

TUVALU NATIONAL PROVIDENT FUND
INVESTMENT CONCEPT PAPER
(A concept paper to impact tourism development in Tuvalu)

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1. Introduction

The Tuvalu National Provident Fund (TNPF) entered into a concession agreement with the Government of Tuvalu (Government) in December 2016. The concession agreement gives TNPF the rights to manage and administer the assets of the Vaiaku Lagi Hotel (VLH) for a minimum period of 25 years, with possible extension to a maximum period of 45 years. The arrangement is viewed by the TNPF Board as a stepping stone towards a broader lead role that TNPF (as an investor) can play in advancing the development of the tourism sector in Tuvalu.

TNPF has identified tourism as a sector that has the potential to develop and grow and a sector worth investing in. Given its size, TNPF is well positioned to play an impact role as lead investor in the hotel & lodging business in the country. With the right policy incentives from Government, TNPF will be able to make further investments into the hotel and lodging sector and make direct contributions to the advancement of the tourism industry as a whole. With Government's support, TNPF can make a huge impact on the tourism sector.

This paper presents for consideration by Government an investment concept that recognizes the potential of TNPF and Government partnering in creating an investment environment that is conducive for the growth of tourism and especially hotel development in Tuvalu. As the most influential investor in the hotel and lodging sector, TNPF would like to see Government put in place the right policy incentives that would attract investors to invest into the sector.

The TNPF Board is committed to invest a total \$2 million into the development of its newly acquired hotel business and would like to see Government committed to putting in place the needed infrastructure and the right policy framework that will complement the growth of the hotel and lodging sector and the attraction needed to make Tuvalu a new tourism destination.

The investment concept that will be introduced in this paper has been consulted with a number of stakeholders. The TNPF Board organized a special consultation meeting with various stakeholders who were invited to brainstorm, discuss and critique the proposed investment concept. A total of 18 stakeholders attended the consultation meeting. Those who attended the consultation meeting were representatives from the hotel and lodging sector, staff from various Government departments (including the tourism department) and island community leaders. The views of those consulted were used to inform this new investment concept idea and recommendations presented in this paper.

2. Background of TNPF's Hotel Investment

TNPF has invested over \$840,000 to secure the rights to manage and administer the assets of the Vaiaku Lagi Hotel for a minimum period of 25 years. All acquired assets of the VLH are now managed by a subsidiary company of TNPF, the 'TNPF Investment Holdings Ltd'. TNPF currently operates its hotel & lodging business under the trade name 'Funafuti Lagoon Hotel'.

To comply with the provisions of the concession agreement, TNPF is required to invest a total cost of \$1,216,613 on its newly acquired hotel business. The costs includes an initial upfront concession payment of \$840,913 (payable to Government) plus specific provisions for general structural repairs, improvements to hotel facilities and refurbishing / refurbishing of hotel rooms. TNPF is required under the concession agreement to perform the upgrades over a two year period. A breakdown of costs committed by TNPF under the signed concession agreement are presented below:-

(i)	Initial Concession payment to Government (plus Chattels)	-	\$ 840,913
(ii)	General Structural repairs on roof	-	\$ 45,000
(iii)	Refurbishing and refurbishing of existing 16 rooms	-	\$ 200,000
(iv)	Improvements to other hotel facilities	-	<u>\$130,700</u>
	Total	-	<u>\$ 1,216,613</u>

In addition to the above costs, the TNPF Board has also approved an additional investment budget of \$300,000 for additional hotel development infrastructure, especially building an additional 12 rooms for the Hotel. TNPF's agreed medium to long-term business strategy is to increase the number of Hotel rooms as additional room capacity creates more revenues to TNPF.

TNPF's short to medium term aim is to invest a total \$2 million in its Hotel investment business. By 2019, TNPF envisions the Hotel to be upgraded to resort status with a total capacity of 40 rooms. These aspirations by TNPF (as an investor) will be worthless pursuing if there is no political will or drive from Government to put in place clear policy incentives that are attractive to investors like TNPF.

