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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/1-2

10:05 a.m., January 11, 2019

2. Kiribati—2018 Article IV Consultation

Documents: SM/18/297 and Supplement 1, and Supplement 2

Staff: Igan, RES; Fletcher, SPR

Length: 26 minutes

Executive Board Attendance

T. Zhang, Acting Chair

Executive Directors	Alternate Executive Directors
	T. Sitima-wina (AE), Temporary
	F. Sylla (AF)
	R. Morales (AG), Temporary
N. Ray (AP)	
	P. Fachada (BR)
	K. Lok (CC), Temporary
	A. Del Cid-Bonilla (CE), Temporary
L. Levonian (CO)	
R. Kaya (EC)	
	A. Castets (FF)
	K. Merk (GR)
	M. Siriwardana (IN)
	P. Di Lorenzo (IT), Temporary
	Y. Saito (JA)
	M. Saadaoui (MD), Temporary
	F. Al-Kohlany (MI), Temporary
	R. Doornbosch (NE)
	M. Bernatavicius (NO), Temporary
	L. Palei (RU)
M. Mouminah (SA)	
	K.Tan (ST)
P. Inderbinen (SZ)	
	D. Ronicle (UK)
	D. Crane (US), Temporary

H. Al-Atrash, Acting Secretary
H. Malothra, Summing Up Officer
D. Alcantara, Board Operations Officer
M. McKenzie, Verbatim Reporting Officer

Also Present
Asia and Pacific Department: J. Daniel, M. Kaiteie, C. Nguyen, A. Stuart. Legal Department: H. Pham. Research Department: G. Dell'Ariccia, D. Igan, M. Martinez Peria. Strategy, Policy, and Review Department: K. Fletcher. Executive Director: D. Fanizza (IT), G. Lopetegui (AG), S. Meyer (GR), J. Mojarrad (MD), T. Ostros (NO), S. Riach (UK). Alternate Executive Director: R. Alkhareif (SA), A. Guerra (CE), G. Johnston (AP),

K. Obiora (AE). Senior Advisors to Executive Directors: Z.Mohammed (BR). Advisors to Executive Directors: E. Amor (AP), P. Braeuer (GR), S. David (AP), M. Kikiolo (AP), G. Kim (AP), U. Latu (ST), E. Myers (UK), Y. Naruse (JA), A. Park (AP), F. Rawah (SA), M. Sylvester (CO), M. Cowie (UK), A. Sode (FF).

2. KIRIBATI—2018 ARTICLE IV CONSULTATION

Mr. Ray and Ms. Park submitted the following statement:

Kiribati consists of 33 small islands spread over an area of the Pacific Ocean roughly the size of India, and is the only country situated in all four hemispheres. Geographic dispersion and remoteness contribute to the high cost of infrastructure and public service delivery. As with many Pacific countries, the production and export base is narrow. The main sources of income are fishing licenses, remittances from seafarers and copra. Reliance on imported fuel and food is high, increasing vulnerability to exchange rate and commodity price movements. Kiribati will be one of the first countries affected by rising sea levels and the tuna fishery – its key economic resource – could be affected by higher ocean surface temperatures.

Despite these challenges, considerable progress has been made in recent years. Kiribati's economy has performed strongly owing to higher public spending supported by record fishing revenue and donor-financed infrastructure investment. The fiscal position has improved and the current account has shifted into surplus. The Government has supported the outer islands by doubling the copra subsidy, extended fee-free education, reduced the cost of access to electricity in South Tarawa, improved pay and working conditions for public servants and invested in better transport and telecommunications links – all within its current revenue envelope. Kiribati has a good record of stable democracy, orderly government transitions, social cohesion, and prudent economic management. The Kiribati Vision 20 (KV20) sets out a blueprint for sustainable and inclusive development, focusing on fisheries and tourism, as well as developing human capital, investing in infrastructure, and promoting good governance.

The authorities largely agree with the staff's analysis and outlook, and with the broad thrust of the advice. They thank staff for their thoughtful analysis and the open and collaborative approach taken by the team. The mission included a technical assistance component and ran alongside a World Bank mission, which allowed all involved to draw on each other's expertise and make best use of the authorities' time.

Prudent and Sustainable Fiscal Management

Public spending needs are high. Kiribati has the lowest per capita income in the region and a fifth of the population lives below the poverty line.

Infrastructure needs are high – less than half the population has access to improved sanitation or electricity, or mobile phone and internet access.

The authorities are committed to prudent and sustainable fiscal management, alongside necessary investments in development and social programs. Kiribati has maintained fiscal surpluses over recent years, enabling contributions to the Revenue Equalization and Reserve Fund (RERF).
For 2019, the Government has committed to running at least a balanced budget. This calls for using conservative estimates of fishing revenue and making no further step-change in public service salaries or copra subsidies. The government sees the copra subsidy as playing an important role in redistributing income and meeting basic needs for households in the outer islands. The authorities will carefully consider staff advice to focus on the controllable portion of the budget and limit use of supplementary budgets. But some flexibility in the framework is appropriate to respond to large and unpredictable variations in fishing license revenues. These fluctuations – either negative or positive – can have a significant impact on economic and fiscal outcomes.

The RERF is one of Kiribati's most important assets and it is critical that it is managed effectively to provide benefits to both present and future generations. As well as making an A$70 million transfer to the RERF in 2016, the Government has implemented management reforms, including appointment of new asset managers and a new custodian through a competitive selection process. Cabinet recently approved the adoption of a clear set of objectives for the management of the RERF. These are designed to reach the KV20 target of an asset value of A$1 billion by 2020, and – going forward – to maintain the real value of the fund while using a portion of RERF returns to finance development projects. High fisheries revenue in recent years has allowed Kiribati to accumulate significant cash reserves, which can now replace the traditional revenue stabilization role of the RERF. Cabinet recently adopted a cash management policy to ensure that these cash reserves are managed as efficiently as possible while still meeting the liquidity needs of the government and the banking system.

The authorities are aware of potential climate change mitigation and adaptation costs and are working to recognize these costs in the Budget. The new Climate Finance Division in the Ministry of Finance is developing a strategic framework and country program and is looking at enhancing reporting of spending on climate adaptation and mitigation.

Enhancing Governance

The authorities are committed to improving public financial management. A new Central Procurement Unit in the Ministry of Finance and Economic Development was established in 2018, and the authorities look forward to working closely with development partners to continue implementing the Kiribati Public Procurement Reform Program. In addition to the recent PIMA report, the Ministry of Finance are also carefully considering several other sets of recommendations. Capacity constraints can become an issue in this context. Staff make recommendations on project selection, for example. But it is difficult for the National Economic and Planning Office, an office of 13 people, to achieve best practice when they are also responsible for providing economic policy, compiling the Budget, monitoring expenditure and revenue, managing aid coordination, overseeing the performance of SOEs, managing the RERF, running the Economic Reform Taskforce and undertaking debt management.

Supporting Private Sector Development

The private sector can be an engine of economic growth and development for Kiribati. Significant progress has been made with SOE reforms over recent years, including strengthening the commercial mandate of SOEs and further divestment and outsourcing of SOE activities. Air connectivity will be boosted by the recent purchase of two additional aircraft for Air Kiribati. Financial sector development is important, and the authorities look forward to further engagement with the Fund on this issue. Land registration is a long-running challenge for Kiribati and other Pacific island countries given the customary land system. Improved educational outcomes are a key plank of the Government's plan to foster private sector growth. The Government has committed to ensuring all I-Kiribati receive a high-quality education and the extension of the fee-free policy to senior secondary education is an important step forward, along with the new Early Childhood Care and Education Act.

Mr. Fachada and Ms. Mohammed submitted the following statement:

We thank staff for the well-structured report and Mr. Ray and Ms. Park for their statement. Kiribati has made substantial progress with relatively strong economic growth over the recent past, together with subdued inflation and robust fiscal outturns. However, Kiribati is a remote small state spread over a large area, with high reliance on imported goods and grants, and vulnerable to climate change. We therefore encourage the authorities to maintain the economy on a sustainable path.

Strengthening the fiscal framework is important. We welcome the use of the domestic recurrent balance as an operational target to reinforce fiscal discipline. However, given Kiribati's development and social needs, any target should be used flexibly. We take positive note that the Revenue Equalization Reserve Fund (RERF) and cash reserves of the public sector are estimated by staff to have reached close to 500 percent of GDP in 2018, a testament to the fiscal prudence of Kiribati's authorities. We join staff in recommending that withdrawals from the RERF be governed by a rules-based, transparent mechanism that reflects social preferences on intergenerational redistribution and adjusts to structural changes in returns to assets, but believe that consideration should also be given to the current development and social challenges of Kiribati.

We have some doubts about the assessment of Kiribati as being at high risk of debt distress. Given Kiribati's very large financial assets, debt sustainability would better be assessed using net public and external debts rather than gross debts. We agree that debt vulnerabilities may be exacerbated by contingent liabilities from state-owned enterprises and by climate change, but the large financial buffers of the public sector attenuate these risks in the medium-term.

Creating an environment for a more dynamic private sector would improve efficiency and allow financial deepening to be implemented in a sustainable way. In theory, the continued divesting of state-owned enterprises activities would not only improve efficiency in the delivery of basic utilities but lessen the burden on public finances. In practice, this may be extremely difficult in a country comprising 33 islands with a little more than 100 thousand inhabitants spread around an area larger than India. In such situation, it may be unrealistic to expect that the public sector will not be the main—if not the only—provider of public services and inter-island connectivity. That said, we agree with staff that the authorities should build on the donor-funded investments in ICT, mobile connectivity and mobile banking to encourage job creation and to obtain the benefits of financial deepening.

