

**BOARD
OF
DIRECTORS**

ASIAN DEVELOPMENT BANK

R349-00
27 December 2000

**TECHNICAL ASSISTANCE TO KIRIBATI
FOR PREPARING THE OUTER ISLANDS DEVELOPMENT PROGRAM
(FINANCED FROM THE JAPAN SPECIAL FUND)**

The attached Report is circulated for the information of the Board. The President approved the technical assistance on 18 December 2000.

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ASIAN DEVELOPMENT BANK

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TECHNICAL ASSISTANCE
(Financed from the Japan Special Fund)

TO THE

REPUBLIC OF KIRIBATI

FOR PREPARING THE

OUTER ISLANDS DEVELOPMENT PROGRAM

December 2000

CURRENCY EQUIVALENTS

(as of 1 December 2000)

Currency Unit	–	Australian dollar (A\$)
A\$1.00	=	US\$0.5352
US\$1.00	=	A\$1.8685

ABBREVIATIONS

ADB	–	Asian Development Bank
km ²	–	square kilometer
MHARD	–	Ministry of Home Affairs and Rural Development
OIDP	–	Outer Islands Development Program
OITF	–	Outer Islands Trust Fund
RERF	–	Revenue Equalization Reserve Fund
TA	–	technical assistance

INTRODUCTION

1. During the Country Programming Mission in April 1999, and subsequently at the Annual Meeting of the Asian Development Bank (ADB) in Chiang Mai, the Government of Kiribati asked for assistance to promote employment-generating activities and improve health and education facilities outside Tarawa. Accordingly, this technical assistance (TA) was included in the ADB country program for 2000. The Fact-Finding Mission visited Tarawa between 24 and 30 August 2000. After discussions with the Government, the Mission and the Government agreed on the need for assistance to formulate an outer islands development program (OIDP) and to determine if an outer islands trust fund (OITF) is the most effective way to deliver additional revenue sources for economic and social development of outer island communities. The Mission held discussions with representatives of the Office of the President, Ministry of Finance and Economic Planning, Ministry of Home Affairs and Rural Development (MHARD), Ministry of Environment and Social Development, attorney general, development partners, nongovernment organizations, and the North Tarawa Island Council. The TA was prepared on the basis of the Mission's discussions with the Government, observations in the field, and a review of data, studies, and reports.¹ The TA reflects understandings reached with the Government on the objectives, scope, cost estimates and financing plan, implementation arrangements, and terms of reference for consulting services.

II. BACKGROUND AND RATIONALE

2. Located in the central Pacific, Kiribati comprises 33 islands with a total land area of 810.5 square kilometers (km²) dispersed over 3.5 million km² of ocean. Nearly 60 percent of the total population (88,000) live on the outer islands. Most of the islands are low-lying coral atolls, consisting of a narrow band of coral sand overlying hard coral pans, fringed by coral reef on the ocean side and often surrounding a lagoon. Kiribati has a small, narrow economy in which copra, fisheries, and seaweed feature as the main cash-earning products.

3. The National Development Strategy² identifies the following development constraints in the country and especially in the even more remote outer islands: (i) limited natural resources, especially land and fresh water; (ii) small domestic market with little potential for economies of scale; (iii) widely scattered and sparsely populated island geography; (iv) access to major international markets that is expensive and difficult to organize; (v) increasingly competitive international markets for tourism and investment; (vi) social and cultural systems with limited understanding and experience with business concepts and practices; (vii) lack of education and job skills among the labor force, and (viii) land and capital markets development constrained by social values and tradition.

4. Despite the narrow productive base, the country's financial situation is sound, largely because of external assistance, fishing licenses, remittances, and the earnings of a national trust fund, the Revenue Equalization Reserve Fund (RERF). The RERF is the cornerstone of the Kiribati economy and has provided the people of Kiribati with a degree of security that would have been considered virtually impossible before independence. The RERF is performing well.³ However, several assistance agencies have criticized the Government for not fully utilizing the RERF. The fund could be wisely allocated to many other areas of the economy.

