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Report Number: ICRR0022627

1. Program Information

Country	Practice Area (Lead)
Tuvalu	Macroeconomics, Trade and Investment

Programmatic DPF

Planned Operations	Approved Operations
2	2

Operation ID	Operation Name
P155066	Third Development Policy Operation

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IDA-D1520	30-Jun-2018	3,448,847.32

Bank Approval Date	Closing Date (Actual)
09-Dec-2016	30-Jun-2018

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	3,300,000.00	0.00
Revised Commitment	3,300,000.00	0.00
Actual	3,448,847.32	0.00

Country	Practice Area (Lead)
Tuvalu	Macroeconomics, Trade and Investment

Operation ID	Operation Name
P161867	Fourth Development Policy Operation (P161867)

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IDA-D1520,IDA-D3250	30-Jun-2019	7206409.93
Bank Approval Date	**Closing Date (Actual)**	
30-Aug-2018	30-Jun-2019	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	7,500,000.00	0.00
Revised Commitment	7,500,000.00	0.00
Actual	7,206,409.93	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
Soren Kirk Jensen	Clay Wescott	Jennifer L. Keller	IEGEC

2. Program Objectives and Pillars/Policy Areas

a. Objectives

This ICRR covers both the Third Development Policy Operation as well as the Fourth Development Policy Operation in a programmatic series of two DPOs. No Program Development Objective (PDO) is clearly stated in the Financial Agreement letter of either operation, and neither Program Documents (PDs) articulated a clear PDO. While the PDs of the DPO did not articulate a PDO, the ICR stated the PDO as follows (it is unclear what the source is for this):

The proposed development policy operation will support the Government of Tuvalu's medium term reform agenda in the areas of public finance management, service delivery and public enterprise reforms.

The PDO stated by the ICR complicates the review of the DPO by stating the three key focus areas as: service delivery (which adequately reflects the support within the education sector but not the health sector, where support was focused on changing health policy to reduce risk of non-communicable disease (mainly focused on regulating access to tobacco)), and public sector enterprise reform, where the focus was actually on strengthening financial sector stability through reform of the banking sector.

The following describes the pillars in each of the operations in the series (note a “pillar” is not the same as a PDO. Program documents should clearly articulate PDOs).

Third DPO:

- 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 noncommunicable diseases (NCDs).
- The second pillar of the program focuses on improving macroeconomic sustainability through (a) strengthening investment management of reserve assets; (b) improving effectiveness of payroll.

Fourth DPO:

- 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.

In light of the above, and for the purposes of this ICRR, the PDOs are restated as follows:

1. Improve service delivery in education and health
2. Improve macroeconomic sustainability

b. Pillars/Policy Areas

As noted in Section 2a, the pillars and PDOs were not well articulated or separated. The DPO series had two pillars that ran through the two operations with changes from the third to the fourth DPO. In the third DPO, pillar 1 was on social services with the wording adjusted to education and health services delivery in the fourth DPO. Pillar 2 was on macroeconomic sustainability, which in the fourth DPO was expanded to include banking sector reform.

The ICR describes the following two pillars for the series:

- Pillar 1: Improving the delivery of education and health services
- Pillar 2: Improving Macroeconomic Sustainability

c. Comments on Program Cost, Financing and Dates

The Third DPO (first in this series) was approved on December 9, 2016 and closed on June 30, 2018. An IDA grant provided financing of US$ 3.3m with US$ 3.45m disbursed.

The Fourth DPO (second in this series) was approved on August 30, 2018 and closed on June 30, 2019. An IDA grant provided financing of US$7.5m; US$7.21 was disbursed.

Discrepancies were due to exchange rate fluctuations between the US and Australian dollar.

3. Relevance of Design

a. Relevance of Objectives

With less than 12,000 people, Tuvalu is the fourth-smallest country in the world in terms of population. Its low-lying landmass is a mere 26 km2 in the South Pacific Ocean and as such its existence is under threat from climate change. Due to these contextual features it is characterized by high institutional and social fragility although it is not affected by violent conflict. Tuvalu has no country partnership framework with the Bank Group, but a Regional Partnership Framework (RPF) (FY2017-21) covers nine Pacific Island countries. The National Strategy for Sustainable Development or Te Kakeega III articulates the government's strategy.

