



# Country Operations Business Plan

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February 2009

**Kiribati**  
**2009–2011**

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 14 January 2009)

Currency Unit	–	Australian dollar (A\$)
A\$1.00	=	\$0.66
\$1.00	=	A\$1.50

## ABBREVIATIONS

ADB	–	Asian Development Bank
COBP	–	country operations business plan
CPA	–	country performance assessment
CPS	–	country partnership strategy
CSPU	–	country strategy and program update
KDP	–	Kiribati Development Plan
TA	–	technical assistance

## NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2009 ends on 31 December 2009.
- (ii) In this report, "\$" refers to US dollars, unless otherwise stated.

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## I. CONSISTENCY OF THE BUSINESS PLAN WITH THE CURRENT COUNTRY STRATEGY AND PROGRAM UPDATE

1. Since preparation of the Country Strategy and Program Update (CSPU) 2006–2007,<sup>1</sup> the Government of Kiribati has experienced a buildup in fiscal pressures due to a period of high food and fuel prices combined with falling external income. Increased reliance has been placed upon drawing down the Revenue Equalization Reserve Fund. However, the expected weaker global equity market returns will necessitate much lower drawdowns in the medium term to ensure sustainability of this important national asset.<sup>2</sup>

2. The Government endorsed the Kiribati Development Plan (KDP) 2008–2011 in April 2008.<sup>3</sup> The theme running through this is that the lives of Kiribati's people—its main asset—can be best improved through further development of their capabilities and the economy. This will ultimately lead to creating employment opportunities and a skilled workforce that can access not only the national but the international labor market as well. The Government considers improved access to the international market as an essential adaptation strategy in the face of climate change impacts.

3. The KDP builds upon the previous National Development Strategy 2004–2007,<sup>4</sup> which had guided the strategic focus of the CSPU 2006–2007 on (i) improving the economic environment in the outer islands, particularly Kiritimati Island (Christmas Island); and (ii) strengthening access to health services throughout the country. The Government's progress in implementing its development priorities has been slow, due in part to capacity limitations but also to lack of financial and skilled human resources. Monitoring of progress has been hampered by a lack of appropriate indicators and up-to-date data. These capacity limitations were an important consideration in developing the country operations business plan (COBP) 2009–2011.<sup>5</sup>

4. Kiribati's poor performance and fragility has also guided development of the COBP 2009–2011, as elements of the Asian Development Bank (ADB) approach to engaging with weakly performing countries have been incorporated.<sup>6</sup> Kiribati fell into the fourth quintile in the 2006 country performance assessment (CPA) exercise and to the fifth quintile in 2007. In particular, consideration has been given to selectivity and focus, development of strategic partnerships with development partners, and policy dialogue to nurture country ownership.

5. The capacity considerations and weak and shifting political agreement on priorities have meant that implementation of the CSPU pipeline has been slow. Since the CSPU 2006–2007 was developed, ADB has undertaken a review of the Pacific strategy. That review has put a stronger emphasis on issues of supporting a conducive environment for private sector development, good governance, and capacity development.<sup>7</sup> The first joint country partnership strategy (CPS) for Kiribati will be initiated in 2009, and this is the opportune time to assess the lessons of past experience, discuss with the Government the role it perceives for ADB, and

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<sup>1</sup> ADB. 2006. *Country Strategy and Program Update (2006–2007): Kiribati*. Manila.

<sup>2</sup> The Revenue Equalization Reserve Fund is a trust fund established in 1956 for which the Government of Kiribati is both trustee and beneficiary. The intent is that the fund would help balance the Government's future recurrent budget.

<sup>3</sup> Government of Kiribati. 2008. *Kiribati Development Plan: 2008–2011*. Tarawa.

<sup>4</sup> Government of Kiribati. 2003. *National Development Strategy 2004–2007*. Tarawa.

<sup>5</sup> This is the first COBP for Kiribati and it follows the CSPU 2006–2007.

<sup>6</sup> ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries*. Manila.

<sup>7</sup> ADB. 2008. *Working in Fragile Environments: A Midterm Review of the Pacific Strategy (2005–2009)*. Manila.

ensure the alignment of ADB-supported activities with both the KDP 2008–2011 and ADB's strategic objectives.

## II. INDICATIVE LENDING AND NONLENDING PROGRAMS

### A. Indicative Lending Level

6. Currently, Kiribati is a category A country with access to the Asian Development Fund. The 2009–2010 Asian Development Fund allocation for Kiribati is \$5.28 million. The allocation is based on (i) the outcome of the 2008 CPA exercise, (ii) the risk of debt distress from debt sustainability analyses or updated debt data, and (iii) the expected commitment authority.

