



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 11-Sep-2018 | Report No: PIDA25111



BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Kiribati	P167263	Kiribati Fifth Economic Reform Development Policy Operation (P167263)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
EAST ASIA AND PACIFIC	28-Nov-2018	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Republic of Kiribati	Ministry for Finance and Economic Development		

Proposed Development Objective(s)

The program development objective is to: (i) Improve public financial management with respect to financial and physical assets; and (ii) support the prospects for inclusive growth by strengthening fisheries sector management and improving access to basic services.

Financing (in US\$, Millions)

SUMMARY

Total Financing	5.00
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DETAILS

Total World Bank Group Financing	5.00
World Bank Lending	5.00

Decision

The review did authorize the team to appraise and negotiate



B. Introduction and Context

Country Context

Kiribati is one of the smallest, most remote and most geographically dispersed countries in the world, which creates significant economic growth and service delivery challenges. Kiribati consists of 33 islands with a total land area of only 810 square kilometers, spread over an ocean area of some 3.5 million square kilometers. The population of about 114,000 lives on 21 of the islands in the three island groups that make up Kiribati. Kiribati is extremely remote from its nearest markets – about 4,000 kilometers from both Australia and New Zealand. Kiribati’s low-lying atolls rise little more than 1.8 meters above sea level on average and, as such, are at the forefront of climate change. Kiribati is highly exposed to the effects of sea level rise, storm surge, coastal erosion and saltwater intrusion. Access to fresh water is particularly challenging, as saltwater intrusion and drought increasingly affects Kiribati’s very limited groundwater supplies. With such extreme economic geography challenges, economic growth prospects are limited. Private sector development opportunities are constrained by the lack of economies of scale possible in such a small and fragmented domestic market that is extremely remote from large markets abroad, with the most significant opportunities in the fisheries sector. In recent years, Kiribati has substantially improved the management of its sovereign wealth fund, a critical anchor for economic and fiscal stability. It has also avoided borrowing on non-concessional terms, in accordance with its debt policy. In the face of very significant increases in revenues from fisheries license fees, it has exercised sufficient fiscal discipline to keep the budget in surplus and to accumulate significant cash reserves. Kiribati’s macroeconomic policy framework is considered adequate for the purposes of the proposed operation.

Relationship to CPF

The proposed operation is aligned with key priorities identified in the Regional Partnership Framework (RPF), including the development and maintenance of frameworks to improve fiscal management, fully exploiting available economic opportunities (specifically, improved management of fisheries), increasing access to basic services, and improving education outcomes. The first pillar of the proposed operation is aligned with the RPF priority on fiscal management, and is expected to support poverty reduction and shared prosperity through expanded and better quality public services, facilitated by improvements in fiscal sustainability and the quality of public spending. The second pillar is aligned with the RPF priorities on fisheries, basic services, and education. This pillar is expected to support poverty reduction and shared prosperity through supporting economic opportunities in the fisheries sector, increasing access to safe water through the introduction of a tariff that provides a basis for sustainable investments in and operation of a residential water supply system, and supporting better educational outcomes in the critical early grades – of critical importance to the poor because of their higher dependence on human capital for livelihood opportunities. The proposed operation is complemented by a set of World Bank Group operations in Kiribati, including technical assistance to improve the governance, management and strategy relating to the sovereign wealth fund, and projects in the areas of fisheries management, early childhood education, climate change adaptation, and water and sanitation.

C. Proposed Development Objective(s)

The program development objective is to: (i) strengthen public financial management with respect to financial and physical assets; and (ii) support the prospects for inclusive growth by strengthening fisheries sector management and improving access to basic services.



Key Results

The main results expected from the proposed series are: (i) improved management of the sovereign wealth fund; (ii) more efficient cash management; (iii) improved value for money and transparency in public procurement; (iv) improved maintenance of infrastructure and other public assets (v) more transparent management of Kiribati's fisheries assets; (vi) expanded access to safe water, thereby reducing the burden on women and girls; and (vii) improved early grade literacy results.

D. Project Description

Contributing to the first PDO on public financial management, the proposed operation supports the adoption of a clear set of investment objectives for the sovereign wealth fund, implementation of a new cash management policy, and establishment of a new Central Procurement Unit. Contributing to the second PDO on inclusive growth, the proposed operation supports the amendment of the legislative framework for fisheries, introduction of a tariff for residential water use in the three pilot areas of South Tarawa being provided with reticulated water 24 hours a day, 7 days a week, and the establishment of a legislative framework for early childhood care and education.