While the development of the tourism sector should be led by investors and players in the private sector, the Government should play a strong supporting role. In a small island economy like Tuvalu, where its geographic location is an obvious constraint, Government should play a key role in dictating the political and economic environment of the country to make it conducive for investors (like TNPF) to participate in economic development.

3. Proposed Concept Idea

As probably the biggest and most influential investor in the hotel and lodging sector, TNPF, like any other investor would like to see that the right policy incentives in place that would attract further investments into the sector. With the capacity to invest a total \$2 million into the development of the hotel infrastructure, TNPF would like to see Government committed to putting in place the needed infrastructure and the right policy frameworks that supports the growth and sustainable development of the hotel and lodging sector and the attraction needed to make Tuvalu a new tourism destination.

The investment concept proposes to Government to partner with TNPF and also for Government to give special recognition to TNPF's role as lead investor in the hotel and lodging sector. As a partner, Government is encouraged to develop a national tourism policy that will create an enabling environment for tourism growth in Tuvalu and that will attract investors and financiers to invest in the new industry. Therefore, the concept proposes Government to consider developing a national tourism policy that clearly encompass the country's vision, broad strategies, goals / aims and actions for developing tourism as a very new industry. A national tourism policy that realizes tourism as a catalyst for socio-economic benefits for our local communities, encourages investment incentives through public / private sector partnership are usually effective tools to encourage tourism development.

The proposed national tourism policy should make special provision for the need to setup of a special loan scheme for access by those intending to venture into the hotel / motel and tourism related businesses. The policy should also allow special incentives to encourage the growth of tourism such as duty concessions for materials imported for tourism related infrastructural development and should also advocate for high standards of creativity and innovation for our local handicrafts. The tourism policy should also address pre-emptive and corrective measures that aim to achieve an optimal solution (and balance) between the risks of environmental degradation and the benefits of economic growth and development and should also impose measures that promotes a clean and healthy environment.

The proposed national tourism policy should well align to the core development areas identified in Government's National Tourism Development Strategy (2015 – 2019).

The presence of such policy gives a sense of security to investors like TNPF who has already committed to invest in the hotel and lodging sector.

While this paper discusses the role that TNPF can play as lead investor with the financial capacity to influence the growth of the tourism sector, there is no intention of this concept to ask Government to tailor the proposed national tourism policy to promote and safeguard the investment interests of TNPF only. There is also no intentions to disregard or downscale the contributions that small private hotel and motel operators can play in the economic development of our nation. Once tourism is promoted, all kinds of visitors will turn up on our shores. The demand for low cost hotel and motels will also emerge and our local communities and individual entrepreneurs will all have a fair share of the business. Therefore, the proposed national tourism policy advocated in the concept should be for the benefit of all investors, communities and stakeholders

The paper also presents several recommendations for consideration and support by Government. The recommendations aim to promote a secure and enabling investment environment for TNPF, a major investor that is firmly committed to invest in hotel and lodging developments and wants to be given special recognition and workable incentives given its status as lead investor in the tourism sector.

4. Tuvalu's National Tourism Development Strategy

Efforts by the Tourism department to develop a national tourism policy have not been successful despite many attempts to develop such policy.

In 2014, the Ministry of Tourism completed a national development strategy for the development of tourism in the country. The "*National Tourism Development Strategy (NTDS)*" was prepared through a process of wider consultations with various stakeholders across the Region. The NTDS was developed for the Tuvalu Government and it clearly lays out strategies and priority actions that guide the short-term development of the tourism industry in Tuvalu through the years 2015 - 2019. The aim of NTDS is to identify strategic areas for sustainable tourism development and recommended ways which tourism can be supported to continue to improve the quality of life for the people of Tuvalu and future generations. The NTDS advocates the need to balance the country's economic and environmental concerns towards achieving sustainable tourism at the right scale. Striking the right balance is important, knowing small islands are typically vulnerable to negative environmental and social impacts that tourism can bring.

