



# Completion Report

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Project Number: 47318-001  
Grant Number: 0442  
March 2017

## Tuvalu: Strengthened Fiscal Sustainability Program

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Asian Development Bank

## CURRENCY EQUIVALENTS

Currency unit – Australian dollar (A\$)

		<b>At Appraisal</b>	<b>At Program Completion</b>
		26 August 2015	4 November 2016
A\$1.00	=	\$0.7128	\$0.7694
\$1.00	=	A\$1.4029	A\$1.2997

## ABBREVIATIONS

ADB	–	Asian Development Bank
CIF	–	Consolidated Investment Fund
CPU	–	central procurement unit
GDP	–	gross domestic product
MFED	–	Ministry of Finance and Economic Development
PERP	–	Public Enterprise Reform Plan
PRM	–	policy reform matrix
PWD	–	Public Works Department
TA	–	technical assistance
TSF	–	Tuvalu Survival Fund
TTF	–	Tuvalu Trust Fund
TTFAC	–	Tuvalu Trust Fund Advisory Committee

## NOTE

In this report, “\$” refers to US dollars unless otherwise stated.

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## BASIC DATA

### A. Grant Identification

1.	Country	Tuvalu
2.	Grant Number	0442
3.	Program Title	Strengthened Fiscal Sustainability Program
4.	Borrower	Government of Tuvalu
5.	Executing Agency	Ministry of Finance and Economic Development
6.	Amount of Grant	\$2,000,000
7.	Program Completion Report Number	1609

### B. Grant Data

1.	Fact Finding	
	– Date started	11 June 2015
	– Date completed	18 June 2015
2.	Grant Negotiations	
	– Date started	11 August 2015
	– Date completed	11 August 2015
3.	Date of Board Approval	30 September 2015
4.	Date of Grant Agreement	9 October 2015
5.	Date of Grant Effectiveness	
	– In grant agreement	7 January 2016
	– Actual	19 October 2015
	– Number of extensions	0
6.	Closing Date	
	– In grant agreement	30 October 2015
	– Actual	24 November 2015
	– Number of extensions	0

#### 7. Disbursements

##### a. Dates

Initial Disbursement	Final Disbursement	Time Interval
28 October 2015	28 October 2015	0
Effective Date	Original Closing Date	Time Interval
19 October 2015	30 October 2015	11 days

#### b. Amount (\$ million)

Category or Subloan	Original Allocation	Last Revised Allocation	Amount Canceled	Net Amount Available	Amount Disbursed	Undisbursed Balance
Program	2.0	2.0	0.0	2.0	2.0	0.0
<b>Total</b>	2.0	2.0	0.0	2.0	2.0	0.0

**C. Program Data**

## 1. Program Cost (\$ million)

<b>Cost</b>	<b>Appraisal Estimate</b>	<b>Actual</b>
Foreign exchange cost	2.0	2.0
Local currency cost	0.0	0.0
<b>Total</b>	<b>2.0</b>	<b>2.0</b>

## 2. Financing Plan (\$ million)

<b>Cost</b>	<b>Appraisal Estimate</b>	<b>Actual</b>
Implementation costs		
Borrower financed	0.0	0.0
ADB financed	2.0	2.0
Other external financing	0.0	0.0
<b>Total</b>	<b>2.0</b>	<b>2.0</b>
IDC costs		
Borrower financed	0.0	0.0
ADB financed	0.0	0.0
Other external financing	0.0	0.0
<b>Total</b>	<b>2.0</b>	<b>2.0</b>

ADB = Asian Development Bank, IDC = interest during construction.

## 3. Program Performance Report Ratings

<b>Implementation Period</b>	<b>Ratings</b>	
	<b>Development Objectives</b>	<b>Implementation Progress</b>
From 1 August 2014 to 30 October 2015	Satisfactory	Satisfactory

**D. Data on Asian Development Bank Missions**

<b>Name of Mission</b>	<b>Date</b>	<b>No. of Persons</b>	<b>No. of Person-Days</b>	<b>Specialization of Members</b>
Fact-finding	11–18 June 2015	3	8	a, b, c
Program completion review	3–10 November 2016	1	7	b

a = counsel, b = economist, c = project officer.

## I. PROGRAM DESCRIPTION

1. At the request of the Government of Tuvalu, the Board of Directors of the Asian Development Bank (ADB) approved a grant of \$2.00 million from ADB's Special Funds for the Strengthened Fiscal Sustainability Program in September 2015.<sup>1</sup> The program was designed to achieve a stronger fiscal position for Tuvalu by providing financial resources to implement selected reforms under the third and final phase of the government's current multiyear policy reform matrix (PRM) aimed at reducing revenue and budget volatility whilst maintaining the provision of essential services for poverty alleviation.

2. Parallel, collaborative grant cofinancing was provided by the World Bank (\$1.5 million), the Government of Australia (\$1.1 million) and the Government of New Zealand (\$0.4 million) upon completion of their selected reforms under phase 3 of the PRM. Reforms already achieved under phases 1 and 2 triggered around \$8.0 million in budget support from ADB and these partners.<sup>2</sup>

3. The intended impacts of the program were good governance, macroeconomic growth, and fiscal stability improvement, while the intended outcome was for Tuvalu's fiscal position to be strengthened. The program had three outputs: (i) public procurement strengthened, (ii) commercial orientation for public enterprises and private sector development strengthened, and (iii) sustainability of the fiscal buffer strengthened.<sup>3</sup>

## II. EVALUATION OF DESIGN AND IMPLEMENTATION

### A. Relevance of Design and Formulation

4. The program design was relevant at appraisal and remained relevant at the time of program completion. The program was formulated through extensive discussions with the government and development partners (Governments of Australia and New Zealand, and the World Bank) and delivered through the PRM with parallel, collaborative grant cofinancing from the other development partners. The PRM helped the government initiate the reforms required to achieve stronger fiscal sustainability.

5. The program was fully aligned with ADB's Pacific Approach, 2010–2014 and Interim Pacific Approach 2015; the government's Te Kakeega II 2005–2015; and ADB's country operations business plan, 2015–2017 for Tuvalu.<sup>4</sup>

6. The program builds on lessons from previous ADB programs in Tuvalu and elsewhere in the Pacific, which highlight the importance of (i) maintaining a single, government-led policy matrix to enhance coordination and collaboration between development partners; (ii) using a single-tranche modality within a programmatic, multiyear approach supported by several partners; (iii) implementing fewer reforms but with a large potential impact; and (iv) linking capacity building technical assistance (TA) support to PRM implementation, since capacity

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<sup>1</sup> ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Grant Tuvalu: Strengthened Fiscal Sustainability Program*. Manila.