Given Kiribati's limited resources, consideration should be given to maximize its returns in a sustainable way from the fisheries and copra activities. Diversification into alternative activities and leveraging on the islands' location can provide a sustainable path to economic growth and encourage private sector development. Against this backdrop, Kiribati could build on its established comparative edge and expand the product lines of copra into higher-value-added categories. Transforming the economy to foster growth in services including renewable energy and tourism to open diversification opportunities and increase resilience should also be explored. Given the lack of air connectivity with the main source markets in the Asia-Pacific region, the authorities cautious approach towards expanding the operations of the state-owned airline is justifiable.

Ms. Pollard and Ms. Crane submitted the following statement:

We thank staff for the papers and Mr. Ray and Ms. Park for the helpful buff statement. Kiribati faces significant challenges in leveraging its economic assets – fisheries, coconuts, potentially tourism – in a manner that promotes sustainable growth and resilience to natural disaster impacts. We commend staff for combining their staff mission with a mission from the World Bank, as noted in the buff statement, which encourages synergies and reduces the burden on the authorities. We agree with the thrust of the staff appraisal and offer several comments for emphasis.

Fiscal Framework

The authorities have acknowledged the usefulness of using a budget balance concept that strips out volatile fishery revenues and grants, but they have stressed the difficulty in communicating this concept to the public. In their buff, Mr. Ray and Ms. Park have also highlighted the issue of very limited staffing, which puts a premium on keeping things simple. Nonetheless, we see value in public messaging around the domestic recurrent balance, in addition to the overall budget balance, to help reduce pressures for spending surges during good times. Can staff comment on whether there are lessons on public communications from other small economies that have successfully employed such a fiscal framework, which IMF capacity development staff might be able to share with authorities?

Copra Subsidies

We took note that the authorities doubled the copra subsidy in 2018 even while recognizing that the subsidy has discouraged production and export of virgin coconut oil and incentivized fraud and overharvesting. While the authorities are best placed to determine how to navigate the political economy of this issue, we urge them to work to gradually eliminate the subsidy on copra and explore development of coconut oil, while finding new ways to support the needs of people in the outer islands.

VAT Exemptions for SOEs

We echo staff in calling for the reduction of VAT exemptions for state-owned enterprises to provide a more level playing field for private sector development. We note that many of the SOEs are linked to copra, and thus these VAT exemptions are another means of distorting incentives in the copra industry.

Cash Management

We urge the authorities to more prudently manage public resources by reducing the large amount of reserves held in non-interest -bearing cash accounts. We agree with staff that the authorities should move toward more integrated management of cash reserves, coordinated with the broader investment strategy for its sovereign wealth fund.

Mr. Ostros and Mr. Bernatavicius submitted the following statement:

We thank staff for their informative reports and Mr. Ray and Ms. Park for their useful buff statement. Strong economic environment provides a good opportunity to proceed with much needed structural reforms as Kiribati's unique geography creates additional economic challenges. We urge the Kiribati authorities to steadfastly reinforce the fiscal framework to maintain buffers, create a better environment for the private sector and replace subsidies with targeted social transfers. We broadly concur with the thrust of staff appraisal.

Growth has been strong in recent years as unexpectedly high fishing revenues enabled higher public spending. Despite exceptional recent economic performance, Kiribati still has the lowest per capita income in the region. As Mr. Ray and Ms. Park noted in their buff statement, tuna fishery – Kiribati's key economic resource – could be affected negatively by higher ocean surface temperatures.

The fiscal framework would benefit from focusing more on the controllable portion of budget revenue. The authorities should avoid issuing a supplementary budget in the event of a surge in fishing revenue. As Kiribati is one of the most vulnerable countries to climate change, the fiscal framework should also consider more fully its toll on Kiribati's public finances. The establishment of the Climate Finance Division—whose mission will be to coordinate climate-change-related expenditures is a welcome step in the right direction.

Subsidies distort incentives and should be gradually replaced by targeted social transfers where necessary. We also urge the authorities to phase out SOE exemptions of the VAT without further delay to ensure the level-playing field.

As Kiribati's unique geography limits opportunities for private sector development, the authorities should strive for a better business environment. Enhancing governance, streamlining regulatory practices, promoting financial sector development, and boosting access to credit could be the main guiding principles for further reforms.

Opportunities for diversification should be further explored. Kiribati's export structure is one of the most concentrated in the world as fish and coconut products make up almost the entirety of its exports, and Thailand alone accounts for 70 percent of exports.

Mr. Gokarn and Mr. Siriwardana submitted the following statement:

We thank staff for the detailed reports and Mr. Ray and Ms. Park for their informative buff statement. We take positive note of the improved performance of the Kiribatian economy in the recent past. Growth has been strong on average, inflation is subdued, the fiscal position has improved significantly, and there is a substantial surplus in the current account. As a small and fragile island state, Kiribati's economic progress is constrained by its geographic dispersion, remoteness, limited resource base and vulnerability to natural disasters. Despite the recent progress, staff assesses Kiribati to be at high risk of debt distress. Addressing infrastructure gaps, improving governance, developing human resources and creating a dynamic private sector remain key to achieve development objectives in the Kiribati Vision 20 (KV20). Hence, while commending the efforts made by the authorities, we emphasize the need for leveraging the recent gains as a basis to pursue policies to achieve an inclusive growth, create jobs, reduce poverty and maintain buffers to face frequent external shocks. Continued donor support will also be critical in complementing these efforts. We broadly agree with the thrust of the staff reports and wish to make following remarks for emphasis.

Sound fiscal management is important to ensure efficient use of resources, improve fiscal sustainability and lower the risk of debt distress. In this context, we concur with staff on using the domestic recurrent balance as an operational target and focusing on the controllable portion of the budget to drive fiscal operations. In order to face the gradual normalization and high concentration of fishing revenues, sizable fiscal adjustments are required on both revenue and expenditure fronts. The avoidance of potentially unsustainable increases in wages and prioritization of capital spending will be the key to achieving this, and to create space for essential infrastructures and targeted social transfers. Could staff comment on the plans to improve education and health sectors in the future? Staff comments are also welcome on the availability of grants financing for development spending going forward. We commend the authorities for their commitment to make no withdrawals from the Revenue Equalization Reserve Fund (RERF) until the target balance is met and encourage the introduction of a rules-based and transparent mechanism to govern withdrawals from RERF. Further improvement in procurement in line with recommendations in the PIMA report and improving cash management while limiting non-interest accounts are also important to improve public financial management.

We echo staff's concerns on substantial contingent liabilities posed by SOEs. This is particularly related to the significant increase in capital expenditure to purchase two aircrafts to the already loss-making Air Kiribati Limited (AKL). At the same time, the improved air connectivity (and shipping services), implemented through a cautious approach, is also critically important to the country's economic progress. Staff's comments are welcome on maintaining a balance between these two opposing requirements. At the same time, we encourage the articulation of an overall strategy for setting the SOEs on a more sustainable footing while delivering the basic public utility services by protecting the most vulnerable.

The private sector's role is critical in realizing Kiribati's economic prospects. The narrow production/export base and the underdeveloped business environment pose significant challenges in this context. Hence, improving the business climate, enhancing physical infrastructure and building human capital are important to address key bottlenecks to strengthen competitiveness and harness the potential, particularly in fishing, tourism and agriculture-related industries with enhanced private sector involvement. We also see the need for increasing financial deepening through improved financial education and enhanced access to credit by the private sector. We encourage the comprehensive supervision framework to address deficiencies in the financial system. The measures implemented under the national anti-corruption strategy are commendable and authorities are encouraged to implement remaining measures while addressing governance deficiencies to promote private sector involvement in the economy.

Climate change and natural disasters, including sea storms and high tides, pose significant long-run challenges to Kiribati as one of the most vulnerable countries in the world. In this context, we concur with staff on the need for continued work on building climate change resilience with adequate provisions for mitigation and adaptation while particularly ensuring water, food and energy security. We commend the plans to develop a strategic framework and country program by the authorities as indicated in the buff statement. This should be complemented through continued efforts in obtaining climate change and resilient support from international development partners. Could staff comment on the international assistance provided to climate change-related activities in Kiribati and areas that could strengthen such support in line with global and regional programs in countries with similar conditions?

We note the capacity constraints in implementing various policy measures and data reporting. While commending the ongoing efforts to improve data, we strongly support the continued provision of Fund TA for building capacity, and improving data quality and coverage. In this regard, we would like to have staff comments on the absorption capacity of the previous TA provided by the Fund, summarized in Supplement 1?

With these remarks, we wish Kiribatian authorities all the success in their future endeavours.

Mr. Inderbinen, Mr. Imashov, Mr. Kaya and Mr. Zaborovskiy submitted the following joint statement:

We thank Mr. Ray and Ms. Park for their informative buff, and staff for the good set of documents. We commend the authorities on the good economic performance as reflected by the strong growth rates over the past few years, increased net public assets, and a stable external position. However, the sources of growth and revenue are volatile, and Kiribati’s geographic location makes it highly vulnerable to natural forces and climate change. In view of these challenges, prudent fiscal policy and structural reforms aimed at diversifying the economy and boosting growth potential are critical.

We encourage the authorities to further strengthen the fiscal framework in line with staff’s advice. We welcome the authorities’ commitment to fiscal prudence, as expressed in their 2019 budget strategy. Nonetheless, we concur with the staff’s view that focusing on the controllable portion of the budget by abstracting from volatile fishing revenue and grants would promote expenditure stability and facilitate medium-term planning. An operational fiscal target would also be helpful for preserving Kiribati’s substantial net pubic worth and for securing the financing of critical climate adaptation measures. We see the need for limiting the increase in public wages and further reforming copra subsidization. We encourage the authorities to build on the PIMA recommendations to improve the efficiency and quality of public investment, given the importance of their infrastructure agenda.

