



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 27-May-2019 | Report No: PIDC26867



BASIC INFORMATION

A. Basic Project Data

Country Kiribati	Project ID P169179	Project Name Kiribati Sixth Economic Reform Development Policy Operation (P169179)	Parent Project ID (if any) P167263
Region EAST ASIA AND PACIFIC	Estimated Board Date Oct 31, 2019	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Republic of Kiribati	Implementing Agency 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
------------------------	------

DETAILS

Total World Bank Group Financing	5.00
World Bank Lending	5.00

Decision

The review did authorize the preparation to continue

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 (20 coral atolls and a single volcanic island) 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 population growth, saltwater intrusion and droughts increasingly jeopardize Kiribati's very limited groundwater supplies.

With such extreme economic geography challenges, growth prospects are limited. Private sector development opportunities are highly 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. Severe infrastructure deficits in utilities, transport and communications compound these constraints. Reflecting these constraints, unemployment is estimated to exceed 30 percent and youth unemployment to exceed 50 percent. Economic activity is dominated by the public sector, agriculture and fisheries, and a service economy underpinned by the public sector in the capital of South Tarawa (where nearly half the population live). Public expenditure was equivalent to 176 percent of GDP in 2018, funded primarily by fisheries license fees (68 percent of GDP) and grants from development partners (81 percent of GDP). Government services directly account for nearly 30 percent of GDP, and some 70 percent of formal sector jobs are in the public sector (formal sector employment represents only 20 percent of the labor force, however). Beyond agriculture and fisheries, the private sector remains small, mostly consisting of small firms in the wholesale, retail and transport sectors. The most significant opportunities for private sector development exist in the fisheries sector, with potential opportunities also in tourism and in strengthening backward linkages from the public sector (for instance, maintenance work on public assets). Aside from domestic opportunities, labor migration opportunities – hence human capital development – are critical.

Relationship to CPF

The proposed operation is aligned with the priorities identified in the Regional Partnership Framework (RPF). The first component of the PDO on strengthening public financial management is aligned with focus area 4 of the RPF (strengthening the enablers of growth opportunities – specifically, the development and maintenance of frameworks to improve fiscal management). The second component of the PDO on supporting inclusive growth is aligned with focus area 1 (fully exploiting the available economic opportunities – specifically, improved management of fisheries), focus area 4 (specifically, increased access to basic services) and focus area 2 (specifically, improving education outcomes). Both components of the PDO are aligned with the twin goals of ending extreme poverty and promoting shared prosperity in a sustainable manner, through the way fiscal management, exploiting available economic opportunities and improving access to basic services contribute to poverty reduction and shared prosperity.

The proposed operation is complemented by a number of other Bank engagements in contributing to achieve the objectives of the RPF. These include: (i) the World Bank Treasury RAMP, which is helping the GoK improve the governance, management and strategy relating to the RERF; (ii) the Pacific Regional Oceanscape Project (PROP) under preparation, which is helping the GoK with the management of its fisheries assets; (iii) the Pacific Early Age Readiness and Learning (PEARL) Project, which is helping the GoK with school readiness and early grade literacy; and (iv) the South Tarawa Water and Sanitation Project under preparation, which are helping the GoK with providing sustainable access to water.

C. 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.

Key Results



The expected result from Prior Action 1 is RERF withdrawals will be made transparently in accordance with the published withdrawal rule. The expected result from Prior Action 2 is that budget allocations for asset maintenance are made transparently, in accordance with the established criteria for asset maintenance funding. The expected result from Prior Action 3 is improved transparency and competitiveness in public procurement, as indicated by all medium- and high-value tenders and all contract awards being published online in accordance with the procurement regulations. The expected result from Prior Action 4 is an increase in the number of households in South Tarawa with access to reticulated water 24/7. The expected result from Prior Action 5 is improvements in the standard of preschool services and access to preschool, which should both lead to improvements in early cognitive development.

D. Concept Description

The first pillar of the proposed operation on strengthening public financial management (PFM) with respect to financial and physical assets is closely aligned with the economic growth and poverty reduction priority of the KDP, and with the wealth pillar of KV20. The actions under this first pillar support the GoK's objectives and strategies on the RERF, PFM and infrastructure. This pillar builds on measures supported in previous series on RERF management and procurement reform, and complements measures supported in previous series on debt policy and management, and state-owned enterprise governance. Over time and in conjunction with other measures, this pillar should contribute to improvements in the quality of public spending and – through improved management of the RERF – strengthen Kiribati's fiscal position. This should help ensure that the GoK can maintain and improve public services and public investment in human and physical capital, which tend to be of disproportionate importance to the poor – supporting poverty reduction and shared prosperity.

The second pillar of the proposed operation on supporting inclusive growth through fisheries reform and better basic services is closely aligned with the human resource development, economic growth and poverty reduction, health and infrastructure priorities of the KDP, as well as with the wealth and infrastructure for development pillars of KV20. The actions under this second pillar support the GoK's objectives and strategies on maximizing returns from the sustainable exploitation of fisheries assets, expanding access to safe drinking water, and fostering the development of early childhood education. This pillar complements measures supported in previous series on fisheries revenue and joint venture management, improving access to electricity for the poor, and telecom sector liberalization and service expansion in the outer islands. Over time and in conjunction with other measures, this pillar should support expanded economic opportunities in the fisheries sector, better health and wellbeing through improved hygiene and reduced time spent collecting water, and better educational outcomes in the critical early years – again supporting poverty reduction and shared prosperity.

