



## Tuvalu: Supporting Reforms to Strengthen Fiscal Resilience and Improve Public Service Delivery

Project Name	Supporting Reforms to Strengthen Fiscal Resilience and Improve Public Service Delivery	
Project Number	51245-001	
Country	Tuvalu	
Project Status	Approved	
Project Type / Modality of Assistance	Technical Assistance	
Source of Funding / Amount	<b>TA: Supporting Reforms to Strengthen Fiscal Resilience and Improve Public Service Delivery</b>	
	Technical Assistance Special Fund	US\$ 700,000.00
Strategic Agendas	Inclusive economic growth	
Drivers of Change	Governance and capacity development Private sector development	
Sector / Subsector	<b>Public sector management</b> - Public expenditure and fiscal management	
Gender Equity and Mainstreaming	No gender elements	
Description	<p>The proposed knowledge and support technical assistance (KSTA) will help implement and sustain the government's medium term public sector management reform agenda by supporting efforts to build on sound public financial management practices and improve public service delivery. The proposed KSTA is included in the country operations business plan 2018 2020 for Tuvalu approved in September 2017 and is aligned with the Asian Development Bank's (ADB) Pacific Approach, 2016 2020. Also linked to strategic areas in Tuvalu's National Strategy for Sustainable Development, 2016 2020 (Te Kakeega III), notably good governance; the economy, growth and stability; infrastructure and support services.</p> <p>The reform measures directly supported by the proposed KSTA are articulated in the government's fourth Policy Reform Matrix (PRM IV) covering the period 2016 2020. Since 2012, the PRMs have been an implementation and monitoring tool for the government's reform priorities that also provide the basis for the provision of general budget support. The implementation of the PRM has led to substantial improvements in macroeconomic and fiscal management, including greater fiscal discipline asserted on the budget process and consideration given to fiscal sustainability. ADB's ongoing capacity development TA has played a critical role in supporting the implementation of selected reforms under the first three phases of the PRM and tagged to ADB policy-based operations in 2012 and 2015 delivering \$4.35 million in policy-based grants. The proposed KSTA will build on previous ADB interventions to support public financial management, which will be anchored to ADB's policy-based operations planned for 2018 and 2019, both valued at \$2 million each.</p>	

Project Rationale and Linkage to Country/Regional Strategy

Tuvalu is a fragile microstate and one of the smallest Pacific economies. The country is made up of a series of small, low-lying coral atoll and reef islands and has an estimated population of 11,000 (2013). It is geographically isolated, vulnerable to adverse climatic events and economic shocks, and has a small and narrow production and export base. The country relies heavily on external sources of income and the capacity constrained public sector as the main employer and driver of economic activity, with public expenditure equivalent to about 126% of gross domestic product (GDP) in 2016. Almost all goods, and even many services, are imported. With few exports, the government is almost entirely dependent on donor aid and external income streams such as revenue from fishing license fees, remittances, earnings from the country's sovereign wealth fund, and rent of its *.tv* internet domain name, which are highly volatile and prone to external shocks. Consequently, fiscal management is difficult, making it imperative for government to continue with fiscal and structural reforms to build up fiscal buffers, improve the quality of public spending and service delivery, and so improve economic performance in future years.

After being hard hit by the global economic crisis, Tuvalu has returned to a path of steady growth averaging 2.5% over 2014-2016 and is projected to rise to 3.2% in 2017 driven by large government funded capital projects including investment in a waterfront reclamation project and building of public schools as well as ongoing public spending on expanding accommodation capacity ahead of the Pacific Island Forum Leaders Meeting in 2019. Government revenues have been supported by strong fishing license earnings, which at 53.2% of GDP in 2016 is at record levels, and development partner assistance, resulting in a fiscal surplus in 2016 equivalent to 34% of GDP. As of 31 March 2017, the investments of the Tuvalu Trust Fund (TTF) has exceeded its maintained value of A\$161 million by A\$5.5 million or 3.4% while savings in the Consolidated Investment Fund, projected at A\$26.2 million by end 2017, is above the 16% threshold of the TTF maintained value. As the main fiscal stabilization tools, these fiscal buffers will help Tuvalu meet long term financing needs and offer some protection against unexpected financing gaps.

Despite the favorable macroeconomic performance, the August 2017 International Monetary Fund Staff Mission concluded that Tuvalu's macroeconomic outlook remains susceptible to risks stemming from the effects of climate change, volatile fishing revenues, high degree of dependence on development partner funding, limited financial supervision, and fiscal liability of public enterprises with weak balance sheets. Given this reality and recognition that it cannot rest on its previous accomplishments, the government's reform priorities expressed in PRM IV focuses on preserving fiscal buffers, pursuing expenditure and revenue efficiencies, and improving the level of public service delivery.

Impact To achieve a greater level of security and prosperity for all Tuvaluans.

### Project Outcome

Description of Outcome Public sector management improved

Progress Toward Outcome

### Implementation Progress

Description of Project Outputs Procurement compliance strengthened  
Public enterprise performance and management strengthened  
Strengthened resilience through updated building codes

Status of Implementation Progress (Outputs, Activities, and Issues)

Geographical Location Nation-wide

### Summary of Environmental and Social Aspects

Environmental Aspects

Involuntary Resettlement

Indigenous Peoples

### Stakeholder Communication, Participation, and Consultation

During Project Design

During Project Implementation

Responsible ADB Officer Olsson, Sivou Beatrice

Responsible ADB Department Pacific Department

Responsible ADB Division Pacific Subregional Office in Suva, Fiji

Executing Agencies *Ministry of Finance and Economic Development*  
*Private Bag*  
*Funafuti*  
*Tuvalu*

**Timetable**

Concept Clearance	31 Oct 2017
Fact Finding	02 Oct 2017 to 06 Oct 2017
MRM	-
Approval	09 Nov 2017
Last Review Mission	-
Last PDS Update	09 Nov 2017

Project Page	<a href="https://www.adb.org/projects/51245-001/main">https://www.adb.org/projects/51245-001/main</a>
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Date Generated	11 November 2017

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