ADB

Concept Paper

Project Number: 47318-001
July 2015

Proposed Policy-Based Grant
Tuvalu: Strengthened Fiscal Sustainability Program

Asian Development Bank

CURRENCY EQUIVALENTS
(as of 29 June 2015)

Currency unit	–	Australian dollar (A$)
A$1.00	=	$0.7656
$1.00	=	A$1.3061

ABBREVIATIONS

ADB	–	Asian Development Bank
CIF	–	Consolidated Investment Fund
GDP	–	gross domestic product
IMF	–	International Monetary Fund
MFED	–	Ministry of Finance and Economic Development
PRM	–	policy reform matrix
TTF	–	Tuvalu Trust Fund
TA	–	technical assistance

NOTE

In this report, "$" refers to US dollars unless otherwise stated.

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PROGRAM AT A GLANCE

1. Basic Data			**Project Number:** 47318-001
Project Name	Strengthened Fiscal Sustainability Program	**Department /Division**	PARD/SPSO
Country	Tuvalu	**Executing Agency**	Ministry of Finance and Economic Development
Borrower	Government of Tuvalu		

2. Sector	**Subsector(s)**	**ADB Financing ($ million)**
✓ **Public sector management**	Public expenditure and fiscal management	1.00
	Reforms of state owned enterprises	1.00
	Total	**2.00**

3. Strategic Agenda	**Subcomponents**	**Climate Change Information**	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low

4. Drivers of Change	**Components**	**Gender Equity and Mainstreaming**	
Governance and capacity development (GCD)	Public financial governance	No gender elements (NGE)	✓
Knowledge solutions (KNS)	Knowledge sharing activities		
Partnerships (PAR)	Bilateral institutions (not client government) Implementation		
Private sector development (PSD)	Promotion of private sector investment		

5. Poverty Targeting		**Location Impact**	
Project directly targets poverty	No	Nation-wide	High

6. Risk Categorization: Low

7. Safeguard Categorization **Environment:** C **Involuntary Resettlement:** C **Indigenous Peoples:** C

8. Financing

Modality and Sources	**Amount ($ million)**
ADB	**2.00**
Sovereign Program grant: Asian Development Fund	2.00
Cofinancing	**3.00**
Australian Grant	1.10
New Zealand Grant	0.40
World Bank	1.50
Counterpart	**0.00**
None	0.00
Total	**5.00**

9. Effective Development Cooperation

Use of country procurement systems	Yes
Use of country public financial management systems	Yes

I. THE PROGRAM

A. Rationale

1. The proposed grant for the Strengthened Fiscal Sustainability Program will support the third and final phase of implementation of the Government of Tuvalu's current multiyear policy reform matrix (PRM). This is the second policy-based lending program of the Asian Development Bank (ADB) under the PRM. It will help consolidate reforms supported by ADB for public financial management, fiscal policy, and public enterprise rationalization.[1] Appendix 1 provides the design and monitoring framework.

2. Tuvalu is ADB's smallest and most geographically remote member. It comprises nine tiny low-lying atolls with a total land area of 26 square kilometers. More than half the population of 10,800 (2013) resides on the main island of Funafuti. The economy is small, narrowly based, and highly dependent on external sources of income. The public sector accounts for about two-thirds of gross domestic product (GDP); the scope for economic diversification or private sector development is minimal. Tuvalu is extremely vulnerable to the effects of climate change, including cyclones, droughts, and sea-level rise. In March 2015, high winds and ocean swells caused by Tropical Cyclone Pam caused approximately $10 million in damage and loss to the islands, the equivalent of 22% of GDP.[2]

3. Achieving fiscal sustainability requires prudent management of volatile and often unpredictable external revenue sources, including fishing license fees (around 27.3% of GDP), licensing royalties for the commercial use of the "dot.tv" internet domain name (8.2% of GDP), earnings from Tuvalu citizens working abroad as seafarers and seasonal workers (9.7% of GDP), and development assistance (28.3%). In 1987 the government created the Tuvalu Trust Fund (TTF) to help reduce revenue volatility. Statutory provisions governing the fund provide for an automatic transfer of funds above the maintained value of the TTF to its associated buffer fund—the Consolidated Investment Fund (CIF). The CIF can be drawn down to supplement the government's budget according to a set of predetermined rules.

