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**Report No. 59355 - KI**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**INTERNATIONAL FINANCE CORPORATION**

**COUNTRY ASSISTANCE STRATEGY**

**FOR THE**

**REPUBLIC OF KIRIBATI**

**FY 2011 - 2014**

**January 31, 2011**

**Timor Leste, Papua New Guinea, and Pacific Islands Country Management Unit  
East Asia and Pacific Region**

**The International Finance Corporation**

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## REPUBLIC OF KIRIBATI

### CURRENCY EQUIVALENT

1 Australian Dollar (AUD) = 0.99 US Dollar (USD)  
(Exchange rate effective as of January 2011)

### ABBREVIATIONS AND ACRONYMS

AAA	Analytic and Advisory Activities	KAP	Kiribati Climate Adaptation project
ADB	Asian Development Bank	KDP	Kiribati Development Plan
AusAID	Australian Agency for International Development	M&E	Monitoring and Evaluation
CAS	Country Assistance Strategy	MDGs	Millennium Development Goals
CEDAW	Convention on the Elimination of All Forms of Discrimination Against Women	MDTF	Multi-Donor Trust Fund
CPAR	Country Procurement Assessment Report	MOF	Ministry of Finance
CPPR	Country Project Portfolio Review	NGO	Non-Governmental Organizations
DGF	Development Grant Facility	NZ	New Zealand
DPO	Development Policy Operation	PALM	Japan – Pacific Alliance Leaders’ Meeting
DRR	Disaster Risk Reduction	PASAI	Pacific Association of National Audit Institutions
DWFNs	Distant Water Fishing Nations	PEFA	Public Expenditure and Financial Accountability
EC	European Commission	PFM	Public Financial Management
EDF	European Development Fund	PFTAC	IMF Pacific Technical Assistance Facility
EEZ	Exclusive Economic Zone	PF3	Pacific Facility III
EITI	Extractive Industries Transparency Initiative	PIC	Pacific Island Country
FIAS	Investment Climate Advisory Service	PNA	Parties to the Nauru Agreement
FTI	Education for All Fast Track Initiative	PPCR	Pilot Program for Climate Resilience
FSM	Federated States of Micronesia	PRIF	Pacific Regional Infrastructure Facility
GDP	Gross Domestic Product	PSD	Private Sector Development
GEF	Global Environment Facility	RMI	Republic of the Marshall Islands
GFDRR	Global Facility for Disaster Reduction and Recovery	QER	Quality Enhancement Review
GFRP	Global Food Crisis Response Program	RERF	Revenue Equalization Reserve Fund
GNI	Gross National Income	RSE	NZ Recognised Seasonal Employment Scheme
HDI	Human Development Indicators	SDR	Special Drawing Rights
IBRD	International Bank for Reconstruction and Development	SPREP	South Pacific Regional Environment Programme
ICAO	International Civil Aviation Organization	TA	Technical Assistance
IDA	International Development Association	UNDP	United Nations Development Programme
IEG	Independent Evaluation Group	UNICEF	United Nations Children’s Fund
IFC	International Finance Corporation	USAID	United States Agency for International Development
ILF	Import Levy Fund	WCPCF	Western Central Pacific Fisheries Commission
IMF	International Monetary Fund	WFP	World Food Programme
IUU	Illegal, Unregulated, Unreported fishing activity		
JICA	Japan International Cooperation Agency		

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**REPUBLIC OF KIRIBATI**  
**WORLD BANK GROUP**  
**COUNTRY ASSISTANCE STRATEGY**

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**REPUBLIC OF KIRIBATI**  
**WORLD BANK GROUP**  
**COUNTRY ASSISTANCE STRATEGY FY2011 – FY2014**

**EXECUTIVE SUMMARY**

- i. ***This is the first Country Assistance Strategy (CAS) for Kiribati and reflects a deepening of the World Bank Group's engagement.*** The World Bank Group has been scaling up its assistance throughout the Pacific and decided to move from the previous umbrella approach afforded by a regional strategy to individual country strategies better able to reflect specific country development challenges. This CAS aims to assist Kiribati in: (i) addressing the existential threat posed by climate change; and, (ii) mitigating the effects of geographic isolation. The CAS accompanies Kiribati's first IDA investment and heralds an expanded program of World Bank Group support.
- ii. ***Kiribati is one of the most remote and geographically dispersed countries in the world,*** consisting of 33 islands spread over 3.5 million square kilometers of ocean – an area larger than India. None of the inhabited atolls in Kiribati lie more than a few meters above sea level, and the effects of rising sea-levels and associated soil salination are beginning to threaten already limited water supplies. In June 2008, President Tong highlighted the possibility for Kiribati citizens to consider future resettlement to larger metropolitan centers in the region noting that “to plan for the day when you no longer have a country is indeed painful but I think we have to do that.”
- iii. ***Reflecting Kiribati's vulnerability to the existential threat of climate change, the core of the Bank Group's strategy will be to help with climate adaptation measures.*** A key focus will be to expand current pilot approaches to coastal protection and water management. These efforts will provide a basis for a coordinated multi-donor, multi-sectoral engagement to help Kiribati address the multiple and complex dimensions of climate adaptation as well as the pressing water-supply issues faced by the main population center of South Tarawa. Given the Bank Group's limited engagement with Kiribati to date, preparation of a more comprehensive approach to climate change adaptation will also be accompanied by a series of complementary but less complex investments.
- iv. ***Beyond climate change, Kiribati remains geographically isolated and highly exposed to external shocks, resulting in volatile economic performance.*** Revenues from fishing licenses, remittances, aid, and a trust fund from now depleted phosphate reserves, comprise almost half of all economic activity. Given its heavy reliance on imports, Kiribati was impacted severely by the recent food and fuel price spikes.
- v. ***In this context, the World Bank Group will also seek to scale-up efforts to help overcome the tyranny of distance and to generate opportunities from closer regional and global integration and private sector led growth.*** The importance of greater integration for small and remote island states is highlighted in the 2009 World Development Report, *Reshaping Economic Geography*. The Bank will continue to work with the Kiribati authorities, as well as the Australian and New Zealand Governments, to mitigate geographic isolation and expand economic opportunities, including core infrastructure – airports and telecoms – to help connect Kiribati to the world. Similarly, support for regional measures to improve the sustainable management and returns to island countries from the tuna fishery offer considerable potential benefits.
- vi. ***World Bank Group support to Kiribati will require a new way of doing business, consistent with the recommendations of the Post Crisis Directions (PCD) paper.*** The challenge of applying the *Paris Declaration* principles is thrown into starkest relief in small states such as Kiribati. The 2009 *Cairns Compact* committed Pacific countries and development partners to coordinating their resources more effectively and to accelerating progress towards the MDGs. These objectives are echoed strongly in the PCD where they are identified as essential to development effectiveness. Accordingly, Bank activities in Kiribati will be selective and will focus on promoting growth and regional integration. The program will be informed by successful experience in Kiribati and elsewhere in the Pacific with all interventions designed with capacity considerations uppermost.



