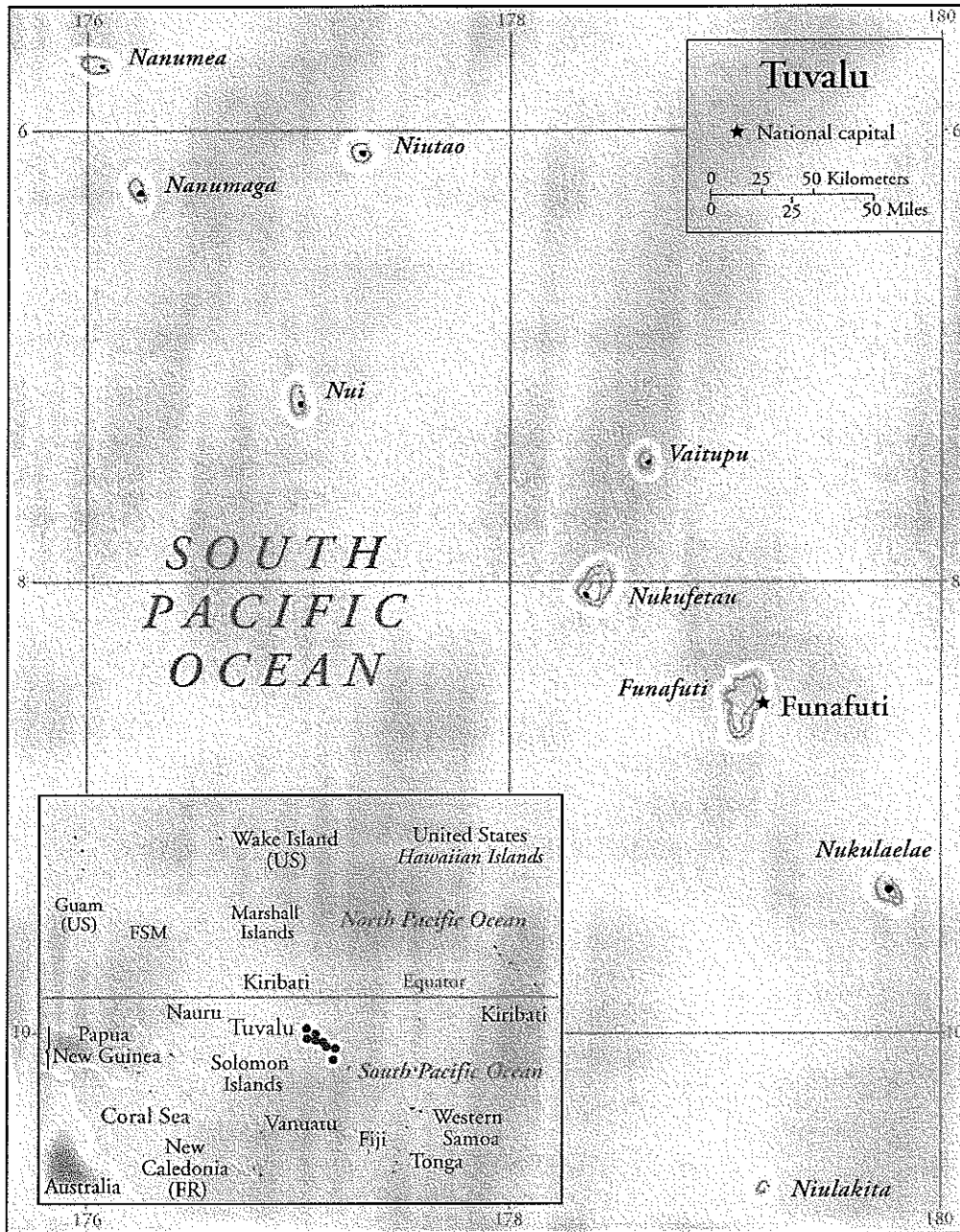


# **Joint Annual Report 2006**

## **Tuvalu European Commission**

**May 2007**



### Map of Tuvalu

(Source: Asian Development Bank/Tuvalu Government)

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## 1. Executive Summary

Tuvalu's recent rate of economic growth has been and remains relatively slow and unstable. In 2006, there were few new employment-generating activities, income from seafarer remittances fell, and public capital expenditure continued to decline in response to lower levels of government revenue and continued budget tightening; the latter, it is assumed, will continue to constrain economic growth. Total budgetary expenditure in 2006 was significantly less than budgetary estimates predicted.

General elections in August 2006 brought a new government and a number of new and first time MPs. The elections were deemed free and fair by external observers and were generally seen in the Region as an example of a vibrant parliamentary democracy which reflects the will of the people without fear, intimidation or violence. The transfer of power to the new government went smoothly with many challenges lying ahead of the new administration especially in the area of public finance management and dwindling income generating opportunities for the populations of the widely dispersed islands of Tuvalu.

Programme Estimate No. 3 (PE3) was endorsed in March 2006; Rider No. 1 to PE3 to fund the Tuvaluan repatriation exercise was endorsed in May; and Rider No. 2 extending PE3 through 9 September 2007, which also recommitted unspent 9<sup>th</sup> EDF resources, was endorsed in August 2006. PE3 allocated A\$1.17 million for budgetary expenditure in the 9<sup>th</sup> EDF focal sectors of education and to a lesser extent environment and water, including the largest NSA allocation to date (A\$275,000). Two more EU-funded primary schools were completed, opened and equipped with classroom furniture. Repatriation (Rider No. 1) was completed in early August 2006 at a total cost of A\$491,679, of which A\$462,195 was funded by the 9<sup>th</sup> EDF. In purely humanitarian terms, the repatriation exercise was a major success. It achieved its objectives with minimal social and economic impact, was conducted cost effectively, and completed in less than two months. Rider No. 2 to PE3 reallocated A\$1.62 million for expenditure in 2007, including the NSA component. Full 9<sup>th</sup> EDF expenditure expected by 9 September 2007. Year-end 2006 funding commitments totalled A\$3.252 million, with disbursements totalling A\$855,000. The remaining A\$2.4 million covers expenditure in the course of 2007.

In August 2006, the Tuvalu Government transferred A\$1.23 million into the Tuvalu Trust Fund in respect of the 2003 and 2004 9<sup>th</sup> EDF Annual Work Programmes. The external audit of PE2 (2005 budgetary expenditures) was conducted in November 2006.

Tuvalu has joined a regional approach to utilise B-envelope funding. A Financing Proposal for a "Regional Programme in Disaster Preparedness/Risk Management" was approved by the European Commission in Brussels in May 2007. In its early design phase the programme will be geared toward expanding nationally both, residential and municipal, rainwater catchment and storage, which will complement the proposed 10<sup>th</sup> EDF CSP Response Strategy.

As a result of the good performance under the 9<sup>th</sup> EDF focal sector programme in Tuvalu the End of Term Review concluded that the country strategy and indicative allocation for Tuvalu be maintained.

The draft 10<sup>th</sup> EDF CSP/NIP was submitted to Brussels in September 2006 and is under EC review. The draft was approved by the Interservice Quality Support Group in March 2007, with only minor amendments. The proposed 10<sup>th</sup> EDF Response Strategy will concentrate on water and sanitation (including waste management) as the combined focal sector, consistent

with the EU's "Pacific Strategy", the Forum's "Pacific Plan", and Tuvalu's own "National Strategy for Sustainable Development". NSAs and are expected to directly participate in 10<sup>th</sup> EDF outer island water projects, and possibly awareness-raising on waste reduction, and in other yet-to-be-determined activities.

## 2. Update on the Political, Economic and Social Situation<sup>1</sup>

### 2.1 Political situation

The last general election was held on 3 August 2006. Only seven out of 15 MPs were re-elected to parliament, the other eight consisting largely of political newcomers. In Table 2.1 is the current majority government line-up.

**Table 2.1**  
**Members of the current government**

<b>Prime Minister</b>	Hon. Apisai Ielemia (MP, Vaitupu)
<b>Deputy Prime Minister</b>	Hon. Tavau Teii (MP, Niutao)
<b>Minister of Natural Resources</b>	
<b>Minister of Finance and Economic Planning</b>	Hon. Lotoala Metia (MP, Nukufetau)
<b>Minister of Education and Sports</b>	
<b>Minister of Health</b>	Hon. Iakoba Italeli Taeaia (MP, Nui)
<b>Minister of Works and Energy</b>	
<b>Minister of Communications and Transport</b>	Hon. Taukelina Finikaso (MP, Vaitupu)
<b>Minister of Home Affairs and Rural Development</b>	Hon. Willy Telavi (MP, Nanumea)
<b>Speaker of Parliament</b>	Hon. Kamuta Latasi (MP, Funafuti)
<b>Backbencher without Cabinet portfolio</b>	Hon. Toomu Sione (MP, Niutao) <sup>1</sup>

<sup>1</sup> Hon. Sione also fills the role of Acting or Roving Minister when one or more Cabinet ministers are out of the country, a backbencher role newly established by the current government.

