

# **ASIAN DEVELOPMENT BANK**

## **COUNTRY STRATEGY AND PROGRAM UPDATE (2003-2005)**

**TUVALU**

**July 2002**

## CURRENCY EQUIVALENTS

(as of 26 June 2002)

Currency Unit	–	Australian dollar (A\$)
A\$1.00	=	US\$0.5753
US\$1.00	=	A\$1.7382

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AOTA	–	advisory and operational technical assistance
CIF	–	Consolidated Investment Fund
FTF	–	Falekaupule Trust Fund
GDP	–	gross domestic product
HDI	–	Human Development Index
HPI	–	Human Poverty Index
IDG	–	International Development Goals
IDP	–	Island Development Program
NDS	–	National Development Strategy
NZODA	–	New Zealand Overseas Development Agency
PDMC	–	Pacific developing member country
PPTA	–	project preparatory technical assistance
SOE	–	state-owned enterprise
TA	–	technical assistance
TEC	–	Tuvalu Electricity Corporation
TMTI	–	Tuvalu Maritime Training Institute
TTC	–	Tuvalu Telecommunications Corporation
TTF	–	Tuvalu Trust Fund

## NOTE

The fiscal year (FY) of the Government of Tuvalu and its agencies ends on 31 December. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2001 ends on 31 December 2001.

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## I. COUNTRY STRATEGY

1. The National Development Strategy<sup>1</sup> (NDS) for 1995-1998, still serves as the Government's basic strategy document, pending the formulation of a new NDS. The last couple of year's changes of governments have caused frequent rotations of staff, which is the main reason for the delay in the preparation of the new strategy. Of the five priority programs in the NDS— (i) public sector reforms; (ii) improvement of economic infrastructure, especially interisland shipping and telecommunication; (iii) Education For Life aimed at raising standards of education and training; (iv) encouragement of export-oriented business investment (while encouraging overseas employment); and (v) upgrading of human settlement—the first four areas were reiterated in the State of the Nation Address in February 2002, and emphasis on greater self-reliance for the outer islands and reduction of poverty were included as government priorities.

2. The general framework for the Asian Development Bank's (ADB) country strategy for Tuvalu is spelled out in the Pacific Strategy.<sup>2</sup> In that document, Tuvalu was recognized as a very small country with high vulnerability, a weak resource base, and limited internal opportunities. ADB's strategy, therefore, focuses on improving governance and economic management, enhancing employment opportunities through skills development, and improving services on outer islands, in part, through introduction of sustainable financing mechanisms. This strategy is sharply focused in view of the small country size and the relative abundance of other sources of donor assistance, particular for physical and social infrastructure. A summary statement of country strategy is in Appendix 1.

3. To address the weaknesses in economic management and to provide continuing policy advice, several technical assistance (TA) projects have been provided. A 2002 TA on country strategy development will provide analysis of policy options and will assist the Government with the formulation of a new National Development Strategy (NDS). To help Government with the management and monitoring of state-owned enterprises (SOEs), a 2003 TA on Governance of Public Sector Enterprises is planned. In addition, a 2004 TA will help assess options for tapping low recurrent cost, renewable energy sources (such as solar power), in line with the Government's interest in improving the cost effectiveness of public services and utilities.

4. To enhance employment opportunities, the strategy supports the upgrading of the Tuvalu Maritime Training Institute under a proposed 2002 loan. The project will enable the institute to remain accredited by the International Maritime Organization (IMO) and thereby to continue to graduate seafarers for overseas employment. Such employment constitutes the main source of jobs and income for Tuvaluans in the private sector.

5. Under ADB's strategy, social development is being addressed under the recently closed program loan and its ongoing associated TA, both approved in 1999, that aims at (i) increased autonomy for the outer islands, (ii) improved standard of governance and administration on the outer islands, (iii) delivery of sustainable financial resources to support island autonomy, (iv) improved delivery of public sector services to the outer islands, and (v) promotion of business development. The loan helped establish the Falekaupule Trust Fund (FTF) which will provide a sustainable stream of funding for investment projects in outer island communities.

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<sup>1</sup> Government of Tuvalu. 1995. *Kakeega o Tuvalu*. National Development Strategy – 1995 to 1998.

<sup>2</sup> ADB. 2000. *A Pacific Strategy for the New Millennium*. Manila.

## II. CURRENT DEVELOPMENT TRENDS AND ISSUES

### A. Recent Political and Social Developments

#### 1. Political Developments

6. Tuvalu has recently undergone political changes as a result of a parliamentary vote of no confidence on 6 December 2001. A new cabinet was announced on 13 December 2001. Presentation of the 2002 budget was deferred until February 2002. Tuvalu's next general election is due in August 2002.

#### 2. Social Developments

7. With a Human Poverty Index (HPI) of 7.3, Tuvalu ranks as the third least poor among the Pacific developing member countries (PDMCs). Its Human Development Index (HDI) of 0.583 is midrange by PDMC standards. The HDI and HPI scores reflect access to basic subsistence resources, relatively rapid economic growth, and increased public expenditure on health and education. However, with respect to the increased expenditures on education, salaries absorb 81% of the recurrent expenditures, and a further 9% is for housing allowances, leaving very little for operations. In addition, the pass rate in the Fiji junior secondary examination (the benchmark test) fell from 61% in 1991 to just 13% in 2001. This probably indicates deterioration in the level of English proficiency, as the tests are conducted in English, rather than a general decline in education. The Government has subsequently launched a board of inquiry, the findings of which are expected in May 2002. However, the findings have not been made public yet.

8. Tuvalu's population of around 10,350 has a reasonable standard of health by comparison with other lower-middle income countries. The infant mortality rate fell from about 43.5 per 1,000 live births in 1990 to just 13.1 in 2000. Life expectancy increased from approximately 57 years for men and 60 years for women in 1990 to 64 years for men and 70 years for women in 2000. While 85% of Tuvalu's population has access to water (most water still needs to be boiled before consumption), access to sanitation is lower at 49%, and some sanitation facilities are reported to be of poor construction, particularly in the outer islands.

9. Tuvalu developed and adopted its first formal social development policy in 2001. The policy specifies four guiding philosophies and identifies social development objectives for 12 distinct groups. The responsible ministry acknowledges that in its present form the policy document lacks detail on strategies, but it is intended that the document will act as an overall framework through which systematic integration of all activities impacting on the nation's social fabric can take place. These policies are expected to be included in the next NDS.

#### 3. Governance

10. The civil service has been subject to considerable disruption and uncertainty in recent years. Changes in government during 1997-2001 led to frequent changes of ministers and movement of senior officials, with inevitable consequences for the efficiency of policy formulation and implementation. The Government is still scattered around Funafuti in small units of rented accommodation, which has reduced the efficiency of public administration, with record keeping deteriorating markedly. Analysis of fiscal developments is hampered by the absence of reliable data. Only in early 2002 did the accountant in the Ministry of Finance return from overseas training, and only now has progress in clearing the long overdue accounts for audit

been made. The 1996 and 1997 accounts have been re-presented to the Auditor General's Office with explanation of issues raised; the 1998 and 1999 accounts have also been prepared and passed to the Auditor General; and the 2000 accounts will be submitted to the Auditor General as soon as bank reconciliation is completed. The 2001 accounts are scheduled for audit later in 2002.

11. The biggest constraints facing the Government are (i) preparation of a new NDS to guide public sector project identification and annual budget preparation, as well as appropriate aid coordination; (ii) engagement of sufficiently appropriate qualified and committed personnel in the Ministry of Finance; and (iii) raising the standards of management, accountability, and efficiency in the SOEs. The lack of an NDS is apparent in the ad hoc approach of the Government to the preparation of its development budget. The reliance of only one truly qualified person to take care of the accounts leaves the Ministry of Finance extremely vulnerable; similar staff conditions are true for other ministries.

