



PACIFIC CHOICE

Supporting Community-Based Capacity Development

Asian Development Bank



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Tuvalu's Falekaupule^[1] Trust Fund:
Supporting Community-Based Capacity Development

by Brian Bell^[2]

1 Falekaupule: the traditional assembly on the islands.

2 I would like to acknowledge the helpful comments and suggestions from Stephen Boland, David Abbott, and Talavai Iona. Any remaining errors or omissions are mine.

Capacity Development Series

This sub-series is published by the Asian Development Bank to provide the governments of its Pacific developing member countries (PDMCs) with analyses and insights on key issues and lessons learned with respect to capacity development. Cases studied highlight a range of experiences throughout the region by sector, theme and source of external support, revealing approaches to capacity development that work best and the conditions that have been conducive to their success. They also explore the unique challenges faced by PDMCs in addressing capacity constraints as well as some of the opportunities facing governments and the people in the Pacific islands. Among other things, the case studies underline the importance of PDMC leadership, engagement of local partners, strategic attention to long-term capacity issues and effective use of external resources. It is our hope that the findings in these reports will help to guide future capacity building efforts in the Pacific.

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FOREWORD

Despite 50 years of aid in the Pacific region, including some S\$17 billion invested over the past 25 years, overall results in terms of sustainable improvements in capacity have been mixed, at best. This raises questions, not only in the Pacific but also throughout the developing world, about approaches to capacity development—what works, what doesn't, and why? The Asian Development Bank (ADB) recognizes the importance of capacity development, having officially embraced it as a thematic priority in 2004. ADB's commitment is consistent with the Paris Declaration on Aid Effectiveness and the Pacific Principles on Aid Effectiveness. The programs of a number of other funding agencies, including the Australian Agency for International Development (AusAID), New Zealand's Agency for International Development (NZAID), United Nations Development Programme (UNDP), and the World Bank also embrace the importance of more effective capacity development.

Increased interest in capacity development in recent years reflects an acknowledgment of the shortcomings in development assistance over the past 50 years. This has led to calls for approaches that are more systematic and integrated, and which focus more on developing country ownership and achievement of sustainable results. Capacity amounts to the policy, procedures, personnel, organizations, institutions, and supporting environment required to effectively deliver development outcomes. In particular, ADB has focused on the ability of public sector capacity to deliver essential services, thereby strengthening the compact between government, civil society, and the private sector. Capacity development is much more than just training or skills transfer. It is really about effective organizations and institutions, a sound unpoliticized policy environment, accountability systems, effective relationships, and appropriate incentives. And as noted in this study, capacity development should be firmly rooted in a country's political economy.

To gain a better understanding of what works in terms of approaches to capacity development, ADB's Pacific Department (PARD) commissioned a regional study in 2007. The study was rooted in 20 case studies from 11 countries across the region, prepared mainly by Pacific islands consultants. The case studies covered a range of programming experiences—from economic planning, to infrastructure development, health and legal sector reform, and civil society enhancement, as well as different modalities for supporting capacity development. ADB's intent in commissioning the overall study was to draw upon the individual findings and recommendations to help guide future capacity building efforts in the Pacific, including institutionalizing a more focused and effective approach to capacity development in ADB's country programs and operations.

The case studies in this series and the overall study report are the result of collaboration among a number of consultants working with ADB under the direction of Steve Pollard, Principal Economist, PARD. The team leader for the overall study was Joe Bolger, and the authors of the studies were Helio Augusto, Kevin Balm, Brian Bell, Ron Duncan, Ben Graham, Ueantabo Mackenzie, James McMaster, Samson Rihuoha, Cedric Saldanha, Tom Seta, Paulina Siop, Esekia Solofa, Kaveinga Tu'itahi, Henry Vira, and Vaine Wickman. The study also benefited from the input of a number of resource persons, including Tony Hughes (Solomon Islands), Lynn Pieper (Timor-Leste), Tim O'Meara (Samoa), and Patricia Lyon, Senior Capacity Development Specialist, AusAID. The case studies represent the situation at the time of writing in 2007.

In conclusion, this report seeks to enhance understanding and dialogue on capacity development and its potential for contributing to poverty reduction and improvements in the quality of life of all Pacific islanders. I trust that you will find it both thought-provoking and practically helpful in advancing our collective commitment to development in the Pacific.



Philip Brquinga
Director General
Pacific Department



The Pacific Choice



Population:	12,000
Political status:	self-governing constitutional democracy since 1978, former British colony
Capital:	Funafuti
Geography:	West Central Pacific, exclusive economic zone 749,790 square kilometers (km ²), 9 coral atolls with a total land area of 26 km ²
Median age:	24
Head of state:	Apisai Ielemia, Prime Minister



INTRODUCTION

This case study describes the development and implementation of the Falekaupule Trust Fund (FTF)—an example of bottom-up capacity development.

Tuvalu is a small, isolated, resource-poor country made up of nine low lying coral atolls about 2 hours' flying time north of the Fiji Islands. Its nearest neighbors are Kiribati, Nauru, and Marshall Islands to the north; Tokelau to the east; and the Fiji Islands to the south. Having virtually no physical exports, the main sources of foreign exchange generated locally are royalties from distant-water fishing nations for access to Tuvalu's exclusive economic zone and remittances sent home by sailors working on foreign merchant vessels.

The once-flourishing philatelic bureau revenue has dwindled to almost nothing. International development assistance from bilateral and multilateral sources supports the standard of living by providing essential infrastructure, operational supplies, and technical assistance. Tuvalu is categorized by the United Nations as a least developed country and therefore qualifies for a range of assistance befitting that status.

