ADB

Completion Report

Project Number: 47314-001
Grant Number: 0416
August 2016

Kiribati: Strengthening Fiscal Stability Program

Asian Development Bank

CURRENCY EQUIVALENTS

Currency Unit – Australian Dollar (A$)

		At Appraisal	At Program Completion
		22 October 2014	1 June 2016
A$1.00	=	$0.8779	$0.7282
$1.00	=	A$1.1390	A$1.3824

ABBREVIATIONS

ADB	–	Asian Development Bank
CSO	–	community service obligation
GDP	–	gross domestic product
IMF	–	International Monetary Fund
KDP	–	Kiribati Development Plan
KERP	–	Kiribati Economic Reform Plan
KNSO	–	Kiribati National Statistics Office
MFED	–	Ministry of Finance and Economic Development
PFM	–	public financial management
PUB	–	Public Utilities Board
PVU	–	Plant and Vehicle Unit
RERF	–	Revenue Equalization Reserve Fund
SFSP	–	Strengthening Fiscal Stability Program
SOE	–	state owned enterprise
TA	–	technical assistance
VAT	–	value-added tax

NOTES

(i) The fiscal year of the Government of the Republic of Kiribati and its agencies ends on 31 December.

(ii) In this report, “$” refers to Australian dollars unless otherwise stated.

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CONTENTS

BASIC DATA

A. Grant Identification

1.	Country	Republic of Kiribati
2.	Grant Number	0416
3.	Project Title	Strengthening Fiscal Stability Program
4.	Borrower	Republic of Kiribati
5.	Executing Agency	Ministry of Finance and Economic Development
6.	Amount of Grant	$3,000,000
7.	Program Completion Report Number	1585

B. Grant Data

1. Fact-Finding
   – Date Started 9 December 2013
   – Date Completed 11 December 2013

2. Appraisal
   – Date Started 23 June 2014
   – Date Completed 3 July 2014

3. Grant Negotiations
   – Date Started 21 September 2014
   – Date Completed 2 October 2014

4. Date of Board Approval 28 November 2014

5. Date of Grant Agreement 4 December 2014

6. Date of Grant Effectiveness
   – In Grant Agreement 4 March 2015
   – Actual 11 December 2014
   – Number of Extensions 0

7. Closing Date
   – In Grant Agreement 31 December 2014
   – Actual 31 December 2014
   – Number of Extensions 0

8. Disbursements

a. Dates

Initial Disbursement	Final Disbursement	Time Interval
16 December 2014	16 December 2014	None
Effective Date	**Original Closing Date**	**Time Interval**
11 December 2014	31 December 2014	20 days

b. Amount ($million)

Category or Subloan	Original Allocation	Last Revised Allocation	Amount Canceled	Net Amount Available	Amount Disbursed	Undisbursed Balance
Program	3.00	3.00	0.00	3.00	3.00	0.00
Total	3.00	3.00	0.00	3.00	3.00	0.00

C. Program Data

1. Program Cost ($ million)

Cost	Appraisal Estimate	Actual
Foreign Exchange Cost	3.00	3.00
Local Currency Cost	0.00	0.00
Total	**3.00**	**3.00**

2. Financing Plan ($ million)

Cost	Appraisal Estimate	Actual
Implementation Costs		
Borrower Financed	0.00	0.00
ADB Financed	3.00	3.00
Other External Financing	0.00	0.00
Total	**3.00**	**3.00**
IDC Costs		
Borrower Financed	0.00	0.00
ADB Financed	0.00	0.00
Other External Financing	0.00	0.00
Total	**3.00**	**3.00**

ADB = Asian Development Bank, IDC = interest during construction.

3. Program Performance Report Ratings

	Ratings	
Implementation Period	**Development Objectives**	**Implementation Progress**
From 1 January 2014 to 30 December 2014	Satisfactory	Satisfactory

D. Data on Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members
Fact-finding	9–11 December 2013	1	3	a, b
Grant appraisal	23 June–3 July 2014	2	6	a, c
Review				a, b
Project completion review	16–23 June 2016	1	7	a

a = economist, b = programs officer, c = counsel.

I. PROGRAM DESCRIPTION

1. At the request of the Government of the Republic of Kiribati (the government), in November of 2014 the Asian Development Bank (ADB)'s Board of Directors approved a grant for $3.00 million for the Strengthening Fiscal Stability Program (the program).[1] A grant agreement was signed on 4 December 2014 and the grant was disbursed after the government implemented policy actions as part of a multi-year, multi-partner fiscal reform program under the Kiribati Economic Reform Plan (KERP). A post-program partnership framework was established to support the program's sustainability.[2]

2. The program's intended impact was to improve fiscal stability as prioritized in the Kiribati Development Plan. The program's intended outcome was to improve government capacity for fiscal stabilization. The program provided four outputs: (i) improved quality of expenditure; (ii) improved revenue administration; (iii) improved management of public assets and liabilities; and (iv) improved structural reform implementation.[3]

II. EVALUATION OF DESIGN AND IMPLEMENTATION

A. Relevance of Design and Formulation

3. Program design was relevant at appraisal and remained relevant at program completion. It incorporated lessons from ADB's earlier experience in policy-based lending in the Pacific and was consistent with ADB's Kiribati Country Partnership Strategy.[4] Kiribati's economy is challenged by geographic isolation, limited human and financial resources, and a narrow economic base. It is extremely vulnerable to external shocks because of its high exposure to climate change, severe import dependency, and heavy reliance on income from external sources. The private sector is small and restricted by high transport costs, a limited production base and, at the time of grant appraisal, crowding-out from state-owned enterprises (SOEs) in potentially competitive sectors. Development performance indicators are poor and vulnerability to poverty and hardship is widespread. Gross domestic product (GDP) per capita at $1,900 (2015)[5] remains one of the lowest in the Pacific.[6] The 2010 census showed unemployment was 31% and youth unemployment was 54%.[7]

4. The 2008–2009 global economic crisis contributed to low and declining GDP growth (0.3% in 2009, -1.6% in 2010, and 0.5% in 2011). Weakening tax revenues, increased subsidization of inefficient SOEs, and highly volatile fishing revenue led to high fiscal deficits of 5–20% of GDP during 2009–2012. To supplement recurrent revenues and smooth volatility in

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1 ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Grant Republic of Kiribati: Strengthening Fiscal Stability Program.* Manila.

2 This is included in the Policy Matrix, which is in Appendix 2.

3 The design and monitoring framework is in Appendix 1.

4 ADB. 2009. *Pacific Approach, 2010–2014.* Manila; ADB. 2010. *Country Partnership Strategy: Kiribati, 2010–2014*. Manila.

5 Based on nominal GDP estimate for 2015 of $209.2 million (contained in IMF. 2015. *Kiribati 2015 Article IV Consultation—Staff Report.* Washington, DC), and 2015 population figure of 110,110 (from Kiribati National Statistics Office (KNSO). 2016. *2015 Population and Housing Census Preliminary Report.* Kiribati).