4. The 2008–2009 global economic crisis led to over 4 consecutive years of economic contraction and low and declining returns on TTF investments. Consequently no TTF funds were transferred to the CIF during 2008–2012. Government's commitment towards delivering essential social services resulted in budget deficits of 22.5% of GDP in 2010 and 9.0% in 2011, compared with 3.2% in 2009 and 1.5% in 2008, contributing to an unsustainable drawdown of funds from the CIF. By 2012, CIF cash reserves had dwindled to 1.1% of GDP from 9.2% in 2008, curtailing the government's ability to maintain essential public services and deal with the economic downturn.[3] With limited availability of CIF funds, public debt rose to 84% of GDP. This led the International Monetary Fund (IMF) to conclude in its 2012 debt sustainability analysis that Tuvalu was at high risk of debt distress and vulnerable to deteriorating macroeconomic conditions, and that greater access to grants would be essential for the country to meet its development needs.[4]

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[1] ADB. 2012. Report and Recommendation of the President to the Board of Directors: *Proposed Grant to Tuvalu for the Second Improved Financial Management Program*. Manila). The program is rated successful (ADB. 2014. *Strengthened Public Financial Management Program Completion Report*. Manila). The Strengthened Fiscal Sustainability Program is funded by $1.09 million from rolled over 2013–2014 Asian Development Fund allocations and $0.9 million from 2015 allocations.

[2] World Bank. 2015. *Tuvalu: Damage and Loss Assessment*. Washington, DC.

[3] At $3.2 million by 30 September 2012, the CIF could no longer provide the government with an effective countercyclical buffer to accommodate serial budget deficits.

[4] International Monetary Fund. 2012. *Article IV Consultation*. Washington, DC.

5. To improve the fiscal outlook and restore good fiscal management, the government—supported by ADB, the governments of Australia and New Zealand, and the World Bank—embarked on a comprehensive public sector management reform program, encapsulated in the PRM. Approved in November 2012, the PRM outlines three phases of time-bound reforms linked to technical assistance (TA) and a coordinated program of budget support from development partners for selected reform actions. The PRM explicitly targets a sustainable fiscal framework and contains reform actions in six areas: public financial management, fiscal policy, public administration, public enterprise performance and rationalization, and health and education management. ADB's support for specific PRM reforms and achievements to date are highlighted in Appendix 2.

6. Government revenues have rebounded since 2012, in part due to higher remittances; increases in fishing license fees amounting to $13 million, or 40% of GDP in 2014; and strong TTF investment performance.[5] With higher revenue, the government has been able to build up the value of the CIF from a low of $3.2 million in 2012 to $20.4 million at the end of 2014 (double its value from 2008).[6] Key to this improved fiscal performance has been the government's commitment to fiscal prudence—it has been achieving five of seven fiscal sustainability targets on an annual basis.[7] The IMF recommends that Tuvalu maintains the CIF value to help reduce fiscal sustainability risks. In addition, outstanding actions in the PRM need to be completed to strengthen the quality of public expenditure, including completing ongoing public procurement reforms, improving management and maintenance of the CIF buffer fund for long-term macroeconomic stability and economic self-sufficiency, and improving the performance of public enterprises to enhance service delivery and reduce contingent liabilities on the budget. The Strengthened Fiscal Sustainability Program will help the government focus on fiscal sustainability and resource revenue management, and over the medium term help government build and maintain the value of the CIF.

7. The program is supported by a stand-alone policy-based grant, and builds on lessons identified from previous ADB programs in Tuvalu and elsewhere in the Pacific, including (i) maintaining a single, government-led, policy matrix to enhance coordination and collaboration among development partners; (ii) using a single tranche modality within a programmatic multiyear approach supported by several partners; (iii) introducing fewer reforms, but large in potential impact; and (iv) providing capacity building TA support that is closely linked to PRM implementation (capacity constraints hamper government's ability to follow through on agreed reforms).

B. Outcome and Outputs

8. The program outcome will be a strengthened fiscal position to help build Tuvalu's resilience against external shocks. This outcome will be achieved through the implementation of selected outputs endorsed by the government under phase 3 of the PRM, and supported by ADB TA.[8] The design and monitoring framework and problem tree are in Appendices 1 and 3.

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[5] Since 2013, the TTF has performed above its maintained value, resulting in a distribution to the CIF of $5.0 million at the end of 2013, the first since 2008, and $6.7 million at the end of 2014.

[6] The CIF targets a minimum balance of around $17 million, equivalent to 16% of the TTF's real maintained value, which is valued at $107 million as of 31 March 2015.

[7] The seven fiscal targets are (i) tax revenue to GDP target of 20% (achieved); (ii) recurrent expenditure to GDP target of 60% (not achieved); (iii) wages and salaries to domestic revenue target of 55% (achieved); (iv) Tuvalu medical treatment scheme to domestic revenue target of 6.0% (achieved); (v) Tuvalu overseas scholarship scheme to domestic revenue target of 5.0% (not achieved); (vi) primary balance to GDP target of 11% (achieved); and (vii) net present value of debt to GDP target of 30% (achieved).

[8] ADB. 2012. *Technical Assistance to Tuvalu for Institutional Strengthening of the Ministry of Finance and Economic Development.* Manila.