<sup>2</sup> A review of all three phases of the PRM and all donor policy action requirements was undertaken for the Australian Department of Foreign Affairs and Trade (DFAT) in June 2016. (DFAT. 2016. *Tuvalu—Review of the Multi-Donor Policy Reform Program*. Economic Development Services Pty Ltd. Australia.)

<sup>3</sup> The design and monitoring framework is in Appendix 1.

<sup>4</sup> ADB. 2009. *Pacific Approach, 2010–2014*. Manila; ADB. 2015. *Interim Pacific Approach, 2015*. Manila; Government of Tuvalu. 2004. *Te Kakeega II—National Strategy for Sustainable Development, 2005–2015*. Funafuti; ADB. 2014. *Tuvalu Country Operations Business Plan, 2015–2017*. Manila (accessible from the list of linked documents in Appendix 2).

constraints can hamper the government's ability to follow through on agreed reforms.<sup>5</sup> The program is a stand-alone policy-based grant operation that will focus on the implementation of the final phase of the current PRM. ADB's engagement beyond the PRM will be sustained through ongoing policy dialogue, a policy-based operation planned for 2018, and follow-up TA to improve public sector management and support greater investments in economic infrastructure.

7. The program was cautiously optimistic in its assumptions of the capacity of government agencies (especially the newly created agencies) to implement and sustain certain elements of the reform program. However, the downside risks of capacity falling short of expectations were recognized during the design phase. No specific TA was provided for the program design or implementation, instead, adequate support for the implementation of the program was available through ongoing capacity development TA.<sup>6</sup> This helped the government achieve the desired outcome of a stronger fiscal position. (footnote 6).

## **B. Program Outputs**

8. To achieve fiscal sustainability, the program aimed to deliver three outputs (paras. 9–26). The measures of output achievements are based on the performance indicators in the design and monitoring framework (Appendix 1).

### **1. Output 1: Public Procurement Strengthened**

9. The policy actions under output 1 were fully achieved, but the benefits of the reforms have yet to be fully realized. Under the policy pre-conditions for grant release, the cabinet was to approve an annual procurement report for 2014 (output 1.1), and a government procurement website was to be developed and launched as a central resource for all public-procurement related information (output 1.2). These policy actions constituted the final phase of ADB-supported public procurement reforms begun in 2012, which led to the adoption of the 2012 National Procurement Policy, the Public Procurement Act 2013, the Public Procurement Regulations 2014, and the establishment of a central procurement unit (CPU) in 2014.

10. **Output 1.1.** Under the Public Procurement Regulations, the CPU is obliged to “present an annual report to the Finance Minister regarding the overall functioning of the public procurement system, including recommendations on measures to be taken to revise and improve procurement approval methods and other measures to enhance the quality of procurement work.”<sup>7</sup> The report is expected to combine the results of minor procurement (transactions valued at A\$5,000 and below, carried out by line ministry procurement officers) and major procurement (transactions above A\$5,000, which are carried out by the CPU). The first annual report of the CPU reporting on its operations during 2014 was endorsed by the Finance Minister, approved by the cabinet, and published in August 2015.<sup>8</sup> The annual report details procurement transactions undertaken by the CPU on behalf of the government in 2014, key achievements and challenges faced during 2014, and outstanding actions that require further attention. The inclusion of a 2015 work plan pursued these pending activities and enabled timely action on individual procurement transactions to avoid bunching at the end of the year.

11. Subsequent annual reporting and work plans are being produced, although with some

<sup>5</sup> ADB. 2012. *Tuvalu: Improved Financial Management Program Completion Report*. Manila; ADB. 2014. *Tuvalu: Strengthened Public Financial Management Program Completion Report*. Manila.

<sup>6</sup> ADB. 2012. *Technical Assistance to Tuvalu for Institutional Strengthening of the Ministry of Finance and Economic Development*. Manila.

<sup>7</sup> Government of Tuvalu. 2014. Public Procurement Regulations (Clause 7.3 (i)). Funafuti.

<sup>8</sup> Government of Tuvalu. 2015. Central Procurement Unit (CPU) Report on Activities in 2014. Funafuti.



delays. The 2015 annual report was approved by the Finance Minister in January 2017. The delay in its completion was initially the result of capacity constraints within the CPU, which made it difficult to cope with a large increase in the workload associated with keeping the contract register up to date. The number of staff has since increased to five following the recruitment of two staff in June 2016 and technical skills training is being provided through the Chartered Institute of Procurement and Supply funded by the ongoing capacity development TA (footnote 6). Delays were also incurred because of difficulties in reconciling the CPU's own records with the end-of-year accounts of the Treasury Department. This led to the CPU being criticized for delays in processing procurement transactions, the majority of which could have been validated quickly if the contract register were kept up to date. Improved forward planning by the ministries and departments themselves to initiate their procurement transactions in good time would also minimize delays. The 2016 annual report is under development and will be approved by June 2017. ADB's ongoing capacity development TA (footnote 6) continues to support the CPU to achieve this output.

12. **Output 1.2.** The CPU's website, which serves as a centralized resource for all public procurement-related information, was developed and launched in 2015.<sup>9</sup> The website is a good central source for all procurement-related information. This has enhanced the government's ability to obtain better value for money and use scarce public resources more efficiently. It serves as a tool to (i) increase the government's accountability of its use of public funds, (ii) step up the fight against corruption, and (iii) increase transparency and legal certainty. The website is maintained by CPU staff, two of whom have been trained, and all new procurement opportunities are uploaded when the CPU is ready to call for bids. It does not yet have a hit counter to measure usage, and the lack of a download facility requires interested companies to contact the CPU by e-mail to be sent an e-copy of the bidding documents. The website was down for several weeks from around May 2016 because of an oversight in paying the annual hosting fee. This has since been rectified.

13. Information on procurement is also supplemented through Tuvalu benefiting from an ongoing ADB e-procurement initiative that provides the CPU with access to advertise on the website of In-tend Ltd at <http://www.in-tend.co.uk/> and allowing bidders to download documents and upload their bids, as well as receiving seminar and webinar training to become progressively proficient in all stages of e-procurement.<sup>10</sup> Tuvalu managed to publish its first tender on the In-tend system in September 2016. Extending the use of In-tend after 2 years will be at Tuvalu's expense. The CPU will evaluate the benefits of continuing to use In-tend before the project implementation period ends in October 2017.

14. The CPU website and current use of In-tend have helped widen the interest of overseas suppliers, including those from Australia and New Zealand, and generated more competition among bidders.<sup>11</sup> Prior to the website's establishment, advertising of contracts was limited to local radio and Fiji newspapers. While no quantitative measure of the number of visits to the website have been recorded as yet, responses to listings on the website indicate greater interest in the government's procurement requirements.

