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To: Members of the Executive Board

From: The Secretary

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Questions:	Mr. Ding, APD (ext. 39766) Mr. Paroutzoglou, APD (ext. 37885)
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***Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the document will be published.**



KIRIBATI

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

November 21, 2017

Prepared By

The Asia and Pacific Department
(In Consultation with Other Departments)

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FUND RELATIONS

(As of October, 2017)

Membership Status: joined June 3, 1986; accepted Article VIII.

General Resources Account:	SDR Million	Percent Quota
Quota	5.60	100.00
Fund holdings of currency	5.60	100.02
Reserve position in Fund	0.00	0.08
SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	5.32	100.00
Holdings	5.39	101.29

Outstanding Purchases and Loans: None.

Financial Arrangements: None.

Projected Obligations to Fund: None.

Implementation of HIPC Initiative: Not Applicable.

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable.

Exchange Rate Arrangement: The Australian dollar circulates as legal tender.

Article IV Consultation:

The 2017 Article IV consultation discussions with Kiribati were held in Tarawa during September 11-21, 2017. Kiribati is on a 12-month consultation cycle. The IMF Board concluded the 2016 Article IV consultation on September 7, 2016.

Technical Assistance (TA), 1995–2017:

STA, LEG, MCM, FAD, and PFTAC have provided TA on statistics, tax administration and policy, budget management, Revenue Equalization Reserve Fund (RERF) and Pension Fund (KPF) management, financial sector reform and supervision, and combating financial crime and financial system abuse.

Resident Representative: The resident representative office in the Pacific Islands was opened in September 2010 in Suva, Fiji. Mr. Tubagus Feridhanusetyawan is the Resident Representative.

RELATIONS WITH THE PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE (PFTAC)¹

(As of October 1, 2017)

Through the end of the previous funding cycle (May 2011 to October 2016), PFTAC assistance to Kiribati has included 40 advisory missions, plus a further six missions since the start of Phase V on November 1, 2016. Kiribati also sent 48 officials to regional seminars and workshops through Phase IV, and a further 7 officials since the start of Phase V.

Tax Administration and Policy

A September 2017 mission to the Kiribati Taxation Department (KTD) assisted the authorities in the development of an overarching modernization plan to guide and further strengthen the implementation of reforms. This plan includes: (a) strengthening organization management and governance; (b) the launch of two pilot compliance improvement projects; (c) process improvements to further strengthen the newly adopted functional approach; and (d) improving audit capability. For each of these priority streams of work key tasks were identified, sequenced, and responsibility assigned. The introduction of quarterly reporting on reform implementation will provide the Commissioner with oversight of progress and help ensure successful implementation of the wide range of activities being undertaken by the KTD.

Public Financial Management (PFM)

Previous PFTAC support focused on training for budget analysts and cash and debt management. In July 2017, PFTAC assisted Kiribati in a PEFA self-assessment. This mission was joined by a representative of the Pacific Island Forum Secretariat as part of a climate change financing readiness assessment. The last PEFA assessment had been conducted by the ADB in 2011. Based on the recent PEFA self-assessment, PFTAC recommended priority actions that could be implemented immediately by the authorities such as: improving the budget document by including data on expenditures from the previous year and publishing on the website the approved budget document and other available fiscal reports. Other reforms that would need high level policy direction were also recommended such as developing a medium-term fiscal strategy and a debt management strategy.

PFTAC will continue to work closely with other donors who will be influencing PFM reforms in Kiribati, including the ADB who will finance the introduction of a new FMIS and the PIFS climate

¹ PFTAC in Suva, Fiji is a multi-donor TA institution, financed by IMF, AsDB, AusDFAT, Korea and NZAID, with the IMF as Executing Agency. The Centre's aim is to build skills and institutional capacity for effective economic and financial management that can be sustained at the national level. Member countries are: Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tokelau, Tonga, Timor-Leste, Tuvalu, and Vanuatu.

change readiness team. The Fiscal Affairs Department and PFTAC are also considering a joint TA mission to Kiribati to undertake a Public Investment Management Assessment (PIMA).

Financial Sector Regulation and Supervision

A PFTAC TA mission visited the Kiribati Ministry of Commerce, Industry, and Cooperatives (MCIC) in January 2015 to review the supervision framework and provide training on credit union supervision. Since then the MCIC has been attempting to formally register and supervise the credit unions. A follow-up mission is scheduled for November 2017 to provide additional training to MCIC staff on credit union supervision; assess progress on supervising the credit union sector since the January 2015 mission; assist the MCIC to establish a prudential return and off-site supervision process; and assist the MCIC to determine an appropriate supervision framework.

