

DEVELOPMENT COORDINATION

A. Major Development Partners: Strategic Foci and Key Activities

1. Tuvalu, in common with other small island states, is heavily reliant on overseas development assistance, with net flows to Tuvalu in 2013 and 2014 reaching slightly under \$13 million per annum, equivalent to about 40% of gross domestic product (GDP). Tuvalu's principal bilateral development partners are the Government of Australia; Government of New Zealand; Japanese International Cooperation Agency; and Government of Taipei, China. The agencies that provide grants are the Asian Development Bank (ADB), World Bank, and European Union.

2. ADB's country operations business plan, 2015–2017 supports the implementation of Tuvalu's National Strategy for Sustainable Development 2005–2015 in alignment with the objectives of the 2005 Paris Declaration on Aid Effectiveness.¹ The country operations business plan focuses on achieving sound macroeconomic and fiscal management, and strengthened and improved public enterprise management.

3. In consultation with the International Monetary Fund, the government developed a medium-term fiscal framework in June 2012 to insulate its fiscal position from revenue volatility and global shocks, and to maintain fiscal sustainability. The fiscal framework was based on the government's multiyear policy reform matrix (PRM), prepared in March 2012 with the collaboration of ADB, the governments of Australia and New Zealand, and the World Bank. The PRM, which has evolved into a medium-term program aimed at restoring fiscal sustainability, is built around better fiscal controls, more effective budgeting and budget execution, selected public enterprise reforms, and improved revenue mobilization—all priorities of Tuvalu's national strategy (footnote 1). In addition, development partners will support this government-led reform process through joint policy dialogue and supervision, technical assistance, and in the case of the governments of Australia and New Zealand, increased scholarship awards.

4. Australia is one of Tuvalu's larger development partners, whose country program is estimated at \$6.8 million annually. Tuvalu also benefits from a proportion of the A\$4.0 million that Australia provides in regional assistance each year. The priorities for Australia's assistance to Tuvalu are set out in the Partnership for Development signed with the Government of Tuvalu in August 2009, which identifies enhancing Tuvalu's long-term economic prospects as the overarching "priority outcome" and has contributed approximately A\$6.93 million to the Tuvalu Trust Fund.² In addition, climate change and sea level rise, public sector administration, the development of economic infrastructure, and the enhancement of development coordination are identified as areas of potential engagement. In 2010, Australia established Tuvalu's first Women's Crisis Center to provide shelter and counseling to victims of domestic violence.

5. Japan's current development assistance program (2014–2018) envisages providing support through regional and national programs, and focuses on climate change and overcoming vulnerability. Japan's assistance for this period is estimated to be \$19 million, with \$12 million set aside for the construction of a new cargo and passenger vessel, which is expected to be completed in October 2015.

¹ ADB. 2014. *Tuvalu Country Operations Business Plan, 2015-2017*. Manila; Government of Tuvalu. 2004. *National Strategy for Sustainable Development, 2005-2015*. Funafuti; Organization for Economic Co-operation and Development. 2005. *The Paris Declaration on Aid Effectiveness*. www.oecd.org/dac/effectiveness/45827300.pdf.

² Governments of Australia and Tuvalu. 2009. *Partnership for Development between the Government of Australia and the Government of Tuvalu*. http://dfat.gov.au/about-us/publications/Documents/Australia_Tuvalu_Partnership_for_Development.pdf

Major Development Partners

Development Partner	Project Name	Duration	Amount (\$ million)
Public Sector Management			
Government of Japan	Development Policy Adviser	2013–2016	0.7
Government of Australia	Australia Naval Advisers	2013–	2.0
ADB	Strengthened Fiscal Sustainability Program	2015	2.0
Government of Australia	Budget Management Adviser	2013–	0.6
European Union	Renewable Energy	2013–	8.0
Government of Taipei, China	Budget Support	2015	8.2
World Bank	Tuvalu Aviation Investment Project	2015	18.0
Environment Sustainability			
UNDP	Ridge to Reef Project	2015–	8.4
UNDP	NAPA Adaptation Program of Action II	2003–2010	13.4
Government of Japan	Beach Nourishment Project	2015–	2.0
SPC	Global Climate Change Alliance	2013–2015	1.2
Education			
Government of New Zealand	Short-Term Training	2013–	0.6
Government of Australia	In-Service Scholarships	2013–	3.8
Government of New Zealand	In-Service Scholarships	2013	3.2

ADB = Asian Development Bank, GEF = Global Environment Facility, SPC = Secretariat of the Pacific Community, UNDP = United Nations Development Programme.

