



**The World Bank**

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

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**The World Bank**

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Report No: PGD99

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED GRANT

IN THE AMOUNT OF SDR 3.6 MILLION (EQUIVALENT TO US\$5 MILLION) TO

REPUBLIC OF KIRIBATI  
FOR THE

SECOND INCLUSIVE AND RESILIENT GROWTH DEVELOPMENT POLICY OPERATION

November 4, 2020

Macroeconomics, Trade And Investment Global Practice  
East Asia And Pacific Region

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Republic of Kiribati  
**GOVERNMENT FISCAL YEAR**  
*January 1 – December 31*

**CURRENCY EQUIVALENTS**  
(Exchange Rate Effective as of 30 September 2020)

A\$1 = US\$0.72  
SDR 1 = US\$1.40757

**ABBREVIATIONS AND ACRONYMS**

A\$	Australian Dollar	MFAT	Ministry of Foreign Affairs and Trade
ADB	Asian Development Bank	MFED	Ministry of Finance and Economic Development
CEO	Chief Executive Officer	MFMRD	Ministry of Fisheries and Marine Resources Development
CPIA	Country Policy and Institutional Assessment	MISE	Ministry of Infrastructure and Sustainable Energy
CPO	Chief Procurement Officer	PDO	Program Development Objective
CPU	Central Procurement Unit	PEFA	Public Expenditure and Financial Accountability
CSO	Community Service Obligation	PFM	Public Financial Management
DBK	Development Bank of Kiribati	PFTAC	Pacific Financial Technical Assistance Center
DFAT	Department of Foreign Affairs and Trade	PNA	Parties to the Nauru Agreement
DPO	Development Policy Operation	PUB	Public Utilities Board
DSA	Debt Sustainability Analysis	PV	Present Value
ERT	Economic Reform Taskforce	RERF	Revenue Equalization Reserve Fund
GDP	Gross Domestic Product	RFP	Request for Proposal
GOK	Government of Kiribati	RPF	Regional Partnership Framework
GRS	Grievance Redress Service	SOE	State-Owned Enterprise
HIES	Household Income and Expenditure Survey	US\$	United States Dollar
ICR	Implementation Completion and Results	VAT	Value Added Tax
ICT	Information and Communication Technology	VDS	Vessel Day Scheme
IDA	International Development Association	WDI	World Development Indicators
IMF	International Monetary Fund	WEO	World Economic Outlook
KDP	Kiribati Development Plan		
KOIL	Kiribati Oil Limited		
KPF	Kiribati Provident Fund		
KPPRP	Kiribati Public Procurement Reform Plan		
LIC	Low Income Country		

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**REPUBLIC OF KIRIBATI  
SECOND INCLUSIVE GROWTH AND RESILIENCE DEVELOPMENT POLICY OPERATION**

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**SUMMARY OF PROPOSED FINANCING AND PROGRAM**

**BASIC INFORMATION**

Project ID	Programmatic	If programmatic, position in series
P169179	Yes	2nd in a series of 2

**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.

**Organizations**

Borrower: REPUBLIC OF KIRIBATI  
Implementing Agency: MINISTRY FOR FINANCE AND ECONOMIC DEVELOPMENT

**PROJECT FINANCING DATA (US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	<b>5.00</b>
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**DETAILS**

International Development Association (IDA)	5.00
IDA Grant	5.00

**INSTITUTIONAL DATA**

**Climate Change and Disaster Screening**

This operation has been screened for short and long-term climate change and disaster risks

**Overall Risk Rating**

Substantial



## Results

Indicator Name	Baseline	Current Value	Target
<b>Results Indicator #1:</b> Any RERF withdrawals conform with the published withdrawal rule.	No withdrawals and no withdrawal policy in place (2017)	Policy in place and no withdrawals made (Sept 2020)	Any withdrawals fully conform with the published rule (2020 and 2021)
<b>Results Indicator #2:</b> The average rate of return on cash reserves is increased.	71 basis points below the Reserve Bank of Australia Official Cash Rate (OCR) (June 2018)	4 basis points above OCR (Aug 2020)	Less than 15 basis points below the OCR (2022)
<b>Results Indicator #3:</b> (i) Transparency is increased through the online publication of all medium- and high-value contract award notices and (ii) strategic planning is strengthened, as measured by an increase in the share of Procuring Entities (PEs) submitting annual procurement plans to the CPU. <sup>1</sup>	<b>Baseline:</b> (i) No online publication of contract awards (2019) (ii) 21 of 39 PEs (54 percent) submitted annual procurement plans to the CPU for the 2020 budget (2019)	<b>Current value:</b> (i) Contract awards are not published online (Sept 2020) (ii) N/A – 2021 procurement planning process is yet to be completed.	<b>Target:</b> (i) Medium- and high-value contract award notices published online (2022) (ii) 100 percent of PEs submit annual procurement plans for the 2022 budget process (2021)
<b>Results Indicator #4:</b> Debt transparency is promoted with the annual publication of timely and comprehensive debt reports.	<b>Baseline:</b> The most recent published debt report is 22 months old (Dec. 2018), with actuals data for 2017 and estimated debt stocks and flows for 2018 and 2019. (Sept 2020)	<b>Current value:</b> Same as baseline.	<b>Target:</b> Debt reporting is published online by December of each year, with: estimates of debt stocks and flows for the current year; actuals data for the previous year; a debt service and debt stock projection over at least the next five years; and details of any newly contracted debt. (2020 and 2021)
<b>Results Indicator #4:</b> A list of all fishing license conditions for each gear	No published license conditions (2017)	License conditions published in June and December 2018.	All license conditions published every 6 months

<sup>1</sup> Medium-value tenders are defined as over A\$10,000 in value. High-value tenders are over A\$50,000.



type (including IUU fishing countermeasures) is published not less than every six months, to promote transparency in accordance with the Fisheries (Amendment) Act 2017.		Applicable conservation and measures published in July 2020.	(2021 and 2022)
<b>Results Indicator #5:</b> More coastal fisheries have effective management plans in place to prevent overfishing and strengthen climate adaptation, as measured by the number of Community-Based Management Plans approved and in force.	No Management Plans in force (Aug 2019)	No Management Plans in force. 13 in draft. (Sept 2020)	At least 25 Management Plans in force (covering about 13 percent of coastal communities). (2022)
<b>Results Indicator #6:</b> (i) The number of households in South Tarawa with climate-resilient access to piped water 24/7 increases; and (ii) the affordability of piped water for poor households increases, as measured by the affordable level of consumption for the poorest quintile. <sup>2</sup>	(i) 0 households (ii) No piped water access (Dec 2017)	(i) 480 households in the three pilot areas (ii) 15 liters per capita per day (LPCD) (prior to the implementation of the revised tariff) (Sept 2020)	(i) at least 480 households (ii) 37 LPCD (2022)
<b>Results Indicator #7:</b> Preschool quality is improved, as measured by (i) the share of preschools meeting the ECCE registration	(i) 19 percent of known preschools registered, 60 percent provisionally registered <sup>3</sup> , 20 percent unregistered.	2020 results are not yet available as the 2020 inspections are still in the field.	(i) 75 percent of all preschools are fully registered. (ii) 95 percent of teachers registered

<sup>2</sup> The level of affordable consumption is defined as the amount of water that can be consumed before the water bill exceeds five percent of household expenditure for the poorest quintile of households. The baseline is calculated with data from the Bank’s 2018 willingness to pay survey, done for the South Tarawa Water Supply Project. By 2022, it should be possible to use the 2020 HIES data for a more updated calculation of household expenditure levels for the poorest quintile.

<sup>3</sup> Provisional registration is where the school only meets some of the registration requirements but still qualifies for partial financial support from government, and it is given one year to meet all remaining requirements before losing funding.



requirements and (ii) the share of preschool teachers meeting the minimum ECCE qualification requirements.	(ii) 88 percent of teachers registered (Aug 2019)		(2022)
<b>Results Indicator #8:</b> Preschool participation increases, thereby reducing women’s childcare burden and helping to narrow the gender gap in labor force participation over time.	<b>Baseline:</b> 76% of preschool-age children attending preschool this year (47% of 3-year-olds, 93% of 4-year-olds, 88% of 5-year-olds). (2015 census)	<b>Current value:</b> N/A, census data is not yet available and administrative enrolment or attendance records are yet to be developed.	<b>Target:</b> 80% of preschool-age children are attending preschool. (2020 census) <sup>4</sup>

<sup>4</sup> It may be possible to estimate enrollment or attendance rates in 2022 from administrative records, as the Ministry of Education plans to start collecting this information. If this recordkeeping is not fully established by 2022, then we will rely on the 2020 Census to measure results.



## IDA PROGRAM DOCUMENT FOR A PROPOSED GRANT TO THE REPUBLIC OF KIRIBATI

### 1. INTRODUCTION AND COUNTRY CONTEXT

1. **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 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.

2. **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.

3. **There has been strong growth in GNI per capita in recent years, but human development indicators remain low.** GNI per capita has experienced a level shift since 2013, with a dramatic increase in government revenue from fishing licenses (see Section 2.1). 2018 GDP per capita was estimated at US\$1630, while GNI per capita sat at US\$3190, meaning that Kiribati will soon graduate from United Nations Least Developed Country status. Human development outcomes are relatively low, however: Kiribati was ranked 132nd in the 2019 Human Development Index and has a Human Capital Index score of 0.48. Learning-adjusted years of schooling stands at only 7.1, highlighting the significant challenges Kiribati faces in lifting education outcomes so that young people are equipped to fully exploit employment opportunities at home and abroad. The 2019/20 Household Income and Expenditure Survey (HIES) results are not yet available to shed light on poverty and inequality trends. Using national poverty lines, the 2006 HIES showed food poverty to be low, at about 5 percent of the population, but



basic needs poverty to be relatively widespread, at about 22 percent.<sup>5</sup>

4. **Significant gender gaps exist.** *Unimwane*, traditional male elders, still play an important role in community decision-making, but women's political representation at the national level is improving. Women are 20 percentage points less likely to be in the labor force than men and gender norms around unpaid care work play a prominent role.<sup>6</sup> Unemployment among women and female youths is higher than for males. Fishing is of central social, economic and cultural importance and women play a major role in the sector (e.g. they are responsible for up to 99% of the market sales of fish<sup>7</sup>) but remain underrepresented in commercial coastal fisheries and local decision-making bodies. Rates of gender-based violence in Kiribati are high, with 68 percent of women aged 15-49 who have been in a domestic partnership having experienced physical or sexual violence. In health, contraceptive prevalence is relatively low by regional standards, but unmet needs for family planning mirror the regional average. However, in education, school participation rates for girls exceed those for boys in primary and secondary schooling, and the transition rate from primary to secondary schooling is also higher for girls.

5. **Geographic isolation and a decisive policy response have prevented severe health impacts from the COVID-19 pandemic.** To date, Kiribati has had no cases of the virus, thanks to the swift introduction of travel restrictions in January 2020 and the subsequent complete closure of the border in March. However, one important vulnerability highlighted by COVID-19 and the associated border disruptions is the reliance on imports for food security. The border closure is also having significant economic impacts, although not of the same order of magnitude as small states which are heavily dependent on tourism. The economy is projected to contract by 2 percent in 2020, due to negative impacts on donor investment projects, fresh tuna exports, and the small hotel and restaurant sector which caters mainly to expatriates. A relatively strong recovery with 3 percent growth is expected in 2021, on the assumption that a vaccine allows borders to reopen starting from mid-year.

6. **The proposed operation is designed to tackle Kiribati's long-run development and climate challenges, while also building back better from COVID-19.** The first pillar supports measures to strengthen management of Kiribati's sovereign wealth fund, to bolster long-term fiscal resilience and preserve wealth for future generations who will face greater climate adaptation challenges. This pillar also includes procurement reforms that will support long-run improvements in the efficiency of public spending, while also supporting procurement efforts for the COVID-19 response in the near term. The second pillar 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 the World Bank Group's COVID-19 response. The actions under this pillar support the GOK's efforts to strengthen food security and sustainably manage coastal fisheries resources in the face of climate change; expand access to safe, piped water for health and hygiene, while managing increasing water scarcity from climate change; and to foster the development of the early childhood education sector to improve human capital. Increased participation in preschool is also expected to facilitate women's labor force participation by reducing the childcare burden that falls disproportionately on mothers.

7. **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-

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<sup>5</sup> Female-headed households and households headed by the elderly were slightly over-represented in the poorest quintiles, and children were disproportionately likely to experience poverty. Inequality is similar to other Pacific Islands (with a Gini coefficient of 0.39).

<sup>6</sup> ILO, 2015 and UNICEF Sentinel Monitoring Report, 2011

<sup>7</sup> See National Fishery Sector Overview Kiribati by FAO [http://www.fao.org/tempref/FI/DOCUMENT/fcp/en/FI\\_CP\\_KI.pdf](http://www.fao.org/tempref/FI/DOCUMENT/fcp/en/FI_CP_KI.pdf)



2021. Fishing license revenues are expected to drop by 20 percent of 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. As detailed in Section 4, 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. External 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 public debt stock will reduce from 18 percent of GDP at end-2019 to 13 percent of GDP by end-2023.

## 2. MACROECONOMIC POLICY FRAMEWORK

### 2.1. RECENT ECONOMIC DEVELOPMENTS

8. **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 economy is expected to contract by 1.9 percent in 2020. Kiribati has had stringent travel restrictions in place since January and scheduled international flights ceased from late March. Construction activity, a volatile contributor to GDP growth in Kiribati, is expected to have slowed substantially given that most projects are donor-led and reliant on expatriate personnel. Fresh tuna exports have been impacted, given reduced restaurant demand for tuna loins and lack of air freight capacity for export. Hotels and restaurants have been severely affected, although this sector only made up about 1 percent of GDP in 2018. Quarantine measures have also affected fisheries transshipment activity in Kiribati's ports and caused some disruptions to shipping cargo imports. Domestic air travel has been affected, as the lack of regular international flights has disrupted imports of spare parts for the small fleet of the local airline.

9. **The employment effects of COVID-19 appear to be concentrated to formal workers in a few hard-hit sectors, with mixed gender impacts.** The authorities estimate that 1000 workers or 2 percent of the labor force have lost their jobs or had reduced work hours in 2020 due to COVID-19 border closures, with the main impacts being on tourism workers, employees of a local tuna loin factory, and workers overseas (including seafarers, fisheries observers and horticultural workers participating in seasonal labor schemes in Australia and New Zealand).<sup>8</sup> Tourism workers and tuna factory employees are predominantly women, while seafarers and fisheries observers are mostly men. Both men and women participate in temporary horticultural labor overseas. Of the estimated 1000 affected I-Kiribati workers, 300 are overseas, and it is therefore likely that remittances back to families in Kiribati have been impacted (although there is no high frequency data available to confirm this).

10. **Kiribati was experiencing moderate growth prior to 2020, driven mainly by government spending.** The government sector, including donor-led construction activity, contributed to 2.3 percent growth in 2018 and is projected to have contributed to growth of about 2 percent in 2019.

11. **The current account has remained strongly in surplus despite a large trade deficit, thanks to foreign**

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<sup>8</sup> Observers are compliance officers employed to monitor activity on purse seine fishing vessels. The Western and Central Pacific Fisheries Commission has temporarily suspended the requirement for vessels to carry observers due to COVID-19.



**fishing license fees.** The current account surplus was equivalent to nearly 40 percent of GDP in 2018 and is estimated at the same level for 2019.<sup>9</sup> Like most small island economies, Kiribati relies heavily on imported food, fuel, retail goods and construction materials, while its goods and services exports are very modest and consist mainly of coconut and fish products. However, large deficits on merchandise trade and services have been offset recently by very strong receipts of fishing license fees, as well as by aid transfers and investment income from the sovereign wealth fund.

12. **In the past six years Kiribati has benefited from a dramatic structural increase in primary income from abroad, and as a result GNI is now almost twice the size of GDP.** GNI per capita was A\$4,200 in 2018, compared with GDP per capita of A\$2,272, with the difference owing almost entirely to tuna fishing rents accruing to the government from foreign fishing fleets. Kiribati joined a new regional tuna management scheme, the Vessel Day Scheme (VDS), in 2013, where member countries subscribe to limits on the annual number of purse seine tuna fishing days allowed in their exclusive economic zones (EEZs), as well as minimum prices for fishing days. The VDS has significantly strengthened conservation at the regional level, while Kiribati has benefited from a step change in prices for fishing rights. Annual fishing license revenues collected by the GOK have increased from an average of A\$36m over 2007-2012 to an average of A\$164m over 2013-2019, and now makes up over 75 percent of net primary income. However, this income stream is volatile, and depends on the El Niño climate conditions, the annual fishing allocation that Kiribati receives under the regional management scheme, the AUD/USD exchange rate, canned tuna prices and fuel costs. Measures to strengthen management for a sustainable tuna fishery have been an important element of previous DPOs, and the current series continues this focus.

13. **With respect to fiscal developments, dramatically higher fishing license revenues have contributed to large surpluses over the last five years, which the GOK has used to accumulate substantial cash reserves and replenish its sovereign wealth fund.** GOK achieved a surplus of 13 percent of GDP in 2019, with its highest ever fishing revenue result (76 percent of GDP) helping to offset expenditure growth (see paragraph 14). This strong result comes on the back of previous surpluses averaging 23 percent of GDP over 2015-2018. GOK has used these surpluses to accumulate large cash reserves (worth 76 percent of GDP at end-2019), and has also transferred about 50 percent of GDP to the sovereign wealth fund, the Revenue Equalisation and Reserve Fund (RERF).<sup>10</sup> Supported by the DPO engagement, GOK has made significant strides to improve the management of the RERF and to improve the returns it earns on its cash reserves.<sup>11</sup> In September 2020, GOK introduced a rule-based withdrawal policy to preserve the value of the RERF for future generations while only allowing withdrawals in limited circumstances (see Section 4). The RERF now holds about A\$1.1 billion in assets (430 percent of GDP), having recovered in value after facing significant losses on global equities in early 2020. Overall, this recent performance is much improved compared to the period prior to the introduction of the VDS, when Kiribati was grappling with low fisheries revenue, declining real public expenditure, and unsustainable deficits averaging nearly 14 percent of GDP, which were financed by large withdrawals from the RERF and costly commercial borrowing.

14. **Government revenues are dominated by fishing revenue and external grants.** Fishing license revenue

<sup>9</sup> Official balance of payments statistics are released annually, usually in October of the following year. There are no high-frequency trade statistics.

<sup>10</sup> The RERF was established in the 1950s to invest royalties from Kiribati's now-depleted phosphate reserves. It is one of the oldest operational sovereign wealth funds in the world. GOK transferred A\$120m to the RERF over 2015 and 2016.

<sup>11</sup> In July 2018, GOK introduced a cash management policy which defined the government's minimum liquidity requirements and called for funds over a target of A\$30m to be invested in interest-bearing deposits. In August 2018, the GOK transferred A\$22m from local zero-interest accounts to its cash reserve account in Australia, and negotiated with the local bank to transfer most remaining cash into term deposits. As a result of these measures, staff estimate that the annual yield on cash reserves has increased from 71 basis points below the Australian Official Cash Rate to 4 basis points above the Australian Official Cash Rate.



now averages about 70 percent of GDP and makes up about three quarters of domestic revenue. Tax collections total 18 percent of GDP and make up 20 percent of domestic revenue. Kiribati implemented a value-added tax in 2014, and now the main opportunities for further tax revenue gains rest mainly in improved administration (an area for which the IMF and EU are providing technical assistance). External project grants are volatile and influenced by lumpy spending on infrastructure projects, but are estimated to have averaged 41 percent of GDP over 2015-2019. In recent years Kiribati has also received budget support grants worth about 5 percent of GDP from the World Bank and other partners.

15. **GOK-budgeted spending has increased from 60 percent of GDP in 2015 to 90 percent of GDP in 2019.** (Total spending, including donor-funded and -executed projects, has increased from 92 to 130 percent of GDP over the same period.) During this time, GOK has prioritized new spending on health and education; social protection; the public wage bill; and the transport sector (see Box 1 for more detail). In 2019, GOK spending increased by five percent of GDP. This was driven by one-off spending to acquire new aircraft for the local state-owned airline, while recurrent spending was maintained at broadly the same level as 2018.

