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Republic of Kiribati: Economic Management and Public Sector Reform

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Prepared by Vinstar Consulting

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For Asian Development Bank
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Asian Development Bank

VINSTAR Consulting

Final Report

TA No. 7166-KIR: Economic Management and Public Sector Reform

Presented to

The Asian Development Bank

and

The Government of Kiribati

September 2013

VINSTAR

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Final Report

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Abbreviations

ADB	Asian Development Bank
AusAID	Australian Agency for International Development
BIP	Business Improvement Plan
BKL	Bobotin Kiribati Limited
BSL	Betio Shipyards Limited
CSO	Community Service Obligation
GDP	Gross Domestic Product
GoK	Government of Kiribati
IFC	International Finance Corporation
KOIL	Kiribati Oil Company Limited
KPI	Key performance Indicators
KSCL	Kiribati Supply Company Limited
KSSL	Kiribati Shipping Services Limited
LSS	Local SOE and PFM Reform Specialist
MFED	Ministry of Finance and Economic Development
MTEF	Medium-term Expenditure Framework
MTFF	Medium-term Fiscal Framework
NEPO	National Economic Planning Office
OHL	Otintaai Hotel Limited
PFM	Public Financial Management
PFM/TL	Public Financial Management Specialist / Team Leader
PPP	Public-Private Partnership
PRS	Public Enterprise Reform Specialist
PSO	Public Service Office
PUB	Public Utilities Board
RERF	Revenue Equalization Reserve Fund
SLS	SOE Legal Specialist
SMS	Shipyard Management Specialist
SOE	State Owned Enterprise
SRSC	SOE Reform Steering Committee
TA	Technical Assistance
TKL	Television Kiribati Limited
TOR	Terms of Reference

Knowledge Summary

This is a summary of the knowledge gained as a result of undertaking this TA:

- Successful reform needs genuine support from the client Government and its senior officials as well as donors. In regards to this TA, there has been willingness by the Government of Kiribati to implement reforms, especially for the SOE sector. Without this there is a high probability that a TA will produce reports with valid recommendations that are never implemented.

- The issues that are identified as problematic when the terms of reference are drafted will usually evolve or change during the lifecycle of the TA. Indeed they will likely change in terms of scope and size while other issues will arise that may supersede the original problems and need priority attention over the original problems. In such a situation, it is very beneficial for the TA funder to support modification of either the terms of reference or the approach taken by the TA Team in the field. In relation to this TA, the ADB has been very supportive of the adaption of the TOR to meet the urgent needs of the GOK.

- Where major new issues are identified that are well outside the scope and funding of the TA, supportive donors should quickly initiate TA support for new TAs that build upon the initial one. In regards to this TA, this happened in relation to the budget needs of the GOK where significant problems were identified by the TA relating to the general ledger and government accounting system.

- Where multiple TAs are operating in the field, a cooperative rather than a competitive approach is essential and can lead to increased benefits for the client government. For this TA, there have been other TAs particularly relating to SOEs, namely for PUB (water and sanitation as well as PRIF assistance with strategy), Otintaai Hotel (IFC PPP) and TSKL (World Bank). The TA Team proactively sought to coordinate work and share information. This was particularly effective with the IFC TA where there was ready agreement on boundaries. On the budget aspect, this was less successful because donors sometimes fielded consultants (usually for short term assignments) without the prior knowledge of the TA Team.

- Time and effort must go into building positive relationships between the consultants and senior officials. This will lead to the establishment of genuine trust by counterparts that the advice being provided is technically correct and feasible, taking into account local issues such as culture. This approach was taken by the TA Team and was critical in the success achieved by the TA.

- Reform is typically incomplete at the end of a TA and often needs ongoing support to ensure gains and momentum are not lost. Certainly in relation to this TA the success of the process was recognised by the GOK who, through the SRSC, encouraged the reform process to move forward as quickly as possible and urged the key donors to provide any funding assistance that they could.

Executive Summary

1. ADB TA No 7166-KIR: Economic Management and Public Sector Reform was initiated in mid 2009 with a primary focus on public financial management (PFM) and the Budget, with state-owned enterprise (SOE) reform and capacity development as related activities. The SOE sector was included since losses and bailouts of SOEs were having a significant impact on the growing Budget deficit. It became readily apparent that the SOE sector issues needed additional attention and this was supported by AusAID, who subsequently provided co-financing through the ADB allowing for an expansion of the SOE reform aspect of the TA.

2. This report summarises the work of the TA over more than four years. It takes each of the three streams of work, namely: PFM; SOE; and Capacity Development and provides a “before and after” analysis. All three streams are inter-related with successful Capacity Development at the Ministry of Finance and Economic Development (MFED) being critical to the overall success of the TA, ensuring the sustainability of institutional strengthening inputs delivered by the TA Team.

3. All three streams of work have been successful in improving the fiscal outlook for Kiribati and the ability of the MFED to respond to the ongoing challenges of the financial sector both nationally and internationally.

Public Financial Management Reform

4. The initial issues faced by the MFED were serious with a large and growing budget deficit with inadequate and unreliable accounting system and budget processes. It utilised a single year budget that was developed on an incremental basis with a focus on collation of bids from ministries rather than consideration of the medium term implications of budget decisions.

5. The TA has assisted through development of a Medium Term Fiscal Framework (MTFF) moving the budget to a 3-year focus. A comprehensive budget “manual” has been provided together with a toolkit of spreadsheets that assist staff at MFED and ministries improve budget preparation and monitoring. Significant issues needing further expert support beyond the scope of the TA were identified. These included the need for major improvements in reliability of the accounting system as well as seeking to improve the linkages between government priorities, ministry budgets and projects funded through the Development Fund. In mid 2012 a new ADB TA-7995 on public financial management commenced to carry on from this TA.

SOE Reform

6. The Kiribati SOE sector had been identified as needing reform for some two decades before this TA commenced, but little had been achieved. Several SOEs were making losses and bailouts totalling around $20 million have been required – a major factor in the budget deficit.

7. This TA has been very successful in initiating a comprehensive reform of the sector as a whole. The approach has been to tackle both the overall sector management framework as well as improvement actions for many of the SOEs with the worst financial performance.

8. A review of the overall sector led to development of a reform programme. At the core of this is a SOE Act which sets out a new approach to SOE governance and accountability that addresses the historical issues behind poor results. SOE directors and managers have received initial training on their responsibilities under the Act. Each SOE is now developing their first Statement of Intent – the strategy document that will be the agreement between ministers and Boards on scope and strategic direction as well as set out key financial and performance targets. An SOE Monitoring and Advisory Unit (SOEMAU) has been established and provided initial training.

9. Poorly performing SOEs were specifically targeted. Two loss-making SOEs have been closed down. One company has been sold and the other is in the progress of sale of assets, apart from some land that has been transferred to Government. Business Improvement Programmes have been implemented for 5 SOEs. These have been successful in reducing operating losses.

10. The TA has supported two Public-Private Partnership (PPP) transactions. One PPP has been led by the IFC but the TA has provided advice on the transition implications for the SOE company. Legal and commercial advice relating to the other PPP has assisted the Government avoid a bad deal that would have resulted in losses for the next 20 years.

11. Overall, the TA has instigated momentum for continuing reform of the SOE sector that has potential to turn the sector from a drain on the recurrent budget to one that provides positive financial returns and improved service to the public.

Capacity Development

12. There is clear evidence of gains in capacity within MFED and a significantly improved Human Resource (HR) operational environment as a consequence of TA inputs. After initial categorisation by the TA of the issues faced by the Ministry and recommended actions, support was provided by the TA to assist with the implementation of very necessary change. The TA recommendation to establish and the subsequent support by MFED to appoint a HR Manager (the first HR Manager within a ministry in Kiribati), with the TA providing ongoing and targeted support for the position, gave momentum to capacity development at MFED and thereby ensured sustainability of the steadily improving HR environment.

13. These actions have in turn led to an ongoing emphasis on training and development as well as a more professional approach to staffing issues with a large number of vacancies being filled and clear plans in place to continue with the recruitment drive. There is an established and operational internally-driven Capacity Development Steering Group (CDSG) which works with a clearly defined and agreed Capacity Development Roadmap to progress and monitor ongoing capacity building and HR reform at MFED.

14. In terms of capacity development in the wider SOE sector, the business improvement plans and associated coaching have also been a development experience for SOE managers. The workshops associated with the new SOE Act and its implementation will also lead to greater capacity for strategic planning, financial analysis, performance measurement and budgeting

Main Report

A. Introduction

1. This is the Final Report for ADB TA No 7166-KIR: Economic Management and Public Sector Reform. The TA commenced in July 2009 and will complete in September 2013. It should be noted that during the life cycle of the TA, critical additional financing was provided by AusAID to assist with the key area of SOE reform. Strong support was provided throughout by the TA's ADB Project Officer in Suva; the TA's Executing Agency, the Kiribati MFED, where a close and positive working relationship was established with key counterpart staff; and a notably effective partnership was formed by the TA Team with the SOE Reform Steering Committee (SRSC) which had both strong leadership and membership and took clear ownership of the SOE reform process.

2. The TA Team has provided donors and counterparts with comprehensive reports and papers as appropriate and required, consisting of an Inception Report; a Mid Term Report; 5 Milestone Reports; Visit Reports provided after every visit by a TA International Expert; regular Monthly TA Update Reports (for the past 15 months) which were initiated by the TA as a result of the intensity of change resulting from TA inputs and the perceived need for an improved understanding by the donors; and at the request of the MFED and the SRSC, numerous draft Cabinet Papers. The TA Team also drafted the Kiribati SOE Act which has since been passed into law, and developed many operational handbooks and manuals.

3. Rather than re-issuing here the extensive volume of material already produced under the TA, this Final Report provides a review and analysis of the TA's major delivery streams which are as follows:

- Public Financial Management (PFM) Reform
- State Owned Enterprise (SOE) Reform
- Capacity Development at MFED

4. For each of these major TA delivery streams this Final Report provides:

a) a summary of the situation at TA initiation;
b) a description of the actions taken by the TA Team, listing the main achievements; and
c) a summary of the situation at the completion of the TA.

5. Please note however that all major reports completed under the TA will be made available electronically at TA completion together with an index to enable easy reference.

6. At the conclusion of this TA it is encouraging to note that PFM reform in Kiribati is continuing through ADB TA No. 7995-KIR: Strengthened Public Financial Management. This new TA picks up several areas identified by TA-7166 as requiring additional attention. Similarly, the process of SOE Reform in Kiribati clearly needs continued support. Advice that another ADB TA is scheduled to carry forward the work already undertaken here is a very positive outcome for Kiribati.

B. Public Financial Management Reform

B1. Situation at Commencement of the TA

7. The context for ADB and Government of Kiribati (GoK) support for the TA was a concern about growing budget deficits partly driven by a poorly performing SOE sector

but with concerns about a lack of capacity and adequate systems and processes to adequately address the issue.

8. In the 2009 TA Inception Report it was reported that over the past 5 years there has been a steady rise in deficits, accompanied by a rise in the level of drawdowns on the Revenue Equalization Reserve Fund (RERF). The deficit on the recurrent budget for 2008 was AU$30.8 million, or approximately 38 percent of Gross Domestic Product (GDP). Over the period 2003 to 2008 total deficits had been almost exactly balanced by total RERF drawdowns, albeit with some timing differences caused by the need for the Government to pay down its overdraft, which was previously partially funding the deficit.

9. The period 2005 to 2008 showed a steady upward trend to the deficit, from around $20 million in 2005 to over $30 million in 2008. Annual RERF drawdowns of over $30 million were not considered sustainable in the investment climate at that time, and there was a risk that this level of drawdown would lead to RERF depletion.

10. The goal outlined in the Kiribati Development Plan (KDP), supported by the ADB's draft economic and social review of Kiribati, called for stronger revenue and expenditure planning, implemented by positive management using up-to-date information within a realistic statement of medium-term public financial policy was clearly a key determinant of the TOR for this TA.

11. The GoK had expressed the intention of improving its financial position, and this TA was provided to assist with that objective.

12. The Budget ideally represents the result of a whole of government prioritisation exercise that selects the best expenditure mix to achieve the objectives of the KDP, preferably over a multi-year planning horizon. In practice this was not the case. The recurrent budget was based on previous year's spending plus new initiatives, and the development budget included those projects that had secured donor funding, with little link to the KDP.

13. The Budget preparation process was found to be largely a matter of compilation of data provided by line ministries, with MFED not playing an active role in the alignment of budget spending with GoK policy priorities. Within line ministries the current year budget bid was based on the previous year's allocation. MFED did not monitor monthly line ministry expenditure against budget. This was done in the past, but the practice had been discontinued, with line ministries being required to monitor their own expenditure. The results of this were variable, with some ministries significantly exceeding their allocation. It appears that line ministries had imperfect understanding of their own cost drivers, with poor expenditure planning and asset management.

14. The focus on the process of compilation (rather than integration of the budget with planning linked to policy objectives) evident in MFED was echoed within the line ministries, with little apparent effective expenditure planning being undertaken.

15. Investigations showed that the GoK accounting system was unreliable and not properly used by line ministries. As a result, MFED did not have access to up-to-date accurate numbers on line ministry expenditure. The accounting system had been in this state for several years, and concerns expressed repeatedly by the auditor had been disregarded. Without accurate accounting information proper budgeting is not possible, so it was seen as essential that this be remedied.

16. Some of the key issues identified were:

- ***Unreliable accounting system***
  The Attache accounting system was considered unreliable to such an extent that ministries were using parallel systems for their budget recording and monitoring. The wireless internet connection from MFED to ministries was unreliable so ministry staff would visit MFED to obtain information.

- ***Lack of Bank Reconciliation***
  This contributed to the unreliability of the accounting data.

- ***Budgetary Control Needs to Improve***

- ***Lack of Budget monitoring by MFED***
  The Budget was being monitored only by ministries and only half yearly. It was considered unsatisfactory that the Ministry of Finance must wait six months for financial performance data, and then express a lack of confidence in the accuracy of that data, a product of the government's own accounting system.

- ***Unrealistic Development Budget Estimates***
  The Development budget tables presented in the Budget consisted of a long list of approved projects, some of which were funded and of these some were in progress. The presentation was not considered very informative, and the estimate for current year expenditure appeared to be consistently optimistic.

17. The TA proposed a Medium Term Fiscal Framework (MTFF) with a multi-year budget. They noted the preparation of multi-year budgets, by themselves, will not be sufficient to bring about an MTFF that fulfils its purpose of bringing fiscal discipline to bear on government expenditure. The proposed reform envisaged a dramatic change in the way that budgets were prepared and managed, and in the way that MFED and line ministry staff approach their jobs. It was noted that the changes would not just occur; they would need to be driven.

B2. Other issues identified

18. The TA found that the 1974 Finance Regulations were out-of-date and inconsistent with the 1980 finance ordinance and needed be revised as a matter of high priority. This was beyond the scope and resourcing of the TA.

19. Work completed by the Treasury Specialist confirmed the need for long term TA support for MFED's accounting and financial reporting system (that runs on Attache software) to be a priority. The detailed review noted:

- The recording of events in Attache takes place after the processes (commitment or payment) have been conducted manually. In other words the Financial Management Information System (FMIS) is used as a recording tool and not a management or control system.

- In this context management reports will only be accurate to the extent that the out-posted MFED Accountant has recorded commitments within the system. This may be well after the commitment has been initiated by the authorized Local Purchase Order.

20. This need was reinforced by findings during the work on the MTFF, budget monitoring and Development Fund as part of the TA. Accounts Division staff were unable to provide reports needed for monitoring and the content of the data in the reports was considered unreliable so that accurate monitoring and prediction of the likely outcome for

the year was very difficult. A significant reason for unreliability was that transaction processing was not being done on a timely basis (e.g. outer islands and High Commission transactions were not entered into the ledger during the year) and the level of miscoding was unacceptably high.

21. Later work as part of the SOE aspect of the TA obtained information on unpaid amounts owed between ministries and SOEs. It became apparent that ministries were able to order goods and services from SOEs in excess of their expenditure budget allocations but were then unable to pay the SOE as their budget allocation was over-committed. This confirmed that Attache was not being used in a proper manner to prevent commitments in excess of the Parliamentary approved budget.

22. The Development Fund project accounts were unable to be used for monitoring whether spending was within the budget total or if there were unspent funds still available because around a third of donor revenue was not posted to the individual project accounts. As a consequence control over projects was exercised through manual processes. The TA suspects that there may be substantial “unspent” balances for projects that have been completed if accurate balances were able to be calculated. A fresh start is recommended with opening balances for current projects determined and then the cash bank balance adjusted to match the sum of project fund balances. This has potential to release perhaps several million dollars for use in the Recurrent Budget.

23. Work to improve the reliability of the accounting system has subsequently been picked up by a new ADB TA-7995 which is addressing the weaknesses identified by TA-7166.

B3. Summary of TA Achievements - PFM

24. The main achievements of the TA relating to PFM Reform are listed. Work on the PFM aspect ceased in February 2013. In addition to what has been achieved by the TA itself, the major issues identified has resulted in a separate ADB TA-7995 to continue the reform programme.

- The Recurrent Budget has been moved from a single year basis to a medium term one with estimates for three years. The 2010 Budget (passed in November 2009) was the first to include forward estimates of revenue and expenditure for three years.
- A Budget Guidelines document has been prepared that sets out the steps to be followed through the complete budget cycle from setting the fiscal framework to developing the budget and monitoring the prediction of outcomes. This includes a budget calendar. A copy is Attachment 1.
- Initially the TA Team needed to provide considerable support for preparation of the Budget in the new format. By 2012 the Budget Team within MFED took the lead for preparation of the 2013 Budget, with support and quality review by the TA. This reflects the aim of capacity building so that there is a transfer of knowledge and skills from the TA members to MFED.
- The budget process is supported by a financial model consisting of linked Excel spreadsheets which provides a Medium Term Fiscal Framework (MTFF). The model was first used in 2010 for the 2011 budget and was used for the 2012 and 2013 budgets. The budget spreadsheets link to the model so that as budget bids are submitted the MTFF automatically updates.
- The MTFF is now being used as a key tool in budget policy setting, especially to demonstrate the potential impact of policy options. It has been updated with over

a decade of historical data for actual revenue and expenditure so that trends can be determined and shown using charts and summary tables.

- During the term of the TA the MTFF model was made progressively more sophisticated, especially for revenue estimates, as well as including the predicted outcome for the current financial year. It provides summary charts showing trends using standard measures such as the relationship to GDP and expressing the data in real terms. MFED budget staff members have been provided with training and coaching in the use of the MTFF model.
- Budget monitoring and prediction of the outcome for the year has been reintroduced. Finance staff members in MFED and ministries have been provided with tools for budget monitoring and prediction through capacity building workshops.
- Since 2011 the spreadsheets used for the Budget have been linked to budget policy assumptions and to the MTFF model so that forward projections are automated. This has reduced the time required by staff in both ministries and MFED for preparation of budget bids.
- A review of the Development Budget identified issues needing improvement. A fundamental issue is the lack of an adequate project accounting system as well as lack of coding of all donor receipts, so that it is not possible to accurately calculate unspent balances by project. The longer term solution is a better project accounting system which will be addressed by the ADB TA-7995 working in the Accounts Division.

