Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 27-Oct-2021 | Report No: PIDA32769

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Tuvalu	P172614	Tuvalu Second Resilience Development Policy Operation with a Catastrophe-Deferred Drawdown Option (P172614)	P170558
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
EAST ASIA AND PACIFIC	08-Dec-2021	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Tuvalu	Ministry of Finance		

Proposed Development Objective(s)

The operation aims 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 protection and inclusion in education.

Financing (in US$, Millions)

SUMMARY

Total Financing	17.50

DETAILS

Total World Bank Group Financing	17.50
World Bank Lending	17.50

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

Tuvalu is one of the smallest, most remote, and climate change-vulnerable countries in the world, and is 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. Natural hazard risks are a major constraint to the achievement of Tuvalu's development goals. Frequent tropical cyclones in the Pacific bring damaging winds, rains, and storm surges to Tuvalu, with significant economic and social losses. The small size of the domestic economy, extreme remoteness from major markets, near total dependence on imports, and vulnerability to external shocks pose significant challenges to macroeconomic performance. Tuvalu's limited economic opportunity, coupled with vulnerability to shocks, has made achieving and sustaining gains in poverty reduction and inclusive growth difficult. Tuvalu's geographic isolation and a decisive policy response have prevented severe health impacts from the COVID-19 pandemic.

Tuvalu's recent macro-economic performance prior to the COVID-19 pandemic has been favorable owing to strong fishing license revenues and increased capital spending. The COVID-19 pandemic took a toll on economic activity in 2020 but Tuvalu avoided a recession and despite elevated COVID-related spending, the 2020 budget closed in surplus. Given the volatile nature of Tuvalu's domestic revenues, development assistance is essential to support the delivery of adequate public services and maintain good fiscal management. Fiscal balance will require containment of current spending and prioritization of capital spending and climate change is expected to impose additional long-term fiscal costs. The most recent IMF-World Bank Debt Sustainability Analysis (DSA) in July 2021 assessed Tuvalu at high risk of overall public debt and external debt distress, unchanged from the 2018 DSA. Despite the high risk of debt distress, Tuvalu's debt is assessed as sustainable. To manage debt sustainability, the Government continues to adhere to a zero non-concessional borrowing ceiling and improve debt transparency, with support from this operation. The macroeconomic policy framework is adequate for the purposes of this operation.

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 (Report #120479). The first component of the Program Development Objective (PDO): strengthening public financial management and debt transparency 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. The proposed operation builds on and complements other ongoing World Bank engagements in contributing to achieve the objectives of RPF. This operation supports the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity, as well as the IDA19 Special Themes on climate change, governance and institutions, and gender and fragility, conflict and violence.

C. Proposed Development Objective(s)

The operation aims 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 protection and inclusion in education.

Key Results

Pillar 1: Strengthen Public Financial Management
The first pillar of the proposed operation supports the Government's efforts to strengthen public financial management. Reforms are focused on reducing the total cost of overseas medical treatment and regulating public procurement to maximize efficiency and transparency. These reforms are identified as priorities because: (i) expenditures on the Tuvalu Medical Treatment Scheme (TMTS) are high, accounting for nearly half of total healthcare costs; and (ii) procurement is recognized as an area of significant weakness in public financial management and the proposed measures.

Pillar 2: Enhance Infrastructure Management and Disaster- and Climate-Resilience
The second pillar of the proposed operation aims to address some of the key issues identified in the Tuvalu Climate Change Policy. The expected outcome of the reforms included in the second pillar are to: (i) strengthen the regulatory and institutional capacity for emergency preparedness and disaster response; (ii) manage both public and private assets and increase the disaster and climate resilience of buildings; and (iii) address issues of post-disaster support for asset losses.

