Report Number : ICRR0020331

1. Project Data

Country Kiribati	**Practice Area(Lead)** Macro Economics & Fiscal Management
Programmatic DPL **Planned Operations:** 2	**Approved Operations:** 2
Operation ID P144602	**Operation Name** Kiribati Economic Reform Operation

L/C/TF Number(s)	**Closing Date (Original)**	**Total Financing (USD)**
IDA-H9060	30-Jun-2014	5,200,000.00
Bank Approval Date	**Closing Date (Actual)**	
11-Dec-2013	30-Jun-2014	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	5,200,000.00	0.00
Revised Commitment	5,200,000.00	0.00
Actual	5,279,344.09	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
Mauricio Carrizosa	Robert Mark Lacey	Lourdes N. Pagaran	IEGEC (Unit 1)

Operation ID P149888	**Operation Name** Second Economic Reform DPO (P149888)

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IDA-D0060,IDA-H9060	30-Jun-2015	3,000,000.00
Bank Approval Date	**Closing Date (Actual)**	
14-Nov-2014	30-Jun-2015	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	3,000,000.00	0.00
Revised Commitment	3,000,000.00	0.00
Actual	2,890,377.00	0.00

2. Program Objectives and Policy Areas

a. Objectives

The Program Document for the first DPO (PD1, p. i) articulated the Program Development Objective (PDO) as follows: "The objective of the operation is to support the Government of Kiribati in strengthening public services, while improving fiscal sustainability." The PD for the second DPO (PD2, p. iii) changed the PDO, articulating it as follows: "The operation is structured around three objectives included in the Economic Reform Plan (which correspond to Program Development Objectives): (i) improved management of fisheries revenues; (ii) improving the management of public assets and liabilities; and (iii) expanding private sector opportunities."

This review is based on the statement of objectives in PD2 for its assessment of the program's efficacy.

b. Pillars/Policy Areas

The two grants supported policy reforms under five areas as follows:

1. Revenues. This area covered a strengthening of the fisheries management and licensing regimes.
2. Management of State Owned Enterprises (SOEs). This area covered (i) new legislation to commercialize SOEs, budget SOE community service obligations, require SOEs to produce corporate plans, select SOE directors by an independent committee with rules to prevent conflict of interest in SOE management, and monitor SOE performance; (ii) merger of two Copra (coconut) SOEs; and (iii) introduction of private participation in the management of the publicly owned Otintaai Hotel.
3. Management of the Revenue Equalization and Reserve Fund (RERF): This area included establishment of rules for RERF asset allocation toward lower risk instruments and passive management, and new investment mandates and benchmarks for asset managers.
4. Management of public debt. This area covered (i) new rules for contracting new debt; policies on debt limits and debt financing uses, terms and sources; and definition of Parliament, Cabinet, Finance Minister, and Presidential roles in approving new debts.

5. Private sector. This area covered legislation to liberalize the telecommunications sector, privatization of the existing mobile operator, and the offering of ICT licenses for at least a second national mobile operator.

c. Comments on Program Cost, Financing, and Dates

The grants were approved by the Board on December 11, 2013 (DPO1, in the amount of $5.2 million equivalent)) and November 14, 2014 (DPO2, in the amount of $3.0 million equivalent) and declared effective on February 4 2014 (DPO1) and February 16, 2015 (DPO2) respectively. The Grants disbursed on March 18, 2014 (DPO1, in the amount of $5.3 million equivalent) and March 18, 2015 (DPO2, in the amount of $2.9 million equivalent). The grants closed, as anticipated, on June 30, 2014 (DPO1) and on June 30, 2015 (DPO2).