## 2. Output 2: Commercial Orientation for Public Enterprises and Private Sector Development Strengthened

<sup>9</sup> At [www.tuvaluprocurement.com](http://www.tuvaluprocurement.com)

<sup>10</sup> ADB. 2013. *Regional Technical Assistance to Asia Pacific for Public Electronic Procurement Network*. Manila. In-tend won a 2-year contract financed by an ADB grant to promote and train users seeking to progress to full e-procurement.

<sup>11</sup> One UK-based company, manufacturing small agricultural and construction machinery, has won two contracts in Tuvalu in the last 18 months, despite the distance.

15. All policy actions under output 2 were achieved, with the caveat that the implementation of output 2.3 was slow. The policy pre-conditions for grant release were: cabinet approval of the Public Enterprise Reform Plan (PERP) (output 2.1); cabinet approval of the concession sale of the Vaiaku Lagi Hotel (VLH), hotel land surveyed, and sale and tender documents prepared (output 2.2); and cabinet approval of the Public Works Department (PWD) rationalization strategy to promote the contracting out of capital works to the private sector (output 2.3).

16. **Output 2.1.** PERP was developed and adopted by the cabinet in 2015. Its objective was to guide government decision-making toward enhancing the commercial orientation and financial soundness of public enterprises, and to clearly define and cost their social responsibilities. The plan, along with strengthened accounting and auditing practices, aimed to boost the transparency and accountability of public enterprises and encourage greater private sector participation.

17. PERP has increased the commercial orientation of public enterprises. The cross-liabilities of unpaid bills to public enterprises by the government and unpaid taxes to the government by public enterprises have been eliminated, and this has helped the operational management of public enterprises. Public enterprises continue to fund some social responsibilities, which affects their financial performance, so the need arises for these to be more clearly defined and funded directly by government via community service obligations. It is also the case that more needs to be done to strengthen the monitoring and reporting of the performance of public enterprises, but this will require more staff for the public enterprise reform management unit, which is a medium-term objective. In view of that, the capacity building TA (footnote 6) was extended by 12 months to further assist the government's central procurement unit and the public enterprises in capacity building and reform.

18. **Output 2.2.** A key achievement of the program was the successful sale of the Vaiaku Lagi Hotel in 2016, which was underpinned by TA support (footnote 6). Previous efforts by the government to sell the hotel had been unsuccessful for lack of private sector interest (partly because of a ban on transferring the sublease of the land to an international investor). However, in 2015, the cabinet approved the sale of the hotel concession to the Tuvalu National Provident Fund, which will operate the hotel under a new subsidiary. The sale was completed on 30 November 2016 and the hotel was renamed Funafuti Lagoon Hotel. The new owner intends to increase the number of rooms and expand and improve the range of facilities available to guests. The government is expected to benefit from the concession sale through improved financial returns but does not bear the risks associated with the new investment. Also, to the extent that the new operator can increase international guest occupancy, benefits will accrue to the broader economy.<sup>12</sup>

19. **Output 2.3.** The grant release requirement was for cabinet to approve a rationalization strategy for the PWD to promote the contracting out of capital works to the private sector.<sup>13</sup> This was to help build local private sector capacity to undertake capital works in Tuvalu, including the purchase of required building materials. The intention was for the PWD to limit its role to being the government's designer of civil works and supervisor of their construction by private sector contractors. It was accepted that this would eventually lead to a reduction in the number of construction staff employed by the PWD. However, it was considered likely that these people would find work in the private sector, even with successful international bidders for construction works. To ensure employment opportunities for the local workforce, subsequent bids were

<sup>12</sup> The bid involved an initial payment and an annual fee based on a percentage of revenue. The concession owner is obliged to refurbish the hotel and will work with the government to encourage tourism.

<sup>13</sup> The relevant cabinet minutes (MO32/15) endorsed the initiative to "tender, where appropriate, major" infrastructure projects to the private sector. This suggests that the cabinet minutes do not fully reflect the intent of the proposed PWD rationalization strategy.

required to state the number of local staff likely to be hired as part of the contract and this was to be a factor in bid evaluation.

20. It was acknowledged from the outset that implementing the PWD rationalization strategy would take time. While the objective is for the PWD to withdraw totally from undertaking construction in accordance with government policy and focus on construction supervision, it is recognized that a phased approach to this is necessary. Such an approach is recommended in a report prepared by an advisor to the PWD under the capacity development TA (footnote 6), which proposes various transitory steps: (i) a clear restatement of the intended roles and responsibilities of the PWD; (ii) restructuring of the units within the PWD to focus on these roles and responsibilities; (iii) appropriate retraining and bonding of staff; (iv) training and support for small private sector start-up businesses; (v) selection of only some trades to be privatized initially; and (vi) for new private sector start-up contractors, provision of technical and financial training, guaranteed workload for a number of years, and tools and materials in initial years.

21. While progress is being made in rationalizing the PWD, constraints remain: (i) the high cost of international bidders; (ii) local bidders' limited financial capability to meet working capital requirements to finance the pre-purchase of building materials; (iii) the limited skills base and equipment of Tuvalu's private sector contractors; (iv) PWD's view that bids from local private sector contractors are more expensive than the cost of doing the work itself; (v) the government occasionally requesting certain construction projects to be undertaken urgently and the PWD's view that contracting out in such circumstances is too time-consuming; (vi) the lack of technical capacity within PWD to supervise its construction projects; and (vii) increased government spending on capital works in recent years.

22. ADB's TA (footnote 6) supports the PWD rationalization process. It is making some headway with a summary of Pacific Island building codes, a review of the draft Tuvalu Building Act, and a review of all of PWD's technical specifications. The TA will also help merge the tendering documents used by the CPU and the PWD to ensure consistency between the two documents.

### **3. Output 3: Sustainability of the Fiscal Buffer Strengthened**

23. The policy action under output 3 was fully achieved. The policy pre-condition for the release of the grant was that the cabinet endorse the revised financial instructions under the Public Finance Act (output 3.1).

24. Recognizing that much of the improvement in the fiscal balance during 2012–2014 came, thanks to temporary cyclical factors (especially higher fishing license fees) and nonrecurrent revenue, the government sought to improve the way it operates its Consolidated Investment Fund (CIF) to better insulate the budget and the economy from external shocks.

25. **Output 3.1.** The cabinet endorsed changes to the financial instructions under the Public Finance Act to include detailed rules to guide, replenish, and regulate the use of the CIF, ensuring that the target CIF savings balance will be at least 16% of the maintained value of the Tuvalu Trust Fund (TTF) and regulated through a CIF contributions and savings plan.<sup>14</sup> This reform was to help transform the CIF into a fiscal stabilization fund that follows a clear rule of accumulation and withdrawal, whereby increases in returns from external revenue sources are saved and can be drawn down when revenues fall short because of a decrease in returns from external sources—e.g., lower returns in world financial markets reducing or eliminating

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<sup>14</sup> Government of Tuvalu. 2015. *Tuvalu Government Financial Instructions Made Under Section 5 of the Public Finance Act (Chapter 14)*. Funafuti.

distributions from the TTF to the CIF for a period of time. During the national budget process, where the CIF balance at the start of the following budget year is forecast to be at a level below the target CIF saving balance, the finance minister will now be required to present to Parliament a CIF contributions and savings plan as a component of the national budget.

