



The World Bank

Kiribati Second Inclusive Growth and Resilience Development Policy Operation (P169179)

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 02-Oct-2020 | Report No: PIDA27647

**BASIC INFORMATION****A. Basic Project Data**

Country Kiribati	Project ID P169179	Project Name Kiribati Second Inclusive Growth and Resilience Development Policy Operation (P169179)	Parent Project ID (if any) P167263
Region EAST ASIA AND PACIFIC	Estimated Board Date 30-Nov-2020	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) strengthen sustainable management of sovereign wealth and improve public financial management; and (ii) support prospects for inclusive growth and more resilient livelihoods under global economic uncertainty and climate change threats.

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

This proposed Development Policy Operation (DPO) aims to strengthen public financial management and support the prospects for inclusive growth. It is the second and final operation in a programmatic series of two DPOs and would provide grant financing of US\$5 million equivalent. This DPO is central to the World Bank's overall engagement with Kiribati, as laid out in the Regional Partnership Framework (RPF) FY17-FY21. The reforms supported under this operation aim to tackle key structural challenges to Kiribati's development, while integrating a 'build back better' approach to COVID-19. The policy matrix has been developed jointly with the Government of Kiribati (GOK) and other development partners, including the Asian Development Bank (ADB), Australia, the European Union (EU) and New Zealand. Following national elections earlier in 2020, GOK has reaffirmed its strong commitment to the DPO-supported policy program.

Kiribati is one of the smallest and most remote countries in the world, and also one of the most exposed to climate change. It is categorized as a Fragile and Conflict-affected Situations (FCS) country due to high institutional fragility. It consists of 21 inhabited islands with a total land area of only 810 square kilometers, spread over a vast ocean area of some 3.5 million square kilometers. Half of the population of about 118,000 people lives on the densely populated main island, while the rest of the population resides in rural villages across the other islands. Kiribati is more than 4000 kilometers from the nearest major economies in Australia and New Zealand, but these countries' temporary labor schemes still represent some of the best employment opportunities available to I-Kiribati workers. Severe infrastructure deficits in utilities, transport and communications compound the constraints imposed by distance and dispersion. Fishing license revenues from foreign tuna fishing fleets are the main source of public revenue and national income, and the economy is dominated by the public sector, small-scale fishing and coconut farming. The country's low-lying atolls rise little more than 1.8 meters above sea level on average and, as such, are at risk from climate change. Increasing sea temperatures are already placing strain on the coastal marine habitats that many I-Kiribati rely on for food security and livelihoods. Poor access to fresh water is also being compounded by climate change and poses severe challenges for public health and poverty reduction. Kiribati's sovereign wealth fund will be an important source of long-run finance to support climate adaptation, and it is therefore critical that this resource is managed sustainably. Improvements in public financial management are also needed to make public spending more effective in addressing Kiribati's significant climate and development challenges.

There has been strong growth in Gross National Income (GNI) per capita in recent years, but human development indicators remain low and significant gender gaps exist. Geographic isolation and a decisive policy response have prevented severe health impacts from the COVID-19 pandemic. COVID-19-related border closures are having a significant impact on the real economy, although Kiribati has been less affected than the tourism-oriented small island economies. The proposed operation is designed to tackle Kiribati's long-run development and climate challenges, while also building back better from COVID-19.

Kiribati's macroeconomic policy framework is assessed as adequate for the purposes of this operation. COVID-19 border restrictions are expected to lead to a 1.9 percent contraction in 2020, with impacts on construction, hotels and tuna exports. A recovery to 3 percent growth is expected in 2021, moderating to around 2.5 percent over the medium term, on the assumption that a vaccine allows borders to reopen beginning in mid-2021. Fishing license revenues are expected to drop by 20 percent of Gross Domestic Product (GDP) over 2020 and 2021, resulting in large fiscal deficits of 13 and 4 percent of GDP respectively. However, GOK has exercised sufficient fiscal restraint in recent years to generate large surpluses, and has accumulated cash reserves of over 75 percent of GDP. GOK now plans to draw on these reserves to



finance near-term deficits without borrowing. In the absence of any major new spending programs, the budget is expected to return to balance over the medium term once fisheries revenues recover to the medium-run average. GOK has also implemented policies to preserve the long-run value of the sovereign wealth fund for future generations. Monetary and exchange rate policies are adequate, with the use of the Australian dollar providing a strong nominal anchor. Public debt is sustainable, but the risk of debt distress is high. GOK has no plans to borrow over the medium term, and assuming that Kiribati's grant-only status is retained, the debt stock will reduce from 18 percent of GDP at end-2019 to 13 percent of GDP by end-2023.

Relationship to CPF

The proposed operation is aligned with the priorities identified in the Regional Partnership Framework (RPF). The first component of the Program Development Objective (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.

C. Proposed Development Objectives

The program development objective is to (i) strengthen sustainable management of sovereign wealth and improve public financial management; and (ii) support prospects for inclusive growth and more resilient livelihoods under global economic uncertainty and climate change threats.

Key Results

Key results targeted from the programmatic series include: that any Revenue Equalization Reserve Fund (RERF) withdrawals comply with the established withdrawal rule for transparency and sustainability; returns on cash reserves are increased; transparency and value for money in public procurement is increased; public debt is managed transparently; sustainable management of coastal fisheries is increased with the establishment of community-based management plans; access to safe, piped drinking water is expanded; and the quality of early childhood education is improved.