The design of the proposed operation reflects the lessons learned in the implementation of the previous DPO series in Kiribati. These include:

- *Budget support to small states with thin capacity can provide benefits far beyond the financial resources transferred* – in Kiribati, the policy dialogue afforded by the DPO engagement can be more significant than the specific actions in the policy matrix, which any evaluation of the value of the engagement needs to take into account. A coordinated policy matrix between budget support donors also strengthens the policy dialogue and helps to manage capacity constraints. The prior actions and triggers for this DPO are shared with the Governments of Australia and New Zealand, and are very closely aligned with the European Union's planned program.
- *Project-level engagements can assist in identifying key policy and institutional priorities to support through policy-based operations* – this is evident with the water and education sector reforms.
- *Tackling more contentious policy areas – particularly in fragile states – involves taking greater risks, which the*



Bank should support – this DPO series continues to work on RERF and fisheries management, significant yet contentious areas whose risks are acknowledged.

E. 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 and safeguarding fiscal sustainability should help ensure that the GoK can maintain public services and public investment in human and physical capital, which tend to be of disproportionate importance to the poor. Improving the financial and operational performance of the RERF is vital to fiscal sustainability in Kiribati. Improving the efficiency of public procurement and public asset management should contribute to higher quality public spending, again of disproportionate benefit to the poor.

Supporting inclusive growth – through the utilities and education reforms under the second pillar – is also expected to have a positive impact on poor people and vulnerable groups. The transfer of Kiritimati Island utilities provision to the PUB should have a positive impact on the poor, to the extent that improved management brings about improvements in the standard of utilities provision for the same level of charges to households. Supporting access to quality ECCE services is expected to benefit the poor directly, because of its contribution to better learning outcomes – with the poor typically relying more on their human capital for their livelihood possibilities, because they have limited financial capital. The GOK’s provision of a subsidy for preschools should also facilitate increased access to early education for children in poorer households, to the extent that the subsidy contributes to a reduction in fees (a subject of the Bank’s ongoing dialogue with the GOK).

The introduction of the water tariff under the first DPO in this series appears to have had both positive and negative impacts, which the prior action for the current operation now seeks to address. The 24/7 supply of safe water will improve the quality of life of the people in the communities covered by the pilot and eventual rollout, who currently lack such access to potable water (and by inference, are likely to be in the lower income quintiles). However, the pilot tariff would result in monthly bills of over \$40 if households fully substituted towards the tap supply (instead of free sources such as well water) and is not in line with the estimated average willingness to pay (A\$12.20 per month, based on the World Bank’s 2018 survey), with only a 45 percent bill repayment rate in the pilots to-date. Although the feedback from communities has been overwhelmingly positive, it is possible that the tariff has had a negative impact on households’ disposable income, depending on the extent to which consumers continue their old habit of boiling water (the cost of which can be as high as A\$118 per household per month according to a recent ADB study). Over time, we would expect households to make a net financial saving as they no longer burn fuel for water treatment. Nonetheless, in view of the level of non-payment, the Bank is working with the PUB and MISE to revise the tariff, with the objective of ensuring that water expenditure is, for standard consumption levels, less than the international benchmark of five percent of household income, and that the overall tariff structure is consistent with willingness to pay.

Environmental Impacts

Policies supported by the proposed operation are not expected to have any significant direct adverse effects on the environment, forests and natural resources. In the team’s judgment, improving the management of the RERF, improving asset management, reforming public procurement, and supporting access to quality ECCE services are not expected to have any environmental impact. The revision of the water tariff accompanying the 24/7 supply of water



in 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 especially. Increased access to safe water will also reduce the need to burn fuels to boil water, so may improve air quality and reduce emissions in South Tarawa.

Kiribati’s institutional capacity for environmental assessment and climate risk management is rated 3.0 according to the latest CPIA, indicating that the legal and regulatory framework are in place for effective environmental assessment system but weak capacity constrains monitoring and enforcement. The Environment Act 1999 (with 2007 Amendments) and the Environment Regulations 2001 provide the legal and regulatory framework for the country’s environmental assessment system. The draft Environmental Regulation 2009 is currently being redrafted to update the processes for environmental impact assessment. The Environment and Conservation Department is responsible for implementation and enforcement. Its capacity remains weak due to staff turnover, inadequate budget allocations to monitoring and enforcement, and a lack of capacity to carry out technical reviews of complex applications. Technical assistance is being provided through sector-specific Bank projects in the relevant reform areas, to help mitigate these institutional capacity weaknesses. For example, in the fisheries sector, the World Bank’s PROP project includes an objective to “build the capacity of MFMRD to engage and support sustainable local marine-based resource development and management”, and capacity supplementation will also be provided through the provision of a safeguards specialist in the project management unit. With respect to mainstreaming climate change management in national policy, Kiribati is committed to integrating climate risk awareness and responsiveness into its economic and operational planning frameworks. In vulnerable areas, such as fresh water management and coastal protection, climate risks are integrated into projects and plans. Overall, while administrative capacity for environmental protection in Kiribati is weak, a combination of the existing environmental regulatory framework, the capacity building assistance being provided by the Bank, the nature of the reforms supported in the proposed operation, support the conclusion that the proposed operation is unlikely to lead to significant adverse environmental impacts.

CONTACT POINT

World Bank

Anna Elizabeth Robinson, Virginia Ann Horscroft
Economist

Borrower/Client/Recipient

Republic of Kiribati
Naomi Biribo
Secretary to Cabinet, Office of the President
sec.cabinet@ob.gov.ki

Implementing Agencies



Ministry for Finance and Economic Development
Benjamin Tokataake
Secretary
secretary@mfep.gov.ki

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Anna Elizabeth Robinson, Virginia Ann Horscroft
----------------------	---

Approved By

Country Director:	Michel Kerf	27-Jun-2019
-------------------	-------------	-------------