

**PROGRAM INFORMATION DOCUMENT (PID)
DECISION STAGE**

11 September, 2014
Report No.: AB7630

Operation Name	Kiribati Second Economic Reform Operation
Region	EAST ASIA AND PACIFIC
Country	Kiribati
Sector	Central government administration (100%)
Operation ID	P149888
Lending Instrument	Development Policy Lending
Borrower(s)	Republic of Kiribati
Implementing Agency	Ministry of Finance and Economic Development
Date PID Prepared	April 25, 2013
Estimated Date of Appraisal	20 September, 2014
Estimated Date of Board Approval	30 October, 2014
Corporate Review Decision	Pending

I. Key development issues and rationale for Bank involvement

Kiribati faces significant fiscal challenges in the context of declining revenue and limited economic growth. Fishing license fees have consistently declined as a proportion of catch value, partly due to weaknesses in licensing and joint venture arrangements. Real tax revenues have declined by 20 percent since 2004 reflecting imported inflation, low economic growth, and a deterioration in compliance, especially of (state-owned enterprises) SOEs and at the border. Declining revenues have forced a 16 percent reduction in expenditure over the same period, including large reductions in health spending. To avoid further declines, Government has become increasingly reliant on unsustainable drawdowns from its wealth fund.

The Government of Kiribati is committed to addressing current challenges through a range of reforms intended to both improve the sustainability of Government finances and facilitate increased private sector development.

The proposed operation is the second in a programmatic series of two development policy operations. The series of operations will provide resources to avoid further irrecoverable reductions in the value of Kiribati's wealth fund, while supporting vital reforms to move towards fiscal sustainability. The series of operations coincide with the last two years of the term of the current Government.

II. Proposed Objective(s)

The proposed operation has been developed to directly support key elements of the Government of Kiribati's Economic Reform Plan, which link explicitly to the priorities of the Kiribati Development Plan (KDP). All prior actions supported by this operation are included in the Economic Reform Plan, and successful implementation of these actions is expected to directly lead to progress towards the KDP goals of: i) increased sustainable economic growth and improved standards of living; and ii) reduced hardship for households in Kiribati.

Given the broader impacts of prior actions on fiscal sustainability and improved revenue performance, prior actions are also likely to contribute to the KDP goals of: i) improved health and education services; ii) improved infrastructure; and iii) enhanced capacity to respond to the threats of climate change.

III. Preliminary Description

This operation supports continued progress against the priority reform areas identified in the Economic Reform Plan. Specifically, the operation will support: i) improvements to the transparency and predictability of fisheries revenues; ii) reforms to the management of Revenue Equalization and Reserve Fund (RERF) assets to achieve a more appropriate balance between risk and return; iii) implementation of the key provision of the SOE Act, including those relating to financial reporting, governance, transparency of subsidies, and continued selective privatization and restructuring of the SOE portfolio; and iv) further steps towards the introduction of private participation and competition into the telecommunications sector.

The operation will provide a predictable flow of fiscal resources and allow the Government of Kiribati to reduce reliance on unsustainable drawdowns from its Wealth Fund. Budget support assistance combined with the impacts of supported reform measures will support movement towards fiscal sustainability over the medium-term.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

Budget support will help the Government to maintain the provision of core services to the poor in the context of recent revenue declines. Supporting long-term fiscal sustainability will ensure that Government expenditure can continue to support private sector activities and associated employment in a context where business opportunities are heavily constrained by geography. Improved fisheries and SOE performance will generate fiscal space for the improvements in basic infrastructure and public services on which the poor rely, as well as allowing necessary investments to avoid disruptions to livelihoods and

infrastructure resulting from climate change (which international evidence suggests are likely to have a disproportionate negative impact on the poor). SOE reforms will both reduce the fiscal burden associated with the SOE portfolio and open new opportunities for private sector job creation, especially in South Tarawa where the poor are concentrated.

Environment Aspects

Policy actions related to revenue, SOEs, debt, and telecommunications are not expected to have any significant environmental impacts. Implementation of actions related to the fisheries sector is expected to have positive impacts on marine ecosystems and biodiversity. Conservation and sustainability measures are prioritized within the National Fisheries Policy.

V. Tentative financing

Source:	(\$m.)
Borrower/Recipient	0
International Development Association (IDA)	3
Total	3

VI. Contact point

World Bank

Contact: Tobias Haque
Title: Economist
Tel: +679-330-8000
Fax: +679-330-4045
Email: thaque2@worldbank.org
Location: Suva, Fiji (IBRD)

Borrower

Contact: Elliot Ali
Title: Secretary of Finance and Economic Development
Ministry of Finance and Economic Development
Tel: +686 21806
Email: eali@mfed.gov.ki

For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433

Telephone: (202) 458-4500

Fax: (202) 522-1500

Web: <http://www.worldbank.org/infoshop>