Pillar 3: Improve Social Protection and Inclusion in Education
The third pillar of the proposed operation supports the Government’s efforts to improve Tuvalu’s social protection and inclusion in education. Reforms under this pillar are focused on: (i) improving access and quality of education for children with disabilities; (ii) creating greater awareness of the needs and rights of all persons with disability; (ii) giving universal recognition to the dignity of persons with disabilities; and (iii) ensuring that persons with disability become active members of society who can claim their rights and making decisions for their lives based on their free and informed consent.

D. Concept Description

The first pillar on strengthening public financial management is closely aligned with the Te Kete Strategic Priority Area (SPA) 2 Economic Development and Priority Area 3 Social Development. Priority Area 2 is focused on prudent macroeconomic management of the economy and emphasizes diligent public financial management and selective public sector expenditure within the Parliament-appropriated level. A key strategic action under Priority Area 3 is to improve the delivery of health care services. Priorities include strengthening administration and management of these services and improvement in health care facilities to allow more patients to be treated locally.

The second pillar on enhancing infrastructure management and disaster- and climate resilience is directly linked to Strategic Priority Areas 1 and 5 of Te Kete. Te Kete identifies climate change and disaster resilience as matters of national priority. Key Strategic Actions are, under SPA 1, to develop effective frameworks for disaster risk and resilience management, and under SPA 5, to implement the national building code. The Climate Change Policy’s second policy objective is to fully coordinate and integrate climate and disaster risks and adaptation actions into legislation, policies and decision-making processes at all levels. Related priority actions include: (i) mainstreaming climate change and disaster risks, and adaptation actions into national and sectoral policies (including for the infrastructure sector), (ii) developing and implementing multi-hazard early warning systems, and (iii) producing and disseminating customized and timely meteorological and climate change information to decision makers, development sectors and communities. The Government, through Te Kete and the Climate Change Policy (2020-2030) has committed to strengthening resources to deal with immediate impacts from climate change and disaster recovery while building resilience over the longer-term.

The third pillar on improving social protection and inclusion in education is closely aligned with Strategic Priority Area 3 of Te Kete on Social Development. Te Kete puts the well-being and contribution of all Tuvaluans at the center of growth and development, including those with disabilities. This pillar is closely aligned with the strategic goal of ensuring participation and inclusiveness of people with disabilities in society. It supports measures to ensure equal opportunity and access to services for men, women and children with disabilities.

E. Implementation

Institutional and Implementation Arrangements

The implementation of this program's prior actions will be the responsibility of the Government of Tuvalu (GoT) in coordination with the MOF (Ministry of Finance). Tuvalu's reform efforts and progress against this program's policy and results matrix will be reviewed by the GoT in close coordination with the World Bank team and in the context of the annual review of the matrix. The MOF has adequate capacity to coordinate and monitor the program related indicators, although data availability may be somewhat limited.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The prior actions and results to be supported by this proposed operation are expected to improve public service delivery, which favors the bottom of the welfare distribution and vulnerable groups. As an upper middle-income country based on WB GNI measures, Tuvalu had a low extreme poverty rate of 3 percent in 2010 using the international US$1.90 Purchasing Power Parity (PPP) 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, was 47 percent in the same time period, indicating a population that is still vulnerable to economic shocks and in need of strong public service delivery. 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, Forests, and Other Natural Resource Aspects

The policy reforms supported by this operation are unlikely to have any negative effects on Tuvalu's environment. Reforms to support macroeconomic sustainability 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. Tuvalu's environmental protection regime is adequate and has been strengthened over time through 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. A number of actions, including reforms supporting the disaster- and climate-resilience of buildings and infrastructure, are expected to have positive impacts on the environment. Through Pillar 2, the Government is adopting a risk-informed approach to development, by addressing the gaps in the regulatory environment for climate and disaster-resilient infrastructure and reducing risk in the built environment.

G. Risks and Mitigation

The overall risk level for the program is rated as substantial. Four risk categories (macroeconomic risks, institutional capacity for implementation and sustainability risks, fiduciary risks and environment and social risks) are rated substantial, while the remaining risk categories are rated moderate.

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APPROVAL

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