

ASIAN DEVELOPMENT BANK

TAR: TUV 35064

TECHNICAL ASSISTANCE

TO

TUVALU

FOR THE

COUNTRY ECONOMIC STUDY AND STRATEGY DEVELOPMENT

October 2001

CURRENCY EQUIVALENTS

(as of 15 August 2001)

Currency Unit	–	Australian dollars (A\$)
A\$1.00	=	US\$0.5218
US\$1.00	=	A\$1.9164

ABBREVIATIONS

ADB	–	Asian Development Bank
GDP	–	gross domestic product
MFEP	–	Ministry of Finance and Economic Planning
PDMC	–	Pacific Developing Member Country
TA	–	technical assistance
TMTI	–	Tuvalu Maritime Training Institute
TTF	–	Tuvalu Trust Fund
UNDP	–	United Nations Development Programme

NOTES

- (i) The fiscal year (FY) of the Government and its agencies ends on 31 December.
- (ii) In this report, “\$” refers to US dollars.

I. INTRODUCTION

1. During the Country Programming Mission in 2000 the Government of Tuvalu requested Asian Development Bank's (ADB) assistance to build the capacity of the Ministry of Finance and Economic Planning (MFEP) for financial and economic analyses needed to prepare an appropriate development strategy. In May 2001, during the Annual Meeting in Honolulu, the Government reiterated its request but suggested a broader scope to the assistance to encompass (i) upgrading and practical application of statistical data collection and use, and (ii) assessment of the economic and social constraints and opportunities with emphasis on quality of life issues. ADB fielded a fact-finding mission to Tuvalu from 4-11 June 2001 for the technical assistance (TA). The Mission confirmed the need for the TA and reached an understanding with the Government on its objectives, scope, cost estimates, financing plan, terms of reference, and implementation arrangements. The TA is included in the 2001 Country Assistance Program.¹ The TA framework is presented in Appendix 1.

II. BACKGROUND AND RATIONALE

2. Tuvalu is a tiny atoll nation located in the central Pacific with a population of approximately 10,500; about half live on the main island of Funafuti. The nation is threatened by rising sea levels. Sound economic management in the last decade has brought 5 percent compounded annual average real gross domestic product (GDP) growth. The economy is dualistic, with the outer population living a subsistence lifestyle. Government and state-owned enterprise activity are the dominant features of the economy. External revenues from fishing licenses, Tuvalu Trust Fund (TTF) revenues, and the ".tv" domain name combine to make the gross national product far higher than GDP. Public policy has been pro-poor, with expenditure of some TTF revenue on social services, e.g., outer-island education, electrification, and creation of an outer-island trust fund. Nevertheless, services remain poor, especially teacher standards, and distribution of health services is inequitable. Only one of three teenagers is enrolled in school; females are not encouraged to study at tertiary levels. ADB's Island Development Program² includes support for entrepreneurial outer-island women. Because outer-island families rely on remittance income from seafarers, competition for places at the Tuvalu Maritime Training Institute (TMTI) is intense. Devolution of some responsibilities and resources to the outer islands is under way. In 1986, the United Nations granted Tuvalu least developing country status in recognition of its unique difficulties. The major challenges facing the country are to boost economic growth and employment on a sustainable basis and improve the social and economic welfare of its people, particularly those living on the outer islands.

3. According to the United Nations Development Programme (UNDP) *Pacific Development Report 1999*, Tuvalu has a human development index of 0.583, which is the midrange by Pacific developing member country (PDMC) standards. The UNDP human poverty index of 7.3 ranks Tuvalu as the third least-poor PDMC. Data point to significant interisland disparities with respect to incomes. The percentage of the population with less than \$1.50 per capita per day is higher in the outer-islands (66.5 percent) than on Funafuti (21.6 percent), while the cost of imported goods is markedly higher on the outer-islands due to remoteness and the small size of the market. In addition, the most vulnerable groups are concentrated on the outer-islands; the old, the very young, and women. However, declining quality of life is becoming an issue also in Funafuti, mainly for the immigrants from the outer-islands, who do not own land on the main island.

¹ The TA first appeared in *ADB Business Opportunities* on 1 June 2001.

