which contribute to realising outcomes. Each of these must be clearly linked to, and be analysed/appraised in the context of the sectoral plan and the achievement of the national strategic outcomes. Projects will be selected at the national level for inclusion in the **PSIP** on the basis of the appraisal process and within the available resources (internal and external funding) and broad sectoral allocation as determined by the strategic objectives and priorities. Final project selection will be made be consistent with the macroeconomic and budgetary framework and outputs.

Policies and Projects mark the twists and turns in the road, the hills and potholes to be negotiated, the rivers and fords to be crossed, the ditches and sirens along the road to be avoided. The PSIP provides the drivers, fuel, food and drink, and supporting services (new roads and bridges, clearing obstacles, providing health, accident and repair services, training new drivers, technicians and marshals) along the way to enable the stakeholders make the journey.

Each point along the implementation path should be accompanied by a performance indicator. As each project or policy is implemented its contribution to the overall journey must be monitored through regular checking of the indicators.

The **Annual Budgets and Ministry/Departmental Corporate Plans** represent the daily/weekly/monthly tasks to be performed by stakeholders and the resources available to keep the whole process moving forwards.

2. Public Sector Investment Programme

The PSIP provides a schedule of future proposed allocations of capital/development funds (aid and domestic development resources) in a costed, prioritised and time scheduled manner which is in line with the nation's capacity to finance, implement and operate. The PSIP provides:

- clear indications of national priority sectors and projects for donor consultations;
- an overview of ongoing public sector investments; and
- a schedule of public sector pipeline investments in a three year perspective.

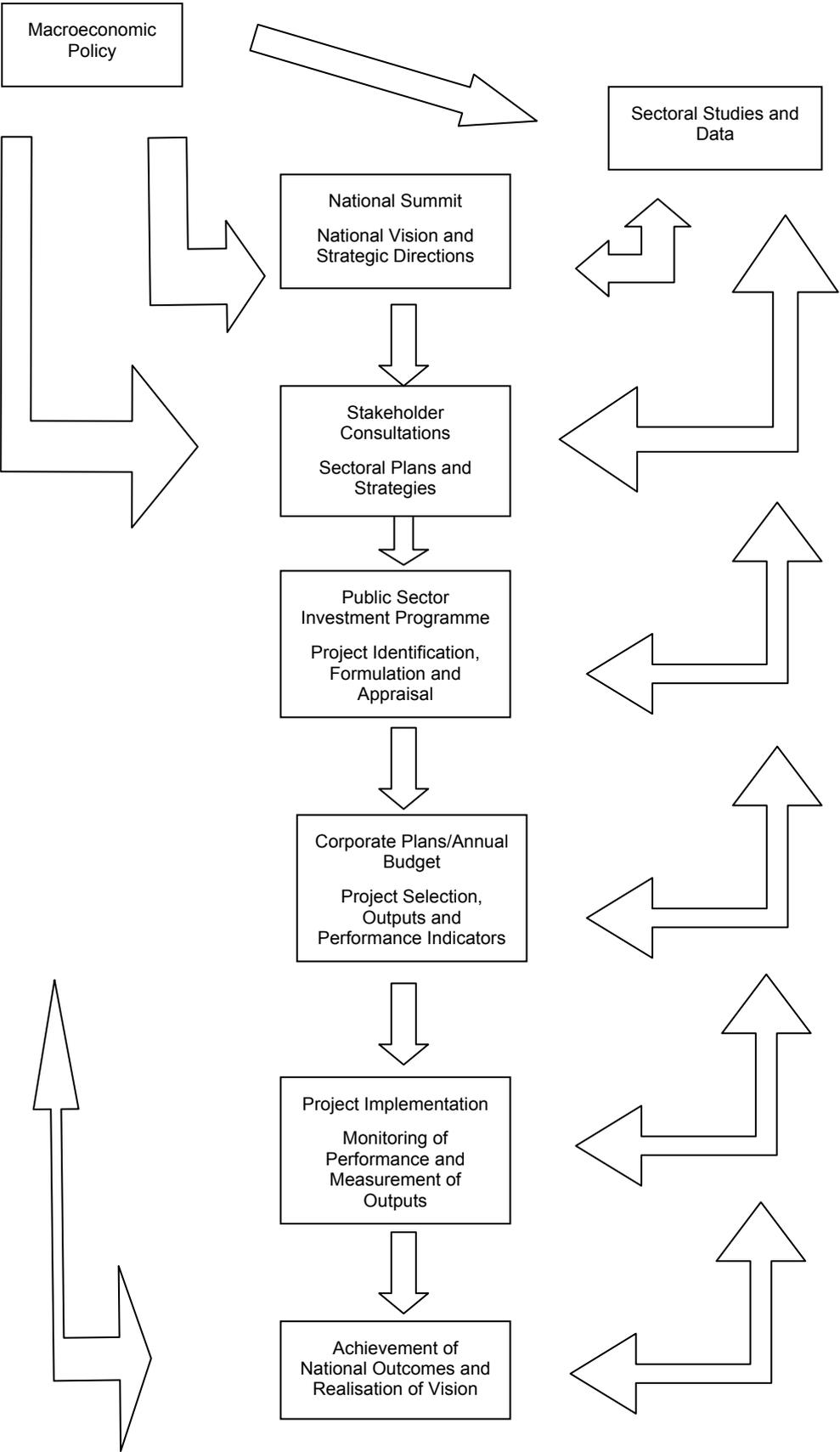
This PSIP is part of the project planning and programming and aid coordination processes. Once completed with prioritised, costed and appraised projects from each sector the PSIP will give an indication of the resources needed for implementation of the national strategies.