**REPUBLIC OF KIRIBATI**  
**WORLD BANK GROUP**  
**COUNTRY ASSISTANCE STRATEGY**  
**FY11 – FY14**

**I. RATIONALE FOR A COUNTRY STRATEGY FOR KIRIBATI**

1. *The World Bank Group is significantly scaling up analytical and financial support to help Kiribati reduce the constraints of economic geography and make the most of economic opportunities.* The Bank will be providing IDA finance to Kiribati for the first time in FY11, with Board approval being sought in parallel to this CAS for a road maintenance investment to be undertaken jointly with the Asian Development Bank, with additional financial support from Australia and New Zealand. Over the next few years, it is anticipated that Bank Group support for Kiribati could grow significantly, drawing on both IDA and generous donor trust funds resources.

2. *Reflecting increased World Bank Group engagement across the Pacific islands, individual country strategies will be prepared for each client country.* Given the importance of greater regional integration, such bespoke strategies will draw from key elements of a common regional approach. Nevertheless, individual country strategies will allow for a greater acknowledgement of the different histories, development situations, and challenges of the Pacific island countries, as well as a more nuanced discussion of how common regional themes in the Bank Group’s engagement are translated into specific country contexts. Strategies for each of the Pacific islands will inevitably need to be appropriately streamlined and focused, and will not necessarily be articulated with the same level of detail as they are for the Bank Group’s larger clients. Reflecting a commitment to work collaboratively with other donors, strategies such as this one for Kiribati, draw heavily from analytical work undertaken by other partners, particularly the ADB, IMF, and the Pacific Islands Forum Secretariat. The Government of Kiribati strongly supports both the preparation of individual country strategies and the program outlined in this CAS.

**II. COUNTRY CONTEXT AND DEVELOPMENT CHALLENGES**

**Economic Geography**

3. *Kiribati is a Micronesian island country with a history of human settlement extending back 2-3000 years when the first Austronesian speaking voyagers reached the islands.* Kiribati culture has been influenced by interaction with both Polynesian and Melanesian societies.

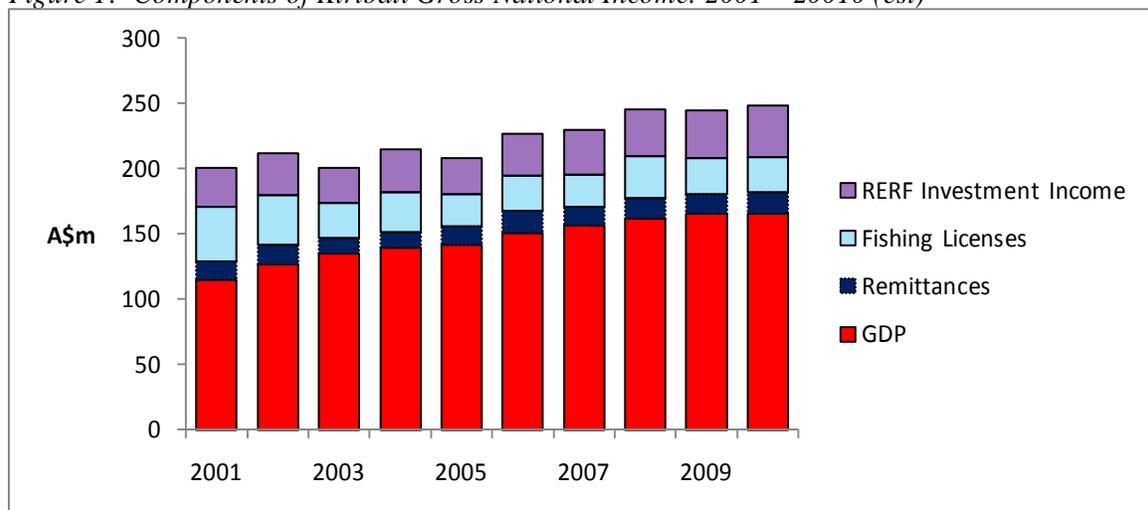
4. *Since independence from the UK in 1979, Kiribati has been a Parliamentary democracy.* Under the Constitution, executive power rests with a President elected by a unicameral legislature. The next elections are scheduled for October 2011. Representation in the legislature is heavily weighted toward the outer islands. In addition, 23 elected local councils are substantively involved in service delivery and responsible for business licensing and for urban land use planning. In this environment, a high degree of political consensus tends to be required if reform measures are to be successfully implemented.

5. *Kiribati is one of the most remote and geographically dispersed countries in the world.* The country is composed of 33 islands spread over 3.5 million square kilometers – an area larger than India. The population of about 100,000 people lives on 20 coral atolls and a single volcanic island, with a total land area of less than 800 square kilometers. The capital, South Tarawa, is about 4,000 kilometers from Australia, Hawaii, and New Zealand. Partly because of this remoteness, atolls in Kiribati were used for nuclear testing by the US and the UK in the 1950s and 1960s.