16. **Following the caretaker period for national elections, the 2020 budget was passed in early September 2020 and reflects significant revenue and expenditure impacts from COVID-19.** The budget is normally passed in November of the prior year, but in this case GOK operated through the election period on a caretaker appropriation based on the 2019 budget ceiling, pro-rated for the first eight months of the year. During this time, much of the immediate needs for COVID-19 preparedness have been met through in-kind contributions from development partners (e.g. for personal protective and lab equipment). Development partners have also made grant contributions which GOK has put towards setting up isolation centers and strengthening border control. In the recently passed 2020 budget, GOK introduced a A\$13.5m (6 percent of GDP) economic relief package for COVID-19, which includes allocations for affected workers and business support (including for SOEs) as well as an allocation to establish a food import stockpile in case of shipping service interruptions.<sup>12</sup> On the revenue side, the impacts are large, with GOK estimating fishing license revenue for 2020 and the medium term at A\$145m (52 percent of GDP), compared with a five-year average of A\$183m (66 percent of GDP; 2015-2019 actuals). This assumption is reasonable, given reduced vessel activity in Kiribati waters and the outlook for unfavorable weather conditions (see section 2.2). Fisheries transshipment fees are also expected to decline sharply, dropping to 1.5 percent of GDP in 2020 compared with 5 percent in 2019. GOK has not assumed any reduction in tax revenues, but Bank staff have assumed a moderate reduction in the tax take over 2020 and 2021, due to impacts on taxpaying businesses such as hotels.

17. **The 2020 Budget also continues GOK's ambitious long-run policy agenda, with major new allocations for social protection schemes.** GOK has allocated A\$20m (8 percent of GDP) for a new unemployment benefit of A\$50 per month for all unemployed individuals aged 18-59 and, as promised during the elections, payments will be backdated to 1 January 2020. Given GOK's institutional capacity constraints and the short timeframe which officials have had to plan for this new policy, there are likely to be significant design and implementation challenges and budget support partners including the Bank are investigating technical assistance needs. However, in principle, the new benefit has the potential to substantially reduce poverty and vulnerability and is an equitable way to distribute part of the rents that GOK earns from the country's fisheries resources. GOK has also allocated an additional A\$9m (4 percent of GDP) to increase the senior citizens' benefit to A\$100 per fortnight and backdate this increase to January 1<sup>st</sup>.

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<sup>12</sup> In the recurrent budget, GOK has also allocated A\$0.7m to recruit 51 new nurses, and A\$1m in grants for Islands Councils to fund COVID-preparedness efforts.



**Box 1: Major areas of new public spending, 2016-2020**

When the current government took office in 2016, public spending stood at about 60 percent of GDP. Since then, high fisheries revenues have afforded GOK significant fiscal space and allowed GOK to expand spending to reach 94 percent of GDP in the 2020 budget. The Bank is planning a public expenditure review for FY22 in order to further analyze expenditure composition. Important areas of new spending include:

**a. Social protection and livelihoods.** In the past five years, GOK has increased annual social protection spending by 20 percent of GDP. In 2016, the government fulfilled an election promise to double the price paid under the Copra Subsidy Scheme<sup>1</sup> from A\$1 per kg to A\$2, and spending on the scheme has increased from about 3 percent of GDP to an average of around 10 percent of GDP per year (with production varying with weather conditions). The copra subsidy is the main source of livelihoods for outer islands communities, which otherwise mostly rely on subsistence activity. As such, the copra subsidy serves mainly as an untargeted social protection scheme rather than an agricultural program. GOK made some administrative improvements to the subsidy following technical assistance from the World Bank in 2012, and is now once again working with the Bank and New Zealand to review the scheme. The current review is investigating the economic and social impacts of the subsidy using data from the 2020 HIES, while also exploring opportunities to continue improving the economic and administrative efficiency of the subsidy scheme. GOK also introduced a disability support allowance in 2019, worth 0.5 percent of GDP. In the 2020 budget, it has introduced a new unemployment benefit budgeted at cost of 8 percent of GDP per year, and increased spending on the senior citizen's benefit by about 4 percent of GDP.

**b. Transport sector.** GOK has invested heavily in the transport sector, in line with election commitments to build the national airline and address Kiribati's extreme transport challenges. In 2018, the GOK launched an international jet aviation project for the state-owned Air Kiribati Ltd (AKL), signing a purchase order for two aircraft worth 38 percent of GDP. Over the course of 2018 and 2019, GOK has appropriated A\$66m (25 percent of 2018 GDP) towards the project, and GOK has taken possession of the first of the two aircraft. China is understood to have committed grant funding for the cost of the second aircraft. In 2017 GOK also set aside A\$30m (12 percent of GDP) in the Development Fund for roads and runways on the outer islands, but this is yet to be fully expended as GOK works through the necessary engineering designs and procurement planning.

**c. Public sector pay.** In the 2018 budget, the GOK announced a 30 percent increase to all public sector salaries, which more than offset declines in purchasing power since the last settlement in 2010.<sup>1</sup> The wage bill increased by 8.5 percent of GDP in 2018, and salaries are now just below the average for Pacific Island countries in absolute (USD or PPP) terms but somewhat higher than the average for Pacific Island countries relative to GNI per capita.<sup>1</sup> There were no further wage increases in the 2019 or 2020 budgets. Personnel emoluments now makes up about a third of government spending, similar to other small states in the region and globally.

**d. Human development.** Recurrent spending on the health and education ministries has increased by over 25 percent between the 2016 and 2020 budgets, and makes up 28 percent of recurrent spending in the 2020 budget and 20 percent of GDP. GOK introduced fee-free education for most school grades in 2016. In the 2019 Budget, GOK also introduced government support for the preschool sector for the first time, with a subsidy for the salaries of registered preschool teachers.



18. **With respect to monetary developments, Kiribati’s use of the Australian dollar as its currency provides a strong nominal anchor given its close trade and financial links with Australia.** Measured inflation has been very low in recent years and dipped into negative territory at -1.8 percent in 2019, with lower food and beverage prices. However, the consumption basket hasn’t been updated since the last HIES in 2006 so there is likely to be significant mismeasurement (GOK is planning to revise the basket based on the 2020 HIES).
19. **Private sector credit appears to have remained stable, but a lack of data hinders adequate monitoring.** Currently there is no central bank or financial sector supervisory authority and there are no official financial sector statistics. Data are severely limited, but private sector credit appears to have been stable at about 15 -20 percent of GDP in recent years (increased liquidity in the banking sector often does not result in credit expansion due to limited lending opportunities). In 2020 there has been some progress with increasing financial inclusion, after GOK mandated that all public servants open bank accounts to receive payroll.
20. **Oversight of the financial sector needs to be strengthened to ensure adequate monitoring of the sector’s performance and financial inclusion efforts.** Stronger oversight is also needed to protect GOK’s shareholding interests in all three financial institutions<sup>13</sup> and manage fiscal risks. A clear regulatory framework may also help to attract foreign investment and competition in the banking sector, if GOK can successfully address current limits on competition provided for in agreements between GOK and the incumbent commercial bank. The GOK has requested technical assistance from the IMF to establish a financial sector supervisory framework.

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<sup>13</sup> The financial sector essentially consists of one commercial bank with a minority government shareholding and two public financial institutions (the Development Bank of Kiribati (DBK), and the Kiribati Provident Fund (KPF)). The commercial bank primarily serves the public sector and larger private sector customers, with the public institutions financing most personal and small business loans.



<b>Table 1: Selected macroeconomic indicators</b>	<b>2017</b>	<b>2018</b>	<b>2019f</b>	<b>2020f</b>	<b>2021f</b>	<b>2022f</b>	<b>2023f</b>
<b>GDP and consumer prices</b>							
Real GDP (percent change)	0.9	2.3	2.3	-1.9	3.0	2.6	2.4
Consumer prices (period average, percent change)	0.4	0.6	-1.8	2.4	2.6	2.6	2.6
GNI per capita (US\$, Atlas method)	3020	3080	3350	--	--	--	--
Memo item: Nominal GDP (A\$m)	244	263	276	277	292	307	323
<b>General government finance</b>							
	<i>Percent of GDP unless otherwise indicated</i>						
Total revenue and grants	139.1	131.0	143.2	120.6	100.7	110.2	109.6
Total expenditure 1/	135.2	125.7	130.3	141.2	109.9	111.3	110.7
Fiscal balance (after budget support)	11.7	10.3	13.0	-13.0	-4.4	3.5	3.2
SWF closing balance (A\$m)	943	973	1137	--	--	--	--
Cash reserves closing balance (A\$m) 2/	145	174	209	173	160	171	181
<b>External sector</b>							
	<i>Percent of GDP unless otherwise indicated</i>						
Current account balance	47.1	38.9	38.8	-2.6	23.8	30.3	25.9
Balance on goods and services	-78.2	-76.8	-90.7	-93.9	-77.0	-75.6	-75.6
Exports	13.1	9.7	10.9	7.2	8.6	9.8	9.8
Imports	91.0	86.5	101.6	101.1	85.5	85.4	85.4
Balance on primary income	92.2	85.7	98.0	61.4	70.2	75.4	72.4
Of which: Fishing license fees	69.5	64.6	76.2	52.4	49.6	55.3	52.7
Balance on secondary income	33.2	30.0	31.6	29.9	30.5	30.4	29.1
External debt (A\$m)	52	52	50	49	47	44	42
(In percent of GDP)	21.5	19.7	18.2	17.6	16.0	14.4	13.0
Exchange rate (A\$ per US\$, period average)	1.30	1.34	1.44	--	--	--	--
<b>Changes relative to pre-COVID-19 baseline</b>							
	<i>Percentage points of GDP unless otherwise indicated</i>						
Real GDP growth				-4.2	0.7	0.6	0.4
Fiscal balance (after budget support)				-16.1	-10.7	-2.1	-1.9
Cash reserves closing balance (A\$m)				-45	-76	-82	-88
Current account balance				-29.4	-12.8	-2.2	-1.3

**Notes:** (1) Total expenditure is equal to total spending out of the Consolidated Fund, including transfers to the Development Fund, plus spending financed by development partners outside of the budget process (for example, in-kind contributions). There are some definitional differences with the IMF's expenditure estimates, which use an estimate of project expenditure out of the Development Fund rather than transfers into this fund from the central budget. (2) The IMF cash reserve estimate for 2019 is significantly higher, as it includes cash in the Development Fund.



<b>Table 2: Selected fiscal indicators (percent of GDP)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020p</b>	<b>2021p</b>	<b>2022p</b>	<b>2023p</b>
<b>Total revenue and grants</b>	<b>139</b>	<b>131</b>	<b>143</b>	<b>121</b>	<b>101</b>	<b>110</b>	<b>110</b>
Domestic revenue	92	90	103	73	71	76	74
Tax revenue	18	19	18	16	16	16	16
Fishing license revenue	69	65	76	52	50	55	53
Other non-tax revenue	5	6	9	5	5	5	5
External grants 1/	47	41	40	47	30	34	36
<b>Total expenditure</b>	<b>135</b>	<b>126</b>	<b>130</b>	<b>141</b>	<b>110</b>	<b>111</b>	<b>111</b>
Total expenditure (ex. donor projects)	88	85	90	94	80	77	75
Current expenditure	50	57	57	71	65	64	62
Personnel emoluments	25	31	30	31	30	29	28
Operational costs	15	14	13	13	12	12	12
Subsidies, grants and other commitments	10	12	13	26	23	22	21
<i>Of which: Unemployment benefit</i>	0	0	0	7	7	7	6
<i>Of which: Senior citizen's benefit</i>	1	1	1	5	4	4	4
Debt service	1	1	1	1	1	1	1
Local Contribution to the Development Fund	38	28	34	23	14	14	13
Copra Subsidy Scheme 2/	13	12	6	6	7	7	7
Jet Aviation Project	0	8	16	1	1	1	1
Covid-19 economic response	0	0	0	5	0	0	0
Other projects	25	8	12	12	6	6	6
Grant-funded spending	47	41	40	47	30	34	36
Fiscal balance (ex. budget support)	4	5	13	-21	-9	-1	-1
<b>Fiscal balance (after budget support)</b>	<b>12</b>	<b>10</b>	<b>13</b>	<b>-13</b>	<b>-4</b>	<b>3</b>	<b>3</b>
Financing	-4	-5	-13	21	9	1	1
Budget support grants	8	5	0	8	5	5	4
Of which: World Bank	3	3	0	3	2	2	2
Use of cash reserves	-12	-10	-13	13	4	-3	-3
Cash reserves closing balance	59	66	76	63	55	56	56
Sovereign wealth fund (RERF) closing balance	386	370	413	--	--	--	--
External debt	21	20	18	18	16	14	13
<i>Memo item: Nominal GDP (A\$m)</i>	244	263	276	277	292	307	323

**Notes:** Refer also to the Notes under Table 1. (1) External grants excludes general budget support, which is counted under Financing. The 2020 external grants estimate includes an assumed A\$50m one-off grant contribution from China for the Jet Aviation Project. (2) The Copra Subsidy Scheme was moved to the Development Fund in 2018. Copra spending for 2016 and 2017 is included under the Development Fund rather than current spending for ease of comparison over time. (3) In 2017, other projects funded under the Local Contribution to Development (LCDF) included a one-off A\$30m contribution towards airstrips and roads on the outer islands. LCDF projects are not necessarily capital in nature; this line also includes overseas medical referrals and other miscellaneous spending programs.

## 2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

21. The economy is expected to grow by 3 percent in 2021 and around 2.5 percent over 2022-23, assuming that border restrictions start to be eased in mid-2021 with the rollout of a vaccine. Overall, growth is expected



to be moderately above the historical average during the medium-term recovery.<sup>14</sup> The lifting of border restrictions would allow construction activity, hotels and restaurants and the domestic transport sector to recover somewhat, while improved global economic conditions and the resumption of international flights would allow the local tuna loin factory to restore its export activity. Some consumption stimulus is also expected in 2021 due to the new social protection benefits introduced in the 2020 budget. Around 2.5 percent growth is projected for 2022-23 as donor-led construction activity continues to recover towards pre-COVID-19 levels.

<b>Table 3: Contributions to Real Growth by Sector</b>	<b>2017</b>	<b>2018</b>	<b>2019p</b>	<b>2020p</b>	<b>2021p</b>	<b>2022p</b>	<b>2023p</b>
Government	0.9	2.3	0.7	0.7	0.8	0.8	0.8
Agriculture and fisheries	2.0	0.1	0.2	-0.5	0.5	0.4	0.5
Construction	-2.0	0.8	0.4	-1.6	0.4	1.0	0.7
Wholesale and retail trade	0.2	-2.4	0.2	-0.2	0.4	0.1	0.1
Hotel and restaurants	0.2	0.0	0.0	-0.5	0.2	0.2	0.0
Transport and storage	-0.3	0.2	0.2	-0.3	0.3	0.2	0.1
Other	0.3	0.1	0.5	0.5	0.3	0.0	0.2
Taxes less subsidies	-0.5	1.2	0.1	0.1	0.1	0.1	0.1
<b>Total (GDP growth in percent)</b>	<b>0.9</b>	<b>2.3</b>	<b>2.3</b>	<b>-1.9</b>	<b>3.0</b>	<b>2.6</b>	<b>2.4</b>

Notes: GOK actuals for 2017 and 2018 and staff calculations; staff projections for 2019-2023. The "Other" category includes small service sectors such as business services and financial intermediation as well as the manufacturing, mining and quarrying sectors (which are small in Kiribati). In 2018, the *taxes less subsidies* adjustment contributed 1.2 percentage points to GDP growth according to preliminary estimates, but this could be subject to revision with the 2019 GDP release (expected in late 2020). The government sector was by far the largest positive contributor to GDP growth when measured at producers' prices.

22. **A sharp reversal in the current account balance is expected in 2020, before recovering to large surpluses in 2021 and 2022.** The current account is expected to register a deficit of 3 percent of GDP in 2020, driven by (i) a one-off increase in the import bill for GOK's jet aircraft acquisition (this also drove higher imports in 2019); (ii) lower exports of restaurant-grade tuna loins due to COVID-19; (iii) lower fisheries revenues (see paragraph 22); and (iv) lower investment income from the RERF. Large current account surpluses in the order of 25 percent of GDP are expected in the medium term as the trade balance improves and primary income begins to recover towards pre-2020 levels.

23. **Primary income from fishing licenses is expected to be about 20 percent of GDP lower than average over 2020 and 2021, before returning to around the medium-term average by 2022.** Although purse seine fishing activity in the Pacific region overall does not seem to have been badly affected by COVID-19 or global economic conditions to date, Kiribati's port restrictions to prevent the spread of COVID have been more stringent than its neighbors, making Kiribati's EEZ less attractive than other fishing zones where it is easier to transship and obtain fuel and supplies. As of September, the Australian Bureau of Meteorology is also forecasting a 70 percent probability of a La Nina forming by late 2020, which would result in cooler ocean temperatures and a westward migration of tuna stocks away from Kiribati's waters, reducing primary income from fishing licenses. However, fisheries income is inherently volatile and there are substantial upside and downside risks to these projections.

<sup>14</sup> The 10-year historical growth rate over 2009-2018 is 2.8 percent. If the 10 percent growth registered in 2015 is treated as an outlier, the average is 2.0 percent. The 2015 growth result was due to a sudden increase in construction activity for an unusually large donor-funded road project.



Table 4: Balance of Payments Requirements and Sources	2017	2018	2019e	2020p	2021p	2022p	2023p
<b>External financing requirements (A\$m)</b>	<b>-33</b>	<b>-21</b>	<b>-17</b>	<b>94</b>	<b>23</b>	<b>4</b>	<b>14</b>
Current account balance excluding grants	35	22	19	-91	-20	-1	-11
Balance on goods and services	-191	-202	-250	-260	-225	-233	-244
Exports	32	26	30	20	25	30	32
Imports	222	228	280	280	250	263	276
Balance on primary income	226	224	269	169	205	231	233
Fishing license fees	170	170	210	145	145	170	170
Net compensation of employees	16	16	20	15	15	16	17
Net investment income	41	38	39	9	44	45	46
External debt service	2	2	3	3	3	3	3
<b>External financing sources (A\$m)</b>	<b>144</b>	<b>122</b>	<b>116</b>	<b>144</b>	<b>122</b>	<b>138</b>	<b>148</b>
Capital grants	35	35	33	44	23	35	45
Current grants and personal transfers	100	79	87	83	89	94	94
<i>Of which: budget support</i>	19	13	0	21	14	14	14
Debt disbursements	0	0	0	0	0	0	0
Net FDI and portfolio investment inflows	-10	-4	-4	-4	-5	-5	-5
<b>Balance (A\$m)</b>	<b>176</b>	<b>143</b>	<b>132</b>	<b>50</b>	<b>99</b>	<b>134</b>	<b>134</b>

Notes: 2017 and 2018 actuals from GOK statistics. Estimates and projections are staff estimates.

24. **In terms of the fiscal outlook, domestic revenues are expected to remain more than 20 percent of GDP below the recent medium-term average in 2020 and 2021 before normalizing over 2022-23.** This outlook is driven mainly by the fishing license revenue trajectory described above, although tax revenues and fishing transshipment fees are also expected to remain subdued until borders reopen. External grants will be temporarily elevated in 2020, due to the COVID-19 response and an expected grant from China for the jet aircraft project. Grants are expected to mirror recent averages in 2021 and beyond.