3. Corporate Plans

A Corporate Plan is a short term operational plan for a ministry or department, normally covering a period of two or three years. Each ministry/department should have a clear Mission Statement in its corporate plan. This will describe what the ministry/department stands for, and what it intends to do in order to achieve the Vision; what role and responsibility does the organisation have in furthering the achievement of the Vision.

A Corporate Plan should take the national and sectoral strategies, as set out in the NDS and sector plans, and translate them into a ministry/departmental (corporate) framework. The corporate plan gives detailed effect to how a ministry/department will contribute to the achievement of the Outcomes and the Vision through the use of budget resources.

LINKAGES BETWEEN NATIONAL PLANNING PROCESS, POLICY, STRATEGIES AND PROJECTS



4. Monitoring of Performance, Revision and Updates

The implementation of the national and sector strategies will be coordinated and monitored in the first instance by the DCC. A National Task Force will be established consisting of island leaders (pule Fenua and Ulu Alik), government and civil society representatives to review progress every two years.

Each year at the budget session of parliament government will table a summary of progress towards the achievement of the Vision and the implementation of the national and sectoral strategies in the preceding calendar year. Indicators for the achievement of the Vision will be: changes in per capita GDP, incidence of selected NCDs, numbers and pass-mark standards achieved by school leavers at form 4, number of selected crimes reported to the police by the public. The first report will accompany the presentation of the budget for 2005, and will report base data for the period 1999- 2003.

In early 2006 a Task Force review of the NDS will be initiated and all sectors will present progress summaries, with key performance indicators. These will be tabled with Task Force observations at the parliamentary session for the 2007 budget. The review 2006 will provide the basis for a consultative process to which all stakeholders will again be invited to contribute. A national summit will be held in mid-2007 at which the revised strategies and outcomes for 2008 - 10 will be agreed.

APPENDICES

- 1. Text of Malefatuga Declaration**
- 2. Key and Social Economic Indicators**
- 3. Bibliography**

Appendix 1

Tuvalu National Summit on Sustainable Development

Funafuti, Tuvalu, 28 June – 9 July 2004.

MALEFATUGA DECLARATION

We, the representatives at the Tuvalu National Summit for Sustainable Development; comprising of all island Head Chiefs and Presidents of Island Councils, Cabinet Ministers and Members of Parliament, representatives of the civil society and private sector, government ministries and departments, development partners and Tuvalu expatriates;

Recognizing the importance of sustainable development – development without compromising the ability of future generations to meet their needs - and *endorsing* the Vision of “By 2015, guided by strong spiritual values enshrined in its motto – ‘Tuvalu mote Atua’ – we will have achieved a healthy, educated, peaceful and prosperous Tuvalu”;

Believing that the development of our National Sustainable Development Strategy will significantly contribute to the attainment of a vibrant, secure and prosperous Tuvalu;

Deeply concerned with the critical challenges facing the people of Tuvalu as caused by the lack of resources and opportunities, isolation and vulnerability, and compounded by the effects of climate change and sea level rise;