26. The revised rules governing the replenishment and regulation of the CIF have been in operation since the start of 2015. In 2015, the government achieved a fiscal surplus of A\$4.6 million—while at the same time achieving an A\$3.0 million replenishment of the TTF. For 2016, the latest (November 2016) estimate is for a fiscal deficit of A\$6.8 million, which the government will fund with a withdrawal from the CIF.<sup>15</sup> However, the CIF at the end of 2016, after funding the deficit, is estimated to be A\$28.9 million, still above its minimum target value of 16% of the TTF maintained value (A\$24.2 million).<sup>16</sup> During 2016, the government was to invest A\$5.0 million in the newly established Tuvalu Survival Fund (TSF), which is to be available for financing responses to natural disasters such as cyclones. In addition, the 2016 budget stated that the government would reinvest A\$4.78 million back into the TTF with the goal of growing its maintained value to A\$200 million by 2020.<sup>17</sup> Without these two commitments, the 2016 overall fiscal balance would be in surplus by around A\$3.0 million, and the CIF would be higher. Current estimates expect overall budget deficits of A\$2.2 million in 2017, A\$6.8 million in 2018, and A\$6.5 million in 2019. However, again this is after significant allocations to the TSF (between A\$2.0 and A\$2.1 million per annum) and the TTF (between A\$5.0 and A\$5.1 million per annum), implying forecast overall balance surpluses without these commitments.

### C. Program Costs

27. ADB provided support under the program by way of a grant of \$2.0 million from ADB's Special Funds resources. The governments of Australia and New Zealand, and the World Bank provided collaborative grant cofinancing upon completion of their selected reforms under the third phase of the PRM. The World Bank (\$1.5 million) approved its second grant under the PRM policy actions on 15 June 2015,<sup>18</sup> while the governments of Australia (\$1.1 million) and New Zealand (\$0.4 million) agreed to the release of their grants in June 2016 following the completion of the relevant policy actions in May 2016. The funds released under phase 3 of the PRM totaled \$5.0 million.

28. The grant size was determined after consideration of the government's financing requirements and the costs of its reform program. At appraisal, projections for the budget financing requirements (post-cyclone Pam) indicated a fiscal deficit of 7.7% of gross domestic product (GDP) in 2015, and of 9.5% in 2016. In the event, an overall fiscal surplus of 10.5% of GDP was achieved in 2015, while an overall fiscal deficit of 14.2% of GDP is forecast for 2016, but as mentioned earlier, this includes significant provisions for growing the TTF and TSF, without which the overall balance would be in surplus.

### D. Disbursements and Program Schedule

29. The appraisal disbursement schedule (a single disbursement of the \$2.0 million grant<sup>19</sup>)

<sup>15</sup> Data provided by the Ministry of Finance and Economic Development during the program completion review mission.

<sup>16</sup> At the end of 2016, the CIF is estimated to have a value of \$28.9 million and the TTF a value of \$151 million. At the end of 2017, the CIF is estimated to be \$26.2 million and the TTF \$155 million: International Monetary Fund. 2016. Tuvalu Staff Report for the 2016 Article IV Consultation. Washington, DC (27 August).

<sup>17</sup> The TTF funds available for distribution as at 30 September 2016 were A\$6.73 million. Of this it is proposed to reinvest A\$5.0 million in the TTF while the remaining A\$1.73 million will be taken as a distribution and used to help finance the proposed A\$2.0 million investment in the TSF.

<sup>18</sup> The government of Tuvalu received the funds, equivalent to A\$2,015,023.17, on 19 August 2015.

<sup>19</sup> Equivalent to A\$2,683,567.08 at the time of transfer.

was realistic, given the relatively small size of the grant. The grant proceeds were disbursed to the government of Tuvalu as set out in the grant agreement and according to ADB's simplified disbursement procedures and related requirements for program grants.<sup>20</sup> The grant proceeds were released on 28 October 2015, 19 days after the signing of the grant agreement. No corrective actions were taken by the borrower or ADB.

### **E. Implementation Arrangements**

30. No major changes were made to the implementation arrangements, which were adequate as designed to deliver program outputs and to achieve the program purpose. The Ministry of Finance and Economic Development (MFED) was the executing agency responsible for the policy actions required prior to the release of the grant proceeds. It was also responsible for program administration, disbursements, and for maintaining records.

31. The MFED, through the CPU, was the implementing agency for outputs 1.1 and 1.2. The MFED acted as the joint implementing agency (i) with the Public Enterprise Reform and Monitoring Unit in MFED for output 2.1; (ii) with the Ministry of Foreign Affairs, Environment, Trade, Labor and Tourism for output 2.2; and (iii) with the Ministry of Public Utilities for output 2.3. The MFED was the sole implementing agency for output 3. Ongoing TA (footnote 6) helped the government fulfill program conditions. ADB and its cofinancing development partners for the PRM process agreed to a high-level coordination and monitoring mechanism comprising members of the TTF Advisory Committee (TTFAC)—representatives of the governments of Tuvalu, Australia, and New Zealand—to monitor the implementation progress of the PRM.

### **F. Conditions and Covenants**

32. The covenants under the grant agreement were complied with. The policy actions for the release of the grant proceeds contained in the PRM Phase 3 made up the grant effectiveness conditions and covenant requirements of the grant agreement, and these were complied with prior to the release of funds in October 2015. No covenants were modified, suspended, or waived during the program period. The program used ADB's policy-based program modality and was based on the development policy letter and policy matrix for the grant. Program activities were confined to policy and institutional reforms, and none of the activities led to involuntary resettlement or affected indigenous people. Safeguard categories for environment, involuntary resettlement, and indigenous peoples are all C.

### **G. Performance of the Borrower and the Executing Agency**

33. The performance of the borrower and the executing agency is rated *satisfactory*. The borrower met the conditions for the release of grant proceeds and subsequently continued to implement various policy initiatives consistent with the program. The MFED as the executing agency implemented or oversaw the implementation of the policy actions required prior to the release of grant proceeds. The government has implemented, and continues to implement, several measures to improve fiscal stability, the procurement of goods and services, and the performance of public enterprises. It is also mindful of the need to assist the development of Tuvalu's private sector. The CIF value has been restored to a healthy level to provide a buffer against future economic shocks. Improvements were made in the procedures and processes for the procurement of the government's major expenditure items. A sale of the concession to operate the Vaiaku Lagi Hotel was completed in November 2016. However, only limited progress was made in reorienting the focus of the PWD.