² Loan 1693-TUV: *Island Development Program*, for \$4 million, approved on 13 July 1999.

4. The main sources of economic growth have been in construction and government services; inflation remains relatively low. The main exception is the fuel price, compounded by the relative weakness of the Australian dollar. Tuvalu relies heavily on revenues from the TTF, fisheries license fees, and, more recently, Internet domain license fees (.tv). Remittances from overseas workers, official transfers and investment income from overseas assets also make substantial contributions to foreign exchange earnings.

5. Since independence in 1978, the Government built a reputation for sound financial management. However, the recent influx of revenue, especially the initial windfall of .tv, has created high public expectations and the Government is under pressure to relax its past fiscal discipline. The 2001 national budget subsequently showed a dramatic increase in expenditures. Sustaining this level of expenditure may prove difficult, especially since some of the revenues fluctuate widely—fisheries licenses—and others may not be permanent—.tv.

6. The general framework for ADB's country strategy to Tuvalu is spelled out in the Pacific Strategy for the New Millenium.³ Besides giving priority to expanding trust funds to provide sustainable financing of needed services, and promoting labor market export, the main objective is to promote economic growth and poverty reduction by supporting development of outer-islands. Accordingly, ADB will continue to assist the Government in its reform agenda and endeavor to formulate national development priorities. The ADB strategy in Tuvalu aims to foster equitable growth through the Three Pillars of Growth of the ADB poverty strategy: good governance, inclusive social development, and pro-poor economic growth.

7. Tuvalu's most recent development strategy for 1995-1998 (Kakeega o Tuvalu) reflects the ADB strategy giving priority to (i) public sector reform, (ii) education and human settlement, and (iii) economic infrastructure. In public sector reform, considerable progress has been made in corporatizing the Tuvalu Maritime Training Institute, and recently the Interisland Shipping Service. However, the Government recognizes that improvements in the financial management information system are needed to ensure timely and appropriate information for decision making. For economic infrastructure, satellite communication and power generation have been established on the outer islands. Another important focus of the development strategy is the need to distribute Government resources more equitably; the establishment of the Outer Island Trust Fund with ADB assistance and the associated TA⁴ are major steps in this direction. The poverty focus of the current TA will build on many of the outcomes and findings of these projects.

8. Meanwhile, the Department of Community Affairs is preparing a new social and welfare policy that rests on two principal components: (i) design of special programs for disadvantaged and marginalized people, and (ii) provision of good welfare services for all Tuvaluans. The policy is based on Tuvalu Vision 2015, which outlines specific philosophies for national development in the next 15 years to achieve higher living standards with minimal natural resources. To formalize the social and welfare policy, identification of the poverty line⁵ is essential.

9. The Government recognizes that it needs to update its development strategies and is beginning to address the need for such a strategy, to reflect the progress since the publication

³ Asian Development Bank. 2001. *A Pacific Strategy for the New Millenium*. Manila.

⁴ TA 3221-TUV: *Island Development Program Implementation*, for \$600,000, approved on 13 July 1999.

⁵ Poverty is defined in a broad sense encompassing landlessness, lack of access and opportunity, any form of disadvantaged, etc.

of the Kakeega in 1995. The intention is to have this strategy in place for the election of the new Government expected in March 2002 and for it to be reviewed every two years.

10. Most assistance agencies recognize the importance of human resource development as one of Tuvalu's best assets and the Australian Agency for International Development, the European Union, and New Zealand all target education as their primary priority. Japan is funding an additional vessel to improve the interisland shipping service, which will lead to reduced disparities between Funafuti and the outer-islands.

III. THE TECHNICAL ASSISTANCE

A. Objectives

11. The TA will support the Government's effort to continue public sector reform to foster economic growth and maintain the level of quality of life for all Tuvaluans. In particular, it will assist the Government to (i) develop a better understanding of emerging poverty issues; (ii) identify obstacles to growth and maintaining quality of life;⁶ and (iii) enhance the ability of the Government to identify development opportunities, constraints, and policy options by improving its economic and financial reporting.