6 World Bank. 2014. *Hardship and Vulnerability in the Pacific Island Countries.* Washington, DC.

7 Ministry of Finance and Economic Development (MFED). 2016. *Economic Outlook April 2016.* Kiribati. More up-to-date unemployment data based on the 2015 census is expected to be released in July 2016. Anecdotally it appears unemployment has fallen during in the five years between the two censuses as a number of development projects have directly and indirectly (i.e. via second round "multiplier" effects) provided increased employment opportunities. For example, road and other infrastructure improvement projects have provided increased employment in the construction and accommodation sectors.

revenue sources, the government relied heavily on its Revenue Equalization Reserve Fund (RERF).[8] Rapid drawdowns—the equivalent of 11–22% of GDP each year—and a fall in the value of investments during the global economic crisis almost halved the per-capita value of the RERF between 2008 and 2012.[9] The economy has since rebounded—growing by 5.8% in 2013, 2.4% in 2014, and 3.1% in 2015—largely driven by donor-financed infrastructure projects and a more active fisheries sector.[10]

5. To develop the Kiribati economy, increase its resilience to external shocks, and reduce individual hardship and vulnerability, the government sought to steadily improve fiscal sustainability and stabilize the RERF. In 2013, the government embarked on the Kiribati Economic Reform Plan (KERP), a wide-ranging reform platform developed in collaboration with its development partners.[11] In line with the Kiribati Development Plan (KDP) 2012–2015, the KERP aimed to improve (i) expenditure quality; (ii) revenue performance; (iii) the management of public assets and liabilities; and (iv) the business environment. The ADB, the World Bank, and the Government of New Zealand provided (i) budget support to help stabilize the RERF and set incentives to maintain reform momentum, and (ii) technical assistance (TA) to support reform implementation.[12] Whilst the government and development partners' objective was for a transition from public-expenditure-driven economic growth to broader-based growth with greater private sector activity, they also recognized the need to maintain basic social services, subsidies, and wage supports as a form of social protection. Abrupt fiscal adjustment would have jeopardized development outcomes and deepened hardship and vulnerabilities.

6. The program's $3.0 million grant, in conjunction with funding by other donors, supported fiscal management directly by helping to reduce the drawdown of the RERF in 2014. It also supported fiscal sustainability by defining pre-conditions for the grant's release, as well as agreed government actions after the release of the funds. The program was consistent with the KERP, the KDP, ADB's Pacific Approach 2010–2014, and ADB's Country Partnership Strategy for Kiribati for 2010–2014. In 2016, it still aligns with the current focus of the government (via the KDP 2016–2019 and the ongoing implementation of the KERP) and ADB (through ADB's ongoing SOE reform TA and in its involvement with the monitoring of the KERP as part of the Economic Working Group[13]).

B. Program Outputs

1. Output 1: Improved Quality of Expenditure

7. All policy actions under Output 1 were achieved (Appendix 2). The policy pre-conditions for grant release were: (i) that the cabinet approve a merger between the Kiribati Copra Cooperative Society and the Kiribati Copra Mill Limited to address poor coordination,

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[8] The Revenue Equalization Reserve Fund (RERF) was established in 1956 during the United Kingdom's colonial administration of the Gilbert (now Kiribati) and Ellice (now Tuvalu) Islands in anticipation of the expected exhaustion of phosphate minerals (which occurred in 1979). The RERF was capitalized using tax revenue and royalties from phosphate mining.

[9] The sustainable level of drawdown is estimated at about 3–4% of GDP. International Monetary Fund (IMF) Country Report No. 15/207.

[10] Kiribati National Statistics Office (KNSO) for 2009–14; IMF for 2015.

[11] Government of Kiribati. Kiribati Economic Reform Plan, 2013-14. Kiribati.

[12] ADB. 2013. *Technical Assistance to the Republic of Kiribati for Enhancing Economic Competitiveness through State Owned Enterprise Reform.* Manila. Also the Australian government provided TA to support the establishment and implementation of the value-added tax (VAT) regime, which was introduced part-way through 2014.

[13] The Economic Working Group is chaired by the Secretary to the Cabinet and involves regular meetings between the government and its development partners.

unnecessary double handling of products, and limited accountability by December 2014; and (ii) that SOEs submit community service obligation (CSO) bids to MFED, and that subsidies to SOEs be eliminated from the national budget.[14]

8. **Policy action 1.1:** Cabinet approved the merger of the Kiribati Copra Cooperative Society and the Kiribati Copra Mill Limited in 2014.

9. **Policy Action 1.2:** All subsidies to SOEs were eliminated in the 2015 budget process. The new budget process requires SOEs to submit CSO bids to the MFED. This has formed the basis for a transparent CSO negotiation process between MFED and SOEs in which costs can be clearly assigned to specific services. These negotiations reduce waste, provide the government with better value for money, and allow for more strategic resource allocation.

10. The post-program partnership framework required the government to sustain efforts to improve the quality of public expenditure through: (i) continuing to reflect SOE CSOs in future national budgets and eliminating other subsidies to SOEs; and (ii) reforms to government procurement to enhance transparency, accountability, and value for money. Reforms in these areas would free up budget for more and better-targeted basic social services. The government has made good progress; however, there remains room for improvement as summarized below.

(i) **CSOs for SOEs continue to be part of the budgetary process: $5.0 million was allocated for CSOs in 2016, the same amount as in 2015**. However, government has on occasion capped the prices that SOEs can charge without providing the necessary CSO funding. For example, the government has placed controls on government housing rentals, which prevents the Kiribati Housing Corporation from funding required maintenance and replacement housing. The government and SOEs also need to stop cross-subsidizing one another: where government agencies do not pay their bills owing to SOEs, the SOEs cannot operate profitably. The $5 million allocated in recent budgets for CSOs has not been fully utilized and work remains to be done for them to be properly implemented.

(ii) **Government procurement reforms are needed**: ADB will provide TA and is in the process of hiring a consultant to assist the government in reviewing its procurement processes.

11. Achievement of these policy actions was intended to lead to increased budgetary allocations and better targeting of social service expenditure. The new government, elected in early 2016, quickly fulfilled its election promises in this regard by doubling the copra subsidy from $1 per kg to $2 per kg. This is seen as a critical social protection measure for people living in outer islands where copra is an important source of income. The increased subsidy is also intended to slow migration from the outer islands to South Tarawa: the 2015 census shows South Tarawa's population grew at an average annual rate of 2.3% over the period 2010–2015 compared to population growth of 1.33% per year nationally during the same period. The copra subsidy, which is estimated to cost the government $17.2 million in 2016 (up from $7.95 million in 2015), therefore has some targeted assistance characteristics of a CSO. While the government recognizes that the subsidy does not necessarily support only the vulnerable—it

[14] CSOs are defined in the SOE Act and require a payment through and contract with a SOE. If payment for social policy obligations or for the provision of a social benefit do not take place through an SOE, then it is technically not a CSO.

favors larger land owners and those in the northern and not southern outer islands[15]—they are willing to work with ADB and World Bank to design alternatives.

