Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 24-Apr-2018| Report No: 125959

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Tuvalu	P161867	Tuvalu Fourth Development Policy Operation	
Region	**Estimated Board Date**	**Practice Area (Lead)(s)**	**Financing Instrument**
East Asia and Pacific	June 14, 2018	Macroeconomics, Trade & Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Tuvalu	Ministry of Finance and Economic Development		

Proposed Development Objective(s)

First pillar: Improving the delivery of education and health services through: i) enhancing inclusiveness and equity of secondary education; and ii) reducing risk factors for non-communicable diseases. Second pillar: Improving macroeconomic sustainability through: i) strengthening the management of reserve assets; ii) improving the effectiveness of payroll controls and linkages to the budget; and iii) enhancing banking sector oversight and sustainability.

Financing (in US$, Millions)

SUMMARY

Total Financing	US$ 7.5 million

DETAILS

Source: IBRD/IDA/Others (Specify) Co-financing	IDA

Decision

The Decision from the Regional Operations Council meeting was to proceed with appraisal and negotiation of the operation.

B. Introduction and Context

Country Context

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. Tuvalu is comprised of three reef islands and six atolls. With a total land area of only 26 km^2 and a population estimated at 11,000, it is one of the smallest and most remote states in the world. The private sector remains small (consisting mainly of small firms in the wholesale and retail sectors), and has struggled to grow. The Tuvalu Trust Fund (TTF) and its auxiliary fund the Consolidated Investment Fund (CIF) are the main stabilizing tools for volatile fiscal outcomes, and building adequate buffers in these funds to meet long term financing needs is critical to Tuvalu's fiscal sustainability. 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, the GoT has developed a Policy Reform Matrix (PRM), in consultation with the World Bank Group (WBG) and other development partners, to address key challenges. The proposed operation builds on the ongoing policy dialogue between the GoT and the WBG.

Relationship to CPF

This operation is aligned with the priorities identified in the Regional Partnership Framework (RPF) for 9 Pacific Island Countries[1]. The RPF is focused around four themes, namely: i) fully exploiting the available economic opportunities; ii) enhancing access to employment opportunities; iii) protecting incomes and livelihoods; and iv) as a cross-cutting theme, strengthening the enablers of growth opportunities (macroeconomic management, infrastructure, and addressing knowledge gaps). The proposed operation will contribute directly to these priorities by supporting reforms to improve social service delivery and improved health and education outcomes, further improve the management of the TTF, and provide more efficient and evidence-based public expenditure management, which will in turn improve the investment climate and encourage private sector growth.

C. Proposed Development Objective(s)

The program development objective is: i) improving the delivery of education and health services through enhancing inclusiveness and equity of secondary education and reducing risk factors for non-communicable diseases; and ii) improving macroeconomic sustainability through: strengthening the management of reserve assets; improving the effectiveness of payroll controls and linkages to the budget; and enhancing banking sector oversight and sustainability.

Key Results

Financing provided through the operation will support the maintenance of buffers to meet long term financing needs, including those arising from future climate related shocks, and Tuvalu's ability to absorb future shocks without disruption to the level of service delivery. The first pillar of the proposed operation supports reforms to improve health and education service delivery. Changes to taxation policy will encourage healthier lifestyles for all Tuvaluans. Improved oversight of the early child care and education (ECCE) sector is expected to improve readiness for schooling at entry, and thereby secondary education participation. The second pillar of the proposed operation supports reforms to improve macroeconomic sustainability. Reforms will help to ensure sustainability of the public service wage-bill, strengthened investment management, and better financial sector regulation. These reforms are not only aligned with TKIII objectives,

[1] The RPF was developed for Kiribati, the Republic of Nauru, the Republic of the Marshall Islands, Federated States of Micronesia, Republic of Palau, Independent State of Samoa, Kingdom of Tonga, Tuvalu and Vanuatu – drawing on the PIC-8 SCD.

but are also aligned with the broader World Bank goal of boosting shared prosperity.

D. Preliminary Description

This second operation of a programmatic series is expected to support the government's development objectives and contribute to the improved wellbeing of Tuvaluans, while supporting the maintenance of buffers to meet long-term financing needs. Drawing from the PRM, reforms to improve health and education, and build macroeconomic sustainability have been identified as critical areas to support. The supported reforms under the first pillar are to increase taxes on consumption goods that contribute to non-communicable disease risks and to begin to process of bringing the early childhood care and education sector under the purview of the Government, via its Ministry of Education. These reforms will, over time, help to reduce NCD risk factors and improve the quality of education at entry to formal school, and are expected to disproportionately benefit the poor as the impact is felt over time. The supported reforms under the second pillar, building macroeconomic sustainability, are to implement a new process of medium-term budgeting for government wagebill costs, to implement reforms to TTF institutional arrangements, and to operationalize the Banking Commission. These reforms are expected to contribute to reducing poverty and improving social outcomes in Tuvalu by increasing the capacity for enhanced and sustainable public service provision, and the ability for the government to respond effectively to shocks. This will benefit particularly those living on the OIs, where some of Tuvalu's poorest households reside. 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. Financing provided through the proposed second operation of this programmatic series will support these endeavors, by directly supporting the maintenance of fiscal buffers and meet Tuvalu's long-term financing needs. More importantly, the operation will sustain the reform momentum built throughout the previous operations in this and the previous programmatic series of DPOs.

