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February 2004

Tuvalu Government  
The European Commission

# Joint Annual Report 2003

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**Prepared by**

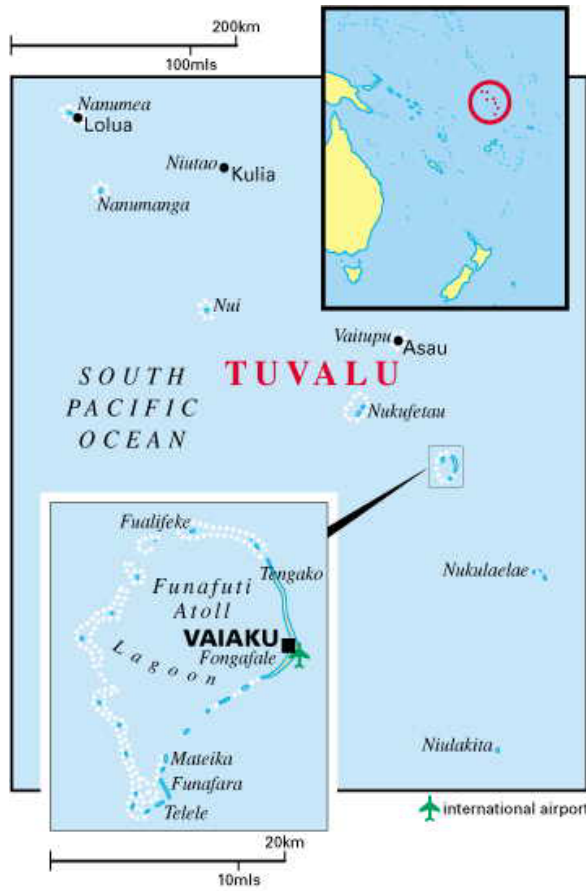
Office of the National Authorising Officer  
Ministry of Finance, Economic Planning & Industries

European Commission  
Delegation for the Pacific

**Supported by**

European Union  
European Development Fund

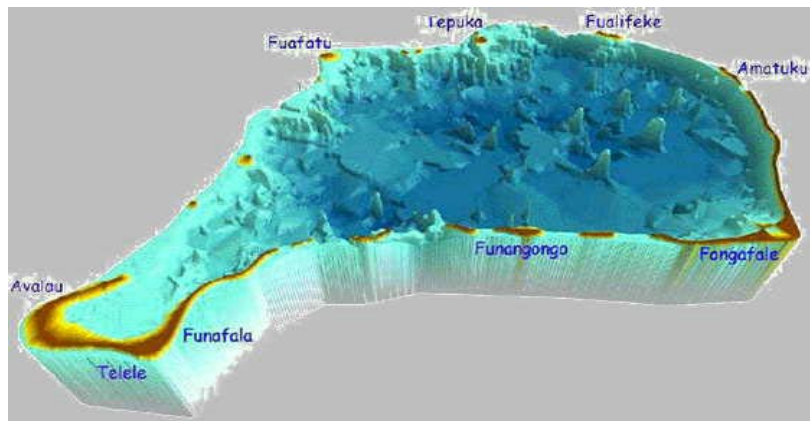
**Edition 2 (11 March 2005)**



**Tuvalu**\*

**Inset: Funafuti Atoll & southwest Pacific**

Source: <http://www.travel-guide.com/data/tuv/tuvmap>



**Funafuti Atoll: lagoon bathymetry**

Source: South Pacific Applied Geoscience Commission (SOPAC)

\* Some place names on both maps are spelled incorrectly. Modern usage drops the 'n' in 'ng', as in Tegako, Fogafale, Nanumaga. Funafara is spelled Funafala.

# Contents

<b>Maps</b> .....	i
<b>Contents</b> .....	ii
<b>Abbreviations and Acronyms</b> .....	iv
<b>1. Executive Summary</b> .....	1
<b>2. Tuvalu’s Policy Agenda</b> .....	3
<b>3. Political, Economic and Social Situation</b> .....	5
3.1 Education .....	6
3.2 Health .....	7
3.3 Political situation .....	7
3.4 Local government .....	8
3.5 Macroeconomic developments .....	8
3.6 Economic performance .....	9
3.7 National budget and public finance .....	10
3.8 Trade .....	10
3.9 Regional cooperation .....	11
3.10 Social policy .....	11
3.11 Environmental trends .....	11
<b>4. Overview of Past, Present and Future EDF Cooperation</b> .....	12
4.1 EDF area of concentration: education .....	13
<i>a) Results</i> .....	13
<i>b) Progress in activities</i> .....	14
4.2 9 <sup>th</sup> EDF area of concentration: environment .....	14
<i>a) Results</i> .....	14
<i>b) Progress in activities</i> .....	15
4.3 9 <sup>th</sup> EDF area of concentration: water .....	15
4.4 Utilisation of resources for non-state actors .....	15
4.5 8 <sup>th</sup> EDF and balances of previous EDFs .....	16
4.6 Other instruments .....	16
4.6.1 European Investment Bank .....	16
4.6.2 9 <sup>th</sup> EDF regional cooperation .....	16
<i>a) Regional Economic Integration (REIP)</i> .....	16
<i>b) Human Resources Development (HRD)</i> .....	17
<i>c) Fisheries</i> .....	17
<i>d) 8<sup>th</sup> EDF Regional Cooperation</i> .....	18
4.6.3 STABEX .....	18
4.6.4 Community budget lines .....	18
a) Co-finance with European NGOs .....	18
<i>Building the Capacity of NGO’s and CBOs in the Pacific</i>	
b) Tropical Forests & Other Forests/Environments	
in Developing Countries .....	18
<i>The Coral Gardens Initiative: Poverty Alleviation Through</i>	
<i>Capacity Building in Community–Based Fisheries</i>	
<i>Management and Coral Reef Restoration</i>	

	c) European Initiative for Democracy and Human Rights .....	19
	<i>Transforming Communities Through Good Governance</i>	
	d) 8 <sup>th</sup> EDF Intra ACP Funds .....	19
	<i>Sexual &amp; Reproductive Health Programme</i>	
5.	Future Programming Perspectives .....	19
6.	Conclusions .....	20

**TABLES**

3.1	Select macro indicators: income, health, mortality, education .....	5
4.1	Approved NSA projects: 2004 and 2005 (tentative) .....	16

**BOXES**

3.1	Select population and macro-economic indicators .....	8
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**ANNEX**

	9 <sup>th</sup> EDF: Activity pipeline chronogramme & Forecast of commitments and disbursements .....	22
	Indicators and targets.....	23
	Country Environmental Profile.....	24
	Migration Profile.....	33



## 1. EXECUTIVE SUMMARY

**Background.** Tuvalu is a small island state in the southwest Pacific. It has a landmass of 26 sq km and a population of 9,481\* spread over nine atolls and reef islands. The GDP per capita in 2001 was A\$2,414 (about €1,450). Tuvalu, a Westminster-style democracy, is politically stable, but with some qualifications (see Section 3). It has a history of prudent economic and financial management. It has a narrow economic base, limited to subsistence agriculture and artisanal fisheries. Tuvalu's economy is heavily dependent on income from overseas government investments, fish licensing, and remittances. The economy is mixed market-subsistence, dominated by the public sector, which accounts for well over 60% of total GDP; subsistence contributes about a quarter. Tuvalu's real GDP grew at an estimated average annual rate of 5% from 1988 to 2001.

**Development policy.** Tuvalu's mid- or medium-term development strategy has not been updated since 1998, although other policy documents in the interim have set the national development agenda. Publication of a new mid-term development strategy is planned in 2004, following a national development 'congress', scheduled for April.

Presently, the main development goals of the Tuvalu Government are: public sector reform (in all its permutations); private sector development; building civil infrastructure; improving the education system, and improving the lifestyle of people living in the outer islands.

**Poverty.** The incidence of poverty in Tuvalu is low. Broadly speaking, there is no malnutrition from inadequate food intake; health services and basic education are free and universal; and a traditional land tenure system operated through extended family groups and backed by legislation ensures access to subsistence resources. Poverty is defined more as lack of opportunity due to limited natural resources and its remote location from overseas markets, a problem even more acute in Tuvalu's outer islands.

**Politics.** The last general election was held in July 2002. The current government is comprised of nine government MPs. Six MPs form the opposition. Five cabinet ministers, the Speaker of Parliament, and two MPs without portfolio support the Prime Minister, Hon. Saufatu Sopoanga.\*\*

**Education.** Successive governments have sought to develop a system that provides quality education for all. Selected education indicators:

- Between 1991 and 2003, national primary student enrollment increased by 16.6%.
- According to the Ministry of Education, primary enrolment has reached 100%, though other sources show lower rates of 88% for girls and 87% for boys.
- The percentage of school age secondary students enrolled was only 34% in 1998, but is higher today.
- Literacy rates are high with 95% for both sexes.

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\* National census (November 2002 [est.] )

\*\* Following the by-election in September 2004, a new government has been set since October 2004 under the leadership of the new Prime Minister, Hon. Maatia Toafa. (SP)

- The teacher-student ratio has improved over the last 10 years and in mid-2002 stood at 18:1 in primary education and 17:1 in secondary education.

A number of assessments have scrutinized public education in recent years. Most recently, and perhaps the biggest, occurred at the National Education Forum (August 2002), which gave stakeholders an opportunity to identify the needs and challenges facing the Tuvalu's education system. Since then the Tuvalu Government has embarked on a programme of reform. An education sector 'Master Plan' should be finalized, sometime, in 2004.

**9<sup>th</sup> EDF.** The Country Strategy Paper (CSP) was signed in December 2002. The Financing Agreement (FA) for the Outer Islands Social Development Support Programme (OISDSP), which covered the entire National Indicative Programme (NIP), was signed in August 2003. The sum of the FA is €3.3 million (the NIP), plus the remaining balance of €65,136 from the 6<sup>th</sup> and 7<sup>th</sup> EDFs. The OISDSP has a single 'focal' sector, "Social Development Support", which targets the outer islands in the areas of education, environment and water. The first Annual Work Programme was endorsed in December 2003.