The opposition line-up is comprised of former Prime Minister (2004-06), Hon. Maatia Toafa (MP, Nanumea); former House Speaker, Hon. Otinielu Tausi (MP, Nanumaga); former and current opposition MPs, Hons. Kausea Natano (MP, Funafuti) and Elisala Pita (MP, Nukufetau); and three newly elected MPs the Hon. Falesa Pitoi (MP, Nanumaga), Hon. Seluka Seluka (MP, Nui), and Hon. Namoliki S. Neemia (MP, Nukulaelae).<sup>2</sup>

Since the 2002 general election, and following the 2006 general election – deemed free and fair by external observers – the political situation in Tuvalu has been stable operating under well established, constitutionally sound democratic institutions. The current government led by the Hon. Apisai Ielemia seems firmly entrenched. The probability of a change in government or a return to some form of political instability in the near term (as experienced between 1994 and 2002) is – or would appear to be – relatively low.

<sup>1</sup> Parts of this report are excerpted – with updates – from the 2005 JAR and the draft 10<sup>th</sup> EDF CSP/NIP.

<sup>2</sup> Two women, standing for Funafuti and the northern island of Nanumea, were among the 32 candidates standing for office in the August 2006 elections. Neither was elected, although the Nanumea candidate had a relatively strong showing as a first time candidate. Only one woman has ever been elected to Parliament, serving one term from 1989 to 1994, holding the Cabinet post of Health Minister.

## **2.2 Economic situation**

### **2.2.1 General**

Tuvalu's recent rate of economic growth has been and remains relatively slow and unstable. In 2006, there remained little new employment-generating activity, some forms of remittance income fell (see below), and public capital expenditure continued to decline in response to lower levels of government revenue and continued budget tightening; the latter it's assumed continues to be a drag on economic growth. To remedy this situation, the government continued with its structural reforms in the public sector, including attempts at efficiency improvements, further cost cutting, and focusing on those activities that are core-functions and which could generate higher rates of return. These key strategies are likely to remain (and should remain) in place through the short to medium-term.

On balance, the government continued to set (to the extent possible or practicable) budget allocations based on a mostly clear set of priorities, which offer potentially high rates of return nationally, or at least higher rates than on expenditures of a lesser priority. The government cut back on some less essential services, or on lower expenditure priorities, with savings held in reserve, spent on areas identified as having a higher priority, or debt repayment (see below for more discussion).

In 2006 and for the foreseeable future national budgetary expenditure, capital aid flows, and remittance income will remain the driving forces behind Tuvalu's economic growth. Any large reduction in revenues and consequently expenditure (without deficit financing to maintain or increase expenditure) would, in all likelihood, have a negative impact on the domestic economy. With little to drive the non-government economy the outlook is for continued low rates of growth in the short to medium term unless major public sector investment, which occurred in recent years and was funded either domestically or by external aid, is increased and the private sector can somehow significantly increase its share of GDP.

Partial economic indicators point to economic contraction in 2005, perhaps extending into 2006. Weakening economic activity is consistent with the completion of the last of a series of major public construction projects in mid-2003 (new Princess Margaret Hospital) and mid-2004 (new government building), which may have led to a rise in the recent unemployment rate in the late 2004 to 2005 period, as some estimates suggest. (In 2006, Japan funded the construction of the new Funafuti power station. As yet there is no data available on the possible economic impact of this A\$14 million infrastructure investment.)

Despite an apparent weakening in growth, some partial indicators suggest that aggregate demand has remained firm. The most likely explanations for this firmness is a lag from the years of high activity (2001-2004) and a relaxation of lending practices by the domestic finance industry, principally the National Bank of Tuvalu (NBT) and Development Bank of Tuvalu (DBT). Although the number of Tuvaluans living in Nauru has dropped to nearly zero with the mid 2006 repatriation of all Tuvalu citizens, as well as declining numbers living in Kiribati, remittances from the rising number of Tuvaluans living in Australia and especially New Zealand has probably offset some economic decline.

### **2.2.2 Seafarer remittances**

According to industry sources there are around 1,200 Tuvaluan seafarers on the "active" list with approximately 331 serving on ships in 2006. The number working offshore fell quite sharply in early 2006 as a result of discipline problems (the number fell in a similar fashion in

late 2003 but recovered quickly). The number has since risen in 2007 to about 360. This compares to an annual average of nearly 450 for the previous six-year period (2000-2006).

On average seafarers earn about US\$730 per month and directly remit about 85% of that, or US\$620 each month. The remaining balance of US\$120 per month is brought back in cash upon discharge, sent back separately, or remitted in other material ways. At the macro-level remittances are estimated to have been equivalent to just under 8% of GDP for 2006, down from an average of 17% of GDP (for example) in 1998-99. This decline in remittances reflects both the strength of the Australian dollar over the period, especially in the last three years,<sup>3</sup> as well as the drop in the number of seafarers and those employed in Nauru.<sup>4</sup>

### 2.2.3 2006 National Budget

Total budgetary expenditure in 2006 was significantly less than budgetary estimates predicted. Total revenue in 2006 was A\$3.9 million (12.8%) higher than estimated, while total expenditure was A\$1.8 million (13%) higher, and the overall budget balance (the difference between them) was almost \$0.9 million (11%) higher.

By far the biggest differences were in revenue items, most notably in revenue/income earned on government charges. Fish licensing revenue was almost A\$2.3 million (75%) higher than budgeted, and Marine Department revenue was A\$800,000 (85%) higher, largely reflecting the success of Tuvalu's ship registry based in Singapore.

Grant revenue underwent several major changes. The EU grant was about A\$1.2 million lower than budgeted following changes to 9<sup>th</sup> EDF procedures and policy in relation to the introduction of Programme Estimates (now resolved). The planned A\$800,000 grant from Australia (involving fiscal benchmarks for Tuvalu) did not occur because of a delay in reaching the necessary agreement between the parties.

Offsetting these one-time reductions, however, was an A\$2.6 million (110%) increase in the ROC Grant for 2006 compared with what had originally been budgeted. In August/September 2006, the ROC agreed to increase its annual grant of US\$3.5 million (comprising budget support of US\$2 million and development assistance of US\$1.5 million) by a further US\$2 million (for budgetary support) to in part offset last year's lower than expected EU and Australian grants, but more specifically to strengthen the government's continuingly weak but recently improving revenue/cash flow position over the longer term.

Recurrent expenditure was A\$3.0 million (8%) higher than budgeted, although less than A\$800,000 of this increase was authorised through supplementary appropriations.<sup>5</sup> A major implicit contributor to this better than budgeted for actual expenditures in 2006 is the impact of Japan's Fuel Subsidy Agreement signed in early 2006, which provides a ¥100 million annual grant (about A\$1.0 million) to buy fuel largely consumed by the Tuvalu Electricity Corporation (TEC) and Tuvalu's two inter-island passenger/cargo ships. While this has been treated as an "XB" item (off balance sheet), it has the indirect real effect of reducing the Marine Department's expenses (with fuel provided free) and TEC's expenses

<sup>3</sup> The US\$:A\$ exchange rate fell by more than 30% between 2002 and 2006, thus families in Tuvalu have been receiving considerably less in domestic currency for the same amount of US\$.

<sup>4</sup> Tuvaluans previously employed in Nauru and repatriated in mid-2006 under EU sponsorship is discussed in more detail in Section 2.3, and more extensively in the report: "Repatriation of Tuvaluans from Nauru: Background, Accounting, Results, Impacts" (March 2007), prepared for the European Commission.

<sup>5</sup> The statutory limit for supplementary expenditure is set at A\$750,000 per financial year.

similarly. The latter has and will significantly reduce the government's budgeted annual subsidy to TEC, especially if fuel prices continue to rise or remain as high as they are.

Total 2006 budgetary expenditures showed significant improvement compared with 2005. In summary, in 2006 core recurrent revenue was A\$4.0 million (30%) higher than in 2005, with total revenue (including grants and Tuvalu Trust Fund contributions) reaching A\$13.8 million (67%) higher than in the previous year. This latter figure reflects the TTF distribution of nearly A\$11.4 million in 2006, compared with a contribution of just under A\$1.0 million in 2005.

In contrast, total expenditure was A\$3.4 million (15%) higher in 2006 than the previous year, resulting in a A\$10.4 million improvement in the overall budget balance which for 2006 was a surplus of A\$8.6 million (27% of GDP).<sup>6</sup>

#### **2.2.4 Tuvalu Trust Fund and 9<sup>th</sup> EDF**

The Maintained Value of the Tuvalu Trust Fund (TTF) as at 30 September 2006 was **A\$96,040,546**. This compared to the Market Value of the TTF on the same date of **A\$102,978,000**, a difference of 6.7%. The latest Maintained Value of the TTF includes the August 2006 transfer (i.e., investment) of **A\$1,233,009** from the government's internal Consolidated Investment Fund to the TTF. This transfer was made in respect of the 2003 and 2004 Annual Work Programmes (the latter also referred to as Programme Estimate No. 1, or PE1). The amount of the transfer was calculated as follows: audited and approved expenditure under the 2003 AWP was A\$680,920 and under AWP/PE1 (2004) audited and approved expenditures totalled A\$1,785,098. For both years the total is A\$2,468,018. In accordance with Addendum No. 1 to the 9<sup>th</sup> EDF Financing Agreement dated 14/11/05 (see Annex B: Sustainability), 50% of this total was transferred into the TTF, i.e., A\$1,233,009.<sup>7</sup>

### **2.3 Social situation**

In the Table 2.2 are a select list of the most current macro indicators on income, health, education and water. While some of the data is sketchy, most indicators suggest that levels of income and health are generally improving, and access to education remains universal and more or less gender neutral, with 100% primary completion rates. The latest issues and results on Tuvalu progress toward the Millennium Development Goals are briefly discussed in Section 2.3.1 and summarized in Annex 8.

