

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

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

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY
Targeting classification: general intervention
A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy
<p>Tuvalu's National Strategy for Sustainable Development, 2005–2015 aims to improve quality of life by laying the foundation for sustainable, broad-based economic growth supported by a continuation of public sector management reforms, including strengthening fiscal management and sustainability, and private sector development. The Asian Development Bank's country operations business plan, 2015–2017 for Tuvalu, which will focus on strengthening public sector management and improving transport infrastructure, is in line with the national objectives of good governance, macroeconomic growth and stability, and sustainable economic infrastructure.¹</p> <p>Tuvalu's economic recovery from the global economic crisis has been slow, and the growth outlook remains subdued. Economic growth is driven mainly by external revenue sources, which are volatile and unpredictable; quality of public expenditure; and donor-funded construction. Therefore, (i) strengthening fiscal management, (ii) improving the management and maintenance of the Consolidated Investment Fund buffer fund for long-term macroeconomic stability and economic self-sufficiency, (iii) promoting private sector development, and (iv) improving the performance of public enterprises to enhance service delivery and reduce contingent liabilities on the budget, are essential for economic expansion, macroeconomic stability, and reducing poverty. Better fiscal management will benefit the poor because they are disproportionately affected by shifts in government expenditure. Better governance of public enterprises will help promote more efficient and higher quality service provision directly benefiting the poor. Additional financial resources available to government will allow for increased basic social spending in health and education and improve service delivery for all Tuvaluans.</p>
B. Results from the Poverty and Social Analysis during PPTA or Due Diligence
<p>1. Key poverty and social issues. The government's difficulties in fiscal management arise from external factors (e.g., high external debt and volatility in external revenues) and internal factors (e.g., weaknesses in budget management and in planning procedures and controls). The internal factors also include poorly performing public enterprises, which have placed significant pressure on the government's limited financial resources that could otherwise be used to fund social programs. Tuvalu's private sector is very small and has limited opportunities to grow without becoming oversaturated. The government has taken initial steps to reform public enterprises in line with the government's private sector policy, i.e., through privatization and better governance. However, a plan is required to clearly set out strategies to improve the commercial and financial viability of public enterprises, and to explore government services that can be contracted out to the private sector.</p> <p>2. Beneficiaries. The program will not have a direct impact on vulnerable groups. However, improved fiscal management capacity will free up resources that can be reallocated to such priority areas as infrastructure development and basic health and education. This more effective use of government resources can improve the lives of the country's people.</p> <p>3. Impact channels. The policy reforms supported by the program contribute to objectives of the government's PRM, focusing on (i) strengthening public procurement practices, (ii) sustaining the fiscal buffer, and (iii) ensuring sound commercial footing for public enterprises and private sector development. These outputs will allow the government to maintain fiscal sustainability, improve the quality of fiscal management, and facilitate private sector growth through opportunities for full or partial privatization of selected public enterprises and services.</p> <p>4. Other social and poverty issues. Not applicable.</p> <p>5. Design features. The program is not designed as a pro-poor intervention. Tuvalu's strengthened fiscal position, an outcome of this program, will help build Tuvalu's resilience against external shocks. The program supports five of the 11 priorities identified under the third and final phase of the current PRM.² Developed in 2012, the PRM encapsulates a comprehensive set of public sector management reforms that will benefit the poor by protecting basic social</p>

¹ Government of Tuvalu. 2004. *National Strategy for Sustainable Development, 2005–2015*. Funafuti; ADB. 2014. *Tuvalu Country Operations Business Plan, 2015–2017*. Manila.

² The PRM Phase 3 is included in Appendix 4 of the main text of the RRP.