At independence in 1978, Tuvalu had minimal infrastructure left by the British colonial power. Unlike Kiribati, which the British decided should inherit the phosphate fund³ when the Gilbert and Ellice Islands were split into Kiribati and Tuvalu, Tuvalu had virtually no reserves. Given this situation, the Tuvalu Government decided to pursue the idea of a trust fund with its development partners. In June 1987, after years of negotiating, the Government finally reached agreement with New Zealand,

3 The Kiribati Revenue Equalisation Reserve Fund was established in 1956 and by 1979 had a value of A\$54.7 million. At the end of 2000, it had a closing value of A\$677 million.



Australia, and Great Britain to set up the Tuvalu Trust Fund (TTF).

The purpose of the fund was to increase economic self-reliance by providing the capital necessary, when invested in a balanced portfolio of international securities, to generate enough money to offset a chronic budget deficit. The initial capital of A\$27 million was deemed sufficient to do this and was made up of grants of around A\$8 million each from the key development partners mentioned above plus smaller amounts from Japan and the Republic of Korea. Tuvalu also provided about 6% of the total capital, which amounted to all its reserves at that time.

The people of Tuvalu have great pride and a strong sense of ownership of the TTF, which they had to work hard to obtain. By the mid-1990s, the TTF had grown to A\$45 million and was providing about A\$2 million each year to the government's budget. However, most of the visual signs of development in Tuvalu were concentrated in the capital island of Funafuti. The remaining eight islands were relatively untouched by development efforts and life ran along traditional lines. Few benefits of the fund seemed to reach the outer islands.

In 1994, the national average weekly household income was A\$181. However, average weekly household incomes in Funafuti (A\$261) were more than double those in the outer islands (A\$123). In per capita terms, the degree of inequality was somewhat less with Funafuti having a weekly per capita income of A\$40 while the outer islands were at A\$24, the latter reflecting the smaller household size on the outer islands. In both Funafuti and the outer islands though, the weekly income of the highest quartile of households was more than 7 times higher than that of the lowest quartile. These figures suggest a significant degree of inequality and perhaps call into question the widely held view of equity in traditional Tuvalu society.

In the immediate post-independence years, attempts to raise incomes and develop income-generating opportunities were largely unsuccessful. The process of development was heavily biased toward top-down approaches with development partners and central Government driving initiatives. Local people felt left out and disillusioned with the process and the maintenance of essential infrastructure, such as schools and clinics, was seen

as being beyond the capacity of outer island communities to manage. There was also a widely held view among Tuvaluans that infrastructure provided from the outside was not their responsibility. Scarce resources available at the local level were barely enough to meet the day-to-day requirements of even the very basics of life.

In the late 1990s, the outer islands witnessed an increased flow of funds through island development activities and strengthening of the Falekaupule systems. The increased funding was possible largely due to the Tuvalu Trust Fund distributions, dot.tv revenues,^[4] and fishing license fees that boosted government revenues during the latter part of the 1990s. It began to have a major impact on household incomes. The growing number of Tuvalu seafarers sending remittances to families in the outer islands also contributed to the increase in incomes.

The 2004 Household Income and Expenditure Survey indicated that average weekly household income levels nationally had risen by around 52% between 1994 and 2004. In Funafuti, the increase was 33%, while for the outer islands the increase in household income was 85%.

A key factor which constrained local initiatives though was the social makeup of island communities. The attraction of paid employment and better opportunities in Funafuti and beyond were a drain on physical and mental resources. The children who excelled at local primary school were sent away to secondary school on Vaitupu and the elite then went offshore to schools and universities in the Fiji Islands, Australia, and New Zealand. When they returned, they usually stayed in Funafuti where their talents were needed in government. Young men who didn't excel academically but had ambition aspired to enter the marine school. Once qualified, these cadets went offshore for periods of 6 months or more. There was also a general drift to Funafuti as the young sought employment opportunities not available in the outer islands. As a result, island communities had an overrepresentation of the very young and the very old,

4 Tuvalu has earned significant amounts of money from the sale of its .tv address to internet users around the world. Profits from .tv sales are an important source of income for Tuvalu. So far, money earned has helped pay for, among other things, education, health care, the paving of streets on Funafuti and the country's yearly United Nations fees.



plus women of childbearing age. The economically active were underrepresented.

In addition, local government was weak, funding of local issues was a low priority and working for local government carried little prestige. The caliber of people working in government, particularly in the outer islands, was not high; getting officials to tour was difficult; and being transferred to the outer islands was regarded as a demotion. Life in Funafuti was attractive compared to the outer islands, particularly for those who had ambition.

Given this context and a recognition that existing processes were not yielding benefits for the people on the outer islands, the Government decided to devolve increased responsibility for management of outer island affairs. The cornerstones were to be reform of local government and creation of the Falekaupule Trust Fund. Together, these were to provide the governance and funding to manage island affairs more effectively.



THE FALEKAUPULE TRUST FUND: ORIGINS OF THE INITIATIVE

The idea for an outer island⁵ development fund had its origins in 1996 during the return voyage from Nui to Funafuti on an outer island tour by the Tuvalu Trust Fund Advisory Committee. While leaning over the rail of Tuvalu's patrol vessel, the then Minister of Finance and Chairman of the Tuvalu Trust Fund (TTF), the Honorable Alisana Seluka, and the New Zealand representative on the advisory committee, Brian Bell, were pondering how the key aspects of the trust fund could be used to help build capacity for outer island development.

The TTF, which by then had 5 years' experience, had already demonstrated its worth as a development tool for this small, fragmented, and isolated country. Given the difficulties in implementing projects under existing modalities, a different approach was clearly needed. Development partners or central Government had been driving the development process. Very few projects seemed to take root and be sustainable with the island communities. The usual outcome was an initial burst of enthusiasm followed by a gradual spiralling down of effort and impact after the expatriate advisor left, support of central Government faded, and the practical difficulties of implementing small projects in remote, resource-poor conditions took effect. People from outside always seemed to know better than those living with the daily issues of island life.

