

Tuvalu – European Community EDF 10

Country Strategy Paper

and

National Indicative Programme

(For the period 2008 - 2013)

The Government of Tuvalu and the European Commission hereby agree as follows:

- (1) The Government of Tuvalu, represented by Mr Aunese Makoi Simati, Ministry of Finance, Economic Planning and Industries and National Authorising Officer and the European Commission, represented by Mr Roberto Ridolfi, Head of the Commission Delegation for the Pacific, hereinafter referred to as the Parties, held discussions from March 2006 until August 2007 with a view to determining the general orientations for cooperation for the period 2008 –2013.

During these discussions, the Country Strategy Paper and an Indicative Programme of Community Aid in favour of Tuvalu were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000, as revised in Luxemburg on 25 June 2005. These discussions complete the programming process in Tuvalu.

The Country Strategy Paper and the Indicative Programme are annexed to the present document.

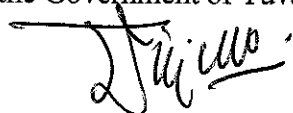
- (2) As regards the indicative programmable financial resources which the Community envisages making available to Tuvalu for the period 2008 -2013, the sum of €5 million is earmarked for the allocation referred to in Article 3.2 (a) of Annex IV to the ACP-EC Partnership Agreement (A-allocation) and €0.4 million for the allocation referred to in Article 3.2 (b) (B-allocation). These allocations are not entitlements and may be revised by the Community, following the completion of mid-term and end-of-term reviews, in accordance with Article 5.7 of Annex IV to the ACP-EC Partnership Agreement.
- (3) The A-allocation is destined to cover macroeconomic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of Community assistance. The Indicative Programme under Part 2 concerns the resources of the A-allocation. It also takes into consideration financing from which Tuvalu benefits or could benefit under other Community resources. It does not pre-empt financing decisions by the Commission.
- (4) The B-allocation is destined to cover unforeseen needs such as emergency assistance where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings. The B-allocation shall be triggered under specific mechanisms and procedures and therefore does not yet constitute a part of the Indicative Programme.
- (5) Resources can be committed within the framework of the present Country Strategy Paper and Indicative Programme upon the entry into force of the 10th EDF multi-annual financial framework for the period 2008-2013 of the revised ACP-EC Partnership, but not before 1 January 2008. Financing decisions for projects and programmes can be taken by the Commission at the request of the Government of Tuvalu within the limits of the A- and B-allocations referred to in this document. Financing decisions can also be taken on the basis of Article 15(4) in conjunction with Article 4(1)(d) of Annex IV to the APC-EC Partnership Agreement for support to non-State actors or on the basis of Article 72(6) to the ACP-EC Partnership Agreement for humanitarian and emergency assistance

funded from the B-allocations. Financing decisions shall be taken and implemented according to the rules and procedures laid down in the EC Council regulations on the implementation of the 10th EDF and on the financial regulation applicable to the 10th EDF and in Annex IV to the ACP-EC Partnership Agreement.

- (5) The European Investment Bank may contribute to the implementation of the present Country Strategy Paper by operations financed from the Investment Facility and/or from its own resources, in accordance with Paragraphs 2(c) and 3 of Annex Ib to the ACP-EC Partnership Agreement regarding the 10th EDF multi-annual financial framework for the period 2008-2013.
- (6) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the National Authorising Officer and the Head of Delegation shall undertake an annual operational review of the Indicative Programme and a mid-term and end-of-term review of the Country Strategy Paper and the Indicative Programme in the light of prevailing needs and performance.
- (7) The mid-term review shall be undertaken in 2010 and the end-of-term review in 2012. Following the completion of the mid- and end-of-term reviews, the Community may revise the resource allocation in the light of prevailing needs and performance. Without prejudice to Article 5.7 of Annex IV concerning reviews, the allocations may be increased according to Article 3(5) of Annex IV in order to take account of special needs or exceptional performance.
- (8) The agreement of the Parties on this Country Strategy Paper and the National Indicative Programme, subject to the ratification and entry into force of the revised ACP-EC Partnership Agreement and the 10th EDF multiannual financial framework for the period 2008-2013, will be regarded as definitive within eight weeks of the date of signature, unless either Party communicates the contrary before the end of this period.

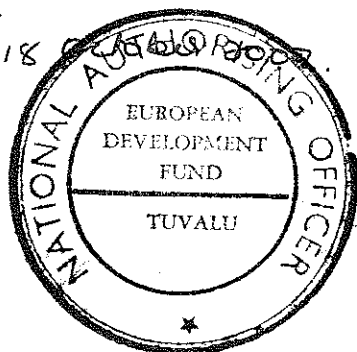
Signatures

For the Government of Tuvalu:

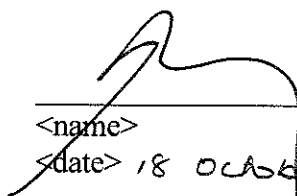


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For the European Commission:



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SUMMARY

The objective of the 10th European Development Fund (EDF) Country Strategy Paper (CSP) for Tuvalu is to define, on the basis of a comprehensive analysis of the economic, social and political situation contained in this CSP, a development response strategy for European Community (EC) support.

Tuvalu is a small island state in the Central Pacific Ocean. It has a total land mass of 26 sq km spread over nine atolls and reef islands, and a population of 10,000. GDP per capita is € 1,200. (2002). Politically, the country is and has been generally stable with overall prudent economic and financial management. Tuvalu has a narrow economic base limited to small-scale agriculture and artisanal fisheries. Its revenue base is heavily dependent on the sale of fishing licences and revenue from overseas investments such as the Tuvalu Trust Fund, and other similarly variable sources of overseas income. In broad terms, the main development goals of the country are:

- public sector reform (better governance that leads to economic growth, improved social services, and a fairer distribution of long-term investment returns);
- private sector development (with a focus on export-oriented business development);
- development of economic infrastructure (both on Funafuti and the outer islands);
- improved primary and secondary and vocational education and training; and
- improvement of human settlements and raising the standard of living in the outer islands.

Based on the key strategic pointers contained in the EU Pacific Strategy, the Pacific Plan and Tuvalu's National Development Strategy, the Te Kakeega II, the focal sector under the 10th EDF will be water and sanitation, including a significant waste management component and possibly renewable energy. It is agreed that Non-State Actors will be included in a significant and meaningful way in the implementation of the focal sector programme.

The EC indicative allocation for Tuvalu is €5 million, of which 88% is earmarked for the focal sector of water and sanitation. The other 12% is earmarked for a Technical Cooperation Facility which includes funds for governance-related activities.

Envelope "B" amounts to €0.4 million.

PART 1: STRATEGY PAPER

CHAPTER I: THE FRAMEWORK OF RELATIONS BETWEEN THE DONOR AND PARTNER COUNTRY

I.1.1 General Objectives of the EC's External Policy

In accordance with Article 177 of the Treaty establishing the European Community, the purpose of Community policy in the sphere of development cooperation is to foster:

- the sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them;
- the smooth and gradual integration of the developing countries into the world economy;
- the campaign against poverty in the developing countries.

Europe should project a coherent role **as a global partner**, inspired by its core values in assuming regional responsibilities, promoting sustainable development, and contributing to civilian and strategic security.

The Union has developed a broad spectrum of external relations tools in the shape of the common trade policy, cooperation under bilateral and multilateral agreements, development cooperation, humanitarian aid and financial assistance as well as the external aspects of internal policies (energy, environment, transport, justice and home affairs, etc.).

EU external action, including the Common Foreign and Security Policy, common trade policy and cooperation with third countries, provides a framework both for integrating all EU instruments and for developing gradually a set of common actions based on common positions in the broader sphere of political relations.

Enlargement has placed upon the EU even greater responsibilities, as regional leader and as global partner. It should therefore strengthen its capacity to promote human rights, democracy and the rule of law as well as its capacity to focus on the fight against poverty, both in its neighbourhood and through its multilateral and bilateral policies, which are mainly aimed at sustainable development and political stability. Thus, the EU will achieve genuine coherence between its domestic and external agendas, thereby contributing to global security and prosperity.

I. 1.2 Strategic objectives of cooperation with the partner country

The Treaty objectives are confirmed in Article 1 of the *ACP-EU Partnership Agreement*, signed in Cotonou on 23 June 2000 and revised in Luxembourg on 25 June 2005. The overarching objective of the *Cotonou Agreement* is to promote the development of a common strategic approach to poverty reduction, consistent with the objectives of sustainable development and the gradual integration of ACP countries into the world economy. Cooperation between the Community and Tuvalu shall pursue these objectives, taking into account the fundamental principles set out in Article 2, in particular the encouragement of "ownership" of the strategy by the country and populations concerned, and the essential elements and fundamental element as defined in Articles 9 and 11b of the Agreement.

While the Treaty and the Cotonou Agreement provide the legal basis for EC cooperation with ACP countries, the recently adopted *European Consensus on Development* sets the general

policy framework at EU level. The primary and overarching objective of EU development policy is the eradication of poverty in the context of sustainable development, in line with the international agenda, and with particular attention being paid to the Millennium Development Goals (MDGs). Human rights and good governance are recognised as other important objectives.

Better aid effectiveness is essential to achieving poverty eradication. Therefore the EU will advance coordination, harmonisation and alignment. It will promote better donor complementarity by working towards joint multiannual programming based on partner countries' strategies and processes, common implementation mechanisms, joint donor-wide missions, and the use of co-financing arrangements. The EU will take a lead role in implementing the Paris Declaration commitments on improving aid delivery and it will capitalise on new Member States' experience to strengthen their role as donors. Policy coherence for development will advance in a number of areas. The aim is that all EU non-aid policies should make a positive contribution to developing countries' efforts to attain the MDGs.

The principle of concentration will guide the Community country and regional programming. This means selecting a limited number of priority areas of action, through dialogue with partner countries, rather than spreading efforts over too many sectors. In this context the Community will be primarily active in the following nine areas, taking into account its comparative advantage in a number of them: trade and regional integration; the environment and sustainable management of natural resources; infrastructure, communications and transport; water and energy; rural development, territorial planning, agriculture and food security; governance, democracy, human rights and support for economic and institutional reforms; conflict prevention and fragile states; human development; social cohesion and employment.

In October 2005, at the Pacific Forum Leaders Meeting, the European Commission introduced the proposed focus of future EDF assistance in the Pacific Region, namely sustainable management of natural resources. The broad development framework for sustainable management of natural resources was introduced to PIC officials at the EU-Pacific ACP Regional Seminar in March 2006. The new EU strategy to reinforce its partnership with Pacific ACPs (the "EU Pacific Strategy"), focusing on the sustainable management of natural resources, was approved on 17 July 2006 by the General Affairs Council of the European Union.

The mainstreaming approach will be strengthened for four cross-cutting issues: democracy, good governance, human rights, the rights of children and indigenous peoples; gender equality; environmental sustainability; and the fight against HIV/AIDS.

I.1.3 Main bilateral agreements

The European Community and Tuvalu have a long-standing tradition of cooperation and partnership, beginning in 1975 with the Lome I Convention, through to Cotonou today (see Chapter III for a brief summary). Tuvalu and the EU signed the Cotonou Agreement on 23 June 2000. The 9th EDF Financing Agreement, governing EDF administration, management and expenditure under the "Outer Islands Social Development Support Programme" (accounting no. 9 ACP TV 001), was jointly signed by Tuvalu and the EC on 17 August 2003, at the Pacific Forum Leaders Meeting in Auckland, New Zealand.