B. Scope

12. The TA has three major components.

13. **Component 1. Economic and Social Assessment.** The TA will

- (i) assess the macroeconomic performance of the Tuvalu economy;
- (ii) assess the constraints and opportunities for economic and social development at the general and sector level, paying special attention to sustainable economic development and socioeconomic welfare of the underprivileged; and
- (iii) analyze and evaluate the public enterprises to identify and document improved delivery of these basic services with the long-term aim of commercialization.

14. **Component 2. Quality of Life Profile.** Activities will

- (i) enhance available household income, expenditures, and consumption data by analyzing household data in greater detail; and
- (ii) ensure synergy in poverty profile creation between the Department of Community Affairs and the TA team for social and poverty policy development.

15. **Component 3. Improved Data Gathering.** The TA will

- (i) train MFEP staff on the preparation of financial statements and accounts for audit;
- (ii) assist and train statisticians on data collection, processing, and publication; and

⁶ Environment issues, which also impact on obstacles to growth, such as rising sea levels, will be addressed in separate regional TAs.

- (iii) assist with census questionnaire design, data processing, and installation of appropriate software.

16. The assistance will support the Government's intentions to prepare a detailed economic strategy for the medium term. The Economic Research and Planning Division of MFEP is preparing a medium-term economic strategy for the nation over the next nine months but is limited by lack of accurate data in the Ministry of Finance due to poor financial reporting. The Central Statistics Office, which has in recent years been limited by lack of staff, now requires some capacity building for new staff to institutionalize important data collection efforts and to undertake the next census of population and housing in 2002.

17. The TA will also identify the poverty line for Tuvalu and thus lay the groundwork for the poverty partnership agreement between the Government and ADB. It will provide the necessary information and data to prepare for the Consultative Group meeting of development agencies, to be arranged by ADB in mid-2002.

C. Cost Estimates and Financing Plan

18. The total cost of the TA is estimated at \$360,000 equivalent, of which \$224,000 is the foreign exchange cost and \$136,000 equivalent is the local currency cost. ADB will finance the entire foreign exchange costs of \$224,000 and \$76,000 equivalent of local currency costs, including international consultant remuneration and per diem, international travel, communications, office equipment and supplies, local travel, preparation of design and reports, and contingencies. The balance of the local currency cost, to be financed by the Government, covers counterpart staff, office facilities, support services, and transport costs of counterpart staff. The TA will be financed by ADB on a grant basis from the ADB-funded TA program. The cost estimates are shown in Appendix 2.

D. Implementation Arrangements

19. The Project will provide a total of 14 person-months of consulting services: about 7 person-months of international consulting services in the fields of commercialization, human resources development, and macroeconomics; and about 7 person-months of domestic/regional consulting services for training in budget and audit accounting, statistics and financial management, and data processing. Of the 7 domestic/regional person-months allocated for the training component, only 2 person-months input have been specified. Given the various plans and strategies currently under preparation by the Government, e.g., the National Development Plan and the 2002 population census, 5 person-months of domestic/regional consulting services for training and capacity building are reserved as uncommitted. The consultants in macroeconomics and commercialization will, together with their MFEP counterparts, identify specific areas for assistance and prepare refined terms of reference for the most appropriate consulting services input to achieve the TA objective. The macroeconomist and human resources development specialist are expected to visit Tuvalu twice during their engagements, thus making optimal use of the results from the Island Development Program Implementation participatory monitoring and evaluation survey. The consultants will be engaged by ADB in accordance with ADB's *Guidelines on the Use of Consultants*. The terms of reference for the consulting services are in Appendix 3. Computer equipment necessary for implementing the TA will be purchased in accordance with ADB's *Guidelines for Procurement*. The equipment will be turned over to the Government after TA completion.

20. The consultants for the training and capacity building activities will arrange the necessary workshops and training seminars; on a needs basis, especially in relation to upgrading the ability of MFEP to prepare financial and statistical reports.

21. MFEP will be the Executing Agency for the TA and will coordinate closely with the Department of Community Affairs and the Department of Rural Development to ensure effective liaison, data gathering, and discussion during implementation. MFEP will appoint counterparts to work with the consultants to provide coordination between the Government, its agencies, the provincial administrations, local communities, and the consultants.