The OISDSP has continued to underwrite the construction of primary school infrastructure, construction of pre-schools; provision of primary and secondary school supplies (e.g. paper, pencils, notebooks and art supplies); material procurement for the construction primary school extensions on the central island of Nui and northern island of Niutao; and primary school teacher salaries.

The OISDSP continued to finance some waste management activities in Funafuti in 2003. Waste management funding is being extended to the outer islands beginning in 2004.

**Non-State Actors.** NSAs have been allocated 10% of the NIP, or €30,000. There were no NSA-related projects in the 2003 national budget. The NAO sought approval to waive budgetary support for NSAs in the 2003 AWP. The Tuvalu Association of Non-Governmental Organisations (TANGO), acting on behalf of the NSA community, agreed to defer 9<sup>th</sup> EDF support till the start of the government's 2004 financial year, which will be captured under the OISDSP's 2004 AWP. NSA funding support in 2004 totals A\$132,000 to initiate three TANGO-administered projects (worth a combined A\$287,000 through 2005), and A\$30,000 more for NSA operational support.

**Commitments and disbursements.** By year-end 2003 all of the 8<sup>th</sup> EDF had been committed and disbursed, except €30,000 for the final evaluation of the DSP. In addition, all previous EDF projects had been closed down, with remaining 6<sup>th</sup> and 7<sup>th</sup> EDF balances folded into the 9<sup>th</sup> EDF Financing Proposal.

The 9<sup>th</sup> EDF has thus far disbursed €0.2 million under the 2003 OISDSP, with another disbursement of €0.2 million expected in the 1<sup>st</sup> quarter of 2004. Planned commitments are: €1.15 million (1<sup>st</sup> quarter 2004); €1.15 million (1<sup>st</sup> quarter 2005); and €1.26 million (1<sup>st</sup> quarter 2006), for a total disbursement of €3.96 million by 2007. There is a high probability that total disbursement of the 9<sup>th</sup> EDF will occur before 2007.

## 2. TUVALU'S POLICY AGENDA

Tuvalu's main policy framework is contained in a combination of documents, namely:

- National Development Strategy 1995 to 1998 (still a working reference);
- National Budget;
- Annual budget speech delivered by the Minister of Finance on behalf of the Tuvalu Government; and
- State of the Nation Address given each year by the governor-general at the first session of Parliament.

The government has the following primary policy objectives:

- public sector reform (better governance that leads to economic growth, improved social services, and a fairer distribution of long-run investment returns);
- private sector development (with an accent on export-oriented business development);
- develop civil infrastructure (both Funafuti and the outer islands);
- improve and expand education (including training); and
- improve human settlements, including the environment (both urban and rural, but especially rural).

The private sector deals mostly in non-tradable goods and services, mainly construction, retailing and transport. Exports are small to non-existent. Tuvalu is largely a non-trading nation, except in labour, so there is little opportunity to replace imports with domestic production of any kind (all past efforts at import substitution have largely been a failure). Government policy, dating back to 1995, aimed at restructuring the economy through encouraging export-oriented private investment, met a number of obstacles that could not be overcome, though export opportunities remain, especially in the fisheries and marine sectors.

Since 1995, the pace of outer island development has accelerated. Telecommunications has improved with the introduction of satellite earth stations in 1995-96. Community fishing centres (CFC), first established on two islands in 1994, were constructed on the remaining five islands between 1998 and 2000. A harbour was built in Vaitupu, and diesel-electric power stations, connected to low-voltage distribution grids, were built on each outer island in 2000 and 2001. Additionally, a second inter-island vessel began operating in early 2002. All outer island primary schools have been renovated and refurbished and two new school buildings were constructed in 1998 on the islands of Nukufetau and Nanumea (funded by the 7<sup>th</sup> EDF). One additional school building and one new school were constructed in 2002 and 2003 (8<sup>th</sup> EDF). Constructing the last three outer island primary school buildings will occur between 2004 and 2006 (9<sup>th</sup> EDF). A major project to reconstruct Motufoua Secondary School in Vaitupu was completed in 1999. The net impact of these developments on the livelihoods of outer island populations will be more easily assessed following the release of the November 2002 national census data and census analysis (pending).



In 1999, the government began implementing the Island Development Programme, which had the following objectives:

- increase outer-island autonomy;
- improve outer-island governance and administration;
- deliver financial resources to support island autonomy (primarily through the Falekaupule Trust Fund, discussed briefly below);
- improve delivery of public services to the outer islands (primarily through better electricity supplies, shipping services, and extension services); and
- promote business development (mainly by increasing maritime training and employment, business advisory services, micro-finance, and the contracting out of government services).

In 2001, the Tuvalu Electricity Corporation (TEC) completed the diesel electrification of seven outer islands. The Tuvalu Maritime Training Institute (TMTI) was recently granted accreditation by the International Maritime Organization (IMO). The new multipurpose vessel has increased inter-island shipping, supplementing the services of the Tuvalu's Nivaga II, an older inter-island vessel. And the Falekaupule Trust Fund (FTF) was established in 1999. Its first capital distribution occurred in June 2001 (A\$813,579). No distribution occurred in 2002 or 2003 due to the Fund's poor performance, pegged to the general downturn in international share markets.

The concept of decentralization and local autonomy is a complex issue. It demands that local governments, or island governments in the case of Tuvalu, are granted certain powers and authority, and are granted a larger measure of independence from the national government to manage and plan their own administrative, financial and developmental affairs.

Moving toward this national objective began in December 1997 when Parliament passed the Falekaupule Act. The Act allows local government (*Kaupule*), through the traditional decision making body (*Falekaupule*) and local institutions, to design and implement island programmes and projects. The Act extends statutory recognition to the Falekaupule, recognizing it as the primary social institution and authority that oversees local affairs. The *Kaupule* is the executive arm. One intent of the Act is to encourage wider participation in local government by providing a framework for regular consultation between the *Falekaupule* and the *Kaupule*, on the one hand, and NGOs, community groups, and the private sector, on the other.

In the private sector there remain opportunities if, and only if, the government can administer its responsibilities well, some of them constitutional:

- maintain a stable macroeconomic environment;
- invest in more education and technology;
- invest in physical infrastructure (civil and economic);
- invest in institutional infrastructure (law & order, property rights, contract & bankruptcy laws, and policies to promote competition, and regulate imperfectly competitive markets, an especially nettlesome problem in Tuvalu because the market for good or service is so small);

- provide a better social safety net, one that includes more basic health services for the people most at risk; and
- improve environmental protection and the management of the environment.

Over time, the government has achieved item (i), is continuously working toward (ii), (iii) and (v), with the most opportunity to improve in items (iv) and (vi), which inevitably come as education standards improve and as awareness of environmental issues become more widely recognized and understood.

### 3. POLITICAL, ECONOMIC AND SOCIAL SITUATION

This section begins with a presentation of select macro indicators in Table 3.1 below, as prescribed by the EC format for Joint Annual Reports. The ‘impact’ data focus on one measure each of income, health, and mortality (health-related), while the ‘outcomes’ focus on education, health, and water. Items 1, 3-4 and 8-10 have been modified to suit the available data. Data on measles immunization (Item 8) was replaced with data on tuberculosis and hepatitis B. In most cases, data projections are not made, except for Items 5 and 8 where health officials assume that 100% rates will be maintained through 2005.

**Table 3.1**  
**Select macro indicators: income, health, mortality, education**

Type	Indicator	2000	2001	2002	2003	2004
<b>Impact:</b>	1. GDP per capita (current prices, A\$)	2,310	2,414	na	na	na
	2. Prevalence of underweight children (under five years of age)	0.0%	0.0%	0.0%	0.0%	0.0%
	Life expectancy (M/F)	64/70*	na	65/70	na	na
	3. Infant mortality rate (per 1,000 live births)	34.9	15.2	19.2**	na	na
<b>Outcome:</b>	4. Primary school enrolment***	1,965	1,798	1,641	1,893	na
	5. Primary completion rate	100%	100%	100%	100%	100%
	6. Ratio of girls to boys in:					
	<i>primary education</i>	.88:1	.92:1	.94:1	na	na
	<i>secondary education</i>	.89:1	.93:1	.96:1	na	na
	<i>tertiary education</i>	1.1:1	.86:1	na	na	na
	7. Proportion of births attended by skilled health personnel	85%	na	na	na	na
	8. Proportion of immunization coverage against tuberculosis (BCG) & hepatitis B (HBV)	100%	100%	100%	100%	100%
	9. No. of new HIV/AIDS cases reported	0	2	7	0	na
	10. Proportion of population with sustainable access to safe drinking water.	85%	85%	85%	na	na

Sources: Statistics Division, Ministry of Finance; Ministry of Education; Ministry of Health; Asian Development Bank (ADB)

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

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

\*\*\* 2003 enrollment figure includes 161 students attending the Seventh Day Adventist primary school.

As measured by UNDP’s Human Poverty Index (1999), and supported by the above data, the incidence of poverty in Tuvalu is low. Broadly speaking, there is no malnutrition from inadequate food intake, health services and basic education are free

and universal, and a traditional land tenure system operated through extended family groups and backed by legislation ensures access to subsistence resources. Poverty in Tuvalu is more a poverty of opportunity due to limited natural resources and its remote location from overseas markets, a problem even more acute in the outer islands of the group.

According to a recent report by the Asian Development Bank, “Tuvalu’s social development policy lacks detailed strategies and requires a better quantitative database. A key feature of the policy expects families and NGO’s to deliver most social support services, with the government assisting where such resources are inadequate.”\*

Outer island household’s represent 65% of the 1,528 households in the country, with an average weekly income of A\$67.59 compared A\$230.74 in the capital, Funafuti. This inequality has motivated recent efforts to develop the outer islands.

### 3.1 Education

Tuvalu’s labour force is relatively young. In the 25 years since independence, successive governments have sought to develop a system that provides quality education for all. Selected education indicators are listed below.\*\*

- Between 1991 and 2003, national primary student enrollment increased by 16.6%.
- According to the Ministry of Education, primary enrolment has reached 100%, though other sources show lower rates of 88% for girls and 87% for boys.
- The percentage of school age secondary students enrolled was only 34% in 1998, but is higher today.
- Literacy rates are high at 95% for both sexes.
- The teacher-student ratio has improved over the last 10 years and in mid-2002 stood at 18:1 in primary education and 17:1 in secondary education.