The relevance of the restated PDO (as opposed to the PDO stated in the ICR) is as follows:

1. **Improve service delivery in education and health:** Building human capital is an important priority for Tuvalu. On education, quality is as much an issue as access across the nine Pacific Island countries, including Tuvalu , but the region also faces a demographic situation characterized by a large and growing number of young people and high levels of youth unemployment. Building human capital was a vital pillar of the Te Kakeega III strategy, with reforms focused on enhancing inclusiveness and equity of secondary education. On health, the Pacific Islands face urgent challenges in the form of NCDs. Regionally, the main NCD-related challenge is obesity (40 percent of adults are obese, and 80 percent are overweight). In addition, Tuvalu is in the top ten countries globally for the prevalence of diabetes in the 20-79 age range).

Improve macroeconomic sustainability: This PDO (which had to be inferred from program documentation) is very general and encompasses a wide range of possible reform areas, making an assessment of its relevance difficult. A more focused PDO, perhaps stated at a lower level would have been preferable and would have been more supportive of operational transparency and accountability.

b. Relevance of Prior Actions

Rationale

Pillar 1: Improve the delivery of education and health services	
DPO 3	***DPO 4***
PA1: The Recipient's Cabinet has endorsed the removal of secondary education school fees to enhance inclusiveness and equity of secondary education.	PA2: The Recipient, through its Cabinet, has approved a proposal to amend the Education Act to formally recognize ECC and education as a government competency, overseen by the Ministry of Education, Youth, and Sports.
PA3: The Recipient's Cabinet has approved the Tobacco Control (Amendment) Bill and directed that the amendments be introduced to Parliament to reduce risk factors for non-communicable diseases.	PA4: The Recipient, through its Cabinet, has approved increases to selected excise and import duties on specific tobacco, alcohol, and sugary beverage products, to reduce non-communicable disease risk factors.
Pillar 2: Improve Macroeconomic Sustainability	

PA5: The Recipient commissioned a review of the Tuvalu Trust Fund, which provided recommendations to strengthen reserve asset management by focusing on improving governance and investment policy. The Recipient has submitted this review to the Tuvalu Trust Fund Board for endorsement of the recommendations.	PA6: The Recipient has: (a) appointed a representative of the Recipient's Government to the TTF Investment Committee; and (b) through its participation in TTF Board decision-making: (i) increased TTF secretariat staffing and, (ii) decided to commission an investment strategy review to align investment management better with strategic objectives.
PA7: The Recipient has introduced an automated payroll system to improve the effectiveness of payroll controls.	PA8: The Recipient, through its Ministry of Finance and Economic Development, has approved and circulated a revision to the financial instructions mandating the documentation of the annual and medium-term budgetary impact of civil service pay policy changes.
PA9: The Recipient's Parliament has enacted the Banking Commission Amendment Act and a framework for monitoring the Banking sector to improve oversight and sustainability.	PA10: The Recipient, through its Ministry of Finance and Economic Development, has taken steps to make the Banking Commission fully operational by approving a supervision plan, and budgeting and advertising for an international supervision expert.

Pillar 1

PA1 and PA2 aim to contribute to reforming service delivery. PA1 does so by facilitating the removal of the constraint in terms of a fee structure, which inhibited low-income families from pursuing secondary education. However, it is unclear how PA2 contributes to the objective. Specifically, how significant was the lack of formal recognition of ECC and education as a government competency overseen by the Ministry of Education, Youth, and Sports a constraint to improving education and service delivery? There is little articulation for how this will translate into progress toward achievement of the PDO. The PD lacks clarity on the results chain.