## **B. Economic Assessment and Outlook**

12. Real gross domestic product (GDP) grew at an estimated average annual rate of approximately 5% from 1988 to 2001. In 2001, Tuvalu's economy grew by approximately 4%, following growth of 3% in 2000. Growth was led primarily by the public sector, with public administration expanding by close to 5% in 2001, and construction continuing its recent expansion as a result of government- and aid-funded projects. Road improvement on the main island of Funafuti was the most significant of these projects. Other sectors of the economy grew at more modest rates of around 2%. The inflation rate in 2001 fell substantially to 1.8% from 5.3% in 2000, the drop reflecting falls in textile and clothing prices and in costs of miscellaneous items.

13. Real GDP per head grew at the average annual rate of 3.7% between 1988 and 2001. In 2001, it was estimated at A\$1,681 (in 1988 prices), with about 22% generated by household nonmarket production. This growth was entirely attributable to expansion of the formal economy, which was concentrated on Funafuti. Between 1991 and 2001, the overall employment in the formal sector grew at an average annual rate of 2.2%. There was relatively rapid growth in employment in public corporations, modest expansion in the number of established civil service positions, and limited growth in private sector activity.

14. The economy relies heavily on income from fishing license access fees (A\$11.8 million in 2001 or 50% of total recurrent revenue), taxation (A\$5.6 million), its marketing agreement of its internet domain DotTV (A\$3 million), and rent from its international telecommunications dial-up code (A\$0.6 million). Remittances from seamen, official transfers, and investment income from the Tuvalu Trust Fund (TTF) assets also contribute substantially to foreign exchange earnings. Remittance from Tuvaluan seafarers more than doubled during 1997-2001: in 2001, approximately 450 seafarers sent A\$4.9 million home, which was equivalent to 20% of nominal GDP. Net income receivable from the overseas assets of the TTF has fluctuated from year to year, but in 1996-2001 drawdowns from the Consolidated Investment Fund (CIF)—formerly called the B account—provided 21% of the Government's total recurrent revenue.

15. Tuvalu's merchandise export base is extremely narrow, being confined to copra, stamps, and handicrafts. While copra and stamp exports have declined substantially from the levels of the 1980s, imports have risen significantly. Imports in the first three quarters of 2001 were A\$10.2 million, approximately double the level of the corresponding period in 2000. The substantial trade deficit and heavy payments for freight and insurance continued to be financed

by remittances, investment income, fishing and telecommunications license fees, internet domain name marketing revenue (DotTV), and official transfers.

16. The revised budget figures for 2001 show that total recurrent revenue was A\$23.4 million, which was 11% above the original budget and, when added to the A\$11.7 million drawn from the CIF, total revenue was A\$35.1 million. Total expenditure for 2001 was A\$33 million, with recurrent expenditures estimated at A\$19.3 million and the remaining spent on items described as "special development."

17. The continuous high license fees for fisheries access for four years in a row (around A\$10 million annually), combined with the windfall revenue in 2000 and 2002 from the DotTV agreements (A\$24.9 million and A\$23.7, respectively), has raised public expectations for increased government investments. The road upgrade in Funafuti and the outer island electrification project are tangible outcomes of such investments. However, this has caused the core expenditure ceiling of A\$15.5 million, as defined by the Economic Research and Planning Department, to be ignored for 3 years. In addition, expenditures on operation and maintenance of government assets are consistently deferred and/or underfunded.

18. The market value of the TTF on 31 March 2002 was A\$69.96 million. The TTF is 2.4% below its maintained market value – determined as its paid-in capital adjusted for inflation – and the CIF account has been drawn down to approximately half its previous level. The present Government has indicated that it will contribute A\$5 million in 2002 to both accounts to compensate for the shortfalls. In view of Tuvalu's reputation for fiscal prudence, there is an urgent need to reign in expenditures, maintain government assets diligently, make realistic budgets, and clear outstanding debts.

19. As a signatory to the Pacific Island Countries Trade Agreement, Tuvalu is committed to tariff reduction. In August 2001, Tuvalu signed the Pacific Agreement on Closer Economic Relations. This will come into force in 2002, once ratified by at least six countries. Import taxes in total generated 55% of taxation revenue in the 1996-2001, and 9% of current revenue and grants. Any future tariff reform will therefore need to take into consideration the implications for government revenue.

20. The recent completion of the road upgrade on Fongafale, the capital island in the Funafuti atoll, has caused a considerable increase in cars and motorcycles, with a subsequent surge in small-scale private sector development for repairs and services. The tender for the new three-storey government building has been awarded and construction is expected to commence in 2002, and the new hospital is expected to be completed by the end of 2002. The new government building alone is calculated to consume at least 1 megawatt of electricity and, together with the emerging private sector businesses, it is clear that electricity supply will be a major constraint in Funafuti in years to come. If not appropriately addressed, this could impede further private sector development and constrain efficient governance.

### **C. Implications for Country Strategy and Program**

21. The general lack of appropriate financial and policy governance of the SOEs, and the concerns that the SOEs are not sufficiently accountable for their actions and performance, call for a more detailed examination of the governance of Tuvalu's SOEs to identify issues and problems, assess the scope for improving performance, and recommend on an appropriate strategy for better service delivery at least cost. The Ministry of Finance, therefore, requested

that the earlier proposed TA for 2003 on Interisland Shipping Commercialization and Privatization be expanded to cover broadly the Governance of Public Sector Enterprises.

22. The absence of a new NDS, the general elections in July 2002, and the planned infrastructure projects in wharves and landing places by other development agencies, has made it difficult to identify an economically viable project for ADB financing for 2005. The Government of Tuvalu has therefore decided to defer the identification of a loan until the next country strategy and program update.

23. The identified future constraint of electricity supply to Funafuti is a good opportunity to analyze this particular sector for the most appropriate and environmentally benign form for electricity generation. Currently, Tuvalu is only using diesel generators, but, given its location close to equator and an average of 2,000 hours of sunshine per year, it would be logical to explore the possibilities for future hybrid generators using solar energy, fossil fuel, and other types of oils as well as cogeneration. An advisory and operational TA for \$150,000 to assess future power generation options has therefore been included in the 2004 program.

### **III. IMPLEMENTATION OF THE COUNTRY STRATEGY AND PROGRAM**

#### **A. Progress Toward a Poverty Partnership Agreement**

24. The Government of Tuvalu has been invited to work with ADB in a poverty partnership, and a draft agreement is under discussion. The draft poverty partnership agreement seeks the Government's commitment to analyze the nature of poverty in Tuvalu, design appropriate strategies to reduce poverty and incorporate these strategies into the country's development plans, consistent with the Government's priorities. It is noted that the Government's current priorities and ADB's proposed assistance program are addressing this issue.

25. Tuvalu is scoring high on almost all goals and targets in achieving the Millennium Development Goals. Although poverty is not considered an issue yet, the Government acknowledges that the disparity between the population on Funafuti and the outer islands, where primarily the old, the very young, and women reside, is growing, and among the people who have immigrated to Funafuti, pockets of emerging poverty exist. ADB has assisted with the establishment of the FTF, which specifically prioritized development on the outer islands. The proposed TMTI upgrade loan for 2002, will primarily benefit the outer islands as the majority of seafarers come from here.

#### **B. Progress in the Country Strategy and Program Focus Areas**

26. The focus on pro-poor growth was the rationale for the assistance to the establishment of the FTF, which originally aimed to secure more funds for self-determined and self-managed development projects in the outer islands through government contributions matching the ADB loan and the individual island contributions. Consolidation of the fund occurred on 4 February 2000, and the FTF follows investment and distribution principles similar to those of the TTF. Following the receipt of the second tranche of the ADB loan, matching funds by the Government, and additional deposits made by three island communities, total FTF contributions grew to A\$15.9 million by November 2001.

27. However, the fund size available for each island is relative to the initial contributions made by each community. Therefore, those islands that were in better cash positions at the time of fund consolidation were able to secure proportionately larger Government matching funds.