CHAPTER II: COUNTRY DIAGNOSIS

II.1. Analysis of the political, economic, social and environmental situation in the recipient country

II.1.1 Political and institutional situation

Tuvalu is a constitutional monarchy with the British sovereign as Head of State, represented by a Governor-General, who must be a Tuvalu citizen and is appointed on the recommendation of the Prime Minister, who is Head of Government. The current Constitution entered into force at Independence (1 October 1978), but has been subsequently amended by numerous acts of Parliament.

The unicameral parliamentary system is based on the Westminster model, with free elections and a Cabinet directly responsible to Parliament. Citizens aged 18 years and above freely and directly elect 15 Members of Parliament (also called 'House of Assembly'), whose normal term is four years. The Prime Minister is elected by a majority vote of Parliament. The Governor-General, on the advice of the Prime Minister, appoints the six-member Cabinet led by the Prime Minister. A Speaker, usually elected by the current majority Government, leads Parliament. The Judiciary includes a High Court, presided over by an expatriate Chief Justice, and the lower courts (senior and resident magistrates, the island courts and land courts), with limited jurisdiction. The High Court usually sits twice a year. Rulings of the High Court can be appealed to the Court of Appeal in Fiji and the Privy Council in England. Tuvalu has no political parties, with majority and minority coalitions/caucuses usually formed on the basis of personal relationships among elected MPs. Election campaigns are largely run on the basis of personal and family ties and reputation. Traditional chiefs also still play a significant role in influencing island affairs, particularly on the outer islands. A long-held distinction between chiefs and commoners is slowly disappearing, and chiefs are now more often selected on merit rather than by birth.

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. Below is the current majority Government line-up:

- Prime Minister: Hon. Apisai Ielemia (MP, Vaitupu);
- Deputy PM/Minister of Natural Resources: Hon. Tavau Teii (MP, Niutao);
- Minister of Finance and Economic Planning: Hon. Lotoala Metia (MP, Nukufetau);
- Minister of Education and Sports/Minister of Health: Hon. Iakoba Italeli Tacia (MP, Nui);
- Minister of Works and Energy/Minister of Communications and Transport: Hon. Taukelina Finikaso (MP, Vaitupu);
- Minister of Home Affairs and Rural Development: Hon. Willy Telavi (MP, Nanumea);
- Speaker of Parliament: Hon. Kamuta Latasi (MP, Funafuti); and
- Government backbencher without portfolio: Hon. Toomu Sione (MP, Niutao)

Former Prime Minister (2004-06), Hon. Maatia Toafa (MP, Nanumea), former Speaker, Hon. Otinielu Tausi (MP, Nanumaga), and former and current opposition MPs, Hons. Kausea Natano (MP, Funafuti) and Elisala Pita (MP, Nukufetau), form part of the current minority opposition.

Prior to the 3 August general elections, with the lone exception of the switch in Prime Minister and Deputy Prime Minister in 2004, the post-2002 period was the most politically stable since 1994, following the eight changes in Tuvalu's national Government between 1994 and 2002. Principles of good governance are generally adhered to, with improvements to governance regularly attempted but never fully achieved. Large-scale organised, systematic, or systemic corruption is unknown.

Democratic values in Tuvalu are strong with free elections every four years by universal adult suffrage. The Tuvalu Government respects human rights, and society is generally egalitarian. The Laws of Tuvalu and the Judiciary generally provide an effective means of addressing violations of those rights. The right to a fair public trial is ensured by law and observed in practice. The Constitution provides that an accused person must be informed, in a language s/he understands, of the nature of the offence with which s/he is charged, and be afforded time and facilities to prepare a defence. The rights to confront witnesses, present evidence and appeal convictions are provided by law, with procedural safeguards based on English common law. Universal human rights are contained in the Bill of Rights enshrined in the Constitution and Laws of Tuvalu.

Tuvalu has acceded to a range of important international treaties, however, not yet to several core UN human rights conventions, namely the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, the Convention against Torture, and the Convention on the Elimination of all forms of Racial Discrimination.

There is no institutionalised gender discrimination in Tuvalu. However, traditional culture and traditional values may disadvantage women in some ways. The current Constitutional Bill of Rights does not include any clause that prohibits discrimination on the basis of gender. Women are permitted to hold public office and in the recent national elections held on 3 August 2006 two women were among the 32 candidates standing for office. Neither were elected. Previously, only one woman has been elected to Parliament, serving one term from 1989 to 1994, holding the Cabinet post of Health Minister.

The state-owned (and heavily subsidised) Tuvalu Media Corporation, which airs Radio Tuvalu, is the only mass media outlet in the country. There are, however, a number of reliable and independent regional media outlets that regularly cover Tuvalu, including regional and international Internet-based news coverage. Some observers remain concerned about a lack of media freedom, or at least no independent media, which Tuvalu's small market cannot support with advertising revenue alone.

Tuvalu has a relatively large number of active Non-Governmental Organisations (NGO) and other Non-State Actors (NSA). The Government generally supports the development of a strong civil society and has agreed to provide, and is providing, a small number of larger NGO/NSAs with annual operational grants.

Progress in fiscal and economic reform is relevant to Tuvalu–EU political dialogue, in particular the commonly agreed commitments on good governance contained in the 10th EDF Country Strategy.

II.1.2 Economic and commercial situation

Economic situation, structure and performance

Tuvalu's recent rate of economic growth can be characterised as slow and unstable. There has been little new employment-generating activity, remittance income has fallen, and public capital expenditure has declined, putting a drag on growth. To remedy this situation, structural reforms in the public sector, including efficiency improvements and further cost-cutting, and focusing on those activities that are core functions and which have high rates of return, are (or should be) key strategies in the short to medium term.

Across-the-board cuts, however, are inefficient, and in theory will not form part of Tuvalu's macroeconomic strategy. Such cuts affect both essential services and priority areas of expenditure. The plan is to set funding allocations based on clear priorities, which offer high rates of return nationally. Less essential services, or lower expenditure priorities, could be cut back, with savings held in reserve or spent on areas of higher priority.

In the absence of a relatively large and robust private sector, national budgetary expenditure will remain the driving force behind economic growth in the short to medium term. 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 prospect is for low rates of growth in the short to medium term unless major public sector investments, which occurred in recent years, can be sustained and the private sector can somehow significantly increase its share of GDP.

The Tuvalu economy grew at a real rate of 7.3% from 1986 to 2002 (the last year of measurement), or 6.1% per capita. Almost half of the growth was accounted for by an expansion in the general government sector, with much of the remainder explained by an expansion in public enterprises engaged in transport, communications and finance. By 2002, the general government sector accounted for 41% of Gross Domestic Product (GDP) and employment, with public enterprises adding a further 39% each. Agriculture and fishing contracted over the six years to 2002, with their share of GDP falling from 21% to 12%. It is safe to assume this trend has continued through 2006. Manufacturing activity remains small and relatively stagnant at around 2-3% of GDP.

Partial economic indicators point to economic contraction in 2005, but the indicators lack a clear interpretation of economic activity in 2003 and 2004: indicators of labour and capital income contracted over 2005 while they moved in opposite directions in the preceding two years. A recent weakening in 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 late 2004/2005, as some estimates suggest.

Despite an apparent weakening in growth, some partial indicators suggest that aggregate demand has remained firm. The most likely explanations for this firmness are a legacy 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 zero with the June/July 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 have probably underpinned some growth.

About 400-600 Tuvalu men are employed abroad at any given time as seamen, primarily on German-owned merchant ships. Total cash remittances generated by this employment are estimated to be of the order of A\$2-4 million per year, representing a vital source of income in the domestic economy. In 2002, the Asian Development Bank approved an assistance package to upgrade the Tuvalu Maritime Training Institute (TMTI), which trains young Tuvaluan men to work aboard foreign vessels. Construction work at the TMTI began in May 2006 and it is expected that after renovation and expansion work is completed, the Institute will be able to increase its annual student intake from 60 to 90 students, possibly to 120. Since training at the TMTI is only possible up to a basic level of maritime qualifications, options for further training leading to higher, even postgraduate, qualifications should be explored for high performers. The World Maritime University in Sweden (a UN institution) could present valuable opportunities in this regard.

Structure and management of public finances

Tuvalu's 2005 budget deficit was estimated at A\$5.4 million, over A\$3.0 million higher than the A\$2.2 million originally forecast. If recent trends continue, even after levelling out the extreme deficit in 2005, the budget will be in deficit by approximately A\$2.5 million in the medium term (10% of GDP), which constitutes an unsustainable fiscal position. The financial and economic implications of this higher deficit – together with some of the apparent means of financing it – could have a significant impact on the Tuvalu economy, including government, government-owned corporations, and the private sector. The main actual and potential effects of the increased budget deficit include:

- Restricting the Government's financing capacity in the short term:

The Tuvalu Government may be forced to restrict its capacity to finance new activities or contingencies that may arise in the near future because its financial assets have been considerably depleted by a recent succession of budget deficits. This inevitably will make it more difficult to sustain further sizeable budget deficits in the immediate future, even if this may be warranted to counteract a cyclical downturn in economic activity.

- Restricting efficient business operations of involuntary creditors:

The lengthy delays in paying for services received from public corporations effectively transfers part of the Government's liquidity problem to the corporations concerned. This restricts their ability to manage their operations efficiently by, for example, forcing them to delay sensible business expenditure (e.g., maintenance and/or investments in line with their business plan). This, in turn, risks undermining the reliability and quality of services provided to the Government and general public, usually adding to costs in the longer term.

- Restricting the supply of finance for private sector activities:

A crowding-out effect occurs whereby private sector activities must compete for what uncommitted resources are left in the financial sector.

The Tuvalu Trust Fund (TTF) is a prudently managed overseas investment fund. With an initial capital endowment of A\$27 million in 1987, the TTF's current Maintained Value is A\$90.42 million, as at 31 March 2006, with a Market Value of A\$97.41, which is 7.7% (A\$6.99 million) higher than the estimated Maintained Value on that date. A 2005 evaluation of the TTF found that:

- Over its 18 years to date the TTF has earned an average annual *real* ('inflation adjusted') rate of return of some 6 per cent, net of investment management costs.
- Year-to-year fluctuations in returns around this average have been substantial (including zero distributions from the TTF in respect of the TTF years ending 30 September 2001 to 2004), but they are broadly consistent with the investment strategies endorsed by the TTF Board. Based on the evaluation's estimates there is no evidence of any long-term deterioration in the investment performance of the Fund.
- The TTF's investment performance, net of costs, appears generally satisfactory compared with some broad investment alternatives. Investment management and other costs appear somewhat on the high side, but this is at least partly attributable to the unique characteristics of the Fund's structure.

In addition, the existence of the Fund has:

- created a financial asset for the current and future generations of Tuvalu which is currently valued at around \$90.42 million net of the planned distribution in respect of the 2005 Fund Year (i.e. around 3½ times the size of Tuvalu's annual GDP);
- funded around 17% of total recurrent budget revenue and around 18% of total recurrent budget expenditure over the period 1988-2004 as a whole;
- strengthened positive external perceptions of Tuvalu's finances through the broadly successful operation of the Fund and its governance structure (including the provision of independent policy advice by the Tuvalu Trust Fund Advisory Committee); and
- directly contributed (in recent years) around 7% of Tuvalu's Gross National Income and a significantly higher proportion of its ongoing income from overseas.

Assessment of the reform process

The Tuvalu Government has initiated, with donor support, a number of important reforms in public expenditure management and accountability in recent years. These include, with varying degrees of success: implementing a new programme-based budget; establishing new guidelines and instructions for budget management; improving treasury and budget financial systems, including regular production of budget reports; and upgrading the skills and technical understanding of government staff responsible for treasury and budget management. Ongoing external support is still required to build on recent budget and public expenditure management reforms, and this support is likely to be needed for some years to come.