Rating PA1: moderately satisfactory

Rating PA2: unsatisfactory

PA3 and PA4 address health policy rather than service delivery. PA3 targeted tobacco use through a requirement for Parliament to enact an amended law on tobacco control. While appropriate health policy, the ICR does not how this will translate into an improvement in the delivery of health services. The Program Document for the third DPO states that the government had reviewed the 2008 Tobacco Control Act in 2016, identifying several weaknesses. The amended law addressed these through broadened definitions, restricted access to minors, disallowed the sale of single cigarettes, and introduced licensing requirements for importers. It also paved the way for introducing price and tax measures. This is the focus of PA4 as it required increasing excise and import duties not only on tobacco but also on specific alcohol and sugary beverage products. While consumer behavior and price elasticity can differ from place to place, there is overwhelming evidence of the impact of price changes on reducing tobacco consumption. The inclusion of excises on alcohol and sugary beverage products increases the relevance by broadening the scope to address NCDs, diabetes, and alcoholism (and potentially gender-relevant associated domestic violence) which are major health issues in Tuvalu. The two PAs supported relevant health policy in Tuvalu, but have little to do with service delivery and hence the results chain is unclear. While a reduction in NCDs would presumably reduce demands on the heath system, and increased revenue would arise from increased taxes on tobacco and alcohol, there is little in the PD to justify an expectation that these resources would be allocated to improving health services.

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Rating PA3: unsatisfactory

Rating PA4: unsatisfactory

Pillar 2

PA5 and PA6 are related to the objective of strengthening public financial management (PFM). From a revenue and fiscal perspective, one cannot underestimate the importance of good management of the TTF. PA5 was based on an evidence-based approach (based on findings of two reviews) to encourage reform within a highly sensitive policy area to address a costly investment and management structure. The Bank's review had identified several weaknesses, including: "the (a) relatively weak return compared to the risk profile; (b) relatively high cost of management fee compared to return; and (c) weaknesses in the investment management governance structure." (PD1). Reforms were critical to ensure the long-term sustainability of the TTF. The team estimated that a reduction of management fees would save more than half a million US$ per year, equivalent to 1.8 percent of Tuvalu's GDP. Endorsement of the recommendations of the review by the TTF Board represented a starting point followed by PA6 that required several significant reforms, including ensuring government representation in the investment committee, increasing TTF secretariat staffing, and commissioning an investment strategy review. As noted, the PAs were grounded in credible analytical work, and the results chain between PA5, PA6, and the unpacked PDO was convincing and as explicit as feasible in a sensitive policy area. The PAs, if implemented, would make a major contribution towards the PDO of strengthened public financial management given the sheer size of the savings involved in a renegotiated management fee compared to the modest size of the GDP of Tuvalu.

Rating PA5: satisfactory

Rating PA6: satisfactory

PA7 and PA8 represented an expenditure dimension of the PFM PDO through improved payroll control, but the results chain underpinning this area of intervention was not convincing. PA7 sought to extend the existing financial management information system (ACCPAC) by introducing an automated system to reduce the administrative burden, increase controls' effectiveness, and allow public servants to focus on more critical areas. However, introducing overly complex automated or digital solutions in low-capacity environments (such as Tuvalu) is problematic. Analytically, the design drew from a PEFA self-assessment and World Bank TA that raised concerns about the implications of "uncontrolled wage bill growth." PA7 was followed up by PA8 in the fourth DPO focused on documentation of the budgetary impact of civil service pay policy changes on an annual and medium-term basis. However, while PA7 could reasonably have been expectedto strengthen control over civil service pay, PA8 does not itself result in any reduction in fiscal pressures or any binding change in the parameters for setting wage increases. Still, given the recognition within the Bank of severe capacity constraints PA7 was too ambitious for the context.

Rating PA7: moderately satisfactory

Rating PA8: moderately unsatisfactory

PA9 and PA10 are associated with the objective to improve macroeconomic stability. The amendment act to the Banking Commission notably included a provision for the minister of Finance and Economy to have the interim powers to perform the functions and powers of the banking commission in recognition of the capacity constraints until an independent Commission commences operations. Given the critical challenges concerning capacity, this amendment made sense. PA10 in the Fourth DPO took this forward to make the banking commission fully operational through support from an international supervision expert, adequately resourced, with an approved supervision plan put in place. This prior action aimed to enable the Interim Commissioner to carry out their functions within existing capacity constraints These PAs could reasonably be expected to improve awareness of vulnerabilities in the banking system which is an important first step to strengthening system stability. A Satisfactory ratings would require additional certainty that the strengthened framework would result in actions to address underlying weaknesses. Therefore these PAs are rated Moderately Satisfactory.