We take good note of the upgrade of the Kiribati's debt-carrying capacity under the new Debt Sustainability Framework. The DSA nonetheless indicates that Kiribati remains at high risk of debt distress. We note that the debt guaranteed by the government (around 6 percent of GDP) has not been included in the DSA's baseline. Staff's comments on this would be appreciated. We call on the authorities to strengthen the institutional capacity to manage debt and provide accurate and timely statistics.

The authorities rightly focus on financial sector development and the strengthening of the regulatory framework. We agree with staff's recommendations to ensure that the Development Bank of Kiribati (DBK) remains adequately capitalized and the Kiribati Provident Fund sustainable. Further capacity building efforts, including through donor and IFI assistance, to effectively manage Kiribati's public financial assets should be advanced. We welcome the recent Cabinet decisions in this regard.

We commend the authorities for the progress made in consolidating and downsizing the copra-linked SOEs and completion of the sale of the telecom SOE. Nevertheless, more is needed. As shown in Box 1, the fiscal risks stemming from the state-owned airline company are significant. Could staff comment on their estimations of fiscal risks linked to the entire state-owned sector? Emerging contingent liability risks from the SOEs should be carefully managed, including by seeking durable private solutions for the state-owned industries. Close oversight of the SOEs also merits serious consideration. As staff aptly point out, an overall strategy for setting the SOEs on a more profitable and sustainable footing should be designed. On the public sector reform, we stress the importance of implementing measures to improve the integrity and independence of institutions to promote good governance and eliminate corruption.

Finally, transforming the economy by fostering growth in the services sector, infrastructure maintenance, renewable energy, and tourism could support diversification and increase resilience. In this context, building human capital will be critical, and we concur with staff's suggestion to participate in overseas work schemes to this end. Exploring options for adopting good practices and know-how from donor countries could also be helpful.

With these remarks, we wish the authorities every success in their policy efforts and the implementation of their KV20 strategy.

Mr. Mozhin and Ms. Smirnova submitted the following statement:

We thank staff for an informative report and Mr. Ray and Ms. Park for their helpful BUFF statement. We note strong economic performance of the Kiribatian economy in the past 3 years. However, this growth has been based on temporary and unsustainable factors – record-high fishing revenues and donor-financed infrastructure investment, while the economic outlook is associated with tangible risks. The economy also has unresolved weaknesses – narrow export base, lack of job opportunities outside of the public sector, dominance of state owned-enterprises (SOE) receiving unjustified subsidies and tax exemptions. We broadly concur with the staff appraisal and limit our comments to the following points.

We support staff's recommendation to strengthen fiscal policy framework, which includes laying out rolling multi-year path, aligning public spending with government's development goals, and to adopt a rules-based transparent mechanism for Revenue Equalization Reserve Fund (RERF) withdrawals. Volatility of revenues, which depend on such unpredictable factor as weather, together with commodity price shocks and exchange rate volatility, pose threats to the fiscal balance and the current account positions. In this light, as staff rightly indicate, Kiribati remains at high risk of debt distress. Staff advise to focus on the controllable portion of the budget, but do not give enough details. Could staff comment on which controllable revenues are stable and reliable and could form the basis of the budget and what their historical average share in the budget is?

The authorities' commitment to strengthening fiscal position is remarkable, evidenced by accumulated government financial net worth of four times the GDP. We welcome the advice to coordinate better cash management with investment strategy, as having a vast amount of cash reserves on a non-interest-bearing account is a waste of money, even under the conditions of subdued inflation.

We agree with the need to create an environment for a dynamic private sector growth. In this regard we find staff's suggestions on economy diversification very helpful – initiating new product lines or quality upgrades of existing products, development of tourism and touristic infrastructure, building renewable energy infrastructure with energy export potential. Facilitating private sector access to new markets should be accompanied by improving the business climate, as well as investing in human capital, which could promote unlocking the potential for the development of new industries. Continued divestment of SOE activities and strengthening their commercial mandate would also be beneficial, not only for the private sector development, but for maintaining fiscal balance as well.

We are concerned with the quality of data and the authorities view that “they are already stretched their capacity to develop main macroeconomic indicators” and need assistance. From the supplemental materials, it is not clear whether there is any formal dialog with regards to technical assistance program going on now. Could staff comment on that? Also, could staff provide a preliminary estimate on what amount of time is needed to finalize the core statistical work?

With this, we wish the authorities success in their endeavors.

Mr. Saito submitted the following statement:

We thank staff for informative reports and Mr. Ray and Ms. Park for their insightful statement. We welcome that the Kiribati’s economic performance has been strong, supported by public spending and infrastructure investment. It is also welcoming that fiscal position has improved due to strong fishing revenues. However, the country faces multiple challenges, including large infrastructure gap and climate change. Efforts for climate change mitigation and adaptation are particularly important, given the fact that Kiribati will be one of the first countries affected by rising sea levels. In this regard, we concur with staff that Kiribati should make use of current favorable economic conditions to ensure inclusive and sustainable growth in the long run. As we broadly concur with the thrust of the staff’s appraisal, we will limit our comments to the following points:

Fiscal Policy

Strengthen the fiscal framework should be the priority. While the overall fiscal balance improved significantly buoyed by strong fishing revenues, the underlining fiscal position excluding volatile and exogenous components has deteriorated in recent years. This was brought by political pressure to increase public spending such as subsidies and wages. Given the volatile nature of fishing revenue due to the weather conditions, we concur with staff's view that focusing on the controllable portion of the budget would promote expenditure stability and medium-term planning. We also encourage the authorities to fully consider the impact of climate change on Kiribati's finance when designing a fiscal framework. While authorities seem to prefer a balanced overall budget target as an operational target because of easier communication, we would like to hear staff's view on to what extent the communication difficulties can be an obstacle for using domestic recurrent balance as an operational target in light of other countries' experiences.

Private Sector Developments

Stronger private sector would help achieve the goal of inclusive growth. Kiribati clearly needs economic diversification. In particular, fostering service sector such as infrastructure maintenance, renewable energy, and tourism is encouraged. To this end, continuing SOE reform is key. While we commend the authorities for making progress in consolidating and downsizing the copra-linked SOEs and completing the sale of the telecom SOE, more should be done. Divestment and outsourcing of SOE activities should be continued while ensuring smooth provision of basis services. We also encourage the authorities to promote connectivity through infrastructure investment in air transportation and shipping services. Authorities acknowledge the importance of structural reforms but point out their capacity constraints. Could staff elaborate on the TA strategy for Kiribati, including priority, sequence and timeline?

Governance

Further efforts are needed to improve governance. While we welcome that Kiribati launched several initiatives as part of a national anticorruption strategy, further actions are warranted. In this regard, we support the staff's view that addressing governance deficiencies in budget outcomes and institutions as well as business regulation would help boost efficiency and performance of the economy. We also call for the enhanced prioritization for public investment based on expected economic and social returns.

Mr. Villar and Mrs. Del Cid-Bonilla submitted the following statement:

We thank staff for the report and Mr. Ray and Ms. Park for their informative buff statement. Economic growth in Kiribati has remained robust in the past years helped by strong fishing revenue and donor-funded infrastructure projects. High fishing revenues have also improved the current account and the fiscal stance. However, important challenges remain as the country is still in need of large infrastructure investment and faces substantial risks related to climate change. We commend the authorities for the significant progress achieved in recent years in both the macroeconomic and structural fronts. As we broadly agree with the thrust of the report, we will only emphasize a few points.

Consistency in the macroeconomic figures is of utmost importance for a reliable assessment of the economy. In this regard, in the 2017 Art. IV report, staff indicated that economic growth in 2016 declined to 1.1 percent due to completion of the major road project in Tarawa and a decline in fishing revenue by about 20 percent; staff also forecasted a recovery to 3.1 percent in 2017. In the current Art IV, we see different figures: a 5.1 percent growth in 2016 and 0.3 percent in 2017. Can staff clarify these figures?

A strong fiscal framework is needed to preserve macroeconomic stability and avoid a debt distress situation. Given the high dependency of the economy on fishing revenues and the volatile nature of these, a continued prudent and disciplined fiscal policy is warranted. In this regard, we concur with staff on the need to focus on the controllable part of the budget for the medium-term expenditure planning to contain spending pressures. In line with this, the authorities should avoid issuing supplementary budgets and allocating more than expected revenue based on the assessment of a project's economic and social returns and on medium-term fiscal sustainability. Limiting public wages increases and copra subsidies is also crucial for a comprehensive strategy, while explicit provisions for climate change should be allocated in the medium-term budget.

We welcome the reforms introduced by the authorities to the Revenue Equalization Reserve Fund -RERF- and cash management. The reforms go in the right direction to improve transparency in the use of RERF's resources and to enhance the efficiency of cash reserves.

Kiribati has significantly strengthened its financial assets over the past years. In this regard, and along the lines expressed by Mr. Fachada and Ms. Mohammed, we wonder why staff did not consider the government's net financial worth when making the debt sustainability analysis?.

Creating an environment to attract more private sector participation is key to sustainable growth. We welcome the elements contained in the Kiribati Vision 20 (KV20). The authorities have made important progress with SOE reforms, and their commitment to continue strengthening the SOEs commercial mandate, further divestment and outsourcing in their activities is encouraging. This will continue opening room for more private sector participation. We notice the authorities largely agree with the staff's assessment while perceiving some different points of views regarding policy on subsidies and the phasing out of SOE exemptions from the VAT. Staff comments are welcome.