B4. Situation at TA Completion - PFM

24. A new ADB TA-7995 on public financial management commenced in mid 2012. It carries on with many of the issues identified by this TA, particularly the need to improve reliability of the accounting system as well as seeking to improve the linkages between government priorities, ministry budgets and projects funded through the Development Fund. Support for the MTFF and budget monitoring will continue, including use of the MTFF financial model and Budget spreadsheets.

25. This TA has made sure that the new TA Team has all relevant material from our work. Electronic copies of files have been provided together with briefing sessions to ensure that the new advisers understand how the toolkit of Excel spreadsheets (e.g. Recurrent Budget, MTFF and Revenue monitoring) work and integrate. The handover should ensure that the gains in improved systems and processes from our work are continued and built upon.

C. State Owned Enterprise Reform

C1. Situation at Commencement of the TA

26. At the inception of the TA there was a preliminary assessment of the SOE sector. It was acknowledged that much had been written about the poor performance of Kiribati SOEs over the previous two decades with the case for SOE reforms well documented by a series of reports prepared by regional and multilateral development assistance agencies, particularly the Asian Development Bank. Despite this, the inception report found the following situation:

- ***Lack of Reliable Up-to-Date Information on SOE Performance***
  Government lacked reliable, up-to-date information about key dimensions of

individual and collective SOE performance. The latest audited financial statements typically were at least several years old, making it difficult for the Government to know reliably the current financial positions of its various SOEs or the main contributors to them. Information on other aspects of SOE performance - notably services provided and indicators of their quantity, quality, reliability or customer satisfaction – seemed to be largely non-existent.

- ***Subsidies Rationale***
  Successive Governments had provided an array of subsidies to support the activities of SOEs, but the extent of such subsidies provided to each SOE was not readily discernible. A preliminary review of a sample of SOEs revealed no evidence that such subsidies have any performance-related conditions which, if not met fully, would affect the level of future subsidies.

- ***SOE Business Strategies***
  SOE Directors were appointed and dismissed by the Minister responsible for the particular SOE. Each SOE Board of Directors was responsible for deciding on the SOE's business strategy and its detailed operations plan to implement that strategy. Where an SOE Board considered that its SOE requires extra funds from the Government to support its operations, it approached the responsible Minister to seek such financial support. But there seemed to be no effective systematic, transparent mechanism for the Board and Minister to reach agreement about what should be an appropriate business strategy for the SOE, or how the strategy is to be financed (including possibly extra financial support from the shareholder).

- ***Directives to SOEs***
  Over the years successive Governments evidently have often asked, or effectively directed, the Boards of various SOEs to take particular actions or adopt particular policies without due regard to the consequences for an SOE's business wellbeing. Typically such requests or directions were not accompanied by financial support to compensate for the ensuing impact. Not surprisingly, these essentially "forced" actions appear in some cases to have been a major contributor to an SOE's dire financial position. (Bobotin Kiribati Limited was quoted as an example.)

- ***Dismissal of SOE Boards***
  Another contributor to poor SOE performance arguably was the evidently long entrenched practice for the responsible Minister to dismiss an SOE Board which fails to accommodate such requests or directions. It appears that it was not uncommon for a Board to be dismissed for refusing to comply with a government directive even though its refusal to do so may be legitimate (e.g. consistent with the Directors' fiduciary duties under the Companies Ordinance to act in the best interests of the SOE business). This practice arguably reflected the absence of a more effective governance mechanism for resolving any disputes between the Minister and the Board.

- ***Impact of Interventions on SOE Boards***
  Such government interventions – in the absence of effective accountability mechanisms – made it difficult for the responsible Minister or Parliament to hold SOE Boards to account for the performance of the SOEs which they oversee. These interventions also discouraged Boards from trying to improve their SOE's performance. A Board's incentive to exercise sound control over an SOE's activities is likely to be undermined by a perceived high risk that its strategic efforts to improve an SOE's performance may be negated by such interventions. This being the case, a critical condition for successfully improving SOE performance arguably will be the absence of either informal government directives that are inconsistent with the interests of the company and uncompensated, or dismissals

of directors on grounds other than say failure to perform their duties effectively or properly.

- ***Monitoring and Accountability for SOE Performance***
  There appeared to have been low priority accorded to setting realistic SOE performance goals; striving to achieve them; monitoring the actual performance achieved; analysing its key causes and implications; or holding people to account for that performance. This preliminary conclusion was consistent with the evidently very limited staff resources that were devoted to monitoring and analysing SOE performance and its impacts: both in MFED and the sector Ministries responsible for SOEs. SOE Boards by and large seemed to be left to oversee their SOEs as they see fit, apart from being subject to the above interventions from time to time, or where they sought extra resources from the government. The absence of a strong culture of performance monitoring and accountability meant that this potential avenue for reinforcing incentives to achieve desired SOE performance goals was not being effectively utilised.

C2. Comprehensive SOE Reform approach

27. In the inception report the TA set out a broad strategy to improve the SOE sector. The desired outcome were seem as:

- More cost-effective supply of core public services which are currently being supplied by SOEs;
- Less fiscal cost incurred by the government for the provision of these services, to allow government moneys to be used to provide higher-priority core public services;
- Positive returns from the state's equity in SOEs which it continues to own; and
- More private-sector investment in commercial activities with associated increased employment opportunities.

28. The proposed SOE-performance improvement strategy comprised six parts:

- ***Individual SOE reform criteria*:**
  Setting criteria to indicate what reform action is likely to be the most cost-effective, realistic way to improve the SOE's performance consistent with the Government's strategic economic and social goals, and concerns.
- ***An SOE Act*:**
  An SOE Act that set out a governance and monitoring framework.
- ***Creating an SOE Monitoring and Advisory Unit*:**
  Creating within MFED an organisational unit with a small critical mass of suitably skilled staff to monitor and analyse SOE performance, and to advise SOE shareholding ministers about SOE performance and related issues.
- ***Up-to-date information on the SOE portfolio*:**
  Compilation of up-to-date information about each SOEs service and financial performance.

- ***Phased implementation of SOE reform strategy***:
  Phased reform limited to a few pilot SOEs where there is a realistic prospect of the reforms succeeding.

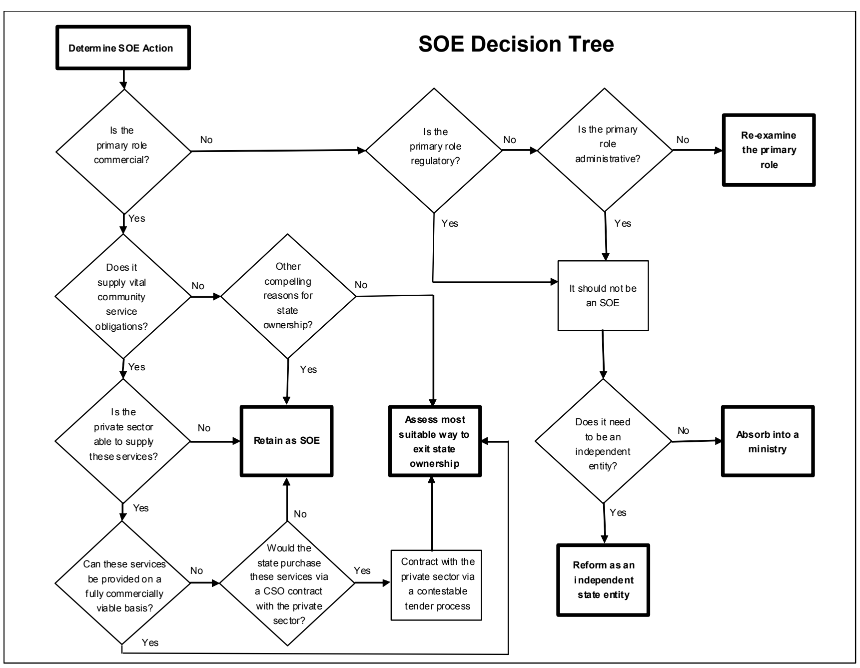
- ***Training***:
  Training of MFED staff in SOE oversight, reform and performance-monitoring duties and, once the SOE Act had been passed wider training of those required to implement it.

29. This approach was followed for the remainder of the TA. The actions under the broad reform approach are summarised in the next section entitled “SOE sector-wide issues”. The proposed “pilot project” approach was implemented for several SOEs with selection of these being determined by GoK through a SOE Reform Steering Committee (SRSC). Which particular SOEs received TA support or activity differed from those identified in the inception report. This was the TA’s response to the changing GoK priorities relating in many cases to financial crisis where the SOE concerned had sought a bailout from GoK. The actions taken over the term of the TA are described in the section titled “Transactions and issues relating to individual SOEs”.

30. As this TA comes to an end, the pace of reform activities has been accelerating reflecting GoK’s acceptance of the need for reform and the success of the TA in reducing major problems. As might be expected, the reform programme remains incomplete with several actions still work-in-progress. SRSC has set a clear priority list of actions for the follow-on TA. (See Attachment 5.)

C3. SOE sector-wide issues

31. The sector-wide approach commenced with setting a policy for ownership of SOEs. This was first approved by Cabinet in 2009 and reaffirmed in March 2012 after the general election. Subsequently it has been summarised into a diagram that forms a “decision tree”. Each question is considered and the answer determines the next question to be considered.



32. It can be seen that retention of a SOE requires that there is a sound public policy reason for doing so, such as supply of community service obligations that cannot be economically provided in any other way, or that sale would have a bad outcome, e.g. selling a natural monopoly without regulation. The Telecommunications Authority of Kiribati is excluded from being considered a SOE because it is a regulator.

33. Considerable effort was given to gathering information on individual SOEs and on dealing with the worst of the individual problem cases. Many did not have current financial data and the failure of many SOEs to have current financial reports remains a significant hindrance to management, strategic planning, performance assessment and accountability.

SOE Reform Steering Committee

34. Formation of the SOE Reform Steering Committee (SRSC) arose as a TA Team suggestion to speed up SOE reform. It has played a very important and successful role in supporting reform. This Committee has been chaired by the Secretary to Cabinet with the Secretary of Finance as deputy chair. The other members are permanent secretaries with major roles to play in supporting reform. They are the Solicitor General and the Permanent Secretaries of three ministries – Communications, Transport and Tourism Development; Commerce, Industry and Cooperatives; and Environment, Land and Agricultural Development. The first two are responsible for a large number of SOEs. MELAD involves land and any transaction involving an SOE invariably requires issues relating to land and leases to be carefully managed.

35. SRSC has played a very important role in supporting reform. It has provided essential advice on Cabinet's views and in setting priorities. It has acted as an expediter over issues critical for transactions, especially land leases. With the Secretary to Cabinet as Chair, many papers to Cabinet have been signed by the President which has emphasised their importance.

36. The Committee has met frequently, around 25 times each year. When significant issues have been involved, SRSC has met multiple times within a few days. The support of these senior officials has been a key factor in progressing decisions in a timely manner.

SOE Stocktake and comprehensive reform action plan

37. In the first quarter of 2012 a complete stocktake of all SOEs was completed resulting in a comprehensive report and recommended reforms. The recommended reforms include strategic direction for each SOE, with a prioritised list of actions such as sale, contracting out, PPPs, merger or retention. It also had an Action Plan for improved management of the whole sector, including a SOE Act, SOE Monitoring and Advisory Unit, bringing accounting up-to-date and addressing issues relating to leased land. This Action Plan has been maintained and updated. The final version is in Attachment 2.

38. As part of the comprehensive report, financial data on SOEs was summarised into a set of tables. This data has also been kept updated and the current version is in Attachment 3. The tables include a summary of availability of financial data which demonstrates that bringing accounting up-to-date remains a major issue and hindrance to improved performance.

39. The SOE Stocktake report recommendations for reforms were endorsed by Cabinet in a special meeting. This covered both the priority list for transactions as well as structural management reforms. Cabinet also approved having SOE legislation.

SOE Act

40. A SOE Act was drafted by the TA who also undertook consultation on the Bill and supported its passage through Parliament. It had its first reading in the December 2012 session of Parliament, was passed in April 2013, signed by the President in mid May 2013 and came into force on 1 August 2013.

41. This Act changes governance and accountability and seeks to overcome many of the issues identified in the inception report. Perhaps the most important change will be the Statement of Intent which is a strategy statement that sets out the agreement between SOE Board and ministers and becomes the basis for measuring achievement. Attachment 4 summarises the main features of the SOE Act. The focus is now on implementation of the Act.

Workshops on the SOE Act

42. A set of workshops was prepared to provide SOE directors and managers as well as senior civil servants with information on the SOE Act and tools for those within SOEs required to implement the two new key aspect of the Act – the Statement of Intent and bids for Community Service Obligations. There were four modular workshops forming an integrated package:

- The SOE Act and requirements for a Statement of Intent
- CSOs
- Financial analysis
- Budgeting and financial modelling

43. The financial analysis and modelling were targeted at the skills needed to prepare the SOI with KPIs as well as 3-year comprehensive budgets integrating profit and loss, balance sheet and cash flow. It is doubtful that any SOE had a proper 3-year financial model.

44. Workshops were presented in Tarawa and Kiritimati over June – August 2013. The general workshop on the Act and SOI was presented twice in Tarawa and in Kiritimati with total attendance 74. The financial analysis and modelling workshops were presented at both locations with attendance totalling over 40. The CSO module was presented only in Tarawa with 23 attending – as only some SOEs will be eligible to bid for CSO funding.

CSO Funding Policy

45. A policy for CSO funding was prepared by the TA and approved by Cabinet. However, Cabinet did not provide guidance on areas it wishes to fund, preferring to deal with applications on a case-by-case basis. CSO bids will need to be considered as part of the budget process and this is likely to bring out into the open the inconsistency of past policy of SOEs performing CSOs on an unapproved basis without compensation.

46. Ministers are likely to be reluctant to fund CSOs but will also be uncomfortable with SOE responses to non-funding, e.g. cost cutting through reductions in staff, price rises or cessation of some activities. It is likely that this aspect of the reform will be the first test of Cabinet resolve for genuine reform. This will occur during the decisions taken around October 2013 for the 2014 Recurrent Budget.

SOE Monitoring and Advisory Unit

47. SOEs were part of the responsibility of the Investment unit of the National Economic Planning Office within MFED. This had a single staff member when the TA commenced in 2009. In April 2012 MFED appointed an additional staff member specifically for the planned SOE Monitoring and Advisory Unit responsibilities and the unit

now has three staff. The TA has provided a list of tasks for establishment of the SOEMAU, revised position descriptions, prepared an annual work and time allocation summary and provided a manual for the unit that sets out their responsibilities under the SOE Act. The Manual has checklists for each of the unit's main responsibilities. A lot of TA time has been on active coaching.

Social impact alleviation

48. As many reforms resulted in redundancy, to limit the social cost of redundancies, the Government has approved a policy of a minimum payment of $3,500 which is equivalent to around six months of salary. This policy was a TA recommendation as part of the sale of KSCL and has been used for all subsequent redundancy packages.

Business Improvement Plans (BIPs)

49. SOEs requiring financial assistance are now required to have realistic action plans aimed at business improvement. As part of approved BIPs, SOEs have been required to take cost reduction action, including staff redundancies where necessary to match staff levels with operational requirements.

50. This TA recommended policy has been consistently enforced by SRSC and has created a consequence for seeking financial assistance. The TA worked closely with individual SOEs to ensure realistic BIPs were developed and has largely written the action plans themselves. Five business improvement plans have been developed by the TA and the team also provided support for another SOE that developed its own plan.

Short Term Debt

51. Short term Accounts Receivable/Payable debt between SOEs and Ministries was identified as a major issue. An International Accounting Specialist gathered data on debt and the TA proposed set-off of debt as well as some write-offs to provide a fresh start for SOEs, together with new processes to avoid recurrence of the problem. The paper prepared by the TA was approved by Cabinet and with TA support implementation is nearly complete.

52. This exercise identified an issue with unpaid KPF employer contributions by 5 SOEs which disadvantaged employees. The TA recommended Cabinet fund this, provided KPF agreed to reduce the penalties to a level equivalent to the investment income that would have been paid by KPF had the employer contributions been paid when due. This issue remains to be finalised but has been followed up regularly by the TA.

53. Cabinet approved off-setting SOE PAYE and company tax debt against amounts owed by ministries. Implementation is subject to a legal opinion from the Attorney General, which had not been received at the time this report was written.

Financing SOE bailouts

54. Bailout of SOEs has been a major issue and the total cost has had a significant impact on the overall finances of the Government. Advice was provided on financing SOE bailouts, including sums expected to be called up by the ANZ bank under guarantees. The suggestion was for a borrowing pool that will be repaid from sale of SOEs and/or repayments of debt by SOEs that continue in Government ownership. This has potential to reduce the cost of finance as existing bank interest rates are high. This has not been actioned by GoK but remains a potential action that would reduce the cost of borrowing.

Local Accountants

55. Two Local Accountants were hired on an assignment basis and have worked on improving systems and financial reporting for Bobotin Kiribati Limited (BKL), Kiribati Shipping Services Limited (KSSL) and Betio Shipyard Limited (BSL). The work done in BKL anticipated approval for sale and was designed to ensure that financial records were "clean", so as to enhance sale value.

C4. Transactions and issues relating to individual SOEs

56. This section provides short summaries of activity relating to individual SOEs. The sequence approximates the timeline of the TA.

Kiribati Supply Company Limited (KSCL)

55. KSCL was a failed, insolvent hardware retailer. Its financial statements for 2009 reported a loss of $1.3 million. The Balance Sheet at December 2009 included inventory valued at $1.7 million but when the TA looked into assets in detail it was apparent that this was grossly overstated and the financial records were in disarray.

56. KSCL became the test case for privatisation. Its only significant assets were 3 land sites but there were no formal sub-leases for the land. Getting to the bidding stage required policies for ownership, redundancy, sub-leases and payment of creditors. This took more than 18 months as these were precedent setting policies and activities. Sale was completed in 2011 with a net surplus of $1 million after payment of all creditors. The gross price of $1.8 million exceeded all expectations and was based upon the scarce land for retail stores in South Tarawa.

57. Since sale, the new owner has redeveloped the Betio store into what is probably the best supermarket in Tarawa. The major site in the centre of Bairiki now has a shopping mall under construction which will be the largest retail development in Tarawa. This private sector development will probably result in higher employment than when KSCL was Government-owned and expansion of tax revenue.

Bobotin Kiribati Limited (BKL)

58. BKL was a food importer, wholesaler and retailer concentrating on basic food such as rice, flour, sugar and canned meat. It had warehouses on 10 outer islands with an extensive wholesale business as well as 3 retail stores in South Tarawa. Its market share had been falling as the private sector expanded with some 8 competing importers. It had been required to absorb 150 staff from a failed SOE but failed to reduce costs as sales declined. By the time the TA became involved in May 2011, BKL was making trading losses of over $1 million pa and was unable to pay trade creditors. The two main trade creditors charged 18% interest on overdue accounts.