Rating PA9: moderately satisfactory

Rating PA10 moderately satisfactory

Overall

While the PAs were broadly relevant to the development challenges faced by Tuvalu. The drawbacks were mainly related to a lack of clarity with respect to the results chain and the number and variety of objectives under different policy areas. This was further obfuscated by the way the DPO was formulated in the ICR which had limited connection to the actual focus of the program. Prior actions under objective 1 (PA1-4) broadly aimed to support policy reforms, not service delivery, and objective 3 was sought to support reforms in the financial sector, not public enterprises.

Rating

Moderately Satisfactory

4. Relevance of Results Indicators

Rationale

Rationale

RI 1: In line with the weakness of the results chain for the PDO (as stated in the ICR) the RI only marginally measures the impact of PA1, and it is not relevant to PA2. Indeed, there are no RIs to capture the impact of PA2. Baseline data and target are precise and well-sourced to the Ministry of Education, which produced credible data to measure the achievement of the target at the time of the ICR.

Rating R1: Moderately unsatisfactory

RI 2: While the indicator is mostly adequate to measure the impact of PA4 it only peripherally measures the impact on PA3, which targeted a revision of the legal framework. However, the relevance of PA3 and PA4 is weak since the link between increased retail prices and improved service delivery is unclear. The intent of P3 and PA4 is to reduce risk of non-communicable disease by increasing prices of harmful products.

Rating R2: Unsatisfactory

RI 3: The RI has two parts, with one part targeting competitive appointment of investment managers (RI 3a) and the other a reduction of the annual management fee (RI 3b). They only peripherally measure the impact of PA6 and PA7 which had a different focus but the combined RIs were relevant to the achievement of the reworded PDO of improved PFM (given the importance of the TFF to fiscal sustainability and the sheer size of potential savings). The PD clearly lays out the underlying rationale for the indicator but the way it is defined and used within the results chain is less clear. While the baseline data both for RI 3a and 3b is clear, the data sources are not. It is unclear (in the ICR) if the data to measure achievement of the target was available for the targeted year of 2019 or only for 2021, what would be the source for the fees charged by the two Fund managers and how the basis point reduction was calculated.

Rating R3: Moderately satisfactory.

RI 4: This results indicator measures progress towards strengthening PFM. It adequately measures the impact of PA8 but not the earlier PA7 and was revised under DPO 4 from a quantitative indicator measuring the variance between budget and actual wage spending. The simplification of the indicator to target the introduction of a budget reporting measure made its connection to the prior action and results chain clearer, more credible, and narrower, but with a less clear impact on the PDO. The PD clearly explains the reasoning behind the indicator although extending it to a requirement for reporting on spending in in-year and annual reports and actual expenditure would have strengthened its ability to measure impact. The source is clear and credible and was available at the time of the preparation of the ICD.

Rating R4: Satisfactory

RI 5: This results indicator was intended to measure progress towards the PDO of improving macroeconomic sustainability. The indicator is very broadly formulated. It does capture improvement in the supervision of the banking sector, but as with the associated PA, it does not result in actions that will improve underlying conditions. The ICR reports that the target was changed from annual to regular monitoring reports, but this is not evident in the PD where the Policy and Results Matrix refer to annual reports and the Summary of Proposed Grant and Program table use the phrasing "… at least annually". .