#### **2.3.1 Millennium Development Goals**

In Annex 8 are the eight MDG goals and 18 MDG targets and the progress Tuvalu has made against each target, as of September 2005, which is the latest MDG-related information available.<sup>8</sup> Tuvalu has made significant progress on some MDGs, but not on others. Overall, Tuvalu is some distance away from reaching many MDG targets. Below are some broad but key issues, concerns and responses if Tuvalu is to reach all the MDG targets, and achieve those targets and sustain them over the long term.

<sup>6</sup> The government plans to apply this surplus in part to at least reducing its accumulated (and outstanding) domestic debt, and to cater for pending international-loan repayments scheduled to occur over the next ten years or so.

<sup>7</sup> The transfer made in respect of the 9<sup>th</sup> EDF OISDSP was confirmed in the 2006 Annual Report of the Tuvalu Trust Fund Advisory (October), pp. 8-10.

<sup>8</sup> Adapted in highly abbreviated form from the "National Millennium Developments Goals Report: Tuvalu", prepared the Secretariat of the Pacific Community (SPC) and the Tuvalu Government.



- The unique development challenges of Tuvalu do not necessarily fit easily within the MDGs.
- Some MDG indicators do not work (or work well) statistically in small populations such as Tuvalu.
- There remains a pressing need for new overseas development assistance through grants and direct funding sources from the international community to ensure MDG sustainability, highlighted by Tuvalu's special status as an LDC and Small Island Developing State (SIDS).
- The need for a full and effective implementation of the Brussels Programme of Action (POA) for LDCs and the Mauritius Strategy to help Tuvalu as an LDC and SIDS to achieve the MDG targets over the long term.
- Capacity building, lack of infrastructure, and lack of financial resources are some of the special vulnerabilities Tuvalu faces as an LDC and SIDS in trying to meet its MDG targets.
- Environmental sustainability is crucial to meeting most if not all of the MDG targets, which in particular will require additional funding and technical assistance to adapt to the impacts of climate change and sea level rise
- Medium and long-term MDG trends could suddenly change due to climate events, which in turn could rapidly trigger severe shortages of food, water and shelter and a high vulnerability to disease—which are hallmarks of poverty.

**Table 2.1**  
**Select macro indicators: income, health, mortality, education**

Indicator	2000	2001	2002	2003	2004	2005
1. GDP (market prices, A\$'000)	24.04	26.41	27.79	na	na	na
2. GDP per capita (market prices, A\$)	2,116	2,529	2,875	na	na	na
3. Prevalence of underweight children (under five years of age)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
4. Life expectancy (M/F)	62/6 <sup>1</sup>	62/65	62/66	62/66	62/66	na
5. Infant mortality rate (per 1,000 live births)	34.6	25.4	25.3 <sup>2</sup>	32.2	42.3	17.4
6. Primary school enrolment <sup>3</sup>	1,965	1,798	1,693	1,955	2,032	2,010
7. Primary completion rate	100%	100%	100%	100%	100%	100%
Ratio of females to males in:						
Primary education	.88:1	.92:1	.92:1	.93:1	.94:1	.92:1
Secondary education <sup>4</sup>	.89:1	.93:1	.96:1	1.06:1	.91:1	na
Tertiary education <sup>5</sup>	1.1:1	.86:1	na	.46:1	.92:1	.69:1
11. Birth rate attended by skilled health personnel	85%	100%	100%	100%	100%	100%
Immunization coverage rate against tuberculosis and hepatitis B	100%	100%	100%	100%	100%	100%
12. New HIV/AIDS cases reported	0	2	7	0	0	0
13. Population access rate to safe drinking water.	85%	85%	85%	85%	na	na

*Source:* Statistics Division, Ministry of Finance; Department of Education, Ministry of Education and Sports; Department of Personnel and Training, Office of the Prime Minister; Department of Health, Ministry of Health; Asian Development Bank (ADB)

<sup>1</sup> Up from 57/60 for males and females, respectively, in 1990.

<sup>2</sup> Down from 43.5 per 1,000 live births in 1990.

<sup>3</sup> 2003-2005 figures include approx. 160 students enrolled at the SDA primary school.

<sup>4</sup> 2003-2004 figures include, respectively, 99 and 183 students enrolled at Fetuvalu Hugh School.

<sup>5</sup> Based on Tuvalu Government 'In-Service Scholarships'. Does not include donor-funded scholarships. 2003-2004 estimates are incomplete.

### 3. Overview of Past and Ongoing Co-operation<sup>9</sup>

Under the 9<sup>th</sup> EDF, the indicative financial allocation for Tuvalu is €3.3 million plus the remaining balance of €665,136 from the 6<sup>th</sup> and 7<sup>th</sup> EDF for the A Envelope, and €0.7 million for the B envelope. The focal area of EC-Tuvalu co-operation was the social development of outer islands delivered through the Outer Island Social Development Support Programme (OISDSP), which covers the entire National Indicative Programme. Based on the conclusions of the 2004 Mid-Term Review, the European Community agreed to increase the A envelope by €500,000. This raised the A-envelope indicative allocation to €4,465,136.

As foreseen in the 9<sup>th</sup> EDF Financing Agreement the OISDSP has been and remains a very efficient method to target EDF budgetary support. The result has been a relatively high rate of EDF commitment and utilisation of EU funding assistance. The principal administrative and management features of the OISDSP include, but are not restricted to:

- Routine accounting, management and administrative functions of the OISDSP are spread across the government.
- Responsible staff include, but are not limited to, permanent secretaries, department heads, and executive officers.
- The Tuvalu Trust Fund Board, TTF Advisory Committee, and TTF Secretariat – the latter of which overlaps the functions of the NAO – indirectly support the OISDSP.
- The primary function of the NAO and his staff is to monitor rates of OISDSP-assigned expenditure, and stimulate expenditure (or try to) if expenditure is lagging.
- The NAO, as Secretary to Finance, also monitors and directs the formulation of the annual budget, in this case specific appropriations that may relate to the Programme Estimate.
- The NAOs influence, however, to appropriate potential OISDSP-assigned items, with so many varied and competing claims on national revenue, is somewhat limited.

Actual year-end budgetary expenditures often differ from money actually approved by public appropriation – a common feature of public budgets. If variations occur they are, by-and-large, controlled by Tuvalu's Public Finance Act, and outside the operational control of the OISDSP in general or in particular an individual Programme Estimate (PE). Such variations have been identified in each of the PE Final Reports and may be approved by the EC if they're justified. There were no variations, i.e., over-expenditure, in PE2 whose expenditures were internally acquitted and externally audited in late 2006. The audit, however, did identify several accounting issues which have been remedied under Rider No. 3. Other key features, budgetary controls, and built-in efficiencies include:

- PE2, or the OISDSP more generally, is not a typical EDF-funded project because it is largely subject to the forces that control and influence budgetary operations throughout the national government.

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<sup>9</sup> For a summary of pre-9<sup>th</sup> EDF development co-operation see Annex 5. Tuvalu acceded to the Lome I Convention in 1979, though it became eligible for European Development Fund (EDF) resources under the 4<sup>th</sup> EDF in 1975. Tuvalu acceded to each successive Lome Convention through the revised Lome IV Convention (8<sup>th</sup> EDF), which it ratified in December 1998. Tuvalu signed the Cotonou Agreement in June 2000 in Cotonou, Benin, and signed the Instrument of Ratification in July 2001.

- Design, planning, preparation and internal control of the national budget are to a large extent outside the scope, intent and operational capability of the OISDSP.
- PE2 operated 'above' the national budget, not by controlling it internally.
- PE2-assigned expenditure is regulated mainly through the Department of Treasury, with Treasury using its own internal public accounting and control procedures.
- Expenditures falling outside the scope of PE2, detected either through routine oversight or by external audit, will be not reimbursed to the government.
- Expenditures that fall outside the scope of PE2 do not automatically signify financial or accounting irregularities, but, as in the past, have been the result normal budgetary operations.

The 9<sup>th</sup> EDF OISDSP Financing Agreement (signed in August 2003) foresaw five long-term results:

1. Complete new building programme for primary schools (begun under the 8<sup>th</sup> EDF);
2. New teacher housing (begun under the 8<sup>th</sup> EDF);
3. Provide new school equipment, supplies and teaching aids;
4. Expand water supplies and related facilities in the outer islands; and
5. Extend waste management to the outer islands.

Through 2006 expenditure to expand water supplies or improve water-related facilities has been less than expected. Due to continuing financial constraints and other budget priorities no new funding for teacher housing was appropriated in the 2004-06 national budgets. (The Department of Education, however, remains aware of the need for four new houses for teachers at Motufoua Secondary School.)

Programme Estimate No. 3 (2006) was spread across the 9<sup>th</sup> EDF focal sectors of education, environment, and water, including the largest allocation yet for the NSA component (A\$220,000 for NSA projects, plus an additional A\$55,000 for NSA operational support). Compared with PE2 (2005) the were much higher budgetary allocations for primary school supplies, as well as the large allocations for new primary and secondary school textbooks (A\$20,000 and \$80,000 respectively), and the large new allocation (A\$145,000) to completely outfit the four new primary schools on Nukulaelae, Nanumaga, Niutao and Nui, constructed under the 8<sup>th</sup> and 9<sup>th</sup> EDFs, with school desks, chairs and other classroom fixtures.