6. ***Kiribati is one of the most vulnerable countries in the world to climate change, natural disasters, and environmental degradation.*** In the longer-term, climate change poses an existential threat for Kiribati. With the exception of the sparsely populated Banaba island, the highest point above sea level is only a few meters, and sea level rises are already causing erosion that is threatening several atolls. While Kiribati’s Phoenix Islands Protected Area is the world’s largest marine reserve – covering over 400,000 square kilometers and including over 120 varieties of coral and 520 fish species – warming seas are damaging coral reefs and marine habitats. Increasing soil salination is reducing the amount of arable land available. Thin ground water lenses are similarly fragile and there is a risk of increased salination as a result of predicted sea level rises. These vulnerabilities are compounded by the fact that the main island of South Tarawa is very densely populated. About 50,000 people live on South Tarawa which has a total land area of 16 square kilometers, while the islet of Betio has over 10,000 people living on a total land area of just over 1 square kilometer – making it as densely populated as Manila or Jakarta. Critically, climate change cuts across all aspects of Kiribati’s development; as well as technical responses, it will be vital to ensure that the social dimensions of climate change – and the particular vulnerability of many poor people with already limited access to land and water – are addressed. The effects of climate change are similarly exacerbated by population growth, which in turn is linked to poverty and women’s access to family planning measures.

7. ***Although at the margins of the global economy, Kiribati’s economic geography means that it is heavily reliant on external factors, with economic performance being highly volatile.*** In the last ten years, GDP growth has averaged around 1.1% *per annum*, but has ranged from -5% to 6%. Kiribati’s growth prospects are constrained by its geographic isolation, its narrow export base, and impediments to private sector activity. Comparative advantages are limited because of permanent cost wedges associated with Kiribati’s small size and remoteness from markets. Systemic volatility is exacerbated by Kiribati’s exposure to natural hazard risks, particularly drought and the loss of groundwater. The country is highly reliant on imports – equivalent to over 50% of GDP. With exports of only about 3% of GDP, Kiribati faces a significant structural trade gap. Main sources of external income are investment earnings from the Revenue Equalization Reserve Fund (RERF) established in the 1950s to invest royalties from now depleted phosphate reserves, workers’ remittances, and the sale of fishing licenses to operate in its Exclusive Economic Zone. These external income sources are equivalent to about half of GDP or about a third of GNI. In addition, foreign aid has also amounted to about 20-25% of GDP in recent years.

Figure 1: Components of Kiribati Gross National Income: 2001 – 2010 (est)



Source: IMF Estimates, OECD-DAC Geographical Distribution of Financial Flows to Developing Countries

8. ***Kiribati's development outcomes are mixed.***

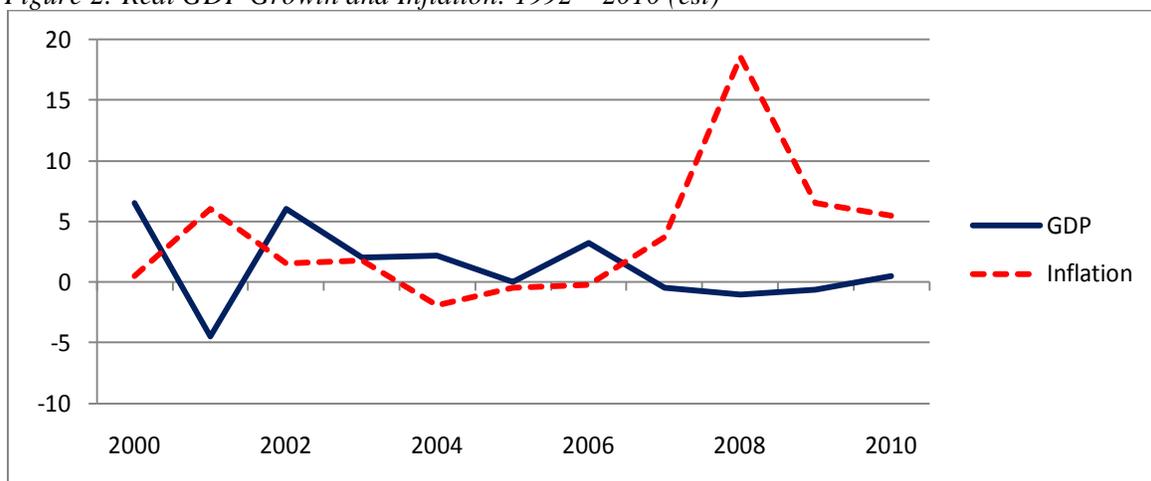
- Kiribati is one of the *poorer* countries in the Pacific, with GNI per capita of about \$2,000. While absolute poverty is rare, one fifth of the population lives below the national poverty line, particularly in the outer islands and parts of the main urban settlements in Tarawa.
- *Education* coverage is high and Kiribati is close to achieving universal primary education, although issues remain in regard to educational quality. As well as the Government, which provides free primary education, churches play a central role in Kiribati's education system.
- *Health* service delivery is improving, but outcomes are a source of concern. Under five mortality rates have improved from 88 per 1,000 live births in 1990 to 64 in 2008, but this is still among the highest in the region, in large part due to lack of clean water and sanitation. The proportion of births attended by a skilled health physician has increased significantly, but maternal mortality has also increased from an average of 1-2 per year to 4-5 per year.
- *Gender* outcomes are mixed. Kiribati has signed the UN Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) and women's rights are protected under the Constitution. Unlike some countries in the region, women have full rights to own land. There is little or no difference between enrollment rates for boys and girls (girls are slightly over-represented at secondary levels). On the other hand, violence against women is high; and at the local level *unimwane* (elder men) preside over village decision-making while women tend to work primarily in the informal economy. Women's representation in Parliament is limited, although the Vice President is a woman.

9. Kiribati's progress against each of the MDG goals is set out in Attachment 1.

**Recent Economic Developments**

10. ***External economic shocks, particularly the food and fuel prices spikes of 2008, hit Kiribati harder than almost any other country in the world.*** Kiribati is highly reliant on imported food, especially rice. Electricity supply is also heavily dependent on imported petroleum products, and Kiribati's remoteness means that fuel price increases flow through to almost every sector of the economy as a result of increased transport costs. In total, imports – primarily of food and fuel – are equivalent to about half of Kiribati's GDP. Following global price shocks, the Government did take action to open food imports to a wider range of private sector companies in Kiribati, and the increased competition helped mitigate the impact of the spike in prices. Still, these shocks contributed to an economic contraction in Kiribati, as well as a significant increase in inflation and deterioration in Kiribati's external position from which the economy is still recovering.