Guided by the eight themes and strategic actions identified during the Summit including good governance; strengthening macroeconomic stability; improving the provision of social services; improving outer islands development and Falekaupule; creating employment opportunities and enhancing private sector development; improving capacity and human resource development; developing Tuvalu’s natural resources; and, improving the provision of support services; and mainstreaming of women in development;

Reaffirming as well our commitment to achieving sustainable development in line with the United Nations Millennium Development Goals and international sustainable development agenda;

Hereby

Commit, regardless of political change, to the full implementation of the strategic priorities and key actions (as appended) and as adopted through the following resolutions,

- Adopting and promoting good governance;
- Ensuring macroeconomic stability and economic growth;
- Improving the quality of life for every Tuvaluan;
- Ensuring the equitable development of all Islands;
- Providing an enabling environment for employment and private sector development;
- Strengthening capacity through the development of human resources and quality education;
- Ensuring sustainable management and conservation of Tuvalu’s natural resources and protection of the environment; and,
- Providing adequate infrastructure and support services to underpin development.

Commit also to ensuring the effective monitoring of the implementation and assessing its impact.

Seek to work more closely at all levels with the international community to promote cooperation and partnerships towards the achievement of the Vision, goals and objectives identified in the National Sustainable Development Strategy (Te Kakeega II), whilst acknowledging the invaluable support of our traditional development partners.

Express our sincere appreciation to the Government of Tuvalu for the organization of the Summit and our development partners including Australia, New Zealand, the Republic of China, the Republic of Ireland, the Governments of Italy and the United Kingdom for their financial support, and the United Nations Development Programme, United Nations Economic and Social Commission for Asia and the Pacific, the Asian Development Bank, the Council of Regional Organisations of the Pacific and Tuvaluan expatriates, for their technical support.

Declare our endorsement of the Malefatuga Declaration through our signatures below.

**Appendix 2.1
TUVALU
KEY ECONOMIC INDICATORS**

A\$000 Unless Otherwise Indicated

Item	1996	1997	1998	1999	2000	2001	2002	2003	2004
A. Income and Growth									
1. GDP (Factor Cost) per Capita (current prices)	1,760.5	1,806.3	2,097.1	2,120.9	2,405.2	2,690.4	2,871.5	0.0	#DIV/0!
2. GNP per capita (current prices)	1,760.5	1,806.3	2,097.1	2,120.9	2,405.2	2,690.4	2,871.5	0.0	#DIV/0!
3. GDP Growth (constant 88 prices, factor cost) % pa		10.0	15.5	-1.6	-1.0	13.2	5.5	#REF!	#REF!
Primary Sector	23.2	22.2	18.3	18.3	16.0	14.7	13.3	#REF!	#REF!
Secondary Sector	11.9	13.9	13.4	13.5	13.4	14.1	14.8	#REF!	#REF!
Tertiary Sector	64.9	63.9	68.3	68.2	70.6	71.2	71.9	#REF!	#REF!
Public Administration	23.9	21.7	28.3	29.8	31.7	32.0	29.7	#REF!	#REF!
B. Saving and Investment (current prices)									
	(percent of GDP)								
1. Gross Fixed Capital Formation	0.0	0.0	0.0	na	na	na	na	na	na
C. Money and Inflation									
1. Consumer Prices (annual average % change)	3.9	0.6	1.2	1.9	4.5	0.7	6.5	1.5	4.4
2. Broad Money (NBT Deposits)	10.4	13.7	17.6	23.8	19.4	23.5	21.04	16.15	
D. Government Finance (Fiscal year)									
	(percent of GDP)								
1. Total Revenue & grants	154.0	136.4	103.3	138.9	216.1	116.9	137.8	#DIV/0!	#DIV/0!
2. Total Expenditure and Net Lending	152.4	100.6	111.9	168.2	210.9	133.5	84.2	#DIV/0!	#DIV/0!
3. Overall Surplus/Deficit (-)	0.0	35.8	-8.6	-29.2	5.2	-16.6	53.6	#DIV/0!	#DIV/0!
E. Balance of Payments									
1. Merchandise Trade Balance (% of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	#DIV/0!	#DIV/0!
2. Current Account Balance (% of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	#DIV/0!	#DIV/0!
3. Export (\$) growth (annual percent change)		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
4. Import (\$) growth (annual percent change)		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
F. External Payments Indicators									
1. International Reserves (end of period)									
- months of imports	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
2. External Debt Service									
2. External Debt Service (% of exports of goods & services)									
2. External Debt									
3. External Debt (% of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	#DIV/0!	#DIV/0!
Memorandum Items:									
GDP Factor Cost (current prices)	15762.6	17113.2	20307.6	21213.7	24044.0	26411.5	27490.2	0.0	0.0
GNP (current prices)	15763	17113	20308	21214	24044	26411	27490	0	0
Exchange Rate (local currency per US dollar, annual average)	0.80	0.65	0.61	0.6538	0.5882	0.5263	0.5556		
Population	8953	9474	9684	10002	9997	9817	9573.4728	9499	

