

**MANAGEMENT RESPONSE TO THE PROGRAM PERFORMANCE EVALUATION
REPORT FOR THE ISLAND DEVELOPMENT PROGRAM IN TUVALU
(Loan 1693-TUV[SF])**

On 31 May 2006, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

1. Management finds OED's Project Performance Evaluation Report (PPER) well prepared with comprehensive analysis of the project and its implementation. The lessons learned provide valuable guidance for designing future loan and technical assistance (TA) projects in Tuvalu and elsewhere in the Pacific. Management's response focuses on the overall assessment and the lessons learned. ADB's Pacific Department will pursue the follow-up actions as recommended.

A. Overall Assessment

2. Tuvalu has been an ADB member since 1993, and the Island Development Program (\$4 million in 1999) was ADB's first loan to Tuvalu. We note that the PPER concludes that the Project was successful, bordering on highly successful, and that the Project was assessed as highly relevant, effective, efficient, and sustainable.

3. In general, trust funds in the Pacific have supported the delivery of development outcomes. We note that the Falekaupule Trust Fund (FTF) and the larger Tuvalu Trust Fund (TTF) both offer opportunities for harmonization of aid through the trust fund instrument as well as through the associated TA provided for capacity building of the Kaupules, the island councils, improving their respective planning effectiveness and financial management.

B. Lessons Learned

4. We agree with the lessons learned and will incorporate these in ADB's forward program.

- **Document Translation:** We note that training of outer-islanders is best conducted in their specific localities using the local language. The Kaupules will receive further capacity building from UNDP in planning and management of the future FTF dividends. The need for reports and training materials, as well as other documentation, to be in the local language is also acknowledged.
- **Capacity Constraints:** Capacity constraints affect operations across the public service, both in the island councils and central government. Development partners are focused on capacity building and will provide support to strengthening the basic functions of the Government. The Tuvalu's National Strategy for Sustainable Development 2005–2015, *Te Kakeega II*, identified the outer-island and Falekaupule Development as

among eight priority areas. At the recent development partners' round table meeting (May 2006), the partners responded positively to the capacity building needs of the island councils.

- **Focused Tranche Conditions:** The need for greater focus in the design of tranche conditions is noted. The need for improving up-front design of critical trust fund parameters, including the income distribution formula, is also acknowledged.

C. Suggested Follow-up Actions

5. We agree with the two recommended follow-on actions. ADB has on several occasions raised, and will continue to raise, the need for the Government to respond to the qualifications and advice given in the annual auditors' reports on the Government's financial management. ADB has highlighted this issue during the periodic Country Performance Assessments for Tuvalu and through the development partners' joint messages to the Government. With reference to the transfer of the elders' funds back to the National Bank of Tuvalu, ADB will proceed, as suggested, with periodic policy dialogue and follow-up.

D. Conclusions

6. We agree with the report's conclusions that the trust fund modality provides a sustainable aid delivery mechanism for resource-poor microstates. Growing interest in the trust fund modality and particularly in the FTF was demonstrated in New Zealand's contribution to the endowment. In addition, the Government is seeking to expand the use of such modalities to improve coordination, harmonization, and country ownership in project implementation.