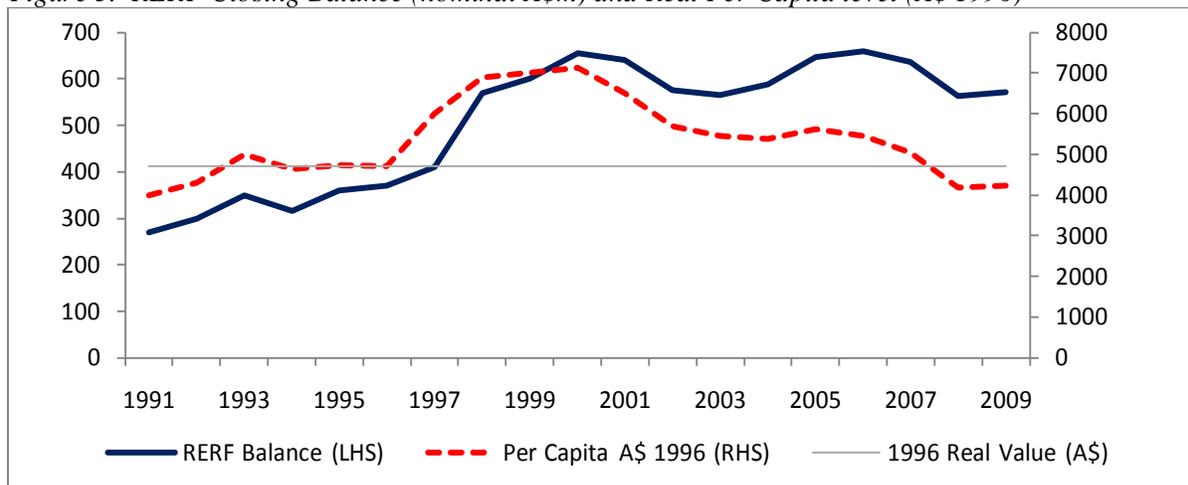
Figure 2: Real GDP Growth and Inflation: 1992 – 2010 (est)



Sources: 2000 – 2008: IMF Article IV June 2009, 2009 – 2010 (est) ADB Pacific Economic Monitor July 2010

11. **Rebuilding the value of the Revenue Equalization Reserve Fund (RERF), which declined as a result of a fall in global asset prices as well as unsustainable Government expenditures, is a key challenge.** The RERF was established in 1956 to invest royalties from now depleted phosphate reserves on Banaba Island. Earnings from the RERF are a major source of Government finance. The Government has generally followed conservative investment policies. The RERF reached a peak value of A\$650m in 2000, or slightly more than A\$7,000 per capita. Asset price volatility since 2000, however, has seen the value of investment assets fall. This has been compounded by Government drawdowns to fund high fiscal deficits which have exceeded RERF earnings. The IMF estimated in its 2009 Article IV that drawdowns should be limited to 6-7% of GDP to ensure sustainability, yet average annual drawdowns since 2003 have been about double this. As a result of both external and domestic factors, the value of the RERF declined to about A\$550m in 2009, recovering slightly to over A\$570m in 2010. Under current fiscal trends, IMF estimates suggest that the RERF could be depleted by around 2030.

Figure 3. RERF Closing Balance (nominal A\$m) and Real Per Capita level (A\$ 1996)



Source: IMF Article IV and Staff Estimates

12. **Fiscal consolidation will be important to preserve the RERF but will be a challenge given large infrastructure requirements, as well as basic needs in health and education.** The public sector provides nearly two-thirds of formal employment and government expenditure amounts to more than 100 percent of GDP. Unless carefully managed, fiscal consolidation could disrupt service delivery and depress growth. To enhance revenues, the Government is introducing tax reforms including a PAYE system and plans for a broad-based consumption tax, but progress has been hindered by capacity constraints. Revenue generation will also be constrained if growth prospects remain weak. Given revenue limitations, depletion of the RERF, and its high vulnerability to economic shocks, Kiribati will need to rely mainly on external grants rather than debt to finance its development priorities.

13. **SOE reforms and efforts to encourage private sector growth will also be needed.** There are 24 SOEs in Kiribati, engaged in electricity, telecommunications, domestic air services, ports, marine service, hardware retailing, inter-island fish transport, hotels, and general stores. The efficiency of SOE operations is questionable: for instance, telecommunications and electricity costs in Kiribati are the highest in the Pacific and coverage is very limited. Many SOEs also represent a significant drain on public finances, through both implicit and explicit subsidies. Given weaknesses in expenditure controls, the unknown fiscal risk from SOEs has the potential to undermine the Government's budget position. ADB and the Australian Government have been supporting Kiribati's plans to privatize or liquidate 15 of the 24 SOEs. There has been progress in developing a legislative framework and institutional capacity for reform, although no transactions have occurred to date. The authorities are moving to increase competition, and have, *inter alia*, encouraged greater competition in food imports in 2008, overseen the establishment of a private airline in 2008, and stated their commitment to moving ahead with a second telecoms license.

14. ***The private sector is relatively small but growing.*** The Chamber of Commerce estimates that there are some 2,000 businesses, although almost all are small, with only two employing over 200 people. Kiribati rates 79 out of 183 economies in the World Bank Group's *Doing Business* report, the fifth in the Pacific after Tonga, Samoa, Fiji and Vanuatu. Private investment remains constrained by cumbersome entry and exit procedures and limited access to finance. Improving the business environment is vital, although given Kiribati's economic geography, reform on its own may not be sufficient to attract new foreign investment.

15. ***Addressing governance issues will be a priority, particularly strengthening weak public financial management (PFM) systems.*** Kiribati is ranked 111 out of 180 countries on Transparency International's corruption perceptions index. Despite progressive improvements, a 2010 Public Expenditure and Financial Accountability (PEFA) assessment led by ADB highlighted concerns regarding the quality and completeness of financial statements of the Government's public accounts.