59. Sale was recommended in May 2011 but Cabinet deferred a decision until after the 2011 election. In early 2012 Cabinet were concerned about the potential impact of sale of BKL on food supply to outer islands. In March 2012 Cabinet agreed to guarantee the $3.5 million debt owed to the major trade supplier based upon their concern for food security. This was done without advice. After the guarantee had been given, the TA provided legal advice and assisted with negotiation of a settlement deed. Our advice resulted in stopping accumulation of interest and spreading the payments over a 2 year period. The interest saving to GoK was $300,000 with a further gain of $200,000 in lower borrowing costs from spreading the payments over two years.

60. Study by the TA in March/April 2012 demonstrated that the risk of food shortages in outer islands was a myth. All but one outer island had private sector competitors to BKL. Any shortages were short term and arose because of problems with shipping.

61. Eventually in October 2012 Cabinet approved sale but by this stage BKL had virtually ceased trading. A competitive bidding process was run with bids closing in February 2013. After the bids were received and analysed, Cabinet decided to retain the two most valuable land sites but to sell the other assets and liquidate BKL.

62. A factor in this decision was the TA's identification of the potential for tax loss carry-forwards to reduce the value of the bid by $1.5 million. Another issue limiting value was that there were no formal leases for land in outer islands (other than Kiritimati) so there was no possibility of sale by assignment of outer island leases.

63. Closing down a loss-making SOE was the most important gain from this transaction. Losses over the 4 years before ceasing operations totalled $8 million. The TA's actions are estimated to have stopped ongoing operating losses of perhaps $1 million pa. The savings would have been several million dollars higher had the TA's May 2011 recommendation to sell BKL been accepted as the guarantee of the $3.5 million would not have occurred and trading losses would have ceased earlier.

Kiribati Shipping Services Limited (KSSL)

64. In 2011 KSSL was operating a freight service between Suva and Betio as well as domestic ferry services to the South Gilberts and Line and Phoenix Islands. The company was struggling, was providing an unreliable service and had major cash flow problems. GoK had already had to take over the $1 million overdraft and subsequently the $3.5 million bank term loan. We estimated that the annual loss in value of KSSL over the previous 5 years was $1-2 million (cash losses and loss of value in vessels from lack of maintenance).

65. In September 2011, at GoK's request via AusAID, the TA provided an international shipping manager for KSSL. He immediately identified that the vessels were in very poor condition. In February 2012 the TA provided a Marine Surveyor who checked all 8 KSSL vessels (only 3 of which were actually sailing). He found that no ships met international safety standards and that those being used for domestic ferry services were a high risk for passengers and crew. As the domestic ferries transported over 2,000 students and teachers this was cause for alarm and concern. The TA recommended KSSL cease operating all the condemned ships immediately and that the GoK contract out the necessary domestic ferry services to the private sector. The TA's position was that there was sufficient capacity from the private sector for the international route and this has since been shown to be correct.

66. After the Marine Surveyor's report and the TA's resulting recommendation to the GoK, in March 2012 KSSL ceased its international service. Under instruction from its Ministry however KSSL continued to operate 2 of its vessels (under temporary local survey approval) on domestic routes. As a consequence, the TA withdrew its international manager, thereby ceasing its direct involvement in KSSL's shipping operations. The TA did however continue to provide accounting support to KSSL to assist in improving its financial management and reporting.

67. In October 2012 the TA provided a discussion paper on options for managing shipping as well as advice on how best for GoK to manage financial relationships with KSSL (which continued to trade while insolvent). Just before the end of the 2012 school year the TA sought AusAID assistance in requesting GoK to not use KSSL vessels to transport school children because of the high risk.

68. In April 2013 GoK purchased a landing craft to use for domestic services. The intention was to provide the vessel to KSSL. TA advised that this would provide a $2

million vessel to an insolvent company for the benefit of creditors. As a result a new holding company was established to hold title to the vessel and KSSL given a temporary charter.

69. In August 2013 the TA reminded GoK of the shipping options paper and its recommendation to consider contracting out management of domestic shipping. It is understood Cabinet supports the concept of liquidation of KSSL.

Betio Shipyards Limited (BSL)

70. In early 2011 BSL was in financial difficulty. GoK had been required to take over its $1 million bank overdraft and it still owed creditors another $654,000. There were two vessels under construction for island councils but progress was slow and had ceased because of the inability to purchase materials. The company had retained a permanent staff of about 75 when there was insufficient work for them, an important factor in the cash crisis. In addition, they had been unable to recover accounts receivable of over $1 million (most owed by GoK) as accounting records had been lost in a fire.

71. The TA devised a 12-month business improvement plan (BIP) that involved making 55 staff redundant and GoK funding $1 million to pay creditors and provide working capital. The BIP included planning for finishing construction of the two island council vessels, purchase of materials (including kitsets for aluminium boats) and new tools. The redundancies were funded by GoK as were some purchases of materials but the $654,000 remains unpaid. BSL endeavoured to follow the BIP but lacked the cash to fully implement. They were able to survive close to cash flow neutral but progress on the island council vessels was slow – partly because of lack of funding from GoK, but also poor BSL project management.

72. Losses in the two years prior to the TA's BIP were around $1.2 million annually. After the BIP took effect, losses reduced to under $100,000 – a difference of more than $1 million annually.

73. In mid 2012 the TA was approved to provide a shipyard management specialist to work with BSL on improved management, including aspects such as work planning, costing and pricing and formal customer contracts. This specialist provided excellent technical advice most of which was immediately adopted by BSL, e.g. a proper contract for work, costing and pricing which recovered costs (they had been under-pricing).

74. In October 2012 the TA provided a suggested strategy for BSL. This was to sell the operations of the company but to retain ownership of the land with the requirement that the new owner maintain an operational slipway. Effectively this was for a PPP.

75. Around this time the Minister had been approached directly by a Malaysian businessman who proposed to lease the shipyard and improve the slipway to service the international shipping fleet. In view of this, the Shipyard Management Specialist made no further visits. In April 2013 the TA was eventually asked to become involved in assessing the proposed lease. We provided comprehensive advice on the inadequacy of the proposed lease and suggested that GoK needed a formal concession PPP to protect itself. This advice was accepted and the concession document the TA provided became the basis for negotiations. After months of negotiations the Malaysian businessman has agreed to the GoK's "bottom line" terms so a PPP will go ahead. The deal is superior to what was originally proposed.

76. The original lease proposal was for a fixed rental of $30,000 pa, but with GoK required to pay insurance for the shipyard. The TA assessment was that this actually had a negative net present value as the rental would remain fixed but insurance costs

increase. The final deal, involves a $10,000 “exclusive rights fee”, requires initial payments for equipment and inventory (perhaps $100,000 in total), a bond of $200,000 for 5 years, annual rental for the land of $30,000 with regular rent reviews, and an annual concession fee of 1.5% of Gross Revenue. The agreement will spell out the construction work required to be completed – essentially repair and upgrade of the existing slipway and construction of a new larger slipway. If the capital development is not completed the shipyard would revert to GoK without any obligation to pay compensation.

77. This is improved deal is based upon advice from the TA and will represents a significant gain to GoK revenue over the next 20 years as well as realisation of economic growth, e.g. higher employment, expansion of supporting services such as accommodation and restaurants for crew of vessels being serviced. The bond, while lower than the TA recommended, is an essential protection as the Malaysian company is a shell without adequate capital.

Kiribati Solar Energy Company Limited (KSEC)

78. KSEC requested a bailout in early 2012. The TA developed a business improvement plan with a new business model for them. As a condition of financial support, there is a formal agreement that requires quarterly progress reports against specific KPIs to the SOE Monitoring and Advisory Unit. This is a further step towards formalising the relationship between SOEs and SOEMAU as well as a transfer of monitoring from the TA to SOEMAU.

79. KSEC had been making losses of around $50,000 pa. Under the BIP they receive a lower annual grant for services to outer islands but should break even.

Television Kiribati Limited (TKL)

80. Television Kiribati Limited became insolvent and ceased operations in June 2012. The TA provided advice on liquidation of TKL and on the need for proper independent technical advice on television broadcast options. A Fiji TV company proposed a Joint Venture to provide a wider range of TV in Tarawa based upon a subscriber payment system. The TA reviewed the proposal and provided advice that it was unlikely to be commercially viable and that the structure of the deal favoured the partner to the disadvantage of GoK. This advice was accepted. The potential loss averted was the $600,000 GoK was asked to contribute as capital.

Broadcasting and Publications Authority (BPA)

81. BPA is also in severe financial difficulty with unpaid creditors of around $900,000, though it is difficult to assess the actual financial position as their records are very unreliable. The TA provided a draft BPA which was partially adopted by BPA. But it was clear to the TA Team that these short-term cost cutting measures would be inadequate to resolve BPAs financial situation, especially as they clearly had CSOs that were not being funded. We worked with officials from the Office of the President on a policy paper to seek the minister’s views on which services were desired by GoK. Once this has been determined a future strategy can be determined.

Otintaai Hotel Limited (OHL)

82. The IFC has been working on a PPP for the Otintaai Hotel since 2011. The TA supported their work with advice on local business conditions as well as pressing for priority to be given to renewal of land leases to make the PPP possible. The deal is expected to settle late August 2013 and will provide considerable economic benefits.

83. IFC were working on the PPP concession agreement but not on the implications for the SOE. The TA identified issues for the SOE and a transition plan which has been adopted and is being implemented.

84. We also identified that GoK needed to establish proper arrangements to monitor implementation of the PPP after the initial settlement. We developed a policy proposal which has been accepted. This will involve SOEMAU playing a lead role in monitoring. This will need to be used for both the Otintaai and shipyard PPPs.

Plan and Vehicle Unit (PVU)

85. Cabinet requested a review of the Plant and Vehicle Unit and SRSC requested the TA to undertake this work. The conclusion from the work completed is that the best option is for long term rental vehicles to be transferred to relevant ministries and for the workshops to be sold. The likely annual savings are $550,000. SRSC has recently advised that they support this conclusion but wish to go even further with reforms by replacing cars used by Permanent Secretaries with cash allowances. This may add a further annual saving of around $200,000.

Public Utilities Board (PUB)

86. PUB has been losing around $2 million annually on a cash basis. (Their financial statements under-report this as uncollectible Accounts Receivable of around $1 million pa has been treated as income and another $1 million of donated assets included as income. In addition, grants and subsidies from GoK have been included as income.) GoK has funded this from a combination of subsidies and by taking over the bank overdraft and term loan. PUB owes KOIL around $6 million for fuel.

87. In December 2012 Cabinet received a request from PUB to increase its tariffs. No decision has been taken and Cabinet was unconvinced by the case put forward by PUB. In April 2013, SRSC asked the TA to provide an independent review of PUB's financial position and the tariff request.

88. The TA had not previously been involved in detailed work on PUB because of other TA support as part of the ADB Water and Sanitation project. This support included the Pacific Regional Infrastructure Facility providing a management advisor. To avoid duplication, the SOE TA had limited its work to an overview of PUB but maintained contact with the management advisor and made sure that he was aware of the overall reform of the SOE sector. His work was completed in late 2012 and it appears that the main output was a strategic plan and support for PUB's request for tariff increases.

89. As requested by SRSC, the TA completed a limited review of PUB that concentrated on its financial situation and the tariff proposal. The report was presented to SRSC. The advice provided supported the view that PUB needs to increase revenue through either tariff increases or higher subsidies. It also concluded that the proposed tariff structure for electricity had a disproportionate impact on domestic consumers and an alternative tariff structure should be designed.

Telecom Services Kiribati Limited (TSKL)

90. The World Bank has a project to reform telecommunications which may involve a sale of TSKL or perhaps a JV with an international partner. A WB consulting team commenced work on an options study in August 2013. The TA has provided advice to the WB consulting team on the provisions of the SOE Act as well as shared our experience in SOE transactions. We emphasised the need to resolve land issues so that TSKL has formal leases or subleases for land that it occupies. We warned that this can delay reforms. We provided advice on how use of the SRSC could assist gaining Cabinet approval for reform.

C5. Reform status of individual SOEs

91. This section provides a comment on the current status of each SOE. As the TA has concentrated on SOEs facing significant issues, we have not reviewed all SOEs in detail. Accordingly some of the comments are necessarily brief. The SOI process will bring issues into the open as will the work of SOEMAU and reporting by SOEs of actual results against their SOIs.

Air Kiribati Limited (AKL)

92. AKL is purchasing a replacement aircraft funded by a loan. This will increase costs for servicing the loan. There are practical problems with retention of licensed pilots as other countries pay higher salaries.

93. Financial statements have not been finalised for 2011 and 2012 with issues relating to depreciation to be resolved. The TA has identified that AKL has not been lodging PAYE tax returns and is in arrears with payment of PAYE. They have not finalised corporate tax returns and there are issues with rates of depreciation and the treatment of major engine overhauls for tax purposes. Until this is settled liability for income tax cannot be determined.

94. AKL receives a subsidy for some domestic routes. This will need to be justified as a CSO under the SOE Act. As the sole domestic airline it would not be sensible to privatise AKL.

Betio Shipyards Limited (BSL)

95. BSL has been commented on in the section on SOE transactions. It is likely that the shipyards will be leased under a PPP. The transaction will exclude their Kiritimati premises which are leased to MOEL, a private business. If this leased property is transferred to GoK, once the PPP takes effect BSL should be liquidated.

Bobotin Kiribati Limited (BKL)

96. BKL has ceased operations and its assets are being sold or transferred to GoK. After this, it will be liquidated.

Broadcasting and Publications Authority (BPA)

97. BPA is insolvent and unable to pay creditors. GoK needs to determine what services it wishes BPA to provide, some of which will require CSO subsidies, e.g. radio retransmission from the Line & Phoenix Islands. Once this has been done, financial restructuring will be needed to provide a fresh start.

Captain Cook Hotel Limited (CCHL)

98. CCHL is one of the better managed SOEs. It has potential to become a genuine tourist hotel but achieving this will require a more reliable airline service to Kiritimati. While it has spare capacity for additional guests, it would need capital expenditure to bring it up to an adequate standard to attract more tourists. It has potential for a PPP (like Otintaai Hotel) or sale.

Central Pacific Producers Limited (CPPL)

99. CPPL is involved with supporting fishing within Kiribati and is also involved in a JV for a fishing factory. The TA has not investigated CPPL or the JV but there are suggestions that the JV has cash flow problems. This will need early investigation by the next TA or SOEMAU.

Development Bank of Kiribati (DBK)

100. DBK is profitable and has Cabinet approval for expansion but this will need funding for the needed capital increase. Expansion into retail banking would be a major change requiring considerable external expert assistance. The agreement between GoK and ANZ requires a six month notice to ANZ of any intention for DBK to move into banking.

Kiribati Copra Cooperative Society (KCCS)

101. KCCS collects copra from outer island and sells it to Kiribati Copra Mill Limited (KCML). Copra itself is subsidised by GoK by around $6 million annually but this is paid directly to producers rather than through the company.

102. KCCS was originally a private cooperative but management was taken over by GoK when it failed financially. KCCS has cash flow problems and this affects KSSL since it means they are in arrears with payments for shipping copra.

103. We have been advised that Cabinet has discussed merger of the two copra companies but has yet to formalise a decision to do so.

Kiribati Copra Mill Limited (KCML)

104. KCML processes the copra and exports the resultant products. As mentioned, there is a proposal to merge the two copra companies. This seems logical as the two companies are part of social service financial support to those living on outer islands.

Kiribati Housing Corporation (KHC)

105. KHC manages housing for civil servants. Many of the houses were originally provided by the colonial government or donors. GoK pays an annual subsidy of $250,000 to KHC which will need to be replaced with a CSO payment. While the subsidy is supposed to compensate for civil servants receiving lower than market rents, it is thought that the sum is inadequate to do so. The low rent is part of the pay package for senior civil servants so changing rents may need to have a flow-on effect on pay rates.

Kiribati Handicrafts and Local Produce Limited (KHLP)

106. KHLP has been identified as a trading company that has been missed for inclusion under the SOE Act. It is understood to be very small and may need to receive CSO funding to be financially viable. It might be more suitable to exclude it from the SOE Act as a non-commercial activity.

Kiribati Insurance Corporation (KIC)

107. KIC provides general and life insurance though the life insurance aspect is modest. It is the sole provider and is very small so is not a suitable candidate for sale.

Kiribati Oil Company Limited (KOIL)

108. KOIL is the sole petroleum supplier in Kiribati. Fuel is price controlled but KOIL carries the risk of price changes as the price controlled is the wholesale rate not the margin. Wholesale prices have remained the same but purchase costs are probably rising as the AUD has declined by around 10% against the USD. This will either reduce KOIL's profits or mean it makes losses.

109. KOIL is embarking on expansion of its Betio tank farm. It has to borrow as its margins are under pressure and PUB owes KOIL around $6 million for fuel. The margin and PUB debt issues need to be addressed.

Kiribati Ports Authority (KPA)

110. KPA operates at both Betio and Kiritimati. At Betio the Japanese are funding extension of the main wharf which will result in being able to offload directly onto the wharf rather than use lighters. This should reduce costs and speed up offloading but will also increase pressure for prices to reduce. KPA is considered one of the most expensive ports in the Pacific.

111. KPA itself has been profitable. Under the SOE Act it will become liable for company income tax. As a natural monopoly it is not suitable for sale.

Kiribati Solar Energy Co. Ltd (KSEC)

112. KSEC provides solar energy products to outer islands. It needs a subsidy to cover costs and is working under a BIP with quarterly reporting. A formal CSO funding agreement will be required.

Otintaai Hotel Ltd (OHL)

113. The hotel is about to be transferred under the PPP and 25 year lease. After this OHL itself will be liquidated.

Plant and Vehicle Unit (PVU)

114. As discussed earlier in this paper, PVU’s rental vehicle operation is likely to revert to direct GoK ownership of vehicles with sale of the workshops.

Public Utilities Board (PUB)

115. The ADB Sanitation and Water project will eventually provide PUB with a better operation for these two aspects of its business. Longer term, solar energy will ease the cost of electricity generation but in the meantime, tariffs are inadequate to cover costs.

116. PUB’s tariff issue has been discussed earlier in the paper. Cabinet needs to decide on the appropriate balance between tariff increase and subsidy to make up the $2 million annual cash shortfall. PUB also needs to become more efficient but this is not likely to generate sufficient savings to make much difference to the additional cash required. In addition the $6 million owed by PUB to KOIL needs to be funded so both SOEs have a sound base for the future.

Te Atinimarawa Aggregate Mining Company (TAAMC)

117. This company will operate a barge and dredge to mine coral from the Tarawa lagoon partly to provide shingle for the roading project but also to replace beach mining which is causing environmental damage. The barge/dredge is funded by the EU. Construction is running very late and the barge has yet to arrive in Betio.