^a Estimates, all data provisional and subject to revision
Source: MFPEI

Appendix 2.2
TUVALU
Key Social Indicators

Item	1991	1995	Latest Year	
1. Demographic Indicators				
Total Population ('000)	9.043	9.51a	10.10b	(2002 est.)
Annual Population Growth Rate (% change)	...	1.3	...	
Dependency Ratio (% of dependents to working age)	69.0	73.9 (1994) 72.0d (1998)	60.6c	(2002 est.)
Total Fertility Rate (births per woman)	3.5	3.1	2.9	(2000)
Ave. Household Size	...	6.2 (1994)	...	
2. Health				
Life Expectancy at Birth (years)	67.0e	67.0d (1998)	66.98c	(2002 est.)
Male	64.0e	64.0d (1998)	64.83c	
Female	70.0e	70.0d (1998)	69.23c	
Population with Access to Health Services (%)	...	100.0d (1993)	100.0e	(1998)
Urban	...	...	100.0e	(1998)
Rural	...	...	100.0e	(1998)
Population per Doctor	2,528a (1992)	3,210a (1996)	3,300e	(1999)
Government Expenditure on Health				
As % of Total Government Spending	8.7a	5.9a (1996)	5.5a	(2001)
As % of GNP	5.1d (1993)	8.7 (1996)	6.9	(2002)
3. Education				
Adult Literacy Rate (%)	99.0f	99.0d (1993)	95.0a,d	(1998)
Male	99.1f	99.0d (1993)	95.0a,d	(1998)
Female	98.9f	99.0d (1993)	95.0a,d	(1998)
Combined Gross School Enrollment Ratio	74.0d	...	...
Male	74.0d	...	...
Female	75.0d	...	...
Gross Primary Enrollment (% of aged 5-14 years)	88.0d	...	103.6f	(1998/99)
Male	87.0d	...	105.8f	(1998/99)
Female	88.0d	...	101.1f	(1998/99)
Gross Secondary Enrollment (% of aged 15-19 years)	34.0d	...	78.3f	(1998/99)
Male	31.0d	...	83.1f	(1998/99)
Female	35.0d	...	73.1f	(1998/99)

Student-Teacher Ratio (no. of students per teacher)				
Primary	22.5	28.5	17.6	(2001)
Secondary	23.0	17.0	17.4	(2001)
Government Expenditure on Education				
As % of Total Government Spending	16.6a	16.8a	22.2a	(2001)
As % of GDP	...	19.5	34.3	(2002)
		(1996)		

Note: (...) means no data available.

* Used as base year, instead of 1990, being Tuvalu's last official census year.

- Sources: Unless otherwise specified, data are from the database of the Central Statistics Division, Ministry of Finance and Economic Planning. Main data sources are Tuvalu's *1991 Census on Population and Housing* and Tuvalu's *1994 Household Income and Expenditure Survey*.
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- ^a ADB, *Key Indicators 2002*; ADB, *Tuvalu 2002 Economic and Public Sector Review*; ADB, *Tuvalu 1997 Economic Report*
- ^b Secretariat of the Pacific Community (SPC), *Oceania Population 2002*
- ^c CIA, *The World Factbook 2002* (<http://cia.gov>)
- ^d UNDP, *Pacific Human Development Report* (1994, 1999)
- ^e WHO, Western Pacific Region Health Data Bank (rev/2001) (<http://wpro.who.int>)
- ^f UNESCO, *The Education for All (EFA) 2000 Assessment: Country Reports* (<http://www2.unesco.org/wef/countryreports>); UNESCO, Institute for Statistics (<http://portal.unesco.org/uis>)
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Appendix 3

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