2. Output 2: Improved Revenue Administration

12. All Output 2 policy actions were achieved (Appendix 2). The policy reform pre-conditions for grant release were that: (i) MFED was required to review the first quarter of the implementation of the value added tax (VAT) system; and (ii) MFED and the Ministry of Fisheries and Marine Resource Development were required to improve collaboration and information sharing on fishing license revenue, producing a report on sources of fisheries revenue in 2013. The government met these two conditions in 2014.

13. **Policy Action 2.1:** The government implemented VAT of 12.5% on 1 April 2014 in response to declining revenues from personal income and company taxes and a phasing out of trade taxes. VAT receipts were intended to (i) offset the loss of revenue from these other sources within the first year of full implementation in 2015, (ii) broaden the tax base, and (iii) increase the overall tax yield. The program supported these efforts by reviewing VAT implementation over the first quarter. It identified bottlenecks and capacity gaps in revenue administration for the government to address in collaboration with development partners. In 2015, VAT of $14.5 million was collected against a budget estimate for 2015 of $13.3 million.[16]

14. **Policy Action 2.2:** The program established a joint committee between the Ministry of Fisheries and Marine Resource Development and the MFED to facilitate collaboration and information sharing on fishing license revenue. The committee produced a report detailing collections for 2013, providing the basis for a planned analysis and review of fishing license agreements. Information sharing is a first step toward optimizing the fisheries sector. It enables the government's budget team to make credible projections. It also allows the MFED to advise the cabinet on whether Kiribati is (i) maximizing the sustainability and value of its fisheries resources through existing and future license agreements and joint venture arrangements, and (ii) complying with catch limits and other conditions established under regional frameworks. In 2015, the government collected A$197.8 million from fishing licenses and is projecting A$100 million in revenues from the same source in 2016. Reduced income from fishing licenses in 2016 is the result of the waning of the prevailing El Niño weather system, which is expected to lead to a decline in tuna stocks in the South Pacific, and the new Pacific regional vessel day scheme which manages the sustainability of tuna stocks in the region. [17]

15. The government has largely complied with the post-program partnership framework, which required the MFED to (i) explore further opportunities to increase tax revenue; (ii) produce annual reports on VAT and fishing license revenue; and (iii) build capacity to collect VAT and administer the VAT system.

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[15] Increased copra production in response to the doubling of the subsidy will add pressure on shipping capacity, and providing shipping capacity may cost more than the additional value of the copra collected.

[16] VAT exempt items include uncooked rice and flour, kerosene, bicycles, bicycle parts and repair, exercise books, medical, dental and nursing services, and mosquito nets. Transportation of passengers by bus, truck, or taxi is zero-rated for VAT: operators do not need to charge VAT on fares for passengers but may claim back VAT on input costs. See: MFED. Value Added Tax (VAT) and Excise Exemptions and Zero Rated Items. Kiribati.

[17] The Parties to the Nauru Agreement (PNA), which counts Kiribati, the Federated States of Micronesia, the Republic of the Marshall Islands, Nauru, Palau, Papua New Guinea, Solomon Islands and Tuvalu as members, implemented a vessel day scheme (VDS) starting in 2012. Under the VDS, PNA sets a sustainable total number of "vessel days" to be allocated among its members and sold to foreign fishing fleets (or traded among members). By restricting the supply of available vessel days, PNA aims to not only raise the price of fishing licenses but also safeguard the sustainability of Pacific tuna stocks.

(i) **Increase tax revenue:** Government increased excise taxes on items such as tobacco, alcohol, cars, and fuel, raising an estimated $6.1 million in 2015. Projections show government revenue from this source will increase in line with inflation. However, while VAT has helped broaden revenues, the budget estimate for VAT collected in 2016 is $12.2 million (lower than in 2015) because the 2015 budget exempts SOEs from VAT. Apart from reducing government revenue, exempting SOEs from VAT distorts competition in sectors where SOEs compete with the private sector (e.g. hotels and shipping).

(ii) **Annual reports:** The national budget contains data relating to actual, estimated, and projected government revenues from VAT and fishing license revenue.

(iii) **Build capacity:** TA from the Australian Agency for International Development (AusAID) helped establish the VAT system, although some compliance issues remain.

3. Output 3: Improved Management of Public Assets and Liabilities

16. All Output 3 policy actions were achieved. Losses in RERF assets during the global economic crisis highlighted inadequacies in the fund's management. A review of RERF management recommended (i) improving alignment between strategic asset allocation and investment objectives; (ii) revising investment guidelines to remove ambiguity and reduce risk; and (iii) adopting more appropriate mechanisms for monitoring and assessing the performance of asset managers. The government also suffered from weak debt management, including the accumulation of substantial debt at high interest rates, a lack of information about how much debt was outstanding, and the contracting of government debt and guarantees without the knowledge of all cabinet members or appropriate advice from MFED.

17. Before grant proceeds were released, (i) MFED was required to appoint a staff member to enforce the cabinet-approved Debt Policy of 2013; (ii) the cabinet was required to approve and implement recommended RERF management reforms, including the reallocation of RERF's assets to new asset managers who would operate under set guidelines. These reforms were fully implemented.

18. **Policy Action 3.1**: MFED appointed a government debt management officer in April 2014. The officer monitors compliance with the Debt Policy of 2013 to ensure loan and guarantee decisions are based on appropriate advice, that recourse to expensive commercial borrowing is avoided, that re-accumulation of overdraft balances is prevented, and that inappropriate loan guarantees to SOEs and joint ventures cease. The government repaid all non-concessional debt in 2014. Government debt-service costs dropped from $10.2 million in 2014 to an estimated $0.7 million in 2015. Government debt-service costs are estimated to increase to $1.1 million in 2016 and $2.3 million by 2019 because of new concessional debt-servicing costs and the end of grace periods on existing loans from development partners.

19. **Policy Action 3.2:** Cabinet approved the RERF management policies (Appendix 2). Government appointed new fund managers and adopted a more conservative asset allocation policy, including reducing the portfolio's risk profile and improving asset allocation. The government planned to withdraw $18.37 million from the RERF in 2014 but reduced this withdrawal to $8.37 million because of budgetary support from the program, the World Bank, and the New Zealand government. The closing market value of the RERF at the end of 2015

was $756.3 million[18] or $609.2 million in real terms.[19] This equates to $5,532 per capita.[20] During 2015, the government mandated that the RERF portfolio would perform no less than 2% below the appropriate market benchmark for similar investment portfolios (compared to an underperformance by 8.29% below the market benchmark in the year to March 2014).

20. The post-program partnership framework required (i) full implementation of RERF management reforms, including an end to subsidies to the fund from fishing license revenue; and (ii) MFED to continue debt policy reforms, eliminating government and SOEs' non-concessional debt. The government has complied with these post-program partnership actions.