25. **Total spending is expected to moderate from 2020's elevated levels over the medium term, while GOK's new social protection measures will permanently shift the composition of the budget in favor of current rather than capital spending.** Recurrent spending has permanently increased by over 10 percent of GDP in the 2020 budget due to the new unemployment benefit and expansion of the senior citizen's benefit (there is also a one-off 3 percent of GDP increase for costs related to the 2020 census and elections). Meanwhile, GOK-executed development spending is projected to be about 15 percent of GDP lower over 2021-23 compared with recent budgets, after the one-off effects of the jet aircraft project (2018 and 2019) and the COVID-19 economic relief package (2020) are removed. Overall, the spending trajectory is sustainable assuming that in the long run fisheries revenues continue to average similar levels as seen in recent years. However, it will mean that GOK effectively allocates most of its available fiscal space to social transfers and consumption, with comparatively less room to continue its recent pattern of making allocations to larger capital investments. Instead, most capital works are expected to be implemented through donor-financed projects in the medium term. The Bank is now discussing a potential public expenditure review engagement with GOK, for delivery in FY22, which will provide the opportunity to further analyze fiscal trends.

26. **The fiscal deficit is expected to reach 21 percent of GDP in 2020 (excluding budget support) and decline gradually to zero over the medium term.** In the absence of further new policy measures, the deficit pre-budget



support is expected to narrow considerably to 9 percent of GDP in 2021, after one-off spending measures in 2020 are removed. Balanced budgets are projected from 2022 onwards, once fisheries revenues return to the medium-term average. The expected deficits in the near-term will be financed through budget support grants and drawdowns on Kiribati’s cash reserve buffer, which is nonetheless expected to remain over 50 percent of GDP in value.

<b>Table 5: Sources of Financing (percent of GDP)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020p</b>	<b>2021p</b>	<b>2022p</b>	<b>2023p</b>
Fiscal balance (ex. budget support)	4.0	5.3	13.0	-20.6	-9.2	-1.1	-1.1
Financing	-4.0	-5.3	-13.0	20.6	9.2	1.1	1.1
Budget support grants	7.7	5.0	0.0	7.6	4.8	4.6	4.4
Asian Development Bank	2.6	1.3	0.0	0.0	0.0	0.0	0.0
Australia	0.2	0.2	0.0	1.5	0.2	0.2	0.2
European Union	0.0	0.0	0.0	1.5	1.4	1.3	1.3
New Zealand	1.0	1.0	0.0	2.2	0.9	0.8	0.8
World Bank	3.9	2.6	0.0	2.5	2.4	2.3	2.2
Use of cash reserves	-11.7	-10.3	-13.0	13.0	4.4	-3.5	-3.2
Cash reserves closing balance	59.4	66.0	75.9	62.5	54.8	55.6	56.2

Notes: WB staff estimates and projections. Australia and New Zealand budget support for 2020 has been disbursed, while other partners' support remains subject to approvals. Projections are based on the continuation of current budget support programs at existing levels of financing, and these amounts have not necessarily been committed. WB projections assume DPOs of US\$5m continue to be prepared on an annual basis.

27. **Public debt is low and GOK has no plans to borrow over the medium term.** Kiribati has an existing debt stock of less than 20 percent of GDP, consisting of historical government borrowing on highly concessional terms from the ADB and Taiwan, China, the latter of which is in Australian dollars.<sup>15</sup> There is currently no local government or SOE debt. To date, Kiribati has chosen not to use its cash reserves to repay debt early, given that the interest cost is comparable or less than the return that Kiribati earns on its reserves; exposure to exchange rate risk is limited; and its cash reserves provide a valuable fiscal buffer, given the volatility Kiribati faces, which would be reduced by early debt repayment.

28. **Inflation is expected to remain low over the medium term.** Inflation of around 2.5 percent is expected over the medium term, in line with trading partners. A revised consumption basket from the 2020 HIES will provide an opportunity to significantly improve inflation monitoring.

29. **Credit to the private sector is expected to remain at similar levels over the medium term.** Given the current lack of financial sector statistics, it is not possible to make projections. However, anecdotal evidence suggests that credit extended to the private sector is (given the unusual features of Kiribati’s economy and banking sector) far below deposits, and any business loan defaults as a result of COVID-19 would not be expected to impact on financial sector soundness.

30. **Under a downside scenario, the required drawdown on cash reserves over the next four years would be substantially larger, but Kiribati would still maintain adequate buffers.** Staff’s downside scenario, illustrated in Table 6, assumes that borders do not reopen until late 2022, setting back the recovery by one year. The COVID-19 shock on the real sector is also assumed to be deeper, resulting in lower tax revenues and increased spending

<sup>15</sup> Kiribati is not participating in the Debt Service Suspension Initiative (DSSI). Its only bilateral debt is with Taiwan, China, with which Kiribati no longer has diplomatic relations.



needs for economic relief measures, particularly for affected state-owned enterprises such as the local airline. Fishing revenues are assumed to be lower and take longer to recover than under the baseline, due to continued port disruptions and assumed adverse weather conditions. In this scenario, real GDP does not recover to 2019 levels until mid-2023, and larger deficits mean that an additional A\$135m (40 percent of GDP) is drawn down from the cash reserve buffer over 2020-2023. However, the fiscal position remains sustainable under this scenario, with the cash reserve balance standing at around A\$45m by end-2023, equivalent to about two months of spending.

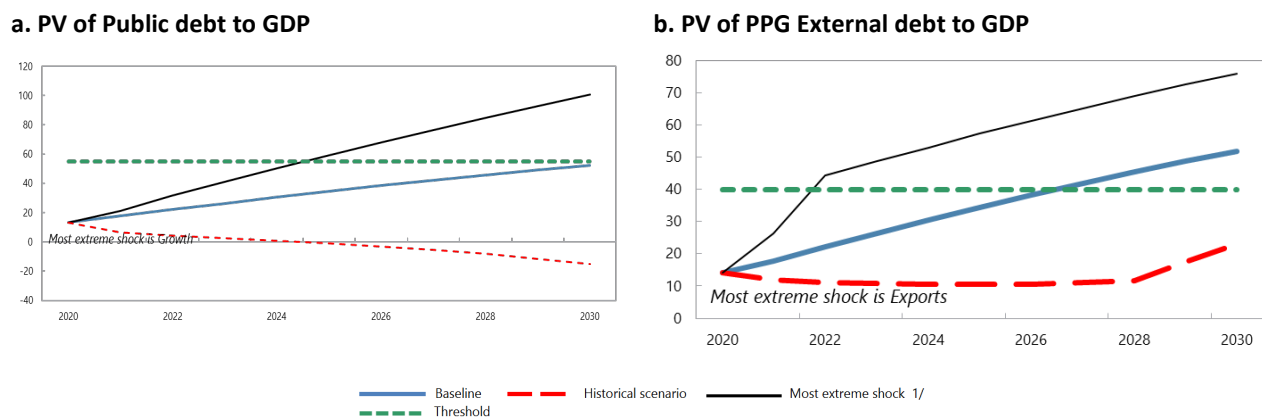
Table 6: Downside scenario	2020p	2021p	2022p	2023p
<b>Downside scenario</b> (percent of GDP unless otherwise stated)				
<b>Real sector</b>				
Real GDP (percent change)	-3.7	1.4	0.8	2.5
Real GDP index (2019 = 100)	96.3	97.6	98.4	100.4
<b>Fiscal</b>				
Total revenue and grants	118	95	92	92
Of which: Fishing license revenue	50	45	43	43
Total expenditure	144	115	110	104
Of which: Covid-19 response costs	5	3	2	0
Fiscal balance (ex. budget support)	-26	-20	-19	-13
Financing	26	20	19	13
Budget support grants	8	5	5	4
Use of cash reserves	19	15	14	8
Cash reserves closing balance	58	40	24	14
<b>Downside: change relative to baseline</b> (percent of GDP unless otherwise stated)				
<b>Real sector</b>				
Real GDP growth (percentage points)	-1.8	-1.6	-1.7	0.1
Real GDP index (points difference, 2019 = 100)	-1.8	-3.4	-5.1	-5.3
<b>Fiscal</b>				
Total revenue and grants	-3	-5	-19	-18
Of which: Fishing license revenue	-3	-4	-12	-9
Total expenditure	3	5	-1	-6
Of which: Covid-19 response costs	0	3	2	0
Fiscal balance (ex. budget support)	-6	-11	-17	-12
Financing	6	11	17	12
Budget support grants	0	0	0	0
Use of cash reserves	6	11	17	12
Cash reserves closing balance	-4	-15	-31	-42

31. **Despite a strong fiscal position, the risk of debt distress is high.** The latest official joint IMF/World Bank Debt Sustainability Analysis (DSA) from January 2019 found Kiribati to be at high risk of external and overall debt distress. Bank staff have updated the DSA for the purpose of this operation, in consultation with the IMF. The updated assessment indicates that the risk of external debt distress remains high after adjusting for recent



changes in the outlook, including the COVID-19 shock on GDP growth and the fiscal balance in 2020 and 2021.<sup>16</sup> The high risk assessment reflects Kiribati’s limited structural capacity to fund its substantial development and climate adaptation expenditure needs through debt, given historically low economic growth rates and the likelihood that climate change and natural disaster risks will further lower the economy’s potential growth rate in the long run. Importantly, the DSA baseline scenario hypothetically assumes that future IDA and ADB financing is provided on 100 percent credit terms, rather than on 100 percent grant terms as is currently the case. The scenario is therefore very different to World Bank and IMF medium-term projections, which assume the continuation of current policies including 100 percent grant support by partners and no new borrowing by GOK. Given the large volume of IDA and ADB financing relative to the small size of Kiribati’s economy, the assumption of credit rather than grant terms is sufficient to result in a rapid accumulation of PPG external debt. As shown in Figure 4, the baseline scenario in the updated 2020 DSA results in a breach of the external DSA threshold of 40 percent for the present value of debt to GDP by 2027. Figure 4 (b) illustrates Kiribati’s exposure to shocks in fishing revenue, with the “Exports” scenario showing the impact of a one standard deviation shock to exports and fishing license fees in 2021 and 2022, if it is assumed that the resulting deficit financing is on concessional credit terms.

Figure 4: Debt sustainability analysis



Source: September 2020 DSA update.

32. **The Performance and Policy Actions (PPAs) under the Sustainable Development Finance Policy for FY21 include a zero non-concessional borrowing ceiling, and the publication of debt reporting with the annual budget.** The PPAs have been endorsed by the authorities. The zero non-concessional borrowing ceiling is consistent with the high risk DSA rating. The debt reporting PPA supports Kiribati’s continued good performance on debt transparency, and also serves as a prior action for this DPO (see Section 4 for further details).

33. **Risks to the macroeconomic outlook are high.** Although fishing license fees have been an overwhelming success story in recent years, this revenue stream is inherently volatile, and there could be a sharper-than-expected downturn as a result of unfavorable weather conditions, prolonged COVID-19 border disruptions, adverse price movements, or anything that undermines the regional tuna management scheme. Delays in rolling out a COVID-19 vaccine would also slow down Kiribati’s economic recovery. GOK’s Jet Aviation Project also poses substantial risks of cost over-runs, which are now exacerbated by the uncertain outlook for international air

<sup>16</sup> Similar to the baseline scenario presented in Tables 1 and 2, the DSA update assumes a shock to growth and revenues in 2020 and 2021. Fishing revenues return to pre-COVID levels by 2023. Grants are assumed to remain at similar levels in the near term before gradually declining from 2029 onwards. In contrast to the baseline scenario, WB and ADB financing is assumed to be on credit rather than grant terms.



travel over the medium term. However, the modelled downside scenario shows that the policy framework remains robust to these risks. Given the ambitious policy program of the newly re-elected government, there is a significant possibility of additional large recurrent spending measures in the 2021 Budget or future years which could weaken the fiscal outlook. A return to negative dynamics in global financial markets would also have an adverse impact on returns to the RERF, and could introduce risks of reactionary changes to RERF investment policies. The economic policy dialogue between the GOK and development partners offers an important means of mitigating these risks.

34. **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 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. As detailed in Section 4, 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. External 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 public debt stock will reduce from 18 percent of GDP at end-2019 to 13 percent of GDP by end-2023.

### 3. GOVERNMENT PROGRAM

35. **The GOK’s policy program is guided by the long-term development strategy set out in the Kiribati 20-Year Vision 2016-2036 (“KV20”), finalized in 2018 following a series of community consultations.** KV20 is structured around four pillars: (i) wealth – natural, human and cultural capital; (ii) peace and security; (iii) infrastructure for development; and (iv) governance. The two crossing-cutting issues are: (i) gender, youth, vulnerable groups, equity; and (ii) environment, climate change and sustainable development. Key elements of the wealth pillar of KV20 include ensuring macroeconomic stability to support long-term development, ensuring sound management of the RERF, maximizing returns from the sustainable exploitation of fisheries and marine resources, supporting early childhood development, and tackling poor hygiene as a contributor to the prevalence of communicable diseases. Extending access to potable water is a key element of the infrastructure for development pillar of KV20.

36. **Kiribati also prepares a four-year Kiribati Development Plan (KDP).** The 2021-23 KDP is currently being developed following the elections earlier this year. The 2016-2019 KDP has the overarching vision, “Towards a better educated, healthier, more prosperous nation with a higher quality of life” and focuses on six priority areas: (i) human resource development; (ii) economic growth and poverty reduction; (iii) health; (iv) environment; (v) governance; and (vi) infrastructure. Among the strategies under the human resource development priority are fostering the development of early childhood education and strengthening teacher skills. Among the strategies under the economic growth and poverty reduction priority are: enhancing management of the RERF; ensuring effective public financial administration and debt management; providing for the sustainable development of



the fishing industry and maximizing economic returns from marine resources; and ensuring that the most vulnerable groups in the population are cared for. GOK has identified that women, especially those living in single-parent households, and the elderly (a larger share of whom are women) are particularly vulnerable to poverty.<sup>17</sup> Under the health priority, the KDP emphasizes the need to increase access to and use of safe water and basic sanitation, because of the links between poor hygiene and the prevalence of communicable diseases. Complementing that, with respect to infrastructure, the strategies include reforming the Public Utilities Board to achieve operationally and financially sustainable electricity, water and sanitation services.

37. **Kiribati’s National COVID-19 Preparedness and Response Plan was launched in May 2020 and is closely aligned with all four pillars of the WBG COVID-19 Crisis Response Approach Paper.** GOK’s Response Plan aims to address the following objectives: (1) to prevent the COVID-19 pandemic from reaching Kiribati (aligned with Pillar 1 of the WBG Approach); (2) Mitigating the social and economic impacts of COVID-19 (aligned with Pillars 2 and 3 of the WBG Approach); (3) implementing strategic responses to prevent the spread of the virus if it arrives (also aligned with Pillar 1); and (4) building back better from the aftermath of COVID-19 (aligned with Pillar 4 of the WBG Approach). To prevent COVID-19 reaching Kiribati and save lives, GOK took swift measures in January to restrict travel from affected countries, and in March Kiribati closed its border altogether while placing stringent quarantine protocols on incoming cargo shipments. GOK has worked with development partners to procure personal protective equipment and lab equipment, while also establishing isolation centers in South Tarawa. A three-week lockdown was introduced in late March as a precaution and to test capacity to respond quickly in the event of a local outbreak. In terms of protecting the poor and vulnerable and supporting businesses and job creation (Pillars 2 and 3 of the WBG Approach), GOK has launched an economic relief package worth about 5 percent of GDP which includes payments for affected workers, private businesses and SOEs, as well as funding for the food import stockpile to protect food security in the event of import disruptions. In relation to Pillar 4 of the WBG Approach on strengthening policies and institutions for rebuilding better, GOK is prioritizing policies to strengthen food security in the longer term, including through boosting domestic agriculture and fisheries. GOK is also implementing measures to improve business continuity planning for the public service in order to improve resilience. In response to the pandemic, GOK has eliminated cash payroll payments and required all public servants to open bank accounts, while also investing in IT equipment to enable reduced person-to-person contact. Finally, GOK also recognizes improved access to basic water and sanitation, including handwashing facilities, as a critical public health need to reduce vulnerabilities to communicable disease.

## 4. PROPOSED OPERATION

### 4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

38. **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.

39. **The first pillar of the proposed operation focuses on strengthening management of sovereign wealth**

<sup>17</sup> Government of Kiribati. (2019). “National Policy on Gender Equality and Women’s Development 2019-2022”



**and improving public financial management.** The actions under this first pillar are closely aligned with the wealth and governance pillars of GOK's 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.

40. **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.

41. **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 or the budget support financing in itself. A coordinated policy matrix between budget support donors also strengthens the policy dialogue and helps to manage capacity constraints.
- *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 difficult policy areas – particularly in fragile states – involves taking informed risks, which the Bank should support* – this DPO series continues to work on RERF, water policy and fisheries management, significant yet contentious areas whose risks are acknowledged.

42. **The proposed prior actions are significantly strengthened compared with the indicative triggers envisaged at the time of DPO1.**<sup>18</sup> Three of the five prior actions (PAs 1, 2 and 5) represent subsequent steps in the reform sequence compared to the indicative triggers included in DPO1. One trigger has been achieved but was dropped in order to streamline the matrix. Another trigger relating to the fisheries sector has been dropped (due to technical assistance delays) and replaced with a proposed prior action on coastal fisheries which more

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<sup>18</sup> The first DPO in the series was titled the Fifth Economic Reform DPO (P167263), following on from the previous DPO series that have been carried out in Kiribati (two programmatic series each of two operations). We have changed the naming convention for this operation to better reflect the content of the program and to number the operations according to the current series (i.e. DPO1 and DPO2 rather than DPO5 and DPO6).



directly addresses food security and climate adaptation concerns. Refer to Table 7 at the end of this section for more detail.

## 4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

### Pillar 1: Strengthening sustainable management of sovereign wealth and improving public financial management.

***Prior Action #1. The Recipient, through its Cabinet, has adopted and published a rule-based withdrawal policy designed to preserve the capital value of the Revenue Equalization Reserve Fund (“RERF”) and take into account inflation and population growth, to ensure the long-run sustainability of the RERF and protect intergenerational equity.***

43. **The RERF has traditionally served a dual purpose of distributing the benefits of natural resource extraction across generations and acting as a fiscal stabilization mechanism.** The RERF was formed in the 1950s to save revenues from phosphate mining (a resource which is now depleted) and is one of the oldest continuously operating sovereign wealth funds in the world. In the first decade of the 2000s, the real value of the RERF declined significantly (from A\$337m in 1984 dollars in 2000 to A\$217m by 2011) as a result of both unsustainable fiscal management and poor RERF investment management. A combination of low and volatile fisheries revenues and relatively high public expenditure needs resulted in large fiscal deficits and frequent drawdowns from the RERF. Meanwhile, a review conducted in 2011 with technical assistance from the IMF identified a number of weaknesses in the RERF’s management, including the misalignment of the asset allocation with the RERF’s long-run investment objectives. The review recommended closer oversight of the asset managers, shifting to a passive investment strategy and renegotiating the contract with the custodian.

44. **In 2015 the GOK began implementing the recommended reforms, with technical assistance from World Bank Treasury.** A new asset allocation was approved, comprising a balanced mix of AUD government bonds and global equities, with the objectives of maximizing the long-term real value of the RERF, subject to the government’s tolerance to short term volatility. A review of the performance of the incumbent asset managers was undertaken, which found they had taken inappropriate risks while achieving returns that were not commensurate to the level of risk-taking, and charging management fees that were well above competitors, for no additional services.<sup>19</sup> New asset managers were appointed through a transparent and competitive selection process, lowering management fees, and the RERF portfolio was reoriented to replicate the performance of the approved global equity and fixed income benchmarks. A review of custodial arrangements was also undertaken to assess whether the services of the incumbent provider were aligned with current market practice and the level of fees, and a competitive process was completed to appoint a new custodian. These reforms were supported by successive DPOs in the previous two series and represent one of their most significant achievements.

45. **The improvement in the management of the RERF that has resulted from this reform process has been striking.** Critically, the return on the RERF portfolio is now aligned with its long-term investment horizon, the performance of the RERF tracks that of the approved benchmarks, and the fees charged by the external managers and the custodian are at market levels. The market value of the RERF reached A\$1 billion in 2018 (380 percent of GDP), ahead of the GOK’s target of 2020. This achievement is also due to the increased fishing revenue and relatively prudent fiscal management in recent years that has allowed the GOK to make transfers into the RERF to replenish it (A\$50 million in 2015 and A\$70 million in 2016), and the outstanding performance of global equity over the period. Meanwhile, the government’s cash reserves now stand at over A\$200m (75 percent of GDP) and

<sup>19</sup> The inappropriate risks had included – among other things – exposure to multiple Icelandic banks, which led to irrecoverable losses in the aftermath of the Global Financial Crisis.



are sufficient to substitute for the RERF's traditional fiscal stabilization role. The previous DPO in this series supported the GOK to implement a cash management policy to increase the interest earned on cash balances outside of the RERF, and the dialogue continues to focus on further improvements in this area.