### **Government of Kiribati's Development Strategy**

16. ***The Government of Kiribati's development vision is "a vibrant economy for the people of Kiribati".*** The Government's approach is set out in the Kiribati Development Plan (KDP) 2008–2011, which was endorsed in April 2008 and serves as a basis for the CAS. The theme running through the strategy is "enhancing economic growth for sustainable development". The KDP prioritizes 6 key policy areas: (i) human resource development, (ii) economic growth and poverty reduction, (iii) health, (iv) environment, (v) governance, and (vi) infrastructure. The strategy then sets out 195 individual goals and activities. In discussions with the Bank Group and partners, the Government has consistently identified the priority it places on improving key elements of the national infrastructure network, which is seen as essential to lowering the cost structure of the economy, and on climate change adaptation.

### **Donor Engagement**

17. ***Kiribati, like many small island states, is heavily reliant on international development cooperation flows.*** Net flows to Kiribati in recent years have reached slightly over \$40m *per annum*, equivalent to about 25% of GDP or about \$400 *per capita, per annum*.

- Australia is Kiribati's largest partner, providing an annual program of assistance in excess of A\$20m (\$20m). The framework for Australian cooperation with Kiribati is set out in the *Partnership for Development* signed by respective Leaders in January 2009. Australian assistance has three key themes: (i) strengthening growth and economic management by supporting public financial management reforms, increasing government revenues, reducing the cost of public enterprises and improving delivery of public services; (ii) improving basic education; and (iii) developing workforce skills in areas of industry demand to reduce youth unemployment.
- The Asian Development Bank has had a long-term engagement in Kiribati, based around an integrated program of analytical work and investments. ADB has tentatively set a 5-year ADF allocation of \$12m for Kiribati covering the period 2008 to 2012, with additional trust fund resources available to support investments and TA. ADB, with Australia, is leading economic reform and improving PFM. ADB and the World Bank have prepared a co-financed investment to undertake road maintenance on the main road, and to strengthen infrastructure management.
- The European Commission's country strategy (2008 – 2013) sets out a framework for engagement with Kiribati under the 10<sup>th</sup> European Development Fund (EDF). The EC anticipates making approximately €14m (\$18m) available during this period, with a focus on the outer islands, including household solar energy supply, water/sanitation and health services.

- Japan. Japanese assistance has averaged about \$10m *per annum* in recent years. Kiribati is also eligible for support from the 6.8 billion Yen (\$66m) Pacific Environment Community Fund (PEC Fund) which will focus on solar power generation and sea water desalination projects in the Pacific region.
- New Zealand announced in August 2010 that it would double aid to Kiribati to approximately NZ\$8m (\$6m) *per annum*. A key focus of expanded assistance will be to rehabilitate Cassidy airport on Kiritimati island, which will be essential to bring this facility up to ICAO standards. NZ assistance to date has focused on: (i) workforce skills development, particularly the highly successful Maritime Training College; (ii) a sustainable towns program to address urban management, piloting of village water and sanitation improvements, and local business development agencies; (iii) Kiritimati Island port infrastructure improvements, and (iv) improved public sector management.
- Taiwan, China, is a significant donor to Kiribati, providing approximately A\$11m (US\$10m) per year. Priorities are set by the Government of Kiribati, with a focus particularly on infrastructure, including school and hospital building, and technical assistance with a focus on household agriculture, livestock, and fish farming, as well as providing scholarships and medical referrals. Taiwan, China, will be providing a \$14m loan on partly concessional terms to refurbish the runway and terminal of the main Bonriki international airport on South Tarawa.
- The United Nations system is active, with UNICEF and WHO providing support to strengthen early childhood development and health programs.
- Church groups play an especially important role in providing education in Kiribati. Traditionally, churches rather than the Government have provided schooling, and over half of all students in Kiribati today attend church schools.

### III. WORLD BANK GROUP ENGAGEMENT

#### **Transforming World Bank Group Engagement in the Pacific Region**

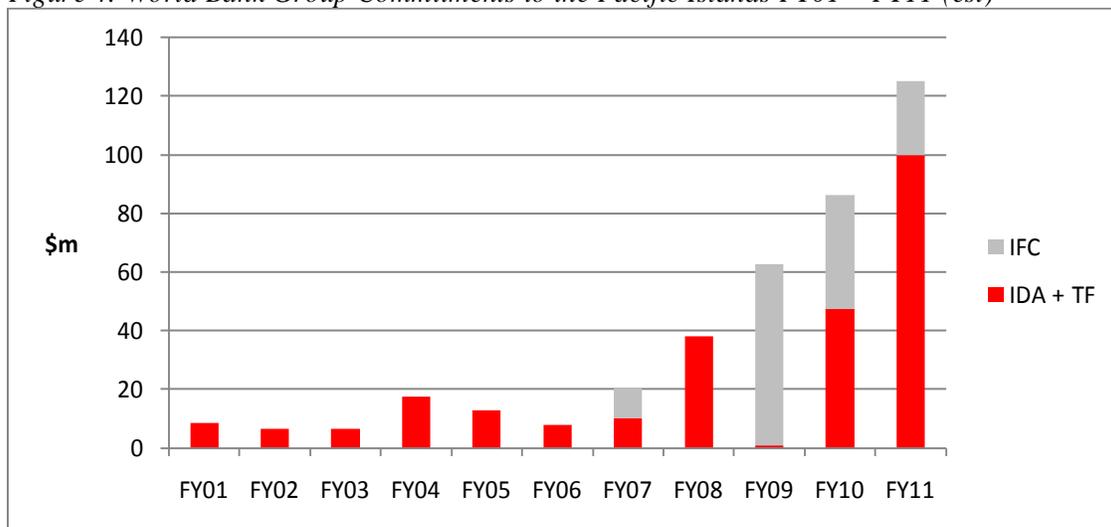
18. *The Bank Group’s engagement with the Pacific Island countries reflects the fact that their development trajectories will be shaped – more than perhaps any other nations in the world – by their economic geography.* The Bank’s Pacific island member countries<sup>1</sup> have a population of about 2 million people, spread across hundreds of islands, and scattered across an area equivalent to 15 percent of the globe’s surface. Given their fragility and geographic isolation, sustained development progress will require long-term cooperation by international partners. The reality for most Pacific countries is that aid will not be a transitional phenomenon. Even where policy environments are strong, continued external assistance is likely to be needed to support service delivery. More broadly, greater economic integration, more equitable natural resource agreements, and more open labor markets in metropolitan neighbors will also be vital for the longer-term future of the Pacific Islands.