The policy actions contributing to the first PDO are directly aligned with the priority on economic growth and poverty reduction in the Kiribati Development Plan 2016-19 (KDP), which includes enhancing management of the sovereign wealth fund and ensuring effective public financial administration. The policy actions contributing to the second PDO are directly aligned with the priorities on economic growth and poverty reduction, human resource development, health, and infrastructure in the KDP, which include providing for the sustainable development of the fishing industry, fostering the development of early childhood education, increasing access to and use of safe water and sanitation, and reforming the public utility to achieve operationally and financially sustainable electricity, water and sanitation services.

E. Implementation

Institutional and Implementation Arrangements

The Economic Reform Taskforce (ERT), a joint government-donor forum chaired by the Secretary to Cabinet, provides the structure supporting the monitoring and evaluation of the proposed operation. Progress against actions and outcomes will be collaboratively tracked, and any necessary remedial actions identified and executed jointly by the members of the ERT. Monitoring and evaluation will be supported by the data provided by relevant government ministries and agencies, donors, and those available from publicly available sources. As far as possible, results indicators rely on data that would be produced anyway or, where it does not, technical assistance has been committed to support the GoK to measure the required indicator.

F. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

Policies supported by the proposed operation are expected to have a positive impact on poor people and vulnerable groups. Strengthening public financial management, safeguarding fiscal sustainability and improving the quality of public spending is expected to support public services and public investment in human and physical capital, which tend to be of disproportionate importance to the poor. Supporting inclusive growth through safeguarding the returns Kiribati obtains from its oceanic fisheries assets is expected to have a positive impact on poor people and vulnerable



groups, primarily through the public services and public investment that sustained higher revenues enable. Introducing a water tariff to accompany the provision of 24/7 water in pilot areas of South Tarawa is expected to improve the quality of life of the people in these communities, who currently lack such access to potable water (and by inference, are likely to be in the lower income quintiles). This is expected to disproportionately benefit women and girls by reducing time spent fetching water for washing and cleaning (tasks more commonly carried out by females in Kiribati); and through improved health outcomes, since there is a higher prevalence of diarrhea and dysentery amongst females, and also because I-Kiribati women are mainly responsible for caring for sick children. The tariff may have a negative effect on poor people and vulnerable groups, by reducing their disposable income, depending on the water source it replaces in different households (more expensive water deliveries, or free communal standpipes with water for up to 2 hours every 48 hours). This risk is being mitigated by the analysis and policy dialogue that will come out of the recently conducted willingness to pay survey, which will inform the revision of the pilot tariff for the full rollout of 24/7 supply, and will also provide a foundation for a dialogue between the Bank and the GoK on possible complementary social protection arrangements for poor people and other vulnerable groups currently outside Kiribati's formal social safety nets. Supporting access to quality early childhood education services is expected to benefit the poor directly, because of its contribution to better learning outcomes – with the poor typically more reliant on human capital for their livelihoods, due to their limited financial capital.

Environmental Aspects

Most of the prior actions supported under the proposed operation are not expected to have significant effects on Kiribati's environment, forests or natural resources, and two are expected to have significant positive effects. The sovereign wealth fund management, cash management, procurement and early childhood education actions are not expected to have any significant effects. The fisheries action is expected to have a significant positive environmental impact, because the amendments are to strengthen the legislative framework for fisheries management to deter illegal, unreported and unregulated (IUU) fishing, which otherwise undermines the sustainable management of the resource. The introduction of a water tariff accompanying the 24/7 supply of water in pilot areas of South Tarawa is also expected to have a positive environmental impact, because the structure of the tariff is designed to support water conservation – critical given the scarcity of water resources in South Tarawa. By being a necessary condition for the financial sustainability of the public utility, and associated with that the viability of investment in a solar-power desalination plant, this reform is expected to also have an indirect benefit over time, of increasing the sustainable water resources that are available for all the people of South Tarawa.

G. Risks and Mitigation

1. **The overall risk rating for the proposed operation is substantial.** The main risks to achieving the program development objectives are: (i) institutional capacity risks arising from the extremely thin capacity of the public sector to implement the reform program and sustain it over time; (ii) sector strategies and policies in connection with water and education sector reforms; (iii) political and governance risks arising from the politically-sensitive nature of key aspects of the reform program; (iv) macroeconomic risks arising from the inherently volatile economic and fiscal situation, with any large shock likely to detract from the policy focus on the reform program; (v) environment risks arising from Kiribati's vulnerability to natural disasters and the impacts of climate change; and (vi) fiduciary risk. Key risk mitigating measures include: (a) the relatively strong and established policy dialogue, which focuses on reaching shared understandings and taking a step-by-step approach to reforms; (b) the selection of a limited number of policy actions that are aligned with government priorities; (c) dedicated technical assistance supporting implementation of most policy actions; and (d) regular missions to help maintain the momentum of the reform program.



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APPROVAL

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Approved By

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