

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

[Date]  
Report No.: [AB7590]

<b>Operation Name</b>	Second Development Policy Operation
<b>Region</b>	EAST ASIA AND PACIFIC
<b>Country</b>	Tuvalu
<b>Sector</b>	General public administration sector (40%); Public administration- Industry and trade (20%); Public administration- Education (20%); Public administration- Health (20%)
<b>Operation ID</b>	P150194
<b>Lending Instrument</b>	Development Policy Lending
<b>Borrower(s)</b>	Tuvalu
	Ministry of Finance and Economic Development Vaiaku, Funafuti, Tuvalu Tel: (688) 20-202 Ext. 3068 Fax: (688) 20-210 lteatu@gov.tv
<b>Implementing Agency</b>	Ministry of Finance and Economic Development
<b>Date PID Prepared</b>	June 23, 2014
<b>Estimated Date of Appraisal</b>	October 23, 2014
<b>Estimated Date of Board Approval</b>	January 26, 2015
<b>Corporate Review Decision</b>	Following a concept review meeting, 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, structural economic conditions, and relies heavily on grants to meet its development financing needs. The Global Financial Crisis resulted in a decline in the value of the Tuvalu Trust Fund, the country's main fiscal buffer, and although it is recovering from this exogenous shock, the government's ability to meet its financing requirements and counter future shocks remain restricted given the many vulnerabilities and challenges it faces. The Government of Tuvalu has taken steps to consolidate expenditures and is committed to continue addressing fiscal imbalances in the medium term. It also set out an agenda for policy reform in its National Strategy for Sustained Development 2005-2015 or Te Kakeega II. Drawing from this, a policy reform matrix was developed by the Government of Tuvalu, in consultation with the World Bank and other development partners, to pursue measures that would ease fiscal constraints, improve public finance management and enhance the efficiency of key government programs in health, education and outer islands. The proposed operation builds on this dialogue between the GoT and the World Bank over the past three years, and supports reform areas where the World Bank can add value in coordination with other development partners.

This operation is proposed as the second in a programmatic series of two Development Policy Operations in support of Tuvalu's ongoing reform efforts and its broader development strategy.

This operation will provide financing to support the rebuilding of Tuvalu's fiscal buffers and sustain reform efforts through an election.

## **II. Proposed Objective(s)**

This operation proposes to support Tuvalu's ongoing reform efforts as identified in the policy reform matrix through the two main pillars to: (i) strengthen public financial management; and (ii) improve social service delivery. Given the importance of the public sector to Tuvalu's economy, an effective system for public financial management is critical. The first pillar of the program focuses on strengthening public financial management with the specific development objectives of improved commitment control, enhanced oversight of fishing revenue, and streamlined reporting of local governments (Kapaules). The second pillar focuses on improved service delivery with the specific objectives of enhancing the management and efficiency of Tuvalu's essential, but costly, overseas medical treatment scheme and strengthening vocational training, including increased access for women. These services are essential to building and maintaining human capital, a key asset for an undiversified small economy. Together, the supported reforms are designed to help Tuvalu improve its fiscal position both in terms of revenue and expenditure, while maintaining the quality of public services.

## **III. Preliminary Description**

The first pillar of the proposed operation supports reforms to strengthen public financial management by: (i) strengthening treasury commitment and expenditure control through introduction of centralized commitment control procedures; (ii) strengthening oversight of critical fishing revenues through enhanced record keeping and reconciliation; and (iii) reducing administrative burden on the Kapaules while enabling better tracking of funds through piloting of a streamlined Outer Island financial reporting framework.

The second pillar of the proposed operation supports reforms to improve social service delivery through: (i) strengthening the patient referral process and institutionalizing efficiency measures piloted in 2013; and (ii) increasing post-primary education opportunities, particularly for Tuvaluan women, through broadening of the training program offered at the Tuvalu Maritime Training Institute.

The government recognizes that reforms to key aspects of public financial management will help underpin its ability to improve its fiscal situation and rebuild the fiscal buffers it needs to respond to future external shocks. It also recognizes the critical importance of improving service provision, if it is to achieve the objective of its development strategy to 'provide quality health and education services that are equitable, balanced, cost effective, and meet the needs of Tuvaluans'. This programmatic series of operations supports these endeavours.

## **IV. Poverty and Social Impacts and Environment Aspects**

Poverty and Social Impacts - Policies supported by the operation are unlikely to have significant poverty and social consequences, especially on the poor and vulnerable groups. Enhancing employment orientated vocational training will contribute to greater employment opportunities

for Tuvaluans, including the poor. The broadening of the TMTI program to allow female participation will not only reduce disadvantage to women in education opportunities, but enhance the employment prospects of Tuvaluan women. Better management of the medical treatment program will improve the quality of these services whilst reducing the cost of their provision. These savings will free up scarce resources and allow the GoT to address the expenditure imbalance in the health sector and to invest more in primary, preventative and maternal care, which benefit a greater proportion of the population, including the poor. Reforms to strengthen governance and accountability of outer island Kaupules are expected to support improve service delivery to some of Tuvalu's poorest and most remote households. Finally, strengthening public financial management is expected to unclog the budget process and allow it to be an effective tool for responding to national poverty and social needs.

Environment Aspects - The policy reforms supported by this operation are not likely to have any negative effects on Tuvalu's environment or natural resources. The actions supported by the proposed operation for improving public financial management and service delivery do not have any direct links to environmental factors.

## **V. Tentative financing**

Source:	(\$m.)
BORROWER/RECIPIENT	0
IDA Grant	<u>1.5</u>
Total	1.5

## **VI. Contact point**

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