D. Project Description

The proposed operation supports structural reforms that GOK is taking to address its long-term development challenges, while applying the "building back better" lens to ensure that the policy program takes into account the lessons from COVID-19 and exploits opportunities to improve resilience. The proposed prior actions represent a subset of the multi-donor Economic Reform Taskforce's (ERT) policy matrix, which was agreed in mid-2019. GOK has confirmed in subsequent dialogue this year that these actions remain critical priorities for implementation in 2020 and over the medium term.

The first pillar of the proposed operation focuses on strengthening management of sovereign wealth and improving public financial management. The actions under this first pillar are closely aligned with the wealth and governance pillars of GOK's Kiribati Vision 20 (KV20) strategy. It includes measures to strengthen management of the RERF, to bolster long-



term fiscal resilience and preserve wealth for the benefit of future generations who will face greater climate adaptation challenges. The previous operation in this series also supported the introduction of a cash management policy to improve the returns earned on the cash reserves that GOK has accumulated for short-term fiscal stabilization purposes, a reserve which GOK is now drawing on to manage the fiscal impacts of COVID-19. This pillar also supports GOK's efforts to modernize its public procurement systems with a new procurement framework which is now being used to tender for services as part of the COVID-19 response. Finally, the pillar supports GOK's ongoing efforts to promote debt transparency, in line with IDA's Sustainable Development Finance Policy.

The second pillar of the proposed operation supports the prospects for inclusive growth and more resilient livelihoods under global economic uncertainty and climate change threats. This pillar is closely aligned with the "building back better" focus of GOK and World Bank's COVID-19 response, as well as GOK's long-term planning objectives under the wealth and infrastructure for development pillars of KV20. The actions under this second pillar support the GOK's objectives to strengthen food security and sustainably manage coastal fisheries resources in the face of climate change; expanding access to safe, piped water for health and hygiene, while managing increasing water scarcity from climate change; and fostering the development of the early childhood education sector to improve human capital outcomes. Increased participation in preschool is also expected to facilitate women's labor force participation by reducing the childcare burden that falls disproportionately on mothers. This pillar complements inclusive growth measures supported in previous series on fisheries management, improving access to electricity for the poor, and telecom sector liberalization and service expansion in the outer islands.

E. Implementation

Institutional and Implementation Arrangements

The Economic Reform Taskforce (ERT) 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 public 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, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The policies supported in Pillar 1 of this operation are expected to positively impact the poor and the vulnerable primarily through maintaining the quality of public service provision. The supported prior actions will contribute to long-run fiscal sustainability and effective public financial management in Kiribati. This, in turn, will support GOK to sustain or even scale up public service provision and public investment in human and physical capital over the long term. This is of disproportionate benefit to the poor and vulnerable, who are less likely to be able to afford private sector alternatives for services such as water, health, and education.

Prior Action 4 on the introduction of coastal fisheries regulations will have positive long-term impacts for poorer groups, but there are some risks of short-term negative impacts, which are being mitigated through community consultations and new social protection measures. The focus on inclusive fisheries management in the coastal fisheries reforms and ongoing engagement through PROP should help to mitigate social risks. The revised water tariff structure supported under Prior



Action 5 will have positive impacts on the poor and vulnerable. Prior Action 6 on expanded preschool provision is expected to lead to improved education and health outcomes for young children and should have positive long-term impacts on women's economic empowerment.

Environmental, Forests, and Other Natural Resource Aspects

Policies supported by the proposed operation are not expected to have any significant adverse effects on the environment, forests and natural resources. Improving the management of the RERF, reforming public procurement, and supporting access to quality preschool services are not expected to have any environmental impact. The supported water supply reforms may have a positive impact on air quality, because the rollout of safe, piped water in South Tarawa should lead to a reduction in households burning fuels to boil unsafe drinking water. The water supply reforms have also been designed to directly support climate resilience, by providing a demand management mechanism to ensure the sustainable use of South Tarawa's scarce freshwater reserves.

The implementation of the coastal fisheries regulations and management plans should have a positive environmental impact, by introducing enforceable conservation measures. The Kiribati Pacific Islands Regional Oceanscape Program (PROP) project will help to address capacity constraints for environmental and climate risk management in relation to coastal fisheries.

G. Risks and Mitigation

The overall risk rating for the proposed operation is substantial. This assessment reflects the high risks to the operation's outcomes stemming from the possibility of a COVID-19 outbreak in Kiribati; institutional capacity challenges in the public sector; as well as substantial political and fiduciary risks. GOK is mitigating the risk of a COVID-19 outbreak through its border closure, preparation of isolation centers and procurement of protective and lab equipment. The Bank is supporting these efforts with a COVID-19 Response Project and our long-standing advisory engagement with the Ministry of Health and Medical Services. The risks posed by thin public sector capacity and turnover are somewhat mitigated by selecting a limited number of policy actions; ensuring an alignment between those policy actions and government priorities; and having dedicated technical assistance from various development partners to support the implementation of the policy actions. The political and governance risk is rated as substantial because the reform program supported by the DPO series includes areas that have tended to be politically sensitive. To mitigate these risks, the dialogue accompanying the proposed operation has focused on reaching shared understandings and taking a step-by-step approach to reforms. The well-established DPO dialogue in Kiribati and the close involvement of development partners helps to reduce technical, stakeholder, environmental and social risks.

CONTACT POINT

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Kiribati Second Inclusive Growth and Resilience Development Policy Operation (P169179)

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APPROVAL

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Approved By

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