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<sup>20</sup> ADB. 1998. *Simplification of Disbursement Procedures and Related Requirements for Program Loans*. Manila.

## H. Performance of the Asian Development Bank

34. ADB staff at headquarters and the Pacific Subregional Office in Suva assisted the government in designing and implementing the program. ADB staff actively monitored the program's progress and completion of policy actions required for the release of grant proceeds. Subsequently, ADB continued to monitor progress of the program through its dialogue with partner donors, its involvement with the government in formulating ADB's country operations business plan for Tuvalu (footnote 4), through discussions with the TTFAC and review of its biannual reports, and through regular reporting by ADB's TA consultants. The performance of ADB in program implementation is rated *satisfactory*.

### III. EVALUATION OF PERFORMANCE

#### A. Relevance

35. The program was rated *relevant*. It laid the basis for sustainable fiscal balances to protect the economy against external shocks. The program completed the reform agenda begun with ADB support in 2012. The program fully aligned with the government's Te Kakeega II 2005–2015 and Te Kakeega III 2016–2020, ADB's country operations business plans for 2016–2018 and 2017–2019, and the PRM agreed in 2012 between the government and its donor partners—ADB, World Bank, and the Australian and New Zealand governments.

36. During 2012–2015, Tuvalu experienced a significant improvement in the government's revenue base from a largely unanticipated increase in fees from issuing fishing licenses. While this presented challenges for budgeting and expenditure quality and control, the program's focus on stronger public procurement, greater commercial orientation of public enterprises, stronger private sector development, and a stronger fiscal buffer for better fiscal sustainability ensured that the overriding objectives of the government and ADB to achieve improved fiscal sustainability were achieved. This goal will continue to be a priority for Tuvalu's future economic and social well-being.

#### B. Effectiveness in Achieving Outcomes

37. The \$2 million program and grants from other donor partners enabled the government to achieve an overall surplus of A\$4.6 million in 2015—enabling a further improvement in the balance of the CIF. At the same time, the government was able to increase recurrent and nonrecurrent spending and invest A\$3.0 million back into the TTF, although this was possible to a large extent because of increases in government revenues—in particular fishing license revenues. Projected overall balance deficits for 2017 (A\$2.2 million), 2018 (A\$6.6 million) and 2019 (A\$6.2 million) is expected to be financed through sustainable drawdowns from the CIF.<sup>21</sup> A pipeline of budget support operations by development partners including ADB towards a fourth phase of the PRM will help support public service delivery while at the same time continuing to improve Tuvalu's long term fiscal position.

38. The grant release conditions were effective in encouraging the government to implement several specific procurement, public enterprise, and fiscal management reforms sooner than might have occurred without the incentives created by the grant conditions. These, along with the ongoing TA for the institutional strengthening of the MFED, made the program effective in contributing to the overall impacts sought—good governance, macroeconomic growth, and improved fiscal stability.<sup>22</sup>

<sup>21</sup> 2016. Government of Tuvalu. *2017 National Budget*. Funafuti.

<sup>22</sup> 2016. International Monetary Fund. *Tuvalu Staff Report for the 2016 Article IV Consultation*. Washington, DC

39. The program is assessed as having been *effective* in achieving its targeted outcome (fiscal position strengthened) and outputs (public procurement strengthened, commercial orientation for public enterprises and private sector development strengthened, and sustainability of the fiscal buffer strengthened).

### **C. Efficiency in Achieving Outcome and Outputs**

40. The program is rated *efficient*. It achieved the intended outcome of strengthening the fiscal position. The outputs as set out in the design and monitoring framework were achieved, although the implementation of some subsets—particularly 1.1: procurement annual report approved by cabinet, and 2.3: PWD reorientation to develop a private sector construction industry—was slow, mainly because of capacity constraints in government agencies. The program’s design identified this as a potential risk, and ongoing TA (footnote 6) was provided to support the implementation of the reforms. As regards process efficiency, the grant release conditions were sufficiently realistic so that the government was able to meet them by 31 July 2015.

### **D. Preliminary Assessment of Sustainability**

41. Program sustainability is assessed as likely, given the commitment of the government to ongoing improvements in procurement, governance and operating performance of public enterprises, as well as fiscal sustainability. The rationalization of the PWD is expected to contribute to the development of the private sector, although the sustainability of the steps already taken under the PRM hinges on ongoing TA assistance from ADB and other development partners to support their implementation and improvements in performance. The TA support (footnote 6) will need to be ongoing for the future sustainability of improvements achieved thus far. The appointment by ADB of a full time development coordination officer in Tuvalu will also act to provide additional capacity to the government and support program sustainability.

### **E. Institutional Development**

42. The program reinforced improvements already made with respect to public procurement, public enterprise governance and operation, and fiscal stability. The program also provided more opportunities for Tuvalu’s private sector, although progress in this regard was limited in the given time.

### **F. Impact**

43. The program’s design and monitoring framework (Appendix 1) set several performance targets and indicators. First, the CIF minimum target balance was to be at least 16% of the TTF over 2016–2020. This appears likely to have been achieved in 2016, and current forecasts suggest that the position will be maintained at least in 2017 and 2018 on the basis of government forecasts. Indeed, the government has set itself additional targets of growing the TTF to A\$200 million real maintained value by 2020 and establishing the TSF. These commitments will make it more difficult initially to maintain the CIF but in the longer term should add to fiscal stability in that (i) the TTF will be in a position to make larger contributions to the CIF; and (ii) the TSF will be available to fund responses to adverse climatic events, reducing the need to draw down the CIF.

44. Second, the procurement annual report for 2014 was to be developed by the CPU and approved by the cabinet. This was achieved prior to grant release. However, delays occurred in

the completion and approval of the 2015 report, which are being rectified through ADB TA (footnote 6).

45. Third, the government procurement website was to be developed and launched. This was completed prior to the grant's release and reinforces other steps that were taken to widen international interest in Tuvalu's procurement requirements.

46. Fourth, the cabinet was to approve PERP. This was completed prior to the grant's release.

47. Fifth, cabinet was to approve the concession sale of the Vaiaku Lagi Hotel, the hotel land was to be surveyed, and the sale and tender documents were to be prepared. This was completed prior to the grant's release, and the concession to a subsidiary of the National Provident Fund was sold in late November 2016.

48. Sixth, cabinet was to approve the PWD rationalization strategy to promote the contracting out of capital works to the private sector. This approval was obtained prior to the release of grant proceeds. However, the implementation of the strategy was incremental and leaves much to be done.

49. Seventh, the revised financial instructions under the Public Finance Act were to be endorsed by the cabinet. This was achieved prior to the release of grant proceeds. Thus far, the new instructions have been adhered to.