<p>services expenditure such as primary education and preventive health care. Though there is not expected to be an immediate net increase in employment, new private sector jobs could be created (i) if private contractors take over selected Public Works Department services, and/or (ii) as rationalized enterprises begin making profits and undertake increased capital investments to improve facilities (e.g., the government-owned Vaiaku Lagi Hotel).</p>
<p>C. Poverty Impact Analysis for Policy-Based Lending</p> <p>1. Impact channels of the policy reform(s). The program will help the government limit (i) residual increases in poverty incidence arising from weak domestic activity; and (ii) the negative impact arising from volatile and often unpredictable external revenue sources, including fishing license fees, licensing royalties for the commercial use of the “dot.tv” internet domain name, and remittances from Tuvalu citizens working abroad as seafarers and seasonal workers.</p> <p>2. Impacts of the policy reform(s) on vulnerable groups. The program will not have a direct impact on vulnerable groups. However, the program will help the government insulate its fiscal position from global shocks and maintain fiscal sustainability. Specific public procurement reforms pursued under this program will also help strengthen public financial management (e.g., strengthened and more transparent public procurement processes), enabling the government to better allocate funds to such priority areas as infrastructure development and primary health and education. This more effective use of government resources can improve the lives of the country’s people.</p> <p>3. Systemic changes expected from policy reform(s). Specific PRM phase 3 reforms supported by this program, such as public procurement reforms, public enterprise reforms, and public financial management reforms to improve resilience to external shocks, are critical to Tuvalu’s ability to provide public services, particularly in times of crisis.</p>
<p>II. PARTICIPATION AND EMPOWERING THE POOR</p>
<p>1. Participatory approaches and project activities. The government-led PRM reforms were designed and implemented in collaboration with the governments of Australia and New Zealand, ADB and the World Bank. Consultations with government, civil society, and the private sector were undertaken during joint development partner missions and at development partner forums between 2011 and 2015. A high-level coordination and monitoring mechanism comprising members of the Tuvalu Trust Fund Accounts committee—representatives of the governments of Tuvalu, Australia, and New Zealand—monitors and reports on the implementation of the PRM during bi-annual meetings, attended also by ADB and other development partners.</p> <p>2. Civil society organizations. Not applicable.</p> <p>3. The following forms of civil society organization participation are envisaged during project implementation, rated as high (H), medium (M), low (L), or not applicable (NA):</p> <p><input type="checkbox"/> Information gathering and sharing <input checked="checked" type="checkbox"/> Consultation <input type="checkbox"/> Collaboration <input type="checkbox"/> Partnership</p> <p>4. Participation plan.</p> <p><input type="checkbox"/> Yes. <input checked="checked" type="checkbox"/> No. There will be only a low level of participation during program implementation.</p>
<p>III. GENDER AND DEVELOPMENT</p>
<p>Gender mainstreaming category: no gender elements</p>
<p>A. Key issues.</p> <p>One of the objectives of the program is to help public enterprises operate commercially and become financially viable. In the case of the government-owned Vaiaku Lagi Hotel, the government has determined that there is no public policy reason to retain the hotel in public ownership. The public enterprise reform efforts will enable the government to reallocate resources toward health, education, and other social services. Collectively, these reform efforts will generate measurable benefits for women, youth, the elderly, and other vulnerable groups. Layoffs affecting both men and women will be avoided during any public enterprise rationalization; it is expected that some public enterprise workers will transition into the private sector and/or be retained in the public sector.</p>
<p>B. Key actions.</p> <p><input type="checkbox"/> Gender action plan <input type="checkbox"/> Other actions or measures <input checked="checked" type="checkbox"/> No action or measure</p> <p>The objective of the program is to achieve fiscal stability through strengthened governance of public procurement, public enterprise reforms, private sector development, and fiscal policy setting. Although there are no immediate gender implications in this program, any pipeline investments or technical assistance in Tuvalu will be monitored in accordance with the country partnership strategy results framework included in the Tuvalu country operations business plan, 2015–2017.</p>
<p>IV. ADDRESSING SOCIAL SAFEGUARD ISSUES</p>
<p>A. Involuntary Resettlement Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="checked" type="checkbox"/> C <input type="checkbox"/> FI</p>
<p>1. Key impacts. The program is not envisioned to require any resettlement.</p>

2. Strategy to address the impacts. Not applicable.	
3. Plan or other Actions.	
<input type="checkbox"/> Resettlement plan	<input type="checkbox"/> Combined resettlement and indigenous peoples plan
<input type="checkbox"/> Resettlement framework	<input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework
<input type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Social impact matrix
<input checked="" type="checkbox"/> No action	
B. Indigenous Peoples	Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
1. Key impacts. The program is not envisioned to have any specific impact on indigenous people.	
Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
2. Strategy to address the impacts. Not applicable	
3. Plan or other actions.	
<input type="checkbox"/> Indigenous peoples plan	<input type="checkbox"/> Combined resettlement plan and indigenous peoples plan
<input type="checkbox"/> Indigenous peoples planning framework	<input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework
<input type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary
<input type="checkbox"/> Social impact matrix	
<input checked="" type="checkbox"/> No action	
V. ADDRESSING OTHER SOCIAL RISKS	
A. Risks in the Labor Market	
1. Relevance of the project for the country's or region's or sector's labor market, indicated as high (H), medium (M), and low or not significant (L).	
<input checked="" type="checkbox"/> (L) unemployment <input checked="" type="checkbox"/> (L) underemployment <input checked="" type="checkbox"/> (L) retrenchment <input checked="" type="checkbox"/> (L) core labor standards	
2. Labor market impact. Layoffs will be avoided during public enterprise rationalization; some public enterprise workers will transition into the private sector, while others will be retained in the public sector. Between 2016 and 2018 the program is expected to create new private sector job opportunities when the Public Works Department contracts out civil works projects to private contractors. The new hotel proprietor may also invest in skills upgrading for hotel staff. Public enterprises will reduce the costs of doing business and promote and stimulate private sector development, which would create more private sector job opportunities.	
B. Affordability	
Not applicable. The grant is provided to government as general budget support and will not affect the pricing and people's accessibility to goods and services.	
C. Communicable Diseases and Other Social Risks	
1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA):	
NA Communicable diseases	NA Human trafficking
<input type="checkbox"/> Others (please specify) _____	
2. Risks to people in project area. Not applicable.	
VI. MONITORING AND EVALUATION	
1. Targets and indicators. The design and monitoring framework contains outcome and output indicators that measure progress. Monitoring will be the primary responsibility of the MFED, which is both the executing and implementing agency for the program.	
2. Required human resources. The MFED will monitor the progress of the program as part of its periodic review of the implementation progress of the government's PRM (from which the policy actions for the program were selected). Asian Development Bank review missions will also monitor the program, including the poverty and social impacts.	
3. Information in the project administration manual. Not applicable.	
4. Monitoring tools. Not applicable.	

MFED = Ministry of Finance and Economic Development, PPTA = project preparatory technical assistance, PRM = policy reform matrix.

Source: Asian Development Bank.