Trade policy and external environment, in particular regional cooperation agreements and EPAs

Tuvalu participates in regional efforts on economic integration through membership of the Pacific Islands Forum and a number of regional trade agreements. Tuvalu agrees that integration into the world economy, insofar as this is possible for such a small economy, is a vital element in the strategy designed to achieve sustainable economic growth. It further agrees that an integrated regional approach is the most effective strategy. Integration of the region's trade is in turn an essential element of regional economic integration, again insofar as Tuvalu is capable, given that, with the exception of labour, Tuvalu is largely a non-trading nation. The Government has been and remains a participant in ongoing EPA negotiations.

Tuvalu has signed the Pacific Island Countries Trade Agreement (PICTA) but has not yet ratified it. PICTA aims at advancing regional economic integration in the Pacific through tariff-free trade in goods. The new Government intends to address ratification of PICTA as a matter of urgency.

II.1.3 Social situation, including work and employment

Based on the 2004-05 Household Income and Expenditure Survey, taking into account all forms of income, including non-cash items such as subsistence food consumed by a household and cash and in-kind transfers between families, there are noticeable income inequalities across the country. While just over half of the population lives on the outer islands, this includes three-quarters (76%) of households in the bottom fifth of the income scale. The other quarter of the poorest households live on Funafuti. While there is little if any absolute poverty, or complete destitution, in Tuvalu, some people nevertheless are considerably worse off than others and live in very poor conditions.

For low-income households, those on Funafuti are often worse off. In contrast to low-income households in the outer islands, those on Funafuti often have no access to land on which to produce food, have less access to water, electricity, sanitation or waste management services, have insecure tenure, and are more likely to live in substandard housing. That is, they are more exposed to poor living standards. Additionally, low-income households are more likely to be located in low-lying areas and are therefore more exposed to regular flooding through normal tidal movements as well as exceptional weather phenomena such as the recurring king tides.

Although cash incomes are considerably higher on Funafuti, once the contribution of subsistence activities is factored into household incomes it appears that around one third of the wealthiest households also live in the outer islands. Overall, the distribution of income is more even there than in Funafuti.

More generally, the dispersal of the population across nine widely spaced reef islands and atolls and the concentration of people, economic opportunities and high-level services on Funafuti contribute to a pervasive poverty of opportunity, i.e. a lack of opportunities to achieve an acceptable quality of life. The most common interpretation of this is insufficient access to education, health and other basic services, or economic opportunities.

The poverty of opportunity generally experienced by outer island communities is borne out in the depopulation of the outer islands and the inward movement of people to Funafuti and beyond; a small but emerging subculture of disaffected youth; the exasperation outer island people express about the poor quality of services; the lack of opportunities for almost anything; and weak markets for local agriculture and fishing.

The Table below shows select macro indicators on income, health, education and water. While some of the data are 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.

Tuvalu's population is currently growing at 0.5% annually. The most populated islands are Funafuti (47%) and Vaitupu (16.6%), where most economic activity occurs. Most outer islands have a negative growth rate due to outward migration of residents seeking employment opportunities.

The main source of household income is paid work (59.1%) either as public servants or through employment in the private sector, followed by remittances (18.1%), mostly from seafarers working on foreign merchant ships, followed by income from fishing or copra sales.

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 ¹	62/65	62/66	62/66	62/66	na
5. Infant mortality rate (per 1,000 live births)	34.6	25.4	25.3 ²	32.2	42.3	17.4
6. Primary school enrolment ³	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 ⁴	.89:1	.93:1	.96:1	1.06:1	.91:1	na
Tertiary education ⁵	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)

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

² Down from 43.5 per 1,000 live births in 1990.

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

⁴ 2003-2004 figures include, respectively, 99 and 183 students enrolled at Fetuvalu High School.

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

The most common communicable diseases are respiratory infections (flu/common colds). The most common injuries/wounds are septic sores, with males being the most susceptible. The most common non-communicable diseases are diabetes, hypertension and obesity, with females being the most susceptible. Life expectancy for males is 60.7 years and 65.1 for females. The number of sexually transmitted diseases (STD) is rising, in particular Hepatitis B (23%) and Syphilis (46%), compared to the previous five years. There are nine known cases of HIV/AIDS, up from zero ten years ago, though factoring in thus far undetected HIV/AIDS cases the number is probably higher.

The largest employment sector is in the professional and technical occupations, workers engaged in some form of production, and service-based occupations. A small number of people are engaged full-time in agriculture and fishing. More than half the employed population resides in Funafuti, and about two-thirds of those are males. According to a recent study by UNDP, with an increasing proportion of the population becoming economically active, limited new job opportunities and the drift away from subsistence agriculture means Tuvalu is facing rising rates of unemployment in the future. Conversely, a recent study by the ADB suggested otherwise. It concluded that although unemployment is likely to have increased since 2002 (the 2002 Census estimated a national unemployment rate of 6.5%, and a slightly higher rate on Funafuti of 8.9% given the completion of major public projects), nonetheless, the large public sector, an ability to switch to subsistence activities and continuing offshore employment opportunities are likely to prevent very high unemployment rates from emerging in the future.

Tuvalu is not a member of the International Labour Organisation (ILO) but workers are free to organise unions and choose their own labour representatives. The 1978 Industrial Relations Code provides for conciliation, arbitration and settlement procedures in cases of labour disputes. Although there are provisions for collective bargaining, the practice in the private sector is for wages to be set by employers. There is only one trade union operating within Tuvalu, the Tuvalu Overseas Seamen's Union (TOSU), with about 600 active members, all of whom work on foreign merchant vessels. TOSU is a member of the International Transportation Workers' Federation. Public sector workers (around 900 including state-owned enterprises) are grouped into loose associations that do not have the status of unions.

II.1.4 Environmental situation

Tuvalu is ranked as one of the most environmentally vulnerable states in the Pacific region, or almost 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 and donor-funded projects, which in any event usually require EIAs.

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 threats 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 in regard 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 9th EDF through the national budget. The project has been innovative and comprehensive, and could become a model for other Pacific atolls. A recent report¹ assessed the project and concluded that it focuses on the key waste issues and provides 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 8th EDF indicate that:

¹ See *Technical Assistance for Effective Waste Management and Recycling in Tuvalu: Inception Report* (ADB, July 2004).

- island-wide garden/organic refuse collection continues to be effective but persisting differences of opinion and the division of responsibility between the Tuvalu Government and the island council – the *Kaupule* – 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 solar panels. This option could be further explored under disaster preparedness projects, such as under the 9th EDF ‘B’ envelope allocation, or under the 10th EDF focal sector programme.

Rainwater collection is the most efficient and sustainable source of fresh water 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 9th 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 10th 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 as well as 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 without 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 ACP-EU-Water Facility includes a proposal to transform one or more of Funafuti’s ‘borrow pits’, excavated 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 before 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 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 complies 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 true to 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 Damage and the 1992 Protocol to amend the International Convention on the Establishment of an International Fund for Compensation for Oil Pollution 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 Ships' 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 Transboundary 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*.

II.1.5 The country in the international context

Tuvalu maintains an independent but mostly pro-Western foreign policy. It maintains diplomatic ties and close relations with Fiji and other Pacific Island Countries (PICs), as well as with Australia, New Zealand, most EU Member States, including the UK, France and Germany, and the US and Canada. It has diplomatic relations with Taiwan. Taipei maintains the only resident embassy in Tuvalu and in recent years has significantly increased an already large development assistance programme. Japan continues to have a significant aid programme in Tuvalu, largely infrastructure-related, and assists Tuvalu in meeting its membership obligations in the International Whaling Commission, which is unconnected to its aid programme.

Tuvalu also maintains diplomatic ties with the Republics of Singapore and Mauritius. In addition, between 2001 and 2005, 14 countries sought diplomatic ties with Tuvalu via the UN Mission. The following list of countries seeking diplomatic ties does not include countries which may have requested ties directly via the Department of Foreign Affairs in Funafuti, nor does it include the Nordic countries (Norway, Sweden, Finland, etc.), all but one of which (Denmark) have requested diplomatic ties with Tuvalu since it established its UN Mission in 2001. Nor does it include Qatar and Saudi Arabia, which have expressed interest in diplomatic ties with Tuvalu. In reverse chronological order from 2005, additional countries with pending diplomatic ties are:

Austria (January 2005); Thailand (October 2004); Bulgaria (September 2004); Argentina (June 2004); Malta (April 2004); Iceland (March 2004); Azerbaijan (February 2004); Macedonia (April 2003); Cuba (December 2003); Maldives (January 2003); Romania (October 2002); Slovak Republic (July 2002); Cyprus (January 2002); and Belarus (August 2001).

Tuvalu became a member of the United Nations in 2000 and maintains a permanent UN mission in New York City. Tuvalu's only other diplomatic office is its High Commission in Suva, Fiji. Tuvalu is an active member of the Pacific Islands Forum. It is also a Developing Member Country (DMC) of the Asian Development Bank. A major international priority for

Tuvalu in the UN, at the World Summit on Sustainable Development in Johannesburg and in other international forums, is expressing strong concern about global warming and possible sea-level rise. Tuvalu advocates ratification and implementation of the Kyoto Protocol.

Tuvalu participates in regional efforts on economic integration through membership of the Pacific Islands Forum and a number of regional trade agreements. All Pacific ACP states, including Tuvalu, continued their participation throughout 2005 in the EPA regional negotiation process through the established negotiating machinery. Progress in the Pacific negotiations was, however, slower than might have been hoped for, a reflection of both the very limited human resource capacity of Pacific ACP states and the varying levels of interest by states in an EPA (only a few of the smaller Pacific ACPs perceive any advantage in an agreement on the free trade of goods). Discussions focused on the architecture of the Agreement, as well as on investment promotion and protection and on certain sectors of importance to most PACP – including some of the smaller countries – such as fisheries, tourism and services in general. There was little in the way of discussions on goods in 2005. Such discussions have been put off for fear of triggering free trade discussions with Australia and New Zealand under PACER. Support for EPA preparation efforts, including in-country stakeholder meetings and participation in EPA-related meetings at all levels, was provided to Tuvalu through PACREIP, the €9.2m regional programme under the 9th EDF.

No regional or international developments that might affect cooperation between the European Union and Tuvalu are anticipated. This includes Tuvalu's political relations in the region, which are good, and in particular international and/or regional agreements, regional policies and any progress towards regional integration, or the existence of armed conflicts in the region.

In addition to those listed in Section II.1.4: Environmental Situation, Tuvalu is a signatory to the following regional and international treaties, conventions and instruments (the list is not necessarily definitive; year of ratification/accession in brackets):

- Cotonou Agreement (2000);
- Convention on the Rights of the Child (CRC, 1995);
- Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW, 1995);
- Instrument of Ratification of the Agreement Amending the Fourth ACP-EC Convention of Lomé (1998);
- Instrument of Ratification of the Partnership Agreement between the Members of the African, Caribbean and Pacific group of States and the European Community and its Member States (2001);
- Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction (2003);
- 1988 Protocol relating to the International Convention on Load Lines (2004);
- Convention on the International Maritime Organisation (2004);
- International Convention on the Safety of Life at Sea (2004);
- Convention for the Suppression of Unlawful Acts Against the Safety of Maritime Navigation (2005); and
- Framework Convention on Tobacco Control (2005).

In practical terms, while rightly perceived as a generally stable and peaceful democracy, other than its voice in such bodies as the Pacific Islands Forum and the UN, Tuvalu's small size

means it can play only a very limited role in the international arena. Tuvalu currently supplies two police officers on a rotating basis to the Regional Assistance Mission in the Solomon Islands. Beyond that it has no real capacity individually to take part in international cooperation in terms of insecurity and violent conflicts, except through regional cooperation and negotiation alongside other PICs through such mechanisms as the Pacific Forum.