3. Relevance of Objectives & Design

a. Relevance of Objectives

The DPO objectives addressed well-identified country conditions. The objective to strengthen fishery resource management responded to Kiribati's unstable and suboptimal fishing license fee revenues and their impact on fiscal deficits, RERF drawdowns, and accumulation of commercial debt. The objective to seek stronger public asset management addressed existing high levels of budget subsidies to SOEs (resulting from excessive subsidies to meet SOE community service obligations and from excessive administrative costs of managing copra subsidies), and RERF's poor portfolio performance. Stronger debt management was sought to prevent the excessive accumulation of non-concessional debt, which also contributed to fiscal deficits.
The objective to expand private sector opportunities, while broad and general, addressed Kiribati's low levels of access to, and high costs of, telecommunications services. The objectives are broadly consistent with Kiribati's current (2016-2019) Development Plan, which includes a stable macroeconomic framework, improved infrastructure, and economic growth among its priority areas and refers to the more specific areas that the DPO program covered. The objectives are also congruent with the World Bank Group's (WBG's) 2011-14 Country Assistance Strategy (CAS), which envisaged engagement on fisheries, SOEs, and telecommunications, albeit with no reference to assistance on public debt and RERF management. The WBG has not yet issued a new strategy.

Rating

Substantial

b. Relevance of Design

The program envisaged measures that could reasonably be expected to contribute to objectives. The objective of improving management of fisheries revenues, which was to be reflected in increased revenues, and better predictability of such revenues, would likely be achieved through implementation of international agreements on the volume, allocation, and pricing of fishing licenses and increased information on the sources of fishery revenues. Nevertheless, the degree of Government control of such revenues is limited, as catch volumes and values depend on migratory patterns of fish stock, which are affected by climatic factors, and on fish prices, which are determined in international trade markets. Thus, the envisaged reforms could not be expected to achieve better predictability of fishing revenues, which was one of the stated objectives. Measures to improve SOE and REFR governance and transparency, including private concession arrangements for the management of the Otintaai Hotel and merger of Copra SOEs, would likely result in better asset management, as reflected in reduced SOE reliance on ad-hoc Government subsidies (subsidies other than those needed to cover SOE community service obligations, which are formally budgeted for, and the copra price subsidy), lower administrative costs of the copra subsidy scheme, and improved RERF portfolio performance. Appropriate debt contracting rules could help to forestall an excessive accumulation of commercial public debt, provided the fiscal framework is consistent with access to grants and concessional debt. Telecom liberalization is likely to expand private sector access to telecom services, one dimension of private sector opportunities. There is, however, incoherence between the broad objective of expanding private sector opportunities and the program's exclusive focus on the telecommunications sector without considering other obstacles to private sector development.

A 2013 IMF/Bank debt sustainability analysis concluded that Kiribati's risk of debt distress was high. As a result, the country gained access to 100 percent IDA grant funding. This access, together with existing RERF resources, tempered debt distress risks. Nevertheless, macroeconomic sustainability remained dependent on the overall availability of external grants, global economic conditions, and there was vulnerability to a variety of natural disasters. Mitigation of risks with regard to these factors was limited to continued policy dialogue with, and financial support from, the Bank, the IMF and other development partners.

Rating
Modest

4. Achievement of Objectives (Efficacy)

Objective 1
Objective
Objective 1: Improve management of fisheries resources.

Rationale
The expected outcome, as reformulated in PD2, was improved predictability of fishing revenues. Predictability did not improve, with the actual difference between budgeted and actual fishing license

revenues in 2015 (164%) well above the target value (less than 50%). Nevertheless, the ICR notes that the original (DPO1) expected outcome (increasing revenue from exploitation of fisheries resources) was achieved. The PD1 indicator (license revenue per ton of catch, which PD2 replaced by the difference between actual and budgeted revenues) increased by 560% between 2012 and 2015, well above the original target of 19.2 percent. Total revenue also increased, partly reflecting a higher capture of market catch values by licensing fees. This original outcome may indicate better fisheries management. Fees reached 12.3 percent and 10.2 percent of catch values respectively in 2013 and 2014, higher than in 2011 (6.1 percent) and 2012 (4.4percent). On balance, there was a modest improvement in management, as reflected in the higher capture of market catch values, even though predictability did not increase.