#### **IV. OVERALL ASSESSMENT AND RECOMMENDATIONS**

##### **A. Overall Assessment**

50. The program was implemented as planned, providing immediate fiscal support to the government and incentives to undertake necessary policy actions consistent with the PFM. It was fully aligned with the government's economic reform program and ADB's country strategy. The grant program modality was straightforward and efficiently implemented. The program was relevant at the time of appraisal, continued to be during program implementation, and remains so. It was effective in achieving its intended outputs of strengthening public procurement, the commercial orientation of public enterprises, private sector development (albeit slowly), and fiscal stability. These improvements are likely to be sustainable—although it is acknowledged that they will require ongoing TA (footnote 6) to augment the MFED's capabilities and to further strengthen its capacity development. The program is assessed as *successful overall*.

##### **B. Lessons**

51. The conditions for the release of grant proceeds provided a useful incentive mechanism for the Government of Tuvalu to advance various reforms (para. 53). Although the program did not include specific TA for its design or implementation, support from ADB's ongoing capacity development TA (footnote 6), which includes institutional strengthening of the MEFD, has been vital to the effectiveness of the program in achieving its objectives. The TA was timely in that it both preceded the grant release and continued after the grant release, adding to the sustainability of the reform process. Similar TA is likely to be required if additional policy actions under the PFM are formulated. It will also assist in making further progress with respect to strengthening public procurement and reorientating and restructuring the PWD.

52. The program grant was a useful modality in that it directly (together with other donors) provided fiscal budget relief, which contributed to the replenishment of the CIF in 2015, as well



as providing leverage to expedite reforms. Benefits arose from the adoption of a multiyear approach and from donor partners being able to combine their respective interests in a single reform matrix.<sup>23</sup>

### C. Recommendations

53. **Future monitoring.** The fiscal and economic performance of Tuvalu, as of all Pacific developing member countries, is well monitored by ADB staff with highlights presented in the Pacific Economic Monitor and the Asian Development Outlook.<sup>24</sup> ADB, as part of the economic management group, also obtains regular updates on the existing and projected fiscal and economic performance of the Tuvalu economy, which is well documented in the budget documents and other MFED publications. The biannual TTFAC reports and the annual Article IV Consultation and Staff report by the International Monetary Fund also provide regular independent reporting on the current and projected future fiscal and economic performance. No further monitoring is required.

54. **Covenants.** All particular covenants specified as reform actions and measures in the policy matrix were completed and do not need to be further monitored.

55. **Further action or follow-up.** Ongoing public financial management reforms will further improve the efficiency and effectiveness of the MFED and other agencies responsible for public procurement, public enterprise performance, the development of the private sector, and fiscal stability. The consultants under ADB's capacity development TA (footnote 6) and ADB's participation in dialogue with the government and other donor partners will provide sufficient opportunity to identify any future additional forms of assistance that ADB could provide, and this assistance within the framework of the PRM and in coordination with other donor partners remains appropriate. On 2 June 2016, ADB approved cofinancing of \$217,000 (A\$300,000) from the Government of Australia for its capacity development TA, to specifically operationalize the procurement policy and regulations and to ensure that systematic procurement processes are understood, practiced across government, and reported annually.

56. **Additional assistance.** Future grant assistance under a phase 4 of the PRM should align with the government's objectives as set out in Te Kakeega III (2016–2020), be in conjunction with complementary TA, coordinate and combine the interests of several donor partners and again utilize the TTFAC for monitoring and verifying policy actions, having regard to the need to resource the TTFAC for this role, which is not part of its core responsibilities.

57. **Timing of the program performance evaluation report.** While the program is substantially completed, if ongoing related assistance within the framework of the PRM is contemplated, it is likely to be more efficient to prepare the performance evaluation once any future stage(s) is completed.

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<sup>23</sup> Government of Australia. 2016. *Tuvalu—Review of the Multi-Donor Policy Reform Program*. Suva.

<sup>24</sup> Available at: <https://www.adb.org/publications/series/pacific-economic-monitor> and <https://www.adb.org/publications/series/asian-development-outlook>

## DESIGN AND MONITORING FRAMEWORK

### Impacts the Program is Aligned with:

Good governance, macroeconomic growth, and fiscal stability improved (National Strategy for Sustainable Development, 2005–2015<sup>a</sup>)

Program Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
<b>Outcome</b> Fiscal position strengthened	The CIF minimum target balance is at least 16% of the TTF's real maintained value during 2016–2020 (2009–2013 baseline: average balance of 6.8%)  <i><b>CIF's target balance of 16% of TTF achieved in 2015 and most likely to be achieved in 2016. In addition, the government has committed to growing TTF to A\$200 by 2020 million and establishing and growing the TSF. This will make achieving the CIF target more difficult but will add to fiscal sustainability.</b></i>	Government of Tuvalu's annual budget documents  TTF Advisory Committee's biannual reports	Broad reform consensus weakens because of political pressure  External shocks requiring CIF drawdown
<b>Outputs</b> 1. Public procurement strengthened	1.1 Procurement annual report for 2014 developed by the CPU and approved by Cabinet. (2014 baseline: not applicable; this is the first annual report.)  <i><b>Delays were encountered in finalizing the 2015 report, which was finally approved by the Finance Minister in January 2017. The 2016 annual report is under development and will be approved by June 2017.</b></i>  1.2 Government procurement website developed and launched as a centralized resource for all public procurement-related information. (2014 baseline: not applicable; this is the government's first public procurement website.)  <i><b>Website continues to be utilized along with other measures to increase awareness of international and local bidders of Tuvalu procurement contracts.</b></i>	1.1 Copy of CPU report certified by Finance Minister; Letter from Clerk to Cabinet confirming that CPU report was approved by Cabinet  1.2 Letter from Finance Minister confirming his approval of the website; copy of webpage certified by Finance Minister; MFED circular announcing the new website and its functions	Stakeholders with vested interests interfere with the reform process.  Staff changes and workload pressures reduce continuity and quality of reform implementation.  Limited capacity in the MFED and Public Enterprise Reform and Monitoring Unit to reform public enterprises and scrutinize financial performance of public enterprises.