Recent development in the education sector are troubling. For example, the quality of teaching seems to have slipped during the late 1990s when the pass rate on the Fiji junior secondary examination (a benchmark test) fell from 61% to 13% in 2001. It rose dramatically in 2003, however, with a pass rate of 56%, suggesting a possible return to higher teaching standards in the upper years of secondary school.

A number of assessments have scrutinized public education in recent years, most recently and perhaps the biggest occurred at the National Education Forum (August 2002), which provided stakeholders an opportunity to identify needs and the challenges facing the Tuvalu’s education system. Since then the Tuvalu Government has embarked on a programme of reform, which saw a number of studies take place in 2003 (supported by donors) to assist the Government in identifying the best way forward. An education sector ‘Master Plan’ should be finalised in early 2004. Donors such as the EU, ADB, AusAID and NZAid recognize the need to adopt a more unified approach in the education sector so Tuvalu can better utilise the development assistance it presently has available.

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\* Source: Tuvalu: 2002 Economic and Public Sector Review, ADB: Manila.

\*\* Source: Ministry of Education, Tuvalu Government; MDG’s in the Pacific, ADB: Manila.

### 3.2 Health

Infant mortality per 1,000 live births has fallen from 43.5 in 1990 to 21.5 in 1998, and to 19.2 in 2000, but the rate varies significantly from year to year from a high of 49.8 in 1995 to 15.2 in 2001. This according to the Ministry of Health's 2002 Annual Report.

The number of maternal deaths varied from 0 to 2 cases per year between 1990 and 2002. The proportion of births attended by skilled health personnel is 85% (2000). Under-five mortality deaths varied between zero in 2000 to 2002, but ranged widely from 3.7 to 30 between 1990 and 1998, respectively.

Only two cases of HIV were officially recorded through 2001. In April 2002, a further seven cases were reported: six were commercial seamen working overseas and the other was the wife of one of the seamen. No new cases were reported in 2003, but it's suspected that additional cases are present but are as yet undetected. A common multiplier in small isolated populations is three, bringing the number of possible cases of HIV/AIDS in Tuvalu to (+/-) 27. Tuberculosis-related deaths varied between 1 and 3 between 1997 and 2001.

Infectious diseases continue to be a major cause of morbidity. In addition, life style diseases are increasing.

General immunization rates are high: 100% for BCG (tuberculosis, a live vaccine) between 1999 and 2002, 75% to 98% for polio, 75% to 98% for DPT (a combination diphtheria-pertussis-tetanus vaccine), and measles 81% to 100%. The baseline prevalence of filariasis is 22.3% (1999), with 81% coverage in a 2001 mass drug administration (MDA) to eliminate the parasite from the general population. MDAs were also conducted in 2002 and 2003, with coverage in the 80% range.

### 3.3 Political situation

**Background.** A Polynesian state in the southwest Pacific, Tuvalu gained independence in 1978 after 62 years of British colonial rule. Its democratic system is based on the Westminster model, with the British Crown as Head of State, represented locally by a Governor-General. Tuvalu has a single house of Parliament with 15 members, elected to a four-year term. Members of Parliament elect a Prime Minister, who in turn selects a five-member Cabinet and the House Speaker. There is no official party system in the western sense, with party lines generally formed along personal alliances. Members not part of the majority government caucus form the 'unofficial' opposition. Though there were seven changes in government between 1994 and 2002, Tuvalu is politically and democratically stable. Human rights are widely accepted, the rule of law is sound, and the principles of good governance are generally adhered to, with improvements regularly attempted. Large-scale organized corruption is unknown.

**Current affairs.** The last general election was held in July 2002. The current government is led by Prime Minister, Hon. Saufatu Sopoanga, consists of nine MPs. Six MPs form the opposition. His cabinet ministers are: Hon. Maatia Toafa, Deputy PM and Minister of Works & Energy and Minister of Communication & Transport; Hon. Bikenibeu Paeniu, Minister of Finance, Economic Planning & Industries; Hon. Leti

Pelesala, Minister of Home Affairs & Rural Development; Hon. Dr. Alesana Kleis Seluka, responsible for the ministries of Health, and Education & Sports; and Hon. Samuelu P. Teo, Minister of Natural Resources. Hon. Otinielu Tausi is Speaker of Parliament. The two government MPs without portfolio are Hon. Sio Patiale and Hon. Elisala Pita. (see footnote at page 1)

Two bye-elections were held on May 9, 2003 to fill vacant Parliament seats on the northern islands of Nanumea and Niutao. The former was the result of a ruling by Tuvalu's Chief Justice that declared unconstitutional one result of the last general election on Nanumea. The Nanumea seat, filled by the largest vote getter in the election (Hon. Sio Patiale), was declared vacant effective from the date of the Chief Justice's ruling on February 17, 2003.\* The former Minister of Finance and Nanumea MP, who finished third on the ballot, brought the petition before the court. The bye-election contested the single vacant seat, and re-elected Hon. Sio Patiale. The bye-election on Niutao filled the seat vacated by the February 2003 death of then Speaker of Parliament. Hon. Elisala Pita was elected and joined government as a backbencher.

### 3.4 Local government

In 1999, Parliament passed the Falekaupule Act. The Act established stronger local governments on Funafuti and the outer islands, with greater decentralised power.

### 3.5 Macroeconomic developments

Tuvalu's economy is mixed market-subsistence. Market-based economic activity is largely confined to Funafuti, the capital, while outer island economies are mostly subsistence based, with little market-led activity. Tuvalu has had UN-assigned Least Developed Country (LDC) status since 1986. Macro indicators, in addition to those presented in Section 2, are summarised in Box 3.1. Population-related figures are based on the November 2002 census, the results of which will be finalised in 2004.

**Box 3.2**  
**Select population and macro-economic indicators**

Indicators	Data
Population (2002, preliminary est., total residents)	9,481
Population growth (1991-2002)	4.8%
GDP per capita (2001, current prices, A\$, ADB est.)	2,414
Annual GDP growth rate (2000-2002, ADB est.)	3%
Annual inflation rate (1992-2002)	0-6%
Expenditure on education as a % of the 2003 national budget (core + capital)	27.2%
Expenditure on health as a % of the 2003 national budget (core + capital)	7.9%

The economy is dominated by the public sector, accounting for well over 60% of total GDP; subsistence contributes about a quarter. Tuvalu's real GDP grew at an estimated average annual rate of 5% from 1988 to 2001. The lack of continuous, consistent national accounts prevents analyzing the developments in each sector during this period

\* The MP's candidate registration paperwork was submitted past the deadline to stand in the 2002 general election.

precisely, but it is clear that growth was led by the construction, finance, real estate and public sector (government) in particular. Public utilities (electricity and telecommunications) and mining/quarrying expanded strongly, largely as a result of construction activity, while the agriculture, forestry and fishing sectors grew sluggishly.

GDP growth is estimated at 3% in 1999 and 2000, increasing to 4% in 2001 (ADB estimates). Based on informed observation, this growth rate—or one close to it—likely continued through 2003. The public sector continued to lead with public administration expanding by close to 5% in 2001, and construction activity rising as a result of government-funded projects, the biggest being road construction in Funafuti. Construction activity rose further in 2002 and 2003 led by construction of the new Princess Margaret Hospital (completed) and new national government office building (completion scheduled for April 2004). Local wage labour for both projects ran over A\$1,000,000, making a positive short-term impact on the local economy, roughly equivalent to 3-4% of GDP. Other sectors of the economy grew more modestly at around 2% through 2001, but possibly higher in 2002 and 2003.

The public sector-led growth in formal economic activity is mirrored by a decline in the relative importance of subsistence production as a component of GDP: from 49.5% in 1990 to 22% in 1998 (the latest data available). Gross national disposable income has been substantially higher than GDP because of i) net inflows of income from overseas workers; ii) property income from overseas assets; and iii) current transfers from abroad. The largest employer is the Tuvalu Government. The second largest is the Tuvalu Cooperative Society (TCS), the country's biggest wholesaler and retailer.

Tuvalu currently carries little external debt, only in the form of concessionary loans from the ADB, which partially endowed the Falekaupule Trust Fund (US\$4 million, the first and second tranches were released in 1999 and 2001, respectively), and a new loan to upgrade the Tuvalu Maritime Training Institute in 2004. Sizeable portions of these loans ultimately convert to grants based on the terms and conditions of each loan. The government received an EIB risk loan in the early 1990's, the future repayment of which represents a minimal and manageable claim on public finance. A new €1,000,000 global loan has been approved and the Finance Contract signed by Tuvalu and the EIB (see Section 4.6.1 for more detail). There is currently no on-going structural reform, nor is there a need for such reform, although the government is tightening expenditure due to recent and major revenue shortfalls. For example, there was no automatic distribution from the Tuvalu Trust Fund in 2002 and 2003 for appropriation in the national budget; revenue from fisheries licenses is also down significantly in recent years. Unless revenues increase in the short-term there is growing concern about Tuvalu's financial stability. The government's current operating deficit is about A\$2,000,000. Held as an overdraft with the National Bank of Tuvalu, the deficit is roughly 7% of GDP .

### **3.6 Economic performance**

Although the government's base of recurrent and non-recurrent revenue (and income) has dramatically increased in the last decade, only about 50% of recurrent revenue—on average about A\$4.0 million annually—is derived from fundamentally reliable sources, such as taxation and service charges. All fish licensing revenue is

dependent on commercial contracts with variable returns, based on different types of licensing agreements. In the case of the Tuvalu Trust Fund, its portfolio is linked to overseas financial markets and the performance of the Fund's managers in any given year. Thus, the performance of the Fund is unpredictable and in a market downturn the effects on the government's bottom line are immediate. Again, due to the state of international equity markets, there was no income distribution from the Fund in 2002 and 2003.