Telecom Services Kiribati Ltd (TSKL)

118. There is a World Bank project reforming the Kiribati telecommunications sector with the aim of introducing competition. A consulting team has recently commenced work at TSKL to devise options. These might include sale or a JV.

119. TSKL is modernising its cell phone network in advance of competition and has borrowed $2.8 million to fund this. While the TA has not done detailed work on TSKL it is though that its financial position is in decline with cash flow issues emerging.

Television Kiribati Ltd (TKL)

120. TKL ceased operating in June 2012. The TA has recommended that the company be liquidated. This would return the land and its fixtures, such as the satellite dish and transmission towers to GoK – making reuse of these for alternative ventures easier to achieve.

C6. Summary of TA Achievements - SOE Reform

121. As can be seen a considerable amount has been achieved though we readily acknowledge that the reform programme is incomplete. Progress with implementing reform has been accelerating and the TA has been faced with an increasing number of requests for advice. This reflects perhaps the most important achievement of the TA in relation to SOE reform – we have become the trusted advisers to SRSC and GoK. This is demonstrated by the recent request to provide an independent report on PUB's tariff proposals.

C7. Situation at TA Completion - SOE Reform

122. Cabinet has approved implementation of the SOE Act from 1 August 2013. This means that SOEs need to prepare their Statement of Intent (SOI) - a short strategic plan that includes 3-year budgets - and bid for funding for Community Service Obligations (CSOs) for the first time. In addition, there are several active transactions that require ongoing TA support to ensure they are taken to a successful conclusion.

123. While ADB is planning a follow-on TA for SOE reform, implementation and fielding the consultants may take some time. SRSC was asked to identify GoK's priorities for TA support, especially what might be required during the bridging period between ADB TAs. A copy of the paper setting out these priorities is in Attachment 5.

D. Capacity Development at MFED

D1. Situation at Commencement of the TA

124. The view at inception was that current capacity at MFED was low with respect to public financial management and SOE performance management. The approach taken by the TA was to identify capacity enabling factors: the policy and legislative setting, the defined institutional functions, staff development and succession planning, management information systems, and the work environment.

125. The term "capacity" is used broadly, encompassing all of the factors that need to be present to ensure that the job gets done. There need to be sufficient numbers of available people who possess all necessary qualifications and requisite experience. Those people need to have a sense of direction, or mission, which can come from good leadership, and it can also come internally, as when members of an organization absorb the professional ethos of that organization and assume ownership for the organization's goals, and responsibility for its performance. Under "capacity" we considered whether the materials and tools necessary for the job were present. In the context of public financial management that means accurate financial and operational information being produced by reliable IT and associated systems.

126. MFED was assessed as not having adequate capacity in any of these dimensions. It was considered that no-one was providing the necessary direction to focus staff on fiscal management, nor did existing staff have the prior experience that would have developed the "mindset" that would enable them to be self-motivated. There were considered not enough staff devoted to budget management. Basic skills were variable, with some staff, particularly at line ministries, in need of training in basic financial analysis and the use of Microsoft Excel.

127. Initial work by the TA identified many areas where improvements to basic management would assist with improved capacity. These included:

- Many senior positions were held by people in an acting capacity and there were a significant number of unfilled positions.

- There was a lack of management direction and supervision of staff.

- Job descriptions needed revision and the majority of staff had not seen theirs.

- Staff members in NEPO were well qualified but few have received job-specific training. Training and development lacked strategic and management context. Rather it was opportunistic and not matched to specific job requirements or priorities.

- Management information systems were poor or non-existent.

- The work environment was poor, e.g. office environment is cramped, hot, and humid with poor furniture, technology and filing cabinets.

D2. Summary of TA Achievements - Capacity Development

128. The capacity development aspects of the TA can be divided into two clear phases: a) work undertaken by the Capacity Development Expert, from TA commencement through 2010, in which the requirements for capacity development at MFED were identified and a series of recommendations were made; and b) where the HR Change Management Expert, from 2012 through to TA completion, worked to facilitate actual HR operational change and actual capacity development at MFED.

129. After the work by the Capacity Development Expert was completed in 2010, recommendations were submitted by the TA in relation to organization structure, staff appointment policy, training and performance appraisal. MFED management were able to implement a number of these key recommendations, including those relating to making permanent staff appointments and ceasing to hold positions for those on long term LWOP. The Secretary of Finance also embarked on refurbishment of the MFED offices to improve working conditions.

130. The HR Change Management Specialist commenced work in March 2012 and was tasked to deliver the following:

- Build the capacity of HR management at MFED to ensure the sustainability of planned MFED-wide capacity development initiatives;
- Establish a Capacity Development Steering Group (CDSG) within the MFED and ensure it met on a regular basis;
- Prepare a Capacity Development Roadmap with all MFED stakeholders and obtain approval of the Capacity Building Steering Group;
- Develop a Monitoring Framework to measure the impact of interventions resulting from implementation of the Capacity Development Roadmap; and
- Commence implementation of the Capacity Development Roadmap at MFED in close cooperation with counterparts responsible for HR management in MFED.

131. Key achievements of the TA in relation to capacity development included the following:

Appointment of a Human Resources Manager at MFED

132. A Human Resources Manager position was created in MFED at the recommendation of the TA to support and progress the proposed HR development programme. This was the first dedicated HR Manager role in the Kiribati Public Service and it was recommended to provide the skilled resources necessary to achieve the sustainable change.

133. Staffing issues within MFED had previously been managed through the administration team under the leadership of the MFED Deputy Secretary with close oversight from the Public Service Office (PSO). The Deputy Secretary role is part of the Administrative cadre, a group of senior administrators placed in departments by the PSO to undertake a range of core administration functions using standardised procedures. The appointees are moved from agency to agency frequently and at short notice. The frequent change of appointees to this role at MFED meant that it was difficult to implement an ongoing strategic development programme.

134. The HR Manager role was developed to ensure there was a dedicated and skilled resource within MFED to work with the TA to develop the HR development programme and to ensure that the capacity development work initiated by the TA continued after the TA ended.

135. The HR Manager commenced in December 2012 having previously been engaged as the HR manager for Telecom Services Kiribati Ltd (TKSL) for some years. The larger SOE's in Kiribati have generally engaged HR managers as those agencies have wider authority over pay-fixing and conditions of employment than the core public service. As the new role in MFED had a different focus from the SOE role and had to work within the centralised management model of the public service, different skills were needed. The TA worked closely with the new HR Manager to assist in making that transition, understand the new role and succeed in it.

Capacity Development Steering Group (CDSG) - Establishment and Operation

136. Establishment and operation of a CDSG was a key deliverable of Phase 2 of the TA's work in relation to Capacity Development at MFED. Actual establishment of the CDSG was approved in principle by the Secretary MFED during in March 2012. The Deputy Secretary agreed to be a member of the group and to chair the initial meetings of the group. The other members of the group, proposed initially, were the Comptroller of Customs (HoD member), the Deputy Accountant General, the Deputy Commissioner of Taxes, the Assistant Secretary and the Project Liaison Officer for TA 7166.

137. The terms of reference agreed for the CDSG (see Attachment 6) included responsibility for monitoring and evaluating progress on the Capacity Development Roadmap which was established as a governance framework for the HR development programme across MFED.

138. The CDSG was also deemed responsible for communicating the rationale and outcomes of the HR change programme to managers and staff across the Ministry. Group members were well placed to undertake this responsibility as they were either Heads of Division (HoDs) or Deputy HoDs within their divisions.

139. The Group members were encouraged to share current HR priorities and initiatives from their division with the group. This was a useful exercise to broaden the

understanding of issues affecting the divisions and opened a dialogue on how group members can work collaboratively on issues of joint interest.

140. Over the course of the TA, the CDSG matured and members work collaboratively to share information on issues affecting staff and staffing issues across the ministry. The progress made on these operational issues was significant and the CDSG is now an invaluable resource for the HR Manager. It should however be recognised that it has been harder for the CDSG to get traction on the more strategic HR issues, such as an integrated approach to staff development and training, manpower planning and performance management. This is expected to improve when the HR Manager completes the intensive recruitment work at MFED and has more time to work on the other development projects in the Capacity Development Roadmap.

Capacity Development Roadmap - Development and Ownership

141. The Capacity Development Roadmap was developed following the initial visit of the HR Change Management Specialist in March 2011. The draft Roadmap framework identified the key work streams required to meet the capacity building objectives at MFED. These were identified as:

- Appointment of Human Resources Manager;
- Review of internal recruitment processes;
- Introduce a Ministry-wide induction programme for new appointees;
- Implement a structured Training and Development programme for new appointees; and
- Update the performance management process and introduce a new appraisal programme.

142. These were seen as an achievable programme for the remaining timeframe of the TA that would ensure that there were significant improvements in support for managers to support staff development and for new staff joining the Ministry.

143. The framework for the CDSG was drafted to include sufficient detail to allow the work programme to be properly monitored by the CDSG and to provide a basis for reporting progress on the work streams to senior management. For each work stream, the Roadmap framework identified:

- The actions steps necessary to complete that work;
- Who is responsible for each of those actions;
- The time line for completion, ie, the milestones to monitor progress;
- How progress will be measured; and
- The additional actions needed to ensure continuing sustainability.

144. The Roadmap framework was designed as a living document that could be updated and extended as the CDSG and the Secretary identified the need for new initiatives or work streams, or where new action steps were included to add value to the work streams. It was designed to ensure that the Roadmap format served as an on-going accountability framework for capacity development in MFED.

145. The CDSG endorsed the proposed format for the Capacity Development Roadmap at its meeting in September 2013 and confirmed the workplan priorities for the first year.

146. The priority work streams endorsed by the CDSG at that meeting and recorded on the Roadmap were:

- Appointment and induction of the HR Manager
- Development and implementation of an MFED-wide Induction Programme for all new staff.
- Development and implementation of a Training and Development Pathway for all new staff covering their first 6-12 months in the role.
- Review of the internal recruitment processes in MFED to minimise avoidable delay.
- Development and implementation of a recruitment model to ensure that MFED attracts good candidates and can appoint the best available person for the role. This will include up to date job descriptions, training and support for recruiting managers and interview panels
- Lead a refresh of the performance management process in MFED and implement a new process based on the PSO appraisal model.

147. Progress was made on each of the above work streams during the remainder of the TA. A copy of the Capacity Development Roadmap at the time of the last visit of the HR Change Management Specialist in May 2013 is shown as Attachment 7.

Building Awareness of the Value of Capacity Development and Establishing Linkages

148. With support from the TA, MFED developed a strategic plan to reflect the responsibilities assigned to the Ministry under the Kiribati Development Plan (KDP), the five-year strategic plan for the country adopted in 2012. The TA worked with the Deputy Secretary, the HR Manager and the CDSG to build understanding of the critical importance of staff capability to achieve the divisional and Ministry-wide objectives set for the KDP and how the HR development plan in the Roadmap assists in developing and sustaining the staffing capacity that will be needed.

149. As part of this work the TA developed an "Introductory Workshop" on strategic human resource management for the CDSG and supported the Deputy Secretary and the HR Manager to deliver that workshop to CDSG members. That initial work was reinforced by the TA working with key members of the CDSG and delivering an updated presentation to the CDSG meeting to reinforce counterpart awareness and understanding.

150. The TA provide capacity development support to the project team appointed to deliver the ADB-funded Strengthening Public Financial Management (SPFM) TA working in the accounting division of MFED. This included a joint initiative to explore options to better align the staff database in the Attaché accounting system used for the payroll with the PSO's staff database that is used for workforce planning across the public service and for managing access to training and other processes. The initial work undertaken confirmed that there were significant discrepancies between the data in each system indicating risks of inefficiencies and possible malpractice.

151. The leaders of the SPFM TA and the TA's HR Change Management Specialist made a joint presentation to the PSO on options to improve performance in this area which lead to fruitful discussions with the PSO HR management team. There was support for further work to explore the use of the Attaché HR information management modules (HRMIS) to run the PSO database and also to provide options to allow Ministries access to some of the HRMIS data to assist their internal HR management practice.

152. Meetings were also held with the Human Resources division of the PSO to ensure their continuing support for the TA's HR development work in MFED and to share resources where this was possible. Scope to better integrate the PSO staff database with the national payroll database operated by MFED, as part of the sector-wide accounting system, was identified by the TA. The options to do this and the potential benefits to improve HR management effectiveness across the public service were outlined.

153. Management and supervisor skills development was recognised as a critical need to improve public service performance and in this regard the TA worked with the Kiribati Institute of Technology (KIT) and with the PSO to explore options to deliver cost effective training.

154. In February 2013, an opportunity also arose for the TA to work with a project team from the Australian Public Service Commission (APSC) who were in Tarawa as part of a scoping study to look at projects to improve HR leadership across the public service. The Australian team were referred to the TA's HR Change Management Specialist by the PSO and the project team used the TA’s work in MFED as a case study of the benefits of focussed HR management at ministry level. This referral affirms that the initiatives arising from the TA’s work were recognised both within Kiribati and by outside agencies as a practical way to deliver the step-change in management performance that funding agencies see as essential.

Capacity Development in relation to the PFM and SOE elements of the TA

155. The PFM delivery stream included capacity development of MFED staff and finance staff in ministries. This included skills in budget monitoring and prediction for staff in MFED and ministries as well as use of the MTFF model for relevant MFED staff.

156. The SOE Monitoring Unit aspect of the TA also placed emphasis on capacity building and the Unit is fully functional as a result of the work throughout the TA.

D3. Situation at TA Completion - Capacity Development

157. The establishment and filling of the HR Manager position at MFED has been a significant success in raising professional involvement in management of staff and in capacity building. The Capacity Development Steering Group (CDSG) continues to meet on a regular basis to work on training and staff development issues with a clear focus on the recruitment of suitable staff at the Ministry.

158. Filling critical vacancies across the ministry has been a key focus of HR Manager and at the last CDSG meeting the HR Manager advised that 21 positions had been filled since she started and a further 22 positions were under active recruitment. The CDSG noted that no permanent appointments had been made in the 2012 calendar year and expressed appreciation for the positive work done by the HR manager to fill those vacancies since she commenced in December 2012.

159. There have been positive actions to recruit staff to fill vacant positions in NEPO, though vacancies remain and staffing for the Budget 2014 is an issue as the head of the unit was promoted to another ministry in early 2013. The Investment Unit that is the SOE Monitoring and Advisory Unit has three staff. NEPO staff have been organised in work teams that have responsibility for sectors of ministries with greater attention being given to identifying all resources for each ministry – recurrent budget and development fund projects. This work is also being integrated and supported by the EU-funded adviser on performance measurement and reporting.

160. With the Accounts Division, a high proportion of staff members were temporary rather than permanent. Some 18 positions were advertised and filled. Existing temporary staff members undertook skills testing before being short listed for interview for these positions. Very few passed which reflects the initial assessment of low capacity at the commencement of the TA. New staff appointees are receiving training.

161. The CDSG has taken-on full ownership of the Capacity Development Roadmap which is now a working and monitoring document for capacity development and HR improvement at MFED. A significant milestone on the "Induction Work Stream" was achieved with the first Ministry-wide induction day for recently appointed staff held in May 2013. The HR Manager is undertaking further work on the proposals to develop models for workplace induction for new appointees and to link this to an assessment of initial training needs to ensure that new employees understand the ministry's expectation of them and they are equipped to succeed in their roles. The TA's HR Change Management Specialist left templates and resource material to assist with this and thereby improve sustainability.

162. As part of the growth and evolution of the Capacity Development Roadmap, the CDSG is now considering proposals for future project work and has identified workplace health and safety as an early priority. Other issues to be considered for inclusion in the Roadmap are:

- Adopting a continuous improvement approach to the recruitment process and other key HR processes to ensure they remain fit for purpose as the ministry develops;
- Ongoing work to build a performance culture in MFED based on good communication and effective performance management;
- Developing an MFED leadership and management development programme focussing particularly on in-country training for first level and newly appointed managers;
- A programme to develop employee engagement in MFED based on staff surveys and manager lead programmes to build an engaged and committed workforce.

163. In line with a number of recommendations made by the TA, the physical work conditions are at MFED are also improving. Most recently the NEPO office has been refurbished and now has air conditioning. New furniture has also been purchased and installed.

E. In Summary

164. The TA has been successful in all three aspects.

E1. Public Financial Management

165. Public financial management has improved and the Medium Term Fiscal Framework (MTFF) and three years budget has become accepted as the basis for discussions during the annual budget round. The Recurrent Budget deficit remains a significant issue but this is more to do with political decisions rather than financial management and advice from officials. Much more needs to be done on improving integration of development planning with resourcing through the Recurrent and Development Budgets. Within ministry budgets, the proportion of funding for personnel has risen over the past decade from around half to three-quarters of the budgets. This

means that funding for items other than staff has fallen significantly in real terms. Fortunately, improving the links between planning and budgeting has been picked up in ADB TA-7995 Strengthened Public Financial Management.

166. Similarly, the issues identified by TA-7166 in the accounting area are also being addressed through TA-7995.

E2. SOE Sector Reform

167. While SOE reform was initially a minor aspect of the TA, it has become the major emphasis. There has been substantial positive progress with overall sector reform as well as actions relating to individual poorly performing SOEs. A whole-of-sector review was completed resulting in development of a comprehensive reform strategy. This reform programme was accepted by Cabinet on 31 March 2012 and action since then has been linked to implementation of the programme.

168. A SOE Act has been developed, passed by parliament and has taken effect from 1 August 2013. This Act addresses the weaknesses in SOE governance and accountability identified at the commencement of the TA.

169. SOE directors and managers have received initial training on their responsibilities under the Act. Each SOE is now developing their first Statement of Intent – the strategy document that will be the agreement between ministers and Boards on scope and strategic direction as well as set out key financial and performance targets.

170. An SOE Monitoring and Advisory Unit (SOEMAU) has been established and provided initial training.

171. Poorly performing SOEs were specifically targeted. Two loss-making SOEs have been closed down. One company has been sold and the other is in the progress of sale of assets, apart from some land that has been transferred to Government. Business Improvement Programmes have been implemented for 5 SOEs. These have been successful in reducing operating losses.

172. The TA has supported two PPP transactions. One PPP has been led by IFC but the TA has provided advice on the transition implications for the SOE company. Legal and commercial advice relating to the other PPP has assisted the Government avoid a bad deal that would have resulted in losses for the next 20 years.

173. Overall, the TA has instigated momentum for continuing reform of the SOE sector that has potential to turn the sector from a drain on the recurrent budget to one that provides positive financial returns and improved service to the public.

E3. Capacity Development

174. There is clear evidence of gains in capacity within MFED and a significantly improved HR operational environment as a consequence of TA inputs. After initial categorisation by the TA of the issues faced by the Ministry together with recommended actions, support was provided by the TA to assist with the implementation of very necessary change. The TA recommendation to establish, and the subsequent support by MFED to appoint, a HR Manager (the first HR Manager within a ministry in Kiribati), with the TA providing ongoing and targeted support for the position, gave momentum to capacity development at MFED and thereby ensured sustainability of the steadily improving HR environment.