PE3 was consistent with the 9<sup>th</sup> EDF National Indicative Programme. PE3-financed activities via national government budget lines for 'social sector support' in the three main are areas of concentration: education, environment and water (although funding for the latter was minimal). The NSA component of the 9<sup>th</sup> EDF continued to receive relatively large funding allocations as prescribed in the Financing Agreement and channelled through PE3 and 2006 NSA Annual Work Programme.

There is a well-designed (and intentional) continuity between PE3 and previous Programme Estimates, including AWP's under the 8<sup>th</sup> EDF. Both the Development Support Programme (DSP, 8<sup>th</sup> EDF) and OISDSP underwrite support to budget lines in essentially the same sectors: education and environment, although the sectors are fewer and more narrowly defined in the OISDSP. The OISDSP also attempts to target more budgetary support at the outer islands, whereas DSP funding was spread more generally.

Many of the same capital budget lines (e.g., primary school construction, waste management) are carryovers from the 8<sup>th</sup> EDF, as are the smaller budget lines such as school supplies.

Budget support for teacher salaries introduced in the 2003 AWP (9<sup>th</sup> EDF) and recurred in the 2004 AWP (PE1) and PE2 (2005) were not carryovers from the 8<sup>th</sup> EDF, and have since been withdrawn from EDF support in PE3.

PE3, and by extension the 9<sup>th</sup> EDF NIP, has a direct linkage with investment in the Tuvalu Trust Fund, as did the OISDSP's two predecessors the DSP (8<sup>th</sup> EDF) and FIP (7<sup>th</sup> EDF). Although as noted elsewhere in this report Tuvalu's matching contributions to the TTF have been lowered to 50% of actual expenditures under the 2003 AWP and 2004 AWP (PE1) and subsequently PE2 following the external audit as a result of government financial constraints.

The audits of the 2003 Annual Work Programme (AWP), Programme Estimate No. 1 (PE1/2004 AWP), and PE2 (2005) have been completed.

### **3.1 Focal sectors**

The 9<sup>th</sup> EDF concentrated on social sector development in Tuvalu's outer islands with an emphasis on infrastructure assistance for rural primary schools, a small component for access to clean drinking water and environmental activities especially in waste management. The programme was delivered using budgetary support through the government's national budget. For the duration of the intervention specific budget items in Social Sector Development were identified in the annual budget. These selected activities under the programme were included in consecutive Programme Estimates. Performance was reviewed annually, including to-date three external monitoring exercises. This type of financing mechanism also retains the important link to the Tuvalu Trust Fund through an in-built requirement for the Tuvalu Government to transfer at least 50% of EDF funds into the Tuvalu Trust Fund.

Under the 9<sup>th</sup> EDF Outer Islands Social Development Support Programme three primary school buildings were constructed, one additional primary school will be constructed in 2007, new classroom furniture was supplied, maintenance undertaken, and primary and secondary schools were annually provided school supplies. The Waste Management Unit in the Department of Environment, under the Prime Minister's Office, received annual recurrent funding to carry out a range of activities on Funafuti. The programme also included operational subsidies to church-run secondary school and a church-run primary school.

Activities under the focal sector programme were regularly coordinated with other donors active in the education sector in Tuvalu including AusAID, NZAID and the Japan. The EU, in cooperation with NZAID and AusAID, employed a local in-country coordinator who also helped of coordinate donor-funded activities in education.

### **3.2 Projects and programmes outside focal sectors**

The NSA component of the 9<sup>th</sup> EDF is steered by the NSA Management Committee. The Committee is composed of two representatives from the Ministry of Home Affairs and Rural Development, the Secretary of Health, the EU-NZAID In-Country Coordinator, and two representatives from the NSA/NGO sector. The National Authorizing Officer (Secretary of Finance) is represented on the Committee by a senior official from the Ministry (usually the Aid Management Officer). The Tuvalu Association of Non-Government Organisations (TANGO) acts as the Secretariat (led by the TANGO Coordinator). TANGO also supports NSAs with project management and implementation. The objective of the NSA Management Committee is to ensure that NSA projects selected are appropriate for the communities concerned and in line with the over-all goals of the 9<sup>th</sup> EDF Financing Agreement in the focal sector areas.

Non-State Actors were given an indicative allocation of 10% of the 9<sup>th</sup> EDF A-envelope for projects in education, environment and water, including NSA capacity building. To date three Annual Work Programmes covering the NSA component of the 9<sup>th</sup> EDF have been approved (2004, 2005, 2006 – the latter extended to 9 September 2007), worth a total value of A\$466,974. Eventual expenditure on NSA projects will total just over A\$600,000 (€380,000), depending upon A\$:€ exchange rates. Projects have been implemented in both the outer islands and Funafuti. 9<sup>th</sup> EDF outer island-based NSA activities include:

- 1) the National Preschool Playground Project, which has built preschool playgrounds on each outer island, including the supply of playground toys and equipment; and
- 2) the Matapulapula Water Tank Project on Nui, which is purchasing and installing 110 6,000 litre plastic water tanks, ancillary water catchment works and drainage piping;

Funafuti-based NSA activities financed by the 9<sup>th</sup> EDF include:

- 3) the Can-Care Aluminium Recycling Project, considered national in scope since approximately 80-90% of aluminium waste is generated in Funafuti; and
- 4) the NGO Learning and Resource Centre (underway in the second quarter of 2007 with funding approved in the 2006 National Budget and included in PE3 and therefore approved in the 2006 NSA-AWP and Rider No. 2 Work Programme extension).

To date, the outer islands have received 58% of approved NSA funding, 86% of total disbursements, and 77% of total expenditure. In addition to the above project funding, NSAs have received operational grants for capacity building purposes. In 2004, four NSA operational grants were funded totalling A\$40,000. In 2005, five operational grants totalled A\$45,000 and in 2006 six grants totalled A\$55,000.

### **3.3 Repatriation of Tuvaluans from Nauru**

Between June and August 2006, over 300 Tuvaluans, spouses of Nauruan nationality and their dependents were repatriated on three humanitarian voyages on Tuvalu's inter-island ship, MV Nivaga II. About 200 Nauruans wishing to emigrate travelled on the same voyages, many if not most under some form of Tuvaluan sponsorship.

The repatriation exercise was funded by the 9<sup>th</sup> European Development Fund (EDF) under a Rider to Programme Estimate No. 3 (PE3). The exercise began on 5 June 2006 when an advance party of government officials (the "Repatriation Taskforce") departed for Nauru. The first repatriation voyage of the Nivaga II departed Funafuti on 17 June 2006. The operational phase of repatriation ended on 6 August 2006, the date the Nivaga II arrived in Funafuti completing its third and final voyage.<sup>10</sup>

The EC approved Tuvalu's funding request to undertake the repatriation exercise in May 2006 covering the budgeted amount of A\$462,195, which required EC endorsement of financing Rider No.1 to Programme Estimate No. 3. Fifty percent of the repatriation grant was funded up-front, while the remaining funds of up to 50% were on a reimbursable basis. Following completion of the final report,<sup>11</sup> including expenditures acquittals, exercise results and impacts, the second 50% payment due the Tuvalu Government was process in April 2006. An external audit of the exercise will occur simultaneously during the audit of PE3

<sup>10</sup> Originally, the exercise was to run two voyages, but a third was added due to the higher number of total passengers – repatriated Tuvaluans plus others. This is discussed in Section 5 of the Repatriation Final Report.

<sup>11</sup> "Repatriation of Tuvaluans from Nauru: Background, Accounting, Results, Impacts" (March 2007).

expenditures in 2006. This audit is expected to be completed by mid 2007 following completion of the internal acquittal of expenditures and 2006 Final Report.

As a purely humanitarian exercise, the EU-funded repatriation of Tuvaluans and their dependents stranded in Nauru achieved its objectives with minimal social and economic impacts, at least few that have been observed or identified through March 2007. The main purpose of the exercise was achieved cost effectively (e.g., 75% less than the only other repatriation proposal). The exercise was undertaken efficiently, and completed in less than two months once funding was approved by the EC. The entire exercise – from mechanics and logistics, to management and administration – was conducted professionally by established agencies of the Tuvalu Government.

In broad terms, the repatriation of Tuvaluans appears to have had little material impact around the country. Outer island returnees and others, as reported by the TTFAC, have been accommodated without significant problems in terms of land or general assimilation. The only difficulties appear to have arisen with some Nauruans who arrived in Tuvalu as part of returnee families. A few experienced problems in adapting to outer island customs, culture and lifestyle. Some children who were below classroom age-standards were held back a year or sent down a class. A few repatriated Tuvaluans have since departed overseas, returned to Funafuti, or gone back to Nauru on new contracts.

The quality of life of repatriated Tuvaluans has improved compared to what they endured in Nauru in recent years, including their uncertain fate until repatriation commenced. It is probably safe to assume the quality of life for the Nauruan emigrants has also improved, as has their opportunity for economic advancement compared to the current state of affairs in Nauru today.