9. **Output 1: Public procurement practices strengthened.** The program will support the final phase of public procurement reforms begun in 2012, with the overall objective to strengthen regulatory requirements and improve incentives for competition, value for money, transparency, and accountability. The 2014 annual report of the Central Procurement Unit detailing procurement activities will be published. The government's procurement website, which will serve as a centralized resource for all procurement-related information, will be launched. These actions will complement ongoing procurement reforms that are not included in the PRM, such as establishment of a new contract register, adoption of the procurement review committee, and approval of the procurement complaints and appeals procedure by the Ministry of Finance and Economic Development (MFED) and Office of the Attorney General.

10. **Output 2: Fiscal buffer sustained.** The program will support the adoption of a more rigorous set of public financial management rules for the CIF to improve its effectiveness as a fiscal buffer. Changes to the government's Financial Instructions under section 5 of the Public Finance Act will include detailed rules to guide, replenish, and regulate the use of the CIF, ensuring that the target CIF savings balance is equivalent to 16% of the maintained value of the Tuvalu Trust Fund and regulated through a CIF contribution and saving plan. This action complements other measures to strengthen fiscal sustainability including adoption of fiscal targets (footnote 6); preparation of quarterly fiscal updates for the cabinet; and increasing consumption tax compliance to 75% of registered entities, including 100% of public enterprises.

11. **Output 3: Commercial basis for public enterprises and private sector development strengthened.** The program will support the Public Enterprise Reform Plan, which reviews the whole public enterprise system and identifies areas that need strengthening. The plan sets out strategies to improve the commercial and financial viability of public enterprises. Following an unsuccessful attempt in 2013 to tender a long-term management contract for the state-owned Vaiaku Lagi Hotel, the government has now approved an outright sale. In line with the Public Enterprise Reform Plan, the program will support preparation of the hotel for sale and approve the rationalization strategy of the Public Works Department to promote contracting out of capital works, such as building repairs, to the private sector. These actions are aligned with the government's private sector policy and build on earlier public enterprise reforms supported by the first policy-based lending program under the PRM.

C. Program Costs and Financing

12. The proposed ADB grant and parallel collaborative partner cofinancing (not ADB administered) are indicated in Table 1. The program grant corresponds with development financing needs and is included in the government's medium-term budget estimates. The financing plan for the entire PRM is summarized in Appendix 4.

Table 1: Tentative Financing Plan

Source	**Amount** ($ million)	**Share of Total** (%)
Asian Development Bank		
Special Funds resources (grant)	2.0	40.0
Government of Australia	1.1	22.0
Government of New Zealand	0.4	8.0
World Bank	1.5	30.0
Total	**5.0**	**100.0**

Source: Asian Development Bank.

D. Indicative Implementation Arrangements

13. MFED will be the executing and implementing agency and will oversee and coordinate implementation of agreed policy, legal, and regulatory actions. MFED will also be responsible for program administration, disbursements, and maintenance of all records. Resources from ADB's ongoing TA project will support the government's implementation of ADB's selected actions. ADB and other development partners will monitor progress, oversee implementation of the program, and guide MFED activities. The program will be implemented from August 2014 to December 2015.

II. DUE DILIGENCE REQUIRED

14. Due diligence, prepared in cooperation with partners, will include (i) an assessment of public sector management focusing on budget quality and performance of the CIF; (ii) a macroeconomic assessment; (iii) a program impact assessment; and (iv) a risk assessment and management plan, which includes Tuvalu's public financial management system. An IMF letter of comfort will be provided. The initial poverty and social analysis is in Appendix 5.

III. PROCESSING PLAN

A. Risk Categorization

15. The program is categorized low risk with the following features: (i) a grant amount not exceeding $50 million for programs—the program grant is $2.0 million; (ii) it builds on ADB's previous experience in the sector in the concerned country—demonstrated by ADB's sound track record in public sector management and structural reforms in Tuvalu; (iii) executing agency capacity in terms of externally financed project administration—MFED has sufficient experience in administration of ADB policy-based grants and TA; and (iv) safeguard categorization other than A—the program has a safeguard categorization of C with no expected adverse impact on the environment, involuntary resettlement, or indigenous peoples, and the Report and Recommendation of the President will include a matrix of potential environmental and social impacts of each policy action and any mitigating measures.

B. Resource Requirements

16. ADB staff will prepare the program, utilizing an estimated 4 person-months of international and 6 person-months of national staff time. The ongoing ADB TA project in public sector management will support program priorities under phase 3 of the PRM (footnote 7).

C. Processing Schedule

Table 2: Proposed Processing Schedule

Milestones	Expected Completion Date
Reconnaissance/Fact finding	11–18 June 2015
Staff review meeting	14 August 2015
Grant negotiations	1 September 2015
Board consideration	23 October 2015

Source: Asian Development Bank estimates.

IV. KEY ISSUES

17. Particular attention during processing and implementation will be paid to maintaining ongoing political and bureaucratic support for the program, and coordinating with other development partners to ensure timely sequencing of PRM actions and resources.