175. These actions have in turn led to an ongoing emphasis on training and development as well as a more professional approach to staffing issues with a large number of vacancies being filled and clear plans in place to continue with the recruitment drive. There is an established and operational internally-driven Capacity Development Steering Group (CDSG) which works with a clearly defined and agreed Capacity Development Roadmap to progress and monitor ongoing capacity building and HR reform at MFED.

176. In terms of capacity development in the wider SOE sector, the business improvement plans and associated coaching have also been a development experience for SOE managers. The workshops associated with the new SOE Act and its implementation will also lead to greater capacity for strategic planning, financial analysis, performance measurement and budgeting.

F. Lessons Learned and Recommendations

177. This TA was initiated because the Government of Kiribati faced significant problems with its Budget deficit. The initial emphasis of the TOR for the TA was on reform of the budget process with recognition that the SOE sector was one of the major causes of the deficit with the Government being required to fund bailouts of SOEs so that essential services to citizens were able to continue.

178. The financial crisis while undesirable did provide a stimulus for reform. Once the TA commenced it became clear that past efforts to reform the SOE sector had not been successful. The terms of reference envisaged that the TA would deal with individual SOEs on a case-by case basis but it was immediately apparent that an overall framework for SOE reform would be required. Fortunately, additional resourcing was provided that enabled the SOE-reform needs of the GOK to be properly investigated and for actions to commence.

179. In terms of **general lessons learned**, the TA considers that:

- **Successful reform needs genuine support from the client Government and its senior officials as well as donors**. In regards to this TA, there has been willingness by the Government of Kiribati to implement reforms, especially for the SOE sector. Without this there is a high probability that a TA will produce reports with valid recommendations that are never implemented.

- **The issues that are identified as problematic when the terms of reference are drafted will usually evolve or change during the lifecycle of the TA**. Indeed they will likely change in terms of scope and size while other issues will arise that may supersede the original problems and need priority attention over the original problems. In such a situation, it is very beneficial for the TA funder to support modification of either the terms of reference or the approach taken by the TA Team in the field. In relation to this TA, the ADB has been very supportive of the adaption of the TOR to meet the urgent needs of the GOK.

- **Where major new issues are identified that are well outside the scope and funding of the TA, supportive donors should quickly initiate TA support for new TAs that build upon the initial one**. In regards to this TA, this has happened in relation to the budget needs of the GOK where significant problems were identified by the TA relating to the general ledger and government accounting system. In fact a new TA was able to commence before the TA concluded which allowed a cooperative transition and handover.

- **Where multiple TAs are operating in the field, a cooperative rather than a competitive approach is essential and can lead to increased benefits for the client government.** For this TA, there have been other TAs particularly relating to SOEs, namely for PUB (water and sanitation as well as PRIF assistance with strategy), Otintaai Hotel (IFC PPP) and TSKL (World Bank). The TA Team proactively sought to coordinate work and share information. This was particularly effective with the IFC TA where there was ready agreement on boundaries relating to different aspects of work. On the budget aspect, this was less successful because donors sometimes fielded consultants (usually for short term assignments) without the prior knowledge of the TA Team, e.g. a World Bank TA concerning the freight subsidy for outer islands which interacted with shipping but where only a brief discussion was possible. Where there was advance knowledge and information sharing, results were enhanced, e.g. IMF Pacific Regional Centre.

- **Time and effort needs to go into building positive relationships between the consultants and senior officials.** This will lead to the establishment of genuine trust by counterparts that the advice being provided is technically correct and feasible, taking into account local issues such as culture. This approach was taken by the TA Team and was critical in the success achieved by the TA.

- **Reform is typically incomplete at the end of a TA and often needs ongoing support to ensure gains and momentum are not lost.** Certainly in relation to this TA the success of the process was recognised by the GOK who, through the SRSC, encouraged the reform process to move forward as quickly as possible and urged the key donors to provide any funding assistance that they could.

180. **The recommendation for future TAs in relation to general lessons learned** is that when selecting a firm to undertake a TA that this firm should have the necessary experience of working closely with governments to effect sustainable change. Also that the firm employs specialists whom it knows can deliver across the spectrum of needs. Also that the ADB should remain as flexible as possible and work with the firm to make adjustments in the deliverables based upon changing circumstances in the field.

181. In relation to the **PFM lessons learned**, the TA considers that:

- **The persistent nature of the GOK budget deficit will necessitate long-term and ongoing TA support to Kiribati.** The TA has been successful in passing on knowledge and toolkits (e.g. Excel spreadsheets) to the new PFM TA. A positive and cooperative working relationship was established early on and maintained by regular informal discussions.

182. The recommendation for future TAs in relation to PFM lessons learned in Kiribati is that funding will need to be made available for the long term for ongoing support in the area of PFM especially during the budget period to ensure the accuracy and timeliness of the GOK's annual budget.

183. In relation to the **HR lessons learned**, the TA considers that:

- **HR issues are endemic in government departments, are usually deep-rooted and intractable, consequently they require relatively radical solutions and solid commitment from counterparts to effect lasting change.** The HR aspect of the TA commenced with a detailed review and identification of significant issues with straightforward recommendations. Counterparts however were not able to implement many of the recommendations on their own, mainly because the traditional civil service structure allocated HR to the Deputy Secretary, but this position was part of the GOK "Administrative Cadre" where managers were subject to regular rotation between ministries and the cadre were generalists rather than specialists. Real progress was only achieved when the TA was extended to include an HR Change Management Specialist who was tasked with an implementation focus, who engaged the main TA counterpart (the Secretary of Finance) who appointed a specialist HR Manager and supported and empowered new "implementation focussed" initiatives such as the Capacity Development Steering Group.

184. **The recommendation for future TAs in relation to HR lessons learned in Kiribati** is that HR specialists should have clearly defined TOR deliverables that will make a difference and are sustainable when the TA finishes. The HR specialist should have identifiable experience of managing actual change (as averse to simply writing large reports) in previous assignments undertaken.

185. In relation to the **SOE lessons learned**, the TA considers that:

- **SOE reform needs to deal with the overall structure for managing the sector as a whole.** This is so there can be a framework for governance and accountability. Tackling individual SOEs can be difficult if there is no overall structure for actions. This became immediately apparent in relation to KSCL. An essential start point taken by the TA was to gain agreement from the Government on a policy framework for SOEs, including criteria for retention of SOEs in government ownership.

- **A strong and active counterpart "steering committee" that takes ownership of the reform process is critical to success.** Reform requires active, capable senior civil servants and policy advisors with supportive Ministers and Cabinet whose nominees should sit on such a committee. At the suggestion of the TA an SOE Reform Steering Committee (SRSC) was formed consisting of stakeholder ministry secretaries. Critically, the SRSC became the bridge between the TA reform advisors and Cabinet. It also became a mechanism for expediting actions by other ministries that would otherwise have prevented or delayed reform, especially leases of land.

- **The sale of an SOE to the private sector can provide a "signpost" for private sector-led economic growth.** This was the case when the TA supported the sale of the Kiribati Supply Company Limited (KSCL) to a local entrepreneur. The new company has established the most attractive of retail outlets in Betio, which has had a clear impact on private-sector competitors who have "upped their act" in order to compete. This sale has also seen the revitalisation of the old KSCL storage yard in Bairiki where the country's first shopping mall complex is currently being built. It should be noted that the sale of KSCL also reduced the GOK operating cost and resulted in a cash "windfall".

- **Care needs to be taken in relation selling SOEs that are "sole suppliers".** This can create private monopolies unless there is strict regulation and price control. Sole suppliers may be more suitable for JVs or PPPs that retain some aspects of Government control and ensure that Government gets a fair share of the economic benefits. The TA has most recently been involved in the PPP related to the sale of Betio Shipyards Limited (BSL) where striking an unfavourable deal could lead to short and long-term negative impacts on the GOK and the people of Kiribati.

- **Business improvement is essential for SOEs that are to be retained in government ownership.** The TA has worked in a focussed way to establish the SOEMAU to have oversight of the retained SOEs to ensure they comply with the requirements of the SOE Act in regard to business improvement. It must be remembered however that formal plans for business improvement need to be commercially realistic and have their implementation closely monitored by both the Board and the SOEMAU.

- **Many SOEs operate in specialised industries and therefore using TA consultants who are genuine experts in those industries (rather than generalists) is essential if business improvement is to be achieved.** TA specialists were fielded for shipping, maritime surveying, and shipyard management requirements and this was very beneficial. It was noted too that the IFC utilised the services of a hotel management specialist and the World Bank is using telecommunications experts in relation to the reform of TSKL.

- **Issues relating to land and leases of land are often major roadblocks to reform**. This is especially so in the Pacific where land has a very important place in the culture. Any transactions relating to a SOE (e.g. sale or PPP) require the owner to have a clear legal right to occupy land and use it for business purposes. The TA found that delays in resolving land leases were the largest single factor in slowing down reform activities.

- **Provision of high quality commercial legal advice is essential to properly support SOE reform.** Legal issues always arise if a transaction is proposed but also become a key part of dealing with insolvent SOEs. Good specialist legal advice has potential to generate significant financial benefits and prevent poor commercial deals that may have long term effects, e.g. a poor lease for the shipyard would have impacted GoK for 20 years. The TA retained the services of an SOE legal specialist with strong OECD "best practice" skills, backed by a large, experienced and reputable law firm and this greatly assisted the success of the SOE reform process in Kiribati.

- **Improving accounting systems and financial reporting are essential prerequisites for better financial results and enabling SOE sales.** Without up-to-date financial data, managers and boards are flying “blind” and cannot develop realistic and practical strategic plans. In the event that an SOE is slated for sale, then such information is a critical part of the "due diligence" process undertaken by prospective buyers. The TA encountered delays in the transaction process and the GOK likely had reduced value in the sale as a consequence of poor record keeping by SOEs.

- **Hidden CSOs need to be made explicit, especially where they are based upon pricing at lower than commercial rates**. For essential services such as electricity, there are practical tariff solutions that assist low-income households while generating revenue necessary to cover costs. At the latter end of the TA, the Team worked closely with the SOEMAU to ensure that they had a proper understanding on the need for addressing CSOs properly.

- **Legislation (the SOE Act) is important as it provides a legal underpinning for reform and sets clear rules**. The TA Team worked closely with counterparts, stakeholders and an ADB SOE specialist to ensure that the Kiribati SOE Act was the correct solution for the needs of Kiribati.

- **A properly functioning SOE Monitoring and Advisory Unit (SOEMAU) is a key requirement for successful SOE Reform.** It needs to be staffed with skilled experts able to handle technical analysis of strategic plans, statements of intent, financial reports and capital development proposals. They also need to be adept at director selection since they will have the task of recommending appointments so that the SOE boards have balanced memberships covering the necessary skills. The TA Team paid particular attention to the training of the GOK's SOEMAU and worked with the MFED to ensure that it was properly resourced.

- **Where a decision is taken to sell a SOE, the realised value from the sale can be improved by careful identification of assets and liabilities**. This is especially true in regard to land and land leases since these may have scarcity value on crowded atolls. Again, good accounting records and financial reports are keys to improving sale results as they reduce uncertainty for the purchasers. Land issues were critical in the TA managed sale of KSCL and the liquidation of Bobotin Kiribati Limited (BKL) as well as the IFC managed PPP of the Otintaai Hotel Limited (OTL) and associated sale of moveable assets, and in all cases the teams supporting the sale worked diligently to improve the realised value from the SOE assets. Advice was also provided to the MCTTD in regard to the PPP for BSL.

- **Where it is necessary to reduce staffing levels it is important to have policies that provide adequate compensation to staff as well as support to ease the transition.** While the reforms have overall benefit to society, some individuals may be adversely affected, so reform has to also take this into account and provide fair financial compensation where staff redundancy is required. Throughout the SOE reform process the TA Team were careful to ensure that issues surrounding redundancies were sensitively and properly addressed to minimise hardship to released employees and minimise any political fallout resulting from disgruntled ex employees that could negatively impact the SOE reform process.

186. **The recommendation for future TAs in relation to SOE lessons learned in Kiribati** is that when selecting a firm to undertake any future SOE reform work that the chosen firm should have the necessary experience of working closely with the GOK to minimise delays in moving the reform process forward. Also that the firm employs experts whom it knows has the necessary skills and experience to deliver in line with the specialist SOE reform needs of the GOK.

Attachments

Attachment 1

Kiribati Recurrent Budget Management Guidelines

I. Introduction

1. This paper is a guideline for the annual process for managing the Government of Kiribati Budget. It is designed for use by the Budget staff of the National Economic Planning Office (NEPO) of the Ministry of Finance and Economic Development (MFED). It is mostly concerned with the Recurrent Budget, but also includes some comment on the Development Budget.

2. The approach taken is to work through the annual timetable of events that lead up to having a finalised Budget that is approved by Cabinet and the Maneaba ni Maungatabu (Parliament). It then covers budget execution and monitoring.

II. Legal Framework

3. The Budget is a key aspect of democratic government and needs to follow the Constitution and laws covering public finance. Parliament passes laws and government needs to manage its finances in accordance with the laws of the Republic. Cabinet is appointed by the President as the Executive with responsibility to manage Government. Chapter VIII of the Constitution covers Finance. This states that authority to spend has to be authorised by Parliament, either under an annual Appropriation Act or under permanent statutory authority. This is part of the concept of separation of powers between the Executive and Parliament.

4. Permanent statutory authority for expenditure is reserved to special types of expenditure. This includes debt servicing and the personal emoluments of officers who hold positions that are important parts of democracy, e.g. Judges and the Auditor General. The reason for permanent statutory authority is to prevent Parliament unfairly cutting the remuneration of these important officers who have power to restrict government either through legal judgements or through making public criticism. For debt servicing, the purpose of statutory authority is to provide reassurance to lenders that government has power to pay, even if there is no Parliament or a divided Parliament that cannot agree on approval of the annual Budget.

5. The Constitution makes provision for the Minister of Finance to authorise urgent expenditure and for spending to continue without an Appropriation Act for a period of 3-4 months (but only at the same level as authorised the previous year) to cover situations where Parliament has not passed an Appropriation Act or if Parliament has been dissolved for an election. (This occurred in early 2012 as an Appropriation Act was not passed before the 2011 general election.) There is a requirement for an Appropriation Act to be passed as soon as Parliament meets if these provisions are used.

6. Normally, in addition to the main Appropriation Act, there may be one or more Supplementary Appropriation Acts to authorise changes to the Budget.

7. Finally, there is a requirement for the Minister of Finance to issue warrants to authorise spending from the Consolidated Fund. This is used to limit the total that can be spent to keep spending within approved levels.

III. Budget cycle

8. There is an annual timetable for events leading up to the formal Budget and its subsequent implementation and monitoring. This is referred to as the Budget Cycle. The key steps in the cycle are set out below, together with the typical timing:

1. Develop **fiscal strategy** and Medium-term Fiscal Framework (MTFF) to set appropriate **Budget ceiling** for the new Financial Year (April - May)
2. Cabinet Paper on the proposed **Budget ceiling** for the new Financial Year (June)
3. Invite budget **submissions** from line Ministries to comply with the approved ceiling (late June with budget bids due end of July)
4. Mini-Cabinet meeting with those Ministries exceeding their allocated ceiling (August)
5. **Prepare budget document** (both recurrent and development) for presentation to Parliament (September)
6. **Present** the prepared budget document to **Cabinet** for its endorsement (October)
7. **Budget Appropriation Bill** approved by **Parliament** (November/December)
8. Budget **execution**
9. Budget **monitoring**

9. The suggested timing for each activity is so that adequate time is available for each step. The guidelines for each step are set out below, following the sequence of the budget cycle.

IV. Fiscal strategy

10. Fiscal strategy refers to the overall approach to Government finances. This involves considering the inter-relationships between the different aspects of the Budget. MFED should formally review fiscal strategy and reach a conclusion, with recommendations to Cabinet for a sustainable fiscal strategy. If the current fiscal results are not considered sustainable, then MFED will need to recommend options for moving to a sustainable strategy over a period of years.

11. Factors to be included are the projected Revenue from taxation and fishing licences (which together make up about 90% of Recurrent Budget Revenue), projected Expenditure – based upon existing policy, the resulting Deficit and how it can be financed. The aim is to be able to provide Cabinet with a high level strategic view of Government Finances with advice to assist them set policy for budget bids, within the context of overall aims for the economy as a whole. The economic aims will probably include factors such as the desire to increase family incomes through economic growth, mostly through private sector development, but assisted by support from donors for physical and social infrastructure.

12. The Development Budget and donor support for projects is an important part of overall economic strategy. Spending by donors provides direct benefits from the projects themselves (e.g. new or replacement infrastructure) and indirect benefits where

expenditure involves growth in domestic economic activity. While it is difficult to obtain accurate data on donor funding, as the largest projects are managed directly by the donors and only around $22 million pa is processed through the Development Fund, it is important to try to measure the likely impact on the economy and any flow on to GoK revenue.

13. Predicting Revenue depends upon factors such as the expected level of economic activity, since growth in employment generates more Personal Income Tax, growth in imports generates Import Duty and higher corporate profits will lead to Corporate Tax growth. Special consideration needs to be given to likely fishing licence fees, which are around half total Recurrent Budget Revenue. Discussion with the Ministry of Fisheries and Marine Resources is strongly recommended.

14. Consideration needs to be given to potential ways to boost Revenue. This might include new taxes (e.g. GST as a more broadly-based tax than import duty, or a tax on services such as cell phone use), improved tax collection, and a more profitable SOE sector that pays taxes and dividends. The options should be canvassed and advice provided to Cabinet for consideration.

15. Expenditure projections should start with a base-line of existing policy, then consider the cost of proposed or known new policies as well as options for expenditure reductions. SOE bailout costs need to be included, especially those where Cabinet has approved payments, but account should also be taken of likely future bailouts, even if these have yet to be formally approved. The aim is to provide Cabinet with advice on the choices for the level of Expenditure, taking into account known and potential commitments.

16. How the Deficit is proposed to be financed is an important aspect of the strategy. The Drawdown from the Reserve Fund is part of the financing strategy and the level of the Drawdown has a flow-on effect on the level of the RERF itself and the desirable aim of maintaining the level of the RERF in real (inflation-adjusted) terms as well as real terms per capita. If the RERF declines in real terms per capita, then less will be available for future generations.

17. An alternative source of funding for the Deficit is general budget support from Donors. Whether this is feasible depends upon whether Donors are prepared to change funding from project-based to general budget support. Consideration needs to be given to whether this would result in an increase in overall support from Donors, or if it would just substitute from project funding. (Donors themselves have country budget allocations so a move to budget support may reduce funds for projects.)

18. Any unfunded portion of the Deficit will need to be borrowed. Short term borrowing on overdraft from the ANZ is expensive. Options for long term borrowing need to be considered and discussed. Irrespective of the sources of borrowing, the likely cost of debt servicing needs to take account of financing of the deficit.

