



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 28-Jun-2019 | Report No: PIDC26856



BASIC INFORMATION

A. Basic Project Data

Country Tuvalu	Project ID P170558	Project Name Tuvalu DPO and DRM CAT-DDO (P170558)	Parent Project ID (if any)
Region EAST ASIA AND PACIFIC	Estimated Board Date Dec 05, 2019	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Tuvalu	Implementing Agency Ministry of Finance and Economic Development		

Proposed Development Objective(s)

The Development Objective of the Tuvalu DPO and DRM Cat-DDO is to support the government’s efforts to: (i) strengthen public financial management; (ii) enhance infrastructure management, and disaster- and climate-resilience; and (iii) improve social inclusion and protection.

Financing (in US\$, Millions)

SUMMARY

Total Financing	13.50
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DETAILS

Total World Bank Group Financing	13.50
World Bank Lending	13.50

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

Tuvalu is one of the smallest, most remote, and climate change-vulnerable countries in the world, and categorized as a fragile state. The country comprises nine small islands, with a total land area of only 26 square kilometers, scattered over 0.5 million square kilometers of the western Pacific Ocean. Six of the islands (Nukulaelae, Funafuti, Nukufetau, Vaitupu, Nui, and Nanumea) are low-lying atolls made up of islets (*motus*) with infertile, sandy or gravel coralline soils. The other three islands (Nanumaga, Niutao and Niulakita) are raised limestone reef islands with poor soil quality and limited flora. The average elevation in Tuvalu is one meter above sea level (MASL), while the highest point in the country



is 4.5 MASL. The majority of Tuvalu’s population of 11,000 live on land less than one meter above sea level. The atolls also have extremely narrow land masses; for example, Funafuti, where more than half of the population is concentrated, is less than 100 meters wide on average.

The very small size of the domestic economy and Tuvalu’s extreme remoteness from major markets, near total dependence on imports, particularly of food and fuel, and vulnerability to external shocks, climate change and rising sea levels pose significant challenges to macroeconomic performance. The public sector dominates economic activity. Tuvalu has few natural resources, except for its fisheries and earning from fish exports and fish licenses for Tuvalu’s territorial waters are a significant source of government revenue. International aid, including support from the World Bank, and the Tuvalu Trust Fund (TTF), an international trust fund established in 1987 by development partners, are an important cushion for meeting shortfalls in the government’s budget. Private sector development opportunities are highly constrained by the lack of economies of scale in such a small and fragmented domestic market and by severe infrastructure deficits in utilities, transport and communications. Limited economic opportunities are reflected in the fact that 26 percent of the population living below the national poverty line. Tuvalu’s narrowly-based economy and vulnerability to external shocks exposes it to volatility in macro-economic performance and this is exacerbated by the financial impact of climate change and the cost of climate-related adaptation projects. In common with other Pacific Island countries Tuvalu also confronts economic and escalating fiscal costs associated with meeting the health care needs of an aging population and epidemic of non-communicable diseases.

Relationship to CPF

The proposed operation is aligned with the priorities identified in the Regional Partnership Framework (FY2017-FY21) (RPF) covering nine Pacific Island countries.¹ The first component of the PDO program: strengthening public financial management is aligned with focus area 4 of the RPF (strengthening the enablers of growth opportunities – specifically, the development and maintenance of frameworks to improve fiscal management). The second and third components of the PDO are aligned with Focus Area 3: Protecting incomes and livelihoods, through its contribution to achievement of Objective 3.1: Strengthened resilience to natural disasters and climate change.

This operation supports the World Bank Group’s twin goals of ending extreme poverty and boosting shared prosperity. Poorer people are typically disproportionately affected by disasters for several reasons: (i) the poor and “bottom 40 percent” typically have inadequate financial means to deal with disaster events, (ii) poorer people have less access to insurance, cash reserves and alternative income sources that provide the means to recover quickly when faced with more ‘immediate’ challenges (access to food, water, or livelihood) and limited discretionary expenditure for transportation, (iii) poor people tend to live in less resilient housing, and (iv) people just above the poverty line and vulnerable populations (children, women, elderly) can be pushed into transient poverty when a disaster hits. Accordingly, the proposed operation will benefit the most vulnerable and impoverished communities by strengthening the financial management capacity of the government to respond and recover in a timely manner following a disaster, thus allowing poorer communities to recommence their livelihood activities sooner.

C. Proposed Development Objective(s)

The Development Objective of the Tuvalu DPO and DRM Cat-DDO is to support the government’s efforts to: (i) strengthen public financial management; (ii) enhance infrastructure management, and disaster- and climate-resilience; and (iii) improve social inclusion and protection.