(i) The government replenished the RERF in 2015 ($50 million) and in 2016 ($70 million). Government surpluses after RERF drawdown or replenishment were $76.0 million in 2014 and $66.4 million in 2015. The government has placed these surpluses in a savings account and plans to transfer them to the RERF. By the end of 2016 the RERF is estimated to increase to $775.8 million ($622.6 million or $5,580 per capita in real terms), an increase in the real RERF per capita since 2014 of 12.8%. The benchmark (para. 18) for investment portfolios reduces the risk exposure of RERF assets compared to broader market movements. While many external factors may affect the fund's performance, lower risk exposures should more closely align RERF portfolio performance with (i) market benchmark levels, and (ii) long-term investment strategy and objectives.

(ii) The government and SOEs remain unable to incur new non-concessional debt unless approved by the full cabinet.

4. Output 4: Improved Structural Reform Implementation

21. Inefficient SOEs dominated large parts of the economy, crowding out the private sector in potentially competitive sectors and draining government resources. ADB TA projects have supported the significant SOE reforms undertaken by the government since 2012.[21] The government's SOE reform road map had identified specific SOEs for restructuring to improve efficiency and promote the private sector.

22. The government fully complied with conditions under Output 4 to release program funds. The cabinet was required to comprehensively review shipping to the outer islands to identify possible improvements. The government was also required to contract out management of its landing craft as part of the reform process. The cabinet was required to approve the appointment of a liquidator for food wholesaler Bobotin Kiribati Limited. The cabinet was also required to approve an implementation plan and timetable with recommendations to limit the Plant and Vehicle Unit (PVU)[22] commercial activities to the provision and maintenance of heavy plant and equipment and vehicles for government use and cease activities that are not government related activities. The cabinet was required to invite private firms to enter into a public–private partnership with Betio Shipyard Limited. SOEs were required to submit to the

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[18] See Appendix 8 of 2016 Budget.
[19] This number was estimated using the GDP deflator series provided by the Kiribati National Statistics Office (KNSO).
[20] This number was calculated based on a total population of 110,110 from the 2015 census.
[21] ADB. 2013. *Technical Assistance to the Republic of Kiribati for Enhancing Economic Competitiveness through State Owned Enterprise Reform.* Manila.
[22] PVU is part of the Ministry of Works and Public Utilities (MWPU). Its role is to purchase vehicles on behalf of ministries and to lease them back as well as provide maintenance.

Government's SOE Monitoring Unit 2014 statements of intent (SOIs) specifying each SOE's main objectives, projected annual cash flows, projected annual balance sheet and projected annual profits. The five largest SOEs—Kiribati Oil Limited, Kiribati Housing Authority, Public Utility Board, Broadcasting and Publications Authority, and Air Kiribati Limited—were required to submit 2013 financial accounts to the Office of the Auditor General for auditing. All appointments to SOE boards (except the advisory board of the PVU) were required to comply with the SOE Act 2013.

23. **Policy Action 4.1:** The cabinet approved a plan to contract out all government shipping services.

24. **Policy Action 4.2:** The Strengthening Fiscal Stability Program (SFSP) supported the restructuring of the PVU and cabinet approved the liquidation of Bobotin Kiribati Limited.

25. **Policy Action 4.3:** While progress has at times been constrained by delays in the availability of TA and inadequate private sector interest in public–private partnership opportunities, SOE reform is continuing overall. The government has finalized a private-sector development strategy. The government is also expanding opportunities for the private sector: the country's first public–private partnership will manage the Otintaai Hotel. In May 2015, the government-owned Telecom Services Kiribati Limited (TSKL) was privatized. Expressions of interest were received for the Betio Shipyard Limited; these are in the process of being finalized.

26. **Policy Action 4.4(a):** To improve SOE efficiency and reduce the fiscal drain, the program required SOEs to (i) develop statements of intent that include projected cash flows, annual balance sheets, and annual profits; (ii) submit financial statements for audit; and (ii) ensure that all board appointments fully comply with the SOE Act 2013. These conditions have been met.

27. **Policy Action 4.4(b):** The five largest SOEs submit full financial statements to the government's SOE Monitoring Unit within three months of the end of the fiscal year. The Kiribati National Audit Office audits these statements.

28. **Policy Action 4.4(c):** All SOE board appointments are in full compliance with the provisions of the SOE Act 2013, with the exception of the PVU advisory committee. It is unclear whether the PVU falls under the SOE Act or is a special fund as defined in the PVU Act.

29. The post-program partnership framework required (i) government recognition of the private sector's willingness to take on new business opportunities; (ii) government, through the SOE Monitoring Unit, to continue to implement the SOE Act 2013 and SOE Reform Roadmap to identify sectors for further reform and private sector participation; and (iii) SOE reforms to be done in parallel with the implementation of the private sector development strategy.

30. The post-program partnership framework has generally been complied with, although the government has focused more on improving SOE performance than on privatization. There are opportunities for further privatization, such as in shipping and hotels. However, a number of other SOEs are in sectors where competition is limited. These SOEs are likely to remain publically owned.

31. The government has demonstrated commitment to SOE reform through its work in 2016 on the Public Utilities Board (PUB), an SOE that has been relying on government subsidies and bailouts to survive. On 1 March 2016, the PUB was bankrupt and owed more than $7.5 million.

Its most significant creditor was Kiribati Oil Limited, whom it owed for supplying diesel fuel to generate electricity. The PUB international chief executive officer (CEO) put in place simple business management systems such as timesheets, logbooks, standard approvals, and fleet management initiatives, all of which led to a 25% payroll reduction in mid 2016. PUB clawed back more than 10% of long-term debt during July 2016 while assuring an average current bill payment above 80% in August 2016, thanks to (i) a more aggressive disconnection policy; (ii) focusing debt collection to large customer debts; and (iii) establishment of a daily debt monitor. PUB has managed to bank its targeted $500,000 of operating capital by the middle of May 2016, suggesting that it will be in a better financial position ahead of schedule. Now PUB is exploring mechanisms to responsibly reduce its outstanding debt to assure longer-term health. PUB has also posted results to the end of April 2016 that present a cumulative operating cost of $4.2 million against a budget of $5.1 million.

32. The private sector has grown in part because of SOE privatization. Other supporting factors in private-sector growth include recent development projects, which have spurred demand for visitor accommodation and services. Sustainability of private-sector activities depends on government and development partners' willingness to fund the development projects that have stimulated demand.

33. The Kiribati Provident Fund (KPF) shows that private-sector participants rose from 2,078 in December 2010 to 3,549 in December 2015, an increase of 70.8% compared to population growth of 6.8% over the same period and public-sector participant growth from 6,723 in 2010 and 6,881 in 2015 (an increase of 2.4%). The private sector is less likely than the public sector to participate in the KPF, suggesting this data understates private-sector growth from 2010 to 2015.[23]

C. Program Costs

34. ADB provided support under the program through a grant of $3.0 million from ADB's Special Funds resources. The grant, together with financial support from other development partners, was to help the government to meet the financing gap for 2014. The government had forecast its financing requirements for 2014 to be $37.1 million (22.6% of GDP), $26.9 million in 2015 (15.8% of GDP), and $25.6 million in 2015 (14.5% of GDP). Collaborative co-financing from the World Bank ($8.2 million) and the New Zealand government ($0.9 million)—together with the program grant of $3 million—was to reduce RERF drawdowns by $12.1 million in 2014 and contribute to the fund's long-term stabilization.