The TA associated with the ADB loan is currently implementing special consultations and meetings to devise an alternative formula taking into the equation criteria other than only contributions, e.g., population size. It is hoped that these consultations will result in the necessary unanimous decision by the island councils to change the deed and apply a more equitable distribution formula.

28. The rationale for the proposed loan in 2002 to Upgrade of Tuvalu Maritime Training Institute (TMTI) is the fact that the outer island communities benefit most from the remittances sent home by the seafarers who graduated from TMTI. About 60% of Tuvaluan seafarers come from the outer islands, with only 10% from Funafuti, and 30% were seafarers born outside Tuvalu. Especially the islands Nanumea, Nukufetau, Nukulaelae, and Niutao have a very strong reliance on remittances. Income from wages, salaries, and businesses combined does not equal that provided by remittances. The outer islands also have very little potential for remuneration from resource-based activities. Less than 15% of the income on any of the outer islands can be tied directly to resource-based activity, such as fishing, farming, or production of handicrafts.

29. TA 3735-TUV: Country Economic Study and Strategy Development will directly assist the Government towards its formulation of a new MTDS. In addition, the TA will address improved financial management within the Ministry of Finance by analyzing opportunities for improved accounting procedures with direct linkages between the accounts division, Treasury, Payroll, and asset management. This will ultimately position the Government to implement appropriate accounting procedures and reporting from the SOEs.

30. The smallness of Tuvalu's individual islands and atolls and their subsequent ecological vulnerability calls for appropriate environmental consideration in all aspects of development. Power generation is traditionally a major pollutant, and when a country in addition is almost 100% dependent on imports, there is a need to plan diligently when the power supply needs upgrading or new investment. ADB can contribute towards responsible development by engaging itself in this sector as well.

### **C. Highlights in Coordination of External Funding and Partnership Arrangements**

31. The largest development partner for Tuvalu is the Government of Japan. Japan delivered a new interisland vessel in February 2002 and is currently building a new hospital in Funafuti, which is expected to be completed in 2003. The future program includes upgrading the main wharf in Funafuti as well as wharves and landing sites in all the outer islands, and upgrading the airstrip on Funafetau island with the long-term objective of establishing a major fishing center there.

32. Taipei, China is financing the construction of the new three-storey central government office building in Funafuti. Tender has been awarded and construction is expected in the second half of 2002.

33. The focus of European Union assistance is on social development support (90%), specifically for activities in the outer islands in education, water supply, and environment, and the remaining for support to nonstate actors for development activities and capacity building.

34. The assistance of the United Nations Development Programme is primarily directed towards reducing disparities in services and opportunities between Funafuti and the rest of Tuvalu, and within the outer island groups, through strengthening the capacities of the

Falekaupules<sup>3</sup> for effective decentralization. Another areas for support is governance and human rights, and the environment and vulnerability. An important activity is training at all levels to facilitate better understanding of processes and mechanisms at the Falekaupule level to ensure that gender concerns are addressed in development activities. In addition, targeted social/economic analyses will be undertaken to feed into processes for improved policy development.

35. The Australian Agency for International Development supports in-country training in (i) health, (ii) accounting, (iii) management, (iv) civil works, (v) mechanical works, and (vi) secondary teacher training. Overseas scholarships and training is also a major program. In addition, TA in education is given in curriculum development, teacher training, and education management. A waste management program in Funafuti that has been supported for 3 years will be completed in 2002.

36. The New Zealand Overseas Development Agency (NZODA) has a large program of overseas scholarships and training, and salary support to expatriate staff at TMTI; strengthening of local governments in the outer islands for better management of FTF; and, together with ADB, support for the participatory monitoring evaluation survey (measuring standards of living on the outer islands). In addition, NZODA is supporting reef channel upgrading, and assists with support to the meteorological station. NZODA's future focus is on human resource development, outer island development, and support to the TTF. A matrix showing the various agencies' interventions is attached in Appendix 1.

#### **IV. PORTFOLIO MANAGEMENT ISSUES**

##### **A. Portfolio Performance**

37. Since joining ADB in 1993, Tuvalu has received 1 program loan, 1693-TUV(SF): Island Development Program, for \$4 million and 13 TAs – 4 project preparatory TAs (PPTAs) and 9 advisory and operational TAs (AOTAs) – totaling \$3.336 million. Only one PPTA and two AOTAs for \$1,150,000 were active at the end of 2001. The program loan was closed on 19 July 2001. In 2001, the second and final tranche of \$1.17 million of the program loan was disbursed according to schedule, on par with the first tranche release in 1999 of \$2.8 million. All the active TAs are performing satisfactorily.

38. It is noteworthy, that, of the four PPTAs, only one loan was approved and another will be considered in 2002. This could be an indication of overoptimistic program planning with respect to feasible loans for Tuvalu. With a population as small as Tuvalu's, an extremely narrow resource base, and a miniscule embryonic private sector, more frequent policy dialogue between ADB and the Government is recommended to avoid identification of possible loans with little chance of implementation.

##### **B. Performance Monitoring and Evaluation**

39. The program loan has its own monitoring system, primarily through its accompanying TA. However, there are indications that when international consultants step back, the monitoring, evaluation, and interpretation of the project data are accorded low priority and subsequent analyses are not carried out. Whether this is a result of poor counterpart training or

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<sup>3</sup> A Falekaupule is a traditional decision making body on each island.

is more related to frequent staff rotation and absenteeism due to awards of scholarships abroad is an issue that needs to be monitored.

## **V. COUNTRY PERFORMANCE AND ASSISTANCE LEVELS**

### **A. Lending Level Proposed**

40. Consistent with ADB's policy on performance-based allocations for the Asian Development Fund (ADF), the level of ADF allocated to Tuvalu is linked to the country's performance with respect to policy, reforms, and portfolio management. The share of ADF allocation also depends on population and per capita income. Accordingly, the proposed base case three-year rolling allocation is fixed at US\$1.9 million for 2003–2005. The final allocation of ADF resources will depend on performance against agreed upon triggers. These triggers relate to progress on (i) macroeconomic management, (ii) sector reform and governance, (iii) sector specific achievements, and (iv) portfolio management. The performance-based allocation triggers that were agreed upon with the Government are given in Appendix 2, Table A2.12.

41. Tuvalu's overall performance assessment score is well above the average for PDMCs. However, Tuvalu has experienced the largest drop in the rating for 2001 of all the PDMCs. The deterioration in the rating reflects primarily deterioration in macroeconomic management. Until recently, Tuvalu had developed a well-earned reputation for prudent fiscal policy. However, the recent windfall revenue prompted a spending spree and a drop in the CIF to well below target levels. Despite the deterioration in the rating for macroeconomic management, Tuvalu still achieved an above average score reflecting a relatively good score on virtually all other categories. However, it should be noted that there was also some deterioration in the civil service and public expenditure management categories.

42. The drawdown from the CIF has been substantial and the Government's contribution to the TTF A-account<sup>4</sup> has been lower than what would normally have been expected. As a result, it is doubtful if any automatic distribution from the TTF is likely in either 2002 or 2003.

43. The absorptive capacity of Tuvalu is limited, and the lending levels based on evaluation of performance for 2003-2005 assume a "low case" lending program of \$1.5 million, a "base case" lending program of \$1.9 million, and a "high case" lending program of \$2.3 million.

### **B. Nonlending Program**

44. Tuvalu has ten 100% government-owned public sector enterprises, which have all been corporatized. Of these, only the National Bank of Tuvalu and the Tuvalu National Provident Fund were not previously government departments or divisions, and it is only the National Bank of Tuvalu that has consistently returned a dividend to the Government. However, its monopoly pricing disadvantages consumers and hinders private sector development.

45. Corporatization formally separates and clarifies the roles of owner and manager, but the granting of autonomy to the manager of a public corporation must be matched with effective control, monitoring, and reporting mechanisms that make enterprise management accountable. Additionally, public enterprise management itself must be improved through a transparent selection process, training, and a focus on performance.