DESIGN AND MONITORING FRAMEWORK

Impacts the project is aligned with:
The project is aligned with Tuvalu's National Strategy for Sustainable Development, 2005–2015 (Te Kakeega II) objectives of good governance, macroeconomic growth, and stability by (i) improving procurement practices so public expenditure is more transparent and better managed, (ii) sustaining the value of the fiscal buffer to guard against external shocks, and (iii) improving the performance of public enterprises and reducing the financial drain on the government budget. [a]

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Strengthened fiscal position	The average CIF balance is at least $17 million in 2016-2018. Baseline: Average balance was $9 million in 2012-2014.	National budget documents TTF Account Committee reports	Broad reform consensus weakens due to political pressure. Capacity constraints and staff turnover reduce continuity and quality of reform implementation.
Outputs 1. Public procurement practices strengthened	1a. 2014 procurement annual report details implementation of Central Procurement Unit activities. Report includes procurement tenders completed, number and value of contracts issued, staff training conducted, and 2015 work plan 1b. Government procurement website established in 2015 as a centralized resource for all procurement-related information	Cabinet paper 2014 annual report Web Uniform Resource Locator Official launch by finance minister	Stakeholders interfere with reform process due to opposing individual interests. Staff changes and workload pressures reduce continuity and quality of reform implementation. Limited capacity in MFED and the Public Enterprise Reform and Monitoring Unit to reform public enterprises and scrutinize financial performance of public enterprises leads to lack of implementation of reform strategies.
2. Fiscal buffer sustained	2a. Regulated use of the CIF as a long-term fiscal buffer strengthened through public financial management changes to the Government of Tuvalu's Financial Instructions under section 5 of the Public Finance Act. These changes will include detailed rules to guide, replenish and regulate the use of the CIF, ensuring that the target CIF savings balance shall be a level which is equivalent to 16% of the maintained value of the Tuvalu Trust Fund and regulated through a CIF Contributions and Savings Plan.	Cabinet paper Revised Financial Instructions	
3. Commercial basis for public enterprises and private sector development	3a. Public Enterprise Reform Plan developed and approved by the cabinet. The plan sets out strategies to improve the commercial and financial viability	Public Enterprise Reform Plan Cabinet paper	

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Risks
strengthened	of public enterprises and explore rationalization options for the PWD		
	3b. Preparation completed for privatizing VLH, including formal issue of the sublease of the land to the hotel, settlement of all debts and taxes owed between government and VLH, updating of VLH 2013 financial results and details, preparation of sale and tender documents, and undertaking the tendering process	Cabinet paper Tender documents VLH land survey completion report	
	3c. PWD rationalization strategy approved to promote contracting out of capital works to the private sector	Cabinet paper	
Key Activities with Milestones Not applicable			
Inputs ADB: $2.0 million grant			
Assumptions for Partner Financing Government of Australia: $1.1 million (A$1.5 million) grant (by December 2015) Government of New Zealand: $0.4 million (NZ$0.6 million) grant (by December 2015) World Bank: $1.5 million grant (approved in March 2015, disbursed 16 June 2015) (Subject to respective PRM phase 3 reform actions being met and internal approval).			

ADB = Asian Development Bank; CIF = Consolidated Investment Fund; GDP = gross domestic product; IMF = International Monetary Fund; MFED = Ministry of Finance and Economic Management; PRM = policy reform matrix; PWD = Public Works Department; TTF = Tuvalu Trust Fund; VLH = Vaiaku Lagi Hotel.

[a] Government of Tuvalu. *National Strategy for Sustainable Development, 2005–2015 (Te Kakeega II).* Funafuti.