35. The grant size was determined after consideration of (i) the projected deficit financing requirements; (ii) the availability of additional funding from other development partners; and (iii) the consistency of the SFSP with the KERP, the KDP, ADB's Country Partnership Strategy, and ADB's ongoing TA support for SOE reforms.

D. Disbursements and Program Schedule

36. The appraisal disbursement schedule—a single disbursement of $3.0 million—was realistic, given the relatively small size of the grant. The grant proceeds were disbursed as set out in the Grant Agreement and according to ADB's simplified disbursement procedures and related requirements for program grants.[24] The grant proceeds were released on 16 December

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[23] MFED. 2016. *Economic Outlook April 2016.* Kiribati.
[24] ADB. 1998. *Simplification of Disbursement Procedures and Related Requirements for Program Loans*. Manila.

2014, 12 days after the date of the Grant Agreement.

E. Implementation Arrangements

37. There were no major changes to implementation arrangements. These were adequate as designed to deliver program outputs and to achieve the program purpose. MFED was the executing agency for policy reforms that were pre-conditions for the grant release, and for implementation of the post-program partnership framework. MFED was also responsible for program administration, disbursements, and recordkeeping.

38. MFED acted as the joint implementing agency with the Ministry of Commerce, Industries and Cooperatives for Output 1; with the Ministry of Fisheries and Marine Resource Development for Output 2; and with the Ministry of Communication, Transportation and Tourism Development and the Ministry of Public Works and Utilities for Outputs 3 and 4. For Outputs 1 and 4, involving structural reform of SOEs, MFED worked in conjunction with the SOE reform steering committee chaired by the secretary to the cabinet. ADB and other development partners provided TA support to help the government achieve the policy actions and program outcomes (footnote 11). The economic working group had broad oversight by monitoring the KERP implementation.

F. Conditions and Covenants

39. The covenants under the grant agreement—which were the policy pre-conditions for the grant's release—were met before funds were released in December 2014 (see Appendix 3). These covenants were listed in Attachment 2 to Schedule 2 of the Grant Agreement. No covenants were modified, suspended, or waived. The program used ADB's policy-based program modality and was based on the development policy letter and policy matrix for the grant.

G. Related Technical Assistance

40. No specific TA was provided for the program design or implementation. Instead, support from ADB's ongoing TA related to SOE reform supported specific elements of the program (Outputs 1 and 4). The TA consultants assisted the government to achieve a number of the grant release pre-conditions: the merger of the Kiribati Copra Mill and the Kiribati Co-operative Society; the restructuring of the Kiribati Shipping Service, the PVU and the Betio Shipyard; and the liquidation of Bobotin Kiribati. This support is ongoing.

H. Consultant Recruitment

41. No consultants were recruited for the design or implementation of the program.

I. Performance of Consultants, Contractors, and Suppliers

42. No consultants, contractors, or suppliers were involved in the design or implementation of the program.

J. Performance of the Borrower and the Executing Agency

43. The performance of the borrower and the executing agency is rated *satisfactory*. The borrower met the pre-conditions for grant release and has continued to implement policy

reforms consistent with the post-program partnership framework (see Policy Matrix in Appendix 2). MFED as the executing agency implemented or oversaw the implementation of the policy actions required. The government has implemented, and is continuing to implement, measures to improve fiscal stability, the quality of public expenditure, management of public assets and liabilities, and governance and performance of SOEs. Doubling the copra subsidy does not target more vulnerable sections of the community, however, and exempting SOEs from VAT will inhibit private-sector growth.

K. Performance of the Asian Development Bank

44. ADB staff at headquarters and the Pacific Sub-regional Office in Suva assisted the government to design and implement the program. ADB staff actively monitored the progress and completion of grant release pre-conditions. ADB has continued to monitor progress against the post-program partnership framework through (i) its involvement with the economic management committee and (ii) regular reporting by the ADB's SOE reform TA consultants (see footnote 11). ADB's performance in program implementation is rated *satisfactory*.

III. EVALUATION OF PERFORMANCE

A. Relevance

45. The program design was appropriate and relevant at appraisal, implementation, and completion. It fully aligned with the government's KERP, the KDP 2012–15, and the KDP 2016–19. The SFSP was consistent with ADB's Country Partnership Strategy for 2012–2015, which had public sector reform, including strengthened budget management and SOE reform, as one of its two key themes[25] to promote private sector development and sustainable economic growth. The program's emphasis on improving public expenditure quality, revenue performance, management of public assets and liabilities and the business environment remained relevant throughout program implementation. These goals remain priorities for Kiribati's future economic and social wellbeing.

B. Effectiveness in Achieving Outcomes

46. The program provided immediate fiscal relief for the government, reducing the need to draw down the RERF in 2014. The RERF drawdown in 2014 was $8.37 million, but would have been larger than $18 million without the program grant and other development partner funding. In 2014, the government achieved a budget surplus of $76.0 million, enabling it to reduce debt and strengthen its balance sheet. The 2016 budget estimates that the government achieved a healthy surplus ($66.4 million in 2015) even after replenishing the RERF by $50 million. These budget surpluses have largely come from fishing license revenues, but the grant and other development partner support also helped improve fiscal performance.

47. The program's grant release pre-conditions were effective in encouraging the government to implement a number of specific SOE and PFM reforms. These pre-conditions—together with the ongoing SOE reform TA funded by ADB—made the SFSP effective in achieving its objectives.

48. The program was rated *effective* in achieving its targeted outcomes.

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[25] The other key theme was infrastructure improvements.

C. Efficiency in Achieving Outcome and Outputs

49. The grant was made available very soon after grant signing in December 2014 as government was very efficient in implementing the program. ADB worked very closely with Kiribati Development Partners and the government on a joint policy matrix. This has allowed the partners to focus on areas of comparative advantage through TA and other support. ADB has especially led on SOE reform.

50. The program was rated *efficient* in achieving its targeted outcome and outputs.

D. Preliminary Assessment of Sustainability

51. Program sustainability is rated *likely* given government commitment to improving PFM and supporting SOE governance and operating performance. These remain a focus of the economic management committee overseeing the KERP and ongoing assistance from Kiribati's development partners. In 2014, the development partners were keen to develop the KERP as a multi-year reform matrix. However, the government cited lack of capacity and 2015 elections as possible hurdles, and chose to update the KERP annually. The change of government in late 2015 has changed the KERP objectives relating to PFM and SOE reform. With the election now over, multi-year KERP targets may be possible; one option would be to have four-year targets timed to follow elections.

E. Institution Development

52. The SFSP reinforced improvements in PFM and SOE governance and operation. The program also provided increased opportunities for Kiribati's private sector.