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<sup>4</sup> The A-account is the actual capitalization of the Tuvalu Trust Fund and which is being maintained at real market value with periodic allocations compensating for inflation and consumer price index.

46. The proposed AOTA for 2003 for Governance of Public Sector Enterprises will address the following issues: (i) clarity of objectives and the roles to be played by ministers, boards, and general managers; (ii) management autonomy and authority, with ministerial intervention in routine operations occurring only in exceptional circumstances; (iii) strict accountability for performance; and (iv) competitive neutrality, meaning that services are provided on the same terms as actual or potential private sector providers.

47. For 2004, a TA for Future Electricity Supply for Funafuti is proposed. With the completion of two major infrastructure projects in 2002, namely the new hospital and the new government building to house most of the administration, it has been estimated that these two buildings alone will have a power demand equal to or larger than what is currently being produced by the Tuvalu Electricity Corporation.

48. The new investment necessary for power generation offers an opportunity to analyze various options for more cost-efficient as well as environmentally friendly solutions. Tuvalu has approximately 2,000 hours of sun per year and in addition a waste management problem. Both issues warrant consideration for inclusion when future power generation investment will be considered.

### **C. Summary of Changes to Lending and Nonlending Program**

49. At the moment, there is no loan identified for 2005. The proposed AOTA for 2003, Interisland Shipping Commercialization and Privatization, has been changed to Governance of Public Sector Enterprises to more realistically reflect the need for better financial management priorities of the Government. A proposed AOTA for 2004, Future Electricity Supply for Funafuti, has been identified.

### SUMMARY STATEMENT OF STRATEGY

Objectives	Good Governance	Social Development	Pro-poor Economic Growth
Strategic Focus	<p>Prudent fiscal discipline</p> <p>Effective and transparent management of public sector enterprises</p> <p>Realistic budget planning and submission</p>	<p>Wellbeing for outer island inhabitants enhanced</p> <p>Socially just distribution formula for the proceeds of FTF</p> <p>Maintain seafarer remittances</p>	<p>Increase employment and income opportunities through labor exports</p>
Ongoing/Proposed Loans			<p>Upgrade of Tuvalu Maritime Training Institute (2002)</p>
Ongoing/Proposed TAs	<p>TA 3735-TUV: Country Economic Study and Strategy Development (2002)</p> <p>Governance of Public Sector Enterprises (2003)</p> <p>Future Electricity Supply for Funafuti (2004)</p>	<p>TA 3221-TUV: Island Development Program Implementation (1999)</p>	<p>Tuvalu Maritime Training Institute Strengthening (2002)</p>
Target Outcomes	<p>Strengthened economic and fiscal management through responsible preparation of budgets, reflecting the recommended core budget expenditure ceiling</p>	<p>Devolution of power and establishment of sustainable sources of financing for local development and basic services delivery to the outer islands</p>	<p>Opportunities for overseas employment to ensure continuous equitable flow of remittances back to Tuvalu</p>

**COUNTRY AND PORTFOLIO INDICATORS, AND ASSISTANCE PIPELINE**  
**Table A2.1: Progress Toward the Millennium Development Goals and Targets**

Goals and Targets	1990	1995	Latest Year
<b>Goal 1. Eradicate Extreme Poverty and Hunger</b>			
<b>Target 1: Reduce incidence of extreme poverty by half from 1990 to 2015</b>			
People living on below US\$1-a-day, 1985 PPP (%)	—	—	—
Population in poverty (% of population falling below the poverty line)	—	—	—
<b>Target 2: Reduce the proportion of people who suffer from hunger by half from 1990 to 2015</b>			
Prevalence of child malnutrition (% of children under age 5)	—	—	0.0 (1997)
<b>Goal 2. Achieve Universal Primary Education</b>			
<b>Target 3: Attain 100 percent primary school enrolment by 2015</b>			
Net primary enrollment ratio (% of relevant age group)	98.0 (1984-94)	100.0 (1994)	100.0 (1998)
<b>Goal 3. Promote Gender Equality and Empower Women</b>			
<b>Target 4: Eliminate gender disparities in primary and secondary education by 2005 and to all levels of education no later than 2015</b>			
Ratio of girls to boys in primary education (%)	0.90 (1991)	0.82	0.90 (2001)
Ratio of girls to boys in secondary education (%)	1.17 (1991)	1.03	0.93 (2001)
<b>Goal 4. Reduce Child Mortality</b>			
<b>Target 5: Reduce infant and child mortality by two-thirds from 1990 to 2015</b>			
Infant mortality rate (per '000 live births)	37.2 (1991)	49.8	13.1 (2000)
Under-5 mortality rate (per '000 live births)	59.0	56.0	53.0 (2000)
<b>Goal 5. Improve Maternal Health</b>			
<b>Target 6: Reduce maternal mortality rate by three-quarters between 1990 and 2015</b>			
Maternal mortality ratio (per 100,000 live births)	0.0	0.0 (1997)	0.0 (2000)
Births attended by skilled health staff (% of live births)	—	99.0 (1997)	—

Goals and Targets	1990	1995	Latest Year
<b>Goal 6. Combat HIV/AIDS, Malaria and Other Diseases</b>			
<b>Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS</b>			
HIV prevalence rate (% age 15-49 years old)	—	—	—
Contraceptive prevalence rate (% of women aged 15-49)	—	41.2 (1997)	—
<b>Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases</b>			
Prevalence of malaria (per 100,000 people)	—	—	—
Prevalence of tuberculosis (per 100,000 people)	—	—	179.1 (1998)
<b>Goal 7. Ensure Environmental Sustainability</b>			
<b>Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources</b>			
Status of national environmental action plans	NEMS (long-term) adopted and endorsed		
Forest Area (% of total land area)	—	0.0 (1993)	—
Nationally Protected Areas (% of total land area)	1.0	1.0	1.0 (1998)
GDP per unit of energy use (PPP \$ per kg oil equivalent)	—	—	—
Carbon dioxide emissions (per capita metric tons)	—	—	—
<b>Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water</b>			
Access to safe water (% of population)	—	85.0 (1995-97) <sup>a</sup>	100.0 (1998)
<b>Target 11: By 2010, to have achieved a significant improvement in the lives of at least 100 million slum dwellers</b>			
Access to sanitation (% of population)	—	49.0 (1995-97) <sup>a</sup>	78.9 (1999) (total) 92.0 (urban) 65.2 (rural)

HIV/AIDS = human immunodeficiency virus/acquired immune deficiency syndrome, NEMS – National Environmental Management Strategy, PPP = purchasing power parity.

<sup>a</sup> Refers to most recent available data within the stated period.

Note: — means no data available.

Sources: ADB. 2002. Tuvalu. Economic and Public Sector Review. Manila; ADB. 2002. Basic Statistics of DMCs including MDGs. Manila; ADB. 2001. Medium-Term Strategy. Manila; CIA. 2001. The World Factbook-Tuvalu; Tuvalu. Environment Office, Ministry of Natural Resources. Ministry of Education and Culture, Enrollment in Primary Education (1994, 1998); Tuvalu. Ministry of Finance and Economic Planning, Tuvalu National Budget 2002; SPREP. Action Strategy for Nature Conservation in the Pacific Islands Region (1999-2002); SPREP. Tuvalu NEMS (1997); UNDP, Pacific Human Development Report (1994, 1999); UNICEF, Progress of Nations-Social Indicators (1997); WHO, Western Pacific Region Health Data Bank (rev. 2001).