Rating

Modest

Objective 2

Objective

Objective 2: Improve the management of public assets and liabilities.

Rationale

Achievement of this objective was to be reflected in lower ad-hoc (non-budgeted) subsidies to SOEs, lower administrative costs of the copra subsidy scheme, lower accumulation of non-concessional debt, and a higher yield of the RERF portfolio. Budgeted subsidies are intended to cover only SOE community service obligations, which the program did not intend to change. **Ad-hoc subsidies to SOEs**, which reflect non-budgeted SOE expenses, declined from A$2.5m in 2013 to A$0m in 2015, a reduction to below the target value of A$0.8m.

The **price subsidy to copra growers** (not included in the ad-hoc subsidies) increased from A$7.3 million in 2013 to A$7.6m in 2015, above the target of A$6.8m. However, this reflects a higher subsidy per unit of production, and not the administrative costs of the copra sector that the program intended to reduce. While the ICR indicates that administrative costs actually declined, it does not provide quantitative evidence of those costs, for which the DPO did not define a baseline or target.

The target of increasing **non-concessional debt** by less than A$1m was surpassed, as non-concessional debt did not increase at all. **RERF's portfolio performance** was within 0.3 percent of the market benchmark, surpassing the target of -2 percent underperformance. In sum, the DPO achieved three of the four intended outcomes (lower ad-hoc subsidies, lower increase in non-concessional debt, and better RERF portfolio performance).

Rating

Substantial

Objective 3

Objective

Objective 3: Expand private sector opportunities.

Rationale

The program addressed only the telecommunications dimension of private sector opportunities. The DPOs role in liberalizing the telecommunications sector was underpinned by the enactment of the enabling legislation, a prior action under DPO1, and the invitation of firms to bid for the purchase of the existing public operator, a prior action under DPO2.
The program was successful in reducing the cost of three-minute mobile calls within Tarawa for customers of the old operator (privatized under the program) from A$0.90 in 2014 to $0.69 in 2015, a reduction to below the target of A$0.70. However, the cost was A$0.78 through the new operator and cellular subscriptions per 100 people increased modestly from 16.6 percent in 2013 to 17.4 percent in 2014 (no data were available for 2015).

Rating

Substantial

5. Outcome

The program addressed well-identified development issues, including poor management of fishing revenues and of public assets and liabilities, and low levels of intra-island connectivity. It envisaged reforms that could be expected to make a contribution towards addressing these issues. The program resulted in some improvement in managing fishing revenues as well as public assets and liabilities. The capture of fishing catch values increased through better management of fishing licenses; ad-hoc SOE subsidies were reduced, non-concessional debt was frozen, and RERF performance improved, reflecting strengthened asset/liability management. Measures towards expanding private sector opportunities were limited by design to mobile telecommunications services. However, the program did not improve the predictability of fishing revenues (the key expected outcome under the first objective) and had a limited impact on the broad objective of expanding private sector opportunities.

a. **Outcome Rating**

Moderately Satisfactory

6. Rationale for Risk to Development Outcome Rating

Some of the development outcomes are likely to be sustained, including a higher capture of fishing catch values through licensing, reduced accumulation of non-concessional debt, and better RERF performance, three areas where newly established policy institutions (e.g., an international agreement on fishing volumes and minimal pricing) provide fairly robust underpinning. Containment of SOE subsidies appears more vulnerable to varying SOE governance and performance. Access to mobile telecommunications can potentially improve, as the new operators come into play and consolidate. Other anticipated outcomes of the program (e.g., better predictability of fishing revenues) are unlikely to materialize at this point, since they are affected by factors outside the Government's control.

a. Risk to Development Outcome Rating

Substantial

7. Assessment of Bank Performance

a. Quality-at-Entry

The DPO's relevance and approach benefited from objectives that addressed well-identified and critical structural, financial and macroeconomic conditions, and from a design that comprised broadly appropriate reforms to address those conditions. Budget support through the DPO aimed to assist in the funding of the public services on which the poor and vulnerable depend. The PDs and the ICR also note that such support would allow the Government to maintain public employment, the largest source of formal employment for women. The PDs did not expect that measures on fishing licenses would lead to increased total catch and hence threaten marine resources. The PDs identified important sources of fiduciary risk arising from Kiribati's public financial management system, use of budget resources, and the foreign exchange environment, while noting some progress towards addressing those risks.