19. In summary, a fiscal strategy paper will most likely include the following topics:

a. A review of the recent past in terms of GDP growth, inflation, and actual results for the Recurrent Budget (revenue, expenditure and deficit). This will inevitably require estimation and prediction as there are inevitably time lags in obtaining accurate actual data.
b. The current Recurrent Budget and predicted actual outcome for the current year. It will be important to predict revenue as there is greater variability in revenue (and less ability to control) than in expenditure. The prediction should include provision for items not formally included in the approved budget, e.g. Debt Servicing and SOE bailouts.
c. Expected Donor funding, especially planned major projects, and the expected impact on economic growth.
d. Expected future economic growth and the risks relating to expectations, e.g. growth predictions are reliant on assumptions about the major donor-funded infrastructure projects and the employment that will be generated. If infrastructure projects are delayed, then economic growth may be lower in the short term but higher a year later.
e. The Reserve Fund's expected level (based upon predicted investment returns and drawdowns) and whether the RERF is maintaining value in real terms.
f. The most up-to-date, realistic three-year forecasts for the Recurrent Budget. This should use the MTFF model, updated to use predicted outcomes rather than what was set in the most recent budget. Both revenue and expenditure should be predicted.
g. Options for improving revenue.
h. Options for constraining or cutting expenditure.
i. The Deficit and options for financing.
j. Conclusions and recommendations.

V. Using the MTFF

20. The Medium Term Fiscal Framework (MTFF) is an Excel spreadsheet financial model of the Recurrent Budget. The model has history since the 2008 financial year and has a 3-year forward projection. The model uses assumptions about the main components of the Recurrent Budget – Revenue, Expenditure and Financing. A more detailed description of the model is in the Appendix. The main assumptions used in the model are:

a. The expected change in GDP and the rate of inflation. These determine predicted GDP in both nominal (current dollar) and real terms. The IMF is the normal source of these predictions.
b. Civil service pay rates and their likely rate of change. This should include the estimated 2% pa impact of staff receiving annual salary increments.
c. Changes in staff establishment. These might be negative as well as positive.
d. Changes to Leave Grant allowances.
e. Inflation of non-payroll expenses.
f. The proportion of employment that is public sector versus private sector. This is used to predict the likely change in Personal Income Tax based upon predicted growth in pay.
g. The assumed linkages between growth of GDP and tax revenue from Corporate Income Tax and Import Duties.

h. The assumed rate of increase in fishing licence fee income. This requires a judgement of fees and exchange rates as some 90% is set in US dollars.

21. The MTFF includes a set of charts that can be used to demonstrate trends and to show the results in a graphical manner. These automatically change as the data is updated. Perhaps the most useful charts are those showing the financing of the deficit and Recurrent Revenue and Expenditure in real terms.

22. The MTFF can be used for financial modelling and conducting what is called "sensitivity analysis" to show the effect of changes in assumptions or in Government policy. This can be done by changing the assumptions to reflect a proposed new policy (e.g. to increase Leave Grants) or to answer a "what if" question, e.g. what is the impact on the Deficit if GDP grows at 1% less (or more) than predicted or if inflation is 1% higher?

23. The MTFF model needs to include realistic assumptions about future Debt Financing, especially as running a higher Deficit funded by borrowing will necessarily result in higher Debt Servicing. It is important to be able to inform Cabinet of the longer term impact of proposals on the Deficit and financing.

24. The model needs to be continually updated as data changes. Actual results need to be added as well as the current year prediction. Budget bids need to replace projections for the forthcoming year. Each year it needs to be extended to add an additional year. As additional information is added, the links for data for the charts also needs to be updated. Care needs to be taken to keep the links between the MTFF and the Budget spreadsheet and the Assumptions updated. While instructions have been provided to relevant staff, there might be a need for international technical assistance to do some of this updating. The work involved is around 1-2 weeks of work each year and can probably be done by e-mail without the need for a visit. A visit may be necessary if new staff members are appointed and capacity building training is required. It is suggested that consideration is given to establishing a small donor-funded project to cover this work.

VI. Budget Ceiling

25. Cabinet needs to be requested to set expenditure Budget Ceilings for individual ministries as well as provide guidance on other expenditure, such as Grants and Subsidies and Contributions to the Development Fund. It is important that Cabinet provides clear expectations to ministries before they prepare their budget bids. Without clear ceilings, ministries tend to seek to boost their budgets beyond the ability of the Government to finance them.

26. The Cabinet paper should be based upon the Fiscal Strategy review and use the MTFF to provide data for summary tables and charts demonstrating the current projections for the next three years, especially for revenue, as well as options for consideration. The options might use the MTFF financial model to calculate the impact of particular proposals, e.g. a 1% increase on non-personnel expenditure would result in an increase in the deficit of $0.2 million, but a 1% increase in salary rates would result in a $0.4 million increase. The aim is to provide Cabinet with some "rules of thumb" when

they are considering options.

27. The Cabinet paper should make firm recommendations with regard to budget ceilings as well as the parameters that each ministry should be required to follow in drawing up their budget bids. Since it is likely that there will be an ongoing need to restrain expenditure, the parameters should enable ministries as much flexibility as possible, within the agreed ceiling. Possible options include:

a. Identification of low priority ministries, where the budget ceiling may be held in dollar terms or even reduced. This will probably require a reduction in staff positions for those ministries.
b. Identification of high priority areas for increased spending, e.g. education and health, with higher ceilings for them.
c. Allowing each ministry greater flexibility over the components of their budget, provided they keep within the total ceiling. This may involve allowing staff numbers to either increase or decrease (especially for some programs) with offsetting changes in other budget items, e.g. a decrease in staff levels with a corresponding increase in non-personnel expenditure.
d. Allowing increased expenditure if revenue is increased, so that expenditure net of the additional revenue meets the agreed ceiling.

VII. Request for Revenue and Expenditure Budget Bids

28. The request to ministries for their budget bids needs to be sent out soon after Cabinet has approved the Budget Ceiling and parameters for bids. The request letter should very clearly set out what Cabinet has approved as the ceilings and guidelines as well as provide background reasoning for the basis for the decision. This is so that ministries are more likely to accept the constraints on their budgets and less likely to make bids that exceed the ceiling. The Budget Bid letter also needs to be very clear about the deadline date for bids.

29. To assist the ministries in budget preparation, each should be given a copy of the relevant worksheets that form part of the overall Excel Budget file. It will be wise to repeat the instructions on how the data is to be entered (at the lowest program level) and that the summary page will automatically update.

30. For major revenue items (Fishing Licence Fees and taxes) MFED should be closely monitoring actual Year-to-Date data and hold discussions with relevant managers so that the revenue budgets are realistic. For income tax, active collection activity has potential to significantly increase the revenue receipts.

31. Ministries should be encouraged to prepare their Recurrent Budget bids within the context over their overall strategic plans. They should be integrating the Recurrent Budget with any Donor-funded projects. One aspect of this is that Donor funding may substitute for GoK funding. Another aspect is that if a Donor funds a capital item, then the Recurrent Budget should make adequate provision for ongoing operational costs including maintenance.

VIII. Reviewing Budget Bids

32. Typically, ministries submit bids that exceed the guidelines for their budget ceiling. Ultimately Cabinet approves the budget but MFED needs to assist Cabinet in reaching a final decision on the Budget. This involves detailed review of each ministry's bid as well as advice on the overall impact of the bids on the deficit and funding requirements.

33. Advice on the overall impact of the bids can use the MTFF, with columns that compare the budget ceiling against the actual bids. The agreed assumptions for years 2 and 3 should be applied to the bids to show the ongoing impact. With bids higher than the approved ceiling, there will be an increased deficit and higher borrowing. Provision needs to be made for higher levels of Debt Servicing so that Cabinet can be informed of the impact of approving the higher bids.

34. In terms of a detailed review of each ministry bid, suggested steps are set out below. Completing this review work needs to be done in a short time period. It is suggested that the work is shared amongst senior MFED staff as well as the team within NEPO. Ideally, there should be two staff members assigned responsibility for each ministry. This is a form of portfolio assignment so that staff members develop knowledge of the special features, issues and challenges facing each ministry. The suggestion for two staff is to provide back-up in case of illness or staff changes. One staff member may have responsibility for several ministries if they are small. Ideally these staff members would also have ongoing responsibility for their "client" ministries, e.g. for relevant development projects. This will provide them with a wider view of the needs and issues of the client ministry as well as the potential to use donor funds to supplement the Recurrent Budget.

35. The steps suggested are:

a. Obtain Year-to-Date data for the ministry and any prediction for the likely result for the year. This data can be used to form a view on whether the ministry is managing its budget responsibly, including revenue collection.
b. Review revenue budgets compared with the financial projections in the MTFF assumptions. For most ministries, the expectation is that revenue will at least increase in line with inflation. If this is not the case, then this should be discussed with the ministry. They may need to review fee levels or improve collection activity.
c. Compare the total expenditure bid against the approved budget ceiling. If the total is very close, then there may be little further work needed. If the ministry has proposed revenue increases as a means of funding higher spending, the net budget may be used as the basis for review.
d. As staff costs make up 70% of ministry budgets (on average), these need careful review. The approved number of positions is the start point. KPF calculations should be checked against the formula. There needs to be clear justification for any changes in other staffing costs such as allowances, overtime and temporary staff.
e. For expenditure other than staff, there needs to be clear justification for the budget items. If the previous year's budget included "one time" items, check that these have not been carried forward.

f. If there is a restructure of programs or transfer of responsibilities between ministries, this will need to be taken into account in making comparisons and reviewing budgets.

36. In addition to reviews of individual ministry bids, there should be analysis of the overall changes in the budget bids. This can use the Budget by Input tables to identify patterns in expenditure bids. For example, staff costs have been increasing while other expenditure has been constrained. This means that the proportion of the budget relating to staffing is growing. There is a danger that budgets are becoming unbalanced with the risk that staff cannot actually do their work, e.g. no budget for fuel so staff cannot do field visits and just remain in the office. Cabinet needs to be encouraged to tackle this issue with steps taken to decrease staff headcount to allow other expenditure to grow in real terms. Cabinet also needs to be informed if budget proposals exclude adequate provision for known commitments or highly likely additional demands, e.g. SOE bailouts.

IX. Mini-Cabinet Meetings to review budget

37. Ultimately, Cabinet will set budget levels. Typically Cabinet uses a sub-committee to review budget bids. MFED needs to provide objective advice, based upon analysis of the data and to make clear to ministers the potential longer term impact of decisions on the deficit, its financing and the level of debt servicing. The MTFF is very useful for this purpose.

X. Preparation of the Budget document

38. The budget spreadsheets have been designed to provide most of the tables for the budget document. Separate notes have been provided on the links between the various spreadsheets and how to keep them aligned. It is important to keep checking that the totals in summary documents agree with the detailed tables. A quality checking process is very important, especially checking that formulas have not been over-written by hard numbers – as this will mean automatic updates will not work. An independent proof-reading will also be worthwhile, including formatting.

39. Data for the Development Budget as well as the RERF will also need to be included. The units responsible for those aspects have their own procedures for this.

XI. Appropriation Act

40. The Appropriation Act is the legal authority to spend other than amounts covered by permanent statutory authority. MFED needs to be involved in checking that the Bill matches the Budget.

XII. Budget Execution

41. Once the Appropriation Act has become law, MFED needs to prepare warrants for the Minister of Finance to authorise "release" of funds for each Ministry. This may involve partial release to ensure that spending is spread throughout the year. This is part of cash flow management as much of GoK's revenue is received near the end of the year.

XIII. Budget Monitoring

42. Managing the Budget depends upon analysis of the trends in revenue and expenditure. This begins with good analysis of variances from budgets. That is, an understanding of the reasons for variances from the expected patterns – as reflected in

the budget spread.

43. If the reason for a variance is the timing of payments, e.g. that the payment for a purchase of imported items has been delayed, then the predicted outturn will probably not change. In contrast, if revenue from tax deductions from salaries is below budget and this seems to relate to a slow down in the level of employment, then the budget outturn should be reduced. Obtaining this type of information requires Budget analysts to both use the data from the Accounting system and to make contact with ministries. This takes time and requires being able to contact a wide range of people in other departments.

44. Building up knowledge and experience in finding the reasons for variances and using them to make good predictions, will take time. The best way to learn is through doing the analysis and developing an understanding of the emerging patterns. It is also likely that the patterns gained from this work will be able to be used to predict cash flows over the financial year. Much of this can only be gained from discussions with ministries.

45. Similarly, ministries can only manage their budgets if they receive regular reporting of the transactions that have taken place. They can then compare this with their records of major commitments. MFED needs to become a service agency for ministries in terms of reporting, providing them with information to enable them to manage their budgets.

46. Action will be required if the monitoring indicates that a ministry is likely to be overspent in total. There will need to be immediate contact with the ministry that should be required to take urgent action to constrain spending. Only as a last resort should there be agreement to provision of additional budget funds through supplementary appropriation. Overspending should be regarded as a serious breach of good management by the accounting officer.

Predicting the likely outturn for the year

47. The expected outturn is perhaps the most important thing to focus on as this should assist decisions on managing the budget during the year, e.g. handling requests for expenditure in excess of the approved budget or additional requests for grants by SOEs.

48. Accurately predicting the likely outturn requires a mix of analytic skill and experience. It also requires gathering information from other ministries on trends in revenue and expenditure. For example, projections of income tax depend upon the expected level of economic activity as well as monitoring the taxable profits of major corporate taxpayers such as the large companies. Similarly, customs duty is largely linked to the number of ships arriving, but is also affected by concessions, e.g. donor-funded projects do not pay duty on imports and private sector firms may seek concessions for imports. Monitoring spending requires knowledge of the cost drivers such as changes in public service pay and staff levels and the impact of exchange rate changes on imported goods. Over two-thirds of operating expenditure is compensation of employees so monitoring the payroll is important.

49. Financial reports are made more useful when accompanied by comment on the trends and identification of the potential risks and opportunities that may impact upon the projected outturn. This is an area where good analysis can contribute to making the report more useful. For example, a current world-wide issue is the price of oil and its impact on the cost of fuel. If this is a significant cost for Government, the commentary would identify the total budgeted spending on fuel and the likely impact on the operating balance of varying levels of oil price. This might be expressed in terms of the expected impact in costs relative to a range of world prices, e.g. if the price of oil rises above $US 100 per barrel, the additional cost to government is expected to be $0.x million.

50. There are common methods of predicting the outturn, but each method has weaknesses that may cause errors in predicting outturn. Some of these are methods are set out below together with comments on when **not** to use these methods. The way to avoid errors is use of basic common sense and logic.

a. **Remaining budget method**
A typical method of predicting outturn is to take the result to date and add the balance of the remaining budget. The assumption in this method is that any overspending (or under-spending) in the early part of the will **<u>not</u>** continue for the balance of the year. This may be incorrect if the experience to date reflects a change in pattern. For example, with a worldwide rise in oil prices, overspending on fuel is more likely to continue than for costs to revert to the budgeted level. On the other hand, if under-spending has arisen because of a delay in making a payment, then the expenditure during the balance of the year will probably be higher than the budgeted level. The difficulty is to be able to separate out when the pattern has changed from situations where the variance is temporary.

b. **Proportional method**
Another common technique is to take the year-to-date result and assume this will be the same level of activity for the year as a whole, e.g. doubling the expenditure incurred in the first six months. This may be a valid method if there is a new pattern of activity, e.g. the petrol price rise, but may give misleading results if there is an historical pattern of higher levels of spending in the final months of the year.

c. **Pay**
When considering Compensation of Employees, the proportional method is often a useful one, provided that the method uses the number of pay days, rather than the number of months. For example, with 26 fortnightly pay days in the year, after the first 2 months of the year, there will probably have been 4 pay days. So, the predicted full year result should be 26/4 times the year to date costs rather than 12/2 times. The correct prediction is 6.5 times rather than 6 times the year-to-date. Another point to take care over, is that sometimes deductions from pay, such as tax or employer pension contributions are not paid at the same time as the pay itself. If these other amounts are held over a month end, the apparent payroll total may seem lower than it should.

d. **Missing data**

Care needs to be taken over missing data, especially if this arises from delays in processing of transactions. Delay is inherent in any accounting system. Telegraphic transfers or deposits into the Bank Account but not entered into the ledger will understate revenue. The way of avoiding errors from these delays is to have all reconciliations up-to-date before the reports are prepared and to be able to adjust the data for the report for known missing items. This is very much a case of being approximately right rather than precisely wrong. For GoK, there are delays in recording expenditure incurred in outer islands and at the Suva High Commission. These affect Foreign Affairs and the Ministry for Line and Phoenix and need to be adjusted for when making predictions.

51. It is recommended that MFED should closely monitor the major revenue items and ask individual ministries to monitor expenditure and to predict their likely actual spending. It is suggested that there should be quarterly reports for March and June, then monthly reports for August and the remaining months of the year. A summary report should be prepared for the Secretary of Finance who may wish to share this with the Minister and perhaps Cabinet if adverse trends are revealed, e.g. a significant shortfall in revenue.

XIV. Conclusion

52. This paper aims to be a practical step-by-step guideline to the Budget process in Kiribati. Over recent years the tools available to assist budget management have been improved, but the fiscal challenges facing Kiribati have increased.

policy. The idea is to identify the elements that have the greatest impact on the Deficit – hence the origin of the term "sensitivity analysis". For ministry budgets, the average proportion on staff costs (Personal Emoluments) is 70%, so clearly any change in civil service pay will have about twice the impact of a change in other expenditure. Calculations like this can be done to devise "rules of thumb" that can be used for policy advice, e.g. e.g. a 1% increase on non-personnel expenditure would result in an increase in the deficit of $0.2 million, but a 1% increase in salary rates would result in a $0.4 million increase.

Keeping the links between the spreadsheets valid

6. The MTFF links to other spreadsheets, namely the Assumptions and Budget spreadsheets. It may also be useful to link to a Predictions spreadsheet so that the effect of the likely outturn for the current year can be monitored and demonstrated in the charts and summary tables.

7. Care needs to be taken to keep the links valid so that the current versions of the Excel files correctly draw data from the most up-to-date files. This needs to take account of the need to rename files as part of version control and back-up as the model is updated. For example, the model at the time the 2012 budget was finalised needs to be retained and an updated version created for the 2013 budget cycle. To make sure that the data is updated, follow these steps:

a. Save the files in the same Folder.
b. Open all the files.
c. Enable links – if Excel does not automatically allow links.
d. Go to "Data Links" in Excel and check that each file is correctly updating data and that links are to the correct File. (If they are not then Change the Source.)
e. Compare the overall totals for Revenue and Expenditure to see that that match.

8. The detailed Budget spreadsheet for ministries contains many formulas and links. Care is needed over the way data is entered so that formulas and links are not overwritten by numbers. This requires:

a. Change budgets for revenue and expenditure in worksheet 3 for each ministry. This needs to be done at **Output** level. Then the summary at worksheet 2 will update along with the Estimates for the two outer years. (If hard numbers get entered, then the budget will be out of balance.)
b. As the summary tables are updated, then always use a **link** rather than hard numbers. This will ensure that when any number gets changed, it will automatically update.
c. Even so, keep checking that the totals for Revenue and Expenditure agree.