Rating R5: Moderately satisfactory

Table on Results Indicators							
RI description (assigning a number to each RI)	**Associated PA(s)**	**RI relevance**	**Baseline (including units and date)**	**Target (including units and date)**	**Actual value as of target date**	**Actual change in RI relative to targeted change**	**RI achievement rating**
Objective 1: Improve delivery of education and health services							
RI 1: Increased enrolment in secondary education	PA1 PA2	MU	Gross secondary enrolment rate Total: 66.7% Male: 57.5% Female: 76.8% (2015)	Gross secondary enrollment rate is at least 5 percent higher for total, male and female (2019)	Actual (2019) Total:75.1% Male: 62.0% Female: 89.9%	Total: 168% (8.4pp/5pp) Male: 90% (4.5pp/5pp) Female: 262% (13.1pp/5pp)	Modest
RI 2: Increase in retail price of unmanufactured tobacco, wine, spirits and cordial	PA3 PA4	U	0 (2017)	Increase in the average price of these products from 2017 to 2019 exceeds overall CPI inflation rate over the same period by 2 percent (2019)	Alcohol and Tobacco Group increase: 11.48% with overall CPI increasing by 6.16%	Price increase (11.48%) was 140% of the targeted increase (CPI +2%=8.16%)	Negligible
Objective 2: Improve macroeconomic sustainability							
RI 3 International best practice applied to TTF investment	PA5 PA6	MS	Investment managers not selected on competitive	Investment managers selected on competitive	Competitive selection of managers	100%	Substantial

management			basis. Annual management fee average 63 basis points (2015)	basis. Annual management fee reduced by 20 basis points. (2019)	4 basis points reduction (2021)	20%	
RI 4 Adopting a medium-term perspective to salary and staffing changes in annual budget documentation	PA7 PA8	S	Budget documentation does not clearly identify three-year ahead costs of changes in civil service pay policy. (2017)	Budget documentation reports estimated costs of such policy changes, if any. (2019)	2019 budget documentation reports estimated costs of wage policy changes (2019)	100%	Substantial
RI 5 Increased oversight of the banking sector	PA9 PA10	MS	No regular monitoring reports (2015)	Monitoring reports are produced annually, including information on nonperforming loans, and tabled to the Cabinet for information. (2019)	Monitoring reports produced regularly by PERMU though with some delays. (NA)	50%	Modest

Rating

Moderately Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Reform service delivery (in education and health)

Rationale

RI 1 met the target for the gross enrolment rate by a significant margin, except for male students where the target of a five-percentage points increase was missed by 0.5 percentage points. Total enrolment increased by 8.4 percentage points, and female enrolment by 13.1 percentage points by 2019. Given the lack of continuity of the results chain caused principally by a lack of connection between PA1 and PA2 (the shift in focus from secondary education to early childhood care discussed in detail under relevance of PA) and the inability of RI1 to measure PA2, the result is downgraded from high to **modest**.

RI 2 exceeded the targeted price increase of a two percent increase in the price of targeted products by end-2019. However, in line with the discussion of the problematic results chain associated with this PDO, the indicator did not measure improved service delivery in health. The result is therefore **negligible**.

The combined rating of objective 1 is **moderately unsatisfactory**.

Rating

Moderately Unsatisfactory

OBJECTIVE 2

Objective

Improve macroeconomic stability

Rationale

RI 3 broadly met the dual targets of ensuring competitive selection of investment managers and reducing the annual management fee by four-basis points, against a target of 20. Given the fully achieved target on competitive selection and the partially achieved target on the management fee reduction, achievement of the RI is rated **substantial**.

RI 4 met the target (revised and improved during the Fourth DPO) to ensure adequate reporting of the public payroll’s short- and medium-term implications. The increased clarity improved the results chain significantly. The fully achieved RI targets leads to a **substantial** rating.

The ICR reports that the RI5 target of moving from no monitoring reports to producing them regularly. However, “regularly is not defined” and there is no clear date associated with the achievement date. Moreover, the ICR indicates reports were produced with “some delays”. The achievement rating is **modest**.

The overall efficacy rating of objective 2 is satisfactory

Rating

Satisfactory

Overall Achievement of Objectives (Efficacy)

Rationale

Overall the efficacy rating is moderately satisfactory.

Overall Efficacy Rating

Moderately Satisfactory

6. Outcome

Rationale

The relevance of the prior actions is **moderately satisfactory**.

The overall efficacy rating is **moderately satisfactory.**

The overall outcome rating is thus moderately satisfactory.

a. Rating

Moderately Satisfactory

7. Risk to Development Outcome

Development outcomes achieved are at risk due to the severe capacity constraints and limited human resources in the microstate.

The achievement of increased enrolment in secondary education could be reversed unless authorities improve the quality of secondary education, and if suitable jobs are available for graduates.