46. **Following the achievement of the A\$1 billion milestone, the GOK is now reshaping the role of the RERF to serve as a long-term endowment fund.** As a prior action in the first operation of this series, Cabinet adopted a new set of investment objectives for the RERF, which are to: (i) maximize long-term returns without incurring undue risk; (ii) ensure that the real long-term value of the assets is maintained; and (iii) make sustainable drawdowns from the RERF to enable the GOK to finance development projects. With these objectives, the current generation will benefit from investment projects funded via sustainable drawdowns from the RERF, while future generations will benefit from continued income from the RERF as well as the expanded domestic capital stock financed by current investments.

47. **The indicative trigger envisaged at the time of the first operation in this series was the adoption of a revised investment strategy, to confirm that the risk-return profile of the RERF is in line with the new investment objectives and GOK's risk tolerance.** In 2019, GOK reviewed the risk/return profiles of possible alternative portfolios with support from World Bank Treasury confirmed that the existing investment strategy of a 50:50 global equity and Australian fixed income mix remains appropriate for GOK's objectives and risk tolerance, although this choice will need to be reviewed at regular intervals in line with best practice (something which World Bank Treasury's technical assistance remains engaged to support). With that trigger achieved already, the proposed prior action for this operation reflects a subsequent step in the reform sequence, to establish a process for sustainable withdrawals of RERF income.

48. **As a prior action for this operation, the GOK has published a rule-based withdrawal policy designed to allow for drawdowns for development purposes in limited circumstances, while protecting the long-run value of the fund and intergenerational equity.** The withdrawal rule, published in August 2020, has the objectives of (i) protecting the capital value of the RERF; (ii) using the RERF more effectively for development purposes; and (iii) ensuring that intergenerational equity is not compromised. The rule is designed to take population growth and inflation into account, and sets a conservative threshold where only annual returns in excess of five percent in real terms will be eligible for withdrawal for development purposes. Given that World Bank Treasury has modelled the long-run expected real return of the current asset allocation at 2.8 percent and the UN projects 1.6 percent annual population growth, the rule implies a societal preference towards growing the fund value in real per capita terms for future generations, with withdrawals only occurring for 'excess' returns in years with very strong growth. The annual amount available for withdrawal will be validated by the RERF custodian and withdrawals will only be made with Cabinet approval, for development purposes. World Bank Treasury advises that the rule should be periodically reviewed to ensure consistency with the RERF's investment strategy and assumptions on long-run inflation and population growth rates.

49. **The withdrawal rule has several implications for the fiscal framework.** With the conservative benchmark set for withdrawals, drawdowns will not necessarily occur on a regular and predictable basis. This is manageable within Kiribati's fiscal framework, since withdrawal proceeds can be appropriated to the Development Fund, which allows for multiyear appropriations for development projects so that the full amount of a withdrawal does not need to be expended in the same year. The rule also formalizes what has now become GOK's practice of avoiding the use of the RERF for fiscal stabilization and instead maintaining a cash reserve buffer in the Consolidated Fund to manage volatility in fisheries revenues. This approach has both advantages and drawbacks. It insulates the RERF from shorter term budget considerations, avoiding risks of unsustainable drawdowns for short-term purposes which, if mismanaged, could jeopardize the preservation of this resource to meet the needs of future generations which will face greater climate adaptation challenges. On the other hand,



from a political economy perspective, cash reserves can be more easily drawn upon to finance ad hoc spending proposals than would be the RERF, which faces a higher level of parliamentary scrutiny. Moreover, there are currently no clear targets or anchors in place to determine the appropriate level of cash reserves needed to adequately manage fisheries revenue volatility. Going forward, it will be important to further strengthen the medium-term fiscal framework by anchoring spending around a robust forecast of medium-term fisheries revenues, and a target level of cash reserves that takes into account reasonable bounds of revenue volatility. The Bank plans to provide technical assistance on these important issues during the upcoming PER engagement and through the ERT dialogue.

**50. The expected result of these reforms over the medium term is that any RERF withdrawals will be made transparently in accordance with the published withdrawal rule, to protect the long-run sustainability of the fund.** A rule-based approach will ensure that this critical resource is managed transparently and in accordance with clear principles to safeguard the sustainability of the fund for the benefit of future generations.

**51. The management of sovereign wealth remains an important part of the ERT policy dialogue going forward.** World Bank Treasury plans to continue working with GOK to build the Ministry of Finance's internal capacity to effectively oversee the RERF custodian and fund managers, to carry out reviews of the RERF's strategic asset allocation, and to prepare timely and accurate financial statements (including to determine the amounts potentially available for withdrawal under the new rule). The ERT policy dialogue is also focused on supporting GOK with further improvements to cash management, building upon the 2018 Cash Management Policy, to ensure that the significant reserves outside of the RERF earn more competitive risk-adjusted returns. Although there has been a marked increase since 2018 in the interest income that GOK earns on its reserves, there remains room for further improvement. Meanwhile, MFAT and the IMF are supporting GOK with its priorities to strengthen regulation of the domestic banking sector and promote competition, which could help over the longer term to expand the financial instruments available domestically for investment of Kiribati's cash reserves.

***Prior Action #2. The Recipient has: (i) enacted the Public Procurement Act of 2019; and (ii) through its Ministry of Finance and Economic Development, promulgated the Public Procurement Regulations 2020; in order to increase transparency and value for money in public procurement.***

**52. Procurement has been recognized as an area of significant weakness in public financial management in Kiribati for some time.** Before Kiribati began the current procurement reform program, there were no procurement regulations, procedures or standard bidding and contract documents (instead, a variety of different models were in use in different agencies), and no working-level procurement procedures. The lack of clear guidance and rules was especially problematic given the capacity challenges in Kiribati, and it limited the GOK's ability to achieve greater efficiency, fairness and transparency in the more than A\$70m of procurements it undertakes each year (a figure that is now rapidly growing).

**53. In 2017, Cabinet approved the Kiribati Public Procurement Reform Program (KPPRP), which the GOK prepared with technical assistance from the ADB.** This action was supported in the last DPO series. In the first phase of reforms implemented under the KPPRP, a new Central Procurement Unit (CPU) in MFED was established in 2018, which served as the prior action for the first operation in the current series. The CPU is now facilitating the professionalization of procurement capacity which is currently very thinly spread across the public service, through trainings and direct support for major procurements.

**54. The next major step in the implementation of the KPPRP was the implementation of a revised legislative framework for procurement, which serves as the prior action for this operation.** A comprehensive review of the existing Procurement Act 2002 was undertaken with technical assistance from the ADB (part-



funded by MFAT). The new legislation and supporting regulations clearly establish the powers and responsibilities of the CPU and Chief Procurement Officer; introduce mandatory annual procurement planning by ministries; prescribe full transparency of the procurement process and establish open, competitive procurement as the default sourcing method for all procurements; establish an independent complaints mechanism; allow for both administrative and criminal sanctions for noncompliance with procurement regulations; and provide for the use of framework agreements. The new legal framework also provides scope for social considerations such as gender equality to be incorporated in procurement evaluation criteria, although it is not expected to be feasible to implement this in the short term.

**55. The new Public Procurement Act was enacted in November 2019 and supporting Regulations were issued in May 2020.** The new legal framework is now fully in force and GOK has launched a dedicated procurement web portal, which is a requirement in the Regulations and represents a major step towards boosting transparency and competitiveness. GOK is now using the web portal to publish open tenders for COVID-19 preparedness, including the fit-out of new isolation centers. The ADB technical assistance is also supporting the drafting of a new procurement manual, which is expected to be launched before the end of 2020, and the CPU is planning to carry out a series of trainings for line ministries. Standard bidding documents have been prepared and uploaded on the web portal, and standard contract templates are also being drafted. GOK plans for the web portal to be maintained by the CPU and contain all relevant procurement regulatory documents, tender notices and tender award notifications. The portal may also eventually host an e-tendering system, a prospect which is currently undergoing a feasibility study within the KPPRP.

**56. The expected result of the procurement reform process is improved transparency and stronger procurement planning, which will support improvements in value for money over time.** The results indicator targets (i) an increase in the share of Procuring Entities (ministries and SOEs) preparing annual procurement plans and submitting them to the CPU (from 54 to 100 percent); and all medium value (over A\$10,000) and high-value (over A\$50,000) contract awards being published online by 2022, in order to boost transparency. Increased use of annual procurement planning will support higher-quality procurement processes over time, and make it easier to take more strategic approaches such as framework contracting to improve value for money.

***Prior Action #3. The Recipient, through its Ministry of Finance and Economic Development, has included a public debt annex in the 2020 National Budget that includes: (i) all loan balances and annual service costs for 2019 (actuals); and (ii) the total debt stock and debt service profile for 2016-2028, and has published the budget on its website.***

**57. This proposed prior action is a Performance and Policy Action (PPA) under the IDA Sustainable Development Finance Policy (SDFP) and supports Kiribati's good performance on debt transparency.** In recent years Kiribati has published a debt annex in the annual budget, including information on the financial terms, original and residual maturity of each loan, the loan purpose, creditor, balances outstanding and annual service costs broken down by interest and principal payments.<sup>20</sup> Since the 2018 budget, the authorities have also reported on the total historical and projected debt stock and debt service profile for a 13-year period. The proposed prior action supports Kiribati's efforts to continue this recently adopted good practice in the 2020 Budget and thereby meet a number of 'green' standards of the Bank's Debt Reporting Heatmap.<sup>21</sup> The action

<sup>20</sup> Publication of the debt information in the budget rather than in a separate document is appropriate in Kiribati, since this ensures that the information is considered by MPs and reaches the widest audience possible. Budget discussions are broadcast via radio, which is the main source of information for the public given the low internet penetration.

<sup>21</sup> Publication of the debt annex in the 2020 Budget means that Kiribati is expected to score 'green' for ease of identifying debt data; instrument coverage; sectoral coverage; and information on new loans; and to score 'yellow' for periodicity. In the 2020 assessment, Kiribati scored 'red' against these aspects, since no debt reporting was published in 2019 due to delays in the budget process.



was completed in October 2020.

58. **The targeted result from this prior action is that timely debt reporting is maintained in 2020 and 2021.** The results target is that by December of each year, a debt report is published with: debt stock and flow estimates for the current year and actuals for the previous year; a debt service and debt stock projection over at least the next five years; and the details of any newly contracted loans. This will most likely be implemented through the budget process, by including debt reports in the 2021 and 2022 budgets (to be presented to Parliament in November of 2020 and 2021 respectively and published online by December). In the event that there are delays in the passage of the budget, the debt report could be separately published on the MFED website as an interim measure to ensure timely reporting is maintained.

59. **As well as promoting debt transparency, the authorities have committed to a policy of zero non-concessional borrowing.** Adherence to a zero ceiling on non-concessional borrowing is an SDFP PPA for FY21. As confirmed in the 2020 debt annex, GOK currently has no non-concessional debt and there have been no new loans contracted so far in 2020. The Bank will continue to monitor debt-related developments through the ongoing DPO dialogue on macroeconomic policy.

## **Pillar 2: Supporting prospects for inclusive growth and more resilient livelihoods under global economic uncertainty and climate change threats.**

***Prior Action #4. The Recipient, through its Cabinet, has promulgated Regulations for the Conservation and Management of Coastal Marine Resources 2019, to promote inclusive, resilient livelihoods and to safeguard food security in the face of climate change.***

60. **Coastal fisheries are critical for food security in Kiribati, where there are limited agriculture opportunities and import supply chains are vulnerable to disruption.** According to the United Nations Food and Agriculture Organization (FAO), Kiribati has one of the highest per capita fish consumption levels in the world, with estimates ranging from 72 to 200 kg per person per year (compared with a global average of 20kg), and fish makes up about three quarters of all animal protein consumed. The 2015 Kiribati Census found that 69 percent of households have a household member who fishes regularly, and home consumption is the main purpose of fishing for 75 percent of those households. Even in the capital of South Tarawa (an urban area that is home to half of Kiribati's population), 56 percent of households fished regularly and 81 percent of those households reported home consumption as the main purpose, with the remaining 19 percent of households selling catch in local markets. With very limited agriculture and livestock opportunities,<sup>22</sup> households rely heavily on imported food to complement local fish production. Kiribati had food imports totaling about 15 percent of GDP in 2018,<sup>23</sup> for which it relied on only a small number of shipping companies. Kiribati's food security vulnerabilities were brought to the fore with the onset of COVID-19, when GOK's initial quarantine controls meant that several cargo shipments were cancelled and quotas had to be introduced to prevent panic-buying. Cargo shipping has now resumed after changes to the quarantine regime, but the experience has highlighted the importance of Kiribati's coastal fisheries as a source of resilience to potential import disruptions in the future (and which can complement other near-term measures, such as the food import stockpile that GOK is currently planning to implement).

61. **At the same time, Kiribati's coastal fisheries are under threat from localized overfishing, habitat degradation and climate change.** Marine pollution and local overfishing for subsistence and small-scale commercial operations are putting severe strain on South Tarawa's lagoon species, and these threats are being

<sup>22</sup> The atoll environment and scarce land available for farming means that agriculture is limited to coconut production and a small number of fruit and vegetable crops, although about 80 percent of households have at least one pig (2015 Census).

<sup>23</sup> Staff calculations and trade data from the Observatory of Economic Complexity, accessed August 2020.



compounded by climate change. The effects of climate change on sea temperatures are expected to impact on a number of critical reef fish species throughout Kiribati's atolls in the coming decades (Campbell and Hanich, 2014), with implications for food security, artisanal livelihoods and the long-term economic development of coastal marine fisheries. This threat is identified in the Kiribati Joint Implementation Plan for Climate Change and Disaster Risk Management 2014-2023, which notes that the productivity of coral reef fish and invertebrates are projected to decline by 20 percent by 2050 due to climate change effects on sea surface temperatures and on marine habitats.

62. **There are also opportunities for greater inclusion of women in relation to coastal fisheries.** The vast majority of vocational fishers are men (94 percent according to the Census), but women are responsible for almost all market sales of catch at roadside stalls (99 percent according to FAO 2010), and subsistence fishing activity is a large part of daily life for both men and women (Deslisle, Namakin, et al., 2016). Despite this, in at least some communities, women have a lesser role in decision-making over fisheries resources, with *Unimwane* (male elders) being the main decision-makers at the community level (ibid). At the local government level, only about 5 percent of island councilors are women, limiting women's voice in decision-making over shared resources such as lagoon fisheries.<sup>24</sup>

63. **Despite the criticality of coastal fisheries for Kiribati, until now there have been no systematic regulatory measures in place to safeguard the productivity of the resource and promote inclusion – a gap that GOK now looking to remedy.** In July 2019, Cabinet adopted a Coastal Fisheries Roadmap 2019-2036, developed by the Ministry of Fisheries and Marine Resource Development (MFMRD) in conjunction with the Pacific Community (SPC) and Australian Government. The Roadmap sets out a range of actions to promote the sustainable economic use of coastal fisheries, taking into account the pressures that climate change will increasingly place on coastal ecosystems. The Roadmap also sets the overarching principle to “recognize women, youth, and vulnerable groups’ contribution to coastal fisheries and promote more inclusive fisheries management platforms and livelihoods.” A key objective under the Roadmap is to promote inclusive community-based fisheries management and support fairness in access to resources and in decision-making.

64. **As a priority under the Roadmap, MFMRD has developed Regulations under the Fisheries Act for the Conservation and Management of Coastal Marine Resources, which serve as a prior action for the DPO.** The Regulations were developed with technical assistance from SPC and address a major gap in the existing legal framework, setting out detailed management measures for coastal marine resources for the first time.<sup>25</sup> In line with the Roadmap's focus on inclusive management at the community level, the Regulations introduce a framework for Community-Based Management Plans to be approved and enforced, including penalty provisions for breaches of the Plans. Specific destructive fishing methods and gears are banned under the Regulations, with penalties set out for non-compliance. The Regulations also introduce protections for specific species, including size limits, closed areas and seasons which will be set under the discretion of MFMRD's Coastal Fisheries Director, upon the advice of the Coastal Fisheries Division Research and Monitoring Unit. There are total bans on harvesting in most cases for giant clams and turtles, with penalties prescribed for breaches. All commercial fishing in coastal waters will now require licenses, and commercial trade of coastal species will be regulated through a permit system. The Regulations build on the measures supported in the previous DPO in this series, to update Kiribati's fisheries legislation to define Illegal, Unreported and Unregulated (IUU) fishing in both coastal and oceanic fishing zones and set penalties for IUU fishing.

<sup>24</sup> For more information see Kiribati joint implementation plan for climate change and disaster risk management (KJIP) 2019-2028

<sup>25</sup> As well as technical and legal support provided by SPC, New Zealand MFAT and the University of Wollongong assisted with community consultations on the draft Regulations.



65. **The Regulations came into effect in October 2019 and implementation is well underway.** MFMRD has been running a public awareness campaign on the provisions of the Regulations, with support from SPC and the EU. SPC and the New Zealand Ministry of Primary Industries are assisting MFMRD with training for coastal fisheries officers, including a field handbook. MFMRD is also working with SPC to further detail procedures for officers to issue spot fines for offences under the Regulations. With support from the Australian Center for International Agricultural Research (ACIAR) and SPC, MFMRD has already begun working with local village authorities to develop Community-Based Management Plans, with five communities already having prepared draft plans as part of a pilot program which began in 2014. The Coastal Fisheries Division's Research and Monitoring Unit is responsible for regular data collection on the status of coastal marine species, and this information will be used on an ongoing basis to formulate management measures for species that are depleted or declining (including measures specified in the Schedule to the Regulations and in community plans).

66. **The World Bank-funded Kiribati Pacific Islands Regional Oceanscape Program (PROP) project (launched in August 2020) will also support MFMRD to implement the Regulations, in coordination with other partners.** The PROP project will provide support for inclusive consultations on community-based fisheries management plans. It will also help to scope options for strengthening coastal monitoring, control and surveillance systems, including the development of licensing and trade permit systems under the new Regulations. The project will carry out an institutional gap analysis of MFMRD's Coastal Fisheries Division and implement a human resource development program, while also supporting software procurement for electronic recordkeeping (including an online registry of coastal fishing licenses). The project will also support efforts to develop sustainable livelihood opportunities from coastal fisheries in the outer islands in a way that is consistent with the management measures in the new Regulations, for example by helping to scope and design investments to promote supply chains for aquarium fish and for near-shore tuna fishing.

67. **The targeted result of this reform is an increase in the number of communities with effective fisheries management measures in place.** This will be measured by the number of Community-Based Management Plans approved and in force under the new regulatory framework. Having enforceable management plans in place is a critical tool to ensure that the rate and pattern of resource extraction is sustainable, in light of the pressures that climate change, demand growth and habitat degradation will increasingly place on coastal marine resources. There are currently no approved plans in place, although 13 draft plans have already been prepared (including the five plans from the previous pilots). The target is for 25 plans to be in place by 2022, representing about 13 percent of all coastal communities.