19. *The World Bank Group is in the process of scaling up its engagement with the Pacific Island countries as part of a renewed longer-term commitment.* Both IDA and IFC are significantly increasing engagement. As well as scaling up in more “traditional” clients, the Bank is placing particular emphasis on deepening engagement with “non-traditional” clients, such as Kiribati. Reflecting the similar challenges faced by many island countries, World Bank Group engagement across the Pacific has been tightly focused around the overarching objectives of: (i) strengthening regional/global integration; (ii) building resilience to economic shocks, natural disasters and climate change; and (iii) encouraging economic reform and private sector development. At the same time, the way these themes are operationalized will obviously depend on differing country circumstances, and this is the purpose of individual CASs now being prepared.

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<sup>1</sup> Fiji, Kiribati, Palau, Marshall Islands, Micronesia, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

Figure 4: World Bank Group Commitments to the Pacific Islands FY01 – FY11 (est)



20. *The World Bank Group is committed to the Cairns Compact agreed by Pacific leaders to better use all resources available for development, and will work closely with clients and partners to improve development effectiveness.* This will be especially important as total aid from all donors to the Pacific is increasing substantially. While the Bank is scaling up, the value of our engagement is not principally defined in terms of the size of the lending program, but rather by the extent to which the Bank can “bundle” its expertise and financing, collaborate with other development partners to transfer global knowledge, build capacity, and encourage changes that will improve the lives of Pacific Island citizens.

### **Translating Pacific Themes to Kiribati**

21. Reflecting the Government’s development priorities, and consistent with the unifying themes of World Bank Group engagement in the Pacific islands, engagement with Kiribati will be focused on:

- Building resilience against external shocks, with a particular focus in Kiribati on climate change adaptation; and
- Mitigating economic isolation by encouraging regional and global integration.

### **Building Resilience Against Climate Change and External Shocks**

22. *The core focus of increasing World Bank Group involvement with Kiribati will be to support adaptation measures that respond to Kiribati’s extreme vulnerability to climate change and climate related natural disasters.* The potential effects of climate change in Kiribati are particularly evident in risks to already limited supplies of fresh water on South Tarawa. Managing groundwater reserves, sustaining freshwater lenses, improving rainwater collection, and developing new sources of water (either from desalination, treatment of water from contaminated lenses, or piped from North Tarawa) will be especially important, although all have been tried previously with limited success.

23. *The Bank proposes to work closely with partners and the Government over to help coordinate a comprehensive approach to climate change adaptation on the main population centre of South Tarawa.* World Bank engagement in Kiribati to date has been based around the Kiribati Adaptation Project (KAP) implemented by the Bank with financing from the Global Environment Facility and the Australian and New Zealand Governments. KAP is one of the first Bank programs to fully integrate climate adaptation into development planning efforts.

24. ***The Bank proposes to allocate the bulk of the IDA-16 resources available to Kiribati toward a multi-donor climate change adaptation investment, informed by coordinated analytical work.*** As well as IDA resources, we will also explore options to work with other partners to mobilize grant financing for any such investment, particularly with significant additional financing for Pacific Island countries anticipated for climate change adaptation. The complexity of the sector, the scope of the undertaking, and the Bank's relatively steep learning curve in Kiribati will require the building of country knowledge and to develop a common understanding of risks and priorities with the Government and partners. The Australian Government has expressed strong interest in supporting the Bank's engagement in this area.

25. ***As well as strengthening resilience against climate change, the Bank will also be helping to reduce Kiribati's vulnerability to external economic shocks, such as the food and fuel price spikes.*** A proposed 500kW grid-connected solar photo-voltaic generator for South Tarawa (financed by GEF with support from Australia) will help diversify electricity generation and reduce reliance on diesel, imports of which are currently equivalent to 15% of GDP. The Bank's successful experience with the Tonga Energy Roadmap suggests that gains could also be made from energy sector reform, including opening of the market to new private generation. The Bank will also be supporting the Government of Kiribati's efforts to ensure the availability and affordability of food on the outer islands, where the population has limited livelihood opportunities and meager agricultural land. People living on the outer islands already spend a high proportion of their income on imported food, and were especially hard hit by steep both in food and transport costs. A \$2m grant from the Global Food Crisis Response Program (GFRP) will help finance the shipping of food from South Tarawa to the outer islands and the freight of selected agricultural products from the outer islands to Tarawa. Assistance will also be provided from the Global Facility for Disaster Reduction and Recovery (GFDRR).

### **Generating Opportunities from Greater Global and Regional Integration**

26. ***Given Kiribati's remoteness, basic infrastructure that connects the people of Kiribati to the outside world will be essential to encouraging greater global and regional integration, and to supporting increased levels of external assistance.*** High priority transport sector investments integrating climate change adaptation planning will be started in parallel with efforts to develop coordinated and more comprehensive multi-donor adaptation interventions. IDA investments in relatively less complex areas will provide ballast to the relationship by building World Bank country knowledge, as well as by increasing Government familiarity and understanding of Bank systems and processes. The Bank will collaborate with ADB to jointly co-finance rehabilitation of the main South Tarawa road, with support from Australia and NZ through PRIF. This operation – the Government's immediate priority – is being presented to the Board with this CAS, and will be the first ever IDA investment in Kiribati. Airport rehabilitation and safety measures will also be critical if air services to the remote Kiribati archipelago – the key link with the outside world – are to be maintained and ICAO standards met. The Bank proposes to work with the NZ Government to co-finance the rehabilitation of Kiritimati airport and road from the airport to town, as well to provide critical safety and navigation investments at Bonriki airport in Tarawa, where China, Taiwan is financing runway rehabilitation. These significant "once in a generation" infrastructure investments will be needed and will fully incorporate climate change adaptation measures into their design.

27. ***Across the Pacific, the Bank Group will work with clients and partners to help island states derive greater benefits from closer integration with the metropolitan countries in the region and from stronger regional cooperation.*** There are particular opportunities available to Kiribati from regional cooperation in improving returns from sustainable management of pelagic fish stocks, temporary labor migration, and telecommunications reform.