¹ The TA first appeared in *ADB Business Opportunities* on 14 January 2000.

² Government of Kiribati. 2000. National Development Strategy 2000-2003. Tarawa.

³ RERF was created in 1956 with an initial sum of A\$550,000. At independence in 1979, the RERF was valued A\$56 million and, at the end of 1999, at A\$617 million (around US\$370 million), equivalent to approximately 10 years of imports of goods and services.

5. Per capita income has not increased over the last 20 years. The combination of sluggish economic growth with an inability to provide adequate services to a growing population has resulted in Kiribati ranking eighth among ADB's 12 Pacific developing member countries in terms of the human development index. Kiribati is also reputed to have the lowest gross domestic product per capita in the Pacific. Moreover, disparity in economic and social development opportunities between the main island of South Tarawa and the more remote outer islands is significant. This socioeconomic imbalance results in strong rural to urban migratory pressure from the subsistence economies of the outer islands to the public sector-dominated cash economy of South Tarawa.⁴ This has slowed outer island growth and strained the capital's infrastructure and environment. ADB is providing a loan for improving water supply, sewerage, solid waste disposal, and environmental conservation in South Tarawa.⁵

6. Outer island development is essential to place the country on a more sustainable growth path. The country's medium-term strategy stresses the need to maintain vibrant rural communities and effective local governments and identifies the sector objective as providing equitable balance of service delivery to outer islands. Providing a basic level of government services and infrastructure to a population dispersed among many atolls is a major development challenge. Because resources are limited, services must be provided in a cost-effective manner.

7. Because local governments have had problems delivering some services, the national Government has resumed responsibility in areas such as maintenance of education and health facilities. The Government is examining new ways to improve delivery of common services and provision of infrastructure on outer islands.

8. The National Development Strategy 2000-2003 notes that poverty is becoming an issue in the outer islands where opportunities for regular employment are few. Larger households are having an impact on the incomes of those employed in Tarawa, who are having difficulty supporting family members remaining in the outer islands. Thus the report recommends the development of an OIDP to provide more employment opportunities on these islands.

9. In 1999, ADB provided the Island Development Program loan⁶ to support the process of decentralization to the local governments by creating an improved enabling environment for island development and by providing a significant level of development finance for island development. The Kiribati authorities were particularly interested in the development of a social trust fund for island development (the RERF) to finance the recurrent costs of the proposed policy reforms. In fact, the RERF's financial performance indicates that it could be replicated to deal with the needs of small outer island economies. The Government has proved through the good governance displayed with the RERF that this modality can be successfully implemented. The task now is to investigate whether a trust fund can be successfully adapted to island development in Kiribati as has been the case in Tuvalu. The new OITF, which will eventually provide a useful complementary financing mechanism to the RERF, will face the more challenging circumstances of the outer islands.

⁴ The local government and rural development sector account for only from 4 to 5 percent of recurrent expenditure and from 3 to 8 percent of development funding.

⁵ Loan 1648-KIR(SF): *Sanitation, Public Health, and Environment Improvement Project*, for US\$10.24 million, approved on 8 December 1998.

⁶ Loan 1693-TUV (SF): *Island Development Program*, for US\$4 million, approved on 13 July 1999.

III. THE TECHNICAL ASSISTANCE

A. Objectives

10. The objective of the TA is to assist the Government to formulate an ODP suitable for external financing. The proposed program will be designed to reduce poverty by improving the social and economic infrastructure. The TA will also assess the feasibility of an OITF for island development and poverty reduction as a way to channel resources for the development of the disadvantaged outer islands. The OITF will be designed as a low transaction cost, flexible, and demand-driven mechanism to channel resources to the islands for projects to be identified by the communities themselves according to a set of eligibility criteria.