***Prior Action #5. The Recipient, through its Cabinet, has approved a tariff and community service obligation framework for the roll-out of climate-resilient piped water and sanitation services across all of South Tarawa, based on the results in pilot areas.***

68. **Problems with the provision of basic water and sanitation have a large impact on the lives of the poor in Kiribati and create vulnerability to the spread of infectious disease.** The Kiribati Development Plan recognizes that overcrowding and poor hygiene from inadequate water and sanitation are key contributing factors to the prevalence of communicable diseases in Kiribati – one of the few countries in the world where leprosy is present. Diarrheal diseases in infants and children are also a chronic problem, and Kiribati has one of the highest infant mortality rates in the region. If COVID-19 or a future pandemic were to reach Kiribati, the lack of basic handwashing facilities for most households would severely hamper virus containment efforts. While about two thirds of the South Tarawa population are connected to a reticulated water system free of charge, water is only supplied up to two hours every 48 hours and at very low pressure. A survey carried out by the World Bank in 2018 found that two thirds of households in South Tarawa spend more than half an hour a day on water collection tasks, with an average time taken of 55 minutes per day (in terms of gender distribution, the survey found water



collection tasks were evenly shared amongst men, women, boys and girls, while the 2015 Census indicated that bulk water collection was mainly performed by men).<sup>26</sup> Only 49 percent of the South Tarawa population has access to basic sanitation services (half of which is connected to a sewerage system), and 60 percent of the population report at least occasionally practicing open defecation in the sea.

69. **The water supply is currently severely rationed, and without adaptation measures, water scarcity will increase with climate change, impacting on poverty and public health.** South Tarawa's two main water lenses are already under strain due to climate change, with increasing saltwater intrusion from sea level rise and coastal over-topping events. At the same time, higher temperatures from climate change will gradually increase the need for fresh water per person. To address these challenges, the GOK, together with the World Bank, ADB and Green Climate Fund, is now planning a major US\$60m investment in two solar-powered desalination plants and upgrades to the reticulated water and sanitation networks. The desalination plants will significantly expand the water supply to counteract the threats from climate change and make it possible to dramatically improve access to water and sanitation services for the poor and vulnerable. Over 2021-24, the project aims to support the rollout of 24/7 piped water across all of South Tarawa, home to half of Kiribati's population.

70. **A price on water will be critical to ensure that households have an incentive to conserve water once they have expanded 24/7 access, so that consumption is managed within the supply constraints.** Recognizing this, in 2018, PUB and the GOK worked with the World Bank to pilot 24/7 piped water supply in three South Tarawa communities, and Cabinet approval of a volumetric tariff for the pilot served as a prior action for the first operation in the series. The Public Utilities Board (PUB) now has over 18 months' experience in administering the tariff to the 400 households in these communities, and the tariff has been successful in ensuring households practice conservation measures. However, billing collection rates, international comparisons and a willingness to pay survey carried out by the World Bank provide evidence to suggest that tariff rates should be lowered to ensure affordability for households.

71. **As a proposed prior action, Cabinet has approved a revised water tariff and sanitation structure based on evidence from the pilots, which will be used for the rollout of piped water and sanitation services across all of South Tarawa.** The new tariff plan was approved by Cabinet in September 2020, and was designed with World Bank technical assistance which drew on evidence from the 24/7 water pilots as well as modelling of PUB's projected costs and revenues. The plan includes a significantly lower tariff framework for water services which is designed to ensure that monthly water bills are affordable for the poorest households, while also setting out a community service obligation (CSO) requirement of A\$2.1m per year on average over the next 10 years to ensure the financial viability of the services (an increase of about A\$1.4m per year compared with the current CSO level).

72. **The tariff and CSO reform will ensure that the rollout of piped water services is affordable for households, financially viable for PUB, and provides an incentive to conserve Kiribati's very scarce freshwater reserves in the face of climate change threats.** In the short term, the revised tariff structure and CSO will also ensure that the provision of 24/7 water to the pilot communities is sustainable and in line with affordability considerations. The immediate results of these reforms will be measured by (i) the increase in the number of households in South Tarawa with access to reticulated water 24/7; and (ii) the increase in affordable water supply for the poor, as measured by the level of daily piped water consumption that can be afforded by households in the lowest income quintile (where affordability is defined as a water bill that is less than five percent of household expenditure). Currently, there are 480 households connected to piped water supply in the three pilot communities, and the target by 2022 is that this level of connections is successfully sustained (wider rollout of

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<sup>26</sup> The survey was carried out in June 2018 and collected baseline information from 300 households in South Tarawa.



the water network is not expected till 2023 onwards). The affordable level of water consumption for poor households is estimated at 15 liters per capita per day (LCPD) under the pilot tariff structure, and will increase to 37 LPCD, sufficient to meet basic water needs, once the revised tariff structure is implemented later in 2020.

***Prior Action #6. The Recipient, through its Ministry of Education, has promulgated the Registration and Administration of Service Providers and Premises Regulations 2020, to boost quality and access to early childhood education and facilitate women’s labor force participation.***

**73. Early childhood education is crucial for children’s cognitive, social and psychological development, but has received comparatively little attention and investment in Kiribati to date.** The consequences of this relative neglect are starkly illustrated in the early childhood development results measured by the 2017 Kiribati Early Human Capability Index (KeHCI):<sup>27</sup> only 52 percent of children could hold a book and turn its page correctly; 27 percent were able to follow the words in a book from left to right; and only 19 percent were able to count to 20. The Early Grade Reading Assessment (EGRA) in 2016 found that only 47 percent of grade 3 students could read with comprehension, while 13 percent had a zero score.<sup>28</sup> Given both the limited domestic economic opportunities in such a small, remote state, and the existential climate change threats Kiribati faces, a good education and good health are arguably the most important things the GOK can provide I-Kiribati children, to enhance their future livelihood prospects at home and abroad. Access to high-quality early education is a crucial foundation for these human capital investments.

**74. The cost and low quality of preschool services are important factors contributing to low early childhood development outcomes in Kiribati, along with poor nutrition outcomes and low levels of home stimulation.** Until now, preschool services have been provided on an unregulated basis by community organizations, churches and island councils, funded through a combination of fees (typically between A\$0.50 and A\$1 per day, per child), volunteer work and island councils, with no requirements for teacher qualifications and the standard of premises. A 2011 UNICEF survey of vulnerable communities found that 31 per cent of household respondents with preschool aged children had difficulty in allowing their children to participate in organized care and learning programs, with school fees being the most important factor for urban respondents and teacher absenteeism being most important for rural respondents.<sup>29</sup> Data on preschool enrollment and attendance suggest that there is significant room for improvement in preschool participation. The 2015 census indicates attendance rates of only about 50 percent for year 1 of preschool (age three), but higher rates of around 90 percent for years 2 and 3 (four and five year-olds; no gender breakdown is available).<sup>30</sup> The 2017 KeHCI estimated that preschool enrolment was relatively high for both boys and girls (f: 93.1 percent, m: 91.7 percent), but did not collect data on the percentage of children regularly attending preschool.<sup>31</sup> The 2019 Pacific Islands Literacy and Numeracy Assessment indicated that 15 percent of Grade 4 and 6 children had not attended early childhood programs (according to children’s self-reports), with these children scoring significantly lower in literacy and numeracy.

**75. The lack of affordable, good-quality preschool and daycare services is also likely to be a contributing factor**

<sup>27</sup> The KeHCI instrument was adapted to the Kiribati context by local stakeholders. It includes different areas of early child development like physical, social and emotional, language, and cognitive development. The national census was completed in 2017 for the population aged 3-5 years, supported by the PEARL program.

<sup>28</sup> The EGRA was completed for a representative sample of grade 1-3 students in Kiribati in 2016, supported by the PEARL program.

<sup>29</sup> *Kiribati UNICEF Sentinel Monitoring* (2011). The selected vulnerable urban communities were in Betio and Bairiki, while rural communities were sampled in Abaiang and Tab North.

<sup>30</sup> The 2015 Census question asked who in the household was “attending school this year”, and at what grade level. The 2010 Census included a gender breakdown, and showed no significant differences in attendance by gender.

<sup>31</sup> The KeHCI also carried out most data collection at preschool centers, with enumerators needing to make extra efforts to locate children who weren’t at preschool (for example, a treasure hunt was organized in South Tarawa to help identify unenrolled children). This suggests that the KeHCI could overestimate enrolment rates.



**behind women’s low rate of labor force participation compared with men.** Formal labor force participation in Kiribati is significantly higher among men (53.3%) than women (33.6%) (ILO 2015). Moreover, most income-earning men are in regular employment while most women are in non-regular employment. The disproportionate share of unpaid care work borne by women is a major barrier to their employment and labor force participation. Data from the *Kiribati UNICEF Sentinel Monitoring* (2011) report confirms that unpaid care of pre-school aged children presents a barrier to women’s abilities to access and retain jobs. Surveys of four urban and rural communities showed that even when a working woman had a child, 77 per cent of households said that the mother took primary responsibility for childcare, while 10 percent of households said that the child’s father took primary responsibility of childcare.<sup>32</sup> A qualitative study of men and women from nine villages across Kiribati, identified that women’s responsibility for the major share of unpaid care and household work significantly limits their time spent in income-generating activities.<sup>33</sup>

**76. Recognizing the importance of improving early education and childcare opportunities, Kiribati passed the Early Childhood Care and Education (ECCE) Act in late 2017 (a prior action under the first DPO in this series).** The new Act establishes a framework for the regulation of preschool and care services, including a registration and compliance mechanism for service providers and premises, and minimum teacher qualifications. The legislation is the first step to formalize the early childhood education sector to ensure that minimum quality standards are met in preschools. The Act also provides a legal foundation for the eventual development of formal childcare services, but no childcare providers have sought registration under the Act to-date, suggesting that significant activity in this sector is unlikely in the near term.

**77. As a prior action for this operation, in September 2020 the Minister of Education issued Regulations under the ECCE Act which prescribe the detailed process for registration of preschools and give legal force to the Kiribati Quality Standards for ECCE.** As a condition of registration, preschool providers and premises are required to meet the minimum criteria set out in the Kiribati Quality Standards, which were introduced in 2019. There are nine different standards for assessing preschools on the quality of infrastructure; health and hygiene; play and learning materials; classroom management; curriculum; learning opportunities; workforce; interaction; and assessment practices. Importantly, the ‘infrastructure’ and ‘health and hygiene’ standards include requirements for handwashing facilities and for teachers to encourage good hygiene practices, while also requiring preschools to facilitate vaccination and vitamin supplementation programs. Under the standards, teachers are also assessed for the extent to which they show sensitivity and inclusion to children of all needs and abilities, and to ensure that teachers do not show any gender bias. There are detailed indicators and a traffic light scoring system for each standard, which MOE will use to monitor preschool performance over time.

**78. GOK has introduced government funding for the preschool sector, with financial support contingent on schools and teachers meeting the minimum quality standards for registration.** In the 2019 Budget, the GOK established a A\$1.1m annual allocation for teacher salary top-ups for registered preschools, and this allocation has been increased to A\$2m in the 2020 Budget. Payments are differentiated based on the qualification level of the teacher, according to a similar salary scale to that used for junior primary school teachers (but only for three hours of teaching per day). Only registered preschools qualify for funding, providing a financial incentive for preschools to meet minimum requirements for the standard of facilities and equipment and teacher qualifications. Over time, government funding for salaries should support the professionalization of preschool teaching, in conjunction with MOE’s efforts to develop both pre-service and in-service teacher training. The salary payments should also support access to preschool, to the extent that teachers do not volunteer their time and

<sup>32</sup> Some households (5 per cent) however, engaged children to child care, or the child’s maternal grandparents (8 percent).

<sup>33</sup> Caulfield, T. (2018). “Women’s Economic Empowerment Feasibility Study, Kiribati”. Prepared for Pacific Women Shaping Pacific Development.



costs need to be recuperated through fees. Most preschool teachers are female, so women should particularly benefit from the introduction of the salary top-ups and opportunities created from the professionalization of the sector, provided that the increased remuneration doesn't lead to the subsector becoming male-dominated.<sup>34</sup>

**79. MOE is carrying out annual inspections of all preschools to document the condition of premises and teacher qualifications and identify schools qualifying for government support.** The first inspection process was carried out in 2019 and found that 19 percent of preschools met the full registration requirements while 60 percent of preschools were given a provisional registration status, subject to improvements being made in certain areas over the next year. 88 percent of teachers met the minimum qualification standards. As a transitional measure, Cabinet determined that registered teachers in registered and provisionally registered schools will receive the full payment amount, while registered teachers in unregistered schools will receive half of the amount. Provisionally registered preschools have been given one year to upgrade their registration status, before the funding is reduced to half pay.

**80. These reforms are expected to lead to improvements in children's early cognitive development.** Significant changes in cognitive development scores are only expected to emerge over the longer term, so the results indicator for the purposes of the ICR will assess the intermediate outcome of improved preschool quality. This will be measured by the share of preschools meeting the requirements for registration with MOE.

**81. The reforms are expected to increase preschool participation, which would contribute towards narrowing the gender gap in labor force participation by helping to reduce women's disproportionate childcare burden.** An increase in preschool participation would directly correlate to a reduced childcare burden for women, by providing regularly scheduled intervals where the caregiver does not need to be at home looking after three- to five-year-old children. Studies globally support the assertion that the provision of safe and accessible childcare has a large impact on mainly women's choices about the type of work they do; the career goals they aspire to achieve; the hours they work and whether they stay in the workforce at all. For example, in the Pacific Region, an IFC study in Fiji found significant losses in productivity among parents stemming from lack of childcare.<sup>35</sup> Evidence from the East Asia and Pacific Gender Innovation Lab indicates that access to an additional public preschool per 1,000 children in Indonesia raises the employment of mothers of eligible-aged children by 6.9 percentage points, an increase of about 13 percent.<sup>36</sup> To measure the targeted increase in access to childcare, the results indicator for the ICR measures the increase in preschool attendance between the 2015 and 2020 censuses. Unfortunately the timing of the census means that the result will be measured only after one year of the Quality Standards and government funding being in place, but some improvement in attendance rates is still expected. MOE does not currently have administrative records for preschool attendance and enrolment, but it is currently developing this capacity. If administrative data is available at the time of the ICR in 2022, it will be used to supplement the 2020 census result and provide a more updated attendance estimate.

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<sup>34</sup> According to the 2015 Census, 238 of the 265 preschool teachers in Kiribati were female. The professional primary school subsector is 80 percent female (Ibid.), suggesting that preschool jobs are likely to remain predominantly female once salaries are aligned to primary school teachers.

<sup>35</sup> It also revealed that women were more likely to take a lower paid occupation (in the private sector) or to miss work (in both the private and the public sector) as a result. See: IFC. 2019. *Tackling Childcare: The Business Case for Employer-Supported Childcare in Fiji*

<sup>36</sup> See more at EAP GIL study on Does Access to Preschool Increase Women's Employment?

<http://documents1.worldbank.org/curated/en/193531533794454056/pdf/Does-access-to-preschool-increase-women-s-employment.pdf>  
In addition, a World Bank study in Malaysia identified housework, including childcare and elderly care, as the main reason why women (but not men) did not participate in the labour force. See: World Bank. 2019. *Breaking Barriers: Toward Better Economic Opportunities for Women in Malaysia*.



Table 7: Indicative Triggers and Prior Actions

Indicative Trigger as Envisaged in DPO1	Proposed Prior Action	Comment
<b>Pillar 1: Strengthening sustainable management of sovereign wealth and improving public financial management.</b>		
<b>Indicative Trigger #1:</b> The Recipient’s RERF Investment Committee has adopted a revised investment strategy, and the Recipient’s Cabinet has endorsed this investment strategy.	<b>Prior Action #1.</b> The Recipient, through its Cabinet, has adopted and published a rule-based withdrawal policy designed to preserve the capital value of the Revenue Equalization Reserve Fund (“RERF”) and take into account inflation and population growth, to ensure the long-run sustainability of the RERF and protect intergenerational equity.	Trigger achieved, after GOK reviewed investment strategy options in 2019 and opted to maintain the same strategy. The prior action supports a subsequent step in the reform sequence.
<b>Indicative Trigger #2:</b> The Recipient’s Cabinet has adopted an asset management strategy for operating and maintaining major government-owned assets.		An asset management strategy was approved by Cabinet in September 2020. However, the trigger has been dropped to reduce the size of the matrix, and because this is the final operation in the series - this is a strategy at the start of a reform sequence, but we do not have follow-up actions to support implementation.
<b>Indicative Trigger #3:</b> The Recipient’s Cabinet has submitted the revised legislative framework for procurement to Parliament.	<b>Prior Action #2.</b> The Recipient has: (i) enacted the Public Procurement Act of 2019; and (ii) through its Ministry of Finance and Economic Development, promulgated the Public Procurement Regulations 2020; in order to increase transparency and value for money in public procurement.	Trigger completed and strengthened.
	<b>Prior Action #3.</b> The Recipient, through its Ministry of Finance and Economic Development, has included a public debt annex in the 2020 National Budget that includes: (i) all loan balances and annual service costs for 2019 (actuals); and (ii) the total debt stock and debt service profile for 2016-2028, and has published the budget on its website.	New action, to support implementation of the recently launched IDA Sustainable Development Finance Policy.
<b>Pillar 2: Supporting prospects for inclusive growth and more resilient livelihoods under global economic uncertainty and climate change threats.</b>		



<p><b>Indicative Trigger #4:</b> The Recipient, through its Cabinet, has adopted a roadmap for the development of the fisheries transshipment subsector.</p>	<p><b>Prior Action #4.</b> The Recipient, through its Cabinet, has promulgated Regulations for the Conservation and Management of Coastal Marine Resources 2019, to promote inclusive, resilient livelihoods and to safeguard food security in the face of climate change.</p>	<p>Trigger dropped and replaced. Technical assistance on the transshipment roadmap has been delayed.</p>
<p><b>Indicative Trigger #5:</b> The GOK determines an appropriate pricing structure of the tariff for the full rollout of 24/7 reticulated water in South Tarawa.</p>	<p><b>Prior Action #5.</b> The Recipient, through its Cabinet, has approved a tariff and community service obligation framework for the roll-out of climate-resilient piped water and sanitation services across all of South Tarawa, based on the results in pilot areas.</p>	<p>Achieved.</p>
<p><b>Indicative Trigger #6:</b> The roadmap for school readiness and early grade reading implementation has been adopted.</p>	<p><b>Prior Action #6.</b> The Recipient, through its Ministry of Education, has promulgated the Registration and Administration of Service Providers and Premises Regulations 2020, to boost quality and access to early childhood education and facilitate women’s labor force participation.</p>	<p>The World Bank-supported roadmap included in the indicative trigger was completed and endorsed by Cabinet in 2019. The proposed prior action instead reflects the more substantive measures that the GOK has taken since then to implement actions in the roadmap.</p>

**4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY**

82. **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.

83. **The proposed operation is complemented by a number of other Bank engagements in contributing to achieve the objectives of the RPF and the WBG Approach Paper for COVID-19.** The Bank’s engagement under the “saving lives” pillar of the WBG Approach is spearheaded with the COVID-19 Response Project which is



supporting GOK to strengthen its hospital infrastructure, and with advisory support to the Ministry of Health and Medical Services through the Pacific Health Program of Advisory Services. In terms of the RPF objectives and the “building back better” pillar of the COVID-19 response, this DPO complements several other engagements, including: (i) World Bank Treasury RAMP, which is helping the GOK improve the governance, management and strategy relating to the RERF and to build the capacity of MFED staff; (ii) the Pacific Islands Regional Oceanscape Project (PROP), which is helping the GOK with the management of its fisheries assets; (iii) the recently concluded Pacific Early Age Readiness and Learning (PEARL) Project, which assisted GOK with the early childhood roadmap; and (iv) the South Tarawa Water Project, which is helping the GOK with providing sustainable access to water. Annex 6 provides more detail on how the WBG program in the PIC9 has been adjusted to respond to COVID-19.

#### 4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

**84. The GOK formulates its national development plans through a consultative process among government stakeholders, civil society and the private sector.** As well as being consulted in its formulation, civil society and the private sector are invited to provide feedback on drafts of the plans and indicate areas that they can support. The planning process also involves widespread consultation with all government ministries and agencies. The consultation process for DPOs in Kiribati occurs through the Economic Reform Taskforce (ERT). The ERT was established prior to the first DPO series, to serve as a forum for consultation, coordination and management of key economic reforms. It is a joint government-donor working group, chaired by the Secretary to Cabinet with the Ministry of Finance and Economic Development serving as the secretariat, and includes the Secretaries for all relevant government ministries and agencies, as well as representatives of the World Bank, ADB, Australia, European Union (EU) and New Zealand. The ERT provides a forum for dialogue, progress monitoring, results monitoring, and coordination of technical assistance for budget support-related reforms.