Staff has repeatedly recommended the adoption of a comprehensive banking and regulation framework to safeguard financial stability and to promote financial deepening. Authorities agreed that financial sector development is important and that regulatory and supervisory frameworks would help foster competition; however, we didn't see any specific plans to be included in the agenda. Could staff comment on any specific plans and their timeline? Is Fund TA being provided for this purpose?

We commend staff for including a technical assistance (TA) component in the mission and notice the important amount of TA that has been provided in recent years. This said, we still see many areas where capacity development is needed: to strengthen the institutional capacity to report accurate and timely statistics; additional reforms in procurement; strengthening the supervisory and regulatory financial sector framework; assessing financial stability implications of cash management strategy. These, along with capacity constrains recognized by the authorities pose significant challenges for the implementation of important reforms such as those proposed in the PIMA's. It would have been helpful to include in the report the medium-term TA strategy for Kiribati. Can staff clarify if current needs have been incorporated in a comprehensive strategy? Is there an integral strategy for coordination with other development partners on TA provision?; How can the risk of low absorption capacity be mitigated?

Ms. Levonian and Mr. Sylvester submitted the following statement:

We thank staff for their well-written report and Mr. Ray and Ms. Park for their useful buff statement. We commend the Kiribati's authorities for their recent strong economic performance while at the same time recognizing that significant downside risks and development challenges persist. Tackling these issues to promote long-term inclusive and sustainable growth will require continued prudent macroeconomic policies and reforms. As we broadly concur with staff's analysis and recommendations, we would like to add the following comments for emphasis.

Fiscal discipline should remain a priority. Given Kiribati's high dependence on the fishing sector and development partners' assistance for growth and income, continued prudent fiscal management is key. This necessitates striking an appropriate balance between the need to build buffers against external shocks while addressing critical social and economic infrastructure needs. In this regard, we take positive note of the authorities' strategy, as laid out in the 2019 budget, aimed at ensuring that their top priorities are met in a sustainable way, including through a balanced budget anchor, no withdrawals from the Sovereign Wealth Fund, and no new borrowing. While the balanced budget anchor is not fully consistent with staff's advice on fiscal policy, we accept that this could be a useful step.

We share staff's recommendation on the need to create the enabling environment for a more dynamic private sector. Reforms to encourage private sector participation can help diversify the country's narrow economic base, generate employment, and ultimately increase resilience. Key reforms include further rationalizing and strengthening of state-owned enterprises (SOEs), developing human capital, promoting the development of the services sector, and improving financial intermediation and supervision. We take positive note that the authorities have prioritized these reforms. Both staff and the authorities have cited capacity constraints as a bottleneck in advancing critical structural reforms. In this context, we wondered how the Fund's capacity development support is linked to the authorities' capacity development needs going forward. Staff comments are welcome.

We urge continued progress on governance. We commend the authorities for the advancement made in implementing their anti-corruption strategy. We encourage further progress in this regard, including along the lines recommended by staff in areas of public investment, fisheries management, business regulations, and statistics.

It is imperative that Kiribati build resilience to climate change. As a low-lying atoll, Kiribati faces significant challenges from rising sea levels and other climatic effects. We welcome staff's advice on the need to mainstream climate adaptation, including explicitly accounting for these costs in the fiscal framework. However, there is need for a coordinated response to climate change, including through greater support from the wider international community. We note staff's recommendation that funding from multilateral platforms, such as the Green Climate Funds, should be actively pursued. What are staff views on the authorities' capacity to access these funds?

Ms. Riach submitted the following statement:

We thank staff for their comprehensive report, and Mr. Ray and Ms. Park for their informative buff statement.

We support the recommendations in the report and would like to note the significant long-term challenges facing the citizens of Kiribati. Like many other Pacific Island Countries, Kiribati is remote and geographically dispersed. Kiribati is also particularly vulnerable to climate change, from the threat of rising sea levels to its landmass and the impact of warmer water on the maximum catch potential in the fishing sector, which is the country's main source of food and revenue. We therefore support recommendations to reinforce the fiscal framework to: strengthen the RERF and cash management; contain spending pressures; and more fully consider the costs of climate change adaptation. We welcome the further information on these issues provided by Mr. Ray and Ms. Park.

We welcome the focus given by staff in the report to governance and corruption in light of the significant pressures on the long term fiscal outlook, the continued importance of external investment and support, and the need to ensure that public investments result in strong economic and social returns. The authorities note that they are seeking TA in this area. Can staff provide more information on the wider TA program for Kiribati and IMF engagement with development partners?

Finally, we would like to thank staff for the helpful and informative boxes and figures included in the report, which helped us understand the context for their policy recommendations.

Mr. Tan and Ms. Latu submitted the following statement:

We thank staff for their informative reports and Mr. Ray and Ms. Park for their helpful buff statement. As compared to its regional peers, Kiribati has recorded strong growth in recent years while inflation has remained contained. This is evident in the improved fiscal position and external balance. However, we also note that the balance of risks has shifted to the downside, motivating the staff appraisal for a prudent fiscal policy framework, continued structural reforms, and appropriate macroeconomic management to promote sustainable economic growth and effectively address the country's large infrastructure gaps and climate adaptation costs.

Ongoing strengthening of the fiscal policy framework is necessary to address significant public spending needs and safeguard macroeconomic stability. This is particularly relevant considering Kiribati's high reliance on volatile fishing license revenues and grant funds, and its high risk of debt distress. We commend the authorities for accumulating large cash reserves and the sovereign wealth fund (RERF) over recent years. This should come in handy when the tide reverses and in supporting inclusive growth in the long run. We concur with staff's recommendations to promote expenditure stability and enhanced medium-term planning too. Better evaluation and prioritization of proposed expenditures by taking into consideration permanent wealth gains and macroeconomic implications would help foster medium-term fiscal sustainability. This would enable more targeted development spending, including sustainable delivery of electricity, water, and sanitation services, as well as climate change adaptation costs. To this end, we welcome the authorities' commitment to prudent fiscal management and a balanced budget in 2019, no RERF withdrawal nor new debt; and the RERF management reform initiatives. The Fund's continued assistance on effective implementation of the fiscal policy recommendations is also encouraged.

We support the establishment of an appropriate financial supervisory framework to promote financial stability and mitigate fiscal risks. The unsupervised financial sector also poses fiscal risks with about a half of the government's cash reserves being held with the only local commercial bank branch. Strengthening the supervision and risk management of public financial institutions would foster prudent management of public assets. The continued viability of these financial institutions is crucial for facilitating access to finance and supporting economic development. In this regard, we encourage the authorities to continue to seek the Fund's expertise for capacity enhancement in this area and in implementing the PFTAC recommendations on establishing a comprehensive regulatory and supervisory framework.

Structural reforms to enhance public financial management and promote private sector development are crucial for inclusive growth, economic diversification and strong governance. We welcome the authorities' accelerated efforts with the SOE reform and recent anti-corruption initiatives. Nevertheless, we call on the authorities to implement the Public Investment Management Assessment (PIMA) recommendations to enhance public investment management practices and minimize fiscal risks and vulnerabilities to corruption. The Fund's assistance in addressing the capacity constraints in implementing the PIMA recommendations is supported. Improved governance would also assist in mobilizing donor support for development projects and addressing the large public spending needs. With regards to the Air Kiribati Ltd aircraft acquisition, can staff share the review undertaken for this new investment, given the significant fiscal risks it poses (Box 1) and the PIMA recommendations that have yet to be implemented? What policy measures should be considered to mitigate the associated risks of this investment?

Lastly, we encourage the authorities to continue to seek the Fund's assistance to improve capacity for compiling and reporting relevant statistics. Accurate and timely statistics would provide key inputs to effective policy formulation and effectiveness.

With these comments, we wish the authorities continued success in their future endeavors.

Mr. Castets and Mr. Sode submitted the following statement:

We thank staff for the quality of its document and Mr. Ray and Ms. Park for an insightful buff statement. Kiribati geographical remoteness is a source of major economic challenges. We welcome the recent good growth performance of the country, notably sustained by high revenues from fishing licenses. Against the backdrop of high risks, and notably risk related to climate change, we encourage the authorities to adopt a prudent economic strategy, notably on the fiscal front, and to pursue reforms to improve the business climate and the investment framework. While we broadly agree with staff's analysis and recommendations, we would like to highlight the following points:

We strongly agree with staff's recommendation to better target public spending to create sufficient fiscal room for climate change adaptation and mitigation. In this sense we commend the authorities for the creation of the Climate Finance Division inside the Ministry of Finance. We also encourage the authorities to follow the guidelines highlighted in the Climate Change and Disaster Management document produced by The World Bank in 2016. We encourage staff to support the implementation of this recommendations and to coordinate with the World Bank team.

As underlined by Mr. Ray and Ms. Park, the Revenue Equalization and Reserve Fund (RERF) is one of Kiribati's most important assets and it is critical that it is managed effectively to provide benefits to both present and future generations. We would like to better understand the rationale behind the KV20 target of A$1bn and we would be interest by staff assessment on the whether this level is satisfying to ensure intergenerational equity and sufficient buffers. We also support the recommendation to develop a cash management strategy to avoid forgone interests on large cash reserves. Could staff elaborate on the cash management policy recently elaborated by the Cabinet and whether it satisfies best practices?

We commend the authorities for their willingness to improve governance and to fight corruption. The creation of the Central Procurement Unit is a useful step in this direction. Recognizing existing capacity constraint, we encourage the authorities to seek technical assistance, from the Fund or from other development partners, in the field of public investment management to implement the recommendations underlined in the PIMA report.

