10 September 2013

Letter of Development Policy

Dear President Kim,

Tuvalu is committed to achieving the World Bank Group’s vision of ‘Living in a World without Poverty’ and also the UN Millennium Development Goals by 2015. Tuvalu is the smallest member of the World Bank, our population of 11,000 people, geographic remoteness, and vulnerability to exogenous shocks including natural disasters presents a unique set of development challenges. Nevertheless, the Government of Tuvalu (GoT) is determined to achieve prosperity for all Tuvaluans through the strategies and priorities that are articulated by its people in the National Strategy for Sustainable Development - Te Kakeega H 2005-2015. In parallel, Tuvalu is committed to achieving the World Bank Group’s vision of ‘Living in a World without Poverty’ and also the UN Millennium Development Goals by 2015. These priorities and strategies will enable Tuvalu to pursue growth, development and shared prosperity.

Investments in public services together with the support of development partners have resulted in significant steps towards achieving our national development objectives and the Millennium Development Goals (MDGs). According to the 2011 MDG report, we are on track to achieving universal primary school education, reducing child mortality, and improving maternal health. We have also made significant progress in promoting gender equality and empowering women. Extreme poverty is minimal in Tuvalu given customs of mutual support within communities and remittances have been a traditional safety net that still protects many of Tuvalu’s households from extreme poverty. However, as highlighted in the 2010 Household Income and Expenditure Survey, poverty had reversed its declining trend since 2005 – especially in the rural areas – partly explained by the spikes in food and fuel prices and the global economic crisis. To combat this, GoT continues to provide employment opportunities in rural areas – where unemployment is high – through investment in infrastructure.

Tuvalu’s commitment to achieving its development goals relies, inter alia, on building fiscal resilience against exogenous shocks. Our economy is extremely vulnerable to external shocks due to its heavy reliance on income earned from abroad. These incomes from external sources such as fishing licensing fees, leasing of Tuvalu’s internet domain ‘dotTV’, worker’s remittances and grants, account for around 80 percent of GDP. The Government role in the economy is necessarily extensive and the private sector is relatively small, accounting for only around a quarter of economic activity. Structural trade deficits – over 50 percent of GDP – result from heavy import dependence. Tuvalu uses the Australian Dollar as the legal tender and as a result it has no independent monetary policy and domestic interest rates are set based on social and development objectives set by the only two local banks that operate in Tuvalu. All of the above indicate that macroeconomic management and the absorption of external shocks rely on fiscal policy.
Effects of Recent Crises: 2008 - 2012

In recent years, Tuvalu has suffered from a number of economic shocks and natural disasters. The global food and fuel price crisis caused increase in costs to households, especially since all grid electricity is generated from imported fuel. The global economic crisis also had a severe impact on the economy through declining remittances – from seafarers and seasonal laborers, and substantial loss to the capital of the national trust and pension funds. Tuvalu also suffered a major drought, with a state of emergency declared on September 28, 2011.

The impact on these crises had been protracted, with the economy contracting in 2009 and 2010, before an incipient recovery in 2011. Exchange rate appreciation has allowed inflation to remain low and steady but has also eroded the local currency value of US dollar receipts from the sale of fishing rights. As fiscal policy is the only tool available for macroeconomic management, the GoT responded to this period of economic hardship with increased public spending, e.g. on capital projects in the rural areas to alleviate poverty. As Tuvalu was already classified as being at high risk of debt distress, this increased spending was enabled by grants and previous savings (from excess returns on the national trust fund). Given the national trust fund suffered a severe loss in the aftermath of the global economic crisis, savings utilized to finance the expansion were not replenished (with returns on capital not reaching target levels in recent years). The resulting exhaustion of existing savings places Tuvalu at a precarious situation, limiting our country’s ability to absorb future shocks.

As the economy gradually recovers from the impact of these crises, the GoT is winding back the fiscal expansion. However, the national trust fund is not expected to achieve target returns – which would enable the rebuilding of fiscal buffers – until 2014 at the earliest. This is also contingent on the performance of a volatile and uncertain global financial market. As a result, Tuvalu will need to exert prudence in fiscal management and to begin re-building savings in the Consolidated Investment Fund. To do this, the budget will need continued support from development partners in the medium term. This support is important for strengthening fiscal buffers and to respond to either real (including environmental and climate change) or financial shocks.


