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February 6, 2017

**For meeting of  
Board: Tuesday, February 28, 2017**

FROM: Vice President and Corporate Secretary

**Kiribati, Nauru, Marshall Islands, Micronesia, Palau, Samoa, Tonga, Tuvalu and Vanuatu**

### **Regional Partnership Framework**

1. Attached is the joint IBRD/IDA/IFC/MIGA Regional Partnership Framework for Kiribati, Nauru, the Republic of Marshall Islands, Federated States of Micronesia, Palau, Independent State of Samoa, Kingdom of Tonga, Tuvalu and Vanuatu for the period FY17-FY21, which will be discussed at the meeting of the Executive Directors.
2. The Executive Directors last discussed: (i) the joint IDA/IFC Country Assistance Strategy for Kiribati on March 1, 2011 (IDA/R2011-0027 [IFC/R2011-0017]) and the Chair's Summing Up was distributed as (IDA/SU2011-0003 [IFC/SU2011-0003]); (ii) the joint IDA/IFC Country Partnership Strategy for the Republic of the Marshall Islands on March 19, 2013 (IDA/R2013-0031 [IFC/R2013-0038]) and the Chair's Summing Up was distributed as (IDA/SD2013-0007 [IDA/SU2013-0006, IFC/SU2013-0006]); (iii) the joint IDA/IFC Country Partnership Strategy for the Federated States of Micronesia on May 29, 2014 (IDA/R2014-0156 [IFC/R2014-0131]; /1) and the Chair Summary was distributed as (SU2014-0025 [IDA/SU2014-0025, IFC/SU2014-0013]); (iv) the joint IDA/IFC Country Partnership Strategy for the Independent State of Samoa on March 29, 2012 (IDA/R2012-0058 [IFC/R2012-0055]) and the Chair's Summing Up was distributed as (IDA/SU2012-0009 [IFC/SU2012-0006]); (v) the joint IDA/IFC Country Assistance Strategy for the Kingdom of Tonga on October 19, 2010 (IDA/R2010-0310 [IFC/R2010-0329]) and the Chairman's Summing Up was distributed as (IDA/R2010-0310/1 [IFC/R2010-0329/1]); and, (vi) the Country Assistance Strategy for Tuvalu on December 13, 2011 (IDA/R2011-0313) and the Chair's Summing Up was distributed as (IDA/SU2011-0024).
3. The Executive Directors discussed the joint IBRD/IDA Pacific Islands Regional Engagement Framework on May 31, 2005 (R2005-0105 [IDA/R2005-0086]) and the Chairman's Concluding Remarks were distributed as (R2005-0105/1 [IDA/R2005-0086/1]).
4. Questions on this document should be referred to Bank – Ms. Tully (ext. 81381) or Mr. Melgaard (Sydney: 5740+6564 or [lmelgaard@worldbank.org](mailto:lmelgaard@worldbank.org)); IFC - Mr. Street (ext. 34333); and MIGA - Mr. Barbour (ext. 37349)

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**Report No. 100997-EAP**

**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
AND INTERNATIONAL DEVELOPMENT ASSOCIATION  
AND INTERNATIONAL FINANCE CORPORATION  
AND MULTILATERAL INVESTMENT GUARANTEE AGENCY  
REGIONAL PARTNERSHIP FRAMEWORK  
FOR  
KIRIBATI, REPUBLIC OF NAURU, REPUBLIC OF THE MARSHALL ISLANDS,  
FEDERATED STATES OF MICRONESIA, REPUBLIC OF PALAU,  
INDEPENDENT STATE OF SAMOA, KINGDOM OF TONGA, TUVALU, AND VANUATU  
FOR THE PERIOD FY17-FY21**

**February 28, 2017**

**Timor-Leste, Papua New Guinea, Pacific Islands Country Management Unit  
East Asia and Pacific Region**

**The International Finance Corporation  
East Asia and Pacific Region**

**The Multilateral Investment Guarantee Agency**

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# CURRENCY EQUIVALENTS

As of December 8, 2016

Country	Currency	1 USD equivalent
Kiribati	Australian dollar (AUD)	1 USD = 1.34 AUD
Republic of Nauru	AUD	1 USD = 1.34 AUD
Republic of the Marshall Islands	United States dollar (USD)	n.a.
Federated States of Micronesia	USD	n.a.
Republic of Palau	USD	n.a.
Independent State of Samoa	Tālā (WST)	1 USD = 2.52 WST
Kingdom of Tonga	Paʻanga (TOP)	1 USD = 2.19 TOP
Tuvalu	AUD	1 USD = 1.34 AUD
Vanuatu	Vatu (VUV)	1 USD = 109.00 VUV

# FISCAL YEAR

Country	FY
Kiribati	1 January–31 December
Republic of Nauru	1 July–30 June
Republic of the Marshall Islands	1 October–30 September
Federated States of Micronesia	1 October–30 September
Republic of Palau	1 October–30 September
Independent State of Samoa	1 July–30 June
Kingdom of Tonga	1 July–30 June
Tuvalu	1 January–31 December
Vanuatu	1 January–31 December

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## ACKNOWLEDGEMENTS

This Regional Partnership Strategy (RPF) is the product of input from the entire World Bank Group Pacific Country Team. Team Leaders were Lasse Melgaard (IBRD), Daniel Street (IFC) and Paul Barbour (MIGA) working under the supervision of Franz Drees-Gross and Michel Kerf. The core RPF team comprised Annette Leith, Anne Tully, Milena Petrova Stefanova, Anuja Utz, Michelle Manzanillo, Jane Millicent Sprouster, Abigail Blenkin and Lorraine James. Other country team members who provided valuable advice and inputs and/or participated in consultations include the following: Mona Sur, Pierre Graftieaux, Venkatesh Sundararaman, Robert Utz, Sean David Michaels, Christopher Bennett, Christopher De Serio, Maeva Natacha Betham Vaai, Nancy Wells, Akka Rimon, Tatafu Moeaki, Tom Perry, Benjamin W. Brighthouse, Imogen Cara Halstead, Lucy Pan, Anthony Obeyesekere, Kim Alan Edwards, David Knight, Virginia Ann Horscroft, Helle Buchhave, Gayatri Acharya, James Reichert, Jesse Doyle, Ross Butler, Nick Valentine, Robert Gilfoyle, Zhentu Liu, Stephen Hartung, David Whitehead, Toomas Palu, Hong Chen, Isabel Neto, Brenna Moore, Kofi Nouve, Kanya Raj, Michael Bonte-Grapentin, Iain Shuker, Habiba Gitay, Oleksiy Ivaschenko, Ben Brighthouse, Tom Perry, Kara Mouyis, Deva de Silva, Simone Esler, Eric Blackburn, Oliver Whalley, Loren Atkins, Denis Jordy, Artessa Salvador-Sali, Guido Rurangwa, Renee Walmsley, Tevi Obed and Myrna Machuca-Sierra. Special acknowledgement also goes to Jane Distelhorst Sansbury (IBRD) who was co-TTL until her retirement.

## ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Assistance
ADB	Asian Development Bank
APL	Adaptable Program Lending
ASA	Advisory Services and Analytics
B40	Bottom 40 percent
CAS	Country Assistance Strategy
CCA	Climate change adaptation
CCPE	Clustered Country Program Evaluation
CEN	Country Engagement Note
CGAP	Consolidated Gender Action Plan
CIF	Consolidated Investment Fund
CLR	Completion and Learning Review
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
CROP	Council of Regional Organisations in the Pacific
DFAT	Department of Foreign Affairs and Trade
DPO	Development Policy Operation
DRFI	Disaster Risk Financing Insurance
DRM	Disaster risk management
DRR	Disaster risk reduction
ECD	Early childhood development
EFA-FTI	Education For All-Fast Track Initiative
EGRA	Early Grade Reading Assessment
ERAP	Enhanced Road Access Project
ERO	Economic Recovery Operation
ESW	Economic and sector work
FCV	Fragility, conflict, and violence
FFA	Forum Fisheries Agency
FSAP	Financial Sector Assessment Program
FSM	Federated States of Micronesia
GBV	Gender-based violence
GDP	Gross domestic product
GEF	Global Environment Facility
HIES	Household Income and Expenditure Survey
HSP	Health Sector Management Program Support Project
ICAO	International Civil Aviation Organization
ICT	Information and communication technology

IFC	International Finance Corporation
ILO	International Labor Organization
IPP	Independent power producer
LCDF	Least Developed Country Fund
MDG	Millennium Development Goal
MDTF	Multi Donor Trust Fund
MGP	Matching grant program
MIC	Middle-income country
MIGA	Multilateral Investment Guarantee Agency
MTDS	Medium-term debt strategy
OECD	Organisation for Economic Co-operation and Development
PAIS	Pacific Island Labor Sending Countries
PAIP	Pacific Aviation Investment Program
PASO	Pacific Aviation Safety Office
PCRAFI	Pacific Catastrophe Risk Assessment and Financing Initiative
PDNA	Post-Disaster Needs Assessment
PEARL	Pacific Early Age Readiness and Learning
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public financial management
PFTAC	Pacific Fiscal Technical Assistance Center
PIC	Pacific island country
PIC9	Kiribati, the Republic of the Marshall Islands, Federated States of Micronesia, Republic of Nauru, Republic of Palau, Independent State of Samoa, Kingdom of Tonga, Tuvalu, and Vanuatu
PIF	Pacific Islands Forum
PIFS	Pacific Islands Forum Secretariat
PIU	Project Implementation Unit
PNA	Parties to the Nauru Agreement
PPA	Pacific Power Association
PPP	Purchasing power parity; public-private partnership
PRDR	Pacific Regional Data Repository
PREP	Pacific Island Resilience Program
PRIF	Pacific Region Infrastructure Facility
PROP	Pacific Islands Regional Oceanscape Program
RERF	Revenue Equalization Reserve Fund
RFM	Road Fund Mechanism
RMI	Republic of the Marshall Islands
RPC	Regional Processing Centre

RPF	Regional Partnership Framework
RSE	Recognized Seasonal Employer scheme
SCD	Systematic Country Diagnostic
SDR	Special Drawing Rights
SDS	Strategy for the Development of Samoa
SEU	Seasonal Employment Unit
SMEs	Small and medium enterprises
SOE	State-owned enterprise
SPC	Pacific Community (formerly South Pacific Commission)
SPREP	Secretariat of the Pacific Regional Environment Programme
SPTO	South Pacific Tourism Organisation
SWAp	Sector-wide approach
SWP	Seasonal Worker Programme
TFSU	Technical Fiduciary Service Unit
TSCP	Transport Sector Consolidation Project
USP	University of the South Pacific
VDS	Vessel Day Scheme
WDI	World Development Indicators



## EXECUTIVE SUMMARY

- This Regional Partnership Framework (RPF) outlines the World Bank Group (WBG) strategic program for nine Pacific island countries (PIC9): Kiribati, the Republic of the Marshall Islands (RMI), Federated States of Micronesia (FSM), Republic of Nauru, Republic of Palau, Independent State of Samoa, Kingdom of Tonga, Tuvalu, and Vanuatu.** Seven of these countries are IDA-eligible and have seen a substantial increase in WBG presence and engagement in recent years. The RPF builds upon the deepening engagement with Samoa, Tonga, and Kiribati, and the ability to channel significantly more resources to FSM, RMI, Vanuatu and Tuvalu following their recent reclassification as IDA eligible. The RPF also outlines options for engagement with Nauru and Palau, which are IBRD countries.
- This RPF (FY17–21) comes at a time when IDA support to the Pacific Island Countries (PICs) is rising to unprecedented levels.** In IDA15, the annual minimum base IDA allocation per country was SDR1.5 million, rising to SDR 3 million in IDA16 and SDR4 million in IDA17. IDA18 will see an increase of the base allocation to SDR15 million, which will have a potentially transformative impact on the IDA-eligible PIC9, including the most fragile. In Kiribati, Tuvalu, RMI and FSM, all on the WBG harmonized list of fragile and conflict-affected situations, the resources available will almost quadruple. The development of regional initiatives has provided additional scope to leverage substantial regional IDA resources, which now constitute almost one-third of the portfolio. The mobilization of significant trust fund resources from large bilateral development partners in the Pacific, notably Australia and New Zealand, has also been instrumental in expanding support.
- The unique features that define the PIC9—and which consequently have a direct bearing on their development agenda—are their small size (they are among the 25 smallest independent states on earth), remoteness, geographic dispersion and environmental fragility, and high degree of exposure to a volatile mix of economic shocks, climate change, and natural disasters.** Largely owing to their economic geography, growth in almost all PICs is lagging behind growth in other developing countries. Although extreme poverty is relatively uncommon in the PIC9, poverty and hardship are fairly widespread in six of the nine countries, and access to cash incomes, basic infrastructure, social services, and nutritious food is uneven. Because the population is widely dispersed, often across archipelagos, the costs of public administration and service delivery are high, limiting the quantity and quality of services available. Even those PICs with significant development assistance have persistent gaps in service provision.
- This RPF reflects the results of a significant body of analytical work, including a Systematic Country Diagnostic (SCD) undertaken for all the RPF countries, except Nauru (which was not a member of the World Bank at the time of its completion).** The SCD identified the critical constraints and opportunities facing these countries in sustainably attaining the WBG’s twin goals. An important conclusion of the SCD analysis is that advancing toward those goals requires both regional and country-specific approaches. The RPF also draws on the emerging findings of the Pacific Possible report, currently being completed, which assesses the long term growth impact of more fully exploiting a few available opportunities and more effectively addressing major threats such as the impact of climate change and the epidemic in non-communicable diseases (NCDs).

5. **This RPF is also informed by the lessons from implementing programs across the Pacific over the past decade.** It takes into account the WBG’s comparative advantage and the activities of key development partners in the Pacific. The resulting framework supports the PICs in maximizing their potential by drawing on regional lessons and solutions, while providing flexibility at the individual country level to tailor the Bank’s engagement in alignment with national strategies.

6. **Using the SCD and Pacific Possible as the key analytical foundation, the RPF defines the following four focus areas:**

- **Focus Area 1: Fully exploiting the available economic opportunities.** The thrust of the WBG program in this area is improved management of fisheries, increased incomes from agriculture, expanded tourism opportunities.
- **Focus Area 2: Enhancing access to employment opportunities.** The key interventions outlined in this area focus on broadening opportunities for labor mobility and improving education outcomes. Together with constraints placed on development by gender-based violence, the PIC9 countries experience gender inequality. This will be addressed in a cross cutting manner, while entry points to address Gender-Based Violence will be identified.
- **Focus Area 3: Protecting incomes and livelihoods.** A key focus will be on strengthened preparedness and resilience to natural disasters and climate change. Interventions will also help countries strengthen health systems and address NCDs.
- **Focus Area 4 (Cross-cutting): Strengthening the enablers of growth and opportunities (macro-economic management, infrastructure and addressing knowledge gaps).** The WBG interventions in this area will support the efforts of the PIC9 to strengthen macroeconomic management, improving access to basic services and connective infrastructure and addressing the prevailing knowledge gaps.

7. **The IDA18 scale up will enable a more substantive WBG engagement to help address the unique challenges faced by the PICs.** Notably, it will enable scaled up support to help address drivers of fragility (e.g., climate change and natural disasters, youth unemployment, NCDs), and also exploit opportunities in the maritime and tourism sectors that will help create longer term growth. The focus areas under the RPF are closely aligned to the IDA18 themes of jobs and economic transformation; climate change; gender and development; fragility, conflict and violence; and governance and institutions. IDA18 will allow the WBG to embark on a far more ambitious program of support, both in terms of investments as well as through increased capacity building. IFC will seek to capitalize on the IDA18 scale up to enhance its engagement by developing a pipeline of potential investments that could draw on the IDA18 Private Sector Window. Ensuring that projects are ready to be implemented, even if it requires longer project preparation time, will be an important consideration in the management of the portfolio going forward. The WBG will increase the scope of its support for preparation and implementation of activities, providing more hands-on implementation support from WBG staff, particularly in fragile situations. Greater WBG presence in the field will be facilitated through a progressive rebalancing of operational and technical positions to a new hub in Fiji and to other field offices where possible.

8. **The WBG will explore opportunities to further regional approaches that benefit the Pacific region.** Regional approaches are critical in the Pacific because solutions to many of the development challenges are regional in nature, e.g. connectivity through aviation, maritime or internet, climate change, fisheries and labor mobility. By using regional approaches, the PIC 9 can also benefit from economies of scale through bulk procurement, centralized implementation arrangements, and WBG resources can effectively be deployed to support multiple countries.

9. **The WBG will continue to work closely with development partners to coordinate its engagement across the Pacific.** The WBG will continue to make use of critical trust fund resources from Australia and New Zealand. In Kiribati, Samoa, Tonga, and Vanuatu, the WBG shares Liaison Offices with the Asian Development Bank, and a new joint Liaison Office is being opened in Tuvalu. Regional organizations across the Pacific also constitute critical partners for the WBG.

10. **The Results Framework in this RPF identifies key results on the basis of the existing program and key planned activities and will be adjusted during the Program and Learning Review to take changing country realities into account.** Risks to the implementation of the RPF in the PIC9 are assessed as Substantial and include: (i) exogenous macroeconomic shocks; (ii) political and governance risks; (iii) natural disasters and climate risk; and (iv) implementation and capacity constraints.

11. **In summary, this RPF will guide a WBG engagement in the Pacific which will build on what has been achieved so far but also seek to achieve further impacts in three main ways.** First, increased IDA18 allocations will provide opportunities to finance projects that are larger in size and scope. Second, building on the results of the SCD and other recent analytical work, the WBG program will be highly selective and focused on helping the PICs make the most of a few key opportunities and effectively mitigate the main risks to incomes and livelihoods which they are facing. Third, the WBG program will put special emphasis on addressing the drivers of fragility in the Pacific (issues related to institutional capacity, growth in youth population and urbanization, climate change and natural disasters, as well as gender) to enhance the sustainability of the activities being carried out and of the progress being achieved.



**FY17 – FY21 REGIONAL PARTNERSHIP FRAMEWORK FOR  
KIRIBATI, REPUBLIC OF NAURU, REPUBLIC OF THE MARSHALL  
ISLANDS, FEDERATED STATES OF MICRONESIA, REPUBLIC OF PALAU,  
INDEPENDENT STATE OF SAMOA, KINGDOM OF TONGA, TUVALU,  
AND VANUATU**

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# 1 INTRODUCTION

1. **This Regional Partnership Framework (RPF) outlines the World Bank Group (WBG) strategic program for nine Pacific island countries (PIC9): Kiribati, the Republic of the Marshall Islands (RMI), Federated States of Micronesia (FSM), Republic of Nauru, Republic of Palau, Independent State of Samoa, Kingdom of Tonga, Tuvalu and Vanuatu.**<sup>1</sup>

The RPF comes at a time when the WBG presence and engagement across the Pacific is larger than ever before, reflecting a concerted effort to increase its presence in some of the world's most remote and fragile countries. While the RPF outlines and consolidates the WBG strategy for engagement in each of the PIC9, which in many cases requires regional solutions, the RPF primarily focuses on avenues to support each of the countries rather than presenting a consolidated regional strategy.

2. **The RPF builds upon the deepening engagement with more established clients, such as Samoa and Tonga, and the strengthened partnership and increase in resources channeled to FSM, RMI, Vanuatu and Tuvalu made possible by their relatively recent reclassification as IDA eligible.** These are IDA-eligible countries, having benefited from favorable financing terms under IDA's small states island exception (40 years maturity with 10 years grace period) during IDA17, which will be extended to IDA18.

3. **Nauru and Palau are classified as IBRD countries ineligible for IDA18 resources.** Access to IBRD financing for these two countries is possible only through guarantee schemes or engagements that would provide the appropriate credit enhancement. WBG engagement with Nauru is in its infancy due to its recent membership (April 2016). Similarly, the WBG has had limited engagement with Palau since its membership in 1997. WBG engagement in these countries, which have a significant higher per capita income than the remaining countries in the PIC9, will therefore be different from the other countries included in the RPF. The WBG will first and foremost seek to increase its knowledge base of the two countries and explore innovative entry points that build on the WBG's comparative advantage and for which resources, such as Trust Funds, may be available to support both Nauru and Palau in their development objectives. Moreover, the World Bank will continue to work with other partners to support regional projects that may directly or indirectly support Nauru and Palau.

4. **In recent years the WBG engagement of the WBG has increased markedly across the Pacific.** World Bank commitments in the IDA eligible countries among the PIC9 totaled US\$48.56 million in 2010 and have since risen more than tenfold to US\$ 553.48 in 2016 (Pacific-wide, totaled US\$235 million in 2010 and have since risen fourfold, to US\$1.06 billion in 2016). Up to US\$500 million in new private sector investment has been mobilized through IFC interventions, including US\$30m in additional direct or co-investment by IFC. IFC's Advisory program since 2010 has been valued at US\$25m. An increase in the annual minimum base IDA allocation (from SDR1.5 million in IDA15 to SDR3 million in IDA16 and SDR4 million in IDA17) was central to this growth, which will continue as the IDA18 minimum base allocation increases to SDR15 million. The resulting scale up in financing will enable a more substantive engagement in the IDA-eligible PICs to help address their unique challenges (Box 1.1).

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<sup>1</sup> Nauru and Tuvalu are not member countries of IFC.

### **BOX 1.1: IDA18 SCALE UP**

The increase in the base allocation for IDA18 will provide significantly more resources for IDA-eligible countries among the PIC9. This will allow the WBG to embark on a far more ambitious program of support, both in terms of investments as well as through increased support for capacity building. Implementation support will be increased with a view to ensuring enhanced project readiness, additional regional programs will be embarked upon in new areas such as maritime engagements, partnerships with regional actors and development partners will be expanded as will be support for climate change and disaster preparedness. The wide ranging body of analytical work undertaken in preparation of the RPF, including the Pacific Possible study, allows the WBG to target especially transformative opportunities for the PIC9. The support in the RPF period will therefore allow an increased focus on supporting the PICs more **fully exploiting select economic opportunities** (Tourism, Fisheries, ICT, Labor mobility), **addressing the drivers of fragility** (climate change and natural disasters, youth unemployment and the NCD crisis) with gender and strengthening of institutional capacity, as cross-cutting issues.

IFC will seek to capitalize on the IDA18 scale up to enhance its own support, particularly of FCV countries (those grappling with fragility and sometimes conflict and violence). IFC will seek to increase the total volume of financing and number of investment projects by catalyzing support, resources and thought leadership from across the WBG, other multilaterals, NGOs, IFC clients and other stakeholders to meet the challenges of fragility. A dedicated lead for FCV and IDA investment will make technical resources available and identify opportunities for cooperation across WBG to help transaction teams, advisory and country staff deliver more meaningful projects in these most difficult markets. To develop a pipeline of potential investments, teams will draw on the Private Sector Window using blended finance, project risk guarantees and currency risk management products.

5. **The development of regional initiatives in information and communication technology (ICT), aviation, fisheries, and climate change resilience across the Pacific has provided scope for the World Bank to leverage substantial resources from the IDA regional program**, which now constitute almost one-third of the portfolio. The mobilization of significant trust fund resources from large bilateral development partners in the Pacific, notably Australia and New Zealand, was also highly instrumental in expanding support. Box 1.1 describes the regional and country strategies that defined the WBG's program of engagement during this period of expansion.

6. **The period covered by this RPF—Fiscal Years (FY) 2017–21—will see the completion of a range of activities initiated during IDA17, followed by an increase of WBG support to the IDA-eligible PICs to historically unprecedented levels during IDA18.** The increase in the IDA18 base allocation will significantly benefit most Pacific countries and in some of the PIC9 it will almost quadruple the national IDA resources available.

7. **The program of support envisioned in this RPF will build on a significant body of recent analytical work exploring options to harness regional synergies, while recognizing the unique characteristics of each of the PIC9 to tailor country-specific solutions.** This RPF defines a broad program of engagement that will benefit from the strengths and opportunities of Pacific institutions, traditions, and customs and draw upon the combined capacity of the World Bank and IFC to facilitate increased collaboration across the region and respond to the priorities of individual countries.

8. **The proposed framework for WBG engagement in the Pacific is also well aligned with the IDA17 and IDA18 themes.** During IDA17, in countries with active programs, there was increased focus on inclusive growth, climate change and fragile and conflict-affected states. IDA18 presents a set of policy and financing commitments to match the global ambition of fulfilling the Sustainable Development Goals by 2030, and the engagement in the Pacific will reflect this goal. The focus on climate change, gender, fragility, labor mobility/employment, and economic governance in this RPF is fully aligned with the IDA18 themes.

#### **BOX 1.2: THE WORLD BANK GROUP’S EXPANDING ENGAGEMENT WITH THE PACIFIC**

**From 2000 to 2005**, the WBG program was defined in a **Pacific Regional Strategy** (May 2000) covering nine PICs (diverging slightly from the group covered in this proposed RPF)† It reflected the findings of a combined Commonwealth Secretariat–World Bank Joint Task Force on Small States, which assessed the development challenges specific to small states and the best ways to meet those challenges.

**Between 2005 and 2009**, the WBG program was governed by the **Regional Engagement Framework for Pacific Islands FY2006-2009** (May 3, 2005). That framework maintained the focus on the nine PICs targeted in the Pacific Regional Strategy. It aimed to strengthen government capabilities for delivering services and sought to improve the incentives for private sector-led growth and employment. The WBG goal was to deliver its assistance primarily through strategic economic and sector work and targeted technical assistance; selective lending was envisioned for activities that would leverage donor resources to maximize their policy impact. Toward the end of the period covered by the Regional Engagement Framework, to support its deepening engagement in the Pacific, the WBG initiated country-specific strategies.

**Between 2010 and 2014**, the WBG initiated the first-ever country strategies in six of the PIC9: Kingdom of Tonga (2010), Kiribati (2011), Tuvalu (2011), RMI (2013), FSM (2014), and the Independent State of Samoa (2012). Undertaking country-specific strategies afforded the WBG the opportunity to establish a well-informed relationship, dialogue, and operational program with each of the countries and take a “deep dive” into the specific development challenges and opportunities in each of the countries.

† Fiji, Kiribati, RMI, FSM, Palau, Independent State of Samoa, Kingdom of Tonga, Tuvalu, and Vanuatu.

## 2 COUNTRY CONTEXT AND DEVELOPMENT AGENDA

### 2.1 Country Context

9. **The PIC9 have substantial resource endowments, especially in fisheries, and also benefit from natural and cultural riches but face common development challenges.** These include small size and remoteness, geographic dispersion and environmental fragility, and high exposure to a volatile mix of economic shocks, climate change, and natural disasters. The PIC9 are among the 25 smallest independent states on earth. They range from Tuvalu, with a population of around 10,000, to Vanuatu, with 250,000 (Table 2.1). Most of these countries are archipelagos, and range from 1 inhabited island (Nauru) to more than 70 (Vanuatu), with most islands separated by large tracts of ocean. Most of the PIC9 have an average population per inhabited island of less than 5,000 individuals. Kiribati's population of 110,000 extends across an area as large as India—yet the combined land mass of its islands is less than the area of New Delhi.

**TABLE 2.1: PIC9 POPULATION AND SPATIAL, FISCAL, AND ECONOMIC INDICATORS**

	FSM	Kiribati	Nauru	Palau	RMI	Samoa	Tonga	Tuvalu	Vanuatu
<i>Spatial and situational indicators</i>									
Population	104,044	110,470	10,051	21,097	52,898	191,845	105,586	9,893	258,883
Population growth	-0.1%	1.8%	0.2%	1.1%	0.2%	0.6%	0.5%	0.4%	2.3%
Land area (km <sup>2</sup> ) 2014	700	810	21	460	180	2,830	720	30	12,190
EEZ (km <sup>2</sup> )	2,992,597	3,550,000	293,079	604,289	1,992,232	131,812	664,853	751,797	827,891
Inhabited islands	65	21	1	8	24	4	36	9	72
Remoteness (km)	10,307	10,886	10,943	9,852	10,470	11,886	12,463	11,610	12,101
Avg. population per island	1,601	5,260	10,051	2,637	2,204	47,961	2,933	1,099	3,596
<i>Fiscal indicators (ratio to GDP)</i>									
Total public spending	60.2%	95.4%	51.9%	39.8%	53.9%	43.3%	28.2%	86.8%	22.3%
General government revenue	71.4%	115.6%	68.9%	43.3%	54.5%	38.1%	28.9%	123.1%	23.3%
Trust fund assets	131.0%	321.2%	3.5%	78.1%	128.6%	0.0%	0.0%	335.1%	0.0%
Public sector debt (PV)	21.7%	9.6%	53.2%	34.0%	45.2%	64.5%	34.5%	78.5%	21.7%
<i>Economic indicators</i>									
GDP per capita (PPP \$)	3,347	1,941	11,394	13,985	3,852	5,819	5,309	3,793	3,046
GDP per capita growth	0.3%	-0.2%	9.4%	0.1%	0.6%	2.3%	1.0%	1.2%	0.4%
GDP (PPP, \$ millions)	348	214	115	295	204	1,116	561	38	789
Share of agriculture	27.0%	25.5%	3.9%	3.9%	18.7%	9.5%	20.5%	22.2%	28.2%
Share of industry	6.3%	8.1%	21.5%	8.4%	10.5%	24.3%	18.8%	9.1%	9.1%
Share of services	66.8%	66.5%	63.5%	87.7%	70.8%	66.2%	60.7%	68.7%	62.7%
Imports, ratio to GDP	72.2%	110.8%	60.0%	87.7%	95.0%	52.5%	53.5%	133.2%	49.4%
Exports, ratio to GDP	25.1%	10.8%	35.7%	63.1%	34.9%	28.2%	17.8%	57.4%	48.0%
Remittances, ratio to GDP	6.9%	7.8%	-	-	11.9%	17.5%	26.3%	10.7%	3.0%

Source: Data on government revenues is from IMF's WEO database and are estimates for Tonga, Kiribati, Tuvalu, and RMI. Imports and exports for FSM and MHL are from PITI-VITI, and for Tuvalu from World Bank estimates. Share of GDP from industry for Kiribati is for 2013. Trust fund assets are from joint WB/IMF Article IV consultation documentation. Nauru public expenditure and economic statistics are from 2013/14 budget documents and World Bank estimates. Remittances data are from World Bank bilateral remittances matrix dataset. All other data are from the World Bank's World Development Indicators.

Note: Data are for latest year available (2014) except GDP per capita growth and population growth, which are the 10-year average for Nauru and 20-year average for all other countries. GDP and GDP per capita are in PPP current international dollars, except for Nauru which is in current US dollars. Remoteness is measured as the average distance from other economies, weighted by their GDP. PV (present value); EEZ (Exclusive Economic Zone). For Nauru and Palau, nominal public debt (not PV) is shown.

10. **The Pacific islands fall broadly into three cultural areas, each covering a subset of independent states: Melanesia (Vanuatu, Solomon Islands, Fiji, Papua New Guinea), Micronesia (FSM, Kiribati, RMI, Nauru, Palau), and Polynesia (Samoa, Tonga, Tuvalu, New Zealand).** Cultural traditions vary across the PICs, yet in most countries indigenous cultures are a strong presence in national life, policies, and decisions. All of the PIC9 are democracies (some more stable than others) and experience varying degrees of influence by traditional leaders.

11. **The PIC9 tend to retain close ties to countries with which they have had significant historic relationships.** RMI, FSM, and Palau have entered into “Compacts of Free Association”<sup>2</sup> with the United States of America (USA). Under the Compact, the three countries receive yearly financial transfers as well as access to other United States services and programs. The USA has full authority and responsibility for the defense and security of the Compact countries, whose citizens can live, work, and study in the USA without a visa. In the South Pacific, many Tongans and Samoans possess dual nationality with New Zealand, reflecting their close historical relationship with that country. Twenty-nine percent of Australia’s development assistance is channeled to the Pacific. For New Zealand, the figure is 59 percent.

## 2.2 Recent Economic Developments and Outlook for the RPF Period

12. **The extreme smallness and remoteness of PIC9 economies powerfully affect local opportunities for business and economic expansion** (Figure 2.1 highlights their remote nature). A telling comparative statistic is distance to markets, weighted by the size of those markets. According to that metric, the Pacific islands are 12,000 km from centers of economic activity, versus 8,000 km for the Caribbean islands and 10,000 km for some of the most remote Indian Ocean islands. Constraints inherent in the small domestic markets of the PIC9—low purchasing power and challenges in capturing economies of scale—are compounded by excessive distance from foreign suppliers, which increases the unit cost of inputs while pushing up the costs of exports. These factors drive up the costs of private production and reduce returns for private firms, while narrowing the set of feasible economic opportunities. The high frequency and intensity of natural disasters adds another substantial layer of risk to starting or expanding a business.

13. **Smallness, remoteness, internal dispersion, and vulnerability to natural disasters translate into specific macroeconomic outcomes.** They include low and volatile economic growth, structural budget deficits (excluding grants), structural trade deficits, vulnerability to external shocks (such as shocks to commodity prices), and elevated risks of debt distress.

14. **Growth in almost all PICs is lagging behind growth in other developing countries.** Over the last ten years, none of the PICs (except for Nauru) has been able to generate per capita income growth of more than two percent, and several of the PICs are experiencing almost no growth in real GDP per capita (Figure 2.2).<sup>3</sup> As a result, few new jobs are being created and in most of these countries, less than half of the working-age population is employed. Given low growth and limited employment opportunities, labor migration to neighboring countries and remittances are critical drivers of increased living standards in the PIC9. Remittance flows to

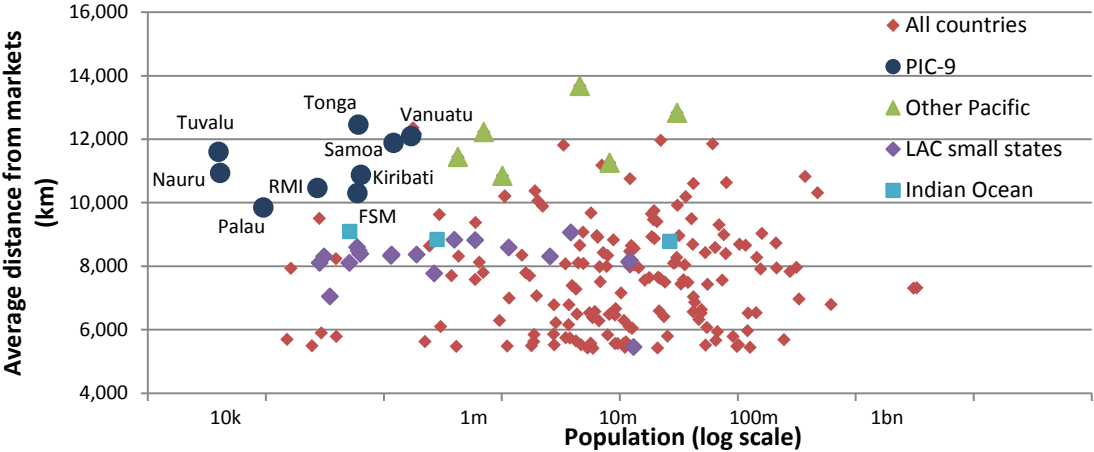
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<sup>2</sup> Following World War II, in 1947 RMI, FSM, and Palau passed from Japan’s control to the U.S. under United Nations auspices as part of the Trust Territory of the Pacific Islands. In 1986, RMI, FSM, and Palau entered into Compacts of Free Association with the US.

<sup>3</sup> It is important to bear in mind that the occurrence of natural disasters frequently distorts the growth picture in these economies.

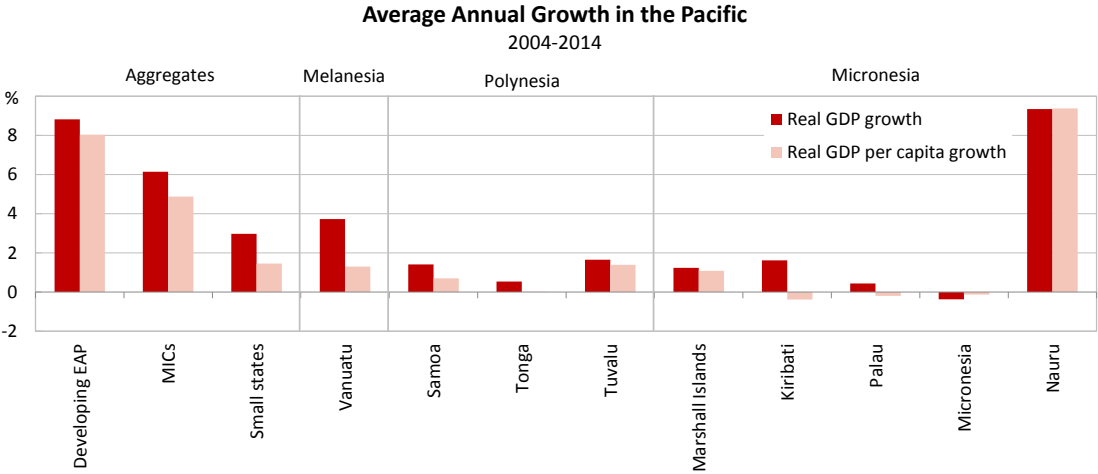
Tonga and Samoa are among the highest worldwide in relation to the countries' GDPs, at 26 percent and 18 percent, respectively. The already relatively high cost of transferring money to Pacific countries could further increase due to reduction in correspondent banking services by global banks in recent years. The withdrawal of correspondent banking relationships, as well as the limited number of Banks generally operating in Pacific island countries is affecting the ease and cost of remittance transactions. The increase in the cost of sending remittances combined with closures of Money or Value Transfer Services' bank accounts including in Samoa, Tonga, RMI among others, remains a source of concern.

**FIGURE 2.1: THE PIC9 ARE AMONG THE WORLD'S SMALLEST AND MOST REMOTE COUNTRIES**



Source: World Bank estimates (WDI data) and CEPII Database.

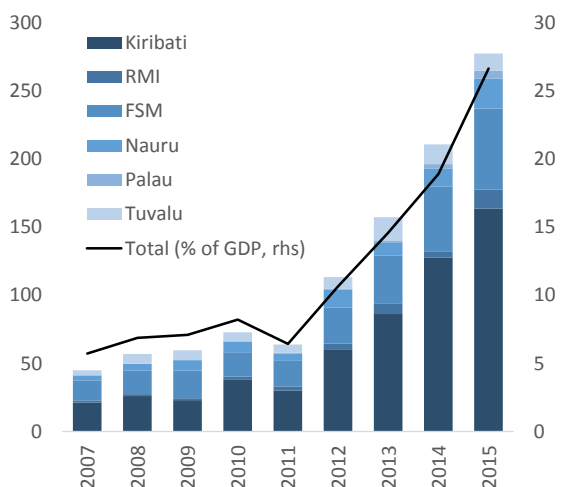
**FIGURE 2.2: GROWTH IS LAGGING IN NEARLY ALL PICS (AVERAGE ANNUAL GDP GROWTH IN PICS AND COMPARATORS, 2004–14, IN CONSTANT PRICES IN LOCAL CURRENCIES)**



Source: World Bank estimates, based on WDI data.  
 Note: EAP (East Asia and Pacific); MICs (middle-income countries)

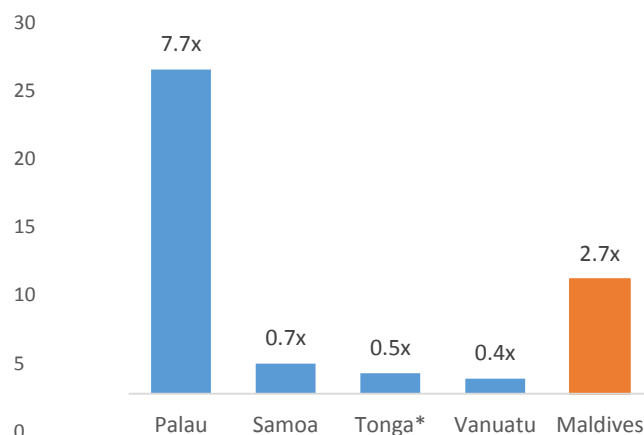
15. **These countries specialize in a few economic activities in which they are globally competitive, notably fisheries, to some extent agriculture, and tourism.** Revenues from fisheries as a share of GDP have risen rapidly since 2007, with Kiribati and FSM seeing the biggest increases in absolute terms (Figure 2.3). The importance of tourism is highlighted by the very considerable share of GDP coming from the services sector—often exceeding two-thirds of GDP (as seen in Table 2.1). The fastest-growing economies, Vanuatu and Samoa, have seen a rapid expansion in their trade, transport, and hospitality sectors with rising tourist arrivals from Australia and New Zealand. Tourism-related services have sustained growth in Palau in the absence of other sustained drivers of growth, and they have supported some growth in Tonga (Figure 2.4).

**FIGURE 2.3: FISHING LICENSE REVENUES FOR SELECTED PICs (US\$ MILLION), 2007–15**



Source: Asian Development Bank Pacific Economic Monitor database.

**FIGURE 2.4: TOURIST ARRIVALS RELATIVE TO POPULATION, SELECTED COUNTRIES, 2015**



Source: World Bank estimates, based on data from SPTO and national authorities.

Note: \* denotes SPTO estimate.

16. **In most of the PIC9, public expenditure and investment funded through domestic taxes, natural resource revenues, and especially development assistance, is a significant contributor to GDP.** While Nauru experienced a sharp, temporary boost in growth from 2011 to 2014 after the resumption of phosphate mining, the reopening of Australia’s Regional Processing Centre for asylum-seekers, and an increase in revenues from fishing licenses, growth is projected to revert to more modest rates in coming years.

17. **In addition, growth in the PICs tends to be highly volatile.** Short-run volatility is typically the result of external economic shocks and natural disasters, with their characteristic cycles of decline and recovery, as well as the funding of infrastructure projects through foreign aid, which can lead to a temporary acceleration in growth.

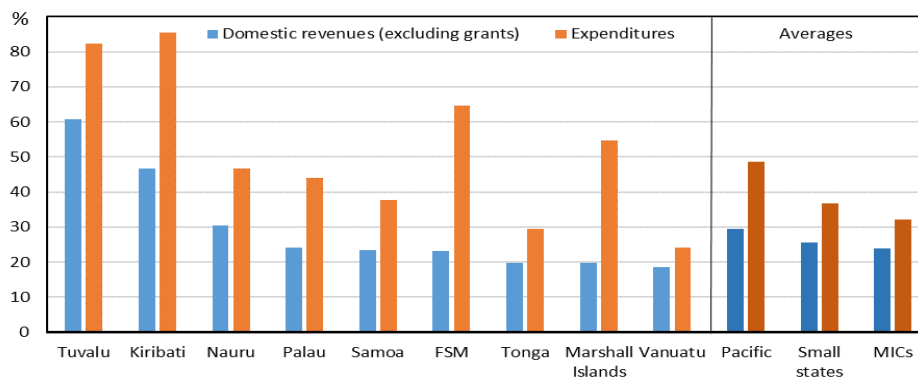
18. **Of the PIC9, only Tonga, Samoa, and Vanuatu have their own currencies (pegged to currency baskets).** Palau, RMI, and FSM use the US dollar, while Kiribati, Nauru, and Tuvalu use the Australian dollar. The scope for independent monetary policy in the PIC9 is thus very limited, with the exchange rate serving as the nominal anchor for these economies. Inflation has been moderate in recent years, with volatility typically being a result of changes in import prices or supply shortages in the wake of natural disasters.

19. **The financial sectors of the PIC9 tend to be small and weak financial sector regulation and supervision puts them at heightened risk of being cut off from the international financial system in the context of global de-risking.** After 9/11 there has been a tightening of international anti-money laundering/counter-terrorism financing (AML/CTF) rules that impose significantly heightened compliance requirements on the PICs. This affects incoming remittances, donor funding, imports and outgoing transactions as well as some niche activities that are important for some of the PICs such as offshore financial centers (Nauru, Palau, Samoa, Vanuatu) and registration of ships (the Marshall Islands). While all of the PIC9 are affected by global de-risking, Vanuatu, RMI, Nauru and Tuvalu already have lost correspondence bank relationships or are under threat of losing access.

20. **While average revenues as a percentage of GDP in the PICs are at a similar level to those in other small states and comparator countries, public expenditures are systematically higher, even though in most cases only a minimum level of public services is delivered** (Figure 2.5). This outcome is largely explained by the inability of the PICs to achieve economies of scale, given their size and the scattered distribution of their populations, as well as by the high cost of imported inputs. At the same time, however, government expenditure has a dual role in many of the PICs, which is not only to provide public services to the population but to directly create employment and distribute aid flows. The result in some cases may be inefficient levels of recurrent expenditure (particularly on the public sector wage bill).

21. **Development assistance plays a critical role in funding public expenditure in most of the PIC9, and on a per capita basis, is among the highest in the world** (largely due to their small populations). Development assistance helps to support economic activity by providing the public goods and services—including key infrastructure—that sustain private sector production, business development, and trade. It also supports economic growth by facilitating government procurement of goods and services from the private sector. Such procurement, when correctly mobilized and deployed, prevents aid funds from crowding out private sector participation in the economic development agenda and opens greater opportunities for the private sector in areas such as energy generation and other infrastructure services.

**FIGURE 2.5: DOMESTIC REVENUES AND EXPENDITURE, EXCLUDING GRANTS, AS A PERCENTAGE OF GDP IN PICs AND COMPARATOR COUNTRIES, 2010–13 AVERAGE**



Source: World Bank estimates, IMF WEO, and WDI data.

Notes: “Pacific” includes Papua New Guinea, Solomon Islands, and Fiji; MICs are middle-income countries; data for Nauru are 2011–13 average for Nauru.



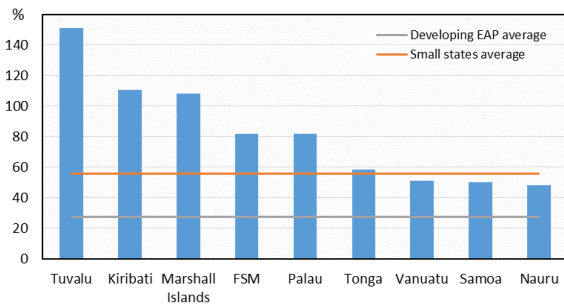
22. **Even with significant development assistance, the PIC9 have persistent gaps in the provision of services.** Development assistance has helped raise living standards, particularly by supporting public sector provision of critical health and education services. However, because the population is so widely dispersed across the islands in many of the PIC9, the cost of public administration and service delivery is high, affecting both the quantity and quality of services available. Some services are not performed at all, or not provided to an adequate standard.

23. **While for most countries structural budget deficits are likely to persist over the RPF period, increased revenue from fisheries has generated significant fiscal surpluses in a few countries, including Kiribati, Tuvalu, and FSM.** For these countries, the critical challenge over the RPF period will be to devise a strategy that creates an appropriate balance between using some of the increased revenue to address current development challenges, building fiscal buffers to be able to deal with volatility, and saving for the future. The Compact countries in the North Pacific face the additional challenge of adjusting revenue and expenditure to avoid a potential “fiscal cliff” in 2024 (RMI, FSM)/ 2025 (Palau), when USA Compact grants are scheduled to expire and income from the Trust Funds of these countries is unlikely to fully replace the grants.

24. **Six of the eight PICs (Nauru, Palau, FSM, RMI, Kiribati, and Tuvalu) have sizeable trust funds,** which have in some cases also played an important role in financing public expenditures, given a shortfall of revenues from other sources. The trust funds in FSM, RMI, and Palau were established as part of the Compact of Free Association with the USA, and their main purpose is to fully replace Compact grants upon their expiration at the end of the compact period. Kiribati has a trust fund that was built with phosphate tax revenues, while Tuvalu has a donor-funded trust fund. The objective is that the investment income from these funds—which are invested in foreign financial assets—will eventually help the PICs to achieve a measure of budgetary self-reliance, in recognition of the reality that the PICs will not be able to generate sufficient revenues on their own to meet long-term development financing needs. Nauru also had a large sovereign wealth fund built from the country’s phosphate resources. However, following the exhaustion of primary phosphate reserves, poor investment decisions led to a rapid loss in value of the country’s sovereign wealth fund, which is now being dissolved. With the support of development partners, Nauru established a new Trust Fund in 2016 funded from government as well as development partner resources. The objective of the Trust Fund is to provide Nauru with a sustainable source of income in the event that income from the Australian Regional Processing Center and the exploitation of secondary phosphate resources declines.

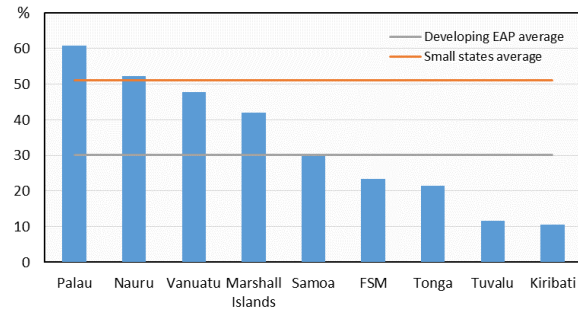
25. **Structural trade deficits are also the norm in the PICs.** The import bill in the PICs tends to be relatively high compared with that of other small states due to their narrow and undiversified domestic production bases, which can meet only a small proportion of the demand of the domestic population (Figure 2.6). On the other hand, high trade costs coupled with dispersion of population and low economic density mean that it is also difficult for firms to achieve economies of scale in the production of traded goods, so export receipts tend to be relatively low compared with those of other small states (Figure 2.7).

**FIGURE 2.6: IMPORTS OF GOODS AND SERVICES AS A SHARE OF GDP IN PIC9 COUNTRIES AND COMPARATORS, 2013**



Source: World Bank estimates and WDI data.

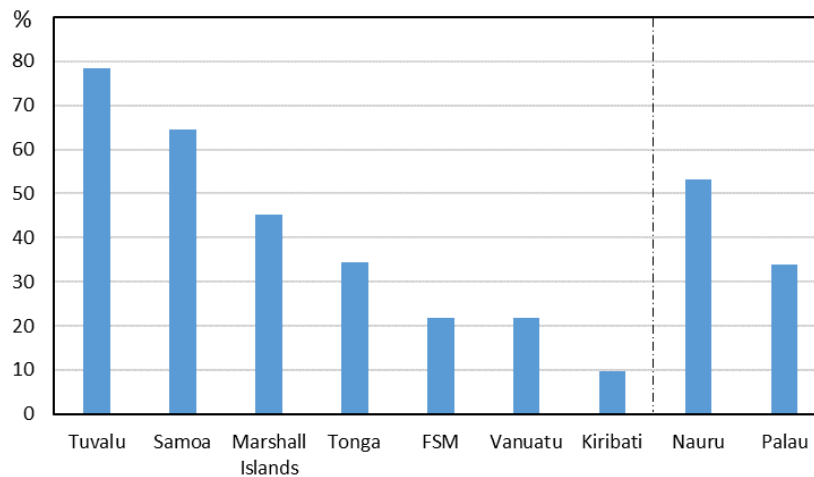
**FIGURE 2.7: EXPORTS OF GOODS AND SERVICES AS A SHARE OF GDP IN PIC9 COUNTRIES AND COMPARATORS, 2013**



Source: World Bank estimates and WDI data.

26. **Debt sustainability is another clear challenge for the PIC9**, owing to their susceptibility to external shocks, small economic bases, low levels of exports, limited budgetary resources, and modest growth perspectives. Levels of public debt vary significantly across the PIC9 (Figure 2.8) Four of the PIC9 (FSM, RMI, Kiribati, and Tuvalu) are currently classified as having a high risk of debt distress, and three (Samoa, Tonga, Vanuatu) are classified as having a moderate risk. To take advantage of productive investment opportunities while maintaining aggregate debt sustainability, it is important that the PICs have robust rules around the contracting of new debt.

**FIGURE 2.8: PRESENT VALUE OF PUBLIC DEBT AS A PERCENTAGE OF GDP IN PIC9, 2014**



Source: World Bank estimates and IMF/WB Debt Sustainability Analyses.

Notes: A discount rate of 5 percent is used to calculate the present value. Nominal public debt (not PV) is shown for Nauru and Palau.

### 2.3 Regional Efforts to Address Development Challenges

27. **To overcome the challenges inherent in their economic geography, the PICs rely on various kinds of regional collaboration.** A number of organizations promote political and technical collaboration in the region, notably the Pacific Islands Forum (PIF) and the Pacific

Community (SPC, an abbreviation that stems from its original name—South Pacific Commission). PIF—the principal political grouping—is an intergovernmental organization established in 1971 to enhance cooperation between the independent countries of the Pacific Ocean. The Pacific Islands Forum Secretariat (PIFS) implements PIF decisions, harmonizes regional positions on political and policy issues, and operates technical programs in economic development, transport, and trade. SPC is the principal scientific and technical intergovernmental organization in the Pacific region. Established in 1947, it promotes effective, innovative applications of science and knowledge across the Pacific.

28. **To prevent duplication in the aims of these organizations, the Council of Regional Organisations in the Pacific (CROP) was created in 1988.** It is chaired by the PIFS Secretary General and aims to improve cooperation and collaboration among key regional bodies such as the Forum Fisheries Agency (FFA), the Pacific Islands Development Programme (PIDP), the SPC, the Secretariat of the Pacific Regional Environment Programme (SPREP), the South Pacific Tourism Organisation (SPTO), the University of the South Pacific (USP), the Pacific Power Association (PPA), and the Pacific Aviation Safety Office (PASO). Outside the CROP agencies, the Pacific Islands Private Sector Organization (PIPSO) is focused on supporting private sector development and the Pacific Islands Development Forum (PIDF), established in August 2014 through an initiative by the Government of Fiji, is focused on establishing a South–South platform for collaborative action on green economic policies.

29. **In 2014, PIFS began to develop a new strategic framework to streamline the development agenda and prioritize the key challenges for the region.** The resulting Framework for Pacific Regionalism articulates an overarching vision for the region and streamlines the regional agenda by focusing on key priorities, including areas key to WBG support, such as fisheries, climate change and ICT. It builds upon, and integrates with, the Small Island Developing States (SIDS) Accelerated Modalities of Action [S.A.M.O.A.] Pathway, a blueprint for achieving sustainable development in SIDS that was adopted by 115 SIDS leaders at the Third UN Small Island Developing States conference in September 2014 in Apia, Samoa.

30. **The Pacific region was a strong supporter of the Sustainable Development Goals (SDG's) in the UN deliberations.** Advocacy by the Pacific, and other small islands states, was instrumental in the inclusion of a separate oceans goal. Many Pacific governments are integrating implementation of the SDGs at the national level as national development plans are reviewed and updated. Capacity to deliver on, and monitor, the SDGs is limited in the Pacific, as it was with the Millennium Development Goals. With oversight by the CROP Sustainable Development Working Group, the National Sustainable Development Strategies (NSDS) Partnership Group, is providing technical support to member countries in tailoring and integrating the SDGs in their national plans, budgets, and monitoring and evaluation frameworks. At the regional level, there is also effort in tailoring the global indicators to better reflect the Pacific context and to use these regional indicators to monitor the region's progress on the SDGs.

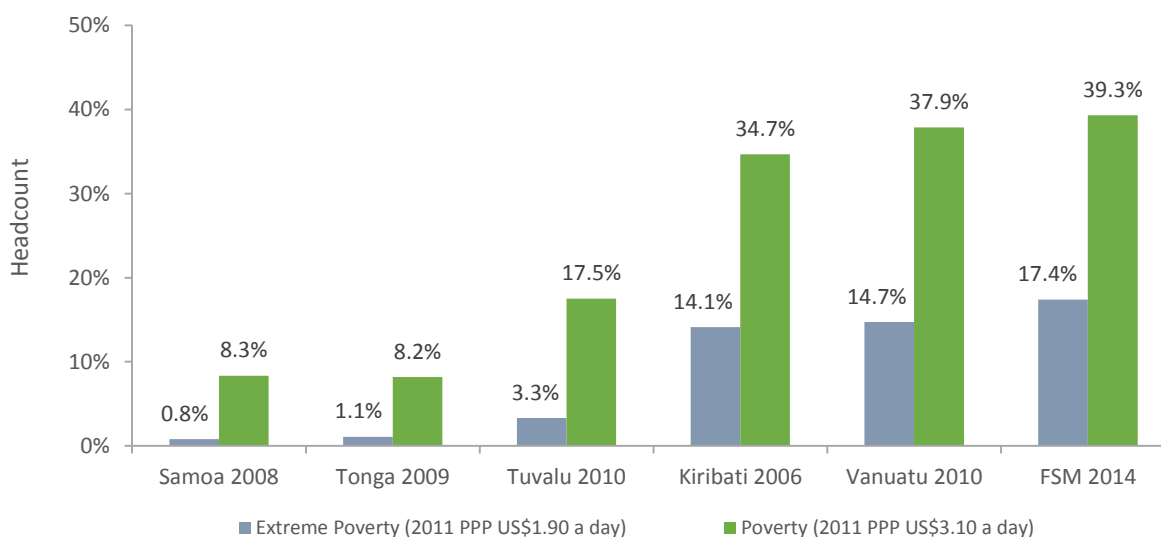
31. **Joining together to form regional and international cooperative solutions continues to hold promise for offsetting challenges stemming from the small size, limited financial and human resources, and other constraints besetting the PIC9.** Among other achievements, regional approaches have delivered gains in fisheries (as seen from the rapid growth in revenues depicted in Figure 2.3), education (through the University of the South Pacific, for example), ICT, and shared governance and resource management services. Yet the results of these strategies and

efforts have been mixed and building sustainable cooperative solutions remains a key development challenge in the Pacific.

## 2.4 Poverty Profile

32. **Extreme poverty is relatively uncommon in the PIC9.** Based on internationally comparable estimates using the 2011 purchasing power parity (PPP) poverty line of US\$1.90 per day, extreme poverty is estimated to surpass 10 percent in only three countries: Kiribati, Vanuatu, and FSM (Figure 2.9). No data are available for RMI, but proxies indicate that its poverty levels are similar to those in FSM. The prevalence of extreme poverty is negligible in Samoa, Tonga, and very likely Palau, and it is just above 3 percent in Tuvalu. No estimates of the incidence of extreme poverty are available for Nauru, but most segments of the population will likely have benefited to some extent from the rapid economic growth in recent years. Relatively high per capita incomes in the PIC9, reasonably widespread access to land for subsistence agriculture, and the existence of informal, community-based social safety nets have generally kept the incidence of extreme poverty low. The extreme poor often live outside traditional social networks. Many of the individuals who are socially excluded live in urban areas, without jobs, and may be homeless and suffer from physical or mental disabilities.

**FIGURE 2.9: INCIDENCE OF POVERTY IN SIX PACIFIC COUNTRIES**



Source: World Bank PovCalNet and World Bank staff calculations reported in the PIC8 SCD, based on country HIES.

33. **Extreme poverty may be limited, but poverty and hardship are fairly widespread in six of the nine countries.** Internationally comparable estimates based on the less austere 2011 PPP poverty line of US\$3.10 per day suggest that poverty is relatively widespread in the PIC9, except for Tonga, Samoa, and probably Palau. It appears likely that about 90 percent of the poor are concentrated in FSM, Vanuatu, Kiribati, and possibly RMI. In the Pacific, many of the poor inhabit the outer islands, where poverty is structural and persistent. As in Kiribati, some inhabited islands are coral atolls where very little subsistence agriculture is possible and more extreme deprivation is likely, particularly compared to typical levels in rural areas. Across the Pacific more generally, a broad sense of hardship prevails, experienced as a lack of access to even basic services (including

quality education), economic opportunities, cash for meeting basic needs (sometimes including customary obligations to traditional support networks). Hardship is also increasing owing to the impacts of NCDs.

34. **Across the region, a significant share of the population remains on the edge of poverty.** Many paths lead households into poverty—the loss of a job, a crop failure, illness, an economic crisis that reduces tourism, a natural disaster that deprives them of housing and land—. Even relatively minor events can push a poor household into extreme poverty, and drive the extremely poor into destitution. Often the poor come from groups that have specific social disadvantages and economic vulnerabilities, such as the elderly, individuals living with disabilities, children, or female household members.

35. **Robust evidence is not yet available, but converging trends in related indicators suggest that poverty has stagnated or increased in most of the PIC9 since the last data were collected.** The household surveys used to estimate incomes and poverty levels are administered infrequently in the PIC9, and much of the data is not recent. To some extent, poverty is likely to have been exacerbated by the 2008–10 global economic crisis, the surge in food and fuel prices around the same time (which markedly depleted real purchasing power in the Pacific), and the effects of major natural disasters in the PIC9 countries in recent years.

36. **The limited data available suggest that incomes have grown more slowly among the bottom 40 percent in the PIC9 than in other countries in East Asia and the Pacific (EAP), while the gap between those who can meet modern basic needs and those who cannot is growing.** Data on income trends among the bottom 40 percent (B40) are scant and unreliable—a fundamental limitation that is addressed in detail later. Given that overall growth in per capita income across the PIC9 has been so low in the past two decades, however, incomes of the B40 have almost certainly grown very little. Time-series data for estimating changes in the income/expenditure share of the B40 are available only for Vanuatu, Samoa, Tonga, and Tuvalu. Over multi-year periods in the early 2000s, only in Vanuatu did average incomes of the lowest four income deciles increase more rapidly than average incomes of the population as a whole. In Tonga, B40 incomes grew at roughly the same pace as average incomes; in Samoa, growth in B40 incomes was only slightly lower than for the wider population; and in Tuvalu, the differential was more pronounced, consistent with the loss of job opportunities for Tuvaluan seafarers (the majority of whom were recruited from the outer islands). The PIC9 experience contrasts sharply with the median experience in EAP over the 2000s, when incomes of the B40 grew modestly faster than overall economic growth. While the traditional social structures in the PIC9 are mostly effective in ensuring that people have basic food and housing, the disparity between the “haves” and “have nots” is increasing with regard to modern basic needs such as cash incomes, basic infrastructure, social services, and nutritious food. Only some members of society are able to meet those modern basic needs. Progress in extending access to all has been uneven.

## 2.5 The Drivers of Poverty and Development Challenges

37. **The SCD provides the major analytical foundation for this RPF.** Undertaken for eight of the PIC9 countries<sup>4</sup> and completed in December 2015, the SCD identifies the critical constraints

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<sup>4</sup> The SCD covered Kiribati, Republic of the Marshall Islands, Federated States of Micronesia, Palau, Independent State of Samoa, Kingdom of Tonga, Tuvalu, and Vanuatu. Nauru became a member of the World Bank only on April 12, 2016; therefore it was not included in the SCD but is covered in this RPF. Due to Nauru’s recent membership and

and opportunities facing the PIC8 in sustainably attaining the WBG's twin global goals of ending absolute poverty and boosting shared prosperity. The diagnostic benefitted from the experience of the WBG in the region since 2000, particularly the learning gained from implementing country-specific strategies over the past five years.

### ***2.5.1 Three Fundamental Constraints to Ending Absolute Poverty and Increasing Shared Prosperity***

38. **The SCD identified three fundamental constraints to ending absolute poverty and boosting shared prosperity in the PIC9<sup>5</sup>.** All three are correlated with the unique economic geography of the PIC9.

39. **The first constraint is the small size and remoteness of the PIC9, which limits economic opportunities.** As discussed, the islands' long distance from markets and major shipping routes increases the cost of trade and limits integration in global value chains.

40. **The second constraint relates to the geographic dispersion of the PIC9.** A particularly important consideration is that people living on outer islands have even more limited access to employment and public services than their counterparts on the major islands. In these circumstances, employment is often literally out of reach. The lack of economies of scale in administration and service delivery drives up the cost for the government to perform its essential public service functions in education, health, and other sectors. Tuvalu's experience with its overseas medical treatment scheme is a case in point (Box 2.1).

#### **BOX 2.1: GEOGRAPHY AND CAPACITY CONSTRAINTS CREATE HARD CHOICES BETWEEN ADVANCED MEDICAL TREATMENT AND BASIC HEALTHCARE IN TUVALU**

The Government of Tuvalu is committed to providing Tuvaluans the highest attainable standards of health. Given the economic geography of the country, as well as its small population, the country instituted the Tuvalu Medical Treatment Scheme (TMTS) in 2005 with the aim of funding tertiary health treatment for patients who needed advanced surgical procedures overseas that could not be provided at Tuvalu's only hospital. By 2013, spending under the scheme consumed 45 percent of the national health budget, leaving fewer resources for providing basic health services, including prevention. This expenditure hobbled the government's efforts to achieve its key policy objective of providing balanced, cost-effective, equitable healthcare, particularly basic healthcare, to all Tuvaluans.

41. **The third constraint is high exposure to economic crises and natural disasters.** While economic openness is an essential response for small economies to grow and function, it leaves them exposed to the volatility of global markets. With their narrow economic bases, the PIC9 are hampered in building sufficient reserves against catastrophic economic and natural events. Their vulnerability is worsened by poor development planning and the countries' limited ability to respond to and manage the risks of economic and natural threats. Tropical storms, earthquakes, volcanic activity, floods, droughts, and landslides are frequent events in these countries, and their frequency and intensity continue to increase. Recent estimates show that the expected losses (as a share of GDP) on an annualized basis far exceed those in almost all other countries in the world.

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the lack of statistics about its economy, the knowledge gaps with regard to the country's poverty and shared prosperity profile are significant. They will be addressed during the RPF period.

<sup>5</sup> Although the SCD covered 8 of the PIC9 countries, for overall consistency, the discussion herein refers to the PIC 9.

The highest elevations in the atoll nations of Kiribati, RMI, and Tuvalu are only a few meters above sea level, and these countries may become submerged by 2100 (Box 2.2). The average annual direct losses caused by natural disasters in the South Pacific region are estimated at US\$88 million.

#### **BOX 2.2: PLANNING FOR RISING SEA LEVELS IN KIRIBATI**

Some Pacific countries believe it may already be too late to save themselves from the effects of climate change, including rising sea levels and the increased frequency of king tides. The Government of Kiribati has purchased 20 square kilometers of land on Vanua Levu, one of the Fiji islands, located about 2,000 km from Kiribati's capital, Tarawa.

42. **An important conclusion of the SCD analysis is that an appropriate balance of regional and country-specific approaches is required across the PICs.** The analysis affirmed the reality—recognized throughout these countries—that similar, overarching development opportunities and challenges can benefit from regional approaches, especially to expand tourism, increase revenue from fisheries, broaden opportunities for labor mobility, and strengthen disaster risk preparedness. The RPF takes into account the WBG's comparative advantage and the activities of key development partners in the Pacific. The resulting framework supports the PIC9 in maximizing their potential by drawing on regional lessons and solutions, while providing flexibility at the individual country level to tailor the Bank's engagement to the local reality.

#### **2.5.2 Fragility in the PIC9**

43. **Fragility in the PIC9 has multiple facets but is not characterized by widespread civil or political conflicts (which are largely absent).** In FY17, the WBG classifies four of the PIC9 as “fragile situations”—FSM, RMI, Tuvalu, and Kiribati<sup>6</sup>. These countries have limited state capacity and remain extremely vulnerable to external shocks. The risk and resilience assessment of the PIC9 conducted for this RPF concludes that fragility in these countries stems from their extreme geography and limited economic viability, thin institutional capacity, urbanization and youth unemployment, poor land governance, and gender-based violence. In some cases, elite capture and weak state legitimacy constitute additional challenges. Climate change and natural disasters pose an existential threat to the atoll nations of the PIC9.

##### *2.5.2.1 Thin institutional capacity and lack of state legitimacy*

44. **A key development challenge for these countries is to ensure adequate capacity to support effective public service delivery and regulation.** With a limited pool of human resources and weaknesses in providing secondary and tertiary education, the PICs often cannot rely on local labor markets to supply the skills required for some public sector functions. Often they lack staff to perform all of the functions of a particular department or ministry, requiring individuals to cover a range of functions. The public sector also faces competition for human resources from the local private sector and development partners. Capacity-building efforts are undermined when individuals with newly acquired skills and qualifications move to new roles within or outside the public sector or move overseas.

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<sup>6</sup> Fragile Situations" have: either a) a harmonized average CPIA country rating of 3.2 or less, or b) the presence of a UN and/or regional peace-keeping or peace-building mission during the past three years. See <http://pubdocs.worldbank.org/en/154851467143896227/FY17HLFS-Final-6272016.pdf>.

45. **Elite capture, lack of state legitimacy, and corruption further reduce prospects for economic development.** In some PICs, political coalitions are frequently built around a pyramid of patronage, with politicians competing for key posts that provide opportunities for distribution to coalition supporters down to the constituency level. Entrenched patronage threatens the delivery of national policy by encouraging frequent policy shifts, leading to inconsistency and a lack of commitment to policy analysis, formulation, and application. A common outcome is that the government cannot equitably deliver essential services to the public. Communities, especially in outer islands, often express high levels of frustration about the distance they feel from government. Moreover, anti-corruption systems in some PIC9 experience deficiencies and institutional challenges.

#### 2.5.2.2 *Rapid growth in the youth population and urbanization*

46. **Demographic data for the PIC9 point to a rapidly growing population of young people that will ultimately demand employment.** On average, 57 percent of the population in the PICs is below the age of 25—a higher proportion than the average for the developing world and more similar to rates in least-developed countries. The number of people aged 0–14 substantially exceeds those aged 14–25, so the number of working-age youth will grow quickly over the next decade. This youth bulge will place increasing pressure on policy makers to generate employment opportunities in a context where jobs are already few and far between.

47. **Migration from the outer islands to urban spaces entails a variety of risks that increase fragility.** Urban spaces offer a range of social and economic opportunities for social mobility, particularly for women and young people, yet migrants from the outer islands cannot rely on making a smooth transition to urban life. Urban settings, though exhibiting better economic indicators and service provision rates, are beleaguered by overcrowding, deficient sanitation, lack of jobs, unsafe water sources, and substance abuse, which in some (although not all) of these countries provokes a general sense of hopelessness, especially among marginalized youths.

48. **Many of the PIC9 lack the institutional capacity to deal effectively with the challenges generated by rapid urbanization.** Overcrowding is becoming a major concern in several PIC9 countries, and it is not clear that all capital cities are economically or environmentally prepared to support the population growth they will experience. Very little detailed data is available to pinpoint, understand, and address these problems; for example, statistics on the numbers of people living in squatter areas or inadequate housing are limited and inconsistent. Left unaddressed, urban drift may speed the decline of public services, increase insecurity and crime, and reduce investment and productivity in cities with high youth unemployment.

#### 2.5.2.3 *Inequitable management of land and natural resources*

49. **Poor governance of land and natural resources is another complex, enduring problem that threatens the resilience of PIC9 communities.** In addition to the pressure exerted by climate change and urbanization, customary land is also threatened by the lack of robust frameworks for equitably managing land transactions (Box 2.3). The pressure to release communally held land for foreign investment, large-scale infrastructure development, and commercial agriculture exacerbates competing claims over land and weakens the ability of traditional governance systems to resolve them effectively. Deep sea mining is now emerging as a concern for some countries, given the associated environmental and social risks.



### BOX 2.3: LAND IN THE PACIFIC

Customary ownership, the dominant form of land tenure in the Pacific, is being subjected to a range of new and rapidly changing forces. The pressure to commercialize land for development is testing the ability of old systems to adapt and provide adequate tenure security for both members of customary groups and people outside the groups. In some of the PICs, acceleration of investment in tourism, agriculture, infrastructure and natural resources, and associated land development will increase, which could heighten social tension. In addition to climate change and urbanization pressure, customary land is threatened by the lack of robust legal frameworks and institutional supervision of customary land transactions. Lack of appropriate land records similarly pose significant challenges.

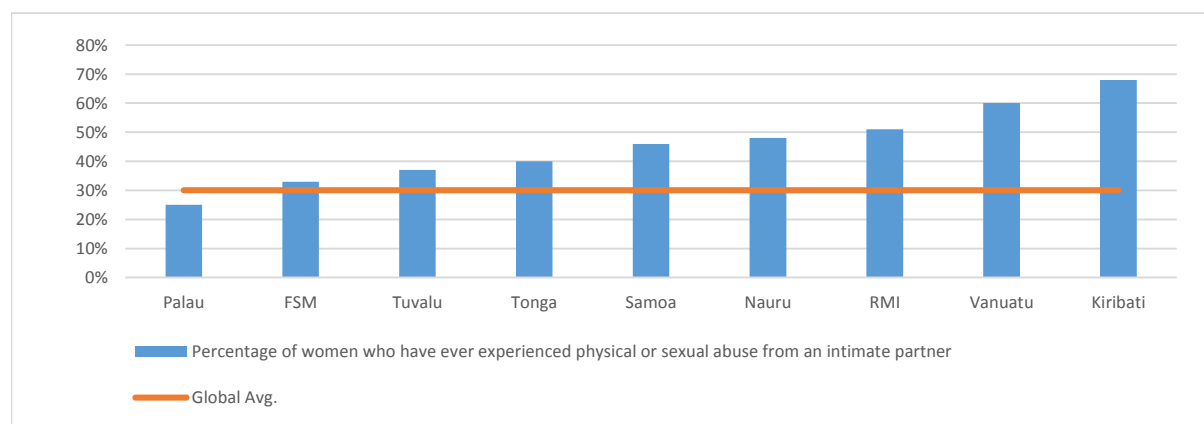
#### 2.5.2.4 Climate change and natural disasters

50. **The Pacific region is one of the most prone to natural disasters in the world.** The region combines high exposure to frequent and damaging natural hazards with low capacity to manage the resulting risks. Moreover, the PIC9 have limited macroeconomic tools at their disposal to counter external crises that destabilize the larger economy and undermine household welfare. Poorer households and individuals are even less equipped to rebound from the negative effects of climate change, natural disasters, and externally driven price fluctuations. Food production systems can be particularly affected by extreme variability in weather, which can in turn exacerbate disputes over arable land and sea resources.

#### 2.5.2.5 Gender-based violence

51. **Gender-based violence (GBV) is extremely high in a number of countries in the region.** The statistics available indicate that women in more than half of the PIC9 suffer either partner or non-partner violence to a greater extent than elsewhere in the world; all but one of the PIC9 is above the global average (Figure 2.10). In Kiribati, among women aged 15–49 who have ever been married, 68 percent have been subject to GBV; in Vanuatu, the figure is 60 percent. Violence against women has major traumatic and disempowering effects. It negatively affects women’s health, well-being, and the development, education, and nutrition of their children. Beyond the human costs, violence imposes major costs throughout the economy, including expenditures on service provision, income forgone by women and their families, decreased productivity, and negative effects on human capital.

FIGURE 2.10: PREVALENCE OF GENDER-BASED VIOLENCE IN THE PIC9



Source: SCD for Eight Small Pacific Island Countries (World Bank 2016); data for Nauru from Nauru Family Health and Support Study (<http://countryoffice.unfpa.org/pacific/drive/NauruFHSSReportweb.pdf>).

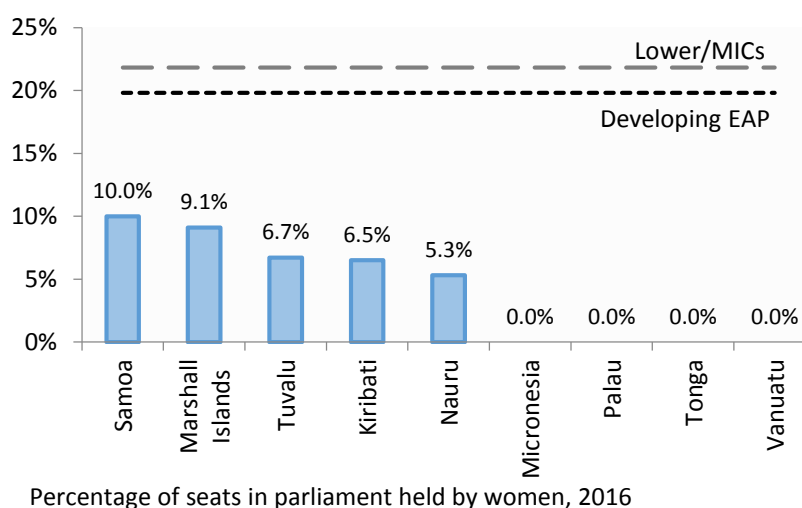
### 2.5.3 Gender Inequality as a Barrier to Development

52. **Alongside the constraints placed on development by gender-based violence, the PIC9 countries experience gender inequality.** Gender inequality is reflected in uneven access to economic opportunities and resource endowments, limitations on women’s voice and agency, and women’s vulnerability to emerging risks.<sup>7</sup>

53. **Women in the PIC9 do not have equal access to productive and economic resources.** Female participation in the labor force is consistently lower than that of men – ranging from 23% in Samoa, compared to 58% of men (2015 data) to 61% in Vanuatu compared to 81% of men (2009 data). Women work predominantly in the informal sector and are frequently home-based, focusing on subsistence agriculture, marketing agricultural products, and petty trading. Within the limited set of economic opportunities available, women’s employment is concentrated in agriculture, tourism, and selected parts of the fisheries sector. Women in the PIC9 also face constraints on their control of assets. They are less likely to have land titles and can be disadvantaged by family, marriage, and inheritance law and practices.<sup>8</sup>

54. **Women’s voice and agency are limited in the PIC9 countries.** Women are underrepresented in the PIC9 parliaments (Figure 2.11); on average women hold only around 1 in 30 seats, compared to an average of about 1 in 5 across developing nations.

**FIGURE 2.11: WOMEN HOLD FEW SEATS IN PIC9 PARLIAMENTS**



Source: World Bank Gender Statistics database, January 2016.

55. **Emerging trends in the Pacific present risks and opportunities for women and for progress toward gender equality.** Women are disproportionately vulnerable to the effects of

<sup>7</sup> The Consolidated Gender Action Plan (CGAP) for the PIC9 includes detailed analysis and data on the key inequalities between men and women in these areas, as well as policies and innovative interventions undertaken by PIC9 governments and donors to address them. The action plan was developed in line with the framework laid out in the EAP Region’s Companion Report to the *World Development Report 2012* (World Bank 2011).