E. 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. Measures supported under the program address long-term challenges that Tuvalu faces, and by doing so create conditions for better, and more sustainable, public services in future, and lives that are less afflicted by the debilitating burden of NCDs. Strengthening the investment management of the TTF is focused on achieving increased returns by aligning to strategic objectives. For instance, adopting a strategy to build the TTF real value, at least over a period of years, will increase the financing and overall budget envelope in future, enabling greater prosperity and inclusive government service provision than would otherwise have been available. The amendments to excise taxes on tobacco, alcohol and sugary drinks are expected to have a net positive impact on the poor over the long run. In the short term, the higher taxes on sin goods will have an adverse impact on household budgets for the poor, particularly where members continue to consume the affected products unabated. However, the magnitude of the impact could be relatively small, at least according to the HIES data, which report low levels of spending on sin goods (e.g. on average, poor households report spending 1.5 percent of their household budget on tobacco). This illustrates the potential of establishing a clear price signal via taxation, as these commodities are currently very low-cost. Over the longer term, for tobacco products specifically, the 2014 Pacific NCD Roadmap shows that the poor benefit significantly more than the rich in terms of overall improved health outcomes, and less of the tax burden, because the poor are more likely to stop smoking, or not take it up in the first instance. By increasing the cost of these unhealthy goods, in conjunction with other policy supporting behavior change such as under the Tobacco Control Act supported under the first operation, consumption is expected to fall, leading to strongly positive health impacts.

Aspects of the program tackle gender gaps, and women are expected to be disproportionately better off as a result of some of the actions supported, as well as proportionately benefiting from many others. The benefits arising from lowering consumption of tobacco, alcohol and sugary drinks will disproportionately accrue both to poorer households, and women. Women are 20 percent more likely to be obese than men according the latest DHS, and will disproportionately benefit from a shift from obesity-causing consumption such as sugary drinks. Using education levels as a proxy for poverty, individuals with less education are much more likely to be at risk from NCDs. According to the latest available DHS, women without secondary education are more than twice as likely to smoke than women with more than secondary education, while similarly less-educated men are about 50 percent more likely to smoke. Women with lower education are also more likely to be obese (75 percent compared to 71 percent). Alcohol consumption rates are high, particularly for men. There is insufficient information to correlate this to poverty, but similar trends to tobacco consumption would be expected. A reduction in the consumption of alcohol could be expected to contribute to lower levels of domestic violence against women, which is a serious problem in Tuvalu. The DHS reported that 4 in 10 women have been subjected to some type of physical violence, with their current husbands or partners being the main perpetrators (84.6 percent). The same survey indicates that men who drink excessively are far more likely (72 percent) to subject their partners to abuse than those who do not drink (27 percent). In the long term, reducing the cost of treatment for NCDs will create room to reorient expenditure towards primary, preventative and maternal care, which women disproportionately depend on. Reforms to improve early childhood literacy and school readiness are expected to disproportionately benefit women in affording an improved quality of education outcomes given attendance rates are higher for girls. While overall, paid employment rates are lower for women than men (25 percent of 15+ women compared to 32 percent of men were paid employees according to the 2012 Census), women are more likely to work in professions that require secondary or higher education, such as ‘technicians and associate professionals’, ‘professionals’, and ‘clerical support workers’, while men dominate the agriculture and fisheries sector.

Environment 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. In particular, strengthening the management of the TTF would likely have positive second round effects on the TSF (given its co-reliance on the TTF Secretariat function and investment strategy), therefore enhancing resilience and contributing to the country’s ability to respond to climate change risks.

In general, Tuvalu’s environmental protection regime is adequate and has been strengthened over time by substantial project engagements and technical assistance from development partners. The Environmental Protection Act (2008) provides the overarching legislative framework for environmental protection and management, including the requirement to perform environmental impact assessments for larger projects. Capacity in the Department of Environment, however, remains thin – such that the GoT will continue to be heavily reliant on outside expertise provided by regional organizations, notably the Secretariat of the Pacific Regional Environment Program (SPREP). Substantial project engagements and technical assistance from development partners, including from the World Bank, in recent years have supported the strengthening of the environmental protection framework and capacity for risk management. As such, it is generally considered that adequate protection would be provided by the existing legal and administrative frameworks for environmental assessment and land management in Tuvalu.

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APPROVAL

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