Mr. Sylla, Mr. N'Sonde, Ms. Mannathoko and Mr. Sitima-wina submitted the following joint statement:

We thank staff for the set of interesting reports, and Mr. Ray and Ms. Park for their informative buff statement. We are delighted to note that amid a challenging geographical and structural environment, the economy of Kiribati has continued to grow in recent years. Macroeconomic indicators have improved, with notably a strong fiscal position sustained by high fishing revenues underpinned by fiscal and structural reforms. Key among these reforms has been the strengthening of the cash management strategy, significant build-up of cash reserves and augmentation of the country's sovereign wealth fund (RERF). Even considering Kiribati's public debt, the country still enjoys a robust net financial worth at 440 percent of GDP. Moreover, inflation has remained subdued while the external current account surplus has been steady.

We welcome the broad agreement between the authorities and staff on the priorities to further strengthen the fiscal framework, establish a conducive environment for a vibrant private sector, and enhance governance. That said, we note that there appear to be challenges in implementing recurring recommendations relating to RERF rules, budgetary provision for climate change adaptation and various private sector development measures. Could staff elaborate on what the constraints to implementation progress are, and whether technical assistance is being offered to help address these constraints?

Over the medium term, growth is expected to decelerate and fiscal and external balances to narrow with an overall large fiscal deficit stemming from recurrent and capital expenditures, which would significantly reduce net financial worth. Given the volatility of fishing revenues, we would encourage the authorities to pay greater attention to the containment of recurrent spending and to remain committed to prudent public financial management over the medium to long run. We share the view that while strong cash reserves can serve as an appropriate buffer to mitigate temporary shocks to fishing revenues, coping with Kiribati's vulnerability to more permanent risks such as climate change will require seeking cost-effective insurance and adequate contingent financing plans from development partners. The Fund should also stand ready to provide assistance under its applicable facilities.

We welcome the authorities' recognition of the need to limit the use of supplementary budgets to scale up spending in cases of revenue windfalls and to commit to meeting shortfalls with cash reserve buffers without recourse to the sovereign wealth fund. In this regard, we look forward to the timely completion of a new rules-based strategy to guide the operations of the RERF. We encourage the pursuit of a new strategy that will preserve its real balances, while limiting its current use with a view to protecting intergenerational objectives.

Regarding the need for the fiscal framework to integrate climate change adaptation, we recognize that such an approach while desirable will be costly for Kiribati (up to 6 percent of GDP annually under long-term plans according to staff). Against this backdrop, we would welcome staff's elaboration on additional financing for climate change adaptation from international partners, and the climate fund? Has World Bank analysis been deepened to help authorities cope with potentially overwhelming climate-linked costs for small states such as Kiribati?

On the authorities' long-term development agenda, Kiribati Vision 20 (KV20), we support the leveraging of recent macroeconomic gains to help achieve longer-term goals of sustainable and inclusive growth under the strategy. In this regard, a presentation in the staff report of the main goals and pillars of the KV20, would be helpful. Does this development strategy address the need to strengthen resilience to climate change? Staff's comments are welcome.

On the financial sector, we urge the authorities to strengthen the supervision of the public financial institutions DBK and KPF with the view to ensure their adequate capitalization, risk monitoring and liquidity management. Moreover, the authorities are exhorted to adopt measures to deepen the financial sector along the lines recommended in Paragraph 23 of the main staff report, including the PFTAC recommendation on a comprehensive regulatory and supervisory framework.

On structural reforms, we encourage the authorities to consider targeted social transfer programs as an alternative to copra subsidies in providing assistance to outer-island residents and to pursue a phasing out of VAT exemptions for SOEs. We recognize the importance of political economy factors in the pace of such reforms and ask staff to explain the political and social considerations and capacity challenges facing the authorities, which contribute to delaying phasing out of VAT exemptions.

Finally, we welcome recent initiatives undertaken by the authorities to tackle corruption and enhance governance in the areas of PFM, the integrity and independence of institutions, and in strategic partnerships. We encourage them to pursue measures that further strengthen budget outcomes, procurement, project selection, and maintenance of public investment—building on PIMA recommendations—and to enhance transparency in fisheries management. Fund technical assistance to Kiribati in these areas and in compiling macroeconomic statistics—where significant data and information gaps remain—is critical.

With these remarks, we wish the authorities of Kiribati success in their challenging endeavors.

Mr. Doornbosch and Mr. Tolici submitted the following statement:

We thank staff for the insightful report and Mr. Ray and Ms. Park for their informative buff statement. As one of the most remote small states in the world, Kiribati faces specific vulnerabilities, such as the lack of economic diversification, weak human capacity and high import dependence. We comment the authorities for their continued efforts aimed at increasing the resilience of the Kiribati's economy to external shocks, natural disasters and climate change. In this regard, continued donor support from development partners is critical to help Kiribati address the infrastructure gap and build capacity.

We agree with the thrust of the staff's appraisal and policy recommendations and offer the following remarks for emphasis.

Fiscal consolidation is key to ensure adequate fiscal room needed for the implementation of the Kiribati Vision 20 (KV20) while stabilizing the Revenue Equalization Reserve Fund (RERF).

Kiribati's fiscal position improved significantly in 2013-2018 mainly due to the record-high fishing revenues, and for 2019, the authorities are committed to maintaining a balanced budget. However, given the high volatility of these revenues, the recent double-digit increase in recurrent spending and the high risk of debt distress, a fiscal consolidation process is needed to secure the long term fiscal sustainability. If windfall profits from fishing licensing fees will continue to materialize, they should be used to build cash reserves and strengthen the RERF balances. In order to ensure fiscal room for climate change spending, projected to gradually reach 6 percent of GDP by 2028, the increases in public wages and subsidies must be limited while social protection should be provided via targeted transfers. We find merit in staff's proposal that RERF withdrawals should be governed by a transparent, rules-based mechanism reflecting social preferences on intergenerational redistribution.

Fostering private sector development will increase growth prospects and resilience.

We encourage the authorities to continue their efforts to SOEs reform by strengthening their commercial mandate, outsourcing inefficient activities and where possible privatization. In order to create a level playing field for the private initiative, phasing out SOEs exemptions from the VAT should be implemented. The authorities could improve land access procedures, enhance property rights and improve financial sector statistics to facilitate the private sector access to credit.

Enhancing the governance framework will increase the likelihood of higher donor financing.

We welcome the measures taken on strengthening the PFM, increasing the independence of anti-corruption institutions and improving governance in the public service and education sectors. However, significant weaknesses remain in spending and revenues outcomes, procurement and fiscal transparency and further work on the implementation of the PIMA recommendations is needed. We encourage staff to continue providing TA on building the institutional capacity to compile accurate and timely statistics that are key for improving policymaking and tracking progress. Strong donor support remains instrumental to advance the reform agenda.

The Acting Chair (Mr. Zhang) made the following statement:

This discussion of Kiribati is quite timely because the Fund is increasingly paying attention to the issue of climate change. The topic is quite relevant for this country. Kiribati is unique in that sense because it consists of

33 small islands, spread widely in the Pacific Ocean over all four hemispheres. It faces difficulties not only because of its remote geographic location but also from rising sea levels; arguably, because of climate change. On top of that, the narrow production and export base also pose additional challenges.

Directors paid great attention to it. Directors broadly supported the policy areas to allow the country to leverage its recent gains to ensure inclusive growth in the long run. There are a few areas that are outstanding, such as fiscal reforms, private sector development, and governance. Directors also mentioned the importance of capacity building to address the constraints to sustainable growth.

Mr. Tan made the following statement:

Coming from Singapore, which is a small island city state with limited land and no natural resources, I appreciated the challenges of sustainable development and share concerns with my counterparts from other small island nations on the existential need to adapt to the changing external environment.

However, thanks to the informative reports and the buff statement from Mr. Ray and Ms. Park, this has been a timely reminder for the new year, how mistaken I have been, and how fortunate countries such as Singapore are, given that we do not have to overcome the daunting limits posed by Kiribati's geographical dispersion and remoteness. Now we are vulnerable to the more acute and unpredictable threats of climate change and natural disasters, like Kiribati and many other small fragile states within the membership. In this context, the achievements by the authorities are all the more commendable, both in terms of the considerable economic progress, as well as the important foundation laid through the various fiscal and structural reforms adopted in recent years. At the same time, much credit should be given to the Fund, as well as the other providers, for the substantial capacity development provision to Kiribati, without which the recent gains and favorable outlook in the near term would not have been possible.

On that note, I would like to conclude by reiterating more of the key messages from the gray statements.

On the ongoing need for capacity development support from the Fund, as well as from the development partners, as noted by several Directors, continued provision of Fund technical assistance (TA) and strong donor support will remain instrumental to help address Kiribati's significant capacity constraints in implementing various policy measures. To build on the good work done in the past and to safeguard the country's future, we strongly encourage the Fund to stand ready to support and coordinate the capacity development priorities that will best assist the authorities to advance the necessary reforms.

With that, we wish the authorities continued success as they take the next steps forward.

Ms. Levonian made the following statement:

I thank the staff for their insightful report, and I thank Mr. Ray and Ms. Park for their helpful buff statement.

Like many in our constituency, Kiribati faces significant development challenges, including remoteness, a narrow economic base, and high vulnerabilities to climate change. There is, however, a need for continued prudent macroeconomic policies and reforms to ensure inclusive and sustainable growth. There are just two points that I would emphasize.

First, on the continued efforts to build resilience to climate change, I want to commend the authorities for their efforts to build buffers and would stress the need for further efforts, including support from the wider international community.

The second point is on capacity development and how critical it is. The report does highlight some major gaps. I want to thank staff for its response to our questions on this issue, but I would also like to highlight the need for further integration between the Fund's capacity development support and the authorities' strategic need to help strengthen capacity.