B. Scope

11. The TA will engage a team of international and domestic consultants who, together with the support of counterpart staff from MHARD, will study all aspects of outer island development financing and formulate a solution suitable for external financing. The consultants will also design a parallel project focused on poverty reduction in the outer islands for possible financing by the Japan Fund for Poverty Reduction. The TA will be divided into two phases.

12. During Phase I, the consultants and MHARD staff will (i) review the social and economic situation in the outer islands of Kiribati (including the Banaban people on Rabi Island in the Fiji Islands), (ii) develop a social and economic development program, and (iii) in strict coordination with the other major assistance agencies, assess various technically feasible options for providing incremental resources to the local communities for island development.

13. During Phase II, the consultants and MHARD staff will (i) utilize the mass media (radio broadcasting) to inform island communities of the proposed program and subsequently organize participatory workshops to discuss and prepare the ODP; (ii) evaluate social, community and gender constraints; (iii) prepare a parallel project for Japan Fund for Poverty Reduction financing; (iv) advise the Government on the participatory system required; (v) finalize the institutional structure and legal framework of the proposed OITF; and (vi) identify capacity building needs.

C. Cost Estimates and Financing Plan

14. The TA is estimated to cost US\$440,000 equivalent, comprising US\$321,000 of foreign exchange costs and US\$119,000 equivalent of local currency costs. ADB will provide US\$350,000 equivalent, to cover the entire foreign exchange cost and US\$29,000 equivalent of the local currency costs. The financing will be provided on a grant basis from the Japan Special Fund, funded by the Government of Japan. The Government contribution of US\$90,000 equivalent covers the remuneration of counterpart staff, including per diems, office accommodation and utilities, and in-country training. The cost estimates are shown in Appendix 1. The Government has been informed that approval of the TA does not commit ADB to finance any ensuing project.

D. Implementation Arrangements

15. MHARD⁷ will be the executing agency for the TA. To facilitate the TA, a steering committee, chaired by the minister of MHARD and comprising senior officials of the Office of the President and of the ministries of finance; environment and social development; information, communication and transport; and works and energy will be responsible for direction and policy formulation under the TA. Local governments will be consulted by the steering committee and MHARD. The secretary of MHARD will act as the focal point for the consulting team and provide coordination between the Government, its agencies, nongovernment organizations, and the consultants. MHARD counterpart staff will assist the consultants and become fully familiar with the program details.

16. The TA will be carried out by a team of international and domestic consultants to be selected from a firm or on an individual basis in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for the engagement of domestic consultants. The consultants will have extensive experience in the fields of rural development and community development, and with trust social funds and drafting legislation. The international consultants will be engaged for a total of 12 person-months, and domestic consultants for 4 person-months to facilitate community inclusion and participation. The procurement of computers and office equipment will be carried out in accordance with ADB's *Guidelines for Procurement* or other arrangement acceptable to ADB.

17. The TA is expected to commence in March 2001 and be completed by March 2002. The two phases will be separated by two months to enable the Government and ADB to review the consultants' findings and make preliminary recommendations on the investment program and policy and regulatory reform. Before phase II starts, a tripartite meeting will be held in Tarawa with the Government, ADB, and the consultants to discuss the phase I findings and to agree on the extent of analysis required to formulate the OIDP.

18. The consultant will be briefed by ADB in Manila or Tarawa at the start of the TA. The outline terms of reference are given in Appendix 2. The consultant will submit brief monthly reports, an inception report at the end of the first month after mobilization, an interim report at the completion of phase I, a draft final report at the completion of phase II, and a final report. The draft final report will be discussed in a tripartite meeting to be attended by the consultants, MHARD, and ADB. The final report, taking into account comments of the Government and ADB, will be submitted within one month of receipt of the comments.

IV. THE PRESIDENT'S DECISION

19. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance on a grant basis to the Government of Kiribati in an amount not exceeding the equivalent of \$350,000 for the purpose of preparing the Outer Islands Development Program, and hereby reports such action to the Board.

⁷ MHARD has been identified as the focal agency for this program, and its budget has been increased from A\$1.98 million in 1999 to A\$2.82 million in 2000.