Source: Government of Tuvalu. National budget documents 2013-2015. Funafuti.

B. Institutional Arrangements and Processes for Development Coordination

6. The planning of development projects in Tuvalu begins with project ideas generated by staff in line ministries who complete a project proposal form. This is sent for appraisal to the Aid Management Unit, located in the Planning and Budget Department of the Ministry of Finance and Economic Development. The appraisal focuses on (i) feedback to improve the quality of the proposal (rather than a thorough cost-benefit analysis); (ii) consistency with the National Strategy for Sustainable Development, 2005–2015 (footnote 1); or (iii) the relationship of respective ideas to the sector plan (notwithstanding the fact that a number of sector plans have yet to be completed).

7. Following this appraisal, the Aid Management Unit submits the vetted proposals to the Development Coordination Committee, which comprises secretaries from all ministries and meets every month, followed by final submission to the cabinet for approval. The cabinet's decisions are conveyed to the Aid Management Unit, which then seeks and coordinates development partner support through annual donor meetings.

8. A program-based approach is used to promote greater focus on country ownership, reliance on country systems, a comprehensive program and budget framework in the developing member country, and development coordination. This is the third and final policy-based program of the government of Tuvalu's current multi-year PRM. A high-level coordination and monitoring mechanism comprising members of the Tuvalu Trust Fund 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.

9. ADB, together with the World Bank and the governments of Australia and New Zealand started the PRM discussions in 2011, identifying areas of comparative advantage for each of the partners. For example, it was decided that Australia would focus on the education sector, while ADB would focus on public financial management and public enterprise reforms.

C. Achievements and Issues

10. The government recognizes that the effective and efficient use of development assistance is critical to achieving national development priorities. The government has had limited participation in the international aid effectiveness dialogue owing to the limited capacities of its small administration. All major development partners are actively coordinating activities and aligning support to Tuvalu's National Strategy for Sustainable Development, 2005–2015 (footnote 1). The government has shown political commitment by assigning sufficient human and financial resources in support of projects and technical assistance, and achieving significant reform progress. Its establishment of the PRM and a coordination and monitoring mechanism are major achievements in improving coordination for overarching macroeconomic and structural reforms.

11. Limited government capacities pose an overarching constraint to the full implementation of aid effectiveness principles. A further strengthening of public financial management capacities would allow increased usage of country systems for aid. While political ownership of development activities is strong, their direct implementation by the government is severely constrained, highlighting the importance of coordination and harmonized assistance to support the availability of sufficient capacities and to avoid duplication. Limited development partner presence in Tuvalu—due to the small scale of operations and high operational costs—makes coordination difficult and requires extra efforts by all stakeholders. High dependency on aid, combined with volatility of aid flows, poses risks to the country's economic and fiscal stability, making aid coordination crucial.

D. Summary and Recommendations

12. The National Strategy for Sustainable Development, 2005–2015; the PRM; and periodic donor meetings provide a framework for aligning and coordinating development assistance in Tuvalu. All major development partners are actively engaged in harmonizing their assistance to maximize impact on Tuvalu's socioeconomic development. The PRM serves as an example of the joint government and development partner aid harmonization efforts by providing a platform to prioritize and sequence policy reform areas, measure implementation progress, and coordinate budget and technical support.

13. The government and development partners agree on the need to expand the PRM into a sound, longer-term reform framework. However, given limited government capacity, this process has to take place gradually. In addition, three areas need continued attention to maximize impact of assistance: (i) strengthening of the public financial management system, (ii) integration of development projects into government plans and budgets, and (iii) regular government-led aid coordination.