Table A2.2: Economic Indicators

Item	Fiscal Year				
	1997	1998	1999	2000	2001
<b>A. Income and Growth</b>					
1. GDP per Capita (US\$, current)	1,318	1,320	1,389	1,343	1,250
2. GDP Growth (% , in constant prices)	3.5	14.9	3.0	3.0	4.0
Agriculture	5.8	0.7	-	-	-
Industry	4.0	21.5	-	-	-
Services	2.7	16.0	-	-	-
<b>B. Saving and Investment</b> (current and market prices) <span style="float: right;">(% of GDP)</span>					
1. Gross Domestic Investment	58.2	24.9	--	--	--
2. Gross National Saving	-	-	-	-	-
<b>C. Money and Inflation</b> <span style="float: right;">(annual % change)</span>					
1. Consumer Price Index <sup>a</sup>	1.4	0.9	3.8	5.3	1.8 <sup>b</sup>
2. Total Liquidity (M2)	-	-	-	-	-
<b>D. Government Finance</b> <span style="float: right;">(% of GDP)</span>					
1. Revenue and Grants	156.1	154.4	148.7	239.6	140.8
2. Expenditure and Onlending	121.9	95.9	126.2	189.7	133.2
3. Overall Fiscal Surplus (Deficit)	34.2	58.6	22.5	49.9	7.6
<b>E. Balance of Payments</b>					
1. Merchandise Trade Balance (% of GDP)	-46.6	-75.8	-57.5	-55.8	-
2. Current Account Balance (% of GDP)	-	-	-	-	-
3. Merchandise Export (US\$) Growth (annual % change)	-2.0	-142.2	639.6	1,046.6	-
4. Merchandise Import (US\$) Growth (annual % change)	28.8	35.3	-26.5	6.0	-
<b>F. External Payments Indicators</b>					
1. Gross Official Reserves (including gold, US\$ million in weeks of current year's imports of goods)	-	-	-	-	-
2. External Debt Service (% of exports of goods and services)	-	-	-	-	-
3. Total External Debt (% of GDP)	-	-	-	-	-
<b>G. Memorandum Items</b>					
1. GDP (current prices, A\$ million)	17.44	20.77	21.61	23.43	24.81
2. Exchange Rate (A\$/\$, average)	1.356	1.591	1.553	1.720	1.931
3. Population (million)	0.0098	0.0099	0.0100	0.0101	0.0103

GDP = gross domestic product

a Annual % change.

b Estimated inflation for the year to 30 September 2002 Source: TTFAC first half-yearly report, April 2002; period average.

Source: Tuvalu. Ministry of Finance and Economic Planning. National Accounts 2001; Tuvalu. 2001. Quarterly Statistic Report, Central Statistics Division, Ministry of Finance and Economic Planning; Tuvalu. 2002. National Budget, Ministry of Finance and Economic Planning; ADB. 2002. Forthcoming Tuvalu 2002, Economic and Public Sector Review. Manila; ADB. Forthcoming Asian Development Outlook. Manila.

**Table A2.3: Poverty and Social Indicators**

Item	Period		
	1991	1995	Latest Year
<b>A. Population Indicators</b>			
1. Total Population (million)	9.04	9.51	10.28 <sup>a</sup> (2001)
2. Annual Population Growth Rate (% change)	-0.02	1.3	2.0
<b>B. Social Indicators</b>			
1. Total Fertility Rate (births/woman)	3.4	3.3	2.9 (2000)
2. Maternal Mortality Rate (per 100,000 live births)	0.0	0.0	0.0 (2000)
3. Infant Mortality Rate (below 1 year/1,000 live births)	37.2	49.8	13.1 (2000)
4. Life Expectancy at Birth (years)	67.0	-	67.0 (1998)
Female	64.1	-	64.0 (1998)
Male	70.0	-	70.0 (1998)
5. Adult Literacy (%)	-	99.0 (1994)	95.0 (1998)
Female	-	99.0 (1994)	95.0 (1998)
Male	-	99.0 (1994)	95.0 (1998)
6. Primary School Gross Enrollment (%)	-	100.0	100.0 (1998)
7. Secondary School Gross Enrollment (%)	-	-	34.0 (1998)
8. Child Malnutrition (% below age 5)	-	-	-
9. Population Below Poverty Line (International, %)	-	-	-
10. Population with Access to Safe Water (%)	-	85.0 (1995-97) <sup>b</sup>	100.0 (1998)
11. Population with Access to Sanitation (%)	-	49.0 (1995-97) <sup>b</sup>	78.9 (1999)
12. Public Education Expenditure (% of GDP)	-	19.5 (1996)	25.8 (2001)
13. Human Development Index	-	0.652	0.583 (1998)
Rank	-	3	6
14. Gender-Related Development Index	-	-	-
Rank	-	-	-
<b>C. Poverty Indicators</b>			
1. Poverty Incidence	-	-	-
2. Percent of Poor to Total Population	-	-	-
3. Poverty Gap	-	-	-
4. Poverty Severity Index	-	-	-
5. Inequality (Theil L Index)	-	-	-
6. Human Poverty Index	-	-	7.3 (1998)
Rank	-	-	3

- = not available; GDP = gross domestic product.

<sup>a</sup> This estimate is made on the assumption that the population growth rate averaged 1.3% between 1991 and 2001. The figure arrived at is close to the Central Statistics Division estimate of 10,223 in June 2001, which is based on an examination of crude birth and death rates and overseas arrivals and departures.

<sup>b</sup> Refers to most recent available data within the stated period.

Sources: ADB. 2002. Forthcoming Tuvalu 2002 Economic and Public Sector Review. Manila; Tuvalu. Central Statistics Division, Ministry of Finance and Economic Planning, Population and Housing Census; Tuvalu. Ministry of Education and Sports; Enrollment in Primary Education (1994, 1998); Tuvalu. Ministry of Finance and Economic Planning. Tuvalu National Budget 2002; Secretariat of the Pacific Community. Oceanic Population 2000; UNDP. Pacific Human Development Report (1994, 1997, 1999); WHO. Western Pacific Region Health Data Bank (rev. 2001).

**Table A2.4: Environment Indicators**

Item	1990	Latest Year
<b>1. Energy Efficiency of Emissions</b>		
Traditional Fuel Use (% of total energy use)	—	—
<b>2. Water Pollution</b>		
Water Bodies Exceeding Contact Recreation Standards		
Biological Oxygen Demand (BOD)	—	—
Chemical Oxygen Demand (COD)	—	—
<b>3. Air Pollution</b>		
Carbon Dioxide (CO <sub>2</sub> ) Emissions		
Total (millions of metric tons)	—	—
Sulphur Dioxide (SO <sub>2</sub> ) Emissions		
Per capita (kilograms)	—	—
<b>4. Land Use and Deforestation</b>		
Total Land Area (sq. km)	25.9	25.9
Average Annual Deforestation		
Area	—	—
% change	—	—
Arable Land (% of total land)	0.0	
	(1993)	
Cropland, Permanent (% of total land)	0.0	
	(1993)	
Pastures, Permanent (% of total land)	0.0	
	(1993)	
Population Density, Rural (people per sq. km)	—	—
<b>5. Biodiversity and Protected Areas</b>		
Nationally Protected Area(s)		
Area (sq. km)	8.0	8.0 (1998)
Number	1	1 (1998)
World Heritage Sites (number)	0	0
Mammal Species		
Total Known	—	—
Threatened	—	—
Bird Species		
Total Known	28	—
Threatened	—	—
<b>6. Urban Areas</b>		
Urban Population		
% of total population	42.0	—
	(1991)	

Note: (—) means no data available.

Source: CIA. The World Factbook-Tuvalu (2001); Tuvalu. Environment Office, Ministry of Natural Resources; SOPAC. Tuvalu Country Profile (1999); SPC. 1997. Pacific Island Populations Data Sheet; SPREP. Action Strategy for Nature Conservation in the Pacific Islands Region (1999-2002).