<sup>8</sup> The constitutions of RMI, FSM, Palau, and Vanuatu all recognize customary law as a valid legal system (see *Women, Business and the Law 2016: Pacific Regional Gender Diagnostic*, World Bank, 2016 (mimeo)).

natural disasters and climate change where their socio-economic status is not equal to those of men, and where they have less voice and influence than men in shaping policies.<sup>9</sup> Urbanization presents risks and opportunities; it can transform women's lives with better access to infrastructure, education and health services, and a wider range of economic opportunities, but taking advantage of these opportunities depends on whether gender-sensitive policies and service delivery have been considered. Migration has potential gender-specific benefits, but seasonal worker programs also carry social costs and impacts for migrants, their families, and their communities. Moreover, risks associated with globalized resource extraction industries in the Pacific, such as mining and fisheries, may potentially have socially destabilizing impacts on women. Finally, the increasing availability of ICTs has the potential to increase access to services and markets for men and women in the PIC9.

**56. The PIC9 governments, in partnership with the development community, are working to reduce gender inequalities.** They are pursuing policies to reduce gender inequalities in education and health, increase women's role in politics, and are investing in interventions that promote women's skills and to provide access to jobs and services for victims of GBV. However, overall analysis and policy making to address gender inequality is severely constrained by the paucity and low quality of data. Gender-disaggregated data are even more difficult to come by.

**57. A Consolidated Gender Action Plan (CGAP) for FY17–21 was developed to support implementation of the RPF.** The action plan is the product of consultations with the Pacific country teams and a portfolio review of active projects. It supports actions to address the following five priority areas of gender inequality: (i) low female labor force participation and limited access to markets (focus area 1); (ii) high prevalence of gender-based violence (focus area 2); (iii) low participation in public decision making (focus area 2); (iv) disproportionately high degree of women affected by NCDs (focus area 2); and (v) women's vulnerability to emerging risks (focus area 3).<sup>10</sup>

**58. Given the prevalence of GBV in the PIC9, the WBG commissioned a review of promising approaches in those countries and identified how the WBG could engage more effectively.** The review identified five high-priority interventions and innovative approaches, and suggested that the WBG seek entry points to address them where appropriate.<sup>11</sup> The five priorities are to: (i) strengthen the response to GBV through advocacy and policy; (ii) create safe and inclusive workplaces; (iii) establish and support knowledge-sharing; (iv) support the design and conduct of evaluations; and (v) strengthen national GBV data systems.

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<sup>9</sup> Gender & Climate Change: 3 Things You Should Know, World Bank (2011).

<sup>10</sup> The portfolio review was undertaken as of November 2015. The CGAP serves as a practical tool for teams to (i) track gender-related commitments and the contribution of the PIC9 portfolio in aligning with WBG guidelines and goals on gender, and (ii) identify priorities for influencing gender inequality, as well as human resources, working processes, budget, knowledge work, and training that can help to ensure that WBG targets related to gender are reached. The priority actions for the CGAP also align with the three pathways of the RPF and with the framework of the EAP Region's Companion Report to the World Development Report 2012.

<sup>11</sup> The review included an analysis of GBV in each of the nine countries. It identified country-level needs, assessed evidence from international best practice in GBV prevention and response, and considered prevention and response specifically in the context of the PIC9.

#### ***2.5.4 Persistent Knowledge Gaps Limit the Development of Solutions***

59. **Lack of data and information across the PIC9 is a major challenge.** The SCD emphasized that efforts to pursue poverty reduction and shared prosperity in the Pacific are considerably hampered by the lack of concrete information on the prevalence and severity of poverty and the specific nature of constraints faced by the poor in improving their livelihoods. While Household Income and Expenditure Surveys (HIESs) have been carried out in most countries, these have been sporadic and of uneven quality. Further, variations in methodological approaches and welfare standards used in poverty assessments make it difficult to monitor progress over time, to make inter-country comparisons, and to establish regional benchmarks of results and progress. In addition, in some countries, there are additional problems arising out of restricted and delayed access to survey data. The Bank is undertaking a regional program in collaboration with regional agencies and PIC development partners to help improve the capacity of national statistical agencies to undertake reliable and regular household surveys, and to analyze the resulting data needed to inform policy decisions.

## 3 WORLD BANK GROUP PARTNERSHIP STRATEGY

### 3.1 Government Programs and National Development Strategies

60. **The key priority areas of the PIC9 National Development Strategies are outlined in the country summaries (Annex 9).** Common priorities include good governance, ensuring macroeconomic stability, building climate resilience, safeguarding the environment and natural resources, investing in human development, improving infrastructure, and fostering private sector growth. There is no disconnect between the findings of the SCD, the thrust of the RPF, and the national priorities set out by the PIC9. The WBG program in each country will be adjusted to the local context to ensure alignment with national priorities.

### 3.2 Proposed WBG Regional Partnership Framework

61. **This section describes the foundations and content of the proposed regional partnership framework.** It begins by summarizing recommendations and lessons emerging from a series of country-level reviews and from consultations with a wide range of national, regional, and international stakeholders. An overview of the strategy follows.

#### *3.2.1 Lessons from the CPF Completion Learning Reviews, IEG evaluation, and stakeholder consultations*

62. **A consolidated Completion and Learning Review (CLR) was undertaken for the six countries (Kiribati, RMI, FSM, Samoa, Tonga, and Tuvalu) in the PIC9 for which an independent Country Assistance Strategy (CAS) or Country Partnership Strategy (CPS) had been developed (Annex 10).** The CLR found that the WBG program in the Pacific has mostly been well-aligned with the respective country development frameworks and visions and that the strategies were selective and well-structured. Overall, the strategies are well aligned with the twin corporate goals of reduced poverty and shared prosperity. The choice of instruments was appropriate with a mix of Development Policy Operations (DPOs) (Box 3.1), investment projects, additional financing, repeater and phased projects, multi-country regional programs, Technical Assistance (TA), and other Advisory Services and Analytics (ASA). The IFC has made good progress against goals set out in the IFC Pacific Partnership Agreement with Australia and New Zealand.

#### **BOX 3.1: DEVELOPMENT POLICY OPERATIONS IN THE PACIFIC**

An internal review of DPOs in the Pacific, which have all been rated moderately satisfactory or better by the Independent Evaluation Group and have constituted less than 10 percent of the portfolio, found that they have contributed to significant reform programs. With regard to reforms in macro-fiscal management, DPOs have supported stronger revenue mobilization in Samoa and Tonga, and better oversight of fisheries revenue in Kiribati and Tuvalu. They have also helped strengthen procurement and debt management in several PICs and improve the management of Kiribati's Revenue Equalization Reserve Fund. In the area of structural reform, DPOs have helped advance the reform of state-owned enterprises in Kiribati (in telecommunications) and Tonga (hotel privatization). DPOs have also had an impact on human development and social protection and have supported free primary schooling in Samoa, measures to address NCDs in Tonga, and the expansion of vocational training opportunities in Tuvalu.

63. **The CLR concluded that country risks were well identified; many actually materialized, posing challenges for implementing the programs.** They included risks related to the countries' thin capacity and limited Bank staff in-country; exogenous shocks; weaknesses in public financial management (PFM); difficulties in securing political consensus for reforms; lack of familiarity with WBG procedures; extreme remoteness, imposing high transport costs and logistical challenges; weak economies of scale for most development activities; and severe skill and technical constraints. These risks, as they materialized to various degrees, contributed to the slower-than-expected pace at which many activities could be implemented. Despite accurately identifying the risks, the CLR found that the Bank still underestimated the challenges of implementing activities in countries new to its procedures. Many of the CASs/CPSs were overly ambitious and complex in terms of the results that could be achieved within the various timeframes, given the limited experiences of several clients with the WBG. The overall performance of the CAS/CPS programs in contributing toward the achievement of selected country goals was assessed to be satisfactory for Samoa and Tonga, moderately satisfactory for FSM and Tuvalu, moderately unsatisfactory for Kiribati, and unsatisfactory for RMI. The fact that some CASs and CPSs are not yet complete poses difficulties for accurately measuring the results of those programs.

64. **The CLR identified a range of lessons that are reflected in this RPF.** The lessons include avoiding complex and overly ambitious results frameworks, adequately estimating complexity and time required to develop projects, as well as the challenges of implementing projects in countries new to WBG. The CLR also founds that the mix of instruments were appropriate. The results framework in this RPF has been streamlined and made more realistic and will be adjusted during the Performance and Learning Review to take changing country realities into account. The Bank will continue to make use of a mix of investment projects, development policy lending, repeater projects, and additional financing for initiatives that perform well, along with regional engagements and phased projects. Options to explore options to further consolidate project management functions in several of the PIC9, support the targeting of training activities, and maintain know-how in the implementation of Bank-financed projects. Ensuring that projects are ready to be implemented, even if it requires longer project preparation time, will be an important consideration. This will necessitate careful assessment of capacity constraints and especially of contractors' willingness to engage in operations in remote countries. The Bank will continue to support macroeconomic and fiscal resilience through coordinated budget support with other development partners. It will also continue working to improve face-time between clients and staff to ensure a sustained and open working relationship. IFC, learning from its experience in the small PICs, will endeavor to mobilize donor funding to implement an integrated advisory and investment program in the PIC9 that would focus on building bankable opportunities for private sector investment. The approach would be to replicate successful regional models used in the telecoms and banking sectors to expand into other sectors such as tourism and renewable energy.

65. **In June 2016, the Independent Evaluation Group (IEG) completed a "clustered" Country Program Evaluation (CCPE)** to assess the relevance and effectiveness of WBG support during FY05-FY15 in helping selected small states improve their resilience and their competitiveness. The CCPE in the Pacific examined the WBG engagement in FSM, Fiji, Kiribati, Palau, RMI, Samoa, Tonga, Tuvalu, and Vanuatu, with a particular focus on Tonga and Samoa. The CCPE considered the WBG program in the Pacific to be highly relevant and rated the effectiveness of the WBG contribution to the development of the PICs as satisfactory. The program was found to be strategically selective and a good reflection of the Bank's comparative advantages

in raising difficult policy issues, undertaking key analytic studies, supporting regional approaches, and promoting effective donor coordination.

66. **The CCPE concluded that the WBG program supported a number of genuinely transformational institutional outcomes in the Pacific.** Those outcomes included directly supporting the development and enhancement of New Zealand's and Australia's temporary migration programs; improving connectivity throughout the region by introducing competition in the provision of telecommunications services and supporting underwater cables to promote quality and faster access; building awareness among governments and donors of the need to build environmental resilience into investments in infrastructure; and persuading governments in some PICs to outsource road maintenance contracts to promote more efficient use of public resources, better road management, and development of the private sector.

67. **The CCPE identified some shortcomings in implementation arrangements that persist in the context of very limited capacity.** Despite the Bank's considerable efforts to simplify various processes, many PICs still find a range of Bank operational procedures challenging, including procurement and management of consultants. The evaluation also determined that some issues such as land management could benefit from a more systemic ex ante approach from the Bank when engaging in different areas. There was broad appreciation for the speed with which the Bank responds to concerns from clients and other donors, and for its willingness to listen. The effective partnerships built with key bilateral partners, Australia and New Zealand, through the Pacific Facility and the Pacific Partnership have been particularly important in growing and enhancing the WBG's engagement in the region.

68. **The CCPE identified five broad areas for enhancing WBG engagement in the Pacific, going forward, and they are all being factored into the RPF.** The CCPE recommendations encourage the WBG to: (1) address systemic issues such as land acquisition, governance, education policy, domestic violence, and the role of local government as priority areas for analytical work; (2) ensure that sufficient staff and resources are directed toward Kiribati and Vanuatu to address relatively high poverty levels; (3) examine the costs and benefits of increased regional integration in the Pacific and the role that regional institutions are (and could be) playing; (4) develop a more explicit joint World Bank–IFC approach for PSD support, starting with analytical work to identify areas of strong potential; and (5) continue to shift positions from Sydney to the Suva office for both efficiency and effectiveness objectives, and expand the liaison offices with the Asian Development Bank (ADB) to other countries.

69. **The design of the RPF has benefited from consultations with many levels of government, the private sector, academia, civil society, regional organizations, and international development partners.** The consultations concurred with the overall findings of the SCD and the proposed RPF framework. There was broad agreement on the key impediments to growth in the PICs and a view that to stimulate drivers of growth, investments in public infrastructure, especially connective infrastructure (for aviation, maritime operations, and ICT, for example), would be essential for the wider economy. Stakeholders also found that climate change and recurring disasters constituted an existential threat, and investments in coastal protection would be critical for the continued survival of several of the nine countries (such as Tuvalu, RMI, and Kiribati). WBG support was also encouraged in such areas as agriculture and fisheries, transport and maritime infrastructure, ICT, education and skills development, and private sector development.

### 3.2.2 Overview of World Bank Group strategy

70. Informed by the opportunities and constraints identified in the SCD as well as the lessons from implementing programs across the Pacific over the past decade, this RPF outlines the WBG support program for the PIC9, while specifying a separate approach for Nauru and Palau (where the engagement will remain relatively limited). The program of engagement also benefits from the long-term analyses conducted through the *Pacific Possible* initiative (Box 3.2).

#### **BOX 3.2: PACIFIC POSSIBLE**

Complementing the SCD, the WBG launched *Pacific Possible*, which looks ahead 25 years to quantify the increases in incomes, government revenue, and employment that would be possible if economic opportunities are fully exploited and risks appropriately managed. *Pacific Possible* balances the analysis of potentially transformative economic opportunities (tourism, labor mobility, tuna fisheries, deep-sea mining) with an assessment of major threats to the economic outlook in PICs (NCDs and climate and disaster resilience), as well as ICT-enabled opportunities and financing governments for Pacific development. For stakeholders in Pacific development—the PICs themselves, development partners, and the broader international community—the findings provide specific insights into the scope of the opportunities as well as the tasks that must be undertaken to realize them. Key messages emerging from the ongoing study include:

- **Tourism:** The potential exists for an additional one million tourists to visit the Pacific by 2040. Careful and sustainable planning around emerging tourism markets could potentially deliver US\$1.8 billion per year in additional tourist spending and up to 130,000 additional jobs.
- **Labor mobility:** Continuous expansion of labor mobility opportunities could generate a triple-win for labor-sending and labor-receiving countries as well as for migrants. Proposed reforms could generate US\$13 billion in income for about 240,000 migrants from the Pacific as well as an increase in remittances by up to US\$800 million and 80,000 additional jobs by 2040 for Pacific Islanders.
- **Tuna fisheries:** Maintaining firm and shared catch limits, and increasing economic value through collaborative access regimes, could help countries gain as much as US\$345 million per year in additional sustainable revenues, and create an additional 15,000 jobs by 2040.
- **Deep-sea mining:** Governments are encouraged to take a precautionary approach to this nascent form of mining. There is the need to take stock of known and unknown costs, impacts, and potential revenue to develop a more thorough understanding of each before an informed decision can be made.
- **ICT enabled economic opportunities:** Improved connectivity and ICT penetration could enhance productivity in a number of ways (for example, in public service delivery, improved monitoring of fisheries, and other activities), improve the quality and attractiveness of existing activities (tourism, education, health), and create new market opportunities, leading to additional national income of US\$1.5 billion and 147,000 jobs.
- **Health and NCDs:** The “NCD epidemic” facing the Pacific region will have potentially costly impacts, including impacts on the quality and quantity of labor force participation. The analysis presents positive interventions to address NCDs and mitigate their costs to Pacific countries. In the absence of such interventions, the annual economic NCD burden could range from 3 to 10 percent of GDP.
- **Climate and disaster resilience:** Pacific Island countries need to better incorporate climate and disaster risk management into planning and development across all sectors, while considering the cost of priority investments and policies to boost resilience to the year 2040. Annual costs range from US\$400 million to US\$1.2 billion for coastal protection and adaptation of infrastructure to changes in rainfall and temperature are a possible outcome by 2040.

Realizing the opportunities and managing the threats highlighted in the Pacific Possible series will require collaboration between Pacific Island governments, development partners, and countries on the Pacific Rim.

71. Taking into account all the factors that constrain efforts to reduce poverty and boost shared prosperity, the SCD identified three broad pathways to reduced poverty and shared prosperity, as well as key enablers of progress along those pathways. The SCD also pinpointed 12 *very high priority solution areas* as being most important to achieve the twin goals.



72. The pathways and enablers identified in the SCD form the foundation of the Focus Areas—the four broad areas of WBG engagement—for this RPF. Within the framework of the Focus Areas, the specific elements of the WBG program in the nine countries (individually, and collectively if appropriate) will be drawn from the very high priority solution areas identified in the SCD.

73. The Focus Areas are:

1. **Fully exploiting the available economic opportunities.** The unique economic geography of these countries calls for a sharp focus on those few avenues to growth that are available, with an emphasis on opportunities that improve livelihoods and provide subsistence goods (such as agriculture and coastal fishing), generate income (such as tourism, overseas employment, and remittances), or increase government revenue (such as oceanic fisheries).
2. **Enhancing access to employment opportunities.** The highly dispersed people of the PICs, particularly those living on the outer islands, need better access to public services and broadened opportunities for labor mobility. Targeted efforts are required to reduce the significant skill and education gap between the poor and non-poor and to reduce gender inequality and address gender based violence.
3. **Protecting incomes and livelihoods.** The PICs are already among the most disaster-prone countries in the world, and the incidence of natural disasters is set to increase as climate change intensifies. By mainstreaming disaster risk management into policy-making and development efforts, the PICs can better protect incomes and livelihoods from the depredations of natural disasters. Strengthening health systems and addressing the causes of the growing prevalence of NCDs are other essential measures to protect livelihoods in the Pacific and maintain countries' abilities to take advantage of the economic opportunities available to them.
4. **Strengthening the enablers of growth opportunities (macroeconomic management, infrastructure and addressing knowledge gaps).** These cross-cutting areas are a critical element of the RPF. They build the foundation for improving access to economic opportunities and services, building resilience, and ultimately fostering shared prosperity and reducing poverty across the region.

74. To determine the specific set of activities that will constitute the WBG program in a given country, the RPF uses three selectivity criteria. In aggregate, the WBG will support interventions in most of the high-priority areas identified in the SCD. In each individual country, the selectivity criteria will be applied to define priorities and corresponding activities, based on the specific country context:

1. **Alignment with government priorities and demand for WBG support.** The activities pursued by the WBG will be determined by the priorities and strategic directions set forth by the individual countries. The activities will be demand-driven, undertaken in response to specific requests by the client, although the scope for undertaking activities on a regional basis will also be explored.
2. **Alignment with the SCD.** As noted, the 12 very high priority solution areas are the basis for specifying the elements of the WBG program. Table 3.1 shows how the SCD

solution areas relate to ongoing and planned RPF priorities for individual countries as well as regionally.

3. **Scope for successfully addressing the drivers of fragility in the Pacific and ensuring sustainability.** The WBG will prioritize activities that can help address or mitigate issues related to institutional capacity, growth in youth population and urbanization, land, climate change and natural disasters, as well as gender, which have been identified as the main drivers of fragility in the region so as to ensure that WBG-supported activities and the benefits which they yield can be sustained over time.
4. **The comparative advantage and experience of the WBG in the Pacific, and complementarity with programs of engagement supported by other development partners.** Based on a careful examination of the proposed activities, the WBG will determine its comparative advantage in relation to other actors, including development partners, non-governmental and civil society organizations, and the private sector. Past experience of what is feasible in different situations will be a key basis for selectivity given the other criteria. The WBG will also carefully consider activities that require regional solutions, promote regional collaboration, and build on its global experience in other regions.

### 3.3 Objectives and Focus Areas Supported by the WBG Program

75. This section takes a closer look at how the program of WBG support will be structured around the four Focus Areas. The sections that follow highlight the key challenges faced and objectives to be achieved in each area.

#### 3.3.1 Focus Area 1: Fully exploiting the available economic opportunities

76. Under this focus area, the WBG will contribute to addressing 3 very high priority areas identified in the SCD: (a) improve management of oceanic and coastal fisheries, (b) increase incomes from agriculture, (c) and expand tourism.

##### *Objective 1.1: Improved management of oceanic and coastal fisheries*

77. **The region's oceanic fisheries supply much of the world's tuna, and global demand is steadily increasing.** The wider Western Central Pacific Ocean area produced 2.6 million tons of tuna in 2013, representing over half of the world's tuna catch and yielding revenues at first sale on the order of over US\$6.3 billion. Roughly 60 percent of this tuna catch was taken from PIC waters, or some 35 percent of the world's tuna catch. The total first sale value of the tuna caught in PIC waters was estimated to be some US\$3.4 billion in 2013, of which PICs received roughly seven percent through access fees paid by (mostly) foreign fleets. Coastal fisheries throughout the region do not generate significant amounts of national revenue, but they support local livelihoods, food security, and dietary health in all PICs. Fish and seafood are a primary source of animal protein in PIC diets, and in some countries per capita consumption exceeds 100 kg per year (compared to a global average of 16 kg per year). PIC coastal fisheries are relatively small and localized and support only a few viable (although extremely valuable) export fisheries. Women are particularly dependent on coastal fisheries for informal economic opportunities, including from handicrafts.

► The WBG program will support **strengthened management of fisheries** through the Pacific Islands Regional Oceanscape Program (PROP). PROP aims to strengthen the management of oceanic and coastal fisheries and the conservation of the natural habitats upon which the fisheries depend. Strengthened and more sustainable management of the tuna fisheries would increase their size and value and raise additional public revenue for PICs. Better-managed coastal fisheries will enhance rural livelihoods and food security, particularly for the B40. Among the PIC9, currently FSM, RMI, and Tuvalu participate in PROP, together with Solomon Islands and the FFA. It is expected that during the period covered by this RPF (FY17–FY21), PROP will expand to additional countries. IFC, through its efforts to expand market opportunities, will seek to help countries retain a greater share of the revenue from tuna sales and to increase transparency in fisheries management.

**TABLE 3.1: LINKS BETWEEN SCD HIGH PRIORITY SOLUTION AREAS AND ONGOING OR PLANNED RPF PRIORITIES**

(GREEN INDICATES SIGNIFICANT WBG ENGAGEMENT, YELLOW INDICATES SOME WBG ENGAGEMENT, AND WHITE INDICATES LITTLE WBG ENGAGEMENT)

SCD solution area	Regional	FSM	Kiribati	Marshall Islands	Samoa	Tonga	Tuvalu	Vanuatu
Increase sustainable fisheries revenue	Green	Green	Green	Green	White	White	Green	White
Increase incomes from agriculture and coastal fisheries	Green	Green	Green	Green	Green	Green	Green	White
Expand tourism	Green	White	Yellow	White	Yellow	Yellow	White	Green
Expand labor mobility opportunities	Green	White	Yellow	White	Yellow	Green	Yellow	Yellow
Close education and skill gap between poor and non-poor	Yellow	White	Yellow	White	White	Yellow	Yellow	White
Close other gaps in service delivery	Green	White	Green	White	White	Yellow	Green	Green
Prevent non-communicable diseases	Yellow	White	Yellow	White	Yellow	Yellow	Yellow	Yellow
Stop gender-based violence	Yellow	White	Yellow	White	Yellow	Yellow	Yellow	Yellow
Strengthen disaster risk preparedness	Green	White	Green	Green	Green	Green	Yellow	Green
Maintain and develop economic infrastructure	Green	Green	Green	Green	Green	Green	Green	Green
Improve public expenditure management	White	Yellow	Green	Green	Green	Green	Green	Yellow
Ensure macroeconomic stability and sustainability	White	Yellow	Green	Yellow	Green	Green	Green	Yellow

*Objective 1.2: Increased incomes from agriculture*

78. **Agriculture (generally subsistence agriculture) is the cornerstone of food security in PIC9 such as Vanuatu and Samoa.** Given the growing impact of climate change, farmers need to adopt climate-smart agricultural practices and crop varieties, drawing on the extensive research of Pacific regional organizations in this field. Opportunities to increase crop and animal productivity, encourage diversification, and enable agriculture to adapt to a changing climate could have a direct impact on household food security, reducing hardship. More productive agriculture that supports small-scale local trade and food processing, substitutes for imports, supplies the tourism sector, and even contributes to exports of selected niche and cash crops could potentially benefit many individuals. Improving infrastructure to expand access to markets and strengthening food safety practices will help small-scale farmers tap into the growing demand from the tourism industry for fresh local produce.

► The WBG program will build on the current **agriculture activities** in Samoa, where the Samoa Agriculture Competitiveness Enhancement Project (SACEP) works with small-scale fruit and vegetable growers and livestock producers to improve productivity and take greater advantage of market opportunities. Drawing on lessons from earlier support to restore lost production capacity following Tropical Cyclone Evan (2012), the WBG will continue to enhance disaster preparedness in the agricultural sector. In Tonga, the WBG will support the country's efforts to gain access to resources from the Global Agriculture and Food Security Program (GAFSP).

*Objective 1.3: Expanded tourism opportunities*

79. **Tourism is the mainstay of private sector economic activity in many of the PICs.** Many PICs offer a pristine environment, a variety of recreational opportunities, and a cultural diversity that differentiates the region from other destinations. Tourism brings an export market to the PICs, promoting tourism-related businesses and stimulating demand for the domestic supply of fresh produce and local artwork and handicrafts. As a labor-intensive service sector with relatively low barriers to entry, tourism could potentially create a significant number of local jobs. It is one of the few industries in the Pacific in which women and young people form a high percentage of job holders. Although the atoll nations of Kiribati, RMI, and Tuvalu have a more limited prospect to develop tourism, some opportunities may exist to develop the visitor economy. Building a viable, sustainable tourism destination demands significant investment in infrastructure, destination management, marketing, upgraded hotel stock, and capacity building for the sector.

► **To develop tourism**, the Bank and IFC will explore opportunities for a joint program to support tourism initiatives on a regional basis. IFC will provide advisory services to those PIC governments and private sectors where tourism is a key driver of growth (Vanuatu, Samoa, and Tonga) to ensure the industry's sustainable development through the generation of investment and jobs, and by strengthening linkages between the industry and communities.

► Improving **air and telecommunications connectivity**, as outlined in further detail in objective 4.2 on providing connective infrastructure will also provide critical foundations to achieving this objective.

### 3.3.2 *Focus Area 2: Enhancing access to employment opportunities*

#### *Objective 2.1: Broadened opportunities for access to labor markets*

80. **Under this objective, the WBG will seek to address 3 very high priority areas identified in the SCD: (a) expand labor market opportunities and (b) close education and skills gap between the poor and non-poor and (c) address gender inequality and gender based violence.**

81. **In many of the PIC9, domestic labor markets are not growing fast enough to absorb all new entrants, especially the unskilled who are most likely to be poor or in the B40.** Migration channels follow three country groupings. RMI, FSM, and Palau—countries that have Compacts of Free Association with the USA—enjoy open labor market access and have relatively high rates of migration. Tonga and Samoa have the highest outward migration rates of the PIC9, mainly through historical ties as well as bilateral agreements providing access to New Zealand. Kiribati, Nauru, Tuvalu, and Vanuatu have some of the lowest rates of outward migration in the region, despite having preferential access to Australia and New Zealand through the Seasonal Worker Program (SWP) and Recognized Seasonal Employer (RSE) scheme. Kiribati, Nauru, and Tuvalu also have access to a new multi-year visa in Australia, as well as the Pacific Access Category in New Zealand. Travel costs and skill level determine the opportunities for the poor and B40 to participate in migration schemes. The institutional capacity of the labor-sending countries is an additional determinant. A growing body of evidence demonstrates that improved labor mobility for the PIC9 provides benefits to migrants as well as to their households, communities, and sending countries, by increasing remittances, building human capital, and transferring knowledge.

► **Continuing analytical work on labor mobility** occurs under the comprehensive programmatic ASA program to deepen the understanding of the constraints, benefits, and opportunities of increased access to regional labor markets by Pacific countries. The program focuses on regional knowledge sharing, maximizing the development impact of existing schemes, and developing new opportunities for labor mobility. It includes several specific activities including preparing a development impact evaluation to assess the gains of the SWP for labor-sending households and communities and learn how they may be enhanced, as well as conducting a study to assess the productivity gains of Pacific seasonal workers, which will help build the business case for hiring them over other categories of workers. A case study will examine the likely impacts and potential benefits of open labor market access for the atoll nations most severely impacted by climate change (Kiribati and Tuvalu), and a market assessment will examine the potential of the aged care sectors in Australia and New Zealand to provide employments for PIC nationals.

#### *Objective 2.2: Addressing education and skills gap*

82. **Education is widely recognized as a key driver of employment and opportunity in the Pacific.** While governments across the Pacific are making good progress in ensuring broad access to education, an increasing body of evidence finds that serious problems with quality undermine the value of the education received. Many children have not attained cognitive, socio-emotional, and physical development milestones when they reach school age. The limited quality of teachers and remaining inequalities in access to education are major impediments to delivering learning.

Many of the PIC9 face public policy challenges, including inadequate and inequitable service delivery.

83. **Many of the PICs face a youth bulge.** On average 57 percent of the population in the PICs is below the age of 25—a higher proportion than the average for the developing world and more similar to rates seen in the least-developed countries. The number of people aged 0–14 substantially exceeds those aged 14–25, so the number of working-age youth will grow quickly over the next decade. With high rates of youth unemployment, a range of social problems are emerging among the new urban generation presenting challenges, which many public institutions in the PIC9 have little experience in addressing.

- ▶ **The WBG will contribute to achieving this objective** by continuing and, where possible, expanding programs such as the Pacific Early Age Readiness and Learning (PEARL) and Early Grade Reading Assessment (EGRA). In addition, the WBG will continue to use DPOs to support education sector dialogue and reform

- ▶ The Bank will prepare a **regional ASA on skills** to help PIC9 countries develop the mix of skills required by their workforces to take advantage of domestic and international job opportunities.

- ▶ Building on previous analytical work, as well as experience gained elsewhere in the Pacific, the Bank will support the development of a **skills development and youth employment project in Tonga**. It is intended for the project to provide critical lessons for a possible expansion to other countries in the Pacific.

- ▶ The Bank will also support investments in **education infrastructure** by rebuilding schools damaged by Cyclone Pam in Vanuatu and renovating primary schools in Tonga.

*Objective 2.3: Addressing gender inequality and gender-based violence*

84. **Unequal gender roles, lack of voice and political participation, and violence against women in the PIC9 perpetuate poverty and exacerbate women’s hardship.** Evidence shows that the twin goals can be achieved only when the private and public sectors include women in the economy and eliminate barriers to their full participation. IFC recognizes the potential of women—as entrepreneurs, employees, and leaders—to drive economic growth and enhance business performance.

- ▶ The WBG will continue to **mainstream gender into WBG projects** and will determine the scope for undertaking specific activities to reduce the incidence of GBV. In the Pacific, 100 percent of operations will systematically consider gender inequalities in the underlying analysis, actions, and/or monitoring and evaluation arrangements. On the basis of a detailed mapping of measures that have been successfully adopted across the Pacific to reduce gender based violence, undertaken as part of the RPF, avenues will be identified through which these can be promoted by the WBG in its operations. For example, in line with IDA 18 commitments, the Vanuatu Aviation Investment Project is planning to pilot test a GBV training program and code of conduct for construction workers in early 2017 which will form the basis of a program to be rolled out on future major civil works projects in the transport sector across the Pacific.

- ▶ **To promote female participation in the private sector**, IFC aims to improve employment and income-earning opportunities for women through demonstrating the business case that can mobilize the private sector to implement gender programs that benefit their bottom line, as well

as women as employees and producers. IFC intends to implement a Pacific-wide initiative to catalyze positive change for women by the private sector. The proposed program on women's employment acknowledges the considerably smaller size of the private sector in the Pacific Islands without existing dedicated bilateral programs, seeking to maximize the reach and impact of the road-tested tools and approaches already developed. This will be done through knowledge sharing among the business community across the Pacific, e.g. by establishing a website/portal to disseminate evidence on the business case for investing in women along with tools to help business take proactive steps to promote women's economic empowerment, and through offering webinars and regional events focused on women's role in the private sector.

### **3.3.3 Focus Area 3: Protecting incomes and livelihoods**

**85. Under this focus area, the WBG will seek to address 2 very high priority areas identified in the SCD: (a) strengthening resilience to natural disasters and climate change, and (b) strengthening health systems and addressing NCDs.**

#### *Objective 3.1: Strengthened resilience to natural disasters and climate change*

**86. The WBG will continue to support regional and single-country activities that help the PIC9 strengthen their resilience against natural disasters and climate change.** PICs combine high exposure to frequent and damaging natural hazards with low capacity to manage the resulting risks. Vulnerability is exacerbated by poor planning, which has increased losses and exposure to natural disasters, and by climate change, which is predicted to amplify the magnitude of cyclones, droughts, and flooding. Sea level rise will worsen coastal erosion and salinization of freshwater resources and increase the severity of storm surges, which will be particularly damaging in atoll islands and low lying areas. All these impacts adversely affect agriculture, fisheries, coastal zones, water resources, health and ecosystems and the communities that rely upon them. The cost of inaction is substantial. Investments in disaster proofing and climate resilience cost substantially less than rebuilding after a disaster. The WBG will ensure that at least 35 percent of the total portfolio will directly or indirectly support climate-related co-benefits.

► **At the regional level**, the WBG will contribute to this objective by further institutionalizing the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI), through the establishment of a permanent facility to be based in the Cook Islands. The program helps reduce the financial vulnerability of participating countries (RMI, Samoa, Tonga, and Vanuatu) to natural disasters. It employs parametric insurance as a mechanism to inject a limited supply of cash immediately following a major tropical cyclone, earthquake, or tsunami to help the affected government launch early recovery efforts. Building on PCRAFI, the Pacific Islands Resilience Program (PREP) aims to help participating PICs (Samoa, Tonga, Vanuatu and RMI) to strengthen early warning and preparedness; create a framework for stronger, prioritized investments in resilience, including investments to retrofit key public buildings to international standards; and improve the financial capacity of countries to respond after a natural disaster strikes. Countries now use the IDA allocation under the PREP to finance the PCRAFI premium and will make an increasing contribution from their own budgets.

► **A Climate Vulnerability assessment**, recently undertaken in the transport sector in Samoa, will be scaled up to other islands. It will identify where priority should be given to integrating climate and disaster risk planning into the road sector. Technical assistance will be provided for post disaster needs assessment, improved spatial planning and vulnerability assessment

related to coastal zones, schools infrastructure, and flood risks and urban areas as well as innovation in a multi-hazard impact forecasting and use of drones for disaster risk management.

► **Country-specific operations** (in Kiribati, Samoa, RMI, and Vanuatu, for example) aim to help communities increase their resilience amid climate change by mitigating the effects on crops and water supplies and strengthening coastal infrastructure. During the RPF period, the WBG will discuss options with the new government in Kiribati for a successor to the ongoing Kiribati Adaptation Program (KAP) Phase III and prepare a climate resilient water and sanitation project jointly with ADB. Climate adaptation investments would include the protection of groundwater lenses vulnerable to surface contamination and long term salinization as well as the development of new water supply, likely from desalinization. In RMI, a second phase of PREP will be prepared with additional investments in early warning preparedness, coastal resilience and financial protection.

*Objective 3.2: Strengthening health systems and addressing NCDs*

87. **The general improvement in life expectancy and some other key health indicators across the PIC9 masks uneven progress and increasing pressures on health expenditure.** Per capita health expenditure in real terms has increased over recent years and, with the exception of Vanuatu and Kiribati, is consistently higher in the PIC9 than the average for Lower Middle Income Countries. While these investments have enabled the PIC9 to successfully address some communicable diseases and most basic maternal and child health services, challenges remain. Among them, rapidly increasing non-communicable diseases (NCDs), and their related impact on acquired disability and reduced productivity, are increasing budgetary pressures for the PIC9. Inequities are also evident between underserved rural populations and those living near urban centers.

88. **Health systems in the Pacific have struggled to reorient themselves away from acute communicable disease responses and towards more effective long term chronic health care services that NCDs require.** Except for Vanuatu, in the PIC9 over 40 percent of adults are obese, and 80 percent are overweight, leading to a higher occurrence of NCDs such as cardiovascular disease, diabetes, and cancer. It is estimated that up to half of all premature deaths are linked to weak health systems unable to cope adequately with the needs of people with NCDs. Yet some estimates claim that 40-60 percent of government health spending is for addressing NCDs (notably for the higher cost curative and palliative care services, including expensive overseas medical referrals). The current situation is already unsustainable for some countries.

► **The WBG will continue its ASA program in Vanuatu and Kiribati** to strengthen government-led analysis, operational planning, budgeting, management, and monitoring for better use of finite resources and improved health service delivery.

► **The WBG will identify opportunities to help countries implement the Regional NCD Roadmap** adopted by a joint meeting of Pacific Finance and Health Ministers in Honiara in June, 2014. In Kiribati, the WBG will assist the Ministry of Health to adapt the Package of Essential NCD Interventions to its local context, to improve both the efficiency and quality of expenditure in this priority area. Lessons learned from this activity may help inform NCD response plans in other PICs. Addressing NCDs and improving health outcomes requires a multi-sectoral approach that includes support for increased fruit and vegetable production (as in Samoa) and improved access to drinkable water and sanitation, which would have a



significant impact on improving health outcomes. In recent years, the WBG has also supported tax measures to reduce the consumption of tobacco and unhealthy food and drinks (e.g., Tonga and Tuvalu). During the RPF period, the WBG will continue to support such reforms through DPOs.

► **The WBG will opportunistically explore options for greater engagement in health activities in Kiribati**, building on lessons from a joint multi-donor effort to improve resource management in the health sector. An engagement in the health sector in IDA18 is also expected in Samoa.

### **3.3.4 Focus Area 4 (Cross-cutting): Strengthening the enablers of growth opportunities (macroeconomic management, infrastructure and addressing knowledge gaps)**

*Objective 4.1: Frameworks to improve fiscal management developed and maintained*

89. **Under this objective, the WBG will seek to address 2 very high priority areas identified in the SCD:** (a) improve public expenditure management and, (b) ensure macro-economic stability and sustainability. Given the important role and large size (in relation to the size of the economy) of the public sector in the PIC9, sound public expenditure management is essential to the achievement of most of the PIC9 objectives. Frequent external shocks pose a significant challenge to macro-economic management and sustainability. In addition, over the RPF period several countries will have to adjust fiscal and macro-economic management to ensure that the increases in revenue from fisheries access fees are well used. FSM and RMI face the additional challenge of adjusting revenue and expenditures in anticipation of a more constrained fiscal environment after the scheduled termination of Compact grants in 2023.

90. Over the past several years, the Bank has worked with key development partners in the Pacific (European Union, Australia, New Zealand, ADB) to prepare DPOs in four of the PIC9 countries (Samoa, Tonga, Tuvalu, and Kiribati; see Box 3.1). Those operations have supported public financial management reforms, greater private sector participation, improved governance, and macroeconomic resilience, and they benefited from TA to prepare policy actions in priority areas.

► **During the period covered by this RPF, the Bank expects to continue budget support in Samoa, Tonga, Tuvalu and Kiribati** and possibly expand to others to foster economic growth, improved governance (including public financial management), and progress in selected sectoral priorities. The Bank will also support strengthening PFM systems in RMI and FSM.

► A programmatic, multiyear, regional Public Expenditure, Financial Management, and Public Sector ASA will be conducted in parallel with the DPOs to provide analytical input.

*Objective 4.2: Increased access to basic services and improved connective infrastructure*

91. The growth opportunities identified under Focus Area 1, as well as protecting livelihoods emphasized in Focus Area 3, depend heavily on the availability of basic water, sanitation, and electricity and financial services in addition to connective infrastructure, including infrastructure for ICT as well as road, air, and maritime transport. As emphasized in the discussion in Section 2.5 of the economic geography constraints to ending absolute poverty and increasing shared prosperity, the challenge of service delivery and connectivity in PIC9 countries is fundamentally about their internal dispersion and remoteness. Most PIC9 countries have succeeded in providing

basic water, sanitation, and electricity services in urban areas, but many peri-urban areas as well as remote islands remain underserved. The exception is Kiribati, where even dense urban settlements on the main island of South Tarawa receive only intermittent supplies of water and very limited sanitation services. In terms of energy, only about half of the PIC9 have near-universal access to electricity and high costs remain a significant barrier. Mobile phone coverage is critical to help remote communities remain connected. Harnessing the power of technology is also key for developing tourism, ensuring effective early warning of natural disasters, and facilitating access to e-services. Based on provisional data, road coverage per capita is very low in some of the PIC9, and maintenance is often inadequate to keep even these limited networks in reasonable condition. The costs of sea freight are high. Airport infrastructure in many PICs requires upgrading to ensure passenger safety, maintain regional connectivity, and promote tourism. Access to finance is limited in most of the PIC9 and global de-risking poses the real threat for many countries to be cut off from global financial markets. Given the common economic geography underpinnings of this focus on key areas of essential service delivery and connective infrastructure, the two areas of service delivery and connectivity are kept together under this objective.

► The WBG will contribute to **improving access to basic infrastructure services** through the development of a water and sanitation initiative in Kiribati, rural electrification and peri-urban electricity supply in Vanuatu, installation of solar photo-voltaic systems in Tuvalu, and upgrades to electricity generation and increased access to renewable energy in the four states of FSM and in RMI.

► **To improve air connectivity**, building on the Pacific Aviation Investment Program (PAIP) which currently covers Kiribati, Samoa, Tonga, Tuvalu, and Vanuatu, the Bank will continue to work with the PIC9 to improve operational safety and oversight of international air transport infrastructure, which would directly support the development of tourism in the participating PICs.

► **In ICT, the WBG will support legal and regulatory reform to improve the enabling environment for private investment in ICT infrastructure.** It will also provide catalytic financing for “backbone” infrastructure—such as submarine cables or satellite connections that provide international connectivity (for example, in FSM, Kiribati, Samoa, Tonga, Tuvalu)—as well as applications that use the new ICT infrastructure particularly for the expansion of the tourism industry, fisheries management, labor mobility and disaster risk management. The WBG will look for opportunities to mobilize ICT for service delivery and e-government in Tonga, Vanuatu and FSM.

► The WBG will continue its support for **financial market development in the PIC9 through the ongoing Pacific Payment Systems and Remittances program as well as IFC investments in and advisory services for financial sector institutions.**

► **The WBG will consolidate its support to the transport sector and launch a regional maritime program.** Over the RPF period, the WBG will continue to develop transport infrastructure through PAIP (described earlier). It will also support operations in the road subsector to strengthen planning and maintenance (in Kiribati and Tonga, for example) and help countries respond to and prepare for the effects of severe weather on critical transport infrastructure (in Samoa). The regional maritime program will cover Tonga and Tuvalu in a first phase and consider RMI for the second phase.

► **Additional analytical work will study the influence of port and hinterland connectivity** (including infrastructure and services) on domestic supply chains in PICs, measuring the effects of connectivity on the availability and affordability of essential goods and their impact on household incomes, using Tonga as an initial pilot.

*Objective 4.3: Address knowledge gaps*

92. **The substantial knowledge gaps and data issues across the PIC9 are increasingly urgent to resolve as the WBG scales up its engagement.** To support the poverty reduction and shared prosperity agenda, the SCD identified a number of knowledge gaps to address through analysis and data collection. An important activity is to improve the availability of data to understand not only the drivers of fragility, but also poverty and inequality in countries for which such information is inadequate. The WBG will seek to fully exploit opportunities for data collection, sharing, and analysis created by the improved ICT infrastructure in several of the PIC9.

► To contribute to this objective, and specifically to enable PICs to craft and implement poverty alleviation policies that are anchored in effective poverty monitoring systems, the Pacific Poverty Programmatic Analytical and Advisory Assistance (AAA) will support the provision of quality analytic and advisory services in the Pacific region. The program will focus on activities that address gaps and constraints by: (i) providing technical assistance to national statistical offices as well as the Statistics Unit of the SPC to enhance capabilities in data collection and analysis; (ii) generating evidence-based knowledge to support poverty reduction policies; and (iii) engaging in policy dialogues with national governments, regional organizations and development partners. The initiative will also seek to develop and pilot low-cost survey approaches that are financially sustainable and permit poverty monitoring at higher frequency to provide more timely feedback on results and policy outcomes. Another example of an activity supported through the program is the development of household surveys (HIES) in RMI and Kiribati.

► Analytical work will also be conducted to better understand the drivers of urbanization in some PICs as well as the best approaches to address the needs of urban migrants as well as of those who remain in rural areas and in particular on outer islands. Accelerating urbanization in some PICs is altering the demographic composition of urban and rural areas. The SCD analysis revealed large gaps in access to economic opportunities and public services between the major islands and outer islands, which result in significant differences in progress toward the twin goals and encourage internal migration, especially by young people. Further data gathering and analysis is needed to better understand how intra-country geography and remoteness affect livelihoods, assess the costs of “spatially blind” service delivery policies, and estimate the additional costs linked to remoteness (including implications for the WBG’s own ability to prepare and supervise work).

### 3.3.5 *WBG program in Nauru and Palau*

93. **WBG support to Nauru and Palau requires a different engagement strategy from the rest of the member countries in the Pacific.** The WBG partnership with Nauru is at an early stage as it only became a member of IBRD in April 2016. Given the challenges associated with providing the country with financing, WBG engagement with Palau has been relatively limited since its membership in 1997. Nauru is a high-income country and Palau is an upper-MIC, with per capita income levels significantly above that of the other PIC9 countries, and are not eligible

for IDA. In light of current creditworthiness assessments, they can only access IBRD with significant credit enhancements. To date, neither country has pursued this option.

94. **During the RPF period, WBG will pursue all opportunities for providing support to Nauru and Palau.** As members of IBRD, they are able to benefit from WBG administered trust funds, including those which support increasing resilience to climate change and natural disasters. The WBG is also able to promote the inclusion of Nauru and Palau in regional projects, as with the ongoing submarine fiber optic cable linking Kiribati, Kosrae (FSM), Nauru and Pohnpei, where the WBG is financing the Kiribati and FSM share of the project. A second cable is linking FSM and Palau, with WBG financing the FSM share of the initiative. In both cases, financing Palau and Nauru's share of the projects has been secured from ADB. In the course of the RPF period, the WBG will also explore avenues for collaborating with other donors to secure IBRD financing through guarantee schemes, or engagements that would provide the appropriate credit enhancement. In the case of Palau, the Bank's will continue to support three important areas, including technical assistance to address challenges with national payment systems, technical assistance for the ICT sector specifically to support the regulatory reforms and allow Palau to maximize the benefit from the upcoming cable project. Opportunities for assistance in the area of public private partnerships with a focus on strengthening the enabling environment will also be explored. For Nauru, a country where labor mobility will be critical in the future, the WBG engagement will initially start by including the country in an evaluation of the Seasonal Workers' Program Development Evaluation.

### **3.4 Implementing the FY17-21 Regional Partnership Framework**

95. **There are significant differences in the nature of the relationship between the WBG and the individual PICs that will have an impact upon implementation modalities, however common themes will be explored.** The WBG has a mature relationship with Samoa, Tonga, Kiribati, and Tuvalu, a younger relationship in Vanuatu, FSM, and RMI, and a limited relationship with Palau and Nauru. Lessons learned in the existing engagements will be critical to chart the path forward and inform how to effectively support newer clients. The WBG will also ensure its engagement modality with those PIC9 countries that are fragile states, is tailored to address some of the underlying drivers of fragility including the challenges of urbanization and youth employment and the institutional capacities around managing climate change impacts. The WBG will also ensure that implementation support is particularly strengthened for the fragile PIC9 countries. Overall, the WBG program will be designed to enhance impacts by taking advantage of the increased IDA18 allocation to finance more sizeable operations, by enhancing selectivity and focusing on the core objectives discussed under section 3.3, and by paying particular attention to the drivers of fragility in the Pacific in order to improve sustainability.

#### **3.4.1 Financial Envelope and Key Instruments**

96. **The timeline for this RPF comprises the remaining period of IDA17, the IDA18 period and the beginning of IDA19.** During the RPF period, IDA18 will see a major increase to the base allocation to SDR15 m per year per country, which will have a potentially transformative impact on the PIC9. The indicative IDA18 allocation compared to the IDA17 resource envelope for the PIC9 is outlined in Table 3.2.

97. **The eligibility to access financial resources from the WBG differs across the PIC9, and the engagement will be tailored accordingly.** The terms of the resources that countries receive from IDA are based on the risk of debt distress in a given year. In FY17, FSM, Kiribati, RMI, and Tuvalu were eligible for IDA grants, whereas Samoa, Tonga, and Vanuatu receive 50 percent of IDA on grant terms and 50 percent on credit terms. This may well influence how countries wish to allocate IDA resources to different sectors. Palau and Nauru are IBRD countries. At the same time, given current IBRD creditworthiness assessments, they would only have access to resources from IBRD with significant credit enhancements.

**TABLE 3.2: IDA18 SCALE UP (IN US\$M)<sup>12</sup>**

Country	IDA17 planned program ( <i>1 SDR = US\$1.4</i> )	Indicative IDA18 allocations
Kiribati	15.5	60-70
Republic of Nauru	–	–
Republic of the Marshall Islands	20	60-70
Federated States of Micronesia	11	60-70
Republic of Palau	–	–
Independent State of Samoa	24.9	65-75
Kingdom of Tonga	19.1	60-70
Tuvalu	13.5	60-70
Vanuatu	23.8	65-75

98. **WBG instruments to implement the RPF are expected to include investment and policy based financing, IFC resources, and trust funds administered by the WBG.** The WBG will take advantage of innovative instruments that could benefit the PIC9 and, to the extent possible, leverage private sources of capital and knowledge. Development policy lending is expected to continue in Kiribati, Samoa, Tonga, and Tuvalu based on the positive experience during IDA17, provided the countries maintain an adequate macro-economic framework. In FSM and RMI, the new engagement in PFM may create an opportunity to explore the use of this instrument toward the end of the RPF period. Under IPF, the WBG will assess the early lessons in using Disbursement Linked Indicators in the Pacific, and also consider introducing a Program-for-Results Financing arrangement. The WBG will continue to look for financing opportunities in both Palau and Nauru. The WBG will use its global expertise to support these efforts, in close coordination with other development partners in the region.

99. **A feature of the IDA18 scale up in most PIC9 will be a greater emphasis on agreed reform benchmarks in key areas, continued policy dialogue with government and development partners on priorities and on monitoring results.** The special themes in IDA18 on Climate Change, Gender and Development, and Fragility, Conflict and Violence, together with the new proposed themes on Jobs and Economic Transformation, and Governance and Institutions all have resonance for the PIC9, though with varying emphasis across countries. Together with the proposed scaling up of IDA, the proposed IDA18 IFC-MIGA Private Sector Window (PSW) and the scaled up regional window in IDA18, the PIC9 should be in a strong position to explore opportunities for addressing these proposed new global commitments.

<sup>12</sup> Actual allocations are determined on an annual basis.

100. **Of particular importance to the PIC9, in the context of IDA18 special themes, is the recognition that climate change and the rising incidence of natural disasters represent a serious threat for all of the PIC9 and an existential threat for the atoll nations.** The WBG will seek to use the full range of instruments available to support the anticipated increase in frequency and severity of natural disasters in the PIC9. The applicability of new financing instruments such as a Catastrophe Deferred Drawdown Option (CAT DDO), which will be available for IDA countries under IDA18, will be fully assessed. In the Pacific, DPOs have been used to rapidly provide access to resources, but they are not designed for post-disaster situations. In addition, the PIC9 that are IDA eligible will continue having access to the Crisis Response Window (CRW), which is especially important in light of the prevailing fragility aspects in the region. The CRW therefore will remain an important source of resources for post-disaster reconstruction and recovery. The Bank will also explore ways to assist PICs in accessing global climate funds.

101. **IFC will proactively seek to help the PIC9 exploit the full gamut of private sector development opportunities, primarily through its Advisory Services activities.** On the investment front, PIC9 challenges of small scale and remoteness will likely restrict direct investment volumes. However, IFC has a track-record of small, highly developmental investments in the region, which should allow IFC to invest up to US\$25 million over the RPF period to help drive sustainable economic growth across the Pacific region, further supporting the IDA 18 theme on jobs and economic transformation. It will achieve this result by financing private investment, mobilizing capital, and advising businesses and governments on improving the enabling environment for private sector investment and trade and projects that generate returns for investors and provide societal value to communities. Strategic areas of focus will be accelerating access to infrastructure, including potential opportunities for public-private partnerships (PPPs) for delivery of key services, new renewable off-grid and small grid solutions, increasing access to finance for micro, small and medium enterprises, the fisheries sector, and seeking to attract a higher volume long haul tourist arrivals to the Pacific. IFC will aim to make investments where there is the potential to bring scalability and replicability, and making investments where technology and supply chains can be harnessed to accelerate access, spanning new delivery channels and markets to deliver services. These efforts will build on IFC's comparative advantage in the Pacific, which encompasses a track record of financing transactions and long-established reputation for delivering private sector solutions. IFC will take a solutions approach to its client engagement, leveraging Advisory and Investment Services to respond to client needs. IFC will also seek opportunities to leverage the Private Sector Window (PSW) from the IDA18 Replenishment in an effort to enhance the scale and scope of the WBG support to crowd in private sector investment in eligible IDA and FCS markets among the PIC-9: Kiribati, RMI, FSM, Samoa, Tonga, and Vanuatu. The PSW will enable IFC to explore select opportunities, where suitable sponsors with scalable models can help IFC reach markets where they are currently unable to go, or create new markets where these are currently unavailable. Neither Tuvalu nor Nauru are IFC members. MIGA has no current engagement in the PIC9, but will continue to opportunistically pursue opportunities as they arise.

### ***3.4.2 Use of Regional Approaches***

102. **The WBG will continue to promote regional and platform-based approaches and collaboration with regional organizations to address common issues and exploit efficiencies.** This will be especially relevant in cases where regional solutions will be deemed to have greater impact than country specific engagements. Examples of this include existing regional programs

(such as the Pacific Aviation Investment Program, the Pacific Regional Connectivity Program, the Pacific Regional Oceanscape Program and Pacific Resilience Program) which have been designed as platform-based approaches offering a menu of investment and technical assistance options which support a common objective and are tailored to country contexts. Regional approaches allow economies of scale and the WBG has gained valuable experience working with a range of regional organizations during IDA17. This includes SPC, PIF, FFA, the Pacific Aviation Safety Office, Pacific Power Association and SPREP. During the RPF period, the WBG will build on, and strengthen, these partnerships. The Framework for Pacific Regionalism provides an opportunity for WBG to align its work with the regional priorities, including ICT connectivity, climate change and fisheries.

**103. Where possible, the WBG will explore opportunities to use regional IDA resources across to supplement their regular IDA allocations and implement programs that benefit the Pacific region.** An IDA project may be eligible to receive additional regional IDA when (a) it involves three or more countries, all of which needs to participate for the project's objectives to be attainable (two countries if at least one is classified by IDA as fragile), (b) the benefits spill over country boundaries, (c) there is clear evidence of country or regional ownership which demonstrates commitment of the majority of the participating countries, and (d) provides a platform for high level of policy harmonization between countries and is part of a well-developed and broadly supported regional strategy. Currently regional programs in fisheries, ICT, aviation infrastructure, and disaster risk management have such spillover effects and benefit from financing from the regional IDA allocation.

### ***3.4.3 Addressing Capacity and Implementation Challenges***

**104. Programming of new initiatives in IDA18 will require adjustments to the WBG operational model to ensure appropriate support for the PIC9 in implementing a substantially larger program of IDA support.** To ensure that the transaction cost on the part of the PIC9 does not overwhelm institutions already affected by limited capacity, the WBG will increase the scope of its support for preparation and implementation of activities. The Procurement Framework for Investment Project Financing that became effective on July 1, 2016 will enable the WBG to create more tailored, country-specific approaches and allow hands-on implementation support from WBG staff when necessary. With Governance and Institutions a key theme of IDA18, opportunities will be explored to strengthen government's own oversight of the use of funds, by factoring institutional fiduciary capacity building into project design.

**105. Similarly, the new Environmental and Social Framework (ESF), adopted in August 2016, has been designed to meet the varied needs of countries.** The ESF will help borrowers manage their environmental and social risks more effectively and efficiently and will be implemented during the RPF period. Among other things, the ESF will be accompanied by capacity strengthening activities and stronger strategic partnerships with development partners.

**106. Reflecting differences in the WBG's engagement with individual countries and the lessons from the past, projects will be designed to reflect country capacity.** The Bank's portfolio will focus upon a limited set of priorities and avoid fragmentation within and across countries as much as possible. This may mean building first upon existing platforms for delivery and expanding outside these only as capacity increases. Given the thin capacity in many domains in this region, including financial management and procurement, complex project design poses a

higher-than-average risk to implementing projects successfully and will be avoided. Projects will also anticipate the attrition of capacity due to outward migration and plan to mitigate that risk through enhanced training efforts. Greater collaboration with regional organizations that the Bank has previously worked less with, will be fostered (such as the Pacific Association of Supreme Audit Institutions) and the Confederation of Asian & Pacific Accountants, and implementation modalities of a regional nature, along the lines of those currently in place to manage regional programs, will be considered where relevant.

107. **The WBG will continue to look for ways to support government implementing agencies.** For example, as appropriate the WBG will undertake frequent implementation support missions, take advantage of simplified procedures, integrating to the extent possible with government fiduciary systems, pilot various regional implementation schemes (one example is the TFSU, which supports implementation of aviation projects in five PICs), and explore a consolidated/centralized approach to support the fiduciary aspects of project management, such as the approach taken Kiribati through the Kiribati Fiduciary Support Unit (KFSU) and in FSM and RMI coordinated by the Finance Ministry/Department.

108. **To maintain a strong engagement in the Pacific, the WBG will continue to have a substantial presence across the region.** This will be essential to provide stepped up implementation support to countries. The WBG will gradually move some staff from the Sydney office to Suva, Fiji to have a greater presence in the South Pacific. In Samoa and Vanuatu, separate liaison officers have been recruited in anticipation of a significantly larger portfolio and a new joint WB/ADB liaison office will be established in Tuvalu. In addition to the increase in staffing in Fiji, there will continue to be an in-country presence in Kiribati, Samoa, Tonga Tuvalu and Vanuatu (in addition to Timor-Leste, Papua New Guinea, and Solomon Islands, which are not covered by this RPF9). In order to manage the regular demands upon staff time and resources of supporting disaster responses, a pool of qualified consultants who can be on call for engagement in Post Disaster Needs Assessments will be progressively built up so that these events do not take away from the regular resilience and preparedness work program.

#### **3.4.4 Coordination and Partnerships**

109. **The WBG enjoys strong collaboration and coordination with its development partners in the Pacific.** In support of the PIC9, the Bank has received significant trust fund resources from Australia and New Zealand, including (i) the Pacific Facility IV, a Multi Donor Trust Fund (MDTF) managed by the Bank that provides core funding for such Bank-executed activities as lending, supervision, and ASA; (ii) the Pacific Region Infrastructure Facility (PRIF), an MDTF established in 2009 to support infrastructure development in the Pacific; and (iii) the Australia Pacific Islands Strategic Partnership Trust Fund, a single-donor trust fund established in FY16 that supports recipient-executed activities and associated Bank supervision and preparation costs. These resources provide a robust framework for continued collaboration.

110. **The Bank will continue to work closely with development partners to coordinate its engagement across the Pacific.** In Kiribati, Samoa, Tonga, and Vanuatu, the WBG shares Liaison Offices with ADB, and a new joint Liaison Office is being opened in Tuvalu. The new WBG office in Fiji is co-located with ADB's Pacific Sub-regional Office, which will further enhance coordination across the PIC9. Opportunities for joint programming will be sought, continuing the successful efforts in IDA17 to co-finance critical pieces of infrastructure (such as ICT in Tonga,



Palau, and Samoa, the roads project in Kiribati as well as in Fiji, where a waiver was obtained for the first time ever for the World Bank to adopt ADB's procurement rules). Other important partners in the Pacific include the United Nations, European Union, France, Japan, the USA, and the International Monetary Fund (IMF).

**111. The Bank has initiated the development of a “Common Approach” to safeguards in association with other donor partners and SPREP.** The purpose of the Common Approach is to facilitate effective integration of environmental and social considerations into project design and implementation by having a generally agreed approach for safeguard application across the major development partners. In addition to increasing efficiency and effectiveness of safeguard application, the Common Approach will support improved capacity development.

**112. The development of policy matrices in budget support operations provide an additional framework through which participating development partners collaborate on the key development priorities in recipient countries.** New opportunities for collaboration with other development partners will be identified during the RPF period, particularly in infrastructure, climate resilience (including water and sanitation), and development policy lending. Good coordination across the array of development partners, together with adoption of harmonized procedures, will remain critical in reducing the transaction costs for governments challenged with capacity constraints.

**113. IFC is recognized as a key delivery partner for regional donors.** Australia, New Zealand, and IFC work together under the Pacific Partnership to promote inclusive growth and support global integration in the Pacific region. Since December 2012, this US\$32 million Partnership has funded 31 projects across financial markets, corporate governance, gender, tourism, PPPs, extractives and fisheries sectors across the region. It has also facilitated a committed investment portfolio of US\$183 million and helped build a pipeline in excess of US\$115 million in investments across the banking, mining, clean energy, transport, private equity and agribusiness sectors. Since inception, the Pacific Partnership has also facilitated: over US\$145 million in direct IFC investment in the Pacific; helped increase incremental lending of US\$106m to over 725 SMEs; helped 1.1 million people by providing improved access to infrastructure; delivered over \$US45 million per annum in private sector cost savings from improved ease of doing business; and helped 1.2 million people gain improved access to basic financial services. Discussions have already commenced with Australia and New Zealand around the development of a successor arrangement to the highly successful Pacific Partnership. While still under development, a new 5-year US\$25 million partnership to commence in 2017 is expected to help strengthen the Pacific's business enabling environment, strengthen financial infrastructure, improve access to energy, grow the tourism and fisheries sectors and strengthen infrastructure and service delivery.

## 4 MANAGING RISKS TO THE RPF PROGRAM

114. **Risk to the implementation of the RPF in the PIC9 is assessed as Substantial.** The Bank has been operating in some countries for several decades, while in others the relationship is relatively new and institutions are not broadly familiar with Bank modalities. A range of risks could significantly affect the implementation of WBG programs in the PIC9 (Table 4.1). The risks include: (i) exogenous macroeconomic shocks, (ii) political and governance risk, (iii) the risk of recurring natural disasters of increased frequency and intensity; and, (iv) implementation and capacity constraints.

- **Macroeconomic risks.** The PIC9 are highly vulnerable to economic shocks, a risk that is particularly pronounced due to the small size and openness of their economies. Commonly occurring price shocks to commodity imports and exports increase hardship substantially and the costs of doing business. This vulnerability is most pronounced in the coral atoll countries where there is little arable land. Households are consequently dependent on imports of basic foods and vulnerable to volatile prices. The prospects for increased economic growth and domestic revenue generation are challenged as a result of limited opportunities, and structural rigidities, that leave little room to maneuver through economic policies. Like many other small states, debt sustainability is a challenge, although varies significantly across the PIC9, and as a result part of the WBG program will continue to be provided as grants, with the remainder on concessional terms. The WBG program aims to address these risks through sustained and stepped up macroeconomic policy dialogue, including through its DPO series, addressing effective public expenditure management and revenue generation, as well as close partnerships with key partners to help sustain long term donor financing in the region.
- **Political and governance risks.** Risks of political insecurity and weak governance vary across the countries. Where most significant, constant changes in governments or political alliances may disrupt or delay decisions with regard priorities and programs as well as undermine commitment to policy reforms. Successive governments may have differing priorities that in the short term lead to changes in programmatic directions. On the whole, however, it is not envisaged that political changes will fundamentally alter the strategic priorities laid down in the existing national development strategies, and the most significant challenges facing the countries are unlikely to change substantially. In addition, the WBG would plan to maintain a broad dialogue across the political spectrum in countries, working where there is broad bipartisan support for policy reforms and program activities.
- **Natural disaster and climate risks.** The PIC9 are among the countries most prone to natural disasters in the world. Extreme weather related events can be catastrophic and eliminate years of development progress. Climate change will continue to add pressure on fragile island systems by increasing average ocean and land temperatures and inducing changes in seasonality, duration of rainfall and increasing sea levels. In addition to the threat to human lives, natural disasters pose a significant threat to infrastructure and agriculture, affect fiscal balances, and limit tourist arrivals, which are integral to the economies of several of the PIC9. The RPF program is designed to help mitigate many of the core disaster and climate risks to development through regional and country specific initiatives to support climate resilience and disaster management. Extreme weather events

may nevertheless impact implementation across sectors. This risk would be addressed by rapid response, including the WBG’s engagement in supporting Post Disaster Needs Assessments (PDNA), mobilizing resources through the Crisis Response Window when possible and through the reallocation of resources to facilitate disaster recovery where needed. In addition, the WBG is planning to scale up support for environmental and social safeguard in the region – not only through scaling up its own capacity in the field, but also through establishing safeguard learning centers and adopting a common safeguards framework with other donors.

- **Implementation and capacity constraints.** Thin capacity in the Pacific poses a considerable risk to the implementation of the program as well as its sustainability. Thin capacity can contribute to a lack of decision making on the part of governments and delays implementation of key actions. Small and stretched public administrations have generally led to reliance upon project/program management units for Bank financed activities. Limited familiarity with Bank operational procedures in a number of the countries, and limited capacity in core areas such as auditing and accounting, add to implementation delays. In response, the Bank is planning to scale up capacity building of staff working on Bank-financed projects and will look for opportunities to consolidate fiduciary capacity where feasible to limit the demand for scarce skills in small countries. Project fiduciary risks will continue to be subject to ongoing assessment, forming the basis for implementation of relevant mitigation and (risk-based) monitoring measures. Similar management capacity constraints among local businesses and very limited opportunities for scalability in the domestic market impact the growth of the private sector and limit the number of bankable deals that the IFC can consider for investment on commercial terms. Regional expansion has helped the telecommunications sector and the banking industry in the Pacific to gain scalability, which IFC will pursue more rigorously, supported by a closely aligned advisory services program.

**TABLE 4.1: TYPES AND SEVERITY OF RISKS TO THE IMPLEMENTATION OF THE RPF IN THE PIC9**

<b>Risk Categories</b>	<b>Rating (H, S, M, L)</b>
Political and governance	High
Macroeconomic	Substantial
Sector strategies and policies	Moderate
Technical design of project or program	Moderate
Institutional capacity for implementation and sustainability	Substantial
Fiduciary	Substantial
Environment and Social	High
Stakeholders	High
<b>Overall</b>	<b>Substantial</b>

115. **The implementation risks identified here cannot be fully mitigated and it is therefore essential to prepare for the possibility that some of these risks will materialize in at least one or more of the PIC9.** The WBG will need to be able to navigate and manage these risks and adapt accordingly. It may need to place greater emphasis on the sequencing of WBG support and on the

capacity to make adjustments to the program as it is implemented. Any changes to the lending program and results framework will be articulated during the Performance and Learning Review, as well as during regular portfolio discussions.

**116. Recognizing the capacity constraints, the WBG has also put into place a series of measures to mitigate to the extent possible the adverse impact that these constraints could generate for the portfolio.** These mitigation measures include (i) a focus of the program on a few key priorities, (ii) deployment of staff on the ground and enhanced implementation and hands-on support through dedicated implementation support staff across sectors; (iii) structured collaboration between key government counterparts and development partners aimed at building sustainable fiduciary capacity, (iv) deliberate adaptation of Bank policies to fit the operating environment to the maximum extent possible; (v) the use of regional approaches to support implementation, such as PROP, PREP, and PAIP; (vi) the use of DPOs that focus on strengthening PFM and governance, transparency and accountability; and (vii) a focus on managing financial risk for disaster-related events.

## ANNEX 1: Operations Portfolio (IBRD/IDA and Grants) as of January 4, 2017

Project ID	Project Name	Date, Board App *	DO Rating	IP Rating	IBRD Comm Amount (\$m)	IDA Commit (\$m)	Net Comm Amt (\$m)	Tot Cancel (\$m)	Tot Disb (\$m)	Tot Undisb Bal (\$m)
<b>Kiribati</b>										
P155540	Third Economic Reform DPO	9/13/2016			0	2	2.00	0	0.00	2.10
P112615	Kiribati:GEF Adaptation Phase III (LDCF)	09/15/2011		MS	0	0	10.70	0	6.51	4.19
P122151	Kiribati Road Rehabilitation Project	03/01/2011	MS	S	0	26	26.00	0	24.78	0.24
P126324	KI: Telecomms and ICT Development	07/26/2012	S	S	0	1	1.00	0	0.72	0.32
P128938	Pacific Aviation Investment - Kiribati	12/13/2011	S	S	0	30.01	30.01	0	9.64	17.70
<b>Marshall Islands</b>										
P151760	PROP for Marshall Islands	12/22/2014	S	MS	0	6.75	6.75	0	0.70	5.49
P155257	Pacific Resilience Program - RMI	06/19/2015	S	S	0	1.5	1.50	0	1.00	0.53
P132119	MH: ICT TA Project	08/07/2013	MU	MU	0	0	0.95	0.3	0.10	0.85
<b>Micronesia, Federated States of</b>										
P148560	Energy Sector Development	5/29/2014	S	MS	0	14.4	14.40	0	4.58	8.44
P151754	PROP for Federated States of Micronesia	12/22/2014	S	S	0	5.5	5.50	0	0.52	4.82
P130592	Palau-FSM Connectivity Project	12/17/2014	MS	MS	0	47.5	47.50	0	6.36	37.33
<b>Pacific Islands</b>										
P098423	Pac Isl-GEF-Sustainable Energy Finance	6/12/2007		S	0	0	8.45	0.456159	6.65	1.80
P152653	Sustainable Energy Industry Development	09/29/2015	S	S	0	0	5.66	0	0.20	5.46
P131655	Pacific Island Regional Oceans Program	12/22/2014	MU	U	0	3.97	3.97	0	0.55	3.24
P153429	Pacific Islands Regional Oceanscape Prog	12/22/2014		U	0	0	2.19	0	0.10	2.09
P147839	PACIFIC RESILIENCE PROGRAM - SPC	06/19/2015	S	MS	0	3.68	3.68	0	0.34	3.32
P155542	PACIFIC RESILIENCE PROGRAM - PIFS	06/19/2015	S	MS	0	1.32	1.32	0	0.03	1.38
P145057	Pacific Aviation Safety Office Reform	9/30/2013	MS	MS	0	2.15	2.15	0	1.60	0.56
P148238	Pacific Reg ICT Regulatory Dev. Project	07/30/2014	MS	MU	0	4.5	4.50	0	0.67	3.45
<b>Samoa</b>										
P115351	Samoa Agriculture Competitiveness Enhanc	3/29/2012	S	MS	0	8	8.00	0	3.00	4.10
P145938	Agriculture & Fisheries Cyclone Response	10/17/2013	S	S	0	5	5.00	0	4.40	0.50
P126596	Enhancing Climate Resilience of Coastal	12/27/2013	MS	MU	0	0	14.60	0	3.46	11.14
P155118	Second Fiscal and Economic Reform DPO	9/13/2016			0	5	5.00	0	0.00	5.02
P154839	Pacific Resilience Program - Samoa	06/19/2015	S	MS	0	13.793	13.79	0	1.66	12.12

P126504	Enhancing Climate Resilience-West Cst Rd	12/18/2012	MU	MU	0	0	14.80	0	1.11	13.69
P128904	WS: Pac Reg Connect Phase III: Samoa	6/19/2015	S	S	0	16	16.00	0	1.71	13.86
P143408	Samoa Aviation Investment Project	03/06/2014	MS	MS	0	41.62	41.62	0	2.14	35.99
P145545	Enhanced Road Access Project	10/17/2013	S	MS	0	20	20.00	0	11.07	7.35
<b>Tonga</b>										
P155133	Tonga First Inclusive Growth DPO	3/16/2016			0	2	2.00	0	2.25	0.00
P150113	Tonga Cyclone Reconstruction	05/28/2014	MU	MU	0	12	12.00	0	9.49	1.54
P154840	Pacific Resilience Program - Tonga	06/19/2015	S	S	0	10.5	10.50	0	1.50	9.15
P156334	Pacific Resilience Program - Tonga	6/19/2015		S	0	0	4.58	0	0.20	4.38
P096931	TO-Transport Sector Consolidation	07/28/2008	S	S	0	9.44	9.44	0	5.69	3.68
P113184	Pacific Regional Connectivity Program	08/30/2011	S	S	0	17.2	17.20	0	13.72	2.34
P128939	Pacific Aviation Investment - Tonga	12/13/2011	S	S	0	34.46	34.46	0	22.24	9.46
<b>Tuvalu</b>										
P144573	Energy Sector Development Project	1/26/2015	MS	MS	0	7	7.00	0	0.36	6.39
P151780	PROP for Tuvalu	12/22/2014	S	S	0	7	7.00	0	0.70	5.93
P155066	Third Development Policy Operation	12/09/2016			0	3.3	3.30	0	0.00	3.35
P128940	Pacific Aviation Investment - Tuvalu	12/13/2011	S	S	0	20.79	20.79	0	13.18	5.92
<b>Vanuatu</b>										
P133701	GPOBA Improved Electricity Access	5/16/2014	S	MS	0	0	4.85	0	0.55	4.30
P145311	Energy Sector Development Project	06/21/2013			0	0	2.73	0.0195866	2.14	0.59
P150908	Rural Electrification Project	11/07/2014	S	S	0	0	4.70	0	0.53	4.17
P112611	Increasing Resilience to Climate Change	12/4/2012		MU	0	0	9.74	0.0103548	6.08	4.68
P129376	Mainstreaming Disaster Risk Reduction	9/26/2012	MS	MS	0	0	2.73	0	2.38	0.35
P155256	Pacific Resilience Program	06/19/2015	S	S	0	1.5	1.50	0	1.00	0.53
P156505	Vanuatu Reconstruction Project	06/17/2016	S	S	0	50	50.00	0	0.00	49.43
P118895	VU: Telecommunications & ICT TA	8/31/2009			0	0	5.26	0.2842544	5.16	0.10
P154149	Vanuatu Aviation Investment Project	5/8/2015	MS	MS	0	59.5	59.50	0	4.23	52.62

## ANNEX 2: Analytical and Advisory Assistance (AAA) Portfolio as of January 4, 2017

Task ID	Task Name	Prod. Line	Processing Group (Standalone, Parent, Subtask)	Processing Track (1,2) / Type (JIT, Discrete, Parent)	Parent Task ID	AIN (AA) / AIS Sign-Off	ACS	Total Lifetime Expenditure (K\$)		
							FY	BB	BETF	Total
<b>Pacific Islands</b>										
P130347	Pacific Disaster Risk Financing	TA	Standalone	Discrete		24-Jan-2012	2017	0.00	1513.87	1513.87
P130441	PACIFIC CAT RISK ASSESS - PHASE 3	TA	Standalone	Discrete		19-Jan-2012	2017	0.21	1315.55	1315.76
P145154	Pacific Early Age Readiness and Learning	PA	Parent	Parent		31-Jul-2013	2017	-0.18	1954.88	1954.70
P150648	Pacific Poor Inclusive WSS Approaches	PA	Parent	Parent		17-Apr-2014	2019	0.00	1293.34	1293.34
P151797	Pacific Poverty Programmatic AAA	PA	Parent	Parent		10-Jul-2014	2018	149.57	473.89	623.46
P151959	Australia SWP Development Evaluation	EW	Standalone	Discrete		23-Jul-2014	2017	23.28	263.40	286.68
P152037	Building Climate and Disaster Resilience	PA	Parent	Parent		31-Oct-2014	2019	14.86	671.09	685.95
P152866	Programmatic AAA for Pacific Agriculture	PA	Parent	Parent		28-Jan-2015	2017	128.44	474.38	602.81
P153190	PRDR for SE4ALL	TA	Standalone	Discrete		14-Oct-2014	2017	0.06	215.04	215.11
P153778	Pacific Health TA/AAA	PA	Parent	Parent		26-Nov-2014	2018	0.00	448.84	448.84
P155135	Regional [Pacific Health Subtask]	TA	Subtask	JIT	P153778	23-Mar-2015	2018		46.00	46.00
P154324	Pacific Possible	EW	Standalone	Discrete		13-Feb-2015	2017	883.03	62.23	945.26
P154352	Pacific PEFM Program	PA	Parent	Parent		13-Jan-2015	2019	0.79	85.25	86.05
P155609	Pacific Labor Mobility Programmatic AAA	PA	Parent	Parent		30-Apr-2015	2017	1.15	291.11	292.26
P158922	Resilient Investments & Spatial Planning	TA	Subtask	Discrete	P152037	2-Sep-2016	2019	0.00		0.00
P159592	Disaster Responsive SP in Pacific	TA	Standalone	Discrete		11-Mar-2016	2018		374.36	374.36
P161581	Early Warning, Preparedness & Response	TA	Subtask	Discrete	P152037	2-Sep-2016	2019			0.00
P161700	PCRAFI Technical Assistance	AA	Standalone	Track 2		20-Sep-2016	2022		10.10	10.10
P161926	Pacific Islands CRVS and ID management	TA	Subtask	JIT	P157694	14-Oct-2016	2018		10.98	10.98
<b>Kiribati</b>										
P155137	Kiribati [Pacific Health Subtask]	TA	Subtask	JIT	P153778	24-Mar-2015	2018		271.64	271.64
<b>Samoa</b>										

P155138	Samoa [Pacific Health Subtask]	TA	Subtask	JIT	P153778	24-Mar-2015	2018		26.62	26.62
<b>Tonga</b>										
P159996	Tonga PEARL Project	TA	Subtask	JIT	P145154	26-Apr-2016	2018		1591.63	1591.63
<b>Tuvalu</b>										
P162838	Sea Level Rise and Infrastructure	AA	Standalone	Track 1		7-Dec-2016	2017			0.00
<b>Vanuatu</b>										
P132550	Equity, Land	PA	Parent	Parent		1-Aug-2012	2016	35.21	690.22	725.42
P157414	Affordable Resilient Housing Settlements	TA	Standalone	Discrete		11-Sep-2015	2018		73.79	73.79
P155134	Vanuatu [Pacific Health Subtask]	TA	Subtask	JIT	P153778	23-Mar-2015	2018		367.12	367.12



## ANNEX 3: Selected Indicators of Bank Portfolio Performance and Management

Refreshed: 01/04/2017		Portfolio Trends						
Region: EAP   Country: Pacific Islands; Federated States of Micronesia; Kingdom of Tonga; Republic of Kiribati; Republic of Palau; Republic of the Marshall Islands; Republic of Vanuatu; Samoa; Tuvalu								
Data as of 01/04/2017	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17 @ Dec 31
<b>PORTFOLIO AND DISBURSEMENTS</b>								
Active Projects #	11	11	20	24	35	51	48	46
Actual Problem Project #	1	2	2	3	1	5	4	7
US\$m problem projects	8.766	14.206	14.206	34.766	31.666	82.434782	79.699645	60.56
Problem Projects by Amount (%)	17%	17%	8%	18%	10%	16%	14%	10%
Problem Project %	9.1	18.2	10.0	12.5	2.9	9.8	8.3	15.2
Potential Problem Project #	0	0	0	0	2	3	3	0
Projects At Risk #	1	2	2	3	3	8	7	7
Projects At Risk %	9.1	18.2	10.0	12.5	8.6	15.7	14.6	15.2
Commitments At Risk \$m	8.77	14.21	14.21	34.77	31.67	72.48	75.89	62.75
Commitments at Risk %	16.6	17.1	7.9	17.6	10.0	13.9	13.1	10.7
Disbursement Ratio for IPF only %	31.1	30.7	26.6	17.1	19.6	20.0	17.6	6.4

## ANNEX 4: International Finance Corporation Project at a Glance, Institution View, as of December 31, 2016

### Institution: Bank of Vanuatu

Project Id	Project Short Name	Department Code	Project Status	Approval Volume-IFC (USD)	Net Commitment-IFC (USD)	Undisbursed-IFC (USD)	Outstanding-IFC (USD)	Cancelled-IFC (USD)
28058	NBV	CFG	Hold					
30363	NBV Equity	CFG	Active	2,187,425	2,482,602	133,933	1	0
				<b>2,187,425</b>	<b>2,482,602</b>	<b>133,933</b>	<b>1</b>	<b>0</b>

### Equality Valuation Data reported at Institutional Level

Unrealized Capital Gains	Current Exit Value	Percentage IFC Ownership
-1	0	15.00

## ANNEX 5: PIC9 Regional Partnership Framework—Results Framework

<b>FOCUS AREA 1: Fully exploiting available economic opportunities</b>																																				
<p>The combined challenge of small size, remoteness from major markets and internal dispersion increase the costs of private production and public administration, lower the return to market activities and narrow the feasible set of economic opportunities. Given low growth and limited employment opportunities, the PICs need to fully exploit the limited set of available economic opportunities.</p>																																				
<b>Objective 1.1 Improved management of oceanic and coastal fisheries</b>																																				
<p><b>Intervention Logic</b>            Fisheries are essential to the economies and development of the PIC9, and are of significant value to the international community. The Pacific islands ocean region covers 11 percent of the world’s oceans and their shared fisheries resources include: (i) oceanic fisheries (largely tuna) that provide public revenues; (ii) coastal fisheries that directly sustain rural livelihoods and contribute to food security and sometimes exports; and (iii) the natural habitats and biodiversity that sustain them. Women are particularly dependent on coastal fisheries for informal economic opportunities including handicrafts.</p>																																				
<b>CPF Objective Indicators</b>			<b>Supplementary Progress Indicators</b>																																	
<p><i>Management of Fisheries</i></p> <p>Percentage of oceanic tuna catch within a country’s waters that is encompassed within the Vessel Day Scheme (VDS)<sup>13</sup> or a compatible system</p> <table border="1"> <thead> <tr> <th></th> <th>Baseline (09/2016)</th> <th>Target (09/2020)</th> </tr> </thead> <tbody> <tr> <td>FSM</td> <td>89%</td> <td>100%</td> </tr> <tr> <td>RMI</td> <td>90%</td> <td>100%</td> </tr> <tr> <td>Tuvalu</td> <td>94%</td> <td>100%</td> </tr> </tbody> </table> <p>Number of additional coastal fisheries legally managed by stakeholders in each country, with support from the government</p> <table border="1"> <thead> <tr> <th></th> <th>Baseline (09/2016)</th> <th>Target (09/2020)</th> </tr> </thead> <tbody> <tr> <td>RMI</td> <td>0</td> <td>24</td> </tr> <tr> <td>Tuvalu</td> <td>0</td> <td>7</td> </tr> </tbody> </table>		Baseline (09/2016)	Target (09/2020)	FSM	89%	100%	RMI	90%	100%	Tuvalu	94%	100%		Baseline (09/2016)	Target (09/2020)	RMI	0	24	Tuvalu	0	7			<p><i>Management of Fisheries</i></p> <p>FSM, RMI, Tuvalu:            A similar system to the VDS is introduced for managing access to the two long-line fisheries (tropical long-line fishery and southern albacore long-line fishery)</p> <table border="1"> <thead> <tr> <th></th> <th>Baseline (09/2016)</th> <th>Target (09/2020)</th> </tr> </thead> <tbody> <tr> <td>FSM</td> <td>No</td> <td>Yes</td> </tr> <tr> <td>RMI</td> <td>No</td> <td>Yes</td> </tr> <tr> <td>Tuvalu</td> <td>No</td> <td>Yes</td> </tr> </tbody> </table>		Baseline (09/2016)	Target (09/2020)	FSM	No	Yes	RMI	No	Yes	Tuvalu	No	Yes
	Baseline (09/2016)	Target (09/2020)																																		
FSM	89%	100%																																		
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FSM	No	Yes																																		
RMI	No	Yes																																		
Tuvalu	No	Yes																																		
			<p><i>Management of Fisheries</i></p> <p><u>Ongoing</u>            FSM, RMI, Tuvalu and Pacific Regional: Pacific Islands Regional Oceanscape Program (PROP)</p> <p><u>Pipeline</u>            Tonga PROP (tbc)            Kiribati PROP (tbc)            FSM AF PROP (tbc)            RMI AF PROP (tbc)</p>																																	
<b>Objective 1.2 Increased incomes from agriculture</b>																																				
<p><b>Intervention Logic</b>            Agriculture and coastal fishing play an important role in meeting the subsistence needs of the poor. Low-cost and low quality food imports crowd out domestic production and contribute to non-communicable diseases.</p>																																				

<sup>13</sup> The VDS succeeds previous methods to curb overfishing by trading vessel days fishing at sea in places that are subject to the Parties to the Nauru Agreement (PNA). The indicator covers PIC9 where the Pacific Regional Oceanscape Program is currently being implemented (FSM, RMI and Tuvalu)

Opportunities for exports of agricultural products are likely to remain limited, but opportunities for small scale local trade, import substitution to supply the tourism sector and selected niche and cash crop exports offer possible gains for many.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program												
<p><i>Increased Incomes from Agriculture</i></p> <p>Samoa: Percentage increase in the value of sales of fruit and vegetable growers participating in the Matching Grant Program</p> <table border="1"> <tr> <td>Baseline (03/2016)</td> <td>36%</td> <td>Target (03/2018)</td> <td>40%</td> </tr> </table> <p>Percentage increase in the value of sales of livestock producers participating in the Matching Grant Program</p> <table border="1"> <tr> <td>Baseline (03/2016)</td> <td>21%</td> <td>Target (02/2018)</td> <td>30%</td> </tr> </table>	Baseline (03/2016)	36%	Target (03/2018)	40%	Baseline (03/2016)	21%	Target (02/2018)	30%	<p><i>Increased Incomes from Agriculture</i></p> <p>Client days of training provided to farmers (male/female) on technologies and practices for more resilient agriculture</p> <table border="1"> <tr> <td>Baseline (03/2016)</td> <td>0</td> <td>Target (02/2017)</td> <td>300</td> </tr> </table>	Baseline (03/2016)	0	Target (02/2017)	300	<p><i>Increased Incomes from Agriculture</i></p> <p><u>Ongoing</u> Samoa Agriculture Competitiveness Enhancement Project (SACEP)</p> <p><u>Pipeline</u> Samoa SACEP Phase II (tbc)</p> <p>Vanuatu Agriculture/Food Security Project (tbc)</p>
Baseline (03/2016)	36%	Target (03/2018)	40%											
Baseline (03/2016)	21%	Target (02/2018)	30%											
Baseline (03/2016)	0	Target (02/2017)	300											

### Objective 1.3 Expanded tourism opportunities

#### Intervention logic

Tourism is central to private sector economic activity in several of the PIC9 countries. Tourism, as a service sector with relatively low entry barriers and its supply chain stimulates demand for domestic produce, local artwork and handicrafts. It is labor-intensive and supports significant domestic job creation and is one of the few industries in the Pacific in which women and young people form a high percentage of job holders. For young people, especially those who are unskilled, tourism is a potential pathway to productive employment. It is the cause of significant infrastructure demand, providing a rationale for increased investment into airport, port and road infrastructure without which the industry cannot flourish. Regional approaches would help enhance air access and the marketing of Pacific island destinations in new markets such as Asia. Cruise shipping has the potential to offer benefits through greater local linkages, especially in the South Pacific.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program								
<p><i>Expanded tourism opportunities</i></p> <p>Change in tourist (non-resident) international arrivals both air and cruise tourism. <i>Indicative</i></p> <p>Vanuatu:</p> <table border="1"> <tr> <td>Baseline</td> <td>108,000</td> <td>Target</td> <td>130,000</td> </tr> </table> <p>Samoa:</p> <table border="1"> <tr> <td>Baseline</td> <td>131,000</td> <td>Target</td> <td>145,000</td> </tr> </table>	Baseline	108,000	Target	130,000	Baseline	131,000	Target	145,000		<p><i>Expanded tourism opportunities</i></p> <p><u>Ongoing</u> Pacific Regional Tourism Initiative Phase 1 (IFC)</p> <p><u>Pipeline</u> Pacific Regional Tourism Initiative Phase 2 (starting July 2017) (IFC)</p>
Baseline	108,000	Target	130,000							
Baseline	131,000	Target	145,000							

## FOCUS AREA 2: Enhancing access to employment opportunities

Improving access to employment opportunities and basic social and infrastructure services, with a particular emphasis on enhancing educational attainment and skills of the poor is key to improving the well-being of PIC9 populations.