### **3.7 National budget and public finance**

In 2003, the government continued its attempt to introduce a longer-term budgetary outlook to increase both domestic savings and foreign exchange earnings in order to service current and future demands on budgetary resources, and finance new investment proposals. Another goal was to contain spending to a more sustainable level, and maintain a healthy level of currency reserves. While approved core expenditures rose 3.1% in 2003, actual expenditures were down 35.4%, while capital expenditure (or Special Development Expenditures [SDE]) were down by 38.2%.

Revenue in 2003 declined to A\$21.05 million compared with A\$37.57 million in 2002 and A\$26.72 million in 2001. 2003's underlying core revenue was A\$7.37 million, from taxes and charges, interest and dividends. Windfall revenues in 2003 were down, totaling only A\$10.81 million, led by fish licensing and '.tv', Tuvalu's country-code Top Level Domain Name. The latter is a result of a contract with VeriSign, Inc., which provides Tuvalu with US\$2.2 million per year, plus 5% of gross revenue exceeding US\$20 million per year in sales (not yet attained). The contract is for 15 years.

2003 core budgetary expenditure was A\$22.77 million, which includes statutory expenditure of A\$1.34 million. Based on underlying revenue, the government had a recurrent deficit of A\$4.07 million. This includes expenditure on SDEs of A\$2.35 million. Deficit spending was required to safeguard essential services in health, education and in other areas, maintain real public service wages and cash transfers to the Falekaupule, some public corporations and non-governmental organisations. In 2003, total public outlay, which included capital (SDE) expenditure of A\$2.35 million, was A\$24.66 million.

### **3.8 Trade**

Tuvalu's merchandise export base is extremely small, narrow and not economically significant, except for labour exports. Material exports are largely confined to copra, stamps, and handicrafts, with a low gross dollar value. For example, while copra production responded to government price subsidies in 1999 and 2000, 2001 exports fell to 32 tonnes valued at a meager A\$7,376. (Copra production peaked in 1984 at 680 tonnes.) Stamp exports are also way down. Data on handicraft exports are not available, but the volume is known to be very small.

Imports of goods (including cost, insure, freight [CIF]) increased from A\$12.4 million in 1999 to A\$13.2 million in 2000, representing 53% of GDP. Historically, large merchandise trade deficits (and heavy payments for freight and insurance) are covered

by net private transfers, fish and telecommunications licensing fees, investment income, revenue from .tv, and official transfers.

### **3.9 Regional cooperation**

Leaders from around the region met at the Pacific Islands Forum in Nauru in August 2001 where they signed the *Pacific Agreement on Closer Economic Relations* (PACER, which includes all member countries of the Pacific Forum, including Tuvalu). As a first step under PACER, Forum members also initiated a free trade agreement, the *Pacific Island Countries Trade Agreement* (PICTA), which applies to the 14 Forum Island Countries (FIC, excluding Australia and New Zealand), and entered into force in 2002. Once ratified by at least six FICs, PICTA will start removing most tariffs on trade between member countries by 2010, and removing all tariffs by 2016. As a signatory to PICTA, Tuvalu is therefore committed to tariff reduction, and eventual elimination.

As a result of PICTA, Tuvalu is eyeing initiatives to revise the income tax code, establish a newly created and independent Department of Inland Revenue to increase the rate of tax collection, carry out the necessary income tax assessments, investigations, and field audits of taxpayer accounts, all of which in practice should greatly increase tax revenue, especially at a time when existing revenue sources (customs duties and tariffs) will eventually be lost as PICTA begins taking hold.

### **3.10 Social policy**

In 2001, the government drafted its first comprehensive social development policy, which spells out four core philosophies:

- Help people in time of need.
- Contribute to the building of a friendly society that delivers equity for all in transparent and participatory ways.
- Provide a variety of opportunities for the future development of every Tuvaluan.
- Explore and encompass those elements of both traditional and modern social support structures and methods that are applicable and feasible for Tuvalu, for the implementation of services that are promoting and sustaining the social development and social security of every Tuvaluan.

Social development objectives are specified for 12 distinct groups or areas: disabled, poverty, children, gender, youth, elderly, education, health, safety, law & justice, provision of social security, arts and recreation. An ambitious list, the government acknowledges that the policy document lacks detail on strategy, but it is intended as an overall framework through which future action, if carried out, will affect the ‘social fabric’. Experiences with social policies in other Pacific countries are also being looked at.

### **3.11 Environmental trends**

A comprehensive Funafuti waste management project, supported by AusAID, and indirectly the EU, through 8<sup>th</sup> EDF budgetary support, began in 1999 and concluded in June 2002. The Environment Unit, within the Office of the Prime Minister (formerly



with in the Ministry of Natural Resources), has continued providing waste management services, which will be partly supported by the EU under the 9<sup>th</sup> EDF. The two most serious issues confronting waste management in 2003 was 1) a funding shortfall, and 2) some uncertainty surrounding future institutional responsibility for waste management, now split between the national government's Environment Unit and the Funafuti Town Council, which is the local government authority. The former is being addressed through supplementary appropriations, to be tabled in Parliament in the March 2004 session, which will extend waste management initiatives to the outer islands. The latter issue, one of institutional responsibility, has yet to be resolved.

The Environment Unit has established a dedicated waste depository at the northern end of the island, is shredding and composting household organic (green) waste, implemented a pilot piggery project, is treating and incinerating hospital waste, and dealing with industrial and hazardous wastes. (The Funafuti Town Council—or *Kaupule*—does not have the financial resources on its own to undertake these tasks, except basic household refuse collection.) The waste management project is innovative and comprehensive and could become a model for other Pacific Atolls, according to a recent independent review conducted by the ADB.

#### **4. OVERVIEW OF PAST, PRESENT AND FUTURE EDF COOPERATION**

##### **7<sup>th</sup> EDF**

The Tuvalu Fuel Import Programme (FIP) under the 7<sup>th</sup> EDF (€0.9 million) was devised to indirectly participate in the Tuvalu Trust Fund (TTF), and increased the efficiency and cost-effectiveness of utilising EDF resources in a situation where day-to-day programme management is inherently difficult and expensive. The FIP, which created counterpart funds from which development activities were financed, generally worked well, but ran into some operational difficulties, mainly late payments by the Tuvalu Electricity Corporation (TEC) into the joint-signatory Counterpart Fund, in return for diesel fuel paid for by the 7<sup>th</sup> EDF.

##### **8<sup>th</sup> EDF**

The Development Support Programme, under the 8<sup>th</sup> EDF, built on this and other key lessons, but retained those operational aspects that functioned well and eliminated those that did not. The DSP was also extended to cover the entire NIP allocation. With an 8<sup>th</sup> EDF NIP of €1.9 million, this method of development financing has proven to be an efficient solution to the problem of implementing pre-8<sup>th</sup> EDF National Indicative Programmes, with the exception of the Fuel Import Programme (7<sup>th</sup> EDF), which in general had slow disbursement rates. The DSP has resulted in unusually high commitment and utilization rates, while reducing the aid management load on government. The DSP also represented the first time an active donor committed 100% of its recurrent aid budget in support of the Tuvalu Trust Fund. The concept behind the Development Support Programme and its forerunner, the FIP, is to add value to the TTF. It does this by offsetting government expenditure, for which there is appropriation. If money is appropriated for a specific budget item, be it recurrent or capital, the DSP will underwrite that budget item. By offsetting budgetary expenditure, the DSP generates budgetary savings, which is transferred by government to the TTF.

## 9<sup>th</sup> EDF

The 9<sup>th</sup> EDF CSP was signed in December 2002, with an overall financial allocation of €4.0 million, inclusive of €0.7 million for the B envelope. The Financing Agreement for the Outer Island Social Development Support Programme (OISDSP), which covered the entire NIP, was signed in August 2003. The FA is comprised of €3.3 million (the NIP), plus the remaining balance of €65,136 from the 6<sup>th</sup> and 7<sup>th</sup> EDFs. The OISDSP has a single focal sector, “Social Development Support”, which targets the outer islands in the areas of education, environment and water. The first Annual Work Programme was endorsed on 4 December 2003. In addition the B envelope

Since financing for the DSP (8<sup>th</sup> EDF) concluded in 2002, the following sections cover mostly the 9<sup>th</sup> EDF only, except where some 8<sup>th</sup> EDF-related activities carried over into 2003.

### 4.1 9<sup>th</sup> EDF area of concentration: Education

Education has been allocated 55% of the NIP, or €2.18 million.

#### a) Results

By the end of 2003, which is the first year of 9<sup>th</sup> EDF implementation, the cumulative results of the 8<sup>th</sup> and 9<sup>th</sup> EDF has included:

- Completion of designs and plans for the construction of a new school in Nukulaelae Island, and a new extension block at Nanumaga Primary School in 2001.
- Completion of the bill of quantities, which allowed Tuvalu’s Public Works Department, via the Public Tenders Board, to award supply contracts for the school material to three Fiji based suppliers (splitting the tender between three suppliers obtained the lowest price for each material order.
- Awarding of contracts to two local building contractors in December 2001.
- Construction on the new primary school in Nukulaelae commenced in April 2002 and at year-end 2003 was 98% complete.
- Construction of the extension block at the Nanumaga Primary School, which commenced in August 2002, was also 98% complete by year-end 2003.

Both the Nukulaelae and Nanumaga projects should be completed in early 2004 once a contract dispute with the material supplier, Cheer Industries (Suva, Fiji), is resolved. The supplier has thus far failed to supply glass louvers and louver window frames, due to the company’s ongoing financial difficulty.

OISDSP continued to support appropriated budget items for construction of pre-schools; provision of primary and secondary school supplies, e.g. paper, pencils, notebooks and art supplies; material procurement for the construction primary school

extensions on the central island of Nui and northern island of Niutao; and primary school teacher salaries (77% of total appropriation).

#### **b) Progress in activities**

During the first year of implementation in 2000, the primary school infrastructure component of 8<sup>th</sup> EDF faced some delays when the designs and plans were not completed until 2001. This delayed the construction tender and pushed the start of construction into 2002. This resulted in the school construction programme not being completed in the final year of financing under the 8<sup>th</sup> EDF. However, expenditure was re-appropriated in 2003 and captured by the 9<sup>th</sup> EDF, which will see the schools be completed sometime in early 2004.