7. ADB has approved six loan projects amounting to \$15.14 million for Kiribati since it joined ADB in 1974, with the most recent, the \$10.24 million Sanitation, Public Health, and Environment Improvement Project, closing in April 2008.<sup>8</sup> Kiribati had indicated its interest in loans, and in response, ADB provided technical assistance (TA) for Preparing the Outer Islands Development Program and TA for Preparing the Outer Island Growth Centers Project.<sup>9</sup> Neither progressed beyond the feasibility assessment stage. In the first instance, a new Government, elected in late 2003 after a long period of political uncertainty, declined to proceed with the Program. In the second instance, the appointment of a new minister for finance in September 2007 saw the ensuing investment placed on hold.

8. At this time no new lending activities are proposed for 2009–2011. However, the lending assistance pipeline will be reviewed in consultation with Government during development of the CPS in 2009, or in response to urgent requests from the Government in light of adverse impacts of the global financial crisis on Kiribati. CPS dialogue will also allow consideration of the role of the Pacific Regional Infrastructure Facility,<sup>10</sup> and for assessing interest in some recently prioritized areas for ADB support to the Pacific (including responding to climate change and to the global financial crisis).

### B. Indicative Nonlending Program

9. No new TA is included in the COBP. The Government's TA priorities and the broader issue of the role for ADB in Kiribati will be discussed in detail with the Government during the CPS process in 2009. The assistance pipeline will be reviewed at that time. This will allow ADB to respond flexibly to Kiribati's specific needs as they are identified during dialogue. Supporting the Government in responding to the global financial crisis and accessing funds for climate change related adaptation are two areas where ADB could potentially provide assistance to Kiribati, probably through regional TA.

10. The ongoing nonlending program comprises TA for the Integrated Land and Population Development Program on Kiritimati Island and TA for Economic Management and Public Sector

<sup>8</sup> ADB. 1998. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Kiribati for the Sanitation, Public Health, and Environment Improvement Project*. Manila (Loan 1648-KIR, for \$10.24 million, approved on 8 December).

<sup>9</sup> ADB. 2000. *Technical Assistance to the Republic of Kiribati for Preparing the Outer Islands Development Program*. Manila (TA 3593-KIR, approved on 18 December); and ADB. 2004. *Technical Assistance to the Republic of Kiribati for Preparing the Outer Island Growth Centers Project*. Manila (TA 4456-KIR, approved on 2 December).

<sup>10</sup> The Pacific Regional Infrastructure Facility is a joint initiative of ADB, Australian Agency for International Development, New Zealand Agency for International Development, and the World Bank, which will coordinate donor assistance to develop and maintain critical economic infrastructure in the Pacific island countries and provide up to \$200 million in funding over 4 years.

Reform.<sup>11</sup> Implementation of the first of these TA projects commenced in the second quarter of 2008, while inception of the second is expected in early 2009. Both will continue implementation throughout the period of this COBP and, based upon experience, the concurrent implementation of two TA projects is considered the maximum that can be adequately supported by the government counterparts.

11. ADB will include Kiribati in regional TA activities where feasible, with capacity availability and political commitment being key considerations. One regional TA project in which Kiribati will participate is the Pacific Regional Audit Initiative, which will assist Kiribati, Nauru, and Tuvalu and is supported by ADB, Australian Agency for International Development, and Pacific Islands Forum Secretariat.<sup>12</sup> Beginning in 2009, this program will see the audit offices of the three countries working jointly to conduct public sector audits to quality standards in a timely manner.

12. In the absence of new TA activities, policy dialogue will be the key focus of the nonlending program. The 2008 CPA outcomes—and particularly economic management issues—will be the focus of policy dialogue, while this will be underpinned by analysis regarding Kiribati's development risk<sup>13</sup> and lessons learned from TA. This dialogue will also support implementation of the economic management and public sector reform TA by generating political awareness and understanding of reform drivers. Opportunities will also be sought to coordinate and cooperate with Kiribati's other development partners in presenting a coherent policy message to the Government.

13. Improved cooperation and coordination with Kiribati's development partners will be a priority, and particularly with those based in Tarawa (including the Australian Agency for International Development and New Zealand Agency for International Development). The Government's initiative in calling a meeting of development partners in May 2008, following completion of the KDP, was welcomed, and other such opportunities to share information and experiences will be sought. A development partners agreement for Kiribati that builds on the Paris Declaration with an objective to improve aid effectiveness has been discussed among partners and with the Government. With the support of the Government, this is one area that could be progressed. Additional opportunities for joint missions with other development partners will be pursued, and development partners will be invited to have close involvement in the CPS 2009.