### **3.4 Utilisation of the B-Envelope**

Tuvalu has joined a regional approach to utilise B-envelope funding. A Financing Proposal has been prepared for a “Regional Programme in Disaster Preparedness/Risk Management”. The programme combines eight Pacific ACP NIP B-envelopes in a multi-country programme. The programme is being managed by SOPAC and entails setting up or completing Strategic National Action Plans for each Pacific ACP involved in the programme and the implementation of a first priority activity that emerges from each national plan. In Tuvalu, installation of additional solar-powered water pumps to extract potable groundwater on the four islands that possess a freshwater lens, as well as expanding nationally both residential and municipal rainwater catchment and storage will form part of the B-envelope project. A detailed project design document is currently being prepared by SOPAC.

## **4. Future EDF Programming Perspectives**

PE3, which commenced on 9 March 2006, was originally expected to conclude on 9 March 2007 but has been extended by six months to 9 September 2007 following the August 2006 approval of Rider No. 2 in the amount of A\$1,617,622 and accompanying Work Programme. Rider No. 2 was partly superseded by Rider No. 3 which raised the total amount available under the PE3 extension (Rider No. 2) to A\$1,706,684. Both Riders No. 2 and 3 represent the value of all remaining funds in the 9<sup>th</sup> EDF except those for future audits and the final evaluation. All past projects under the 6<sup>th</sup> and 7<sup>th</sup> EDF were closed by 2002, with remaining

balances transferred to the 9<sup>th</sup> EDF. The 8<sup>th</sup> EDF was closed in 2005 following submission of the 8<sup>th</sup> EDF Final Evaluation. All remaining balances under the 8<sup>th</sup> EDF have been disbursed.

After changes to 9<sup>th</sup> EDF procedures and policy in relation to the introduction of Programme Estimates it has proven difficult to reconcile the different operating periods of PEs with the Tuvalu Government's financial year, which runs from 1 January to 31 December. The mechanism of delivering the OISDSP through budgetary support by funding selected activities in social development taken from the national budget has worked as long as the PE tracked the government's financial year. That was not the case for the PE2 and 3 and problems arose with accounting and auditing of EDF funds and activities. Additionally, there have been substantial delays in transferring the required amounts into the Tuvalu Trust Fund since exact amounts can only be established after a PE has been audited, which, in turn, can only occur after the national accounts have closed and acquitted separately. The PE mechanism applied has led to occasional controversy over budget items permitted, especially teacher's salaries. Most – if not all – of these issues have now been resolved including the removal of teacher salaries from PE3 and the contribution of A\$1,233,009 to the Tuvalu Trust Fund in respect of 50% of the 2003 AWP (A\$680,920) and the PE1/2004 AWP (A\$1,785,098), in accordance with Tuvalu's understanding and interpretation of Addendum No. 1 to the 9<sup>th</sup> EDF Financing Agreement (dated 14/11/05). The next TTF transfer will occur following the approval of the internal acquittal and external audit of expenditures under PE3, expected to be completed by mid 2007.

Presently, there is no foreseen need to revise the 9<sup>th</sup> EDF Country Strategy, although it may be necessary to reapportion the indicative share allocations to the three focal sectors – education (60%), environment (15%) and water (15%). Once total 9<sup>th</sup> EDF expenditures have been acquitted they may reveal that education exceeded its 60% indicative utilisation rate, meaning expenditure in the environment and water sectors was less than planned.

The allocation for NSA-related activities in the three focal sectors will remain unchanged, fixed at 10% of the 9<sup>th</sup> EDF, including the 10% Mid-Term Review increase, through the end of the programming cycle which ends on 9 September 2007 following the completion of the Rider No. 2 extension to PE3, as amended slightly by Rider No. 3.

In Annex 2 is an updated Activity Pipeline Chronogram and indicative timetable for commitments and disbursements through the second quarter of 2008.

#### **4.1 10<sup>th</sup> EDF CSP and NIP: Focal Area of Co-operation**

Collectively, the EU's "Pacific Strategy", the Forum's "Pacific Plan", as well as Tuvalu's own "National Strategy for Sustainable Development", put a high priority on the areas of water, sanitation and waste management. The EU has made an indicative allocation of €4.465 million under the 10<sup>th</sup> EDF. The draft 10<sup>th</sup> EDF CSP/NIP was submitted in November 2006 and is under review by the EC in Brussels, having already been endorsed by the Interservice Quality Support Group in March 2007, calling for only minor additions and amendments.

The proposed 10<sup>th</sup> EDF Response Strategy in Tuvalu will concentrate on water and sanitation (including waste management) as the focal sector. The collection and storage of fresh water on Funafuti, as well as in the outer islands, has been and continues to be problematic, with far too little rainwater catchment and not enough water storage capacity nationwide. There is no underground fresh water lens on Funafuti, where nearly 50% of the population live, and only four of eight outer islands possess potable sources of underground water. Rainfall can be infrequent and there are regular periods of drought that can last months.

On Funafuti, to provide sufficient water supplies to cover the lengthiest periods of drought (usually 1-2 months) residential and municipal water catchment and storage capacity needs to increase by a minimum factor of three and a maximum of five. The solution to water shortages in the outer islands lies primarily in increasing individual rainwater catchment and storage capacity through the procurement of household water tanks for every outer island household. *Note:* The outer island of has already benefited from such an approach under the 9<sup>th</sup> EDF through an NSA project that supplied and installed 110 household water tanks. NSAs have expressed a strong interest in continuing their involvement in this area should the supply of household water tanks be expanded to include every other outer island under the 10<sup>th</sup> EDF.

Improper disposal of household refuse in the form of solid and (to a lesser extent) organic waste poses a direct threat to the sanitary and environmental balance on every island, especially Funafuti where the problems are greatest. On those islands where there is potable underground water there is a growing danger of contamination. In the absence of other donors in this sector, this warranted a response to the various waste management/pollution issues confronting Tuvalu in order to improve overall public health and sanitation.

Lacking appropriate legislation a first key element will be to draft an Environment Management Bill or a separate Waste Management Bill. As part of Annex 3B of the CSP, Tuvalu is committed to enacting waste management legislation, which includes a waste reduction component, either as part of a comprehensive Environmental Management Act or as a separate Waste Management Act. Enactment by Parliament would be a precondition for funding operational waste management activities under the 10<sup>th</sup> EDF.<sup>12</sup> Supplementary activities in awareness raising on waste reduction could be implemented by NSAs.

## 5. Conclusions

Tuvalu's political situation remains stable. Successful general elections were held on 3 August 2006, which were deemed free and fair by external observers, were constitutionally sound and reflected the will of the electorate.

Tuvalu's rate of economic growth continues to be relatively slow and unstable. Public capital expenditure remained low in response to still low but rising levels of recurrent government revenue. The government continues efforts to improve public sector efficiency and has made some progress at further cost cutting. In the medium term, national budgetary expenditure, capital aid flows, and remittance income will remain the driving forces behind Tuvalu's economic growth.

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<sup>12</sup> The 9<sup>th</sup> EDF funded the Tuvalu Government's waste management operations. Residential and commercial waste collection was established, and most but not all organic waste was separated out of the waste stream, which generated municipal-scale composting for home gardening. Given the relatively large waste management problems that remain, especially on Funafuti where half the population is concentrated, EDF assistance is uniquely positioned to continue to improve waste management in Tuvalu. The Government is committed to retaining operational funding, including salaries for waste management personnel. Tentative plans for the 10<sup>th</sup> EDF are to expand and intensify waste management activities on Funafuti, including greening exhausted land fills, shredding and composting more organic waste, and introducing more vigorous waste reduction strategies. In addition is extending waste management activities to the outer islands, such as introducing similar waste collection methods as Funafuti, procuring industrial shredders for composting organic waste (in the outer islands this accounts for about 70% of household refuse) for home gardens and to boost/encourage larger-scale agricultural production.



Total 2006 budgetary expenditure was down and revenue was up, a significant improvement from 2005, suggesting Tuvalu's recent budget crisis may be easing. The TTF's 30 September 2006 Maintained Value was A\$96,040,546, which includes the August 2006 government transfer into the Fund of A\$1,233,009 made in respect of the 2003 and 2004 EDF9 funded Annual Work Programmes.

While some data is sketchy, most social indicators suggest that levels of income and health are broadly improving. Access to education remains universal and more or less gender neutral, with 100% primary completion rates. Tuvalu has achieved, or has made significant progress toward achieving, some MGD targets, but remains some distance away from reaching others. In general terms, the outlook should be one of cautious optimism.

PE3 (2006) was consistent with the 9<sup>th</sup> EDF NIP, continuing to finance activities via the government budget in the three focal areas of education, environment and water, including the largest allocation yet for NSAs. Compared with PE2 (2005) budgetary allocations for school supplies and textbook rose significantly, and funding was allocated to equip the four new EU-funded primary schools with desks, chairs and other classroom fixtures.

The repatriation of Tuvaluans and others from Nauru was a major success. The exercise achieved its objectives with minimal social and economic impact, conducted cost effectively, and completed in less than two months once EU funding was secured. Repatriation appears to have had little material impact around the country; returnees and others have been accommodated without significant problems in terms of land or general assimilation; and their quality of life has markedly improved.

In 2006, Tuvalu reallocated its B-envelope to a regional-based programme on disaster preparedness/risk management. The Financing Proposal for this multi-country programme was recently approved by the EC in Brussels.