COST ESTIMATES AND FINANCING PLAN
(US\$)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank Financing^a			
1. International Consultant			
a. Remuneration	215,000		215,000
b. Per Diem	30,000		30,000
2. Domestic Consultant		20,000	20,000
3. International and Local Travel	20,000	5,000	25,000
4. Computers and Office Equipment	6,000		6,000
5. Communication and Documentation	5,000	1,000	6,000
6. Contract Negotiations	5,000		5,000
7. Contingencies	40,000	3,000	43,000
Total A	321,000	29,000	350,000
B. Government Financing			
1. Counterpart Staff		35,000	35,000
2. Support Staff		10,000	10,000
3. Office Accommodation and Support Service		10,000	10,000
4. Domestic Travel by Counterpart Staff		10,000	10,000
5. Office Supplies and Equipment		15,000	15,000
6. Contingencies		10,000	10,000
Total B		90,000	90,000
Total	321,000	119,000	440,000

^aGrant basis, from the Japan Special Fund.

OUTLINE TERMS OF REFERENCE

1. The technical assistance (TA) will be carried out by a team of international and domestic consultants with recent experience in all aspects of the specified work. The tasks to be undertaken will be divided into two phases.

A. Phase I (4 months)

2. Phase I will comprise a review of the social and economic situation in the outer islands of Kiribati (including the Banaban people on Rabi Island in the Fiji Islands), the identification of a program for social and economic development, and the assessment of the various technically feasible options available to provide incremental resources. The tasks of phase I will include the following:

- (i) Gather and review all available relevant information on population, income and consumption, health, education, etc; poverty levels, community development opportunities and constraints, and gender and development issues; and social structure, institutional framework, and governance.
- (ii) Review existing relevant documents and reports with particular emphasis on previous experience with microfinance and project financing for economic and social infrastructure.
- (iii) Review the recent external assistance for island development, and identify the major constraints to its effectiveness.
- (iv) Draft the logical framework of the outer islands development program (OIDP) and the program matrix to support it.
- (v) Prepare the list of projects to be financed by the proposed outer islands trust fund (OITF) and make a preliminary evaluation of their investment and operational cost estimates and nature of projects likely to arise.
- (vi) Identify the possibility for poverty reduction through improved economic and social infrastructure in the islands and the mechanisms to establish a demand-driven approach for project selection.
- (vii) Discuss the most effective way of delivering additional sources of revenue for the economic and social development of the outer islands, including the possibility of improving the equity in allocating the dividends to the whole country from the Revenue Equalization Reserve Fund (RERF).
- (viii) Design clear, workable, and credible institutional mechanisms to ensure that the resources will be used for the economic and social development of the outer islands.
- (ix) Design the possible structure of an OITF for island development, including the relationship between the OITF and RERF.

(Reference in text: page 4, para. 18)

- (x) Assess the ability and willingness of the central Government and the local communities to contribute to the proposed OITF.
- (xi) Summarize the findings of the phase I work focusing on the possibility of creating an OITF for island development and the necessary institutional arrangements requested.
- (xii) Recommend and detail the scope of work of phase II of the TA to develop the recommendations of phase I and to complete the TA requirements.

B. Phase II (10 months)

3. The results of phase I will be incorporated in an interim report and reviewed prior to a tripartite meeting of the Government, the consultants, and the Asian Development Bank. On agreement of the participants and other authorities, phase II will commence. The tasks of phase II will include the following:

- (i) Organize and conduct a mass media campaign (radio broadcasting) to inform island communities of the proposed OIDP.
- (ii) Subsequent to (i), organize and conduct a series of participatory workshops on selected islands. Based on the workshops, define an appropriate development strategy as a basis for the overall design of the OIDP.
- (iii) Design the program framework in accordance with ADB's guidelines and the program matrix for island development.
- (iv) Evaluate economic, social, community, and gender constraints to the selection and implementation of projects to be financed by the proposed OITF. Based on these constraints, assess their impact on (i) levels of beneficiary participation, (ii) economic returns, (iii) poverty reduction, and (iv) rural income distribution. Propose projects that could be included on the list.
- (v) Design a poverty reduction project for financing by the Japan Fund for Poverty Reduction to complement the OIDP, and prepare the necessary documentation, including the required social assessment.
- (vi) Advise the Government on the participatory system to be adopted for project selection and implementation. The system will integrate women and other vulnerable group's rights to participate in local cultural decision making and the possible role of nongovernment organizations (NGOs).
- (vii) Identify likely environmental impacts and necessary mitigation measures. The outcome of the assessment will be presented in a (short) environmental impact assessment, including a clear institutional mechanism to monitor environmental impact management.
- (viii) Recommend the scope of studies in this area in accordance with the prescribed format as presented in the *Environment Assessment Requirement* of ADB (March 1998).

- (ix) Verify the necessary critical mass for the startup capital of the OITF, and identify the role of the OITF and its impact on the country and the local economy.
- (x) Finalize the institutional structure for supporting the OITF, such as contribution distribution formula with the Government and the local authorities.
- (xi) Recommend requirements for technical training program for staff of the Ministry of Home Affairs and Rural Development (MHARD) and the island councils.
- (xii) Develop an institutional strengthening plan for beneficiaries and implementing agencies that will ensure good governance principles, including beneficiary participation, accountability, and transparency.
- (xiii) Identify the institutional structures to promote, operate, and maintain in a sustainable manner the recommended solution, including an assessment of the recurrent and operational funding needed to support OITF implementation in the outer islands.
- (xiv) Prepare a detailed social analysis in accordance with the *Guidelines for Incorporation of Social Dimension in ADB Operations*.
- (xv) Assess the poverty impact of the OITF and how to minimize the negative impact, if any.
- (xvi) Describe and justify the project eligibility criteria, e.g. financial sustainability, and prepare the project guidelines.
- (xvii) Help with the negotiations of the terms of an agreement between the central Government and the island councils to establish a trust fund.
- (xviii) Assist the Attorney General's Office with the drafting of the trust fund agreement and empowering legislation and any associate regulations.
- (xix) Advise on the placement of the OITF with an offshore investment manager and secure the tax-free status, if possible, for the income stream generated by the OITF.
- (xx) Prepare the terms of reference for a TA to assist MHARD and local governments to develop and fulfill their mandate.
- (xxi) Report the conclusions and discuss them in a tripartite meeting with representatives of ADB and MHARD.

C. Reporting Requirements

5. The following reports will be prepared by the consultants and submitted simultaneously to the Government and ADB:

- (i) an inception report four weeks from the commencement of services detailing initial findings and recommendations for the future direction of the TA.

- (ii) brief monthly reports summarizing the progress of work, major findings, and notation of problem areas, such as lack of data and other impediments that could hamper the TA.
- (iii) an interim report on the completion of phase I setting forth the findings of this phase and making recommendations for the direction of work for phase II. Following review of the report by the concerned parties and discussion at a tripartite meeting, ADB, with the agreement of the Government, will give approval for the activities covered in phase II.
- (iv) a draft final report incorporating the findings of phase I and II including a comprehensive proposal and institutional formation plan based on the recommendations of the consultants following the format of a Report and Recommendation to the President with appendices including the islands of Kiribati, the Revenue Equalization Reserve Fund, program matrix, program framework, proposed training for MHARD and island councils, main features of the proposed solution, current island development projects funded, indicative projects funded under the proposed program, poverty impact assessment, a proposed poverty reduction project for Japan Fund for Poverty Reduction financing, ineligible items, proposed TA for implementation of the program, draft development policy letter. An additional tripartite meeting may be convened, if deemed necessary, to facilitate a participatory workshop to discuss the draft report.
- (v) a final report, based on the draft final report, incorporating the comments and views received on the draft.