II.2. Poverty reduction analysis

With a micro-economy and population of only 10,000, two primary constraints cut across poverty reduction and the whole spectrum of development: a shortage of skilled labour and capital. But with coherent government policies, combined with international aid, some of the challenges and constraints can be overcome.

The key development challenges and constraints are listed below. Most are domestic and well outside Tuvalu's direct influence or control.

- Limited natural resource base with the exception of significant fisheries;
- Widely scattered and sparsely populated island geography;
- Small domestic market with little potential for economies of scale;
- Access to international markets is expensive;
- Increasingly competitive international markets for tourism and investment;
- Social and cultural system with limited understanding and experience of business concepts and practices;
- Limited business opportunities in the domestic economy;
- Land and capital market development constrained by small size, social values and traditions; and
- Poor absorptive capacity for major investment.

The main structural weaknesses in the Tuvalu economy, which inhibit the task of poverty reduction, are listed below. Some of these weaknesses can be overcome, to a certain degree, through policymaking and with donor support.

- Large and continuous trade imbalance;
- Large public sector with a low productivity rate and lack of focus on customer service;
- Pervasive government ownership of enterprise activities, many of which require fiscal concessions and (or) subsidies;
- Often weak fiscal situation;
- Small underdeveloped private sector which accounts for only one-quarter of GDP;
- High tax rates and import duties;
- Investment approval process that is non-transparent and burdensome for investors;
- Underdeveloped financial system typified by low domestic resource mobilisation;
- Growing labour force experiencing high levels of underemployment; and
- Land tenure system that makes it difficult to obtain land for commercial development.

The above issues largely define the fragile nature of the Tuvalu economy, which historically has relied heavily on aid to generate development and economic growth. Leveraging national assets, such as income earned from the Tuvalu Trust Fund, fish licensing, its country-code

‘.tv’, and using other sources of general revenue has helped Tuvalu balance its external accounts and cover shortfalls in the national budget. But over the years this structure has not been conducive to building the (non-government) domestic economy or alleviating poverty more rapidly across the board, especially in the outer islands.

The eight Millennium Development Goals (MDGs) are embedded into “*Te Kakeega II: National Strategy for Sustainable Development 2005-2015*”, which was published in November 2005, and is a product of Tuvalu’s July 2004 National Summit on Sustainable Development. Some of the broad but key issues, concerns and responses which must be addressed if Tuvalu is to reach all the MDG targets, and arrive at those targets in a way that is ‘sustainable’ in the long term, are set out below:

- 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 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 effects 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.

Examples of advantages or opportunities that broadly support sustainable development strategies in general, and in particular hitting the MDG targets:

- The Tuvalu Trust Fund (TTF) and *Falekaupule* Trust Fund (FTF); with sound investment management and a stable and growing world economy, these should continue to provide a solid base of income to finance government expenditure and fund government policies;
- A strong and secure base of overseas development assistance, much of it aimed at sustainable development and reaching (or nearing) the MDG targets by 2015;
- A large Exclusive Economic Zone (EEZ), which generates substantial, although variable, revenue from fish licensing;
- A strong market presence for Tuvaluans qualified as international merchant seamen; and
- A strong traditional culture that promotes social stability and family welfare.

II.3. The recipient country's development strategy

The National Strategy for Sustainable Development, *Te Kakeega II*, defines eight strategic areas with 161 sector priorities and strategies. The strategic areas are defined both broadly and specifically, and are to be pursued over the next ten years. Cutting across the eight strategies are any number of important issues, for example: outer island depopulation and urbanisation of Funafuti; declining rural agricultural production, food security; increasing youth unemployment; nutrition; the incidence of non-communicable disease (NCD); the threat of HIV/AIDS; and the hardship and poverty still experienced by many families. The expected results arising from the eight strategies are: more employment opportunities; higher economic growth; better health care; better education; better basic infrastructure; and continued social stability. The eight strategic areas defined in *Te Kakeega II* are:

- 1) **Good Governance.** Inspired leadership, as well as honesty, transparency and consistency in the application of the rule of law is a pre-condition for the other seven strategic areas to make a difference (i.e. to achieve the vision of *Te Kakeega II*).
- 2) **Economic Growth and Stability.** Sound economic management, fiscal discipline, the right policy environment (fiscal, monetary, regulatory), strong and well-managed institutions that offer a high standard of governance, a cost-effective, efficient and customer-oriented public sector, are but a few of the desired results to be achieved.
- 3) **Social Development.** 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 that need to be considered as potential threats to the achievement of the Vision.
- 4) **Falekaupule and Outer Islands.** The outer islands have always been regarded as the heart of the nation, but 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 was established and the challenge now is to identify strategies that will reverse the outward migration and falling output from the outer islands and 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 opportunity is created forms the core of the strategic framework.
- 6) **Education and Human Resources.** 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 will target the skill and manpower demands in the different sectors of the economy.
- 7) **Natural Resources: Agriculture, Fisheries, Tourism and Environment.** The traditional structure of Tuvaluan 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 its fragile atoll ecosystems. These are now under threat from changing attitudes in society and from a continuously growing cash economy. With traditional subsistence production in decline, the challenge is to reconcile these conflicting factors to create sustainable growth and greater stability.

- 8) Infrastructure and Support Services.** Reliable, 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, new wealth and opportunities for the people. The strategies will put in place whatever support services are needed to provide the nation with a satisfactory quality of service at a reasonable price.

II.4. Analysis of the viability of current policies and the medium-term challenges

Many key development indicators in Tuvalu continue to improve. Key contributors have been the inflow of substantial offshore income and foreign grants, the adoption of new public initiatives such as devolution and improvements to skills and operating practices within the public service. But the ability to sustain these improvements is threatened by fiscal imbalances. The public sector wage bill is high, but cutting back wages and entitlements would be politically difficult. A more feasible alternative would be trimming the size of the public service. The limited (or no) use of cost recovery mechanisms has made it increasingly difficult to provide funding for essential goods and services, maintenance, and for capital improvements. A performance management system within the public service should be introduced in order to achieve more efficient delivery of government services, but with fewer staff.

More private sector growth, the obstacles to which are considerable, has the potential to significantly increase economic productivity and diversify the economy. One immediate constraint, however, is due to the government crowding out the private sector from sources of commercial credit (primarily the National Bank of Tuvalu) as a result of revenue shortfalls leading to regular bank overdrafts, often running into millions, to cover recurring budget deficits. Generally, there are broad-brush rather than specific approaches to meeting the needs of the disadvantaged and this is resulting in substantial inequity despite traditional redistribution practices.

The National Strategy for Sustainable Development, *Te Kakeega II*, provides a sensible basis for improving the use of public resources. Implementation of previous plans and public policy in general has been slow, notably in respect to public sector management and private sector development. Successfully moving from the national plan to action is probably the key to achieving better development results. This will largely rest on more effective use of available resources. Expenditure on basic education, health care and vocational education consumes more than 40% of the national budget, but 60-70% of this figure is spent on wages and entitlements. If new sources of government revenue are not found, it will probably be necessary to stop or cut back some lower priority government services so that more resources can be allocated to higher priorities or more essential services (e.g. health and education).

At present there appears to be a tendency to rely too much on securing donor-funded projects. Substantial donor-funded improvements to infrastructure have not, however, resulted in economic development that is sustainable. The creation of a richer, more stimulating

environment for private sector development remains a challenge for policymakers. More sustainable fiscal policy will require tougher efforts to control national expenditure.

Te Kakeega II seeks to be closely aligned to the Pacific Island Forum Secretariat's Pacific Plan. As part of implementing the Pacific Plan, regional resources may become available that Tuvalu could benefit from.

Emigration of Tuvaluans abroad does not at present constitute a major concern since the numbers of migrants, mainly to New Zealand, are relatively low, although the number has increased significantly in recent years. The unofficial figure of Tuvaluans living in Auckland currently is over 2,500, up from only a few hundred in the early 1990s. Temporary skilled migration, mainly by seafarers, contributes significantly to the national economy through remittances and re-investment. Ongoing assistance to the Tuvalu Maritime Training Institute (TMTI) should be increased. The ADB is currently financing a concessional loan to significantly expand, upgrade and renovate TMTI facilities so that it can retain International Maritime Organisation (IMO) 'White List' status, essential for future graduates of TMTI to remain employable on international merchant ships. Nonetheless, TMTI still needs a higher level of recurrent budgetary support.

Environmental degradation poses many current challenges. In the absence of environment management legislation and, specifically, strong enforceable legislation in waste management, waste problems – especially on Funafuti – will continue to increase. As consumer habits change, imports continue to grow, and waste packaging material increases, the solid waste component of the waste stream is leaving authorities with serious disposal problems. Valuable and scarce land on Funafuti is being 'eaten up' by expanding official and unofficial dumpsites, and more resources to manage these sites better are urgently needed. The separation of organic waste from the waste stream needs to be expanded and better managed on Funafuti, and extended to the outer islands, and municipal composting expanded. Options for exporting some forms of solid waste should be explored, particularly recyclable materials. The retail sector, which is the largest importer, especially of packaging materials, should somehow be involved in the re-export of empty packaging material.

The extensive use of diesel-powered generators on all islands is not a sustainable way of generating electricity. Evidence suggests that the monthly fuel bill for the Government to power the main plant in Funafuti stands at A\$29,000. The recent construction of a large new diesel power plant on Funafuti atoll funded by the Government of Japan may not be a step in the direction the country should be heading. It is a missed opportunity and not easily comprehensible given that the transformation of a fuel-based energy industry into energy generated from renewable sources in Japan itself is growing at impressive speed. In the medium to long term Tuvalu is better advised to concentrate on RE not only for its main grid on Funafuti but also for the outer islands. It will be a challenge to generate the same level of electricity households have become accustomed to from renewable sources.

CHAPTER III: OVERVIEW OF PAST AND PRESENT EC COOPERATION, COMPLEMENTARITY AND CONSISTENCY

Overview of past and present EC cooperation (lessons learned)

Tuvalu acceded to the Lome I Convention in 1979, though it became eligible for European Development Fund (EDF) resources under the 4th EDF in 1975. Tuvalu acceded to each successive Lome Convention through the revised Lome IV Convention (8th 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.

Below is a brief history of EDF assistance in Tuvalu, from 1975 to the present:

- Lome I Convention (1975): 4th 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): 5th EDF. A grant of €1 million was used to build additional copra sheds and water tanks, expand the power supply in Funafuti (namely the distribution network), and provide coastal protection throughout the country. (A two-phase regional project also provided household solar lighting kits to outer island residents).
- Lome III Convention (1985): 6th 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 providing additional household solar lighting kits to the outer islands.
- Lome IV Convention (1990): 7th 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): 8th 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): 9th EDF. A grant of €3.3 million ('A' envelope) is being used to fund the Outer Island Social Development Support Programme (OISDSP), which includes a range of NSA activities. €0.7 million ('B' envelope) is 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.

In addition to EDF programmable aid, the European Investment Bank provided three risk capital loans to Tuvalu in the 1990s, one to cover additional shareholding in the Pacific Forum Shipping Line, and two as a line of credit to the Development Bank of Tuvalu (DBT). In 2002, the EIB approved in principle a second global loan of €1,000,000 to the DBT.

Tuvalu signed the Finance Contract in October 2003, which was subsequently signed by the EIB in February 2004. The global loan is broken into two components: €700,000 directly to DBT and €300,000 paid to the Tuvalu Government, which injects the capital into DBT. In May 2005, the EIB transferred €300,000 to the National Bank of Tuvalu, awaiting government approval to transfer it to DBT. The EIB has notified DBT it is withholding the remaining €700,000 pending Tuvalu's repayment of an EIB loan dating from 1985 to purchase cargo containers under a regional initiative through the Pacific Forum Line. Since the Pacific Forum Line has not serviced Tuvalu in over ten years and Tuvalu no longer benefits from the service, the Government will attempt to convert this loan to a grant under terms and conditions of the 1985 loan.