The operational phase of PE3 – and more broadly the 9<sup>th</sup> EDF – will conclude on 9 September 2007, following the August 2006 approval of Rider No. 2 and May 2007 approval of Rider No. 3, which together include planned expenditure of A\$1.71 million (i.e., the balance of the 9<sup>th</sup> EDF). The NSA allocation remains fixed at 10% of the 9<sup>th</sup> EDF, which includes 10% of the MTR increase. The End of Term Review concluded that the country strategy and indicative allocation for Tuvalu be maintained.

The draft 10<sup>th</sup> EDF CSP/NIP was submitted to Brussels in September 2006 and endorsed by the Interservice Quality Support Group in early 2007. The proposed 10<sup>th</sup> EDF Response Strategy will concentrate on water and sanitation (including waste management) as the focal sector, consistent with the EU's "Pacific Strategy", the Forum's "Pacific Plan", and Tuvalu's "National Strategy for Sustainable Development". Tuvalu NSAs are expected to actively participate in 10<sup>th</sup> EDF focal sector activities.

## ANNEX 1 Country Environmental Profile

Tuvalu ranks as one of the most environmentally vulnerable states in the Pacific region, or most anywhere, largely because of its low geographical relief and small land area. The key risks confronting Tuvalu's environment are:

- sea level rise as a result of climate change;
- rising population density in Funafuti;
- decline in traditional resource management;
- unsustainable use of natural resources; and
- poor waste management and pollution control.

The "Review of Environmental Education" was published in 1992; the "State of the Environment Report" was published in 1993; and the "Environmental Legislation Review" was published in 1994, all of which fed into the "Tuvalu National Environmental Management Strategy" (NEMS), which was published in 1997. In principle, NEMS is the central document that has guided the evolution of the Tuvalu Government's environmental policy and action on the environment.

There have been several donor-funded reviews of environmental legislation but no new legislation has been passed by Parliament. A recent external technical assistance project included some work on environmental legislation within its TOR but the project was small (3.5 person-months of international expertise) and to date no new environmental legislation has been passed, including planned legislation on waste management. There are minor fines for littering, but these are rarely (or never) enforced.

Currently, Tuvalu has no Environmental Impact Assessment (EIA) legislation on the statute books. However, the government is aware of the need for and value of EIAs and conducts them as required for particular projects. This is true for both domestically financed projects, as well as donor-funded projects, which in any event usually require EIAs in any.

Environmental management must confront two key challenges: 1) the numerous issues arising from the growing urbanisation of Funafuti, including a growing pollution/waste management problem; and 2) the national impacts associated with climate change and sea-level rise, specifically salt-water intrusion into *pulaka* pits (*pulaka*, or *taro* is a staple food source), coastal erosion and flooding, which are blamed either wholly or partly on global warming.

Climate change and sea-level rise remain the most serious medium- to long-term environmental threats facing Tuvalu. Tuvalu is among the world's most vulnerable countries to coastal damage, environmental hazards such as storm and tidal surges, sea level variability, coastal erosion, and cyclones. It is obvious that easier access to external assistance to prepare for, reduce, or mitigate these threats is needed.

The Tuvalu Government is aware that economic progress can impose high costs on the environment. With limited financial resources at its disposal, development policies have tried to guard against environmental damage, with some success. However, initiating large-scale remedial measures that repair past natural and man-made environmental damage, and offer greater protection to the existing natural environment will require much higher levels of external aid than is currently provided. The economic and demographic growth rate in

Funafuti, which has a population of 4,500 (2002), continues to increase environmental pressure on the atoll.

Waste management is one of the most pressing problems and has direct implications for human and ecosystem health, especially in Funafuti. If collected and disposed of properly, this will lead to less potential pollution of lagoon waters and less accumulation of waste that is a latent source of disease and other public health issues.

The Tuvalu Waste Management Project (TWMP), begun in 1999 with co-financing from AusAID until mid-2002, has since been funded entirely by the 9<sup>th</sup> EDF through the national budget. The project has been innovative and comprehensive, and could become a model for other Pacific atolls. A recent report<sup>13</sup> assessed the project and concluded that it focuses on the key waste issues and provided valuable data on waste composition on Funafuti, and waste trends. There were (and continue to be) some successes and some partial successes. However, current efforts are insufficient given the magnitude of the problem and may not be sustainable without additional external assistance. Large areas of Funafuti are now tidier, although litter and rubbish stockpiling remains endemic. The villages north and south of the island centre of *Vaiaku* are in a less attractive environmental state. Successes are in danger of being negated because of failing equipment (no budget for maintenance or replacement), the lack of a coherent waste management plan as well as enforceable legislation, and the general lack of resources and domestic funds to address waste issues. Discussions and observations made during the 2005 evaluation of the 8<sup>th</sup> EDF indicate that:

- Island-wide garden/organic refuse collection continues to be effective but differences of opinion and the division of responsibility between the Tuvalu Government and the island council – the *Kaupule* – continue and create inefficiencies;
- Island-wide collection and centralised composting continues;
- A growing number of households have small gardens using compost to grow fruits and vegetables;
- The two ‘permanent’ refuse dumps in northern Funafuti are still in use;
- Several borrow pits have been reclaimed, but there appears to be no current clean-up of borrow pits and *taisala* swamps; and
- There is incineration of toxic hospital wastes but, when inspected in April 2005, some wastes were stored outside in bins easily accessible by the general public.

Regular access to safe drinking water poses an ongoing challenge to the government. Water shortages in Funafuti, as well as the outer islands, frequently occur. Only four islands possess freshwater lenses (not including Funafuti), and these are prone to seawater or pollutant contamination. On those four islands, Nukufetau, Niutao, Vaitupu and Nanumaga, community wells provide backup supply in times of low rainfall. Small solar-powered pumps lift water from a depth of about one metre into a storage/header tank from which people fill their water containers. Most of the existing wells are located outside the main villages. Nukufetau has the best prospect for increasing underground freshwater usage since the water table is deep and stable, where boreholes can be dug to a depth of 6m. Additional wells into the freshwater lens are a viable option on all four islands, especially if combined with pumps powered by renewable energy. This option could be explored under disaster preparedness projects, such as under the 9<sup>th</sup> EDF ‘B’ envelope allocation, or under the 10<sup>th</sup> EDF focal sector programme.

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<sup>13</sup> See *Technical Assistance for Effective Waste Management and Recycling in Tuvalu: Inception Report* (ADB, July 2004).

Rainwater collection is the most efficient and sustainable source of freshwater throughout Tuvalu. However, due to a lack of adequate catchment areas and storage facilities, water supplies can be vulnerable during droughts (defined as extended periods of no rainfall, or extended periods of much less than average rainfall, which cannot keep up with normal municipal-wide water demands). Most households have individual water tanks and guttering provides for the collection of run-off rainwater from the roof. This catchment method could be sufficient on the outer islands provided that individual household storage is significantly enlarged. Under the 9<sup>th</sup> EDF NIP Non-State Actors on the island of Nui implemented such a storage enlargement project. This project could be expanded to all outer islands under the 10<sup>th</sup> EDF focal sector programme, possibly again implemented by Non State Actors.

For Funafuti, any solution to chronic water shortages would have to take on a larger dimension, possibly in the form of the construction of one or more large cisterns for rainwater storage. When the new government building in Vaiaku on Funafuti was built (2002-2004) a water cistern was built in the basement storing up to 360,000 gallons of water. Water from this storage facility is used to meet the demand in the building but also for filling up the water trucks of the Public Works Department that sell water to the public on demand. At present, the storage facility underneath the government building can bridge a period of 10-14 days without rainfall once private household supplies start running low, which usually takes about two weeks with out significant rainfall. The objective of the government is to have enough water storage for droughts lasting up to two months, if not longer. A recent submission by the Tuvalu Government to the EU-Water Facility includes a proposal to transform one or more of the Funafuti's 'borrow pits', dug out by the US military in 1942 for material to build the airstrip, into one or more water catchment and storage facilities.

Japan has recently provided a second water desalinator, meant to be used (in theory) for backup supply only. However, both desalinators are often used on a 24-hour basis to refill the government building's underground cistern and it may only be a matter of time until such expensive water production becomes unaffordable.

Diesel-powered generators provide almost all the electricity needs in Funafuti and similarly but to a much lesser extent in the outer islands. With rising fuel costs and Tuvalu's desire to make its modest contribution to reducing greenhouse gases the Government is committed to further exploring the use of alternative sources of energy. No concrete steps, however, have been taken in this direction and the issue of overburdening power bills on the national budget is a growing concern. The new government, which has started an immediate process of consolidating scarce financial resources, is once again exploring the need to drastically reduce the use of diesel generators in the outer islands. Since many people on the outer islands have become accustomed to a relatively high energy use with most households operating a range of appliances and consumer electronic equipment any move in the direction of reducing electricity supply risks facing strong resistance. The new diesel power station currently under construction on Funafuti (funded by Japan) will improve power system reliability and meet sharply rising electricity load growth, but will not provide economic relief over the medium- to long-term if imported fuel costs continue to rise.