**85. The World Bank has collaborated closely with the ADB, Australia, the EU and New Zealand in the preparation of this operation.** In keeping with the established practice in the region, this operation is based on a joint policy matrix agreed between the GOK and this group of development partners. This approach improves the feasibility of reforms by having the GOK and key development partners focus on a small set of common priorities, and by coordinating the provision of technical assistance in support of these reforms. This approach also reduces the transaction costs on the GOK, by harmonizing the engagement and procedural aspects of budget support operations. The policy matrix supported by the Bank represents the full set of actions in the joint ERT matrix, except for the asset management strategy indicative trigger which we have dropped. Australia and New Zealand have already disbursed their budget support against the ERT matrix, while the EU is now processing its operation. The ADB is not providing budget support in 2020 but is closely involved in technical assistance coordination. With respect to the actions in the joint matrix, the World Bank provides technical assistance on the RERF and education reform areas, the ADB provides assistance on the procurement reform area, and the EU, MFAT and World Bank provide assistance on fisheries management. In addition, the Bank collaborates closely with the IMF and with the Pacific Financial Technical Assistance Centre (PFTAC) on macro-fiscal policy and PFM issues.

## 5. OTHER DESIGN AND APPRAISAL ISSUES

### 5.1. POVERTY AND SOCIAL IMPACT



**86. 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.

**87. 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.** As discussed in Section 4, coastal fisheries are vital for food security in Kiribati and directly impact on most Kiribati households. Stronger fisheries management will directly benefit the poor and vulnerable who rely on the health of fish stocks for subsistence and for cash incomes. In the short term, however, fisheries management measures could result in a reduction in fishing opportunities in some areas or for those reliant on fishing methods which are restricted by the new regulations. Risks of negative impacts on the poor and vulnerable are mitigated by the wide consultation process that was carried out during the design of the regulations, with support from New Zealand's *Tobwan Waara* project. The strong provisions in the coastal fisheries Regulations on inclusive community consultations for the development of local management plans, and the planned consultation support and safeguards analysis from the Bank's PROP project, will mitigate the risk of adverse impacts on households who do not have the means to absorb them. The GOK's social protection system, including the new unemployment benefit that is now being implemented in the 2020 budget, will also help address any adverse impacts that do result.

**88. The focus on inclusive fisheries management in the coastal fisheries reforms and ongoing engagement through PROP should help to mitigate social risks.** As described in Section 4, women have a traditionally lesser role in decision-making over coastal fisheries resources in Kiribati. MFMRD's Coastal Fisheries Division is seeking to address this imbalance by including women's groups in all community consultations. The Bank's PROP project will also facilitate dialogue with GOK on the development of coastal fisheries supply chains in a way that mitigates risks to women and youth, including analysis to investigate gaps and entry points in economic opportunities and agency between women and men.

**89. The revised water tariff structure supported under Prior Action 5 will have positive impacts on the poor and vulnerable.** The new tariff and CSO structure will make the expansion of piped water supply viable for all of South Tarawa. This will particularly benefit poor and vulnerable households which currently rely on unsafe water sources, and where both male and female household members currently spend a significant amount of time in water collection tasks. The three pilot communities already receiving piped water will also benefit from a reduction in the water tariff. The new tariff has been designed with World Bank-funded technical assistance to ensure that it is consistent with international affordability benchmarks, namely that monthly water bills for a basic level of water consumption (enough for drinking water and hygiene) do not exceed five percent of household income for the poorest quintile. The Bank will continue to monitor this affordability metric through the DPO dialogue, including once improved household income estimates are available from the 2020 HIES.

**90. Prior Action 6 is expected to lead to improved education and health outcomes for young children, although there could be unintended consequences for service quality gaps.** Increased investment in preschools linked to regulated standards should drive up the quality of service provision and induce higher levels of enrollment, which would improve education outcomes for young children (and also health outcomes, through school-implemented vaccine programs and other health initiatives). There is also some anecdotal evidence that the new government funding has already led to schools lowering or eliminating fees, which will disproportionately benefit more



vulnerable households. However, the performance-based nature of the funding brings a risk of perpetuating inequality between the best-resourced preschools and the other preschools. Schools that can afford to meet the minimum standards would register to obtain the funds, make investments to improve service quality, and have a better chance of attracting the best teachers and the wealthiest families. Conversely, schools that do not have the resources to meet these standards and access the funds would not be able to qualify for registration and could be closed, potentially reducing preschool access for some households. The provisional registration arrangement implemented by MOE provides an important mitigation for this risk, whereby schools not meeting some standards are given a year to improve their performance against the standards before losing funding. MOE's annual nationwide inspection process and data-gathering on all preschools will also mean that MOE is able to monitor changes in preschool access and the distribution of preschool performance against the standards.

**91. Prior Action 6 should have positive long-term impacts on women's economic empowerment, although there are also some risks of unintended negative impacts.** As described in Section 4, expanded access to preschool is expected to facilitate women's participation in the labor force and therefore make a positive long-term contribution to women's economic empowerment. However, it is possible that greater labor force participation could have unintended impacts on the incidence of domestic violence. There is some global evidence that women's employment can result in heightened tensions between partners due to the disruption of traditional gender norms.<sup>37</sup> GOK's national policy measures against gender-based violence help to mitigate risks of negative impacts. The 2014 Family Peace Act facilitates support and redress for victims of domestic violence, while the 2019-2022 National Policy on Gender Equality and Women's Development identifies the elimination of gender-based violence as one of its five priority areas and commits to a number of plans and initiatives aimed at strengthening preventive, protective, and support services.<sup>38,39</sup> The National Policy on Gender Equality further prioritizes the promotion of gender equality within households through the engagement of boys and men in various community outreach and counseling initiatives.

## 5.2. ENVIRONMENTAL ASPECTS

**92. 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 ECCE 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.

**93. The implementation of the coastal fisheries regulations and management plans (PA3) should have a positive environmental impact, by introducing enforceable conservation measures.** The regulations, developed with technical support from SPC, introduce bans on destructive fishing methods, protections for key habitats and

<sup>37</sup> For a summary of findings linking women's economic empowerment and intimate partner violence (IPV) see, for instance, Heise, L. 2011. What works to prevent Partner Violence? An Evidence Overview.

<http://strive.lshtm.ac.uk/system/files/attachments/What%20works%20to%20prevent%20partner%20violence.pdf>

<sup>38</sup> Kiribati's National Policy on Gender Equality and Women's Empowerment 2019-22 refers. See <https://pacificwomen.org/wp-content/uploads/2019/07/Kiribati-GEWD-Policy.pdf>.

<sup>39</sup> Approach to Eliminating Sexual and Gender Based Violence in Kiribati 2011-2021. See. <http://www.mfed.gov.ki/sites/default/files/National%20ESGBV%20Policy.pdf>



lifecycle periods, and new nationwide protections for particular species that are identified as locally threatened in the Kiribati National Biodiversity Strategies and Action Plan 2016-2020 or which are internationally threatened.<sup>40</sup> Spot fines can be issued for non-compliance. The regulations also make a community-based approach to developing conservation and management measures legally binding, with penalties for breaches to approved community-based fisheries management plans. Coastal species can only be commercially traded and exported under permit, providing a mechanism for the authorities to ensure consistency with international conservation standards. The new regulations add to a strong track record for marine conservation measures in Kiribati. This includes the successful establishment of a total ban on commercial fishing in the Phoenix Islands Protected Area (PIPA), which is the largest designated Marine Protected Area in the world and a UNESCO World Heritage site.<sup>41</sup>

**94. The PROP project will help to address capacity constraints for environmental and climate risk management in relation to coastal fisheries.** 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 but weak capacity constrains monitoring and enforcement. In relation to the coastal fisheries reforms supported by this DPO, risks are mitigated through the Bank's Kiribati PROP project, which will support the implementation of the coastal fisheries regulations and deliver a capacity-building program for MFMRD's Coastal Fisheries Division (see Section 4 for further detail). Involvement through PROP will also allow the Bank to maintain a dialogue with GOK on the species protections included in the schedule to the coastal fisheries regulations, to ensure that any future changes are consistent with international conservation measures. The Bank's engagement complements capacity building efforts from other partners, especially New Zealand's *Tobwan Waara* program for the fisheries sector and SPC's Coastal Fisheries Governance Project (also funded by New Zealand).

### 5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

**95. The government has taken significant steps to strengthen public financial management since the last Public Expenditure and Financial Accountability (PEFA) Assessment in 2010.** Budget classification has improved in line with international practice, and there has been some incorporation of a multiyear perspective in budgeting. The backlogs of national government and SOE financial statements have been significantly reduced (a measure supported by the previous DPO series), and the government has strengthened the transparency of SOE-related fiscal transfers. Information sharing between MFMRD and MFED on the sources of fisheries revenues has improved significantly (a measure supported by the first DPO series), although there is room to increase scrutiny over tax and license fee concessions in the sector. Significant improvements are now being made to improve value for money and controls in procurement due to the reforms supported under the current DPO series. Cash management has also improved, with GOK now earning increased returns on its cash balances due to measures supported under the first DPO in this series. Kiribati's annual budget is made publicly available on the GOK's website once passed by Parliament (with the budget sessions broadcast on public radio).

**96. Some important gaps in PFM performance identified in the 2010 report still persist, and GOK is working with ERT development partners to address these.** The volatility of fisheries revenues and frequent use of supplementary budgets pose challenges for the credibility of the revenue estimates and expenditure program

<sup>40</sup> There are specific protections for turtles, giant clams, ark shell, rock lobsters, mantis shrimp and coral, amongst others. Some harvest of turtles is still allowed for personal use while sale, purchase and export are banned.

<sup>41</sup> PIPA was established in the 2008 PIPA Regulations, and commercial fishing in PIPA was banned in 2015.



laid out in the original budget. As part of a public expenditure review planned for FY22, the Bank will assist GOK with strengthening fisheries revenue forecasting and establishing medium-run revenue and expenditure anchors. The ADB is assisting GOK to overhaul its financial management information system (FMIS), which is expected to facilitate significant improvements in within-year financial reporting, commitment controls and accounts reconciliation. In the medium term, GOK is also considering replacing its independence-era PFM law (with assistance from the IMF) to simplify and modernize the PFM legal framework.

**97. External audit functions reasonably well in Kiribati.** The Audit Office is considered to function well, although it struggles with limited resources and capacity, and its recommendations are not consistently implemented. The government's 2016 annual accounts were subject to a disclaimer audit opinion, with the Auditor-General unable to satisfy herself as to the accuracy of the financial statements and thus unable to express an opinion on them. The Auditor General was able to form an opinion on the government's 2017 and 2018 annual accounts; however the opinions were qualified in both cases due to a number of matters of non-compliance identified during the audits. Approximately 50 percent of expenditure is audited annually and there is strong parliamentary scrutiny of the audit reports. Parliament reserves one day per session for debate of the reports and the government is required to table a response to the Public Accounts Committee's recommendations. Parliamentary proceedings are broadcast on public radio, which has wide listenership.

**98. Kiribati does not have a central bank or its own national currency.** It has not, therefore, been subject to an IMF Safeguards Assessment.

**99. The proposed grant under this operation will be disbursed according to IDA disbursement procedures for development policy operations.** The full grant amount of US\$5 million equivalent will be disbursed against satisfactory completion of the specified policy actions, the government program as summarized in the Letter of the Development Policy, and adequacy of the macroeconomic policy framework, and is not tied to any specific purchases. Once the grant is approved by the Board and becomes effective, the proceeds of the grant will be deposited by IDA in one tranche, in Australian dollars, at the request of the Recipient, into a dedicated Local Currency Deposit Account at a domestic commercial bank acceptable to IDA.<sup>42</sup>

**100. The flow of funds is subject to the government's regular financial management processes.** Grant proceeds once deposited into a dedicated Local Currency Deposit Account will be transferred into an account of the government at the commercial bank (also in Australian dollars) which forms part of the Consolidated Fund and is available to finance budgeted expenditures. The funds will thus be subject to the government's regular PFM processes and procedures. As a due diligence measure, within 30 days of receipt of the IDA funds the Recipient will provide, by way of a letter, confirmation to the World Bank that the grant amount has been credited to an account used to finance budgeted expenditures. Disbursement would not be linked to specific purchases. The proceeds of the operation would not be used to finance expenditures excluded under the General Conditions for IDA Financing: Development Policy Financing (2018) (General Conditions). If, after being deposited in a government account, the proceeds of the operation are used for excluded expenditures as defined in the General Conditions, IDA will require the Recipient to refund the amount directly to IDA. Any such amounts refunded to IDA shall be cancelled.

**101. As an additional risk mitigation measure, the World Bank will require the auditors of the government,**

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<sup>42</sup> The only commercial bank in Kiribati is ANZ Kiribati Ltd, a subsidiary of ANZ Australia which GOK has a 25 percent ownership stake in. ANZ is subject to oversight from the Australian Prudential Regulatory Authority. ANZ bank is considered acceptable to IDA.



**in this case the Kiribati Audit Office, to conduct a special audit of the dedicated Local Currency Deposit Account.**

The audit will cover the following: (i) the accuracy of the summary of the transactions of this account, including the accuracy of any exchange rate conversions; (ii) that this account was only used for the purposes of the operation and that no other amounts were deposited into this account, including confirmation from corresponding bank(s) involved in funds flow; and (iii) that payments from this dedicated Local Currency Deposit Account were not used for excluded expenditures as defined in the General Conditions and were in a timely manner (normally within 30 days of disbursement) transferred to an account available to finance budgeted expenditure. The audit will be provided to the Bank as soon as available, but not later than six months after the end of the Recipient's financial year in which the grant is disbursed, and will be made publicly available in a timely fashion. Audits of the previous two DPOs in Kiribati (disbursed in 2017 and 2018) found that the flow of funds was compliant with the terms of the Financing Agreement in all material respects.

102. **The proposed closing date for the operation is February 28, 2022.**

#### 5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

103. **The 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.

104. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

#### 6. SUMMARY OF RISKS AND MITIGATION

105. **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 and from the institutional capacity challenges in the public sector, as well as substantial political and fiduciary risks. However the well-established DPO dialogue in Kiribati and the close involvement of development partners helps to reduce technical, stakeholder, environmental and social risks. The main residual risks are described in more detail below.

106. **"Other risk" is rated as high, because the spread of COVID-19 to Kiribati would pose a high risk to the**



**achievement of the PDO.** A local outbreak of COVID-19, particularly in the densely populated capital, could have severe social impacts in Kiribati and would require the diversion of administrative capacity to contain the virus. Lockdown measures would directly interrupt the implementation of most of the reforms and result in delays in the results timelines. GOK is mitigating this risk through its border closure, preparation of isolation centers and procurement of protective and lab equipment. The Bank’s main mechanism to support GOK’s risk mitigation efforts is through our dialogue in the health sector, including the COVID-19 Response Project and our long-standing advisory engagement with the Ministry of Health and Medical Services. The significant support to the health sector and the COVID-19 response by other partners also mitigates this risk.

107. **Institutional capacity risks are rated as high, because of the extremely thin capacity of the public sector to implement the reform program and sustain it over time.** Kiribati is an FCS country that struggles with thin capacity – with a small number of public servants and external consultants (many of whom are not located in country at present as a result of COVID-19) responsible for implementing a large number of reforms while also carrying out a broad range of ‘business as usual’ tasks. Those with well-developed technical skills and experience are often difficult for the public service to retain, due to the attractive opportunities offered by development partners with local offices or employment overseas. The risks posed by thin 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. Ordinarily, regular missions would be an important way to maintain the momentum of the program, but this is not possible while travel restrictions are in place. Virtual missions and teleconferences, while less effective (especially in Kiribati given its limited ICT connectivity), still offer some means to mitigate institutional capacity risks.

108. **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.** These include the management of the RERF, the management of oceanic tuna fisheries assets (covered in DPO 1), and the introduction of a water tariff. 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. Still, there is a large degree to which these political risks cannot be mitigated, because the reforms pertain to Kiribati’s key assets, major established interests, or issues of widespread public interest – this makes the reforms potentially very important, but it means they are inherently risky.

109. **Fiduciary risk is rated as substantial.** There are significant weaknesses in budget preparation which limit GOK’s ability to effectively allocate funds to priorities, and weaknesses in execution which make it difficult to track expenditure against approved estimates, especially with respect to project expenditure in the Development Fund. These PFM weaknesses pose a risk to GOK’s ability to effectively resource the implementation of the DPO-supported reforms over time, even if fiscal space remains adequate overall.

**Table 7: Summary Risk Ratings**

Risk Categories	Rating
1. Political and Governance	● Substantial



2. Macroeconomic	● Moderate
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Low
5. Institutional Capacity for Implementation and Sustainability	● High
6. Fiduciary	● Substantial
7. Environment and Social	● Moderate
8. Stakeholders	● Moderate
9. Other	● High
<b>Overall</b>	● Substantial



**ANNEX 1: POLICY AND RESULTS MATRIX**

Prior Actions and Triggers		Results		
Prior Actions under DPF 1	Prior Actions under DPF2	Indicator Name	Baseline	Target
<b><i>Pillar 1---Program Development Objective 1: Strengthening sustainable management of sovereign wealth and improving public financial management.</i></b>				
<b>Prior Action #1.</b> The Recipient, through its Cabinet, has endorsed a set of clear investment objectives for the Revenue Equalization Reserve Fund (RERF).	<b>Prior Action #1.</b> The Recipient, through its Cabinet, has adopted and published a rule-based withdrawal policy designed to preserve the capital value of the Revenue Equalization Reserve Fund (“RERF”) and take into account inflation and population growth, to ensure the long-run sustainability of the RERF and protect intergenerational equity.	<b>Results Indicator #1:</b> Any RERF withdrawals conform with the published withdrawal rule.	<b>Baseline:</b> No withdrawals and no withdrawal policy in place (2017)  <b>Current value:</b> Policy in place and no withdrawals made (Sept 2020)	<b>Target:</b> Any withdrawals fully conform with the published rule (2020 and 2021)
<b>Prior Action #2.</b> (i) The Recipient, through its Cabinet, has approved a Cash Management Policy, including a new cash target; and (ii) the Recipient, through its Ministry of Finance and Economic Development, has authorized initial transfers of excess cash reserves to an interest-bearing account of the Recipient, in accordance with the		<b>Results Indicator #2:</b> The average rate of return on cash reserves is increased.	<b>Baseline:</b> 71 basis points below the Reserve Bank of Australia Official Cash Rate (OCR) (Jun 2018)  <b>Current value:</b> 4 basis points above OCR (Aug 2020)	<b>Target:</b> Less than 15 basis points below the OCR (2022)



Prior Actions and Triggers		Results		
Cash Management Policy.				
<p><b>Prior Action #3.</b> In accordance with the Kiribati Public Procurement Reform Plan to establish a Central Procurement Unit (“CPU”) within the Ministry of Finance and Economic Development, the Recipient has: (i) through its Cabinet, approved the establishment of posts for the staff complement of the new CPU; and (ii) through its Ministry of Finance and Economic Development, appointed a chief procurement officer and procurement officer.</p>	<p><b>Prior Action #2.</b> The Recipient has: (i) enacted the Public Procurement Act of 2019; and (ii) through its Ministry of Finance and Economic Development, promulgated the Public Procurement Regulations 2020; in order to increase transparency and value for money in public procurement.</p>	<p><b>Results Indicator #3:</b> (i) Transparency is increased through the online publication of all medium- and high-value contract award notices and (ii) strategic planning is strengthened, as measured by an increase in the share of Procuring Entities (PEs) submitting annual procurement plans to the CPU.<sup>43</sup></p>	<p><b>Baseline:</b> (i) No online publication of contract awards (2019) (ii) 21 of 39 PEs (54 percent) submitted annual procurement plans to the CPU for the 2020 budget (2019)</p> <p><b>Current value:</b> (i) Contract awards are not published online (Sept 2020) (ii) N/A – 2021 procurement planning process is yet to be completed.</p>	<p><b>Target:</b> (i) Medium- and high-value contract award notices published online (2022) (ii) 100 percent of PEs submit annual procurement plans for the 2022 budget process (2021)</p>
	<p><b>Prior Action #3.</b> The Recipient, through its Ministry of Finance and Economic Development, has included a public debt annex in the 2020 National Budget that includes: (i) all loan balances and annual service costs for 2019 (actuals); and (ii) the total</p>	<p><b>Results Indicator #4:</b> Debt transparency is promoted with the annual publication of timely and comprehensive debt reports.</p>	<p><b>Baseline:</b> The most recent published debt report is 22 months old (Dec. 2018), with actuals data for 2017 and estimated debt stocks and flows for 2018 and 2019. (Sept 2020)</p>	<p><b>Target:</b> Debt reporting is published online by December of each year, with: estimates of debt stocks and flows for the current year; actuals data for the previous year; a debt service and debt stock projection</p>

<sup>43</sup> Medium-value tenders are defined as over A\$10,000 in value. High-value tenders are over A\$50,000.