Table A2.5: Development Coordination Matrix

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
A. Economic and Public Sector Reform	<p><b>Ongoing</b></p> <ul style="list-style-type: none"> <li>• Prepare Economic and Public Sector Review</li> </ul> <p><b>Programmed</b></p> <ul style="list-style-type: none"> <li>• TA for governance of state-owned enterprises</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthening Local Governance (UNDP)</li> <li>• TA Public Sector Reform (AusAID)</li> <li>• Assets Management project (AusAID)</li> <li>• Legal assistance/crown counsel (CFTC)</li> </ul>
B. Private Sector Development		<ul style="list-style-type: none"> <li>• Copra production Subsidy (EU)</li> <li>• Coconut Oil Support programme (EU)</li> <li>• Business Advisory Unit Support (UNDP)</li> </ul>
C. Education	<p><b>Programmed</b></p> <ul style="list-style-type: none"> <li>• TA for Strengthening of Tuvalu Maritime Training Institute (TMTI) to meet the International Maritime Organization standards for accreditation</li> <li>• Loan for upgrade and construction of various infrastructure at TMTI to enable acceptable training standards</li> </ul>	<ul style="list-style-type: none"> <li>• Inservice scholarships and traing (EU)</li> <li>• Pre-service scholarships and training (EU)</li> <li>• Subsidy for Tuvalu Maritime Training Institute (EU)</li> <li>• TMTI Scholarships (EU)</li> <li>• Pacific In-country training (AusAID)</li> <li>• Overseas scholarships (AusAID)</li> <li>• Secondary School Teachers (AusAID)</li> <li>• TA Education curriculum, teacher training (AusAID)</li> <li>• Education Sector Planning (NZAID)</li> <li>• Pre-school project (NZAID)</li> <li>• Vocational and Technical training (NZAID)</li> <li>• Short term Training (NZAID)</li> <li>• Scholarships (NZAID)</li> <li>• Scholarships in Region (Tertiary) (NZAID)</li> <li>• TMTI Salary Supplement (NZAID)</li> <li>• Overseas scholarships (Taipei,China)</li> </ul>
D. Health		<ul style="list-style-type: none"> <li>• Surgeon (EU)</li> <li>• Support for family planning issues (UNFPA)</li> <li>• WHO Support (WHO)</li> <li>• Medical Treatment Scheme/Health care (NZAID)</li> </ul>

<p>E. Infrastructure</p> <p>1. Transport and Communication</p> <p>2. Energy</p> <p>3. Water Supply and Sanitation</p> <p>4. Urban Infrastructure</p>	<p><b>Programmed</b></p> <ul style="list-style-type: none"> <li>• TA future power generation for Funafuti</li> </ul>	<ul style="list-style-type: none"> <li>• Relocation of airport terminal/civil aviation facility (EU)</li> <li>• Tuvalu Solar electricity (EU)</li> <li>• Desalinators, water tanks, water trucks, (EU)</li> <li>• Water supply at Moutoufoa Secondary School (EU)</li> <li>• Local contribution to AusAID waste fund management (EU)</li> <li>• Waste management project (AusAID)</li> <li>• Wharf warehouse and foreshore protection (EU)</li> <li>• Cargo Handling Equipment (EU)</li> <li>• Construction of new parliament (EU)</li> <li>• New housing and Renovations (EU)</li> <li>• House maintenance (EU)</li> <li>• Teacher Housing at Motoufoa (EU)</li> <li>• Construction of new 2-storey headquarters (EU)</li> <li>• Budge Support (Taipei,China)</li> <li>• Construction government building (Taipei,China)</li> <li>• Hospital construction (Japan)</li> </ul>
<p>F. Environment</p>		<ul style="list-style-type: none"> <li>• Pacific Islands Climate Change Programme, Implementation of Montreal protocol (UNEP)</li> </ul>
<p>G. Others</p> <p>Social Development</p> <p>Falekaupule Trust Fund (FTF)</p>	<p><b>Ongoing</b></p> <ul style="list-style-type: none"> <li>• Support to the outer island councils (Falekaupules) in formulating social development projects from FTF</li> </ul>	<ul style="list-style-type: none"> <li>• Drought relief (EU)</li> <li>• Construction of national sports field (EU)</li> <li>• Small projects/Coordinator (NZ AID)</li> </ul>

ADB = Asian Development Bank, AusAID = Australian Agency for International Development, CFTC = Commonwealth Fund for Technical Cooperation, EU = European Union, NZAID = New Zealand Agency for International Development, UNDP = United Nations Programme, UNEP = United Nations Environment Programme, UNFPA = United Nations Populations Fund, WHO = World Health Organization

**Table A2.6: Portfolio Indicators—Portfolio Amounts and Ratings**  
(public sector loans, as of 31 December 2001)

Sector	Net Loan Amount		Total		Rating <sup>a</sup>									
					Highly Satisfactory		Satisfactory		Partly Satisfactory		Unsatisfactory		Potential Problem <sup>b</sup>	
	\$ million	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	(%)
Agriculture and Natural Resources														
Energy														
Finance														
Industry and Nonfuel Minerals														
Multisector														
Others														
Social Infrastructure														
Transport and Communications														
<b>Total</b>														

**NOTE: No active portfolio as of 31 December 2001. The only loan (1693-TUV[SF]):Island Development Program) was closed on 19 July 2001.**

<sup>a</sup> One rating for implementation progress and development objectives, based on the lower rating of either.

<sup>b</sup> Potential problem loans are satisfactory loans but have four or more risk factors associated with partly satisfactory or unsatisfactory performance.

<sup>c</sup> A loan is "at risk" if it is rated as partly satisfactory, as unsatisfactory, or as a potential problem.

**Table A2.7: Portfolio Indicators—Disbursements and Net Transfers of Resources**  
(public sector loans, as of 31 December 2001)

<b>Disbursements and Transfers</b>	<b>OCR</b>	<b>ADF</b>	<b>Total</b>
<b>Disbursements<sup>a</sup></b>			
Total Funds Available for Withdrawal (US\$ million)	0.0	4.0	4.0
Disbursed Amount (US\$ million, cumulative)	0.0	4.0	4.0
Percentage Disbursed (disbursed amount/total available)	0.0	100.0	100.0
Disbursements (US\$ million, latest year)	0.0	1.2	1.2
Disbursement Ratio (%) <sup>b</sup>	0.0	95.8	95.8
<b>Net Transfer of Resources (US\$ million)</b>			
1999	0.0	2.8	2.8
2000	0.0	(0.02)	(0.02)
2001	0.0	1.1	1.1

ADF = Asian Development Fund, OCR = ordinary capital resources.

<sup>a</sup> Includes all loans with disbursements during 1999-2001.

<sup>b</sup> Ratio of disbursements during the year over the undisbursed net loan balance at the beginning of the year less cancellations during the year. Effective loans during the year have also been added to the beginning balance of undisbursed loans.

Source: Asian Development Bank estimates .

Table A2.8: Portfolio Indicators—Evaluation Rating by Sector

Sector	Highly Successful		Successful		Partly Successful		Unsuccessful		No Rating		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources												
Energy												
Finance												
Industry and Nonfuel Minerals												
Multisector												
Others												
Social Infrastructure												
Transport and Communications												
<b>Total</b>												

**NOTE: No PCR available yet. The only loan (1693-TUV(SF): Island Development Program) was closed 19 July 2001.**

**Table A2.9: Portfolio Implementation Status**  
(public sector loans, as of 31 December 2001)

Sector	Loan No.	Title	Net Loan Amount		Approval Date	Effective Date	Closing Date		Progress (% complete)
			OCR (US\$ million)	ADF (US\$ million)			Original	Revised	
OTH	1693	Island Development Program		4.0	13 July 1999	19 Nov. 1999	30 Nov. 2000	19 July 2001	100
<b>Total</b>				<b>4.0</b>					

ADF = Asian Development Fund, OCR = ordinary capital resources, OTH = other.  
Source: Asian Development Bank.