Source: Asian Development Bank

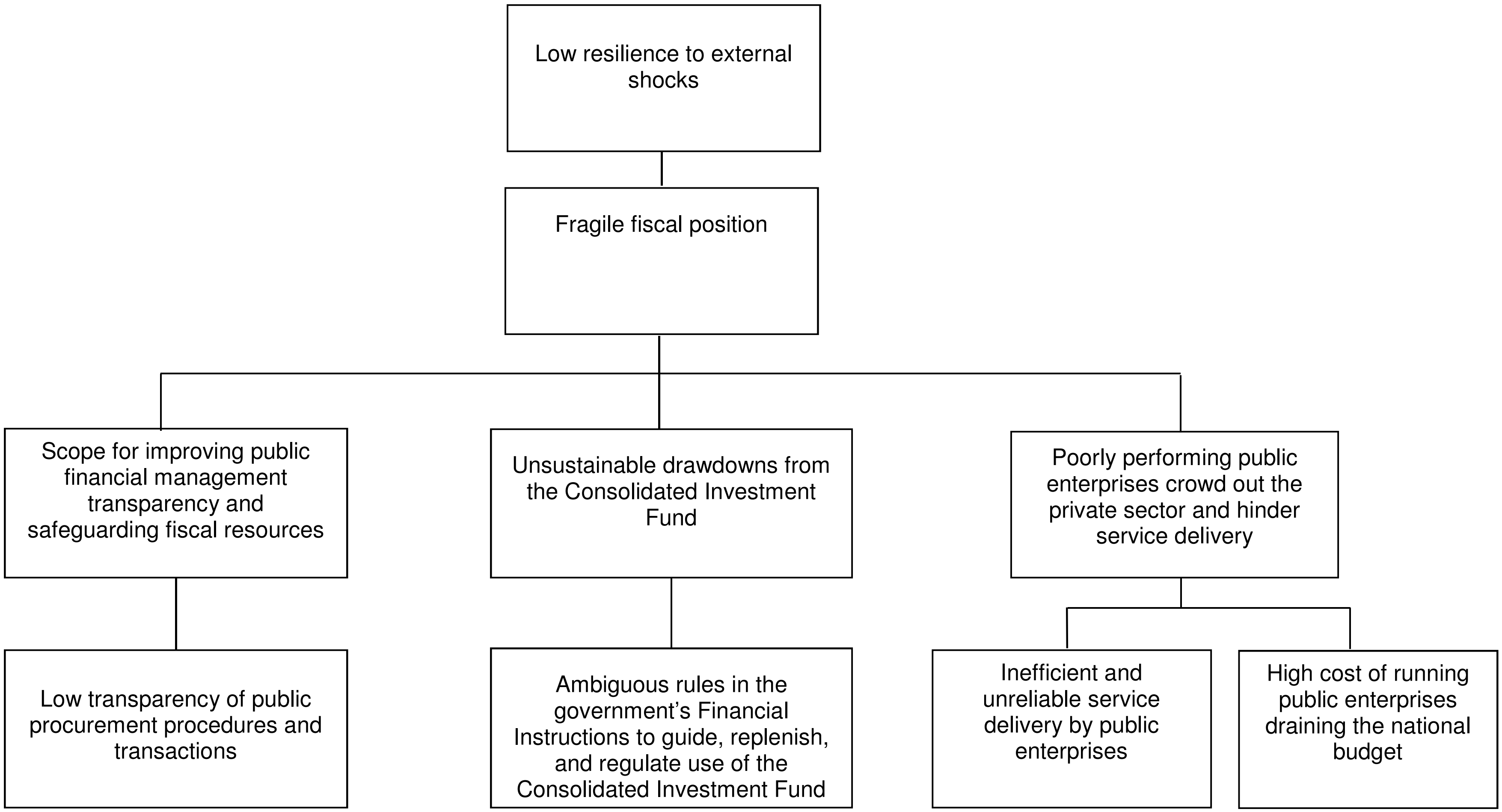
ADB-SUPPORTED ACTIONS FOR THE POLICY REFORM MATRIX, PHASES 1–3

Key Focus Areas	Phase 1 Achievements (Jan–Oct 2012)	Phase 2 Achievements (Jan 2012–Jun 2013)	Phase 3 (Aug 2014–Dec 2015)
Improved public sector management policies	The PFM reform road map, approved by the cabinet on 27 July 2012, allows the government to identify areas of weakness and to chart a sequence of reform measures. It has improved government capacity to manage critical PFM reforms strategically and cohesively by prioritizing and sequencing reform actions, and coordinating development partner support.	All the PRM policy actions supported by ADB under the first program were achieved by 31 October 2012 (phase 1). Most of the actions that required longer implementation were listed under phase 2. The governments of Australia and New Zealand, and the World Bank supported phase 2 policy actions.	
	The procurement policy, approved by the cabinet in October 2012, strengthens tender and procurement procedures, and in the process clarifies and strengthens regulatory requirements and improves incentives in the public procurement process for competition, value for money, and accountability. The Attorney General's Office developed the policy with support from ADB and Government of Australia. A draft procurement policy was provided to ADB for review prior to finalization to ensure that all necessary fiduciary requirements were met, in accordance with international best practice.	Throughout this period, ADB TA helped build on procurement-related reform efforts. While these were not PRM actions, they did help strengthen public financial management and entrenched the 2012 public procurement policy. They include development and cabinet approval of the Procurement Act in 2013, development and cabinet approval of the Procurement Regulations in 2014, and establishment and capacity building of the CPU in 2014. (The CPU currently has three dedicated staff).	The 2014 procurement annual report detailed implementation of CPU activities, including (i) procurement tenders completed, (ii) number and value of contracts issued, (iii) staff training conducted, and (iv) 2015 work plan. The government procurement website was developed in 2015 as a centralized resource for all procurement-related information.
Improved public sector management practices	The use of ratios to set fiscal management targets will complement the principles of fiscal responsibility contained in Tuvalu's Public Finance Ordinance 1982 and Financial Instructions 1990, and will build on the budget benchmark performance criteria previously used by Australia and New Zealand as incentives for budget support. The ratios include targets for domestic revenue, domestic expenditure, personnel costs, and government borrowing as a proportion of GDP. They have been developed with ADB support and were approved by the cabinet on 19 July 2012. The ratios were used to		Management rules of the CIF were strengthened to regulate its use as a long-term fiscal buffer: revised financial instructions are to be approved by cabinet and include details on rules to manage, replenish, guide, and regulate the use of the CIF as a long-term fiscal buffer (this action was extended from phase 2 to phase 3).