Prior Actions and Triggers		Results	
	debt stock and debt service profile for 2016-2028, and has published the budget on its website.		over at least the next five years; and details of any newly contracted debt. (2020 and 2021)
<b>Pillar 2---Program Development Objective 2: Supporting prospects for inclusive growth and more resilient livelihoods under global economic uncertainty and climate change threats.</b>			
<b>Prior Action #4.</b> The Recipient, through its Parliament, has enacted the Fisheries (Amendment) Act 2017, to define Illegal, Unreported and Unregulated (“IUU”) fishing, define serious fishing violations, raise the penalty provisions for serious offenses, and provide for greater transparency, to combat IUU fishing.		<b>Results Indicator #5:</b> A list of all fishing license conditions for each gear type (including IUU fishing countermeasures) is published not less than every six months, to promote transparency in accordance with the Fisheries (Amendment) Act 2017.	<b>Baseline:</b> No published license conditions (2017)  <b>Current value:</b> License conditions published in June and December 2018. Applicable conservation and measures published in July 2020.  <b>Target:</b> All license conditions published every 6 months (2021 and 2022)
	<b>Prior Action #4.</b> The Recipient, through its Cabinet, has promulgated Regulations for the Conservation and Management of Coastal Marine Resources 2019, to promote inclusive, resilient livelihoods and to safeguard food security in the face of climate change.	<b>Results Indicator #6:</b> More coastal fisheries have effective management plans in place to prevent overfishing and strengthen climate adaptation, as measured by the number of Community-Based Management Plans	<b>Baseline:</b> No Management Plans in in force (Aug 2019)  <b>Current value:</b> No Management Plans in force. 13 in draft. (Sept 2020)  <b>Target:</b> At least 25 Management Plans in in force (covering about 13 percent of coastal communities) (2022)



Prior Actions and Triggers		Results		
		approved and in force.		
<p><b>Prior Action #5.</b> The Recipient, through its Cabinet, has approved the introduction of a tariff for residential water use for the three pilot areas of South Tarawa where households are provided with reticulated water 24 hours a day, 7 days a week, a decision critical for the Public Utilities Board to develop and sustain safe water supply services to all of South Tarawa, thereby reducing the associated burden on women and girls.</p>	<p><b>Prior Action #5.</b> The Recipient, through its Cabinet, has approved a tariff and community service obligation framework for the roll-out of climate-resilient piped water and sanitation services across all of South Tarawa, based on the results in pilot areas.</p>	<p><b>Results Indicator #7:</b> (i) The number of households in South Tarawa with climate-resilient access to piped water 24/7 increases; and (ii) the affordability of piped water for poor households increases, as measured by the affordable level of consumption for the poorest quintile.<sup>44</sup></p>	<p><b>Baseline:</b> (i) 0 households (ii) No piped water access (Dec 2017)</p> <p><b>Current value:</b> (i) 480 households in the three pilot areas (ii) 15 liters per capita per day (LPCD) (prior to the implementation of the revised tariff) (Sept 2020)</p>	<p><b>Target:</b> (i) at least 480 households (ii) 37 LPCD (2022)</p>
<p><b>Prior Action #6.</b> The Recipient, through its Parliament, has enacted the Early Childhood Care and Education (ECCE) Act 2017, for the regulation, facilitation and support of early childhood care and education and</p>	<p><b>Prior Action #6.</b> The Recipient, through its Ministry of Education, has promulgated the Registration and Administration of Service Providers and Premises Regulations 2020, to boost</p>	<p><b>Results Indicator #8:</b> Preschool quality is improved, as measured by the share of preschools meeting the ECCE registration requirements.</p>	<p><b>Baseline:</b> 19 percent of known preschools registered, 60 percent provisionally registered<sup>45</sup>, 20 percent unregistered. (Aug 2019)</p>	<p><b>Target:</b> 75 percent of all preschools are fully registered. (2022)</p>

<sup>44</sup> The level of affordable consumption is defined as the amount of water that can be consumed before the water bill exceeds five percent of household expenditure for the poorest quintile of households. The baseline is calculated with data from the Bank’s 2018 willingness to pay survey, done for the South Tarawa Water Supply Project. By 2022, it should be possible to use the 2020 HIES data for a more updated calculation of household expenditure levels for the poorest quintile.

<sup>45</sup> Provisional registration is where the school only meets some of the registration requirements but still qualifies for partial financial support from government, and it is given one year to meet all remaining requirements before losing funding.



Prior Actions and Triggers		Results	
preschool programs and services at national and local government levels.	quality and access to early childhood education and facilitate women’s labor force participation.		<b>Current value:</b> 2020 results are not yet available as the 2020 inspections are still in the field.
		<b>Results Indicator #9:</b> Preschool participation increases, thereby reducing women’s childcare burden and helping to narrow the gender gap in labor force participation over time.	<b>Baseline:</b> 76% of preschool-age children attending preschool this year (47% of 3-year-olds, 93% of 4-year-olds, 88% of 5-year-olds). (2015 census)  <b>Current value:</b> N/A, census data is not yet available and administrative enrolment or attendance records are yet to be developed.
			<b>Target:</b> 80% of preschool-age children are attending preschool. (2020 census) <sup>46</sup>

<sup>46</sup> It may be possible to estimate enrollment or attendance rates in 2022 from administrative records, as the Ministry of Education plans to start collecting this information. If this recordkeeping is not fully established by 2022, then we will rely on the 2020 Census to measure results.



## ANNEX 2: FUND RELATIONS ANNEX

### Kiribati—Assessment Letter for the Asian Development Bank and World Bank

September 11, 2020

*This note provides the IMF staff's assessment of Kiribati's macroeconomic conditions, prospects, and policies, based on available information as of August 31, 2020. The assessment has been requested by the Asian Development Bank and the World Bank for processing of the Pacific Disaster Resilience Program (Phase 3) and the Second Inclusive Growth and Resilience Development Policy Operation for Kiribati respectively.*

#### I. RECENT DEVELOPMENTS, OUTLOOK AND RISKS

- 1. At the onset of the COVID-19 pandemic, the authorities took preemptive containment measures that successfully limited the risk of a domestic outbreak.** Travel restrictions were introduced in January. Subsequently, containment measures became more stringent with the authorities declaring a state of emergency, closing borders except for delivery of essential goods, requiring mandatory quarantine at all ports, restricting fishing vessels under bilateral agreements with the Ministry of Fisheries to come onshore, and closing schools. Largely thanks to these early measures, Kiribati has no confirmed case, allowing the recent relaxation of selected measures such as the reopening of schools. The government's communication strategy has focused on preventing misinformation and raising awareness.
- 2. Kiribati's economy performed well in recent years, but the COVID-19 pandemic and related containment measures are putting strains on activity.** Kiribati's average annual real GDP growth rate was 4¼ percent in 2015–19 compared to about 1½ percent during 2000–14. The stronger growth reflected in part higher public spending financed by record-high fishing revenue, which averaged about 75 percent of GDP in 2015–19 (up from the historical average of 25 percent). Construction activity driven by donor-financed infrastructure investment also contributed to the recent high growth. Due to COVID-19, fishing revenues are projected to fall by about 30 percent in 2020. Planned large investment projects have been delayed, because of restrictions on the movement of personnel and materials. In addition, services including restaurant and hotel services, transportation, and other business activities are expected to contract sharply. As a result, real GDP growth is projected to drop to -1.1 percent in 2020. Growth is projected to pick-up to 3 percent in 2021 as the global economy gradually recovers. Inflation is expected to remain subdued at around 1½ percent in 2020— consistent with major trading partners, given Kiribati's use of the Australian dollar as legal tender.
- 3. Risks to the outlook are substantial and tilted to the downside.** The uncertainty around the near-term outlook is greater than usual due to the COVID-19 pandemic. A domestic outbreak of COVID-19 would further suppress domestic economic activity and could easily strain the health sector. A longer-lasting and deeper global COVID-19 outbreak could result in extended travel restrictions, further delaying planned infrastructure projects and lowering fishing revenues. A sharp tightening of global financial conditions could reduce the expected return on the Revenue Equalization Reserve Fund (RERF) and the Kiribati Provident Fund (KPF) putting pressures on fiscal resources. Looking further ahead, a cyclical reversal of the unusually long favorable weather conditions could threaten fishing revenues, with implications for the fiscal balance and the current account.



## II. POLICY RESPONSE AND SETTINGS

4. **Kiribati has taken policy measures to mitigate the effects of the pandemic, but there will be temporary weakening of both the fiscal and balance of payments positions.** The government approved an economic stimulus package of AUS\$13.5 million (about 4.8 percent of GDP). The package includes unemployment income support, and stimulus for both privately owned businesses and state-owned enterprises. The fiscal balance is projected to shift from a surplus of 15 percent of GDP in 2019 to a deficit of 13 percent of GDP in 2020 due to a sharp fall in fishing revenues and an increase in current expenditures due to the policy response. This deficit will mainly be financed through the government's high cash reserves. Correspondingly, the current account is projected to shift from a surplus of about 32 percent of GDP in 2019 to a deficit of about 2 percent of GDP in 2020, mainly due to the fall in fishing license fees. However, this shortfall will be mitigated somewhat by falling oil prices, declining imports due to domestic demand contraction, and expected support from bilateral and multilateral partners.

5. **A preliminary Debt Sustainability Analysis (DSA) indicates that Kiribati remains at high risk of debt distress.** The COVID-19 pandemic will result in a fiscal deficit which is expected to be financed by cash reserves, without additional debt for 2020. Over the medium term, the baseline scenario assumes that fishing revenues gradually recover from the shock in 2020-21, the government maintains a conservative fiscal stance that adheres to a broadly balanced recurrent budget, and reliance on grants is eventually reduced. Under realistic shock scenarios, debt becomes unsustainable as the debt-to-GDP ratio would breach the indicative sustainability threshold within the next decade, broadly in line with the previous DSA despite the conservative fiscal stance over the medium-term. Containing the risk of debt distress will require further progress in structural and fiscal reforms, as well as continuing securing grants to finance the country's significant development needs. Other mitigating factors to the risk of debt distress would be the use of accumulated assets through cash reserves and the RERF. Government borrowing through concessional loans should be closely monitored to safeguard long-run debt sustainability.

6. **The pandemic has underscored the importance of a sustainable medium-term fiscal policy framework given Kiribati's considerable public spending needs.** Given the uncertainty surrounding the pandemic, crisis mitigation related expenditure could further rise. Contingency measures to accommodate such additional spending could be prepared in advance, including possible reallocation of non-essential spending and plans to secure additional concessional financing. Once the pandemic ends, focus should revert to formulating a sustainable medium-term fiscal framework that abstracts from volatile, exogenous components of the budget (fishing revenue and grants, plus their associated capital spending) and promotes current expenditure stability. In the event of a surge in fishing revenue, supplementary budgets should be avoided, with the windfall being allocated only after evaluating projects in a comprehensive medium-term framework. Adherence to rules-based withdrawals from the RERF will ensure fiscal discipline.

7. **Kiribati will need to continue to adapt to climate change through reforms, including by making explicit provisions in the budget.** The country's low-lying atolls are vulnerable to rising sea levels, storm surges, coastal erosion, and saltwater intrusion. Higher ocean surface temperatures will potentially disrupt the country's largest economic resource—the tuna fishery. These would then have a direct impact on the fiscal position and potential growth. The budget should include an explicit provision to cover the recurrent costs of climate change adaptation. Capital projects for climate change adaptation, however, require access to donor financing.



8. **Economic diversification through a more dynamic private sector would help weather future shocks.** Further improvement in connectivity through infrastructure investment in air transportation and shipping services could boost business development by enabling access to a wider marketplace. Transforming the economy to foster growth in the service sector (particularly in infrastructure maintenance, and renewable energy) could open-up diversification opportunities for the private sector and enhance resilience of the economy. Facilitating private sector access to credit would be best achieved by improving land access procedures and dispute resolution mechanisms (to enhance property rights and enable lending against collateral). Mobile connectivity and mobile banking should be promoted more, for their job-creation and financial-deepening benefits. Such financial deepening should be accompanied by strengthening of financial regulation and supervision as well as risk management in public financial institutions.

### III. IMF RELATIONS

9. **Fund relations.** Kiribati is on a 12-month Article IV consultation cycle and has no outstanding purchases or loans and no financial arrangements with the IMF. The last Article IV consultation was concluded by the Executive Board on January 11, 2019.



Table 1. Kiribati: Selected Economic Indicators, 2016–21

	2016	2017	2018	2019	2020	2021
			Est.	Proj.		
Real GDP (percent change)	5.1	0.9	2.3	2.3	-1.1	3.0
Consumer prices (percent change, average)	1.9	0.4	0.6	-1.9	1.5	2.0
Central government finance (percent of GDP)						
Revenue and grants	138	150	135	126	98	97
Total domestic revenue	84	92	89	102	74	79
Of which: fishing revenue	66	72	67	81	53	58
External grants	53	58	46	25	23	18
Expenditures	115	110	137	111	111	106
Current	54	63	57	57	69	71
Development	61	47	80	54	41	35
Domestic recurrent balance 1/	-36	-43	-35	-36	-48	-51
Recurrent fiscal balance (incl. budget support grants)	34	37	37	48	10	13
Overall balance 2/	23	40	-2	15	-13	-10
Financing	-23	-40	2	-15	13	10
Of which: Revenue Equalization Reserve Fund (RERF)	0	0	0	0	0	0
RERF						
Closing balance (millions of A\$)	868	943	973	1137	1193	1251
Per capita value (2006 A\$)	6132	6442	6440	7283	7465	7614
Cash reserve buffer 3/						
Closing balance (millions of A\$)	116	150	171	300	263	260
In excess of 3-months of current spending (millions of A\$)	84	112	133	260	214	207
Balance of payments						
Current account including official transfers (millions of US\$)	19	71	76	62	-3	6
(In percent of GDP)	11	38	39	32	-2	3
External debt (millions of US\$)	39	40	37	35	36	54
(In percent of GDP)	22	21	20	18	18	25
External debt service (millions of US\$)	0.4	0.7	0.8	1.4	1.7	2.0
(In percent of exports of goods and services)	0.2	0.3	0.5	0.9	1.0	1.1
Exchange rate (A\$/US\$ period average)	1.3	1.3	1.3	1.4	...	...
Real effective exchange rate (period average)	84	89	88	87	...	...
Memorandum items:						
Nominal GDP (millions of A\$)	240	244	263	280	282	296
Nominal GDP (millions of US\$)	178	187	197	195	194	219

Sources: Data provided by the Kiribati authorities; and Fund staff estimates and projections.

1/ Domestic recurrent balance excludes fishing revenue, grants, and capital expenditure.

2/ Overall balance in the table is different from official budget because loans are classified as financing.

3/ Cash reserve buffer includes the government's custodial account and cash account.



**ANNEX 3: LETTER OF DEVELOPMENT POLICY**



GOVERNMENT OF KIRIBATI

**MINISTRY OF FINANCE & ECONOMIC DEVELOPMENT**

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**File Ref.:** F1/33

**Date:** 14 October 2020

Mr. David Malpass  
President  
The World Bank  
Washington, D.C. 20433  
USA

Dear President Malpass

**RE: LETTER OF DEVELOPMENT POLICY**

In 2018 this government launched Kiribati Vision 20 (KV20), which sets out our aspirational vision for a wealthier, healthier and peaceful Kiribati over 2016-2036. The KV20 is a blueprint for sustainable and inclusive economic growth, focusing on the key sectors of fisheries and tourism, as well as developing human capital, investing in infrastructure, and promoting good governance.

Since taking office in 2016, this government has made significant strides to deliver on the KV20 ambition. We have increased direct economic support to the rural population through doubling the copra price, introduced fee-free education, and reduced the cost of access to electricity for low-income households in South Tarawa. We have also delivered on our commitments to improve the pay and working conditions for public servants, and invested in better transport and telecommunications links within Kiribati and internationally. In the 2020 Budget, we have introduced unemployment support for the first time and also increased the senior citizen's benefit to support the most vulnerable in the community.

2020 has brought unprecedented challenges globally with the COVID-19 pandemic. Although we have succeeded in preventing the virus from reaching our shores, the economic impacts have been significant. In the 2020 Budget, we have announced a A\$13.5m economic relief package to support affected workers and businesses and also to develop a food import buffer to increase our resilience to trade disruptions. We anticipate a significant reduction in fisheries revenues in the next two years, while COVID-19 affects transshipment and vessel operations. However, in the recent good years we have acted prudently to build up buffers to deal with possible downturns, and



are now able to draw on substantial cash balances to mitigate the impact of the COVID-19 pandemic. Macroeconomic stability is a critical foundation for our economic growth targets, and prudent and sustainable fiscal management is a key priority for this government.

Our government has been working closely with the World Bank and other Development Partners through the Economic Reform Taskforce, to design policy reforms which deliver on the KV20 objectives and to increase Kiribati's resilience to unforeseen events such as COVID-19. Please allow me to highlight some of our policy reform priorities and recent achievements in more detail below.

The Revenue Equalisation and Reserve Fund (RERF) is Kiribati's most important asset, of course next only to human resource, and it is critical that it is managed effectively to provide benefits to both present and future generations. In 2018, Cabinet approved the adoption of a clear set of objectives for the management of the RERF, designed to reach the KV20 target of an asset value of A\$1bn by 2020, and – going forward – to maintain the real value of the fund while using a portion of excess returns to finance high priority development projects to benefit the current generation. This year, we have operationalised these objectives with a transparent withdrawal policy designed to protect the real value of the RERF for future generations, while establishing a rules-based process for withdrawing excess returns, strictly for development purposes.

High fisheries revenue in recent years has allowed Kiribati to accumulate significant cash reserves, which can now replace, to a certain extent, the traditional revenue stabilisation role of the RERF. In 2018, Cabinet adopted a Cash Management Policy to ensure that these significant cash reserves are managed as efficiently as possible while still meeting the liquidity needs of the government and the banking system. We continue to work with our partners, including the World Bank, to strengthen the management of these reserves.

Another public financial management priority is improving transparency and value for money in procurement. We have recently launched a new Procurement Law with its Regulations, with an online portal to increase transparency and competitiveness. This new procurement framework is being put to immediate use with tenders related to COVID-19 preparedness.

This government is also committed to transparency over public debt and a prudent policy towards government borrowing. In the context of the World Bank's Sustainable Development Finance Policy, we are pleased to commit to a policy of zero non-concessional borrowing, and to continue publishing comprehensive debt reporting on an annual basis alongside the government budget.

The dramatic increase in fisheries revenue that Kiribati has experienced in recent



years serves to demonstrate the transformational potential of our marine resources. On the other hand, our experience with COVID-19 also highlights Kiribati's reliance on food imports and fragile coastal fisheries ecosystems for food security. These ecosystems are under strain from climate change impacts, pollution and overfishing. With new coastal fisheries regulations, we are putting in place binding management measures for the long-run sustainability of this resource and the protection of biodiversity, while also promoting an inclusive, community-based approach to fisheries management. Implementation of the regulations will be an important step to support sustainable livelihoods from coastal fisheries while continuing to prioritize species protection and conservation, in line with our National Biodiversity Strategies and Action Plan. Species protection and conservation remains a priority for this government, and the new regulations will be used to formulate management plans and closed harvest seasons based on data and analyses from our Coastal Fisheries Research and Monitoring Unit.