Restructuring the MTFF

9. The MTFF is designed to be a dynamic model, i.e. one that is changed frequently. Quite apart from changing the data, it will be useful to add new "columns". So, a column might be added for Actual data for the previous year (replacing predictions). Another might be added for the predicted result for the current year. When bids are being considered, it might be worthwhile retaining "guidelines" data to compare with "bid" data and to be able to demonstrate the difference in terms of impact on the Deficit for all 3

years in the model – including the impact of additional Debt Servicing if the bids result in more borrowing.

Ongoing support

10. There might be a need for international technical assistance to do some of this updating. The work involved is around 1-2 weeks of work each year and can mostly be done by e-mail without the need for a visit. A visit may be necessary if new staff members are appointed and capacity building training is required. It is suggested that consideration is given to establishing a small donor-funded project to cover this work.

Attachment 2
SOE Reform Implementation Timetable

SOE Reform Implementation Timetable - August 2013

	2012				2013				2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Financial Management																
Improve recordkeeping		■	■	■	■	■	■	■								
Standard accounting policies							■									
Financial Statements		■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Audits up-to-date					■	■	■	■	■	■	■	■	■	■	■	■
Reports to Parliament									■	■	■	■	■	■	■	■
Governance																
SOE Bill consultation			■													
Parliament considers Bill				■		■										
SOEMAU established		■	■	■	■	■										
New policy for directors						■	■	■	■	■						
Implement SOE Act							■	■								
SOIs developed							■	■			■	■			■	■
Reporting processes developed										■	■	■	■	■		
SOEMAU fully operational							■	■	■	■	■	■	■	■	■	■
Land Leases																
Check head leases and renew							■	■								
Formal sub leases							■	■								
SOEs begin paying rent									■							
Community Service Obligations																
CSO policy						■	■									
SOEs develop proposals							■				■				■	

Attachment 3

SOE Financial Overview

The tables that follow provide an overview of the Kiribati SOE sector. The data is limited by the lack of current up-to-date data and unreliability of the information itself.

Availability of Kiribati SOE Financial Statements

	Financial Year	Audited Accounts	Unaudited Accounts	Management Accounts
Air Kiribati Ltd (AKL)	Dec	2010		2011
Betio Shipyards Ltd (BSL)	Aug		2011	2012
Bobotin Kiribati Ltd (BKL)	Dec	2010	2012	2012
Broadcasting and Publications Authority (BPA)	Dec	2006	2011	2012
Captain Cook Hotel Ltd (CCHL)	Dec	2010	2012	
Central Pacific Producers Ltd (CPPL)	Dec		2011	
Development Bank of Kiribati (DBK)	Dec	2011	2012	Mar-13
Kiribati Copra Cooperative Society (KCCS)	Dec	2009		
Kiribati Copra Mill Ltd (KCML)	Dec	2010		
Kiribati Housing Corporation (KHC)	Dec			Nov-11
Kiribati Insurance Corporation (KIC)	Dec	2009	2010	
Kiribati Oil Co. Ltd (KOIL)	Dec	2010		
Kiribati Ports Authority (KPA)	Dec	2008	2011	
Kiribati Shipping Services Ltd (KSSL)	Dec	2007		
Kiribati Solar Energy Co. Ltd (KSEC)	Dec		2010	Sep-11
Otintaai Hotel Ltd (OHL)	Dec	2007	2011	Oct-12
Plant and Vehicle Unit (PVU)	Dec		2011	2012
Public Utilities Board (PUB)	Dec	2007	2012	Feb-13
Te Atonimarawa Aggregate Mining Company (TAAMC)	New			
Telecom Services Kiribati Ltd (TSKL)	Dec	2008	2011	May-12
Television Kiribati Ltd (TKL)	Jun			Jun-12

Table 1: Overview of Kiribati SOE Financial Data

	Financial Year	Date of Data	Quality of Data	Revenue $'000	Profit/ (Loss) $'000	Assets $'000	Net Equity $'000	Equity as % Assets	Cash Flow Issues?
Air Kiribati Ltd (AKL)	Dec	2011	L	3,542	825	5,053	4,444	88%	Yes
Betio Shipyards Ltd (BSL)	Aug	2012	M	350	(71)	2,038	613	30%	Yes
Bobotin Kiribati Ltd (BKL)	Dec	2012	M	2,545	(2,597)	529	(5,188)	-981%	Yes
Broadcasting and Publications Authority (BPA)	Dec	2012	VL	1,051	2	368	(2)	-1%	Yes
Captain Cook Hotel Ltd (CCHL)	Dec	2012	M	1,221	63	1,712	1,695	99%	No
Central Pacific Producers Ltd (CPPL)	Dec	2011	M	3,662	47	5,384	4,932	92%	Yes
Development Bank of Kiribati (DBK)	Dec	2012	M	1,216	231	9,213	5,121	56%	No
Kiribati Copra Cooperative Society (KCCS)	Dec	2009	H	2,452	69	660	360	55%	Yes
Kiribati Copra Mill Ltd (KCML)	Dec	2010	H	2,523	313	2,230	1,636	73%	Yes
Kiribati Housing Corporation (KHC)	Dec	2011	L	1,295	55	1,085	933	86%	No
Kiribati Insurance Corporation (KIC)	Dec	2010	M	1,406	78	6,566	5,399	82%	No
Kiribati Oil Co. Ltd (KOIL)	Dec	2011	M	60,674	743	14,625	9,547	65%	Yes
Kiribati Ports Authority (KPA)	Dec	2011	M	5,548	1,547	32,736	32,643	100%	No
Kiribati Shipping Services Ltd (KSSL)	Dec	2010	VL	2,420	(695)	11,439	7,426	65%	Yes
Kiribati Solar Energy Co. Ltd (KSEC)	Dec	2010	M	304	(47)	1,922	268	14%	Yes
Otintaai Hotel Ltd (OHL)	Dec	2011	M	639	(188)	1,520	893	59%	Yes
Plant and Vehicle Unit (PVU)	Dec	2011	M	2,962	526	2,432	1,687	69%	No
Public Utilities Board (PUB)	Dec	2012	M	12,824	1,892	33,825	23,204	69%	Yes
Te Atonimarawa Aggregate Mining Company (TAAMC)	Not operating yet								
Telecom Services Kiribati Ltd (TSKL)	Dec	2011	M	6,502	38	19,203	9,410	49%	Yes
Television Kiribati Ltd (TKL)	Jun	2012	L	94	(67)	1,000	300	30%	Yes
Totals				**113,230**	**2,764**	**153,540**	**105,321**	**69%**	

Quality of data
VL = Very low Management accounts but low level of reliability
L = Low Management accounts, incomplete financial records, e.g. Profit & Loss but no Balance Sheet
M = Med Unaudited financial statements
H = High Audited financial statements

Kiribati SOE Profit/(Loss) Data

	Financial Year	2006 $'000	2007 $'000	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000
Air Kiribati Ltd (AKL)	Dec				191	847	825	
Betio Shipyards Ltd (BSL)	Aug				(1,115)	(1,286)	(132)	(71)
Bobotin Kiribati Ltd (BKL)	Dec			202	(3,365)	(1,345)	(931)	(2,597)
Broadcasting and Publications Authority (BPA)	Dec	3	61	(95)	(77)	8	(117)	2
Captain Cook Hotel Ltd (CCHL)	Dec	(50)	(58)	(83)	(16)	398	96	63
Central Pacific Producers Ltd (CPPL)	Dec	(569)	(207)	Missing	379	485	47	
Development Bank of Kiribati (DBK)	Dec		287	(369)	166	145	64	231
Kiribati Copra Cooperative Society (KCCS)	Dec			(1,086)	69			
Kiribati Copra Mill Ltd (KCML)	Dec				(1,350)	313		
Kiribati Housing Corporation (KHC)	Dec						55	
Kiribati Insurance Corporation (KIC)	Dec	90	550	(250)	290	78		
Kiribati Oil Co. Ltd (KOIL)	Dec	(5,195)	(599)	(1,483)	992	2,950	743	
Kiribati Ports Authority (KPA)	Dec	(1,359)	482	(86)	589	634	1,547	
Kiribati Shipping Services Ltd (KSSL)	Dec	(271)	(775)	(1,168)	(547)	(695)		
Kiribati Solar Energy Co. Ltd (KSEC)	Dec		(50)	(45)	(54)	(47)		
Otintaai Hotel Ltd (OHL)	Dec		(191)	(111)	4	92	(188)	
Plant and Vehicle Unit (PVU)	Dec			272	647	782	525	567
Public Utilities Board (PUB)	Dec	(1,088)	(768)	78	255	28	434	1,892
Te Atonimarawa Aggregate Mining Company (TAAMC)	Not operating yet							
Telecom Services Kiribati Ltd (TSKL)	Dec		972	1,288	Missing	737	38	
Television Kiribati Ltd (TKL)	Jun	(126)	(336)	(172)	(300)	(36)	(260)	(67)
Totals		**(8,565)**	**(632)**	**(3,108)**	**(3,243)**	**4,087**	**2,746**	**20**
Profits		93	2,352	1,840	3,582	7,496	4,374	2,755
Losses		(8,658)	(2,984)	(4,948)	(6,824)	(3,409)	(1,628)	(2,735)

Note that reported profits are considered to be overstated for many SOEs. Reasons include:

- Subsidies and bailout assistance being included as income
- Accounts Receivable including old debts that will never be recovered and should have been written off
- Assets overvalued

- Amortisation of gifted assets off-setting depreciation
- Unreliable accounting records

Table 2: Kiribati SOE Debt

(Excludes current and trading creditors)	Date	Overdraft $'000	Bank Loan $'000	GoK Loan $'000	Other Loans $'000	Total $'000
Air Kiribati Ltd (AKL)	Mar-13				2,500	2,500
Betio Shipyards Ltd (BSL)	Aug-12			715		715
Bobotin Kiribati Ltd (BKL)	Dec-12	900				900
Broadcasting and Publications Authority (BPA)	Dec-12			55		55
Captain Cook Hotel Ltd (CCHL)	Dec-12					-
Central Pacific Producers Ltd (CPPL)	Dec-12	300				300
Development Bank of Kiribati (DBK)	Dec-12			1,180	2,439	3,619
Kiribati Copra Cooperative Society (KCCS)	Aug-11	450				450
Kiribati Copra Mill Ltd (KCML)	Dec-12	122				122
Kiribati Housing Corporation (KHC)	Nov-11					-
Kiribati Insurance Corporation (KIC)	Dec-10					-
Kiribati Oil Co. Ltd (KOIL)	Feb-12		606		1,398	2,004
Kiribati Ports Authority (KPA)	Dec-11					-
Kiribati Shipping Services Ltd (KSSL)	Feb-12					-
Kiribati Solar Energy Co. Ltd (KSEC)	Dec-10					-
Otintaai Hotel Ltd (OHL)	Feb-13	20				20
Plant and Vehicle Unit (PVU)	Dec-12					-
Public Utilities Board (PUB)	Dec-12	-	-	4,034		4,034
Te Atonimarawa Aggregate Mining Company (TAAMC)	Not operating yet					-
Telecom Services Kiribati Ltd (TSKL)	Dec-12	4,400	4,863			9,263
Television Kiribati Ltd (TKL)	Feb-11		30	150		180
Totals		**6,192**	**5,499**	**6,134**	**3,837**	**21,662**

Table 3: Kiribati SOE Accounts Receivable

	Date	Accounts Receivable $'000	GoK $'000	Other SOEs $'000	Private Sector $'000	Annual Revenue $'000	Approx. Months of Sales
Air Kiribati Ltd (AKL)	Dec-11	726	439	22	140	3,458	2.5
Betio Shipyards Ltd (BSL)	Aug-12	1,420	735	158	527	350	48.7
Bobotin Kiribati Ltd (BKL)	Dec-12	162	3	53	106	2,545	0.8
Broadcasting and Publications Authority (BPA)	Dec-12	263	90	50	123	1,051	3.0
Captain Cook Hotel Ltd (CCHL)	Dec-12	82				1,221	0.8
Central Pacific Producers Ltd (CPPL)	Dec-11	2,117	212	162	1,743	3,089	8.2
Development Bank of Kiribati (DBK)	Data not comparable						
Kiribati Copra Cooperative Society (KCCS)	Dec-09	596	270	315	11	2,452	2.9
Kiribati Copra Mill Ltd (KCML)	Dec-10	648				2,493	3.1
Kiribati Housing Corporation (KHC)	Nov-11	456	42	111	303	1,295	4.2
Kiribati Insurance Corporation (KIC)	Mar-12	212	147	66		1,406	1.8
Kiribati Oil Co. Ltd (KOIL)	Mar-12	3,918	523	3,395		30,433	1.5
Kiribati Ports Authority (KPA)	Dec-11	3,482	43	256	3,183	5,548	7.5
Kiribati Shipping Services Ltd (KSSL)	Feb-12	2,777	1,399	1,061	317	2,420	13.8
Kiribati Solar Energy Co. Ltd (KSEC)	Dec-10	310			310	304	12.2
Otintaai Hotel Ltd (OHL)	Oct-12	287	161	23	103	500	6.9
Plant and Vehicle Unit (PVU)	Dec-12	422	368	2	52	3,200	1.6
Public Utilities Board (PUB)	Feb-13	8,853				10,064	10.6
Te Atonimarawa Aggregate Mining Co. (TAAMC)	Not yet operational					-	
Telecom Services Kiribati Ltd (TSKL)	Dec-11	4,167	811	305	3,051	4,025	12.4
Television Kiribati Ltd (TKL)	Feb-11	90		21	69	349	3.1
Totals		**30,988**	**5,243**	**6,000**	**10,038**	**76,203**	

Table 4: Kiribati SOE Accounts Payable

	Date	Accounts Payable $'000	Approx. Annual Expenses $'000	Approx. Months of Expenses
Air Kiribati Ltd (AKL)	Dec-11	580	1,225	5.7
Betio Shipyards Ltd (BSL)	Aug-12	710	350	24.3
Bobotin Kiribati Ltd (BKL)	Dec-12	3,651	4,000	11.0
Broadcasting and Publications Authority (BPA)	Dec-12	821	405	24.3
Captain Cook Hotel Ltd (CCHL)	Dec-12	15	666	0.3
Central Pacific Producers Ltd (CPPL)	Mar-12	335	2,780	1.4
Development Bank of Kiribati (DBK)	Dec-10			
Kiribati Copra Cooperative Society (KCCS)	Dec-09	49	2,360	0.2
Kiribati Copra Mill Ltd (KCML)	Dec-10	594	2,174	3.3
Kiribati Housing Corporation (KHC)	Nov-11	145	750	2.3
Kiribati Insurance Corporation (KIC)	Dec-10			
Kiribati Oil Co. Ltd (KOIL)	Dec-10	82	1,700	0.6
Kiribati Ports Authority (KPA)	Dec-11	94	3,512	0.3
Kiribati Shipping Services Ltd (KSSL)	Feb-12	1,890	2,500	9.1
Kiribati Solar Energy Co. Ltd (KSEC)	Dec-10	219	255	10.3
Otintaai Hotel Ltd (OHL)	Oct-12	666	600	13.3
Plant and Vehicle Unit (PVU)	Dec-12	5	2,950	0.0
Public Utilities Board (PUB)	Feb-13	6,663	8,479	9.4
Te Atonimarawa Aggregate Mining Company (TAAMC)	Not yet operational			
Telecom Services Kiribati Ltd (TSKL)	Dec-11	2,964	6,223	5.7
Television Kiribati Ltd (TKL)	Feb-11	90	535	2.0
Totals and average		**19,573**	**41,464**	**5.7**

Table 7: Government Guarantees of SOE debt to ANZ

	Date	Overdraft $'000	Bank Loan $'000	Overdraft Limit $'000	Guarantee Limit $'000
Bobotin Kiribati Ltd (BKL)	Aug-12	900		900	2,100
Central Pacific Producers Ltd (CPPL)	Aug-11	298		300	300
Kiribati Copra Cooperative Society (KCCS)	Aug-11	352		450	450
Kiribati Copra Mill Ltd (KCML)	Aug-11	122		368	368
Kiribati Oil Co. Ltd (KOIL)	Feb-12		606		9,000
Kiribati Shipping Services Ltd (KSSL)	Feb-12		3,435		5,200
Otintaai Hotel Ltd (OHL)	Feb-13	20		20	200
Telecom Services Kiribati Ltd (TSKL)	Dec-11	754	4,878		6,747
Television Kiribati Ltd (TKL)	Feb-11		30		-
Totals		**2,446**	**8,949**	**2,038**	**24,365**

Attachment 4

Summary of SOE Act Provisions

This is a summary of the main features of the SOE Act.

Principal Objective

1. A key policy statement is that: "The principal objective of every SOE is to operate as a successful and sustainable business." This needs to be considered in conjunction with the requirement that Community Service Obligations (CSO) be explicitly funded by Government, rather than as hidden cross-subsidies. These two aspects reflect the change in approach: a SOE is to be commercial unless there is agreement for it to operate a service at a loss which is to be funded by Government through a CSO payment.

CSOs

2. At present there are many SOEs providing CSO services that have not been formally recognised and are either being cross-subsidised or are a factor in poor financial performance, e.g. KSSL ferry services to outer islands, BPA re-broadcast from Kiritimati. The idea is to fund the CSOs that Government wishes to have performed, leaving the SOE to run the rest of its operations in a profitable manner. So all SOEs should aim to make profits and provide a return on the funds invested.

3. This should lead to SOEs ceasing to provide loss-making services that Government does not consider are high priority. It needs to be accepted that if Government does not agree to fund a CSO that a SOE requests, this may lead to the service being reduced or ceased.

Responsible Ministers

4. SOEs have been responsible to portfolio ministers. The SOE Act has a two minister approach: with the Minister of Finance and the relevant portfolio Minister jointly responsible for each SOE. This will provide ministers with advice from the portfolio experts as well as the professionals in the SOEMAU.

SOEMAU

5. A SOE Monitoring and Advisory Unit (SOEMAU) has been formally established within the Ministry of Finance as the source of professional advice to ministers on strategy, budgeting and performance monitoring.

Statement of Intent

6. There is a requirement for each SOE to annually prepare a Statement of Intent (SOI). This process becomes the way that ministers approve the strategic direction of SOEs. Each SOE does a strategic plan with a 3-year financial forecast. They also need to clearly state their objectives and scope of activities, i.e. what they are actually going to do.

7. Draft SOIs are reviewed by SOEMAU with feedback to the SOE. Then, SOEMAU will make a recommendation to the two ministers on whether the SOI should be

accepted. If the process has been done well by the SOE, then acceptance will normally be recommended. If the SOE has included proposals that SOEMAU thinks are flawed, then ministers will be able to direct the SOE that they should not be included or should be changed. For example the SOE might propose to go into a new line of business that is in competition with another SOE or high risk, or the financial budgets are thought to be unrealistic. Few SOEs currently have credible strategic plans with 3-year financial forecasts.