F. Impact

53. The Design and Monitoring Framework (see Appendix 1) set a number of performance targets and indicators. Firstly, by 2018 the RERF was to have a real value per capita no less than $4,192.[26] The RERF's closing market value at the end of 2015 was $756.3 million[27] or $609.2 million in real terms.[28] This equates to $5,532 per capita.[29] The RERF is estimated to increase to $775.8 million ($622.6 million or $5,580 per capita in real terms) by the end of 2016, an increase in the real per capita value of 12.8% since 2014. Increases in the RERF end-of-year values can be attributed to (i) a $50 million replenishment of the fund in 2015 as a result of higher fishing license revenues; and (ii) increased earnings by the fund over the period 2014–16, as compared to previous years. In 2006, before the global financial crisis, the RERF stood at $659.6 million in both nominal and 2006 real terms so the fund has yet to recover to its real value.[30] The fund's future earnings will continue to fluctuate, although to a smaller degree as a result of steps to reduce the riskiness of the RERF's investments. The RERF would also receive a considerable boost if the government combined the separate managed fund it has established from the surpluses of 2014 and 2015[31] with the RERF.

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[26] In 2006 Australian dollars.
[27] See Appendix 8 of the 2016 budget.
[28] This number was calculated using the GDP deflator series provided by Kiribati National Statistics Office (KNSO).
[29] This number was calculated based on a total population of 110,110 from the 2015 census.
[30] In 2016, the real value of the fund was 5.6% below its 2006 value.
[31] And any future significant surpluses if future annual revenues from fishing licenses exceed the budget estimates.

54. Secondly, the current fiscal deficit[32] was to be reduced to 12.7% of GDP by 2018. In 2015 the government collected a surplus of $134.9 million (64.5% of estimated GDP), due to the unexpectedly high increase in fishing license revenue. The 2016 budget is projected to remain in surplus even with fishing license revenue projected to fall to the lower levels experienced before 2014.[33] The current fiscal surpluses are expected to be $6.2 million (2.8% of GDP) in 2016, $10.3 million (4.7% of GDP) in 2017, and $11.7 million (5.3%) in 2018.[34]

55. Thirdly, by December 2015, VAT revenues were to grow to 9.9% of GDP. VAT revenues in 2015 were estimated to total $14.5 million, or 6.9% of GDP. This is lower than targeted because of a combination of yet-to-be-resolved compliance problems. VAT plus excise tax in 2015 is estimated to total $20.6 million, or 9.9% of GDP. VAT revenues in 2016 are expected to fall to $12.2 million because SOEs are exempt from VAT.

56. Fourthly, subsidies to SOEs, excluding CSOs, were to be eliminated. This has occurred with the exception of the copra subsidy, which doubled from $1 per kg to $2 per kg. While the copra subsidy is effectively a CSO in that it is intended to support outer island residents, it does not target vulnerable groups or the outer islands specifically.

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

A. Overall Assessment

57. The program was implemented as planned, providing immediate fiscal support to the government and incentives to undertake necessary public financial management (PFM) and SOE reforms. It was fully aligned with the government's economic reform program and ADB's Country Partnership Strategy. The grant program modality was straightforward and efficiently implemented. The program was relevant at the time of appraisal, implementation, and completion. It was effective in improving public expenditure quality, revenue performance, management of public assets and liabilities and the business environment. These improvements are likely to be sustainable. The program is rated *successful* overall.

B. Lessons

58. The grant pre-conditions were an incentive for the government to reform SOE governance and operation and improve management of government revenue, expenditure, assets, and liabilities. An ongoing ADB TA was timely in supporting SOE reforms that preceded and continued after grant release.

59. The program grant enabled RERF drawdown to be reduced in 2014 and expedited reforms. Ongoing actions under the post-program partnership framework can be combined into a multi-year matrix linked to ongoing budget support. The program also highlighted the importance of partnership (with government and other development partners) through creation of a joint policy matrix.

[32] The current fiscal deficit excludes development expenditure and grants from development partners.
[33] Fishing license revenues in 2014 and 2015 were $142.6 million and $207.1 million respectively. For 2016, 2017, and 2018, fishing license revenues are projected to be $101.4 million, $103.4, million and $105.5 million respectively (see Table 4, 2016 Budget).
[34] Current fiscal balance projections derived from 2016 Budget, Table 1. GDP data from: IMF. 2015. *Kiribati 2015 Article IV Consultation – Staff Report.* Washington, DC

C. Recommendations

60. **Future monitoring.** The fiscal and economic performance of Kiribati, as of all Pacific developing member countries, is well monitored by the Pacific Economic Monitor under the regional policy economic management TA. ADB as part of the economic management group also obtains regular updates on the existing and projected fiscal and economic performance of the Kiribati economy, which is well documented in the budget documents and other MFED publications. The annual IMF Article IV Consultation and Staff report also provides an independent regular reporting of the current and projected future fiscal and economic performance. No further monitoring is required.

61. **Covenants.** All covenants and measures in the policy matrix were completed. No further monitoring is required.

62. **Further action or follow-up.** Ongoing PFM and SOE reforms will further improve the efficiency and effectiveness of the MFED and other agencies responsible for overseeing, owning, maintaining, and operating Kiribati's public sector assets and liabilities. ADB's ongoing SOE reform TA and involvement in the economic management group overseeing the KERP will identify additional assistance that ADB could provide. ADB should continue to push for (i) the eventual replacement of the copra subsidy with better targeted assistance for outer-island residents and other vulnerable members of the community; (ii) the re-inclusion of SOEs in the VAT system; and (iii) extending the KERP's focus from one year to multiple years.

63. **Additional assistance.** Partners will continue to support government reforms. Thanks to additional fishing license revenues, Kiribati is no longer facing crisis. Still, continued TA will be needed, and ADB will continue with SOE reform and PFM TA. In addition, policy-based financing can continue to build resilience and encourage reform, and partners collectively will continue. ADB is discussing with the government whether further financing will best used as a PFM investment or as policy-based financing to support reforms agreed in the joint policy matrix.