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.

Under the 9th EDF, the indicative financial allocation for Tuvalu is €3.3 million plus the remaining balance of €665,136 from the 6th and 7th EDF for the 'A' Envelope, and €0.7 million for the 'B' envelope. The focal area of EC-Tuvalu cooperation 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.

The audits of the 2003 Annual Work Programme (AWP) and Programme Estimate No. 1 (PE1/2004 AWP) have been completed. The audit of PE2 is expected to occur in the second half of 2006. PE3, which commenced on 9 March 2006, and was originally expected to conclude on 9 March 2007, 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 represents the value of all remaining funds in the 9th EDF except those for future audits and the final evaluation. All past projects under the 6th and 7th EDF were closed by 2002, with remaining balances transferred to the 9th EDF. The 8th EDF was closed in 2005 following submission of the 8th EDF Final Evaluation. All remaining balances under the 8th EDF have been disbursed.

Following changes to 9th EDF procedures and policy in relation to the introduction of Programme Estimates, it has proved difficult to reconcile the different operating periods of Programme Estimates with the Government of Tuvalu's financial year, which runs from 1 January to 31 December. The mechanism of delivering the programme through budgetary support by funding selected activities in social development taken from the national budget works as long as the period of a Programme Estimate is identical to the Government's financial year. That was not the case for the Programme Estimates No. 2 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 the exact amounts can only be established after the audit of a Programme Estimate is completed, which, in turn, can only occur after the national accounts have been closed and audited separately. The funding mechanism applied has led to occasional controversy over budget items permitted to be covered under EDF funds, especially the payment of teachers' 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 9th EDF Financing Agreement (dated 14/11/05). The next TTF transfer will occur following the approval of audited expenditure under PE2, expected in the second half of 2006.

III.1.1 Focal sectors (and macroeconomic support)

The 9th EDF concentrated on social sector development in Tuvalu's outer islands with emphasis on infrastructure assistance for rural primary schools, and 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 three external monitoring exercises. This type of financing mechanism also retains an important link to the Tuvalu Trust Fund through an inbuilt requirement for the Tuvalu Government to transfer at least 50% of EDF funds into the Tuvalu Trust Fund.

Under the 9th 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 provided with school supplies annually. 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 schools 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 Japan. The EU, in cooperation with NZAID and AusAID, employed a local in-country coordinator who also helped to coordinate donor-funded activities in education.

III.1.2 Projects and programmes outside focal sectors

The NSA component of the 9th 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 overall goals of the 9th EDF Financing Agreement in the focal sector areas.

Non-State Actors have an indicative allocation of 10% of the 9th 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 9th EDF have been approved

(2004, 2005, 2006), with a total value of A\$466,974. Projects have been implemented in both the outer islands and Funafuti. 9th 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.

9th EDF Funafuti-based NSA activities include:

- 3) the nearly completed 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 (not underway as of mid-2006 but funding was 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.

III.1.3 Utilisation of Envelope ‘B’

Tuvalu has joined a regional approach to utilise Envelope ‘B’ funding. A Financing Proposal has been approved and a Financing Agreement about to be signed for a Regional Programme in Disaster Preparedness/Risk Management. The programme will combine eight Pacific ACP NIP ‘B’ envelopes in a multi-country programme. Assuming the Financing Agreement is approved, the programme will be managed by SOPAC and entail 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 plan. Installation of additional solar-powered water pumps to pump up groundwater on the four islands that possess a freshwater lens will form part of any ‘B’ envelope project in Tuvalu.

It should be noted as regards disaster preparedness that all current and future programmes should include reinforcement of the national capacity to respond to disasters and should encourage countries to propose their own strategies.

III.1.4 Other instruments

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 9th EDF Regional Indicative Programme (RIP), Tuvalu has benefited from the 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)

III.2 Information on the programmes of the Member States and other donors (complementarity)

Most Member States withdrew their bilateral development assistance from Tuvalu over a decade ago, and the bilateral assistance that remains is generally small and patchy. 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-storey school wings at the Nauti Primary School in Funafuti. Germany, through its embassy in Wellington, New Zealand, occasionally funds a project, such as the Public Works Department's small double-storey 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, focusing mainly on education, including overseas scholarships, but it 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 Taiwan and Japan. The former provides annual budgetary grants, infrastructure, private sector support, ICT, agricultural assistance, sports funding, scholarships and training, while the latter 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.

See Annex 2: *Donor Matrix* for a more detailed list of donor-funded activities.

III.3 Other EC policies

Tuvalu faces many challenges with respect to issues related to climate change and sea-level rise. The Government is grateful to EU Member States for their support of the Kyoto Protocol and efforts currently underway to reduce greenhouse gas emissions in Europe. Tuvalu supports the negotiations towards successful conclusion of a Pacific EPA, from which it hopes to gain easier access to European labour markets since skilled and unskilled labour constitute one of Tuvalu's few exports.

Coherence between development cooperation policy and other EC policies (trade, fisheries, agriculture and environment) relevant to Tuvalu will be assessed on a continuing basis. Systematic account will be taken of the following thematic or cross-cutting themes in mainstreaming them into all areas of cooperation: gender issues, environmental considerations and principles of good governance. This will be a common position applied to other Pacific ACPs in the region as well.

CHAPTER IV: RESPONSE STRATEGY

IV.1 Objectives for future cooperation

The Tuvalu-EU Response Strategy incorporates the basic principles of the EC's ACP Development Policy; the preceding analysis of the political, economic and social situation in Tuvalu; Tuvalu and the EC's longer-term development goals; the Government's own priorities and needs; and the management capacity and staff resources of Tuvalu and those of the EC Delegation in Fiji. Past experience with EDF assistance and other current and planned donor activities were also taken into account.

In the context of the Cotonou Agreement, future cooperation under the 10th EDF between Tuvalu and the European Community has been designed to ensure that:

- i) EC interventions have a positive impact on the living conditions of all citizens of Tuvalu;
- ii) EDF-financed operations can be sustained in order to guarantee a long-lasting flow of benefits to the target groups and to the country as a whole; and
- iii) projects and programmes to be funded under the present Agreement and its proposed Response Strategy are in areas where the EC is perceived to have a comparative advantage over other donors and aid agencies, and where it is possible to operate in close partnership with established and reputable regional agencies that already have established networks in Tuvalu.

IV.2 Focal Area of Cooperation

The European Commission and Tuvalu Government jointly recognise that within the country's development agenda (see *Te Kakeega II*), sustainable management of natural resources is a key element, whose importance has increased in recent years. Issues related to the reliable provision of water and sanitation, waste management, coastal protection, disaster preparedness and renewable energy offer clear, result-oriented opportunities for future Tuvalu-EU development cooperation, especially because other donors are unlikely to be involved in these areas except in a very limited way.

In October 2005, at the Pacific Forum Leaders meeting, the European Commission introduced the proposed focus of future EDF assistance in the Pacific Region, which is sustainable management of natural resources. The EU identified three principal reasons for this focus:

1) the sector is strategically important in all PICs; 2) there are common interests between the region and the European Union; and 3) it is an area where the EU has significant expertise. The broad concept of sustainable development is also one of four key pillars of the regional framework that underpins the Pacific Plan, which was approved by Pacific Forum Leaders at the same October 2005 meeting. The broad development framework for sustainable management of natural resources was introduced to PIC officials at the EU-Pacific ACP Regional Seminar in March 2006. The new EU strategy to reinforce its partnership with Pacific ACPs (the "EU Pacific Strategy"), focusing on the sustainable management of natural resources, was approved on 17 July 2006 by the General Affairs Council of the European Union. Following consultations between the Commission and relevant Government officials, a broad framework for future Tuvalu-EU development cooperation resulted in the Response Strategy.

In Tuvalu, under the 9th EDF, there was a strong emphasis on outer island development that focused mostly but not solely on building primary school infrastructure. Presently, other donors intend to increase assistance to Tuvalu's education sector, leaving the door open for EU cooperation to focus on environmental issues that are in line with the EU Pacific Strategy. Donors such as Australia and New Zealand may have a comparative advantage in the education sector due to similar education systems and regional labour market developments.

In accordance with the European Consensus on Development this response strategy is in line with the listed areas for community action, particularly in relation to the focal area of water and energy.

The Forum's Pacific Plan, as well as Tuvalu's National Strategy for Sustainable Development, put a high priority on the areas of water and sanitation, waste management and renewable energy. In addition, a number of Tuvalu NSAs have both the capacity and experience to participate in, and meaningfully contribute to, activities in these sectors.

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 warrants a response to the various waste management/pollution issues confronting Tuvalu in order to improve overall public sanitation and public health.

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 storage capacity nationwide. There is no underground freshwater 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.

Covering periods of drought by producing desalinated water is not viable due to high electricity (and fuel) costs to operate the desalination plants. To provide a sufficient water supply for the population of Funafuti that can cover the lengthiest periods of drought (usually 1-2 months), residential and (or) municipal rainwater catchment and storage capacity needs to increase significantly.

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. The cost of adequately sized water tanks for an average household of six makes it possible to supply every outer island household with sufficient storage capacity. One outer island has already benefited from such an approach under the 9th EDF through an NSA project that supplied and installed 110 household water tanks on the island of Nui. 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 10th EDF focal sector.

Waste management is part of the focal sector programme under the 10th EDF. In the absence of appropriate legislation, a key element would be to draft an Environment Management Bill or a separate Waste Management Bill, using resources from the non-focal sector allocated for the Technical Cooperation Facility. As part of its commitments under Annex 3B, the

Government would enact waste management legislation, including a waste reduction component, either as part of a comprehensive Environmental Management Act or as a separate Waste Management Act of Parliament.

The successful introduction in Parliament of such a Bill and its subsequent signing into law would be essential for 10th EDF funding for operational waste management activities. Supplementary activities raising awareness about waste reduction could be implemented by NSAs.

Climate change is an important cross-cutting issue, in particular for the small islands of the Pacific region. Major regional initiatives are being considered in the context of the forthcoming 10th EDF Regional Indicative Programme. In 2007 Tuvalu has adopted a National Adaptation Programme of Action (NAPA) and has taken important steps in this area. The current environmental challenges that stakeholders are facing in relation to Tuvalu are exacerbated by climate change:

- coastal erosion, saltwater intrusion and increasing water borne diseases due to sea level rise;
- inadequate potable water due to less rainfall and prolonged droughts;
- decreasing fisheries population.

Some specific issues with regard to improved water resources management should be taken into account (and also in the identification process and feasibility studies which will determine the specific interventions and accompanying measures of the focal sector programme).

It is also noted that, given the difficulty of implementing individual disaster prevention programmes for each small island, a synergy should be found between all contributions to such programmes on a country and regional basis (for example the multi-country programme under the 9th EDF B-envelope).

IV.3 Implementation mechanism

As discussed at the Regional Seminar in March 2006 and if deemed feasible, a multi-country programme approach is proposed as the preferred modality for implementing the 10th EDF. This should raise the quality of Technical Assistance, improve efficiency and effectiveness, and speed up the delivery of 10th EDF assistance. Where and when available, 10th EDF projects should employ local administrative and technical expertise. Detailed implementation mechanisms will be jointly discussed and agreed upon, taking into consideration lessons learned from the five-country renewable energy project in the Pacific, financed under the 9th EDF.