### Objective 2.1 Broadened Opportunities for Access to Labor Markets

#### Intervention Logic

International labor mobility has already delivered significant and generally pro-poor benefits for some of the PIC9; evidence suggests improved labor mobility for some of these island countries provides benefits to not only to migrants, but also their households, communities and sending countries; remittances are an important income source that helps to bring many households out of poverty. Pursuing agreements to scale up existing seasonal migration schemes would offer critical opportunities for low-skilled workers. Expanding quotas for permanent migration, better targeting opportunities towards the poor and towards countries that have only limited participation, and creating new opportunities for higher skilled workers, such as nurses, are priorities and require joint action by labor sending and labor receiving countries.

#### CPF Objective Indicators

#### Supplementary Progress Indicators

#### WBG Program

##### *Labor Mobility*

Increase the number of Pacific seasonal workers participating in the SWP annually over the RPF period.

	Baseline (06/2016)	Target (06/2021)
Kiribati	11	20
Nauru	17	30
Samoa	185	330
Tonga	2,179	3,900
Tuvalu	7	10
Vanuatu	567	1,000

##### *Labor Mobility*

##### *Labor Mobility*

Ongoing  
Pacific Labor Mobility Programmatic ASA – aims to inform and influence the debate on labor mobility with a view to enhancing employment opportunities for low-income workers in selected PICs.

Pipeline  
ASAs to help PIC9 countries develop the skills mix workforces need to take advantage of both domestic and international job opportunities:

- SWP Development Impact Evaluation
- SWP Productivity Study
- Skilled Migration Pathways in ANZ/USA

## Objective 2.2 Addressing education and skills gap

### Intervention Logic

Closing gaps with regard to access and quality of education is vital because of the correlation this gap has to hardship. The absence of access to quality education translates into unequal access to economic opportunities, especially with respect to overseas employment opportunities and public sector jobs. Educational attainment is shown to contribute to higher rates of economic growth by increasing the availability of skilled labor, and increasing opportunities for the most marginal and most vulnerable to escape poverty. Enhanced skill development and training opportunities, especially related to the tourism sector, is important to allow the poor to take advantage of employment opportunities and for the development of the sector. Educating girls is particularly important for gender equality.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program																								
<p><i>School Readiness and Early Grade Literacy</i></p> <p>No. of ECCE and school readiness interventions completed</p> <table border="1"> <thead> <tr> <th></th> <th>Baseline (06/2016)</th> <th>Target (06/2017)</th> </tr> </thead> <tbody> <tr> <td>Kiribati</td> <td>0</td> <td>1</td> </tr> <tr> <td>Tuvalu</td> <td>0</td> <td>1</td> </tr> </tbody> </table> <p>No. of early grade reading improvement interventions completed</p> <table border="1"> <thead> <tr> <th></th> <th>Baseline (06/2016)</th> <th>Target (06/2017)</th> </tr> </thead> <tbody> <tr> <td>Kiribati</td> <td>0</td> <td>1</td> </tr> <tr> <td>Tuvalu</td> <td>0</td> <td>1</td> </tr> </tbody> </table>		Baseline (06/2016)	Target (06/2017)	Kiribati	0	1	Tuvalu	0	1		Baseline (06/2016)	Target (06/2017)	Kiribati	0	1	Tuvalu	0	1	<p><i>School Readiness and Early Grade Literacy</i></p> <p>Production of country diagnostic reports on ECCE services and early grade reading levels</p> <table border="1"> <thead> <tr> <th></th> <th>Baseline (03/2016)</th> <th>Target (06/2018)</th> </tr> </thead> <tbody> <tr> <td>Samoa</td> <td>0</td> <td>2</td> </tr> </tbody> </table>		Baseline (03/2016)	Target (06/2018)	Samoa	0	2	<p><i>School Readiness and Early Grade Literacy</i></p> <p><u>Ongoing</u> Pacific Early Age Readiness and Learning (PEARL) ASA– aims to improve evidence-based policy and programming decisions on school readiness and early grade reading in PICs.</p> <p>Early Grade Reading Assessment (EGRA) ASA – aims to provide a picture of education quality in primary education and will be used to inform policy dialogue, guide investment decisions, improve curriculum and curriculum resources and improve teacher training.</p> <p><u>Pipeline</u> DPOs will continue to support key education sector reforms</p> <p>Tonga Skills for Employment Project</p>
	Baseline (06/2016)	Target (06/2017)																								
Kiribati	0	1																								
Tuvalu	0	1																								
	Baseline (06/2016)	Target (06/2017)																								
Kiribati	0	1																								
Tuvalu	0	1																								
	Baseline (03/2016)	Target (06/2018)																								
Samoa	0	2																								

<p><i>Increased Access to Education</i></p> <p>Vanuatu: No of schools reconstructed and upgraded to higher structural safety standards</p> <table border="1"> <tr> <td>Baseline (03/2016)</td> <td>0</td> <td>Target (06/2021)</td> <td>40</td> </tr> </table>	Baseline (03/2016)	0	Target (06/2021)	40	<p><i>Increased Access to Education</i></p>	<p><i>Increased Access to Education</i></p> <p><u>Ongoing</u> Vanuatu Infrastructure Reconstruction and Improvement Project</p>									
Baseline (03/2016)	0	Target (06/2021)	40												
<p><i>Enhanced skills development</i></p> <p>Tonga: Number of beneficiaries graduating from pre-employment training (tracked by gender)</p> <table border="1"> <tr> <td>Baseline (08/2018)</td> <td>0</td> <td>Target (06/2021) – TBC</td> <td>500 (250 female)</td> </tr> </table>	Baseline (08/2018)	0	Target (06/2021) – TBC	500 (250 female)	<p><i>Enhanced skills development</i></p> <p>Tonga: Percentage of beneficiaries who report an increase in knowledge, skills and confidence to participate in the labor market</p> <table border="1"> <tr> <td></td> <td>Baseline (08/2016)</td> <td>Target (06/2021) – TBC</td> </tr> <tr> <td>Male</td> <td>0</td> <td>60%</td> </tr> <tr> <td>Female</td> <td>0</td> <td>60%</td> </tr> </table>		Baseline (08/2016)	Target (06/2021) – TBC	Male	0	60%	Female	0	60%	<p><i>Enhanced skills development</i></p> <p><u>Pipeline</u> Tonga Skills for Employment Project</p> <p>ASA to help PIC9 countries develop the skills mix workforces need to take advantage of both domestic and international job opportunities planned</p>
Baseline (08/2018)	0	Target (06/2021) – TBC	500 (250 female)												
	Baseline (08/2016)	Target (06/2021) – TBC													
Male	0	60%													
Female	0	60%													

**Objective 2.3 Addressing gender inequality and Gender Based Violence**

**Intervention logic**

The PIC-9 countries suffer from gender inequalities in terms of access to economic opportunities, access to endowments, women’s voice and agency, especially gender-based violence and vulnerability to emerging risks. In addition, the PIC-9 are plagued with some of the highest levels of gender-based violence (GBV) in the world. Violence against women significantly and negatively affects their health, well-being, and agency, and beyond the human costs, violence incurs major economy-wide costs such as expenditures on service provision, forgone income for women and their families, decreased productivity and negative effects on human capital. The overwhelming majority of abused women in the Pacific report they have not sought help from formal services or from people in positions of authority such as police, non-government organizations, religious or local leaders.

<b>CPF Objective Indicators</b>	<b>Supplementary Progress Indicators</b>	<b>WBG Program</b>												
<p><i>Gender</i> Percentage of active IDA projects in the country portfolio that are gender informed</p> <table border="1"> <tr> <td>Baseline (06/2016)</td> <td>66%</td> <td>Target (06/2021)</td> <td>66%</td> </tr> </table> <p>Percentage of all projects under implementation that have one or more gender related indicators in the results framework</p> <table border="1"> <tr> <td>Baseline (06/2016)</td> <td>72%</td> <td>Target (06/2021)</td> <td>≥66%</td> </tr> </table>	Baseline (06/2016)	66%	Target (06/2021)	66%	Baseline (06/2016)	72%	Target (06/2021)	≥66%	<p><i>Gender</i> Stock-take and analysis of GBV in the PIC-9 and identification of specific WBG activities on GBV</p> <table border="1"> <tr> <td>Baseline (01/2017)</td> <td>No</td> <td>Target (12/2017)</td> <td>Yes</td> </tr> </table>	Baseline (01/2017)	No	Target (12/2017)	Yes	<p><i>Gender</i></p> <p><u>Ongoing (Cross-cutting)</u> Samoa Agriculture Competitiveness Enhancement Project Samoa – Pacific Regional Connectivity Phase III Project</p> <p>Pacific Resilience Program (PREP)</p> <p>Tuvalu – Energy Sector Development Project Vanuatu Aviation Investment Project</p>
Baseline (06/2016)	66%	Target (06/2021)	66%											
Baseline (06/2016)	72%	Target (06/2021)	≥66%											
Baseline (01/2017)	No	Target (12/2017)	Yes											

		<p>ASA: Work is being undertaken on quantitative and qualitative evidence of social and economic impacts of the Seasonal Worker Program (SWP) on women and men in Tonga and Vanuatu, including gender impacts.</p> <p>IFC: Creating opportunities for knowledge sharing among the business community across the Pacific</p> <p><u>Pipeline</u></p> <p>Vanuatu Aviation Investment Project AF</p>
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**Focus Area 3: Protecting incomes and livelihoods**

Protecting incomes and livelihoods of the poor and the bottom 40 percent is particularly important in the context of climate change, frequent natural disasters and economic shocks. The low-lying atolls of the Pacific are vulnerable to sea level rise. Though the timeframe and severity of the impacts of climate change are uncertain, concern for the lives and livelihoods of the people of the Pacific is paramount given that climate change outcomes encompass the displacement of human settlements by sea-level rise, reduced food production, water scarcity and increased disease.

**Objective 3.1 Strengthened resilience to natural disasters and climate change**

**Intervention Logic**  
 There is a need to mainstream disaster risk reduction policy among the PIC9 into many areas of policy making and development efforts. This includes strengthening policy, institutional and evidence-based decision making capacity including via easy-to-access and relevant data and inclusive, participatory approaches, as well as strengthening disaster early warning, preparedness, and response. Mainstreaming disaster risk and climate change considerations into development planning and investments (including infrastructure plans, land use plans, building codes and environmental impact assessments, as well as sectors such as agriculture, health, education, fisheries, is along important, together with strengthening the financial resilience of countries to climate and disaster shocks. The need for a long-term strategy for the atoll islands, as they have their own unique resilience needs, is also apparent.

<b>CPF Objective Indicators</b>	<b>Supplementary Progress Indicators</b>	<b>WBG Program</b>																		
<p><i>Disaster and Climate Resilience</i></p> <p>RMI, Samoa, Tonga, Vanuatu:            Direct project beneficiaries (male/female)</p> <table border="1"> <thead> <tr> <th></th> <th>Baseline (11/2016)</th> <th>Target (11/2020)</th> </tr> </thead> <tbody> <tr> <td>Samoa</td> <td>38,000</td> <td>75,000</td> </tr> <tr> <td>Tonga</td> <td>24,000</td> <td>60,000</td> </tr> </tbody> </table>		Baseline (11/2016)	Target (11/2020)	Samoa	38,000	75,000	Tonga	24,000	60,000	<p><i>Disaster and Climate Resilience</i></p> <p>Multi hazard early warning systems are established and operating</p> <table border="1"> <thead> <tr> <th></th> <th>Baseline (11/2016)</th> <th>Target (11/2020)</th> </tr> </thead> <tbody> <tr> <td>Samoa</td> <td>No</td> <td>Yes</td> </tr> <tr> <td>Tonga</td> <td>No</td> <td>Yes</td> </tr> </tbody> </table>		Baseline (11/2016)	Target (11/2020)	Samoa	No	Yes	Tonga	No	Yes	<p><i>Disaster and Climate Resilience</i></p> <p><u>Ongoing</u>            RMI, Samoa, Tonga, Vanuatu: Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) – helps reduce the financial vulnerability of participating countries.</p> <p>Pacific Islands Resilience Program (PREP) in RMI,</p>
	Baseline (11/2016)	Target (11/2020)																		
Samoa	38,000	75,000																		
Tonga	24,000	60,000																		
	Baseline (11/2016)	Target (11/2020)																		
Samoa	No	Yes																		
Tonga	No	Yes																		



Increased coverage of hazard forecast and warning messages to population at risk				Samoa, Tonga, and Vanuatu – aims to strengthen early warning, resilient investments, and financial protection in countries.
	Baseline (11/2016)	Target (11/2020)		
Samoa	50%	80%		
Tonga	30%	70%		
Participating PICs have received payment within a month of the occurrence of a covered (insurance) event.				<u>Pipeline</u> RMI Climate Resilient Coastal Protection Project  PCRAFI Recipient Executed Activities
	Baseline (11/2016)	Target (11/2020)		
RMI	0	100%		
Samoa	0	100%		
Tonga	0	100%		
Vanuatu	0	100%		

### Objective 3.2 Strengthening health systems and addressing NCDs

#### Intervention logic

The Pacific faces an urgent health challenge in the form of non-communicable diseases (NCDs). The top seven most overweight countries in the world are PICs; the prevalence of obesity in adults is high among adults. The transition away from traditional foods and towards high sugar, fat, salt and highly processed imported foodstuffs is a major factor contributing to the increase of NCDs. Diabetes rates are far above those seen in other low and middle income countries. The proportion of premature deaths from NCDs among men and women in the Pacific are far higher than the lower-middle-income country average. In addition to reducing life expectancy and quality of life, NCDs also limit peoples' capacity to lead productive lives and the cost of treatment threatens to overwhelm the budgetary resources.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program																				
<p><i>Health</i></p> <p>Kiribati, Samoa, Vanuatu: Annually completed/updated health public expenditure analysis used to inform policy dialogue</p> <table border="1"> <thead> <tr> <th></th> <th>Baseline (12/2016)</th> <th>Target (06/2018)</th> </tr> </thead> <tbody> <tr> <td>Kiribati</td> <td>Yes</td> <td>Yes</td> </tr> <tr> <td>Samoa</td> <td>No</td> <td>Yes</td> </tr> <tr> <td>Vanuatu</td> <td>Yes</td> <td>Yes</td> </tr> </tbody> </table> <p>Vanuatu: Timely and accurate production of monthly, quarterly, and annual financial reports to inform annual business plan and budget</p> <table border="1"> <thead> <tr> <th>Baseline: (12/2016)</th> <th>No</th> <th>Target: (06/2018)</th> <th>Yes</th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>		Baseline (12/2016)	Target (06/2018)	Kiribati	Yes	Yes	Samoa	No	Yes	Vanuatu	Yes	Yes	Baseline: (12/2016)	No	Target: (06/2018)	Yes					<p><i>Health</i></p>	<p><i>Health</i></p> <p><u>Ongoing</u> DPOs to support health sector reform and specifically, the adoption of fiscal measures to address NCDs</p> <p>Pacific Health Technical Assistance – aims to assist countries and development partners improve health service outcomes in the Pacific islands through more efficient, equitable, and quality expenditure. This includes helping to build a broader base of evidence to inform decision-makers, at both a country and regional level, on how the</p>
	Baseline (12/2016)	Target (06/2018)																				
Kiribati	Yes	Yes																				
Samoa	No	Yes																				
Vanuatu	Yes	Yes																				
Baseline: (12/2016)	No	Target: (06/2018)	Yes																			

		<p>management, financing, and delivery of health care can be improved in a sustainable way.</p> <p><u>Pipeline</u> DPOs to support health sector reform and specifically, the adoption of fiscal measures to address NCDs</p> <p>Financing Programs to Address the PIC NCD Epidemic (tbc)</p> <p>Samoa Health Project (tbc)</p>
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**FOCUS AREA 4: Strengthening the enablers of growth opportunities (macroeconomic management, infrastructure and addressing knowledge gaps)**

Analysis and policy making with respect to poverty reduction and shared prosperity in the PIC9 are severely constrained by the paucity and low quality of data. In particular, none of the PIC9 fields regular household surveys that would allow policy choices to be informed by a good understanding of the poor and the key drivers of poverty. It also constrains the evaluation of which policies have the most impact on poverty reduction. Investment in improved information on the situation of the vulnerable and poor would also be essential to design social protection programs in the PIC9.

**Objective 4.1 Frameworks to improve fiscal management developed and maintained**

**Intervention Logic**

Macroeconomic management affects the welfare of the poorest and most vulnerable through a number of channels. By providing a stable and low-inflationary macroeconomic environment, improved macroeconomic policy can provide a necessary (though not sufficient) condition for sustained growth in aggregate economic activity, which in turn is generally linked to the income growth of the bottom 40 percent. Strengthened public financial management systems are key to improving the management and efficiency of public expenditure. There are important weaknesses in accountability and efficiency in the management of public resources across the PIC9. Establishing systems that build accountability, improve technical and allocative efficiency, and ensure a dependable flow of resources to service delivery units is vital. Improved macroeconomic management would also provide insulation against the effects of exogenous shocks, which tend to hit the B40 hardest, while ensuring that adequate public resources are allocated to welfare-enhancing expenditures on social sectors at all points in the economic cycle. Frequent external shocks pose a significant challenge to macro-economic management and sustainability. In addition, over the RPF period several countries will have to adjust fiscal and macro-economic management to ensure that the increases in revenue from fisheries access fees are well used. FSM and RMI face the additional challenge of adjusting revenue and expenditures in anticipation of a more constrained fiscal environment after the scheduled termination of Compact grants in 2023.

<b>CPF Objective Indicators</b>	<b>Supplementary Progress Indicators</b>	<b>WBG Program</b>
<p><i>Improved Macroeconomic Management</i></p> <p>Kiribati’s Revenue Equalization Reserve Fund is managed according to the prevailing market standards with substantially reduced costs. <u>Baseline:</u> Costs of 0.2 percent (12/2015); <u>Target:</u> Costs of no more than 0.08 percent (12/2018).</p>	<p><i>Improved Macroeconomic Management</i></p>	<p><i>Improved Macroeconomic Management</i></p> <p><u>Ongoing</u> Kiribati Third Economic Reform Development Policy Operation</p>

<p>Tonga: Improve wagebill affordability Indicator: Public wagebill as a proportion of domestic revenue <u>Baseline:</u> 57 percent (06/2014) <u>Target:</u> 53 percent or lower (07/2019)</p> <p>The oversight of the banking sector in Tuvalu in increased. <u>Baseline:</u> No regular monitoring reports (01/2015); <u>Target:</u> Monitoring reports are produced regularly, including information on nonperforming loans, and tabled to the Cabinet for information (12/2019).</p>		<p>Samoa Second Fiscal and Economic Reform Operation Tonga First Inclusive Growth Development Policy Operation Tonga Second Inclusive Growth Development Policy Operation Tuvalu Second Development Policy Operation Tuvalu Third Development Policy Operation <u>Pipeline</u> FSM - Strengthening budget execution and financial reporting Continued DPO engagement (Samoa, Tonga, Tuvalu and Kiribati)</p>
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**Objective 4.2 Increased access to basic services and improved connective infrastructure**

**Intervention Logic**

Disparities in basic services – spanning access to water and sanitation to electricity and information and communication technologies – are particularly pronounced among the PICs. In some PICs in particular, services are often limited to the main islands, while the outer islands, where most of the poor reside, have very limited access. Given the high cost of providing services to populations in remote islands, it is important to close gaps in service provision wherever this is feasible and economical.

In order to support progress against both of the twin goals, infrastructure coverage gaps need to be addressed; much of the population in countries such as Vanuatu, Kiribati, and FSM lack access to basic services like sanitation facilities and electricity. Land transport infrastructure on larger outer islands and outer-island shipping services also need to meet a basic standard. The efficacy of domestic shipping services is quite variable around the region, and it is a priority to address market failures which result in rural areas being cut off by high-cost, infrequent or sporadic shipping services. Improved connectivity and better infrastructure will be critical to help advance the well-being of the people of the Pacific and their access to growth. The most important connectivity improvement for the air tourism sector is to create more convenient flight connections from key markets.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program				
<p><i>Basic Services</i></p> <p>Generation Capacity of Renewable Energy (other than hydropower) constructed in Tuvalu</p> <table border="1" data-bbox="201 1682 716 1749"> <tr> <td>Baseline: (12/2016)</td> <td>0</td> <td>Target: (03/2019)</td> <td>1.13 mw</td> </tr> </table> <p>Kiribati: Number of people provided with access to improved water sources</p>	Baseline: (12/2016)	0	Target: (03/2019)	1.13 mw		<p><i>Basic services</i></p> <p>Ongoing FSM, Tuvalu, Vanuatu: Energy Sector Development Projects Pacific Islands Sustainable Energy Financing Project</p>
Baseline: (12/2016)	0	Target: (03/2019)	1.13 mw			

Baseline: (06/2016)	0	Target: (06/2021) - TBC	62,000 (32,000 female)		Pacific Islands Sustainable Energy Industry Development Project Kiribati Adaptation Project III Vanuatu Rural Electrification Project GPOBA Improved Energy  <u>Pipeline</u> Planned water and sanitation project in Kiribati Vanuatu Rural Electrification Project Stage II RMI Sustainable Energy Development Project Vanuatu Geothermal Energy Development (TBC) FSM AF Energy Project																																													
<p><i>Connective Infrastructure Aviation</i></p> <p>Kiribati, Samoa, Tonga, Tuvalu and Vanuatu: Regulatory certification of safety and security at project airports</p> <table border="1" data-bbox="204 1031 711 1436"> <thead> <tr> <th></th> <th>Baseline</th> <th>Target</th> </tr> </thead> <tbody> <tr> <td>Kiribati</td> <td>No (12/2016)</td> <td>Yes x 2 airports (12/2018)</td> </tr> <tr> <td>Samoa</td> <td>Yes (07/2016)</td> <td>Yes – revalidation (06/2019)</td> </tr> <tr> <td>Tonga</td> <td>No (12/2016)</td> <td>Yes x 2 airports (12/2018)</td> </tr> <tr> <td>Tuvalu</td> <td>No (10/2016)</td> <td>Yes (09/2017)</td> </tr> <tr> <td>Vanuatu</td> <td>Yes (12/2016)</td> <td>Yes – revalidation (06/2019)</td> </tr> </tbody> </table> <p>Airport terminals/runways upgraded or rehabilitated</p> <table border="1" data-bbox="204 1556 711 1835"> <thead> <tr> <th></th> <th>Baseline</th> <th>Target</th> </tr> </thead> <tbody> <tr> <td>Kiribati (Bonriki and Cassidy terminals)</td> <td>No (12/2016)</td> <td>Both terminals upgraded (12/2018)</td> </tr> <tr> <td>Vanuatu (Bauerfield runway)</td> <td>No (12/2016)</td> <td>Bauerfield runway rehabilitated (06/2018)</td> </tr> </tbody> </table>					Baseline	Target	Kiribati	No (12/2016)	Yes x 2 airports (12/2018)	Samoa	Yes (07/2016)	Yes – revalidation (06/2019)	Tonga	No (12/2016)	Yes x 2 airports (12/2018)	Tuvalu	No (10/2016)	Yes (09/2017)	Vanuatu	Yes (12/2016)	Yes – revalidation (06/2019)		Baseline	Target	Kiribati (Bonriki and Cassidy terminals)	No (12/2016)	Both terminals upgraded (12/2018)	Vanuatu (Bauerfield runway)	No (12/2016)	Bauerfield runway rehabilitated (06/2018)	<p><i>Connective Infrastructure Aviation</i></p> <p>Kiribati, Samoa, Tonga, Tuvalu, Vanuatu: Navigation and safety aids fully operational</p> <table border="1" data-bbox="740 1087 1081 1591"> <thead> <tr> <th></th> <th>Baseline</th> <th>Target</th> </tr> </thead> <tbody> <tr> <td>Kiribati</td> <td>10% (06/2016)</td> <td>100% (12/2018)</td> </tr> <tr> <td>Samoa</td> <td>0% (07/2016)</td> <td>100% (06/2018)</td> </tr> <tr> <td>Tonga</td> <td>70% (12/2016)</td> <td>100% (12/2018)</td> </tr> <tr> <td>Tuvalu</td> <td>75% (10/2016)</td> <td>100% (06/2017)</td> </tr> <tr> <td>Vanuatu</td> <td>0% (12/2016)</td> <td>100% (06/2017)</td> </tr> </tbody> </table>		Baseline	Target	Kiribati	10% (06/2016)	100% (12/2018)	Samoa	0% (07/2016)	100% (06/2018)	Tonga	70% (12/2016)	100% (12/2018)	Tuvalu	75% (10/2016)	100% (06/2017)	Vanuatu	0% (12/2016)	100% (06/2017)	<p><i>Connective Infrastructure Aviation</i></p> <p>Kiribati, Samoa, Tonga, Tuvalu, Vanuatu: Pacific Aviation Investment Program (PAIP) – aims to improve operational safety and oversight of international air transport infrastructure.</p>
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<p>Kiribati, Samoa, Vanuatu: Direct project beneficiaries (male/female)</p> <table border="1"> <thead> <tr> <th></th> <th>Baseline</th> <th>Target</th> </tr> </thead> <tbody> <tr> <td>Vanuatu</td> <td>0 (03/2016)</td> <td>14,000 (7,000 female) (06/2021)</td> </tr> </tbody> </table> <p>Roads rehabilitated (km), rural</p> <table border="1"> <thead> <tr> <th></th> <th>Baseline</th> <th>Target</th> </tr> </thead> <tbody> <tr> <td>Kiribati</td> <td>3.48 (06/2016)</td> <td>5.80 (06/2018)</td> </tr> <tr> <td>Tonga</td> <td>24.5 (09/2016)</td> <td>35 (06/2018)</td> </tr> </tbody> </table> <p>Roads rehabilitated (km), non-rural</p> <table border="1"> <thead> <tr> <th></th> <th>Baseline</th> <th>Target</th> </tr> </thead> <tbody> <tr> <td>Kiribati</td> <td>34.8 (06/2016)</td> <td>56 (06/2018)</td> </tr> <tr> <td>Samoa</td> <td>2 (06/2016)</td> <td>33 (04/2019)</td> </tr> <tr> <td>Tonga</td> <td>5 (09/2016)</td> <td>5 (06/2018)</td> </tr> </tbody> </table> <p>No of km of roads under regular road maintenance</p> <table border="1"> <thead> <tr> <th></th> <th>Baseline</th> <th>Target</th> </tr> </thead> <tbody> <tr> <td>Kiribati</td> <td>34.8 (06/2016)</td> <td>56 (06/2018)</td> </tr> <tr> <td>Tonga</td> <td>462 (09/2016)</td> <td>462 (06/2018)</td> </tr> </tbody> </table> <p>Samoa: Bridges rehabilitated to improved standards</p> <table border="1"> <thead> <tr> <th>Baseline:</th> <th>0</th> <th>Target:</th> <th>6</th> </tr> </thead> <tbody> <tr> <td>(06/2016)</td> <td></td> <td>(04/2019)</td> <td></td> </tr> </tbody> </table>		Baseline	Target	Vanuatu	0 (03/2016)	14,000 (7,000 female) (06/2021)		Baseline	Target	Kiribati	3.48 (06/2016)	5.80 (06/2018)	Tonga	24.5 (09/2016)	35 (06/2018)		Baseline	Target	Kiribati	34.8 (06/2016)	56 (06/2018)	Samoa	2 (06/2016)	33 (04/2019)	Tonga	5 (09/2016)	5 (06/2018)		Baseline	Target	Kiribati	34.8 (06/2016)	56 (06/2018)	Tonga	462 (09/2016)	462 (06/2018)	Baseline:	0	Target:	6	(06/2016)		(04/2019)		<p>Samoa: Climate-resilient policies, codes and standards for road construction and maintenance developed and adopted by government.</p> <p>Baseline: Identified (FY17) Target: Adopted (FY20)</p>	<p><u>Ongoing</u> Tonga Transport Sector Consolidation</p> <p>Kiribati Road Rehabilitation Project</p> <p>Samoa Enhanced Road Access Project</p> <p>Samoa Enhancing Climate Resilience-West Coast Road</p> <p>Vanuatu Infrastructure Reconstruction and Improvement Project</p> <p><u>Pipeline</u> Pacific Island Regional Road Safety Project</p> <p>Tonga Rural Roads (tbc)</p>
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<p><i>Connective Infrastructure Maritime</i></p> <p>Regulations in place with improved monitoring enforcement and compliance mechanisms</p> <table border="1"> <thead> <tr> <th></th> <th>Baseline (06/2016)</th> <th>Target (06/2021) - TBC</th> </tr> </thead> <tbody> <tr> <td>Tonga</td> <td>No</td> <td>Yes</td> </tr> <tr> <td>Tuvalu</td> <td>No</td> <td>Yes</td> </tr> </tbody> </table>		Baseline (06/2016)	Target (06/2021) - TBC	Tonga	No	Yes	Tuvalu	No	Yes	<p><i>Connective Infrastructure Maritime</i></p> <p>Number of maritime assets improved for safety/resilience/access (tentative)</p> <table border="1"> <thead> <tr> <th></th> <th>Baseline (06/2016)</th> <th>Target (06/2021) - TBC</th> </tr> </thead> <tbody> <tr> <td>Tonga</td> <td>0</td> <td>3</td> </tr> <tr> <td>Tuvalu</td> <td>0</td> <td>3</td> </tr> </tbody> </table>		Baseline (06/2016)	Target (06/2021) - TBC	Tonga	0	3	Tuvalu	0	3	<p><i>Connective Infrastructure Maritime</i></p> <p><u>Pipeline</u> Maritime Projects Tonga and Tuvalu</p>																										
	Baseline (06/2016)	Target (06/2021) - TBC																																												
Tonga	No	Yes																																												
Tuvalu	No	Yes																																												
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Tonga	0	3																																												
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<p><i>Connective Infrastructure ICT</i></p> <p>Access to broadband Internet Services (number of subscribers per 100 people %)</p> <table border="1"> <thead> <tr> <th></th> <th>Fixed Baseline (06/2016)</th> <th>Fixed Target (06/2021) - TBC</th> </tr> </thead> <tbody> <tr> <td>Kiribati</td> <td>2</td> <td>10</td> </tr> </tbody> </table>		Fixed Baseline (06/2016)	Fixed Target (06/2021) - TBC	Kiribati	2	10		<p><i>Connective Infrastructure ICT</i></p> <p><u>Ongoing</u> Samoa, RMI, Tonga, FSM and Palau Connectivity Projects</p> <p><u>Pipeline</u> Kiribati, FSM (Kosrae) and Tuvalu: Connectivity Projects</p>																																						
	Fixed Baseline (06/2016)	Fixed Target (06/2021) - TBC																																												
Kiribati	2	10																																												

FSM	2	3
Palau	2	3
Tuvalu	3	10

	Mobile Baseline (06/2016)	Mobile Target (06/2021) - TBC
Kiribati	55	60
FSM	1	35
Palau	1	35
Tuvalu	30	45

Reduction in internet wholesale bandwidth price (international bandwidth cost/Mbps (US\$))

	Baseline (06/2016)	Target (06/2021) - TBC
Kiribati	950	<500
FSM	900	141
Palau	650	400
Tuvalu	1,000	<600

Tonga eGovernment Project (tbc)

### Objective 4.3 Address knowledge gaps

#### Intervention Logic

Analysis and policy making with respect to poverty reduction and shared prosperity in the Pacific are severely constrained by the paucity and low quality of data. In particular, none of the PIC9 fields regular household surveys that would allow policy choices to be informed by a good understanding of the poor and the key drivers of poverty. It also constrains the evaluation of which policies have the most impact on poverty reduction. Investment in improved information on the situation of the vulnerable and poor would also be essential to design social protection programs in the PIC9.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program								
<p>Most recent Household Income and Expenditure Survey (HIES) data available for analyzing poverty in RMI and Kiribati are less than five years old</p> <table border="1"> <tr> <td>Baseline: (06/2016)</td> <td>No</td> <td>Target: (06/2021)</td> <td>Yes</td> </tr> </table> <p>Study completed on Outer Island challenges, including an examination of service delivery, infrastructure, migration, connectivity, etc.</p> <table border="1"> <tr> <td>Baseline: (06/2016)</td> <td>No</td> <td>Target: (06/2021)</td> <td>Yes</td> </tr> </table>	Baseline: (06/2016)	No	Target: (06/2021)	Yes	Baseline: (06/2016)	No	Target: (06/2021)	Yes		<p><u>Ongoing</u></p> <p>Pacific Possible Pacific Poverty Programmatic AAA</p> <p><u>Pipeline</u> Outer Island ASA</p>
Baseline: (06/2016)	No	Target: (06/2021)	Yes							
Baseline: (06/2016)	No	Target: (06/2021)	Yes							

## ANNEX 6: Current and Planned Program of Activities by Focus Area

<b>Focus Area 1: Fully exploiting the available economic opportunities</b>		
<b>Objective 1.1 Improved management of oceanic and coastal fisheries</b>		
	<b>Current</b>	<b>Planned</b>
<b>Knowledge</b>	<ul style="list-style-type: none"> <li>Pacific Possible: Harnessing the Riches of the Pacific</li> </ul>	
<b>Financing</b>	<ul style="list-style-type: none"> <li>RMI - PROP (P151760)</li> <li>FSM - PROP (P151754)</li> <li>PIC - Pacific Island PROP (P131655)</li> <li>Tuvalu - PROP (P151780)</li> </ul>	<ul style="list-style-type: none"> <li>Tonga PROP (tbc)</li> <li>Kiribati PROP (tbc)</li> <li>FSM AF for PROP (tbc)</li> <li>RMI AF for PROP (tbc)</li> </ul>
<b>Objective 1.2 Increased incomes from agriculture</b>		
	<b>Current</b>	<b>Planned</b>
<b>Knowledge</b>	<ul style="list-style-type: none"> <li>Programmatic AAA for Pacific Agriculture (P152866)</li> </ul>	<ul style="list-style-type: none"> <li>Competitive Industries and Competition Program – improving competitiveness in the tourism and agriculture sectors (tbc)</li> </ul>
<b>Financing</b>	<ul style="list-style-type: none"> <li>Samoa- Agriculture and Fisheries Cyclone Response (P45938)</li> <li>Samoa - Agriculture Competitiveness Enhancement (P115351)</li> </ul>	<ul style="list-style-type: none"> <li>Samoa Agriculture (tbc)</li> <li>Vanuatu Agriculture/Food Security (tbc)</li> <li>Tonga Maritime Investment Project (P161539)</li> <li>Tuvalu Maritime Investment Project (P161540)</li> </ul>
<b>Objective 1.3 Expanded tourism opportunities</b>		
	<b>Current</b>	<b>Planned</b>
<b>Knowledge</b>	<ul style="list-style-type: none"> <li>Pacific Possible: Host to the World</li> </ul>	<ul style="list-style-type: none"> <li>Competitive Industries and Competition Program – improving competitiveness in the tourism and agriculture sectors (tbc)</li> </ul>
<b>Financing</b>	<ul style="list-style-type: none"> <li>Samoa - Aviation Investment Project (P143408)</li> <li>Kiribati - Pacific Aviation Investment (P128398)</li> <li>PIC - Pacific Aviation Safety Office Reform (P145057)</li> <li>Tonga - Pacific Aviation Investment (P128939)</li> <li>Tuvalu - Pacific Aviation Investment (P128940)</li> <li>Vanuatu - Aviation Investment Project (P154149)</li> </ul>	<ul style="list-style-type: none"> <li>Tonga Maritime Investment Project (P161539)</li> <li>Tuvalu Maritime Investment Project (P161540)</li> <li>Vanuatu Aviation Investment Project Additional Financing</li> </ul>
<b>Focus Area 2: Enhancing access to employment opportunities</b>		
<b>Objective 2.1 Broadened Opportunities for Access to Labor Markets and Economic Activities</b>		
	<b>Current</b>	<b>Planned</b>
<b>Knowledge</b>	<ul style="list-style-type: none"> <li>Australia SWP Development Evaluation (P151959)</li> <li>Pacific Possible: Labor Mobility</li> <li>Pacific Labor Mobility Programmatic AAA (P155609)</li> </ul>	
<b>Financing</b>		<ul style="list-style-type: none"> <li>Tonga Skills for Employment Project (P161541)</li> </ul>
<b>Objective 2.2 Addressing education and skills gap</b>		
	<b>Current</b>	<b>Planned</b>
<b>Knowledge</b>	<ul style="list-style-type: none"> <li>Pacific Early Age Readiness and Learning (P145154)</li> </ul>	<ul style="list-style-type: none"> <li>READing in the PICs (tbc)</li> <li>Gender Disparities – Access, Equity and Quality in Education (tbc)</li> <li>Determinants of secondary school participation (tbc)</li> <li>Transforming Education – The Role of ICT (tbc)</li> </ul>

<b>Financing</b>	<ul style="list-style-type: none"> <li>• Tonga Cyclone Reconstruction (P150113)</li> <li>• Samoa – Enhanced Road Access Project (P145545)</li> <li>• Samoa- Enhancing Climate Resilience-West Coast Road (P126504)</li> <li>• RMI – Pacific Resilience Program (P155257)</li> <li>• PIC - Pacific Resilience Program – SPC (P147839)</li> <li>• PIC – Pacific Resilience Program – PIFS (P155542)</li> <li>• Samoa – Pacific Resilience Program (P154839)</li> <li>• Tonga – Pacific Resilience Program (P154840)</li> <li>• Vanuatu – Pacific Resilience Program (P155256)</li> <li>• Kiribati: GEF Adaptation Phase III (LDCF) (P112615)</li> <li>• Samoa - Enhancing Climate Resilience of Coastal Communities (P126596)</li> <li>• Tonga Cyclone Reconstruction (P150113)</li> <li>• Vanuatu- Increasing Resilience to Climate Change (P112611)</li> <li>• Vanuatu- Mainstreaming Disaster Risk Reduction (P129376)</li> <li>• Vanuatu Reconstruction Project (P156505)</li> </ul>	<ul style="list-style-type: none"> <li>• Tonga Skills for Employment Project (P161541)</li> <li>• Regional READ Project (tbc)</li> </ul>
<b>Objective 2.3 Addressing gender inequality and Gender-Based Violence</b>		
	<b>Current</b>	<b>Planned</b>
<b>Knowledge</b>	<ul style="list-style-type: none"> <li>• Consolidated Country Gender Action Plan (CGAP) for the PIC-9 [produced as part of the RPF exercise]</li> <li>• Mapping exercise of effective methods to combat Gender-Based Violence in PIC9 countries [undertaken as part of the RPF exercise] and guidance note on GBV training in the workplace</li> </ul>	ASA: Work is being undertaken on quantitative and qualitative evidence of social and economic impacts of the Seasonal Worker Program (SWP) on women and men in Tonga and Vanuatu, including gender impacts.
<b>Financing</b>	<u>Gender as cross cutting</u> <ul style="list-style-type: none"> <li>• Samoa Agriculture Competitiveness Enhancement Project</li> <li>• Samoa – Pacific Regional Connectivity Phase III Project</li> <li>• Pacific Resilience Program (PREP)</li> <li>• Tuvalu – Energy Sector Development Project</li> <li>• Vanuatu Aviation Investment Project</li> </ul>	<ul style="list-style-type: none"> <li>• Vanuatu Aviation AF</li> </ul>
<b>Focus Area 3: Protecting incomes and livelihoods</b>		
<b>Objective 3.1 Strengthened preparedness and resilience to natural disasters and climate change</b>		
	<b>Current</b>	<b>Planned</b>
<b>Knowledge</b>	<ul style="list-style-type: none"> <li>• Vanuatu Affordable Resilient Housing Settlements (P157414)</li> <li>• Pacific Possible: Managing increasing stress on Pacific livelihoods</li> <li>• Pacific Disaster Risk Financing (P130347)</li> <li>• PACIFIC CAT RISK ASSESS – PHASE 3 (P130441)</li> <li>• Building Climate and Disaster Resilience (P152037)</li> <li>• Disaster Responsive Social Protection in Pacific (P159592)</li> <li>• Building Climate and Disaster Resilience in the Pacific (P152037)- subtask TA on safer schools</li> </ul>	<ul style="list-style-type: none"> <li>• Climate Vulnerability Assessments for all PIC9 islands to inform areas of priority for the integration of climate and disaster risk into different sectors (tbc)</li> <li>• Analysis of Land Reclamation options in atoll islands (tbc)</li> </ul>
<b>Financing</b>	<ul style="list-style-type: none"> <li>• Pacific Resilience Program</li> <li>• Samoa – Enhanced Road Access Project (P145545)</li> </ul>	<ul style="list-style-type: none"> <li>• RMI Climate Resilient Coastal Protection Project (P160096)</li> </ul>



	<ul style="list-style-type: none"> <li>• Samoa- Enhancing Climate Resilience-West Coast Road (P126504)</li> <li>• RMI – Pacific Resilience Program (P155257)</li> <li>• PIC - Pacific Resilience Program – SPC (P147839)</li> <li>• PIC – Pacific Resilience Program – PIFS (P155542)</li> <li>• Samoa – Pacific Resilience Program (P154839)</li> <li>• Tonga – Pacific Resilience Program (P154840)</li> <li>• Vanuatu – Pacific Resilience Program (P155256)</li> <li>• Kiribati: GEF Adaptation Phase III (LDCF) (P112615)</li> <li>• Samoa - Enhancing Climate Resilience of Coastal Communities (P126596)</li> <li>• Tonga Cyclone Reconstruction (P150113)</li> <li>• Vanuatu- Increasing Resilience to Climate Change (P112611)</li> <li>• Vanuatu- Mainstreaming Disaster Risk Reduction (P129376)</li> <li>• Vanuatu Reconstruction Project (P156505)</li> </ul>	<ul style="list-style-type: none"> <li>• PCRAFI Recipient Executed Activities (P161533)</li> </ul>
<b>Objective 3.2 Strengthening of health systems and addressing NCDs</b>		
	<b>Current</b>	<b>Planned</b>
<b>Knowledge</b>	<ul style="list-style-type: none"> <li>• Pacific Possible: Bending the Non-communicable disease cost curve in the Pacific</li> <li>• Pacific Health TA/AAA (Programmatic, with subtasks for Vanuatu, Kiribati, Samoa) (P153778)</li> </ul>	<ul style="list-style-type: none"> <li>• Financing Programs against the PIC NCD Epidemic (tbc)</li> <li>• What works in the fight against NCDs in Small Island Developing States? (tbc)</li> <li>• The opportunity of tele-medicine in the PICs (tbc)</li> <li>• HR Strategies for Health – A regional approach</li> <li>• Forecasting, Quality, Financing and Procurement of Pharmaceuticals in Small Island Economies (tbc)</li> </ul>
<b>Financing</b>		<ul style="list-style-type: none"> <li>• Financing Programs to Combat the PIC NCD Epidemic (tbc)</li> <li>• Samoa Health Project (tbc)</li> <li>• RMI NCD project (tbc)</li> </ul>
<b>Focus Area 4 (Cross-cutting): Strengthening the enablers of growth and opportunities (macro-economic management, infrastructure and knowledge gaps)</b>		
<b>Objective 4.1- Frameworks to improve fiscal management developed and maintained</b>		
<b>Knowledge</b>	<ul style="list-style-type: none"> <li>• Pacific PEFM Program (P154352)</li> </ul>	<ul style="list-style-type: none"> <li>• Programmatic Public expenditure, public sector, public financial management ASA (tbc)</li> <li>• EFI policy notes series</li> </ul>
<b>Financing</b>	<ul style="list-style-type: none"> <li>• Tuvalu - Supplemental DPO (P156169)</li> <li>• Tuvalu - Second Development Policy Operation (P150194)</li> <li>• Tonga First Inclusive Growth Development Policy Operation (P155133)</li> <li>• Third Economic Reform Development Policy Operation (P155540)</li> <li>• Tuvalu Third Development Policy Operation (P155066)</li> <li>• Samoa - Public Private Partnership Policy TA (P145839)</li> </ul>	<ul style="list-style-type: none"> <li>• Tuvalu - Third Development Policy Operation (P155066)</li> <li>• Samoa -Second Fiscal and Economic Reform Operation (P155118)</li> <li>• Tonga - First Inclusive Growth Development Policy Operation (P155133)</li> <li>• Kiribati - Third Economic Reform Development Policy Operation (P155540)</li> <li>• Tonga E-Government Support Project (P154943)</li> <li>• Samoa Second Fiscal and Economic Reform Operation (P155118)</li> <li>• Tonga Second Inclusive Growth Development Policy Operation (P159626)</li> <li>• FSM – Strengthening budget execution and financial reporting (P161969)</li> <li>• RMI – Strengthening budget execution and financial reporting</li> </ul>

Objective 4.2 Increased access to basic services and improved connective infrastructure		
	Current	Planned
<b>Knowledge</b>	<p><i>Energy</i></p> <ul style="list-style-type: none"> <li>Strengthening the PRDR SE4ALL initiative (P153190)</li> <li>Kiribati - Utility Services Reform TA (P148300)</li> </ul> <p><i>Connective infrastructure</i></p> <ul style="list-style-type: none"> <li>Vanuatu - Telecoms and ICT Development TA (P117720)</li> </ul>	<ul style="list-style-type: none"> <li>Waste Management in the PIC9. (tbc)</li> <li>Maritime Transport – expansion to other countries of pilot study being conducted in Tonga to examine the impact on consumer prices of remoteness and distance, compounded by the lack of proper infrastructure and reliable transport services</li> </ul>
<b>Financing</b>	<p><i>Energy</i></p> <ul style="list-style-type: none"> <li>FSM Energy Sector Development (P148560)</li> <li>Pacific Reg ICT Regulatory Dev. Project (P148238)</li> <li>Pacific Islands- Sustainable Energy Industry Development (P152653)</li> <li>Tuvalu Energy Sector Development Project (P144573)</li> <li>Pac Isl-GEF-Sustainable Energy Finance (P098423)</li> <li>Kiribati: GEF Adaptation Phase III (LDCF) (P112615)</li> <li>Sustainable Energy Industry development (P152653)</li> <li>Institutional and Regulatory Framework [Energy] (P131250)</li> <li>GPOBA Improved Electricity Access (P133701)</li> <li>Vanuatu Energy Sector Development (P145331)</li> <li>Vanuatu Rural Electrification Project (P150908)</li> <li>Tuvalu - Energy Sector Development Project (P144573)</li> <li>FSM - Energy Sector Development (P148560)</li> </ul> <p><i>Connective infrastructure</i></p> <ul style="list-style-type: none"> <li>Tonga - Transport Sector Consolidation (P096931)</li> <li>Kiribati - Road Rehabilitation Project (P122151)</li> <li>Samoa - Enhanced Road Access Project (P145545)</li> <li>Samoa- Enhancing Climate Resilience-West Coast Road (P126504)</li> <li>Vanuatu Infrastructure Reconstruction and Improvement Project (P156505)</li> <li>Samoa - Aviation Investment Project (P143408)</li> <li>Kiribati - Pacific Aviation Investment (P128398)</li> <li>PIC - Pacific Aviation Safety Office Reform (P145057)</li> <li>Tonga - Pacific Aviation Investment (P128939)</li> <li>Tuvalu - Pacific Aviation Investment (P128940)</li> <li>Vanuatu - Aviation Investment Project (P154149)</li> <li>WS: Pac Reg Connect Phase III: Samoa (P128904)</li> <li>Pacific Regional Connectivity Program (P113184)</li> <li>VU Telecommunications &amp; ICT TA</li> <li>Kiribati - Telecoms and ICT Development (P126324)</li> <li>Palau ICT TA Grant</li> <li>FSM - Palau-FSM Connectivity Project (P130592)</li> <li>PIC - Pacific Regional ICT Regulatory Development Project (P148238)</li> <li>Samoa - Pacific Regional Connectivity Phase III (P128904)</li> </ul>	<p><i>Water and sanitation</i></p> <ul style="list-style-type: none"> <li>Kiribati water and sanitation</li> </ul> <p><i>Energy</i></p> <ul style="list-style-type: none"> <li>Vanuatu Rural Electrification Project Stage II (P160658)</li> <li>RMI Sustainable Energy Development Project (P160910)</li> <li>Sustainable Energy Development Project (P160910)</li> <li>Vanuatu Geothermal Energy Development (TBC)</li> <li>FSM AF energy project</li> </ul> <p><i>Connective infrastructure</i></p> <ul style="list-style-type: none"> <li>Tuvalu- Telecommunications and ICT Development (P159395)</li> <li>Tuvalu Maritime Investment Project (P161540)</li> <li>Kiribati ICT (P159632)</li> <li>Tonga Maritime Investment Project (P161539)</li> <li>Vanuatu Aviation Investment Project- Additional Financing (P161454)</li> <li>Pacific Island Regional Road Safety Project (P151159)</li> <li>Pacific Aviation Safety Office Additional Financing (P155066)</li> <li>Samoa Transport (TBC)</li> <li>Tonga E-Government (P154943)</li> <li>Vanuatu ICT (TBC)</li> <li>FSM – Domestic connectivity and demand side applications (TBC)</li> <li>Palau-FSM Connectivity Project: AF Kosrae Connectivity (P161363)</li> <li>RMI Maritime Investment Project (P161382)</li> <li>FSM Maritime Investment Project (TBC)</li> </ul>

	<ul style="list-style-type: none"> <li>• Tonga - Pacific Regional Connectivity Program (P113184)</li> <li>• Marshall Islands- ICT TA Project (P132119)</li> </ul>	
<b>Objective 4.3 - Address knowledge gaps</b>		
	<b>Current</b>	<b>Planned</b>
<b>Knowledge</b>	<ul style="list-style-type: none"> <li>• Pacific Possible: Working Together (enhanced regional and sub-regional cooperation in a number of well-defined areas and a look at the evolving financial architecture in the Pacific).</li> <li>• Programmatic poverty ASA - including (i) supporting countries in implementing HIEs; (ii) preparing poverty profiles and assessments; (iii) preparing policy notes on poverty issues; (iv) supporting project teams in using poverty data to strengthen the link of projects to the twin goals; and (v) capacity building for poverty analysis at the regional level</li> </ul>	<ul style="list-style-type: none"> <li>• Study on WBG support to Outer Islands (service delivery, infrastructure, migration, social issues, and economic analysis for large scale infrastructure). (tbc)</li> <li>• Study on drivers of business success and failures in the Pacific. (tbc)</li> <li>• Country Economic Memorandum for Vanuatu (tbc)</li> <li>• Urbanization trends in the PIC9 - find the right balance between investments in rural and urban areas (tbc)</li> <li>• RMI – HIES (TF)</li> </ul>
<b>Financing</b>		

## ANNEX 7: Development Partners' Areas of Engagement

Area of Engagement	Country and Development Partner								
	Kiribati	RMI	FSM	Nauru	Palau	Samoa	Tonga	Tuvalu	Vanuatu
PFM	WB; ADB; Australia; EU	ADB; US; EU; WB	US; ADB; Australia; IMF	ADB	US; IMF	WB; ADB; Australia; NZ	WB; ADB; EU; Australia; NZ	ABD; Australia	EU; Australia; China; NZ
Energy	WB; EU; Japan; UAE; Italy	Australia; EU; Japan; UN; WB; NZ; UAE; ADB; Taiwan, China	ADB, EU, NZ, UAE	ADB; Australia; Japan; EU; Taiwan, China; NZ.	UAE; ADB; NZ	ADB; NZ	WB; ADB; NZ; Australia; Japan; UAE; China	Japan	EU; WB; IFC; ADB; Australia; Japan; NZ,
Health	Australia; NZ; UN; EU; SPC; WB; ADB	US; WHO; Taiwan, China	US; China	Australia	US; Taiwan, China	ADB; Australia; China; NZ; WB	Australia; WHO; NZ; Japan; China	NZ; Taiwan, China	Australia; UN; WB; France; Japan; NZ
Social Protection	WB	UN		Japan			WB; ADB; Australia; NZ; UNDP; China; IFAD	WB	WB
Water and sanitation	ADB; EU; NZ; Australia	Australia; US; ADB; Japan		Australia; Russia; Taiwan, China.	ADB; Japan	EU	ADB; Japan; EU	EU	ADB; Australia; Japan
Agriculture	IFAD; Taiwan, China; GEF; FAO; SPC; SPREP	Taiwan, China; FAO	China; SPC	Australia	Taiwan, China	ADB; WB	WB; Australia; NZ; China; FAO; IFAD	Taiwan, China	EU; Australia; France; Japan; China; NZ
Transport	WB; ADB; Japan; Australia; SPC; Taiwan, China.	Japan; Taiwan, China	ADB; Japan; China	ADB; Japan; Australia; NZ	ADB; Taiwan, China	WB; ADB; Japan; China	ADB; Australia; China; WB	ADB; NZ	IFC; Australia; Japan; US; NZ
Public Administration		ADB	ADB	ADB; Australia	ADB		WB; ADB; Australia; NZ; EU		
Environment (natural resources)		Taiwan, China; WB, UN	Australia; SPC; UN, WB		SPC; UN; PEW Trust	WB; ADB	Japan; NZ; Australia; China; Japan	Australia; Japan; NZ; TANGO	EU; WB; UN; Australia; Japan
Education		ADB; US	Japan; US; China	Australia	US; Japan	WB; ADB; Australia; NZ; China	WB; Australia	Australia; EU; Japan; NZ	EU; WB; ADB; Australia; France; Japan; NZ,

Area of Engagement	Country and Development Partner								
	Kiribati	RMI	FSM	Nauru	Palau	Samoa	Tonga	Tuvalu	Vanuatu
Private Sector Development		ADB; UN; US	US		ADB	ADB; IFC; NZ	WB; Australia; NZ; UNESCO,		EU; WB; ADB; Australia
Financial Sector Development		ADB; UN; US		ADB	WB	WB; ADB; Australia; NZ	ADB; WB; IMF; PIFTAC	Australia; ADB	EU; UN; WB, Australia
Disaster Risk Management	WB	ADB; Japan; Taiwan, China; UN; US; WB, IOM	US; Japan; SPC; IOM; UN	Australia	UN; IOM; US, SPC	WB; Australia	WB; Japan; China; Australia; NZ	Australia; Japan; NZ; UN; TANGO	
Human resources		EU; Japan; Taiwan, China; UN; US	ADB		Japan; Taiwan, China; US		MFAT; Australia	Australia, NZ	
Gender	UN; Australia	UN; Australia	Australia		SPC	UN	UNDP; Australia; NZ	Australia	EC; WB; UN; Australia; Japan; NZ
MFM (incl. budget support)	ADB; Australia; WB; NZ	ADB; IMF; US; WB; EU	ADB; IMF; US; WB		IMF; US	ADB; Australia; New Zealand; WB		ADB; Australia; EU; NZ; Taiwan, China	
Infrastructure/Rural/Community Development	WB	EU; Japan; UN; US; Taiwan, China	ADB; Japan	ADB; Australia	ADB; Japan	ADB; WB	ADB; WB; Australia; China; Japan		
ICT	WB	WB	ADB; WB	ADB	ADB; WB	WB; ADB	WB; ADB; Japan; China	WB; ADB; NZ	
Tourism	Australia; Japan; Taiwan, China		ADB		ADB; PEW Trust		NZ; EU		
Skills	Australia	EU	Australia	EU			Australia; NZ; WB		
Solid waste management		Japan	Japan		Japan	ADB; IFC	ADB		

## ANNEX 8: Regional Institutions in the Pacific Islands

1. **PIFS: The Pacific Islands Forum Secretariat** was set up in 1971. It is the Secretariat to the annual Pacific Island Forum meeting of Pacific leaders. At the Forum, leaders agree on priorities for the region as part of the Pacific Plan. The Secretariat's approximately 100-member staff is based in Suva, Fiji.
2. **CROP: The Council of Regional Organizations in the Pacific** is an inter-organizational consultative process that aims to prevent either overlaps or gaps between the work programs of its various members.
3. In addition to the Forum Secretariat, the members of CROP are:
  - **FFA: The Pacific Islands Forum Fisheries Agency** is an advisory body established to help countries sustainably manage their fishery resources. FFA provides expertise, technical assistance and other support to its members, who make sovereign decisions about their tuna resources and participate in regional decision making on tuna management. It is based in Honiara, Solomon Islands.
  - **PASO: The Pacific Aviation Safety Office** is a regional international organization overseeing advising on aviation safety and security regulations in the Pacific Islands using guidelines provided by in accordance with the International Civil Aviation Organization (ICAO) Standards and Recommended Practices. PASO was established on 11 June 2005 through the Pacific Island Civil Aviation Safety and Security Treaty, and is based in Port Vila, Vanuatu. PASO comprises ten Member States: the Cook Islands, Kiribati, Nauru, Niue, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu; as well as three Associate Member States: Australia, Fiji, and New Zealand. All developing member countries of PASO have agreed to regulatory harmonization with the New Zealand Civil Aviation Regulations.
  - **PIDP: The Pacific Islands Development Programme** was established in 1980 to assist Pacific islands leaders in advancing their collective efforts to achieve and sustain equitable social and economic development consistent with the goals of the Pacific islands region's people. PIDP began as a forum through which island leaders could discuss critical issues of development with a wide spectrum of interested parties. It is based at the East-West Center in Honolulu, USA.
  - **PPA: The Pacific Power Association** is an inter-governmental agency to promote the direct cooperation of the Pacific island power utilities in technical training, exchange of information, sharing of senior management and engineering expertise, and other activities of benefit to the members. Its headquarters are located in Suva, Fiji.
  - **SPC: The Secretariat for the Pacific Community** is a regional intergovernmental organization that serves 22 Pacific Island countries and territories through technical assistance, policy advice, training and research. It operates in a wide range of sectors with the aim of achieving three development outcomes – sustainable economic development, sustainable natural resource management and development, and sustainable human and social development. Its headquarters are in Noumea, New Caledonia.

- **SPTO: The South Pacific Tourism Organisation**, established in 1983 as the Tourism Council of the South Pacific, has as its mission to market and develop tourism in the South Pacific. It has 18 government members and maintains a head office in Suva, Fiji.
- **SPREP: The Secretariat of the Pacific Regional Environment Programme** promotes the protection and sustainable development of the Pacific region's environment. It is based in Apia, Samoa.
- **USP: The University of the South Pacific** is a provider of tertiary education in the Pacific region and an international center of excellence for teaching, research, consulting, and training in all aspects of Pacific culture, environment, and human resource development needs. Established in 1968, USP is jointly owned by the governments of 12 member countries: Cook Islands, Fiji, Kiribati, RMI, Nauru, Niue, Solomon Islands, Tokelau, Tonga, Tuvalu, Vanuatu, and Samoa. The university has campuses in all member countries.

4. **The Pacific Islands Private Sector Organisation (PIPSO)**. PIPSO was established in 2007 to promote the private sector's role in policy making and to encourage business development through effective partnerships with governments, regional organizations, development partners and NGOs. Its headquarters are in Suva, Fiji. PIPSO is a regional umbrella organization whose members are mainly national private sector organizations from each of the fourteen Pacific Islands Forum countries, together with that from American Samoa. It aims to assist members to formulate national private sector strategies and to advocate the interests of the private sector and also provides business development services for the Pacific.

5. **Pacific Island Development Forum (PIDF)**. PIDF, based in Suva, Fiji, was established in 2013 seeks to bring together leaders from the public and private sectors and civil society to address regional development challenges. Member states of PIDF include Fiji, Federated States of Micronesia, Kiribati, Marshall Islands, Nauru, Solomon Islands, Tonga and Vanuatu.

## **ANNEX 9: Country Annexes**

### **FEDERATED STATES OF MICRONESIA (FSM)**

#### **Sociopolitical and Institutional Factors**

1. A sovereign country since 1986, FSM is a voluntary federation of four semi-autonomous states, each with its own executive and legislative bodies and considerable autonomy to manage its domestic affairs. Most public services are delivered at the state level. The loose federation structure presents challenges for decision making, building consensus, and implementing national reforms or programs. FSM maintains deep ties and a cooperative relationship with the USA, with which it has a Compact of Free Association that provides yearly financial transfers to FSM and permits open migration to the USA, among other arrangements. Compact financing includes “Compact sector grants” (which help sustain the delivery of public services) and contributions to the Compact Trust Fund (CTF), which was established to replace the Compact sector grants when they terminate at the end of FY2023. Fiscal adjustments are required over the next seven years as Compact sector grants come to a close. It will be a major challenge to carry out those adjustments without reducing the quality of public service delivery or limiting access to services—especially to the poorest 40 percent of the population. The open migration allowed under the Compact provides opportunities for overseas employment, which can generate remittances to support households in FSM. The drawbacks of migration is that it depopulates poorer parts of the country, increases the dependency ratios among those who remain, and reduces the economy’s long-run productive potential.

#### **Recent Economic Developments and Outlook**

2. Economic activity in FSM consists primarily of subsistence farming and fishing and depends heavily on external assistance. Real GDP declined by 3.6 percent in FY2014 (ending September 30) following a 3.4 percent contraction in FY2013. GDP declined in each of the four states in both fiscal years for the first time since GDP was recorded. This contraction is largely explained by the decline in domestic fisheries and construction. Domestic fisheries declined during the period because much of the fishing fleet underwent maintenance. Employment dropped by 4.1 percent, with private sector employment falling by 7.7 percent and public employment by 2.1 percent. Construction declined because of delays in implementing some infrastructure projects, and the completion of the majority of airport improvement projects funded by the USA. Inflation continued to decline from the recent peak in FY2011 to around to -0.2 in FY2015, as food and fuel prices decreased.

3. FSM achieved an estimated fiscal surplus of US\$35.6 million (or 11.2 percent of GDP) in FY2014. The surplus was largely explained by the rising fishing license fees) and a one-time payment associated with the captive insurance market. A portion of the surplus was invested into the FSMs own Trust Fund to support the 2023 transition. Tax receipts, excluding one-off revenue, remain low compared to regional peers, at around 12percent of GDP. Legislation supporting the tax reform initiative (including the proposed introduction of a value-added tax) failed to pass. The fiscal outturns also differed significantly between the FSM national and state governments. The national government ran a surplus of US\$42.9 million, while all states recorded small deficits, amounting to US\$7.3 million. The FSM state governments, where service delivery occurs, have been constrained by the declining real value of Compact grants, while the national government has



benefited from booming revenues from fishing fees and, to a lesser extent, the one-time payment from the captive insurance market, both of which are mostly kept at the national level. Should this level of surplus persist in the medium term, its accumulation in the FSM Trust Fund, the Compact Trust Fund or an alternative fund could buffer against volatilities in the financial markets and reduce the pending fiscal shortfall after FY2024, when the Compact of Free Association grants are scheduled to end.

4. The current account reached an estimated surplus equivalent to 6.8 percent of GDP in FY2014 (from a deficit of 9.9 percent in FY2013), mainly due to the income associated with the one-time captive insurance industry payment. Excluding that payment, the current account deficit would have narrowed to 7.7 percent of GDP in FY2014. The weakness in the economy and falling fuel prices are reflected in weak imports, which fell by 11 percent compared to FY2013. On the other hand, strong fishing license fees continued to support the decline in the trade deficit in FY2013 and FY2014. The current account deficit is expected to remain at around 10 percent of GDP in the medium term, largely financed by the inflow of official transfers. The 2015 Debt Sustainability Analysis also found FSM to be at a high risk of debt distress, although tax- and growth-enhancing reforms could help contain debt risks while ensuring the country's development needs are met.

### **Poverty and Shared Prosperity**

5. FSM has the highest estimated rates of poverty among the PIC9. Estimates from the 2013/14 HIES suggest that 17 percent of the population lives below the internationally comparable Extreme Poverty consumption benchmark of US\$1.90 per person per day (in 2011 PPP terms). The situation appears to have deteriorated since 2005, when Extreme Poverty was estimated at 11 percent (although the comparability of consumption aggregates is limited by changes in the methodology over time). The national basic-needs poverty line derived from the 2013/14 HIES sets a higher welfare benchmark than the international Extreme Poverty standard, implying 41 percent of the FSM population struggles to meet basic needs (with 10 percent living on consumption levels below the food poverty line).

6. Multidimensional indicators suggest a more positive long-term trend in well-being, however. Between 2005 and 2013, the proportion of households with no access to electricity fell from 32 percent to 24 percent and the proportion of dwellings without sanitary facilities fell from 46 percent to 21 percent.

7. There is stark regional variation in poverty across the Federation. Basic-needs poverty is both most common and most severe in Chuuk (with a national basic-needs poverty rate of 46 percent), followed by Pohnpei and Yap (each with a headcount rate of 39 percent), while it is somewhat lower in Kosrae (21 percent). Poverty in Pohnpei and Yap reflects a particularly high cost of living, while the cost of living is relatively low in Chuuk, suggesting poverty there (as measured by real consumption levels) reflects lower incomes, or more modest subsistence production levels.

8. Multidimensional indicators on access to electricity, improved water sources, schools, and assets in general suggest deprivation is most widespread in Chuuk (though Yap has a much higher proportion of households with poor-quality housing, and also a higher proportion with no improved sanitation). In general, the incidence of basic-needs poverty is higher for larger households; it is lower for households headed by a male, for households with a more highly

educated household head, and for households where the head is employed in the public sector. The national Gini coefficient on nominal per capita consumption across the population is estimated at 0.43, but no estimates currently exist on the changing income share of the B40 over time.

## **Development Agenda**

9. FSM faces challenges in securing economic growth and sustainability in the medium to long term. Growth is expected to remain below 1 percent in the medium term, and the expiration of Compact sector grants poses a major challenge to the economy. In the short to medium term, declining public sector demand from the reduction in Compact sector grants is expected to act as a drag on economic growth. Limited private sector growth is not expected to fully offset this effect. Remoteness from major markets and the small scale of the economy make it costly to operate, difficult to attract foreign investors, and challenging to retain skilled workers. These circumstances could limit the government's ability to provide services to its citizens, with negative effects on living standards. The current trajectory of the Compact Trust Fund is not on track to fully offset expiring U.S. grants after FY2023, although the FSM Trust Fund will partially offset the shortfall. In this context, the risk of lower than anticipated trust fund returns underscores the importance of strengthening fiscal buffers.

10. Pursuing the goals of poverty reduction and shared prosperity in FSM—in line with the government's own objectives—will require the government to find new opportunities to generate revenue and growth to create jobs and provide equitable benefits to society. Pursuing those goals will also require expenditures to be managed effectively to ensure that essential services reach a wide share of the population, with a focus upon the poor and underserved. To support that approach, FSM must build a stronger evidence base on poverty to target resources to address particular needs.

11. Strengthening economic infrastructure and improving the investment climate are central to fostering economic growth and protecting service delivery as FSM prepares for the 2023 transition. The upgrading of airports supported by the USA will be completed in 2017. A slowdown in the implementation of infrastructure projects affects the living standards of the population and medium-term economic outlook. Investments and policy reforms to enhance ICT, energy, and transport infrastructure are important government priorities. With the support of IFC, in 2013 FSM developed an action plan to facilitate investment. The plan focuses on fostering economic growth and sustainable development by improving the business climate and enhancing the financial literacy of the private sector, which should in turn build the confidence of financial institutions to lend to the private sector. Implementation has remained stagnant.

12. On the other hand, FSM has significant opportunities to increase the economic return on its natural resources. The country's substantial endowment of natural resources includes its natural beauty (an asset for tourism) and fisheries. Despite having the world's best diving site (situated in Chuuk), poor infrastructure, land tenure issues, the weak investment climate, and vested interests impede development of the tourism sector. The Exclusive Economic Zone (EEZ) also happens to be situated in one of the world's last viable tuna fisheries. Efforts to extract a higher economic return from this fishery has increased revenues and savings in recent years, but more could be done.

13. The open access of FSM citizens to the USA under the Compact is another economic opportunity that could be better utilized to benefit both nations. The key to facilitating migration,

however, is to provide an adequate education to produce a qualified and appropriately skilled labor force.

### **National Strategy and Its Key Pillars/Focus**

14. The government's vision for achieving economic growth is detailed in the FSM Strategic Development Plan (SDP) 2004–2023, completed in 2004. This plan, an output of the Third FSM Economic Summit held in 2003, reflected the input of more than 400 participants with a wide range of perspectives from the government, traditional leaders, industry, and civil society. The growth strategy focuses on six key areas: (i) macroeconomic stability; (ii) good governance; (iii) developing an outward-oriented, private sector-led economy; (iv) investing in human resources (improved health and education services); (v) investing in infrastructure; and (vi) long-term environmental sustainability. Recognizing the importance of women's contributions to the future of FSM, the SDP devotes an entire chapter to gender.