The Deputy Division Chief from the Research Department (Ms. Igan), in response to questions and comments from Executive Directors, made the following statement:

I thank Directors for their helpful comments and Mr. Ray and Ms. Park for the very insightful statement. On behalf of my team, I will also take this opportunity to thank the Kiribati authorities for their warm hospitality and the productive discussions during the mission.

I want to focus on three issues that were brought up in the gray statements. We responded to these and other questions in our written responses, but would like to emphasize these specific points. The first issue will be the fiscal risks from Air Kiribati. The second is an update of the authorities' plan on the financial sector regulatory and supervisory framework. Finally, we will discuss the review of our capacity development strategy.

On Air Kiribati Limited (AKL) and the fiscal risks, what we reflected in our staff report, especially in Box 1, has been based on the maximum information we could collect during the mission. For background in terms of how the timeline worked, we were there in October. At the same time, the negotiations with the aircraft provider had been going on. After we got back and after the staff report was issued to the Board, the details on the formal contract became available. They are in line with what we have reflected in our analysis so far. There is just one addition I would like to make. The formal contract includes, in addition to the acquisition of the two planes, the right to purchase two other planes. We would like to continue observing this issue closely. Let me emphasize also that the fiscal risks we see from these plans are significant, but the critical issue is less the initial purchase cost, given the large accumulated reserves, but rather the substantial risk in terms of what would be sustainable operations in AKL. This is a concern that is shared by other financial agencies, international agencies, as well as bilateral partners. We are in contact with them, as well as the authorities. We hope to provide the Board with a full picture and a full assessment in the next Article IV consultation.

On the financial sector, for several years now, we have been in touch with Pacific Financial Technical Assistance Center (PFTAC) and the authorities on putting together a regulatory and supervisory framework. I am happy to update the Board that the authorities have taken the first steps toward requesting formal TA on this subject. Once the formal request is in, the staff in headquarters and in PFTAC will start mission preparations. We will draw on our findings from the 2018 Article IV consultation, which also had a TA component, with a narrower focus on the liquidity implications of the government's cash management strategy.

Finally, on capacity development, let me first emphasize that Kiribati actually has good examples of successful implementation. Two examples that come immediately to mind are the state-owned enterprise (SOE) reform and the VAT implementation. They have been successful in this, despite the capacity constraints. The lesson we take from that is, with continuous, effective conversation and prioritization, it is possible to implement successful reforms and to do that with great macroeconomic impact. Both the SOE reform and the VAT implementation have significant macroeconomic impacts on the country.

We are now in conversations with the authorities in terms of prioritization on how to implement the Public Investment Management Assessment (PIMA) recommendations from the September 2018 report. We hope to add the PIMA recommendations to this list of SOE reforms and VAT implementations in terms of successful implementations.

This type of conversation is part of our strategy of making the most impact in terms of capacity development activities. We understand, and we agree with the authorities that capacity constraints could limit absorption in Kiribati. The way we are trying to address this issue is to, first, talk to the authorities continuously in terms of their priorities and where we can address them, and second, talk to other capacity development partners and the other providers—in particular, the World Bank and the Asian Development Bank (ADB)—and identify the areas of responsibility, areas of expertise, where we can help the authorities most, and also coordinate our missions whenever possible so that the burden on the authorities' time and attention is minimized.

We are in the process of identifying the capacity development priorities, not only for Kiribati but for the whole membership. For the next three years, we are looking at various opportunities that we can draw on and what would be the most impactful areas. So far, we have identified fishing revenue projections, the financial sector regulatory framework, revenue mobilization, and real sector statistics. We will be in touch with the authorities, starting next week, on how to narrow these down and fit them in the plan for the next three years.

Another idea we are considering is to draw on the training opportunities the Fund provides to multiple countries on issues of common interest and then follow these up with hands-on exercises or hands-on applications to Kiribati. We are thinking about doing that in the fishing revenue projections area. We will be updating the Board accordingly.

Mr. Ray made the following concluding statement:

I thank Directors for their interest and constructive comments. We will pass them back to our Kiribati authorities, who take this process very seriously.

Kiribati is one of the remotest, most dispersed, smallest, narrowest resource-based economies in the world, and faces some daunting challenges over the remainder of this decade. I am glad that I am not a minister in Kiribati.

That being said, my authorities agree broadly with the thrust of the staff’s assessment, but there are two points that I just wanted to make about the implementation of that advice in Kiribati’s specific circumstances.

First, I wanted to say something about the fiscal framework. The staff has recommended that the authorities focus on the domestic recurrent balances and operational target and try to avoid using supplementary budgets. My authorities see the logic of considering a structural budget balance, but with all of the problems about that, they also see the logic in setting it at a level that can be financed without eroding the value of the Revenue Equalization Reserve Fund (RERF).

Historically in Kiribati, authorities have had an implicit commitment to a balanced budget, and they formalized it and made it public for the 2019 budget, which is quite a good step forward. That being said, my authorities see their approach as a pragmatic political compromise in the context of what is a broadly prudent framework. It is not so much about public communication. It is more about how my authorities communicate in the cabinet room with their ministerial colleagues.

My own experience is: the simpler, the better. The default is, do not change because it only causes confusion in the cabinet room, which usually ends up with weaker fiscal positions, in my experience. I personally can see where my authorities are coming from on this issue.

Second, as some Directors have noticed, there are many recurring recommendations over recent staff reports. As Ms. Igan said, there is some question around absorptive capacity, and I wanted to provide an example. Just in public financial management, there is the PIMA from PFTAC that the ministry is trying to address. There is a Financial Management Information System report, with multiple recommendations from the ADB. My Australian Aid colleagues have kindly added to the burden with a draft assessment of national systems. There is a procurement reform, a set of recommendations from the ADB. The Kiribati authorities have also undertaken their own Public Expenditure Financial Accountability self-assessment.

That is a daunting list for 13 people who also have to provide all the economic advice, manage the RERF, and put together a budget. We all need to think about trying to be realistic.

As my authorities said to us, this is a daunting laundry list. Coordination amongst donors can help, and there is a joint budget support mission coming up with a range of partners, including the World Bank, the ADB, and donors: Australia, New Zealand, and the EU. That is a good opportunity, and it is good to see. But there may be a role for the Fund or the staff to assist by trying to focus Article IV processes on the highest-priority recommendations.

I also just wanted to take this opportunity to repeat something I mentioned earlier in the week; and that is, several authorities from these very small countries would value assistance in giving the message into the cabinet room, including the Kiribati minister of finance, who has indicated to me that he would value having a cabinet-friendly document he could take into the cabinet room.

In the larger economies, we have treasuries that interpret the Fund's advice and give it to ministers to put in the cabinet room. Kiribati and others do not have that. Tt is a good opportunity for the Fund.

Second, I would like to take the opportunity to reinforce the value of the Fund's analytical work, the staff's analytical work to members such as Kiribati. As was emphasized, both this morning and in the papers, the key challenge of Kiribati in maintaining a prudent fiscal framework is planning around an extremely volatile revenue source. In this context, I am very pleased with the staff's intention to focus on this in trying to provide a better framework for forecasting fishing revenues in next year's Article IV consultation. That will be a benefit to many members in this constituency and others.

Lastly, I would like to thank Ms. Igan and her team for their productive engagement and policy advice. I want to acknowledge the open and collaborative approach that the team took, including the fact that a World Bank staff member joined the mission. For those of us who have to travel to these sorts of places, a sustainment of airplanes is not just a fiscal issue. We need them sustained for other reasons as well. Kiribati is not an easy place to travel to.

The Acting Chair (Mr. Zhang) noted that Kiribati is an Article VIII member, and no decision was proposed.

The following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Kiribati's strong economic performance, including an improved fiscal position. However, Directors noted that Kiribati faces significant challenges stemming from its geographical remoteness, vulnerability to climate change, and a narrow production and export base. Directors encouraged the authorities to maintain strong policies and leverage the recent gains to ensure inclusive and sustainable growth.

Directors underscored that reinforcing the fiscal framework is a key priority. They encouraged the authorities to focus on the controllable portion of the budget as a useful tool to promote expenditure stability, given the volatile fishing revenue. Directors also encouraged the authorities to adopt a rules-based, transparent mechanism that reflects social preferences and adjusts to structural changes to govern withdrawals from the Revenue Equalization Reserve Fund. They underscored the importance of limiting the increase in the public wage bill and copra subsidies as well as avoiding a supplementary budget and instead evaluating projects in a comprehensive medium-term framework.

Directors recognized the authorities' efforts to improve Kiribati's resilience to climate change. They highlighted that having an explicit provision for climate change adaptation in the budget would help mobilize resources more effectively, including from donors.

Directors emphasized that facilitating the development of a dynamic private sector is important for economic growth. They encouraged continued efforts to reform the state-owned enterprises. Directors also recommended further improvement in connectivity through infrastructure investment, enhancement of human capital with training opportunities and employment opportunities through diversification of the economy. Facilitation of private sector access to credit by improving land registration and dispute resolution while strengthening supervision and risk management in public financial institutions is also critical. Directors considered that technical assistance from the Fund and other donors will be important in implementing the reforms as well as in enhancing the compilation of the needed data and statistics, taking into account capacity constraints.

Directors emphasized that addressing governance deficiencies would help improve efficiency, reduce vulnerabilities to corruption, and catalyze donor support. They underscored that public investment projects should be prioritized based on socio-economic returns and encouraged implementation of public investment management assessment recommendations. Directors also highlighted the importance of transparency on fisheries management and of improved business regulations.

It is expected that the next Article IV consultation with Kiribati will be held on the standard 12-month cycle.