The government of Tuvalu is pursuing a broad reform agenda designed to achieve our vision for sustainable development in the long term. To help implement this vision, the Government developed a Policy Reform Matrix in 2012 and a Priority Roadmap for 2013, in coordination with development partners, to map out the reform agenda in the medium term. The reform agenda is built around eight central themes of the national development plan Te Kakeega II: (i) good governance; (ii) economic growth and stability; (iii) social development; (iv) Falekaupule and outer islands development; (v) employment and private sector development; (vi) education and human development resources; (vii) natural resources; and, (viii) infrastructure and support services.

More specifically, to improve macroeconomic and fiscal management the Government has begun implementing a Public Financial Management Reform Plan with an emphasis on strengthening governance, transparency, debt management and budget execution. Financial reports summarizing key revenue and expenditures are now produced quarterly and available to the public. Public accounts have been brought up to date with the submission of the 2009, 2010 and 2011 accounts to the Office of the Auditor General in 2012. The next steps include the
development of improved procurement regulations and the production of a budget manual. The Government is committed to continue implementing ongoing activities such as financial and budget execution reports and, to strengthen debt management with the overall goal of improving efficiencies and transparency.

To improve fiscal discipline and sustainability, the Government has approved fiscal ratios to ensure continued fiscal discipline such as, domestic revenue to GDP, recurrent expenditure to GDP and primary balance to GDP as part of the 2013 Budget Circular. The Government has also established a Revenue and Expenditure Review Committee, chaired by the Minister of Finance, to ensure key social services expenditures are protected and at the same time achieve saving targets through the fiscal ratios. The next steps in 2013 include undertaking two tax audits of large tax payers, and continuing to implement tax recovery measures based on assessments on non-complying tax payers.

In order to strengthen public administration, the Government in late 2012 has established a number of committees and taskforces to improve public administration and service delivery, particularly in the outer islands. This includes the Public Service Reform Committee (PSRC) and a national taskforce to review the wage structure. Also in place are new staff appraisal forms and system in place to provide updated appraisal forms and systems. In 2013 the aim is for the PSRC to review the public service, including assessment of the appropriate size, structure, remuneration levels and linking staffing levels and structure to Te Kakeega II. In addition, the government recently adopted a new policy and procedures to enhance the development impact of outer island projects.

To improve public enterprise (PE) management and core service delivery, the 2013 Budget provided the necessary funding to ensure continued provision of services to the community, especially in the Outer Islands. Other achievements include the completion of audit reports for most PEs and the merger of Tuvalu Philatelic Bureau, Tuvalu Travel Office and the Tuvalu Post Office for efficiency savings. Next year, the Government will remove public servants from PE boards if there are qualified people to hold Board positions from the private sector.

To strengthen social service delivery, reforms in the health sector with the aim of improving the management of the Tuvalu Medical Overseas Medical Treatment Scheme (TMTS) are underway. A number of cost reduction measures have been undertaken in 2012 including a new referral process for sending cardiac patients to high quality and lower cost facilities outside of the region. The government is committed to proving for a healthy Tuvalu, and to complement the above described reforms with increases in budget provisions for primary and preventive health care in accordance with the objectives of Te Kakeega II.

Similarly, education reforms focusing on improving the management of the education system, in particular, scholarships funded by the Government are also underway. The number of new government funded awards has been limited to 30, with development partners taking more scholarships through a stringent selection process. In addition, extensions and variations regulations have been tightened and are being enforced to limit overspending. The Government will continue to prioritize the education sector in its reforms with an emphasis on strengthening primary, secondary, vocational and early childhood education.

The Government continues to deepen this reform agenda, with support and continued dialogue with the World Bank and other development partners. It also seeks to strengthen the reform agenda for improving the management of revenue from fisheries and to increase the use of renewable energy sources in Funafuti and the outer islands.
Mr. President, despite a difficult economic and fiscal situation, we have made significant progress in implementing the reform agenda laid out in the reform roadmap. We remain firmly committed to implementing the medium term reform agenda to create a healthy, educated, peaceful and prosperous Tuvalu. I request, that the World Bank take this operation through the lens of our unique challenges as one of the smallest and most geographically isolated member of the World Bank. The Government and the people of Tuvalu, welcome the continued active engagement of the World Bank in Tuvalu in this earnest and important endeavor.

Yours Sincerely,

Honourable Maatia Toafa
Minister of Finance and Economic Development