15. The national government have recently developed updated strategy documents collaboratively with the four states that draw from align and in some cases replace sections of the SDP and also provide an updated focus reflecting changes in the country's environment since 2003. These include the Overseas Development Assistance (ODA - 2015) policy; the Infrastructure Development Plan (IDP 2016-2023) which replaces volume III of the SDP and the 2023 Action Plan (2015) – a three year plan focusing on the economic sectors and the enabling environment; other strategy documents include State level strategic plans and the Joint National/State Action Plans (JNAP). The ODA has six nationwide priority areas (1) Food and water security; (2) Health – diagnostic facilities; (3) Renewable Energy; (4) Private Sector Support Facility; (5) Infrastructure 2016- 2023; (6) Health and Education - (to be endorsed by congress in early 2017).

### **World Bank Group Program**

16. The World Bank program has been developed through consultations with national and state governments and key stakeholders, it is aligned with the strategic documents of the FSM to support their development needs and provides a balance of working at the national and state level.

17. During the CPF period, the indicative areas of engagement in FSM include:

- Improving electricity supply and efficiency while setting the stage to increase the use of renewable energy;
- Improving connectivity through enhancing telecommunications access and affordability and improving the safety and sustainability of maritime services;
- Supporting the government prepare for the 2013 Transition for Compact Sector Grants to funding from the CTF through strengthened PFM systems; improving the targeting of service delivery; and increasing sustainably the revenue from fisheries;
- Enhancing food security and livelihoods for communities through coastal fisheries and improved connectivity.

## ACTIVE PROJECTS

Project ID	Project Name	Date, Board App	Rev Closing	Net Comm (\$m)	% Disb	Lst DO	Lst IP
<a href="#">P148560</a>	Energy Sector Development Project	05/29/2014	07/31/2018	14.40	31.8%	S	MS
<a href="#">P151754</a>	PROP for Federated States of Micronesia	12/22/2014	09/30/2020	5.50	9.4%	S	S
<a href="#">P130592</a>	Palau-FSM Connectivity Project	12/17/2014	01/31/2020	47.50	13.4%	MS	MS

## INDICATIVE PROGRAM FY17-21 (INDICATIVE – TBC)

Project Name	IDA (US\$ million) <sup>14</sup>	Year
Palau-FSM Connectivity Project Additional Financing	14	FY17
Strengthening Budget Execution and Financial Reporting	7-9	FY18
ICT: Demand Side Applications/Domestic Connectivity (tbc)	16-17	FY18
Energy Sector Development Project II (tbc)	16-17	FY19
Regional Maritime (tbc)	16/17	FY20/21
PROP (Fisheries) Additional Financing (tbc)		FY20/21
Total	66-71	

## ADVISORY SERVICES AND ANALYTICS

Product Line	Project Name	Delivery Date
P151797	Poverty Analysis	FY17

## Development Partners

18. The Bank will work collaboratively with other partners during the implementation of the program. For PFM, the Bank will focus on strengthening the financial management and reporting systems and associated business processes which will complement the broader PFM reform efforts underway by the IMF and the EU. The current Energy project will provide government with a framework to coordinate and prioritize investments by the government and development partners such as the EU, NZ and ADB and the follow on Bank project. Financial support provided by the USG is programmed through the FSM government's budget and planning process or directly provided by US federal agencies. It is primarily focused on the sectors of education, health and infrastructure. There may be opportunities during the CPF period for collaboration particularly in the area of ICT demand side applications such as e-health/telemedicine for example.

<sup>14</sup>All figures are indicative and will be dependent upon final project design, confirmed IDA allocations and subject to exchange rate fluctuations of SDR to USD.

# KIRIBATI

## Recent Economic Developments and Outlook

1. Growth in Kiribati has been strong and is expected to remain above-trend this year. Real GDP growth reached an estimated 3.7 percent in 2014 and around 3.4 percent in 2015, driven by donor-financed infrastructure projects (in the road, port, and aviation sectors) and an increase in credit to households. Inflation has remained below 2 percent as lower food and commodity prices offset the pressures from the higher domestic demand and weaker Australian dollar. Despite large trade deficits (40–47 percent of GDP over the last five years), the current account balance has remained in a large surplus thanks to record fishing license fee revenue paid by foreign companies to fish in Kiribati’s vast Exclusive Economic Zone and, to the lesser degrees, steady remittances and investment incomes from the Revenue Equalization Reserve Fund (RERF), Kiribati’s sovereign wealth fund. The fishing license fee revenue recorded AUD 198 million in 2015, about 90 percent of GDP and more than double the level seen in 2013, driven by the favorable El Nino effect, the implementation of the Vessel Day Scheme (a regional agreement that establishes the minimum price of a vessel day and limits the total number of vessel and fishing days sold) and the appreciation of the US dollar against the Australian dollar. Reversing the decades’ trend of continual drawdowns, the government made a net transfer of AUD 50 million to the RERF in 2015. The new government which came in power in March 2016 made the decision to transfer additional AUD 70 million to the RERF to safeguard intergenerational equity.

2. The outlook remains positive, although the fishing license fee revenue is expected to come down from recent peaks with changing climate cycle and migration patterns of tuna. Growth is expected to gradually moderate toward the potential growth, averaging around 2-3 percent per year, but commencement of new major infrastructure projects with development partners, if materializes, will shift upward the medium term growth forecast. Risks to the outlook includes disorderly slowdown in China, which could result in growth in Asia Pacific Region and could negatively affect fishing license fees and seamen’s remittances. A heightened volatility in global financial markets—in response to an interest rate hike by the United States government, for example—could have a negative impact on returns to RERF assets. Making the RERF sustainable to protect the country’s overall economic stability remains a key policy challenge, given Kiribati’s large structural trade deficits, highly volatile fishing license revenues, and large spending needs to address widespread poverty and the severe infrastructure backlog.

3. Kiribati remains at high risk of debt distress, according to the latest IMF/ World Bank Debt Sustainability Analysis. As of end-2015, public domestic debt was estimated at 2.4 percent of GDP, while gross public external debt was estimated at about 22 percent of GDP. The assessment of high risk of debt distress reflects Kiribati’s limited capacity to take on debt, given its low potential growth and narrow export base. Containing the risk requires securing grants rather than concessional loans to finance the country’s large development needs, invest in physical and human capital to raise productivity, diversify exports, and raise long-term growth.

## Poverty and Shared Prosperity

4. Poverty estimates for Kiribati are among the highest in the region, although they are based on results of the HIES, last conducted more than 10 years ago. A new HIES is slated for 2017, and the World Bank is engaged in a coordinated dialogue to support this effort. In 2006, 14 percent of

the population lived in extreme poverty, according to the international benchmark of per capita consumption of 2011 PPP US\$1.90 per day. The national welfare benchmark is implicitly somewhat more generous; 22 percent of i-Kiribati were estimated to be living below the national basic-needs poverty line in 2006 (with 5 percent below the food poverty line).

5. Estimates in the SCD (from the 2006 HIES) indicate a nationwide Gini coefficient on per capita nominal consumption expenditure across the population of 0.38, which is relatively low by Pacific standards. Estimates of the incidence of national basic-needs poverty are comparable across South Tarawa and the rest of the Gilbert Islands (24 and 22 percent, respectively, in 2006), but considerably lower (9 percent) in the far flung Phoenix and Line Islands, home to roughly 10 percent of the population. Drawing on the 2006 HIES data, 2010 census data, key informant interviews, and focus group discussions with i-Kiribati, a recent analysis by Australia's Department of Foreign Affairs and Trade (DFAT)<sup>15</sup> highlights differences in the nature of hardship in the capital compared to the islands. Residents of South Tarawa tend to have limited access to land and are more likely to have health issues from poor water, sanitation, and overcrowding. At the same time, they derive greater benefit from remittances from seafaring and salary incomes (which contribute 71 percent of their household income, compared with 35 percent for households on the islands). Households on the islands tend to have a larger share of young and old members, as well as poorer access to education, health, and communication services. While food security is relatively robust for people living outside the capital, natural resources (including potable water) are increasingly under strain.

## **Development Agenda**

6. **Strengthening assets and capabilities of the bottom 40 percent.** The most important asset of the poor is human capital, and education and health are its main determinants. Apart from nearly achieving universal primary education, Kiribati has not achieved any of the Millennium Development Goals (MDGs). Progress toward the health MDGs is particularly poor; Kiribati has the region's highest under-five, infant, and maternal mortality rates. Better access to water and sanitation is necessary to achieve the health MDG outcomes. With donor support, the government is investing in infrastructure.

7. **Improving public sector effectiveness.** Kiribati's economy is dominated by the public sector, which accounts for as much as 50 percent of GDP and nearly 80 percent of jobs in the formal sector. The private sector remains small, mostly consisting of small firms in the wholesale, retail, and transport sectors. The country has 24 state-owned enterprises (SOEs) operating in sectors where private firms would normally be expected in other countries—including hotels, shipping, inter-island transport, and retailing. The private sector has struggled to make inroads in many of these areas in part because of inherent diseconomies of scale, high costs, and severe infrastructure deficits (roads, ports, and airports). The public provision of goods and services through SOEs has resulted in limited supply or coverage and high costs, despite huge fiscal costs.

8. **Creating jobs and economic opportunities.** Public sector employment and traditional seafaring cannot be the solution to high and rising unemployment, with an estimated 2,000 young people entering the labor market each year. While expectations about the viability of the private sector need to be realistic, Kiribati's potential for private sector growth has not been fully exploited because of the difficult investment climate. In the near term, expanding employment opportunities

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<sup>15</sup> Kiribati Program Poverty Assessment 2014.

through seasonal work in other countries provides the best opportunity for many i-Kiribati, most of whom rely on the government’s expensive copra subsidy scheme. Given the country’s unique disadvantages—distance, high costs of air transport, and lack of the colonial ties that give other PIC9 countries some level of migration or trade with Australia, New Zealand, and the USA—special windows may need to be negotiated bilaterally with the host countries.

### National Strategy and Its Key Pillars/Focus

9. Kiribati has recently launched its 5-year National Development Plan (2016–19). The plan focuses on 6 key priority areas — human resource development, economic growth and poverty reduction, health, environment, governance and infrastructure.

### World Bank Group Program

10. The World Bank program has been developed through wide consultations with government and key stakeholders, it is fully aligned with the Kiribati Development Plan and builds on recommendations from the SCD. MoF will continue to be instrumental in ensuring the program is aligned with government priorities and is endorsed by the leadership and the Kiribati Fiduciary Services Unit will be further strengthened in the RPF period to assume a stronger role in the implementation of projects financed by the World Bank as well as other development partners.

### ACTIVE PROJECTS

Project ID	Project Name	Date, Board App	Rev Closing	Net Comm (\$m)	% Disb	Lst DO	Lst IP
<a href="#">P155540</a>	Third Economic Reform DPO	09/13/2016	12/31/2017	2.00	0.0%		
<a href="#">P112615</a>	Kiribati: GEF Adaptation Phase III (LDCF)	09/15/2011	02/28/2018	10.70	58.1%	MS	MS
<a href="#">P122151</a>	Kiribati Road Rehabilitation Project	03/01/2011	06/30/2018	29.65	90.2%	MS	MS
<a href="#">P128938</a>	Pacific Aviation Investment - Kiribati	12/13/2011	12/31/2018	30.01	30.3%	MS	MS
<a href="#">P126324</a>	KI: Telecomms and ICT Development	07/26/2012	06/30/2017	1.00	72.2%	S	S

### INDICATIVE PROGRAM FY17-21 (TBC)

Project Name	IDA (US\$) million <sup>16</sup>	Year
Pacific Regional Connectivity Program Phase 4	20	FY17
Water and Sanitation (tbc)	14-15	FY18
Fourth Economic Reform Development Policy Operation	5	FY18
PROP Fisheries (tbc)	14-15	FY19
Development Policy Operation	5	FY19
Regional Maritime (tbc)	10-15	FY20
Development Policy Operation	5	FY20
Total	73 - 80	

<sup>16</sup> All figures are indicative and will be dependent upon final project design, confirmed IDA allocations and subject to exchange rate fluctuations of SDR to USD

## **Development Partners**

11. The Bank will continue to work collaboratively with other partners during the implementation of the program, seek synergies where applicable and avoid overlaps in sectors where others have a comparative advantage. In the ICT sector, the World Bank will work closely with ADB to bring a high speed fiber optic cable to the country (linking Nauru and FSM as well). A water and sanitation investment for Tarawa and potentially the outer islands will similarly be undertaken in partnership with ADB. Cooperation will continue with Australia, especially in the area of climate resilience and synergies will be sought to complement planned efforts with New Zealand in support of the fisheries sector. Building on the ongoing renewable energy project, the World Bank will collaborate with partners to prioritize investments by the government and development partners. There may be opportunities during the RPF period for collaboration particularly in the area of maritime investments in the outer islands, where any engagement will be closely coordinated with the EU, which is channeling significant support to Christmas Island.



## **REPUBLIC OF THE MARSHALL ISLANDS (RMI)**

### **Sociopolitical and Institutional Factors**

1. Along with other North Pacific Islands, the RMI was consolidated into the Trust Territory of the Pacific Islands governed by the USA during the Second World War. The Marshall Islands became self-governing in 1979 and achieved formal independence in 1986. Upon independence, it entered into the original Compact of Free Association with the USA; the Compact provides regular financial transfers to the RMI.
2. The RMI is governed as a mixed parliamentary-presidential system. General elections are held every four years with each of 24 constituencies electing one or more representatives (Senators) to the lower house of the bicameral legislature (Nitijela). The President, and Head of State, is subsequently elected by the 33 senators. The upper house (Council of Iroij) is an advisory body comprising 12 tribal chiefs.
3. The RMI maintains deep ties with the USA, and although it is gradually reducing its reliance on the USA with the tapering off of Compact sector grants, capacity remains thin. In FY2004, the amended Compact came into effect. Under this agreement, the RMI receives yearly financial transfers in the form of Compact sector grants, which have greater accountability requirements. RMI initially struggled to adjust to the new requirements, partly due to capacity issues. The amended Compact also comes with financing in the form of contributions to the Compact Trust Fund (CTF), which will replace the Compact sector grants when they terminate at the end of FY2023. Unlike many other countries that rely on development assistance, the RMI experiences higher certainty with respect to the flow of resources under the Compact arrangements. Capacity is gradually being built, as the country transitions from Compact dependency, although it remains thin. The RMI also enjoys an open migration policy for citizens to go to the USA, although this has also contributed to depopulation, reducing the productive potential of the economy.

### **Recent Economic Developments and Outlook**

4. The public sector dominates the Marshallese economy, accounting for approximately half of GDP, and transfers to SOEs have been a significant drain on public resources. The size of the public sector partly reflects the inability of a very small country to exploit economies of scale in public administration and service provision. Agriculture and fisheries are the main economic activities, contributing a little over one-fifth of GDP, with small-scale service industry such as wholesale and retail trade constituting the remainder of the economy. With private sector development limited by remoteness, small market size, SOE dominance in some sectors and a weak business climate, growth is highly dependent on government spending and fiscal policy overall. Because RMI has no central bank and uses the US dollar as its national currency, fiscal policy is the only tool for macroeconomic management. Government revenues are dominated by foreign grants (generally Compact related) and characterized by a narrow tax base. With Compact sector grants scheduled to expire in FY2023, the RMI needs to capitalize its trust fund adequately to sustainably support government spending at reasonable levels in the long term.
5. Economic growth recorded a positive, but lackluster performance in FY2015 (ending September 30) with a 0.6 percent increase in GDP, an improvement over the previous year's decline of 0.9 percent. However, the economy was largely flat; fisheries output was unchanged on

the prior year as well as construction activity, which remained at low levels reflecting the continuing absence of Compact infrastructure grant usage. While activity in the wholesale and retail trade fell, financial intermediation and education services showed signs of growth. Reflecting the large reductions in international fuel prices, inflation as recorded through the CPI, fell by 2.2 percent, but by the first quarter of 2016 had returned to positive territory.

6. Preliminary data for FY2015 indicates the RMI achieved a fiscal surplus in FY2015 equivalent to 2.9 percent of GDP. Tax revenues grew by 6 percent, which mainly reflected a significant increase in ship registry fees. Without the ship registry fees, tax revenues grew by 0.5 percent reflecting the weak growth in the economy. Receipt of grants grew although use of the Compact infrastructure grant fell. A large increase of \$3.5 million was recorded in the use of fishing royalties. The major growth item of expense was a large increase in subsidy payments to the SOE sector of \$5.6 million. Transfers to local government's also increased by \$1.5 million.

7. A joint World Bank-IMF debt sustainability analysis conducted in November 2013 concluded that RMI is at high risk of debt distress. The country's vulnerability to debt distress is exacerbated by contingent liabilities associated with subsidies to poorly performing SOEs, unfunded pension liabilities, and the lack of fiscal buffers.

### **Poverty and Shared Prosperity**

8. The quantitative data available on the incidence of poverty in RMI are extremely limited but suggest that poverty is a serious issue. The last HIES (in 2002) identified an official national income poverty rate of 53 percent. Some sources have suggested incorrectly that 20 percent of Marshallese live in extreme poverty, but that is incorrect.<sup>17</sup> The World Bank is working with the government to prepare a new HIES for 2016/17 to gather updated information.

9. According to 1999 census data, the Gini coefficient for the distribution of household-level cash income in RMI was 0.54 (note that this figure is not comparable with measures of inequality that reflect the value of consumption per capita). An ADB and Asia Foundation report issued in 2006<sup>18</sup> concluded that the consequences of long-term economic stagnation included social and health problems such as crime, domestic violence, unemployment, malnourishment, and substance abuse. A 2009 report by the World Health Organization cited evidence of increasing poverty and hardship in RMI.<sup>19</sup> Government revenue and expenditure policies to counter existing inequalities have not achieved the expected objectives and could be strengthened through more effective execution and monitoring. The problem is acute in the outer islands, which are isolated from the mainstream and experience extremely limited access to capital or opportunities and poor service delivery (especially in health and education). The incidence of squalor and inequality appears to be increasing in urban areas; the traditional social bonds and extended family ties that provided some protection against poverty appear to be weakening. On the positive side, whereas past survey data suggested a net outflow of remittances to support emigrants to the USA (many of whom were

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<sup>17</sup> This figure appears to be based on government estimates from the 1999 census, which indicated that about one-fifth of all households had cash incomes below US\$1 per day. This benchmark is not directly comparable to the Extreme Poverty line, which was set during 1999 at total consumption (including subsistence) valued at 1993 PPP US\$1 per day per person.

<sup>18</sup> Ahmad and Weiser (2006).

<sup>19</sup> Marshall Islands: Demographics, Gender, and Poverty Report, 2009.

reportedly living below the US poverty line), anecdotal evidence suggests that remittance inflows have started to pick up in recent years.

### **Development Agenda**

10. Pursuing the goals of poverty reduction and shared prosperity in RMI—in line with the government’s own objectives—will require additional reforms and political will. Political will is required to advance critical reforms such as restructuring SOEs and address the key issues of SOE governance, efficiency, pricing policies, and cross-subsidization. Such reforms could reduce the drain on public resources, which could then be redirected to priority areas, including poverty reduction. Poverty data could be strengthened to inform government and development assistance and enhance development outcomes.

11. To weather future shocks, including climate related ones, the RMI needs to build a sufficiently large fiscal buffer. RMI faces many vulnerabilities, including substantial fiscal risks from SOEs and the social security system, the sizable public debt (one of the highest among the PICs), the expiration of most Compact grants after FY2023, uncertainty about Compact Trust Fund returns, and future costs from climate change. To secure longer-term sustainability, the government needs to build a sufficiently large fiscal buffer, yet the rising revenues from higher fishing license fees have not translated to higher savings in recent years but rather to increased subsidies and transfers.

12. The public sector of the RMI plays an important role in service delivery, economic growth, development, and sustainability. An effective government is therefore critical to ensure efficiency, effectiveness, accountability of public expenditure, and adequate service delivery to the poor. Strengthening public sector capacity, PFM, and transparency and accountability are some of the channels which could support a more effective government.

13. The education sector could be strengthened. Adequate and correctly oriented education to produce an appropriately qualified labor force could help facilitate increased economic opportunities, including through open migration (labor market access) under the Compact, and contribute to reducing poverty. Other social issues, such as malnutrition, gender-based violence, and high rates of teenage fertility could also be addressed through programs in the school system. Consultations in RMI highlighted the high levels of teenage pregnancies as a key factor influencing women’s likelihood of obtaining employment and remaining out of poverty.

14. As part of improvements to public service provision, SOE reforms should be a priority. The limited data on access to essential services such as water, energy and telecommunications suggest that a significant proportion of the population remains without access to these essential services due to remoteness or high cost. SOEs are likely to continue to play a role in providing essential services, given RMI’s unique market structure, but services should be provided in an efficient manner and not crowd out the private sector. Advancing SOE restructuring by addressing the key issues of governance, efficiency, pricing policies, and cross-subsidization could reduce the drain on public resources, which could be reoriented to priority areas, including poverty reduction. Where applicable, reforms to increase private sector participation should also be considered.

### **National Strategy and Its Key Pillars/Focus**

15. Vision 2018, the RMI national strategic development plan, aims to achieve a “country within an interdependent world, with enhanced socio-economic self-reliance, and an educated,

healthy, productive, law abiding and God-loving people.” The strategic development framework, drafted in 2001, addresses ten challenges essential to fulfilling the vision. Recently, drawing on Vision 2018, the government introduced a three-year RMI National Strategic Plan 2015–17 (NSP) to improve quality of life in all areas, including health, education, energy, food security, law and order, gender equality, employment opportunities, and disaster mitigation. The NSP Vision considers both the RMI Constitution and Vision 2018; its objective is to achieve “Sustainable, Equitable and Measurable Development Reflecting the Priorities and Culture of the Marshallese People.” Coordinated with the RMI planning and budgeting cycle, the NSP is designed as a three-year rolling plan that government leaders will use as the roadmap for development and progress in the medium term (2015–17), it includes five sectors: (1) Social Development; (2) Environment, Climate change and Resilience; (3) Infrastructure Development; (4) Sustainable Economic Development; and (5) Good Governance. The plan will be updated continually to meet longer-term objectives as the RMI moves toward scheduled completion of the Compact in 2023.

16. The new government (January 2016) has developed Agenda 2020: A Framework for Progress (Agenda 2020) that identifies the major national challenges and priority reforms to be addressed by Government toward the year 2020. It aims to strengthen the results-focus, proactively address the most pressing problems, and develop a culture of customer service in the public sector.

### World Bank Group Program

17. The World Bank program has been developed through wide consultations with government and key stakeholders, it is fully aligned with the NSP, will support many of the key actions identified in the Agenda 2020 and builds on recommendations from the SCD. MoF has been instrumental in ensuring the program is aligned with government priorities and is endorsed by the leadership. The Division of Interational Development Assistance (DIDA) within the MoF has been established to coordinate and facilitate development programs of the multi-lateral agencies to ensure complementarity. DIDA will be a key a partner during implementation with it providing centralized coordination and fiduciary support.

### ACTIVE PROJECTS

Project ID	Project Name	Date, Board App	Rev Closing	Net Comm (\$m)	% Disb	Lst DO	Lst IP
<a href="#">P151760</a>	PROP for Marshall Islands	12/22/2014	09/30/2020	8.58	10.4%	S	MS
<a href="#">P155257</a>	Pacific Resilience Program - RMI	06/19/2015	11/30/2020	1.50	66.7%	S	S
<a href="#">P132119</a>	ICT Technical Assistance Grant	08/07/2013	08/15/2018	.95	10.5%	MU	MU

### INDICATIVE PROGRAM FY17-21 (TBC)

Project Name	IDA (US\$ million) <sup>20</sup>	Year
Pacific Resilience Program Phase II – RMI	20	FY17
Sustainable Energy Development Project	25-30	FY18
Strengthening Budget Execution and Financial Reporting	6-7	FY18

<sup>20</sup> All figures are indicative and will be dependent upon final project design, confirmed IDA allocations and subject to exchange rate fluctuations of SDR to USD

Regional Maritime Project	15-17	FY20
PROP (Fisheries) Additional Financing (tbc)	7-8	FY19
Total	73-81	

#### ADVISORY SERVICE ANALYTICS

Project ID	Activity Name	Delivery
P151797	Household Income and Expenditure Survey and Analysis	FY18

#### Development Partners

The Bank will work collaboratively with other partners during the implementation of the program. For PFM, the government have identified large needs in this area and have sought support from both ADB and the World Bank and are ensuring complementarity with our engagement, the ADB will provide ongoing support to strengthening SOE performance and monitoring. The Government are proactively coordinating donor support to the energy sector, the Bank's support will complement proposed and ongoing activities by New Zealand, ADB, EU and JICA. SPC and the Bank will work jointly with the government on the HIES. The Bank's proposed project for resilience will help strengthen coordination of actors engaged in this area, in addition the project design is such that the government will work with and draw on experience from SPC, PIFs and IOM during implementation. The support provided by the USG is programmed through the RMI government's budget and planning process or directly provided by US federal agencies. It is primarily focused on the sectors of education, health and infrastructure. There may be opportunities during the RPF period for collaboration particularly in the area of NCDs.

## **REPUBLIC OF NAURU**

### **Sociopolitical and Institutional Factors**

1. The Republic of Nauru (formerly known as Pleasant Island), located in Micronesia, has a population of about 9,378 residents on 21 square kilometers, making it the smallest state in the South Pacific. A German colony in the 19<sup>th</sup> century, Nauru was administered by Australia, New Zealand, and the United Kingdom following the First World War. During the Second World War, Nauru was occupied by Japanese troops. After the war, it entered again into trusteeship until gaining independence in 1968.
2. Nauru was among the world's richest countries during the late 1960s and early 1970s. Its wealth was generated by exports of phosphates, but primary deposits have now been exhausted and mining of secondary deposits has resumed only recently. While revenues from phosphate mining were invested in a trust fund to help provide for Nauru's economic future, the fund lost value due to poor investment decisions, and heavy government spending depleted it further.
3. In April 2014, the government applied for membership in IMF and IBRD. (The Articles of Agreement require a country to become a member of the IMF before joining the WBG.) Nauru was admitted as a member of the IMF and IBRD on April 12, 2016.

### **Recent Economic Developments and Outlook**

4. The Government of Australia maintains a Regional Processing Centre (RPC), opened in 2001 and designed for up to 800 people, to process applications of asylum seekers who have attempted to enter Australia by boat. The RPC and phosphate mining are currently the only industries generating significant revenue and employment opportunities in Nauru. Establishment of the RPC was accompanied by a pledge from the Government of Australia of A\$20 million for development activities. The center was closed in 2008, but reopened in August 2012. In July 2013 several buildings were destroyed by fire during a riot.
5. The resumption of phosphate mining in 2011, the reopening of the RPC in 2012, and an increase in revenues from fishing licenses have spurred economic activity, created jobs, and provided substantial fiscal revenues in recent years. Estimates indicate that real GDP grew by around 25 percent annually over the four years to FY2014, boosted by phosphate exports and various activities (hotels, construction, trade, transport) related to operating the RPC. Nauru's economy is estimated to have contracted in FY2015 after damage to port facilities disrupted phosphate exports (which declined by two-thirds) as well as imports of fuel and other supplies.
6. Government revenues fluctuate depending on visa fees from the RPC, fishing license fees, collection of customs duties, and revenues from phosphate mining. Relatively high revenues in recent years have allowed the authorities to repay salary and rental arrears and raise the wage bill to prevent public servants leaving for the RPC, which offers higher salaries. In FY2015, however, the fiscal balance deteriorated, mainly on account of lower phosphate revenues.
7. Nauru is facing enormous challenges in sustaining growth and ensuring fiscal and debt sustainability over the medium term. The biggest challenge is to diversify the economy beyond reliance on phosphate and the RPC, neither of which is sustainable in the long run. Without substantial fiscal adjustments, the decline in visa fees after the RPC scales down over the medium-term will jeopardize fiscal sustainability. To help build fiscal buffers, the government established

an Intergenerational Trust Fund in 2015, which will be capitalized with contributions from development partners and windfall revenues and is intended eventually to provide a stable source of budget financing.

8. Nauru's seaport is antiquated and has been dysfunctional, hampering trade and creating frequent fuel shortages. The power infrastructure is nearly at the end of its life, resulting in power outages. Health infrastructure is limited, while Nauru has the highest obesity rate in the world and about 40 percent of the population age 45 and above has diabetes.

### **Poverty and Shared Prosperity**

9. No estimates of poverty according to the internationally comparable PPP benchmarks (2011 PPP US\$1.90 and US\$3.10 per person per day) are available for Nauru. A poverty analysis based on the 2012/13 HIES estimated that 24 percent of households were living on expenditure levels below a national basic-needs benchmark (but zero percent below the food poverty line). A Gini coefficient of 0.52 is also reported, based on the per capita distribution of expenditure, which is very high by Pacific and global standards.

10. Children and young people are among the most vulnerable groups in Nauru. This is in part because poorer households tend to have a significantly larger number of children than better-off households. Moreover, less than half of young people aged 15 to 29 are employed by government or the private sector, while a relatively high proportion of the remainder (students and young people who are unemployed or engaged in unpaid family work) have consumption below the basic-needs benchmark.

11. In general, poverty in Nauru is primarily characterized by a lack of opportunities, socioeconomic exclusion, and/or inadequate resources to meet cash needs. Because of the limited area of arable land, agriculture consists largely of fishing, with minimal subsistence agriculture. Households are relatively dependent on imported food and consumer goods, and thus vulnerable to price volatility. Nauru is just one island, so access to local public services—at least in physical terms—is generally equitable. Reach and/or quality of service provision appears to have improved over time by some measures, but health and education outcomes remain poor. In the decade leading to 2011, the net primary school enrolment rate increased from 70 percent to 95 percent, although enrolment rates for children of secondary-school age are much lower at 68 percent. Between 2001 and 2011, the infant mortality rate declined from 89 to 21 per 1,000. Nonetheless, poor quality diets, low levels of physical activity, and high rates of smoking and alcohol consumption have contributed to levels of NCDs that are among the highest in the world.

### **Development Agenda**

12. Nauru is IBRD's newest and smallest member country. Nauru does not intend to apply for membership with IDA or any other WBG institution at this time. Nauru's two critical sources of foreign exchange (phosphate mining and the RPC) and are unlikely to be sustainable revenue sources from which to repay a long-term IBRD loan. Any IBRD loan would have to be secured by significant credit enhancements via "ring fencing" foreign exchange future cash flows for the repayment of IBRD. Given Nauru's high per capita GDP of \$11,394, it does not qualify for IDA funding, even under the small states exception.

13. Nevertheless, through its IBRD membership, Nauru would be able to access various trust funds administered by the Bank including those which support increasing resilience to climate

change and natural disasters. Nauru may also qualify for support through regional projects, such as regional maritime support for the ports sector as well as regional aviation support for the rehabilitation of the country's runway.

### **National Strategy and Its Key Pillars/Focus**

14. The Republic of Nauru has a long-term National Sustainable Development Strategy (NSDS) that sets out policies and plans to 2025. The 2005 NSDS, updated in 2009, developed Nauru's long-term vision for 'a future where individual, community, business and government partnerships contribute to a sustainable quality of life for all Nauruans'. The NSDS focusses upon 'partnerships for quality of life' and sets out five long term goals for Nauru:

1. Stable, trustworthy, fiscally responsible government
2. Provision of enhanced social, infrastructure and utilities services
3. Development of an economy based on multiple sources of revenue
4. Rehabilitation of mined out lands for livelihood sustainability
5. Development of domestic food production

### **World Bank Group Program**

15. Due to its recent membership of the World Bank, Nauru does not as of yet have a World Bank program. As a result of the constraints posed by the inability of Nauru to access IDA and IBRD financing, the program will rely on the possibilities to mobilize trust fund resources for the country as well as encouraging Nauru's inclusion in regional projects, where possible using resources from other development bilateral and multilateral development partners or identifying opportunities for IBRD financing through guarantee schemes or engagements that would provide the appropriate credit enhancement.

### **Development Partners**

16. The World Bank will work closely with other partners, including Australia, ADB and Japan during RPF period to identify opportunities for support to the Government of Nauru. Support will be opportunistic and limited to those areas where resources can be mobilized for investments or technical assistance despite the constraints on the World Bank's ability to provide IDA or IBRD financing.



# REPUBLIC OF PALAU

## Sociopolitical and Institutional Factors

1. Palau is a representative democratic republic in which the president is both head of state and head of government. The country is a de facto non-partisan democracy; currently it has no political parties, although no law prevents the formation of political parties. Executive power is exercised by the government. Legislative power is vested in both the government and the Palau National Congress. The judiciary is independent of the executive/legislature.

2. A sovereign country since 1994, Palau maintains deep ties and a cooperative relationship with the USA. The Compact of Free Association between the USA and Republic of Palau, which entered into force in 1994, provided several types of assistance aimed at promoting Palau's economic advancement and eventual self-sufficiency. In addition to establishing Palauan sovereignty and USA–Palau security and defense arrangements, the Compact provided economic assistance which comprised, among other things, direct economic assistance for 15 years to the Palau government; the establishment of a trust fund intended to provide Palau US\$15 million annually from 2010 through 2044; investments in infrastructure, including a major road; and the provision of federal services, such as postal, weather, and aviation services. The Compact also established a basis for United States agencies to provide discretionary federal programs related to health, education, and infrastructure. Provisions under the proposed September 2010 agreement between the United States and Palau governments, among other things, extended economic assistance to Palau beyond the original 15 years and included modified trust fund arrangements. The bill to approve the Agreement has not yet been passed by the United States Senate, however, and an interim agreement is put forward to Congress each year.

## Recent Economic Developments and Outlook

3. Unlike many other PICs, Palau has a thriving tourism sector, but the unpredictability of tourist arrivals complicates economic management. Tourist arrivals depend greatly on external factors and are influenced by global economic performance, which has caused significant volatility in the growth of Palau's tourism sector over the past decade. In this context, it becomes difficult for the government to ensure a consistent level of service delivery and living standards for its citizens. An added complication is that Palau has no central bank or monetary policy and uses the US dollar as its national currency, so fiscal policy is the only lever to respond to shocks.

4. Economic growth surged to an estimated 8.0 percent in FY2014 (ending September 30) following an unexpected rise in tourist arrivals from China, with new foreign investment also contributing to growth. The bigger than expected rise in tourism arrivals (which was supported by expanded accommodation capacity) was partly due to new air links with Hong Kong SAR, China. In the first half of CY2015, tourist arrivals had grown by 40 percent compared to the same period in 2014, again driven by increased arrivals from China. Arrivals from Palau's traditional tourism markets such as Japan and Taiwan, China are declining, so Palau's dependence on a single tourism market (China) is increasing. Continued strengthening of the US dollar and uncertainty in the Chinese economy pose risks to the tourism sector. Inflation continued to moderate, falling from 4 percent in FY2014 to 0.4 percent in the second quarter of CY2015, driven by stable international food and falling fuel and utility prices. The current account deficit widened from 8.75 percent of GDP in FY2013 to 13 percent of GDP in FY2014, largely owing to tourist arrivals and construction

related imports. A fiscal surplus equivalent to 1.25 percent of GDP is estimated for FY2014. Tax revenue continued to rise, thanks to increases in the volume and rates of tourism-related taxes, higher prices in the tourism industry, and improved tax compliance. Recurrent expenditure, on the other hand, fell owing to careful management of the public sector. With the scheduled end of Compact grants in FY2024, fiscal adjustment remains necessary over the medium term to build adequate government deposits and ensure long-term fiscal sustainability.

### **Poverty and Shared Prosperity**

5. No estimates of poverty according to the internationally comparable 2011 PPP benchmarks (US\$1.90 and US\$3.10 per person per day) are available for Palau, but extreme poverty is likely very rare. GNI per capita in Palau is high relative to other small PICs, and the inequality implicit in the distribution of consumption is around the middle of the range for the region (estimates from the 2006 HIES suggest the national Gini coefficient is 0.39 for the distribution of nominal per-capita expenditure across the population). One in four people in Palau live below the national basic-needs poverty line according to analyses of the 2006 HIES (though reportedly food consumption was considerably underreported in this survey, so the welfare benchmark is difficult to interpret). In any case, poverty and hardship in Palau do not mean hunger or destitution, but in a high-cost society which enjoys a comparatively high standard of living, people do sometimes struggle to meet their cash needs. Reliance on subsistence production is apparently relatively low compared to many other Pacific countries (the 2006 HIES suggests only 13 percent of the value of household food consumption derives from subsistence), which leaves households vulnerable to international food price shocks. Malnutrition is also widespread due to a poor quality diet, and the incidence of obesity is high. As in many Pacific countries, educational attainment provides some protection against hardship through its association with higher levels of consumption (particularly for households where the head has a post-secondary education), as well as increased migration opportunities to the USA.

### **Development Agenda**

6. The rise in tourist arrivals should be managed to ensure sustainability and translated into improved lives for the Palauans. In FY2014, Palau experienced a 13.4 percent increase in tourist arrivals (largely because numbers of Chinese tourists doubled from FY2013 levels), and an additional 1,000 new rooms are needed to satisfy demand going forward. Although rising tourism can increase government revenues, the domestic value added from this new source of tourism is expected to be limited, given that the structure of the value chain for packaged tours may not have trickled down to Palauans. The government has the opportunity to increase the domestic content of tourism and to introduce policies that would foster more equitable distribution of tourism revenues to its people. A careful balance between tourism growth and the impact on environment and culture also needs to be established to ensure the sustainability of the industry.

7. Other priority areas for strengthening the tourism industry are to address human resource planning and management issues and labor laws. Palau has a service-based economy, requiring well-trained people to serve the tourism market. Private sector employers have highlighted the difficulty of hiring Palauans due to their lack of skills and work ethics. Foreign labor in the interim has supplemented the domestic labor force. On the other hand, open migration to the USA, partly as a result of uncompetitive domestic wages, has resulted in a “brain drain.” The inadequate number of professionals being produced locally also increased the need for foreign labor to fill the

gap. As the tourism industry expands, the government is conscious of the need for a comprehensive labor policy. One way of retaining more of the tourism dollar domestically is through further training of the domestic workforce to increase their participation. Strengthening and tailoring vocational training programs and increasing the quality of education (up to secondary) are two potential avenues to increase domestic workforce participation. A comprehensive labor act to provide fair compensation, safe working conditions, and labor protection to all could help to protect employees and improve the business climate. The initiative to improve foreign workers' flexibility to switch jobs would also improve productivity and promote inclusive growth.

8. Improving investment and the business climate would help to diversify the economy, reduce economic vulnerability, and support growth. The expansion of basic infrastructure, such as water and sanitation systems, is essential to develop the tourism industry and ensure its long-term sustainability. Although Palau compares favorably to peers, further improvement in the road network, aviation connectivity arrangements, and telecommunications infrastructure would support economic diversification and enhance growth potential. Weak enforcement of the existing foreign investment laws has resulted in continued foreign investment with limited domestic value added and limited requirements for investors to protect the environment. Simplification of the investment approval process and opening all business activities to foreign investment through joint ventures could also support economic growth.

9. Finally, significant fiscal challenges remain. The fact that the renewed Compact has not been endorsed definitively by the USA Senate creates uncertainty about a key source of inflow. The renewed Compact, while favorable in comparison to the alternative (no renewal), includes a declining level of nominal resources. Another consideration is that the CTF has not been designed as a perpetual fund (it is meant to supplement the budget until 2044), and additional resources must be found to maintain the real level of public services. To address these challenges, the government could consider increasing revenue through the adoption and implementation of a modern tax regime; reducing expenditures through more efficient delivery of services; or growing the economy by capturing a greater share of the tourism dollar.

### **National Strategy and Its Key Pillars/Focus**

10. The Republic of Palau has a long-term National Master Development Plan (NMDP) that sets out policies and plans to 2020. The NMDP is a comprehensive document covering virtually all sectors, institutions, and policies in Palau that were relevant at the time it was initiated (1996). The vision established in the NMDP was “to substantially enhance the quality of life of Palauans and future generations of Palauans.” An important limitation of the NMDP, is that it provides limited guidance on priorities to reach Palau’s long term goals, hence a medium term development strategy (MTDS) described as *Actions for Palau’s Future* was formulated to address these weaknesses. The MTDS sets out the key strategies and actions to help achieve economic, social, environmental and cultural goals over a five-year period 2009 – 2014. It is consistent with the NMDP 2020 but takes into account change in circumstance and legislative and policy development. The overall goal of the MTDS is a *sustained and widespread improvement in general standards of living while preserving cultural and environmental values*. Five Priority Policy Actions have been identified to ensure meaningful focus and effective commitment these are: (1) Agriculture and Fisheries; (2) Tourism (3) Infrastructure; (4) Private Sector Development; and (5) Sustainable Government.

## **World Bank Group Program**

11. Palau has been a member of the Bank since 1997, and is classified as an IBRD eligible country. However, any IBRD loan would have to be secured by significant credit enhancements via “ring fencing” foreign exchange future cash flows for the repayment of IBRD. Through its IBRD membership, Palau is also able to access various trust funds administered by the Bank including those which support increasing resilience to climate change and natural disasters. The Bank’s program with Palau is focusing on support in three important areas, including support to address challenges with their national payment systems, technical assistance for the ICT sector specifically to support the regulatory reforms needed in this sector and allow Palau to maximize the benefit from the upcoming cable project. The Government has also asked for assistance in the area of public private partnerships with a focus on strengthening the enabling environment.

### **ACTIVE PROJECTS**

TA for National Payment systems (BE)

### **PIPELINE**

ICT TA Grant (RE)

TA for Public private partnerships (tbc)

## **Development Partners**

12. As a result of the constraints posed by the inability of Palau to access IDA or IBRD resources the Bank will work closely with other development partners to identify areas of opportunity to provide support to Palau. The Bank is working closely with ADB on the Palau-FSM connectivity project, ADB is providing the financing for the Palau portion of the project and WB is providing the financing for the FSM portion. The WB is also providing complementary technical assistance to Palau to support the implementation of the cable project, through TF resources made available from DFAT.

# INDEPENDENT STATE OF SAMOA

## **Sociopolitical and Institutional Factors**

1. Since gaining independence from New Zealand in 1962, Samoa has been a stable democracy. The Human Rights Protection Party has been in power for most of the past 30 years, most recently winning office in March 2016 with a five-year mandate. The World Bank has had a longer relationship with Samoa than any other Pacific island country, and the scope of this engagement has grown in recent years. Samoa's Country Policy and Institutional Assessment score is one of the highest among the Bank's Pacific Island member states and among all IDA borrowing countries. Strong policy settings for almost two decades have resulted in MDG outcomes and economic performance well above the average for comparable island countries. Samoa is a very cohesive and structured society, with a strong traditional culture.

## **Recent Economic Developments and Outlook**

2. From the mid-1990s until the late 2000s, Samoa was the star economic performer in the Pacific, pursuing structural reforms that helped to increase growth to an average of over 4 percent in the decade to 2008, and prudent fiscal policies that significantly reduced public debt from a peak of over 100 percent of GDP in the late 1990s. The events of recent years have highlighted the disadvantages facing even island states such as Samoa that are small and remote but perform well—particularly the fact that the economy remains narrowly based and highly vulnerable to external shocks. The Samoan economy contracted in 2009 as a result of the cumulative effects of the 2008 food and fuel price spikes, the global slowdown, and a devastating tsunami in September 2009. A major cyclone in December 2012 added to pressure on the fiscal position and balance of payments.

3. Samoa's response to these shocks, including expansionary monetary policy and a significant fiscal stimulus, provided a solid foundation for the economy to recover, while expanding its productive capacity in the medium term. Growth has picked up modestly over the last few years, initially supported by construction activity and more recently by tourism earnings, remittances, and lower fuel prices. Economic growth is projected to continue in the medium term at an average rate of around 2 percent, supported by increases in tourism and agriculture, although the exit of a major manufacturer in 2017 will temporarily lower growth.

4. As a result of continued fiscal deficits and only modest economic growth, Samoa's external public debt as a proportion of GDP has increased quite rapidly in recent years, from around 30 percent at end FY2008 to about 55 percent at end December 2015, well above the authorities' medium-term target of 50 percent of GDP. Looking ahead it is important that fiscal consolidation proceeds as planned to ensure overall sustainability and sufficient buffers to respond to future external shocks.

## **Poverty and Shared Prosperity**

5. Extreme poverty is very rare in Samoa. Estimates from the 2008 HIES suggest that less than 1 percent of the population lives below the internationally-comparable 2011 PPP US\$1.90 extreme poverty line, and 8 percent below the 2011 PPP US\$3.10 poverty line—both well-below small PIC averages. Using national poverty lines, food poverty was assessed to be rare in 2008, with only 5 percent living below the food poverty line, a significant decline from the 2002 HIES.

On the other hand, 27 percent of the population reportedly experienced basic-needs poverty in 2008, with the incidence marginally higher than average in Apia and marginally lower than average in the less-populated island of Savai'i, although the incidence of poverty in rural areas may have been understated. This rate is a modest increase from the previous 2002 estimate (23 percent), although these numbers are not strictly comparable over time due to the use of a relative poverty line. A more recent HIES was conducted in late 2013 and early 2014, and while summary tables have been released, poverty estimates are not yet available.

6. Estimates from the SCD suggest that inequality in Samoa is higher than in other small PICs, with a Gini coefficient on the population distribution of per capita nominal consumption of 0.43 as at 2008. Moreover, incomes of the B40 are estimated to have deteriorated slightly relative to average incomes nationwide in the preceding years.

### **Development Agenda**

7. Given the constraints posed by smallness and remoteness, prospects for longer-term economic development in Samoa are likely to depend significantly on greater economic integration with neighbors, maximizing the gains from tourism and agriculture, and continued external remittance and aid flows. Samoa already has a significant expatriate population in New Zealand, the USA, and Australia, although further labor market integration, including through increases in short-term employment opportunities, offers potential benefits for both Samoa and receiving countries. Better transport and communication links (including improvements in broadband connectivity) could mitigate the cost of distance and encourage integration, as can aligning and harmonizing regulatory rules and standards.

8. Tourism is an important contributor to the economy of Samoa, with its distinctive geographical and cultural features allowing it to charge premium prices that cover its relatively high production costs. Although visitor earnings were equivalent to around one-fifth of GDP in 2015, Samoa's tourism industry remains underdeveloped in comparison with some of its neighbors, and hence a critical priority is to strengthen it. Agriculture (particularly coconut products and fishing) is extremely important from a livelihood point of view—it is the main activity for about one-third of the economically active population—with the potential for future growth dependent on improving supply links to the tourism sector, pursuing other opportunities for import substitution, and developing niche markets.

9. Given the recent increase in debt, the need to build fiscal buffers, and the need to ensure the longer-term sustainability of public finances, it is very important that fiscal consolidation proceed as planned in the period ahead, including through a sustained focus on ensuring value-for-money across all public sector expenditure. As well as ensuring allocative efficiency and sound public expenditure management, it will be important to continue structural economic reform to improve Samoa's competitiveness and encourage longer-term growth. Opportunities for greater private sector development remain, particularly by contracting out operation and maintenance services currently performed by SOEs. Further structural reforms could also help to increase access to finance and encourage new investment.

10. Compared with other lower-middle-income countries, Samoa performs relatively well on measures of life expectancy and infant and maternal mortality rates. These gains are being offset by the increased prevalence of NCDs such as diabetes, heart disease, and stroke, which now account for around 70 percent of all deaths. An effective strategy to target NCDs is essential,

including through the reorientation of health expenditures toward prevention and primary care. While Samoa has made significant gains in boosting the accessibility of education in recent years, the focus now needs to shift toward improving its quality by implementing professional standards, increasing training, and providing incentives for teachers to improve their qualifications.

11. Natural disasters pose a substantial risk in Samoa, while climate change is a major long-term threat. Vulnerabilities are compounded by the fact that 70 percent of Samoa’s population and infrastructure are located in low-lying coastal areas. Continued efforts are necessary to “climate proof” roads and protect coastlines, including through the development of a coordinated national climate adaptation plan.

### **National Strategy and Its Key Pillars/Focus**

12. The Government is currently in the process of finalizing an updated Strategy for the Development of Samoa (SDS), which will cover the four-year period from FY2017 to FY2020. The theme of the new SDS will be “accelerating sustainable development and creating opportunities for all,” which emphasizes the national commitment to revitalizing sustainable, pro-poor growth while rebuilding buffers to help protect the economy from the effects of future shocks. While the priorities—economic sustainability and business development, improved education and health outcomes, better access to infrastructure, and climate and disaster resilience—are in line with the existing SDS, there is an increased focus on public-private partnerships as a means of promoting investments for social and economic developments, and an explicit attempt to integrate climate resilience and disaster management into each of the priority areas.

### **World Bank Group Program**

13. The World Bank partnership with Samoa predates that of any other Pacific island country. The current program therefore builds upon a strong engagement and experience implementing projects in the country. It has been developed through wide consultations with government and key stakeholders, it is fully aligned with the SDS and builds on recommendations from the SCD. MoF has been instrumental in ensuring the program is aligned with government priorities and is endorsed by the leadership. The program also builds on strong liaison with other development partners, avoiding duplication of their ongoing efforts and collaborating where possible.

#### **ACTIVE PROJECTS**

<b>Project ID</b>	<b>Project Name</b>	<b>Date, Board App</b>	<b>Rev Closing</b>	<b>Net Comm (\$m)</b>	<b>% Disb</b>	<b>Lst DO</b>	<b>Lst IP</b>
<a href="#">P115351</a>	Samoa Agriculture Competitiveness Enhancement	03/29/2012	03/28/2017	8.00	28.6%	MS	MS
<a href="#">P145938</a>	Agriculture & Fisheries Cyclone Response	10/17/2013	03/31/2017	5.00	84.2%	MS	MS
<a href="#">P126596</a>	Enhancing Climate Resilience of Coastal	12/27/2013	12/31/2018	14.60	22.6%	MS	MU
<a href="#">P155118</a>	Second Fiscal and Economic Reform DPO	09/13/2016	12/31/2017	5.00	0.0%		
<a href="#">P154839</a>	Pacific Resilience Program - Samoa	06/19/2015	11/30/2020	13.79	12.1%	S	MS
<a href="#">P126504</a>	Enhancing Climate Resilience-West Coast Rd	12/18/2012	08/31/2018	14.80	7.5%	MU	MU

<a href="#">P143408</a>	Samoa Aviation Investment Project	03/06/2014	06/30/2019	41.62	3.9%	MS	MS
<a href="#">P145545</a>	Enhanced Road Access Project	10/17/2013	04/30/2019	20.00	53.1%	S	MS
<a href="#">P128904</a>	WS: Pac Reg Connect Phase III: Samoa	06/19/2015	07/31/2020	16.00	3.1%	S	S

#### INDICATIVE PROGRAM FY17-21 (TBC)

Project Name	IDA (US\$ million) <sup>21</sup>	Year
First Growth and Resilience Development Policy Operation	5 - 7.5	FY18
Health	10	FY18
Transport and Maritime	30 - 34	FY19
Agriculture	12 - 15	FY19
Development Policy Operation	5 - 7.5	FY20
Total	62 - 74	

#### Development Partners

14. The World Bank will work closely with other development partners during the RPF period. The commitment to collaboration is highlighted by the intention of key partners to continue to work together with the Government of Samoa to develop an agreed policy matrix as a foundation for budget support. The World Bank and ADB will continue to identify opportunities for jointly co-financing investments, coordinating closely with other key donors in the country, including the EU, Japan, China and the UN system.

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<sup>21</sup> All figures are indicative and will be dependent upon final project design, confirmed IDA allocations and subject to exchange rate fluctuations of SDR to USD.



# TONGA

## **Sociopolitical and Institutional Factors**

1. Tonga transitioned from an absolute to a Constitutional monarchy in late 2010, following major constitutional reforms that changed the legislative assembly to become majority democratically elected. The transition to a democracy has not been entirely smooth, but two elections have been held since the reforms. In November 2010, a party led by the nobles formed a government; the next election (November 2014) brought a party led by elected representatives into power for the first time in Tonga's history. The current Cabinet consists of 11 elected people's representatives and 1 noble representative. Like many other PICs, Tonga has a strong cultural identity. Nearly all of the population belongs to the Christian faith and forms part of a traditional system of highly elaborate familial and reciprocal relationships that have an important bearing on almost all aspects of life in Tonga and for Tongans overseas. The WBG Country Policy and Institutional Assessment found that Tonga's institutions and policies had improved rapidly owing to a concerted government effort over the past 10 years and were conducive to development in most areas, although institutional impediments to women's economic participation remained. Other weaknesses were related to the fact that very small states such as Tonga generally have limited capacity to maintain the level of public services and governance needed for a developing nation-state.

## **Recent Economic Developments and Outlook**

2. Tonga's economic growth potential is hindered by the innately high cost structures and exposure to shocks that are common to many of the small Pacific island nations. Over the last 20 years, per capita GDP has grown by 1.0 percent per annum, compared to 2.4 percent globally. While this rate is lower than any other region, it is still better than the average for the group of small Pacific islands, which on average grew at 0.9 percent per annum over the same period. In any given year, it is likely that Tonga is either hit by a major natural disaster or is recovering from the previous one. Small size and remoteness push up the cost of economic activity in Tonga, limiting the competitiveness of its exports of goods and services in world markets. These same factors also raise the cost of providing public services. A high dependence on imports and an insufficient size for meaningful diversification make Tonga highly vulnerable to external economic shocks. These factors combine to make growth, inclusive or otherwise, particularly elusive in Tonga.

3. Tonga has for the most part exercised appropriate macroeconomic and fiscal management, and the macroeconomic framework is adequate to support DPOs. In the last year, private sector credit growth started to rise after a long decline triggered by a housing market crash. Tonga has a structural current account deficit, which is mostly financed by development grants and personal remittances. The current account deficit was 7.9 percent of GDP in FY2014 and is expected to remain around that level. Development assistance enabled the government to build up foreign exchange reserves, which have increased to seven months, an appropriate level given Tonga's high vulnerability. Foreign direct investment inflows remain low at around 3 percent of GDP. The fiscal balance has significantly improved, and debt levels have stabilized with prudent fiscal management. The government has maintained the deficit below 2 percent of GDP or turned a small surplus in each of the last three fiscal years. Domestic revenue mobilization has progressively improved, increasing by 3 percent of GDP over the four years to FY2015. Nevertheless, it is still

a serious challenge to provide adequate financing for delivering public services. Development grants financed 33 percent of government expenditure in FY2014. Tonga's risk of debt distress was recently reduced and has remained moderate, aided by continued vigilance by the authorities. The government has been successful in controlling debt in recent years, with public and publicly guaranteed external debt in present value terms to GDP gradually declining from 35.7 percent in FY2012 to 34.1 percent in FY2015.

### **Poverty and Shared Prosperity**

4. Extreme poverty is negligible in Tonga, but many people still experience some form of hardship. Estimates from the 2009 HIES suggest that just 1 percent of Tongans (the order of 1,200 people) live below the 2011 PPP US\$1.90 extreme poverty line, with 8 percent of the population below the 2011 PPP US\$3.10 per day poverty line. The Second National MDG Report estimates that 23 percent of Tongans are living below a national basic-needs benchmark as at 2009. This finding is consistent with local views that while there are very few people in abject poverty in Tonga, “hardship” or lack of access to basic services, economic opportunities, and cash for basic needs—including to meet customary obligations to extended family, the village community, and/or the church—is more widespread. The SCD estimates that incomes of the B40 kept pace with average incomes nationwide in the years leading to the 2009 HIES, and the Gini coefficient on the distribution of nominal per capita consumption is 0.38, which is around the lower end of the range for the PIC9. The incidence of national basic-needs poverty is estimated to be roughly similar across three geographical regions: Nuku'alofa, the rest of Tongatapu, and other islands. Although reliable data for more recent years are not available for most income and non-income measures, there are indications that hardship, in its different forms, remains. Among non-monetary indicators, health outcomes are a particular concern, with the high incidence of NCDs already eroding life expectancy.

### **Development Agenda**

5. A new political era in Tonga offers the opportunity of improved governance and public service delivery. To achieve the goal of shared prosperity, the government and partners will need to actively ensure that benefits are evenly spread. An especially important task is to redress gender disparities—in traditional Tongan systems women often achieve good outcomes indirectly via their male relations, but it is critical to ensure that women are not excluded because they lack direct access to assets and voice. While domestic reform efforts will give Tonga the best chance of capitalizing on growth opportunities, a pressing development need is to identify ways of increasing income-generating opportunities for Tongans in the challenging economic environment of the Pacific. Exports of labor and tourism offer the potential to make use of Tonga's natural and human resources—a unique and beautiful country, and an able English-speaking workforce. A number of other sectors hold potential for growth, particularly those that are based on natural resources (such as seabed minerals) or cultural capital (such as those exploiting a unique Tongan brand). Consistent with the recommendations of the SCD, good quality and relevant education and well as connective infrastructure will be important. Seeking ways to reduce the risk or impact of shocks (economic and natural) will also be important. This is a multi-level challenge, calling for the government and donor partners to take direct action to improve fiscal resilience and create policies and markets that will help communities, firms, and individuals better protect themselves. Finally, Tonga has strengthened its international reputation as a well-functioning, modern nation-state in recent years, but private enterprise is challenged by a perceived volatility of policy, which increases sovereign

risk. Evidence-based, consultative reforms appropriate for Tonga will help to show that Tonga is “serious about business.”

### **National Strategy and Its Key Pillars/Focus**

6. The new government has set out Tonga’s national development strategy in the Tonga Strategic Development Framework (TSDF), 2015–25, approved in April 2015. The TSDF sets out a medium-term vision that builds directly on the preceding TSDF 2011–2014 and is underpinned by an extensive consultation process. The vision of the TSDF is for “a more progressive Tonga supporting a higher quality of life for all.” This vision is translated into seven high-level National Outcomes to achieve over the next 10 years. They aim to achieve: (i) a more dynamic, knowledge-based economy; (ii) more balanced urban-rural development; (iii) more empowering human development and gender equality; (iv) responsive and good governance, including law and order; (v) successful provision and maintenance of infrastructure and technology; (vi) effective land administration, environmental management, and resilience to climate and risk; and (vii) consistent advancement of Tonga’s external interests, security, and sovereignty. This new strategic framework includes a heightened emphasis on sustainability, good governance, and shared prosperity. The national outcomes are to be achieved via a set of 29 organizational outcomes, grouped by five pillars: economic institutions, social institutions, political institutions, infrastructure and technology inputs, and natural resource and environmental inputs.

### **World Bank Group Program**

7. The current program builds upon a strong engagement and experience implementing projects in Tonga. It has been developed through wide consultations with government and key stakeholders, it is fully aligned with Tonga’s Development Strategy and builds on recommendations from the SCD. MoF has been instrumental in ensuring the program is aligned with government priorities and is endorsed by the leadership. The program also builds on strong liaison with other development partners, avoiding duplication of their ongoing efforts and collaborating where possible.

### **ACTIVE PROJECTS**

<b>Project ID</b>	<b>Project Name</b>	<b>Date, Board App</b>	<b>Rev Closing</b>	<b>Net Comm (\$m)</b>	<b>% Disb</b>	<b>Lst DO</b>	<b>Lst IP</b>
<a href="#">P155133</a>	Tonga First Inclusive Growth DPO	03/16/2016	06/30/2017	2.00	112.5%		
<a href="#">P150113</a>	Tonga Cyclone Reconstruction	05/28/2014	06/30/2018	13.80	70.6%	MU	MU
<a href="#">P154840</a>	Pacific Resilience Program - Tonga	06/19/2015	11/30/2020	12.00	13.1%	S	MS
<a href="#">P156334</a>	Pacific Resilience Program - Tonga	06/19/2015	11/30/2020	4.58	4.4%	S	MS
<a href="#">P096931</a>	TO-Transport Sector Consolidation	07/28/2008	06/30/2018	9.44	59.0%	S	S
<a href="#">P128939</a>	Pacific Aviation Investment - Tonga	12/13/2011	12/31/2018	34.46	63.5%	S	S
<a href="#">P113184</a>	Pacific Regional Connectivity Program	08/30/2011	07/23/2018	17.20	79.8%	S	S

## RECIPIENT EXECUTED TRUST FUNDS

Project Name	Approval Date	Closing Date	Net Commitment Amount (\$m)	Total Disbursed (\$m)	Total Undisbursed Balance (\$m)
TO-Transport Sector Consolidation	07/28/2008	06/30/2018	9.4	5.0	4.5
Pacific Regional Connectivity Program	08/30/2011	08/23/2016	17.2	13.5	2.6
Pacific Aviation Investment - Tonga	12/13/2011	12/31/2016	27.2	15.0	9.4
Institutional and Regulatory Framework	06/25/2012	12/31/2015	2.9	1.3	1.6
Tonga Cyclone Reconstruction	05/28/2014	06/30/2018	12.0	6.7	4.3
Second Economic Reform Support Operation	10/29/2014	12/31/2015	5.0	5.0	0.0
Pacific Resilience Program - Tonga	06/19/2015		4.6	0.0	0.0

## INDICATIVE PROGRAM FY17-21 (TBC)

Project Name	IDA (US\$ million) <sup>22</sup>	Year
Second Inclusive Growth Development Policy Operation	2	FY17
Youth Skills for Employment	15	FY18
Tonga Transport Project	18 – 20	FY18
Development Policy Operation	5	FY18
E-Governance (tbc)	5	FY18
PROP Fisheries (tbc)	5	FY19
Development Policy Operation	5	FY19
PREP (Coastal Protection) AF (tbc)	6 - 7	FY19
Development Policy Operation	5	FY20
Total	66 - 69	

## Development Partners

8. The World Bank will work closely with other development partners during the RPF period. The commitment to collaboration is highlighted by the intention of key partners to continue to work together with the Government of Tonga to develop an agreed policy matrix as a foundation for budget support. The World Bank and ADB will continue to identify opportunities for jointly co-financing investments, coordinating closely with other key donors in the country, including the EU, Japan, China and the UN system.

<sup>22</sup> All figures are indicative and will be dependent upon final project design, confirmed IDA allocations and subject to exchange rate fluctuations of the SDR to USD.

# TUVALU

## **Sociopolitical and Institutional Factors**

1. Tuvalu is a parliamentary representative democratic monarchy, whereby the British monarch is the head of state, represented by the Governor-General, while the Prime Minister is the head of government. Executive power is exercised by the Government of Tuvalu. The 15 Members of Parliament (MPs) each serve a four-year term in the unicameral legislature. Tuvalu has no formal political parties, and floor-crossing by MPs is possible, although this situation has not led to frequent changes in government. MPs tend to have very close ties to the island they represent, and election campaigns are conducted largely on the basis of personal and family ties and reputation. Traditional chiefs also still play a significant role in island affairs, particularly on the outer islands. The last General Election was held in March 2015, and the Cabinet was formed in April. The March 2015 elections returned 7 out of 8 caretaker Cabinet members. The election results ensured continuity in the administration and continued commitment to the reform agenda.

## **Recent Economic Developments and Outlook**

2. Tuvalu has experienced uneven economic growth, which has been low since the global financial crisis. Growth is expected at over 3 percent in 2015 on the back of large increases in capital investment (including investments related to Tropical Cyclone Pam). Inflation was expected to pick-up to around 4.7 percent in 2015 before moderating, reflecting growing government expenditure (partly offset by falling fuel prices) and a potential shortage of essential items owing to disruptions caused by the cyclone in transport and the domestic supply of agricultural products.

3. The current account of the balance of payments moved from a surplus of 26 percent of GDP in 2014 to a deficit of around 6 percent of GDP in 2015 due to reconstruction following Tropical Cyclone Pam and other capital investment activities. Boosted by the output of a fishing joint venture, exports doubled in just a few years. With the introduction of a new fishing licensing scheme, license fees more than tripled, accounting for two-thirds of GDP in 2015. Foreign aid has been substantial, standing at around 28 percent GDP in 2015. Declining work opportunities on merchant ships since the global crisis caused remittances to fall from around 17 percent of GDP in 2008 to around 10 percent of GDP in 2015. Limited cash earning opportunities domestically, particularly outside of the capital, and the fall in remittance flows led to a deterioration in the population's access to basic goods and services. Other income sources such as investment income from the Tuvalu Trust Fund (TTF) and official grants remain variable and dependent on global economic conditions. As current account deficits are largely financed by Consolidated Investment Fund (CIF) buffer assets, maintaining the fund's balance above the sustainable target is critical to macroeconomic stability in Tuvalu. The 2014 joint IMF-World Bank Debt Sustainability Analysis concluded that Tuvalu is at a high risk of debt distress, although the government does not face debt servicing risks. The government is committed to returning its debt to sustainable levels through prudent fiscal policy and effective debt management.

4. Tuvalu was expected to achieve a budget surplus in 2015 owing to high fishing license fees. With taxes funding a relatively small proportion of Tuvalu's budget, the volatile nature of Tuvalu's other sources of revenue (such as fishing license fees) and vulnerability to external shocks frequently result in unpredictable fiscal outcomes. Unlike other countries, Tuvalu has

limited channels to finance fiscal deficits and relies heavily on buffer assets and grants (see the box). In recent years, through higher than expected windfall revenues, grants, and fiscal prudence, the government was able to rebuild the CIF from near depletion in 2011 to around A\$30.8 million in November 2016, above the minimum sustainable target balance.

#### **FISCAL SUSTAINABILITY IN TUVALU**

In the Tuvalu context, fiscal sustainability is measured by the ability of financial assets in the TTF and CIF to continuously finance post-grant deficits, even though periods of shock. Based on historical information (length of shock and average deficit), a sustainable level of assets in the CIF is numerically expressed as 16 percent of the maintained value of the TTF. This level can be sustained when the government achieves pre-grant deficits of around 21 percent of GDP going forward. With grants expected at around 16 percent of GDP, the remaining deficit (around 5 percent of GDP) could be sustainably financed by drawdowns from CIF assets, which is fully replenished by distributions from the TTF even at an assumed lower rate of return.

#### **Poverty and Shared Prosperity**

5. Extreme poverty is relatively uncommon in Tuvalu. The SCD estimates that 3 percent of the population lived below the extreme poverty line (2011 PPP US\$1.90 per person per day) in 2010, when a HIES was last administered. According to the less austere national basic-needs poverty benchmark, 26 percent of the population are struggling to meet a local standard of basic needs as of 2010 (with 3 percent living below the food poverty line). This figure is up from 21 percent in 2005 (“food poverty” is down from 5 percent). However, the basic-needs poverty benchmark is not strictly comparable over time (a general improvement in living standards is likely to lift the poverty benchmark and will tend to bias estimates of the incidence of poverty upward in later years relative to earlier years). A new HIES is expected to be administered in 2017.

6. Poverty in Tuvalu is concentrated in the outer islands and the welfare gap with the capital Funafuti appears to have grown in recent years. The SCD estimates a relatively high Gini coefficient on the per capita nominal consumption distribution of 0.41 as at 2010. Other related measures published in the Tuvalu poverty report suggest inequality increased between 2005 and 2010. This finding is consistent with evidence presented in the SCD indicating that incomes of the B40 have fallen relative to the nationwide average (with a growth differential of the order of -4 percentage points). Particularly in the outer islands, poverty is exacerbated by lack of access to services and employment (and hence remittances), coupled with vulnerability to shocks. Tuvalu has experienced a diverse series of adverse shocks in recent years—including natural disasters, global economic crises, more localized economic shocks (such as the loss of job opportunities for seafarers), and food price shocks.

#### **Development Agenda**

7. The economy faces challenges in achieving more robust growth in the medium term, and growth is expected to remain dependent on public sector and donor-funded expenditure over that period. Dispersion, remoteness from major markets, and the small scale of the economy create a large and costly public sector and also raise the cost of delivering services, which is why the efficiency of the public sector (including public enterprises) is important. Strengthening public financial management and ensuring the efficient use of public resources are critical to achieving development priorities.

8. In the absence of monetary policy and given the tight fiscal situation, the authorities will have limited policy space to respond to external shocks—which further highlights the importance of maintaining adequate buffer assets to absorb inevitable future shocks. Efforts to strengthen climate resilience will also support the country in facing future climate shocks.

9. To ensure sustained increases in living standards, Tuvaluans need to be better prepared for overseas job opportunities. With limited domestic employment opportunities and demand for Tuvaluan international maritime seafarers declining in the face of greater competition from other countries, education and vocational training systems need to be strengthened to enable Tuvaluans to compete effectively for overseas income-earning opportunities and to overcome the tyranny of distance.

10. There is scope to improve the provision of essential services. Further investment in essential infrastructure, including investment by development partners, will support improved service provision. SOEs are also likely to continue to play a role in providing essential services, given the unique structure of the Tuvaluan market. In recent years, some SOEs have not operated in cost-effectively. Advancing the restructuring of SOEs by addressing the key issues of governance, efficiency, pricing policies, and cross-subsidization could reduce the drain on public resources, which could then be reoriented to priority areas, including poverty reduction.

11. Tuvalu also has significant opportunities to increase the economic return on its natural resources, including fisheries. Tuvalu’s EEZ is situated in one of the world’s last viable tuna fisheries. Although revenues and savings have increased in recent year, more could be done. Recent consultations with the department of resources and development revealed interest in deep-sea mining in Tuvalu’s EEZ for rare-earth mineral deposits.

### **National Strategy and Its Key Pillars/Focus**

12. The government’s vision for sustainable development and “a healthy, educated, peaceful and prosperous Tuvalu” is outlined in Te Kakeega II: National Strategy for Sustainable Development 2005-2015. The strategy was endorsed in 2005 and is rooted in a commitment to attaining the MDGs. The strategy is underpinned by eight strategic areas: (i) good governance; (ii) economic growth and stability; (iii) social development; (iv) Falekaupule and outer island development; (v) employment and private sector development; (vi) education and human development resources; (vii) natural resources; and, (viii) infrastructure and support services. The government is expected to finalize a new national development strategy in 2016.

### **ACTIVE PROJECTS**

<b>Project ID</b>	<b>Project Name</b>	<b>Date, Board App</b>	<b>Rev Closing</b>	<b>Net Comm (\$m)</b>	<b>% Disb</b>	<b>Lst DO</b>	<b>Lst IP</b>
<a href="#">P144573</a>	Energy Sector Development Project	01/26/2015	03/31/2019	7.00	5.1%	S	S
<a href="#">P151780</a>	PROP for Tuvalu	12/22/2014	09/30/2020	7.00	10.0%	S	MS
<a href="#">P150194</a>	Second Development Policy Operation	03/26/2015	12/31/2016	4.50	102.6%		
<a href="#">P156169</a>	Supplemental DPO	09/15/2015		0.00	0.0%		
<a href="#">P128940</a>	Pacific Aviation Investment - Tuvalu	12/13/2011	06/30/2018	20.79	59.0%	S	S
<a href="#">P155066</a>	Third Development Policy Operation	12/09/2016		3.00	0%		

**INDICATIVE PROGRAM FY17-21 (TBC)**

<b>Project Name</b>	<b>IDA (US\$ million)<sup>23</sup></b>	<b>Year</b>
Telecommunications and ICT Development	15	FY18
Fourth Development Policy Operation	7.5	FY18
Tuvalu Maritime Investment Project	20 - 23	FY18
PROP (Fisheries) Additional Financing	8 - 10	FY20
Development Policy Operation	7.5	FY20
Total	58 - 63	

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<sup>23</sup> All figures are indicative and will be dependent upon final project design, confirmed IDA allocations and subject to exchange rate fluctuations of the SDR to USD



# VANUATU

## **Sociopolitical and Institutional Factors**

1. Vanuatu has a hybrid political system consisting of a capital-focused Westminster system of government and a system of chiefly governance across the country at the local level. The political situation has become increasingly unstable over the past few years, partly reflecting the fragmentation of Vanuatu politics. The main post-Independence parties split, the number of independents and small parties rose, and the government changed hands numerous times between 2011 and 2015 (six times in the first half of 2011 alone). Since June 2015 a corruption scandal has seen 14 government MPs sentenced to prison terms. The President recently dissolved Parliament, and a national election was scheduled for early 2016.

2. This political instability, coupled with the prevalent view that a range of state institutions are ineffective and in some cases illegitimate, imposes a number of stresses: on doing business (by making business transactions more uncertain); on the delivery of public assets (with disputes over rights, compensation, and payments resulting in higher costs and delays); and on social cohesion (with intra-community and inter-generational tensions resulting from contests over benefit-sharing arrangements).

## **Recent Economic Developments and Outlook**

3. The Vanuatu economy is characterized by a formal sector driven by tourism and agriculture, and widespread informal subsistence activity outside the main urban centers of Port Vila and Luganville. In Vanuatu, as in other small PICs, economic remoteness, internal dispersion, and small size sharply curtail the set of viable economic strategies and the potential for export-led growth. Agriculture and tourism, which are relatively less affected by these constraints, each contribute an estimated one-quarter of GDP. GDP growth over the past decade has been among the highest in the region, driven primarily by tourism, but very high population growth (due to high fertility rates and limited migration opportunities) means that per capita growth has been more modest at around 1.3 percent per annum.

4. The government supported macroeconomic stability with a prudent fiscal stance over the past decade, but low public expenditure has contributed to inadequate public services and infrastructure. Vanuatu collects the least revenue of any country in the region, and it imposes no personal or corporate income tax. The government in recent years embarked on a substantial infrastructure development program, including new roads, seaports, and airports, financed with a mix of development grants and investment loans.

5. Natural disasters severely constrain economic activity in Vanuatu. As a recent reminder, Tropical Cyclone Pam (which struck in March 2015) was one of the strongest cyclones ever seen in the Pacific. Eleven lives were lost, while around 75,000 people needed emergency shelter. The cyclone inflicted widespread damage to Vanuatu's capital stock, including infrastructure, livestock, and household assets, with damages and losses equivalent to almost two-thirds of GDP. Because of cyclone damage, tourism and agricultural output declined sharply in 2015, although reconstruction activity and the commencement of several large infrastructure projects partially offset those losses. GDP was expected to be flat or increase only slightly in 2015, compared with the pre-cyclone forecast of 4.3 percent growth.

6. As a result of Tropical Cyclone Pam, inflation was expected to be close to 4 percent in 2015, reflecting cyclone-induced shortages and increases in the prices of materials to be used in reconstruction activities. Exports were expected to decline relative to the pre-cyclone forecast owing to damage to cash crops, including kava and copra. Tourism earnings were expected to be dramatically affected, with a number of major hotels temporarily closing for repair and renovation. The net effect was projected to be a 2015 current account deficit of close to one-quarter of GDP, with the impact of the deterioration in the trade balance partially offset by insurance receipts and external assistance.

7. Supporting the vulnerable population and restoring public facilities and infrastructure will require a considerable expansion in government expenditure. If undertaken efficiently, publicly funded investments should help foster future growth in Vanuatu, and the government's conservative fiscal stance in recent years allows it some scope to take on moderate levels of concessional debt.

### **Poverty and Shared Prosperity**

8. According to internationally comparable benchmarks, the incidence of extreme poverty (per capita consumption below 2011 PPP US\$1.90 per day) was 15 percent in Vanuatu in 2010, while the incidence of poverty (per capita consumption below 2011 PPP US\$3.10 per day) was 38 percent—both among the highest in the PICs. The national benchmark for basic-needs poverty falls somewhere in between these two standards, with an estimated 13 percent of ni-Vanuatu in poverty according to this measure. Inequality is relatively modest compared with other countries in the region. The SCD presents evidence suggesting that the B40 experienced relatively strong income growth in the years leading up to the 2010 HIES, and the Gini coefficient on the nominal per capita consumption distribution across the population is estimated at 0.37.

9. Consumption-based poverty in Vanuatu is highly correlated with other indicators of deprivation. While access to education has improved, 30 percent of children do not complete primary school and most do not attend secondary school. The majority (70 percent) of households outside the two main cities do not have electricity, and access to improved water and sanitation is also low. The vast majority of the poor are based in the rural outer islands and depend on subsistence farming. Many rural populations also reportedly face severe constraints in accessing markets, schools, and hospitals because roads are either not available or of poor quality.

### **Development Agenda**

10. Despite those challenges, Vanuatu has significant potential to increase shared prosperity and reduce poverty. The abundance of agricultural land and Vanuatu's attractiveness as a tourist destination both provide opportunities. Vanuatu can further develop its tourist attractions and accommodation to increase spend per tourist and repeat visits. The other priority lies with building external demand, using savvy marketing and good product design to enter new markets, especially in emerging Asia.

11. The development of agricultural markets as a source of income for rural households faces multiple obstacles. Lack of infrastructure impedes market access, inadequate basic education limits farmers' productivity, and frequent natural disasters reduce the incentive to make longer-term investments. Actions by the government in coordination with development partners, the community, and the private sector can help to alleviate each of these constraints. It is critical to

continue to strengthen disaster early warning and preparedness, mainstream disaster risk and climate change considerations into planning and infrastructure investment, and enhance financial resilience to climate and disaster shocks.

12. To improve public service delivery, Vanuatu will need more public resources and stronger public financial management systems. With development assistance, efforts are already taking place to increase education and health services in the outer islands, and the substantial public investment program currently underway should help meet critical infrastructure needs. To maintain this higher level of services and investment, Vanuatu will need to raise additional domestic revenues as well as access continued assistance from development partners. Robust systems to manage these flows and distribute resources nationwide will be essential.

### **National Strategy and Its Key Pillars/Focus**

13. The government’s development strategy is contained in Vanuatu’s Priorities and Action Agenda 2006–15 (PAA) and in the Planning Long Acting Short Plan (PLAS) 2013–16. The PAA 2006-15 sets out a national vision of “an educated, healthy and wealthy Vanuatu.” Seven national strategic priorities support the achievement of that vision, including private sector development and employment creation; macroeconomic stability and equitable growth; good governance and public sector reform; primary sector development (natural resources and the environment); provision of better basic services, especially in rural areas; education and human resource development; and economic infrastructure and support services. The PAA is a high-level set of priorities and strategies with a ten-year time horizon. It is accompanied by the PLAS, which lists a set of priority actions for the government and development partners.

14. An important overarching objective is to improve the environment for private sector-led economic growth, particularly in agriculture, forestry and fisheries, and tourism. This objective can be achieved by improving the investment, operating, and regulatory environment for the private sector and by providing necessary infrastructure in both rural and urban areas. Measures to improve quality and access to education and health services, and to ensure women’s equitable participation in social, economic, and political decision-making, are also viewed as key contributors.