Program Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
	<p><b><i>Workload of CPU increasing as a result of greater compliance with procurement requirements for major contracts and increased government expenditure. Significant cost savings expected due to the new procedures, of which outputs 1.1 and 1.2 are only a part.</i></b></p>		
<p>2. Commercial orientation for public enterprises and private sector development strengthened</p>	<p>2.1 Cabinet approval of PERP. (2014 baseline: not applicable; This is the first PERP.)</p> <p>2.2 Cabinet approval of the concession sale of the VLH, survey of VLH land, and preparation of sale and tender documents (2014 baseline: attempt to tender out the management contract for the VLH failed in 2012 due to limited private sector interest; This is the first attempt to sell the VLH.)</p> <p><b><i>Concession for operation of the VLH sold to National Provident Fund on 30 November 2016. The concession sale is expected to improve the financial return to the government and shift the risks associated with new investments in the VLH.</i></b></p> <p>2.3 Cabinet approval of the PWD rationalization strategy to promote contracting out of capital works to the private sector. (2014 baseline: not applicable; no existing rationalization strategy for the PWD)</p> <p><b><i>PWD reorientation proving problematic. PWD is using contracted labor but, except for some instances, is still being responsible for material purchase and construction</i></b></p>	<p>2.1 Copy of PERP certified by Finance Minister; letter from Clerk to Cabinet confirming that PERP as submitted by MFED was approved by Cabinet</p> <p>2.2 Letter from Clerk to Cabinet confirming that the concession sale of the VLH was approved by Cabinet; copy of VLH land survey certified by Department of Lands; copy of sale and tender documents certified by Finance Minister</p> <p>2.3 Copy of PWD rationalization strategy certified by Finance Minister; letter from Clerk to Cabinet confirming that PWD rationalization strategy as submitted by MFED was approved by Cabinet</p>	

Program Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
	<b>management. Development of private sector construction firms will require a phased approach.</b>		
3. Sustainability of the fiscal buffer strengthened	<p>3.1 The revised financial instructions under the Public Finance Act endorsed by Cabinet. (2014 baseline: not applicable; no earlier revisions to Public Finance Act to strengthen CIF rules)</p> <p><b>Revised financial instructions being adhered to. CIF's target balance of 16% of TTF achieved in 2015 and most likely to be achieved in 2016. Whether the target is achieved in future years will depend on various factors, including fishing license revenues achieved, control of government recurrent and capital expenditure, and level of donor assistance. It may also depend on government's priority ranking of (i) maintaining the CIF balance at or above 16% of the TTF; (ii) growing the TTF to \$200 million by 2020; and (iii) establishing and growing the TSF.</b></p>	3.1 Finance Minister's order on the revised financial instructions signed off by Secretary to the Government; copy of revised financial instructions; letter from Clerk to Cabinet confirming that the revised financial instructions as submitted by MFED were endorsed by Cabinet	
<b>Key Activities with Milestones</b> Not applicable			
<b>Inputs</b> ADB: \$2,000,000 (grant)			
<b>Partner Financing</b> Outputs necessary to reach DMF outcome, not administered by ADB, include: Government of Australia: \$1.1 million grant (approved May 2016, disbursed June 2016) Government of New Zealand: \$0.4 million grant (approved May 2016, disbursed June 2016) World Bank: \$1.5 million grant (approved March 2015, disbursed 16 June 2015)			

ADB = Asian Development Bank, CIF = Consolidated Investment Fund; CPU = central procurement unit; DMF = design and monitoring framework, MFED = Ministry of Finance and Economic Management, PERP = Public Enterprise and Reform Plan, PRM = policy reform matrix, PWD = Public Works Department, TSF = Tuvalu Survival Fund, TTF = Tuvalu Trust Fund, VLH = Vaiaku Lagi Hotel.

<sup>a</sup> Government of Tuvalu. *National Strategy for Sustainable Development, 2005–2015*. Funafuti.

Source: Asian Development Bank.

### POLICY REFORM MATRIX PHASE 3

Reform Action	Conditions for Grant Release	Timeline	Development Partner
<b>1. Public Financial Management</b>			
Public procurement practices strengthened	Procurement annual report for 2014 developed by the CPU and approved by Cabinet. Report includes procurement tenders completed, number and value of contracts issued, staff training conducted, and 2015 work plan.  <i>(Copy of CPU report certified by Finance Minister; Letter from Clerk to Cabinet confirming that CPU report was approved by Cabinet)</i>	By 31 July 2015  <b>Status: Completed</b>	ADB
	Government procurement website developed and launched as a centralized resource for all public procurement-related information, including information on the Public Procurement Act 2013 and regulations, bidding documents and contracts registry.  <i>(Letter from Finance Minister confirming his approval of the website; Copy of webpage certified by Finance Minister; MFED circular announcing the new website and its functions)</i>	By 31 July 2015  <b>Status: Completed</b>	ADB
<b>2. PE performances and private sector development</b>			
PERP developed to enhance their commercial orientation and financial viability	Cabinet approval of the PERP, which sets out strategies to improve the commercial and financial viability of public enterprises, highlight issues and challenges faced, and determine which PEs should be retained, absorbed or privatized.  <i>(Copy of PERP certified by Finance Minister; Letter from Clerk to Cabinet confirming that PERP as submitted by MFED was approved by Cabinet)</i>	By 31 July 2015  <i>(However, Cabinet approval occurred on 10 August 2015)</i>  <b>Status: Completed</b>	ADB
Privatization of the VLH	Cabinet approval of the concession sale of the VLH, VLH land surveyed, and preparation of sale and tender documents.  <i>(Letter from Clerk to Cabinet confirming that the concession sale of the VLH was approved by Cabinet; Copy of VLH land survey certified by Department of Lands; Copy of sale and tender documents certified by Finance Minister)</i>	By 31 July 2015  <b>Status: Completed</b>	ADB

Reform Action	Conditions for Grant Release	Timeline	Development Partner
PWD rationalization strategy approved to promote contracting out of capital works to the private sector	<p>Cabinet approval of the PWD rationalization strategy to promote contracting out of capital works to the private sector.</p> <p><b><i>(Copy of PWD rationalization strategy certified by Finance Minister; Letter from Clerk to Cabinet confirming that PWD rationalization strategy as submitted by MFED was approved by Cabinet)</i></b></p>	<p>By 31 July 2015</p> <p><i>(However, Cabinet approval occurred on 10 August 2015)</i></p> <p><b>Status: Completed</b></p>	ADB
Corporate governance review of NAFICOT and JVs with aims to improve its operations	<p>Comprehensive review of NAFICOT undertaken with a view to restructure and strengthen management and operations including an independent review of the joint venture agreements and bring its operations under the Public Enterprises Act 2009.</p> <p><b><i>(Audit report of NAFICOT and associated JVs tabled to parliament; Cabinet decision to implement key recommendations following independent review of NAFICOT and JVs)</i></b></p>	<p>By 1 December 2015</p> <p><b>Status: Completed</b></p>	New Zealand
<b>3. Fiscal Policy</b>			
Sustainable fiscal buffer (CIF)	<p>The revised Financial Instructions under the Public Finance Act endorsed by Cabinet. The revision strengthens financial rules to manage, replenish, and regulate the use of the Consolidated Investment Fund as a long-term fiscal buffer, ensuring that the target CIF savings balance will be a level, which is equivalent to 16% of the maintained value of the TTF and regulated through a CIF Contributions and Savings Plan.</p> <p><b><i>(Finance Minister's order on the Revised Financial Instructions signed off by Secretary to Government; Copy of revised Financial Instructions; Letter from Clerk to Cabinet confirming that the revised Financial Instructions as submitted by MFED was endorsed by Cabinet)</i></b></p>	<p>By 1 December 2014</p> <p><b>Status: Completed</b></p>	ADB, Australia, New Zealand, World Bank
Measures undertaken to strengthen medium term fiscal sustainability	<p>Strengthened treasury commitment and expenditure control by introducing centralized commitment control procedures.</p> <p><b><i>(Commitment Control Paper approved by Cabinet and a demonstration of a functioning purchase order module within ACCPAC)</i></b></p>	<p>By 31 March 2015</p> <p><b>Status: Completed</b></p>	World Bank
	Oversight of fisheries revenues strengthened through efficient record	By 31 March 2015	World Bank