In addition to the credit union supervision work, representatives from the Kiribati Attorney General's Office and the Kiribati Ministry of Finance & Economic Development attended a PFTAC banking regulatory workshop in Guam in July 2017, to learn about banking regulatory frameworks, with the aim of potentially introducing banking regulation to Kiribati. PFTAC submitted to the Ministry of Finance & Economic Development a proposed Regulatory Framework Enhancement Strategy and Technical Assistance plan, which PFTAC is available to assist implementing if the Kiribati authorities decide to develop a banking regulatory framework.

Economic and Financial Statistics

PFTAC has provided regular TA on national accounts since 2008, assisting the authorities in making significant improvements in methodology and use of source data. Beginning in 2012, PFTAC has increased its TA with the development of an expenditure measure of GDP and with the preparation of statistical procedures for the incorporation of VAT data; the last mission was in August 2017. Progress has been slow due to capacity and resource constraints but internal estimates of GDP by expenditure have now been produced, albeit requiring further refinement. The VAT data, however, still require improvement for use in GDP. NA compilers benefited from regional courses in 2009, 2012, 2013, 2014 and 2017.

Macroeconomic Analysis

Two missions in 2011 provided assistance in building capacity related to forecasting techniques, using the medium-term fiscal framework developed as part of AsDB assistance, and assessing sustainable levels of draw-downs from Kiribati's Reserve Equalization Reserve Fund. A regional financial programming workshop held jointly in 2012 by PFTAC and the Singapore Regional Training Institute provided training in financial programming techniques to two economists of the Ministry of Finance and Economic Development. In 2015 PFTAC supported authorities during the IMF Article IV consultation and discussed TA and training. Economists from the Ministry of Finance and Economic Development participated in workshops on incorporating disaster risk into fiscal planning, forecasting tax revenues and medium-term planning for sustainable development in 2015 and 2016 and on compiling and forecasting GDP in 2017.

BANK-FUND COLLABORATION¹

A. World Bank-IMF Collaboration

(As of September 1, 2017)

The Fund and the Bank teams maintain close cooperation in various areas and consult frequently. During the current cycle, the Bank staff has joined the IMF missions, including IMF staff visits and the 2017 Article IV mission. The IMF staff and the World Bank staff maintained continuing close dialogue on economic developments and all aspects of the government reform program.

During the current cycle, the teams have produced a Joint DSA. The IMF team provided analysis and advice on the overall macroeconomic and fiscal framework, including fiscal and RERF sustainability. The IMF and World Bank have also been engaged in provision of technical assistance and advice in public financial management and debt management and policy. The Fund also provided technical assistance on tax administration and policy, budget management, and on statistical issues, including National Account Statistics, Government Finance Statistics and Balance of Payments. The Bank has been engaged in various infrastructure projects, including road rehabilitation, airport improvement, solar energy, and adaptation to climate change. Bank staff provided technical assistance on government expenditures – in particular health expenditure, reforms of copra subsidy, liberalization of telecommunication sector, and management of the RERF. During this cycle the Bank has continued to work closely with the government on the comprehensive program of priority economic reforms and building resilience against external shocks, and supported coordination of donor TA around the reform agenda. Reforms identified through this process are now being supported under joint donor budget support, coordinated by the World Bank, with the fourth operation currently prepared in close consultation with the Government, ADB, NZ and Australian government.

The IMF and World Bank teams will continue close cooperation going forward, in particular in the context of the government reform program. As agreed earlier, the Fund will continue to lead on macro issues, in particular overall macroeconomic framework, including in the medium-and-longer term, and the Bank on macro-critical structural reform issues. The Fund and the Bank staff will also continue to cooperate with regard to follow up TA, including on the RERF management and public financial and debt management.

B. Relations with the World Bank Group

Kiribati became a member of the World Bank Group (WBG) in 1986. Since then, the WBG has provided strong support to Kiribati, including 13 IDA/ IBRD, Global Environment Fund, and Institutional Development Fund projects in different sectors totaling US \$118 million.

The World Bank approved a Regional Partnership Framework for 9 Pacific Islands, including Kiribati in February 2017. The new Framework focuses on three broad themes: (i) fully exploiting the limited

¹ Prepared by the World Bank staff.

set of economic opportunities available to the PIC9, (ii) enhancing access to public services and employment opportunities; and, (iii) protecting incomes and livelihoods.

Both IDA and IFC are significantly increasing engagement. Consistent with Kiribati's limited repayment capacity highlighted in the DSA, IDA-financing are being provided on 100 percent grant terms, and is expected to approximately quadruple with IDA18 scale up. IFC is playing an important role in strengthening investment climate in countries across the Pacific, and is similarly scaling up technical assistance to Kiribati to strengthen the business environment and to support specific PPP transactions or asset sales as the government moves to rationalize SOEs.

