

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Kiribati	Project Title:	Strengthening Fiscal Stability Program
Lending/Financing Modality:	Stand-Alone Policy-Based Grant	Department/ Division:	Pacific Department/ Pacific Subregional Office

### I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Targeting classification: General intervention

#### A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy

The second key policy area of the Kiribati Development Plan for 2012–2015 focuses on promoting economic growth and poverty reduction.<sup>1</sup> The key macro strategies identified include (i) expanding and diversifying the government's revenue base, (ii) implementing a new tax regime, (iii) improving public finance management, (iv) improving the government's fiscal position by improving state-owned enterprise (SOE) performance, and (v) improving livelihoods through effective implementation of subsidies, such as the copra subsidy.

The government, in close collaboration with development partners, has agreed on a set of policy reform actions in the Kiribati Economic Reform Plan (KERP) that focus on four areas: (i) the quality of public expenditure, (ii) government revenue performance, (iii) the management of public assets and liabilities, and (iv) the business environment.<sup>2</sup> The proposed Strengthening Fiscal Stability Program is a direct response to the KERP by the Asian Development Bank (ADB). The program is intended to help the government create a larger and more stable revenue base that will make financing for its basic social services and livelihood support for the poor and vulnerable groups more sustainable. Establishing this base will also (i) enable the government to react to external shocks, thereby reducing the vulnerabilities and the hardships of affected populations; and (ii) give it the capacity to maintain public employment and service delivery into the future. The program will also support improved performance of SOEs through strengthened governance and accountability arrangements in the SOE sector and the introduction of competition. This will contribute to better delivery of services, including water and electricity supply services that benefit the poor, as well as promote broad-based economic growth and private sector job creation. The new opportunities that result are likely to be concentrated in South Tarawa, where the poverty rates are highest in the country.

#### B. Results from the Poverty and Social Analysis during PPTA or Due Diligence

1. Key poverty and social issues. Kiribati's fiscal stability is at great risk due to a volatile revenue base, declining remittances, inefficiencies in public spending, and the fiscal drain created by poorly performing SOEs. These factors place significant pressure on the government's financial resources, which could hinder the delivery of basic public goods and services, particularly the health care and education services on which the poor heavily rely. The restoration of fiscal stability will ensure that resources are freed up to allow the government to respond to future shocks, increase allocations to the health and education sectors, and enable private sector job creation. This will benefit the general public in Kiribati, including the poor and the vulnerable that have been affected by frequent shocks and public spending restraint since 2006.

2. Beneficiaries. The potential beneficiaries are the general public, who will benefit through the restoration of fiscal stability, improved management of public funds, increasing government investments in productive sectors of the economy, and improved SOE performance over the medium term.

3. Impact channels. Better governance of SOEs will provide more efficient and higher quality services, directly benefiting the poor. Improving the performance and government scrutiny of SOEs will help ensure a pro-poor orientation of SOE investments and service delivery. Better targeting of copra subsidies as livelihood support, especially for the vulnerable outer island population, will directly benefit the poor. The reduction in subsidy leakages will make funds available for reallocation to meet other government priorities. Savings will allow the government to fund basic social spending in health and education and lift service delivery levels in the medium and long terms. The reductions in the prices for goods and services that are expected in sectors that will be exposed to competition through the reforms the program will support will also benefit the poor.

4. Other social and poverty issues. The program will not directly address health or education service delivery issues. Other development partners, such as the Australian Government Department of Foreign Affairs and Trade, and the New Zealand Aid Programme, are supporting the government's efforts in this area.

5. Design features. The program will help the government restore fiscal stability by improving fiscal policy and public financial management, and sustaining the implementation of structural reforms. The policy interventions require demonstrated government commitment to improving public sector management, and will contribute toward fiscal stability and private sector-led growth in the medium term, benefitting the poor by (i) boosting the quality of public spending, (ii) freeing up resources for increased pro-poor spending, and (iii) promoting private sector job creation.

<sup>1</sup> Government of Kiribati. 2012. *Kiribati Development Plan 2012-2015*. Tarawa.

<sup>2</sup> Government of Kiribati. Kiribati Economic Reform Plan, 2013–2014. Unpublished (accessible from the list of documents in Appendix 2).

### C. Poverty Impact Analysis for Policy-Based Lending

1. Discuss the impact channels of the policy reform(s) (direct and indirect, short and medium term) on the country and major groups affected. Improved SOE governance will promote more efficient and higher quality service provision, directly benefiting the general population of Kiribati. Better targeting of copra subsidies as livelihood support, especially for the vulnerable outer island population, will directly benefit the poor. The government will be able to reallocate savings from reduced leakages in the subsidies to its other priorities such as improving health and education service delivery in the medium and long terms. The expected reductions in the prices for goods and in sectors that will be exposed to competition through the reforms the program will support will also benefit the poor.
2. Discuss the impacts of the policy reform(s) on vulnerable groups and ways to address and mitigate these. The program will not have a direct impact on vulnerable groups. Rather, helping achieve fiscal stability will allow the government to sustainably fund priority activities that will include infrastructure development and basic health and education service provision to help improve the lives of the people of Kiribati.
3. Discuss the systemic changes expected from the policy reform(s) for poverty reduction, pro-poor and inclusive growth, and attainment of social development goals including the MDGs. The program will improve the quality of public expenditure and free up resources to be redirected to priority areas such as basic health and education. It will also support job creation in the private sector through reforms to improve the business climate and further rationalize public enterprises. These will help in the achievement of the Millennium Development Goals 1 (eradicate extreme poverty and hunger, 2 (achieve universal primary education), 4 (reduce child mortality), 5 (improve maternal health), and 6 (combat HIV/AIDS, malaria, and other diseases). Improvements in Kiribati's fiscal position will allow the government to limit any residual increases in poverty incidence arising from external shocks, weak domestic activity, and the impact of declining remittances.

