

DEVELOPMENT COORDINATION

A. Major Development Partners: Strategic Foci and Key Activities

1. Kiribati is heavily reliant on international development assistance, as are many other small Pacific island states. External grants to Kiribati averaged more than \$47 million annually during 2009–2013, equivalent to about \$470 per capita a year. Aid averaged 26% of gross domestic product (GDP) during 2009–2011 and gradually increased to levels equivalent to 37% of GDP in 2012 and 43% of GDP in 2013. External grants are expected to peak at almost 45% of GDP in 2014 before declining gradually to 22% by 2019. Most capital projects are financed by aid. In addition, Kiribati's development partners are planning to provide \$23.5 million in budget support during 2014–2016.¹ The country's principal development partners are the Australian Government's Department of Foreign Affairs and Trade (DFAT); the New Zealand Aid Programme (NZAP); Japan; the European Union (EU); and Taipei, China. The multilateral agencies that provide grants to Kiribati are the Asian Development Bank (ADB) and the World Bank. The United Nations and community and faith-based organizations are also actively engaged in supporting Kiribati's development.

2. The Kiribati Development Plan (KDP) for 2012–2015 is the framework for coordinating and aligning government and development partner efforts. To help achieve economic growth and poverty reduction, the KDP sets key strategies that are relevant to ADB's proposed Strengthening Fiscal Stability Program. These include the plans to (i) expand and diversify the government revenue base; (ii) implement a new tax regime and modernize the tax system; (iii) accelerate private sector development; (iv) improve public financial management (PFM) systems; (v) improve the government's fiscal position by improving performance of state-owned enterprises; and (vi) improve livelihoods through effective implementation of subsidies for such industries as copra and seaweed processing.

3. All of Kiribati's major development partners are providing support to implement these strategies. DFAT assistance through the Australia–Kiribati Partnership for Development focuses on helping to stimulate economic growth and improve economic management, including trust fund management, taxation, and planning. The Pacific Financial Technical Assistance Centre supports Kiribati in revenue reform and improving PFM and macroeconomic statistics. The International Monetary Fund (IMF) carries out country and regional surveillance on an ongoing basis, as well as its annual Article IV consultations. The EU funded the development of the country's PFM plan for 2011–2014 and continues to support better PFM through its Technical Cooperation Facility. The Commonwealth Local Government Forum provides training in PFM and public administration at the subnational level, and the United Nations Development Programme is helping to strengthen parliamentary functioning. NZAP and DFAT provide capacity development for the public service through scholarships and in-service training.

4. Linked to progress in a joint government and development partner-designed policy reform process in public sector management (PSM), the World Bank provided its first budget support grant to Kiribati in December 2013. In 2014, the World Bank and NZAP plan to deliver further budget support as part of collaborative cofinancing with ADB's proposed Strengthening Fiscal Stability Program grant. PSM support is being complemented by external assistance in several sectors and across a variety of themes, including support for private sector development, infrastructure, and social services. The table below details major development partner activities in PSM in Kiribati.

¹ International Monetary Fund (IMF). 2014. *Kiribati Article IV Consultation 2014*. Washington, DC.

Major Development Partners

Development Partner	Project Name	Duration	Amount (\$ million)
Public Sector Management			
ADB	Enhancing economic competitiveness through SOE reform	2013–2016	0.8
	Strengthened PFM	2011–2014	1.8
	Strengthening safeguards capacity in the urban sector in Kiribati	2013–2014	0.2
	Implementing the Pacific regional audit initiative (phase 2)	2013–2016	1.3
	Pacific economic management (phase 2)	2013–2016	1.0
	Regional technical assistance for the private sector development initiative (phase 3)	2013–2019	30.5
	Strengthening PFM in Pacific DMCs	2008–2014	1.5
	Technical assistance for the Pacific Financial Technical Assistance Centre 2011–2014	2011–2016	1.0
CLGF	Pacific local government strengthening program	2011–2015	0.5
European Union	Technical cooperation facility project II	2014–2020	2.0
Government of Australia	Australia–Kiribati partnership for development		
	Outcome 2: Workforce skills development	2011–2015	33.4
Government of New Zealand	Outcome 3: Improved growth and economic management	2012–2015	6.1
	Budget support: Implementation of Kiribati economic reform plan policy actions	2014–2015	2.7
IMF	New Zealand Aid Program: In-country training for Kiribati	2010–2015	0.4
	Country surveillance and Article IV consultations	Ongoing	...
PFTAC	Support under the fourth financing cycle (focus in Kiribati: PFM, revenue, and macroeconomic statistics)	2012–2016	27.3
UNDP	Kiribati parliament support project	2009–2014	0.5
World Bank	First economic reform development policy operation	2013–2014	5.2
	Second economic reform development policy operation	2014	3.0