In order to assist in the definition of future strategy under the 10th EDF, use should be made of the recommendations provided in the “Thematic evaluation of the European Commission’s support to Partner Countries in the Water and Sanitation sector” (ref: EUROPAID – 116546/C/SV/Multi-Jly 2006).²

² Main recommendations of the thematic evaluation – Water & Sanitation Sector:

1) Specific Water & Sanitation (W&S) sectoral needs of a partner country and the potential contribution W&S actions reducing poverty and raising living standards, can best be mainstreamed into the CSP and NIP by moving towards more formal partnerships for the W&S sector between the EC and its partners.

2) Before a water supply project or programme is contemplated, the need for a sanitation component must be properly assessed, and if appropriate included.

Although the IWRM principles (like proper understanding of the water resources management process, and stakeholders well equipped) are being considered, they should be applied more rigorously in planning/design/management of water supply schemes.

3) Balancing W&S policies with the inability of some in society to pay for water, and the need for sustainability through higher investments in Operation and Maintenance, and ensuring beneficiary empowerment, must be viewed as W&S sectoral priorities.

4) Continue and expand the use of sector and budget support mechanisms to implement W&S actions. Where “basket” funding is being used through sector programmes, special efforts should be made to ensure that Member States' development and sectoral priorities and the ones promoted by EC will be aligned.

The EC's financial and management systems, via which it administers W&S sector and budget support programmes, should be closer harmonised with those used by the recipient government.

5) Efforts to advance gender awareness in the W&S sector, particularly at decision-making level, should be doubled.

6) Performance indicators should be selected and mainstreamed to enable policy-makers and senior managers to assess impacts of service delivery on health and poverty. These indicators should also enable to demonstrate successes to a wider audience with more confidence.

Table of macroeconomic indicators (available data in table on page 13)

Table of indicators for the MDGs

Note: This table contains the available data on the official United Nations site for the MDG Indicators (<http://mdgs.un.org>)

	Indicator	1990	2000	2004	2005	2006	2007	2008	2009	2013	2015
Impact	1. Proportion of population living on less than USD 1 per day ³	NDA	NDA	NDA	NDA	NDA					
	2. Prevalence of underweight children (under five years of age)	NDA	NDA	NDA	NDA	NDA					
	3. Under-five mortality rate	56 (I)	53 (I)	51 (I)	NDA	NDA					
Outputs	4. Net enrolment ratio in primary education	NDA	NDA	NDA	NDA	NDA					
	5. Primary completion rate	NDA	125.5 est (II)	103.1 est (II)	NDA	NDA					
	6. Ratio of girls to boys in:										
	- primary education	NDA	1.04 (II)	1.07 (II)	NDA	NDA					
	- secondary education	NDA	NDA	NDA	NDA	NDA					
	- tertiary education	NDA	(III)	(III)	NDA	NDA					
	7. Proportion of births attended by skilled medical personnel	NDA	NDA	100 (2002)	NDA	NDA					
	8. Proportion of one-year-old children immunised against measles	95	81	98	NDA	NDA					
	9. HIV prevalence among 15- to 24-year-old pregnant women	NDA	NDA	NDA	NDA	NDA					
	10. Proportion of population with sustainable access to an improved water source	89	NDA	100	NDA	NDA					

NDA No Data Available

I Rate per 1,000 live births

II National population data were used to calculate enrolment ratios

III The figure is not available because the indicator, as defined for the global monitoring, does not apply to the circumstances of the specific country, and therefore is not reported

³ Indicator 1 may be replaced by an equivalent indicator based on national poverty thresholds, in which case a comment will be needed to permit consistent interpretation of data over time.

PART 2: INDICATIVE PROGRAMME

1 Indicative Programme

1.1 Introduction

On the basis of the cooperation strategy presented in Part One and in accordance with Article 4 of Annex IV to the Cotonou Agreement, the Indicative Programme has been drawn up as a set of tables showing the intervention framework for each sector, the financial programming timetable and a detailed schedule of activities for all listed programmes over a rolling three-year period.

Amounts mentioned in this chapter indicate the overall breakdown of funds between the focal sector(s), macro-economic support and other programmes. The breakdown may be adjusted in the light of the operational, mid-term, final or ad hoc reviews. However, for any adjustment resulting in a substantial change to the structure of the response strategy, a formal decision in the form of an addendum to the strategy document will be required.

1.2 Financial instruments

The implementation of the EC's cooperation strategy with Tuvalu will be financed from several financial instruments. The following is an indication of their mobilisation as currently envisaged.

1.2.1 **A envelope €5,000,000:** this envelope will cover long-term programmable development operations under the strategy, and in particular in the focal sector Water and Energy.

1.2.2 **B envelope €400,000:** this envelope will cover unforeseen needs such as emergency assistance where such assistance cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings.

In accordance with Article 3(5) of Annex IV to the Cotonou Agreement, this amount may, if necessary, be increased in the light of the operational or ad hoc reviews.

1.2.3 **Investment Facility:** in addition to the above-mentioned financial instruments, of which the A envelope is the main programmable basis for the NIP, the 10th EDF includes an Investment Facility, which is an instrument managed by the European Investment Bank. The Investment Facility is not part of the NIP.

Some specific activities may be supported by the Centre for the Development of Enterprise (CDE) and the Centre for the Development of Agriculture (CTA).

1.2.4 **Pacific Regional Indicative Programme:** this allocation will cover long-term programmable development operations under the regional strategy for the Pacific. The allocation is not part of the Indicative Programme but may have an impact at national level depending on Tuvalu's participation in the programmes proposed under the regional framework.

1.2.5. **Other financial instruments:** Specific activities may be supported by external actions funded by the general budget of the European Community carried out under the financial framework for 2007–2013 subject to special procedure and availability of funds, and out of the own resources of the EIB. Actions funded by the general budget

include, among others, programmes funded under the Development Cooperation Instrument such as the thematic programmes “investing in people”, “non state actors in development”, “migration and asylum”, “environment and sustainable management of natural resources” and “food security”, as well as actions funded from other instruments such as the stability instrument, the instrument for the promotion of human rights and democracy or the instrument for humanitarian and emergency assistance.

1.2.6. Monitoring and evaluation: Monitoring of results and evaluations of impact of individual activities (programmes, projects, sectors) under this CSP will be undertaken in line with the Technical and Administrative Provisions that are attached to each individual Financial Agreement prepared to implement this CSP.

The results and impact of the Community's cooperation with Tuvalu implemented through the NIP and through other external actions funded by the general budget of the European Community, will be assessed by means of an independent external evaluation. This country-level evaluation may be undertaken jointly with EU Member States and possibly also with other donor agencies.

1.3 Focal sector: Water and Energy (focusing on Water and Sanitation)

The following specific objective will be pursued:

- to increase catchment and storage capacity to achieve sustainable country-wide rainwater harvesting;
- to establish a legal framework for environment protection and waste management; and
- to increase the use of renewable energy as a proportion of national energy consumption.

€4,400,000 is allocated to this sector.

The main implementing instrument will be **project approach** using a sub-regional implementation mechanism (implementation pooled with other small Pacific Island Countries).

The main sectoral policy measures to be taken by the Government as a contribution to the implementation of the response strategy in this field are:

- the drafting and enforcement of legislation governing all aspects of water management, environment protection and waste management;
- the inclusion in the national budget from 2008, for all years of the programme, of a modest but reasonable amount of financial resources for enforcing environment and waste management legislation;
- identification and provision of suitable sites for infrastructure development in the focal sector;
- provision of manpower and expertise for the construction of focal-sector-related structures.

The Government of Tuvalu undertakes to provide the necessary human resources from the Public Works Department, the Ministry of Works and Energy, the Ministry of Natural Resources and the Department of Environment to facilitate the programme.

The Government agrees to cover annual operational funding for the Waste Management Unit including salaries from consecutive National Budgets.

The Government will identify suitable land for infrastructure development on all islands where necessary.

The Government undertakes to involve Non-State Actors in focal sector activities in a significant way, considering the capacity and expertise of NSA to deliver the desired outcomes.

The Government will promote further the integration of the principle of sustainable development into country policies and programmes and work towards reversing the loss of environmental resources (MDG 7).

1.4 General budget support

The indicative programme does not provide for general budget support. However, in the light of changing needs, it may be decided to reallocate funds from other application points in the NIP to this type of support. Such a decision could be taken in the form of a specific agreement between the Chief Authorising Officer and the National Authorising Officer or within the context of an operational, mid-term, final or ad hoc review.

1.5 Other programmes

An indicative amount of **€600,000** (12% of the A-envelope) is set aside for a Technical Cooperation Facility which will allow for technical assistance to the NAO, for governance-related activities to assist the Government of Tuvalu to reach the targets set in the Government Commitments, for trade-related issues, and for meeting other ad hoc needs in the area of TA where they arise in the course of the programme.

It is envisaged that technical assistance needed to draft comprehensive environment and waste management legislation will be supported from this allocation.

Support for Non-State Actors covers NSAs eligible for funding as defined in Article 6 of the Cotonou Agreement and Article 4(1)(d) of Annex IV to the revised Agreement. Depending on their mandate, support to NSAs may cover activities such as capacity-building, advocacy, research, awareness-raising, monitoring and delivery of services to the population. In supporting NSAs, the EC may make use of Article 15(4), which allows it to be the Contracting Authority.

1.6 Intervention Framework & Performance Indicators
1.6.1 Focal Sector – WATER AND ENERGY (focusing on Water and Sanitation)

	Intervention Logic	Objectively Verifiable Indicators	Sources of Verification	Assumptions
Overall Objectives	To improve social and economic development and provide sustainable living conditions in an atoll country	Reduced costs for water supply Improvement in public health Reduced urban to rural migration Increased agricultural activities	Government records Health statistics Independent academic and non-academic research	N/a
Programme Purpose	To provide sustainable rainwater harvesting infrastructure and improve sanitary conditions on all islands through sustainable waste management	Increased water storage capacity at household level Increased communal water catchment and storage capacity Improved preparedness for periods of drought Reduced solid waste Increased organic waste separation for composting	Government records Independent monitoring reports Household surveys	Suitable sites for large water storage facilities can be identified Government policies continue to support sustainable management of natural resources Popular support for waste management efforts continues to increase
Results	Sufficient access to clean drinking water for each household Sufficient water storage to withstand extended periods of drought Significant reduction in solid waste	Doubling of household-based water storage capacity on outer islands Four-fold increase in communal water catchment and storage capacity on Funafuti Increased percentage of organic waste separated from the waste stream to 50% of total collected waste Retail sector driven export of recyclable materials	Independent research, monitoring and evaluation Government records Chamber of Commerce reports	Water tanks properly installed and maintained Sound and sustainable construction of facilities Continuation of operational funding for the Waste Management Unit Support by the retail sector for waste reduction and recycling Enforcement of relevant legislation

Proposals for performance indicators for water and sanitation sector

Below is a set of indicators that can be useful for designing performance assessment for the W&S sector

Intervention	Indicator
Sustainable national water resource management	<ul style="list-style-type: none"> ● Existence of a national water policy, with clearly defined institutional roles and responsibilities ■ Regional exchanges on IWRM good practices. ■ Transparency of decision making processes and participation of stakeholders ■ Introduction of a national water resource plan, including a national & local IWRM strategy.
Fair and appropriate allocation of water between all users. - water for food, water for nature, water for basic needs & water for energy & industry,	
Improving health and quality of life of the poor through sustainable water resource management	<ul style="list-style-type: none"> ● % of Population (urban, peri-urban and rural) with sustainable access to safe drinking water" ● % of Population (urban, peri-urban and rural) with access to basic sanitation
Ensure an healthy access to safe drinking water, sanitation & waste disposal systems for the poor	<ul style="list-style-type: none"> ● % of mortality rate due to water-related disease (especially under 5 mortality) ● Prevalence of diarrhoea ● Health costs of water related disease (% of income) ● Hygiene education & sanitation facilities provided in schools
Gender sensitive WS&S services and infrastructure	<ul style="list-style-type: none"> ● Involvement of women in decision-making processes