It was not that the people did not have the desire to develop their communities. It just seemed that there were too many obstacles in the way and many difficulties to be overcome with little in the way of resources and capacity to balance up the negatives.

5 "Outer islands" includes rural Funafuti, the capital island of Tuvalu.

But what if the money was there and the governance structure was in place to ensure sustainability? Could all the other issues then be worked on over time?

The vision that evolved was to put the power in the hands of the community, where people could decide which projects were funded, and where skills and advice were accessible at critical times to lift the participation and sustainability levels.

The Tuvalu Trust Fund (TTF) had shown that a trust fund could supply a sustainable source of money over time. Key success factors were

- an international agreement that bound the parties together in an enduring relationship;
- a board, chaired by Tuvalu, along with representatives of the development partners responsible for managing the fund;
- professional advisers who helped the board develop an investment strategy and were then responsible for day-to-day management;
- an advisory committee made up of Tuvaluans and expatriate development professionals who advised the board and the Government on the impact of the fund on the economy;
- a distribution made each year only if the capital of the fund had been maintained in real terms; and
- a buffer fund built up to provide distributions when the TTF did not perform.

The Tuvalu Government requested the Asian Development Bank (ADB) to provide technical assistance to develop the concept of a fund for outer island development into a project. Brian Bell, an international development economist and member of the Tuvalu Trust Fund Advisory Committee, was asked to undertake the assignment. The approach agreed to was as follows:

- Take the relevant factors that were critical to the success of the Tuvalu Trust Fund and build them into a fund for outer island development.
- Go out to the island communities and find out what they wanted to do if they had access to regular funds.
- Determine the critical success factors for capacity development at the island level and develop a model that



could be applied, building on strengths and supporting weaknesses.

- Develop a governance structure that would encourage and create incentives for island communities to build their own capacity to take control of local development, while managing the risks.
- Encourage active participation in developing the proposal.
- Ensure a high level of understanding of the concept among the people by providing a number of opportunities for discussion and clarification of issues important to them.
- Provide the resources to support the process during implementation so that the project would be sustainable over the long term.
- From an understanding of what works at the island level, develop processes that build on traditions and integrate these into internationally recognized development processes.
- Support community ownership of the fund by encouraging communities to raise funds as a contribution to the capital.
- Encourage the Government to support the fund by matching the capital contribution provided by ADB's low-cost development loan.

Bell's 1998 report^[6] to the Government and ADB on the proposed investment fund made the following key points relating to capacity development, ownership, and sustainability:

- The new fund would provide a sustainable new source of revenue for island development with a strong sense of ownership by the communities themselves.
- Government responsibility for island development rested with the department of rural development in the ministry of home affairs. It was understaffed and lacked training and operating resources. Past attempts to strengthen island development processes had largely failed because of the "colonial" model which, until recently, still dominated. Island communities had been the recipients of aid with little real control over the process of development.
- The proposed new fund would provide the resources for the communities to implement the provisions of the new

⁶ Bell, B.A. 1998. To establish a policy based investment fund for Tuvalu, ADB TA No. 2849-TUV, 25 March 1998, 61p.

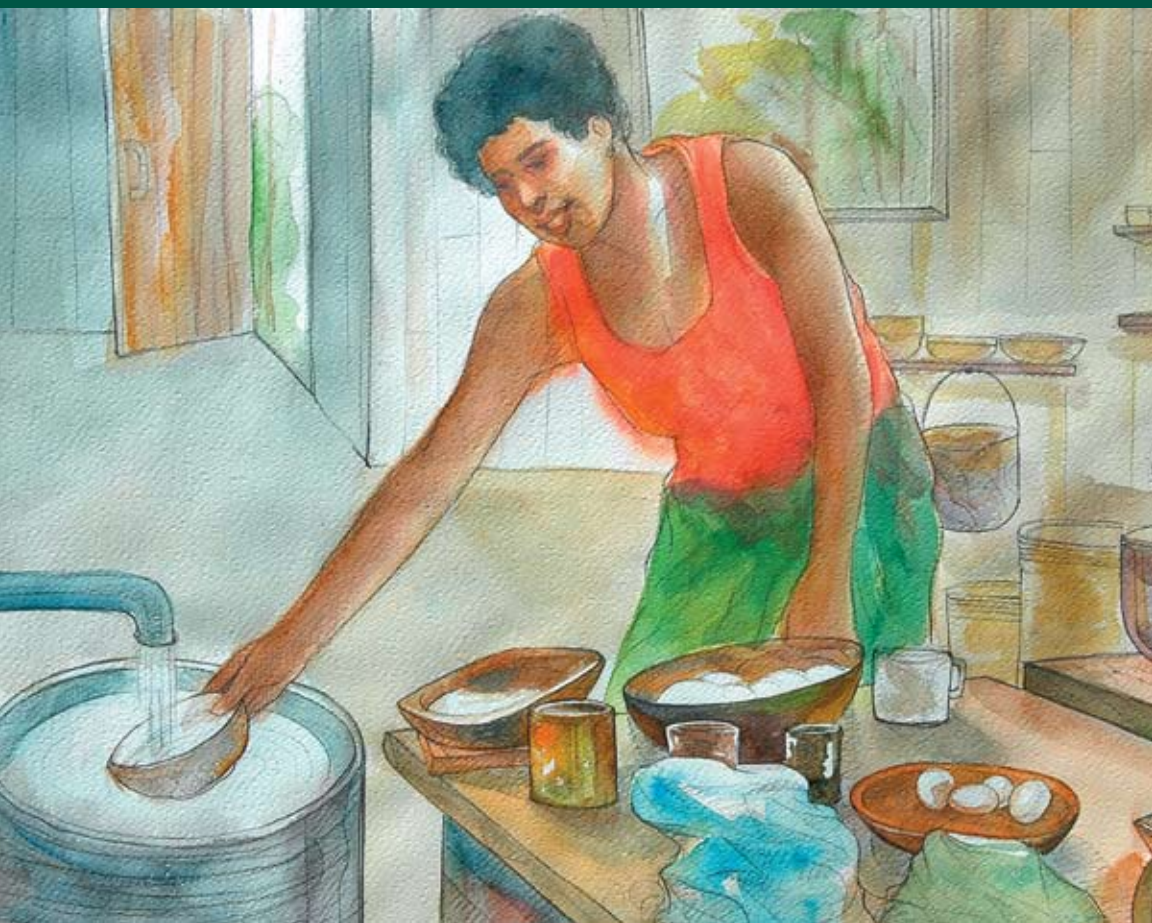
Falekaupule Act of 1997. Projects that could be financed by the fund fell into three broad categories:

- human capital development,
 - physical capital development, and
 - maintenance of physical capital.
- Based on consultation with the communities, the demand for capital spread over a 10-year time frame indicated the need for a fund of about A\$12 million. This would provide an annual distribution of around \$580,000, or an average of \$72,500 per island (assuming a soft loan of 50% of the capital which would be repaid from revenue).

The Proposed Fund: In Brief

In summary, the proposal called for a fund that would

- be invested by professional fund managers in Australia;
- have the safeguards of external trustees and auditors;
- have initial capital of A\$12 million held in trust and be provided 50% by an ADB soft loan (A\$6 million) with the balance from the Government and the island communities;
- have incentives to encourage the communities to invest their savings in their own development;
- have provision for other multilateral and bilateral development partners to participate;
- after providing for loan repayments and maintaining the capital of the fund, provide revenue to the communities for development projects;
- be managed by a board of nine representing each of the eight islands and the Government as permanent chair;
- have a secretariat with an external adviser to service the board;
- finance projects decided on by the communities through a bottom-up process subject initially to Government approval;
- require eligible projects to be part of an approved island development plan with money only able to be spent after appropriation in the Falekaupule budget;
- be subject to certain policy conditions agreed to by the Government; and
- be supported by technical assistance for institutional strengthening in the ministry of home affairs and on the islands, and further privatization/commercialization.



FORMALIZING THE AGREEMENT

In July 1999, the Government and ADB signed an agreement for a loan of \$4.0 million (A\$6.5 million in two tranches) to help establish the Falekaupule Trust Fund (FTF).^[7] This was matched by the Government, which also matched island contributions initially of A\$1.3 million. At opening on 4 February 2000, the capital of the fund was A\$11,252,614. Subsequently, ADB contributed a second tranche, which was matched by the Government. The islands contributed a further A\$1.5 million. In addition, New Zealand, a long-time supporter of capacity building on the islands, agreed to contribute NZ\$350,000 per year for 5 years starting in April 2003, a total of A\$1.6 million as part of a 5-year program totaling NZ\$10.25 million.^[8] As of September 2006, total contributions to the FTF amounted to A\$18.9 million.

ADB also provided technical assistance^[9] for loan implementation. The loan and technical assistance supported the central Government's local government reform process that began in 1994 and culminated in the implementation of the Falekaupule Act 1997. The act formalized the relationship between the Kaupule^[10] and the Falekaupule. Complementing these efforts were decisions by the central Government to provide greater administrative capacity and financial resources to Kaupule and Falekaupule.

7 Island Development Program, ADB Loan No. 1693-TUV.

8 New Zealand's International Aid and Development Agency (NZAID) funds advisory services to the FTF within the contract of the Tuvalu Trust Fund Advisory Committee advisor, presently David Abbott. It also provides support to the Falekaupule, Kaupule, and communities in a project to increase awareness in the community on the Falekaupule Act and the FTF, and to improve capacity within Falekaupule on administration, monitoring, evaluation, and the application process/fund disbursement.

9 Island Development Program Implementation, ADB TA No. 3221-TUV.

10 Kaupule: Island Council – local government.

The objective of ADB technical assistance was to help the Government implement the Island Development Program (IDP) through

- strengthening the capacity of central and local government officials in planning, implementation, administration, and management of development projects; and
- assisting the Government to implement the reforms described in the IDP loan program matrix aimed at developing the outer islands.

The Deed establishing the Falekaupule Trust Fund (FTF) was signed in Funafuti, Tuvalu on 31 July 1999 at the Tausoa Lima Falekaupule. The deed was signed by then Prime Minister of Tuvalu, Honorable Ionatana Ionatana, and representatives of each of the eight Falekaupule.

As set out in FTF Deed, the fund has the following specific purposes:

- assisting the acquisition and development of skills and self-reliance in the communities through local training;
- enabling the communities to acquire, maintain, and improve community assets and resources to further education and self-reliance;
- funding community projects that improve the living conditions of the communities; and
- increasing the ability to generate revenue within the community for the good of the community.

The fund is governed by the provisions set out in the FTF Deed and the legislative framework for the fund is outlined in the Tupe Fakanaa A Falekaupule Act 1999. The Falekaupules are trustees of the fund with each appointing a representative (and possibly an alternate representative) to attend meetings of the trustees. In accordance with part 3 of Article 4 of the act, the trustees are vested with all the powers of the trust.

STRENGTHENING LOCAL GOVERNANCE— THE OTHER CORNERSTONE

The success of the trust funds has leveraged other development partner-assisted programs, including projects¹¹ of the United Nations Development Programme (UNDP), which have been ongoing since the late 1980s. The Island Development Planning Project, for example, sought to strengthen technical planning capacity in central Government which was further supported through the Regional Integrated Atoll Development Project. The latter project used participatory processes in profiling islands and in planning workshops for island councils and island communities to develop strategies for outer island development. In the mid-1990s, the Tuvalu Rural Development Project assisted the central Government in improving project management capability at both national and island levels. At the same time, the Regional Equitable and Sustainable Human Development Programme was working with the central Government to review and reform the local government. The Strengthening Local Governance Project was developed to help the Government implement local government reform, initially through the Fonopule Act of 1996 and subsequently through the Falekaupule Act 1997.