Tuvalu is a signatory to numerous multilateral environmental agreements that are broadly integrated into its policies and programmes, but to what specific extent is unknown without a full-scale study. However, it is generally safe to assume that Tuvalu is in general compliance with its international commitments. Tuvalu has ratified – or will ratify – the following environment-related international commitments (examples post-1980). Of those not yet ratified, Tuvalu has been and remains in general compliance with the spirit of those

commitments. Below are the international environmental conventions and instruments Tuvalu has signed, ratified, or intends to ratify:

- United Nations Convention on the Law of the Sea (UNCLOS), 1982 (ratified 2002);
- Vienna Convention for the Protection of the Ozone Layer (1985);
- Montreal Protocol on Substances that Deplete the Ozone Layer (1987), including the London and Beijing amendments (2004);
- Rio Declaration on Environment and Development (1992);
- United Nations Framework Convention on Climate Change (UNFCCC), 1992 (ratified 2003);
- United Nations Convention on Biological Diversity (CBD), 1992 (to be ratified);
- Kyoto Protocol to the Framework Convention on Climate Change (1997);
- International Convention on Civil Liability for Oil Pollution and the 1992 Protocol to Amend the International Convention on Civil Liability for an international Fund for the Compensation for Oil Polluting Damage (2004);
- International Convention for the Regulation of Whaling (2004);
- Stockholm Convention on Persistent Organic Pollutants (2003);
- International Convention for the Prevention of Pollution from Ships (2005);
- Cartagena Protocol on Biosafety to the Convention on Biological Diversity (2005);
- International Convention on the Control of Harmful Anti-Fouling of Ships (2005); and
- International Convention for the Control of Ship's Ballast Water and Sediments (2005).

Below are the regional environmental agreements and instruments Tuvalu has signed, ratified, or intends to ratify:

- South Pacific Nuclear Free Zone Treaty (1985);
- Convention for the Protection of Natural Resources and Environment of the South Pacific Region and Related Protocols (SPREP), 1986;
- United States Multilateral Fisheries Treaty (1987, 2003 and 2004);
- Convention on the Prohibition of Fishing with Long Drift Nets in the South Pacific (1989);
- Convention to Ban the Importation into Forum Island Countries of Hazardous and Radioactive Waste and to Control the Trans-boundary Movement and Management of Hazardous Waste within the South Pacific Region (Waigani Convention), 2001; and
- Convention on the Conservation and Management of Highly Migratory Fish Stocks in the Western and Central Pacific Ocean (2004).

For further details on Tuvalu's current environmental situation, see the *Country Environmental Profile*.

## ANNEX 2

### Activity Pipeline Chronogram 9<sup>th</sup> EDF Commitments (€'000 and AS'000)

	Amount (€)	Identified	Appraisal	Financing decision	2003 AWP (AS)	2004 AWP (AS)	2004 MTR (€)	2005 PE2 (AS)	2006 PE3 (AS)	PE3: Rider No. 1 (AS)	PE3: Rider No. 2 (AS)	PE3: Rider No. 3 (AS)
OISDSP (incl. NSA support)	3.3 + 0.66 from the 6 <sup>th</sup> & 7 <sup>th</sup> EDF	2 <sup>nd</sup> qtr 2002	3 <sup>rd</sup> qtr 2002	3 <sup>rd</sup> qtr 2003	4 <sup>th</sup> qtr 2003	1 <sup>st</sup> qtr 2004	4 <sup>th</sup> qtr 2005 CSP/ NIP	2 <sup>nd</sup> qtr 2005	1 <sup>st</sup> qtr 2006	2 <sup>nd</sup> qtr 2006	3 <sup>rd</sup> qtr 2006	2 <sup>nd</sup> qtr 2007
<b>Total</b>	<b>3.96</b>				<b>0.68</b>	<b>1.93</b>	<b>0.50</b>	<b>2.42</b>	<b>1.17</b>	<b>0.462</b>	<b>1.62</b>	<b>0.089</b>

### 9<sup>th</sup> EDF Commitments and Disbursements: Actual and Estimates (AS'000)

AWP	Committed	Disbursed	Date	Actual	Estimate
2003	0.681		4 <sup>th</sup> qtr 2003	√	
2003		0.341	4 <sup>th</sup> qtr 2003	√	
2004	1.929		1 <sup>st</sup> qtr 2004	√	
2004		0.965	1 <sup>st</sup> qtr 2004	√	
2003		0.341	3 <sup>rd</sup> qtr 2004	√	
<b>PE2</b>					
2005	2.419		2 <sup>nd</sup> qtr 2005	√	
2005		1.210	2 <sup>nd</sup> qtr 2005	√	
<b>AWP(PE1)</b>					
2004		0.965	3 <sup>rd</sup> qtr 2005	√	
<b>PE3</b>					
2006	1.168		1 <sup>st</sup> qtr 2006	√	
2006		0.584	1 <sup>st</sup> qtr 2006	√	
2006 <sup>1</sup>	0.462		2 <sup>nd</sup> qtr 2006	√	
2006 <sup>1</sup>		0.231	2 <sup>nd</sup> qtr 2006	√	
2006 <sup>2</sup>	1.617		3 <sup>rd</sup> qtr 2006	√	
2007 <sup>2</sup>		0.809	1 <sup>st</sup> qtr 2007	√	
2007 <sup>1</sup>		0.231	2 <sup>nd</sup> qtr 2007	√	
2007 <sup>3</sup>	0.089		2 <sup>nd</sup> qtr 2007	√	
2007 <sup>3</sup>		0.045	2 <sup>nd</sup> qtr 2007	√	
2007 <sup>4</sup>		0.584	2 <sup>nd</sup> qtr 2007		√
2007 <sup>5</sup>		0.853	4 <sup>th</sup> qtr 2007		√

<sup>1</sup> Rider No.1: Nauru-Tuvalu repatriation exercise.

<sup>2</sup> Rider No. 2: PE3 extension, recommitment of remaining 9<sup>th</sup> EDF resources.

<sup>3</sup> Rider No. 3: Revised value of PE3 extension.

<sup>4</sup> Second 50% due on PE3, assuming full 2006 budgetary expenditures.

<sup>5</sup> Second 50% payment under Rider No.2 (A\$1,617,622), based on the revised total value contained in Rider No.3 (A\$1,706,684).

### ANNEX 3

#### Other Donor Activities and Donor Matrix

Most Member States withdrew their bilateral development assistance from Tuvalu over a decade ago, and the bilateral assistance that remains is generally small and spotty. The UK, through the British High Commission in Suva, has a small regional allocation, which covers small grants for various ad-hoc projects in Tuvalu and other PICs. France, through the French Embassy in Suva, has a similar Small Grants Scheme for PICs including Tuvalu. France did, however, fund the first- and second-phase double-story school wings at the Nauti Primary School in Funafuti between. Germany, through its embassy in Wellington, New Zealand occasionally funds a project, such as the Public Works Department's small double story training centre in 2005.

The Canada Fund is currently funding more than 15 small projects in Tuvalu valued at approximately A\$250,000. New Zealand has a separate bilateral aid programme in Tuvalu, focussing mainly on education, including overseas scholarships, but includes TA in budget and financial management, funding for shipping services, health activities, and small-scale gender support for activities in women in development. Australia focuses mainly on overseas scholarships, but also funds TA in budget and financial management, and supports a range of activities in the health sector.

Other major donors include the Republic of China on Taiwan and Japan. The former providing annual budgetary grants, infrastructure, private sector support, ICT, agricultural assistance, sports funding, scholarships and training, while the later funds mainly large-scale infrastructure projects (currently a new Funafuti power station), but is also active in the health sector and a range of activities through its Small Grants Scheme.

**ANNEX 4  
GOVERNANCE PROFILE**

<b>POLITICAL/DEMOCRATIC GOVERNANCE/RULE OF LAW</b>	
<b>POSITIVE</b>	<b>NEGATIVE</b>
Independent judiciary	Campaign financing is not made public
Electoral process democratic and inclusive	
No known abuse cases by law enforcement agencies	
<b>GOVERNMENT EFFECTIVENESS AND CONTROL OF CORRUPTION</b>	
<b>POSITIVE</b>	<b>NEGATIVE</b>
No large scale, endemic or systematic corruption	Isolated incidents mainly in relation to procurement and awarding of contracts
Public institutions do generally meet the needs of citizens. Efforts to provide efficient public services are hampered by the lack of adequate human and financial resources	No anti-corruption legislation
Generally, annual national budgets are realistic but with occasional over-expectation on the revenue side	Internal controls are ineffective and internal audits are insufficient
<b>ECONOMIC, FINANCIAL AND SOCIAL GOVERNANCE</b>	
<b>POSITIVE</b>	<b>NEGATIVE</b>
The Tuvalu Government has initiated, with donor support, a number of important reforms in public expenditure management and accountability in recent years	Tuvalu does not have a separate strategic plan in regards to HIV/AIDS. The issue is addressed through the budget of the Ministry of Health.
The Tuvalu Trust Fund (TTF), a prudently managed overseas investment fund, has contributed on average roughly 11% of the annual government budget each year since 1990	Tuvalu is a member of CEDAW but has not met reporting obligations under this Convention.
GoT welcomes foreign investment. No fixed tax incentives but available at the discretion of the Minister of Finance	The Bill of Rights in the Constitution does not prohibit discrimination on the basis of sex.
Most capital items for newly established businesses are exempted from duty upon application. All building materials are imported duty free.	There is no strategy or pro-active policy to deal with challenges of gender equality.
<b>INTERNAL AND EXTERNAL SECURITY (including international and regional context)</b>	
<b>POSITIVE</b>	<b>NEGATIVE</b>
There are no ethnic or religious conflicts in Tuvalu	Tuvalu has signed but not ratified the Pacific Islands Countries Trade Agreement (PICTA)
Tuvalu has been involved with the Regional Assistance Mission to the Solomon Islands (RAMSI) since 2004 with two police officers	
Tuvalu supports UN anti-terrorism conventions and resolutions	
<b>QUALITY OF PARTNERSHIP</b>	
<b>POSITIVE</b>	<b>NEGATIVE</b>
As there is no MS represented in Tuvalu, the political dialogue is pursued by the EC Delegation in Suva on an ongoing basis, on the occasion of missions, in dialogue with the High Commission in Suva, and on the fringes of international and sub-regional meetings. The dialogue is open and constructive.	



