



Climate PFM At-a-Glance: TUVALU

AUD\$ 52.1 Million 2018 Recurrent Budget
AUD\$ 119.0 Million 2018 Development Budget
AUD\$ 24.4 Million 2018 Budget Support

US\$57 Million Nominal Gross Domestic Production (GDP)
US\$3,157 (2016 est) GDP/Per Capita

10,879 (2016 est) Population
Fish: Main Export

Tuvalu has:

- Improved macro-economic performance associated with work on strengthening climate change (CC) resilience;
- Consolidated its fiscal situation to contain fiscal and debt pressure;
- Recognised Public Finance Management (PFM) reforms critical to accessing CC finance; and
- Some challenges still remain.

PFM is key to:

- Effective economic management;
- Achieving development outcomes; and
- Accessing climate change and disaster risk management (CCDRM) finances.

A summary of PFM performance and key areas for reforming are identified in the consolidated PFM issues matrix¹.

Country's Strategic Direction

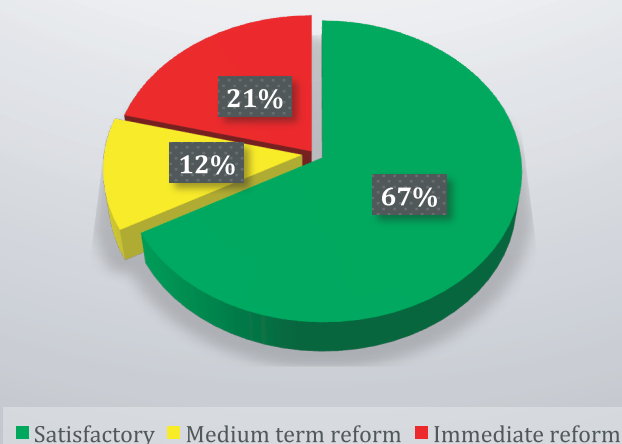
Tuvalu Government has adopted a 5-year National Strategy for Sustainable Development (NSSD) 2016-2020 with a theme to protect and save Tuvalu through improving the quality of life and prosperity for all. The NSSD prioritised four strategic new areas: Climate Change, Environment, Migration & Urbanisation and Oceans & Seas. Implementation of key PFM reforms have been prioritised.

Public Finance Management Performance

The PFM analysis finds that Tuvalu's overall performance reflects the PFM reforms commitment being pursued by the Government in key areas required to access CC finance and the whole-of-Government accountability management, particularly in the PFM

oversight role such as procurement, internal control & audit and project management. With 67% of the PFM performing satisfactorily illustrated in figure 1 below, there are still some key functions within the PFM system (about 21%) that require immediate reforming.

Figure 1: Overall PFM Performance: 2018



Further look into the PFM machinery, the analysis finds that Tuvalu shared 5 common challenges faced by other PICs.

These are namely;

1. Unrealistic budget leads to unsustainable deficits
2. Budget misalignment with priorities
3. Budgets executed not as appropriated
4. Inefficiency in service delivery
5. Capacity limitation

PFM performance by common challenges²

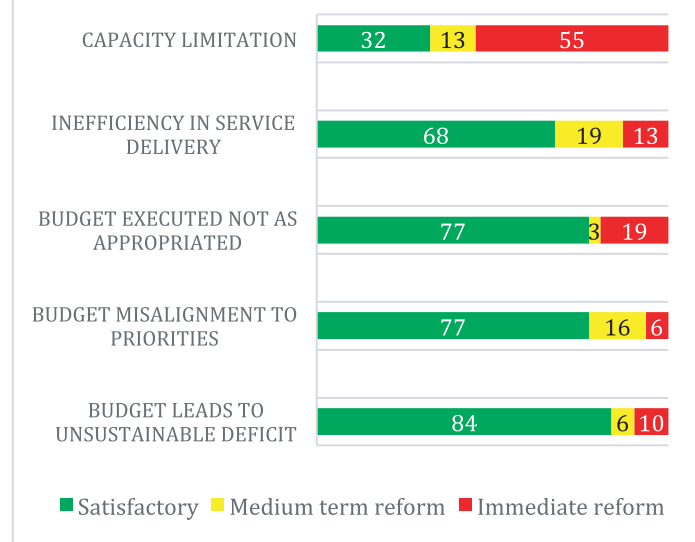
The overall PFM system is performing satisfactorily in almost all the regional common challenges

¹ A traffic-colour-codes single matrix consolidated PFMS issues guided by PEFA and PCCFAF used to identify PFMS weaknesses and strengthens. The RED required immediate reform actions (1 to 2 years); GREEN – continue monitoring to avoid slippage and Yellow: satisfactory with some requires refinement and continue monitoring actions within 1 to 3 years.

² PFM identified common challenges facing FICs.

except for capacity limitation. The analysis finds that about 55%, as shown in the figure below, of the PFM capacity requires an immediate enhancement of policy actions within a year or two to achieve the desired robustness and credibility of the PFM system and to improve the country's ability to access climate change finance directly.

FIGURE 2: PFM PERFORMANCE UNDER 5 COMMON CHALLENGES: 2018



Addressing capacity limitation

Capacity limitations are frequently cited as key constraint to obtaining “best practice” performance standard for PFM. The following suggested actions to address capacity constraint in Tuvalu.

1. Prioritise capacity to areas that matter most in achieving development outcomes and meeting climate change and disaster risk (CCDR) funds fiduciary criteria;
2. Improve access to capacity building, supplementation and substitution opportunities;
3. Improve infrastructure capabilities;
4. Secure political support of all stakeholders involved in PFM reforms (leadership/commitment); and
5. Alignment of donors’ aid modalities to country’s strategies - coordination and harmonisation.

Suggested key PFM reform areas

Tuvalu has been granted US\$36 million from the Green Climate Fund, via UNDP, with US\$2.9 million

co-financing by the Government. The project is for a coastal adaptation initiatives. Although, Tuvalu’s macroeconomic performance has improved, the economy remains susceptible to downside risks, reflecting climate change and natural disasters and high volatility of fishing revenue among other things. These macroeconomic development challenges are on top of the country’s inherent vulnerabilities stemming from remoteness, small size and limited infrastructure. Either direct or indirect accessing to climate change funds, strengthening of PFM capacity is essential to improving the country’s economic management.

The following are suggested key PFM areas to consider reforming immediately (within 1 – 2 years timeframe):

- a. Integrating priorities into the budget and reforming the coding system;
- b. Developing a monitoring and evaluation (M&E) framework to measure performance against desired results;
- c. Strengthening of cash-flow, development fund management, internal control and internal audit;
- d. Developing asset and project management processes, guidelines and framework; and
- e. Strengthening procurement by establishing an independent appeals body and recording database for transparency processes.

Highlights of available support programs

- DFAT/GIZ CFRP Project consolidated and validated all PFM issues and identified key areas needed to be reformed.
- CFRP Project can provide direct technical support to PFM reforms jointly with SPC-ISACC project.
- ADB can provide assistance towards strengthening PFM on three outputs namely; improving budget management, monitoring, procurement and asset management.
- World Bank can provide assistance jointly with ADB and others on areas within their line of support.

Key documents

- 2016-2020 National Strategy for Sustainable Development
- Tuvalu Climate Change Policy
- PEFA Reports and Pacific Country Peer Review
- PFM Consolidated Issues Matrix