Sector	Loan No.	Title	Cumulative Contracts/ Commitments (US\$ million)	Cumulative Disbursements (US\$ million)	Rating		Potential Problem
					IP	DO	
OTH	1669	Island Development Program	4.0	4.0			Closed
		<b>Total</b>	<b>4.0</b>	<b>4.0</b>			

**NOTE: Loan has been closed on 19 July 2001 and there are no active loans as of 31 December 2001.**

DO = development objectives, IP = implementation progress

**Table A2.10: Assistance Pipeline for Lending Products, 2002–2005**

Sector Project/Program Name	Poverty Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Total	Cost (\$ million)			
						ADB			Cofi- nancing
						OCR	ADF	Total	
2002 Firm Loan	PI	HD	PARD	2001	\$2.3		\$1.85	\$1.85	\$0.46
2003 Firm Loans									
2003 Standby Loans									
2004 Firm Loans									
2004 Standby Loans									
2005 Firm Loans	No loan has been identified for this CSPU period.								
2005 Standby Loans									

ADB = Asian Development Bank, ADF = Asian Development Fund, HD = human development, OCR = ordinary capital resources, PI = poverty intervention.  
Source: ADB Sstaff.

Table A2.11: Assistance Pipeline for Nonlending Products and Services, 2002–2005

Year/Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (US\$)
			ADB		Others		
			Source	Amount (US\$)	Source	Amount (US')	
<b>2002</b> Tuvalu Maritime Training Institute Upgrade	PARD	AOTA	JSF	291,000			291,000
<b>2003</b> <b>Governance</b> Governance of Public Sector Enterprises Subtotal	PARD	AOTA	TASF	250,000			250,000
<b>2004</b> <b>Economic Growth</b> Future Electricity Supply for Funafuti	PARD	AOTA	TASF	100,000	Danish Coop. Fund for renewable Energy	50,000	150,000
<b>Total</b>							400,000

ADB = Asian Development Bank, AOTA = advisory and operational technical assistance, PARD = Pacific Department, TASF = Technical Assistance Special Fund  
Source: ADB Staff estimates.

Table A2.12: Lending Scenarios and Performance Triggers

Low Case	Base Case	High Case
<p><b>Macroeconomic</b></p> <ul style="list-style-type: none"> <li>No progress in improvement in fiscal management on expenditure budgeting to meet the ERPD estimate for core expenditure</li> <li>The next NDS is planned</li> </ul>	<p><b>Macroeconomic</b></p> <ul style="list-style-type: none"> <li>Progress in improvement in fiscal management on expenditure budgeting to meet the ERPD estimate for core expenditure</li> <li>The next NDS is planned without further delay</li> </ul>	<p><b>Macroeconomic</b></p> <ul style="list-style-type: none"> <li>Acceleration of progress in improvement in fiscal management on expenditure budgeting to meet ERPD estimate for core expenditure</li> <li>The draft process and commencement of the next NDS is scheduled</li> </ul>
<p><b>Reforms/Governance</b></p> <ul style="list-style-type: none"> <li>Government is informed of the operational cost of some of SOEs</li> </ul>	<p><b>Reforms/Governance</b></p> <ul style="list-style-type: none"> <li>Government is fully informed of the operational cost of TTC and TEC</li> </ul>	<p><b>Reforms/Governance</b></p> <ul style="list-style-type: none"> <li>Government is fully informed of the operational cost of all SOEs</li> </ul>
<p><b>Sector-Specific</b></p> <ul style="list-style-type: none"> <li>The TMTI fails to maintain the IMO conditions for being on the White List</li> </ul>	<p><b>Sector-Specific</b></p> <ul style="list-style-type: none"> <li>The accompanying TA for the TMTI is sufficient to meet the IMO standards</li> </ul>	<p><b>Sector-Specific</b></p> <ul style="list-style-type: none"> <li>The TMTI fully meets the IMO external audit</li> </ul>
<p><b>Portfolio</b></p> <ul style="list-style-type: none"> <li>Government counterpart funds are being budgeted as per loan agreement</li> <li>At least 75% of the ongoing TAs in the portfolio are rated as satisfactory or highly satisfactory</li> </ul>	<p><b>Portfolio</b></p> <ul style="list-style-type: none"> <li>Government counterpart funds are being budgeted and released as per loan agreement</li> <li>Less than 75% of the ongoing TAs in the portfolio are rated as satisfactory or highly satisfactory</li> </ul>	<p><b>Portfolio</b></p> <ul style="list-style-type: none"> <li>Government counterpart funds are being budgeted and released as per loan agreement within the time frame</li> <li>More than 75% of the ongoing TAs in the portfolio are rated as satisfactory or highly satisfactory</li> </ul>

ERPD = Economic Research and Planning Division, IMO = International Maritime Organization, NDS = National Development Strategy, SOE = State Owned Enterprises, TA = technical assistance, TEC = Tuvalu Electricity Corporation, TMTI = Tuvalu Maritime Training Institute, TTC = Tuvalu Telecommunications Corporations  
Source: ADB Staff.

## **CONCEPT PAPERS FOR NONLENDING PRODUCTS AND SERVICES**

This appendix contains the concept papers for projected nonlending products.

- (i) Table A3.1: Governance of Public Sector Enterprises
- (ii) Table A3.2: Future Electricity Supply for Funafuti

**Table A3.1: Governance of Public Sector Enterprises****Date: 12 June 2002**

<p><b>1. Type/modality of assistance</b></p> <p><input type="checkbox"/> Lending</p> <p>    <input type="checkbox"/> Project loan</p> <p>    <input type="checkbox"/> Program loan</p> <p>    <input type="checkbox"/> Sector loan</p> <p>    <input type="checkbox"/> Sector development program loan</p> <p>    <input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p>    <input type="checkbox"/> Project preparatory</p> <p>    <input checked="" type="checkbox"/> Other than project preparatory</p> <p>        <input type="checkbox"/> Economic, thematic, and sector work</p> <p>        <input checked="" type="checkbox"/> Institutional development</p> <p>        <input type="checkbox"/> Other:</p> <p><input type="checkbox"/> Activities financed by JFICT or JFPR</p>										
<p><b>2. Assistance Focus</b></p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Subsector:</p> <p>b. For project preparatory and lending, classification</p> <p>    <input type="checkbox"/> Core poverty intervention</p> <p>    <input type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table border="0"> <tr> <td><input type="checkbox"/> Economic growth</td> <td><input type="checkbox"/> Human development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input checked="" type="checkbox"/> Good governance</td> </tr> <tr> <td><input type="checkbox"/> Environmental protection</td> <td><input checked="" type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Regional cooperation</td> <td><input type="checkbox"/> Social protection</td> </tr> <tr> <td><input type="checkbox"/> Other:</td> <td></td> </tr> </table>	<input type="checkbox"/> Economic growth	<input type="checkbox"/> Human development	<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Good governance	<input type="checkbox"/> Environmental protection	<input checked="" type="checkbox"/> Private sector development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection	<input type="checkbox"/> Other:	
<input type="checkbox"/> Economic growth	<input type="checkbox"/> Human development									
<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Good governance									
<input type="checkbox"/> Environmental protection	<input checked="" type="checkbox"/> Private sector development									
<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection									
<input type="checkbox"/> Other:										
<p><b>3. Coverage</b></p> <p><input checked="" type="checkbox"/> Country                      <input type="checkbox"/> Subregional                      <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>										
<p><b>4. Responsible division/department:</b> PAHQ/PARD</p>										
<p><b>5. Responsible ADB officer(s):</b> Thomas Gloerfelt-Tarp</p>										
<p><b>6. Description of assistance(s)</b></p> <p><b>a. Background/linkage to country/regional strategy:</b> Under the ADB financed Island Development Program Loan, corporatization of the Interisland Shipping Services and the Tuvalu Maritime Training Institute were conditions for second tranche release. UNDP concurrently had a public sector reform program focusing on accountability and commercialization or privatizing of government enterprises. However, the Government's support for the public sector reforms has been waning, resulting in inferior management of most of the public enterprises. The focus of the public sector enterprise sector is now on improving the corporate governance of the government-owned public enterprises, with the ultimate purpose of increasing the productivity of resource use. Corporatization formally separates and clarifies the roles of owner and manager, but the granting of autonomy to the manager of a public corporation must be matched by effective control, monitoring, and reporting mechanisms that make enterprise management accountable. Additionally, public sector enterprise management itself must be improved through a transparent selection process, training, and a focus on performance.</p>										