Our vision for a healthy and wealthy Kiribati cannot be achieved without improved infrastructure and services. Access to safe drinking water is a particular challenge in South Tarawa, where the water lens is coming under increased strain from climate change and population growth. This government is particularly mindful of how access to safe drinking water is critical for health and wellbeing, and handwashing and sanitation facilities also play an important role in preventing the spread of disease. With the support of the World Bank and other Development Partners, we are working on climate-proof solutions to expand access to potable water. Cabinet has approved a tariff and CSO package for the expansion of 24/7 water service across South Tarawa, which balances incentives for water conservation with evidence on affordability, learning from experience under the pilot tariff arrangement for specific areas over the last two years, and the financial viability of the Public Utilities Board (PUB). Cabinet has also recently approved an asset management strategy designed to ensure that infrastructure assets, such as the new water reticulation network and rehabilitated sewer, among others, are well maintained over their respective lifecycles.

Last but not least, our government is committed to ensuring all I-Kiribati receive a high-quality education and have access to decent employment. The new Early Childhood Care and Education Act and Regulations signal our commitment to improving quality and access to early education for all our children. In 2019, we introduced public funding for the preschool sector for the first time, to facilitate improvements in the quality of teaching and learning environments. We have increased this funding allocation in the 2020 budget and intend to maintain this important support for preschools into the future.

This government welcomes the World Bank's continued engagement and assistance in support of the government's reform priorities through the Economic Reform Taskforce. The previous five budget support operations had helped the government to build a strong partnership with the World Bank and other ERT partners, and to



develop a shared vision on priority reforms.

In this connection, I would like to convey the Kiribati Government's sincere appreciation for the World Bank's active engagement in Kiribati and look forward to a continued partnership on the ongoing national reform agenda.

Thank you.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Teuea Toatu', with a large, stylized flourish at the end.

**Hon. Dr Teuea Toatu**  
Vice President & Minister of Finance  
and Economic Development



ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
<b>Pillar 1: Strengthening sustainable management of sovereign wealth and improving public financial management.</b>		
<p><b>Prior Action #1.</b> The Recipient, through its Cabinet, has adopted and published a rule-based withdrawal policy designed to preserve the capital value of the Revenue Equalization Reserve Fund (“RERF”) and take into account inflation and population growth, to ensure the long-run sustainability of the RERF and protect intergenerational equity.</p>	No	Positive - indirect
<p><b>Prior Action #2.</b> The Recipient has: (i) enacted the Public Procurement Act of 2019; and (ii) through its Ministry of Finance and Economic Development, promulgated the Public Procurement Regulations 2020; in order to increase transparency and value for money in public procurement.</p>	No	Positive - indirect
<p><b>Prior Action #3.</b> The Recipient, through its Ministry of Finance and Economic Development, has included a public debt annex in the 2020 National Budget that includes: (i) all loan balances and annual service costs for 2019 (actuals); and (ii) the total debt stock and debt service profile for 2016-2028, and has published the budget on its website.</p>	No	Positive - indirect



**Pillar 2: Supporting prospects for inclusive growth and more resilient livelihoods under global economic uncertainty and climate change threats.**

<p><b>Prior Action #4.</b> The Recipient, through its Cabinet, has promulgated Regulations for the Conservation and Management of Coastal Marine Resources 2019, to promote inclusive, resilient livelihoods and to safeguard food security in the face of climate change.</p>	<p>Positive - direct</p>	<p>Positive direct impacts in the long term. In the short term conservation measures could have negative effects if efforts to prevent overfishing result in reduced livelihood opportunities.</p>
<p><b>Prior Action #5.</b> The Recipient, through its Cabinet, has approved a tariff and community service obligation framework for the roll-out of climate-resilient piped water and sanitation services across all of South Tarawa, based on the results in pilot areas.</p>	<p>Positive -direct</p>	<p>Positive - direct</p>
<p><b>Prior Action #6.</b> The Recipient, through its Ministry of Education, has promulgated the Registration and Administration of Service Providers and Premises Regulations 2020, to boost quality and access to early childhood education and facilitate women’s labor force participation.</p>	<p>No</p>	<p>Positive - indirect</p>



**ANNEX 5: ANALYTICAL UNDERPINNINGS**

**DPF Prior Actions and Analytical Underpinnings**

Prior Actions	Analytical Underpinnings
<b>Pillar 1: Strengthening sustainable management of sovereign wealth and improving public financial management.</b>	
<p><b>Prior Action #1.</b> The Recipient, through its Cabinet, has adopted and published a rule-based withdrawal policy designed to preserve the capital value of the Revenue Equalization Reserve Fund (“RERF”) and take into account inflation and population growth, to ensure the long-run sustainability of the RERF and protect intergenerational equity.</p>	<p>IMF Country Report No. 9/196 (Selected Issues Paper I); IMF Monetary and Capital Markets Department technical assistance report, 2011; IMF Country Report No. 15/207 (Box 3); World Bank Treasury RAMP technical assistance reports, particularly recommendations regarding the clarity of investment objectives and the need for a clear withdrawal rule. 2018 IMF Public Investment Management Assessment (PIMA) recommending the establishment of a fiscal rule for RERF drawdowns.</p>
<p><b>Prior Action #2.</b> The Recipient has: (i) enacted the Public Procurement Act of 2019; and (ii) through its Ministry of Finance and Economic Development, promulgated the Public Procurement Regulations 2020; in order to increase transparency and value for money in public procurement.</p>	<p>Kiribati Procurement System Review Report, 2016: recommending a comprehensive reform of procurement legislation, regulations and processes.</p>
<p><b>Prior Action #3.</b> The Recipient, through its Ministry of Finance and Economic Development, has included a public debt annex in the 2020 National Budget that includes: (i) all loan balances and annual service costs for 2019 (actuals); and (ii) the total debt stock and debt service profile for 2016-2028, and has published the budget on its website.</p>	<p>World Bank Debt Reporting Heatmap 2020; 2019 WB/IMF Debt Sustainability Analysis.</p>
<b>Pillar 2: Supporting prospects for inclusive growth and more resilient livelihoods under global economic uncertainty and climate change threats.</b>	
<p><b>Prior Action #4.</b> The Recipient, through its Cabinet, has promulgated Regulations for the Conservation and Management of Coastal Marine Resources 2019, to promote inclusive, resilient livelihoods and to safeguard food security in the face of climate change.</p>	<p>GOK 2019 Coastal Fisheries Roadmap 2019-2036 identifies a critical gap in national coastal fisheries regulation and the need to put in place catch control measures. The Roadmap also highlights the importance of community-based management measures.</p> <p>Deslisle et al, 2016 discusses the findings of five community based fisheries management pilots. Community consultations revealed challenges with declining fish stocks, destructive fishing methods, pollution and food security pressures.</p>



	GOK Climate Change and Disaster Risk Management Joint Implementation Plan 2013-2024 identifies threats to coastal fisheries from climate change.
<b>Prior Action #5.</b> The Recipient, through its Cabinet, has approved a tariff and community service obligation framework for the roll-out of climate-resilient piped water and sanitation services across all of South Tarawa, based on the results in pilot areas.	South Tarawa Water Project tariff review study, which prepared three possible tariff schedules and CSO levels for PUB based on the results of the water pilots and 2018 World Bank Willingness to Pay Survey.
<b>Prior Action #6.</b> The Recipient, through its Ministry of Education, has promulgated the Registration and Administration of Service Providers and Premises Regulations 2020, to boost quality and access to early childhood education and facilitate women’s labor force participation.	Kiribati Early Grades Reading Assessment, 2016; Kiribati Early Human Capability Index (KiEHCI) survey, indicating low early development scores; World Bank-supported Early Childhood and Early Grades Literacy Roadmap, setting out the recommended steps for implementation of the ECCE legal framework.



## ANNEX 6: PIC9 RPF - COUNTRY PROGRAM ADJUSTMENT RESPONDING TO COVID-19

Over the past decade, the nine Pacific Island Countries<sup>47</sup> (PIC9) covered by our Regional Partnership Framework (RPF) FY17-FY21 (Report #120479, extended by the Board of Executive Directors on February 6, 2020 to FY23) have made modest economic and social progress due their narrow economic base, high exposure to climate change risks, and extreme remoteness. The economies of the small PICs are driven primarily by fishing, agriculture, and tourism, as well as the construction of public infrastructure, including recovery and reconstruction spending in response to natural disasters such as Tropical Cyclone (TC) Pam, which hit Vanuatu and Tuvalu in 2015, and TC Gita, which hit Tonga and Samoa in early 2018. Prior to the COVID-19 pandemic, revenue from fishing licenses drove budget surpluses in Kiribati, Tuvalu, and the North Pacific countries, while prudent fiscal policy has helped Samoa and Tonga to move toward more balanced budgets. The PIC9 has remained free of COVID-19 cases to date. However, keeping the virus at bay, while good news on the health front, has meant closed borders. The COVID-19 shock has pushed all the economies into recession, most severely those highly dependent on tourism (Palau, Samoa, Tonga, and Vanuatu). In addition, TC Harold hit Vanuatu and Tonga in mid-2020. These countries are having to manage both the pandemic and the recovery from a natural disaster. The World Bank Group's engagement under the RPF<sup>48</sup>, will therefore need to be adjusted to support the region in its Relief, Restructuring, and Resilient Recovery.

### 1. *Impact of the COVID-19 Pandemic on the PIC9 and Government Responses*

**The South Pacific economies of Samoa, Tonga, and Vanuatu have been deeply impacted by a range of natural disasters and adverse shocks over the past year.** As noted, TC Harold struck Vanuatu and Tonga in April 2020, while measles plagued Samoa in late 2019. COVID-19 has had severe effects on tourism-related activity and employment. In each of these countries, economic output is expected to drop by 10 to 15 percent in the 2020 calendar year.

**The Central Pacific countries—Kiribati, Nauru, and Tuvalu—have been less severely affected by the pandemic than their tourism-dependent neighbors.** Nonetheless, a slowdown in donor-driven construction activity and visitor arrivals is still expected to result in economic contractions in 2020, of about 1 percent in Tuvalu and 2 percent in Kiribati and Nauru.

**In the North Pacific, the economic impact of COVID-19 is also expected to push the Federated States of Micronesia (FSM), the Republic of Marshall Islands (RMI), and Palau into recession in FY20 and FY21.** In FY20 (year ended September 2020) an economic contraction of around 5 percent is anticipated for FSM and RMI, and 12 percent in Palau. With borders expected to remain closed until at least mid-2021, all three economies are projected to contract further in FY21. While large parts of government revenues are relatively protected from the economic downturn (namely, aid flows and fishing revenues), substantial fiscal risks remain, including due to the scheduled expiry in 2023 and 2024 of fiscal transfers related to these nation's Compact of Free Association with the United States.

<sup>47</sup> The nine PICs are the Republic of Kiribati, the Republic of the Marshall Islands (RMI), the Federated States of Micronesia (FSM), the Republic of Nauru, the Republic of Palau, the Independent State of Samoa, the Kingdom of Tonga, Tuvalu, and the Republic of Vanuatu.

<sup>48</sup> The RPF is structured around four strategic focus areas that remain on track. These are: 1) fully exploiting available economic opportunities; 2) protecting incomes and livelihoods; 3) enhancing access to employment opportunities; and 4) strengthening the enablers of growth opportunities (such as macroeconomic management, infrastructure, and knowledge). The RPF has climate resilience and fiscal/debt sustainability as foundational pillars, with cross-cutting themes of gender equality and digital technology development.



**The PIC9 response to the COVID-19 pandemic has been swift.** In addition to quickly closing borders and implementing health measures, many countries have enacted policies designed to maintain macroeconomic stability and support impacted sectors and households. Social protection mechanisms are generally weak in the Pacific. Consequently, countries have used a variety of measures to support livelihoods and businesses during COVID-19. These have included tax relief, access to pension fund savings, reduction in education fees, agricultural support funding, deferral of debt service for firms, and other measures. Given the general lack of social protection schemes in the Pacific and the low capacity in the health sector, governments are now engaging with the World Bank and other development partners on formulating long-term programs to sustainably manage the economic and health shocks. As COVID-19 vaccines become available, the countries will require near- and medium-term assistance for immunization programs. This is in addition to ongoing measures to build greater resilience to the growing threat posed by climate change and natural disasters. Cognizant of their vulnerability to widening deficits as revenues have collapsed, countries are developing enhanced Medium-Term Fiscal and Debt Sustainability frameworks, to ensure long-term fiscal stability. The majority of the PIC9 have maintained zero non-concessional borrowing rules under the new Sustainable Development Financing Policy, prioritized low-cost financing, and where official bilateral debt is high and costly, have taken advantage of the Debt Service Suspension Initiative.

## 2. WBG Support for Responding to the Crisis

Consistent with the World Bank Group COVID-19 Crisis Response Approach Paper, the Bank's program in the PIC9 has been adjusted to align with the three phases of Relief, Restructuring, and Resilient Recovery. The FY21 pipeline was re-prioritized to free-up financing space for emergency health operations and DPOs (where appropriate). The pipeline for the remainder of IDA19 (FY22, FY23) is also being re-confirmed with clients in light of COVID-19.

- 1. Support to health for saving lives threatened by the virus:** Emergency health response operations were delivered for Kiribati (\$2.5m), RMI (\$2.5m), and Samoa (\$2.9m) in the last quarter of FY20, with the aim to prevent, detect, and respond to the threat posed by COVID-19 in these countries and to strengthen national systems for public health preparedness. In addition, Contingent Emergency Response Components (CERCs) were triggered in selected active projects in FSM (\$2.5m), Samoa (\$0.5m), Tonga (\$2.9m), and Tuvalu (\$2.5m). The availability of resources in these CERCs enabled the rapid release of funds to clients for emergency health response to COVID-19. In Vanuatu, a Development Policy Operation (DPO) with a Catastrophe Deferred Drawdown Option (Cat-DDO) was restructured to include a health-related catastrophe trigger, resulting in a \$9.92m disbursement to the country on April 24, 2020. Samoa similarly drew down on its Cat-DDO, resulting in a \$5.09m disbursement on March 26, 2020. *[Relief]* Discussions are to be held with RMI, FSM, and Vanuatu to confirm interest in Bank support for COVID-19 vaccination under the Bank's expanded COVID-19 Strategic Preparedness and Response Program.
- 2. Protecting the poor and vulnerable:** In Samoa, a new resilience DPO/Cat-DDO under preparation for FY21 delivery was adjusted to also respond to COVID-19. To support the poor and the vulnerable, this operation includes supporting the government in introducing an unemployment benefit and a short-term paid training scheme as part of its FY21 budget, which will support workers losing employment due to COVID-19. Top-ups to senior citizens' benefits will also be implemented as part of the government's FY20 supplemental budget and its FY21 budget. *[Restructuring]*



- 3. *Ensuring Sustainable Business Growth and Job Creation:*** In Tonga, a regular DPO originally scheduled for delivery in FY21 was deferred to FY22 and replaced by an emergency DPO with additional resources from the Crisis Response Window. To support livelihoods and household investments in human capital, this operation includes supporting the government in putting together an Economic and Social Stimulus Package, which provides school fee relief and targeted crisis-responsive social protection payments drawing on newly developed social registries and using new electronic payment methods. It also establishes institutional mechanisms for the payment of wage subsidies to workers and financial assistance to formal and informal businesses affected by the crisis. To help lay the foundation for economic recovery, the operation supports the expansion and extension of the government’s flagship microfinance program, along with the passage of Tonga’s first international arbitration legislation to improve the investment climate. *[Restructuring, Recovery]*
- 4. *Strengthening Policies, Institutions, and Investment for Rebuilding Better:*** The Bank is supporting this pillar through the various DPOs under preparation for delivery in FY21 (Samoa, Tonga – see above; also Kiribati) as well as planned DPO engagements for FY22 (RMI – new; Tonga and Tuvalu – continuing series). Discussions are also to be held with Vanuatu regarding a new DPO/Cat-DDO in IDA19 (FY21/FY22 delivery). Through DPOs and IPFs, the Bank is helping the PIC9 to literally build back better through support for enhanced building requirements to improve resilience to the significant and frequent natural hazards that PIC9s face. For example, standards for building practitioners and contractors to ensure more resilient building construction were introduced in Samoa. In Tonga, a Housing Sector Resilience Office for resilient housing management and rebuilding was established. These are critical measures that will have sustainable development impacts well beyond the current economic crisis. Finally, the Bank is continuing to provide advisory services and analytics in a range of sectors, including but not limited to health financing, economic competitiveness, and labor mobility and social protection.

**3. *Selectivity, Complementarity, Partnerships***

To avoid stretching thin client capacity, the Pacific CMU applied a \$5m minimum to all PIC9 operations under preparation in IDA18 and restricted the IDA18 pipeline to four IPFs and one DPO series per country<sup>49</sup>. These parameters are being tightened to three IPFs and one DPO series per country in IDA19, although the CMU will continue to make exceptions for projects of strategic or critical importance to clients, including to respond to the impacts of COVID-19.

The Bank in the Pacific works closely with Australia, New Zealand, the Asian Development Bank, and other key development partners on macroeconomic policy issues in the region, for example through quarterly meetings of the technical working group on economic policy reform and through the annual Friends of Pacific Budget Support meetings. Providers of budget support to the Pacific continue to take a coordinated approach and agree on joint policy matrices to minimize the burden of required policy actions on clients. In addition, the Pacific Financial Inclusion Donor Group meeting and the semi-annual Private Sector Development donor group meetings are active and regular coordination platforms. Coordination with development partners on the response to COVID-19 has been strong and effective in ensuring non-duplication and/or complementarity of support.

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<sup>49</sup> Facilitated by frontloading (in some cases, exceptionally) of IDA18 resources.



4. PIC9 Financing Needs and Sources of Financing

Country	Overall Financing Needs	Domestic Financing	Multilateral Sources	Bilateral Sources	Commercial Sources
<b>Kiribati (CY2020)</b>	USD 41m	USD 26m (drawdown on cash reserves rather than borrowing)	WBG USD 5m	EU USD 3m NZ USD 4m Aus USD 3m	0
<b>Nauru (FY21: year ended Jun 2021)</b>	0 (balanced budget forecast after accounting for debt resolution payments of around USD 5 m)	0	0	0	0
<b>Tonga (FY21: Jul 2020 to Jun 2021)</b>	USD 69.7	USD 2.5m domestic bond. USD 25m drawdown cash reserves	WB: USD 30m IMF: USD 9m	DSSI: USD 3.2m	0
<b>RMI (FY20: Oct 2019 to Sep 2020)</b>	USD 30.3m	USD 2.2m from domestic revenues	ADB: USD 20.5m WB: USD 2.5m	US: USD 3.9m Taiwan, China: USD 1.2m	0
<b>FSM (FY20: Oct 2019 to Sep 2020)</b>	USD 35m	USD 21.7m from domestic revenues that would otherwise have been used to build fiscal buffers	ADB: USD 3m WB: USD 2.5m	US: USD 7.7m China: USD 0.1m	0
<b>Samoa (FY21: year ended Jun 2021)</b>	USD 45m	USD 32m drawdown of cash buffers	OPEC and WB: USD 4 m	DSSI: USD 9 m	0
<b>Tuvalu</b>	USD 7m	USD 2m	ADB USD 0.4m	Aus USD 2m NZ USD 1m China USD 2m	0
<b>Palau (FY21: Oct 2020 to Sep 2021)</b>	USD 40m	USD 20m drawdown in cash buffers	ADB: USD 20m loan expected.	0	0
<b>Vanuatu (CY2020)</b>	USD 108m (includes planned prepayments of external debt = USD 18 m)	USD 12 m rollover of domestic debt (assumed) USD 72 m drawdown of cash buffers	~USD 11m (WB and ADB)	~ USD 11 China	0