1.7 Indicative timetable for commitments and disbursements

1.7.1 Indicative timetable of global commitments

	Indicative allocation	2008		2009		2010→	
		1	2	1	2	1	2
1st FOCAL SECTOR – WATER AND ENERGY (focusing on Water and Sanitation)	M €						
- Multi-Country Programme	M €		4.4				
	M €						
2nd FOCAL SECTOR – N/A	M €						
- Project 1	M €						
- Project 2	M €						
NON-FOCAL SECTORS	M €						
- Institutional support for non-state actors.	M €						
- Technical Cooperation Facility	M €		0.6				
- Contribution to regional programmes	M €						
- Support for EPA	M €						
-Support for Governance	M €						
-Other	M €						
Total Commitments:	M €						
Total Cumulative Commitments :	M €		5.0				

1.7.2 Indicative timetable of disbursements

	Indicative allocation	2008		2009		2010 →	
		1	2	1	2	1	2
1ST FOCAL SECTOR – WATER AND ENERGY (focusing on Water and Sanitation)	4.4 M€						
- Project 1 : MULTI-COUNTRY PROGRAMMING	4.4 M€		0.4	0.8	0.8	0.8	0.8
- Project 2 : NONE	M€						
2ND FOCAL SECTOR – <name>	M€						
- Project 1	M€						
- Project 2	M€						
NON-FOCAL SECTORS	0.6 M€						
- Institutional support for non-state actors.	M€						
- Technical Cooperation Facility	0.6 M€		0.1	0.1	0.1	0.1	0.1
- Contribution to regional programmes	M€						
-Support for EPA	M€						
-Support for Governance	M€						
-Other	M€						
Total Commitments :							
Total Cumulative Commitments :	5.0 M€		0.5	0.9	0.9	0.9	0.9

1.8 Schedule of activities

1 st FOCAL AREA (4.4 M €)	Indicative allocation	2008				2009				2010→			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
- Multi-Country Programme	4.4 M €		AF	FD	⌘	⌘	⌘	⌘	⌘	⌘	⌘	⌘	⌘
2nd FOCAL AREA (... M €)													
Education													
		2008				2009				2010→			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
- Project 1	M €												
- Project 2	M €												
NON-FOCAL AREAS (0.6 M €)													
		2008				2009				2010→			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
- Institutional support for non-state actors.	M €												
- Technical Cooperation Facility	0.6 M€		AF	FD	⌘	⌘	⌘	⌘	⌘	⌘	⌘	⌘	⌘
- Contribution to regional programmes	M €												
-Support for EPA	M €												
-Support for Governance	M €												
-Other	M €												

FS: Feasibility Study
 AF: Action Fiche
 FD: Financing decision
 ⌘ : Project implementation

ANNEXES

1. "Country at a glance" table

A table with macroeconomic indicators is included in the main text on p.13:

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 ¹	62/65	62/66	62/66	62/66	na
5. Infant mortality rate (per 1,000 live births)	34.6	25.4	25.3 ²	32.2	42.3	17.4
6. Primary school enrolment ³	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 ⁴	.89:1	.93:1	.96:1	1.06:1	.91:1	na
Tertiary education ⁵	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)

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

² Down from 43.5 per 1,000 live births in 1990.

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

⁴ 2003-2004 figures include, respectively, 99 and 183 students enrolled at Fetuvalu High School.

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

The MDG Indicators table as provided in the template CSP was filled out as suggested.

2. Donor matrix

A donor matrix is annexed.

3. Executive summary of the Country Environmental Profile

Annexed.

4. Country migration profile

As per instructions by HoD no separate migration profile was produced beyond the information provided in the Governance Profile.

5. CSP drafting process: particular attention to involvement of NSA and local authorities

NSA were involved in the programming exercise on a national level through regular consultations with the NAO as well as on a regional level through participation in an NSA Forum on 10th EDF Programming organised by the EC Delegation for the Pacific in Suva in August 2006.

6. The harmonisation road map

There is no harmonisation roadmap for Tuvalu.

7. Table including partner country positions in relation to key international conventions

International conventions are mentioned in the main text p.17-19. Tuvalu is a member of the Convention on the Rights of the Child (1995 by accession) and CEDAW (1999 by accession). The government has not fulfilled its reporting obligations under either of the two conventions. A number of regular reports on both conventions are many years overdue. Tuvalu has neither acceded to, signed, or ratified any of the other global instruments such as the Universal Declaration of Human Rights (1948), the International Covenant on Civil and Political Rights (1966), and the International Covenant on Economic, Social and Cultural Rights (1966), the International Convention on the Elimination of Racial Discrimination (1965), the Convention Against Torture (1984).

8. Debt Sustainability Analysis (if available from the IFIs; where appropriate)".

No DSA is available from the IFIs for Tuvalu.

1. Strategic Area: Good Governance

Priority Kakeega I Strategies: 2007-2009	Projects and Programmes	Funded Activities	Where Donor Support and Action is Needed
Improve public service delivery.	1. Realign the role and size of the public service. (OPM)	Government: TA Supernumery.	Service-wide review, including fact-finding tours to Samoa and Fiji (to form the basis of a proposal for donors).
	2. Identify departments (if any) that can be reorganised for commercialization. (OPM/MEFPI)	No funding source identified.	Service reorganization review, including recruitment of legal expertise to review Public Service Act.
Strengthen fiscal management.	1. Set strict compliance to fiscal target, guidelines, and with Public Finance Act and Financial Instructions. (MFEP)	Government: Setting benchmarks for fiscal targets; AusAID: Budget Advisor.	See Strategic Area 2: The Economy, Growth and Stability.
	2. Formulate medium-term fiscal policy framework (including a multi-year budget framework) to guide budgetary performance and to attain balanced budgets. (MFEP)	Government; AusAID: Budget Advisor.	
	3. Establish a Macroeconomic Policy Committee to monitor economic performance and recommend policy adjustments. (MFEP)	Government; AusAID: Budget Advisor.	
	4. Restructure tax and tariff regimes to comply with PICTA and PACER agreements. (MFEP)	PFTAC: Review of Tuvalu Tax and Tariff Regime.	

Strengthen political stability and oversight of public administration.	1. Establish Leadership Code. (OPM)	PIFS: Leadership Code Legislation.	Capacity building: Train local staff to work in the proposed Ombudsman's Office.
	2. Establish Office of the Ombudsman. (OPM)	PIFS: Leadership Code Legislation.	Capacity building: Formal qualifications in accounting and auditing; economics, administration; short-term courses; in-country workshops on accounting and auditing standards; overseas attachments.
	3. Strengthen the Office of the Auditor General. (OAG)	AusAid: TA to OAG (in progress); Government: Provision of long and short-term training for OAG staff.	Review the Audit Act to strengthen the functions of the Office of the Auditor General. Establish appropriate code of conduct and ethics for audit officers. Review contractual terms for engaging accounting firms.
	4. Revise Laws of Tuvalu to meet our changing environment. (AG's Office)	Government: Laws of Tuvalu revision (Phase I).	Revise the Laws of Tuvalu (Phase II).
	5. Strengthen the effectiveness of Parliamentary Committee System, including Public Accounts Committee (PAC) (PARL)	CPA: Training programmes.	Strengthening various Parliamentary Committees, in particular PAC.
	6. Promote fair, impartial and independent media. (OPM)	Government.	Examine options/viability of divesting the Ithau Media Corporation.
Improve governance and management of public enterprises.	1. Assess the viability of privatising selected public enterprises. (OPM/MFPI)	Government: TA Superannuity (e.g. Travel Office).	Assistance required with assessing options for privatisation.

Annex 2

	<p>2. Clearly define, cost out, and better target government subsidies. (MFEPI)</p> <p>3. Establish clear guidelines on the roles and responsibilities of Ministers, the Board, and Management of public enterprises. (MFEPI)</p>	<p>Government: TA Supernumery.</p>	<p>Identify, cost, and provision of Community Service Obligations (CSOs)</p>
	<p>4. Produce annual reports and audited accounts in accordance with the relevant legislation, with both made available to the public. (OAG)</p>	<p>Government: engagement of KPMG to audit government accounts.</p>	<p>None.</p>
	<p>5. Ensure timely submission of financial accounts for all clients and to authorize OAG to make reports and accounts available to the public. (OAG)</p>	<p>Government: auditing of depts, SOEs and Kaupules.</p>	<p>Review Audit Act.</p>

Tuvalu Country Environment Profile
(Summary Only)

September 2006

Prepared and compiled from existing published reports, as part of the of the Country Support Strategy for the 10th European Development Fund programming under the Cotonu Agreement in line with the EU Pacific Strategy focusing on strengthening cooperation to address the management of natural resources and environmental challenges.

1. Summary

This Tuvalu country environment profile provides the background information from a national perspective, and suggests possible areas for intervention with EDF 10 resources. Tuvalu has a landmass of 26 square kilometres spread over nine low lying coral atolls. No atoll is more than 5 metres in height above sea level. This makes Tuvalu vulnerable to sea-level rise, man made hazards, natural hazards including cyclones and climatic variability. Tuvalu has an Exclusive Economic Zone (EEZ) of over 900,000 square kilometres.

Tuvalu has faced a challenging decade since the publication of its National Environment Management Strategies (NEMS) in 1997, which is based upon the principles agreed to at the Earth Summit on Environment and Development held in Rio, 1992. The NEMS states that, "Global warming and sea-level rise, population growth and distribution, and resource over-exploitation are just a few concerns.

Dealing with these issues will present substantial challenge for the people and government of Tuvalu..... the principle of sustainable development must be embraced and observed at every level, from government departments to communities and individuals. This entails a fundamental challenge in the way we look at our environment and in the focus of our priorities".

The NEMS described Tuvalu's environmental concerns as follows:

- global warming and sea-level rise;
- high population growth and densities, and uneven distribution;
- deficiencies in environmental education and public awareness;
- decline of traditional resource management practices and production systems;
- unsustainable use of natural resources; and waste management and pollution control.

The increasing population is taking its toll on Tuvalu's main island, Funafuti, where pressure on resources has led to environmental and poverty concerns.

Tuvalu's progress over the last decade has laid the platform for necessary mechanisms to implement all its environmental obligations under international and regional environment conventions since the Barbados Programme of Action in 1994. Despite progress over the years, new concerns have emerged together with imperative issues of special needs that require immediate assistance from the international community on the sustainable management, protection and conservation of Tuvalu's natural, ecological, cultural and human resources. These emerging concerns are seen as the next stepping stone for Tuvalu to consider in the coming decade if it is to fully realise a balance between development and natural resource management, and reduce poverty.

Climate Change

Climate change actions needed in the future include:

- preparation of a national climate change action policy that covers all sectors of government;
- develop a broader public awareness campaign on climate change, in particular, there is a need for local council (kaupule) workshops to raise awareness of climate change issues;
- develop more appropriate facilities for shipping in the outer islands (for example wharves rather than channels) to avoid increasing erosion problems;
- develop and initiate environmental impact assessment procedures for all major developments that may be affected by severe weather events and sea level rise;
- find financial support to initiate adaptation projects on the ground, including special binding to protect sensitive coastal areas to erosion and severe weather events, replanting coastal vegetation, and possible land reclamation activities;
- secure greater international financial assistance for Tuvalu to adapt to the impacts of climate change and sea level rise;
- local studies to understand the impacts of climate change and sea level rise;
- develop an overseas migration strategy for affected citizens;
- source building materials (sand and gravel) from sustainable supplies that will not exacerbate erosion problems.