<p><b>b. Goal and purpose:</b> The TA will conduct an in-depth analysis of public sector enterprises with the aim of identifying the key areas necessary for proper corporatization, most notably the issue of accountability. In addition, the issue of board members and control, and the potential lack of qualified and experienced key staff will be analyzed.</p> <p><b>c. Components and outputs:</b> The TA will encompass all issues relating to corporatization. The output will be a report with clear recommendations and guidelines to the Government on a strategy to efficiently and cost effectively manage the public sector enterprises.</p> <p><b>d. Expected results and deliverables:</b> Improvement in the public sector service</p> <p><b>e. Social or environmental issues or concerns:</b> No adverse social or environmental impact is foreseen.</p> <p><b>f. Plans for disseminating results/deliverables:</b> Workshops with key Government ministries as well as the private sector</p>
<p><b>7. Proposed executing/implementing agencies:</b> Ministry of Finance and Economic Planning</p>
<p><b>8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:</b></p> <p>All ten 100% government-owned public sector enterprises will be analyzed in-depth as well as the corresponding ministries.</p>
<p><b>9. Timetable for assistance design, processing, and implementation</b></p> <p>a. Year included in CSP update: 2002</p> <p>b. Expected date of submission for approval</p> <p>Lending:</p> <p>Nonlending (project preparatory):</p> <p>Nonlending (other than project preparatory): 15 Nov 2002</p> <p>Activities financed by JFICT or JFPR:</p> <p>c. Period and duration of assistance</p> <p>Lending:</p> <p>Nonlending: April 2003, 3 months</p> <p>Activities financed by JFICT or JFPR:</p>
<p><b>10. Financing Plan</b> (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)</p> <p>a. For lending</p> <p><input type="checkbox"/> Ordinary capital resources:</p> <p><input type="checkbox"/> Asian Development Fund:</p> <p><input type="checkbox"/> Other:</p> <p>b. For nonlending</p> <p><input type="checkbox"/> No resources required, other than ADB staff</p> <p><input type="checkbox"/> ADB's administrative budget:</p> <p><input checked="" type="checkbox"/> Grant TA funds</p> <p><input checked="" type="checkbox"/> TA Special Fund: US\$250,000</p> <p><input type="checkbox"/> Japan Special Fund:</p> <p><input type="checkbox"/> Other (specify, e.g., bilateral and multilateral trust funds):</p> <p>If cofinancing is required indicate sources, and amount sought:</p> <p>If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):</p> <p>c. For projects financed by</p> <p><input type="checkbox"/> JFICT:</p> <p><input type="checkbox"/> JFPR:</p> <p>If cofinancing is required indicate sources, and amount sought:</p>

ADB = Asian Development Bank, CSP = country strategy and program, JFICT = Japan Fund for Information and Communication Technology, JFPR = Japan Fund for Poverty Reduction, TA = technical assistance, UNDP = United Nations Development Programme.

Table A3.2: Future Electricity Supply for Funafuti

Date: 12 June 2002

<p><b>1. Type/modality of assistance</b></p> <p><input type="checkbox"/> Lending</p> <p><input type="checkbox"/> Project loan</p> <p><input type="checkbox"/> Program loan</p> <p><input type="checkbox"/> Sector loan</p> <p><input type="checkbox"/> Sector development program loan</p> <p><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p><input type="checkbox"/> Project preparatory</p> <p><input checked="" type="checkbox"/> Other than project preparatory : ADTA</p> <p><input type="checkbox"/> Economic, thematic, and sector work</p> <p><input type="checkbox"/> Institutional development</p> <p><input type="checkbox"/> Other:</p> <p><input type="checkbox"/> Activities financed by JFICT or JFPR</p>										
<p><b>2. Assistance Focus</b></p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Subsector:</p> <p>b. For project preparatory and lending, classification</p> <p><input type="checkbox"/> Core poverty intervention</p> <p><input type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Economic growth</td> <td><input type="checkbox"/> Human development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input type="checkbox"/> Good governance</td> </tr> <tr> <td><input type="checkbox"/> Environmental protection</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Regional cooperation</td> <td><input type="checkbox"/> Social protection</td> </tr> <tr> <td><input type="checkbox"/> Other:</td> <td></td> </tr> </table>	<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development	<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance	<input type="checkbox"/> Environmental protection	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection	<input type="checkbox"/> Other:	
<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development									
<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance									
<input type="checkbox"/> Environmental protection	<input type="checkbox"/> Private sector development									
<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection									
<input type="checkbox"/> Other:										
<p><b>3. Coverage</b></p> <p><input checked="" type="checkbox"/> Country                      <input type="checkbox"/> Subregional                      <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>										
<p><b>4. Responsible division/department:</b> PAHQ/PARD</p>										
<p><b>5. Responsible ADB officer(s):</b> Thomas Gloerfelt-Tarp</p>										
<p><b>6. Description of assistance(s)</b></p> <p><b>a. Background/linkage to country/regional strategy:</b> ADB's involvement in the corporatization of public sector enterprises is the rationale for further engagement in state-owned enterprises. The Tuvalu Electricity Corporation (TEC) will soon have to decide on future power generation investment for Funafuti because of two major public infrastructure projects, namely the new hospital and the new government building. It has been estimated that when finished, these two buildings alone will consume more electricity than what is currently being produced. TEC will therefore have to decide on the best investment for future power generation.</p> <p><b>b. Goal and purpose:</b> The TA will analyze options for future power generation from cost-effective and environmentally considerations. Being a remote, tiny atoll country, Tuvalu has no strong bargaining position in terms of freight costs of crude oil and thus faces comparatively higher oil costs than most other countries. However, the country also has approximately 2,000 hours of sunshine per year, and solar power may be a supplementary option to consider. In addition, the solid waste on Funafuti also renders the possibility of looking into other options that crude oil and solar power as a means for electricity generation.</p>										

**c. Components and outputs:** The TA will make an in-depth analysis of current and future estimated power consumption and prepare a technical report describing various options for future investment in power generation taking into consideration initial investment costs, maintenance costs, and environment factors.

**d. Expected results and deliverables:** An improved and cost-effective power supply.

**e. Social or environmental issues or concerns:** The project should make a positive contribution towards a cleaner environment by incorporating solar power (if economically feasible) and possibly also public and private waste.

**f. Plans for disseminating results/deliverables:** -

**7. Proposed executing/implementing agencies:** Tuvalu Electricity Corporation

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:-**

**9. Timetable for assistance design, processing, and implementation**

- a. Year included in CSP update: 2002
- b. Expected date of submission for approval  
Lending:  
Nonlending (project preparatory):  
Nonlending (other than project preparatory): April 2004  
Activities financed by JFICT or JFPR:
- c. Period and duration of assistance  
Lending:  
Nonlending: June 2004, 3 months  
Activities financed by JFICT or JFPR:

**10. Financing Plan** (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

- a. For lending
- Ordinary capital resources:
- Asian Development Fund:
- Other:

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

- b. For nonlending
- No resources required, other than ADB staff
- ADB's administrative budget:
- Grant TA funds
- TA Special Fund: US\$100,000
- Japan Special Fund:
- Other : Danish Cooperation Fund for Renewable Energy US\$50,000

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

- c. For projects financed by
- JFICT:
- JFPR:

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

ADB = Asian Development Bank, CSP = country strategy and program, JFICT = Japan Fund for Information and Communication Technology, JFPR = Japan Fund for Poverty Reduction, PARD = Pacific Department, TA = technical assistance, TEC = Tuvalu Electricity Corporation.