¹ Kiribati, the Republic of the Marshall Islands, Federated States of Micronesia, Republic of Nauru, Republic of Palau, Independent State of Samoa, Kingdom of Tonga, Tuvalu, and Vanuatu



Key Results

The expected result of prior action 1 is a reduction in total costs of overseas medical treatment costs as a proportion of total health expenditure. The expected result for prior action 2 is i) increased number of staff of procuring entities/line ministries who receive training on application of Procurement Manual, and/or Complaint Handling Mechanism and Procedures of Debarment; and ii) level of competition – percentage of procurement (number of contracts or value) through competition over the whole budget or whole amount of procurement. The expected result from prior action 3 is for the TAMF to improve asset performance and resilience, and extend assets' service life. The expected result for prior action 4 is the Building Act will to: (i) define minimum standards for buildings through a national building code, (ii) ensure minimum standards for buildings by the issuance of permits and the carrying out of inspections, (iii) enforce such minimum standards by processes that are flexible and affordable, and (iv) improve the disaster and climate resilience of buildings. The result from prior action 5 is revenue from waste management levy. Baseline (2019): none. Target (2022): AUD tbd. The expected result prior action 6 is an increase in the budgetary allocation towards development priorities that will ensure the increased participation of people with disability in the social and economic life of Tuvalu, with disproportionate benefits for women living with disabilities.

D. Concept Description

The proposed program supports policy reforms under three pillars, namely to: (i) strengthen public financial management; (ii) enhance infrastructure management, and disaster- and climate-resilience; and (iii) improve social inclusion and protection.

The first pillar on strengthening public financial management is closely aligned with three goals of Te Kakeega III: (i) Goal 3: The Economy Growth and Stability (ii) Goal 2: Good governance and (iii) Goal 4: Health and Social Development. Goal 3.2 of TK III supports prudent management of the macroeconomic status of the economy. TKIII Goal 2.2 emphasizes that public sector expenditure needs to be contained to manageable level and within the Parliament appropriated level. TKIII Goal 4 Health and Social development the program supports the government review of the policy related to its overseas referral programme.

The second pillar on enhancing infrastructure management and resilience is directly linked to Goal 9 of Te Kakeega III: to provide efficient, high quality infrastructure and support services. This Goal recognizes that new infrastructure and better management of existing infrastructure will play a central role in disaster risk reduction (DRR) and climate change adaptation (CCA). TK III commits to aggressive DRR and CCA measures that include: (i) enacting and enforcing appropriate building codes, (ii) upgrading existing infrastructure, and (iii) creating new, climate-proofed infrastructure and coastal works that protect foreshores, prevent permanent shoreline loss and prolonged coastal inundation, thereby minimizing damage to life and property. Similarly, Tuvalu's Climate Change Policy (Te Kaniva) 4th goal is "developing and maintaining Tuvalu's infrastructure to withstand climate change impacts, climate variability, disaster risks, and climate change projection". Te Kaniva recognizes that strengthening infrastructure is essential, as it is the lifeline the people of Tuvalu use for transportation, communication, the movement of goods, and the means of accessing economic opportunities and social services. Strengthened buildings can also be used as shelters during disasters or emergencies.

The third pillar on improving social inclusion and protection is closely aligned with Goals 4 of Te Kakeega III on Social Development. Specifically, this pillar is closely aligned with Goal 4.9 Social adaptation, 4.12 Poverty, 4.13 Unemployment, 4.14 Community Affairs and 4.16 Gender. Under these goals, the government recognizes the acceleration of social



change in the context of Tuvalu and commits to adapt and establish policies to improve identification, coordination and targeting assistance to the poorest and most vulnerable population.

E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

The policy actions and results to be supported by this proposed operation are expected to have significant positive effects on poor people and vulnerable groups, particularly in improving their resilience to disaster and climate shocks. As an upper middle-income country based on WB GNI measures, Tuvalu has a low extreme poverty rate of 3 percent based on the US\$1.90PPP international poverty line, meaning that the country is largely free from extreme poverty. However, its poverty rate based on the US\$5.50PPP line, which represents the average standard of living in upper middle-income countries, sits at 47 percent, indicating a population that is still vulnerable to economic shocks and in need of strong public service delivery. The stability of public service delivery is particularly relevant to Tuvalu, as it is highly vulnerable to disasters and climate change: catastrophe risk modeling conducted in 2011 estimates that Tuvalu is expected to incur, on a long-term annual average, US\$0.2 million per year in direct asset losses due to earthquakes and tropical cyclones alone. In the next 50 years, the country has a 50% chance of experiencing a loss exceeding US\$4 million, and a 10% chance of experiencing a loss exceeding US\$9 million.² However, asset losses alone do not show how people’s livelihoods are affected, especially the prospects of the poorest and most vulnerable. For the poor, even small absolute values of asset loss can disproportionately affect livelihoods, reducing income and making it even harder to rebuild lost homes and productive assets. Poverty and vulnerability to natural hazards are strongly inter-related: poverty increases vulnerability to adverse natural events, and disasters cause capital and human losses, fostering poverty and leading to poverty traps. The poor, having limited assets and savings, are less able to cope with impacts on consumption or disruptions to income. The reforms supported by this operation will improve the quality and stability of public service delivery, with an emphasis on protecting against climate- and disaster-related shocks.

Environmental Impacts

The policy reforms supported by this operation are unlikely to have any negative effects on Tuvalu’s environment. Reforms to support macroeconomic sustainability through the strengthening of the investment management of the country’s reserve assets and improving the effectiveness of payroll expenditures are not likely to have any significant environmental impacts. The prior actions supported under this operation are not expected to create negative impacts on Tuvalu’s environment, forests and other natural resources.

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² Pacific Catastrophe Risk Assessment and Financing Initiative, at note 7.



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APPROVAL

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Approved By

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