64. **Timing of the program performance evaluation report.** The program is substantially completed. The performance evaluation report should be undertaken and disseminated as soon as possible.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Improved fiscal sustainability	By 2018: RERF real per capita value is no less than A$4,192[a] (Baseline: 2018 value of A$3,760[a] is projected in policy stagnation scenario in simulations by IMF and ADB) Current fiscal deficit reduced to 12.7% of GDP (Baseline: 2018 deficit of 21.6% of GDP is projected in policy stagnation scenario in simulations by IMF and ADB)	National budget documents RERF annual reports National budget documents IMF Article IV reports	**Assumptions** Government maintains fiscal discipline and implements ambitious reforms. No major adverse economic shocks occur. **Risk** Broad reform consensus weakens due to political pressure.
Outcome Government capacity for fiscal stabilization built	By December 2015: VAT revenue grows to 9.9% of GDP (2013 baseline: 0.0% of GDP) Subsidies to SOEs, excluding explicit CSOs, eliminated (2012 baseline: 4.0% of GDP)	National budget documents SOE monitoring unit report National budget documents	**Assumption** Kiribati Economic Reform Plan implementation continues. **Risk** Capacity constraints and staff turnover reduce continuity and quality of reform implementation.
Outputs 1. Quality of expenditure improved 2. Revenue administration improved	By December 2014: Merger of KCCS and KCML approved by cabinet (2013 baseline: KCCS and KCML are separate entities) SOE subsidies, in the form of CSOs, are fully reflected in the annual budget (2013 baseline: No CSOs in 2013 budget) VAT system put in place and administered (2013 baseline: No VAT system) A joint MFMRD and MFED report on fisheries license	Ministry of Commerce, Industries and Cooperatives annual report National budget documents MFED annual reports MFMRD and MFED joint report	**Assumptions** Government maintains commitment to reform public finances. Government maintains commitment to improve SOE governance and to rationalize selected SOEs. **Risks** Stakeholders interfere with reform process due to opposing individual interests. Staff changes and already high workload reduce continuity and quality of reform implementation.

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	revenue performance in 2013 is completed (2013 baseline: No report on fisheries revenues)		Limited capacity in the MFED to reform SOEs and scrutinize financial performance leading to lack of implementation of reform strategies.
3. Management of public assets and liabilities improved	No new nonconcessional loans taken on by government and SOEs, as agreed to in the debt management strategy (2013 baseline: A$8.8 million in new nonconcessional loans)	MFED annual reports	
	cabinet approves RERF management policies (2013 baseline: No RERF management policies exist)	cabinet minutes	
4. Structural reform implemented	Rationalization strategies for BSL, BKL, KSSL, and PVU approved by cabinet (2013 baseline: No existing rationalization strategies)	cabinet minutes	
	Board appointments in all SOEs comply fully with legislative provisions of SOE act 2013 (except appointments of the advisory committee of PVU) (2013 baseline: No SOEs complied with SOE act for board appointments)	SOE monitoring unit annual reports Attorney General's Office reports	
	Fully costed SOIs for 15 SOEs submitted for information to cabinet and parliament (2013 baseline: No SOEs had fully costed SOIs)	cabinet minutes	

Activities with Milestones	Inputs
1. Improved quality of expenditure (30 September 2014) 1.1 MFED develop strategy for the merger of KCCS and KCML and seek cabinet approval for implementation 1.2 SOEs managements develop CSO bids and submit these to MFED for negotiation in preparation of the 2015 budget **2. Improved revenue administration (31 August 2014)** 2.1 Government establishes VAT system, and Tax Department trains staff on its administration 2.2 The joint MFMRD and MFED fisheries management committee prepares a report on fisheries license revenue performance in 2013 **3. Improved management of public assets and liabilities (31 July 2014)** 3.1 MFED appoints a debt management officer to monitor the implementation of the national debt management policy 3.2 MFED finalizes RERF management policies, and they are submitted for cabinet approval **4. Improved structural reform implementation (31 August 2014)** 4.1 MFED prepares invitation for expression of interest for privatization of BSL and seeks cabinet approval 4.2 MFED develop rationalization strategies for PVU, BKL, and KSSL; and seek cabinet approval for implementation 4.3 Shareholding ministers appoint all SOE boards in full compliance with the SOE act (except appointments of the advisory committee of PVU) 4.4 SOE managements develop fully costed SOIs for 15 SOEs	**ADB:** $3.0 million **World Bank:** $8.2 million (collaborative cofinancing) **New Zealand:** $0.9 million (collaborative cofinancing) **Government:** Fulfillment of grant conditions and counterpart support for technical assistance

ADB = Asian Development Bank, BKL = Bobotin Kiribati Limited, BSL = Betio Shipyard Limited, CSO = community service obligation, GDP = gross domestic product, IMF = International Monetary Fund, KCCS = Kiribati Copra Cooperative Society, KCML = Kiribati Copra Mill Limited, KSSL = Kiribati Shipping Services Limited, MFED = Ministry of Finance and Economic Development, MFMRD = Ministry of Fisheries and Marine Resource Development, PVU = Plant and Vehicle Unit, RERF = Revenue Equalization Reserve Fund, SOE = state-owned enterprise, SOI = statement of intent, VAT = value-added tax.

[a] In 2006 Australian dollars.

Source: Asian Development Bank.

POLICY MATRIX

Output	Conditions to Grant Proceeds Release	Post-Program Partnership Framework
Output 1: Improved quality of expenditure	**Policy Action 1.1:** cabinet shall have approved the merger of the Kiribati Copra Cooperative Society and Kiribati Copra Mill Limited. ***(Excerpt from cabinet minutes certified by the Cabinet Secretary)***	Government to sustain efforts to improve the quality of expenditure by: (i) continuing to reflect SOE CSOs in future national budgets, and eliminating any other subsidies to SOEs; and (ii) government procurement reform to enhance transparency, accountability, and value for money. These measures should allow for increasing budgetary allocations to the Ministry of Education and Ministry of Health and Medical Services, to safeguard basic social service expenditure.
	Policy Action 1.2: SOEs shall have submitted bids for community service obligations for negotiation with MFED in preparation for the 2015 budget with other subsidies to SOEs reduced to zero in the national budget. ***(Letter from the Secretary of MFED certifying that SOE bids have been received)***	
Output 2: Improved revenue administration	**Policy Action 2.1:** MFED shall have conducted a review of the first quarter following the implementation of the VAT system, which shall comprise data on revenue collected, issues and challenges of implementing VAT. ***(Copy of the VAT Act, certified by the cabinet Secretary, and report from the MFED, certified by the Secretary of the MFED, reviewing the first quarter of the VAT system's implementation).***	MFED to explore further opportunities to raise revenue collections. To monitor performance of revenue-raising measures already in place, MFED will produce annual reports reviewing revenue collections from the VAT and fishing license revenues. Capacity-building efforts will also be pursued to enhance efficiency in the administration and collection of the newly-installed VAT system.
	Policy Action 2.2: MFMRD and the MFED shall have jointly produced a report on sources of fisheries revenue in 2013 containing disaggregated data for fisheries license revenue from agreements with the European Union, the United States of	

	America and from other sources. ***(A copy of the report, certified by the Secretaries of MFED and MFMRD)***	
Output 3: Improved management of public assets and liabilities	**Policy Action 3.1:** MFED shall have appointed a staff whose principal role is to enforce the implementation of the Debt Policy as approved by cabinet in 2013. ***(Copy of the Debt Policy, certified by the Cabinet Secretary, job description of the staff, and letter from the Secretary of the MFED certifying that the staff was appointed).***	Government, or SOEs, should not incur any new non-concessional debt with MFED's consistent implementation of the debt policy.
	Policy Action 3.2: cabinet shall have approved RERF management policies including: (i) reallocation of RERF assets to achieve consistency with clearly-stated investment objectives; (ii) application of new concentration and deviation limits; and (iii) application of more appropriate benchmarks to improve monitoring of asset manager performance. ***(Copy of the cabinet paper on improving management of the RERF and excerpt from cabinet minutes, certified by the Cabinet Secretary)***	RERF investment strategy and management reforms will be fully implemented, which should result in stronger performance of its investment portfolio. Any future surpluses from windfall fishing license revenues will also be injected into the RERF to help stabilize its balance.
Output 4: Improved structural reform implementation	**Policy Action 4.1:** cabinet shall have agreed to a comprehensive review of shipping to the outer islands aimed at improved services for the sector and approved that contracting out management of the landing craft owned by the government be included as part of the reform process.	Recognizing the private sector's willingness to take on new business opportunities (as reflected by recent experience in SOE reform), the government—through the SOE Monitoring Unit—will continue to implement the SOE Act 2013 and SOE Reform Roadmap to identify sectors for further reform and private sector participation.