At a tripartite review held in 2000, it was decided to conduct an evaluation of UNDP programs given the strategic nature of the projects and potential overlap or complementarity with ADB's program of support for island development. It was anticipated that the review would provide valuable input into ADB's planned assistance and would help to identify for the Government and other development partners, including UNDP, areas that needed

11 Island Development Planning Project (TUV/87/009), Regional Integrated Atoll Development Project (RAS/88/014), Tuvalu Rural Development Project (TUV/93/001), Regional Equitable and Sustainable Human Development Programme (PMI/92/300), Strengthening Local Governance Project (TUV/96/001).

further support. The evaluation was carried out in 2001 by a Tuvaluan economist, Siliga Kofe, working out of the ESCAP (United Nations Economic and Social Commission for Asia and the Pacific) Pacific Operations Centre in Vanuatu. The fact that a Tuvaluan carried out the review was extremely important as it allowed access to views, information, and insights that are extremely difficult to obtain by expatriate consultants. Siliga made a number of insightful observations directly relevant to the success of the FTF which are highlighted directly below.

Siliga found that central government inefficiency was a key impediment to capacity development. Many ministry staff, for example, were given long-term overseas leave for tertiary study, leaving severely depleted capacity to perform the necessary work. He also noted that the training components of the UNDP programs did not deliver satisfactory outcomes because the subject matter was too technical for most participants. Siliga recommended that

....in future workshops resource personnel are carefully selected emphasising *[sic]* prior experience in delivering training to adults and that the core team of expert trainers visit each community to deliver the requisite training as against gathering participants for one big national workshop in the capital....

Siliga also noted that training of island officials needed to use real-life case studies of policy development and implementation problems which explore how and why they are tackled within the framework of the law and resource capability of both the central and Falekaupule governments.

Failure to translate into Tuvaluan and to distribute key documents had caused much confusion, misinformation, and conflict, according to Siliga. For example, failure to translate the Falekaupule Act 1997 and its primer, as required under the project, induced a conflict between the Falekaupule and Kaupule on their respective powers.

The misconception that development constitutes negotiation of aid money for building physical infrastructure persists throughout the rank and file of the Tuvalu civil service. Siliga suggested that

this needs to change if Falekaupule capital investments are to contribute to improving the quality of life of the people.

Siliga further observed that international agencies need to step back from international “best practice” and pitch advice at a level appropriate to the recipients. He also suggested that “in a country where everyone knows everyone else by their first name, rules and procedures (where necessary) on government affairs should be minimal and simple.”

As a result of these and other comments, UNDP designed a new project to address many of the issues raised. The current UNDP project for strengthening local level governance has three components: legal advisory services, financial capacity development and support, and engineering design and costing expertise. The current technical assistance is focused on training and capacity building aspects to help ensure that Falekaupule and staff are fully conversant with the requirements of the act and that training can be provided in the Tuvalu language. With the increased flow of funds to Falekaupule in the last 2 years from Falekaupule Trust Fund (FTF) distributions, the accountability and governance issues are becoming critical to the future success of island development.



ASSESSING RESULTS

Participatory, monitoring, and evaluation (PME) surveys^[12] were undertaken in 2001 and 2003 to measure the effects of the Island Development Program and, in particular, the FTF on the quality of life in the islands. PME specialists were contracted to design and manage the project and survey work was carried out by local people after receiving training from the specialists.

The first exercise undertaken between April and August 2001 was to establish baseline information against which improvements could be measured. The second survey, undertaken in April and May 2003, was aimed at monitoring changes in the quality of life (including economic, social, and political aspects), paying particular attention to the rural poor. A third survey was planned for 2005 but was not undertaken because the FTF did not have distributions from 2001 to 2004.^[13]

In 2003, ADB also undertook a participatory assessment of hardship in four islands (Funafuti, Vaitupu, Nanumaga, and Nukulaelae) as part of a Pacific regional poverty assessment program. The findings were published in 2004 as “Priorities of the People.”^[14] The conclusions of the assessment were in line with those of the earlier reviews and highlighted the need for more economic opportunities for young people and better basic service delivery.

Among the wealth of information collected in the surveys were views on the level of awareness and participation in decision-making processes on the islands. One issue was the participation of women on island development committees. Participation rates by women had increased in some islands and decreased in

12 Buchan, Dianne, and Chris Cosslett. 2003. Social and economic well-being survey Tuvalu 2003. ADB TA No. 3221 – TUV Island Development Program Implementation, Niommo-Bell, August 2003.

13 It would make sense for a follow-up survey in 2008, which would be 5 years from the previous survey and after three years of funds being available from the FTF.

14 ADB. 2004. *Priorities of the People: Hardship in Tuvalu*. Manila: ADB.



others, with one island still having no women's participation on the committee. Women generally felt that they should be more involved in Falekaupule decision making.

A similar situation was evident for youth participation in island decision making. Most youth focus groups expressed the view that youth should be more involved in decision-making forums.^[15]

According to the survey, awareness of the Falekaupule Trust Fund had increased in all islands but, on the whole, the level of awareness was higher among men than women.

The most frequently mentioned priorities in the assessment exercise were health (two islands), roads (two islands), agriculture (two islands), housing (one island), and water supplies (one island). Priorities that had increased in importance from previous reviews were roads, education, housing, and telecommunications (four islands); waste management and food supplies (three islands); and village planning, health, and water supplies (two islands). From a women's perspective, the most needed improvements on the islands were in housing, health, sanitation, agriculture, and business opportunities for women. The most common suggestion for improving island life from the perspective of youth was to provide new or improved sporting facilities. In addition, the majority of youth groups also wished to see an increase in training and educational opportunities.