**ANNEX 5**  
**Financial Situation for the 10<sup>th</sup> EDF (Grants) and Previous EDFs**

As yet no grants have been made under the 19<sup>th</sup> EDF, nor are any anticipated before early 2008. Below is a brief summary of EDF assistance in Tuvalu, from 1975 to the present:

- **Lome I Convention (1975):** 4<sup>th</sup> EDF. A grant of €600,000 – most of which was used to build a diesel power station on Funafuti. The remaining funding was used to build copra sheds and water tanks.
- **Lome II Convention (1980):** 5<sup>th</sup> EDF. A grant of €1 million was used to build additional copra sheds, water tanks, expand the power supply in Funafuti (namely the distribution network), and for coastal protection throughout the country. (A two-phase regional project also provided household solar lighting kits to outer island residents).
- **Lome III Convention (1985):** 6<sup>th</sup> EDF. A grant of €2 million was used to finance the second phase of coastal protection, a further major upgrade and expansion of the power supply in Funafuti, and for additional household solar lighting kits to the outer islands.
- **Lome IV Convention (1990):** 7<sup>th</sup> EDF. A grant of €1.3 million was used to fund the Fuel Import Programme (€900,000), a budgetary support mechanism in the focal sectors of health and education, as a means of supporting the Tuvalu Trust Fund. The remainder of funding was used to construct two outer island primary school buildings (on Nukufetau and Nanumea).
- **Lome IV Second Financial Protocol (1995):** 8<sup>th</sup> EDF. A grant of €1.9 million was used to finance the Development Support Programme (DSP), a budgetary support mechanism in the focal sectors of HRD and environment, as a means of supporting the Tuvalu Trust Fund.
- **Cotonou (2000):** 9<sup>th</sup> EDF. A grant of €3.3 million (A-envelope) is being used to fund the Outer Island Social Development Support Programme (OISDSP) in the focal sectors of education, water and environment, including an NSA component. €0.7 million (B-envelope) are set aside for disaster preparedness projects currently in the identification phase. Following the Mid-term Review, Tuvalu received a €500,000 increase in the A-envelope in November 2005. The government has committed the B-envelope to the Pacific ACP Regional Programme in Disaster Preparedness/Risk Management run by SOPAC. Following consultation with the EC Tuvalu's B-envelope will be utilised entirely on projects to increase both residential and municipal rainwater catchment and storage capacity. Project design is currently underway.
- **STABEX:** Tuvalu has received approximately 15 Stabex transfers since 1975, totalling nearly €400,000, all in respect of copra exports. In 1993, the European Commission provided emergency aid to Tuvalu following Cyclone Nina. Tuvalu has also benefited from various EC Pacific Regional Programmes, Budget Line and Intra-ACP projects.

## **ANNEX 6**

### **Regional Projects**

Tuvalu has benefited from Intra-ACP project funding in the area of HIV/AIDS and reproductive health. Under the umbrella of the International Planned Parenthood Federation the Tuvalu Family Health Association has carried out a project on Funafuti.

The World Wide Fund for Nature is receiving Budget Line support to carry out a climate change preparedness and awareness project in Tuvalu.

As part of the 9<sup>th</sup> EDF Regional Indicative Programme (RIP) Tuvalu has benefited from following regional projects:

- Pacific Regional Initiative for the Delivery of Basic Education (PRIDE);
- Development of Sustainable Agriculture in the Pacific (DSAP);
- Pacific ACP Regional Economic Integration Programme (PACREIP);
- Pacific Regional Fisheries Programme (COFISH);
- Plant Protection Programme (PPP);
- Reducing Vulnerability in Pacific ACP States;
- Development of Fisheries in the Pacific (DEVFISH); and
- Pacific Environmental Information Network (PEIN)

## **ANNEX 7**

### **EIB Projects**

Emphasis has been laid by EIB upon making funds available as widely as possible in the Pacific region through lines of credit to local financial institutions. Additional regional funding instruments possibly also targeting smaller operations in Tuvalu are currently being developed by the EIB. A special focus will be on the renewable and environmental sector.

In 2002, the EIB approved the second line of credit with the Development Bank of Tuvalu under the Cotonou Convention aimed at financing smaller operations. As with previous line of credit operations, the funds will be on-lend by the development bank to final beneficiaries in the private and commercially run public sector.

## Annex 8

### Millennium Development Goals: Targets 1-18 and Progress To Date

#### **GOAL 1: Eradicate Extreme Poverty and Hunger**

**Target 1:** Halve between 1990 and 2015, the proportion of people living in poverty.

**Progress:** To be determined.

**Target 2:** Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

**Progress:** There is no information on this target, but available evidence suggests that malnutrition is not widespread. But there is some risk to 'food security' in the outer islands as populations decline.

#### **GOAL 2: Achieve Universal Primary Education**

**Target 3:** Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

**Progress:** Tuvalu is consistently in the upper end in regional comparisons of literacy, with 95% of its population literate. Tuvalu has achieved the MDG target in net enrolment in primary education, achieved the MDG target of equality of opportunity at primary and secondary levels for boys and girls, and balance has all but been achieved at tertiary level too. Progress remains to be made in educating and training the population in technical and vocational skills.

#### **GOAL 3: Promote Gender Equality and Empower Women**

**Target 4:** Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015.

**Progress:** The ratio of girls to boys in primary, secondary and tertiary education is about equal. Tuvalu has met and will continue to meet the MDG target. The share of women in wage employment in non-agricultural sector jobs is growing and now stands at 44% of the labour market (2002), with some qualifications. Apart from one ministerial seat held by a woman in the late '80s and early '90s, no women have been elected to parliament, though several have stood for election.

#### **GOAL 4: Reduce Child Mortality**

**Target 5:** Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

**Progress:** The under-five mortality rate dropped from 59 in 1991 to 32 in 2003, and the infant mortality rate decreased from 41 to 21, indicating Tuvalu is on its way to achieving the MDG target. Immunisation coverage for one-year olds is almost 100%, hitting the MDG target.

#### **GOAL 5: Improve Maternal Health**

**Target 6:** Reduce by three-quarters, between 1990 and 2015, the maternal mortality rate.

**Progress:** Tuvalu has achieved the lowest possible level of maternal mortality and nearly 100% of births are attended by health personnel, reaching the MDG target.

#### **GOAL 6: Combat HIV/AIDS, Malaria and Other Diseases**

**Target 7:** Have halted by 2015 and begun to reverse the spread of HIV/AIDS.

**Progress:** Based on current health practices, public awareness and action, Tuvalu should be able to achieve the MDG target combating the spread HIV/AIDS.

**Target 8:** Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases.

**Progress:** Malaria does not exist in Tuvalu. The rate of new tuberculosis cases is decreasing, and 92% of new cases are successfully treated, but the rate of new infections is still high, and

much progress remains before the MGD target is reached. Coverage for Rubella vaccinations is 95-100%, to be reached in 2005.

### **GOAL 7: Ensure Environmental Sustainability**

**Target 9:** Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources.

**Progress:** Although almost half of Tuvalu is covered by forest, an assessment of the forest area will provide an indication of the relative importance of forests, and if the natural forest coverage is being maintained or declining over time. The area of 'official' protected reserves is very small; but this excludes community managed conservation areas or marine reserves. A comprehensive 'stock take' of community reserves is required to accurately measure this target.<sup>14</sup>

**Target 10:** Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation. **Progress:** Tuvalu is well on track to achieve the target for access to safe drinking water. Tuvalu is well on track to achieve the target for access to sanitation, although progress has been slower in the outer islands than on Funafuti.

**Target 11:** By 2020, have achieved a significant improvement in the lives of at least 100 million slum dwellers.

**Progress:** Although the concept of 'slum' does not apply, in Funafuti temporary squatter-type housing is increasing, and the continuing urbanisation of Funafuti raises many serious issues for government in respect of urban planning and management, land and waste management, and overall urban health.

### **GOAL 8: Develop a Global Partnership for Development**

**Target 16:** In cooperation with developing countries, develop and implement strategies for decent and productive work for youth.

**Progress:** No progress to date.

**Target 17:** In co-operation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries.

**Progress:** No progress to date.

**Target 18:** In co-operation with the private sector, make available the benefits of new technologies, especially information and communications. **Progress:** Access to information communication services have expanded over the last ten years. Internet access (in Funafuti only) was established in 1998, with significant service upgrades in 2001 and 2004, which will continue on a regular basis as the domestic network is upgraded. Wireless Internet access was established in 2003, as was the government computer network. Mobile telecommunications was also introduced in 2004.

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<sup>14</sup> The definition of 'forest' used by the UN is not particularly suitable for Tuvalu since the number of forest types and land uses that are of significant importance (such as mangroves, coconuts, and agroforestry) are not included.