One of the draw backs of DSP has been the inability of the Ministry of Education to ensure that its budget submissions, those in particular that are underwritten by the EDF, are not subjected to cutbacks as decided by the Development Coordinating Committee,\* Ministry of Finance and, ultimately, Cabinet. For example, the school supply budget lines were cut back by approximately 30% in 2002, thus the DSP was unable to adequately provide all essential school supplies throughout the country.

Final payments from the jointly held Development Support Fund account to the Government for the 2002 Annual Work Programme occurred in December 2003, with the exception of one small payment (A\$34,160) expected in early 2004. Disbursement relating to the 50% advance payment under 2003 Work Programme was made before end of 2003.

#### **4.2 9<sup>th</sup> EDF area of concentration: environment**

Environment has been allocated 15% of the NIP, or €72,000.

Waste management activities in Funafuti continued, funded under the OISDSP (25% of total appropriation). The budget line was only partially funded on the expectation that waste management activities will commence in the outer islands in 2004, which is now planned for in the draft 2004 Annual Work Programme.

#### **a) Results**

The waste management project has established a system of separating green waste and household waste with separate collections for both on a weekly basis for approximately 50% of households on Funafuti. The green waste is shredded and composted with pig waste and sold to residents at a cost of A\$2.00 per bag, while household waste is dumped at a landfill site at the northern end of Funafuti. The ‘borrow pits’, excavated during World War II to construct the Funafuti airstrip, are being filled in with household waste, reclaiming valuable land space. The project also constructed public waste compost toilets at various sites around the island. A hospital incinerator was also constructed, managed jointly by the Waste Management Office and Department Health.

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\* Comprised of all Permanent Secretaries and heads of major government departments (e.g., Audit, Public Works).

This incinerator is now in use at the new hospital in Funafuti, completed in May 2003 and funded by Japan. As a result of the waste management project, Funafuti residents now enjoy a much cleaner environment, are more aware of the benefits derived from proper disposal, of the benefits of separating organic garden refuse from household waste.

#### **b) Progress in activities**

Apart from waste management, no other environment-related projects were contained in the 2003 national budget. The best practices developed under the waste management project should continue, and they should be extended to all Funafuti households and to households in the outer islands (see Section 3.11 above for further discussion).

### **4.3 9<sup>th</sup> EDF area of concentration: water**

Water has been allocated 15% of the NIP, or €572,000.

There were no outer island water-related projects in the 2003 national budget, and as result none were incorporated in the 2003 OISDSP Annual Work Programme.

### **4.4 Utilisation of resources for Non-State Actors**

Non-State Actors have been allocated 10% of the NIP, or €330,000, with as yet no allocation from the remaining balance of €665,136 from the 7<sup>th</sup> and 8<sup>th</sup> EDFs. There were no NSA-related projects in the 2003 national budget, and as result none were incorporated in the 2003 OISDSP Annual Work Programme.

The OISDSP Financing Agreement was endorsed long after the government's 2003 national budget was approved by Parliament. In addition were the foreseen difficulties in securing NSA supplementary appropriations in the November 2003 session of Parliament, not least because the government's then very tight financial position. As a result, the only alternative was to consider including the four pre-existing budget items that are operating grants to TANGO, TuFHA, TNCW and Red Cross. But, since the government had already disbursed these grants, including those budget lines in the 2003 AWP had the drawback of counting against the €330,000 allocated to NSAs for future projects. This meant NSAs would have less financing available in future years if the operating grants this year were included in the 2003 AWP.

The NAO sought approval to waive budgetary support for NSAs in the 2003 AWP. The Tuvalu Association of Non-Governmental Organisations (TANGO), acting on behalf of the NSA community, agreed to defer 9<sup>th</sup> EDF support till the start of the government's 2004 financial year, which will be captured under the OISDSP's 2004 AWP. NSA funding support in 2004 totals A\$132,000 to initiate three TANGO-administered projects (worth a combined A\$287,000 through 2005), and A\$30,000 for NSA operational support.

**Table 4.1****Approved NSA projects: 2004 and 2005 (tentative)**

<b>Sector</b>	<b>Project description</b>	<b>Total cost</b>
Education	8 Preschool Playground Projects (one on each island)	A\$100,000
Environment	Can-Care Expansion Project (aluminum recycling and export)	A\$32,000
Water	Matapulapula Association (Women of Nui): Purchase/Installation of 109 6,000 Plastic Water Tanks	A\$155,000

**4.5 8<sup>th</sup> EDF and balances of previous EDFs**

By year-end 2003 all of the 8<sup>th</sup> EDF had been committed and disbursed, except €30,000 for the final evaluation of the DSP. In addition, all previous EDF projects had been closed, with remaining 6<sup>th</sup> and 7<sup>th</sup> EDF balances incorporated into the 9<sup>th</sup> EDF Financing Proposal.

**4.6 Other instruments****4.6.1 European Investment Bank**

In 2002, the EIB approved in principle a second global loan of €1,000,000 to the Development Bank of Tuvalu (DBT). Tuvalu signed the Finance Contract in October 2003, which was subsequently signed by the EIB in February 2004. The global loan is broken into two components: €700,000 directly to DBT and €300,000 paid to the Tuvalu Government, which injects the capital into DBT. The first tranche is 50% of each component, i.e., €350,000 and €150,000 (€500,000 total). The Government matched its €300,000 component when it made a A\$300,000 (approx. €150,000) injection into DBT in 2003; it will do so again in 2004. The loan's second tranche will be made available when 80% of the first tranche has been utilised under the terms and conditions of the Finance Contract.

**4.6.2 9<sup>th</sup> EDF regional cooperation**

The regional allocation amounts to €29 million and includes three focal sectors "Economic Integration and Trade" (€9 million), "Human Resources Development" (€8 million) and "Fisheries" (€5 million), plus a non-focal sector to extend 8<sup>th</sup> EDF programmes to the six new ACP countries (€7 million).<sup>\*</sup> Commissioner Nielson signed the Regional Strategy Paper (RSP) in 2002 on his first visit to the Pacific.

**a) Regional Economic Integration Programme (REIP): €9.2 million**

The REIP aims to assist the region in strengthening its capacity to implement PICTA (free trade area amongst Pacific island countries), negotiate trade agreements with developed partners (e.g., EPA), participate in multilateral trade negotiations (WTO), and assist the private sector in addressing supply-side constraints.

<sup>\*</sup> Cook Islands, Federated States of Micronesia, Marshall Islands, Palau, Nauru, Niue.

The EDF Committee approved the REIF in its November meeting and the Financing Agreement had been finalised. The FA will be signed, together with the Contribution Agreement, by the RAO and the Commissioner during his visit to Fiji in February 2004. Disbursements will start immediately thereafter. This schedule matches last year's forecasts, which had indicated early 2004 as the start of programme implementation.

**b) Human Resources Development (HRD) PRIDE programme: €8 million**

The objective of PRIDE is two-pronged: to assist Pacific island countries (PICs) in developing a sector-wide strategy for education and subsequently to finance the implementation of some parts of that strategy. Most PICs have identified education as a focal sector in their NIPs and a number of other donors are also very active in this sector. Parts of the strategies that have a more national character will be implemented with domestic funding (government resources and from donors). Those of a more regional nature can be selected for funding under this programme, implemented by the Institute of Education of the University of the South Pacific.

The Financing Proposal was finalised in 2003 and approved by the EDF Committee in September. Both the Financing Agreement and Contribution Agreement were signed in Suva, Fiji in November. In the first half of 2003, at the invitation of Pacific Island Countries, led by Samoa, and with the consent of the Commission, NZAid agreed to provide funding for PRIDE in the amount of NZ\$5 million for three years, with the possibility of additional funding after that. This allowed USP to proceed with the recruitment of project management team during the second half of 2003. By year-end, all but one element of the team were selected, and all have either ACP or EU nationality. USP is also finalizing work on the PRIDE office building. The team will start work in February 2004. Implementation of this programme has proceeded faster than expected.

**c) Fisheries: €5 million**

This sector has two projects:

- EDF extensions of PROCFISH to the six new Pacific ACPs: €1.997 million

The complementary financing proposal has been approved, and the Financing Agreement will be signed in February 2004, during Commissioner Nielson's visit to Fiji, for immediate implementation .

- DEV FISH, a project to be managed by the Forum Fisheries Agency (FFA) in collaboration with the Secretariat of the Pacific Community (SPC): €3 million

The objective of this project is to increase the benefits received by PICs from sustainable use of marine resources, by increasing the capacity of PICs to directly participate in the tuna fishing and processing industry, and reinforcing national and regional policies and strategies for the sector. The Financing Proposal is being finalised by the Commission, with a decision expected by mid-2004. Implementation should start immediately thereafter.

#### d) **8<sup>th</sup> EDF Regional Cooperation**

##### **Environment – Reducing Vulnerability of Pacific ACP states : €7 million**

The project addresses environmental vulnerability reduction in the Pacific ACP States through the development of an integrated planning and management system (island system management) on three focal areas: hazards mitigation and risk assessment, aggregates for construction, and water resources supply and sanitation . The project is implemented by SOPAC – South Pacific Applied Geoscience Commission (SP).

#### **4.6.3 STABEX**

No STABEX projects are currently underway in Tuvalu, thus no STABEX funds were utilised in 2003 nor did any STABEX drawdowns occur.

#### **4.6.4 Community budget lines**

##### **a) Co-financed with European NGOs**

*Building the Capacity of NGO's and CBOs in the Pacific  
(B76000/PVD/2001/250/CSR/PR)*

TANGO is the local partner for the implementation of the Tuvalu component of this project, which launched in June 2002. TANGO is supported by two VSO volunteers, and both work alongside local counterparts. In the first quarter a 'needs assessment' of the 31 NGO affiliates of TANGO was conducted, given that the project's design was some 2 years old at the time of project launch. Several workshops were conducted on individual outer islands in 2003. These posted better results compared to the larger nationwide workshops conducted in Funafuti.