Key Focus Areas	Phase 1 Achievements (Jan–Oct 2012)	Phase 2 Achievements (Jan 2012–Jun 2013)	Phase 3 (Aug 2014–Dec 2015)
	guide preparation of the 2013 budget.		
Improved public enterprise performance and rationalization of selected public enterprises	ADB helped the government publish the invitation to tender for the VLH management contract through local and regional news media. ADB TA helped to ensure that all supporting documents such as the draft management contract were prepared and approved by the cabinet. The cabinet approved the draft management contract and the advertisement for invitation to tender on 26 October 2012. A management contract for Vaiaku Lagi Hotel was tendered but no qualified bidders came forward. The Tuvalu Philatelic Bureau, Tuvalu Post Office, and Tuvalu Travel Office were consolidated into a single public enterprise. The cabinet approved the merger on 26 October 2012.		The Public Enterprise Reform Plan was developed and approved: the cabinet approved the plan, which sets out strategies to improve the commercial and financial viability of public enterprises. The cabinet approved the PWD rationalization strategy to promote contracting out of capital works to the private sector. Privatization of the VLH: Preparation for the sale of the VLH includes (i) formal issue of the sublease of the land to the hotel, (ii) settlement of all debts and taxes owed between the government and VLH, (iii) updating of the VLH 2013 financial results and details, (iv) preparation of sale and tender documents, and (v) undertaking the tendering process.
ADB financing commitments	$2.35 million approved in November 2012 and disbursed in February 2013	$1.2 million. Total value of the ongoing ADB 2012 technical assistance: Institutional Strengthening of the Ministry of Finance and Economic Development. Closing date 30 April 2016.	$2.0 million planned for board consideration in October 2015.

ADB = Asian Development Bank; CIF = Consolidated Investment Fund; CPU = Central Procurement Unit; GDP = gross domestic product; PFM = Public Financial Management; PRM = Policy Reform Matrix; PWD = Public Works Department; VLH = Vaiaku Lagi Hotel; TA = technical assistance.
Source: Asian Development Bank

PROBLEM TREE



FINANCING PLAN FOR THE POLICY REFORM MATRIX

Item	Phase 1 Jan 2012–Oct 2012	Phase 2 Jan 2012–Jun 2013	Phase 3[a] Aug 2014–Dec 2015
	$ million	$ million	$ million
Asian Development Bank	2.35	0.00	2.00
Government of Australia	0.40 (A$0.50)	1.50 (A$2.00)	1.10 (A$1.50)
Government of New Zealand	0.30 (NZ$0.40)	0.40 (NZ$0.60)	0.40 (NZ$0.60)
World Bank	0.00	3.00[b]	1.50
TOTAL	**3.05**	**4.90**	**5.00**

A$ = Australian dollar; NZ$ = New Zealand dollar.
[a] Financing from the Asian Development Bank and development partners for phase 3 of the Policy Reform Matrix is subject to the implementation of selected reforms and respective internal approval processes.
[b] The World Bank's first Development Policy grant was disbursed in November 2013 following the completion of selected actions under phases 1 and 2 of the Policy Reform Matrix.
Source: Asian Development Bank.

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Tuvalu	Program Title:	Strengthened Fiscal Sustainability Program
Lending/Financing Modality:	Policy-based grant	Department: Division:	Pacific Department Pacific Subregional Office

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The operations of the ADB in Tuvalu are demand-driven, within areas of ADB's comparative strengths, and capitalize on regional approaches and partnerships. ADB's operational focus in 2015–2017 focuses on strengthening public sector management and the transport sector, particularly port development, and is in line with Te Kakeega II objectives and ADB's Midterm Review of Strategy 2020.[a]

The national budget does not identify specific poverty reduction priorities; however, the Medium-Term Fiscal Framework states that the budget "needs to guard against potential poverty impacts. In this respect the Government needs to ensure that essential social services are maintained as far as possible." While it does not specifically define poverty reduction as a target area, budget expenditure priorities include primary education, primary health care, and employment-oriented technical and vocational education. Furthermore, capital expenditure focuses on basic economic and social infrastructure, which is accessible to all. In recent years, the government has increased expenditure to outer islands, which have higher poverty rates according to the 2010 Household Income and Expenditure Survey. Revenue collection is generally aligned with poverty reduction strategies. A large portion of Tuvalu's revenue is derived from external sources. In 2013, total revenue comprised 77% current and 23% noncurrent revenue (i.e., grants). Current revenue is made up of 23% tax revenue and 77% non-tax revenue (i.e., earnings from fishing, dot.tv license fees).