15 "Youth" in island terms range from under the age of 30 to under 50.

It seems that despite the significant commitment to monitoring and evaluation, little attention has been paid to measuring increases in local capacity associated with ADB, UNDP, and other agencies' interventions with the Falekaupule Trust Fund (FTF). While severe capacity constraints are a feature of governance in Tuvalu generally, public servants still regard the outer islands as an unattractive place to work, largely because of the limited opportunities available. That said, the FTF does provide a mechanism to focus on outer island capacity with the flow of funds from the trust being an incentive to maintain and build capacity for each island's development.

Despite the broad scope of the terms of reference, significant progress was made on most components of ADB's technical assistance associated with its loan in support of the FTF. The establishment of the legislative framework for the FTF, for example, was an early achievement of the project.

The public relations and education campaign on the implications of the Falekaupule Act and the FTF was conducted via a special program under the technical assistance. This was required to resolve the controversial issue of the distribution formula for proceeds from the FTF and involved community consultations by a team from the ministry of home affairs and rural development accompanied by Stephen Boland. Consultations were held with island communities on Funafuti and culminated in an Island Leaders' Conference with delegations from all islands and technical support from Stephen and Brian Bell.

Guidelines on preparing Kaupule budgets were introduced and are now distributed annually. These guidelines outline requirements and financial commitments of the central Government, including the appropriate use of FTF proceeds. The guidance provided also explains to the Kaupule the need for updating island development plans and assessing projects included in the local government budget. A review of the local government grants system was prepared resulting in an increase in the flexibility of the financial resources provided by central Government. The planning, monitoring, and evaluation surveys in 2001 and 2003 helped build social research skills in Kaupule and produced useful results measuring changes in the island life during the program.

The summary island profiles and island development plans were prepared early in the program. To assist the island communities, a project preparation and appraisal manual was prepared for the ministry and the Kaupule to assess and rank projects when determining how to use FTF proceeds. This was difficult to design because of the gap between international best practice, as set out by international development agencies, and the capability of the people expected to use the manual. In hindsight, despite attempts to simplify the manual and provide relevant training, it was still not suitable.

ADB's overall assessment and rating of the program was that it was successful. The technical assistance achieved its outputs. Capacity was built in the ministry and the establishment of the FTF provided a source of development revenue for island communities. Recent poor performance on financial markets has affected returns from the fund but it is expected to provide a sustainable source of revenue over the long term.

DISPUTE OVER THE DISTRIBUTION FORMULA

The formula for distributions from the FTF became a very contentious issue. In preparing the project document, Brian Bell addressed two key issues in setting the formula:

- an incentive for island communities to take ownership and invest in the fund, and
- equity between island communities.

The first of these issues was dealt with by making part of the distribution to communities proportionate to their own contribution, plus the matching dollar for dollar on this by the Government. This effectively doubled the rate of return for every dollar they contributed from their own savings. It provided a very attractive incentive to the point that it caused a fractious race to raise as much money as possible within the allotted time. The design document set a limit on island contributions, but the Government of the day wanted it open ended. After a divisive competition developed to achieve the biggest contribution, the contributions were capped so that all islands were equal.

The second issue was dealt with by making that part of the distribution related to the government contribution (including the ADB loan) a function of the population on the home island and a flat rate to recognize the overhead associated with island management. The proportion proposed by Bell was 50:50. The effect of this part of the formula was that the range in size of distribution to different islands varied too widely and was not acceptable to the islands that were to receive the smaller amounts.

Immediately prior to the legislation being passed, the distribution formula in the deed was changed by the politicians, which had the effect of benefiting the more prosperous islands as the limit

on contributions was removed and the distribution formula was heavily weighted toward the size of island contributions. Some islands were very concerned and made strenuous pleas to the Government to have it changed.

A temporary resolution of the distribution formula dispute was made at the Leaders Summit in 2002, which was to cap island contributions at A\$358,813.85, the highest amount contributed, to allow all islands to reach the cap (all did so by September 2006) and to make the distribution related to the government contribution a flat rate across islands. Thus all islands would receive the same amount. While there was agreement at the meeting, considerable unease continued. When the issue was raised again at the Leaders Summit in 2005, participants agreed to make some allowance for differing populations and 25% of the distribution is now related to home island population with the remainder on an equal proportion basis. The formula was now back to the original option put forward in the deed.

Based on this formula, the distribution in 2005 was as set out in the table below. Note that the trustees set aside just over a third of the distribution in a reserve account for use the next time the fund does not deliver a distribution.

FTF Automatic Distribution (A\$) as of 30 September 2005

	Total Distribution	Deposit to Reserve Accounts	Distribution to Kaupule
Nanumea	258,196	68,022	190,174
Nanumaga	232,623	61,285	171,338
Niutao	252,793	66,599	186,194
Nui	220,891	58,194	162,697
Vaitupu	265,091	69,839	195,252
Nukufetau	237,048	62,451	174,597
Funafuti	229,587	60,485	169,102
Nukulaelae	201,647	53,124	148,523
Total	1,897,874	500,000	1,397,874

FTF = Falekaupule Trust Fund, RA = reserve account.

Source: FTF 2004–2005 Annual Report, November 2006.

FUND PERFORMANCE

From a starting point of A\$11,252,000 in February 2000, the fund's market value more than doubled by September 2006, reaching A\$24,591,000.

As part of the agreement with the islands, the Government provided an interim grant of A\$500,000 in each of 1999 and 2000 to kick-start it prior to the first distribution. These sums were divided equally among the eight islands.