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

The program documents spelled out clearly how design had drawn on lessons learned from implementing other operations in Tuvalu, especially in recognizing capacity constraints, selectivity, and continuous engagement.

The Program Documents lacked a clearly articulated PDO. When taking the pillars as PDOs, the second pillar (macroeconomic sustainability) was defined at too high a level making its achievement as a result of the PAs difficult to assess..(The PDO articulated in the ICR was incorrect).

The Third DPO pointed out the value of a broad reform program with a few critical actions with a significant potential impact without overloading the government's implementation capacity. Yet, while the number of PAs was not excessive, they were fragmented and spread widely across distinct, non-complementary policy areas, further straining limited capacity. The objective and associated prior actions introducing an automated payroll system turned out too complex.

The use of analytical underpinnings varied. An example of excellent use was the efforts to reform investment management in the TTF. The Bank relied on its own knowledge work as well as an external review by the New Zealand Institute for Pacific Research. Both studies were used to inform design of the interventions in a sensitive policy area. On the other hand, while the PEFA underpinning the DPO series pointed out shortcomings in payment controls, the series proposed a payroll system that was ultimately too complex, requiring revision for the Fourth DPO.

Both DPOs identified broad macro external shocks common to the region as risks to achieving development outcomes, including extreme weather events and slower domestic policy reform. The systematic operating risk rating was substantial in both PDs, and the risk profile increased in the Fourth DPO where risk associated with institutional capacity for implementation and sustainability was rated high. Risk mitigation measures included dialogue with the government about each policy action, dedicated technical assistance and support to strategic, selective and gradual reforms.

The design of the operation was based on dialogue with the government, especially the Ministry of Finance and Economic Development, and a broader stakeholder consultation process involving NGOs, churches, and community groups, including women's groups. The Bank has had close cooperation and coordination with the small group of development partners in Tuvalu (ADB, IMF, Governments of Australia and New Zealand, and the EU).

Rating

Moderately Satisfactory

b. Bank Performance – Implementation

Rationale

The ICR does not present concrete evidence of monitoring progress toward targets for results indicators before series completion. However, the team adjusted many RIs from the Third to the Fourth DPO based partly on progress and data availability. Specific examples include targeted increases in secondary enrolment rates, which the team made more granular, smoking prevalence as the initially proposed indicator wouldn't be updated on time to capture the results of the operation, and the shift from a quantitative indicator to a process-oriented indicator on civil service pay policy.

There were few changes to the circumstances in the implementation period which fell into a relatively calm period between the two extreme events of Tropical Cyclone Pam in March 2015, general elections in September 2019, and the onset of the Covid-19 pandemic in 2020. Annual high-level consultations and quarterly meetings took place between development partners based in Suva, Fiji.

Rating

Moderately Satisfactory

c. Overall Bank Performance

Rationale

Overall Bank Performance Rating

Moderately Satisfactory

9. Other Impacts

a. Social and Poverty

Social and poverty impacts were expected under objective 1. These impacts are discussed as "expected to have a positive impact on poor people and vulnerable groups." (ICR p. 22). However, there is no data to back this assertion as the most recent data on the poverty incidence dates back to 2010. This is noted in the ICR and can reconfirmed through the World Bank open data site (https://data.worldbank.org/indicator/SI.POV.NAHC?locations=TV). Hence all impacts identified on social and poverty related issues that were planned in the program are presumed and not confirmed by more recent date.

b. Environmental

The ICR did not identify any negative or positive impacts of the DPO on the environment or natural resources.

c. Gender

The ICR identifies a positive gender impact of reduced consumption of alcohol that could lead to a reduction in domestic violence against women. Evidence dating back to 2007 on higher levels of obesity among women than men is used to argue that women will benefit disproportionately from a reduction in the consumption of unhealthy foods. However, evidence of these impacts is absent from the ICR.

d. Other

The ICR identified Institutional Change/Strengthening as an area of impact. It concluded that the activities in the macroeconomic policy area had led to organizational and institutional improvements. However, evidence is lacking.