Natural and Environmental Disasters

Disaster management action needed in the future include:

- financial support for disaster management including the establishment of a disaster management fund;
- the Disaster Management Plan needs to be enshrined in legislation, and the Disaster Management Committee made effective;
- greater public awareness, including the Disaster Management officials spending more time in the outer islands;
- improved early warning systems and emergency communications for all islands; and
- strengthened building codes so that houses are cyclone proof.

Management of Waste

Waste management actions needed in the future include:

- waste management strategies need to be extended to all islands;
- waste management legislation needs to be revised and strengthened;
- financial resources to initiate waste management strategies;
- restrict the import of non-biodegradable products and strategies developed to support the import
- of environmentally friendly goods;
- waste collection and disposal equipment needs to be supplied to all of the islands, and waste
- disposal sites need to be improved and properly managed to eliminate health risks;
- public education programmes on appropriate waste management and prevention; and
- recycling systems and technology introduced on each of the islands.

Coastal and Marine Resources

Coastal and marine resources actions needed in future:

- strengthen institutional capacities to manage protected areas, and develop a national policy on conservation and the sustainable use of resources, and enforce by-laws which protect marine and coastal resources;
- community education and establishment of conservation projects, and a sustainable fisheries
- management regime in all of the islands, including the option to initiate a programme of fishing ground rotation to reduce overfishing;
- develop mariculture activities e.g. pearl farms to improve the livelihood of people in the outer islands;
- legislation developed to ban dumping of waste at sea, and initiate a programme for the removal of shipwrecks;
- develop a coastal and marine resources protection plan, including environmental impact
- assessment procedures to regulate community developments that may affect coastal resources; and
- enforce appropriate fishing practices in Tuvalu's EEZ.

Freshwater Resources

Freshwater management actions needed in the future to improve water security include:

- a national and island water policy, and legislation to control sewage disposal;
- public education and assistance to households and communities with the purchase of water storage tanks, improve catchments and environmentally sound domestic sewage disposal systems, including the development of composting toilets;
- facilities and equipment are required to test for water quality;
- install new or repair old groundwater pumps;
- emergency desalination plants are required to cater for droughts; and
- examine the feasibility of ocean thermal energy systems as freshwater is a by-product.

Land Resources

Actions needed and constraints to land resources in the future:

- land records and boundaries updated and maintained, and a long-term land use plan for the country developed, including a review of the land tenure system;
- improve the arrangements for economic compensation for leased land;
- develop and implement coastal zone management on all islands;
- develop a legal system to protect traditional knowledge and carry out studies on Tuvalu's biodiversity and biological resources;
- integrate traditional practices with modern conservation systems, and develop public awareness programmes of the importance of conserving species; and
- build capacity to allow the enforcement of by-laws for the protection of biological diversity, including the harmonisation of government and local council (Kaupule) biodiversity management strategies.

Energy Resources

Energy actions needed include:

- political commitment to renewable energy;
- more extensive renewable energy feasibility studies;
- public awareness of the impacts of different types of energy production;
- promote sustainable charcoal production;
- develop biogas and other biomass energy sources;
- promote energy efficiency technologies; and
- energy technology staff need capacity building to understand new technologies.

Tourism Resources

Actions needed to support the development of tourism include:

- market surveys and promotion of the tourism potential of Tuvalu;
- encourage investors in the ecotourism industry;
- legislation to set ecotourism standards; and
- public awareness programmes to promote sustainable tourism.

The conclusions and recommendations of the Tuvalu Country Environment Report are as follows.

Conclusion 1: It should be highlighted that this Tuvalu environmental profile has been compiled as a desk study. Nonetheless, it has benefited from access to reporting on environmental issues by Tuvalu produced over the past decade, since 1992 at UNCED in Rio (Agenda 21), and in 1994 at the Barbados International Meeting on Sustainable Development for Small Island Developing States (BPoA). Most recently, Tuvalu has had the opportunity to produce national assessment reports for the 10-year review of both Agenda 21 (the World Summit on Sustainable Development in 2002), and the BPoA (the International Meeting on

SIDS in 2005). Furthermore, the first 5-year national report of progress on achieving the MDGs was due for completion in early 2006.

Conclusion 2: The EU has supported Tuvalu along with all Pacific ACP countries during recent global environmental processes, and in particular in regard to environmental issues such as climate change, water and sanitation, renewable energy, food security, and how to improve livelihoods of island people by addressing the "special case for SIDS" in regard to vulnerability and addressing poverty through the establishment of "Te Kakeega II: Tuvalu's National Sustainable Development Strategy". Tuvalu needs support for implementation from the EDF 10.

Conclusion 3: Notwithstanding the current Country Support Strategy (refer Section 4.1) for EDF 9, together with assistance being provided through the Regional Indicative Programme, it should be noted that along with other Pacific ACP countries, Tuvalu has agreed to the new Strategy for Strengthened Partnership between the EU and the Pacific Islands which has a "blue-green" theme within the context of sustainable management of natural resources and environmental challenges.

Within this broad theme specificity is needed to ensure the activities to be supported by the NIP deliver tangible and concrete benefits at national level that demonstrably contribute to strengthening the environmental pillar of national sustainable development and poverty reduction. In this context also, improved and strengthened links need to be demonstrated with the activities to be carried out at national level by the regional organisations supported by the Regional Indicative Programme.

Conclusion 4: Tuvalu's environment is no exception to the reality that it provides the basic goods and services, such as water, energy and food security, upon which people live. Improvements and sustainability in these areas are essential to underpin generation of economic wealth. Tuvalu acknowledges that environmental considerations are inextricably linked across their national development planning efforts, but there is a need to strengthen these interlinkages to ensure improved decision-making supports efforts to achieve sustainability.

Conclusion 5: The state of the Tuvalu environment over the past decade has deteriorated and remains highly vulnerable. Over the past decade much has changed with internal shocks from increasing population, concentration of that population through urbanisation and urban drift, and external shocks such as globalisation, HIV/AIDS, climate change and most recently increasing fuel prices. All are putting increased stress on the environment. Key examples of improvements needed are; secure safe water supply and sanitation; developing access to affordable renewable energy resources; food security from fishing and agriculture, to support sustainable development, improve lifestyles and reduce poverty. The urban and rural, outer island, population, must be targeted. Improvements in these "sectoral" areas will also have a positive impact on reducing Tuvalu's vulnerability to climate change and natural disasters (many of which are weather-related).

Conclusion 6: Over the past decade some progress in many areas has been made in improving environmental sustainability through institutional strengthening. Although not as significant as Tuvalu would have liked. Much of the progress has been at the initiative of the Tuvalu and with its own financial resources. But much remains to be done to improve the efficiency and effectiveness of the national environmental machinery including strengthening the role of the NGOs. Development partners, including regional organisations, need to harmonise and

coordinate their assistance more closely with Tuvalu needs and efforts, and amongst themselves. This will make both existing and new resources more efficient and effective.

Conclusion 7: In order to provide a platform to facilitate closely cooperation with its development partners, and improve governance, Tuvalu has developed Te Kakeenga II, its National Sustainable Development Strategy 2005-2015, as an overarching planning policy/regulatory and institutional arrangements. There is much room for supporting capacity building and technical assistance in this context.

Conclusion 8: Tuvalu's capacity needs to be strengthened to manage its large marine environment compared with the generally small island land areas. In reality, as the marine "blue environment" and land "green environment" are an environmental continuum across the coastal zone. Tuvalu needs a spatially integrated management approach, similar to "island system management" promoted by the EU through one of the EDF8/9 regional projects.

Conclusion 9: Tuvalu, like many other of its neighbours, recognises the opportunities of improved information and communication technologies, in particular in regard to getting more up to date data and making it readily available to support the decision-making process.

Conclusion 10: Tuvalu needs to develop and strengthen its own national setting of indicators and targets, and monitoring arrangements to track progress, and link these to international development goals agreed at for example the WSSD, the Mauritius International Meeting on SIDS, and contained in all relevant MDGs and targets, not just MDG7 on environmental sustainability.

Recommendation 1: Concerning the selection of the focal sectors and response strategies for Tuvalu, within the overarching "blue-green" theme of sustainable management of natural resources and environmental challenges, key areas to consider are: securing safe water supply and sanitation; developing access to affordable renewable energy resources; and improving food security from fishing and agriculture.

Recommendation 2: As a governance issue in regard to national institutional capacity to improve the management of natural resources and the environment, consideration needs to be given to supporting Tuvalu address institutional capacity assessment and needs for all its line ministries. Specifically:

- there is an immediate need to promote the participation and involvement of NGOs at the national and community level and be supported through capacity building;
- additional financial assistance is required to implement priority human capacity building needs of the country; and
- the recognition of integrating environmental consideration into national economic planning is a critical issue that requires priority attention. Support for the successful implementation of Te Kakeenga II, Tuvalu's National Sustainable Development Strategy 2005-2015 is key.

Recommendation 3: Improve Tuvalu's national environmental information systems, such as the country report on the global environmental vulnerability index project developed in the Pacific region, and ensure environmentally-relevant indicators to be used in the EDF 10 National Indicative Programme, are integrated into these systems.

Recommendation 4: Tuvalu's access to the use of EC horizontal budget lines (such as Environment and Forests) and facilities (EU Water Facility - EUWF and the EU Energy Facility - EUEF), and the EU/ACP Natural Disaster Fund are limited by national capacity constraints. Each of these opportunities of additional financial resources are important and should these funds/facilities be ongoing consideration needs to be given to assisting Tuvalu prepare the bulky and complex applications.

Recommendation 5: In order to ensure effective and efficient support to Tuvalu, it is important for the EU to develop new and strengthen existing opportunities for co-ordination on natural resources and environmental issues with other donors (including regional organisations) seeking to achieve complementarities and synergies.

This report is financed by the European Commission and is presented by Russell Howorth of Matadrevula Advisory Services (russell@matadrevula.com) for Tuvalu and the European Commission. It does not necessarily reflect the opinion of the Government of Tuvalu or the European Commission.

ANNEX 3B – LIST OF GOVERNMENT’S COMMITMENTS

	Governance area	Prospective commitments
1.	Political democratic governance	
	• Human rights	➤ Submit first reports under CEDAW and CRC.
	• Fundamental freedoms	➤ Amend the Bill of Rights in the Constitution to legislate against discrimination on the basis of sex.
	• Electoral process	➤ None.
	• Principles of constitutional democracy	➤ None.
2.	Political governance - rule of law	
	• Judicial and law enforcement system	➤ None.
3.	Control of corruption	➤ None.
4.	Government effectiveness	
	• Institutional capacity	➤ None
	• Public finance management	➤ None.
5.	Economic governance	➤ None.
	• Private sector/market friendly policies	➤ None.
	• Management of natural resources	➤ Introduce waste management legislation as part of a comprehensive Environmental Management Act or as a separate Act ➤ Increase the percentage of organic waste separated from the waste stream to 50% of total collected waste.
6.	Internal and external security	
	• Internal stability/conflict	➤ None.
	• External threats and global security	➤ Accede to mine ban treaty and sign and ratify Ottawa Protocol ➤ Sign and ratify Protocol on Explosive Remnants of War
7.	Social governance	➤ Ratify the 8 main ILO Conventions. ➤ Develop National HIV/AIDS Response Strategy.
8.	International and regional context	
	• Regional integration	➤ Ratify PICTA.
	• Involvement in regional peer review mechanisms (e.g. APRM)	➤ None.
	Migration	➤ None.
9.	Quality of partnership	
	• Political dialogue	➤ None.
	• Programming dialogue	➤ None.
	• Non-State Actors	➤ Introduce regular institutionalised dialogue with Non-State Actors.