28. ***A fisheries engagement strategy for the Pacific is being developed, following a request for support from the newly established Parties to the Nauru Agreement (PNA) Office.*** In the past few years, the eight Pacific island members of the PNA – which collectively account for about 40% of the world's tuna stocks – have agreed on a wide range of measures to improve the management of the tuna resource and to increase

benefits for Pacific island countries. These include: (i) agreements to cut licensed fishing days by 30% in 2011, (ii) the closure of high seas pockets that previously complicated the control of fishing activities in the region; improved vessel monitoring systems to reduce illegal, unregulated and unreported (IUU) fishing, including a goal of 100% observer coverage on all boats; and (iii) preferential conditions for domestic vessels or those that comply with specific requirements for local crew and unloading. Nevertheless, several tuna species remain under pressure and further actions are likely to be required. In formulating a fisheries strategy, the Bank will work closely with the existing regional architecture managing fisheries in the Pacific, including FFA and the Western Central Pacific Fisheries Commission (WCPFC), as well as with other donor partners. It is anticipated that Bank support will primarily revolve around technical assistance to the PNA Office to implement reform measures.

29. ***The Bank will continue to work closely with Pacific island countries and partners to help expand opportunities for international employment.*** Labor is one of the few viable exports for many small and remote island countries – but is subject to significant policy barriers. New Zealand’s Recognized Seasonal Employment (RSE) scheme has provided over 9,000 Pacific islanders, including over 150 from Kiribati, with opportunities to work up to nine months in the horticultural industry, returning home with skills and remittances averaging \$4,400 per worker (after deductions and living expenses). Although the number of Kiribati nationals so far employed under this scheme is relatively low, the Bank is currently working with the Government to improve the competitiveness of Kiribati workers, which is constrained by the relatively high costs of travel from Kiribati compared with other labor sourcing countries in the Pacific. As well as the immediate financial returns, broader benefits have also flowed back into Pacific countries including new found skills in agriculture, as well as computer literacy and English language skills. The World Bank will continue to work with regulatory agencies in both Australia and New Zealand to reduce the cost of remittances, to explore opportunities for returning Pacific islanders to apply their skills and establish businesses, and to encourage greater opportunities for skilled migration.

30. ***There is considerable untapped potential for Kiribati to take advantage of opportunities for closer global integration made possible by the telecommunications revolution.*** The World Bank Group has played a significant role in encouraging telecoms reform throughout the Pacific in recent years. Increased competition and the entry of new private sector operators have caused prices for mobile telephones in countries across the region to fall dramatically, and access to telecoms services to increase in some cases by a factor of ten. The World Bank is also helping to strengthen independent telecoms regulators, and is supporting the establishment of a Pacific Regional Telecommunications Regulatory Resource Center, with PRIF financing from Australia and NZ. Similarly, IFC investments of around \$170m over the past three years have played a key role in encouraging over \$500m in investments by new private sector telecoms operators. Following technical assistance from the Bank, the Government of Kiribati has indicated its commitment to opening the telecoms market to competition in parallel to efforts for the state owned operator, TKSL, to form a non-exclusive joint venture that would increase its competitiveness. Competition holds particular relevance for Kiribati that currently has among the highest telecoms costs in the region and very low mobile phone usage rates.

31. ***Structural economic reform will be vital if Pacific island countries are to participate more fully in global growth and to attract and benefit from private sector investment.*** As the World Bank Group develops credibility, and as investments start to provide an anchor for the relationship and examples of the benefits of reform, the World Bank anticipates working with partners in a more formally coordinated policy dialogue that addresses economic and structural reform priorities more substantively. The Bank will work closely with the IMF in Article IV missions and will similarly participate in future PEFA assessments, led by multilateral partners. At the regional level, there will be greater Bank engagement with the IMF’s Pacific Financial technical Assistance Center (PFTAC). The World Bank is also one of the partners supporting the Pacific Association of Supreme Audit Institutions (PASAI), and this will be one mechanism to strengthen oversight institutions in Kiribati and throughout the region.

## **International Finance Corporation (IFC)**

32. ***IFC will play a key role in coordinated World Bank Group efforts in Kiribati to encourage new private investment, as well as to increase competition and private sector involvement in service delivery.*** Across the Pacific, IFC is significantly scaling up both investment and analytical support. IFC engagement has been integrated in this joint CAS. In particular, IFC is playing an important role in strengthening investment climate in countries across the Pacific, and will similarly scale up TA to Kiribati to strengthen the business enabling environment and to support specific PPP transactions or asset sales as the government moves to rationalize SOEs. IFC has scope to provide financing for any new telecoms market entrant, as has been done successfully elsewhere in the region, and will explore other investment opportunities. As has been illustrated by the telecoms revolution around the region, encouraging competition and private sector involvement in service delivery has been crucial in overcoming capacity constraints. Reflecting this, a key element of the Bank Group's approach will be to encouraging local private sector involvement throughout the program, including road maintenance, airport management, and energy.

## **Mainstreaming Gender**

33. ***Gender issues will be incorporated throughout the Bank program.*** Gender outcomes in Kiribati are mixed, with good representation of girls in school and a strong legislative framework, but relatively high maternal mortality and low representation of women in the formal economy. Bank activities are expected to be very tightly focused, with other donors leading interventions specifically targeting gender issues. Nevertheless, gender considerations will actively inform the implementation of the Bank's program. A focus on addressing climate change adaptation and improving water supply in South Tarawa, for instance, is anticipated to result in improvements in maternal and child health. Similarly, research by the Pacific Institute for Public Policy<sup>2</sup> in Vanuatu shows a clear link between economic productivity and access to mobile phones, with women successfully making use of new opportunities, and similar outcomes are anticipated in Kiribati.

## **Implementation: Partnerships, Selectivity, New Ways of Doing Business, and Accountability**

34. ***In scaling up analytical and financial support for Kiribati, the World Bank Group will be highly selective.*** The proposed program will be closely focused on scaling up activities that have already been piloted in Kiribati – particularly climate change adaptation – or on replicating successful experience elsewhere in the Pacific. Investments will be carefully sequenced to build a track record and strengthen the Bank's country understanding. New investments will be designed with simplicity in mind and to reflect the capacity constraints in Kiribati.