10. Quality of ICR

Rationale

The ICR presents a coherent narrative of the program that flows logically. With regard to the quality of evidence, the ICR is relatively well referenced to credible sources and presents robust evidence to support the achievements reported but includes limited annexes and appendices. For example, given the little progress on financial sector reform and the absence of a banking commission, it references the Public Enterprises and Monitoring Unit (PERMU), responsible for monitoring the two banks alongside other public enterprises. The section on other impacts lacks evidence and relies on expectations.

With regard to the quality of analysis, the ICR presents a DPO although the PDs or financial agreement did not contain any without further explanation. Moreover, the objectives articulated did not adequately capture the actual focus of the PAs and further obfuscated the results framework. The ICR addressed the absence of a Theory of Change in the program documents by adding five ToCs to the ICR, but their quality is limited.

With regard to lessons learned, the ICR points to the potential value of undertaking a binding constraints analysis. However, lessons are generic, for example, concerning capacity constraints and do not detail how this impacted specific PDOs and their results chains. The ICR embeds some interesting lessons in the narrative but doesn't mention them in the lessons section. The clearest example of this is addressing banking supervision through a regional rather than a national approach.

The ICR states that indicator targets would be better if set as the immediate, anticipated impact of the selected action. The example provided on raising taxes that may lead to an increase in price but not necessarily a reduction in consumption correctly identifies a key weakness of the results framework (as discussed in the relevance of RI section). On the other hand, the ICR didn't mention the weakness of the results chain concerning education and particularly the shift to a focus on ECC that is only related to improved education in the long term. In addition, the ICR doesn't analyze how elements that didn't work could be improved on, for example, in terms of financial sector reform.

The ICR is well balanced regarding the level of information and evidence presented. However, in some cases, the ICR could have drawn on additional examples of analytical underpinning or lessons from experience from the PDs. For example, the ICR didn’t mention that the government had reviewed the 2008 Tobacco Control Act in 2016, identifying several weaknesses, which added to the logic of the results chain

a. Rating

Modest

11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	
Relevance of Results Indicators	---	Moderately Satisfactory	
Quality of ICR	---	Modest	

12. Lessons

In microstates characterized by high institutional and social fragility, limited capacity and resources in the public sector, and given the volatility in the Pacific Islands both economically and climatically, DPO series would benefit from narrowing in on only the most critical issues. In the case of Tuvalu, this included, for example, ensuring that future fiscal needs will be safeguarded by revenue flows from the TTF and implementing a more realistic solution to the imminent problems and long-term issues in the financial sector. Social sector policies could be pursued through more targeted and tailored IPFs.

Rethinking the approach to reforming some of the highly specialized state institutions in microstates is another important lesson. A financial sector consisting of two banks and no central bank does not sustain, for example, the setting up of a fully-fledged banking commission and regional or subregional bodies looking into banking regulation and supervision would be more realistic. As noted in the ICR, other Pacific Island Countries such as Kiribati and Nauru have a comparable need to strengthen banking supervision. Regional strategies have also supported supreme audit institutions in the Pacific

Excises on products associated with NCDs can produce a double dividend in that they can contribute towards positive health outcomes and increased domestic revenue mobilization at the same time. The flip side is that they can have negative equity impacts as the tax is regressive. Poverty-related mitigation in the short term could focus on building incentives and financing support programs for affected groups. This could also be combined with effective information campaigns about the link between the higher price of the products and associated opportunities for support and a healthier lifestyle.

In severely capacity constrained contexts like Tuvalu, the Bank could undertake its own research on the impact on sales of targeted harmful products and initiate monitoring of the prevalence of smoking, obesity, and associated NDCs. Similarly, the Bank could collect statistics for sugary beverages and other food products with a high sugar content when these are absent and limiting the ability to measure the extent to which indicators were met.

The most recent data on poverty incidence dates back to 2010. More recent data will be needed to guide policies and monitor progress.

There is an unusual gender gap in the much higher enrolment of girls than boys in secondary education in Tuvalu, which suggests that boys may be at a gender disadvantage. However, the ICR articulates gender issues as only related to women. For example, it argues that removing secondary education school fees is likely to benefit women as there are more girls than boys enrolled in secondary education and does not address the underlying reasons for the underrepresentation of boys in secondary education.

13. Project Performance Assessment Report (PPAR) Recommended?

No