APPROVAL: April 16, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Outlook/Risks

1. ***In the 2017 Art. IV report, staff indicated that economic growth in 2016 declined to 1.1 percent due to completion of the major road project in Tarawa and a decline in fishing revenue by about 20 percent; staff also forecasted a recovery to 3.1 percent in 2017. In the current Art IV, we see different figures: a 5.1 percent growth in 2016 and 0.3 percent in 2017. Can staff clarify these figures?***

- The current report reflects the latest updates, including from a TA mission undertaken by STA in August 2018.

- Regarding the 1.1 percent growth in 2016, the team received this data while in the field during the 2017 Art. IV mission. Importantly, at that time, the 1.1 percent figure was an estimate. Therefore, the current figure of 5.1 percent growth in 2016 reflects data correction/update from the authorities.

- Regarding the 3.1 percent growth in 2017, the forecast reflected a regression to the historical mean, while the 0.3 percent is a result of a lower-than-expected outlays in infrastructure development projects.

Fiscal Policy and Debt Sustainability Analysis

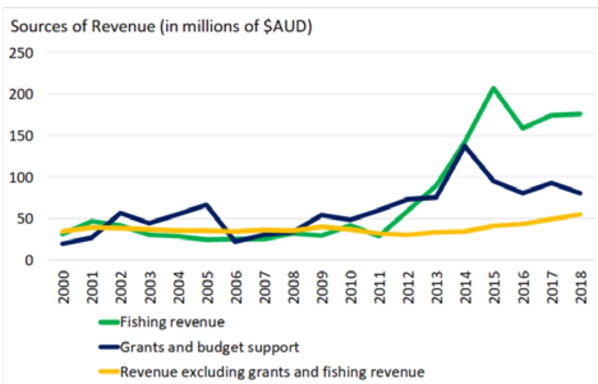
2. ***Can staff comment on whether there are lessons on public communications from other small economies that have successfully employed such a fiscal framework, which IMF capacity development staff might be able to share with authorities?***

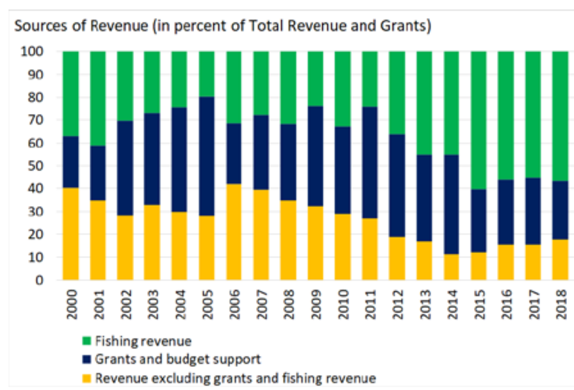
3. ***While authorities seem to prefer a balanced overall budget target as an operational target because of easier communication, we would like to hear staff's view on to what extent the communication difficulties can be an obstacle for using domestic recurrent balance as an operational target in light of other countries' experiences.***

- Conceptually, use of the domestic recurrent balance in Kiribati is similar to the use of the non-oil primary balance or the basic balance, which excludes external grants and external-financed spending, in other countries. Such concepts have been introduced and used as a focus of fiscal policy in a number of small or low-income countries. While we are not aware of specific case studies with lessons on communication, it is likely that the familiarization of policymakers and the public with such concepts requires some time and repetition. A starting point, for example, could be to include more measures of the budget balance in budget documents.

4. ***Staff advise to focus on the controllable portion of the budget, but do not give enough details. Could staff comment on which controllable revenues are stable and reliable and could form the basis of the budget and what their historical average share in the budget is?***

- Staff defines the domestic recurrent balance as revenue excluding grants and fishing revenue minus current expenditure. Revenue excluding grants and fishing revenue has been rather stable over the past two decades (left-hand-side text figure). The recent increase in this measure is attributable to the introduction of VAT in 2014. Since then, this "controllable" portion averaged 13 percent of total revenue. Note that the concept of domestic recurrent balance leaves out capital expenditure, forming the basis for a budget strategy that would adjust current expenditures only insofar as permanent wealth increases while being flexible about development-oriented and growth-enhancing capital expenditures.





5. ***We note that the debt guaranteed by the government (around 6 percent of GDP) has not been included in the DSA's baseline. Staff's comments on this would be appreciated.***

- Data availability limits debt coverage as regularly updated balance sheets for all subsectors, most notably the SOEs, does not currently exist. The authorities reported guarantees for around 6 percent of GDP, which staff uses to inform the contingent-liability shock scenario (instead of the default of 2 percent of GDP). Recent and planned technical assistance aim to provide further details on this figure and improvement of debt coverage in the DSA baseline over time.

6. ***We wonder why staff did not consider the government's net financial worth when making the debt sustainability analysis?***

- Paragraph 84 of the "Guidance Note on Bank-Fund LIC DSF" provides that: "It is not possible to present the DSA on a net debt instead of a gross debt basis since this implicitly imposes the very strong assumption that government assets and liabilities can perfectly offset each other, which may not always be the case due to liquidity or currency mismatches. However, assets can be accounted for via judgment."

- Staff assumes in the baseline that cash reserves accumulated will go down and there will be drawdowns from the RERF (instead of contracting new additional debt). These will reduce the net financial worth. Further, as stated in paragraph 8 of the SR, the large size of the RERF limits immediate risks to debt sustainability but these assets could be significantly depleted over the longer run in downside scenarios to fishing revenue.

7. ***Could staff comment on the plans to improve education and health sectors in the future? Staff comments are also welcome on the availability of grants financing for development spending going forward.***

- The Government has committed to ensuring all citizens receive a high-quality education. The extension of the fee-free policy to senior secondary education is an important step forward, along with the new Early Childhood Care and Education Act. Other efforts focus on teacher training at lower levels and scholarships at higher levels. For instance, the 2019 budget allocates overseas scholarships A$2.8 million – an increase from A$1.7 million in the 2017 budget.

- On the health front, several programs are in place with support from development partners. A major highlight is the formal training under the Kiribati Internship Program established in 2014. This program is supported by Japan and provides internships to newly returned medical graduates and assisted by internationally qualified consultants. Actually, medical doctor availability has improved from 4.1 per 10,000 in 2015 to 6.0 per 10,000 in 2017. Japan also supports efforts to reduce risk factors for noncommunicable diseases, including through tobacco and alcohol control and healthy eating and physical activities. Improved access to safe water and basic sanitation through various programs supported by the World Bank and other donors are pursued to promote improved hygiene and prevent spread of communicable diseases. Given the wear and tear of hospital equipment, the Government has also allocated specific funds in the 2019 budget and secured support of A$1 million from donors to purchase medical equipment.

- Grants for development financing have been stable at around 30 percent of GDP in last few years. The staff assumes in the baseline that project-based grants will remain broadly stable at 30 percent of GDP in the medium term (2018–23), in line with information received during discussions with major development partners.

RERF and Cash Management

8. ***We would like to better understand the rationale behind the KV20 target of A$1bn [for the RERF] and we would be interest by staff assessment on the whether this level is satisfying to ensure intergenerational equity and sufficient buffers.***

- The authorities have set a target of A$1bn for the RERF to be achieved by 2020 and keep the real value of the fund unchanged going forward. This has been motivated by the goal to manage this important asset effectively to benefit both present and future generations.

- Staff emphasizes that the target should reflect social preferences on intergenerational redistribution and adjusts to structural changes in returns on assets and potential growth. Under current assumptions on market returns and inflation, the target of preserving the real value of the fund at the A$1 billion level would allow about 1½ percent annual withdrawal (equivalent to roughly 5 percent of GDP in 2020). For illustrative purposes, keeping the real per capita RERF constant would still allow an annual withdrawal of 1 percent from the RERF (paragraph 13 and Annex III of the 2017 Article IV report). Preservation of the RERF's real value would imply some erosion in its value in per capita terms. Tolerance to this erosion would ultimately depend on the authorities' policy preferences for intergenerational income distribution and would need to be weighed against investment needs for socio-economic development.

9. ***Could staff elaborate on the cash management policy recently elaborated by the Cabinet and whether it satisfies best practices?***

- The Government's cash management strategy aims to maintain adequate buffers while ensuring that the liquidity needs of the government and the banking system are met. The level of buffers is informed by staff recommendation of keeping cash reserves amounting to three-months of current expenditure. There will be a transition period during which the current high level of balance in the non-interest-bearing account will be gradually reduced through transfer of funds to interest-bearing accounts.

- The authorities have been in constant communication with staff from the IMF and the World Bank regarding their strategy. The 2018 Article IV mission was coordinated with an MCM TA mission on the liquidity aspect of this issue, in an example of integration of surveillance and capacity development.

Climate Change

10. ***Could staff comment on the international assistance provided to climate change-related activities in Kiribati and areas that could strengthen such support in line with global and regional programs in countries with similar conditions?***

- Kiribati has actively sought international assistance and has implemented actions under large programs such as the Kiribati Adaptation Program (2003-2018), which was supported through the Governments of Australia, Japan and Kiribati, as well as the Global Environment Facility and the Global Facility for Disaster Reduction and Recovery (GFDRR).

- Kiribati's access to the funds is commensurate with countries with similar conditions. For instance, the GFDRR helps seven Pacific Island Countries including Kiribati through projects and activities related to climate change. In terms of resource allocation, Kiribati has been allocated $10.12 million in comparison to total grant received by Tuvalu $14.99 million.

- Several critical measures to provide safe drinking water and strengthen coastal infrastructure have been taken, and education programs to raise awareness and facilitate adaptation have been initiated. Further investment is needed in the areas of resilient infrastructure, water access, renewable energy, sustainable fishing, and sanitation.