### **ACTIVE PROJECTS**

<b>Project ID</b>	<b>Project Name</b>	<b>Date, Board App</b>	<b>Rev Closing</b>	<b>Net Comm (\$m)</b>	<b>% Disb</b>	<b>Lst DO</b>	<b>Lst IP</b>
<a href="#">P112611</a>	Increasing Resilience to Climate Change	12/04/2012	12/31/2018	9.74	60.7%	MU	MU
<a href="#">P155256</a>	Pacific Resilience Program	06/19/2015	11/30/2020	1.50	66.7%	S	S
<a href="#">P156505</a>	Vanuatu Reconstruction Project	06/17/2016	04/30/2022	50.00	0.0%	S	S
<a href="#">P154149</a>	Vanuatu Aviation Investment Project	05/08/2015	12/31/2019	59.50	5.0%	MS	MS
<a href="#">P161454</a>	Vanuatu Aviation Investment Project AF	01/10/17		14.1	0.0%		

## RECIPIENT EXECUTED TRUST FUNDS

Project Name	Approval Date	Closing Date	Net Commitment Amount (\$m)	Total Disbursed (\$m)	Total Undisbursed Balance (\$m)
VU: Telecommunications & ICT TA	08/31/2009	06/30/2016	5.3	4.7	0.6
Mainstreaming Disaster Risk Reduction	09/26/2012	12/31/2016	2.7	1.1	1.6
Increasing Resilience to Climate Change	12/04/2012	12/31/2018	10.1	2.1	3.6
Energy Sector Development Project	06/21/2013	06/30/2016	2.8	1.8	0.9
GPOBA Improved Electricity Access	05/16/2014	06/30/2018	4.9	0.2	4.6
Rural Electrification Project	11/07/2014	12/31/2019	4.7	0.4	4.3
Pacific Resilience Program	06/19/2015	11/30/2020	1.5	0.5	1.1

## INDICATIVE PROGRAM FY17-21 (TBC)

Project Name	IDA(US\$ million) <sup>24</sup>	Year
Rural Electrification Project Stage II	4	FY17
Development Policy Operation (tbc)	7.5	FY18
Energy (Geothermal) (tbc)	12 - 15	FY19
E-Government (tbc)	5 - 7	FY19
Transport (Aviation)	25	FY20
Espiritu Santo Road (tbc)	8 - 10	FY20
Development Policy Operation (tbc)	7.5	FY20
Total	69 - 76	

## ADVISORY SERVICES AND ANALYTICS (ASA)

Project ID	Project Name	Final Delivery
<a href="#">P157414</a>	Affordable Resilient Housing Settlements	05/31/18

<sup>24</sup> All figures are indicative and will be dependent upon final project design, confirmed IDA allocations and subject to exchange rate fluctuations of SDR to USD

## **Annex 10: Overview of PIC6 CAS/CPS Completion and Learning Reviews**

This overview summarizes the assessments of the individual Country Assistance Strategy (CAS) or Country Partnership Strategy (CPS) Completion and Learning Reviews (CLRs, provided in Attachments 3A–8A of this annex) for the six Pacific Island Countries (referred to here as the PIC6) for which individual country strategies were prepared starting about FY2011. In a departure from the previous umbrella Regional Strategy, stand-alone CASs/CPSs were developed for the Federated States of Micronesia (FSM), Kiribati, the Republic of the Marshall Islands (RMI), Samoa, Tonga, and Tuvalu for various periods (mostly four years) spanning FY2011-17. Because several country strategies or partnerships cover periods that remain to be completed or were completed very recently, it is not surprising that some results are unmet and that full results remain to be achieved in the younger, ongoing CPSs. These strategies were joint World Bank-IFC strategies, except for Tuvalu (which was for IDA only as Tuvalu was not a member of IFC).

Even without an umbrella regional strategy, the individual CASs/CPSs reflect the features and challenges commonly encountered among most of the PIC6, including their relative isolation and remoteness, distance to markets, dispersion over wide oceanic areas as archipelagos, fragility and vulnerability with respect to climate change, small economies and populations, economic dependence on external aid, large public sectors, and susceptibility to external shocks. Thus each country strategy and partnership was shaped by the four overarching themes identified as the framework for WBG engagement with the PIC6: (i) strengthening regional/global integration; (ii) building resilience to economic shocks, natural disasters, and climate change; (iii) encouraging economic reform and private sector development; and (iv) improving education, health, and social services. These four themes were interpreted for the individual country strategies and partnerships in light of each country's specific circumstances, the country specific development challenges and priorities, ongoing WBG activities and implementation experience, and the complementarity of WBG assistance with the activities of development partners.

The PIC6 country strategies also aligned with the twin goals of the WBG: eliminating extreme poverty by 2030 and boosting shared prosperity, measured as the income of the bottom 40 percent in any given country. These goals strongly complemented the countries own visions, enunciated in various national development strategies and frameworks, of achieving economic growth and development; addressing poverty, employment, quality of life, reduction of hardships, and equity issues; and meeting specific social, environmental, and sustainability objectives.

### **SUMMARY OF KEY FINDINGS**

This overview summarizes the assessments undertaken within the individual CLRs (Attachments 3A–8A) for the six PICs and refrains from arriving at any single assessment for the PIC6 group as a whole. Details on progress related to the individual CAS/CPS outcomes and related indicators and milestones are presented in six separate Results Frameworks (RFs), consolidated in Attachments 3B-8B. Each RF also presents information on related WBG activities that support the CAS/CPS objectives, identifies the key development partners, and where relevant summarizes lessons from the design and implementation of the engagements and offers indicative suggestions

for ongoing and future engagements and strategies to inform the Regional Partnership Framework (RPF). Attachments 1 and 2 summarize the planned and actual WBG deliveries for the PIC6.

The CLR results are based on self-assessments by the members of the WBG PIC6 country teams (both IDA and IFC) using the CAS/CPS outcomes as the units of accounting and taking into consideration progress on key indicators and milestones. The ratings scale follows the current OPCS guidelines for CLRs. The CLR guidelines require outcomes to be rated with one of the given categories. As a result, some outcomes and milestones have had to be rated within that scheme as “partially achieved” or “not achieved.” Those ratings were correct at the time of the CLR, because the related strategy was ongoing, but wherever appropriate, the team noted that good progress had been made toward achieving the results initially promised. The team also assessed the performance of the WBG in achieving results and implementing various WBG-supported engagements. Even though the twin corporate goals of eliminating poverty and boosting shared prosperity were articulated after some of the PIC6 strategies had been developed, the team highlighted instances in which WBG activities in the six countries were aligned with those corporate goals.

### **Development Outcomes**

The overall performance of the CAS/CPS programs in helping to achieve the subset of selected country goals was assessed as satisfactory for Samoa and Tonga, moderately satisfactory for FSM and Tuvalu, moderately unsatisfactory for Kiribati, and unsatisfactory for RMI (Table 1). The ratings for the individual country development outcomes are drawn from the evidence-based assessments of the CAS/CPS outcomes as the unit of accounting (in most cases, using equal weights). In Samoa and Tonga (and to some extent Tuvalu), many outcomes were either fully or mostly achieved. In Kiribati and RMI, a large number of outcomes were partially or not yet achieved. For FSM, where the CPS has more than a year to go before it ends, the moderately satisfactory rating takes particular account of the trajectory and results achieved so far. Of the total 64 outcomes across the 6 countries, 13 are considered fully achieved and 18 mostly achieved, for an aggregate achievement rate of about 48 percent, or about half of the outcomes. About one-third of the outcomes are partially achieved.

### **World Bank Group Performance**

The performance of the WBG in designing and implementing the CAS/CPS programs in the PIC6 during this period is considered good in Samoa, Tonga, and Tuvalu and fair in the other countries (Table 1). The themes and strategic areas selected for the country programs aligned well with country priorities, the WBG regional framework, and the twin goals. The choice of instruments as well as the program of support were judicious and appropriate. Performance was hampered mostly by implementation issues. As evidenced by the one-third of outcomes that are partially achieved, projects often took much longer than anticipated to get off the ground.

Two considerations are relevant for understanding this assessment. First, the engagements reviewed here often were the first to be undertaken by the WBG in these Pacific Island Countries, so WBG operations had a limited track record, and clients were unfamiliar with the WBG. Second, some strategies are still in progress or have just reached the end of their timeframe, so further results and milestones will be attained after supporting project components and activities are initiated or move beyond the preliminary stages when (for instance) staffing is ongoing, contracts are being placed, and procurement is proceeding (and sometimes encountering delays).

**Table 1: PIC6: Overall CAS/CPS Performance**

	<i>FSM</i>	<i>Kiribati</i>	<i>RMI</i>	<i>Samoa</i>	<i>Tonga</i>	<i>Tuvalu</i>	<i>TOTAL</i>
CAS/CPS period	FY2014-2017	FY2011-2014	FY2013-2016	2012-2016	FY2011-2014	FY2012-2015	
IDA/IFC CAS/CPS	Joint CPS	Joint CAS	Joint CPS	Joint CPS	Joint CAS	IDA CAS	
Number of themes	2	2	1	3	3	2	13
<b>Number of outcomes</b>	<b>5</b>	<b>14</b>	<b>5</b>	<b>16</b>	<b>19</b>	<b>5</b>	<b>64</b>
Achieved	0	2	0	2	8	1	13
Mostly achieved	1	4	0	2	9	2	18
Partially achieved	2	7	1	9	2	1	22
Not achieved	2	1	4	2	0	1	10
Not available/Not verified	0	0	0	1	0	0	1
<b>Development outcome</b>	<b>MS</b>	<b>MU</b>	<b>U</b>	<b>S</b>	<b>S</b>	<b>MS</b>	
<b>World Bank Group performance</b>	<b>Fair</b>	<b>Fair</b>	<b>Fair</b>	<b>Good</b>	<b>Good</b>	<b>Good</b>	

Note: FSM (Federated States of Micronesia); RMI (Republic of the Marshall Islands); S (Satisfactory); MS (Moderately Satisfactory); MU (Moderately Unsatisfactory); U (Unsatisfactory).

IFC has made good progress against goals set in the IFC Pacific Partnership Agreement: the formal platform of engagement between IFC and its core donors in the Pacific (the Governments of Australia and New Zealand). The Partnership Agreement, launched in 2012, lays out clear development goals and set objectives, and is focused on driving economic growth, spurred by the private sector development in the Pacific, to help promote new jobs, opportunities, prosperity and reduce poverty. The development of a successor arrangement is currently being discussed with the core donors. In Tonga and Samoa, IFC has directed its efforts toward tourism, seeking to increase the development of new source markets. IFC has supported Tonga develop the first Tonga Tourism Yearbook was launched in 2014, and conducted a review for Samoa on how the island's air connectivity affects tourism, as well as its tourism marketing strategy. Also in Samoa, IFC has supported the government establish a PPP concession to develop an integrated solid waste management system and in establishing a cost-effective, sustainable alternative for commercial dispute resolution (to complement to the formal court system). Through the Pacific Payment Systems project, IFC successfully provided the central banks of Samoa and Tonga with a Summary Note on the Request for Interest process for the payment systems infrastructure reforms, and increased basic financial services to the unbanked and underbanked populations in remote areas of those two countries.

## HIGHLIGHTS OF ASSESSMENT

The PIC6 CASs and CPSs reviewed here were prepared as country-specific strategies from 2010 in a departure from the previous umbrella strategy for the region. As noted, owing to the commonalities in terms of economic geography and other traits such as isolation and remoteness, spatial dispersion, small size of the economy and population, fragility, vulnerability to natural and economic shocks, and the similar human development challenges faced by the PIC6, WBG engagement in these countries remained highly focused on four overarching themes: (i) strengthening regional/global integration; (ii) building resilience to economic shocks, natural disasters and climate change; (iii) encouraging economic reform and private sector development;

and (iv) improving education, health, and the social services. Because the strategic themes or strategic areas or priorities of the individual CASs and CPSs fit well within these overarching themes, they are used to structure the following discussion of the highlights of the assessments.

### **Theme 1: Strengthening Regional/Global Integration**

Most of the PIC6 CASs/CPSs reflected this theme in one or more priority strategic areas or clusters of outcomes. Typically, these included outcomes or outcome clusters related to infrastructure development and maintenance of road, airport, and maritime facilities as well as aviation safety and institutional development; improved access to and lower costs of information and communication technology (ICT) services, including mobile telephony and internet use and regulatory reforms; and temporary labor migration schemes for employment opportunities and facilitation/lowering of remittance costs. These outcomes were supported well by country and regional projects on aviation (such as the Pacific Aviation Investment Program, PAIP), ICT connectivity (such as the Pacific Regional Connectivity Program), Technical Assistance (TA) on labor migration, and support for regulatory reforms. In particular, the targets for building and maintaining roads, including developing local maintenance capacity, were usually met or exceeded, while ICT projects also had good results. Results linked to aviation outcomes are proving slow to accrue in some instances, as frequently it has taken longer than anticipated in the CAS/CPS to install infrastructure and safety facilities and conclude contracts. The objectives of obtaining International Civil Aviation Organization (ICAO) certification for major airports are being flexibly addressed by using third-party support for accreditation. Temporary labor migration schemes supported by Australia and New Zealand also have good traction and are contributing to poverty reduction and the WBG has contributed to the policy discussion in both countries.

In Kiribati, outcomes related to ICT development (increased mobile penetration, reduced price for telecom services, and a stronger, more competitive ICT regulatory environment) have been fully or mostly achieved. Mobile penetration reached about 30 percent, the state-owned monopoly was privatized, and pricing for 3G mobile services has fallen. The Samoa Pacific Regional Connectivity Phase III project is in the early stages of implementation. The ICT cluster of outcomes in Tonga (increased internet use, wholesale connectivity cost reductions) has been achieved or mostly achieved. In RMI, IDA operations supporting the population's improved access to ICT services have not yet yielded results due to local opposition to market reforms and liberalization. The FSM-Palau Connectivity Project, conducted in partnership with Asian Development Bank (ADB), is in its early days, and the related outcome is not achieved but on track.

The PAIP series of projects has supported Kiribati, Samoa, Tonga, and Tuvalu in addressing the challenges of geographic isolation by promoting opportunities arising from closer regional and global integration. PAIP is providing support for rehabilitating the aviation infrastructure of these countries and bringing the facilities into compliance with international safety regulations and standards. The Pacific Region Infrastructure Facility (PRIF), a multi-donor trust fund, has supported PAIP, with the primary focus of supporting sustainability and ensuring funding for regulatory oversight. An AU\$5 "security and safety levy" for each departing international passenger has been implemented in all PAIP countries to help ensure fiscal sustainability for managing air transport and infrastructure assets. This levy is providing significant revenue to high-traffic countries such as Tonga and Samoa. Runway repairs have been completed in Tonga and



Tuvalu and will soon start in Samoa. Improvements to navigation aids, weather monitoring, rescue fire services, and more have progressed. Advisors are supporting several countries to address their regulatory and operational standards. Tonga has mostly achieved the outcome of improving compliance of its civil aviation and maritime sector with international safety standards. The Ministry of Infrastructure (MoI), with support of the Tonga Transport Sector Consolidation Project (TSCP), has drafted one civil aviation, two land transport, and 18 maritime policies, as well as a dedicated MoI Act.

Tuvalu has achieved the labor migration outcomes of the CAS, supported by the WBG, by taking greater advantage of temporary employment opportunities in New Zealand and Australia, and it has met the milestone of providing training opportunities to Tuvaluans. The specific target of increasing women's participation in these schemes was not met. Aside from the supply- and demand-side barriers to boosting women's participation in the temporary agricultural labor schemes, sociocultural barriers and preferences make it challenging for women to work as seafarers. The goal of increasing the number of Samoan workers participating in temporary labor migration schemes in Australia and New Zealand, with higher returns per worker as efficiency increases, is partially achieved.

## **Theme 2: Building Resilience to Economic Shocks, Natural Disasters, and Climate Change**

Kiribati, Samoa, Tonga, and Tuvalu all have strategic priorities in their individual CASs/CPSs that address the overall theme of building resilience to shocks, natural disasters, and climate change. The strategies have focused particularly on improving the supply of petroleum and reducing volatility in supply and pricing. Given the vulnerability of the PIC6 to natural disasters, disaster risk reduction (DRR) measures and measures to address the effects of climate change also received attention.

Efforts to improve the petroleum supply chain to reduce volatility in the energy price and supply in Kiribati have achieved only partial results so far, and results related to increasing renewable energy to the grid and directly reducing greenhouse gas (GHG) emissions have also been slow to gain traction. These efforts are supported by the Kiribati Grid-Connected Solar Photo-Voltaic (PV) Project, which has been delayed. Tonga had better success in improving petroleum supply chains through support from the Tonga Energy Sector Development Policy Operation (DPO) as well as the Economic Recovery Operations (EROs). The operation, which was integral to the Bank's ongoing overall engagement in the energy sector, supported policy and institutional measures that helped Tonga sustain the momentum of energy sector reforms and implement recommendations from the 2010 Public Expenditure and Financial Accountability (PEFA) Assessment. Tonga also partially achieved results under the outcome on increased efficiency of grid power system, including the reduction of technical and non-technical losses on the Tongatapu grid. The outcome and milestones formed part of a phased program for the Tonga Energy Road Map (TERM), and their achievement depended on initial activities in TERM program that remain to be evaluated conclusively. Renewable generation capacity has been increased, with a 1 MW solar plant now dispatching to the Nuku'alofa grid and providing lower-cost energy than existing diesel plants. This achievement contributes to improved service delivery and increases resilience against shocks.

Kiribati launched the Kiribati Joint Implementation Plan (KJIP) for Climate Change and Disaster Risk Management in August 2014. The KJIP mainstreams disaster risk reduction in national

planning and investment programming. Greater integrated capacity to manage DRR and climate change adaptation (CCA) issues is partially achieved. Kiribati has been active in responding to the impacts of climate change and disasters at all levels. KJIP ensures that climate variability, climate change, and disaster risks (related to meteorological, geological, or environmental risks) are incorporated in all development planning processes. It also ensures that tangible, on-the-ground actions are identified for all sectors in order to reduce risks. Climate risk profiles were applied to four major coastal protection works on South Tarawa.

In Tonga, the post-cyclone Niuatoputapu reconstruction targets have been achieved with support from the Post-Tsunami Reconstruction Project. A total of 127 buildings have been rebuilt or repaired, with improved auxiliary water supply and sanitation facilities. Water supply and road access to the new settlement areas outside the tsunami danger zone have been established, and 13 km of the main spine road across the island underwent resurfacing and preventive maintenance. A social survey found high levels of satisfaction among the beneficiaries of these efforts. In addition, the objectives of improved national disaster management and planning capacity have been met. The project strengthened institutional capacity for DRM. Capacity improvements include improved technical capability and skills for hazard assessment and mapping, increased availability and accessibility of improved hazard and risk information, and improved community-level awareness of and preparedness for disasters.

The Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) pilot insurance scheme (a joint Secretariat of the Pacific Community and World Bank initiative, funded by Japan) triggered an insurance payout to Tonga in the amount of US\$1.27 million to fund immediate relief and recovery in response to Tropical Cyclone Ian and to Vanuatu in the amount of US\$1.9 million following Tropical Cyclone Pam. The positive outcome of the pilot led PCRAFI member countries to establish an independent PCRAFI facility to provide disaster and climate risk insurance, domiciled in the Cook Islands and established by August 2016. Following COP21 in Paris, development partners have so far committed US\$35 million toward the facility.

Tuvalu intended to pursue CCA measures focusing on effective medium-term planning and sustainable water resource (drought) management, but they did not eventuate, which constitutes a major missed opportunity in light of Tuvalu's critical vulnerability to the impacts of climate change and natural disasters. No WBG-supported operations or TA were undertaken that would lead to CAS outcomes in drought and water resource management. The PCRAFI and Disaster Risk Financing Insurance (DRFI) programs developed risk profiles (earthquakes and cyclones) but did not address water resource or drought management. The aviation project had planned to create climate resilience and adaptation co-benefits by using the runway as water catchment and creating water storage facilities, but later that scheme was not considered to be viable for potable water.

A set of outcomes in the Kiribati CAS related to improving coastal resilience, strengthening water resource management with greater access to clean water, and increasing capacity to manage DRR and CCA. They were mostly achieved through support from the Kiribati Adaptation Program (KAP) II and III. The government has strong support at the policy level for water resource management in South Tarawa. The sustainability of the physical improvements to the network and ongoing reliability of the water supply are accompanied by behavior-change interventions aimed at improving water saving and management as well as improving willingness to pay for the supply.

Technical capacity has been built within the Ministry of Public Works and Utilities for improved shoreline protection. Capacity for the selection of appropriate measures has been built through the projects, and it is being utilized in coastal resilience programs in other parts of the country. Rainwater harvesting systems in Banaba and North Tarawa (six sites in four villages), which provide 5.3 m<sup>3</sup> of potable water per day (toward the project target of 6.1 m<sup>3</sup> per day) have been completed thus far.

Samoa fully met its goal of completing 5 km of inland coastal road. The road, which provides access to and for relocated communities in tsunami-stricken areas, supports the government's priority of better preparing communities to respond to natural disasters. The country has also adopted a modern and comprehensive disaster risk management (DRM) framework that features greater community engagement. Also in Samoa, 16 districts are completing high-priority coastal protection initiatives (such as mangrove planting), and milestones related to developing the Integrated National Climate Change Adaptation Strategy and accessing regional risk pooling and catastrophe insurance schemes have been achieved.

### **Theme 3: Encouraging Economic Reform and Private Sector Development**

The key objectives of fiscal consolidation and rebuilding of reserves in Samoa are mostly achieved. A tight fiscal stance, stronger revenue collection, and restraints on current expenditures have led to lower deficits in recent years, although deficits have still exceeded the government's target of 3.5 percent of GDP. Two DPOs were declared effective and disbursed over the CPS period (in March 2013 and June 2015, respectively), and a further DPO is under preparation for FY17 delivery. These DPOs each added to progress toward fiscal sustainability by including actions specifically targeting debt management, revenues, and public expenditure (particularly procurement reforms), as well as by helping to motivate the maintenance of a sound macroeconomic framework overall. As a prior action for the 2013 DPO in Samoa, the government approved and made public an updated medium-term debt strategy (MTDS), and it began to publish quarterly debt bulletins on the Ministry of Finance (MoF) website, which allow the government and the public to monitor key aspects of the debt portfolio. As a prior action for the 2014 DPO, the MoF established formal procedures for contracting loans and issuing government guarantees (with TA from the World Bank), to strengthen overarching control of debt and contingent liabilities and ensure that new borrowing is consistent with the MTDS.

The World Bank responded to Tuvalu's request for support to strengthen fiscal management and adjustments. The objective of reducing fiscal pressure and improving the economic outlook by reorienting and rationalizing government expenditure was mostly achieved: the Consolidated Investment Fund (CIF) was rebuilt by managing expenditure and reorienting expenditure to priority areas, and these efforts, although somewhat attenuated by recent natural disasters, better equip the government to address future shocks. The Tuvalu Consumption Tax also increased from 3 percent of GDP to 7 percent in 2013 (exceeding the CAS target of 6 percent). The country fell short of its important milestone of reducing expenditures for the Tuvalu Medical Treatment Scheme (TMTS); the objective was for the scheme to move from consuming 57 percent of the health budget in 2009 to 17 percent (equivalent to 2005 levels), but expenditure had declined only to 45 percent by 2014 (note however that expenditures for Primary and Preventive Health Care increased by more than 5 percent over the past several years).

The supplement to the Second DPO provided additional financing to meet an unexpected need resulting from Tropical Cyclone Pam. The operation ensures that reforms supported under the Second DPO remain on track and are implemented without the risk of delay due to competing capacity or budgetary priorities arising from post-disaster recovery.

RMI did not achieve the goal of introducing cost-reflective fuel tariffs. Discussions were held with the government and Marshalls Energy Company (MEC), but during the CAS period, WBG support was not available to MEC or the energy sector; the government at the time requested its program to focus fully on ICT reform and allocated all of its IDA resources to a DPO in the ICT sector. In government and World Bank discussions of IDA17 programming in July 2015, MoF reported that the government did not support the Bank's involvement in the energy sector, noting that sufficient support was available from the European Union (EU). Also in RMI, the overall outcome related to the Compact Trust Fund (CTF) objectives—strategic asset allocation and investment management strategies reviewed, and options identified to improve long-term sustainability in response to economic and financial market volatilities—is rated partially achieved.

Samoa made satisfactory progress toward achieving public financial management (PFM) outcomes. The government achieved the goal of strengthened PFM through recent reforms (building on nearly two decades of progress) that have established an appropriate legislative framework, introduced program budgeting, and instituted government-wide sector planning. The World Bank has also maintained a strong dialogue on revenue reform issues with the government in the context of the Public Expenditure Review (PER), as well as the 2014 DPO, which supported revisions to the Customs Act to facilitate trade and improvements to the customs information system. These legislative changes have allowed Samoa to remove red tape in customs operations and employ risk management techniques, improving transparency and predictability for traders and reducing the cost of doing business. In recent years, Samoa has also created a new Procurement Division in the MoF, an administrative arrangement that has driven the wider procurement reform process. Supported by the 2013 and 2014 DPOs, the government has ensured all tender notices and all contract awards for procurements above SAT500,000 are publicly available.

The objectives of strengthening the investment climate and business environment across the PIC6 have mixed ratings. In Samoa, the goal of improved competitiveness, including improvements in the World Bank Doing Business (DB) indicators, is assessed as partially achieved. Development objectives of the 2014 DPO aimed to strengthen the payment system, tourism sector policy, and private sector development opportunities as foundations for more robust economic growth over the medium term. Contributing to these objectives were reforms to modernize the payment system and introduce a new PPP policy framework to increase opportunities for private participation in the large state-owned enterprise (SOE) sector. These reforms have helped (and will continue to help) to boost the competitiveness of the Samoan economy. The PPP framework developed with WBG assistance was endorsed by the Cabinet. In Samoa, IFC has also assisted the government in establishing a PPP concession to develop an integrated solid waste management system (to cover all waste generators—household, commercial, industrial) in both Upolu and Savali Islands, covering 100 percent of the population. IFC also successfully established the Samoa Alternative Dispute Resolution, which was a cost-effective, sustainable alternative for commercial dispute resolution (to complement to the formal court system).

In Tonga and Samoa, central to IFC's focus has been advancing the tourism industry, which fuels growth and employment, not least because of its multiplier effect: the tentacles of tourism touch a myriad of other economic activities, catalysing the development of small businesses in related production and service sectors, with the important corollary being job creation. In 2013 IFC initiated an Advisory project aimed at addressing both the demand and supply side and increasing the development of new source markets. With IFC support, the first Tonga Tourism Yearbook was launched in 2014, and IFC will continue to work with the ministry and the Statistics Office in implementing the Tourism Core Dataset Roadmap. The Government of Samoa also requested IFC's support in reviewing how the island's air connectivity affects tourism, and in turn exploring options for Samoa to improve air connectivity, as well as its tourism marketing strategy; this review has been completed and presented to the Government of Samoa.

Some progress was seen in Tonga for the outcome cluster related to improving the business environment (improved business environment, as reflected in DB indicators; reduced cost of connectivity translating into reduced business transaction costs; and reduced number of procedures for obtaining a business license). The DPOs supported DB reforms with explicit links to DB indicators in their RFs. Some significant results (for instance, reductions in the cost of starting a business and simplification of the small business tax) and a number of more recent reforms have yet to be reflected in the DB scores but will have a big impact when they become fully effective (examples include reforms in receivership and foreign investment law). There have been specific instances of movement. For example, the Central Bank of Samoa invited a WBG Finance & Market (F&M) team to assist in developing a credit bureau for the country. The objective of reduced cost of connectivity is well served by the Tonga-Pacific Regional Connectivity Program, resulting in lower transaction costs for businesses, households, and the government.

Through the Pacific Payment Systems project, IFC successfully provided the central banks of Samoa and Tonga with a Summary Note on the Request for Interest process for the payment systems infrastructure reforms, and increased basic financial services to the unbanked and underbanked populations in remote areas of those two countries. Beyond helping improve access to electronic payment services for the unserved and underserved populations in Tonga and Samoa, IFC strengthened legal frameworks, regulations and oversight of payment systems between these countries, together with other islands that fall outside the scope of this assessment. In Tonga, IFC also completed project implementation for the creation of a remittances unit of the Tonga Development Bank (TDB), along the TDB to offer accounts for remittances transfers from New Zealand and Tonga at low cost.

The objective of legislative and regulatory improvements to the investment climate in RMI is not achieved, although the RMI Chamber of Commerce has requested IFC to provide assistance in improving the country's investment regime. Discussions revealed that the RMI government needs to further clarify its goals and the objectives of the investment policy regime, and the parties decided to put the request on hold temporarily. These challenges are exacerbated by the lack of funding for investment policy work in Northern Pacific countries through the IFC Investment Climate Rapid Response Project. In any case, WBG involvement in activities contributing to improvements in the investment climate in the remaining period of the CPS are unlikely.

In FSM, improvements in the business regulatory environment goals are rated partially achieved on the strength of progress on the related indicators and milestones. Concerted efforts and dialogue by the IFC created momentum for harmonizing foreign investment approval processes at the national and state levels. The President and government agreed with the approach that only the national government should have jurisdiction over investment matters, and the states would cease to exercise their jurisdictions.

In the energy sector, Samoa partially achieved the objective of concessions being tendered for new private investment in energy generation following liberalization and the development of a framework for independent power producers (IPPs). Two IPP concessions have been awarded (2 MW and 3 MW) to a strong international private sector operator, and the project is being developed. In FSM, the World Bank approved the Energy Sector Development Project, which became effective in October 2014 with the aim of financing urgent replacement of old and inefficient diesel generation units in Yap, Kosrae, and Pohnpei, and financing solar generating units and efficient street lighting in Chuuk. Longer-term energy goals (including helping FSM to develop master plans for the four states and the national government to move to renewable energy and energy efficiency projects) remain unachieved because project activities have been slow to take off.

Progress toward the goal of establishing maintenance microenterprises for the road sector in Kiribati has been slow, partly because the original scheme had to be modified; it now focuses on a few larger contractors to avoid overburdening the already overstretched public service with a larger number of contracts to manage. In Tonga, the objective of consolidating the transport-related departments under MoI is achieved. The TSCP has successfully supported restructuring of the infrastructure ministry, which has devolved several non-key business areas to focus on its role of policy and planning. The goal of strengthening domestic private sector road maintenance capacity is also fully achieved. TSCP succeeded in providing routine maintenance on the full road network of Tongatapu. The project ultimately helped to create a road maintenance industry in Tonga and strengthened capacity toward that end.

In Kiribati, IFC provided transaction advisory support to the Government of Kiribati by preparing and implementing a tender for the selection of private investors/operators for the development of the Otintaii Hotel, a 40-room facility on the main island, Tarawa. The project was IFC's first engagement in Kiribati, and a significant private sector activity for a country dominated by SOEs.

Outcomes in Samoa related to agricultural productivity and marketing have been mostly or partially achieved through the Samoa Agriculture Competitiveness Enhancement Project (SACEP). Yields of selected vegetable crops have increased (although not yet doubled), and a greater share of locally produced fruits, vegetables, and beef is sold through domestic channels. The RMI component of the Pacific Islands Regional Oceanscape Program (PROP) became effective only in September 2015, and thus RMI has not yet achieved the outcome on increased percentage (from 10 percent to 12 percent) of the landed value of the tuna caught in national waters that is retained by the country via sales of access rights. Similarly, the milestone on introduction of a market mechanism permitting the trade of fishing licenses at international market rates is also not achieved. A key factor in these achievement ratings is that the start-up time needed for the project in RMI was underestimated.

In Samoa, IFC tourism investments to support 4,000 new arrivals across three pilot countries by 2016 remain only partially achieved. The PPP framework developed with WBG assistance will improve air services and encourage new private sector investments in tourism. The CPS noted that Samoa-specific indicators would be developed as the initiative progressed and would be included in the CPS Progress Report. In the absence of a Progress Report, however, those indicators remain unspecified.

#### **Theme 4: Improving Education, Health, and the Social Services**

Samoa partially achieved the outcome related to improved efficiency and effectiveness of service delivery to strengthen health financing and address education quality. The Samoa Health Sector Management Program Support Project responded to the National Health Strategic Plan's priorities but progress was mixed, with certain indicators reflecting negative trends and others having more positive outcomes. Results were partially achieved for improvements in policy, planning and implementation, efficiency in public health, commitment and ownership of the sector-wide process, harmonization, and quality of consultations and processes. Health sector management has improved, although it could improve further with additional delineation between the Ministry of Health's oversight and regulatory functions and by allowing the National Health Service to manage health service delivery.

Education sector outcomes in Tonga—net enrolment, dropout, retention rates, and student test performance improved from 2005 baselines; local participation and accountability increased through introducing school-based management, with schools engaging communities in planning, budgeting, and results assessment—are mostly achieved. The World Bank's contribution to Tonga's education sector during the period enabled the government to achieve its National Strategic Planning Framework 2009-2013 theme of "Facilitating community development by involving district and village communities in meeting their service needs." Tonga Education Support Project (TESP) outcomes have clearly demonstrated progress toward local-level resolution of school service delivery needs. Education investments have also benefitted from close donor coordination.

## **WORLD BANK GROUP PERFORMANCE AND LESSONS**

### **Lessons from CAS/CPS Design**

Most of the individual CASs and CPSs for the PIC6 are well aligned with the respective country development frameworks and visions. Applying filters (such as the key challenges and priorities; sequencing; development partner presence, plans, and roles in the area of engagement; and demand and commitment from the clients) and building on previous experience and projects in those countries with a legacy of WBG engagement, the strategies were selective and well structured. They accommodated the increasing level of resources available from the WBG to develop expanded programs of engagement and also took on board potential regional resources available for various activities. The strategies are tightly couched within the East Asia and Pacific (EAP) regional framework and overarching themes, and they are also aligned well with the WBG corporate goals of reduced poverty and shared prosperity. They also benefited from wide-ranging and close consultations with key stakeholders during their preparation. The Bank's Pacific Futures

study influenced the design of these strategies in substantive ways—for example, by highlighting continued reliance on remittances and aid flows over the longer term, and expansion of budget support from the donors.

The choice of instruments was appropriate, with a mix of DPOs where warranted (based on the experience of recent budget support operations in these and similar countries), investment credits, sector-wide approaches (SWAps), additional financing, repeater and phased projects, multi-country regional programs, TA, and other Advisory Services and Analytics (ASA). The design of many programs included the use of budget support operations in several of the PIC6. Regional operations were a strong feature in the unique microstate context of the Pacific islands. Although regional engagements are sometimes complex and difficult to manage, the risks can be substantially mitigated and regional IDA operations (as well as regional ASA and TA) proved to be effective and efficient in the use of WBG resources. Regional operations encouraged partnership between culturally aligned but physically distant countries – including joint learning and collective approaches to common problems (PCRAFI is a good example of catalyzing development assistance and can offer lessons for disaster and crisis response operations). No MIGA operations were undertaken in any of the countries during the period under review.

A key weakness common to several strategies is the complex design of the RFs. Given the small sizes of the economies and populations, limited WBG engagements (in most cases pre-existing WBG portfolios and ongoing projects were absent), and the need for simplified results chains, having large numbers of outcomes and related indicators and milestones was perhaps unwarranted in several cases. While the identification of the strategic areas and themes was judicious, the RFs should have included fewer individual outcomes, which in turn become the units of accounting for exercises such as the CLR and Independent Evaluation Group (IEG) evaluations. The CASs/CPSs also were often overambitious in terms of the results that could be achieved through activities that would be developed, appraised, negotiated, approved, made effective, and implemented within the timeframe. However, recognition needs to be given to the unfamiliarity of the WBG in many of these countries at the time the frameworks were developed, weak capacities on the ground, the inherent intention to recalibrate and adjust results as experience was gained, and the use of regional approaches to mitigate individual capacity constraints.

These country strategies and partnerships represent the WBG's first-ever systematic and strategic engagements with the PIC6 as individual clients, and they also include the first WBG financing for some of them. Unlike most CASs/CPSs, in most of these countries the WBG started from a zero base, with no ongoing portfolio or even solid ongoing relationships. A further consideration is that some of the CAS/CPS engagement periods are incomplete or have been completed only recently. For that reason, it is somewhat unrealistic to expect that measurable results specified in the various RFs should be fully achieved at this time. Perhaps some of the RF outcomes should not have been specified as achievable within this timeframe and within three-four years of initiating activities to support the new strategies. Perhaps alternative frameworks should have been considered for the first country-specific engagement, such as Country Engagement Notes (CENs), which would have outlined a two-year plan to initiate engagement and a program, without expectations about larger results.



Despite these caveats, the identification of risks to CAS implementation was candid and realistic. Several common threads run through each of the strategies. They include program delivery risks due to the thin capacity in the countries and minimal WBG staff in-country; political risks; the ever-present risks of exogenous shocks inherent in small, fragile, isolated, and geographically dispersed island economies; weaknesses in PFM; difficulties of securing political consensus for reforms; unfamiliarity of the client with WBG procedures; extreme remoteness imposing high transport costs and logistical challenges; spatial dispersion increasing the cost and complexity of providing public services; weak economies of scale for most development activities; and severe skill and technical constraints. Many of these risks materialized to various degrees in these countries and contributed directly to the slower-than-expected pace of implementation of many activities. The WBG aimed to mitigate these risks through close partnerships and communications with the governments, development partners, and a broad range of civil society organizations, and by strengthening capacity and country systems as well as enhancing its support for implementation. The need for well-managed transitions of WBG Task Team Leaders (TTLs) is a recurrent recommendation from the country teams.

### **Lessons of Implementation**

The individual CLRs presented in Attachments 3A–8A detail the specific implementation experiences with the six CASs/CPSs. The commonalities emerging from that experience are highlighted here, without going into project particulars and individual circumstances, to provide the key overarching lessons that can be drawn from implementing the six CASs/CPSs.

The key challenge to implementation stemmed from underestimating the complexity and time required to design, appraise, negotiate, approve, make effective, and implement the WBG-supported projects. In reality, the anticipated results can come only later in the project cycles, often beyond the CPS period. Although CPS targets in the RF often are calibrated from the end-project targets to be met within the CPS period, frequently they are still ambitious. As a result, a large number of outcomes are partially achieved, and quite a few are not achieved. The number of fully achieved (or mostly achieved) outcomes remains limited by the end-point of the CAS/CPS period.

Equally, the WBG underestimated the challenges inherent in implementing activities in countries new to WBG procedures, where clear limitations on capacities and remoteness and isolation added to the burden of supervision. It is no surprise that some outcomes remain unachieved at the end of the CAS period, as many initiatives were only getting off the ground toward the end of the CAS period or beyond. In this regard, an important lesson is that the use of a single Technical and Fiduciary Services Unit (TFSU) in support of the aviation projects proved useful in the PIC6. The unit, based in Tonga, was able to combine procurement packages for different countries and obtain more competitive pricing during bidding than would be possible under individual contracts. They also provided technical expertise that was unavailable to the participating countries, particularly in such areas as aviation, procurement, and financial and contract management. The economies of scale from the TFSU resulted in a lower implementation cost than stand-alone project management units for individual projects. In several cases (involving aviation or marine fisheries, for instance), the use of multi-country platforms was useful in addressing transaction costs, both for the clients and the WBG, and capacity constraints.

The WBG's performance in promoting macroeconomic and fiscal resilience through its DPOs and coordinated budget support with other development partners has been sound. The Bank has supported the DPO prior actions with extensive TA and good ASA. The Bank's DPOs have provided important government-led mechanisms under which policy development support and budget support from development partners have been coordinated and prioritized. In particular, the use of a single Joint Policy Action Matrix reduced the transaction costs imposed on the government and enabled close consultation and cooperation among development partners, including, for example, by ensuring that the sector-specific expertise of individual development partners can be best leveraged. The policy matrices are developed jointly with other donors and have provided an important platform around which to agree on the key reform priorities in the various countries. Most DPOs have also leveraged co-financing with other donors, such as ADB, Australia and New Zealand, who have played a strong role in the policy dialogue with the governments. The WBG's joint ADB/WBG liaison offices in Kiribati, Samoa, Tonga (and Vanuatu though it is not covered by this CLR) are good examples of close collaboration with the other major development bank in the region. This arrangement has in fact fully matured in the CLR period.

For DPO prior actions related to PFM, the Bank provided effective support in the form of extensive TA (for example, in the case of procurement and debt management reforms) and analytical work (for example, the Public Expenditure Review). The Bank also ensured that the development objectives and associated reform actions of the proposed operations were closely aligned with the priorities and strategic areas in the economic development arena and the government's own PFM reform agenda.

The Bank found that adequate investment in policy dialogue is vital but resource intensive. Furthermore, close coordination and engagement with other development partners in the identification of policy priorities is useful in sectors where the Bank has limited knowledge and engagement. However, the experience with attempts to implement reforms in certain sectors (such as ICT in RMI) is a reminder of the difficulties of sector reforms and points to the need for a deeper assessment of political economy realities. Starting engagement in a country with a DPO (and one that focuses on a difficult reform area) may not be the best decision. The WBG may need to continue exploring ways to engage citizens in reform processes and designing engagements with broader support as ways to recalibrate its standard approach to the demands of relatively smaller countries while not underestimating the significance of political economy issues.

A major issue that affected several projects during preparation was the underestimation of costs, resulting in extensive administrative efforts to bring on additional finance. This issue came about in large measure because no history of comparable projects was available and also because contractors placed a "remoteness" premium on works to reflect the risks perceived in undertaking them. These issues will continue in the future and cannot be fully mitigated. Similarly, projects suffered from the lack of detailed implementation arrangements for procurement, legal clearances, staffing, contract administration, land acquisition, and so on, which needed to be developed as part of project preparation. In-country capacity proved to be a continuing challenge. Projects could draw upon only a very small domestic population to meet local staffing needs, and often this pool of potential project staff lacked experience in donor projects. In Tuvalu, the PAIP program addressed this issue by training interns in skills that they could use on future development projects.

The Bank did well by responding swiftly to requests from governments to provide coordination, analytical, and financial support in a timely manner to assess the effects of disasters—the tsunami (Samoa and Tonga 2009), Cyclone Evan (Samoa 2012), Cyclone Ian (Tonga 2014), and Cyclone Pam (Tuvalu 2015)—and assist with recovery and reconstruction. For example, the Bank fielded an identification mission within 10 days of the tsunami that hit Samoa. The Bank coordinated and facilitated two comprehensive multi-sectoral Post-Disaster Needs Assessments (PDNAs) following the tsunami and cyclone Evan to support Samoa in resource mobilization and recovery planning, and it conducted a rapid damage assessment following Cyclone Ian in Tonga. The Bank mobilized additional resources from its IDA Crisis Response Window for these unanticipated events and targeted the additional IDA resources to the key sectors affected as follows: US\$10 million for a Samoa Post Tsunami Reconstruction Project (P120594); US\$5 million for a Tonga Post Tsunami Reconstruction Project (P120595); US\$10 million contribution to US\$15 million Samoa Development Policy Operation (P144377); US\$5 million contribution to a US\$20 million Samoa Enhanced Road Access Project (P145545); US\$5 million for a Samoa Agriculture and Fisheries Cyclone Response Project (P145938); US\$12 million for a Tonga Cyclone Ian Reconstruction and Climate Resilience Project (P150113); and US\$3 million through a supplemental DPO for Tuvalu. Supervision was close and the task team provided counterpart staff with timely feedback on technical, procurement, and safeguard issues, facilitating fast decision-making and smooth implementation. The regular and consistent missions helped to build a collegial working relationship with counterpart officials and helped ensure that the project was implemented relatively smoothly and fully achieved its development objectives.

Partnerships and coordination with other donors and key development partners have been fully pursued and utilized, particularly given the small-country contexts where any overlaps are not only wasteful but potentially disruptive. WBG partnerships and collaboration are a necessity in this congested environment, where ODA per capita is high, and the WBG approach was exemplary: engaging in areas where it held comparative advantage and could complement existing bilateral, multilateral, and regional partners; promoting donor coordination; and accommodating small implementation capacities. What may best epitomize donor coordination in the Pacific is the Pacific Region Infrastructure Facility (PRIF), a multi-agency mechanism coordinating the delivery of development assistance from donors and development partners to the infrastructure sector in the Pacific region. Through the PRIF, representatives of the Japan International Cooperation Agency (JICA), WBG, ADB, EU, and European Investment Bank (EIB) meet on a quarterly basis to exchange views on their respective programs, share knowledge, and agree on the financing of pieces of analytical work and research that are requested by client countries and that also contribute to the identification and justification of new donor-funded projects. At the technical level, five sector working groups (Water, Energy, Urban, ICT, and Transport) also meet every three months for technical discussions, often piggybacking on larger learning events or summits.

Coordination exists both between multilaterals, and between multilaterals and bilaterals. For example, in Kiribati, the Aviation Investment Project benefited greatly from the joint work between the Bank team and the New Zealand High Commission in Tarawa, which led to the resumption of a project that had been paralyzed for about a year. New Zealand Ministry of Foreign Affairs and Trade (MFAT) presence on the ground, combined with additional funds from

Wellington to bridge a financing gap, was instrumental in restarting a Bank-funded project and creating the conditions required to meet the objectives of the project.

## **ALIGNMENT WITH WORLD BANK GROUP CORPORATE STRATEGY**

The country CLRs at the end of this annex provide discussions and examples of how the PIC6 CASS/CPSs are aligned with the WBG's twin goals of reducing poverty and boosting shared prosperity. While the twin goals had not yet been articulated when some of these strategies were prepared, retrospective and brief reviews of the various WBG engagements indicate that the programs and results are indeed well aligned with the twin goals. Examples of that alignment are provided below; further details are in the individual CLRs.

Extreme poverty is negligible in *Tonga*, but significant numbers live in hardship, and the country faces serious challenges in securing prosperity for all. The WBG program in Tonga supports the twin goals through a number of interventions. The Tonga Pacific Regional Connectivity Program has helped to reduce the cost of internet connectivity, which contributes in turn to reducing transaction costs for businesses, households, and the government. It has also facilitated the development of new platforms for business and service delivery (in health and education, for example) and potentially new job opportunities (e-commerce, online work). The support for the Consumer Information Bureau improves access to finance for small and medium enterprises (SMEs), which represent the largest source of employment in most PICs. The TERM Implementation Unit (TERM-IU), supported by the Bank-financed DPO, reduces the impact of volatility in prices of diesel, which in turn will reduce fluctuations in electricity prices. Lower and more stable energy prices reduce the share of household income required for energy needs, increasing households' capacity to meet other basic needs and reducing their exposure to severe hardship during periods when energy imports are high.

The improvements in the transport sectors under the Tonga Transport Sector Consolidation Project have created a domestic road construction industry, and are expected to have a significant positive impact for users of domestic transport in Tonga by providing more reliable access to markets and to education and health services, as well as by facilitating tourism. Given the unique geographical characteristics of Tonga, air connectivity is a crucial economic enabler, delivering major benefits from the provision of services that support activities linked to tourism, trade of goods and services, investment, and remittances. These economic benefits from improved transport connectivity are essential for boosting shared prosperity.

In education, the positive outcomes of Tonga Education Support Program (TESP) are strongly relevant to the twin goals of reducing poverty and boosting shared prosperity. The project promoted a practical, sustainable approach to participatory school-based management to improve access to education services for disadvantaged communities and make service providers more accountable to community members. The project also reduced the disparity in access to learning materials across schools: prior to the project, schools in poorer villages had few or no materials.

While extreme poverty is very rare in *Samoa*, it is difficult to get a clear sense of the incidence and dynamics of basic needs poverty. The poorest 40 percent of Samoa's population face significant spending constraints, and as a result they tend to rely heavily on publicly funded health and education services. Promoting the quality and accessibility of these services is critical to the

welfare of the most vulnerable, and at the macroeconomic level this task hinges on the country's capacity to maintain fiscal stability and rebuild buffers to insulate these social sector expenditures from external shocks. Through the DPOs, the achievement of these objectives has been strengthened by Bank-supported reforms to improve debt management, strengthen revenue collection, and ensure value-for-money and transparency in public procurement. In the aftermath of Cyclone Evan, funds provided under the 2013 DPO prevented cutbacks in the frontline service delivery that particularly benefits the poor. Analytical advice and input provided by the Bank in ASA products (such as the PER), along with the PFM engagement, have helped the government to maintain expenditure on those public services that the poorest and most vulnerable tend to rely upon the most.

The activities supporting the agriculture sector outcome will enable beneficiary farmers to increase their productivity (yields) for selected vegetables that are in demand on the local market. These activities are complemented by support to help farmers run a successful commercial enterprise (for example, training in business planning) and connect to local markets (including restaurants and hotels). By supporting farmers not only to increase the productivity of fruit, vegetable, and animal production but to increase the sales of their production and therefore incomes, the project is helping to reduce food and income poverty. The project's focus on farmers helps to add to wealth in rural areas, which have historically lagged behind the urban center, thereby sharing prosperity across the population. By measuring women's participation in the project, the project team will be able to assess whether benefits from the project (increased incomes for commercial farmers and increased productivity for subsistence farmers) are being shared equitably across the population.

The data collected through the World Bank's impact evaluations of the Seasonal Worker Program (SWP, Australia) and Recognized Seasonal Employer scheme (RSE, New Zealand) suggest that these programs have opened up significant seasonal migration opportunities to poor, rural households. The participation of poorer and more rural households in the program suggests that these programs are reducing poverty and boosting shared prosperity in Samoa. To the extent that the TA provided by the World Bank has allowed Samoa to maintain its numbers in these schemes (given program caps), the CPS program as implemented has had a strong alignment with the twin goals.

***Kiribati*** is the poorest of the PIC6, with the highest poverty rate. The country's ability to respond to climate risks is hampered by its highly vulnerable socioeconomic and geographical situation. In addition to strengthening resilience against climate change, WBG projects will also be helping to reduce Kiribati's vulnerability to external economic shocks, such as food and fuel price increases. The proposed 516 kW grid-connected solar PV generator for South Tarawa will help diversify electricity generation and, with the help of the energy project, assist the poor by leading to lower energy costs. The Kiribati Road Rehabilitation Project addresses the poor condition of the South Tarawa road network, which disproportionately affects poor residents. To a certain extent, these improvements will also address shared prosperity. A reliable network of air links, within and among island countries and onwards to major hubs such as Australia, Fiji, New Zealand, and beyond, is essential to dissipate the economic vulnerability of Kiribati by providing needed access to employment, medical treatment, and education to reduce poverty and boost shared prosperity. The outcome on labor employment directly benefits poverty reduction and shared prosperity, as

employment places unemployed and largely unskilled laborers in a better position to meet their basic needs and those of their families.

The CPS for *FSM* is explicitly aligned with the WBG's twin goals of eliminating extreme poverty by 2030 and encouraging shared prosperity, especially for the bottom 40 percent of the population. The CPS identified the need to build a stronger analytical and evidence base on poverty within FSM to best target resources to address particular needs. Accordingly, a PER and poverty/gender and Household Income and Expenditure Survey (HIES) and analysis were undertaken to fill information gaps and ensure that fiscal consolidation could be as pro-poor as possible in the two largest sectors of education and health. The poverty- and gender-disaggregated analysis complements the PER by enabling effective targeting of all public expenditures to ensure that the bottom 40 percent and the poorest segment of the population benefit from the programs.

The results area related to improved targeting and management of the fiscal adjustment process is critical to supporting the *RMI* in its effort to reduce poverty and boost shared prosperity. With no monetary policy and limited fiscal policy (given the utilization of the US dollar and high aid dependence), RMI faces a critical imperative to ensure fiscal sustainability and build adequate assets to buttress the economy against the variety of shocks it faces. At the same time, ensuring adequate and equitable service delivery as programmed under the CPS is also critical for supporting the twin goals. Although the CPS was designed prior to the WBG's adoption of the twin goals, the set of priorities and outcomes contained within the CPS reflects these objectives.

The review of the FY12-15 *Tuvalu* CAS demonstrates that several of its strategies aligned well with achieving greater shared prosperity and reducing poverty, which is distributed unevenly in Tuvalu (despite its per capita income level). Only limited data on poverty are available to assess Tuvalu's performance against the twin goals. The World Bank is engaged in a coordinated dialogue on this front, and a HIES should be completed in 2015/16. The programmatic series of operations for Tuvalu is designed to support the government's development objectives and contribute to the improved wellbeing of Tuvaluans in both Funafuti and the outer islands. Reforms to strengthen PFM can help to improve poverty and social outcomes in Tuvalu indirectly by making the budget a more effective tool for responding to national poverty and social needs. Reforms to improve revenue and expenditure efficiencies will enable the government to maintain a sustainable fiscal buffer, which in the medium term will ensure continued service provision even through periods of shock. Better management of both the overseas scholarship and medical treatment programs is expected to free scarce resources and allow the government to start rebalancing its expenditure in education (toward more equitable, employment-oriented vocational training) and to increase the expenditure on basic healthcare (on which poorer households depend heavily). The aviation sector is particularly important for these objectives, as it allows Tuvaluans to take advantage of international job and education opportunities while remaining connected to and contributing to their country and the region. Full rehabilitation of critical air transport infrastructure and ancillary services is part of the program. Ensuring that Tuvaluans will continue to be employed overseas will contribute to the goal of reducing poverty and promoting shared prosperity, particularly for the outer islands, where poverty rates are higher.

## ATTACHMENT 1: PIC6 PLANNED AND ACTUAL DELIVERIES—OPERATIONS (as of August 5, 2016)

PLANNED	STATUS
<b>FSM CPS FY14-17</b>	
<ul style="list-style-type: none"> <li>• Energy Sector Development Project</li> <li>• FSM-Palau ICT Regional Connectivity Project</li> <li>• Pacific Islands Regional Oceanscape Project (PROP)</li> <li>• Technical Assistance Project</li> <li>• Regional Disaster Risk Management Program</li> <li>• IFC: Foreign Investment Law Review</li> <li>• IFC: Investment climate assessment—fisheries</li> <li>• IFC: Diagnostic of potential of on-shore fisheries investments</li> </ul>	<ul style="list-style-type: none"> <li>• Delivered (P148560, FY14, US\$14.4m)</li> <li>• Delivered (P130592, FY15, US\$47.5m)</li> <li>• Delivered (P151754, FY15, US\$5.5m)</li> <li>• Not developed yet</li> <li>• Not delivered; government recently declined participation in PCRAFI</li> <li>• Delivered</li> <li>• Did not proceed</li> <li>• Did not proceed</li> </ul>
<b>Kiribati CAS FY11-14</b>	
<ul style="list-style-type: none"> <li>• Kiribati Road Rehabilitation Project</li> <li>• GEF Kiribati Climate Adaptation KAP III</li> <li>• Food Price Crisis Response</li> <li>• Kiribati Airport Rehabilitation</li> <li>• Tarawa Solar Energy</li> <li>• Kiribati Telecommunications Reform</li> </ul>	<ul style="list-style-type: none"> <li>• Delivered (P122151, FY11, US\$20m; TF US\$5.79m), AF (P154012, FY15, US\$6m)</li> <li>• Delivered (P112615, FY12, Multiple TFs, US\$10.55m)</li> <li>• Delivered (P118552, FY11, US\$2m)</li> <li>• Delivered as Kiribati Aviation Investment (P128938, FY12, US\$22.9m; AF FY16, US\$7.1m)</li> <li>• Grid Connected Solar PV Power Plant (P121878, FY13, US\$1m; TFs US\$3.9m)</li> <li>• Telecoms and ICT Development (P126324, FY13, IDA and TF US\$2.1m)</li> </ul> <p><i>Additional Deliveries</i></p> <ul style="list-style-type: none"> <li>• Kiribati Economic Reform Operation (P144602, FY14, US\$5.2m)</li> <li>• Second Economic Reform DPO (P149888, FY15, US\$3m)</li> <li>• Improving Services for Victims of Gender Based and Domestic Violence (FY13, US\$0.4m)</li> <li>• Kiribati Food Crisis Response (FY11, TF US\$2.0m)</li> </ul>
<b>RMI CPS FY13-16</b>	
<ul style="list-style-type: none"> <li>• ICT DPOs</li> <li>• Pacific Islands Regional Ocean Operation</li> <li>• Energy Sector Development Project</li> <li>• Addressing Gender-based Violence</li> </ul>	<ul style="list-style-type: none"> <li>• First ICT Sector DO (P128013, FY13, US\$3m)</li> <li>• PROP for Marshall Islands (P151760, FY15, US\$6.8m, TF US\$1.83m)</li> <li>• Did not proceed; currently preparing a Renewable Energy Project in RMI</li> <li>• Did not proceed</li> </ul> <p><i>Additional Deliveries</i></p> <ul style="list-style-type: none"> <li>• Pacific Resilience Program – RMI (P155257, FY15, US\$1.5m)</li> <li>• ICT Technical Assistance Project (FY14, TF US\$1.25m)</li> </ul>
<b>Samoa CPS FY12-16</b>	
<ul style="list-style-type: none"> <li>• DPO Series</li> <li>• Agricultural Competitiveness</li> <li>• West Coast Road Climate Resilience</li> <li>• Community Coastal Resilience</li> <li>• Infrastructure Asset Maintenance</li> <li>• Pacific Aviation Safety</li> </ul>	<ul style="list-style-type: none"> <li>• Samoa DPO (P144377, FY14, US\$15m)</li> <li>• Agriculture Competitiveness Enhancement Project (P115351, FY12, US\$8m)</li> <li>• Enhancing Climate Resilience – West Coast Road (P126504, FY13, US\$14.8m)</li> <li>• Enhancing Climate Resilience of Coastal Resources (P126596, FY14, US\$14.6m)?</li> <li>• Samoa Infrastructure Asset Management II (P075523, FY08, FY13, US\$21.07m)</li> <li>• Delivered as Samoa Aviation Investment Project (P143408, FY14, US\$25m; AF FY16 US\$16.62m)</li> </ul>

PLANNED	STATUS
<ul style="list-style-type: none"> <li>Broadband Connectivity</li> </ul>	<ul style="list-style-type: none"> <li>Samoa Regional Connectivity Phase III (P128904, FY15, US\$16m)</li> </ul> <p><i>Additional Deliveries</i></p> <ul style="list-style-type: none"> <li>First Fiscal and Economic Reform Operation (P149770, FY15, US\$7.5m)</li> <li>Pacific Resilience Program – Samoa (P154839, FY15, US\$13.8m)</li> <li>Enhanced Road Access Project (P145545, FY14, US\$20m, TF US\$6.35m)</li> <li>Agriculture and Fisheries Cyclone Response (P145938, FY14, US\$5m)</li> <li>Agriculture and Fisheries Cyclone Response (P145938, FY14, US\$5m)</li> </ul>
<b>Tonga CAS FY11-14</b>	
<ul style="list-style-type: none"> <li>Energy Development Policy Operation</li> <li>Energy Roadmap Project</li> <li>Post-tsunami Reconstruction</li> <li>Pacific Regional Connectivity – Tonga Broadband Conn.</li> <li>Transport Sector Consolidation Project</li> <li>Development Policy Operation DPO1</li> <li>Development Policy Operation DPO2</li> <li>Transport Sector Follow-up</li> </ul>	<ul style="list-style-type: none"> <li>Delivered (P121877, FY11, US\$5m)</li> <li>Institutional and Regulatory Framework Strengthening Project (P131250 FY13, US\$2.9m)</li> <li>Delivered (P120595, FY14, US\$5m)</li> <li>Delivered (P113184, FY12, US\$17.2m, TF US\$0.5m)</li> <li>Delivered (P096931, FY09, US\$5.4m)</li> <li>Economic Recovery Operation (P126453, FY12, US\$9m)</li> <li>Economic Recovery Operation II (P130824, FY13, US\$1.8m))</li> <li>Delivered as Tonga Aviation Investment (P128939, FY12, US\$27.2m, Regional AF FY13 US\$1.32m and AF FY16 US\$7.25m)</li> </ul> <p><i>Additional Deliveries</i></p> <ul style="list-style-type: none"> <li>First Economic Reform Support Operation (P144601, FY14, US\$5m)</li> <li>Second Economic Reform Support Operation (P149963, FY15, US\$5m)</li> <li>Tonga First Inclusive Growth DPO (P155133, FY16, US\$2m)</li> <li>Pacific Resilience Program – Tonga (P156334, FY15, US\$4.6m)</li> <li>Pacific Resilience Program – Tonga (P154840, FY15, US\$12m)</li> <li>Tonga Cyclone Ian Reconstruction and Climate Resilience (P150113, FY15, US\$12m and AF FY15 TF \$1.8m)</li> <li>Improved Project Management Processes and Opportunities for Environmentally Sustainable Procurement in Transport Investments (P125086 FY12, US\$0.2m)</li> <li>Pacific Catastrophic Risk Insurance Pilot Program (P133255 FY15 US\$0.25m)</li> </ul>
<b>Tuvalu CAS FY12-15</b>	
<ul style="list-style-type: none"> <li>Pacific Aviation Investment Program</li> <li>DPO</li> </ul>	<ul style="list-style-type: none"> <li>Delivered as Tuvalu Aviation Investment (P145310, FY14, US\$6.1m)</li> <li>Delivered (P145488, FY14, US\$3m) Supplemental (P156169, US\$3m)</li> </ul> <p><i>Additional Deliveries</i></p> <ul style="list-style-type: none"> <li>Energy Sector Development Project (P144573, FY15, US\$7m and TF US\$2.1m)</li> <li>Second DPO (P150194, FY15, US\$1.5m and FY16, US\$3m)</li> <li>PROP for Tuvalu (P151780, FY15, US\$7m)</li> </ul>

Note: GEF (Global Environment Facility); TF (Trust Fund); AF (Additional Financing).



## ATTACHMENT 2: PIC6 PLANNED AND ACTUAL DELIVERIES—ASA (as of August 5, 2016)

PLANNED	STATUS
<b>FSM CPS FY14-17</b>	
<ul style="list-style-type: none"> <li>• Poverty/Gender Analysis</li> <li>• PER</li> <li>• Aviation Supply and Linkages Review (Regional)</li> <li>• Maritime Safety Study (Regional)</li> <li>• Deep Sea Mining Activities TA (Regional)</li> </ul>	<ul style="list-style-type: none"> <li>• HIES under Pacific Poverty Programmatic AAA, (P151797, FY18)</li> <li>• Public Expenditure Analysis EW (P154605, FY16)</li> <li>• Pacific Aviation Sector Analysis (P153342; dropped FY15)</li> <li>• Supporting Safe, Efficient, and Sustainable Maritime Transport (P143662)</li> <li>• Pacific Islands Offshore Mining (P112571, FY11)</li> </ul> <p><i>Additional Deliveries</i></p> <ul style="list-style-type: none"> <li>• FSM and RMI Telecoms Assessment (P122736, FY14)</li> <li>• IFC Pacific Rapid Response Project</li> </ul>
<b>Kiribati CAS FY11-14</b>	
<ul style="list-style-type: none"> <li>• Telecoms: Regulatory Support and Transaction Advice for Market Liberalization</li> <li>• Climate Change Adaptation/ Water Masterplan for South Tarawa</li> <li>• Participation in 2010 IMF Article IV; Debt Sustainability Assessment</li> <li>• (Regional) Fisheries Engagement Strategy: Support to the PNA Secretariat</li> <li>• Import Levy Fund Reform Options Study</li> <li>• IFC Business Enabling Environment TA</li> <li>• Participation in PEFA Assessment</li> </ul>	<ul style="list-style-type: none"> <li>• Telecommunications/ICT Development (P118200, FY14)</li> <li>• Did not proceed</li> <li>• Bank participated in all IMF Article 4 and DSA missions</li> <li>• Pacific Islands Regional Fisheries (P112571, FY11)</li> <li>• Review of Import Levy Fund (P127619, FY14)</li> <li>• Did not proceed</li> <li>• Bank did not participate in the PEFA but in reform implementation</li> </ul> <p><i>Additional Deliveries</i></p> <ul style="list-style-type: none"> <li>• Support to Economic Reforms (P131403, FY13)</li> <li>• Telecoms Reforms TA (P122888, FY14)</li> </ul>
<b>RMI CPS FY13-16</b>	
<ul style="list-style-type: none"> <li>• Poverty Assessment</li> <li>• World Bank Treasury Asset Management CTF Diagnostic</li> <li>• Investment Climate Diagnostic</li> <li>• Beneficiary Impact Assessment on ICT Reform with Gender Focus</li> </ul>	<ul style="list-style-type: none"> <li>• HIES under Pacific Poverty Programmatic AAA (P15177, FY18)</li> <li>• Did not proceed</li> <li>• IFC Investment Climate Rapid Response Project</li> <li>• Did not proceed</li> </ul> <p><i>Additional Deliveries</i></p> <ul style="list-style-type: none"> <li>• FSM and RMI Telecoms Assessment (P122736, FY14)</li> </ul>
<b>Samoa CPS FY12-16</b>	
<ul style="list-style-type: none"> <li>• DPO Analytical Work</li> <li>• Procurement Review</li> <li>• Early Grade Reading Assessment</li> <li>• Early Childhood Development Analysis</li> </ul>	<ul style="list-style-type: none"> <li>• Samoa PER (P144365, FY14)</li> <li>• Delivered (FY11)</li> <li>• Delivered, Regional (P118877, FY13)</li> <li>• Early Childhood Development (P130712, dropped FY13)</li> </ul> <p><i>Additional Deliveries</i></p> <ul style="list-style-type: none"> <li>• Samoa Post-Disaster Needs Assessment (P144463, FY14)</li> <li>• Samoa FSAP (P151168, FY15)</li> <li>• Samoa Reform Plan (P133607, FY15)</li> </ul>

PLANNED	STATUS
	<ul style="list-style-type: none"> <li>Samoa Reform Plan Follow-up (P149869, FY15)</li> <li>Development of a Public Private Partnership Policy and Pipeline Screening (P145839, FY16)</li> </ul>
<b>Tonga CAS FY11-14</b>	
<ul style="list-style-type: none"> <li>Joint Public Expenditure Review</li> <li>Energy Roadmap Support</li> <li>Broadband Connectivity Least Cost Options</li> <li>IFC Business Enabling Environment TA</li> <li>Early Grade Reading Assessment</li> <li>Non-Communicable Disease Prevention Options</li> </ul>	<ul style="list-style-type: none"> <li>Medium-term Expenditure Mapping TA (FY12, P127973)</li> <li>Renewable Energy Development TA (FY11, P116305)</li> <li>Did not proceed</li> <li>Did not proceed</li> <li>Delivered, Regional (P118877, FY13)</li> <li>Melanesia Health Advisory Assistance (P130475, FY16)</li> </ul> <p><i>Additional Deliveries</i></p> <ul style="list-style-type: none"> <li>Tonga Reform Plan TA (FY14, P133609)</li> <li>Pacific Futures TA, Regional (P117120, FY14)</li> </ul>
<b>Tuvalu CAS FY12-15</b>	
<ul style="list-style-type: none"> <li>(Regional) Fisheries Engagement Strategy: Support to the PNA Secretariat</li> <li>Drought Risk Management Strategy</li> <li>Participation in the IMF Missions</li> </ul>	<ul style="list-style-type: none"> <li>Pacific Islands Regional Fisheries (P112571, FY11)</li> <li>Did not proceed</li> <li>Delivered</li> </ul> <p><i>Additional Deliveries</i></p> <ul style="list-style-type: none"> <li>Telecommunications and ICT TA (P146205, FY15)</li> </ul>

Note: AAA (Analytical and Advisory Activities); ESW (Economic and Sector Work); IMF (International Monetary Fund); PNA (Parties to the Nauru Agreement); FSAP (Financial Sector Assessment Program).

In addition, the following ASAs were delivered under Pacific Islands:

#### FY12

- P109094 Trade Facilitation and Strategy for Labour Exports
- P117025 Pacific Petroleum Supply TA
- P120712 Identifying Delivery Strategies for Sexual and Reproductive Health
- P122344 Pacific Catastrophe Risk Assessment and Financing TA
- P125720 Pacific Catastrophe Risk Assessment Geonode
- P126868 Coconut Oil for Diesel Fuel Substitution
- P127318 Pacific Islands Telecoms Evaluation (IFC)

**FY14**

- P126058 PRAXIS 2011-2014
- P131402 PFM Design under Capacity Constraints
- P144446 Pacific Hardship and Vulnerability Study

**FY15**

- P127935 AusAID Education Partnership
- P127936 Pacific Early Education Advisory Services (PEEAS)
- P130478 Institutional Strengthening for Labor Migration
- P133619 Appropriate Social Protection Policy in the Pacific Island Countries
- P146664 P4: Options Assessment on ICT for Jobs in the Pacific

**FY16**

- P118670 Pacific Regional Regulatory Resource Center
- P145802 Strengthening Local Capacity and Improving Project Implementation
- P147920 Asset Management Advisory for Pacific Trust Funds and Sovereign Wealth Funds
- P153894 Pacific Payment Remittances and Securities Settlement Initiative
- P155515 Tourism and Connectivity in the Pacific

## **ATTACHMENT 3A: FEDERATED STATES OF MICRONESIA, CPS FY14-17 COMPLETION AND LEARNING REVIEW**

Date of CPS (FY14-FY17): April 30, 2014 (Report No. 87818-FM)

Period Covered by the Completion and Learning Review: July 31, 2013 to June 30, 2016

### **Summary of Key Findings**

The first WBG Country Partnership Strategy (CPS) for the Federated States of Micronesia (FSM) was issued in April 2014 and covers the period FY14 to FY17. The stand-alone CPS followed the approach at the time, which was to focus on single-country analysis of challenges and supporting WBG programs, while overall WBG support to the PICs was being ratcheted up. The CPS aligned well with the four overarching themes for engagement in the Pacific. The CPS priorities also drew from a consultative process, were aligned with the government's Strategic Development Plan (2004-2023), and addressed the WBG's twin goals of poverty reduction and shared prosperity.

#### *Development Outcome*

A key challenge of conducting a CLR assessment at this point is that the CPS covers FY14-17 and thus has more than one year to go before the CPS closes. The CLR assessment is thus based on the achievement of outcomes to date (end-FY16), with the understanding that these ratings will change when the full period of the CPS comes to an end. With that proviso, as of now the development outcome is rated moderately satisfactory. Two of the five outcomes have not yet been achieved, two are partially achieved, and the fifth is already mostly achieved. The main reason that two outcomes (increased electricity services, ICT access) are rated as not achieved is that the supporting WBG projects became effective only recently, and project activities are just now gearing up. That said, the results are on track to be achieved.

#### *World Bank Group Performance*

The provisional performance rating for the WBG is fair. The WBG successfully assisted the Government of FSM to improve key elements in the targeting and management of the critically important fiscal adjustment process. Also, joint World Bank-IFC efforts have facilitated important advances in the approaches to policy reforms to support an improved business regulatory environment, particularly by clarifying the roles of the national and state governments in relation to investment issues and private sector development. Three other outcomes (electricity services, access and costs of ICT service, and increased benefits from the fisheries sector) are supported by WBG-financed projects that are just starting to become substantially active in terms of implementation. Latest individual Implementation Status and Results (ISR) report for those projects mostly rate the Project Development Outcomes (PDOs) and Implementation Progress (IP) as satisfactory.

### **Highlights of Assessment**

The CLR focuses on actual achievements to date measured against the metric of the outcomes, indicators, and milestones included in the RF (Attachment 3B). The engagement program specified in the CPS is designed around two themes: (1) strengthening the enabling environment

for private sector development to help sustain growth, and (2) promoting a sustainable medium-term fiscal situation to improve basic service delivery.

*Theme 1: Strengthening the Enabling Environment for Private Sector Development*

The Bank approved the Energy Sector Development Project (effective October 2014) to finance the urgently-needed replacement of old, inefficient diesel generation units in Yap, Kosrae, and Pohnpei and to finance solar generating units and efficient street lighting in Chuuk. The project's longer-term goals included helping FSM to develop master plans for the four states and the national government to move to renewable energy and energy efficiency projects. **Outcome 1** and indicators are not yet achieved. The PIU is slowly completing the recruitment of key staff. The indicators on improving the operating efficiency and expanding the available power generation capacity are also unachieved.

Similarly, the FSM-Palau Connectivity Project (in partnership with ADB for the Palau-Yap-Guam cable component), which supports **outcome 2**, became effective only in March 2015, and the outcome is not yet achieved. The project aims to finance investments in key telecommunications infrastructure to provide enhanced connectivity across all four states of FSM and to strengthen the regulatory environment. The project was restructured in January 2016 to allow the Government of FSM to purchase capacity on an undersea cable system being installed by NEC between Indonesia, Philippines, and Guam instead of FSM and Palau jointly purchasing and laying their own cable. The Government of FSM has been in extensive and protracted negotiations with the consortium to purchase that capacity, and the contract was signed in April 2016. The connectivity project will also finance a cable system connecting Chuuk State to Pohnpei, providing faster and more reliable ICT connectivity for Chuuk and Kosrae, and will finance TA for advisory services to support sector regulation, regulatory capacity development, and universal access throughout FSM. Indicators related to increased mobile and internet penetration, and milestones on the adoption of new ICT legislation, establishment of independent telecommunications regulatory function, and at least two ICT service providers operation are unachieved.

**Outcome 3**, an improved business regulatory environment, is rated partially achieved on the strength of the progress on the related indicators and milestones. Concerted efforts and dialogue by the IFC have led to traction on harmonizing national and state foreign investment approval processes, with the President agreeing to the approach. The national government has agreed that only the national government has jurisdiction over investment matters, and the states will cease their jurisdictions. There is also agreement that on-shore fisheries investment approval requirements will be fully documented and harmonized at all levels of government and will follow the enactment of the changed Investment Law being drafted by the Department of Justice, to reflect international best practice. The mapping of state and national investment information requirements and approval processes has been achieved, but follow-up work will be necessary after the system is reformed. The mapping of state and national on-shore fisheries investment processes is also pending the change in the law.

## *Theme 2: Promoting a Sustainable Medium-term Fiscal Situation*

The Bank's coordinated approach to the effective and efficient management of fisheries across the Pacific is embodied in the PROP, which includes FSM in the first phase. Under that program, WBG supports FSM to advance its activities along the tuna value chain by adding more value locally, which will enable FSM to retain a greater portion of the overall economic benefits generated by the tuna resource. As PROP became effective only in May 2015, the results for **outcome 4** are on track and rated partially achieved. Implementation has started with the Project Coordinator on board. The indicator on increasing annual access revenues to FSM from the tuna fisheries, while keeping harvesting within sustainable levels, is on track, measured by sales of vessel days (in other words, under the regional Vessel Day Scheme, FSM has not sold more vessel days than allocated for the purse seine fishery). Countries participating in the scheme have reported on this activity in accordance with the project milestones, and it is in the process of being verified by a third party. A functioning regional information management system has been put into place to support the Vessel Day Scheme. One hundred percent of the purse seine fishing vessel days that are used are being recorded annually according to agreed criteria, thus achieving the related milestone.

**Outcome 5** (improved targeting and management of fiscal adjustment process) is mostly achieved. Self-reliance and service delivery are critical elements of the national development strategy, and the government has made some moderate progress toward this fiscal adjustment goal with the support of bilateral and multilateral partners. The WBG has helped to broaden the analytical base and inform policy decisions around the Compact transition plan to ensure sustained delivery of basic services. A key supporting WBG activity has been the ASA on Public Expenditure Analysis. The ongoing joint Bank-FSM poverty- and gender-disaggregated analysis of the 2014 HIES is helping to ensure that the impact of fiscal adjustments on the poor is reflected in policy documents (the analysis is under review by the government). In addition, to ensure that opportunities for efficiency gains in health and education are identified and inform policy decisions, the benefit incidence analysis for health and education was completed on the back of the HIES. Milestones on completion of HIES and PER analysis to inform fiscal adjustment strategy, and the adoption of reforms that would enhance domestic revenue generation and aid management, are mostly achieved.

### **World Bank Group Performance**

The performance of the WBG in designing and implementing the CPS in support of selected country objectives is provisionally rated as fair. As noted in the RF (Attachment 3B) and summarized previously, two of the five outcomes are not achieved at present. Given that the CPS period has more than another year to go, a final assessment will depend on the status of outcomes as of June 30, 2017. However, the three key supporting projects related to outcomes 1, 2, and 4 are only in the early stages of implementation. In addition, while advances have been made on important elements of outcome 3 (related to the business regulatory environment), the actual enactment of the Investment Law and the corresponding regulations and policies are still awaited. The most achievements have been seen for outcome 5 (the fiscal adjustment process), for which critical, timely, and demand-driven ASA activities are the key supporting elements. Nevertheless, actual results and the translation of the recommendations into policies that have an impact on the ground are still to emerge.

## *Design*

The CPS is designed well and aligned with the overarching WBG PIC strategy, the twin corporate goals of the WBG, the country's long-term Strategic Development Plan, and the findings of close consultations with key stakeholders. The selectivity and focus of the CPS on two key themes are appropriate, as is the simple and clear RF. The CPS mentions an outcome 6: managing the impact of climate change and natural hazards. It notes that FSM is prone to natural hazards and directly threatened by climate change. The CPS remarks that disaster risk reduction, climate change adaptation, and climate change mitigation considerations are to be incorporated into national, sectoral, state, and community development strategies and programs. It also notes the government's interest in joining a regional Disaster Management Program, building on the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI). The CPS observes that the supporting WBG program for FSM will be developed during the CPS period, but such a program is not explicitly included in the RF. The World Bank has conducted some preliminary scoping for a potential resilience project but has not yet had a request from the Government for using IDA in this sector. In addition, despite the offer of US\$600,000 in subsidies from the Government of Japan for FSM to join PCRAFI for two seasons, FSM has not yet indicated an intent to participate, although the World Bank has engaged in extensive dialogue to support the FSM in this decision process. The CPS also promised a CPS Progress Report, which was not prepared, and the RF was not regularly monitored.

The CPS identified several risks to program implementation, including program delivery risks arising from thin capacity in FSM; political risks related to the devolved decision-making of the federation; and the risks of exogenous shocks inherent in small, fragile, isolated, and geographically dispersed island economies. The WBG aimed to mitigate these risks through close partnerships and communications, and by strengthening capacity and country systems. The risk assessments are realistic in identifying weak capacity and unfamiliarity with WBG processes as key elements that delay implementation and thus results.

