



The financial reporting of the National Fisheries Corporation of Tuvalu: The case for alternative indigenous reporting mechanisms

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ABSTRACT

Through textual analysis, the study examines the Indigenous financial reporting compliance of the National Fisheries Corporation of Tuvalu for the years-ending 2007–2014. The results reveal that over the sample period the corporation did not report at all. This is despite the fact that the corporation was under a duty to report through five Indigenous sets of enactments and received a substantial guaranteed loan from the National Bank of Tuvalu to develop its joint ventures with foreign fisheries fleets. There appears little evidence that the corporation has benefitted from technical reporting assistance from foreign experts over a long period of time even though Tuvalu has received substantial monetary and in-kind assistance from foreign donors. The study suggests the use of alternative Indigenous reporting mechanisms to encourage improved reporting by the corporation.

1. Introduction

When Tuvalu's first Indigenous members of parliament commenced their duties in 1978 at the time of Tuvalu's independence, they were faced with two enormous issues: firstly, how to generate revenue from their natural resources for the economic prosperity of Tuvaluans, and secondly how to ensure accountability for the revenue received by the state. Four years after Tuvalu gained independence in 1978, and two years after the Fisheries Division had formulated Tuvalu's first Fisheries Development Plan [1], the *National Fishing Corporation of Tuvalu Act 1982* was drafted by the Fisheries Division and passed by Tuvalu's parliament [2]. The drafting of the Act enabled the government to use NAFICOT as “the agency responsible for developing the country's industrial fisheries” [2, p. 3]. Thus, while NAFICOT focused on industrial fishing, another government entity, the Fisheries Department, concentrated on small-scale fishing development of Tuvalu. Both entities were overseen by the Ministry of Natural Resources, which was responsible for development and management of Tuvalu's living marine resources [3].

It appeared, therefore, that the government of Tuvalu chose the state-owned fisheries path for NAFICOT because it wanted a government controlled entity to develop industrial fisheries in Tuvalu for the financial benefit of the country [4]. In this context, it appears the *National Fishing Corporation of Tuvalu Act 1982* came about because the Indigenous-led government wanted “to develop a locally-based industrial tuna sector utilizing Tuvalu's tuna resources [1, p. 113]. There was a need for this enactment not only to increase revenue from fishing,

but also to provide employment to Tuvaluans especially on fishing vessels operating in Tuvalu waters, and to improve the supply of fresh fish [5]. In this respect, NAFICOT was supposed to represent the business arm of government in exploiting, marketing and processing marine sources for financial gain [6].

Possessing an Exclusive Economic Zone (EEZ) of 750,000 km² in the Western and Central Pacific Ocean, the Tuvalu Whole of Government receives a high proportion of its revenue from licence fees collected from foreign tuna fleets [7–9] which target species of yellowfin tuna, skipjack, bigeye tuna and albacore in Tuvalu's EEZ [5]. For year-ending 2015, fishing licence revenue provided 45% of Tuvalu's budget revenue [10], a substantial increase from year-ending 2012 where licensing and access fees provided approximately 30 per cent of government revenue in Tuvalu [11]. The Tuvaluan fisheries sector, however, faces considerable costs. 64 per cent of all fuel imported into Tuvalu in 2012 was used by this sector because of high transport costs [12]. As a consequence, Tuvalu depends upon international aid to pay for rising import costs [13], and is now designated as a least developed country under the United Nations classification system for vulnerable economies [14] with growing issues of managing sustainable resource use [15] and fiscal responsibility.

Under Section 4 of the *National Fishing Corporation of Tuvalu Act 1982*, NAFICOT has wide-ranging powers, including the right to engage in fishing, culturing and harvesting of all forms of aquatic life including sea cucumber harvesting. It is also permitted to process, buy, sell and market all forms of aquatic life, and to encourage and assist in the development of locally owned fishing enterprises. Section 4 of the Act

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also gives NAFICOT the authority to borrow money, execute negotiable or transferable instruments, enter into contracts, working arrangements or joint enterprises with other parties, and raise capital. A critical function of NAFICOT, as laid down in Section 4, is to make a financial contribution to the Consolidated Fund of the Government of Tuvalu.

Part V of the *National Fishing Corporation of Tuvalu Act 1982* places an onus of responsibility on the board of NAFICOT to present annual reports and financial statements on a yearly basis detailing its financial performance, and “taking into consideration the requirement for good stewardship” (Section 17 (1)(a)). The annual report is also supposed to include details of the “effectiveness of the Corporation as judged by performance measures that are relevant to the commercial fishing industry of Tuvalu” (Section 17 (1)(a)). These performance measures are supposed to be “prescribed by the Minister by notice” (Section 17 (1) (a)).

The *National Fishing Corporation of Tuvalu Act 1982* also placed upon the Indigenous-managed NAFICOT a duty to report on its activities to the Auditor-General who, in turn, was required to report at least once in every financial year to the parliament of Tuvalu on the accounts, finances, property and transactions of NAFICOT. This accorded with the local requirements of Section 17(2) of the *National Fishing Corporation of Tuvalu Act 1982*, Section 172 of the *Constitution of Tuvalu Act 1985 (as repealed 1986)*, and Section 35(1) of the *Public Finance Act 1978 (as amended 1990)*. These requirements were put in place to enable an Indigenous-led parliament to scrutinize the stewardship and accountability of the management of the state-owned NAFICOT. The need for reporting at local level was critical given that the Indigenous-led NAFICOT controlled relatively expensive non-current assets and had the capacity to draw on relatively large loans.