##### **b) Tropical forests and other forests/environments in developing countries**

*The Coral Gardens Initiative: Poverty Alleviation Through Capacity Building in Community-Based Fisheries Management and Coral Reef Restoration*

The implementing NGO is The Foundation of the Peoples of the South Pacific International (Fiji). Tuvalu is one of the 4 countries in the Pacific covered by this project, which has an implementation period of 24 months (2003/04 -2004/05).

The aim of the project, which was recently approved, is to promote the Barbados Programme of Action for poverty alleviation of Small Island States through the promotion of a ground-breaking model of community-based coral reef management that restores overfished and degraded marine resources that are essential to subsistence and cash economies. Communities will be selected based on regional scoping studies, and individuals from each will be trained in the tools of participatory community resource management and appropriate methods of coral reef conservation, habitat restoration and reef-based income generation. Training of trainers will take place in established 'Coral Gardens' pilot sites in Fiji. The project will support the design of trial sites by the trainees when they return to their home countries in the Pacific and Caribbean.

**c) European Initiative for Democracy and Human Rights**  
*Transforming Communities Through Good Governance*

The University of the South Pacific will implement the three programmes which started in 2003 with the recruitment of project personnel. This project will assist in establishing and promoting USP as a good governance regional resource base. As many of the region's future leaders are and will continue to be coming out of USP, creating a sound base for education on good governance is vital for the region's future development prospects.

**d) 8<sup>th</sup> EDF Intra ACP Funds**  
*Sexual & Reproductive Health Programme*

This programme covers 22 ACP countries, including Tuvalu. The overall objective of the programme is to improve the capacities of these countries to deliver basic reproductive health services to a target population. The Tuvalu SRH programme is being implemented by the Tuvalu Family Health Association (TuFHA), in partnership with the International Planned Parenthood Federation. Activities undertaken in 2003 include: recruitment of SRH staff (Youth Officer and Clinical Nurse); purchase of project-related furniture and equipment; and running three workshops (Peer Education Training Workshop for Youth, SRH Advocacy Workshop, and Drama Training Workshop). Selected topics discussed at the above workshops included adolescent reproductive health, STI/HIV/AIDS, teenage pregnancy, and other SRH-related issues.

## **5. FUTURE PROGRAMMING PERSPECTIVES**

The 9<sup>th</sup> EDF Financing Proposal was approved by the EDF committee in May 2003, with the Financing Agreement signed in August 2003. Funding for the first Annual Work Programme was committed in the 4<sup>th</sup> quarter of 2003, with the first disbursement made in December 2003. The 2004 AWP is expected to be endorsed early in 2004, along with its first disbursement. In addition, the second and final disbursement covering the 2003 AWP is expected in the 1<sup>st</sup> quarter of 2004.

Fisheries, agriculture, trade and disaster preparedness are areas of particular relevance in the context of Tuvalu-EU cooperation. All receive support under the 8<sup>th</sup> and 9<sup>th</sup> EDF regional programme referred to in Section 4 .

Of special note is the link between the NIP and the HRD regional programme under the 9<sup>th</sup> EDF Pacific Regional Indicative Programme (PRIP). It is expected that Tuvalu will benefit from the regional programme to strengthen its education planning capacity and overall development strategy in the sector. Tuvalu will also benefit from regional funding for the implementation of some aspects of its education development strategy and, in addition, Tuvalu will likely benefit from the pool of knowledge accumulated from the Pacific Education reforms, allowing for the sharing of best practices or otherwise learning from the experiences of other Pacific Island Countries.



## 6. CONCLUSIONS

As measured by UNDP's Human Poverty Index (1999), and supported by the above data, the incidence of poverty in Tuvalu remains low. Broadly speaking, there is no malnutrition from inadequate food intake, health services and basic education are free and universal, and a traditional land tenure system operated through extended family groups and backed by legislation ensures access to subsistence resources. Poverty in Tuvalu is more a poverty of opportunity due to limited natural resources and its remote location from overseas markets, a problem even more acute in the outer islands of the group.

### **Political situation.**

Tuvalu gained independence in 1978, after 62 years of British colonial rule. Its democratic system is based on the Westminster model, with the British Crown as Head of State, represented locally by a Governor-General. Generally, human rights are widely accepted in Tuvalu, the rule of law is sound, and the principles of good governance are generally adhered to, with improvements regularly attempted.

Tuvalu has a single house of Parliament with 15 members, elected to a four-year term. Members of Parliament elect a Prime Minister, who in turn selects a five-member Cabinet and the House Speaker. There is no official party system in Tuvalu in the western sense, with party lines generally formed along personal alliances. Members not part of the majority government caucus form the 'unofficial' opposition.

In 1999, the Parliament passed what is known as the Falekaupule Act. The Act established local governments on Funafuti and in the Outer Islands with decentralized powers and considerable authority in the areas of agriculture, education and housing.

Tuvalu was considered one of the more politically stable of Pacific Island Countries. However, since 1999 the country has had six Prime Ministers, a situation often due to sudden votes of no confidence in Parliament. The situation repeated itself again in August 2004 when the government headed by Hon. Saufatu Sopoanga was put in minority in Parliament. Following a by-election in September 2004, a new government has been set since October headed by the new Prime Minister, Hon. Maatia Toafa.

### **Economy**

Tuvalu is classified as a Least Developed Country and it has an extremely narrow economic base. The economy is dominated by the public sector accounting for over 60 % of the total GDP; subsistence contributes about a quarter. The economic structure is reflected in a balance of payments characterized by imports far exceeding exports. Its exports are extremely limited, consisting of copra and stamps. Main sources of income are from the Tuvalu Trust Fund, set up in 1987 to cover recurrent costs of development projects and Government budget short-falls, and valued about €40 million. Other sources of revenues are the remittances from the overseas workers, the significant income from the sale of internet domain .tv and the revenues from fishing licenses granted to foreign vessels.

A considerable source of external income are the remittances sent home by the Tuvaluans working abroad, as the 400-500 Tuvaluan seamen crewing foreign ships, the approximately 1000 Tuvaluans who reside in New Zealand and around 500 who are in Fiji. With a huge Exclusive Economic Zone - 30,000 times as large as its land area - the fisheries sector holds considerably potential for development.

Faced with the challenges of a small, fragile and vulnerable economy, the government has embarked on measures to strengthen economic planning, to reform the public sector and to promote private sector development, and to develop the civil infrastructure, improving the education system and human settlements in the outer islands.

Tuvalu has traditionally displayed a high degree of fiscal prudence in managing the economy. Although the government's base of recurrent and non-recurrent revenue (and income) has dramatically increased in the last decade, only about 50% of recurrent revenue—on average about A\$4.0 million annually—is derived from fundamentally reliable sources, such as taxation and service charges. All fish licensing revenue is dependent on commercial contracts with variable returns, based on different types of licensing agreements. In the case of the Tuvalu Trust Fund, its portfolio is linked to overseas financial markets and the performance of the Fund's managers in any given year. Thus, the performance of the Fund is unpredictable and in a market downturn the effects on the government's bottom line are immediate. Again, due to the state of international equity markets, there was no income distribution from the Fund in 2002 and 2003.

## **EU Cooperation**

The Country Strategy Paper for Tuvalu was signed in December 2002 with the entire 9<sup>th</sup> EDF A envelope of €3.3 million being devoted, and already 100% committed, to the Outer Islands Social Development Support Programme (OISDSP). The programme also includes the balance of €665,136 from 6<sup>th</sup> and 7<sup>th</sup> EDFs. There is a single focal sector, Social Development Support, targeting outer islands development in education, environment and water. Almost all 8<sup>th</sup> EDF funds have been disbursed (97%), except for €30,000 allocated for the final evaluation of the Tuvalu Development Support Programme (DSP).

Taking into account the good commitment record of Tuvalu in the 9<sup>th</sup> EDF, the successful past experience on disbursements, and the relevance of the programmes being implemented, the Mid Term Review 2004 agreed that the request from the NAO to increase Tuvalu's "A" envelope be supported with an additional amount of €500,000.

Furthermore, being a natural disaster-prone country, it has been agreed that the total amount of €700,000 of the 9<sup>th</sup> EDF B envelope be used to assist Tuvalu in setting up disaster prevention and preparedness mechanisms, as provided for in Article 72(3)(e) of the Cotonou Agreement. \*

\* The addendum to the CSP/NIP was signed on 26 January 2005

## ANNEX 1

**9<sup>th</sup> EDF****Activity pipeline chronogramme**

<b>Titles</b>	<b>Amount (€000,000)</b>	<b>Identification</b>	<b>Appraisal</b>	<b>Financing decision</b>	<b>2003 AWP</b>	<b>2004 AWP</b>
Outer Island Social Development Support Programme (OISDSP) incl. support to NSAs	3.3 + 0.66 from the 6 <sup>th</sup> & 7 <sup>th</sup> EDF	2 <sup>nd</sup> qtr 2002	3 <sup>rd</sup> qtr 2002	3 <sup>rd</sup> qtr 2003	4 <sup>th</sup> qtr 2003	1 <sup>st</sup> qtr 2004
<b>Total</b>	<b>3.96</b>				<b>.400</b>	<b>1.15 (est.)</b>

**Forecast of commitments and disbursements**Annual Work Programmes: 2003-2006

First AWP	:	€0.40 million committed 4 <sup>th</sup> quarter 2003	(actual)
Second AWP	:	€1.15 million committed 1 <sup>st</sup> quarter 2004	(est.)
Third AWP	:	€1.15 million committed 1 <sup>st</sup> quarter 2005	( " )
Fourth AWP	:	€1.26 million committed 1 <sup>st</sup> quarter 2006	( " )
<b>Total</b>	:	<b>€3.96 million</b>	

One disbursement (€0.20 million, 50% of the AWP) occurred in December 2003. Remaining disbursements will occur in the years 2004 to 2007.

## ANNEX 2 Indicators and targets: Measuring OISDSP results

The indicators included in the 9<sup>th</sup> EDF CSP intervention framework is further elaborated on and presented as short term and long term results, which are included in the 9<sup>th</sup> Financing Agreement (see below).