22. The TA will commence in October 2001 and be implemented over about 12 months with completion expected by October 2002. The TA will produce the following main reports: (i) an assessment of Tuvalu's economic and social constraints and opportunities, macroeconomic performance, state-owned enterprise performance, and human indicators with clear recommendations on how to improve performance; (ii) a poverty profile; and (iii) a report for the preparation of the Consultative Group meeting. The individual consultants are required to submit summary monthly progress reports.

IV. THE PRESIDENT'S DECISION

23. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance, on a grant basis, to the Government of Tuvalu in an amount not exceeding the equivalent of US\$300,000 for the purpose of the Country Economic Study and Strategy Development, and hereby reports such action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/ Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goal To foster economic growth and human resource development</p>	Introduction of policies that address structural problems affecting the level of poverty	Government policies as demonstrated by budget and development plans	
<p>Purpose A. Develop a better understanding of emerging poverty issues. B. Identify obstacles to growth and poverty reduction. C. Enhance the Government's ability to identify development opportunities, constraints, and policy options that meet the needs of the people.</p>	<p>Revised policies</p> <p>Poverty reduction strategies by November 2002</p>	<p>Central Statistical Office</p> <p>National Development Plan</p>	New "windfall revenues" sidetracks fiscal discipline
<p>Outputs</p> <ol style="list-style-type: none"> 1. Assessment of the economic and social constraints and opportunities 2. Assessment of public enterprises improve service delivery 3. Improved financial and economic analysis and evaluation capacity by the Government 4. Reliable and accurate information on human development and poverty from household surveys 5. Staff of MFEP trained in improved and accurate data gathering and analysis 	<p>Economic report with focus on social indicators, state-owned enterprises, and macroeconomics produced before May 2002</p> <p>Revision of poverty assessment before May 2002</p> <p>Financial statements of accounts and audit accounts submitted to auditor general</p>	<p>Work program for Central Statistical Office</p> <p>Draft poverty partnership agreement between ADB and the Government</p> <p>Accurate revised fiscal estimates prior to budget preparation and timely</p>	<p>Data available on a timely basis</p> <p>Acceptance of emerging disparities as an issue by the Government</p> <p>Trained staff are not transferred to other duties within two years.</p>

(Reference in text: page 1, para. 1)

	within six months of the previous fiscal year.	reporting of annual budget outcome.	
<p>Activities</p> <p>Assessment of disparities between rural and urban areas in terms of incomes, employment, and other economic opportunities</p> <p>Examination of the role of commercial public enterprises and their financial management</p> <p>Assessment of impact of the Government's Island Development Program to identify bottlenecks in translating benefits of reform into higher economic growth</p> <p>Aggregation of housing and land, food, livestock, fisheries, capital goods, water and sanitation, health and social issues, and cash flow data by island and municipal areas</p> <p>Strengthening of internal management systems in Treasury</p> <p>Capacity building of Central Statistical Division staff</p>	<p>Policy guidelines for promotion of equitable development in the rural areas and outer-islands</p> <p>Policy guidelines and strategies on improvement of effectiveness and efficiency</p> <p>Policy strategy to enhance the impact of Government's effort</p> <p>Identification of poor and marginalized people by location</p> <p>Monthly bank reconciliation.</p> <p>Monthly reconciliation with line ministries</p>	<p>National Development Plan</p> <p>National Development Plan</p> <p>National Development Plan.</p> <p>Poverty profile report</p> <p>Yearly updated consumer price index</p> <p>Yearly updated trade statistics</p>	
<p>Inputs</p> <p>14 person-months of international and domestic/regional consulting services</p> <p>Computers, software, and back-up systems</p>			

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank Financing^a			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	137.0	0.0	137.0
ii. Domestic (regional) Consultants	0.0	56.0	56.0
b. International and Local (regional) Travel	38.0	0.0	38.0
c. Report preparations, editing, printing	13.0	0.0	13.0
2. Equipment ^b	14.0	0.0	14.0
3. Training and Workshops	0.0	6.0	6.0
4. Surveys	0.0	3.0	3.0
5. Miscellaneous Administration and Support Costs	0.0	3.0	3.0
6. Contingencies	22.0	8.0	30.0
Subtotal (A)	224.0	76.0	300.0
B. Government Financing			
1. Office Accommodation and Transport	0.0	25.0	25.0
2. Remuneration and Per Diem of Counterpart Staff	0.0	17.0	17.0
3. Surveys	0.0	3.0	3.0
4. Local Support and Workshops	0.0	15.0	15.0
Subtotal (B)	0.0	60.0	60.0
Total	224.0	136.0	360.0

^a Financed from the Asian Development Bank-funded TA program.