Reform Action	Conditions for Grant Release	Timeline	Development Partner
	keeping and financial reconciliation between Fisheries and Treasury Departments  <i>(Fisheries Department updates all backlog of financial records in TUFMAN; Subsequently, Fisheries &amp; Treasury Departments reconcile 2013 fishing revenue records from TUFMAN and ACCPAC accounting applications)</i>	<b>Status: Completed</b>	
	All financial records in the customs database updated and a full reconciliation of customs revenues with Treasury records concluded.  <i>(Ministry of Finance letter on the establishment of a Customs revenue database that is reconciled with Treasury 2014 records)</i>	By 1 December 2015 <b>Status: Completed</b>	Australia, New Zealand
<b>4. Public Administration</b>			
Improved governance of Outer Island local government (kaupule) financial accountability system	Outer Island kaupule accounts updated and audited and a streamlined financial reporting framework to reduce administrative burden on the kaupules and enabling better tracking of funds piloted.  <i>(Audit Report of the Auditor General of Kaupule accounts for 2012, 2013 and 2014 completed; Pilot 2014 Kaupule accounts submitted to Auditor General for audit using the new streamlined financial reporting framework)</i>	By 31 March 2015 <b>Status: Completed</b>	World Bank
<b>5. Health</b>			
Efficiency and transparency of the TMTS increased to enable a greater focus on Primary and Preventative Health Care <sup>1</sup>	Tuvalu Medical Treatment Policy revised, patient referral process strengthened and 2014 annual report for TMTS developed and approved.  <i>(Revised TMTS policy instituting piloted cost saving measures and strengthening the patient referral process approved by Cabinet; 2014 Annual Report submitted to Cabinet and made public)</i>	By 1 December 2015 <b>Status: Completed</b>	Australia, New Zealand
<b>6. Education</b>			
Efficiency of the tertiary education scheme improved including increased spending on basic and vocational education and overseas	Government continues to improve the efficiency of the tertiary education scheme, enabling government to increase spending on basic and vocational education.  <i>(SELF Annual Report tabled in Parliament covering regulations and</i>	By 1 December 2015 <b>Status: Completed</b>	Australia, New Zealand

<sup>1</sup> 5% increase in PPH per annum is an action from previous PRM phase 2 and it will be useful to sustain it to ensure that there are sufficient resources to finance PPH.

Reform Action	Conditions for Grant Release	Timeline	Development Partner
employment opportunities increased	<b><i>implementation of the SELF program including repayments)</i></b>		
	Sufficient resources allocated to improve basic education. <b><i>(TTFAC report verifies that government met its fiscal ratios of at least 5% increase in primary non-salary education expenditure in 2014)</i></b>	By 1 December 2015 <b>Status: Completed</b>	Australia, New Zealand
	Tuvalu Maritime Training Institute curriculum revised to improve employment opportunities and encourage female students. <b><i>(Letter from Minister of Education or Cabinet Decision to broaden the curriculum of TMTI to (i) include training for fishing vessel crews, with specific date for first intake; (ii) open TMTI to female participation and (iii) consider training options for service staff for cruise ships)</i></b>	By 31 March 2015 <b>Status: Completed</b>	World Bank

ADB = Asian Development Bank; CIF = Consolidated Investment Fund; CPU = Central Procurement Unit; JV = Joint Venture (Fisheries); MFED = Ministry of Finance and Economic Development; NAFICOT = National Fisheries Authority of Tuvalu; PEs = public enterprises; PERP = Public Enterprise and Reform Plan; PWD = Public Works Department; SELF = Student Education Loan Fund; TMTS = Tuvalu Medical Treatment Scheme; TMTI = Tuvalu Maritime Training Institute; TTFAC = Tuvalu Trust Fund Accounts Committee; VLH = Vaiaku Lagi Hotel.



### STATUS OF COMPLIANCE WITH GRANT COVENANTS

Covenant	Reference in Grant Agreement	Status of Compliance
In the carrying out of the Program, the Recipient shall perform, or cause to be performed, all obligations set forth in Schedule 3 to this Grant Agreement.	Section 4.01 (a)	<b>Complied with</b>
The Recipient shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Grant and to record the progress of the Program.	Section 4.02 (a)	<b>Complied with</b>
The Recipient shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.	Section 4.02 (b)	<b>Complied with</b>
As part of the reports and information referred to in Section 6.04 of the Grant Regulations, the Recipient shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (a) the Counterpart Funds and the use thereof; and (b) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.	Section 4.03	<b>Complied with</b>
The procurement annual report for 2014 developed by the Central Procurement Unit, which shall include information on the procurement tenders completed, number and value of contracts issued, staff training conducted, and the 2015 workplan, shall have been submitted to Cabinet.	Attachment 2 to Schedule 2; 1	<b>Complied with</b>
The Government of Tuvalu's public procurement website, which shall be a centralized resource for all procurement-related information, including information on the Procurement Act and regulations, bidding documents, and contract registry, shall have been launched.	Attachment 2 to Schedule 2; 2	<b>Complied with</b>
Cabinet shall have approved the Public Enterprise Reform Plan, which shall set out strategies to improve the commercial and financial viability of public enterprises, highlight issues and challenges faced, and determine which public enterprises should be retained, absorbed or privatized.	Attachment 2 to Schedule 2; 3	<b>Complied with</b>
Cabinet shall have approved the concession sale of the Vaiaku Lagi Hotel (VLH), a survey of the land of the VLH shall have been conducted, and sale and tender documents shall have been prepared.	Attachment 2 to Schedule 2; 4	<b>Complied with</b>
Cabinet shall have approved a rationalization strategy of the Public Works Department to promote contracting out of capital works to the private sector.	Attachment 2 to Schedule 2; 5	<b>Complied with</b>
Cabinet shall have approved public financial management changes to the Government of Tuvalu's Financial Instructions under section 5 of the Public Finance Act. These changes shall include detailed rules to manage, replenish and regulate the use of the Consolidated Investment Fund (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.	Attachment 2 to Schedule 2; 6	<b>Complied with</b>