## *Implementation*

The CPS envisaged an IDA envelope of approximately US\$29 million for the four-year period. This amount includes the remaining IDA16 resources of approximately US\$14 million plus an indicative IDA17 allocation of US\$15 million. The CPS also envisaged additional IDA support from regional projects. The three planned projects have all been approved and have become effective (see Attachment 1): Energy Sector Development (US\$14.4 million, FY14), Palau-FSM Connectivity Project (US\$47.5 million, FY15, and TA grant US\$500,000), and PROP for FSM (US\$5.5 million, FY15). In addition, the ASA program has also been realized with support for the PER, poverty/gender and HIES analysis, and TA for the fiscal adjustment, including the future transition to funding under the CTF. IFC advisory services support the dialogue and TA for the business regulatory environment and investment climate reforms. The major implementation challenge stems from underestimating the time required to design, appraise, negotiate, approve, make effective, and implement the three key WBG-supported projects (electricity, ICT, and PROP) and anticipated results, which can come only later in the project cycles and beyond the CPS period. While CPS targets in the RF are calibrated from the end-project targets to be met within the CPS period, they are still ambitious.

## **Alignment with World Bank Group Corporate Strategy**

The FSM CPS is aligned with the WBG's twin goals of eliminating extreme poverty by 2030 and encouraging shared prosperity, especially for the bottom 40 percent of the population. The CPS identified the need to build a stronger analytical and evidence base on poverty within FSM to best target resources to address particular needs. Accordingly, the PER and the poverty/gender and HIES analysis were undertaken to fill in information gaps and to ensure that fiscal consolidation will be as pro-poor as possible in the two largest sectors of education and health. The poverty- and gender-disaggregated analysis complements the PER to enable effective targeting of all public expenditures and to ensure the bottom 40 percent and the poorest individuals in the population are benefitting from the programs. Working jointly with the FSM statistical counterparts is also building capacity.

### **Lessons**

#### *Limited Capacity and Unfamiliarity with WBG Procedures*

The experience with the three recent WBG-supported projects points to the key lesson related to implementation. Start-up times were slow, as FSM counterparts are still learning WBG implementation procedures. There was no Bank staff on the ground. Thus start-up should be expected to be slow and should be accounted for in project timelines.

#### *Regional Projects*

The PROP includes four countries and one regional body—effectively five projects. For that reason, Bank support and supervision burdens are quite heavy, and planning and resources should be adequate to reflect that reality. Design of the regional project also assumed that the Forum Fisheries Agency (FFA) would provide coordination and fiduciary support. The capacity and willingness of regional entities to perform these activities need to be carefully evaluated.

#### *Staff Turnover*

The TTL who prepared a project left the Bank shortly after it was approved by the Board. This departure may have contributed to some delays in activities on the Bank side.

#### *Project Preparation*

Start-up activities and documentation (including budgets, project operations manuals, and procurement plans) should be more thorough, detailed, and advanced before project approval.

#### *Advisory Services*

With persistent advice and engagement and good reasoning, the client has been able to understand the logic of reform in the investment policy. The steps taken by the FSM national and state governments in agreeing that only the national government should have jurisdiction over investment issues are steps in the right direction. They allow FSM to rationalize the investment policy and implement international best practices, sending the right signal to the international investors on the intent of FSM.



**ATTACHMENT 3B: FEDERATED STATES OF MICRONESIA, CPS FY14-17 RESULTS  
FRAMEWORK (as of August 5, 2016)**

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
<i>Theme 1: Strengthening the Enabling Environment for Private Sector Development</i>			
<p><b>Outcome 1: More efficient and reliable electricity services</b></p> <p><i>Indicator 1.1:</i> 7 percent increase in efficiency of electricity supply, and &gt;20 percent increase in available power generation capacity (Baseline 21,204 kW)</p> <p><i>Indicator 1.2:</i> Direct number of project beneficiaries is 50,000 of which 25,000 are female (Baseline 0) (Gender disaggregated)</p>	<p><b>Outcome 1: Not achieved</b> The project supporting this outcome (P148560) became effective on 15 October, 2014 (closing date 31 July 2018). The PIU is slowly completing the recruitment of staff required for effective project implementation. However, the outcome remains unachieved as of now.</p> <p><i>Indicator 1.1:</i> Efficiency: Target: 7 percent increase Status: Not achieved (12/2015) Power generation capacity: Baseline: 21,204 kW (2014) Target: &gt;25,445 kW (FY2018) Status: Not achieved (12/2015)</p> <p><i>Indicator 1.2:</i> Baseline: 0 (2014) Target: 50,000 (o/w female 25,000) (FY2018) Status: Not achieved (12/2015)</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>FSM - Energy Sector Development (P148560)</li> <li>PIC - Sustainable Energy Industry Development (P152653)</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>PIC - P4 Pac Regional Regulatory Resource Center TA (P118670)</li> <li>PIC - Strengthening the PRDR SE4ALL Initiative TA (P153190)</li> </ul> <p><b>Donor Partners:</b> ADB</p>	
<p><b>Outcome 2: Improved access to and reduced costs of ICT services</b></p> <p><i>Indicator 2.1:</i> Increase in mobile penetration from 30 percent in 2013 to 70 percent of the population (Gender disaggregated)</p> <p><i>Indicator 2.2:</i> Increase in internet penetration from 2 percent in 2013 to 20 percent of</p>	<p><b>Outcome 2: Not achieved</b> It is early days and the work under the project (P130592, effective date 11 March 2015; closing date 31 January 2020) is only just beginning, and there are still no movements in the indicators.</p> <p><i>Indicator 2.1:</i> Baseline: 30 percent (2013) Target: 70 percent (2017) Status: Not achieved (04/2016)</p> <p><i>Indicator 2.2:</i> Baseline: 2 percent (2013) Target: 20 percent (2017) Status: Not achieved (04/2016)</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>FSM - Palau-Connectivity Project (P130592)</li> <li>PIC - Pacific Regional ICT Regulatory Development Project (P148238)</li> <li>FSM - Telecoms and ICT TA Project (P132686)</li> </ul> <p><b>ASA:</b></p>	

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
<p>the population (Gender disaggregated)</p> <p><b>Milestone 2.1:</b> New ICT legislation adopted</p> <p><b>Milestone 2.2:</b> Modern ICT regulatory framework adopted</p> <p><b>Milestone 2.3:</b> Independent telecommunications regulatory function established and maintained</p> <p><b>Milestone 2.4:</b> At least 2 ICT service providers operational</p>	<p><b>Milestone 2.1: Not achieved</b> It is early days, and the work under the project (P130592, effective date 11 March 2015) is only just beginning.</p> <p><b>Milestone 2.2: Not achieved</b> See above.</p> <p><b>Milestone 2.3: Not achieved</b> See above.</p> <p><b>Milestone 2.4: Not achieved</b> See above.</p>	<ul style="list-style-type: none"> <li>FSM and RMI Telecoms Assessment (P122736)</li> </ul> <p><b>Donor Partners:</b> ADB, Australia (PRIF)</p>	
<p><b>Outcome 3: Improved business regulatory environment</b></p> <p><i>Indicator 3.1:</i> State and national foreign investment approval processes are harmonized</p> <p><i>Indicator 3.2:</i> On-shore fisheries investment approval requirements are fully documented and harmonized at all levels of government</p> <p><b>Milestones 3.1:</b> Passage of a revised national investment law</p> <p><b>Milestone 3.2:</b> National foreign investment law reflects international best practice</p>	<p><b>Outcome 3: Partially achieved</b> The WBG advised FSM to give power over investment issues to the national government rather than to the states in conjunction with the national government. The President of FSM has agreed to accept this advice, and the FSM Congress is working toward developing the new law, which will be tabled in May 2016.</p> <p><i>Indicator 3.1:</i> Status: The President has agreed to this approach, and FSM is in the process of changing the laws. FSM has agreed that only the national government shall have jurisdiction over investment matters, and the states' jurisdictions will cease.</p> <p><i>Indicator 3.2:</i> Status: This will take place after the Investment Law has been brought into national jurisdiction.</p> <p><b>Milestone 3.1: Partially achieved</b> The Department of Justice is preparing the draft law allowing the national government jurisdiction over investment matters and ending state jurisdiction.</p> <p><b>Milestone 3.2: Partially achieved</b> FSM basically accepts this principle but needs time to work on the new law.</p>	<p><b>IFC:</b></p> <ul style="list-style-type: none"> <li>Pacific Rapid Response Project</li> </ul>	<p><b>Lessons:</b> With persistent advice and engagement and good reasoning, the client has been able to understand the logic of reform in the investment policy. The client wants to be able to attract investment and provide sustainable economic development. The team in the relevant government agency in FSM is very enthusiastic and committed to implementing the reform process.</p> <p>- The steps taken by the FSM national and state governments in agreeing to allow only the national government to have jurisdiction over investment issues are steps in the right direction. They allow FSM to rationalize the investment policy, design it to reflect international best practices, and enable FSM to implement and follow such practices. This will send the right</p>

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
<p><b>Milestone 3.3:</b> Mapping of state and national investment information requirements and approval processes</p> <p><b>Milestone 3.4:</b> Mapping of state and national on-shore fisheries investment processes</p>	<p><b>Milestone 3.3: Achieved</b> However, work will be needed again on this issue after the system has been reformed.</p> <p><b>Milestone 3.4: Not achieved</b> Pending the change in the overall investment law system.</p>		<p>signal to the international investors on the intent of FSM.</p>
<b>Theme 2: Promoting a Sustainable Medium Term Fiscal Situation</b>			
<p><b>Outcome 4: Increase economic benefits from fisheries sector</b></p> <p><i>Indicator 4.1:</i> Annual access revenues to FSM from the tuna fisheries increase by at least 30 percent while harvesting remains within sustainable levels (Baseline US\$31m CY2012)</p> <p><b>Milestone 4.1:</b> Functioning regional information management system to support the vessel day scheme (VDS) for the purse seine tuna fisheries</p> <p><b>Milestone 4.2:</b> All purse seine fishing in FSM's waters is managed under the VDS</p>	<p><b>Outcome 4: Partially achieved</b> The supporting project (P151754) only recently became effective (8 May 2015). The Project Coordinator (PC) came on board in September 2015. Implementation has just started but is moving well since the recruitment of the PC.</p> <p><i>Indicator 4.1:</i> Baseline: US\$31m (CY2012) Target: US\$40.3 m (2017) Status: On track.</p> <p><b>Milestone 4.1: Achieved</b> There is a functioning regional information management system to support the VDS.</p> <p><b>Milestone 4.2: Achieved</b> 100 percent of purse seine fishing vessel days used are being recorded annually according to agreed criteria.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• FSM - PROP (P151754)</li> <li>• PIC - Pacific Island PROP (P131655)</li> <li>• PIC - Pacific Islands PROP (P153429)</li> </ul> <p><b>IFC:</b></p> <ul style="list-style-type: none"> <li>• Investment Climate – Fisheries Sector Review</li> </ul> <p><b>Donor Partners:</b> New Zealand</p>	<p><b>Lessons:</b></p> <ul style="list-style-type: none"> <li>- Start-up time was slow, which is to be expected, as FSM is still learning Bank implementation procedures.</li> <li>- The PROP includes four countries and one regional body (effectively, five projects). Therefore, Bank support/supervision is quite heavy. TTL who prepared the project left the Bank shortly after it was approved by the Board, which may have contributed to some delays in activities on the Bank side.</li> <li>- Project preparation, start-up activities, and documentation (budgets, project operations manuals, procurement plans) could have been more thorough, detailed, and advanced before project approval.</li> </ul>
<p><b>Outcome 5: Improved targeting and management of fiscal adjustment process</b></p> <p><i>Indicator 5.1:</i> The impact of fiscal adjustments on the poor is reflected in policy documents</p>	<p><b>Outcome 5: Mostly achieved</b> As per milestones below.</p> <p><i>Indicator 5.1:</i> Status: Poverty analysis being finalized and undergoing review by the government.</p>	<p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• FSM - Public Expenditure Analysis EW (P154605)</li> <li>• PIC - Pacific Islands Capacity Support TA (P145802)</li> <li>• PIC - Pacific Possible EW (P154324)</li> </ul>	<p><b>Lessons:</b> Self-reliance and service delivery are critical elements of the national development strategy. The government has made some moderate progress toward this goal with the support of bilateral and multilateral partners.</p>

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
<p><i>Indicator 5.2:</i> Opportunities for efficiency gains in health and education are identified and inform policy decisions</p> <p><b>Milestone 5.1:</b> HIES and PER analysis completed and informs fiscal adjustment strategy</p> <p><b>Milestone 5.2:</b> Adoption of reforms that would enhance domestic revenue generation and aid management</p> <p><b>Milestone 5.3:</b> Incidence analysis of education and health analysis and poverty mapping informs budget decisions</p>	<p><i>Indicator 5.2:</i> Status: Benefit incidence analysis for health and education completed on the back of the HIES.</p> <p><b>Milestone 5.1: Mostly achieved</b> Consolidated analysis completed. Drafts undergoing corporate review. Once complete, the information will be circulated to the government for review and comments.</p> <p><b>Milestone 5.2: Mostly achieved</b> ODA policy adopted to enhance aid management. Domestic revenue generation reforms did not pass the required legislations.</p> <p><b>Milestone 5.3: Mostly achieved</b> Benefit incidence analysis for health and education completed on the back of the HIES. Poverty analysis also being finalized and undergoing review by the government.</p>	<ul style="list-style-type: none"> <li>• PIC - Problem Driven PFM in PICs EW (P156419)</li> <li>• PIC - Asset Management Advisory in the Pacific TA (P147920)</li> </ul> <p><b>Donor Partners:</b> IMF, ADB, UAE</p>	

## **ATTACHMENT 4A: REPUBLIC OF KIRIBATI CAS FY11-14 COMPLETION AND LEARNING REVIEW**

Date of CAS (FY11-FY14): January 31, 2011 (Report No. 59355-KI)

Period Covered by the Completion and Learning Review: July 1, 2010 to June 30, 2014

### **Summary of Key Findings**

The first WBG Country Assistance Strategy (CAS) for the Republic of Kiribati was issued in January 2011 for FY11-FY14, reflecting a move toward scaled-up assistance and away from the previous umbrella regional approach. The CAS aimed to address the existential threat posed by climate change and to mitigate the effects of geographic isolation in Kiribati, which is one of the world's most remote and geographically dispersed countries. Not one of its 33 islands, spread over 3.5 million square kilometers of ocean, rises more than a few meters above sea level. The effects of rising sea levels and associated soil salinization threaten limited water supplies and present the very real possibility of a future when the citizens no longer have a country. Couched within that potential reality, the CAS emphasized climate adaptation measures. The strategy also addressed efforts to help overcome isolation and vulnerability to external shocks and expand economic opportunities. It reflected the government's own vision set out in the Kiribati Development Plan (KDP) 2008-2011.

#### *Development Outcome*

The overall performance of the CAS program in helping to achieve the subset of national goals is rated moderately unsatisfactory. Of 14 objectives, 5 were achieved or mostly achieved, 1 was not achieved, and the remainder were achieved only partially by the end of the CAS period. While Kiribati has seen further progress since the end of FY14 in some of these areas, many of the supporting initiatives had not gathered momentum to yield results by the cut-off date, particularly efforts supporting the critical theme of Building Resilience against Climate Change and External Shocks (for which only one outcome is assessed as mostly achieved). The Bank was particularly effective in supporting the government through two DPOs aimed at improving the management of fisheries revenues, improving the management of public assets and liabilities, and expanding private sector opportunities

#### *World Bank Group Performance*

The overall performance of the WBG in designing and implementing the strategy is fair. Despite the program's successful contribution to achievements in some areas, implementation challenges limited its effectiveness in most other areas. While the WBG proactively mitigated some key difficulties, others (including capacity constraints, slow take-up of project activities, and the general underestimation of the pace and speed of change and development activities in a remote, isolated country) meant that results emerged only after the stipulated close of the CAS period. Even so, Bank support for the design and implementation of the programmatic DPOs had considerable impact. Not having a mid-term progress report or a Performance and Learning Review to correct and possibly recalibrate the timeline for the strategy was a missed opportunity.

## Highlights of Assessment

### *Strategic Area I: Building Resilience against Climate Change and External Shocks*

The first set of outcomes under Strategic Area I involve improving coastal resilience, strengthening water resource management with greater access to clean water, and greater capacity to manage DRR and CCA. A second cluster of outcomes is related to increasing the efficiency and reducing the costs of infrastructure services such as transport and energy supply, increasing the share of renewable energy for the grid, and directly reducing GHG emissions.

**Outcome 1** (improved coastal resilience, supported by KAP II and III) was mostly achieved. The Government of Kiribati has shown strong support at the policy level for water resource management in South Tarawa. The Cabinet approved the pilot water improvement zones at Tanaea, Tebikenikora (Eita), and Nanikai, with the associated user-pays principles. The scale-of-charge rates for water consumption are being incorporated in the ongoing reform of the Public Utilities Board (PUB). The physical improvements to the network and ongoing reliability of the water supply were accompanied by behavior-change interventions to improve water saving and management and encourage the need to pay for the supply. PUB is designing and disseminating an appropriate information and education campaign, in consultation with the Ministry of Health and Medical Services, National Statistics Office, and other local experts as necessary and drawing on international good practice. Through the development of a comprehensive strategy, prioritization, and technical guidelines for shoreline protection, technical capacity has been built within the Ministry of Public Works and Utilities. Capacity for selecting appropriate measures has been built through the projects and is used in coastal resilience programs in other parts of the country.

The objective of strengthened water resources and management with greater access to clean water (**outcome 2**) is only partially achieved but on track. Under KAP III, the country's fresh water supply is being augmented with additional progress in the long-term, sustainable use of water resources, namely through: (i) establishing a legal mechanism to define water protection zones (non-leasing of land) and (ii) legally establishing that the communities will own, and be responsible for maintaining, the built assets (for example, by registration under the Cooperative Societies Ordinance). Rainwater harvesting systems in Banaba North Tarawa (six sites in four villages) have been completed and provide 5.3 m<sup>3</sup> of potable water per day (toward the project target of 6.1 m<sup>3</sup> per day). The number of groundwater abstraction systems installed and operating in North Tarawa, however, has not changed from the baseline (1 in 2011).

Greater integrated capacity to manage DRR and CCA issues (**outcome 3**) is partially achieved. While the preparatory work created capacity, the KJIP for Climate Change and Disaster Risk Management was launched in August 2014, missing the CAS deadline by a month. The KJIP mainstreams disaster risk reduction in national planning and investment programming. The plan was developed to support the mobilization of tangible, on-the-ground actions for resilient development within the context of two existing national policy frameworks—the National Disaster Risk Management Plan and the National Framework for Climate Change and Climate Change Adaptation. The KJIP is also aligned with the development goals of the Kiribati Development Plan 2012–2015. Kiribati has been very active in responding to the impacts of climate change and disasters at all levels. The KJIP ensures that climate variability, climate

change, and disaster risks (related to meteorological, geological, or environmental risks) are incorporated in all development planning processes, and it ensures that tangible, on-the-ground actions are identified for all sectors in order to reduce risks. The plan's approach is carefully designed, integrating relevant stakeholders to promote timely and coherent adaptation, risk reduction, and response activities. KAP II activities were incorporated into all relevant climate-affected programs in Ministry Operational Plans (MOPS), reflecting systematic climate risk management. Climate risk profiles were applied to four major coastal protection works on South Tarawa. Key Performance Indicators on CCA and DRR were developed under the KJIP. The KJIP is being implemented through 12 strategies, with clearly defined results, performance indicators, and prioritized actions outlined in the action matrix. Three functional plans have been prepared under the National Disaster Risk Management Plan jointly with relevant ministries.

**Outcome 4**—Import Levy Fund (ILF) reforms ensure a more sustainable and efficient approach to subsidizing transport of food to outer islands—is not achieved, although the fund was recapitalized. Reforms of the ILF were recommended by a TA report prepared by the Bank. A Cabinet paper based on the recommendations was prepared and further work was agreed. The additional work was then contracted to a firm that was providing TA within the MoF, mostly focused on the copra subsidy scheme. The work commenced but was put on hold when the TA identified major safety and operational concerns regarding the government-owned ship used for inter-island shipping, which was the main use of ILF funds. Given that revisions to the subsidy scheme depended on decisions regarding the vessel's replacement or repair, further work has been on hold; the ongoing ADB program is expected to take it forward.

**Outcome 5** (improve the petroleum supply chain to reduce price and volatility of energy supply), **outcome 6** (increase renewable energy to 5 percent of grid-supplied power by 2014) and **outcome 7** (direct reduction of GHG emissions of 10 kt CO<sub>2</sub> over 20 years) are all supported by the Kiribati Grid Connected Solar PV Project and are assessed as partially achieved. The project has been delayed but ultimately should improve the operational efficiency of the energy sector by providing a substitute for diesel fuel, with significant, positive impacts: reduced grid system generation costs should lead to an improved, more efficient cost structure, and the resulting improvement in cash flows should help to strengthen energy sector finances and reduce the need for government subsidies to the sector. Well beyond the immediate benefits of the solar PV installed capacity supported under the project, Kiribati will benefit from PUB's stronger capacity to mainstream and add to the more efficient and cleaner generation technology needed to meet projected growth in energy demand. Such conditions will enable the sector to move toward a more sustainable mode of operation, making it easier for the government to reform the PUB and the tariff-setting process to reflect the cost of services while clearing the cross-debts. The project's TA component should build a growth path for grid solar PV additions over the medium term, managed by PUB in a commercial manner. In other words, project financing represents the cost of jump-starting a national transition to a lower carbon trajectory that can be maintained on a sustainable basis. The planning and TA, together with the experience gained from the first grid-connected investment project and the recommendations aimed at improving the sector's financial base, will set the stage for further investments in low carbon growth development of the energy sector—specifically, efficiency improvements and renewable energy.

*Strategic Area II: Overcoming Isolation and Generating Opportunities from Greater Global and Regional Integration*

Under Strategic Area II, the CAS aimed to address challenges presented by Kiribati's remote location and strengthen the basic infrastructure that connects the people of Kiribati to the outside world, with the aim of encouraging greater global and regional integration. Outcomes relate to improving road systems in South Tarawa; moving to ICAO compliance for two airports; increased mobile telecom penetration, reduced prices, and an improved regulatory environment; and increased participation in labor migration schemes.

**Outcome 8** (functioning road system on South Tarawa, with continuing maintenance undertaken by domestic private sector contractors) is assessed as mostly achieved. The supporting IDA operation, the first in the country, which was co-financed by ADB and Australia, was the Kiribati Road Rehabilitation Project (KRRP), which was considerably delayed. Despite the delays, the rehabilitation of the road network has been completed, although progress in reforming the road sector has been limited. Through KRRP, donors and the government have been very supportive of these goals, with all parties working together to provide additional finance to meet cost overruns. While there has been engagement from the government on road safety, the slow implementation of an ongoing long-term maintenance solution could jeopardize the sustainability of the road investment.

**Outcome 9** (Bonriki and Cassidy airports moving from non-compliant to compliant with ICAO standards) is partially achieved. There were considerable delays with commencing major civil works. The security fence is completed. The runway upgrade (funded with counterpart funds) is approaching completion, and work will start soon on the new terminals. Navigation aids and communications systems are procured and under installation. No progress has been made on the paving of the London-Cassidy road, nor on the major sector reforms.

The limited objective of **outcome 10** (temporary employment of 1,000 person-months on road construction) has been achieved. With an estimated 5,400 person-months of employment provided for local people even prior to completion, this development goal has already been significantly exceeded.

The three outcomes related to ICT development (**outcome 11**: mobile penetration to increase to 40 percent by 2014; **outcome 12**: reduced price for telecoms services; and **outcome 13**: ICT regulatory environment that allows competition with equal access by all market players) have been either mostly achieved, or (in the case of outcome 13) fully achieved. Mobile penetration reached about 30 percent by the end of 2015 (although below the end-FY14 target of 40 percent); the state-owned monopoly was privatized in mid-2015 (again, beyond the CAS deadline), and the new owner is upgrading the network. A second mobile operator license was awarded, and prices of 3G mobile services (local and international) have fallen relative to initial projections. The sale of most of the assets of Telekom Services Kiribati Ltd. was completed.

**Outcome 14** (increase in Kiribati workers participating in temporary labor migration schemes in Australia and New Zealand, with higher returns per worker as efficiency increases) was partially achieved. The outcomes of the Institutional Strengthening for Labor Migration work program contributed to the government's long-term strategy of dealing with climate change through



migration, as articulated in the Kiribati Development Plan (2012-2015). While seasonal work programs are not long term, they provide an important connection with employers in Australia and New Zealand and thus a potential pathway for permanent migration. Other significant contributions toward this development goal came from the Government of New Zealand through its Strengthening Pacific Partnerships Initiative, which strengthened information management, communication, and marketing within the Seasonal Employment Unit (SEU). The International Labor Organization (ILO) has also assisted with the development of a labor migration policy framework.

In addition to the above outcomes, the WBG delivered *a series of two DPOs*: Economic Reform Operation (P144602, FY14, within the CAS period) and Second Economic Reform DPO (P149888, FY15, after the CAS period ended). The World Bank prepared its first-ever DPO in Kiribati in 2013 with the government and other development partners (ADB, Australia and New Zealand), with the longer-term objective of achieving fiscal sustainability and improving living standards. The DPOs together supported policy actions aimed at (i) improving the management of fisheries revenues; (ii) improving the management of public assets and liabilities; and (iii) expanding private sector opportunities. All prior actions for both operations were completed prior to Board approval. Key prior actions under DPO1 (implemented within the CAS period) included, among others, approval of a national fisheries policy to strengthen sustainable management and maximize revenues, establishment of a legal framework for improved governance and commercial management of SOEs, approval of a debt policy, and liberalization and commercialization of the telecoms sector. A key achievement was the stabilization of the Revenue Equalization and Reserve Fund (RERF)—previously Kiribati faced fiscal deficits that were leading to unsustainable drawdowns from the RERF. Support over the course of the programmatic series enabled Kiribati to improve the returns on its fisheries assets, significantly improve the quality of telecommunications services, and reduce the costs of mobile calls.

## **World Bank Group Performance**

The overall performance of the WBG in designing and implementing the CAS in support of selected country objectives was fair. The following summary describes the considerations involved in reaching this assessment.

### *Design*

Having 14 outcomes in the CAS for a country the size of Kiribati was excessive and made the RF somewhat complex. The two strategic areas were selected judiciously and aligned with key country priorities, but some outcomes could have been included as indicators or milestones, thus streamlining the RF. As the IDA program began with the CAS, an elaborate RF was not needed to accommodate legacy activities. The CAS was overambitious in terms of the results that could be achieved through activities that had to be developed, appraised, negotiated, approved, made effective, and implemented within its relatively brief timeframe. It also underestimated the challenges of implementing activities in a country new to WBG procedures, with clear limitations in capacity, and a remote and isolated location that added to the burden of supervision. It is not surprising that most outcomes remained partially achieved at the end of the CAS period, when many initiatives were only getting off the ground or still to be launched. A

mid-term CAS Progress Report or regular monitoring of the RF matrix might have provided opportunities for corrections and recalibrations.

The CAS was a joint World Bank-IFC strategy, in which IFC focused specifically on tourism. Starting in 2011, the government engaged IFC to structure and facilitate a PPP for the redevelopment and operation of the Otintaii Hotel, a 40-room facility on the main island, Tarawa. By July 2013 IFC had successfully completed a transaction advisory project to support the government in preparing and implementing a tender to select private investors/operators for the development of the hotel. The project was IFC's first engagement in Kiribati, and the first major private sector participation in a country dominated by SOEs. Successful private sector participation could have an important demonstration effort and catalyze a program to reform SOEs in Kiribati.

This project (the government's introduction to IFC) prepared the way for a productive working relationship. The IFC team brought a global and regional perspective to the project. Despite the remoteness of the country and small scale of the development, IFC secured five Expressions of Interest. A local company was awarded the contract, at terms exceeding the government threshold for initial and ongoing concession fees. The IFC-facilitated PPP provides the country with an option for three-star accommodation, catering to the business travelers who account for half of annual arrivals. Since the concession holder gained management of the hotel, 40 new jobs have been created, as well as supply chain opportunities for local entrepreneurs. The mobilization of private investment of US\$2.25 million will be reached in two to three years, after the rehabilitation works are completed.

The CAS identified the key risks to the program emanating from the WBG's limited engagement in the country at the time of the CAS, capacity constraints, weaknesses in public financial management, and the difficulties of securing political consensus for reform. Mitigating elements included strong support for the strategy from the government and a broad array of civil society organizations. The local capacity constraints and unfamiliarity with WBG processes proved to be the key binding constraint that delayed implementation and results.

### *Implementation*

The CAS envisaged the full use of Kiribati's IDA allocations across the IDA15 and IDA16 periods. The CAS was designed to be flexible and allow for some opportunistic reallocations of both IDA and generous donor trust funds and co-financing. Accordingly, the CAS identified a possible program of support (IDA and TFs) comprising Kiribati Climate Change Adaptation Phase III (KAP III), Food Price Crisis Response (Global Food Crisis Response Program), Transport (Road Maintenance), Airport Safety and Rehabilitation, Tarawa Renewable Energy (GEF/PRIF), Telecoms Liberalization Support (PRIF), and Climate Change Adaptation/Water. In the event, the approved projects include KAP III (IDA US\$8.75, FY12), the KRRP (IDA US\$26 million, FY11), Telecoms and ICT Development (IDA US\$1 million, FY13), and the (regional) PAIP (IDA US\$22.91 million, FY12). A key ASA activity was the Kiribati Utility Services Reforms TA. Examples of the implementation experience follow.

**Outcome 1** (improved coastal resilience) is supported through ongoing KAP III activities to improve Kiribati's resilience to the impacts of climate change on its freshwater supply and

coastal infrastructure. The project is making slow but steady progress. To increase coastal protection (and by implication resilience to climate change), detailed designs, drawings, and specifications have been completed and environmental licenses issued for nine high-risk coastal protection sites, including four to be constructed by the Bank-funded Roads Project and two by the Bank-funded Aviation Project. New mangrove plantings (including maintenance advice and school education) in nine outer island sites will further increase coastal protection and resilience.

The program supporting *outcome 2* (water resource management and access to clean water) was designed specifically to support the implementation of activities by two local agencies—PUB and the Ministry of Environment, Land, and Agriculture Development (MELAD)—and communities—North Tarawa and outer islands. This design feature has enabled greater ownership and sustainability of interventions for managing water resources, including the protection of clean water sources. For example, the community-managed groundwater infiltration galleries do not rely on long-term subsidies for operation and maintenance from the central government.

The Bank implemented KAP II to (i) develop and demonstrate the systematic diagnosis of climate-related problems and the design of cost-effective adaptation measures in Kiribati and (ii) continue the integration of climate risk awareness and responsiveness into economic and operation planning by the recipient (*outcome 3*). The project's third phase features a component to Strengthen the Capacity to Manage the Effects of Climate Change and Natural Hazards through targeted interventions to support the Office of the President in its mandate to manage DRR and CCA issues.

The feasibility study for the World Bank project established parameters for grid-connected solar energy in Kiribati (*outcome 5*) and has led to three solar installation projects: World Bank (500 kW), Pacific Environment Community (400 kW), and United Arab Emirates (500 kW), potentially saving close to US\$750,000 in diesel fuel costs per annum. Despite the delays, the World Bank project is being implemented using local capacity, which serves to develop local expertise in the design, specifications, project management, and post-implementation operations and maintenance. Operations and maintenance and training are included as part of the supply contract. The objective of the WBG project is to reduce Kiribati's dependence on imported petroleum for power generation, which should improve energy security and reduce the GHG emissions from using diesel fuel to supply electricity to the grid in Kiribati. Ultimately the project seeks to catalyze the substitution of diesel-based electricity generation for the South Tarawa grid with grid-connected solar PV supply of electricity.

The WBG has performed well in the results area related to road transport (*outcome 8*), leading the donors (ADB and Australia) in project preparation and implementation of KRRP. A key issue during preparation was the underestimation of costs, which required additional finance, increasing transaction cost. Supervision has been intensive, applying adequate resources to address key risks. Delays are largely attributed to the contractor and uncertainties about the location of underground electric cables.

The KAIP aims to improve the operational safety and oversight of international air transport infrastructure (*outcome 9*). The implementation arrangements have progressed significantly, but

works undertaken for the project have experienced considerable delays. The World Bank's performance in achieving this outcome is considered moderately satisfactory. The project, which was designed as part of a regional series, sought to leverage air transport sector knowledge and Tonga's successful experience in reforming parts of the air transport sector, while utilizing a unique set of implementation arrangements. The government's decision to disengage from the support provided by the Technical and Fiduciary Services Unit (TFSU) for a year affected the implementation of the project. Regional procurement packaging, coordinated by Tonga Airports Ltd., has brought economies of scale and efficiencies in contracting to key elements of Kiribati's air transport system. Despite delays in overall project delivery, regular implementation support missions were conducted, and guidance and recommendations appear sufficient to ensure that the intended outcomes are likely to be achieved. The Bank also collaborated closely with New Zealand, which also provided financing for the project.

Kiribati was not a core focus country of the Institutional Strengthening for Labor Migration work program (*outcome 14*). The low numbers participating in the seasonal worker schemes at their inception and lack of government buy-in meant that three other PICs were selected (Samoa, Solomon Islands, and Vanuatu). The only direct assistance provided to Kiribati was through its participation in the knowledge-sharing events discussed under Milestone 14.1 (Attachment 4B). The feedback from SEU staff attending these events was extremely positive, but it is difficult to evaluate the extent to which these knowledge-sharing events directly contributed to Kiribati's increased participation and competitiveness in the seasonal worker schemes. The World Bank's performance in relation to this outcome/results area would have been improved if it had been able to offer support for building institutional capacity and developing labor migration policy frameworks. In reality, the time and resource constraints meant that this full package of TA could be delivered only to a limited set of PICs.

Given the macro-fiscal challenges experienced over the CAS period, the Bank deserves recognition for reorienting its engagements and activities to address immediate challenges, in particular through the flexibly designed and implemented DPO series. The Bank helped the government to formulate solid reform plans for each of the policy areas covered by the operations. The team liaised very closely with the authorities throughout the implementation of the reforms and undertook frequent missions to help support the momentum for reform, identify obstacles to progress, and help the government find solutions to the problems encountered.

### **Alignment with World Bank Group Corporate Strategy**

Kiribati—a small island state with the status of a Least Developed Country—is the poorest of the PIC6 and has the highest rate of poverty. Although the CAS was prepared before the WBG articulated its twin corporate goals, their relevance for Kiribati is clear, and several elements of the CAS are clearly aligned with them.

For example, the program has sought to strengthen Kiribati's ability to respond to climate risks, which is hampered by its highly vulnerable socioeconomic situation and precarious geography. Low atolls, small and isolated land areas separated by vast oceans, a highly concentrated population, and the high costs of providing basic services make Kiribati especially vulnerable to external shocks, including the adverse impacts of climate change. Disasters and climate change disproportionately affect the poorest and most vulnerable people, yet the sectors and resources

(energy, water, transport, and so on) that are central to promoting human and national development are also directly threatened by the rising sea level and the increased incidence and severity of natural disasters, including drought and weather fluctuations.

The focus on providing access to clean water in outer islands with minimal access to services (Banaba) and North Tarawa has enabled the program to target previously underserved communities with highly limited water resources. Beneficiaries include highly vulnerable households headed by the elderly, women, widows, or the handicapped. Women have been continuously involved throughout the consultation process, given their high vulnerability to localized impacts of climate change.

As well as enabling a highly vulnerable population to strengthen resilience to climate change, Bank projects will also help to reduce Kiribati's exposure to external economic shocks, such as food and fuel price increases. The 516 kW grid-connected solar PV generator for South Tarawa (financed by GEF with support from Australia) will diversify electricity generation and reduce reliance on diesel, imports of which are currently equivalent to 15 percent of GDP. With the help of the energy project, an electricity utility that performs well can assist the poor by reducing costs and ultimately contribute to social and economic development in South Tarawa.

The road sector objectives were addressed through KRRP. With the high concentration of urban migrants in South Tarawa, coastal resilience and adaptation measures are imperative to protect the habitable surface per person in the long term. The poor condition of the South Tarawa road network also disproportionately affected poor residents, for example through environmental effects such as dust and flooding and road safety concerns. By providing a sealed and well-draining pavement with street lighting, the wellbeing of those most affected is improved, with the safer road also safeguarding the pedestrian mode they are most likely to use. To the extent that the environmental and social effects of these improvement make small scale commerce such as roadside stalls more viable, providing more income for poorer residents, they will also address the goal of shared prosperity.

Inclusive air connectivity is a fundamental public good for i-Kiribati. A reliable network of air links—within the country, to other island countries, and to the regional hub of Fiji and beyond—is essential to dissipating the socioeconomic vulnerability of Kiribati, providing needed access to employment, medical treatment, and education, and thus helping to reduce poverty and boost shared prosperity. Increased labor employment in the sector directly affects poverty and shared prosperity by placing previously unemployed and largely unskilled laborers in a better position to meet their basic needs and those of their families.

The data collected through the World Bank's impact evaluations of the SWP and RSE programs suggest that these programs have opened up significant opportunities for seasonal wage migration to poor, rural households. The participation of poorer and more rural households in the program suggests that these programs are reducing poverty and boosting shared prosperity in Kiribati. To the extent that Kiribati's inclusion in the joint World Bank/Office of the Chief Trade Advisor workshop and Pacific Island Labor Sending Forum has allowed Kiribati to increase its participation in the RSE, the CAS program as implemented has solidly aligned with the twin goals.

## **Lessons**

In common with the other PIC6 states, the lessons from implementing the Kiribati CAS highlight the need to allocate sufficient preparation time to design and implement projects and activities. In this regard, the importance of extensive consultation with key stakeholders, including beneficiaries and local agencies, can help to build commitment and ownership. Activities that build counterpart capacity as well as focused efforts to strengthen country systems and implementation support are also critical. Budget support to small states with thin capacity can be a key element of development assistance, providing benefits that extend far beyond the financial resources transferred. Close coordination with other development partners also significantly help reduce the transaction cost on the part of the client.

## ATTACHMENT 4B: KIRIBATI CAS FY11-14 RESULTS FRAMEWORK (as of August 5, 2016)

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
<i>Strategic Area I: Building Resilience against Climate Change and External Shocks</i>			
<p><b>Outcome 1: Improved coastal resilience</b></p> <p><b>Milestone 1.1:</b> Comprehensive strategy developed and under implementation to address CCA/water issues on South Tarawa</p> <p><b>Milestone 1.2:</b> Shoreline protection completed at key sites in South Tarawa and mangrove replanting on 5 outer islands</p>	<p><b>Outcome 1: Mostly achieved</b> The quantitative targets for leak reduction in the South Tarawa water transmission main and reservoirs have been exceeded. Coastal protection (structural and non-structural, including mangrove replanting) interventions have already achieved over 98 percent of the quantitative targets.</p> <p><b>Milestone 1.1: Achieved</b> Best practice was applied in the design and construction of four coastal protection works and one water infiltration gallery as part of KAP II objective to apply risk management, environmental assessment, and options analysis to public infrastructure and CCA vulnerability reduction measures. The Cabinet has approved the pilot water improvement zones at Tanaea, Tebikenikora (Eita), and Nanikai, and the associated user-pays principles. Leakage detection and repair of transmission mains and reservoirs have resulted in 266 m<sup>3</sup> per day of potable water saved to date, substantially exceeding the target of 190 m<sup>3</sup> per day saved.</p> <p><b>Milestone 1.2: Mostly achieved</b> Construction works on South Tarawa coastal protection Sites 10 and 11 are 100 percent and 80 percent physically complete, respectively. Shoreline protection works on South Tarawa (eight sites) combined with the mangrove planting activity that has been completed in nine outer islands have resulted in 1.18 km of coastline protected, vis-à-vis the target of 1.2 km. Over 35,000 mangrove seedlings have been planted to protect coastline in nine outer islands.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Kiribati – GEF Adaptation Program Phase II (KAP II, P089326, Closed 6/30/11; ICR: MS)</li> <li>• Kiribati - GEF Adaptation Phase III (LDCF) (KAP III, P112615)</li> <li>• Kiribati – Road Rehabilitation Project (P122151)</li> <li>• Kiribati – Aviation Investment Project (P128938)</li> </ul> <p><b>TF:</b> Global Facility for Disaster Reduction and Recovery (GFDRR); Japan Policy and Human Resources Development Fund (PHRD)</p> <p><b>Donor Partners:</b> AusAID; New Zealand Aid Programme; GFDRR; PHRD</p>	<p><b>Lessons:</b></p> <p>- Community engagement efforts by the project Implementing Agencies have informed the design of many of the works and built a foundation for long-term use, operation, and maintenance of the assets. Achievement of the outcomes is based on strong consultation and community engagement, which caused delays in the works but have enabled government and community ownership, and demand for expansion of the activities.</p> <p>- Through the development of a comprehensive strategy, prioritization, and technical guidelines for shoreline protection, technical capacity has been built within the Ministry of Public Works and Utilities (MPWU). Capacity for the selection of appropriate measures has been built through the projects, and is being utilized in coastal resilience programs in other parts of the country.</p>
<p><b>Outcome 2: Strengthened water resources and management with greater access to clean water</b></p> <p><b>Milestone 2.1:</b> Rainwater harvesting systems in place</p>	<p><b>Outcome 2: Partially achieved</b> The National Water Policy and its related Strategy have been used by the MPWU and PUB in their effort to comply with Kiribati Development Plan goals though fulfillment of the NWS objectives by MPWU.</p> <p><b>Milestone 2.1: Achieved</b></p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Kiribati – GEF Adaptation Program Phase II (KAP II, P089326, Closed 6/30/11; ICR: MS)</li> <li>• Kiribati - GEF Adaptation Phase III (LDCF) (KAP III, P112615)</li> </ul>	<p><b>Lessons:</b> The use of technologies and approaches that are being implemented by local agencies (PUB, MELAD) and communities (North Tarawa and Outer Islands) have enabled greater ownership and sustainability of water resources management interventions, including the protection of clean water sources. For example, voluntary land-use</p>

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
<p>in Banaba Island and 5 sites in South Tarawa, including Tungaru hospital</p> <p><b>Milestone 2.2:</b> Rainwater run-off from South Tarawa road replenishing water lens</p> <p><b>Milestone 2.3:</b> Expansion of groundwater abstraction in Tarawa</p>	<p>Completed rainwater harvesting systems in Banaba and North Tarawa (6 sites in 4 villages), which will provide 5.3 m<sup>3</sup> of potable water per day (toward the project target of 6.1 m<sup>3</sup> per day).</p> <p><b>Milestone 2.2: Dropped</b> Potential interventions were investigated under KRRP and rejected by Environmental Safeguards due to the risk of contaminating the lenses further from diesel and other vehicle contaminants.</p> <p><b>Milestone 2.3: Not achieved</b> The number of groundwater abstraction systems installed and operating in North Tarawa has not changed from the baseline (1 in 2011). However, the bidding process is ongoing for works in the target 2 sites, and Voluntary Land Use Agreements have been signed by both communities and land owners with MPWU and MELAD.</p>	<p><b>Donor Partners:</b> AusAID; New Zealand Aid Programme; GFDRR; PHRD</p>	<p>agreements were signed between MELAD and the communities, resulting in community-managed abstraction galleries that do not rely on long-term subsidies for operation and maintenance from the central government.</p>
<p><b>Outcome 3: Greater integrated capacity to manage DRR and CCA issues</b></p>	<p><b>Outcome 3: Partially achieved</b> KAP II activities were incorporated into all relevant climate-affected programs in MOPS, reflecting systematic climate risk management. Climate risk profiles were applied to four major coastal protection works on South Tarawa. Key Performance Indicators on CCA and DRR were developed under the KJIP for Climate Change and Disaster Risk Management. The KJIP is being implemented through 12 strategies, with clearly defined results, performance indicators, and prioritized actions outlined in the action matrix. Three functional plans have been prepared under the National Disaster Risk Management Plan jointly with relevant ministries.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Kiribati – GEF Adaptation Program Phase II (KAP II, P089326, Closed 6/30/11; ICR: MS)</li> <li>• Kiribati - GEF Adaptation Phase III (LDCF) (KAP III, P112615)</li> <li>• PIC – Pacific Resilience Program – SPC (P147839)</li> <li>• PIC – Pacific Resilience Program – PIFS (P155542)</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• PIC - Pacific Disaster Risk Financing TA (P130347)</li> <li>• PIC - Pacific CAT Risk Assess – Phase 3 TA (P130441)</li> </ul>	<p><b>Lessons:</b> A lesson from KAP II implementation is to streamline and simplify project design by reducing the number and scope of activities so as to better match human resources and logistical constraints of implementation in a small and remote country.</p>



CPS Outcome	Status and Evaluation Summary	Activities	Lessons
		<b>Donor Partners:</b> AusAID, New Zealand Aid Programme	
<b>Outcome 4: ILF reforms ensure more sustainable and efficient approach to subsidizing transport of food to outer islands</b>  <b>Milestone 4.1:</b> Recapitalization of Import Levy Fund	<b>Outcome 4: Not achieved</b> Reforms of the ILF were recommended by a TA report prepared by the Bank. A Cabinet paper based on the recommendations was prepared and further work was agreed. The additional work was then contracted to a firm that was providing TA within MoF. The work commenced but was put on hold when the TA identified major safety and operational concerns regarding the government-owned ship used for inter-island shipping, which was the main use of ILF funds.  <b>Milestone 4.1: Achieved</b> The ILF was recapitalized during the “food and fuel crisis” using special crisis response funds.	<b>Operations:</b> <ul style="list-style-type: none"> <li>• Food Price Crisis Response (Global Food Crisis Response Program)</li> </ul> <b>ASA:</b> <ul style="list-style-type: none"> <li>• Review of Import Levy Fund (P127619)</li> <li>• Support to Economic Reforms (P131403)</li> <li>• Kiribati - Utility Services Reform TA (P148300)</li> <li>• PIC - Pacific Islands Capacity Support TA (P145802)</li> </ul>	
<b>Outcome 5: Improve petroleum supply chain to reduce price and volatility of energy supply</b>	<b>Outcome 5: Partially achieved</b> The project has been delayed due to staffing and procurement issues. First, PUB encountered difficulties in procuring support staff (Owner’s Engineer), and after a prolonged process, the position had to be redefined as a local project manager and an international technical support consultant. Recruitment issues are not uncommon in Kiribati owing to its remoteness, as evidenced by the recruitment of a CEO for PUB by the Government of Australia and funded by New Zealand. The first candidate was “rejected” after the contract was signed due to insurance issues. Second, difficult procurement issues arose; the PUB/Government of Kiribati did not recommend the lowest technically compliant bid due to alleged misrepresentations and non-performance on a prior contract. These issues have been resolved, the contract has been signed for the works, and the contractors have been mobilized. The works are expected to be completed in July/August 2016.	<b>Operations:</b> <ul style="list-style-type: none"> <li>• Kiribati Grid Connected Solar PV Project – IPF (P212878)</li> </ul> <b>ASA:</b> <ul style="list-style-type: none"> <li>• Kiribati - Utility Services Reform TA (P148300)</li> <li>• PIC - P4 Pac Regional Regulatory Resource Ctr TA (P118670)</li> <li>• PIC - Strengthening the PRDR SE4ALL Initiative TA (P153190)</li> </ul> <b>TF:</b> <ul style="list-style-type: none"> <li>• Grid Connected Solar PV Project – PRIF (TF014126); GEF- (TF014105)</li> </ul> <b>Donor Partners:</b> GEF and PRIF	<b>Lessons:</b> The Bank needs to consider alternative means of support to geographically remote clients with issues of low capacity. For example, it could consider direct assistance in terms of implementation support and procurement. It is difficult to find consultants to move implementation forward and to attract international consultants to Kiribati on short-term assignments. This situation also results in bidders with “low capacity” that cannot meet all of the Bank’s procurement requirements. The Bank’s procurement procedures also present issues when dealing with bidders with a record of poor performance or when credible information points to fraud without a conviction, especially if such activity is not directly related to a Bank project.

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
<p><b>Outcome 6: Increase renewable energy to 5 percent of grid-supplied power by 2014</b></p> <p><b>Milestone 6.1:</b> 500 kW on-grid solar PV generation capacity to be introduced</p>	<p><b>Outcome 6: Partially achieved</b> As explained for Outcome 5, the project is now under implementation following delays.</p> <p><b>Milestone 6.1: Partially achieved</b> The project is now under implementation following delays.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Kiribati Grid Connected Solar PV Project – IPF (P121878)</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• Kiribati - Utility Services Reform TA (P148300)</li> <li>• PIC - P4 Pac Regional Regulatory Resource Ctr TA (P118670)</li> <li>• PIC - Strengthening the PRDR SE4ALL Initiative TA (P153190)</li> </ul> <p><b>TF:</b></p> <ul style="list-style-type: none"> <li>• Grid Connected Solar PV Project – PRIF (TF014126); GEF- (TF014105)</li> </ul> <p><b>Donor Partners:</b> GEF and PRIF</p>	<p><b>Lessons:</b> See Outcome 5.</p>
<p><b>Outcome 7: Direct reduction of GHG emissions of 10 kt CO<sub>2</sub> over 20 years</b></p>	<p><b>Outcome 7: Partially achieved</b> As explained for Outcome 5, the project is now under implementation following delays.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Kiribati Grid Connected Solar PV Project – IPF (P121878)</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• Kiribati - Utility Services Reform TA (P148300)</li> <li>• PIC - P4 Pac Regional Regulatory Resource Ctr TA (P118670)</li> <li>• PIC - Strengthening the PRDR SE4ALL Initiative TA (P153190)</li> </ul> <p><b>TF:</b></p> <ul style="list-style-type: none"> <li>• Grid Connected Solar PV Project – PRIF</li> </ul>	

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
		(TF014126); GEF-(TF014105)  <b>Donor Partners:</b> GEF and PRIF	
<i>Strategic Area II: Overcoming Isolation and Generating Opportunities from Greater Global and Regional Integration</i>			
<p><b>Outcome 8: Functioning road system on South Tarawa, with continuing maintenance undertaken by domestic private sector contractors</b></p> <p><b>Milestone 8.1:</b> 31 km of roads rehabilitated</p> <p><b>Milestone 8.2:</b> Agreed plan for reform of road sector management and financing under implementation</p>	<p><b>Outcome 8: Mostly achieved</b> Almost all original roads have been rehabilitated under the project, with currency fluctuations allowing an extended scope of road rehabilitation in Betio and Bairiki to be considered. There are still no micro-enterprises for routine road maintenance in South Tarawa, which are ideally required prior to completion of construction.</p> <p><b>Milestone 8.1: Mostly achieved</b> With key implementation issues resolved, construction is progressing, although weather delays will extend the completion date. In total, 21.8 km of roads including 2.8 km of rural roads and 19 km of non-rural roads, have been rehabilitated.</p> <p><b>Milestone 8.2: Partially achieved</b> Road safety legislation has been drafted and is awaiting the new Parliament, with some early actions undertaken by government ahead of the road opening. Maintenance micro-enterprises have not progressed due to delays on agreeing an approach with the contractor.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>Kiribati - Road Rehabilitation Project (P122151); AF (P154012)</li> </ul> <p><b>Donor Partners:</b> ADB and Australia Department of Foreign Affairs and Trade (DFAT)</p>	<p><b>Lessons:</b></p> <ul style="list-style-type: none"> <li>- Be very conservative in estimating completion deadlines for physical works in remote places such as Kiribati.</li> <li>- Given the risks of working in isolated countries such as Kiribati, it is impossible to fully identify the risk pricing that contractors will put on undertaking civil works.</li> <li>- Update of sector reforms in a country like Kiribati will be very slow and complicated.</li> </ul>
<p><b>Outcome 9: Bonriki and Cassidy airports moving from non-compliant to compliant with ICAO standards</b></p> <p><b>Milestone 9.1:</b> Navigation and safety aids installed at Bonriki and Cassidy airports</p>	<p><b>Outcome 9: Partially achieved</b> Neither Cassidy (CXI) nor Bonriki (TRW) has been certified for safety and security. Resurfacing of Bonriki runway financed through counterpart financing is almost completed. The construction of the fence around Bonriki airport is completed. Terminal designs are completed and ready for bidding. These efforts will markedly improve the safety of operations. The fire rescue vehicles are also to be upgraded in 2017. No progress on resurfacing of London-Cassidy road on Kiritimati island.</p> <p><b>Milestone 9.1: Partially achieved</b> Navigation and safety aids are 10 percent operational. Navigational aids and communications contract is in place with supply and installation in 1<sup>st</sup> quarter 2016 for CXI and TRW airports. Very small aperture terminal (VSAT) contracts for</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>Kiribati - Pacific Aviation Investment (P128938)</li> <li>PIC – Pacific Aviation Safety Office Reform (P145057)?</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>PIC - China-Pacific Aviation Links EW (P155515)</li> </ul> <p><b>TF:</b></p>	<p><b>Lessons:</b></p> <ul style="list-style-type: none"> <li>- In the absence of good governance and technical capacity in the sector, the ability to improve compliance with international safety standards and operations is more challenging than anticipated, which explains why it has taken five years to get to 10 percent operational for nav aids. It took almost a year to get the sizes for the fire protection equipment for Kiribati.</li> <li>- Preparation of masterplans, sector strategies, and similar items that require significant inputs from the government will take an extended period to prepare given the</li> </ul>

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
<p><b>Milestone 9.2:</b> Civil aviation masterplan agreed and under implementation</p>	<p>design, supply, and installation signed for TRW and CXI Airports, installation in early 2016. ADS-B Consultant is in place and planning for implementation; bidding documents completed.</p> <p><b>Milestone 9.2: Achieved</b> An Air Transport Master Plan has been adopted with the government implementing key recommendations.</p>	<ul style="list-style-type: none"> <li>Kiribati -Pacific Aviation Investment Project (TF12678)</li> </ul> <p><b>Donor Partners:</b> PRIF, New Zealand</p>	<p>challenges of getting substantive feedback from the government.</p> <ul style="list-style-type: none"> <li>- A 2015 ICAO mandate for development of a Common Regional Virtual Private Network (CRV), a commercial telecommunication network (yet to be established) intended to connect aeronautical actors in the Asia-Pacific region for the exchange of Air Traffic Service information, is being addressed through the rollout of VSAT network across all participating countries in the program, which will bring enhanced information security, along with regional/global integration.</li> <li>- The cost of civil works suffered from the same issue that affected roads: high costs due to uncertainty risk from contractors.</li> </ul>
<p><b>Outcome 10: Temporary employment of 1,000 person-months on road construction</b></p>	<p><b>Outcome 10: Achieved</b> Estimated temporary employment for local staff on the project is 5,400 man-months, with 302 local employees hired, including 212 women and 281 men. With the exception of a few minor alcohol-related issues, the contractor has reported that local staff are excellent workers, with some of the more skilled workers being offered long-term employment.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>Kiribati - Road Rehabilitation Project (P122151)</li> </ul> <p><b>Donor Partners:</b> ADB; DFAT</p>	<p><b>Lessons:</b></p> <ul style="list-style-type: none"> <li>- During bidding, the project worked with the Ministry of Labor to prepare a list of skilled workers available in Tarawa and interested in employment. The list was provided to the contractors at the pre-bid meeting along with the contacts of the individuals so the contractors were aware of the available skills and could confirm what staff were required to be brought from overseas.</li> </ul>
<p><b>Outcome 11: Mobile penetration to increase to 40 percent by 2014</b></p> <p><b>Milestone 11.1:</b> Second telecoms license granted to allow new private sector market participant (2012)</p>	<p><b>Outcome 11: Mostly achieved</b> Mobile penetration is now about 30 percent as of end-2015, according to operator data. Incumbent state-owned monopoly was privatized in mid-2015 and the new owner (ATH-KL) is upgrading the network. New mobile entrant also selected following tender process.</p> <p><b>Milestone 11.1: Achieved</b> Second mobile operator license was awarded; the business licensing process is ongoing.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>Kiribati – Economic Reform Operation (P144602, Closed)</li> <li>Kiribati – Second Economic Reform DPO (P149888, Closed)</li> <li>Kiribati - Telecoms and ICT Development (P126324)</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>Telecom/ICT Development (P118200)</li> <li>Kiribati - Utility Services Reform TA (P148300)</li> </ul>	<p><b>Lessons:</b></p> <p>There are significant capacity constraints for the Government of Kiribati. Despite a challenging business environment for attracting new private investment, two new private service providers have entered the market, one in 2015 and the other in early 2016. Significant private investments are needed to upgrade the network and provide voice and mobile broadband services.</p>

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
		<b>Donor Partners:</b> PRIF TF (Australia, New Zealand)	
<b>Outcome 12: Reduced price for telecoms services</b>	<b>Outcome 12: Mostly achieved</b> Pricing for 3G mobile services (local, international) has fallen relative to initial projections. Residential plan of 128 kbps for \$30/month available, while 256 kbps plan at \$70/month used mostly by business. All pricing is to be reviewed in upcoming missions.	<b>Operations:</b> <ul style="list-style-type: none"> <li>• Kiribati – Economic Reform Operation (P144602, Closed)</li> <li>• Kiribati – Second Economic Reform DPO (P149888, Closed)</li> <li>• Kiribati - Telecoms and ICT Development (P126324)</li> </ul> <b>ASA:</b> <ul style="list-style-type: none"> <li>• Telecom/ICT Development (P118200)</li> <li>• Kiribati - Utility Services Reform TA (P148300)</li> </ul>	<b>Lessons:</b> Introduction of private sector is resulting in improved efficiency of services, including billing system and new pricing models. The introduction of competition in 2016 is likely to have further impact on pricing. There is a shift in internet pricing from speed- to volume-based and bundles.
<b>Outcome 13: (ICT) Regulatory environment that allows competition with equal access by all market players</b>  <b>Milestone 13.1:</b> Transparent CSO for outer islands services	<b>Outcome 13: Achieved</b> The sale of most of the assets of Telekom Services Kiribati Ltd. has been completed. Law and licensing rules have been finalized and approved toward a legal and regulatory framework that is more effective at delivering sector performance. New market entry in 2015.  <b>Milestone 13.1: Not achieved</b>	<b>Operations:</b> <ul style="list-style-type: none"> <li>• Kiribati – Economic Reform Operation (P144602, Closed)</li> <li>• Kiribati – Second Economic Reform DPO (P149888, Closed)</li> <li>• Kiribati - Telecoms and ICT Development (P126324)</li> <li>• PIC – P4 Pacific Regional ICT Regulatory Development Project (P148238)</li> </ul> <b>ASA:</b> <ul style="list-style-type: none"> <li>• Telecom/ICT Development (P118200)</li> <li>• Kiribati - Utility Services Reform TA (P148300)</li> </ul>	<b>Lessons:</b> The government effectively mobilized new investment by boosting the credibility of the legal and regulatory framework in the sector.

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
<p><b>Outcome 14: Increase in Kiribati workers participating in temporary labor migration schemes in Australia and New Zealand, with higher returns per worker as efficiency increases</b></p> <p><b>Milestone 14.1:</b> WB and government to improve the competitiveness of Kiribati workers in RSE scheme</p>	<p><b>Outcome 14: Partially achieved</b> The number of i-Kiribati workers participating in the Australia SWP decreased marginally from 34 in FY12-13 to 11 in FY14-15. For New Zealand’s RSE scheme, the number increased from 40 in FY08-09 to 148 in FY13-14. Data collected also suggest the returns per worker increased, with returning workers 2.8 percentage points more efficient than new workers in the SWP.</p> <p><b>Milestone 14.1: Mostly achieved</b> Kiribati was invited to attend both a joint Bank/Office of the Chief Trade Advisor workshop on arrangements for Labor Migration in Forum Island Countries and the 2013 Pacific Island Labor Sending Forum in Samoa. The Forum was attended by representatives from all PICs, government and employer representatives from Australia and New Zealand, representatives from the World Bank and ILO, as well as academics. The forum’s theme was “cooperating to compete,” and it explored how sending countries could improve their competitiveness in the RSE and other seasonal schemes.</p>	<p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>PIC - Pacific Payment and Remittances Program TA (P153894)</li> </ul> <p><b>TF:</b></p> <ul style="list-style-type: none"> <li>PIC – Institutional Strengthening for Labor Migration (P130478)</li> </ul> <p><b>Donor Partners:</b> Australia, New Zealand, ILO</p>	<p><b>Lessons:</b></p> <ul style="list-style-type: none"> <li>- Improving the competitiveness of i-Kiribati workers in the seasonal worker schemes largely revolves around how successfully the Labor Migration Unit is able to market their workers abroad.</li> <li>- Since DFAT outsourced the provision of technical assistance for Kiribati to a consulting firm under the Labor Mobility Assistance Program (LMAP), there is no longer a role for the Bank to play in capacity building.</li> <li>- The Bank does have a role to play in advocating for special access and provisions for Kiribati under existing schemes through ASA.</li> </ul>

Note: LCDF (Least Developed Country Fund); ICRR (Implementation Completion and Results report); SPC (Secretariat of the Pacific Community); NWS (National Water Strategy); PIFS (Pacific Islands Forum Secretariat); PRDR (Pacific Regional Data Repository).

## **ATTACHMENT 5A: THE REPUBLIC OF THE MARSHALL ISLANDS CPS FY13-16 COMPLETION AND LEARNING REVIEW**

Date of CPS (FY13-FY16): February 19, 2013 (Report No. 69510-MH)

Period Covered by the Completion and Learning Review: July 1, 2012 to June 30, 2016

### **Summary of Key Findings**

In keeping with the transition to single-country strategies from the umbrella regional strategy approach, the WBG (joint IDA and IFC) 2013 Country Partnership Strategy (CPS) for the Republic of the Marshall Islands (RMI) was the first for this PIC. The new approach aimed to provide the basis for scaled-up engagements based on a more detailed analysis of the country's context and specific development challenges. It recognized that the RMI is one of the world's smallest, most isolated, and most vulnerable countries, with 29 atolls and 5 islands dispersed over 1.9 million square kilometers. The CPS was aligned with the country's Vision 2018 national development plan, and as RMI shared many development challenges common to the PICs, the CPS was couched in terms of the four overarching priorities for WBG support to the PICs (discussed in the Overview, Annex 10). The CPS proposed a program of engagement in support of the broad theme of strengthening economic governance to improve living standards and enhance service delivery.

The overall performance of the CPS in addressing that theme and selected outcomes is rated unsatisfactory. The self-assessment by the country team of progress to date (the CPS period ends on June 30, 2016) toward achieving the outcomes articulated in the RF reveals that four of the five outcomes have not yet been achieved, while the fifth—related to the Compact Trust Fund (CTF) is only partially achieved (see Attachment 5B). The outcomes on increased access to ICT services, rationalized fuel tariffs, increased revenues from the sale of fishing rights, and measures to improve the investment climate remain unattained.

The performance of the WBG in designing and implementing the CPS program is considered fair. This assessment is based on a combination of factors that thwarted the implementation of the WBG program to support the achievement of the CPS outcomes. Many factors that inhibited the implementation of the CPS were beyond the control of the WBG and were not on the WBG team's radar owing to limited knowledge of the country. Others include: an underestimation and lack of understanding of the political economy realities mediating the commitment to and pace of reforms in the ICT sector and improving the investment climate; misreading the extent of commitment and difficulties in reaching agreement on fuel tariff reforms as well as the client's unwillingness to work with the WBG in the sector; delayed approval and start of implementation of Bank-supported projects and the resulting delays in accrual of outcomes and results; capacity constraints and unfamiliarity of the client in implementing the first-ever IDA project in the country; and unexpected and complex legal and regulatory bottlenecks. In addition, the challenges of dealing with a remotely located client (particularly in the areas of reforms) exacerbated the problems. The recalibrated current program of activities, combined with more engaged government counterparts, is likely to yield satisfactory results over the extended short-term and should provide the basis for a follow-up strategy of engagement.

## Highlights of Assessment

The 2013 CPS for RMI sought to mitigate the effects of economic isolation by taking advantage of opportunities presented by closer regional and global integration. The CPS would focus support on efforts to strengthen economic governance and use public resources more effectively to enhance living standards and service delivery. More specifically, it would focus on the liberalization and regulation of the telecommunications sector, with the aim of connecting more citizens to social and economic opportunities; participation in a regional fisheries operation to strengthen the governance and sustainable management of tuna fisheries and increase the share of revenue captured by RMI; addressing structural reform issues in the energy sector; improving the management of the CTF assets; and enhancing the investment climate.

The first IDA operation in RMI (First ICT Sector Development Operation, DPO1) aimed to improve the access of the population to ICT services (*outcome 1*). The outcome is not yet achieved. The prior actions were achieved under DPO1, however, and created a strong framework for ICT development (Table 1).

**Table 1: RMI—Prior Actions for DPO1**

Prior Action	Evidence of Completion of Prior Action
<p><b>Policy Development to Guide Reform and Development of the ICT Sector</b> The Recipient has endorsed a new ICT sector policy and committed to liberalize the ICT sector introducing a modern legal and regulatory framework in the Recipient’s territory and restructuring NTA.</p> <p><b>Strengthened Legal Framework</b> Legislative and Regulatory Reforms to Promote Private Sector Investment in the ICT Sector.</p> <p>The Recipient has, through the Office of its Attorney General, prepared, satisfactory to IDA, a draft Communication Bill backstopping the new ICT policy framework adopted by the Recipient.</p>	<ul style="list-style-type: none"> <li>• The ICT Sector Development Document, dated April 23, 2012</li> <li>• The Recipient’s Cabinet Resolution endorsing said ICT Sector Development Document embodied in the Cabinet Minutes No.072 (2012), dated May 5, 2012</li> <li>• The Ministry of Finance press release dated July13, 2012, as published in the Recipient’s mass media (including the Marshall Islands Journal)</li> <li>• Copy of the Cabinet Meeting 184 [Reference – CP 6696 (2012)], dated December 31, 2012, furnished to the Association by the Recipient’s Ministry of Finance</li> </ul>

Although the First ICT Sector Development Operation is already closed, access has not significantly improved. It was envisaged that all prior actions would be completed under the series of three DPOs (which were needed for the ICT outcomes to be achieved). The government subsequently requested that the actions be spaced over four operations. Activities under the TA Grant and the subsequent DPO operations did not get off the ground despite extensive efforts from MoF, which was leading the reform efforts. MoF faced heavy local opposition, primarily led by the current telecommunications operator, to any discussion on strengthening the sector, market reforms, and liberalization. Consequently, the indicators related to outcome 1 are not being tracked by the WBG nor are attributable to Bank-supported activities. The milestones related to adoption of a sector policy implementing a new legal framework and introducing competition, establishment of an independent ICT regulator, government approval of a financial, ownership, and operational restructuring plan for the National Telecommunications Authority (NTA), and the offering of new licenses permitting a second national operator to supply services to the public using its own infrastructure, all remain unattained. A key lesson is that reforms without sufficient support on the ground are going to be difficult in any country context. The



Bank helped the government of the time to have an open dialogue, and although the indicators were not achieved, the difficult and drawn-out process has kept the need for reforms on the government's agenda. The concerned SOE is not solvent, and the authorities continue to look for ways in which it may be palatable to move the reforms. Limited knowledge of the country and the lack of a presence on the ground did not allow the Bank to have the intensive, ongoing, and regular dialogue needed for DPOs.

**Outcome 2** (cost-reflective fuel tariffs introduced) and related milestones and indicators have not been achieved. No WBG support was provided to the MEC or energy sector during the CAS period. Discussions held with the government and MEC did not lead to Bank support; the government at the time wanted all IDA funds to be used for the ICT DPO, so financing was not available to have an effective dialogue and engagement. In July 2015 the WBG discussed potential engagements in the energy sector with the MoF, but was informed by the MoF that it did not support the involvement of the Bank in the energy sector at that time, noting there was sufficient support from the EU. Following discussions among MoF, MEC, WBG, and ADB earlier in 2015, it was agreed that ADB will develop a master plan for the energy sector. Once it is completed, an avenue for WBG engagement may open. The new government (January 2016) has publicly requested WBG support to the energy sector, focusing on renewable energy, and the first scoping mission has taken place. A project will be prepared for either IDA17 or early IDA18.

The RMI component of the PROP was approved in December 2014 but became effective only in September 2015. For that reason, **outcome 3** (increase in the percentage of the landed value of the tuna caught in RMI's waters that is retained by the country via sale of access rights, from 10 percent to 12 percent) is not yet achieved. The milestone on introduction of a market mechanism permitting the trade of fishing licenses at international market rates has been achieved but cannot be attributed directly to the Bank project. Key factors causing delays include the underestimation of the start-up time needed for the project in the RMI, which was exacerbated by the government and the implementing agency needing to work through legal and implementation issues, as the project requires subsidiary agreements. The high workload of the implementing entity also delayed the recruitment of the project coordinator, who came on board only in December 2015. The PROP includes four countries and one regional body—effectively five projects—and therefore the Bank support/supervision burden is quite heavy. WBG staff turnover at a critical stage shortly after project approval may also have contributed to some delays in activities on the Bank side. Finally, project preparation, start-up activities, and documentation (budgets, project operations manuals, procurement plans) could have been more thorough, detailed, and advanced before project approval.

The key milestone for **outcome 4** (government and CTF stakeholders undertake review of fund objectives and asset management) was partially achieved as part of the analytical study on select Pacific trust funds and Pacific Possible (financing for development). A review of fund objectives and performance has been completed, and an evaluation of the asset management framework is planned. The overall outcome (CTF objectives, strategic asset allocation and investment management strategies reviewed, and options identified to improve long-term sustainability in response to economic and financial market volatilities) is rated partially achieved. Self-reliance and sustainability are critical elements of the national development strategy. The government has

made some moderate progress toward this goal with the support of bilateral and multilateral partners. These activities are supported by the Asset Management Advisory in the Pacific TA. WBG performance in this results area was moderate. Although the program was designed well, capacity limitations within the treasury limited the timeliness of implementation.

**Outcome 5** (legislative and regulatory improvements to investment climate) is not achieved. However, the RMI Office of Investment has requested IFC to provide assistance in improving the country's investment regime, with a particular focus on the Doing Business (DB) indicators. A team of investment policy experts visited Majuro in August 2015. Upon initial consultation with stakeholders, it became clear that the government needed to further clarify its goals and objectives with regard to the investment policy regime, and it was decided to put the request on hold temporarily. These challenges are exacerbated by the lack of funding for investment policy work in Northern Pacific countries through the IFC Investment Climate Rapid Response Project. The project will revert to RMI government counterparts in FY17. In any case, perceptible improvements in the investment climate in the remaining period of the CPS are unlikely.

## **World Bank Group Performance**

### *Design*

The CPS objectives aligned well with the country development goals as well as the overarching themes of the EAP regional priorities for the PICs. The CPS did well to be selective in articulating a single overall theme, within which five well-defined outcomes were supported by specific, measurable indicators and milestones that were deliverable within the proposed WBG program of activities. In the event, almost all the outcomes and milestones remain unachieved owing to implementation problems and an unrealistic and inadequate reading of the situation on the ground, including the low level of political commitment, cultural and family ties of decision makers, limited capacity, and operational difficulties. Perhaps a Progress Report and adequate tracking and monitoring of the RF for the CPS could have highlighted these critical issues at an earlier stage, and remedial measures might have been sought. To be fair, however, many of these factors appear beyond the control of the WBG. The Bank had intensive dialogue with the government on the ICT DPO and about whether to proceed, including the option offered by the Bank to reprogram IDA16, perhaps toward other objectives. The government was sanguine that it would achieve the prior actions laid out in the ICT DPO series and thus committed the Bank to continue to support reforms in an environment that was not very reform-minded.

The CPS had candidly and realistically identified elements such as extreme remoteness (imposing high transport costs and logistical challenges), spatial dispersion (increasing the cost and complexity of public service provision), weak economies of scale for most development activities, and severe capacity constraints as substantial risks in implementing the program—all of which materialized to various degrees. But most critically, the CPS underestimated the political economy realities shaping the client's depth of commitment to difficult reforms and ability to address opposition to such reforms, as well as the urgency and sequencing of demand for some of the WBG-supported activities.

## *Implementation*

The CPS planned an indicative IDA16 resource envelope on grant terms amounting to SDR7.6 million (US\$11.4 million equivalent). The CPS spans two years in the IDA16 period (FY13 and FY14) and two years in the IDA17 period (FY15 and FY16). Also, RMI was expected to potentially benefit from additional resources from the IDA Regional Program under IDA17. The CPS envisaged a program comprising ICT DPOs (a series of three operations), the RMI component of the PROP, an Energy Sector Development Project, and TF-supported activities on gender-based violence. In the event, during the CPS period the approved projects were the RMI – PROP (US\$6.75 million, FY15), RMI – Pacific Resilience Program (US\$1.5 million, FY15), and the TF-supported RMI – ICT TA Project (US\$1.3 million, FY14). IFC activities include the Investment Climate Rapid Response Project, while a key ASA is the Asset Management Advisory in the Pacific TA. As many of these activities are just getting off of the ground, their impact cannot yet be assessed. Bank-IFC collaboration is effective in the common area of investment climate improvements, though there have been delays stemming from the need to clarify goals and objectives of the various stakeholders, including the government.

The WBG has improved its country knowledge and strengthened its relationship over the CPS period. Both the Country Management Unit and sector specialists have undertaken more regular missions, which have improved the WBG's credibility and understanding of the country context and engagement of other stakeholders. A new government is now in place and the dialogue and direction for WBG engagement have improved substantially.

### **Alignment with World Bank Group Corporate Strategy**

Although the CPS was designed prior to the adoption of the twin goals as WBG corporate strategy, the selected set of priorities and outcomes reflect these objectives. The limited data available on the nature and incidence of poverty in RMI point to a relatively high poverty rate. The last HIES (2002) identified the official poverty rate at 51 percent. ADB in 2008 estimated that about one-fifth of households in RMI lived below the international poverty benchmark of US\$1 a day. According to 1999 data, the Gini coefficient in the RMI was 0.54. Poverty appears to have worsened in recent years in both urban and rural areas. The problem is more acute in the outer islands.

One of the highlights of the results area related to the CTF (the only outcome with some traction) is that the sector remains critical to supporting the RMI in poverty reduction and boosting shared prosperity. With no monetary policy and limited fiscal policy (given the utilization of the US dollar and high aid dependence), building adequate capacity to buttress the country against the variety of shocks it faces becomes a critical activity. Ensuring the appropriate investment and governance to maximize return on this trust fund as supported by the CPS is also a critical element in supporting the twin goals.

### **Lessons**

As there has been little progress on most outcomes, the lessons are mostly of a cautionary nature. First, the experience with attempts to implement reforms in the ICT sector is a reminder of the difficulties of sector reforms. There needs to be more realistic assessment of political economy realities. Starting engagement in a country with a DPO (which is also in a difficult domain to

reform) perhaps was not the best decision. In particular, the RMI political and governmental context is closely knit; overlapping family and kinship ties make it easier to block proposed reforms.

Second, while it is critical to obtain full commitment and buy-in from the client, as well as a clear indication of the demand for WBG partnership for supporting the identified sector and objectives, the capacity to deliver on reforms also needs to be present. For example, in the energy sector in RMI, there was full commitment from the client but MoF did not have a handle on the reform process and was not keen to change course.

Third, start-up times, capacity constraints, and the challenges of remoteness and spatial dispersion for projects in the RMI have been underestimated. Project preparation, start-up activities, and documentation need to be thorough, detailed, and advanced before project approval.

A final lesson is that WBG staff-turnovers need to be better managed. Project teams need to be well resourced.