IDA funds were to disburse to a dedicated account at ANZ (a large Australian bank with an operation in Kiribati), with an equivalent amount credited to a Government account, a process that was not deemed to raise any fiduciary issues. That account was subject to a special audit conducted by Kiribati's National Audit Office. Program. Implementation, including M&E, was to be coordinated by the Ministry of Finance and Economic Development (MFED), as is customary for the management of foreign financial assistance in Kiribati. A salient institutional aspect was the intended improvement of information sharing by the Ministry of Fisheries, in order to improve MFED's management of fishing license revenues. The Bank's assessment of risks was well-considered in covering Kiribati's exposure to external economic conditions and natural disasters, recognizing the capacity constraints of the country's small public sector, and identifying available mitigation options (mainly technical assistance and sustained dialogue, the Bank's main input to the program). In preparing the DPOs, IDA conducted extensive consultations with officials, the private sector, civil society, and church and community groups.

There were, however, moderate shortcomings in quality at entry. First, the envisaged reforms could not be expected to achieve better predictability of fishing revenues, which was one of the stated objectives; Second there was a lack of coherence between the broad objective of expanding private sector opportunities and the program's exclusive focus on the telecommunications sector without considering other obstacles to private sector development. [LNP1] Third, there were weaknesses in M&E design including inadequately defined indicators (see Section 9a below).

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

The ICR notes that the Bank supported the reform process through frequent missions to identify obstacles and find solutions, and through technical assistance covering the fishing license and Copra subsidy schemes. The ICR also reports that the Bank team worked closely with other development partners, to increase the extent and frequency of the support being provided to the Government. This helped to ensure that Kiribati received comprehensive technical assistance in all areas of the reform program, thereby enabling the Bank to achieve a greater degree of supervisory support than would otherwise have been possible given the small, remotely located Bank team.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

8. Assessment of Borrower Performance

a. Government Performance

Prior actions included legislative and executive decisions that suggest Government commitment to the program as well as enabling sector policies covering fisheries, asset/liability management, and telecommunications. The macroeconomic framework at entry and during implementation was adequate, in part because revenues from fishing licenses increased sharply. The Government conducted consultations with a broad range of stakeholders in preparation of Kiribati's Development Plan 2012-2015, which underpinned the DPO program. Implementation was adequate.

In some cases, however, timeframes had to be adjusted to accommodate capacity constraints and coordination weaknesses. For example, the ICR reports that more progress is needed in the ability to calculate SOE-specific community service obligations as well as containing expenditures on the copra subsidy scheme. When some Government agencies took actions that were contrary to the spirit of the reform plans – for instance, the opening of a separate offshore bank account by the Ministry of Fisheries and Marine Resource Development – the Authorities successfully addressed these weaknesses with support from the Bank. M&E implementation was also adequate (Section 9.b) though its utilization appears to have been limited.

The ICR reports that donor coordination was effective in increasing the support provided, and ensured that Kiribati received technical assistance in the areas covered by the reform program. Transition arrangements towards a follow-up operation appear to be in place, with a new programmatic series expected for FT17.

Government Performance Rating

Satisfactory

b. Implementing Agency Performance

N.A.