After an initial distribution of A\$634,000 in September 2000, there was a gap of four years before the next distribution of A\$1,897,000. This was followed by a further distribution of A\$1,815,000 in 2006. Taken over the 7 years since inception, this is an average of A\$621,000 compared with the projected distribution of A\$580,000. To put these numbers in perspective, the average allocation of funding to local government prior to the Falekaupule Trust Fund (the 4 years to 1998) for capital development was A\$203,000. Thus, the fund has provided a threefold increase, albeit on a very uneven basis between years.

Now that there have been two major distributions, the Government is encouraging the Falekaupule to use the funds to maintain community assets and has entered into discussions over cost sharing to maintain classrooms, clinics, roads, and Kaupule offices.

Each November when the Tuvalu Trust Fund Board meets in Funafuti, the investment consultant gives a public seminar on investment management. Talavai Iona, Secretary to the Tuvalu Trust Fund Advisory Committee, says that this is beneficial to those board members who have been involved for a number of years. While Talavai provides new board members with the deed, minutes of previous meetings, and board papers, a more formal induction is needed. Board members have been invited to Talavai's office, but so far little use has been made

of this offer, with only the Funafuti member using it well. Communicating with members on outer islands is difficult at best and telecommunications can be out for weeks at a time.

Talavai rates the Falekaupule Trust Fund (FTF) as a success already, particularly with the last two payouts. He says nothing major is wrong. The FTF has further strengthened and promoted the idea of trust funds and some islands have started to set up their own investment funds.

MAJOR LESSONS LEARNED

Stephen Boland, ADB's rural development capacity building expert^[16] for the program, had the following to say about the 3-year implementation:

Widespread education campaigns at the grass roots level were crucial to providing understanding of the FTF and its purpose and use. Additionally, baseline data collected in 2001 and 2003 through PME surveys helped to measure the overall impact of the Program.

Unfortunately, timely translation of the Act and the Deed, essential when dealing with island communities, did not occur. This partly explained the problems over the FTF Deed, which was produced in English without translation. In future, budget allocations in loans or piggybacked technical assistance should be provided to cater for this need, as well as allowance for the delays associated with translation.

There is a view within the Government that the *success of the Tuvalu Trust Fund* has been *influenced by the ongoing technical assistance* available to the TTF to support its corporate governance. This includes the funding of the TTFAC and the Board members who include representatives from the governments of Australia, New Zealand, and the United Kingdom. The logical extension of this view is that the long-term success of the FTF needs ongoing TA [technical assistance] and advice provided by external parties. Given that capacity constraints are significant in microstates, this has implications for ADB's Pacific strategy that encourages the use of trust funds as an avenue for assistance. Long-term advice is needed to

16 ADB. 2002. Program Completion Report (PCR: TUV 31538) on the Island Development Program (Loan 1693-TUV(SF)) in Tuvalu, October. Manila.

strengthen their governance and ensure access to expert advice, thereby maximizing the chances of success.

As has been identified many times in the past, the *need for counterpart staff is critical for the success of projects*. The Program has been handicapped by lack of staff in the executing agency, the ministry of home affairs and rural development (MHARD), since many staff have been absent on long-term training. Not only does this mean a counterpart was difficult to identify, but there were often competing demands on the time of the counterpart meaning that the full transfer of skills was not always possible. This has been complicated by the ability of the Ministry to retain staff because of its perceived lack of prestige. In the future, these issues should be considered before proceeding with the project, or stronger constraints should be placed on the executing agencies to ensure adequate counterpart staff is available. It is recognized, however, that there will always be factors beyond the control of the project designers.

The assignment of counterpart staff should consider the capacity constraints of the executing agency to ensure that counterparts can dedicate their full time to maximising the transfer of skills.

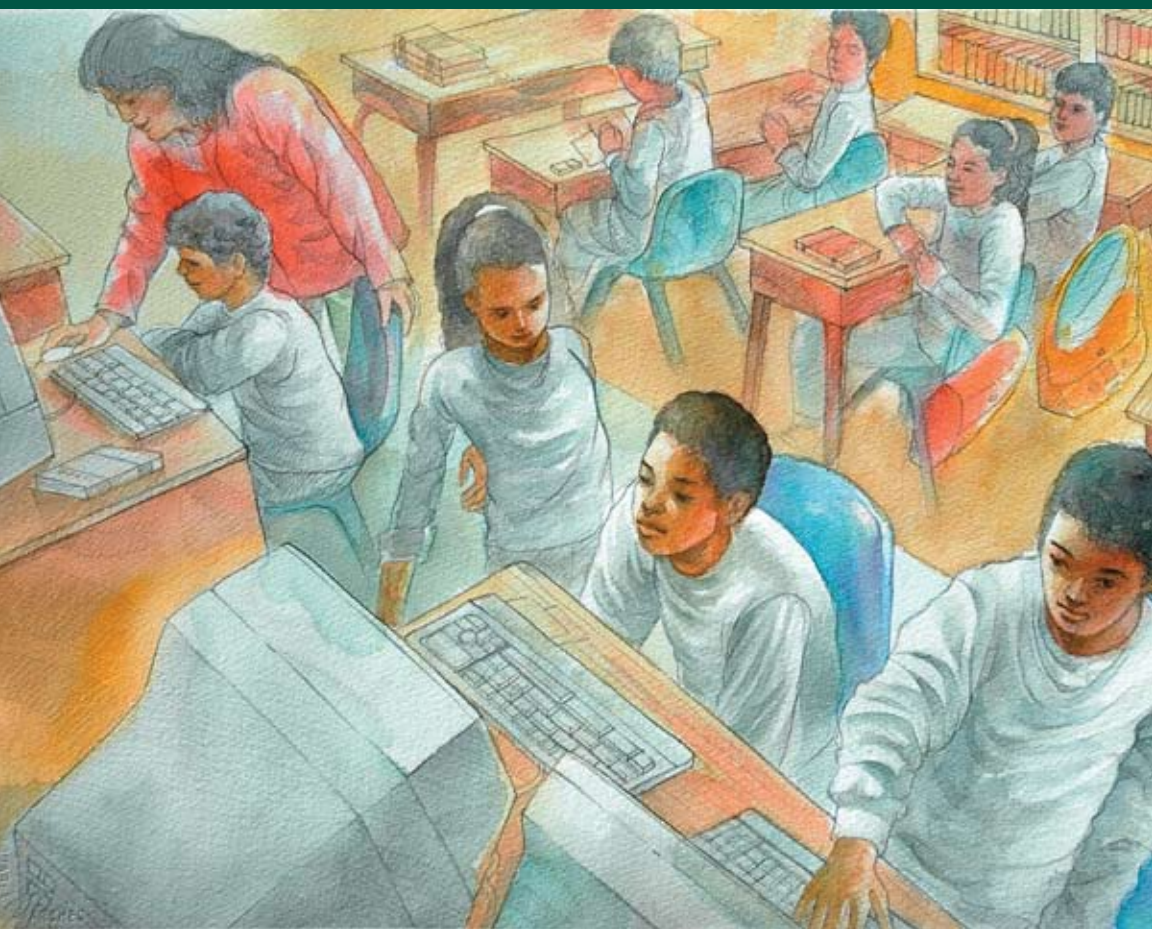
There should be fewer tranche conditions. The conditions imposed should relate directly to the loan, and be objectively verifiable and measurable. The objectives should also be strictly enforced to ensure that real changes take place that will achieve the stated objectives of the project. Allowance could be made where changes take place that are beyond the control of the Government.