	(Excerpt from the cabinet minutes, certified by the Cabinet Secretary)	This will take place in parallel with implementation of the private sector development strategy.
	Policy Action 4.2: cabinet shall have approved the (i) appointment of a liquidator for Bobotin Kiribati Limited and (ii) preparation of a detailed implementation plan and timetable with the recommendations to limit the Government Plant and Vehicle Unit commercial activities to the provision and maintenance of heavy plant and equipment and vehicles for government use and cease activities that are not related to government functions. ***(Excerpt from the cabinet minutes, certified by the Cabinet Secretary)***	
	Policy Action 4.3: cabinet shall have approved an invitation for expressions of interest for private firms to enter into a public–private partnership concession agreement with Betio Shipyard Limited. ***(Copy of invitation for expressions of interest, and excerpt from cabinet minutes, each certified by the Cabinet Secretary)***	
	Policy Action 4.4: Key provisions of the SOE Act are implemented, including: **Policy Action 4.4(a):** The Government's SOE Monitoring Unit shall have received 2014 SOIs for all SOEs. The SOIs should specify each SOE's (i) main objectives, (ii) projected annual cash flow (iii) projected annual balance sheet and (iv) projected annual profits.	

	(Copies of the SOIs, and letter from the Secretary of MFED certifying that the SOIs have been approved by the SOE Monitoring Unit) **Policy Action 4.4(b):** The five largest SOEs—Kiribati Oil Limited, Kiribati Housing Authority, Public Utility Board, Broadcasting and Publications Authority and Air Kiribati Limited—shall have submitted 2013 financial accounts to the Office of the Auditor General for auditing. ***(Letter from the Office of the Auditor General certifying that these have been received)*** **Policy Action 4.4(c):** All appointments to SOE boards (except appointments of the advisory committee of Plants and Vehicle Unit) shall comply with the SOE Act 2013. **(*Copy of the SOE Act, and letter from the Secretary of MFED certifying that the appointment process complied with the SOE Act)***	

CSO = community service obligation, MFED = Ministry of Finance and Economic Development, MFMRD = Ministry of Fisheries and Marine Resources Development, RERF = Revenue Equalization Reserve Fund, SOE = state-owned enterprise, SOI = statement of intent, VAT = value-added tax.

STATUS OF COMPLIANCE WITH GRANT COVENANTS

Covenant	Reference in Grant Agreement	Status of Compliance
In the carrying out of the Program, the Recipient shall perform, or cause to be performed, all obligations set forth in Schedule 3 to this Grant Agreement.	Section 4.01 (a)	Complied with. See detailed discussions on Schedule 3 covenant below.
The Recipient shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Grant and to record the progress of the Program.	Section 4.02 (a)	Complied with. The SOE Monitoring Unit kept all records and documents on progress of the Program.
The Recipient shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.	Section 4.02 (b)	Complied with. The government through MFED provided all the documents referred to in para (a).
As part of the reports and information referred to in Section 6.04 of the Grant Regulations, the Recipient shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (a) the Counterpart Funds and the use thereof; and (b) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.	Section 4.03	Complied with. The government through MFED provided all the reports and information on the use of the counterpart fund and the implementation of the Program.
The Recipient shall be responsible for the coordination and execution of the Program with the various concerned departments and agencies of the Recipient. The Program Executing Agency shall oversee and coordinate the timely implementation of agreed policy, legal, and regulatory actions. The Implementing Agencies shall also be responsible for Program administration, disbursements, and maintenance of all Program records. ADB will work through the Recipient's Budget Support Management Committee mechanism to monitor progress, oversee the implementation of the Program, and guide and direct the activities of the Program Executing Agency.	Schedule 3 (1)	Complied with. The government set up the Economic Working Group to coordinate execution of the Program while MFED administered the Program.
The Recipient shall (a) use its best endeavors to ensure that critical Program staff will remain in their position on a full-time basis for a reasonable duration to ensure continuity in the implementation of the Program; and (b) ensure that all Implementing Agencies will be adequately staffed and provided with the necessary financial, technical, and other resources to perform their functions under the Program.	Schedule 3 (2)	Complied with. There was no change to staffing from the beginning to end of the Program. TAs provided by ADB, the World Bank, and DFAT assisted the Implementing Agencies.
The Recipient shall (a) ensure that all policy actions adopted under the Program, as set out in the Policy Letter and the Policy Matrix, continue to be in effect for the duration of the Program and subsequently; and (b) make submissions to ADB on the completion of actions under the Policy Matrix by reference to the indicators set out therein.	Schedule 3 (3)	Complied with. The government achieved all of the Program's policy actions without delays.
The Recipient shall keep ADB informed of policy discussions with other multilateral and bilateral aid	Schedule 3 (4)	Complied with. The government formed the

agencies that may have implications for the implementation of the Program and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Recipient shall take into		economic working group, comprising representatives from the government and multilateral and bilateral agencies, to discuss and monitor progress.
The Recipient shall ensure that the local currency funds generated by the Grant will be used to finance the costs relating to the implementation of the Program and other activities consistent with the objectives of the Program and will provide the necessary budget appropriation to finance the costs relating to the implementation of reforms under the Program.	Schedule 3 (5)	Complied with. The local currency generated by the Program was used to finance the costs if the Program and provided budget appropriation to finance costs relating to the implementation of the Program.
The Recipient shall: (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Program; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.	Schedule 3 (6)	Complied with.
The Recipient and ADB shall undertake ongoing monitoring and regular formal review of Program performance in the lead up to the Board's consideration of the Program. The Recipient, through the Program Executing Agency, shall establish and maintain a Program performance monitoring system that will include a database on the status of policy actions.	Schedule 3 (7)	Complied with. This was done through the economic working group.
The Recipient shall monitor the implementation and outcomes of the Program using a set of indicators and targets that has been agreed between the Recipient and ADB to assess progress towards meeting the objectives of the Program. For each of the agreed indicators, progress shall be measured against the baselines in the design and monitoring framework.	Schedule 3 (8)	Complied with. See section F of the PCR.