## II. PARTICIPATION AND EMPOWERING THE POOR

1. Summarize the participatory approaches and the proposed project activities that strengthen inclusiveness and empowerment of the poor and vulnerable in project implementation. The program was designed and will be implemented in collaboration with the government and other development partners. Consultations were undertaken during formulation and implementation of the KERP during the biennial Kiribati development partners fora in 2012 and 2014 and preparation of the 2013 and 2014 national budgets. These involved discussions and solicitation of comments from civil society organizations and the private sector. The findings have been incorporated in the design of the government's KERP, on which the ADB program is based.
2. If civil society has a specific role in the project, summarize the actions taken to ensure their participation. Not applicable.
3. Explain how the project ensures adequate participation of civil society organizations in project implementation. Not applicable.
4. What forms of civil society organization participation is envisaged during project implementation?  
 Information gathering and sharing  Consultation  Collaboration  Partnership
5. Will a project level participation plan be prepared to strengthen participation of civil society as interest holders for affected persons particularly the poor and vulnerable?  
 Yes.  No. Explain why  
 The government consulted with all stakeholders when preparing the Kiribati Development Plan for 2012–2015 (footnote 1), and through the KERP process (footnote 2). Government consultation with all stakeholders will continue in the annual budget process, and in 2015 during the development of the next Kiribati development plan.

## III. GENDER AND DEVELOPMENT

Gender mainstreaming category: No gender elements

**A. Key issues.** Substantial government resources are tied up in subsidies to support the operations of inefficient SOEs. One of the objectives of the program is to reduce these subsidies to enable the government to reallocate resources toward health, education, and other social services. This is complemented by support for actions to enforce the SOE act of 2013, which in turn will improve governance of SOEs that deliver basic services. These program activities will generate measurable benefits for women, youth, the elderly, and other vulnerable groups. Increased private sector activity that the program intends to help develop through reforms is expected to create job opportunities in the targeted sectors, including jobs for women, particularly those who are poor and vulnerable.

**B. Key actions.**

- Gender action plan  Other actions or measures  No action or measure

<b>IV. ADDRESSING SOCIAL SAFEGUARD ISSUES</b>	
<b>A. Involuntary Resettlement</b>	<b>Safeguard Category:</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
1. Key impacts. None of the program activities or outputs will lead to involuntary land acquisition or result in physical or economic displacement of people.	
2. Strategy to address the impacts. Not applicable.	
3. Plan or other Actions.	
<input type="checkbox"/> Resettlement plan	<input type="checkbox"/> Combined resettlement and indigenous peoples plan
<input type="checkbox"/> Resettlement framework	<input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework
<input type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Social impact matrix
<input checked="" type="checkbox"/> No action	
<b>B. Indigenous Peoples</b>	<b>Safeguard Category:</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
1. Key impacts. The program activities will neither target nor directly or indirectly affect indigenous peoples.	
Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
2. Strategy to address the impacts. Not applicable.	
3. Plan or other actions.	
<input type="checkbox"/> Indigenous peoples plan	<input type="checkbox"/> Combined resettlement plan and indigenous peoples plan
<input type="checkbox"/> Indigenous peoples planning framework	<input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework
<input type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary
<input type="checkbox"/> Social impact matrix	
<input checked="" type="checkbox"/> No action	
<b>V. ADDRESSING OTHER SOCIAL RISKS</b>	
<b>A. Risks in the Labor Market</b>	
1. Relevance of the project for the country's or region's or sector's labor market.	
The program activities will neither target nor directly or indirectly affect <input checked="" type="checkbox"/> (L) unemployment <input checked="" type="checkbox"/> (L) underemployment <input checked="" type="checkbox"/> (L) retrenchment <input checked="" type="checkbox"/> (L) core labor standards	
2. Labor market impact. Fiscal stabilization and improving the business climate will boost employment opportunities in the medium term.	
<b>B. Affordability</b> Not applicable.	
<b>C. Communicable Diseases and Other Social Risks</b>	
1. Indicate the respective risks, if any, and rate the impact as high (H), medium (M), low (L), or not applicable (NA):	
<input checked="" type="checkbox"/> (NA) Communicable diseases <input checked="" type="checkbox"/> (NA) Human trafficking <input type="checkbox"/> Others (please specify)	
2. Describe the related risks of the project on people in project area. Not applicable.	
<b>VI. MONITORING AND EVALUATION</b>	
1. Targets and indicators: The design and monitoring framework contains impact, outcome and output targets and indicators that reflect the intended improvements in government capacity for fiscal stabilization. The Ministry of Finance and Economic Development, which is coordinating the implementation of the program, will monitor implementation.	
2. Required human resources: The Ministry of Finance and Economic Development will monitor the progress of the program as part of its periodic review of the implementation progress of the KERP, from which the policy actions for the program were selected. ADB review missions will also monitor the program, including the poverty and social impacts.	
3. Information in PAM: Not applicable.	
4. Monitoring tools: Annual monitoring of the reform program, based on targets and indicators in the design and monitoring framework, will be carried out by the economic working group that monitors KERP implementation and comprises representatives of the government, ADB, and other development partners.	

Source: Asian Development Bank.