**Short term.** The method of measuring the short-term “results” (Input and Output Indicators) of OISDSP will involve assessing whether:

- primary school construction has been completed;
- teacher housing construction has been completed;
- primary school equipment and supplies has been delivered;
- methods of waste collection and disposal are in place;
- waste management equipment has been delivered;
- waste management procedures have been developed;
- water storage capacity has been repaired, renovated and (or) constructed;
- household and municipal water storage capacity has increased;
- water catchments areas have expanded; and
- water catchments and storage at Motufoua chapel has been constructed.

The relevant information and data required to assess the above short-term results shall be obtained by verification from the Tuvalu Public Works Department, on-site verification and measurement, government records, and discussions with relevant Tuvalu Government personnel involved in OISDSP activities.

**Long-term (outcome and impact indicators).** The method of measuring the longer-term “impacts” of OISDSP will involve assessing whether:

- examination results for primary school children have improved;
- turnover rates for primary school teachers have dropped;
- recruitment of motivated primary school teachers is easier;
- waste management systems put in place have remained in operation;
- waste management systems have visibly improved the local environment;
- waste management has improved public sanitation, thus improving public health;
- water facilities have increased the volume of water available per person per day;
- water facilities have improved public sanitation and health; and
- water facilities have expanded public access to freshwater.

The impact indicators are intended to measure the long-term results of the OISDSP and the effect national policy has had in each sector, through means of budgetary support and from additional external development support granted by other donors. The relevant data shall be obtained from records supplied by the Department of Education, comparative analyses conducted by the Tuvalu Public Works Department, and other independent authorities, such as parent, teacher and community interviews, and general observation. AusAID is establishing a database programme for the Ministry of Education, which will contain vital statistical information on the education sector, which will reinforce efforts to track development progress in the education sector.

## ANNEX 3

### Country Environmental Profile TUVALU (DRAFT)

*This Country Environmental Profile is still a draft document. Pending finalisation in 2005, it has been annexed to the JAR 2003 with the sole scope of providing an overview of the environmental challenges that Tuvalu, like other vulnerable Pacific Island Countries, currently faces and on the relevant assistance provided by the European Union.*

#### 1. BACKGROUND

Tuvalu is one of the smallest and most remote of the Pacific ACP countries. It has a landmass of 26 sq km and a population of 9,481 (2002 est.) spread over nine atolls and reef islands, extending over 560 km within an Exclusive Economic Zone of about 1.3 million sq km.

The highest population, about 4,500 people, lives in or around the capital Funafuti where its growth is placing increased pressure on the local environment. The rest of the resident population lives in the outer islands. Lying within the trade wind belt, Tuvalu has variable rainfall with an average of 3 000 mm per annum. Due to the extremely porous soil collection of rain is the primary source for providing fresh water.

Available data suggest that certain Millennium Development Goals (MDGs) have been achieved or almost achieved, but for most indicators outer islands still compare unfavorably with the capital. While Funafuti has a relatively developed civil infrastructure, outer islands infrastructure is minimal

Tuvalu has a mixed-market subsistence economy, with the majority of the population living from fishing and agriculture, and is heavily dependent on external revenues, and international aid. GDP per capita in 2001 was A\$ 2,414.

Climate change is considered the most serious threat to Tuvalu and it relates to concerns that may bring about global warming and a rise in ocean levels. As at no point are the islands more than 5 m above sea level, Tuvalu is extremely vulnerable to environmental hazards such as storm and tidal surges, sea levels variability, coastal changes, tsunami and cyclones.

Taking into account the country's vulnerability and isolation, small and dispersed land, scarce and fragile natural resources, limited infrastructure, since 1986 Tuvalu has been ranked as a Least Developed Country (LDC) by the United Nations .

#### 2. ISSUES

##### 2.1 Common characteristics of Pacific Island Countries

*This description draws heavily from the Pacific Island Countries presentation to the UN Conference on Environment and Development , The Pacific Way (SPC 1992), as reported in the ADB Pacific Region Environmental Strategy 2005-2009 Discussion Draft June 2003.*

Geographical isolation . Though communications have been improved, the geographic position of the Pacific Island Countries continues to present a fundamental challenge to development, and it has also contributed to the specialized ecosystems, species endemism, and vulnerability to invasive species that occur in the region.

Fragile Island Environments . Island environments have the highest rates of species extinction globally, and recent evidence of the negative impact of ocean temperature rise on the health of coral reef ( through the “bleaching” effect) is indicative of the relative fragility of the island ecosystems.

Limited Land Resources . Fragility of ecosystems is often compounded by their small size. Limited land resources make many terrestrial and near shore resources, including freshwater , vulnerable to over exploitation and pollution from poorly planned waste disposal. Limited land resources have become especially troubling for low lying atolls, in view of the projected rates of sea level rise over the next 50-100 years.

Rapid Population Growth . Rebounding from the depopulating diseases of first contact with colonial powers , Pacific Island Countries’ populations have grown rapidly over the past 100 years, and this has been linked to the degradation of forests and fisheries and to loss of species. These pressures are easing now as population growth rates are beginning to slow and are further offset in some places by an upward trend of out migration.

Dependence on Marine Resources . With the exception of some higher islands , there remains a strong dependence on marine resources to meet daily needs of many Pacific families – providing foods , tool , transport , and waste disposal. This may be slowly weakening in certain areas with the increase in international trade , but it remains a fundamental characteristics of the smaller atoll-dominated Pacific Island countries such as Kiribati, Marshall Islands and Tuvalu.

Vulnerability. This trait of the Pacific islands countries has received increasing attention over the last decade. Exposure to natural disasters and to external global perturbations (for instance in climate change, trade, and capital markets) and a heavy reliance on a limited range of economic sectors, creates a high degree of vulnerability. Moreover, the factors contributing to islands vulnerability appears to have increased in recent years. The baseline of assets and live at risks is also increasing as population and infrastructure located in coastal areas expand and Pacific island economies open to global economy.

## 2.2 Environmental issues affecting Tuvalu

*This description draws from the SOPAC Country Profile for Tuvalu (1993).*

### 1. Global warming and sea level rise

Global climate variability may be responsible for increasingly more-frequent and more-severe cyclones, interspersed with scorching droughts. The impact of this variable climate has been harsh on ecosystems and coastal, terrestrial and marine biodiversity.

Economically the impact has been translated into decreased agricultural yield, death of livestock and loss of marine biodiversity. As the majority of the people dependent on these sources are poor, the poverty implication of variable climate is high.

The Intergovernmental Panel on Climate Change (IPCC) predicts that there will be a 10-30 cm rise in sea level by the year 2030 and 30-100 cm by the end of 21<sup>st</sup> century. This prediction can have serious implications for sustainable development in Tuvalu. Any increase in sea level as a consequence of global warming will have significant effects on the low lying atolls of Tuvalu. The atolls will experience accelerated coastal erosion and saltwater intrusion, which will cause even greater scarcity of already limited freshwater resources. In addition damage to infrastructure by coastal inundation, wave run up and tidal surges will be tremendous. Islands can be completely destroyed, with resultant loss of lives. The social and economic impact of this on a developing economy is huge, and can lead to persistent poverty.

## 2. Coastal erosion

Tuvalu has a coastline which encompasses extremely limited terrestrial, near shore and natural resources. There have been rapid changes in the coastal geography associated with exploitation of aggregates such as beach sand and reef coral and blasting of reef passages or boat channels, which have caused instability and beach erosion. Besides, coastal pollution destroys reef biota.

Coastal degradation is an increasing problem in Tuvalu owing to limited understanding of the wave and current pattern around the islands, and the misconception that coasts are inherently and eternally stable. There is urgency for Tuvalu to understand the causes of erosion and the natural dynamics of beaches. This knowledge is essential for implementation of appropriate policies and plans for coastal development and to prevent even further erosion of its already limited and valuable land.

The main sources of sand aggregates for construction activities in Tuvalu are the beaches. Unmanaged mining has led to coastal instability resulting in reef degradation and impingement on fisheries. Chronic coastal erosion can also lead to the loss of coastal lands and infrastructure. Even though mining of sand from beaches is banned, insufficient enforcement of laws has led to poor management of the beaches. The associated problems relating to the continued exploitation of beach sand in Tuvalu demand immediate address. This requires the assessment of alternative sand aggregate resources and the development of a management strategy to minimize coastal erosion.

During World War II borrow pits were the source of construction materials for building airstrips. In filling of these pits has been a priority of the Tuvaluan Government in order to provide additional land for various development activities. However, filling these pits require material which is in short supply.

## 3. Exploitation of natural resources

Tuvalu contains resources that have great potential for development. These range from offshore to terrestrial mineral deposits. Offshore exploration, which is still at a nascent stage in Tuvalu, has shown the extensive presence of deep-sea mineral resources such

as cobalt – rich crust and manganese nodules within its EEZ. In addition, several land occurrences of low grade phosphates soils have been reported.

Adverse social impact and economic redistribution are the biggest concerns arising out of mineral exploration. Offshore mining could unleash a whole new host of problems ranging from the irreversible destruction of the fragile ecosystem to loss of fishing grounds.

#### 4. Water

Water is available in Tuvalu as rainwater (primary source) and groundwater. Rainwater constitutes the main water supply and is collected mainly by roof catchments and stored in tanks. However, the poor quality of tanks, dirty roof catchments and gutters, poor filters on tank inlets and absence of taps all lead to major threats to water quality on Tuvalu. Groundwater is very limited in Tuvalu. It is susceptible to pollution from sewage effluents, manure of animals grazing over groundwater supply areas, solid waste disposal due to limited land area and salt-water intrusion.

Rapid population growth is placing competing demands on already constrained water resources. Only 60 per cent of households have access to piped water in Tuvalu, and all water must be boiled before drinking.

#### 5. Sanitation

Sanitation on Tuvalu is not controlled. There are no centralized sewerage systems on any of the islands. Septic tanks are fairly common in the urban areas of Funafuti and Vaitupu.. These, however, do not perform effectively in the atoll environment. Nutrient rich waste is quick to enter the groundwater because of the porous nature of the soil and the high water table. Similarly pit latrines where used will fill up eventually and require new ones, a major problem for these land scarce atolls. Water sealed latrines are also common, usually discharging into soak ways.