Since 2012, cooperation and coordination between key development partners, including ADB, has been based on a single country-led PRM supporting Tuvalu's recovery from a fiscal crisis while maintaining public service delivery. The achievement of reform actions under PRM phases 1 and 2 has resulted in better fiscal controls, more effective budgeting and budget execution, better service delivery, protection of essential social services, improved public enterprise performance, and improved revenue mobilization. In October 2014, the government endorsed a third phase, recognizing that further public financial management gains are needed to consolidate past PRM achievements. In collaboration with the government, ADB together with Australia, New Zealand, and the Word Bank developed an additional set of policy actions and committed to providing budget support for the government's public sector management reforms under PRM phase 3, to be implemented from October 2014 to December 2015. Combined, the PRM priorities will allow the government to maintain fiscal sustainability over the medium term, improve the quality of fiscal management, and facilitate private sector growth through opportunities for full or partial privatization of selected public enterprises. Better governance of public enterprises will promote more efficient and higher quality service provision directly benefitting the poor. Additional resources in the medium to long term will allow the government to fund basic social spending in health and education and improve service delivery.

B. Targeting Classification

☒General intervention ☐Individual or household (TI-H) ☐Geographic (TI-G) ☐Nonincome MDGs (TI-M1, M2, etc.)

The overall objective of the program is to achieve fiscal stability in the long term by improving fiscal management and PFM, building fiscal sustainability to guard against external economic shocks and natural disasters, and improving public enterprise performance and reducing the financial drain on the government budget. The poor and vulnerable will benefit from the improved fiscal stance through expanded basic services, improvements in service efficiency and quality through predictable public spending (i.e., in the education and health sectors), and increased public enterprise performance. Improving targeting of livelihood subsidies will benefit the poor directly. Private sector development will promote job creation and lower the cost of goods and services in newly competitive sectors, and benefit the poor.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. Little progress has been made in poverty reduction over the past two decades although the country's average income is high compared with most Pacific countries. Measured against the national poverty line, the proportion of the population classified as poor declined marginally from 23.2% in 1994 to 19.7% in 2010. Most of the poor reside in the outer islands, are the unemployed on Funafuti, have larger families, and do not receive remittances.

High telecommunication and electricity costs also strain household budgets. In addition to income poverty, a large segment of society suffers from poverty of opportunity. Access to economic opportunities is limited for outer island residents because of their remoteness, impaired by heavy reliance on irregular domestic shipping services and associated costs. Poor public service delivery and infrastructure facilities, such as inadequate ports, limit entrepreneurial activities. Lack of opportunities for youth and inequality of opportunities for women in terms of finding paid employment are important poverty concerns.

Tuvalu is on track to meet most of its non-income MDGs. Health care is free in Tuvalu and overseas care is provided. The government has invested heavily in child and maternal health services and in training programs for birth attendants. This, combined with near universal access to clean drinking water, has contributed to a decline in under-5 mortality from 68.7 to 24.6 per 1,000 live births during 1991–2009, while infant mortality rates decreased from 57.3 to 14.8 per 1,000 live births for the same period. Education is mandatory and free for all those from 6 to 15 years of age. Net enrollment rates in primary education reached 99.8% in 2011; virtually all those 15–24 years of age are classified as literate. Gender parity has been achieved in primary and secondary education.

2. Impact channels and expected systemic changes. The government's own PRM includes actions to protect social service expenditure. The PRM priorities will allow the government to maintain fiscal sustainability over the medium term, improve the quality of fiscal management, and facilitate private sector growth through opportunities for full or partial privatization of selected public enterprises. Better governance of public enterprises will promote more efficient and higher quality service provision directly benefitting the poor. Additional resources in the medium to long term will allow government to fund basic social spending in health and education and improve service delivery.

3. Focus of (and resources allocated in) the PPTA or due diligence. No PPTA was provided. Due diligence is supported by ADB's ongoing engagement in the PRM discussions, and ongoing technical assistance provided for public financial management and public sector reform.

4. Specific analysis for policy-based lending. The program is based on implementation of the government's own strategies and plans, notably its *Te Kakeega II*, road map, and policy reform matrix, which were developed through a consultative approach and provide mechanisms for ongoing monitoring and reporting on performance. During program processing, specific stakeholders, MFED will be directly involved in the program design in a participatory manner. Other stakeholders, such as public enterprises will be consulted on specific policy issues. The key objective of the PRM, on which this program is based, is expected to indirectly contribute to improving poverty and social outcomes in Tuvalu. An effectively managed budget is an important prerequisite to a functioning public finance system that is able to allocate resources to national development priorities. It also opens up the system's ability to realign resources in the context of unpredictability. The reforms supported by this program are expected to be an additional tool for responding to national poverty and social needs.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector or subsector that are likely to be relevant to this program? Given the macroeconomic nature of the program, no key gender issues are likely to be relevant.