^b Computers, printers, uninterruptible power supply (UPS), and software
Source: Staff estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. The Tuvalu consulting team will draw on existing material including earlier reports prepared by the Asian Development Bank (ADB), Government, and other aid agencies to avoid duplication of efforts. Major effort should be placed on updating the available information, and refining the existing analysis, with a view to improving the policy direction. The assessment of economic and social constraints and opportunities should link well with the Island Development Program (IDP) experience and agenda, and focus on providing inputs for integrating the IDP processes and deepening and widening the process, particularly in terms of reforms.

2. The team leader-macroeconomist will provide intellectual leadership and guidance to the team. The team leader will be responsible for the overall quality of the assessment and subsequent report, and focus on the macroeconomics aspects of the economy including the fiscal policy and the financial sector. The poverty and human development specialist will analyze the social issues in this context. The commercialization specialist will analyze the state-owned enterprises, and their performance, and make clear recommendations for improved service delivery in the most cost-effective manner. Consultants will be engaged for training to strengthen the economic and financial management, and assist in the development of the national development strategy, support the collection of information and data, and provide general support to team members for the study. Since the reports are expected to serve as major reference documents, they should contain detailed statistical tables and historic data on important items.

A. Macroeconomist-Team Leader (international, 2.5 person-months)

3. The terms of reference (TOR) of the macroeconomist-team leader will include the following:

- (i) Review and analyze significant overall trends in the macroeconomic development of the country, and focusing on the developments in the last decade. The period after the last economic update in 1997 should be appropriately elaborated. Give special reference to macroeconomic aggregates, including gross domestic product (GDP), gross national product (GNP), savings and investments, price level, foreign reserves, external debt, employment, and balance of payments.
- (ii) Assess the Government's fiscal performance and budgeting framework; include an assessment of revenue-raising performance and expenditure patterns with recommendations to improve the efficiency of fiscal policy in delivering Government policy outcomes. In particular, examine the revenue implications of changes in the tax structure introduced under the IDP.
- (iii) Review and analyze the status and performance of the financial sector, its outreach to rural areas, and provision of microfinance services, including competition and regulation issues. Emphasize examining the large spread between deposit and lending rates, and high cost of capital for businesses in the country.
- (iv) Review and analyze trade, investment, and competition policy; describe and comment on strategies to improve these aspects of the economy (including reviews of relevant laws, regulations, and implementation and approval

processes). Give emphasis to examining the inadequate growth of competition, and reasons for continuation of monopolistic and dualistic practices.

- (v) With the help of the human development–poverty specialist, review labor markets and wage policy with special consideration of the gender implications of these policies (including an assessment of the skill gap in the labor market and the current skills development programs).
- (vi) Assess disparities between rural and urban areas in terms of incomes, employment, and other economic opportunities; and comment on policies to promote equitable development in the rural areas and outer-islands.
- (vii) Review and examine the structure and performance of public services, and suggest improvements.
- (viii) Review and assess the impact of the Government's IDP, with a view to identifying the bottlenecks in translating the benefits of reforms into higher economic growth and improved welfare of the people.
- (ix) In close consultation with the Government, assess the priorities and sequencing, to prepare policy strategies to enhance the impact of Government efforts.
- (x) In close consultation with the Government, prepare strategies for better integration of the process and macroeconomic framework.
- (xi) Coordinate and integrate the findings and recommendations of all sector specialists.
- (xii) Lead team presentations and recommendations in workshops/seminars organized for this assessment.
- (xiii) Based on these tasks and in consultation with the Government and ADB prepare the assessment in a length and format as prescribed by ADB. This will include clear chapter by chapter executive summaries, which could serve as quick reference documents for policymakers.

4. The team leader-macroeconomist will be responsible for the completion of all analyses and report writing, and the overall quality of the final report. The team leader will present the interim report and final draft report at workshops to review and elicit comments for the Government and other stakeholders. The team leader will also be required to be at ADB headquarters for about two weeks in Manila to finalize the report.