The NTDS (2015 – 2019) recommended the following seven cores areas to be developed during the planned period:

- Human resource development – building the capacity for the Tourism Office and ongoing basic training in the tourism and hospitality disciplines.
- Niche market development – develop niche markets for climate change tourism, marine recreational activities, special interest tourism, etc.
- Enhancing online marketing presence – the need to build online visibility of Tuvalu to promote the unique marine activities
- Infrastructure development – better runways, small marina, water front.
- Improving accessibility – more flights into the country
- Improve and expansion of core number of hotel rooms – more hotel rooms
- Clean up campaign and special effort for a cleaner environment for the people and visitors alike.

After a careful review of the above seven core areas that needs to be developed, TNPF agrees that these core areas are essential to be fulfilled if the country needs to achieve an enabling environment conducive for the growth of tourism in Tuvalu. TNPF decision to invest in the hotel and lodging business aligns well with one of the objectives of the NTDS that is the expansion of more hotel rooms. To achieve the objectives of NTDS, Government should seriously consider developing a national tourism policy framework for Tuvalu and should align the objectives of the NTDS to the policy.

5. Why invest in Tourism?

With Tuvalu's diverse structural constraints, TNPF envisions tourism as amongst the very few policy options for the country to overcome the many diverse structural constraints imposed by the small size of its economy. Tourism has the potential to dramatically influence economic development on the islands of Tuvalu. If developed in a sustainable manner, tourism can become an important sector that can contribute to sustained economic growth, enhancing of social inclusion and can create opportunities for employment. For TNPF, more employment opportunities means more savings for members for their retirement.

The dependence of Small Islands Developing States (SIDS) on tourism means, among other things, that a large proportion of employment occurs in the tourism industry or in tourism related activities. Tourism is cross-sectorial, therefore employment not only occur in areas usually associated with tourism, such as hotels, restaurants, airports, seaports, transport, travel agencies, souvenirs shops, but also in agriculture, fishing, banking, and other activities that tourists come in contact.

The underlying theory for small island economies like Tuvalu is that there is simply insufficient market demand for goods and services to enable local firms achieve efficiencies or economies of scale. But for tourism, the demand for the product of tourism in essence is imported into the country. Therefore, for an investor like TNPF, it will have much larger market for its goods and services and will be able to achieve economies of scale and efficiencies.

The natural attraction of small island countries gives Tuvalu a competitive edge in tourism activities. For this reason, many governments of small island developing states (SIDS) are giving tourism top priority. Tourism if developed can become a source of foreign exchange for Tuvalu and can also bring a renewed interest of our locals in local arts and crafts.

For Tuvalu, given its small size and fragility, tourism development must be undertaken in a sustainable and responsible manner so that the sector realizes its full potential to engage local communities, create economic opportunities and alleviate poverty. For small island economies, environmental degradation caused by tourism activities is inevitable. This paper strongly recommends that once tourism is promoted, pre-emptive and corrective measures are called for in order to achieve an optimal solution (and balance) between the risks of environmental degradation and the benefits of economic growth and development.

6. TNPF's allowed Domestic Property Investment Exposure

TNPF is allowed under its current Regulation to invest up to 5% of its members funds in domestic property investment. Under the current legislation, TNPF's allowed property exposure is \$2.97 million (i.e 5% of \$59.4 million of total members fund). Considering TNPF investments of \$824,662 in its market property investment, the maximum allowed investment funds that TNPF can utilize for hotel development amounts to \$2,145,338. The TNPF Board has agreed that \$2 million is the maximum exposure that it can allow for its Hotel & lodging investment portfolio.