Significant transactions

8. There is a requirement for ministers to be involved in approving major transactions – defined as being 25% or more of total assets. In practice ministers would be advised by SOEMAU who would do the analysis of the SOE proposal.

Directors

9. Appointment of directors is standardised. There are obligations for directors to act in the interests of the SOE and provisions aimed at reducing conflict of interest and seeking to make SOE board membership more focussed on running a successful business. SOEMAU would make recommendations to ministers on director appointments, aimed at improving professionalism. There will be policy proposals aimed at improving director quality, e.g. forming a pool of candidates whose CVs are assessed and who receive formal training.

10. The Act reduces potential conflict of interest by stating that civil servants of portfolio ministries cannot be directors of SOEs within that portfolio. There is also a requirement for the majority of directors to be other than civil servants – so as to increase commercial expertise on boards.

Accountability reporting

11. The Act requires an annual report and half year reporting with these made public. There are strict time requirements for this, though it is acknowledged that these may not initially be able to be met.

Competitive advantage

12. SOEs have had competitive advantages over the private sector. These include use of land without cost and in some cases exemption from tax and duties. The Act eliminates most of these advantages. The ability to have the benefit of guarantees and to borrow at the same terms of Government is retained. This is to acknowledge that borrowing by a SOE without a guarantee is not practical and concessional borrowing may continue to be necessary (e.g. Development Bank).

Income Tax and duty exemptions

13. The Act removes exemptions for BPA, KHC and PUB. BPA and KHC provide some services in direct competition with the private sector. PUB might be considered a monopoly but customers do have the choice of using their own generators or solar power and may collect their own water. The argument for removal is to remove hidden advantages from these SOEs.

Attachment 5

SOE Reform High Priority TA Support Required

A. Background

The Government of Kiribati (GoK) is supporting SOE reform but we are concerned that momentum will be lost unless there is some form of “bridging” TA support while ADB processes the proposed follow-up TA. The SOE Reform Steering Committee (SRSC) on 15 August 2013 provided its views on the high priority aspects needing support for the balance of 2013. This paper lists these, describes what TA support is required and identifies the risks if support is not available.

B. Active SOE Transactions

These are actions involving individual SOEs that GoK wishes to progress. Many are part completed. They are listed in priority order of urgency.

1. Otintaai Hotel

1.1. The PPP concession for the Otintaai Hotel will settle on 23 August. While IFC are supporting the concession deal itself, the ADB TA has been supporting the consequential impact on OHL, the SOE. SRSC reports a high level of anxiety concerning the ability of the local firm that is the concession holder to successfully implement.

TA Support required

1.2. TA support is needed during the initial transition phase which involves stocktakes of moveable assets and inventory, negotiation of valuation or sale prices, followed by sale of any items not purchased by the concession holder. GoK needs to fund staff redundancy payments and some creditors. The set off of ministry debt and write off of debt to GoK needs careful management. Then the company will need to be liquidated.

1.3. In addition, this will be the first time GoK has needed to monitor a PPP agreement so there needs to be establishment of mechanisms and processes within GoK to ensure that the benefits of the PPP are actually realised.

1.4. We expect the following specialist support will be required:

- Commercial expertise
- Legal input in relation to liquidation.

Risks and concerns

1.5. SRSC wishes the PPP to be implemented smoothly as a demonstration of successful reform and private sector participation. Ministers have expressed concern that if the local concession holder fails because the Otintaai PPP fails, this would impact his other local businesses with a flow on effect on employment.

1.6. Without TA support there is a risk that the transition phase will result in lower proceeds from sale of moveable assets and inventory and delayed start to liquidation of OHL and settlement of creditors.

1.7. There are many risks associated with the concession itself, such as failure by the concession holder to meet the milestones for redevelopment, not meeting building code requirements or quality standards. Most of these would be outside the “bridging” period.

2. Shipyard

2.1. The Malaysian PPP bidder Chacal Maritime (CM) has now agreed to GoK’s terms for the long term concession. While this has yet to be formally approved by Cabinet this is highly likely as there is a view that there is unlikely to be much other international interest in the PPP. Settlement of the deal will be complex especially reaching agreement over new contracts for completion of the work in progress, especially the two island council vessels.

TA Support required

2.2. The TA has provided the framework for the concession agreement but this document has not been finalised. It will be particularly important to ensure that the agreement has watertight provisions relating to the bond and specification of the work to be completed by CM and the milestone dates. During negotiations CM has acted in a manner that shows that considerable care will be required over the legal agreement. This will require continuation of the commercial legal advice provided by the TA.

2.3. GoK will need to negotiate new contracts for completion of the two island vessels at least cost. Both legal and technical expertise will be needed. There is a private vessel also under construction with $100,000 unpaid which will probably require Court action to prove the debt and authority to sell to recover what is owed.

2.4. The transition phase will require assistance with stocktakes and valuations. Liquidation of Betio Shipyards Limited will be complex and need both commercial and legal support.

2.5. We expect the following specialist support will be required:

- Commercial
- Legal
- Technical shipbuilding

Risks and concerns

2.6. Finalising the legal agreements with CM will be crucial and any mistakes could reduce the financial benefits to GoK for the next 20 years. For example, unless the contract has enforceable provisions requiring the repair of the existing slipway and construction of a new larger capacity slipway, then this may not be achieved. Negotiation of the new contracts to complete the island vessels could result in a much higher cost and further delay in completion will cause more embarrassment to Cabinet.

3. Plant and Vehicle Unit

3.1. The TA has prepared a draft Cabinet Paper recommending sale of the workshops but without the vehicle leasing business. It recommends vehicle ownership be retained by GoK with potential annual budgetary savings of $550,000. SRSC has advised the TA that there is support for this but in addition GoK seeks further changes to the way vehicles are managed in future. This would involve ownership of GoK vehicles being transferred to the holding company established to own the landing craft and replacing provision of cars to Permanent Secretaries with a vehicle allowance. This could generate further cash savings as the number of drivers might also be reduced. Minister’s cars (which are not leased through PVU) might also have a similar scheme. The target is to implement this by the start of the 2014 financial year so it will need to be built into the Budget.

TA Support required

3.2. The new concepts have yet to be developed in detail and so policy analysis and costing will be needed. There will need to be design of new structures and staffing within the civil service. Some HR input may be required in relation to the vehicle allowance. TA support will also be required for sale of the workshops.

3.3. We expect the following specialist support will be required:

- Policy development
- HR advice
- Commercial
- Legal

Risks and concerns

3.4. Completion of this work in time for implementation on 1 January 2014 will be challenging as detailed design has not commenced. Sale of the workshops is unlikely to be feasible within this time frame, but preparatory work will be needed and changes required to PVU staffing and processes if the leasing arrangements cease before the workshops are sold.

4. Bobotin Kiribati Limited

4.1. BKL is to be liquidated with its major land assets transferred to GoK and other assets sold. Asset sale is being managed by the Ministry of Commerce, Industry and Cooperatives but is progressing very slowly.

TA Support required

4.2. The TA has provided a project plan and has been closely monitoring progress. Continued monitoring is required as progress has been very slow and is delaying realisation.

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4.3. We expect the following specialist support will be required:

- Project management
- Commercial

- Technical legal issues relating to assignment of leases and the liquidation

Risks and concerns

4.4. Delay is causing loss of value, e.g. the value of leases declines as the term of the lease expires. Some months of value has already been lost.

5. Shipping

5.1. GoK has purchased a landing craft for domestic shipping services. As recommended by the TA, ownership has been vested in a holding company. Operation of the vessel is currently managed by Kiribati Shipping Services Limited (KSSL) under a charter lease. KSSL is insolvent and Cabinet has approved in concept liquidation of the company. But before KSSL can be liquidated a new structure for management of the landing craft needs to be established. The TA provided an options paper in October 2012 but no decision was taken on which option was preferred, though informal indications are that contracting out management was supported.

TA Support required

5.2. Contracting out management of shipping has not previously been done in Kiribati so would require considerable TA support. Liquidation of KSSL would also require commercial and legal support.

5.3. We expect the following specialist support will be required:
- Commercial
- Shipping industry expert
- Legal
- Environmental hazard (external to the proposed bridging TA support)

Risks and concerns

5.4. Contracting out management would be a major precedent for Kiribati so it is crucial that it is successful so as to demonstrate the viability of the contracting option. Without TA support, there is a high risk that the contract would be inadequate and this would hinder contracting as an option for improving performance of SOEs.

5.5. The liquidation of KSSL will be technically difficult as it will probably be an insolvent liquidation with only partial payment of creditors.

5.6. KSSL's old vessels are anchored off Betio and some are sinking. Most are in such poor state that they could not even be towed for salvage. They represent significant potential environmental hazards that will need to be dealt with by GoK but will need technical support.

C. SOE Act Implementation

In addition to the individual SOE with transactions, the balance of 2013 is a critical time for overall SOE reform. Cabinet has approved implementation of the SOE Act from 1 August 2013. This means that SOEs need to prepare their Statement of Intent (SOI), a short strategic plan that includes 3-year budgets, and bid for funding for Community

Service Obligations (CSOs) for the first time. This needs to be done by the SOEs over the next two months so there is time for funding to be included within the 2014 Budget.

TA Support required
The TA has provided workshops and reference material to SOEs and also to the SOE Monitoring and Advisory Unit (SOEMAU). However, as this is the first time these documents will have been required, both SOEMAU and individual SOEs will require assistance.

We expect the following specialist support will be required:
- SOE policy analysis
- Financial analysis
- Strategic planning

Risks and concerns
Cabinet is very concerned about the potential impact on the budget of CSO funding requests. Evaluation of the bids and assessment of the likely impact of **not** funding CSO bids (e.g. price rises, staff redundancy and cessation of some services) will be critical for informed decisions. Incorrect decisions could have social consequences if services are ceased. SOEMAU staff members have never done this work before and need support to develop capability.

Many SOEs are in arrears with their financial statements and almost none have financial budget models capable of providing the necessary 3-year budgets which need to cover projected Balance Sheet and Cash Flow as well as Profit and Loss. Without support, financial projections may be unreliable.

SOEMAU will need to evaluate the SOIs within a very short time frame and provide advice to ministers on whether they should be accepted or if changes should be requested. If the wrong decisions are taken the consequences of poor results by SOEs could be significant, e.g. continued loss-making ventures that ultimately need to be bailed out by GoK.

D. Lower priority items
Sections B and C list the highest priority items needing TA support. In addition the following also need support, but are considered lower priority:

1. SOE Act Implementation

1.1. Assist SOEMAU establish a register of directors
1.2. Ensuring board membership complies with the SOE Act
1.3. Assist SOEMAU with the initial EOI for potential directors and subsequent processing
1.4. Establish procedures for Director assessment and selection to Boards
1.5. Assist responsible ministers with selection of Board directors
1.6. Provide training for new and potential SOE directors
1.7. Set up SOE monitoring procedures to ensure SOEMAU follow up SOEs on their reporting responsibilities, e.g. half year and annual reports, Parliament reports, updated financial statements
1.8. Consultations with Lands Division and Attorney General's office to establish a schedule of SOE leased lands and rentals
1.9. SOE debt exercise – support for final implementation

2. Potential individual SOE transactions or major reform

- 2.1. Broadcasting and Publications Authority
  - 2.1.1. Seek Cabinet direction on overall future strategy and services to be provided
  - 2.1.2. Support consequent major changes required within BPA, e.g. cost reduction and CSOs for some activities
- 2.2. Public Utilities Board – provide external advice on tariff pricing
- 2.3. Television Kiribati Limited – support commencement of liquidation
- 2.4. Captain Cook Hotel
  - 2.4.1. Consider potential for sale or PPP and appropriate timing, based on reliability of airline schedule
  - 2.4.2. Await and implement any approved Cabinet decisions on future direction, which is likely to involve support for a either sale or PPP concession
- 2.5. Copra – support proposed merger of the two SOEs

This list is restricted to known activities. There will inevitably be requests for assistance with other major activities, e.g. joint ventures, contracting out delivery of CSOs, contacting out management. There may be other SOEs with financial difficulties, e.g. the CPPL joint venture investment in fish processing which may be experiencing cash flow difficulties. The World Bank work on telecommunications and TSKL may require some involvement to coordinate any particular reforms in terms of overall SOE sector strategy.

E. Conclusion

Good progress has been made to date in relation to SOE reform. The SRSC has very clear priorities which it has now identified. There is considerable risk to the ongoing SOE reform process, as well as potential short term and long term real cost to Kiribati, if the “bridge” period is not covered by the necessary specialist support.

Attachment 6

Capacity Development Steering Group - TOR

The Capacity Development Steering Group (CDSG) was established by the Permanent Secretary (PS) of MFED in June 2012 to support the capacity building objectives of TA 7166: Economic Management and Public Sector Reform.

The CDSG will include Senior Managers and other leaders from within MFED with Human Resources (HR) management responsibilities in their divisions. The group will be chaired by the Deputy Secretary initially as that role has overall responsibility for HR management across the Ministry.

Once appointed, the CDSG will be responsible for:

- Receiving and reviewing proposals from the Change Management Specialist for the project workplan and changes proposed to achieve the Capacity Building objectives of the TA;
- Bringing to the group feedback from their peers and colleagues and their own thoughts about the capacity development priorities for MFED;
- Monitoring progress against the Roadmap milestones and for reporting to the Secretary of MFED (SMFED) and through SMFED to the senior management team;
- Acting as mentors and guides to the Change Management Specialist on matters of process and culture;
- Supporting the Human Resources Manager, when appointed, and acting as a reference group for the appointee; and
- Being the champions within their peer groups for the proposed changes that will be implemented from the work of the TA.

Appendix 7

Capacity Development Roadmap as at 15 May 2013

(Updated 10 May 2013 for the CDSG Meeting on 15 May 2013)

Task 1: Appointment of HR Manager (HRM)				
Current status of task:	HR Manager commenced on 1 December 2012. Induction process completed up to stage of developing training and development plan and setting up review process. To be actioned by DS and HRM			
Workstream / Actions - *What is required?*	**Responsibility - *Who will do this?***	**Measures - *How will we know we've succeeded?***	**Milestones *(When will it be done?)* and Progress Report**	**Follow up Actions - *What more can be done?***
Training and Development (T&D) plan for HRM agreed and initial objectives set	DS/CMS	Draft T&D plan format finalised; Development plan for new HRM prepared as a pilot for wider project.	Deferred 15 February 2013 due to staff leave	DS to report on progress
HR Mgr role proposed as a permanent position in MFED's 2013 Establishment Register and pos'n established.	DS/ PS	HRM role established as permanent position on MFED ER; Process complete to have contract appointee confirmed as the permanent appointee.	30 June 2013	DS to report on progress

Task 2: Develop and introduce an MFED - wide induction programme •				
Current status of task:	• MFED-wide Induction day to be held on 14 May. • Team induction process requires further input from DS and HRM • Overall review of the proposed approach to Induction to be reviewed by CDSG after evaluation of the Induction Day programme.			
Workstream / Actions - *What is required?*	**Responsibility - *Who will do this?***	**Measures - *How will we know we've succeeded?***	**Milestones *(When will it be done?)* and Progress Report**	**Follow up Actions - *What more can be done?***
Induction at team/workplace level: Pilot proposed process for induction of HR Manager	DS / CMS with input from HRM	Process works to satisfaction of DS as manager and HRM as employee	Initial work done, but training and development plan and review of pilot to be completed. Referred to DS and HRM for action.	Complete the final stage and review pilot to assess value of implementing the process across MFED.
Induction at team/workplace level (Cont'd) Implement Divisional induction process for all new staff	DS/ HRM / HoDs / CDSG members	HoDs and managers trained to use system and supported to deliver good induction to all new staff	June 2013	Assessment of value of the programme to be completed.
Induction at Ministry level: Arrange pilot course for Ministry-wide induction	HRM / DS / CMS input	Pilot programme delivered. Evaluation confirms the programme meets the objective to deliver a good introduction to MFED and the public service	First MFED Induction Day scheduled for 14 May.	Evaluate attendee feedback and review with CDSG.
Review outcome of pilot programme and plan for a second course in 2013.	HRM / DS / CDSG	Pilot programme reviewed and format modified as needed. Senior Mgt confirms value of course.	Management review of programme – May/June 2013;	

Task 3: Develop and implement a Training and Development Pathway for all new staff covering their first 6-12 months in the role.				
Current Status of this task: *The elements of this project are still to be developed.* Process was to be trialled as part of the induction of the HR manager. Still to be completed. Draft format left with HR Manager to progress.				
Task 4: Review the internal recruitment processes in MFED to minimise avoidable delay.				
Current Status of this task: This task has not been advanced as a separate workstream as the HR Manager has been heavily committed to clearing the large backlog of vacancies in MFED (39 vacancies as at 31 December 2012). Current work to fill those vacancies has identified several areas for process improvement including updated JDs for all positions to be filled. Recruitment process flowchart prepared.				
Task 5: Develop and implement a recruitment model to ensure that MFED attracts good candidates and can appoint the best available person for the role.				
Current Status of this task: Project will be developed further after the current intensive recruitment round is completed. The project will include steps to ensure that the process is improved to treat candidates fairly and to deliver the best candidate for the vacancy. Options to improve the interview process within PSO/PSC guidelines will be included and steps to promote MFED as the "Best Ministry to work in".				

Task 6: Lead a refresh of the performance management process in MFED and implement a new process based on the PSO appraisal model

Current Status of this task: The elements of this project are still to be developed with the expectation that the work will commence second quarter of 2013.

Draft appraisal format prepared by CMS for review by HRM and DS.

The plan is to run a pilot programme in one division with evaluation to be reviewed by CDSG. If decision made to adopt the programme HRM will develop training plan and materials to support managers to introduce the new system across MFED.

Workstream / Actions - *What is required?*	**Responsibility - *Who will do this?***	**Measures - *How will we know we've succeeded?***	**Milestones *(When will it be done?)* and Progress Report**	**Follow up Actions - *What more can be done?***
Performance Review and Development Plan overview prepared and discussed with CDSG	CMS with input from DS/ HRM	CDSG approves process in principle	Initial discussions at March CDSG meeting. Follow up with overview paper for meeting on 15 May.	
New Performance Review forms prepared	CMS with input from DS/ HRM	Forms ready for trial	Second draft docs completed 8 May.	Final review after comments by DS/ HRM/ CDSG
System guides for managers and staff prepared	CMS with input from DS/ HRM	Manuals finalised before trial	Manager's guide completed for final review 8 May Employee's guide completed …	
New system trialled for reviews with one division	DS/ HRM	Trial completed in good time to allow evaluation and fine tuning	Trial in Jun/July 2013?	Management support to progress the system.

New Roadmap tasks to be considered by CDSG

Additional areas for development as resources allow include:

- Ongoing focus on improving recruitment process – continuous improvement approach
- Ongoing work on building a high-performing culture based on good communications and performance review.
- MFED Leadership and Management Development programme – primary focus to be on in-country training for first level and new managers
- Workplace Health and Safety programme including standard setting, training and H&S Committee structure
- Engagement survey and programmes to improve engagement across MFED