**ATTACHMENT 5B: THE REPUBLIC OF THE MARSHALL ISLANDS CPS FY13-16 RESULTS FRAMEWORK**  
**(as of August 5, 2016)**

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
<i>Strengthening economic governance to improve living standards and enhance service delivery</i>			
<p><b>Outcome 1: Improved access of population to ICT services</b></p> <p><i>Indicator 1.1:</i> Increase in number of mobile phone subscribers from 26 percent of the population to 40 percent of the population</p> <p><i>Indicator 1.2:</i> Increase in internet subscriptions from 2 percent of the population to 30 percent of the population</p> <p><i>Indicator 1.3:</i> Quantitative analysis on the impact of ICT reform on vulnerable and underserved groups, including women</p> <p><b>Milestone 1.1:</b> Government adoption of a sector policy implementing a new legal framework and introducing competition</p> <p><b>Milestone 1.2:</b> Establishment of an independent ICT regulator</p> <p><b>Milestone 1.3:</b> Government approval of a financial, ownership ,and operational</p>	<p><b>Outcome 1: Not achieved</b> The operations in RMI did not get off the ground and have not yet started due to local opposition to market reforms and liberalization.</p> <p><i>Indicator 1.1:</i> Baseline: 26 percent Target: 40 percent Status: Not verified</p> <p><i>Indicator 1.2:</i> Baseline: 2 percent Target: 30 percent Status: Not verified</p> <p><i>Indicator 1.3:</i> Status: Not achieved</p> <p><b>Milestone 1.1: Not achieved</b> The operations in RMI did not get off the ground and have not yet started due to local opposition to market reforms and liberalization.</p> <p><b>Milestone 1.2: Not achieved</b> See above.</p> <p><b>Milestone 1.3: Not achieved</b> See above.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• RMI – First ICT Sector Development Operation (Closed; P128013)</li> <li>• PIC - Pacific Regional ICT Regulatory Development Project (P148238)</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• FSM and RMI Telecoms Assessment (P122736)</li> <li>• PIC - P4 Pac Regional Regulatory Resource Center TA (P118670)</li> </ul>	<p><b>Lessons:</b> The experience with this outcome is a reminder of the difficulties of sector reforms.</p>



CPS Outcome	Status and Evaluation Summary	Activities	Lessons
<p><b>Milestone 2.2:</b> Undertake essential maintenance of auxiliary generators</p> <p><b>Milestone 2.3:</b> Increase frequency of meter-reading, improve billing and collection rates</p>	<p><b>Milestone 2.3: Not achieved</b> See above.</p>		
<p><b>Outcome 3: Increase in the percentage of the landed value of the tuna caught in RMI's waters that is retained by the country via sale of access rights, from 10 percent to 12 percent</b></p> <p><b>Milestone 3.1:</b> Introduction of market mechanism permitting the trade of fishing licenses at international market rates</p>	<p><b>Outcome 3: Not achieved</b> The supporting project became effective on September 4, 2015. There has not been sufficient time for impact.</p> <p><b>Milestone 3.1: Achieved</b> Not attributable directly to the Bank project.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• RMI - PROP (P151760)</li> <li>• RMI - Pacific Resilience Program (P155257)</li> <li>• PIC - Pacific Island PROP (P131655)</li> <li>• PIC - Pacific Islands PROP (P153429)</li> <li>• PIC - Pacific Resilience Program – SPC (P147839)</li> <li>• PIC – Pacific Resilience Program – PIFS (P155542)</li> </ul>	<p><b>Lessons:</b></p> <ul style="list-style-type: none"> <li>- Start-up time for the project in the RMI may have been underestimated. The government and the implementing body needed to work through legal and implementation issues as the project requires subsidiary agreements. High workload of the implementing entity also delayed recruitment of the PC, who came on board only in December 2015.</li> <li>- The PROP includes four countries and one regional body—effectively five projects—and therefore Bank support/supervision is quite heavy. The TTL who prepared the project left the Bank shortly after it was approved at the Board; this departure may have contributed to some delays in activities on the Bank side.</li> <li>- Project preparation/start-up activities and documentation (i.e., budgets, project operations manuals, procurement plans) could have been more thorough, detailed, and advanced before project approval.</li> </ul>
<p><b>Outcome 4: CTF (Compact Trust Fund) objectives, strategic asset allocation and investment management strategies</b></p>	<p><b>Outcome 4: Partially achieved</b> See below.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• PIC - Asset Management Advisory in the Pacific TA (P147920)</li> </ul>	

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
<p><b>reviewed, and options identified to improve long-term sustainability in response to economic and financial market volatility</b></p> <p><b>Milestone 4.1:</b> Government and CTF stakeholders undertake review of fund objectives and asset management framework</p>	<p><b>Milestone 4.1: Partially achieved</b> As part of the analytical study on select Pacific trust funds and Pacific Possible (financing for development), a review of fund objectives and performance has been completed. Evaluation of the asset management framework is planned.</p>	<p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>PIC - Pacific Islands Capacity Support TA (P145802)</li> </ul>	
<p><b>Outcome 5: Legislative and regulatory improvements to investment climate</b></p>	<p><b>Outcome 5: Not achieved</b> The request to provide assistance to improve the RMI investment regime has been made. The diagnostic mission was deployed in August 2015. There has been no follow up since then due to the constraints in funding and lack of visible commitment to advance the reform among the government counterparts. Situation may have changed after the elections, and a follow-up may be needed.</p>	<p><b>IFC:</b></p> <ul style="list-style-type: none"> <li>Investment Climate Rapid Response Project</li> </ul>	



## **ATTACHMENT 6A: THE INDEPENDENT STATE OF SAMOA CPS 2012-16 COMPLETION AND LEARNING REVIEW**

Date of CPS (2012-2016): March 5, 2012 (Report No. 67194-WS)

Period Covered by the CLR: July 1, 2011 to June 30, 2016 (FY12-FY16)

### **Summary of Key Findings**

The first individual WBG Country Partnership Strategy (CPS) for Samoa was issued in March 2012 and covers the period 2012-2016. Recognizing the particular challenges faced by Samoa as a small and remote island economy and the realities of its economic geography, the overarching theme of the CPS was the importance of building resilience against shocks. It was well aligned with the priorities of the Strategy for the Development of Samoa 2012-2016 (SDS), which emphasized strengthening economic resilience and encouraging inclusive growth through increasing investment in the productive sectors of the economy.

#### *Development Outcome*

Based on the self-assessment by the Samoa Country Team, the overall development outcome is rated as satisfactory. Of the 16 outcomes grouped under the three priorities of (i) Rebuilding Economic Resilience and Encouraging Inclusive Growth; (ii) Generating Opportunities from Greater Global and Regional Integration; and (iii) Overcoming Isolation and Generating Opportunities from Greater Global and Regional Integration, two are achieved, two are mostly achieved, nine are partially achieved, two are not achieved, while one is not verified as of end-FY16 (the CPS closes at the end of December 2016).

#### *World Bank Group Performance*

The overall performance of the WBG in designing and implementing the CPS is assessed as good. The WBG program succeeded in contributing to the achievement of results in some key areas—notably under priority 1, in helping with fiscal consolidation and building reserves, strengthening public financial management, and under priority 3, in completing inland coastal roads, providing access), but implementation lagged behind in effectively supporting CPS objectives in almost all other areas. IFC investments were limited to the telecoms sector, but advisory services were more effective in improving access to finance, sustainable business advisory services, and PPP advice.

### **Highlights of Assessment**

The details of the assessments for the 16 outcomes and related milestones are available in the RF (see Attachment 6B). The following narrative provides highlights of the assessments in the three CPS priority areas.

#### *Priority 1: Rebuilding Economic Resilience and Encouraging Inclusive Growth*

**Outcome 1** (fiscal consolidation and rebuilding of reserves) is mostly achieved. The tighter fiscal stance adopted in recent years can be attributed to the winding down of infrastructure projects,

stronger revenue collection, and restraint on current expenditures. While recent deficits have still exceeded the government's 3.5 percent of GDP target, the most recent Fiscal Strategy Statement sets out a projected fiscal path in which the deficit falls below 3.5 percent of GDP by FY18, with the goal of reducing public debt below 50 percent of GDP by 2020. The July 2015 IMF Article IV assessment noted that the budget and medium-term fiscal framework includes fiscal consolidation to meet this debt target, based on sustaining recent improvements in revenue administration and bringing current expenditure to pre-crisis levels, while keeping capital spending above its historical level to support growth. Two DPOs were declared effective and disbursed over the CPS period (in March 2013 and June 2015, respectively), and a further DPO was scheduled to go to the Board in August 2016. The DPOs contributed to progress toward fiscal sustainability by including actions specifically targeted toward debt management, revenue, and public expenditure (particularly procurement reforms), as well as by helping to motivate the maintenance of a sound macroeconomic framework overall.

As a prior action for the 2013 DPO, the government approved and made public an updated debt strategy for the medium term (MTDS) and began to publish quarterly debt bulletins on the MoF website, which allow the government and the public to monitor key aspects of the debt portfolio. As a prior action for the 2014 DPO, the MoF established formal procedures for contracting loans and issuing government guarantees (with TA from the Bank), to strengthen overarching control of debt and contingent liabilities and ensure that new borrowing is consistent with the MTDS. The procedures are designed to ensure that all loan and guarantee proposals go through the same channels, are subjected to the same level of scrutiny, and are assessed against the same criteria. The Public Finance Act was also amended to establish allowable purposes for State borrowing, mandate the MTDS to be updated and submitted to Parliament on an annual basis, and require that State borrowing and debt management operations be consistent with the MTDS. The MTDS limits approval for external loans to those with (i) at least a 35 percent grant element and (ii) a "minimum positive economic return sufficient to cover interest and repayment costs."

**Outcome 2** (improved competitiveness, including improvements on Doing Business indicators) is assessed as partially achieved in terms of actual results so far and also benefited from the DPOs. The second development objective of the 2014 DPO was to strengthen the payment system, tourism sector policy, and private sector development opportunities as foundations for more robust economic growth over the medium term. Contributing to this objective were reforms to modernize the payment system and introduce a new PPP policy framework to increase opportunities for private participation in the large SOE sector. These reforms helped and will continue to help to boost the competitiveness of the Samoan economy. The more efficient payment system—including a move to electronic payments—will reduce transaction costs and risks for businesses. The PPP reform agenda aims to boost opportunities for private sector development, while improving the efficiency and quality of services delivered by infrastructure SOEs, which will ultimately reduce costs for businesses. The PPP framework developed with WBG assistance was endorsed by the Cabinet in March 2015, and the PPP unit was created in 2015. IFC is assisting the government with two of the five PPP projects shortlisted by the WBG (the Solid Waste Management and the Samoa Airline Joint Venture projects). Both projects will encourage new private sector investments in tourism, and the Solid Waste Management project will potentially lead to private investment in improved waste management and possibly a waste-to-energy IPP. The 2014 DPO also supported a rewrite of the Customs Act to facilitate trade, as

well as improvements to the customs information system. These legislative changes have allowed Samoa to remove red tape in customs operations and employ risk management techniques, improving transparency and predictability for traders and reducing the cost of doing business.

Strengthened public financial management (*outcome 3*) has been achieved. Recent PFM reforms build on nearly two decades of PFM reforms, under which the government has established an appropriate legislative framework, introduced program budgeting, and instituted sector planning across government. The government's commitment to making future improvements to its PFM systems is strong. Samoa is entering its third phase of reforms, having made considerable achievements in the two earlier phases. These achievements include improvements in expenditure, commitment and arrears reporting, debt and guarantees processes, payroll and other expenditure processing, and bank/suspense account reconciliation. A number of notable recent reforms have strengthened revenue collection, including: amendments to the Income Tax Act and Tax Administration Act to shift to self-assessment and lighten the compliance burden; upgrades to the revenue information system; and a restructuring and strengthening of revenue administration to support the encouragement of compliance, as well as audit, investigation, and education activities. TA for this reform program has been provided by Australia and New Zealand. The Bank has also had a strong dialogue on revenue reform issues with the government in the context of the PER.

In recent years, Samoa has also created a new Procurement Division in MoF, an administrative arrangement that has driven the wider procurement reform process. Supported by the 2013 and 2014 DPOs, the government has ensured that all tender notices and all contract awards for procurements above SAT500,000 are made publicly available. It has also issued new Treasury Instructions on procurement, new Procurement Guidelines, and new standard templates for minor works, goods, and general services, which increase compliance with procurement procedures and improve the efficiency of the system (for example, by explicitly prohibiting fractioning, or the splitting of contracts into smaller amounts to avoid tender thresholds). The government has also made progress in establishing guidelines for framework arrangements, including to speed procurement in emergency situations.

The MoF has prepared the third phase of the PFM Reform Plan itself, based on the key areas highlighted as weaknesses in the 2013 PEFA and 2014 Methodology for Assessing Procurement Systems (MAPS) assessment, outstanding areas from the second phase of reforms, consultations with internal stakeholders, and discussions with development partners. The debt, procurement, and revenue areas supported by the current DPO series are all high priorities in this third phase, which will be implemented from July 2014 to June 2016. A high level of ownership for the reforms is in evidence, and a strong annual monitoring and evaluation system for the reforms is now well established. The MoF effectively supplements its internal capacity to support reforms using a pool of funds for TA provided by development partners.

**Outcome 4** (improved efficiency and effectiveness of service delivery to strengthen health financing and address education quality) is partially achieved. The Samoa Health Sector Management Program Support Project responded to the National Health Strategic Plan's six priorities of Improved Healthy Living through Health Promotion and Primordial Prevention;

Quality Health Care Service Delivery; Governance, Human Resources for Health and Health Systems; Partnership Commitment; Financing Health; and Donor Assistance. Progress was mixed. For example, the data reflect an increase in the prevalence of diabetes, injuries in children, overweight, and obesity, but they also reveal improvements in perinatal mortality, typhoid, and children receiving the measles vaccine. Progress on intermediate indicators is also mixed, with insufficient data to determine the effectiveness, efficiency, and thus the quality of health services. Targets were not met for total fertility rates, and birth rates rose among women aged 15-19. Results were partially achieved for improvement in policy, planning and implementation, efficiency in public health, commitment and ownership of the sector-wide process, harmonization, and quality of consultations and processes.

Health sector management has improved and could improve further by better separating the Ministry of Health's oversight and regulatory functions and by allowing the National Health Service (NHS) to manage health service delivery. The NHS has been hampered by inadequate tools and the inability to manage functions that remain under the purview of the Ministry of Health. Partner contributions amounted to US\$35.1 million, of which IDA was US\$5.8 million, and government US\$1.8 million. New Zealand provided additional funds for infrastructure, and Australia provided additional funds for biomedical equipment. With funding from Australia, the World Bank contributed technical advice from global education systems expert teams to undertake education systems diagnostic assessments using the SABER (Systems Assessment for Better Education Results) in five education domains: Teacher Policy, Student Assessment, School Autonomy and Accountability, Education Management Information Systems, and Early Childhood Development. The World Bank also supported research on early childhood development (ECD), including community participation in early child learning for school readiness. Following the SABER-ECD, the Bank conducted an assessment of the demand for ECD. Based on the findings, and following a request from the government, the Bank is providing TA in assessing school readiness domains and eventually on early grade reading under the Pacific Early Age Readiness and Learning (PEARL) initiative. The goal is to assist the government in developing an action plan for 5-10 years to improve the quality of education.

**Outcome 5** (IFC tourism investments to support 4,000 new arrivals across 3 pilot countries by 2016) remains partially achieved in Samoa. As discussed under outcome 2, IFC is assisting with two PPP projects, including the Samoa Airline Joint Venture project to be implemented through the newly established PPP framework. This PPP will result in improved air services that will encourage new private sector tourism investments. It was noted in the CPS that Samoa-specific indicators would be developed as this initiative progressed and would be included in the CPS Progress Report. In the absence of a Progress Report, these indicators remain unspecified.

**Outcome 6** (concessions tendered for new private investment in energy generation following liberalization and framework for independent power producer) is partially achieved. Two of the IPP concessions have been awarded (2 MW and 3 MW) to a strong international private sector operator, and the project is being developed. The concession process was not well managed; unsuitable parties were selected to develop the project, which delayed progress, and now a developer has stepped in to undertake the projects.

**Outcome 7** (doubling of yields for selected vegetable crops) is partially achieved, whereas **outcome 8** (share of locally produced fruits and vegetables sold by domestic channels increased from 5 percent to 25 percent) is mostly achieved. The Crops Division of the Ministry of Agriculture and Fisheries (MAF) has invested substantially in evaluating new vegetable varieties (successfully in most cases). The Crops Division and the Samoa Business Enterprise Centre have provided initial training for farmers participating in the matching grant program (MGP), but more comprehensive training on the new crop varieties, technologies, and methodologies remains to be provided. Now that the vegetable crop field trials are largely completed and the new varieties have been released, and the Crops Division is working on a more comprehensive extension workplan, it is anticipated farmers will start to adopt the new seeds and associated agricultural practices—leading to the expected yield increases. Farmers will also be trained in planning cropping patterns to take advantage of gaps in the market, which should increase the share of domestic sales during off-peak periods. The agricultural competitiveness project (SACEP) is also supporting the work of a Market Linkages Advisor, who is supporting MAF and farmers to establish linkages with domestic markets, particularly in the hospitality sector. Given the 12-month delay in getting project activities off the ground, the outcome of higher yields has also been delayed, and the target is likely to be fully reached only in 2018 (the proposed new closing date for the restructuring of SACEP).

**Outcome 9** (increase in share of locally produced beef sold by domestic channels from 40 percent to 55 percent) is partially achieved and on track to being fully achieved. With respect to improving farmers' access to superior breeding stock, 46 Droughtmaster cattle (and 14 Dorper breeding sheep) arrived from Australia in April 2015 and are settling in well. Work on improving the nucleus cattle herd at Togitogiga (the government-owned farm) has increased the calving rate from 60 percent to 97 percent, although it is expected to stabilize at around 90 percent at the optimal herd size. A new Togitogiga farm manager has been recruited to manage the cattle, and Memoranda of Understanding have been signed with five farmers to become cattle “multipliers,” who will rent nucleus herd stock for breeding. Most MGP funds for cattle have been used for water supplies, fencing, stockyards, and assorted tools; these funds appear to have been utilized quite effectively. Regular training has also been provided by MAF's Animal Health and Protection Division (AHPD). The mobile slaughter unit was delivered in January 2016 and AHPD staff have already received training in hygienic slaughter practices. All of these elements are expected to come together in 2016 and 2017 to improve the productivity of Samoan cattle farmers and increase the quantity of beef that can be sold on the local market.

Progress on **outcome 10** (measure the participation of women in the SACEP, in both the MGP and activities targeting subsistence farmers) cannot be verified at this point. The project has recently signed a Memorandum of Understanding with the Ministry for Women, Community, and Social Development to provide training to subsistence farmers, which includes a particular focus on female farmers and young farmers. This effort should increase the participation of female subsistence farmers in the training activities. For commercial farmers under the MGP, grantees are typically the male head of the household, but a significant number of female grantees have been observed in the fruit and vegetable component. At the mid-term review, it was estimated that 17 percent of MGP beneficiaries were female, and it was proposed that a target of 30 percent female participation be set.

*Priority 2: Generating Opportunities from Greater Global and Regional Integration*

The supporting Samoa Pacific Regional Connectivity Phase III project is in the early stages of implementation, and **outcome 11** (infrastructure to enable anticipated increase in demand from 30 Mbps per month to a projected 400 Mbps per month in 2015, with wholesale bandwidth costs to be reduced from over \$1,000 Mbps per month to \$500 Mbps per month or lower, flowing through to reduced retail internet and telecoms costs) is not achieved yet.

**Outcome 12** (increase in Samoan workers participating in temporary labor migration schemes in Australia and New Zealand, with higher returns per worker as efficiency increases) is partially achieved. The outcomes of the Institutional Strengthening for Labor Migration work program contributed to Priority Area 1 (Economic Sector) of the SDS. The sustained remittances from Australia's SWP and New Zealand's RSE scheme improved macroeconomic stability. Other significant contributions came from the Government of New Zealand through its Strengthening Pacific Partnerships Initiative, which strengthened information management, communication, and marketing within the SEU.

**Outcome 13** (reduction in remittance costs from current unweighted average of 16 percent for all schemes, with a policy and payment system in place to support greater use of mobile money) is partially achieved. Work related to payment systems has progressed, and Samoa has adopted reforms in the legal and regulatory framework. The WBG is supporting the work of the central bank to establish modern payment systems infrastructure to reform the sector. A new National Payments System Act was adopted in April 2014, paving the way for additional reforms to facilitate and regulate electronic payments. The central bank, with support from the WBG, is drafting the follow-up regulations.

*Priority 3: Overcoming Isolation and Generating Opportunities from Greater Global and Regional Integration*

**Outcome 14**—16 districts completed high-priority coastal protection initiatives (such as mangrove planting) by 2016—is partially achieved and on track. The milestones (Integrated National Climate Change Adaptation Strategy developed by the end of 2014, and Samoa able to access regional risk pooling and catastrophe insurance schemes, to be introduced by the end of 2014) have both been achieved.

**Outcome 15** (completion of 5 km inland coastal road to provide access to villagers in tsunami areas that decided to relocate), which supports the government's goal of better preparing communities to respond to natural disasters, was fully met. As part of its 2006 Disaster and Emergency Management Act, Samoa adopted a modern and comprehensive disaster risk management framework, which called for greater community engagement. The need for an alternative road had been highlighted in the Community Infrastructure Management Plan for the district. The government recognized this need and acted on it. The voluntary relocation of the population inland as a result of the tsunami increased the urgency for the road to be constructed.

**Outcome 16:** (climate proofing and improved drainage for 30 km West Coast Road by end-2016) is not achieved but will be carried out under the Enhancing Climate Resilience-West Coast Road Project. The project development objectives are to: (i) improve the climate resilience of the West

Coast Road and (ii) enhance local capacity to develop a more climate-resilient road network. To date, no works have commenced on the West Coast Road, largely because of discussions to carry out a full rehabilitation of the road, the estimated price of which exceeds the available budget. As such, discussions about additional funding to support this emerging objective are underway. Meanwhile, the most vulnerable sections of West Coast Road will be rehabilitated to be more resilient to extreme weather events using Crisis Response Window funds. A study to assess the vulnerability of the country's road network is nearing completion, and based on the results, officials will have a better understanding of the actions necessary to take adaptive measures to strengthen roads and bridges in Samoa.

## **World Bank Group Performance**

The performance of the WBG in designing and implementing the Samoa CPS is considered good. As of the fifth year (2016) of the five-year CPS program, 4 of the 16 outcomes are either achieved or mostly achieved. While two outcomes are not achieved, nine are partially achieved (one is not verified). Key milestones and procedural aspects have been met or completed for some of the outcomes, but the specific measurable outcomes are yet to be achieved. In some cases, there is scope for further progress in the remaining period of the CPS (end-December 2016), but it is quite unlikely that many of the quantitative targets will be met.

### *Design*

The CPS was designed well in terms of aligning with selective aspects of the country's medium-term priorities and in terms of the choice of overarching themes and three priority areas. A key weakness, however, was the relative inability to estimate the time required to process and implement new supporting activities that would deliver the stipulated results. A more prudent option would have been to design the results chains by relying more on the portfolio of ongoing activities already approved and under implementation. The selection of sectors and areas for WBG support was appropriate and not the issue, but having multiple outcomes (four for agriculture alone, for instance) made the RF complex. The use of DPOs as a choice of instrument was appropriate, with key results achieved often as prior conditions.

The identification of risks was realistic, with exogenous shocks, slowdown of reform momentum, complexities of coordination, and capacity constraints as key elements. While weak commitment to reforms might have played a role, in effect it was the difficulty and complexity of implementation that became the key constraint. This point is particularly relevant for project processing and starting of implementation, with most activities taking much longer to get off the ground than anticipated, despite the willingness and commitment to move ahead. In certain cases, the process of consultations and community/stakeholder involvement also took time.

### *Implementation*

The CPS envisaged that with a relatively mature client such as Samoa, the Bank could potentially make US\$80-100 million available to Samoa through IDA and trust fund resources over the CPS period, including an indicative 3-year IDA16 allocation of approximately US\$25-30 million and a potentially similar amount in IDA17. There could also be scope for additional financing from Regional IDA. The planned program included a Development Policy Series, projects on Agricultural Competitiveness, West Coast Road Climate Resilience, Community

Coastal Resilience, Infrastructure Asset Maintenance, Pacific Aviation Safety, and Broadband Connectivity. Actual approvals are listed in Attachment 1.

IFC is a close partner with advisory services and investments in the telecoms sector. The two investments in Digicel Samoa (total US\$18.5 million) allowed the operator to enter the liberalized telecom sector. Advisory services included support to the financial sector, business advisory services, PPP, and training in the tourism sector. Other IFC involvements are noted in the following highlights of the WBG implementation experience in Samoa during the CPS period.

The WBG's performance in promoting macroeconomic and fiscal resilience through its DPOs and coordinated budget support with other development partners has been sound. The Bank has supported the DPO prior actions related to debt management with extensive TA (for instance, in the production of a Debt Management Reform Plan and update, and in assisting with the development of procedures for contracting new loans and government guarantees). The debt management reforms exhibited strong ownership by MoF, and the objective of strengthening debt policy and management is closely aligned with the macroeconomic stability priority contained in the SDS.

The signing of the China Exim Bank loan agreement in 2014 for a new terminal at Faleolo airport raised questions over the prior action on the approval of formal procedures for contracting new loans. Implementation of the procedures for contracting loans occurred ex post rather than ex ante, and there were delays in the preparation of an economic analysis to assess whether the project would show a net economic benefit (as required by the debt management strategy). The Bank delayed the effectiveness of the 2014 DPO, asking for assurance that the approved procedures had been followed, and that an economic analysis had been completed to address the question of whether (and under what conditions) the project would result in a minimum positive economic return sufficient to cover the interest and repayment costs, as set out in the MTDS. The Bank also supported completion of this economic analysis to a satisfactory standard. The analysis has since been endorsed by the Cabinet Development Committee, and the government has published it online, which is a notable step toward greater transparency.

The PPP framework support was led by the Bank in collaboration with IFC in selecting potential projects for the PPP pipeline. IFC's PPP team is working with the relevant Environment Ministry on the Waste Management PPP and the MoF PPP Unit on the Airline Joint Venture. If there is scope for investment in future in waste-to-energy efforts, IFC's Infrastructure investment team may engage and explore this opportunity.

The Bank's DPOs have provided an important government-led mechanism under which policy development support and budget support from development partners (including Australia, New Zealand, ADB, and the EU) have been coordinated and prioritized. In particular, the use of a single Joint Policy Action Matrix has reduced the transaction costs imposed on the government and enabled close consultation and cooperation among development partners, including, for example, by ensuring that the sector-specific expertise of individual development partners can be best leveraged. For instance, the group of development partners has drawn on New Zealand's assistance for customs and tourism reforms, Australia's assistance on asset maintenance



financing, and ADB's agribusiness financing project and SOE reforms. This cooperation has been strongly encouraged by the government.

The Bank has also supported the DPO prior actions related to PFM with extensive TA (for example, in the case of procurement and debt management reforms) and analytical work (for the PER, for example). It has ensured that the development objectives and associated reform actions of the proposed operation are closely aligned with the priorities and strategic areas in the economic development pillar of the SDS, as well as the government's own PFM reform plan, with critical reforms from this plan being included as prior actions and triggers in the DPOs. As a result, the MoF has exhibited a high level of ownership for the supported reforms.

For support on the health outcome, the project design was relevant to the Ministry of Health's National Health Strategic Plan. However, there may have been too much flexibility in using the Program of Works to guide implementation rather than more robust systems such as the yearly March Summits to ensure that policy objectives were met. The Health Advisory Committee, the oversight body for policy dialogue, was enhanced over time to improve on donor harmonization, though friction continued between the role of the Ministry of Health as regulatory and oversight body and that of the National Health Service, responsible for health service delivery. Supervision could have been more frequent if staff were based in the region to manage some of the institutional risks that arose (such as a weak M&E system) and to build relationships that in the Samoan context require time and a consistent field presence. The Bank's performance could have been improved with less staff turnover, which also included turnover from the other development partners (Australia and New Zealand). Further use of analytical work could have improved the relevance, quality, and dissemination of knowledge services, although this was limited due to resistance from the sector and their relationship with partners during implementation.

Through the SABER assessments, global knowledge and Pacific country peer learning have been applied to evidence-based analysis and policy recommendations on education subsectors relevant to improving learning outcomes. The technical advice has been recognized by the Ministry of Education, Sports, and Culture as a helpful contribution to improving education systems management and service delivery for improved learning outcomes.

The performance of the WBG with regard to the agriculture outcomes of the CPS is satisfactory. Given the nature of the technical assistance required, IFC has not been involved. The mid-term review (March 2015) found that the project design, including the fruit and vegetable component, was still relevant to Samoa's needs and priorities, particularly given the continued high levels of imports for many of the targeted vegetables. The Bank has undertaken regular six-monthly implementation support missions, supplemented with additional visits to provide additional technical support at key junctures. The implementation of SACEP was delayed by 12 months from the intended start date due to delays in recruiting the Project Coordination Group, and the project is consequently undergoing restructuring to extend the original closing date. The WBG team has encouraged the SACEP team to include gender-disaggregated indicators in its reporting and will ensure that they are included in the RF after restructuring.

Overall, the performance of the WBG was robust in relation to support for the outcome/results area on temporary labor migration. The quality of supervision was high, although it proved difficult to rely on consultants who were only periodically based at the SEU. The program was implemented according to the timeline set out at the Concept Note Review stage. The SEU derived significant benefits from the Bank's technical assistance. Certain constraints and issues arising midway through implementation affected the results, including significant delays in submitting draft outputs to senior management, the non-availability of staff for capacity-building activities, and the lack of coordination among staff members within the SEU. A mid-program adjustment to account for these constraints could have potentially improved the impact of the TA provided.

The Bank responded to the government's request to provide financial support to reconstruct the transport sector and address the damage caused by the tsunami in a timely manner. The Bank responded and within 10 days of the tsunami had fielded an identification mission. The project design was simple, in keeping with the relatively small size of Samoa's portfolio. As a result, domestic contractors were able to bid for works and local construction capabilities were retained within Samoa. During implementation, the Bank carried out at least two supervision missions per year. The missions regularly met with key counterparts, including the Steering Committee members, Land Transport Authority staff, the Project Management Unit, and Ministry of Natural Resources and Environment, and inspected physical works in the field. The task team provided counterpart staff with timely feedback on technical, procurement, and safeguard issues, facilitating fast decision-making and smooth implementation. Midway through implementation, the project was restructured to transfer a subcomponent to another project and to adjust funding allocations and the RF. The regular and consistent missions helped to build a collegial working relationship with counterpart officials and helped to ensure that the project was implemented relatively smoothly and fully achieved its development objectives. In the follow-on Enhanced Road Access Project which was approved in FY14, the Bank reinforces the objectives of ensuring that key critical roads and bridges in Samoa that are damaged by extreme weather events are reconstructed and enhancing them to be more climate resilient.

The Climate Resilience - West Coast Road (CRWCR) project is behind schedule due to an initial implementation delay. Thin capacity within the government and limited competition in the market led to a decision by the government and Bank to couple the procurement of the Project Management Consultancy (PMC) contracts for the CRWCR and the Samoa Enhanced Road Access Project (ERAP). The resulting delay occurred because ERAP became effective months after CRWCR. This situation was exacerbated by stalled negotiations with the PMC on a complicated, country-wide (not project-specific) Samoan tax issue, capacity weaknesses and staff turnover in the implementing agency, and limited interagency coordination. During project preparation, the Bank team could have further considered the need for public consultations and the time required to settle possible land and easement issues. To better manage these challenges, the team has undertaken more missions (three to four shorter missions at more frequent intervals), and it has done a good job of supervising the project, documenting needed actions, and being proactive. Monthly conference calls have also been instituted, which are helping.

## **Alignment with World Bank Group Corporate Strategy**

While extreme poverty is very rare in Samoa, it is difficult to get a clear sense of the incidence and dynamics of basic needs poverty. The 2008 HIES showed 26.9 percent of the population to be experiencing basic needs poverty. Samoa has the highest level of inequality among the small PICs, with a Gini coefficient of 42.7. The poorest 40 percent of Samoa's population face significant spending constraints, and as a result tend to be highly dependent on publicly funded health and education services. Promoting the quality and accessibility of these services is critical to the welfare of the most vulnerable, and at the macroeconomic level it hinges on the country's capacity to maintain fiscal stability and rebuild buffers to insulate these social sector expenditures—which together account for around one-third of total government expenditure—from external shocks. Through the DPOs, the achievement of these objectives has been buttressed by Bank-supported reforms to improve debt management, strengthen revenue collection, and ensure value-for-money and transparency in public procurement.

The funds provided under the 2013 DPO (US\$15 million equivalent) helped to ensure that frontline service delivery that benefits the poor in particular was not cut in the aftermath of Cyclone Evan. In the absence of the substantial financial support provided by the operation, the government would have had to resort to other forms of financing to maintain necessary public expenditures, which would have pushed up the fiscal deficit and the debt burden. Similarly, the funds provided in the 2014 DPO (US\$7.5 million equivalent) helped to offset budgetary pressures and maintain public expenditures on critical services.

PFM engagement from the Bank and other development partners over the term of the CPS program has helped to ensure aggregate fiscal stability by strengthening revenue collection, controlling expenditure (for instance, by ensuring value-for-money in procurement), and promoting debt management reform. Analytical advice and input provided by the Bank in ASA products (such as the PER), as well as in the regular interactions with the government (that have been facilitated by the DPO engagement), have also been focused on improving the efficiency of resource allocation and strengthening the link between budget allocations and government priorities. Through these channels, the PFM engagement has helped the government to maintain expenditure on public services, on which the poorest and most vulnerable tend to be most reliant, while taking steps to improve outcomes per dollar spent.

The PPP framework established with support from the WBG should facilitate sustainable private sector alternatives to SOEs. The two specific projects underway indicate potential opportunities for the private sector to participate in a manner that improves the efficiency of services while saving significant government resources for other important public services.

The activities supporting the agriculture sector outcome will enable beneficiary farmers to increase their productivity (yields) for selected vegetables that are in demand on the local market. These activities are complemented by support to farmers on running a successful commercial enterprise (for example, training in business planning) and linking to local markets (including restaurants and hotels). By supporting farmers to increase not only productivity but also the sales of their produce and therefore incomes, the project is helping to reduce poverty. The project is also supporting subsistence farmers to improve productivity (although without a commercial focus), which will reduce the incidence/likelihood of food poverty. Increased sales

of fruits, vegetables, and beef to local markets will enable farmers to increase their annual incomes, thereby reducing poverty. By focusing on farmers, the project is facilitating greater wealth in rural areas, which have historically lagged behind the urban center—thereby sharing prosperity across the population. By measuring the participation of women in the project, the project team will be able to assess whether benefits from the project (increased incomes for commercial farmers and increased productivity for subsistence farmers) are being shared equitably across the population.

The data collected through the World Bank’s impact evaluations of the SWP and RSE suggest that these programs have opened up significant seasonal migration opportunities to poor, rural households. The participation of poorer and more rural households in the program suggests that these programs are reducing poverty and boosting shared prosperity in Samoa. To the extent that the TA provided by the World Bank has allowed Samoa to maintain its numbers in these schemes (given program caps) through improved management systems, the CPS program as implemented has had a strong alignment with the twin goals.

Since the Samoa Enhanced Road Access Project was implemented in response to an emergency, the primary focus was on restoring road sector assets that were damaged by the tsunami. The project provides an all-weather alternative road to the coastal route for communities in the area, while the pedestrian access routes that were constructed provide access to higher ground in times of extreme weather events. Combined, these investments are helping to mitigate the growing threat of natural disasters for the area’s inhabitants.

## **Lessons**

### *Efficacy of DPOs in the Right Context*

Undertaking reforms implemented under DPO prior actions with the full commitment and ownership of the stakeholders worked well. For example, DPO-supported PFM reforms tend to achieve good results with manageable risks, because they are structured around elements of the government’s program for which solid reform momentum exists (and are generally included in the government’s own PFM reform plan and in line with its longer term strategy). The MoF has a strong sense of ownership of each reform area and considerable experience coordinating the actions of the other agencies whose engagement is needed to achieve these reforms. There is strong alignment between TA and DPO policy actions. The use of a single Joint Policy Action Matrix has reduced the transaction costs imposed on the government and enabled close consultation and cooperation among development partners. A coordinated approach to budget support has particular benefits in a capacity-constrained environment such as Samoa.

### *Use of SWAps*

The SWAp in the health sector was not a traditional SWAp. The Samoa SWAp was a pooled fund, with donor transfers made in parallel, which made it responsive to government needs as required, but which may have lessened the impact, as interventions were focused more on outputs than outcomes.

### *Agricultural Trials and Role of Extension Service*

With appropriate technical support, the Crops Division has had good success with trials of several vegetable varieties. For this research to have an impact on farm productivity, however, it needs to be complemented by an effective extension service that delivers the new varieties and improved methods to the project's beneficiaries.

### *Matching Grant Program*

The MGP has proven to be a successful mechanism for providing funds to farmers to enable them to invest in on-farm infrastructure and equipment improvements. Despite the requirement for farmers to match the value of the grant (through cash and in-kind contributions), demand for participation has been high. Many farmers have received the maximum grant allowed, which was not expected when the project was designed.

### *Gender-disaggregated Indicators*

Gender-disaggregated indicators need to be included in the project RF from the outset. Otherwise project management units are unlikely to report on them (although the information may still be collected).

### *Consultations*

Effective community consultations and ongoing engagement during works, while time consuming, should be carried out early on in preparation and throughout construction in order to minimize disruptions and delays during implementation.

## ATTACHMENT 6B: THE INDEPENDENT STATE OF SAMOA CPS FY2012-16 RESULTS FRAMEWORK (as of August 5, 2016)

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
<b>Priority 1: Rebuilding Economic Resilience and Encouraging Inclusive Growth</b>			
<p><b>Outcome 1: Fiscal consolidation and rebuilding of reserves</b></p> <p><b>Indicators and Milestones:</b> Detailed outcome indicators around the broad themes listed as well as specific milestones will be developed as part of a coordinated policy matrix underpinning a DPO series starting in FY13, and will be included in the CPS Progress Report</p>	<p><b>Outcome 1: Mostly achieved</b> In recent years the Government of Samoa has run a relatively accommodative fiscal policy to cushion the effects of the 2008-09 global financial crisis, the September 2009 tsunami, and Cyclone Evan in December 2012. However, in the three years from FY13 to FY15, the budget deficit in Samoa has averaged 4.3 percent, down from an average of 6.1 percent over the preceding three financial years. Comprehensive revenue policy and administrative reforms have led to improvements in domestic revenue collection, while progress has been made on reducing current expenditures as a proportion of GDP. IMF estimates suggest the government ran a fiscal deficit of 3.4 percent in FY2016 and 3.9 percent of GDP in FY2015 (down from 5.3 percent in FY2014), with a deficit of 2.1 percent projected for FY2017. Tourism earnings and remittances have meant that foreign reserves have remained around their levels (3.8 months of imports) at end-FY13. In its 2015 Article IV consultations, the IMF noted that standard metrics indicate that reserves are adequate, although higher reserve buffers would provide greater resilience to natural disasters.</p> <p>In terms of DPO results indicators: For the 2013 DPO, MTDS guidelines on concessionality were fully adhered to in FY14 (with no new loans contracted at all).</p> <p>For the 2014 DPO, compliance with MTDS provisions on concessionality and economic return was called into question in the case of a loan from China Exim Bank in FY15. The terms of the loan are still under negotiation, while the government’s economic analysis—which eventually showed a positive economic return—was delayed.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Samoa – Development Policy Operation (P144377, Closed)</li> <li>• Samoa – First Fiscal and Economic Reform Operation (P149770, Closed)</li> <li>• Samoa - Pacific Resilience Program (P154839)</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• Samoa PER (P144365)</li> <li>• Samoa Reform Plan (P133607, Follow up 149869))</li> <li>• PIC - Pacific Possible EW (P154324)</li> <li>• PIC - Problem Driven PFM in PICs EW (P156419)</li> <li>• PIC - Asset Management Advisory in the Pacific TA (P147920)</li> </ul> <p><b>Donor Partners:</b> ADB, IMF, Australia, New Zealand, European Commission</p>	<p><b>Lessons:</b> The Bank engagement on debt management reform—supported through the 2013 and 2014 DPOs—has resulted in a series of institutional improvements at the MoF. One lesson arising from this engagement is the importance of continued support for implementation and capacity building as well as for the introduction of reforms. While the DPOs have supported the introduction of a debt management strategy and the clear definition of procedures and the legal framework for borrowing, the application of this strategy and procedures was called into question with the recent China Exim loan to fund an upgraded airport terminal. In this case, implementation of the procedures for contracting loans occurred ex post rather than ex ante, and there were delays in the preparation of an economic analysis to assess whether the project would show a net economic benefit (as required by the debt management strategy). Hence the government’s focus now needs to be on the consistent implementation and bedding-down of these policy reforms in compliance with the MTDS. There is also scope to further develop the government’s technical capacity in this area.</p>
<p><b>Outcome 2: Improved competitiveness, including improvements on Doing Business indicators</b></p>	<p><b>Outcome 2: Partially achieved</b> PPP framework established and two projects underway. DPO (P144377) supported as a prior action the approval and establishment of a new PPP policy framework to facilitate</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Samoa – Development Policy Operation (P144377, Closed)</li> </ul>	

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
<p><b>Milestone 2.1:</b> Samoa to gain share of IFC’s Pacific Tourism Initiative which aims to encourage US\$30m in new private sector tourism investments and US\$15m in new tourism infrastructure investments across 3 pilot countries</p>	<p>increased participation of the private sector in the SOE sector. IFC is implementing a solid waste management PPP transaction and advising the government on future joint venture arrangements.</p> <p><b>Milestone 2.1: Partially achieved</b></p>	<ul style="list-style-type: none"> <li>• Samoa – First Fiscal and Economic Reform Operation (P149770, Closed)</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• Samoa FSAP (P151168)</li> </ul> <p><b>IFC:</b></p> <ul style="list-style-type: none"> <li>• Waste Management PPP</li> <li>• Samoa Airline Joint Venture</li> </ul>	
<p><b>Outcome 3: Strengthened public financial management</b></p>	<p><b>Outcome 3: Achieved</b></p> <p>Samoa has made considerable progress with reforming its PFM systems in recent years. Between 2011 and 2013, Samoa implemented the second phase of its PFM Reform Plan, informed in part by the findings of the 2010 PEFA. An independent evaluation of progress on the PFM Reform Plan assessed that 22 of the 25 reform targets have now been either fully or partially achieved. Recent diagnostic work indicates that Samoa now has fairly strong PFM systems, confirming improvements made since 2010. Across the 28 PFM indicators assessed for the government in the 2013 PEFA, Samoa received 2 A’s, 6 B+’s, 6 B’s, 9 C+’s, 1 C, and only 2 D+’s and 1 D (with one indicator not applicable). This was a substantial improvement from the 2010 PEFA, in which Samoa had received 1 A, 1 B+, 4 B’s, 4 C+’s, 5 C’s, 10 D+’s, and 1 D, with the indicator on the stock and monitoring of payment arrears unable to be rated because of the absence of information on arrears (and one indicator not applicable). In the 2013 assessment, the budget was assessed as credible, fiscal information as generally comprehensive and transparent, orderliness and participation in the annual budget process as strong, many aspects of predictability and control in budget execution as solid, and most aspects of external scrutiny and audit as also solid. Notable improvements between the two assessments included arrears monitoring and broader budget credibility, tax assessments, bank reconciliations, payroll controls, procurement, expenditure controls, internal audit, annual financial statements, and legislative scrutiny of the budget and audit reports. On procurement, the 2014 MAPS assessment indicated that the</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Samoa –Development Policy Operation (P144377, Closed)</li> <li>• Samoa – First Fiscal and Economic Reform Operation (P149770, Closed)</li> <li>• Samoa - Pacific Resilience Program (P154839)</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• Samoa Public Expenditure Review (P144365)</li> <li>• Samoa - Public Private Partnership Policy TA (P145839)</li> <li>• PIC - Problem Driven PFM in PICs EW (P156419)</li> <li>• PIC - P4 Pac Regional Regulatory Resource Center TA (P118670)</li> </ul>	<p><b>Lessons:</b></p> <p>In Samoa, DPO-supported PFM reforms tend to achieve good results with manageable risks, because:</p> <ul style="list-style-type: none"> <li>- They are structured around elements of the government’s program for which solid reform momentum exists (and are generally included in the government’s own PFM reform plan and in line with its longer-term strategy).</li> <li>- The MoF has a strong sense of ownership of each reform area and considerable experience coordinating the actions of the other agencies whose engagement is needed to achieve these reforms.</li> <li>- There is strong alignment between technical assistance and DPO policy actions. Reforms in debt management and procurement relate to specific engagements by the Bank, while for revenue reforms other development partners are more closely engaged.</li> <li>- The use of a single Joint Policy Action Matrix has reduced the transaction costs imposed on the government and enabled close consultation and cooperation among development partners. A coordinated approach to budget support has particular</li> </ul>

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
	<p>adoption of new Treasury Instructions had raised the score on the legislative and regulatory framework pillar from 0.14 to 2.14 (out of a possible 3.0) and also improved the institutional framework and management capacity, procurement operations, and integrity and transparency.</p>	<ul style="list-style-type: none"> <li>PIC - Pacific Islands Capacity Support TA (P145802)</li> </ul> <p><b>Donor Partners:</b> ADB, IMF, Australia, New Zealand, European Commission</p>	<p>benefits in a capacity-constrained environment such as Samoa.</p>
<p><b>Outcome 4: Improved efficiency and effectiveness of service delivery to strengthen health financing and address education quality</b></p>	<p><b>Outcome 4: Partially achieved</b> Under the Samoa Health Sector Management Program Support Project (HSP), the objective of improving efficiency in public health expenditures has been partially achieved, though 90 percent of health sector budgets and disbursements conform to policy objectives and HSP priority areas.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>Samoa – Second Health Sector Management Program Support Project (P086313)</li> <li>Samoa – First Fiscal and Economic Reform Operation (P149770, Closed)</li> <li>PIC – Pacific Early Age Readiness and Learning (PEARL)</li> <li>PIC - Early Grade Reading Assessment (P118877)</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>PIC - Melanesia Health Advisory Assistance TA (P130475)</li> </ul> <p><b>Donor Partners:</b> Australia; New Zealand</p>	<p><b>Lessons:</b> The Samoa SWAp was a pooled fund, with donor transfers made in parallel, which made it responsive to government needs as required. The SWAp is a sector-wide approach, and the SWAp indicators were to measure efficiency and effectiveness, while not necessarily funding the interventions for the indicators used in the RF. The SWAp also had two parts of indicators which made it complex to monitor.</p>
<p><b>Outcome 5: IFC tourism investments to support 4,000 new arrivals across 3 pilot countries by 2016 [Samoa-specific indicators will be developed as this initiative progresses and will be included in the CPS Progress Report]</b></p>	<p><b>Outcome 5: Partially achieved</b> IFC is assisting with the Samoa Airline Joint Venture project to be implemented through the PPP framework. This PPP will result in improved air services that will encourage new private sector tourism investments.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>Samoa - Infrastructure Asset Management Program APL2 (P075523, Closed; ICR: MS; IEG: MS)</li> <li>Samoa - Aviation Investment Project (P143408)</li> </ul>	



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<p><b>Milestone 5.1:</b> Samoa to gain share of IFC’s Pacific Tourism Initiative which aims to encourage US\$30m in new private sector tourism investments and US\$15m in new tourism infrastructure investments across 3 pilot countries</p>	<p><b>Milestone 5.1: Partially achieved</b></p>	<p><b>IFC:</b></p> <ul style="list-style-type: none"> <li>• Pacific Tourism Initiative</li> <li>• Samoa Airline Joint Venture</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• PIC - China-Pacific Aviation Links EW (P155515)</li> </ul> <p><b>Donor Partners:</b> ADB, IMF, Australia, New Zealand, European Commission.</p>	
<p><b>Outcome 6: Concessions tendered for new private investment in energy generation following liberalization and framework for independent power producer</b></p>	<p><b>Outcome 6: Partially achieved</b></p> <p>Two IPP concessions have been awarded (2 MW and 3 MW) to a strong international private sector developer, and the project is being developed. The concession process was not well managed (unsuitable parties selected to develop the project delayed progress), and now a developer has stepped in to undertake the projects.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• PIC - Sustainable Energy Industry Development (P152653)</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• PIC - Strengthening the PRDR SE4ALL Initiative TA (P153190)</li> </ul>	
<p><b>Outcome 7: Doubling of average yields by 2017 for carrots (baseline 1,250 kg/acre), tomatoes (baseline 2,000 kg/acre), bok choy (baseline 3,850 kg/acre), eggplant (baseline 5,850 kg/acre), bell peppers (baseline 1,250 kg/acre)</b></p>	<p><b>Outcome 7: Partially achieved</b></p> <p>The Crops Division of MAF, with the support of SACEP, has successfully evaluated improved varieties and planting practices for several imported crops (onions, carrots, and lettuce) as well as crops already being grown by local farmers (kang kong, head cabbage, Chinese cabbage, green peppers, tomatoes). Planting material for most of the improved varieties was launched at the Agricultural Show in August 2015. The information generated by the Crops Division on varieties, technologies, and agricultural practices will be used by farmers to improve on-farm productivity over the remaining duration of the project. Farmers have already received some training, and have applied it to production of existing crops, resulting in an average increase in vegetable yields of 25 percent compared to the baseline.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Samoa – Agriculture Competitiveness Enhancement Project (P115351)</li> <li>• Agriculture and Fisheries Cyclone Response (P145938)</li> </ul>	<p><b>Lessons:</b></p> <p>Working in the agricultural sector is challenging, given the need to work with many stakeholders, especially subsistence farmers. This is the first project for the Bank in the sector after a long absence, hence experience in Bank procedures within the sector is limited.</p> <p>With appropriate technical support, the Crops Division has conducted successful trials of several vegetable varieties. For this research to have an impact on farm productivity, however, it must be complemented by an effective extension service that brings the new</p>

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<p><b>Milestone 7.1:</b> Matching grant scheme to support up to 1,000 farmers by 2016 to upgrade livestock and fruit and vegetable production</p> <p><b>Milestone 7.2:</b> Identification and introduction of new fruit and vegetable varieties by end-2014</p> <p><b>Milestone 7.3:</b> Strengthened agricultural extension services</p>	<p><b>Milestone 7.1: Partially achieved</b> The project design envisaged that 1,600 farm households would benefit from the MGP— 500 fruit and vegetable growers and 1,100 livestock producers. As of November 2015, only 239 MGP applications had been approved (15 percent of the target), but this represented almost half of the available funds for the MGP due to a higher-than-expected average grant size. Thus, even with a concentrated effort to encourage smaller enterprises to join the program, final beneficiary numbers will be well less than half of what was anticipated, although all grant funds will be fully utilized.</p> <p><b>Milestone 7.2: Mostly achieved</b> The Crops Division has successfully evaluated improved varieties and planting practices for several imported crops (onions, carrots, and lettuce) as well as crops already being grown by local farmers (kang kong, head cabbage, Chinese cabbage, green peppers, tomatoes). Planting material for most of the improved varieties was launched at the Agricultural Show in August 2015. Potatoes continue to be a technical challenge, but some progress is being made. For further progress, a renewed government commitment to supporting imports and evaluation of potato seed will be critical.</p> <p><b>Milestone 7.3: Partially achieved</b> The Crops Division has generated valuable information on varieties, technologies, and agricultural practices, all of which should serve to enhance the incomes of MGP fruit and vegetable beneficiaries. The framework for delivering this information, in the form of a SACEP Extension Work Plan, has not yet been fully developed. Now that the majority of new or improved varieties have been released, MAF extension specialists are developing comprehensive work plans to deliver the technical information on the proper practices associated with these varieties to commercial and subsistence farmers. SACEP is also building the capacity of extension staff through the provision of technical training. As of November 2015, 100 percent of Crops Division technical staff had completed training programs to upgrade their extension effectiveness and/or technical capacity.</p>		<p>varieties and methods to the project beneficiaries. MAF will need to ensure that extension services receive adequate support over the coming year (2016) if the outcome of doubled yields for project beneficiaries is to be achieved. The project is supporting MAF to do this by developing an Extension Work Plan and by providing training to beneficiary farmers.</p> <p>For the PIC9 RPF, it is suggested that this outcome (i) changes the achievement year to 2018, given the delays in implementation and the fact that SACEP is restructuring to extend the closing date by one year, and (ii) specifies that the doubling of yields is expected only for project beneficiaries (not for all farmers, which is implied with the current wording).</p> <p>The MGP has proven to be a successful mechanism for providing funds to farmers to enable them to invest in on-farm infrastructure and equipment improvements. Despite the requirement for farmers to match the value of the grant (through cash and in-kind contributions), demand for participation has been high. Many farmers have received the maximum grant size allowed, which was not expected at the time of project design. This development may also indicate that the grant size is too small for farmers to make a real impact on their farms in terms of development. The implication is that larger farmers may have dominated the MGP intake, potentially to the detriment of smaller operations. The remaining MGP funds are being allocated to ensure that a mix of small and large farmers receives grants—while always ensuring that their business plans are profitable. SACEP is undergoing a restructuring, and the target for the MGP is being revised down to 600 farmers. It is</p>

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			suggested that the PIC9 RPF reflect this new target.
<p><b>Outcome 8: Share of locally produced fruits and vegetables sold by domestic channels increased from 5 percent to 25 percent</b></p>	<p><b>Outcome 8: Mostly achieved</b> The retail survey undertaken by SACEP in late 2014 showed that the share of locally produced fruits and vegetables sold in domestic channels was 69 percent. Although SACEP beneficiaries have in some cases adopted new agricultural practices, the new crop varieties were released to farmers only in late 2015, and it is unlikely that this increase in market share can be wholly attributed to the project. There is a degree of seasonality in domestic sales, with large variations within a year. SACEP will increase the frequency with which it undertakes retail surveys, and possibly also increase the sample size, to ensure a more accurate representation of domestic market share. The results of the more recent retail survey are still pending.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Samoa - Agriculture Competitiveness Enhancement (P115351)</li> <li>• Agriculture and Fisheries Cyclone Response (P145938)</li> </ul>	<p><b>Lessons:</b> The initial project M&amp;E workplan envisaged an annual retail survey. Given the substantial seasonal variation within any year, it is important to undertake more frequent retail surveys, which will require building a good rapport with sales outlets, which may find the questioning time-consuming. Central Bank of Samoa (CBS) also conducts a quarterly market survey at produce markets in town, and the data can also highlight any increase in sales of fruits and vegetables as well as the variety sold.</p>
<p><b>Outcome 9: Increase in share of locally produced beef sold by domestic channels from 40 percent to 55 percent</b></p>	<p><b>Outcome 9: Partially achieved</b> The baseline of 40 percent local market share was an estimate based on the best available information at the time of project design. A subsequent meat retail survey (2013) found that the actual baseline was 31 percent. The ongoing project restructuring has consequently proposed a reduction in the final target from 55 percent to 46 percent. The most recent meat retail survey (2014) showed a local beef retail share of 29 percent; i.e., stable compared to the previous year. The increase in the share of locally produced beef sold in domestic channels is predicated on (a) the introduction of new, higher-yielding cattle breeds to Samoa; (b) supporting MGP beneficiaries to make on-farm investments to improve productivity; and (c) the introduction of a hygienic slaughter system that will improve the quality of the meat provided to the market. There were some delays in achieving (a) due to the complex procurement process; the new cattle breeds arrived in Samoa in April 2015 (see Milestone 9.1). It will take at least 12 months before this translates to an increase in cattle productivity and consequently sales. With respect to (b), most MGP funds for cattle have been used for water supplies, fencing, stockyards, and assorted tools; these funds appear to have been utilized quite effectively. Regular training has also been provided by MAF's Animal Health and Protection Division. With respect to (c), further detail is provided under Milestone 9.2. The March 2017 date for achieving this outcome will be changed to March 2018 with the restructuring. Given the delayed importation of the cattle and the</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Samoa - Agriculture Competitiveness Enhancement (P115351)</li> <li>• Agriculture and Fisheries Cyclone Response (P145938)</li> </ul>	<p><b>Lessons:</b> Project baselines should be determined, wherever possible, on actual surveys of the market. In the PIC9 RPF, the baseline for this outcome should be changed from 40 percent to 31 percent. The ongoing project restructuring has also proposed a reduction in the final target from 55 percent to 46 percent; if this is approved then the final target in this outcome will also need to be revised. The date for achieving this outcome is currently March 2017, and will be changed to March 2018 with the project restructuring.</p>

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<p><b>Milestone 9.1:</b> New breeding stock imported by end-2014 to strengthen nucleus breeding program</p> <p><b>Milestone 9.2:</b> Field slaughter service established by 2015</p>	<p>procurement of the mobile slaughter unit (MSU), substantial achievement of the outcome cannot be expected at this stage.</p> <p><b>Milestone 9.1: Achieved</b> New cattle and sheep breeding stock were delivered to Samoa in April 2015. There was some delay in this due to the importance of selecting the right cattle (necessitating a visit from MAF staff to Australia); a reissuing of the tender for this service (the first set of respondents proposed transport by sea, which was not deemed feasible due to quarantine restrictions in the ports of call en route to Samoa); and the overall complexity of the procurement process (involving air-freighting a large number of cattle and sheep). Work is now underway to lease out breeding animals to individual farmers via a “farm multiplier” system.</p> <p><b>Milestone 9.2: Achieved</b> The mid-term review changed the project design to introduce a mobile slaughter unit instead of a static slaughterhouse, as the MSU was deemed more appropriate for Samoan conditions. The design of the MSU has taken some time, given that it is the first time such a system has been introduced in Samoa, and it had to be custom-built. The MSU was delivered in January 2016 and the first trials of the hygienic slaughter method will commence shortly (before the end of the CPS period).</p>		
<p><b>Outcome 10: Measure the participation of women in the SACEP, in both the matching grants program and activities targeting subsistence farmers</b></p>	<p><b>Outcome 10: Not verified.</b> There is insufficient evidence to assess the achievement of this outcome. The RF for SACEP does not include a breakdown of project beneficiaries by gender for the MGP or for subsistence farmer training. The project is currently undergoing restructuring, and a proposal will be made to disaggregate these indicators by gender.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>Samoa - Agriculture Competitiveness Enhancement (P115351)</li> </ul>	<p><b>Lessons:</b> Gender-disaggregated indicators need to be included in the project RF from the outset; otherwise project management units are unlikely to report on them (although the information may still be collected). Gender information can be extracted from the list of approved MGP applications. While most farmers may submit their MGP applications under the husband’s name, it may not necessarily mean women are not involved, as typically women manage the fruit and vegetable gardens while the men manage the livestock.</p>
<p><b>Priority 2: Generating Opportunities from Greater Global and Regional Integration</b></p>			
<p><b>Outcome 11: Infrastructure to enable anticipated increase in</b></p>	<p><b>Outcome 11: Not achieved</b> The supporting project is in the very early stages of implementation. The project was only approved in June 2015 and</p>	<p><b>Operations:</b></p>	

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<p><b>demand from 30 megabits per second per month to projected 400 Mbps per month in 2015, with wholesale bandwidth costs to be reduced from over US\$1,000 Mbps per month to US\$500 Mbps per month or lower, flowing through to reduced retail internet and telecoms costs</b></p> <p><b>Milestone 11.1:</b> Fiber optic cable linking Samoa with trans-Pacific cables</p> <p><b>Milestone 11.2:</b> Regulatory environment allows competition with equal access by all retail market players to buy international bandwidth on a fair and transparent basis</p>	<p>there are no outcomes yet. Procurement of the cable system and advisory/transactional and regulatory TA has commenced. The independent assessment of the new Submarine Cable Company is now in progress. Decisions on the design of the project including the structure of the new cable company took time to get approval from the project steering committee and subsequently from the Cabinet.</p> <p><b>Milestone 11.1: Not achieved</b> Procurement of cable system ongoing.</p> <p><b>Milestone 11.2: Not achieved</b> Consultant selection for regulatory TA ongoing.</p>	<ul style="list-style-type: none"> <li>• Samoa - Pacific Regional Connectivity Phase III (P128904)</li> <li>• PIC - Pacific Regional ICT Regulatory Development Project (P148238)</li> </ul> <p><b>Donor Partners:</b> ADB, Australia, European Investment Bank, IFC, PRIF</p>	
<p><b>Outcome 12: Increase in Samoan workers participating in temporary labor migration schemes in Australia and New Zealand, with higher returns per worker as efficiency increases</b></p> <p><b>Milestone 12.1:</b> WB to support Government oversight and management of Samoan workers in RSE scheme and new Australian SWP</p>	<p><b>Outcome 12: Partially achieved</b> The number of Samoan workers participating in the Australia SWP increased rapidly from 22 in FY12-13 to 168 in FY14-15. For New Zealand's RSE scheme the number actually declined marginally from 1,384 in FY08-09 to 1,212 in FY13-14; however, this was largely due to a cap imposed on the program, which quickly became binding and prevented further growth. Data collected also suggest that the returns per worker increased with returning workers being 2.8 percentage points more efficient than new workers in the SWP.</p> <p><b>Milestone 12.1: Achieved</b> Samoa received technical assistance from 2012 – 2014 to address significant gaps in management systems resulting from the creation in early 2012 of a dedicated Seasonal Employment Unit (SEU) under the Prime Minister &amp; Cabinet Ministry. The WBG also assisted the Government with the development of its Labor Migration Policy.</p>	<p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• PIC - Pacific Payment and Remittances Program TA (P153894)</li> <li>• PIC – Pacific Labor Mobility PAAA (P155609)</li> <li>• PIC - Australia SWP Development Evaluation EW (P151959)</li> </ul> <p><b>TF:</b></p> <ul style="list-style-type: none"> <li>• PIC – Institutional Strengthening for Labor Migration (P130478)</li> </ul>	<p><b>Lessons:</b> Role and process mapping enabled direct participation by staff and managers in clarifying roles and responsibilities of all stakeholders in the end-to-end Labor Migration process. Lack of leadership and commitment was shown by some managers to participating in and implementing the procedures and tools their staff have developed, leading to loss of benefits and investment costs. Ways of securing stronger commitment and accountability from leaders need to be found.</p>

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
		<b>Donor Partners:</b> Australia, New Zealand	
<p><b>Outcome 13: Reduction in remittance costs from current unweighted average of 16 percent for all schemes, with a policy and payment system in place to support greater use of mobile money</b></p> <p><b>Milestone 13.1:</b> Legislative revisions to strengthen National Payments System and investments to increase efficiency of retail payment systems infrastructure</p> <p><b>Milestone 13.2:</b> Establishment of a credit bureau</p>	<p><b>Outcome 13: Partially achieved</b> The Central Bank of Samoa has made considerable progress in the work related to payment systems, leading the efforts at the regional level and adopting reforms in the legal and regulatory framework. The remittance cost reduction is linked to several factors not all strictly depending on the actions taken by the authorities at the national level. Among them is the current phenomenon of de-risking, which is heavily impacting the market players in Samoa. It is actually quite unlikely that mobiles will be used any time soon to transfer money internationally. Also, at the national level there are more efficient and cheaper channels.</p> <p><b>Milestone 13.1: Partially achieved</b> Payment and clearance systems are underdeveloped. The interbank clearing and settlement system, managed by CBS, is based on manual operations and is not in line with international standards and best practices, exposing the Samoan financial sector to liquidity, credit, and stability risks. At retail level the banks operate their own systems, not interoperable among themselves and highly inefficient. The CBS is working with the WBG on the establishment of a modern payment systems infrastructure to properly reform the sector. A new National Payments System Act was adopted in April 2014, paving the way for additional reforms to facilitate and regulate electronic payments. Following this Act the Central Bank with support from the WBG is drafting regulations covering Agents, Electronic Funds, Retail Products, and Oversight.</p> <p><b>Milestone 13.2: Mostly achieved</b> In DB 2016, Samoa scored a 0 on the depth of credit information access, but the IFC has facilitated the establishment of a private sector Credit Bureau that will be fully operational in early 2016 (still under discussion).</p>	<p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• PIC - Pacific Payment and Remittances Program TA (P153894)</li> <li>• PIC - Australia SWP Development Evaluation EW (P151959)</li> </ul>	<p><b>Lessons:</b> The work in the country has been characterized by several challenges, mainly due to the limited size of the financial sector and the lack of resources of the authorities for the major reforms needed. Thanks to the support of the donors and the design of a regional approach including other countries in the same situation, it was possible to overcome the problems and advance the implementation of the reforms.</p>
<b>Priority 3: Overcoming Isolation and Generating Opportunities from Greater Global and Regional Integration</b>			
<p><b>Outcome 14: 16 districts completed high-priority coastal protection initiatives (such as mangrove planting) by 2016</b></p>	<p><b>Outcome 14: Partially achieved</b> Work has started in 23 villages in 6 districts with community-led and prioritized activities to enhance their resilience. The project used the Civil Society Support Program (established with the help of the Australian government) to ensure that goods and services</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Samoa - Infrastructure Asset Management APL2 (P075523, Closed; ICR: MS; IEG: MS)</li> </ul>	<p><b>Lessons:</b> - Building resilience is time-consuming and should seek to empower communities to identify and implement local solutions to manage their specific risk levels. Using an existing government mechanism to channel</p>

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<p><b>Milestone 14.1:</b> Integrated National Climate Change Adaptation Strategy developed by end-2014</p> <p><b>Milestone 14.2:</b> Samoa able to access regional risk pooling and catastrophe insurance schemes, to be introduced by end-2014</p>	<p>identified by the communities are procured efficiently and effectively for implementation by the communities.</p> <p><b>Milestone 14.1: Achieved</b> Instead of a stand-alone climate change and adaptation strategy, Samoa has built on the Climate Resilience Investment Program (CRIP – completed in 2011) supported by Phase I of the Samoa Pilot Program for Climate Resilience (PPCR) to include climate and disaster resilience as one of the pillars of the SDS. SDS includes indicators in the project (P126596).</p> <p><b>Milestone 14.2: Achieved</b> Samoa joined the PCRAFI pilot scheme in January 2013 for two years, extended to a third year in November 2014. This innovative scheme provides the participating PICs with a regional risk pooling mechanism to secure catastrophe risk insurance coverage against earthquakes (including tsunamis and tropical cyclones) on international reinsurance markets at a very competitive price. Rather than traditional insurance, the program uses “parametric triggers” to determine pay-outs. Should a triggering event (e.g., earthquake or cyclone) occur, insurance payouts can be given within weeks. This pilot is part of an integrated national disaster risk financing strategy, where other financial mechanisms are being developed to cover more frequent disasters. The PCRAFI is now part of the broader Pacific Resilience Program (PREP), which provides technical assistance and financing to improve resilience, early warning/preparedness, and disaster risk financing for the participating countries (Samoa, Tonga, RMI, and Vanuatu). The 2015 Pacific Islands Forum Economic Ministers Meeting (FEMM) supported the establishment of a facility to manage the PCRAFI insurance program moving forward, ensuring: (i) ownership, (ii) sustainability, (iii) minimum operating costs, and (iv) increased financial resilience against natural disasters and climate change.</p>	<ul style="list-style-type: none"> <li>• Samoa - Enhancing Climate Resilience of Coastal Resources (P126596)</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• Samoa Post-Disaster Needs Assessment (P144463)</li> <li>• PIC - Pacific Disaster Risk Financing TA (P130347)</li> <li>• PIC - Pacific CAT Risk Assess – Phase 3 TA (P130441)</li> </ul> <p><b>Donor Partners:</b> UNDP, Japan, PRIF.</p>	<p>funding for small community projects makes sense given the need for works on the project to complement other initiatives at the community level. Linking the project to a small grants facility was fundamental to ensuring that resources were available to pay for materials and resources from outside the community itself. In small countries where the Bank has few operations, local implementing agencies have to contend with many different external support partners with differing procedures. Therefore, clearly establishing the roles and responsibilities of different stakeholders, including the Bank, and doing so early on, can help to ensure that projects are implemented efficiently and effectively.</p> <p>- Lessons from the PCRAFI indicate that catastrophe risk insurance cannot cover all disaster losses and should be combined with other financial solutions as part of a comprehensive package for financial protection against natural disasters. Accordingly, Component 3 of the PREP seeks to use a range of financial instruments to support participating PICs to secure access to immediate financing post disaster for low-, medium-, and high-risk events.</p>
<p><b>Outcome 15: Completion of 5 km inland coastal road to provide access to villagers in tsunami areas that decided to relocate</b></p>	<p><b>Outcome 15: Achieved</b> The 5 km East Coast Inland Road, which was formally opened to traffic on June 16, 2015, provides both improved access to and for communities that relocated from and are living along the east coast, and a secure transport link between Samusu and Lalomanu that will allow access along the east coast even during natural disasters.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Samoa - Enhanced Road Access Project (P145545)</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• Samoa Post-Disaster Needs Assessment (P144463)</li> </ul>	<p><b>Lessons:</b> Effective community consultations and ongoing engagement during works, while time-consuming, should be carried out early on in preparation and throughout construction in order to minimize disruptions and delays during implementation.</p>

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
<p><b>Outcome 16: Climate proofing and improved drainage for 30 km West Coast road by end 2016</b></p>	<p><b>Outcome 16: Not achieved</b>            Not achieved as part of Samoa - Infrastructure Asset Management Program APL2 (P075523). These improvements will be carried out under Enhancing Climate Resilience - West Coast Road (P126504). Due to the need for extensive community consultations, and the revised government objective of fully rehabilitating the West Coast Road (WCR), works have yet to begin on WCR. However, works are expected to begin in mid-2016. As such, the entire length of WCR continues to remain vulnerable to climate change, but note that the Enhancing Climate Resilience - WCR Project does not close until August 31, 2018.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Samoa - Infrastructure Asset Management Program APL2 (P075523, Closed; ICR: MS; IEG: MS)</li> <li>• Samoa- Enhancing Climate Resilience- West Coast Road (P126504)</li> </ul>	<p><b>Lessons:</b>            See Lessons for Outcome 15.</p>

Note: FSAP (Financial Sector Assessment Program); APL (Adaptable Program Lending); PAAA (Programmatic Analytic and Advisory Assistance).



## **ATTACHMENT 7A: KINGDOM OF TONGA CAS FY2011-14 COMPLETION AND LEARNING REVIEW**

Date of CAS (FY2011-FY2014): September 17, 2010 (Report No. 56630-TO)

Period Covered by the Completion and Learning Review: July 1, 2010 to June 30, 2014

### **Summary of Key Findings**

Reflecting scaled-up analytical and financial support for the island archipelago of Tonga, the first stand-alone WBG Country Assistance Strategy (CAS) for Tonga covering FY2011-14 was issued in September 2010. As the first individual CAS for one of the PIC6, it marked a departure from the previous single Regional Engagement Framework for the PICs and signaled a more intensive and customized engagement. Tonga had made strong progress on development outcomes, most Millennium Development Goals, and eradicating absolute poverty, though development remained volatile. The reliance on remittances from its citizens living abroad (in the USA and OECD countries, for example) and the narrow economic base made Tonga particularly vulnerable to external shocks. The CAS was thus built around the strategic areas of supporting economic reform, generating opportunities through greater global and regional integration, and building resilience against shocks. It was couched within the EAP regional approach and aligned with Tonga's National Strategic Planning Framework 2009-13.

#### *Development Outcome*

The overall achievement is rated as satisfactory based on the assessment of the CAS objectives by the Tonga WBG country team. Most of the outcomes (17 of 19) are either fully or mostly achieved, while only 2 are partially achieved. There was significant progress in the critical areas of accelerating economic reforms and strengthening fiscal stability and effective public expenditure; increasing access to ICT services; and promoting post-tsunami reconstruction and improved capacity for disaster risk management. Success in these key areas has helped to strengthen the longer-term and lasting basis for further growth and development.

#### *World Bank Group Performance*

The overall performance of the WBG in designing and implementing the CAS is assessed as good. The program successfully contributed to the achievement of the CAS outcomes and was tailored to the country priorities. Building on previous engagements and lessons, it was selective, demand-driven, timely, and flexible. The program was also well coordinated with the activities of the development partners. Implementation challenges are significant in a remote archipelago, and the WBG drew on its experience to deliver quality products. In particular, the choice of instruments, including the DPOs, was effective in advancing the agenda of economic reform and fiscal stability. The program that has been developed and is in place provides a strong basis for the next stage of Tonga's development and growth.

Tourism, a core development strategy of the Government of Tonga, was also central to IFC's engagement in Tonga. Tonga is regarded as a mid-tier, high-potential destination in the Pacific. Tourism is primarily a service sector; it is relatively labor-intensive and has relatively low entry barriers. Tonga, with Vanuatu and Samoa, participates in a US\$10 million Advisory project that

commenced in 2013 and seeks to reach new markets to increase local tourism spending. The current direct contribution of tourism to GDP is 10 percent. The indirect contribution is larger, with tourism and related industries responsible for generating the vast majority of private sector employment and foreign exchange earnings.

Also in the tourism sector, IFC provided transaction advisory support to the government to prepare and implement a tender for selecting a private investor/operator to rehabilitate and operate the Dateline Hotel. During the review period, IFC undertook market consultations with regional players and explored transaction structures. In early 2015, however, the government decided to proceed with a proposal/term sheet that IFC regarded as one-sided, exposing the Government of Tonga to risks which, if they materialized, would compromise IFC's reputation. After conveying advice on these issues to the Government of Tonga, IFC decided to disengage from the transaction and terminate the Financial Advisory Services Agreement. Despite this outcome, relationships between IFC and the Government of Tonga remained positive.

In the financial sector, IFC helped Tonga set up and launch its first credit bureau, allowing banks to share credit information and better manage lending risks, reduce credit defaults, and expand access to finance for individuals and small businesses. Data Bureau (Tonga) Ltd., established in partnership with Data Bureau Ltd. (a Fijian-owned credit information company), developed a database with more than 3,000 public notices and the credit histories of hundreds of registered businesses in Tonga. IFC also helped train staff members from various banks in using the database. A code of conduct, a training guide, membership agreements, and customer flyers were developed to assist with the roll out of the bureau.

IFC has helped expand access to finance through the Pacific Westpac M-Banking, a Pacific Advisory project. The overall goal was to increase basic financial services to the unbanked and underbanked populations in remote areas across PICs, including Tonga, by supporting the deployment of Westpac's mobile banking model in those countries. Through this project, Westpac's mobile banking platform enabled remittances, payments, salary transfers, and mobile transactions to be integrated into existing e-channels (ATM/eftpos). Additionally, IFC supported South Pacific Business Development, a regional microfinance provider, in expanding access to finance among women entrepreneurs across Tonga. IFC's advisory services are carried out in partnership with Australia, Japan, and New Zealand. IFC will continue to seek to assist Tonga-based companies, where appropriate, in expanding operations into new markets.

### **Highlights of Assessment**

The detailed assessments of the individual CAS outcomes and the related milestones are set out in the RF (Attachment 7B). Highlights for each of the three strategic areas are presented in the sections that follow.

#### *Strategic Area I: Accelerating Economic Reform to Strengthen Fiscal Stability and Public Expenditure Effectiveness*

The cluster of outcomes related to strengthened economic and fiscal management (**outcome 1**: budget revenue estimates to be improved, including through better data systems; **outcome 2**: debt management system functioning with new external assistance on grant or concessional terms

only; **outcome 3**: quality of PFM systems improved as reflected in improved PEFA scores) was successfully achieved. While some specific outcomes could not be verified in the absence of the specific indicator, the achievement of the supporting key milestones underscores the progress made and the contributions toward deepening strategic reforms. Important activities (apart from the narrow outcome indicators) such as revenue mobilization, expenditure control, macro-fiscal analysis, tax policy and administration review, medium-term expenditure mapping as well as the reforms supported by the DPO series (EROs I and II, First and Second Economic Reform Support Operations) are much more significant and have greater impact. One example of stronger fiscal management is the functional debt management system; the government also introduced and adhered to strong debt policies, including receiving external financing on grant or concessional terms only. With respect to PFM, joint work on a PER was completed in 2012 and has been influential in dialogue on fiscal and PFM matters. At the beginning of 2010, the World Bank had no real macro-fiscal, PFM, or broader economic policy dialogue with Tonga. The Bank undertook the Macro-Fiscal Analysis in time for the 2010 elections, and that knowledge and engagement became the basis for dialogue (by the WBG, Australia, and New Zealand) with the government. By the end of the CAS period, it was the Bank's strongest and most influential policy dialogue in the region.

#### *Strategic Area II: Generating Opportunities from Greater Global and Regional Integration*

The ICT cluster of outcomes (**outcome 4**: internet use to increase from 15 percent to 40 percent of the population; **outcome 5**: wholesale connectivity (bandwidth) costs to be reduced from \$3,500 Mbps per month to \$800 Mbps per month or lower, flowing through to reduced retail internet and telecoms costs; **outcome 6**: regulatory environment that allows competition with equal access by all market players to buy international bandwidth on a fair and transparent basis at the cable landing station) has been achieved or mostly achieved. Since the cable became operational, access to internet services has increased (rising from 1 per 100 people in 2011 to 50 per 100 by November 2015) while the price of wholesale international capacity link has dropped (from US\$3,600 in July 2011 to US\$450 in November 2015). These achievements are attributable to the Bank-supported Tonga - Pacific Regional Connectivity Program. Outcome 6 (implementation of the regulatory component) was significantly delayed due to delays in mobilizing advisory services and the adoption of legal/regulatory instruments and remains partially achieved.

There was progress for the outcome cluster related to improving the business environment (**outcome 7**: improved business environment, as reflected in Doing Business indicators; **outcome 8**: reduced cost of connectivity translating into reduced business transaction costs; **outcome 9**: reduced number of procedures for obtaining a business license). The DPOs supported DB reforms with explicit links to DB indicators in their RFs. There are significant results (for the cost of starting a business and small business tax simplification, for instance); a number of more recent reforms have yet to be reflected in the DB scores but will have a big impact when they become fully effective, such as reforms related to receivership and foreign investment law. The business environment also benefited from the efforts (mentioned earlier) to develop a credit bureau for the country and to reduce the price of internet services and transaction costs for businesses, households, and the government through the Tonga - Pacific Regional Connectivity Program.

### *Strategic Area III: Building Resilience against Shocks*

Outcomes 10, 11, 12, relating to the energy sector, have been mostly or partially achieved.

**Outcome 10** (improve petroleum supply chain to reduce price and volatility of energy supply) is mostly achieved, owing to support from the Tonga Energy Sector DPO (as well as the EROs). The DPO was integral to the WBG's ongoing overall engagement in the energy sector. It supported policy and institutional measures that helped Tonga sustain its reform momentum in the energy sector and implement recommendations from the 2010 PEFA. The objectives and the implementation of the activities continue to be very relevant through implementation of the Tonga Energy Road Map (TERM), which delineates a 10-year path to reduce Tonga's vulnerability to oil price shocks and achieve an increase in quality access to modern energy services in an environmentally sustainable manner. As these objectives continue to be relevant, the Bank continues to support activities in the energy sector through TERM and the ERO with an energy sector component. The DPO was relevant and aligned with the CAS theme of supporting essential structural reforms, including reforms in the energy sector, and ensuring that DOEs are accountable.

**Outcome 11** (increase efficiency of grid power system, including reducing technical and non-technical losses from 17.5 percent on Tongatapu grid) is partially achieved. The outcome and milestones were part of a phased program for the TERM and depended on activities in the initial phase that have not yet been evaluated conclusively. Concurrently progress is being made on the Phase 2 objective of the electricity generation market. These efforts contribute directly toward building resilience against shocks. **Outcome 12** (increase renewable energy for grid power to 20 percent by 2014) is part of Phase 1 or 2 and depends on the completion of Phase 0, which took far more time to implement than planned. Renewable generation capacity has increased, with a 1 MW solar plant now dispatching to the Nuku'alofa grid. The plant provides lower-cost energy than existing diesel plants, contributing to improved service delivery and improving resilience against shocks. This effort was also in line with the Tonga National Development Plan.

**Outcome 13** (consolidate MoT as a unified transport sector policy, planning, and regulatory ministry) is fully achieved. The merger of the Ministry of Works (MoW) and Ministry of Transport (MoT) into the Ministry of Infrastructure (MoI) has created a single, integrated ministry coordinating transportation investments. Fourteen activities that need to be divested have been identified. The Tonga Transport Sector Consolidation Project (TSCP) has successfully supported restructuring of the Ministry of Infrastructure and Tourism (MoIT), which devolved several non-key business areas to focus on its role of policy and planning. Divestment activities so far have been broad, ranging from concessioning and reopening a quarry, transferring divisions within the government (namely meteorology and the National Emergency Management Office), to implementing an IT strategy, including an accounting system. These efforts were recognized by an award from the Institute of Asset Management (UK) in 2014. A road safety audit of Tonga, including the outer islands, was completed in August 2011, and a number of key road safety improvement works were implemented.