It is worth noting here that financial reporting of a fisheries enterprise, such as NAFICOT, is helpful for parliamentary and external party scrutiny for decision-making not only about the entity itself but also of the fisheries sector of Tuvalu. In this respect, parliament requires an annual report from NAFICOT to assess the efficiency and solvency of the corporation. Parliament also needs to be updated about NAFICOT's revenue and expenses to assess NAFICOT's profitability. Since 1982, NAFICOT has developed fisheries projects with Japan, Solomon Islands, Korea, Fiji, United States, Taiwan, European Union, the Pacific Community, United States Aid for International Development, Asia Development Bank, Pacific Islands Forum Fisheries Agency as well as Community Fishing Centres and other distant water fishing nations [16–18] that would all benefit from ongoing financial reports prepared by NAFICOT for investment and operational decision-making connected with the corporation.

The activities of NAFICOT have changed over time. At the time of the passing of the *National Fishing Corporation of Tuvalu Act 1982* in the 1980s, under the scrutiny of the Ministry of Natural Resources, NAFICOT managed national fishing vessels donated by foreign donors [4]. These vessels included a pole-and-line-vessel donated by Japan in 1982, and six launches and an extension vessel donated by Japan in 1989 [4]. A further two longliners were donated by South Korea in 2004. From 1985, NAFICOT operated from offices in Funafuti, and ran an ice melting plant, a training centre, a slipway and a jetty [19]. In 1987 it also ran a fish market. In the 1990s, NAFICOT attempted to manage foreign-funded community fishing centres which were supposed to help local fishers salt, dry and store their surplus fish for sale to local communities. During this time it also provided cold storage, fish marketing and ice making [20]. NAFICOT facilities, which included chest freezers, received, weighed and packed fish for shipping and air freight [21]. There was, by this time, a concerted effort made by NAFICOT to carry out its wide ranging powers provided by Section 4 of the *National Fishing Corporation of Tuvalu Act 1982*. From 1994 to 1998 the Japanese Overseas Fishery Corporation Foundation helped NAFICOT acquire three more fishing vessels and restore equipment and infrastructure [20]. A sense of NAFICOT's employment record between 1994 and 2000 may be gleaned from an account of NAFICOT's annual wages

and salaries expenses, which climbed from \$30,000 to \$200,000 but in 2001 fell to \$100,000 [20].

In 2007 NAFICOT ceased its fishing operations because of operational difficulties but maintained its joint venture with foreign companies to operate purse seine vessels [6]. By 2009, NAFICOT management found it difficult to manage the fishing vessels and community fishing centres, with some commentators suggesting NAFICOT itself was teetering on the verge of bankruptcy [4]. Indeed by 2009, NAFICOT possessed “a defunct longline base and processing facility in Funafuti” [22, p. 7] and many of its employees were transferred to the Fisheries Department because of NAFICOT's decline in activities [20]. Financial year-ending 2009 also marked NAFICOT's passage as a public trading enterprise under the *Public Enterprises (Performance and Accountability) Act 2009*, run by a board of directors but with no employees to oversee a joint venture construction and operation of purse seine vessel with Taiwanese companies. Although the *Public Enterprises (Performance and Accountability) Act 2009* deemed NAFICOT as a company, it was not registered as a company under the *Companies Act* and thus remained as an unregistered company [20]. In 2015 a review by international consultants of NAFICOT recommended the restructuring of NAFICOT to strengthen its governance and management, a review that was ultimately submitted for parliamentary consideration [23]. In 2017, NAFICOT signed a joint venture agreement with two Korean fishing companies to operate a fishing vessel within the Tuvaluan EEZ [24] “to generate greater revenue for the people of Tuvalu than just from licensing of distant water fishing nations alone” [25, p. 1].

It is important to point out that from the viewpoint of the Tuvalu Whole of Government, timely and accurate financial reporting prepared by a fully functioning NAFICOT that embraced all the wide-ranging powers of Section 4 of the *National Fishing Corporation of Tuvalu Act 1982*, would have been helpful for the formulation of bilateral or multilateral fisheries access agreements. The agreements involved calculations of lump-sum payments, licence fees and catch value adjustments [5,16]. As a signatory to the Parties to the Nauru Agreement [26–28], US Treaty, Niue Treaty, Federated States of Micronesia Agreement, Palau Agreement, and Vessel Day Scheme, it was important for the Tuvalu Whole of Government to use financial results from financial reporting prepared by NAFICOT or the Fisheries Department of catch value to frame and monitor fisheries policy. Indeed, it appears that in recent times the Tuvalu Whole of Government has used financial reporting to provide evidence of fisheries revenue in terms of “increases in the market value of fishing days sold under the Vessel Day Scheme” [10, p. 4].

There were further benefits of financial reporting for the Tuvalu Whole of Government of a fully functioning NAFICOT that might have embraced the wide-ranging powers conferred upon it by Section 4 of the *National Fishing Corporation of Tuvalu Act 1982*. Although Tuvalu's small-scale and industrial-scale sea cucumber fishery appeared overfished and depleted [29], financial reporting may have been used to facilitate stock-taking that, in turn, may have helped reduce plundering and over-exploitation of stock at the local level. Effective management, conservation and sustainable use of fish stocks [30] may also have been achieved through appropriate monitoring and maintenance of fish inventory records through financial reports. This was crucial given that there was a need for Tuvalu to expand its economic returns from the tuna industry and conserve tuna stocks [31]. Financial reporting also had the capacity to enhance fully costed business and management plans [32] for the framing of fisheries policy-making for Tuvaluans [29,33]. Timely and accurate reports were also important given that Tuvaluan policies in deep sea mining [34], environmental impact assessments [35], purse-seine vessel investments [36], and human resource contributions, particularly in terms of women's participation as fishers [37] were being developed.

Financial reporting was also important to the many stakeholders involved in artisanal and commercial fishing affected by the operations

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