B. Human Development Specialist (international, 2.5 person-months)

5. The TOR of the human development specialist will include the following:

- (i) Prepare a brief literary review of reports and documents, including recent surveys and statistics, related to the social sector (health, education, gender, and youth issues).

- (ii) Prepare a statistical analysis of the following data from the Island Development Program Implementation Survey 2001: housing and land, food, livestock, fishing, capital goods, water and sanitation, sources of drinking water, health and social issues, and cash inflow.
- (iii) Aggregate the data by Island and municipal areas and, in consultation with the Ministry of Local Government, Women, and Youth (Island Development Program Implementation), Department of Community Affairs, and the Central Statistic Division and relevant nongovernment organizations, differentiate the data to identify those individuals and families that are poor and disadvantaged.
- (iv) Review and analyze the Government's expenditures in social service delivery systems, particularly for rural areas, including the role and impact of subsidies and greater user fees.
- (v) Analyze the current free health system provided by the Government in view of the likelihood of future reduction in this service and subsequent negative consequences for the lower income groups, and recommend measures to mitigate these.
- (vi) Assess the education disparity between Funafuti versus outer-islands from the perspective of teacher quality, curriculum relevance, and retention rates.
- (vii) Review curriculum relevance to main demand in labor forces including public service, merchant shipping, and subsistence farming, and assess any imbalance of focus, lack of quality, and gender equity.
- (viii) Review postsecondary vocational training with a view to improving equity for women.
- (ix) Review and analyze the trends of social and environmental indicators, with a view to identifying and recommending policy changes.
- (x) Assess the medium-term resource requirements and suggest structural reform options for development of the social sector in Tuvalu.
- (xi) Assist the team leader in reviewing labor markets and wage policy with special consideration of the gender implications of these policies.
- (xii) Based on these make an overall analysis of the social sector including investment, cultural practices, and social service delivery mechanism; and recommend policy direction.
- (xiii) Prepare and complete relevant chapters and assist the team leader in consolidating the final assessment, including the process of getting review and comments.
- (xiv) Prepare the poverty profile for Tuvalu as the basis for the poverty partnership agreement between the Government and ADB.

C. Public Enterprise Specialist (international, 2 person-months)

6. The TOR of the public enterprise specialist will include the following.

- (i) Prepare a brief literary review of reports and documents, including recent surveys and statistics, related to the state-owned enterprises.
- (ii) Examine the role of commercial public enterprises, including their financial management, and comment on policies and strategies to improve their effectiveness and efficiency. Give emphasis to examining the phasing and sequencing of their restructuring, and identifying options from the point of view of the consequent short-term losses in Government revenues.
- (iii) Analyze the infrastructure and transport systems, and identify constraints to development in these areas; in particular, comment on the adequacy of infrastructure and the availability and access to transport.
- (iv) Evaluate and provide constructive comment on the regulatory framework, operation, and effectiveness of the Government's service delivery of key services as such as transport, utilities, communications, and specialized education. Suggest options for improvement. Emphasize examination of the high cost of utilities despite subsidies and tax exemptions.
- (v) Review the effectiveness of the current pricing and cost recovery policies and practices, taxation system, and competition policies of public sector commercial enterprises.
- (vi) Review and analyze the policy environment for private sector participation/running of public sector enterprises including the regulatory framework.
- (vii) Prepare and complete relevant chapters and assist the team leader in consolidating the final overall assessment, including the process of getting review and comments.

D. Economic and Financial Adviser (domestic/regional, 2 person-months)

7. The TOR of the economic and financial adviser will include the following:

- (i) Analyze the structure and position statements of the staff of Treasury, Budget and Aid Coordination Division, including mechanisms for job rotation and staff development; and recommend areas for improvements.
- (ii) Review the financial management systems and procedures, and suggest updating where required.
- (iii) Review the Government's accounts with a view to rationalize systems to ensure timely reconciliation with the Bank of Tuvalu, the line ministries, and the Budget Department.

- (iv) Provide hands-on training in all aspects of the work in the Ministry of Finance and Economic Planning.