Implementing Agency Performance Rating

Overall Borrower Performance Rating

Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The quality of M&E design was mixed. The indicator for fisheries – the variance between budgeted and actual fishing license revenues - did not fully reflect the objective to improve management of fisheries revenues. Management of revenues from fisheries was to be reflected in both the predictability of such revenues, which the indicator measures, and in the level of revenues, which it does not. A better indicator would have been improving the returns on Kiribati's fisheries assets, as measured by revenue per ton of catch, which was the results indicator chosen in the first operation but subsequently dropped. Furthermore, the task team suggested that a measure of revenues per vessel days sold would make more sense than a measure of revenues per ton of catch, because under Kiribati's international fishing agreements revenues are linked to fishing effort (vessel days sold) rather than fishing catch (volumes or values). On asset and liability management, the indicator for SOEs does not accurately measure reliance on ad-hoc government subsidies (the focus of the intended outcome was to reduce subsidies other than those covering community service obligations), as it excludes ad-hoc subsidies that could be hidden within budgeted subsidies.

b. M&E Implementation

M&E implementation was adequate. Indicators and their baselines were measured, albeit with an error in the baseline for the original indicator for objective 1 (ICR Footnote 5). Although the ICR did not discuss the quality of the data, the nature of the indicators (e.g., government subsidies) suggests that they were easily and reliably measured. Measurement was conducted by the Government's Economic Reform Task Force, which brought together relevant government agencies and development partners involved in the implementation of the Economic Reform Plan. This arrangement suggests a measure of ownership of M&E, at least by Government stakeholders. The ongoing importance of some indicators (e.g., fishing license fee revenues) suggests that the Government will continue to measure and monitor them.

c. M&E Utilization

The ICR indicates that the main use of M&E efforts was to gather the requisite information for the ICR.

M&E Quality Rating

Modest

10. Other Issues

a. Environmental and Social Effects

The PDs did not expect the DPOs to have adverse environmental effects and the ICR does not discuss them. On the other hand, the PDs expected the operation to benefit the poor by helping maintain the provision of public services and generate employment. The ICR restated this expectation but did not provide evidence that it materialized.

b. Fiduciary Compliance

The ICR did not discuss fiduciary compliance.

c. Unintended impacts (Positive or Negative)

None reported.

d. Other

None reported.

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Moderately Satisfactory	The efficacy of the first objective is rated modest, as is relevance of design.
Risk to Development Outcome	Substantial	Substantial	---
Bank Performance	Satisfactory	Moderately Satisfactory	There were moderate shortcoming in Bank

			performance. The reforms supported were insufficient to achieve the stated objectives of improving the predictability of fishing revenues and expanding private sector opportunities. Furthermore, there were weaknesses in M&E design.
Borrower Performance	Highly Satisfactory	Satisfactory	There were some coordination weaknesses in implementation and limited use of M&E.
Quality of ICR		Substantial	---

Note
When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

12. Lessons

This review restates two of the lessons drawn in the ICR and adds two more:
1. The Bank can improve policy performance particularly in small states with thin capacity. The Kiribati DPOs provide an example of how the Bank can deploy its "economies of scale" in knowledge to assist small countries with a small civil service that is limited in its capacity to develop policies in some areas.
2. Bank project-level engagements can be springboards for policy reform. This was the case of the telecommunications sector, where the Bank leveraged its project-level engagement to support the sector policy reforms.
3. An unstable revenue source, such as fishing licenses, can derail macroeconomic policy. During the decade prior to the program, volatile fishing fees and weak tax revenues resulted in a sharp decline (ICR para 3) in per-capita RERF assets and increased non-concessional debt. During program implementation increased fishing revenues allowed for some recovery of those assets, but also encouraged a pace of spending increases that does not look sustainable over the long term.
4. Where objectives are too broad, narrow outcome indicators will impede adequate M&E, This was the case with the third objective (expand private sector opportunities), which should either have been formulated more specifically (e.g., improve telecommunication services) or, alternatively, should have been underpinned by a broader set of actions aimed at addressing the key conditions that inhibit private sector development.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The iCR is well-written, concise and thoughtful. Unlike many ICRs, it offers a thorough discussion of relevance of objectives and design. Given the role of fishing revenues and SOE subsidies in fiscal outcomes, the ICR could have included more consideration of macroeconomic and fiscal performance during program implementation.

a. Quality of ICR Rating

Substantial