Key components of WBG engagement include:

- Supporting better fiscal and natural resource management. Through a programmatic budget support operation, the World Bank has supported the Government's implementation of a medium-term strategy to restore the country's fiscal sustainability. The first, second and third operations have been completed in 2014–16. The fourth operation is currently being prepared in close consultation with the Government and other donors. The operation will support two main policy priorities—first, strengthening public financial management, which focuses on strengthening the management of public assets and liabilities and second, improving the environment for inclusive growth, which focuses on fisheries joint ventures, competition and universal service provision in telecommunications, and the quality and coverage of essential public utilities.
- Improving connective infrastructure. To mitigate Kiribati's geographical disadvantage, the World Bank has scaled up support for basic infrastructure that connects the people of Kiribati to the outside world. Infrastructure investments integrating climate change adaptation planning has started in parallel with efforts to develop coordinated and more comprehensive multi-donor adaptation interventions. A South Tarawa road improvement investment (IDA: US\$26 million, ADB: US\$12 million and TF: US (?) \$19 million) is being undertaken jointly with the Asian Development Bank. The World Bank has also mobilized significant grant resources (US\$30 million) with Trust Fund (US (?) \$5.6 million mostly New Zealand and other development partners to help bring Kiribati airports up to international safety standards. A new project (US\$20 million) financing a fiber-optic cable to Tarawa was approved in May 2017.

Building climate resilience. Since 2003, the World Bank has been supporting climate change mitigation through the Kiribati Adaptation Program, with activities such as seawall construction, mangrove planting, and water conservation. Beyond climate change adaptation, the World Bank has been committed to addressing wider issues of vulnerability in Kiribati, including supporting renewable energy generation to reduce reliance on volatile imported diesel.

The Bank's program for the next three financial years 2017–2020 under the IDA18 scale up will focus on water and sanitation for South Tarawa, fisheries under the Pacific Islands Regional Oceanscape Program (PROP), including maritime and outer islands support, and will continue to work with government on economic policy reforms.

RELATIONS WITH THE ASIAN DEVELOPMENT BANK¹

In total, the Asian Development Bank (ADB) has provided US\$52 million in concessional loans and grants since Kiribati joined the AsDB in 1974. Over half of this has been committed since 2010. In addition, TA amounting to US\$34.19 million has been provided over the same period. The latest AsDB loan to Kiribati, for South Tarawa Sanitation Improvement Sector project, was approved in October 2011, while the latest AsDB grant, for the Strengthening Fiscal Stability Program, was approved in November 2014. Between 2014–2017, additional financing amounting to US\$15.2 million has been approved for sanitation improvement, higher education, and road rehabilitation. The AsDB most recently approved a US\$0.95 million TA grant for South Tarawa water supply in 2016. Looking ahead, AsDB anticipates being able to provide at least US\$40 million in Asian Development Fund grants between 2017 and 2020 (including annual allocations of US\$7.2 million plus regional funds of US\$23.7 million).

In line with the broad objective of the Kiribati Development Plan 2016-19, which focuses on a better educated, healthier, more prosperous nation with a higher quality of life, ADB's engagement aims to strengthen governance, improve infrastructure, maintain a stable macroeconomic framework, improve access to basic services, strengthen climate change adaptation and reduce poverty. As many infrastructure services are provided by SOEs, improving corporate governance arrangements and the commercial focus of these enterprises is a key objective of ADB's support to the government's structural reform program. Technical assistance to improve economic management and public sector reform has helped improve SOE performance. In October 2011, ADB approved a loan for the South Tarawa Sanitation Improvement Sector Project that has improved sanitation and hygiene practices in South Tarawa and will increase access to sanitation from 64 percent to 80 percent by 2019. Additional financing of \$610,000 was approved in 2014. The Road Rehabilitation Project, approved in December 2010, has rehabilitated 32.5 kilometers of main roads and about 8 kilometers of feeder roads on South Tarawa. Additional financing of \$8.4 million in 2015 and 2016 will help complete the rehabilitation and allow the upgrade of the road network on Betio, the largest township on South Tarawa and the site of the country's main port. Cofinanced by the Government of Australia, the World Bank and the Pacific Regional Infrastructure Facility, the project will improve socioeconomic conditions for the people of South Tarawa. ADB also provided its first policy grant of \$3 million to Kiribati in 2014, which focused on helping Kiribati increase fiscal sustainability by improving public expenditure quality, revenue performance, management of public assets and liabilities, and the business environment.

ADB's strategic engagement in Kiribati in the medium term will continue to focus on major transformative infrastructure investments with the scope to mobilize significant co-financing, and given the improvement in Kiribati's fiscal situation, limited policy financing to further build buffers and demonstrate confidence in the government's reform agenda. While AsDB's program in Kiribati is currently focused on roads, sanitation, and policy based financing, the government, elected in early 2016, has placed very high priority on improving services, especially for the outer islands. Reflecting

¹ Prepared by the Asian Development Bank Staff.

this, ADB's future pipeline will focus primarily on providing reliable and clean water to the population of the main island of South Tarawa, improving ICT connectivity for Kiritimati island, and building or upgrading road, aviation and marine landings on the outer islands.