ADB = Asian Development Bank, CLGF = Commonwealth Local Government Forum, DMC = developing member country, IMF = International Monetary Fund, PFM = public financial management, PFTAC = Pacific Financial Technical Assistance Centre, SOE = state-owned enterprise, UNDP = United Nations Development Programme. Sources: Asian Development Bank; Government of Kiribati. 2014. *Kiribati Government 2014 Budget*. Tarawa.

B. Institutional Arrangements and Processes for Development Coordination

5. Development coordination is government-led through the aid management unit of the Ministry of Finance and Economic Development.² Assistance for macroeconomic and structural reforms is coordinated and monitored through the economic working group (EWG) of the government and the major development partners—ADB, DFAT, the EU, NZAP, and the World Bank. The EWG meets at least three times a year. In 2012, the EWG developed the Kiribati Economic Reform Plan (KERP) to support the government's prioritizing and sequencing of policy reform actions. The KERP serves as a framework for development partner budget support and for coordinating technical assistance (TA). It is updated annually. A biennial development partner forum enables coordination across sectors and themes. This is complemented by bilateral consultations and ongoing dialogue during the IMF's annual Article IV consultations. ADB engages in coordination through its in-country presence, regular

² The secretary of finance chairs project and TA steering committees made up of the secretaries of line ministries.

missions, telephone conferences, and emails.³ Regular development partner meetings and fora at ADB's Pacific Subregional Office in Suva are also used for cost-effective coordination.

6. The design of the Strengthening Fiscal Stability Program has been undertaken in close consultation with the government and major development partners through the EWG. This coordination has included the World Bank and NZAP, which will provide budget support in 2014 as part of collaborative cofinancing with the ADB program grant (para. 4). The EWG will coordinate and monitor implementation of the ADB program. TA support for implementing the ADB program's policy actions, which are derived from the KERP, will be provided in a coordinated manner by ADB, the World Bank, the Pacific Financial Technical Assistance Centre, DFAT, and the IMF.

C. Achievements and Issues

7. The government recognizes that the effective and efficient use of development assistance is critical to achieving national development priorities. Kiribati's restricted participation in the international aid effectiveness dialogue is due to limited government capacities due to its small public administration. All major development partners are coordinating activities and aligning support to the KDP for 2012–2015. The establishment of the EWG and the KERP are major achievements in improving coordination for overarching macroeconomic and structural reforms. The government has shown political commitment to these reforms by assigning sufficient human and financial resources to support projects and TA and by achieving significant reform progress.

8. The government's limited capacity is a major obstacle to implementing aid effectiveness principles in full, although political ownership of development activities is strong. Further strengthening of PFM capacities would allow greater use of country systems for aid. However, the severe current constraints highlight the importance of coordinating and harmonizing assistance to ensure that adequate capacity is provided and duplication is avoided. Because development partner presence is limited on the ground—due to the small scale of operations and high operational costs—coordination is difficult and requires extra efforts by all stakeholders. Aid coordination remains crucial due to Kiribati's great dependence on external assistance. Volatility in aid flows poses risks to economic and fiscal stability.

D. Summary and Recommendations

9. The KDP for 2012–2015, the KERP, and periodic development partner meetings provide a framework for aligning and coordinating development assistance in Kiribati. All major development partners are working to harmonize assistance in a way that maximizes the impact on Kiribati's socioeconomic development. The KERP is a good example of the joint efforts of the government and development partners and allows them to prioritize and sequence policy reform areas, measure implementation progress, and coordinate budget support and TA.

10. The government and development partners agree on the need to expand the KERP into a sound, longer-term reform framework, but this must be done gradually due to limited government capacity. In addition, three areas need continued attention to maximize the impact of assistance: (i) PFM system strengthening; (ii) integration of development projects into government plans and budgets; and (iii) regular government-led aid coordination.

³ A development coordination office, which is shared with the World Bank, is currently staffed by an ADB development coordination assistant, and recruitment is underway for the position of liaison officer.