### III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS

14. The single loan included in the CSPU 2006–2007 pipeline has not proceeded beyond the stage of project preparatory TA.

15. Three TA projects were included in the CSPU 2006–2007 pipeline. Two of these were processed as a single project, however, as they had similar objectives. The third TA area, water resource development, proposed for processing in 2007, was, at the request of the

<sup>11</sup> ADB. 2006. *Technical Assistance to the Republic of Kiribati for Integrated Land and Population Development Program on Kiritimati Island*. Manila (TA 4878-KIR, approved on 29 November); and ADB. 2008. *Technical Assistance to the Republic of Kiribati for Economic Management and Public Sector Reform*. Manila (TA 7166-KIR, approved on 7 November).

<sup>12</sup> ADB. 2008. *Technical Assistance for Strengthening Governance and Accountability in Pacific Island Countries (Phase 2)*. Manila. (TA 6499-REG, for \$1,900,000, approved on 3 November, cofinanced by the Japan Special Fund and the Government of Australia).

<sup>13</sup> ADB. Kiribati: Managing Development Risk. Manila (Forthcoming).

Government, redirected towards economic management and public sector reform. A TA project reflecting that changed priority was approved in November 2008 [footnote 11].

#### **IV. INDICATIVE INTERNAL RESOURCE REQUIREMENTS**

16. For 2009, the following internal personnel resources are expected to be required for timely delivery of the new and ongoing operations under the proposed business plan: (i) professional staff members (2 person-months), and (ii) administrative staff members (0.5 person-month).

#### **V. RESULTS-BASED MONITORING**

17. The results-based strategy included in the CSPU 2006–2007 has been updated to reflect the Government's revised priorities set out in the KDP and changes in ADB's pipeline and ongoing activities that have been agreed since the CSPU 2006–2007 was approved in January 2006. During the 2009 CPS exercise, it is intended to reach agreement with the Government on specific measurable and time-bound indicators, so as to strengthen the results framework.

## VI. COUNTRY RESULTS FRAMEWORK

Country Development Goals		Country Strategy (CPS) Outcomes		Key Areas of ADB's Intervention	Risks
Country-Level Outcomes	Key Constraints	CPS Outcomes <sup>a</sup>	Outcome Indicators		
Key performance assistance 2: Economic growth and poverty reduction	Limited employment opportunities  Low private sector investment  Government's weak fiscal position	Improved state-owned enterprise accountability and performance  Government's strengthened transparency and accountability	Reduced government budget allocations to public enterprises by FY2010 compared with FY2008  Establishment of medium-term fiscal framework by June 2012  Transparent and sustainable use of the Government's overdraft with the Bank of Kiribati	<b>Ongoing</b> TA for Economic Management and Public Sector Reform <sup>b</sup>  <b>Future</b> Policy dialogue around CPA results (initially economic management)  Participation in regional TA projects as appropriate	Absorptive capacity of local counterparts may be insufficient.  Fluctuating political commitment to championing implementation of needed reforms
Key performance assistance 4: Environment	Pressure on natural resources from waste and pollution  Growing urbanization (especially on South Tarawa and Kiritimati Island)	Improved economic environment in the outer islands, particularly Kiritimati Island	Population policy endorsed by the Government  Land development program prepared	<b>Ongoing</b> TA for Integrated Land and Population Development Program on Kiritimati Island <sup>c</sup>  <b>Future</b> Participation in regional TA projects as appropriate	Political and personal biases distort decision making

ADB = Asian Development Bank, CPA = country performance assessment, CPS = country partnership strategy, TA = technical assistance.

<sup>a</sup> Refined to reflect strategic objectives and key result areas of ADB. 2008. *Working in Fragile Environments: A Midterm Review of the Pacific Strategy (2005–2009)*. Manila.

<sup>b</sup> ADB. 2008. *Technical Assistance to the Republic of Kiribati for Economic Management and Public Sector Reform*. Manila (TA 7166-KIR, approved on 7 November).

<sup>c</sup> ADB. 2006. *Technical Assistance to the Republic of Kiribati for Integrated Land and Population Development Program on Kiritimati Island*. Manila (TA 4878-KIR, approved on 29 November).

Sources: Government of Kiribati. 2008. *Kiribati Development Plan: 2008–2011*. Tarawa; and Asian Development Bank.