Kiribati: Loan, Grant and Technical Assistance Approvals (2010–17)^{1/}							
	2010	2012	2013	2014	2015	2016	2017
Loan Approvals							
Number	1	1	0	0	0	0	0
Amount (US\$m)	12	7.56	0	0	0	0	0
Grant Approvals							
Number	0	0	0	2	1	1	3
Amount (US\$m)	0	0	0	3.6	2.4	6	10
TA Approvals							
Number	2	1	2	1	0	0	2
Amount (US\$m)	0.85	0.2	0.8	1	0.22	0	0.8
^{1/} Prepared by the Asian Development Bank Staff.							

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance	
(As of October 13, 2017)	
<p>General: Data provision has some shortcomings, but is broadly adequate for surveillance. Balance of Payments and to some extent Government Finance Statistics could be further improved.</p>	
<p>National Accounts: With PTFAC assistance, GDP estimates have improved. There was one TA mission in August 2017 to improve the national data accounting system, with updates and revisions to GDP data for 2012-16. However, further capacity building would be needed to continue to improve the quality of GDP estimates, particularly expenditure-based GDP estimates. Presently, only current and constant 2006 prices GDP data is compiled using the Value-Added approach.</p>	
<p>Price statistics: The monthly retail price index (2006=100) is produced with a short lag (about a month), based on a survey in South Tarawa (a national index is not available). There are no producer, wholesale, or trade price indices.</p>	
<p>Government finance statistics: A Government Finance Statistics mission took place in June 2014 to integrate GFS requirements into the ongoing Chart of Accounts and approaches to extend coverage to include donor-financed projects. Another TA mission earmarked for late 2017 is expected continue ongoing work. A PEFA review was conducted in July-August 2017.</p>	
<p>Monetary statistics: The balance sheets of all the financial institutions (Bank of Kiribati, Development Bank of Kiribati, Kiribati Provident Fund, and Kiribati Insurance Corporation) are available with lags, but the consolidated balance sheet of the financial sector is not available. Data on interest rates are reported with a long lag.</p>	
<p>Balance of payments: Kiribati is part of the Pacific Region module of the JSA project on Improvement of External Sector Statistics (ESS) in the Asia and Pacific region. Three ESS missions were undertaken during 2014. Data are compiled quarterly in the BPM6 format. However, the quality of the data is improving only marginally due to capacity constraints, and quality of source data. The shortcomings pertain to adjustments to trade data, recording of investments income, direct investment and foreign aid data.</p>	
II. DATA STANDARDS AND QUALITY	
Kiribati has been a participant in the General Data Dissemination System (GDDS) since 04.	No data ROSC are available.
III. REPORTING TO STA (OPTIONAL)	
Data is reported to STA for publication in the <i>Government Finance Statistics Yearbook</i> , the <i>Balance of Payments Statistics Yearbook</i> and the IFS.	

Kiribati: Table of Common Indicators Required for Surveillance

	Date of latest observation	Date received	Frequency of Data	Frequency of Reporting/7	Frequency of publication/7
Exchange Rates	9/22/2017	9/22/2017	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities /1	NA	NA	NA	NA	NA
Reserve/Base Money	NA	NA	NA	NA	NA
Broad Money	NA	NA	NA	NA	NA
Central Bank Balance Sheet	NA	NA	NA	NA	NA
Consolidated Balance Sheet of the Banking System	NA	NA	NA	NA	NA
Interest Rates /2	9/12/2017	9/12/2017	A	A	I
Consumer Price Index	9/15/2017	9/15/2017	M	Q	Q
Revenue, Expenditure, Balance and Composition of Financing/3 - General Government /4	9/15/2017	9/15/2017	A	A	I
Stocks of Central Government and Central Government-Guaranteed Debt /5	9/15/2017	9/15/2017	A	A	I
External Current Account Balance	9/15/2017	9/15/2017	A	A	I
Exports and Imports of Goods and Services	9/15/2017	9/15/2017	A	A	I
GDP/GNP	9/15/2017	9/15/2017	A	A	I
Gross External Debt	9/15/2017	9/15/2017	A	A	I
International Investment Position /6	9/15/2017	9/15/2017	A	A	I

1/ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

2/ Both market-based and officially-determined, including discounts rates, money market rates, rates on treasury bills, notes and bonds.

3/ Foreign, domestic bank, and domestic nonbank financing.

4/ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

5/ Including currency and maturity composition.

6/ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

7/ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).