

**PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

September 16, 2016
Report No.: 108885

Operation Name	Third Development Policy Operation
Region	EAST ASIA AND PACIFIC
Country	Tuvalu
Sector	General public administration sector (100%)
Operation ID	P155066
Lending Instrument	Development Policy Lending
Borrower(s)	Tuvalu
Implementing Agency	Ministry of Finance and Economic Development Vaiaku, Funafuti, Tuvalu Tel: (688) 20-202 Fax: (688) 20-210 LIulai@gov.tv
Date PID Prepared	September 16 th , 2016
Estimated Date of Appraisal	September 26 th , 2016
Estimated Date of Board Approval	December 9 th , 2016
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

Tuvalu's economy is highly vulnerable to challenges stemming from its very small size, geographic isolation and structural economic conditions, and relies heavily on grants and buffer assets to absorb shocks. These extreme physical challenges in turn limit growth prospects. The Tuvalu Trust Fund and its auxiliary fund the Consolidated Investment Fund are the main stabilizing tool for volatile fiscal outcomes, and building adequate buffers in these funds to meet long term financing needs is critical to the sustainability of Tuvalu. Geography, external shocks and access to services pose challenges to poverty reduction and inclusive growth. The Government of Tuvalu (GoT) has laid out an agenda to address these challenges and improve macroeconomic sustainability as set out in its National Strategy for Sustained Development 2016-2020 (TKIII). Drawing from this, a policy reform matrix was developed by the GoT, in consultation with the World Bank and other development partners, to pursue measures that would reduce vulnerabilities, ease fiscal constraints, and enhance the effectiveness of key government programs, including in health and education. The proposed operation builds on the policy dialogue between the GoT and the World Bank over the past four years, and supports reform areas where the World Bank can add value in coordination with other development partners. This operation is proposed as the first in a programmatic series of two Development Policy Operations in support of Tuvalu's ongoing reform efforts and its broader development strategy. Financing provided through the operations will support the maintenance of buffers to meet long term financing needs, including those arising from future climate related shocks. Maintenance of adequate buffer assets will in turn ensure Tuvalu's ability to absorb future shocks without disruption to the level of service delivery.

II. Proposed Objective(s)

The proposed operation is aimed at supporting the GoT's reform agenda in the critical areas of (i) improving social service delivery and (ii) building macroeconomic sustainability. The first pillar of the proposed operation supports reforms to improve social service delivery. More specifically, reforms under this pillar which remove secondary education school fees will improve the equity of access, while tightening tobacco controls will help reduce risk factors to noncommunicable diseases. Together these reforms will allow the GoT to achieve higher quality health and education outcomes. The second pillar of the proposed operation supports reforms to improve macroeconomic sustainability. Reforms to strengthened reserve asset management, improve the effectiveness of wage bill controls and enhance banking sector oversight and sustainability will help reduce Tuvalu's unique vulnerabilities by building resilience to better respond to exogenous shocks. These reforms are not only aligned with the TKIII objectives of supporting security and prosperity of all Tuvaluans, but are also aligned with the broader World Bank goal of boosting shared prosperity.

III. Preliminary Description

The first pillar of the program focuses on improving social service delivery through (a) enhancing inclusiveness and equity of secondary education; and (b) reducing risk factors for non-communicable diseases. The second pillar of the program focuses on improving macroeconomic sustainability through (a) strengthening investment management of reserve assets; (b) improving effectiveness of payroll controls; and (c) enhancing banking sector oversight and sustainability. The government recognizes the critical importance of improving service provision, if it is to achieve the objective of its development strategy to achieve a greater level of security and prosperity for all Tuvaluans, including through achievement of higher standards of quality health and education. It also recognizes that reforms under the second pillar will help reduce Tuvalu's vulnerabilities by building resilience to better respond to exogenous shocks. This programmatic series of operations supports these endeavours.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts: The policy actions supported under the proposed operation are expected to have a significant positive impact on poor people and vulnerable groups. More specifically, under the first pillar of the operation, abolishing secondary school fees is expected to have a marked positive impact on the poor. In addition, the amendments to tobacco control legislation is expected to have a net positive impact on the poor over the long run. Reforms under the second pillar of the operation are also expected to indirectly benefit the poor. Finally, the policy actions supported under the proposed operation are also expected to have a positive gender impact.

Environment Aspects: The policy reforms supported by this operation are not likely to have any negative effects on Tuvalu's environmental aspects. Reforms to improve social service delivery has potential opportunities to attain environmental benefits through having environmental

linkages manifest through improvements in health and education service delivery. Reforms to support macroeconomic sustainability through strengthening investment management of reserve assets, improving the effectiveness of payroll controls and increasing oversight of the banking sector are not expected to have any significant environmental impacts. It is also expected that very limited, if any, green field development would result from the Program. Therefore, policy actions supported under the operation are not expected to create negative impacts on Tuvalu's environment, natural resources or forests.

V. Tentative financing

Source:	(\$m.)
Borrower/Recipient	0.0
IDA	3.3
Total	3.3

VI. Contact point

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