11. ***We note staff's recommendation that funding from multilateral platforms, such as the Green Climate Funds, should be actively pursued. What are staff views on the authorities' capacity to access these funds.***

- The Ministry of Finance has recently established a climate finance division which coordinates and facilitates projects related to climate change adaptation. This division is currently donor funded for a fixed term ending 2020. The division would be domestically financed thereafter. The division is headed by an international expert—with experience in and connections to multilateral platforms—and two local officials. One of division's objective is to strengthen the capacity of these local officials to be able to carry on the momentum.

- Further, Kiribati has secured US$0.6 million from the Green Climate Fund (GCF) to strengthen the capacity of the Ministry of Finance to develop a strategic framework and country program to engage with the GCF and other multilateral climate change funds. Others including the USAID Climate Ready Project have provided technical assistance to strengthen institutional capacity.

12. ***Regarding the need for the fiscal framework to integrate climate change adaptation, we recognize that such an approach while desirable will be costly for Kiribati (up to 6 percent of GDP annually under long-term plans according to staff). Against this backdrop, we would welcome staff's elaboration on additional financing for climate change adaptation from international partners, and the climate fund? Has World Bank analysis been deepened to help authorities cope with potentially overwhelming climate-linked costs for small states such as Kiribati?***

- The government has established the Climate Finance Division within the Ministry of Finance to coordinate climate-change-related expenditures funded through the budget or by donors. The Division will also coordinate access to financing from multilateral institutions and platforms, such as the World Bank, Asian Development Bank, the Green Climate Fund, the Adaptation Fund, and the Climate Investment Fund. The pipeline includes projects on water sanitation, coastal protection, renewable energy, and water transportation. The division is in the process of preparing applications for financing of roughly US$70 million from the mentioned multilateral institutions and platforms.

13. ***A presentation in the staff report of the main goals and pillars of the KV20, would be helpful. Does this development strategy address the need to strengthen resilience to climate change? Staff's comments are welcome.***

- KV20 seeks to achieve the goal of a wealthier and healthier nation by maximizing the development benefits from fisheries and tourism as key productive sectors. It is anchored on four pillars: wealth; peace and security; infrastructure; and governance. All key priority areas as identified in Appendix IV of the staff report are covered under these pillars.

- KV20 recognizes Kiribati's vulnerability to climate change as a key constraint and underscores the need to mainstream climate change adaptation and mitigation into various programs. Mainstreaming climate change into development programming is an important step toward increasing resilience.

SOEs

14. ***We echo staff's concerns on substantial contingent liabilities posed by SOEs. This is particularly related to the significant increase in capital expenditure to purchase two aircrafts to the already loss-making Air Kiribati Limited (AKL). At the same time, the improved air connectivity (and shipping services), implemented through a cautious approach, is also critically important to the country's economic progress.***

Staff's comments are welcome on maintaining a balance between these two opposing requirements.

15. ***With regards to the Air Kiribati Ltd aircraft acquisition, can staff share the review undertaken for this new investment, given the significant fiscal risks it poses (Box 1) and the PIMA recommendations that have yet to be implemented? What policy measures should be considered to mitigate the associated risks of this investment?***

- The case of AKL is a good illustration of the challenge to meet the large public spending needs and reach development goals in a sustainable way. The key to facing this challenge will be further progress on fiscal and structural reforms.

- In this specific case, close monitoring of AKL is essential. This would be facilitated by continued efforts to improve the timeliness and quality of SOE financial reporting. Prioritizing the implementation of PIMA recommendations on procurement, project selection, and maintenance would also help ensure that this important investment is managed to deliver the intended socio-economic returns.

- Let us also note that the acquisition contract has been signed following conversations with competing aircraft providers. Further, AKL has recently hired a new CFO with years of international experience in the industry, which may help improve the quality financial reporting. Finally, staff is closely coordinating with the World Bank and the ADB on delivering the key message on commitment to fiscal sustainability and on supporting the authorities on PFM reforms.

16. ***The authorities have made important progress with SOE reforms, and their commitment to continue strengthening the SOEs commercial mandate, further divestment and outsourcing in their activities is encouraging. This will continue opening room for more private sector participation. We notice the authorities largely agree with the staff's assessment while perceiving some different points of views regarding policy on subsidies and the phasing out of SOE exemptions from the VAT. Staff comments are welcome.***

17. ***We ask staff to explain the political and social considerations and capacity challenges facing the authorities, which contribute to delaying phasing out of VAT exemptions.***

- The copra subsidy—which began in the mid-1990s—serves mainly as a livelihood subsidy to support inhabitants of outer islands. It is also seen as a key transfer mechanism to redistribute the rising wealth from fishing revenue. The authorities have a strong mandate to raise the standard of living of the outer-islands population.

While they are considering government support to the outer islands as a whole package, including job creation and connectivity-improving infrastructure investment, most households have more familiarity with the copra subsidy than the newer or smaller-scale programs such as overseas seasonal worker schemes. The familiarization of the public with these alternatives requires some time. The development partners are investing in building a knowledge base to enhance the policy dialogue in this important area, including MFAT-led analytical work on the copra sector—which will include analysis of incentives problems—and a new WB-supported household income and expenditure survey.

- The phasing out of VAT exemptions is recognized as an important component of leveling the playing field. This is being considered along with the continued implementation of SOE reform. Given that SOEs are the sole provider of basic services (water, sanitation, electricity) and the cost of public service delivery is high, a concern is that there would be disruption to these services if support to the SOEs were reduced. It should become easier to set a specific timetable for phasing out VAT exemptions as more progress is made toward putting the SOEs on a more commercial and sustainable footing.

18. ***As shown in Box 1, the fiscal risks stemming from the state-owned airline company are significant. Could staff comment on their estimations of fiscal risks linked to the entire state-owned sector?***

- The financial position of the sector as a whole has improved significantly thanks to the implementation of SOE reforms, but more work remains to be done.

- SOEs are mostly equity funded, though most of the equity has arisen from donated assets. About two-thirds of SOEs are profitable, though profits have been reduced by significant write-downs of accounts receivable. The sector as a whole is profitable with a return on equity averaging 4 percent over the last three years.

- Against the backdrop of these positive developments and continued reform efforts, staff does not see large immediate fiscal risks from the SOE sector as a whole. That said, the DSA analysis consider a contingent-liability shock from government-guaranteed debt of SOEs.

Financial Sector

19. ***Authorities agreed that financial sector development is important and that regulatory and supervisory frameworks would help foster competition; however, we didn't see any specific plans to be included in the agenda. Could staff comment on any specific plans and their timeline? Is Fund TA being provided for this purpose?***

- The authorities are in the process of requesting technical assistance from PFTAC on establishing a financial sector regulatory and supervisory framework. They tentatively plan to submit a draft law to the Parliament in August 2019.

Capacity Development

20. ***We note the capacity constraints in implementing various policy measures and data reporting. While commending the ongoing efforts to improve data, we strongly support the continued provision of Fund TA for building capacity, and improving data quality and coverage. In this regard, we would like to have staff comments on the absorption capacity of the previous TA provided by the Fund, summarized in Supplement 1?***

21. ***Both staff and the authorities have cited capacity constraints as a bottleneck in advancing critical structural reforms. In this context, we wondered how the Fund's capacity development support is linked to the authorities' capacity development needs going forward. Staff comments are welcome.***

22. ***It would have been helpful to include in the report the medium-term TA strategy for Kiribati. Can staff clarify if current needs have been incorporated in a comprehensive strategy? Is there an integral strategy for coordination with other development partners on TA provision? How can the risk of low absorption capacity be mitigated?***

23. ***Can staff provide more information on the wider TA program for Kiribati and IMF engagement with development partners?***

24. ***From the supplemental materials, it is not clear whether there is any formal dialog with regards to technical assistance program going on now. Could staff comment on that?***

25. ***Authorities acknowledge the importance of structural reforms but point out their capacity constraints. Could staff elaborate on the TA strategy for Kiribati, including priority, sequence and timeline***

- The IMF's capacity development (CD) provision to Kiribati has been substantial and, in several cases, impactful. Examples of successful implementation of TA activities are the SOE reform and the implementation of the VAT, both with a considerable macroeconomic impact on the country. The PIMA report has been delivered in September 2018 to improve public investment management. Staff and PFTAC communicate regularly with the authorities on the capacity development priorities of the country. Staff and PTAC also coordinate with other capacity development providers, in particular the World Bank and the ADB, to identify the activities within each institution's area of expertise and responsibility. Staff is in the process of identifying the CD priorities for the coming three-year period, which include fishing revenue projections, the financial sector regulatory and supervisory framework, revenue mobilization and real sector statistics.

26. ***Also, could staff provide a preliminary estimate on what amount of time is needed to finalize the core statistical work?***

- There is formal dialogue with the authorities on TA needs on data and statistics. This is an ongoing process, supported by PFTAC and STA. Considerable progress has been made and data provision has some shortcomings, but is broadly adequate for surveillance.

27. ***We note that there appear to be challenges in implementing recurring recommendations relating to RERF rules, budgetary provision for climate change adaptation and various private sector development measures. Could staff elaborate on what the constraints to implementation progress are, and whether technical assistance is being offered to help address these constraints?***

- As highlighted by Mr. Ray and Ms. Park, one of the constraints limiting effective output is staffing. The national economic planning office is the main office that apart from providing economic policies, managing RERF, aid coordination and implementing key TA recommendations – drives, coordinates and facilitates both recurrent and development activities for the country.

- Staff is in continuous communication on technical assistance needs. To help address staffing constraints on the authorities' end, the Article IV and PFTAC teams plan TA missions with strict prioritization and maximum coordination with others that deliver technical assistance.