#### 6. Waste disposal

There is still an insufficient systematic disposal and processing of waste material in Tuvalu, with the most popular dumping site being borrow pits and beach areas. This can have serious health implications due to contaminations of freshwater supplies, and call for immediate action.

#### 7. Energy

Tuvalu depends mainly on imported petroleum products for its energy generation. Motor vehicles and marine vessels fuels are also imported at very high costs. The use of renewable energy, such as solar power has partly been established in the outer islands. This is run by the Solar Electric Cooperative Society Ltd, which came into force in 1984.

Besides both the outer islands and the urban communities use fuel wood for most of their cooking requirements: increasing populations and high costs of imported fuels



such as kerosene have led to over exploitation of fuel wood. Thus efficiency in production, transmission and consumption is essential to optimize available energy resources while new avenues (wave energy) are being explored .

### **3. POLICY & INSTITUTIONAL SETTING**

In recent years Tuvalu has made considerable progress in crafting and implementing policies which focus on environmental protection and management. The Review of Environmental Education published in 1992, the State of the Environment Report published in 1993, and the Environmental Legislation Review published in 1994, all fed into the Tuvalu National Environmental Management Strategy (NEMS), which was published in 1997. NEMS is the central document guiding the evolution of the Tuvalu government's environmental policy and action on the environment. Tuvalu has ratified – or will soon ratify – the following environment-related international commitments (examples post 1980). Of those not yet ratified, Tuvalu has been and remains in general compliance with the spirit of those commitments.

#### *International Environmental Conventions and Instruments:*

- United Nations Convention on the Law of the Sea (UNCLOS), 1982 (to be ratified shortly)
- Vienna Convention for the Protection of the Ozone Layer, 1985
- Montreal Protocol on Substances that Deplete the Ozone Layer, 1987 (ratified except for the London and Beijing amendments)
- Rio Declaration on Environment and Development, 1992
- United Nations Framework Convention on Climate Change (UNFCCC), 1992
- United Nations Convention on Biological Diversity (CBD), 1992 (to be ratified shortly)

#### *Kyoto Protocol to the Framework Convention on Climate Change, 1997*

#### *Regional Environmental Agreements and Instruments:*

- South Pacific Nuclear Free Zone Treaty, 1985
- Convention for the Protection of Natural Resources and Environment of the South Pacific Region and Related Protocols (SPREP), 1986
- United States Multilateral Fisheries Treaty, 1987
- Convention on the Prohibition of Fishing with Long Drift Nets in the South Pacific, 1989

- Convention to Ban the Importation into Forum Island Countries of Hazardous and Radioactive Waste and to Control the Transboundary Movement and Management of Hazardous Waste within the South Pacific Region (Waigani Convention), 1995

#### **4. CURRENT ACTIONS**

The Funafuti Conservation Area, established in 1997 through SPREP (a NEMS recommendation), is a marine and terrestrial wildlife sanctuary on the western side of the Funafuti lagoon, and contains the richest coral reef ecosystem in the Funafuti Atoll. The Conservation Area protects biodiversity and has led to a renewal of marine life, terrestrial animal and bird populations, not just in the Conservation Area but around the atoll. Unreservedly, this project has rather quietly become a major success.

In 1999, the government launched the Tuvalu Waste Management Project to deal with waste reduction, municipal waste management, waste water, and hazardous and special waste management (another NEMS recommendation). Waste management in Funafuti has vastly improved as a result, through the systematic collection and disposal of solid waste, recycling some inorganic (aluminium cans, used oil), mulching and composting household garden refuse. The government intends to extend this project to the Outer Islands in the frame of 9<sup>th</sup> EDF OISDSP implementation.

The government and island communities are continually funding projects (or seeking funding) to upgrade and expand the catchments, collection and storage of rainwater. Only a few of the islands possess potable underground water and even then this water is of secondary importance to collected rainwater. Water management vis-à-vis contamination of underground water supplies is therefore not (yet) a (major) issue. The SPREP-funded International Waters Programme (IWP), the latest regional project, is addressing a wide range of issues involving oceanic and coastal waters, and terrestrial fresh water, in relation to environmental protection and management.

#### **5. FUTURE NEEDS**

The government is aware that economic and social development can impose high costs on the environment. With only limited resources available, development policies thus attempt to guard against incurring such high environmental costs, while initiating remedial measures that repair past environmental damage, and protect the existing natural environment.

There is a growing environmental awareness in Tuvalu as a direct result of national (and local) government intervention in the last ten years. Such awareness raising is a central feature of NEMS to improve environmental management. Other NEMS recommendations include Integrated Coastal Zone Management (ICZM), environmental impact assessment legislation and practice, and local responses to climate change and the prospect of sea level rise.

The increasing importance of climate and sea-level variability certainly requires specific actions in this domain as experience and expertise in coastal management, environmental vulnerability assessment, mitigation and adaptation strategies.

In addition, being a disaster prone country, there is a need to set up efficient disaster prevention and preparedness mechanisms, including prediction and early warning system, with a view to reducing the consequence of disasters.

## **6. EC ACTIVITY IN ENVIRONMENT MAINSTREAMING**

### **1 . Written answer to the European Parliament**

Written Question E-285/03

By Chris Davies (ELDR) to the Commission

Subject : Rising sea level in South Pacific

What evidence exists of rising sea levels in the South Pacific ?

Is the Commission offering any assistance to the Island of Tuvalu and surrounding islets to deal with the effects of climate change?

Answer given by Mrs Wallström on behalf of the Commission to the European Parliament

(written question: [E-0285/03](#))

**(6 March 2003)**

The best and most reliable scientific assessment of climate change is the Third Assessment Report (TAR) prepared by the Inter-governmental Panel on Climate Change (IPCC) in 2001. This report contains the combined scientific knowledge of the world. Its authority and reliability has been recognised by almost all the countries of the world, including the United States.

The Third Assessment Report indicates that an average sea level rise of 0,1 to 0,2 million has been observed in the 20th century and that there are signals that global warming has significantly contributed to this rise.

However, current models are still not able to forecast sea level rise giving just a single figure rather than a range of possible results. So according to the IPCC TAR for the periods from 1990-2025 and from 1990-2050, the projected rises are expected to be from 0,03 to 0,14 million and from 0,05 to 0,32 million respectively.

The consequences of these possible scenarios are indeed a cause for concern, as also recognised by the Council conclusions of 17 October 2002. Large-scale impacts of climate change on oceans are expected to include a rise in the global sea level with the possible consequence of increased levels of flooding, accelerated erosion, loss of wetlands and mangroves, and seawater intrusion into freshwater sources. Small island states, including Tuvalu, are particularly vulnerable to the negative effects of climate change, which could also result in loss of land and property, dislocation of people, increased risk from storm surges and would require high resource costs to respond to and to adapt to these changes.

The greater part of the Community development assistance is provided through the framework of Country Strategy Papers (CSP). The CSPs outline a strategy for development assistance in each country with priority areas for assistance identified by the beneficiary country.

The Country Strategy Paper for Tuvalu was signed on 14 August 2002, and it will cover the period between 2002 and 2007. Development aid will consist of EUR 4 million over the identified period of time mainly focused on social sector development. In the past, however, some projects related to energy efficiency, coastal protection and the use of renewable energy sources were financed through Community programmes under the Lomé Convention.

Furthermore, the Commission follows constantly the evolution of the environmental situation in Tuvalu through regular contacts with the Government, inter alia in occasion of Joint Annual Reviews, and missions in the field carried out by the staff of the Commission's Delegation in Fiji.

OJ C 242 E, 09/10/2003 (p. 116).

## **2 . Funafuti Waste Management Project**

A comprehensive Funafuti waste management project, supported by AusAID, and indirectly the EU, through 8<sup>th</sup> EDF budgetary support, began in 1999 and concluded in June 2002. Nevertheless waste management activities in Funafuti have continued in 2003, funded under the 9<sup>th</sup> EDF OISDSP . However, they were only partially funded on the expectation that waste management activities will commence in the outer islands in 2004.

The Environment Unit, within the Office of the Prime Minister (formerly with in the Ministry of Natural Resources), has continued providing waste management services to be partly supported by the EU under the 9<sup>th</sup> EDF. The Environment Unit has established a dedicated waste depository at the northern end of the island, is shredding and composting household organic (green) waste, implemented a pilot piggery project, is treating and incinerating hospital waste, and dealing with industrial and hazardous wastes. The waste management project is innovative and comprehensive and could become a model for other Pacific Atolls, according to a recent independent review conducted by the ADB.

The best practices developed under the waste management project will continue, and they will be extended to all Funafuti households and to households in the Outer Islands.

## **3 . Disaster prevention and preparedness**

As Tuvalu is a natural disaster-prone country, it is has been agreed at the MTR 2004 that the total amount of €700,000 of the 9<sup>th</sup> EDF B envelope be used to assist Tuvalu in setting up disaster prevention and preparedness mechanisms, as provided for in Article 72(3)(e) of the Cotonou Agreement.

#### **4. Environment – Reducing Vulnerability of Pacific ACP states : €7 million**

This regional project addresses environmental vulnerability reduction in the Pacific ACP States through the development of an integrated planning and management system (island system management) on three focal areas: hazards mitigation and risk assessment, aggregates for construction, and water resources supply and sanitation . The project is implemented by SOPAC – South Pacific Applied Geoscience Commission .

#### **7 . CONCLUSION**

The information above reported points out the current EU strategy, to promote the socio-environmental development of Tuvalu, in particular in the Outer Islands. Similar to other Pacific Islands Countries, through the provision of adequate educational, environmental and water supply services in the outer islands, the environmental objective of the 9<sup>th</sup> EDF country strategy for Tuvalu, is to promote a sustainable and environmental friendly development in the outer islands, and to reduce the migration and consequent negative social and environmental impact towards the capital Funafuti.

In addition being a natural disaster-prone country, the entire B envelope allocation is to finance specific assistance in setting up disaster prevention and preparedness mechanisms, as provided for in Article 72(3)(e) of the Cotonou Agreement.