A snapshot of TNPF's investment commitments towards its Hotel & lodging business are summarized below –

Approved:

(i)	Initial Concession payment (plus chattels)	= \$ 840,913
(ii)	Structural improvements to Hotel property (as per concession agreement)	= \$ 45,000
(iii)	Refurbishment of existing 16 rooms of Hotel (as per concession agreement)	= \$ 200,000
(iv)	Improvements to existing Hotel facilities (as per concession agreement)	= \$ 130,700
(v)	Special budget to increase Hotel rooms by 12 rooms	= <u>\$ 300,000</u>
		<u>\$ 1,516,613</u>

In the Pipeline

(i)	12 Bungalow, Events Centre & Swimming Pool (on the Park)	= \$483,387
		<u>\$ 483,387</u>
	Total	<u>\$ 2,000,000</u>

With the right investment environment in place, TNPF envisions expanding its hotel development infrastructure to the Queen Elizabeth II park (QE2 Park). Already approved is a plan to build a new 12 hotel room wing. With the right policy incentives and investment environment in place, TNPF aspires investing in further hotel infrastructures to be built on the park. The building of 12 locally made bungalow type rooms at the waterfront of the QE2 Park together with an Event Centre and swimming pool, are all facilities that TNPF aspires to build on the park in the near future. The planned Event Centre will provide an additional venue for functions and meetings while bungalows may provide an appealing image and a further attraction to the QE2 park.

The concept also proposes a slight variation to Activity C(1) of Schedule 2 of the existing concession agreement. The proposed variation requires an appeal to Government to reduce the budget for refurbishing and refurnishing of the existing 16 rooms of the new Hotel wing to \$50,000 (instead of \$200,000 as initially agreed). The \$150,000 savings from this activity will go towards the budget allocated for building of a new Hotel wing (with 12 rooms). The variation will increase the budget for the new 12 room Hotel wing to \$450,000. The rationale for the variation is to assist TNPF boost the room capacity of its Hotel business with efforts to complement the expected increase in visitors as tourism is promoted and more importantly to get the Hotel rooms facilities ready for major events like the Pacific Island Forum meeting in 2019.

7. Conclusion & Recommendations

This paper presents a concept that TNPF wishes to share with Government. The concept advocates the need for TNPF and Government to partner in creating an investment environment that makes it attractive, secure and conducive to TNPF as lead investor who is prepared to invest close to \$2 million in hotel / resort development in Tuvalu over the next 2 to 5 years.

As a partner, Government is encouraged to develop a national tourism policy that will create an enabling environment for tourism growth in Tuvalu and that will attract investors and financiers to invest in the new industry. Therefore, the concept proposes to Government to consider developing a national tourism policy that clearly encompass the country's vision, broad strategies, goals / aims and actions for developing tourism as a very new industry.

The following recommendations are presented for consideration and support by the Government of Tuvalu.

1. It is recommended that TNPF and Government (through the Ministry of Foreign Affairs, Tourism, Trade, Environment and Labor) work as partners through an MOU to develop an investment environment that is conducive for the growth of tourism and especially hotel development in Tuvalu.
2. As a partner, Government is recommended to develop a **National Tourism Policy** that will create an enabling environment for tourism growth in Tuvalu and that will attract investors and financiers to invest in the new industry. The policy should clearly encompass the country's vision, broad strategies, goals / aims and actions for developing tourism as a very new industry and should well align to the objectives of Tuvalu's National Tourism Development Strategy (2015 to 2019).
3. It is recommended for Government to approve a slight variation to Schedule 2 [Activity C(1)] of the existing concession agreement. The variation requires Government to approve a reduction in the allocation to refurbish the existing 16 rooms of the existing Hotel (new wing) from \$200,000 to \$50,000. The difference of \$150,000 is to be diverted to the building of a new Hotel wing, which is a planned 12 room wing that has been initially budgeted for \$300,000. This diversion of funds will increase the allocation for the new Hotel 12 room wing to \$450,000. The rationale for such variation is well explained in the concept paper.
4. Government to share with TNPF its plans for the development of Queen Elizabeth II Park so TNPF can be informed and hopefully play a complementary role.
5. The Government is asked to seek funding for the building of a Convention Centre and Swimming pool on QE2 Park and to donate such facilities to TNPF as additional amenities to complement the TNPF Hotel business. With these amenities in place, the TNPF hotel project will be qualified to be classified as a Resort.
6. This paper strongly recommends that once tourism is promoted, pre-emptive and corrective measures are called for in order to achieve an optimal solution (and balance) between the risks of environmental degradation and the benefits of economic growth and development.

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