2. Does the program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making? ☐ Yes ☒ No. The program will improve public sector management and increase private sector participation. This will result in improved services and increased employment for women and men.

3. Could the program have an adverse impact on women and/or girls or widen gender inequality? ☐ Yes ☒ No
The program will have no adverse impact on women or girls and does not widen gender inequality.

III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design. All residents of Tuvalu are potential stakeholders in this budget support program. Specific interest groups among stakeholders include public enterprise and private sector participants who are potential beneficiaries of proposed policy actions. Key implementing ministries—MFED and the Ministry of Natural Resources (fisheries component)—are key stakeholders. Government ownership of the PRM is strong, a reflection of the extensive consultations undertaken through the entire development and monitoring process. Monitoring and evaluation of the PRM progress is undertaken by the Tuvalu Trust Fund Advisory Committee and findings are discussed after the Tuvalu Trust Fund meetings, held twice a year and attended by government and most development partners. The program is aligned with and supports implementation of government strategies and plans developed through community consultations.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable, and excluded groups? What issues in the project design require participation of the poor and excluded? The program is based on government strategies and plans, including the Te Kakeega 2011–2015 (developed through a consultative approach), and provides mechanisms for ongoing monitoring and public reporting on performance. During program processing, specific stakeholders—MFED, the ministries of education, health, transport and communication, home affairs, and public utilities; and the Department of Women—were directly involved in the program design in a participatory manner. Other stakeholders, such as public enterprises and the private sector (through the Chamber of Commerce), will be consulted on specific policy issues. Government and nongovernment stakeholders are consulted regularly on ADB operations generally. ADB TA has been instrumental in increasing awareness and understanding of the need for policy reform, and the role of various stakeholders. Examples include workshops for parliamentarians on public enterprise reform.

3. What are the key, active, and relevant civil society organizations in the program area? What is the level of civil society organization participation in the project design? ☐ Information generation and sharing ☒ Consultation ☐ Collaboration ☐ Partnership Civil society in Tuvalu is limited and largely focused on social service delivery. Consultations with civil society organizations are carried out during the preparation of the Tuvalu country operations business plans and during program and project scoping and fact-finding missions.
4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? ☐ Yes ☒ No The program addresses macroeconomic challenges and therefore does not allow direct participation of the poor and excluded. However, the government regularly consults with and ensures participation of all stakeholders in economic and fiscal reform through national development planning and budget preparation processes.
IV. SOCIAL SAFEGUARDS
A. Involuntary Resettlement Category ☐ A ☐ B ☒ C ☐ FI
1. Does the program have the potential to involve involuntary land acquisition resulting in physical and economic displacement? ☐ Yes ☒ No
2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process? ☐ Resettlement plan ☐ Resettlement framework ☐ Social impact matrix ☐ Environmental and social management system arrangement ☒ None
B. Indigenous Peoples Category ☐ A ☐ B ☒ C ☐ FI
1. Does the program have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? ☐ Yes ☒ No
2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? ☐ Yes ☒ No
3. Will the program require broad community support of affected indigenous communities? ☐ Yes ☒ No
4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process? ☐ Indigenous peoples plan ☐ Indigenous peoples planning framework ☐ Social Impact matrix ☐ Environmental and social management system arrangement ☒ None
V. OTHER SOCIAL ISSUES AND RISKS
1. What other social issues and risks should be considered in the program design? ☐ Creating decent jobs and employment ☐ Adhering to core labor standards ☒ Labor retrenchment ☐ Spread of communicable diseases, including HIV/AIDS ☐ Increase in human trafficking ☐ Affordability ☐ Increase in unplanned migration ☐ Increase in vulnerability to natural disasters ☐ Creating political instability ☐ Creating internal social conflicts ☐ Others, please specify ___________________
2. How are these additional social issues and risks going to be addressed in the project design? Labor retrenchment could occur once public enterprise rationalization strategies are implemented. This risk is envisaged to be minimal as the government has already started the reform process in these public enterprises.
VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT
1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact, (ii) gender impact, (iii) participation dimensions, (iv) social safeguards, and (v) other social risks. Are the relevant specialists identified? ☐ Yes ☒ No The program draws from the most recent ADB and World Bank country performance and institutional assessments as well as IMF's Article IV reports (staff and full).
2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social, and/or gender analysis, and developing a participation plan during the PPTA or due diligence? Basic poverty, social, and gender analysis during the design phase will be carried out by the ADB team responsible for processing the program, building upon existing assessments from ADB and other development partners. Pacific Subregional Office's safeguards officer will oversee the due diligence.

ADB = Asian Development Bank; IMF = International Monetary Fund; MDG = Millennium Development Goals; MFED = Ministry of Finance and Economic Development; PPTA = project preparatory technical assistance; PRM = policy reform matrix; PFM = public financial management; TA = technical assistance.

[a] ADB. 2014. *Midterm Review of Strategy 2020*. Manila.

Source: Asian Development Bank.