**Outcome 14** (improve civil aviation and maritime sector compliance with international safety standards) is mostly achieved. High-priority safety and security investments at Tonga's main international airport—Tongatapu Fua'amotu International (TBU)—were critical for meeting ICAO standards and recommended practices (SARPs), as well as airline safety standards,

ensuring that Tonga's access to international markets and tourism can be maintained. This has led to a new international connection between Vava'u and Fiji, as well as larger 787 aircraft flying into Fua'amotu—significantly increasing passenger and freight capacity. Moreover, the investments preserve and extend the service life of existing infrastructure assets as well as reduce energy consumption, thus helping to address the linked challenges of air transport and climate change. The MoI, with the support of the TSCP, has drafted one civil aviation, two land transport, and 18 maritime policies, as well as a dedicated MoI Act, as of March 2014. Fourteen of these items have been submitted to Crown Law. The legislation drafted addresses the regulatory oversight and safety of the transport sector. The installation of aids to navigation, and institutional strengthening activities at MoIT's Marine and Ports Division, have contributed to improving maritime safety. The TSCP project successfully procured and installed navigational aids in all five island groups, procured infrastructure for improved training operations, and procured a working boat for the Niuatoputapu island group. TSCP also funded improvement works to ferry and port terminals, working boats, and advising services.

**Outcome 15** (strengthened domestic private sector road maintenance capacity) is fully achieved. The project helped to create a road maintenance industry in Tonga. The project has assisted in building capacity in the industry through training workshops on road maintenance activities and fiduciary functions. These workshops were attended by domestic contractors, local consultants, and MoI staff. TSCP succeeded in providing routine maintenance on the full road network of Tongatapu (462 km of roads), completing 18.5 km of periodic maintenance on rural roads. A further 6 km of rural roads is under construction; 40 km of patrol grading has been added to the contracts; and 3.5 km of periodic maintenance has been completed on non-rural areas of the road network. A further 1.5 km of periodic maintenance on non-rural roads is underway. The bulk of contracts awarded under the sustainable road program have been awarded to domestic contractors.

**Outcome 16** (Niuatoputapu reconstruction) is also achieved. With supported from the Post-Tsunami Reconstruction Project, 127 buildings have been reconstructed or repaired with improved auxiliary water supply and sanitation facilities. Water supply and road access to the new settlement areas outside the tsunami danger zone have been established, and 13 km of the main spine road across the island underwent resurfacing and preventive maintenance. A social survey of beneficiaries indicates high levels of satisfaction. The project also restored the target number of houses (adjusted for those undertaken by other donors). The reconstructed houses are now built to cyclone resilience standards.

The objectives of **outcome 17** (improved national disaster management and planning capacity) are also met. The Tonga Post-Tsunami Reconstruction Project strengthened institutional capacity for DRM, including improved technical capability and skills for hazard assessment and mapping; increased availability and accessibility of improved hazard and risk information; and improved community-level awareness of and preparedness for disasters. The PCRAFI pilot insurance scheme triggered an insurance payout of US\$1.27 million in response to Tropical Cyclone Ian to fund immediate relief recovery efforts.

The two social sector outcomes in education (**outcome 18**: net enrolment, dropout, retention rates and student test performance improved from 2005 baselines, and **outcome 19**: increase local

participation and accountability through introducing school-based management, with schools engaging communities in planning, budgeting, and results assessment) are mostly achieved. The World Bank's contribution to Tonga's education sector during the period supported the government to achieve its National Strategic Planning Framework 2009-2013 theme of "Facilitating community development by involving district and village communities in meeting their service needs." TESP outcomes clearly demonstrated progress toward improved local delivery of education services, benefiting from the use of World Bank technical and financial resources to learn from global good practice in school-based management. Bank support for the government's commitment to school-based management and rehabilitation during the CAS period was part of a closely coordinated, multi-donor support program (a sector-wide approach) to improve education outcomes, in which New Zealand provided key financing (exceeding that provided by the Bank) and support for policy dialogue.

### **World Bank Group Performance**

The overall performance of the WBG in designing and implementing the CAS in support of selected country objectives was good. As summarized in the discussion and detailed in the RF (Attachment 7B), more 17 of the 19 CAS outcomes were fully or mostly achieved, while only two were partially achieved. The sections that follow highlight aspects of design and implementation that form the basis for this assessment.

#### *Design*

The three strategic areas identified by the CAS aligned well with the priorities encapsulated in the National Strategic Planning Framework 2009-13. The program of support featured in the CAS—for promoting economic reform, generating opportunities through greater global and regional integration, and building resilience against shocks—responded to the challenges faced by Tonga and built on previous and ongoing engagements. The CAS was realistic in identifying outcomes that could be delivered and attributable to WBG activities within the program period. In certain areas the outcomes were defined in very specific and narrow ways, however, which missed the results of substantive overall engagements (such as the strong results in the fiscal arena). In other words, failure to achieve a specified target carried the risk that other key impacts that the WBG achieved under that cluster would not be captured in the RF. Nineteen outcomes for a country the size of Tonga was excessive. Greater clustering (as this CLR has attempted) could have been helpful.

The CAS identified risks to the Tonga CAS program as moderate. The CAS was extensively discussed with the government and cross-sections of stakeholders to reduce any volatility from planned political transitions. Like its PIC6 counterparts, Tonga is vulnerable to various economic and external shocks. The CAS built on the experience and success of the DPO series, however, to build a strong program for enacting reforms and strengthening resiliency. Capacity constraints also presented a challenge but seem not to have overly constrained implementation.

#### *Implementation*

The CAS envisaged that there would be scope for the Bank to commit about US\$50 million in IDA and trust fund resources to Tonga over the four-year CAS period. It anticipated that Tonga's IDA16 allocation (from FY12 to FY14) could increase to US\$13-14 million. Additional IDA

funding was planned for supporting the response to the Niuaus tsunami, the proposed energy policy DPO, and most financing for government involvement in a broadband cable from IDA's regional pool. In addition, the CAS envisaged continuing TF and donor resources. The planned and actual activities are shown in Attachments 1 and 2. Highlights of their implementation follow.

The series of DPOs supported many of the outcomes under the fiscal and PFM cluster. There were six such operations in each FY over FY11-FY16. The operations supported policy actions and underpinned a policy dialogue that enabled the government to control public expenditures, increase domestic revenues, and ward off any non-concessional borrowings. Fiscal outcomes since the beginning of the DPO engagement have improved rapidly, largely owing to the strong reform effort supported under the program, which featured better wage-bill management and tax and expenditure rationalization. PFM reforms—supported under each DPO operation over the period—improved budgetary transparency and also budget execution by strengthening contingency fund controls and linkages of funds to service delivery priorities. Fiduciary control and efficiency were boosted through the introduction of a Treasury Single Account, budget calendar reform, revised virement controls, and the establishment of a new Central Procurement Agency to oversee public procurement. The DPO series also supported a broader set of outcomes that extend to the business environment and healthy living by implementing tax incentives to support healthy choices, business license reform, electricity tariff reform, and the development of a lifeline tariff, SOE reform and divestment, a new simplified SME tax framework, and the establishment of legislation to govern the seabed mining sector.

As indicated, the Tonga Pacific Regional Connectivity Program supported activities to improve access to ICT services and reduce their costs. It facilitated development of a wide range of ICT applications to support social and economic development in the Pacific region. Phase 1 (Tonga-Fiji Connectivity Project) improved the enabling environment for telecommunications and ICT in Tonga, including greater competition and increased access to infrastructure and services, by reducing the costs of international connectivity and strengthening the telecommunications regulatory framework. The capacity on this new infrastructure will be available on an open-access basis.

The main objective of activities in the energy cluster was to support the government's efforts to implement reforms in the energy sector. The ICRs rate the activities as satisfactory. Their objectives and implementation remain very relevant through implementation of the TERM, with its 10-year road map to reduce Tonga's vulnerability to oil price shocks and increase quality access to modern energy services in an environmentally sustainable manner. Tonga Power Limited is now fully recovering the long-run costs of electricity generation through a combination of electricity tariff revenues and an explicit public service obligation subsidy to Tonga Power Limited, under a specific appropriation in the annual budget. The EROs and Energy DPO assisted the government to implement key aspects of its medium-term reform agenda, while providing a predictable flow of resources in a challenging fiscal environment, and to support government efforts to implement reforms in the energy sector and strengthen the institutional and regulatory framework. Because of the timing of many of the activities, impact cannot be assessed yet. Certainly WBG support for establishing the TERM as an intra-governmental mechanism to coordinate energy sector reforms was a major step. In addition, the

WBG supported the government to take significant steps to increase the supply of renewable energy to the grid, which continue to be supported by development partners.

The WBG's performance in the transport cluster of the CAS is rated as good. Prior to TSCP, routine road maintenance was seldom done, there was no periodic maintenance, and all works were done in an ad hoc manner by MoW using in-house labor and equipment under force account. TSCP introduced contract maintenance across Tonga using output-based methods (defined monthly work orders and payment on actual quantities completed). As noted, the project succeeded in providing routine maintenance on the full road network of Tongatapu (462 km of roads) and completing 18.5 km of periodic maintenance on rural roads. A further 6 km of rural roads is under construction. It also introduced new periodic maintenance solutions (Otta Seals) and supported the concessioning and reopening of the MoW quarry, which was the only source of good surfacing aggregate on Tonga'tapu.

The Tonga PAIP has improved operational safety and oversight of international air transport infrastructure. The project, which was designed as part of a regional series of projects, sought to leverage air transport sector knowledge and Tonga's successful experience in reforming parts of the air transport sector, while utilizing a unique set of implementation arrangements that were able to deliver almost all activities within the CAS period. Regional procurement packaging, coordinated by Tonga Airports Ltd., was also intended to bring economies of scale and efficiencies in contracting to key elements of Tonga's air transport system. The project has been successful at significantly improving the safety and operations in Tonga.

The PRIF, a multi-donor trust fund, has provided resources for PAIP primarily to maintain regional aviation safety and security oversight in Tonga during the restructuring and transition of PASO through the IDA-financed PASO Reform Project. A regional study to develop the PASO Business Development Plan and new organizational structure has been completed, financed by PRIF, and an increased use of PASO services has been facilitated through the allocated PRIF budget. The funding allows grant recipients to purchase regulatory oversight advisory services in fulfilling safety inspection requirements for international aviation, while also supporting Tonga's international obligations as a signatory to the Pacific Islands Civil Aviation Safety and Security Treaty.

The Bank's performance in implementing the Tonga Post-Tsunami Reconstruction was focused on directly responding to the government's request for assistance with the reconstruction of assets that were destroyed and damaged on the affected island, and the scope of the project reflects this priority. The Bank drew important lessons from the previous emergency-response project in Tonga and accurately assessed local public and private capacity to implement the project, although in retrospect the team clearly underestimated the risk to implementation presented by the protracted land acquisition process. Overall, WBG performance has been rated by the ICR and confirmed by IEG as moderately satisfactory. The Bank achieved its design and implementation objectives. The completion date was nine months behind the original schedule, although this extension period is not significant, given the emergency nature of the project and highly remote location in which it was implemented. Both the government and islanders are understood to be very satisfied with the outcome of the project.



The TESP was intended to establish a consistent, equitable mechanism for schools and communities to improve the quality of schooling at the primary and secondary levels and to produce an upward trend in educational outcomes. The project closed in 2011; during the FY11-FY14 CAS period, the WBG program in education was limited to analytical work supported by the Education For All-Fast Track Initiative (EFA-FTI). Building on the achievements of the Tonga School Grants Project in supporting more effective school-based management of service delivery, analytical work from 2011 was an important contribution to the Tongan education system's shift in focus from universal access to tracking and improving student learning in the early grades of education. Through the EFA-FTI and in conjunction with AusAID (now DFAT) and NZAID (now MFAT), the Bank has also supported assessments of reading ability in the early grades of primary education. This initiative helped Tonga transition from a focus on enrolments to a focus on improved learning outcomes, providing a platform for Tonga's subsequent engagement in the PEARL initiative to assess and intervene to improve learning outcomes at early grade levels. The quality of supervision by the Bank and New Zealand was adequate and generally appreciated by government counterparts. Despite a concerted effort, project supervision by the Bank and New Zealand did not result in assisting the Ministry of Education, Women Affairs, and Culture to develop an adequate baseline of sector performance indicators or to develop a useful monitoring and evaluation framework. The end-of-project assessment concluded that it may not be feasible for MEWAC to employ and maintain staff with the skills necessary to carry out effective data collection, processing, and analysis, and these activities have remained an institutional capacity challenge. During project supervision, the Bank also helped to organize and finance (using funding from the FTI) an early grade reading assessment, which provided a baseline of reading performance in primary schools.

### **Alignment with World Bank Group Corporate Strategy**

The very low prevalence of extreme poverty in Tonga, at 1.1 percent nationwide, suggests that fewer than 1,200 citizens live in extreme poverty, yet with significant numbers of its people living in hardship, Tonga faces serious challenges in securing prosperity for all. When the Tonga CAS was prepared, the WBG's twin goals had not yet been articulated. Even so, a review of the various WBG engagements under the 2010 CAS indicates that the program and its outcomes contributed to the twin goals in a number of ways.

The expenditure prioritization supported under the engagements through the DPOs, expenditure analysis, and economic policy dialogue—where the proportion of budget funds going to priority sectors (mainly health and education) rose steadily over the CAS period—is of great significance to the poor, who are typically wholly dependent on publicly provided health and education services. Also of great significance for the poor and public services, although less directly, was the transition over the CAS period from a situation of fiscal crisis (in which cash constraints severely impeded budget execution, and activities were prioritized based on the availability of cash at the point when expenses were due, not based on their priority in the budget) to a situation in which cash buffers are sufficient for the budget to be executed as planned. (To cite one example among others, hospitals are able to procure the requisite drugs to serve the local population.)

The Tonga Pacific Regional Connectivity Program has helped to reduce the cost of internet connectivity, which reduces transaction costs for businesses, households, and the government. It

also facilitates the development of new platforms for business and service delivery (in health and education, for instance) and potentially new job opportunities (e-commerce, online work).

The support for the Consumer Information Bureau improves access to finance among SMEs, which represent the largest source of employment in most PICs. Limited access to finance is a major constraint in the Pacific region, where less than 20 percent of the adult population on average has access to the formal financial sector, and a similar number of formal and informal small and medium businesses face a comparable situation. As empirical data show, the introduction of credit bureaus stimulates access to finance, especially for the SME sector, by reducing credit information asymmetry and enabling banks and other financial service providers to take better-informed credit decisions on borrowers in a timely, cost-efficient, and effective manner.

The TERM Implementation Unit (TERM-IU), with WBG funding support, is undertaking a comprehensive review of the petroleum subsector to design the best-fit model to provide the most affordable prices to Tongan consumers. The implementation of TERM, supported by the DPO, also reduces the impact of volatile diesel prices, which in turn will reduce fluctuations in electricity prices. Stable electricity prices make it easier for poor households with tight budgets to plan expenditures on electricity services. The target of providing access to electricity for all is on track. Lower and more stable energy prices arising from regulatory changes are expected to reduce the share of household income required for energy needs, allowing increased consumption of other basic needs and reducing exposure to severe hardship during periods when energy imports are high.

The improvements in the land transport sectors under the Tonga Transport Sector Consolidation Project are expected to have a significant positive impact among users of domestic transport. Investments that improve the safety of domestic transport have substantial benefits in terms of more reliable access to markets and to education and health services, in addition to facilitating tourism. Nearly 200 predominantly part-time, domestic jobs were also created across the country through the efforts of the project. These include activities under the sustainable road maintenance program and also the successful divestment of the Ahononou Quarry (likely to employ around 30 people). It is estimated that approximately 20-30 staff are involved under each road maintenance contract, inclusive of contractor's staff. Given the unique geographical characteristics of Tonga, air connectivity plays a crucial role as an economic enabler, providing major benefits derived from the provision of services that support activities linked to tourism, trade of goods and services, investment, and remittances. These economic benefits from improved transport connectivity are essential for boosting shared prosperity, both in terms of mobility in and out of the country for the seasonal workers and visiting family segment as well as for boosting tourist arrivals, where the country has significant potential.

The increased capacity of Fua'amotu Airport allows it to cater for larger aircraft, which has served to increase both passenger and freight capacity on the Tonga-New Zealand route. This is anticipated to help contribute to reduced costs for travel and exporters.

The positive outcomes of TESP were strongly relevant to the twin goals of reducing poverty and boosting shared prosperity. The implementation of practical and sustainable school-based

management has increased accountability and community participation in the delivery of education services among disadvantaged communities. TESP also reduced inequality in access to learning materials between schools in better-off areas and those in poorer and more isolated areas. Prior to TESP, principals reported that student materials and some teaching materials were provided entirely by Parent Teacher Associations, so schools in poorer villages had fewer or no materials. Only 31 percent of the small schools visited (a proxy for poor or isolated villages) had a photocopier prior to TESP, while more than twice the number of larger schools (70 percent) had one. After the grant, 83 percent of small schools had photocopiers.

## **Lessons**

### *Development Policy Operations*

Budget support operations can serve as a solid platform for government-donor dialogue on economic policy issues. Adequate investment in policy dialogue is vital but resource intensive. Close coordination and engagement with other development partners in the identification of policy priorities is useful in sectors where the Bank has limited knowledge and engagement. DPOs can enable the Bank to strengthen the hand of the internal government parties supporting prudent fiscal management.

### *Sector Reforms*

DPOs can be mobilized rapidly to provide budget support and can achieve good results in a context where the momentum for reform is strong, driven by solid government ownership of the reform agenda. There is a real value and efficiency in packaging reforms in key sectors like energy.

### *World Bank Group Implementation Issues*

Irrespective of the size of the country, the level of effort of the WBG staff in development and implementation of projects and policy operations is the same. For remote and inaccessible locations, a project's estimated implementation period should incorporate a realistic assessment of the logistical challenges. For example, the time required to devise satisfactory arrangements for land acquisition should not be underestimated.

**ATTACHMENT 7B: KINGDOM OF TONGA CAS FY2011-14 RESULTS FRAMEWORK (as of August 5, 2016)**

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
<i>Strategic Area I: Accelerating Economic Reform to Strengthen Fiscal Stability and Public Expenditure Effectiveness</i>			
<p><b>Outcome 1: Budget revenue estimates to be improved, including through better data systems</b></p>	<p><b>Outcome 1: Achieved</b> Variation in revenue projections fell from 15 percent on average in the three years prior to the CAS to 6 percent over the period, and indications are that it remains lower in the period following the CAS timeframe. Fiscal management was strengthened through support for analytical work such as the Tonga Macro-Fiscal Analysis, support for the Pacific Fiscal Technical Assistance Center (PFTAC)-IMF work on Tonga Tax Policy and Administration Review, and the Tonga Medium Term Expenditure Mapping with a revenue analysis component.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Tonga – Economic Recovery Operation (P126453, Closed; ICR: S)</li> <li>• Tonga – Economic Recovery Operation II (P130824, Closed; ICR: S)</li> <li>• Tonga – First Economic Reform Support Operation (P144601, Closed)</li> <li>• Tonga - Second Economic Reform Support Operation (P149963)</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• Tonga Macro-Fiscal Analysis</li> <li>• Tonga Tax Policy and Administration Review (led by PFTAC)</li> <li>• TA Tonga Reform Plan (P133609)</li> <li>• Tonga Medium-term Expenditure Mapping (P127973)</li> </ul> <p><b>Donor Partners:</b> PFTAC/IMF</p>	<p><b>Lessons:</b> Key lessons from the two EROs (P126453, P130824) include: (i) budget support can serve as a solid platform for government-donor dialogue on economic policy issues; (ii) adequate investment in policy dialogue is vital but resource intensive; (iii) close coordination and engagement with other development partners in the identification of policy priorities is useful in sectors where the Bank has limited knowledge and engagement; (iv) coordinated management of international aid flows, in the context of prudent fiscal policy, can provide vital support in mitigating the impacts of external shocks in the Pacific Islands.</p>
<p><b>Outcome 2: Debt management system functioning with new external assistance on grant or concessional terms only</b></p>	<p><b>Outcome 2: Achieved</b> A functional debt management system is in place. Low concessionality external loans that were signed prior to the commencement of the CAS were fully disbursed over the period, and subsequently no new non-concessional loans were approved. As a result, non-concessional financing declined to zero over the course of the CAS, while grants and concessional loans remained a large source of financing for the government.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Tonga – Economic Recovery Operation (P126453, Closed; ICR: S)</li> <li>• Tonga – Economic Recovery Operation II (P130824, Closed; ICR: S)</li> </ul>	<p><b>Lessons:</b> The provision of budget support enables the Bank to strengthen the hand of the internal government parties supporting prudent fiscal management.</p>

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
		<ul style="list-style-type: none"> <li>• Tonga – First Economic Reform Support Operation (P144601, Closed)</li> <li>• Tonga - Second Economic Reform Support Operation (P149963)</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• Tonga Macro-Fiscal Analysis</li> <li>• Medium-Term Expenditure Mapping</li> <li>• Debt Management Reform Plan TA</li> <li>• Medium-Term Debt Strategy TA</li> </ul>	
<p><b>Outcome 3: Quality of PFM systems improved as reflected in improved PEFA scores—particularly in audit—from 2010 baseline</b></p> <p><b>Milestone 3.1:</b> Joint PER completed identifying options for improved expenditure management</p> <p><b>Milestone 3.2:</b> Strengthened dialogue between donors and government on economic and PFM reforms linked to budget support</p> <p><b>Milestone 3.3:</b> New procurement regulations</p>	<p><b>Outcome 3: Achieved</b> As per the progress on the milestones below, the overall outcome of improved PFM systems is rated as achieved. The 2014 PEFA showed progress in all areas compared to 2010, except in the areas of effectiveness of payroll controls and procurement controls.</p> <p><b>Milestone 3.1: Achieved</b> Joint PER work was completed in 2012 and has been influential in the subsequent dialogue on fiscal and PFM matters. This work built on the foundation of the Tonga Macro-Fiscal Analysis. A number of ad-hoc extensions to the work during the CAS period ensured that it remained current and relevant.</p> <p><b>Milestone 3.2: Achieved</b> At the beginning of 2010, there was no real macro-fiscal, PFM, or broader economic policy dialogue with Tonga. The Bank undertook the Macro-Fiscal Analysis in time for the 2010 elections, and that knowledge and engagement became the basis for the dialogue (and that of Australia, and to a lesser extent, New Zealand), with the government. By the end of the CAS period, it was the Bank’s strongest and most influential policy dialogue in the region.</p> <p><b>Milestone 3.3: Partially achieved</b></p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Tonga – Economic Recovery Operation (P126453, Closed; ICR: S)</li> <li>• Tonga – Economic Recovery Operation II (P130824, Closed; ICR: S)</li> <li>• Tonga – First Economic Reform Support Operation (P144601, Closed)</li> <li>• Tonga - Second Economic Reform Support Operation (P149963)</li> <li>• Energy Development Policy Operation (P121877)</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• Medium-Term Expenditure Mapping</li> <li>• TA in support of First Economic Recovery DPO</li> <li>• PIC - Problem Driven PFM in PICs EW (P156419)</li> </ul> <p><b>Donor Partners:</b> DFAT</p>	

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
<p>consistent with WB/ADB advice to be gazetted and in force in 2010</p> <p><b>Milestone 3.4:</b> Treasury Instructions to line ministries issued</p>	<p>A review in 2013 highlighted significant problems with the procurement system, including the 2010 Procurement Regulations, and subsequently the Procurement Regulations have been revised again. On a more broad assessment, there has continued to be a focus on this area, with significant reforms underway now.</p> <p><b>Milestone 3.4: Achieved</b> The Treasury Instructions were revised, collated, and reissued in total (supported in the PFM part of the Energy DPO), so the whole of government had a single reference point for PFM rules.</p>		
<b>Strategic Area II: Generating Opportunities from Greater Global and Regional Integration</b>			
<p><b>Outcome 4: Internet use to increase from 15 percent to 40 percent of the population</b></p> <p><b>Milestone 4.1:</b> Fiber optic cable linking Tonga with trans-Pacific cables</p>	<p><b>Outcome 4: Achieved</b> Access to internet services (per 100 people) has increased (from 1 in 2011 to 50 by 11/2015) since the cable became operational. This will vary from time to time. This estimation is based on the combination of Fixed Broadband service and 3G network reach-out to all Remote Islands of Vava'u and Ha'apai (Mobile Broadband Subscribers: 42,889. Fixed Wired Broadband Subscribers: 13,216).</p> <p><b>Milestone 4.1: Achieved</b> Cable commissioned ahead of time and under budget. Savings to be utilized to extend connectivity to Ha'apai and Vava'u.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>Tonga - Pacific Regional Connectivity Program (P113184)</li> </ul> <p><b>Donor Partners:</b> ADB, PRIF</p>	<p><b>Lessons:</b> There is scope for further increase in subscriptions following anticipated reduction in wholesale pricing.</p>
<p><b>Outcome 5: Wholesale connectivity (bandwidth) costs to be reduced from \$3,500 Mbps per month to \$800 Mbps per month or lower, flowing through to reduced retail internet and telecoms costs</b></p>	<p><b>Outcome 5: Mostly achieved</b> The price of wholesale international capacity link has dropped from US\$3,600 (07/2011) to US\$450 (11/2015). There is scope for further reduction as the wholesale price ex-Fiji is substantially lower now, and the cable pricing needs to be competitive with satellite alternatives. Significant scope for further reduction in wholesale bandwidth pricing; cable owner (Tonga Cable Ltd.) not intended to operate as profitable entity but to pass through benefits of grant. Tonga Cable Ltd. currently being restructured as non-profit cooperative, with 20 percent of shares to be sold to the private sector.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>Tonga - Pacific Regional Connectivity Program (P113184)</li> <li>PIC - Pacific Regional ICT Regulatory Development Project (P148238)</li> </ul>	
<p><b>Outcome 6: Regulatory environment that allows competition with equal access by all market players to buy international bandwidth</b></p>	<p><b>Outcome 6: Mostly achieved</b> Implementation of the regulatory component was significantly delayed due to delays in mobilizing advisory services, then delays in adoption of legal/regulatory instruments. Future operations are focusing on ensuring that regulatory conditions (e.g., on open access and non-discriminatory pricing) are put</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>Tonga - Pacific Regional Connectivity Program (P113184)</li> </ul>	

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
<p><b>on a fair and transparent basis at the cable landing station</b></p>	<p>in place earlier. Additional funding allocations for regulatory support, including establishment of a regulatory institution, may have been appropriate. Approval of a policy to restructure Tonga Communications Corporation was supported by the 2013 DPO through the introduction of private participation to improve services and profitability. An IFC investment was the catalyst for a large investment by a private sector operator.</p>	<ul style="list-style-type: none"> <li>• PIC - Pacific Regional ICT Regulatory Development Project (P148238)</li> <li>• Tonga - Second Economic Reform Support Operation (P149963)</li> </ul> <p><b>IFC:</b></p> <ul style="list-style-type: none"> <li>• Telecom investment</li> </ul>	
<p><b>Outcome 7: Improved business environment, as reflected in Doing Business indicators</b></p> <p><b>Milestone 7.1:</b> Ability to use personal property as collateral for access to finance is improved</p> <p><b>Milestone 7.2:</b> Establishment of a credit bureau to improve access to finance</p>	<p><b>Outcome 7: Mostly achieved</b></p> <p>There was progress in improving the business environment as reflected in DB indicators. The DPOs supported DB reforms with explicit links to DB indicators in their RFs. There are significant results (e.g., on the cost of starting a business and small business tax simplification) and a number of more recent reforms that have yet to be reflected in the DB scores but will have a big impact when they become fully effective (e.g., receivership, foreign investment law).</p> <p><b>Milestone 7.1: Partially achieved</b></p> <p><b>Milestone 7.2: Partially achieved</b></p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Tonga – First Economic Reform Support Operation (P144601, Closed)</li> <li>• Tonga – Economic Recovery Operation (P126453, Closed; ICR: S)</li> <li>• Tonga – Economic Recovery Operation II (P130824, Closed; ICR: S)</li> <li>• Tonga - Second Economic Reform Support Operation (P149963)</li> </ul>	
<p><b>Outcome 8: Reduced cost of connectivity translating into reduced business transaction costs</b></p>	<p><b>Outcome 8: Mostly achieved</b></p> <p>The program helped to reduce the cost of internet connectivity, which contributes to lower transaction costs for businesses, households, and the government. It has also facilitated development of new platforms for business and service delivery (e.g., health and education) and potentially new job opportunities (e-commerce, online work).</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Tonga - Pacific Regional Connectivity Program (P113184)</li> </ul>	
<p><b>Outcome 9: Reduced number of procedures for obtaining a business license</b></p>	<p><b>Outcome 9: Mostly achieved</b></p> <p>DPOs supported DB reforms with explicit links to DB indicators in their RFs. Results include reducing the cost of starting a business and small business tax simplification. Some more recent reforms are yet to be reflected in the DB scores.</p> <p><b>Milestone 9.1: Not achieved</b></p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Tonga – First Economic Reform Support Operation (P144601, Closed)</li> <li>• Tonga – Economic Recovery Operation (P126453, Closed; ICR: S)</li> </ul>	

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
<p><b>Milestone 9.1:</b> Investment approvals process is simplified and made more transparent, including licensing systems for business operations</p>		<ul style="list-style-type: none"> <li>• Tonga – Economic Recovery Operation II (P130824, Closed; ICR: S)</li> <li>• Tonga - Second Economic Reform Support Operation (P149963)</li> </ul>	
<b>Strategic Area III: Building Resilience Against Shocks</b>			
<p><b>Outcome 10: Improve petroleum supply chain to reduce price and volatility of energy supply</b></p>	<p><b>Outcome 10: Mostly achieved</b> Supported by the EROs and Energy Sector DPO, the objectives were mostly achieved. Templates were revised with World Bank technical assistance and are now being applied by the authorities in carrying out regulatory functions in the petroleum sector. Revisions included the setting of retailer margins on a per-liter basis, rather than a percentage-of-cost basis, facilitating lower prices to consumers. Amended templates help reduce economic vulnerability to energy price fluctuations.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Tonga – Energy Development Policy Operation (P121877, Closed; ICR: S)</li> <li>• Tonga – Economic Recovery Operation (P126453, Closed; ICR: S)</li> <li>• Tonga – Economic Recovery Operation II (P130824, Closed; ICR: S)</li> <li>• PIC - Sustainable Energy Industry Development (P152653)</li> </ul>	<p><b>Lessons:</b></p> <ul style="list-style-type: none"> <li>- Close coordination and engagement with other development partners in the identification of policy priorities is useful in sectors where the Bank has limited knowledge and engagement.</li> <li>- Coordinated management of international aid flows, in the context of prudent fiscal policy, can provide vital support in mitigating the impacts of external shocks in the Pacific Islands.</li> <li>- In the case of a small country like Tonga, there is a real value and efficiency in packaging reforms in key sectors like energy.</li> <li>- Irrespective of the size of the country, the level of effort of the Bank staff in development and implementation of projects and policy operations is the same.</li> </ul>
<p><b>Outcome 11: Increase efficiency of grid power system, including reducing technical and non-technical losses from 17.5 percent on Tongatapu grid</b></p> <p><b>Milestone 11.1:</b> Open electricity generation market to new private investment, with 4 new private investments by 2013</p> <p><b>Milestone 11.2:</b> Landfill gas IPP implemented</p>	<p><b>Outcome 11: Partially achieved</b> This is still a work in progress, but as of 2015 the line losses were 13 percent.</p> <p><b>Milestone 11.1: Partially achieved</b> This activity is ongoing with the support of the World Bank and other development partners. This falls under Phase 2 of the 0-2 phases of TERM implementation and is on track.</p> <p><b>Milestone 11.2: Not achieved</b> Little progress has been made on this milestone.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Tonga – Energy Development Policy Operation (P121877, Closed; ICR: S)</li> <li>• Tonga – Economic Recovery Operation (P126453, Closed; ICR: S)</li> <li>• Tonga – Economic Recovery Operation II (P130824, Closed; ICR: S)</li> <li>• PIC - Sustainable Energy Industry Development (P152653)</li> </ul> <p><b>ASA:</b></p>	<p><b>Lessons:</b> Lessons from the Tonga Energy DPO (P121877) include: (i) DPOs can be quickly mobilized and achieve good results in the context of strong reform momentum; the Bank has the ability to respond quickly to provide budget support when facilitated by strong government ownership of a reform agenda; (ii) project-level engagement can assist in identifying key priorities to be supported through policy operations; (iii) the importance of a total sector approach as opposed to isolated interventions in the sector.</p>



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<p><b>Milestone 11.3:</b> Proof of concept coconut oil investment initiated</p>	<p><b>Milestone 11.3: Not achieved</b> This activity has not yet progressed beyond a feasibility study. It is dependent on other activities being completed first.</p>	<ul style="list-style-type: none"> <li>PIC - P4 Pac Regional Regulatory Resource Ctr TA (P118670)</li> <li>PIC - Strengthening the PRDR SE4ALL Initiative TA (P153190)</li> </ul>	
<p><b>Outcome 12: Increase renewable energy for grid power to 20 percent by 2014</b></p> <p><b>Milestone 12.1:</b> 1 MW on-grid solar PV generation capacity to be introduced</p>	<p><b>Outcome 12: Partially achieved</b> The renewable energy for grid power target is still 50 percent by 2020 and there is no intent to review it. The measure increased from 0 percent in 2010 to 6 percent in late 2014. Current data is not available.</p> <p><b>Milestone 12.1: Achieved</b> The Tongatapu solar farm funded by MFAT was commissioned in 2012, providing 1 MW on-grid solar capacity.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>Tonga – Energy Development Policy Operation (P121877, Closed; ICR: S)</li> <li>Tonga – Economic Recovery Operation (P126453, Closed; ICR: S)</li> <li>Tonga – Economic Recovery Operation II (P130824, Closed; ICR: S)</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>Renewable Energy Development TA (P116305)</li> <li>PIC - Strengthening the PRDR SE4ALL Initiative TA (P153190)</li> </ul> <p><b>Donor Partners:</b> New Zealand MFAT</p>	<p><b>Lessons:</b> Same as above. Also:</p> <ul style="list-style-type: none"> <li>- This experience highlighted the importance of a total sector approach as opposed to isolated interventions in the sector.</li> <li>- For a DPO to be successful, the country’s commitment is crucial; success will not come just from the Bank or other donors exerting pressure.</li> </ul>
<p><b>Outcome 13: Consolidate MoT as unified transport sector policy, planning, and regulatory ministry</b></p>	<p><b>Outcome 13: Achieved</b> With the merger of Ministry of Works (MoW) and Ministry of Transport (MoT) into the Ministry of Infrastructure (MoI) and now renamed the Ministry of Infrastructure and Tourism (MoIT), there is now a single integrated ministry without the previous overlap issues. MoIT is now properly established and clearly responsible for land transport activities. The government is in the process of defining the needs of and staffing levels of MoIT in the areas of supervision and responsibility of the road network.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>Tonga - Transport Sector Consolidation Project (TSCP) (P096931)</li> <li>Tonga - Pacific Aviation Investment (P128939)</li> </ul> <p><b>TF:</b></p> <ul style="list-style-type: none"> <li>TSCP TF (TF-99585)</li> </ul> <p><b>Donor Partners:</b> PRIF/DFAT</p>	<p><b>Lessons:</b></p> <ul style="list-style-type: none"> <li>- The expansion of the change management initiatives into areas outside of the original scope of activities (such as outer island ports, ship surveys, development of the National Maritime Strategy, establishment of sustainable funding mechanisms such as a road maintenance fund) has resulted in some lesser achievement in the other areas and slowed implementation. There have also been delays in filling the advising role positions. For example, MoI struggled to find a qualified individual for the permanent Director position.</li> <li>- The consolidation of MoT has fostered private sector participation and efficiencies. In addition to the Ahononou Quarry and the</li> </ul>

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			<p>Materials Testing Laboratory, the proposed PPP for the maintenance of the maritime navigational aids are examples of where the project has promoted the participation of the private sector and created jobs in the private sector.</p> <p>-There is a need for strong buy-in from the government for a reform program such as this. When there was a change in government and thus priorities, the reform agenda stalled.</p>
<p><b>Outcome 14: Improve civil aviation and maritime sector compliance with international safety standards</b></p>	<p><b>Outcome 14: Mostly achieved</b>  Fua'amotu Airport (TBU) is currently certified, Vava'u (VAV) is not. The terminal upgrade at Vava'u to support regional internal operations has been completed, the security equipment has been purchased and is on site; fencing repairs have been undertaken at TBU. Navigational aids and communications contract are in place and the supply and installation installed. A key policy advocated through PAIP was the implementation of an AU\$5 Safety and Security Levy on departing international passengers, which will increase fiscal resources for safer, more secure air transport operations. Progress toward strengthening regulatory oversight has been achieved through the drafting of the Tonga Airport Authority Act. The new air traffic control tower (in 2017) will enable TBU to meet the compliance requirements of the airport operations certificate. The Training Needs Analysis has been completed with the budget available for the State for implementation and is designed to build capacity for meeting compliance. Maritime needs assessment has been completed. All nav aids identified under the project have been installed. Further maritime investments will build upon the TSCP improvements undertaken in 2012 and 2013. A government priority is to rehabilitate outer island ports as part of more comprehensive inter-island shipping exchanges that include the introduction of a new ferry and development of improved terminals and harvest facilities at ports. Improvements will take place at identified ferry terminals in Ha'apai, 'Eua, and other islands, as necessary; depending on the location and requirements, they will involve small extensions to existing wharves, re-grading of existing ramps, cargo and dangerous goods isolation areas, improvements to passenger security and facilitation areas, and installation of navigational lights.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• PIC - Pacific Aviation Safety Office Reform (P145057)</li> <li>• Tonga - Pacific Aviation Investment (P128939)</li> <li>• Tonga - Transport Sector Consolidation (P096931)</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• PIC - China-Pacific Aviation Links EW (P155515)</li> </ul> <p><b>TF:</b></p> <ul style="list-style-type: none"> <li>• PRIF - Tonga Pacific Aviation Investment Project (TF12702)</li> </ul> <p><b>Donor Partners:</b> PRIF/MFAT</p>	<p><b>Lessons:</b></p> <p>- A 2015 ICAO mandate for development of a Common Regional Virtual Private Network (CRV), a commercial telecommunication network (yet to be established) intended to connect aeronautical actors in the Asia-Pacific region for the exchange of Air Traffic Service information, is being addressed through the rollout of VSAT network across all participating countries in the program, which will bring enhanced information security, along with regional/global integration.</p> <p>- Through the efforts of TSCP and TAIP, Tonga has successfully created a domestic road maintenance industry, improved maritime and aviation safety, promoted private sector development, and supported the MoI through the change management process, which is setting an example for other ministries on how to proceed with organizational reform.</p> <p>- In 2009 prior to the project Tonga incurred a national transport disaster with the sinking of the ferry service in the open sea, which incurred a tragic loss of many lives. This incident and the findings of the subsequent inquiry served to focus the government's attention on maritime safety needs.</p> <p>- Priority maritime investments, which were not done under the original project because the available funding envelope did not cover all activities recommended by the maritime needs assessment, will be considered in TSCP</p>

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<p><b>Milestone 14.1:</b> ICAO compliance levels to improve from 48-56 percent to 80 percent</p>	<p><b>Milestone 14.1: Partially achieved</b> The PAIP indicator was to reach ICAO global average of 60 percent level of effective implementation (across eight elements of the aviation system). The last audit was in 2010. According to the 2015 ICAO Safety Report, the 2015 Universal Safety Oversight Audit Program global average for effective implementation (EI) was 62 percent. Tonga was last audited in 2010 and had a lack of effective implementation of 69.97 percent (or an EI of around 30-40 percent).</p>		<p>AF along with other key investments focused on maritime safety.</p>
<p><b>Outcome 15: Strengthened domestic private sector road maintenance capacity</b></p> <p><b>Milestone 15.1:</b> 75 km of roads designed, supervised and maintained by local Tongan companies</p>	<p><b>Outcome 15: Achieved</b> TSCP introduced contract maintenance across Tonga using output-based methods (i.e., defined monthly work orders and payment on actual quantities completed). These have now been in place for two years and the next round of contracts, created through the Road Fund Mechanism (RFM), should help ensure financing sustainability of the road maintenance program.</p> <p><b>Milestone 15.1: Achieved</b> A domestic road maintenance industry was created, and regular road maintenance under the oversight of MoIT is now being carried out, with future activities to be funded from the road maintenance fund established through TSCP.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>Tonga - Transport Sector Consolidation (P096931)</li> </ul>	<p><b>Lessons:</b></p> <p>- Now that contract maintenance across Tonga has been in place for two years, there is an opportunity to further develop contract maintenance and progress toward a performance-based maintenance contract over time. This process could be implemented in a staged approach so that contractors and the ministry have time to develop the appropriate skill set and understand the level of risk to successfully bid and undertake this form of maintenance delivery. The progression toward performance-based maintenance contracts will depend on the skill and development of ministry staff as well as the contractors undertaking these works. A focus of Phase II of TSCP will be to develop the skills and understanding of the performance-based approach.</p>
<p><b>Outcome 16: Niuatoputapu reconstruction</b></p>	<p><b>Outcome 16: Achieved</b> Under the Post-Tsunami Reconstruction Project, a total of 127 buildings have been reconstructed or repaired, with improved auxiliary water supply and sanitation facilities. These include a total of nine small shops, bakeries, and communal weaving houses to regenerate economic activity and social cohesion within the new settlement areas. In addition, water supply and road access to the new settlement areas outside the tsunami danger zone have been established. Labor-based resurfacing and preventive maintenance has been done on 13 km of the main spine road across the island, which was damaged by the tsunami and now links the new settlements to the wharf, airport, and social and economic infrastructure on the island. A social survey of households on the Niuatoputapu (NTT)</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>Tonga – Post-Tsunami Reconstruction (P120595, Closed; ICR: MS)</li> </ul>	<p><b>Lessons:</b></p> <p>Key lessons from the implementation of the Post-Tsunami Reconstruction Project include: (i) the time required for satisfactory land acquisition arrangements to be devised should not be underestimated and (ii) for remote and inaccessible locations, a project's estimated implementation period should incorporate a realistic assessment of the logistical challenges.</p>

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
<p><b>Milestone 16.1:</b> Construction of 85 cyclone-resistant houses and rehabilitation of 60 houses</p>	<p>indicates a high level of beneficiary satisfaction with new housing, in particular: (i) the majority of beneficiaries believe that the conditions of the rebuilt/retrofitted houses are better than pre-tsunami;( ii) clean drinking water is readily available; and (iii) rebuilt housing is more hazard resilient.</p> <p><b>Milestone 16.1: Achieved</b> Under the Post-Tsunami Reconstruction Project, of the target of 85 restored houses, 73 were completed by the project. The target was reduced as 12 houses were provided by other donors. During project appraisal 85 fully destroyed houses were expected to be built; however this was ultimately reduced to 73 following additional housing reconstruction provided by other donors. The number of partially damaged houses and other buildings repaired or restored was increased from 40 during project appraisal to 54 during implementation, including 38 residential houses and 7 community halls, that were damaged, but not fully destroyed; and 9 new buildings to replace destroyed small shops (4), bakeries (2), and communal weaving houses (3). Thus the total of new cyclone-resilient buildings is 82 and rehabilitated homes and community halls is 45. Prior to the project, the houses that were completely destroyed or partly damaged were not built to cyclone-resilient standards. As such, the immediate living standards of the beneficiaries were improved significantly as a result of the project, with improved water and sanitation facilities and more resilient design and location.</p>		
<p><b>Outcome 17: Improved national disaster management and planning capacity</b></p>	<p><b>Outcome 17: Achieved</b> Despite the shortened timeframe available to reinforce capacity development under the Tonga Post-Tsunami Reconstruction project, it strengthened institutional capacity for DRM in three ways:</p> <p>(i) Technical capability and skills for hazard assessment and mapping were increased by replacing and upgrading previously outdated and missing equipment and providing formal and on-the-job training of staff in the use of geospatial technologies, hazard mapping, and risk assessments.</p> <p>(ii) The availability and accessibility of improved hazard and risk information was increased. Information was generated for NTT and the whole of Tonga and integrated into land-use recommendations as part of village-level risk plans which previously did not include advanced technical risk</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Tonga – Post-Tsunami Reconstruction (P120595, Closed; ICR: MS)</li> <li>• Tonga - Cyclone Reconstruction and Climate Resilience Program (P150113)</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• PIC - Pacific Disaster Risk Financing TA (P130347)</li> <li>• PIC - Pacific CAT Risk Assessment – Phase 3 TA (P130441)</li> </ul>	<p><b>Lessons:</b> The lessons from implementing the Tonga Post-Tsunami Reconstruction Project indicate that institutional strengthening and capacity-building activities are best when they are directly, and as much as possible, linked and relevant for the (re)construction. This lesson is especially important in an emergency operation. Capacity-building activities under component 3 of the project were linked only loosely to reconstruction and recovery activities under the other components and were implemented by a different ministry. Implementation delays resulted as (stretched) project management staff concentrated their</p>

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
<p><b>Milestone 17.1:</b> Institutional strengthening of Ministry of Land Survey and Natural Resources and preparation of community disaster risk management plans</p>	<p>information. A policy to guide greater data sharing was established by the end of the project.</p> <p>(iii) Community-level awareness of and preparedness for disasters was increased on NTT by the technical improvement and social reinforcement of three community risk plans and by the installation of international-standard tsunami warning signage. Community ownership of these plans was reinforced by outreach and operational drills. National Emergency Management Office staff improved skills in participatory community planning processes through on-the-job training.</p> <p>The PCRAFI pilot insurance scheme (a joint SPC and World Bank initiative funded by Japan) triggered an insurance payout of US\$1.27 million in response to Tropical Cyclone Evan to fund immediate relief recovery efforts. The payout was triggered well within the agreed business standards.</p> <p><b>Milestone 17.1: Achieved</b> See above</p>	<p><b>Donor Partners:</b> Japan</p>	<p>time and efforts on facilitating physical investments that met urgent recovery needs.</p>
<p><b>Outcome 18: Net enrolment, dropout, retention rates, and student test performance improved from 2005 baselines</b></p> <p><b>Milestone 18.1:</b> School grants program operational, with all schools receiving grants on schedule</p>	<p><b>Outcome 18: Mostly achieved</b> Gross Enrolment Ratio increased during the period from 78 percent to 100 percent, repetition was reduced from 18 percent to below 5 percent, and transition from Class 6 to Form 1 (primary to secondary) from 55 percent to 70 percent. Dropout rates and student test scores are not available from baseline. Achievement and measurement of indicators was partial because of inadequate establishment of baseline and key system education indicators before or during the project implementation.</p> <p><b>Milestone 18.1: Achieved</b> A fully developed school grants program (TSGP) was established, including tested policies and guidelines. The government reported that 100 percent of eligible government and non-government schools receive school grants on schedule—in the first instance, at start of the school year, beginning January 2007.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>Tonga – Education Support Project (P079657, Closed; ICR: MS)</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>Early Grade Reading Assessment (P118877)</li> </ul> <p><b>Donor Partners:</b> New Zealand</p>	<p><b>Lessons:</b> Lessons from implementing TESP include the importance of developing intermediate indicators of education quality when designing the RF. It is not always possible to establish a baseline of learning outcomes during project preparation, or during the early implementation of the project. In such a situation it is preferable to define intermediate indicators that can be used to monitor achievement of project objectives.</p>

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
<p><b>Milestone 18.2:</b> School rehabilitation completed at 20 most needy sites</p>	<p><b>Milestone 18.2: Achieved</b>  Small works projects were completed in 29 schools in about 18 months. The average grant size was about US\$35,000 and the largest was about US\$75,000. This compares to an average grant size of approximately US\$5,000 in the school grants program. The schools were selected based on a prioritized needs assessment. The program is considered by the Ministry of Education, MoW, and MoF to have been successful and to merit replication with further funding. It was an example of cross-ministerial cooperation and disbursement based on local implementation procedures.</p>		
<p><b>Outcome 19: Increase local participation and accountability through introducing school-based management, with schools engaging communities in planning, budgeting, and results assessment</b></p>	<p><b>Outcome 19: Mostly achieved</b>  All schools are substantively engaging in their communities in school planning, budgeting, and results assessment. While all schools undertook planning and budgeting under the school grants program according to beneficiary assessment, there was limited progress on results assessment.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Tonga – Education Support Project (P079657, Closed; ICR: MS)</li> </ul> <p><b>Donor Partners:</b>  New Zealand</p>	<p><b>Lessons:</b>  In a limited capacity context, school grant interventions can have beneficial impacts in establishing basic functioning systems and understanding for school-based management and accountability for allocating resources with positive access and equity impacts. While student learning is likely to have been positively affected, rigorously evaluated impact on student learning results requires longer-term interventions with more rigorously designed evaluation approaches supported by a stronger data culture and capacity. These developments are part of the Bank’s current support in Tonga through piloting of interventions in improving school readiness and reading in grades 1 &amp;2 of primary school under the PEARL program.</p>

## **ATTACHMENT 8A: TUVALU CAS FY2012-15 COMPLETION AND LEARNING REVIEW**

Date of CAS (FY2012-FY2015): November 4, 2011 (Report No. 65273-TV)

Period Covered by the Completion and Learning Review: July 1, 2011 to June 30, 2015

### **Summary of Key Findings**

The November 2011 Country Assistance Strategy (CAS) for Tuvalu was the first for this new and the smallest (by population) IDA client and covered the period FY12-FY15. The stand-alone CAS approach reflected the transition from an umbrella regional strategy to partnerships focusing more on the challenges and priorities of each country and permitting a more customized, scaled-up engagement. Tuvalu shares many of the challenges faced by the PIC6 in general, including extreme isolation; vulnerability to natural disasters and climate change; susceptibility to economic and trade shocks owing to a small, undiversified, and dependent economy; difficulties in providing social services in a spatially dispersed context; and challenges in providing employment, particularly for young people. Accordingly, the CAS program was designed to be flexible within the overarching PIC themes, aligned with country development priorities, and implemented in close coordination with the development partners.

The overall performance of the CAS program in contributing toward the achievement of the selected set of outcomes identified in the RF (Attachment 8B) is rated moderately satisfactory. The program achieved or mostly achieved the majority (three out of five) of the outcomes, while one was partially achieved and one not achieved (one of these, the outcome on increasing female labor migration, is in fact a sub-objective of the overall annual labor migration outcome, which was fully achieved). Effective development outcomes with lasting impact were achieved in moving toward greater strengthening of aviation infrastructure (including the viability of revenue sources for ongoing improvements in aviation safety), reaching the goals of opening up overseas employment opportunities for Tuvaluan labor (albeit the objective of increasing the share of women did not materialize), and establishing a somewhat stronger fiscal basis with a reorientation of public expenditures (including an increased consumption tax in line with targets).

The overall performance of the Bank in designing and implementing the CAS is assessed as good. The CAS design was appropriate and modest. It was in line with the project and activity-level outcomes, given the small-country context and challenges of implementation in a remote and dispersed setting. The Bank made judicious use of a combination of instruments, such as investment programs, TA, focused and timely ASA, and TFs. In all cases, activities were closely coordinated and complemented those of the key development partners. However, the Bank was unable to mount an effective program to address the water resource management issues as part of the CAS objective of reducing vulnerabilities to natural shocks and climate change, although part of the inability was technical in nature (see below). In some other areas (such as the further construction of aviation infrastructure, additional reorientation of public expenditures), Bank-supported activities are works in progress, with results expected just beyond the ending date for the CAS and providing a basis for designing and implementing the strategy for the subsequent period.

## Highlights of Assessment

The self-assessment of the performance of the CAS program is based on the RF in the CAS; the cutoff date for the assessment period is June 30, 2015, the end of the CAS under review. The details of the status of outcomes, indicators, and milestones at the end of the CAS period are provided in the RF (Attachment 8B). Given the mixed nature of the achievement of the outcomes (three were achieved or mostly achieved, one partially achieved, and one not achieved, although the outcome on increased percentage of women participating in temporary labor migration schemes was a subcomponent of the outcome on labor migration as a whole), the overall performance of the CAS program is considered moderately satisfactory. In particular, the results of the three positive outcomes are considered to have sufficiently lasting and major impact to merit weighting them in favor of the relatively positive rating.

In line with the four overarching themes of WBG engagement across the Pacific (described in the overview at the start of this annex), as well as the Government of Tuvalu's vision of achieving a healthy, educated, peaceful, and prosperous country (articulated in the 2005-2015 National Strategy for Sustainable Development), and after close consultation with development partners, the CAS was designed to assist Tuvalu in (i) mitigating the effects of economic isolation and (ii) building resilience against exogenous shocks. The CAS initiated the relationship with the WBG, signaled its long-term commitment to supporting Tuvalu's development, and ushered in the country's first IDA investment. (The CAS was an IDA-only strategy; Tuvalu is not a member of IFC or MIGA.) Accordingly, the CAS was structured around two Strategic Areas.

### *Strategic Area 1: Mitigating Economic Isolation by Encouraging Regional and Global Integration*

Tuvalu's participation in the regional Pacific Aviation Investment Program (PAIP) addresses geographic isolation to promote opportunities from closer regional and global integration. PAIP supports the rehabilitation of the country's aviation infrastructure and brings the facilities into compliance with international safety regulations and standards. The government reorganized departments within the Ministry of Works, Communications, and Transport to separate the management and operations of the airport from civil aviation regulatory oversight in accordance with international good practice. Key investments include rehabilitating the runway, taxiway, and apron, as well as resurfacing roads on Funafuti; obtaining new air traffic control and navigational equipment; commissioning new safety and security equipment; and procuring fire-protective clothing and other related and maintenance equipment as well as a new fueling truck, which are now in use. An obstacle limitation survey was completed and obstacles infringing on the airport have been removed. The key milestone related to the AU\$5 "safety levy" for each departing international passenger to cover costs of additional safety has been implemented since July 2014. The revenues contribute to ensuring fiscal sustainability for air transport management and infrastructure asset management. The critically important Funafuti International Airport has not attained ICAO certification (*outcome 1*), hampered by the fact that Tuvalu is not a contracting state with ICAO. Considering that ICAO primarily measures oversight rather than infrastructure compliance, the Tuvalu legislative equivalent of the New Zealand Civil Aviation Rule (NZCAR) Part 139 (in accordance with its obligations under the Pacific Island Civil Aviation Safety and Security Treaty) and applicable portions of ICAO Annex 14 (international



standards for aerodrome design and operations) will be used by either a third-party Civil Aviation Authority (such as New Zealand) or PASO to achieve the result prior to the project's closure.

The Bank supported Tuvalu to take greater advantage of temporary employment opportunities in New Zealand and Australia. **Outcome 2** (80 Tuvaluan workers participating annually in temporary labor schemes in New Zealand and Australia) was achieved with a total of 92 seasonal workers (exceeding the CAS target) participating in temporary labor schemes in New Zealand and Australia—72 in New Zealand's RSE scheme and 20 in Australia's SWP. The milestone related to the Bank, government, and development partners providing training opportunities to 100 Tuvaluans has been met. Seasonal labor schemes in Australia and New Zealand, together with seafaring, make up the majority of foreign income earning opportunities in Tuvalu. Tuvalu sent around 70 workers in 2013 for seasonal labor schemes in neighboring countries (around 40 percent of them were female). On the other hand, Tuvalu sent over 100 people to work as seafarers, none of whom were women. Working opportunities have declined in recent years, however. As part of the reforms supported by the DPO series, the government broadened the curriculum of the Tuvalu Maritime Training Institute (TMTI) to facilitate employment opportunities and allow greater access for women.

**Outcome 3** (increase in share of women participating by 30 percent) did not materialize. While the number of Pacific women participating in the SWP and RSE has increased marginally since the inception of these programs, there has been little progress for Tuvalu. For the RSE, women accounted for 34 percent of arrivals in FY09-10, and as of FY13-14, their participation had declined to 28 percent. Meanwhile, no female Tuvaluan workers have participated in the SWP since 2012. There are barriers to boosting women's participation in the temporary agricultural labor schemes on both the supply and demand side. In sending countries, recruitment processes often favor male workers. Meanwhile, agricultural employers in Australia and New Zealand often discriminate against women in the recruitment for physical tasks, such as picking fruits and vegetables.

### *Strategic Area 2: Building Resilience against Exogenous Shocks*

Under the second Strategic Area, the Bank responded to Tuvalu's request for support to strengthen fiscal management and adjustments. **Outcome 4** (reduced fiscal pressure and improved economic outlook through reorientation and rationalization of government expenditure) was mostly achieved by rebuilding the CIF through expenditure management and reorientation to priority areas, and it will enable the government to address future shocks better. These efforts were somewhat negatively affected by recent natural disasters, however. The milestone to lower public expenditure to reduce the fiscal gap was mostly achieved, as it changed from an average deficit of 12 percent of GDP between 2005 and 2009 to an average surplus of 6 percent between 2010 and 2014, but it remains susceptible to volatility. The Tuvalu Consumption Tax increased from 3 percent of GDP to 7 percent in 2013 (exceeding the CAS target of 6 percent). The important milestone of reducing expenditures for the Tuvalu Medical Treatment Scheme (TMTS) from consuming 57 percent of the health budget in 2009 to reach 17 percent (equivalent to 2005 levels) fell short, declining only to 45 percent in 2014. Expenditure for Primary and Preventive Health Care increased by more than 5 percent over the past several

years, however. The increase in domestic resources devoted to health and a reduction in overseas expenditures (albeit less than hoped) are signs of important progress.

**Outcome 5** (effective medium-term planning and sustainable water resource management practices implemented) is partially achieved. No direct WBG operations and/or TA were developed to achieve the planned outcomes. The PCRAFI/DRFI program developed the Tropical Cyclone, Earthquake, and Risk Profile of Tuvalu. The outcomes were supposed to have been achieved as part of the aviation project, which planned to create climate resilience and adaptation co-benefits by using the runway for water catchment and creating water storage facilities, but later this scheme was not considered viable for potable water. Other donors implemented several projects in this area during the time period, however, including the EU and DFAT, given their familiarity in the sector across the Pacific, and the WBG more generally has been harmonizing support with that of other development partners.

### **World Bank Group Performance**

The overall performance of the Bank in designing and implementing the CAS in support of selected country objectives was good; three of the five CAS outcomes were fully or mostly achieved, as noted previously and detailed in the RF (Attachment 8B). The following summary of WBG performance supports this assessment along several dimensions.

#### *Design*

The CAS was prepared in close consultation with a wide range of stakeholders from the government, development partners, private sector, and civil society. The selected CAS Strategic Areas and objectives aligned well with the development goals articulated in the 2005-2015 National Strategy for Sustainable Development. Couched within the Bank's overall strategy for the PIC6, the Strategic Areas also echoed common regional challenges and priorities.

Given the country context, the RF for the CAS was appropriately simple, with only five outcomes. Some ambiguity could have been reduced by identifying the outcome on women's increased participation in the temporary labor migration scheme as a secondary milestone rather than a separate outcome. In most cases, however, the indicators and milestones were clear and measurable and often coincided with the results of related WBG activities (projects or TAs). As there was no Progress Report, the RF did not benefit from an update; nor was it tracked or monitored.

The CAS candidly and realistically identified the potential risks, which included limited institutional capacity as a constraint on implementation, and Tuvalu's vulnerability to external shocks. The proposed mitigation measures are proving effective: drawing on the experience and expertise of Tuvalu's long-term development partners and adapting them to the Bank's own activities, and carefully sequencing new activities and reforms where there is proven momentum.

#### *Implementation*

The CAS envisaged an indicative IDA envelope of SDR9.6 million (US\$14.4 million equivalent) for Tuvalu for the program period spanning the three years of IDA16 and the first year of IDA17. The key deliverables (Attachments 1 and 2) include the planned (regional) PAIP (US\$17.91

million, actual FY12) and the planned Second DPO (US\$4.5 million, FY15); the Second DPO contained two projects—the DPO II, which disbursed US\$1.5 million in FY15, and DPO II Supplemental, which disbursed US\$3 million in FY16. The supplement provided additional financing to meet an unexpected financing need resulting from Tropical Cyclone Pam. Furthermore, the operation ensured that the reforms supported under the Second DPO remained on track and were implemented without delays arising from competing capacity or budgetary priorities from disaster recovery efforts. Additional deliveries not envisaged under the CAS included PROP for Tuvalu (US\$7 million, FY15) and the Energy Sector Development Project (US\$7 million, FY15). PROP supports both pillars of the strategy: (i) greater inter-regional fisheries information sharing, trade, and resource management and (ii) enhancing resilience through reducing volatility in fishing revenues and enhancing food security. The energy project supports greater resilience through reduced reliance on fossil fuel and enhances macroeconomic sustainability.

As an example of implementation experience, the Bank’s performance toward the achievement of *outcome 1* is considered satisfactory. The first-ever investment project financing for Tuvalu, the regional initiative sought to leverage air transport sector knowledge and experience in coordination with other Pacific Island states utilizing a unique set of implementation arrangements that were able to deliver almost all activities within the CAS period. The project was restructured in 2013 to support “associated infrastructure”—such as scaling up the terminal with a water cistern for improved water supply, as well as rehabilitating road assets to improve accessibility on Funafuti—implemented in a manner that acknowledged the country’s remoteness and constraints to mobilizing major, capital-intensive civil works. Regional procurement packaging was also intended to bring economies of scale and efficiencies in contracting key elements of Tuvalu’s air transport system. Despite some delays in overall project delivery, regular implementation support missions were conducted with sufficient guidance and recommendations to ensure intended outcomes were achieved.

Another implementation experience relates to *outcome 4* (reduced fiscal pressure). Program risks were clearly highlighted in the Project Appraisal Document for the Second DPO, many of which did not eventuate. As a result, the programmatic series of DPOs did not require any changes to prior actions. TA under the program supported, for example, the establishment of a government website, which permitted the government to disseminate monthly statements and relevant audits for use by the public and government agencies. Just-in-time analytical work also provided input to government policy making.

Tuvalu also benefited from WBG regional PIC initiatives, including investments, TFs, and ASAs such as PAIP, PASO Reform, Pacific Payment and Remittances Program TA, Pacific Labor Mobility PAAA, Institutional Strengthening for Labor Migration, Pacific Payment and Remittances Program TA, Pacific Resilience Programs, Pacific Islands Capacity Support TA, and Pacific Possible EW.

Several TFs were critical in implementing the CAS program. For example, PRIF has supported PAIP with the primary focus of enabling ongoing regional aviation safety and security oversight in Tuvalu during the restructuring and transition of PASO through the IDA-financed PASO Reform Project. The funding allows grant recipients to purchase regulatory oversight advisory

services in fulfilling safety inspection requirements for international aviation, while also supporting Tuvalu's international obligations as a signatory to the Pacific Islands Civil Aviation Safety and Security Treaty. The PRIF grant also supports the development of an operational exposition to support the certification requirements of the airport, scheduled for 2016. PRIF funding associated with the Tonga PAIP provided two additional regional TA pieces looking at the long-term sustainability of aviation revenues, services, and infrastructure in the Pacific, which have been an integral part of activities focused on the air transport sector.

Close coordination and harmonization with key development partners are crucial for implementing programs and projects in a small-country context such as Tuvalu. For example, the Joint Policy Reform Matrix (supported by ADB, DFAT, MFAT, and the World Bank) supported reforms that included strengthening PFM, improving service delivery, and resolving structural challenges. These reforms are aligned with the Tuvalu national development strategy, especially by supporting improved macroeconomic stability, governance, private sector participation, and health and education service delivery. Coordinated mapping of technical assistance supported the government in implementing reforms.

### **Alignment with World Bank Group Corporate Strategy**

Poverty is unevenly distributed in Tuvalu, despite its per capita income levels. When the CAS was designed, the WBG had not yet articulated the corporate strategy focused on the twin goals of eradicating extreme poverty and boosting shared prosperity. However, a review of the FY12-FY15 CAS demonstrates that several of the strategies were well aligned with the goals.

Limited data are available on poverty to assess Tuvalu's performance against the World Bank's twin goals. While poverty lines adjusted by Purchasing Power Parity are not available for Tuvalu, the food poverty line is likely to be somewhat higher than two dollars. With food poverty estimated to affect 3.4 percent of the population, the World Bank's first goal of eradicating extreme poverty is likely to have been met in Tuvalu. For shared prosperity, the ratio of the average consumption of the top 60 percent of households against the bottom 40 percent is estimated at 3.5, based on 2010 HIES data—significantly below the cross-country median of 4.7, based on the Global Income Dynamics Dataset. Another HIES is expected to be completed in 2015/16, and the World Bank is engaged in a coordinated dialogue on this front.

The programmatic operations were designed with the twin goals in mind. Drawing from the Policy Reform Matrix, reforms to strengthen PFM and improve social service delivery have been identified as the critical areas that the World Bank can best support. Reforms to strengthen PFM are expected to contribute to improving poverty and social outcomes in Tuvalu indirectly by making the budget a more effective tool for responding to national poverty and social needs. Similarly, the outer island financial and project management reforms are expected to enhance accountability and transparency of outer island Kaupules (elected assemblies), in turn improving access to services for some of Tuvalu's poorest and most remote households. Reforms to improve revenue and expenditure efficiencies will enable fiscal buffers to be maintained at a sustainable level, which in the medium term will ensure continued service provision even through periods of shock. Better management of both the overseas scholarship and medical treatment programs is expected to free up scarce resources and allow the government to start rebalancing education expenditure toward equitable, employment-oriented vocational training,

and increase expenditure on basic healthcare, which is relied on heavily by poorer households. These reforms are expected to contribute to the government's objective in the National Strategy for Sustainable Development to "provide quality health and education services that are equitable, balanced, cost effective, and meet the needs of Tuvaluans." Financing provided through the operations will support the maintenance of adequate buffer assets in the CIF and ensure Tuvalu's ability to absorb future shocks without impeding the level of service delivery.

The aviation sector is particularly important for these objectives, as it allows Tuvaluans to take advantage of international job and education opportunities but continue to remain connected and contribute to their country and the region. It also provides critical connectivity for health and education purposes. Full rehabilitation of critical air transport infrastructure and ancillary services is part of the program (*outcome 1*). An aeronautical communications system, operating through dedicated and improved ICT connectivity, is imperative for air transport services, while it can also enhance resiliency by serving as a back-up communication network for rapid response to emergencies and natural disasters. Key policy aspects of the aviation sector, such as the review and renegotiation of air service agreements, also support the government's focus on country development goals. Inclusive air connectivity is a fundamental public good for Tuvaluans. A reliable network of air links, through updated air service agreements and improved aviation infrastructure, within and among island countries and to major hubs such as Australia, Fiji, New Zealand, and beyond, is essential to dissipating the economic vulnerability of Tuvalu and providing needed access to employment, medical treatment, and education to reduce poverty and boost shared prosperity.

Expanding employment opportunities will also serve the twin goals. Ensuring that Tuvaluans will continue to be employed overseas will contribute to the goal of reducing poverty and promoting shared prosperity, particularly for the outer islands, where poverty rates are higher.

## **Lessons**

The implementation experience of this CAS, as well as the various key lessons, provide a platform for the next CPF. Some key lessons are summarized here.

### *Adaptability*

A prime example of adaptability involves certification of Funafuti Airport. Achieving certification of the airport is hampered by the fact that Tuvalu is not a contracting State with ICAO. Considering that ICAO primarily measures oversight rather than infrastructure compliance, however, the Bank project plans to use particular elements of the Tuvalu legislation to achieve similar results, either through a third-party Civil Aviation Authority such as New Zealand, or through the Pacific Aviation Safety Office (PASO).

### *Regional Approach*

The regional approach through the PAIP has allowed for the efficient procurement and harmonization of equipment. It also provided a very supportive environment for Tuvalu to become familiar with the World Bank's procurement, financial management and other procedures. In situations such as this, where capacity is limited, such regional approaches should be encouraged.

### *Realism*

The World Bank carried out an assessment of overseas employment opportunities for Tuvalu. The report concluded that apart from seafaring, Tuvalu does not have any competitive edge in other sectors of employment.

### *Use of Knowledge Products*

Now that the Bank's TA on labor mobility has come to an end, the Bank's role in facilitating labor migration is focused solely on the analytical work program, covered primarily through the Pacific Labor Mobility PAAA. Moving forward, the Bank has a strong role to play in advocating for greater external labor market access, through knowledge products.

## ATTACHMENT 8B: TUVALU CAS FY2012-15 RESULTS FRAMEWORK (as of August 5, 2016)

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
<i>Strategic Area 1: Mitigating Economic Isolation by Encouraging Regional and Global Integration</i>			
<p><b>Outcome 1: ICAO certification of airport</b></p> <p><b>Milestone 1.1:</b> Implementation of an AU\$5 “safety levy” for each departing international passenger to cover costs of additional safety.</p> <p><b>Milestone 1.2:</b> Introduction and operation of PASNet regional air traffic monitoring and communications system</p>	<p><b>Outcome 1: Mostly achieved</b> Funafuti Airport (FUN) is currently not certified although key investments that have been completed or are under installation include: (i) rehabilitation of the runway, taxiway, and apron, as well as resurfacing of roads on Funafuti; (ii) new air traffic control and navigational equipment; (iii) new safety and security equipment has been commissioned; (iv) fire-protective clothing and other related and maintenance equipment have been procured and are in use; (v) a new fueling truck has also been received and is in use; and (vi) an obstacle limitation survey was completed, and obstacles infringing on the airport have been removed. The new terminal building and the flight service center/fire tender shelter should be completed by end-2016. The rescue fire service (RFS) vehicle is also to be upgraded in 2016</p> <p><b>Milestone 1.1: Achieved</b> Since July 2014 the government has implemented a Safety and Security Levy of AU\$5 on international departing passengers (as well as including the AU\$30 departure tax as part of the ticket price), which contributes to ensuring fiscal sustainability by providing increased revenues for air transport management and infrastructure asset management. An approved expenditure framework identifies eligible activities for which the dedicated revenue stream will provide supplemental funding, ensuring safe operations, security-related requirements and regulatory oversight functions.</p> <p><b>Milestone 1.2: Partially achieved</b> Three contracts are in place for: (i) the design, including the technical specifications and siting location, of the VSAT and supervision, including the acceptance testing and commissioning of the installation; (ii) acquisition of goods (VSAT hardware); and (iii) installation (of VSAT equipment). The regional communications network is advancing and should be operational by end-2016.</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Tuvalu - Pacific Aviation Investment Program (P128940); Additional Finance (P145310)</li> <li>• PIC - Pacific Aviation Safety Office Reform (P145057)</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• PIC - China-Pacific Aviation Links EW (P155515)</li> </ul> <p><b>TF:</b></p> <ul style="list-style-type: none"> <li>• PRIF - Tuvalu - Pacific Aviation Investment Program (TF12703)</li> </ul> <p><b>Donor Partners:</b> Pacific Region Infrastructure Facility (PRIF)</p>	<p><b>Lessons:</b></p> <ul style="list-style-type: none"> <li>- The adoption of the regional levy has provided a significant funding boost to all countries and is helping them ensure financial sustainability for the sector. Integrating the levy and other charges—such as departure tax—into the ticketing price has increased the efficiency and coverage of revenue collection (i.e., no exemptions such as for diplomats) as well as eliminated potential leakage.</li> <li>- The regional approach through the program has allowed for the efficient procurement and harmonization of equipment. In limited-capacity environments this regional approach should be encouraged.</li> <li>- The regional program supported countries such as Tuvalu with negotiating air services agreements, addressing revenue sources, etc. on a collective basis. This was more efficient and effective than doing such activities individually.</li> </ul>
<p><b>Outcome 2: 80 Tuvaluan workers participating annually in temporary</b></p>	<p><b>Outcome 2: Achieved</b> As of 2015, there were a total of 92 seasonal workers participating in temporary labor schemes in New Zealand and Australia—72 in</p>	<p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• PIC - Pacific Payment and Remittances</li> </ul>	<p><b>Lessons:</b></p> <ul style="list-style-type: none"> <li>- In 2015 the World Bank carried out an assessment of overseas employment</li> </ul>

CPS Outcome	Status and Evaluation Summary	Activities	Lessons
<p><b>labor schemes in New Zealand and Australia</b></p> <p><b>Milestone 2.1</b> World Bank, government, and development partners to provide training opportunities to 100 Tuvaluans annually, enhancing their competitiveness</p>	<p>New Zealand's Recognized Seasonal Employer (RSE) scheme and 20 in Australia's Seasonal Worker Program (SWP).</p> <p><b>Milestone 2.1: Achieved</b> Australia supports 88 Tuvaluans to enroll at the Australia Pacific Technical College (APTC) to receive vocational training and approximately 80 percent of these graduate in any given year. Furthermore, all 92 of the departing seasonal workers for the SWP and RSE are provided pre-departure training for these programs by Tuvalu's Labor Mobility Unit (LMU), which has benefited from the World Bank's TA through the Institutional Strengthening for Labor Migration Program (P130478).</p>	<p>Program TA (P153894)</p> <ul style="list-style-type: none"> <li>PIC - Pacific Labor Mobility PAAA (P155609)</li> <li>PIC - Australia SWP Development Evaluation EW (P151959)</li> </ul> <p><b>TF:</b></p> <ul style="list-style-type: none"> <li>PIC - Institutional Strengthening for Labor Migration (P130478)</li> </ul> <p><b>Donor Partners:</b> Australia, New Zealand</p>	<p>opportunities for Tuvalu. The report concluded that apart from seafaring, Tuvalu does not have any competitive edge in other sectors of employment.</p> <p>- Now that the Bank's TA on labor mobility has come to an end (P130478), the Bank's role in facilitating labor migration is focused solely on the analytical work program covered primarily through the Pacific Labor Mobility PAAA (P155609). Moving forward, the Bank has a strong role to play in advocating for greater external labor market access, through knowledge products.</p>
<p><b>Outcome 3: Increase in share of women participating by 30 percent</b> (related to temporary labor schemes in New Zealand and Australia)</p>	<p><b>Outcome 3: Not achieved</b> The number of Pacific women participating in the SWP and RSE has increased marginally since the inception of these programs, but there has been little progress for Tuvalu. For the RSE, women accounted for 34 percent of arrivals in FY09-10, and as of FY13-14 that figure had declined to 28 percent. Meanwhile, no female Tuvaluan workers have participated in the SWP since 2012.</p>	<p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>PIC - Pacific Payment and Remittances Program TA (P153894)</li> <li>PIC - Australia SWP Development Evaluation EW (P151959)</li> </ul> <p><b>TF:</b></p> <ul style="list-style-type: none"> <li>PIC - Institutional Strengthening for Labor Migration (P130478)</li> </ul> <p><b>Donor Partners:</b> Australia, New Zealand</p>	<p><b>Lessons:</b></p> <p>- There are barriers to boosting women's participation in the temporary agricultural labor schemes on both the supply and demand side. In sending countries, recruitment processes often favor male workers. Meanwhile, agricultural employers in Australia and New Zealand often discriminate against women in the recruitment for physical tasks, such as picking fruits and vegetables.</p> <p>- Shifting the needle on women's participation in these programs will require a culture shift on both the sending and receiving country end.</p>
<b>Strategic Area 2: Building Resilience Against Exogenous Shocks</b>			
<p><b>Outcome 4: Reduced fiscal pressure and improved economic outlook through reorientation and</b></p>	<p><b>Outcome 4: Mostly achieved</b> The CIF has been rebuilt (since its near depletion in the aftermath of the 2008 global financial crisis), which will enable the government to buttress against future shocks. This has been achieved through a mixture of prudent expenditure management</p>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>Tuvalu – Development Policy Operation (P145488, Closed)</li> </ul>	



CPS Outcome	Status and Evaluation Summary	Activities	Lessons
<p><b>rationalization of government expenditure</b></p> <p><b>Milestone 4.1:</b> Government expenditure lowered to reduce fiscal gap</p> <p><b>Milestone 4.2:</b> Tuvalu Consumption Tax (TCT) increased from 3 percent to 6 percent</p> <p><b>Milestone 4.3:</b> Reduce government expenditure on TMTS to 2005 levels (17 percent of health budget) and increase non-salary expenditures for Primary and Preventative Healthcare by 5 percent</p>	<p>(although hampered by recent natural disasters) and reorientation of expenditure to priority areas.</p> <p><b>Milestone 4.1: Mostly achieved</b> Fiscal deficit declined from an average of 12 percent of GDP between 2005 and 2009, to an average of 6 percent surplus between 2010 and 2014. Expenditure remained volatile, contingent on external shocks.</p> <p><b>Milestone 4.2: Achieved</b> TCT increased from 3 percent to 7 percent in 2013 as detailed in the budget.</p> <p><b>Milestone 4.3: Partially achieved</b> Tuvalu Medical Treatment Scheme (TMTS) declined from consuming 57 percent of the health budget in 2009 to around 45 percent of the health budget in 2014. In parallel, expenditure for Primary and Preventive Health (PPH) increased by more than 5 percent over the past several years.</p>	<ul style="list-style-type: none"> <li>• Tuvalu - Supplemental DPO (P156169)</li> <li>• Tuvalu - Second Development Policy Operation (P150194)</li> <li>• PIC - Pacific Resilience Program – SPC (P147839)</li> <li>• PIC – Pacific Resilience Program – PIFS (P155542)</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• PIC - Pacific Islands Capacity Support TA (P145802)</li> <li>• PIC - Pacific Possible EW (P154324)</li> <li>• PIC - Problem Driven PFM in PICs EW (P156419)</li> <li>• PIC - Asset Management Advisory in the Pacific TA (P147920)</li> </ul>	
<p><b>Outcome 5: Effective medium-term planning and sustainable water resource management practices implemented</b></p> <p><b>Milestone 5.1:</b> Development of a medium-term Drought Risk Management strategy</p> <p><b>Milestone 5.2:</b> Introduction of rainwater harvesting and storage.</p>	<p><b>Outcome 5: Partially achieved</b> No direct WBG operations and/or TA were developed to achieve the planned outcomes. The PCRAFI/DRFI program developed the Tropical Cyclone, Earthquake, and Risk Profile of Tuvalu. Several projects were implemented during the time period by other donors, for example, by the EU and DFAT, in this area given their familiarity in the sector across the Pacific. The WBG has been harmonizing support with other development partners.</p> <p><b>Milestone 5.1: Not achieved</b> No operations and/or TA were developed to achieve the planned outcomes.</p> <p><b>Milestone 5.2: Not achieved</b> No operations and/or TA were developed to achieve the planned outcomes</p>		