Based on the experiences of designing and implementing the Falekaupule Trust Fund (FTF), the following additional lessons are considered relevant for similar programs, especially trust funds serving remote, resource-poor communities¹⁷:

17 In part adapted from the Island Development Program Implementation Technical Assistance Completion Report, ADB TA No. 3221-TUV, October 2003.



- 1) To build capacity in remote communities, it is *important to provide sufficient resources to take training, and other forms of capacity building, to the communities*. This can be resource intensive and should be recognized with appropriate budgets.
- 2) Complementing this is the *need to translate important documents into local languages*, and to provide easy-to-understand summaries of key points, to ensure understanding and ownership of the process, outputs, and outcomes.
- 3) It is also *important that all community groups*, including women and youth, as well as the traditional leadership, *be engaged in the learning process*. Such engagement must be undertaken sensitively but effectively in targeted focus-group sessions where the participants can feel fully engaged. Board members of the trust fund need to be given training not only in their fiduciary duties but also in how best to communicate board decisions and information to communities.



- 4) *Terms of reference for technical assistance should be focused* to ensure that resources are not spread too thinly across many tasks. In the case of FTF, assistance could have been more focused on the implementation of the fund and establishment of appropriate governance structures. Capacity development of the Kaupule staff would either need increased resources from ADB or, more appropriately, cooperation with other multilateral or bilateral donors.
- 5) *Capacity building should be started at an early stage* and should not be left until the fund is operational. Once the funds are flowing to the local authorities, it becomes very difficult to change practices. New systems and governance and accountability structures must be in place from the start. Guidelines and common briefing/information papers must be clear so that all concerned get the same messages (thus avoiding some of the misinformation that appears to have occurred in relation to the FTF).
- 6) As many of the concepts and practices are quite foreign to the stakeholders, *training must be seen as an ongoing task*. It needs to be pitched at an appropriate level for local stakeholders (initially minimal and simple), be delivered taking into account the local situation, and relying on real-life case studies to demonstrate the theory so that it is relevant and delivers immediate benefits.
- 7) While the focus was heavily on capacity building in FTF, budget for training was very limited. Capacity building was envisaged to take place in the island communities. However, such *training is extremely time and cost intensive, given transport and communication constraints in Tuvalu. Budgets need to reflect this type of reality.*
- 8) *Requiring islands to make contributions to the fund to demonstrate their ownership has been successful* in FTF. However, maintaining a cap on contributions also makes sense. If the cap had remained in place in FTF, this would have removed the destructive competition that threatened to destroy the fund. Ultimately, common sense prevailed and an equitable solution was found.

- 9) *It is important to achieve attitudinal change, moving away from dependency toward empowerment* to enable island authorities to take important decisions for themselves within the trust fund framework, rather than being reliant on central Government. Local authorities need to realize that the funds are available to them to be used in an innovative manner consistent with trust fund rules. Depending on the success of the funds in providing resources, the rules themselves may need to be made more flexible to enable adoption of innovative approaches. However, the rules need to remain compliant with good governance and accountability practices.

Supporting Community-Based Capacity Development

Tuvalu, the fourth smallest country in the world, with an estimated population of 10,440, is an isolated and resource-poor country that relies mainly on royalties received for access to its exclusive economic zone and remittances as its main sources of foreign exchange. This case study describes how the Falekaupule Trust Fund (FTF) was established in the 1990s, with support from the ADB, as a mechanism to help build capacity for outer island development, relying on participatory methods to “put power in the hands of community members”.

This sub-series is published by the Asian Development Bank to provide the governments of its Pacific developing member countries (PDMCs) with analyses and insights on key issues and lessons learned with respect to capacity development. Cases studied highlight a range of experiences throughout the region by sector, theme and source of external support, revealing approaches to capacity development that work best and the conditions that have been conducive to their success. They also explore the unique challenges faced by PDMCs in addressing capacity constraints as well as some of the opportunities facing governments and the people in the Pacific islands. Among other things, the case studies underline the importance of PDMC leadership, engagement of local partners, strategic attention to long-term capacity issues and effective use of external resources. It is our hope that the findings in these reports will help to guide future capacity building efforts in the Pacific.

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ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two thirds of the world's poor. Nearly 1.7 billion people in the region live on \$2 or less a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

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