35. ***Selectivity will be accompanied by close collaboration with development partners which have a more extensive track record in Kiribati.*** The Bank intends to work closely with other partners on analytical work in Kiribati to give substance to the *Cairns Compact* agreed at the Pacific Island Forum in August 2009 that aims to strengthen coordination and make better use of all the resources available for development, avoiding duplication and strengthening synergies among donors.

36. ***Given extremely limited capacity in Kiribati, as with many of the smaller island countries, developing leadership and institutions needed to manage change will require commitment to a long-term capacity enhancement effort that places emphasis on developing fiduciary oversight and on downstream implementation support.*** Governments throughout the Pacific continue to face significant challenges in recruiting and retaining domestic expertise. Reflecting weak public financial management arrangements in Kiribati, all investments will include strong fiduciary and safeguards oversight and support. The Bank will try to be more nimble in project preparation, and give greater attention to downstream implementation support. Without lowering fiduciary or safeguards standards, we intend to try to streamline and accelerate activity preparation, and to rebalance Bank engagement toward greater support throughout the project cycle.

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<sup>2</sup> "Going Mobile: Social and Economic Impact of Introducing Telecommunications Through Vanuatu", December 2009.

37. *Anticipated outcomes from World Bank Group engagement are set out in the results matrix in Attachment 2.* This will be revised as implementation proceeds, and will be updated in the CAS Progress Report.

38. *Supporting this growing engagement, the Bank Group will open a joint liaison office with ADB in 2011.* This reflects the model in Samoa, Tonga, and Vanuatu, where local professional liaison officers represent both institutions in the first ADB/World Bank shared (rather than simply co-located) offices anywhere in the world. This presence has been instrumental in improving the Bank’s dialogue with clients and encouraging better cooperation with the ADB.

### **Financing Terms and Sources**

39. *The financing envelope for this CAS – including both IDA and generous donor trust funds and co-financing – will be flexible and contingent on Kiribati’s commitment to undertaking structural reforms.* The base case scenario from FY11 to FY14 will foresee the full use of Kiribati’s IDA allocation across the IDA 15 and IDA 16 periods. The CAS provides opportunities for some opportunistic reallocations to Kiribati from elsewhere in the Pacific, although any such reallocation will require a strong performance to be justified. In addition, the Bank will look at ways to leverage its resources with other donors’ so as to offer a comprehensive and substantive program of assistance that can underpin the present strategy. All proposed investments are anticipated to be co-financed with other partners or supported by trust funds and other programs such as the Global Environment Facility (GEF) and the Global Food Crisis Response program (GFRP). Australia and New Zealand have been especially generous in supporting the World Bank Group’s engagement in the Pacific, both through the Pacific Regional Infrastructure Facility (PRIF), which is designed to coordinate multilateral bilateral engagement in infrastructure, as well as on a bilateral basis. Trust fund financing by donors could potentially amount to almost as much as the Bank is able to make available through IDA. Details of the source of financing anticipated for individual activities are set out below.

#### *Kiribati: Proposed IDA and Trust Fund Operations (FY11 – FY14)*

	<b>Year</b>	<b>IDA</b>	<b>Cofinanced/ Trust Fund</b>
<b>IDA-15 Period</b>			
Kiribati Climate Change Adaptation (KAP-3)	FY11		GEF/Aust/NZ
Food Price Crisis Response	FY11		GFRP
Transport (Road Maintenance)	FY11	✓	ADB/PRIF <sup>3</sup>
<b>IDA-16 Period</b>			
Airport Safety and Rehabilitation	FY12	✓	NZ
Tarawa Renewable Energy	FY12		GEF/PRIF
Telecoms Liberalization Support	FY12	✓	PRIF
Climate Change Adaptation/ Water	FY13	✓	Australia

40. *IDA resources will be provided on 100% grant terms.* While Kiribati has very limited external debt, its capacity to take on new debt – even on concessional terms – is extremely constrained. This reflects Kiribati’s limited growth prospects, and the potential for the RERF to be depleted. A joint IMF-World Bank debt sustainability analysis has concluded that if the proposed World Bank program were to be provided as concessional credits, Kiribati would be at a high risk of debt distress. The provision of grants is consequently consistent with IDA’s debt sustainability framework.

<sup>3</sup> PRIF financing is provided by Australia and NZ.

41. *A selective program of World Bank Group analytical work is proposed in sectors where the Bank is scaling up engagement and in collaboration with analysis being undertaken by other partners.* Analytical work and technical assistance anticipated during the first part of the CAS period is set out below.

*Kiribati: Proposed Analytical Work and Technical Assistance FY11 – FY14*

**FY11**

Telecoms: Regulatory Support and Transaction Advice for Market Liberalization  
Climate Change Adaptation/ Water Masterplan for South Tarawa  
Participation in 2010 IMF Article IV; Debt Sustainability Assessment  
(Regional) Fisheries Engagement Strategy: Support to the PNA Secretariat

**FY12**

Import Levy Fund Reform Options Study  
IFC Business Enabling Environment TA  
Participation in Public Expenditure and Financial Accountability Assessment

#### IV. RISKS

42. *Risks to the proposed scaling up in Bank Group engagement in Kiribati are high.* This reflects the Bank Group’s limited engagement to date, domestic capacity constraints and PFM weaknesses affecting development outcomes, and the difficulties in securing political consensus for reform. Risks are magnified by the Bank’s limited country knowledge. Nevertheless, this strategy has the strong support of the Government of Kiribati, and of a broad range of civil society organizations in Kiribati with which it has been discussed.

43. *Mitigating these risks* will require a new way of doing business where the Bank draws on the experience of long-standing development partners. A tightly focused and sequenced program of activities will give priority to investments that can be co-financed with partners with a longer-track record in Kiribati. Risks will also be managed through simplicity of design, a greater focus on downstream implementation support, a willingness to restructure activities as needed. Ensuring adequate procurement and fiduciary support will be vital. Downstream implementation support will be further strengthened by the establishment of a joint liaison office in Kiribati expected to provide a basis on which to build more regular dialogue and a nuanced country understanding.

44. *Given the difficulties of sustaining reform momentum in Kiribati, new activities will be implemented in a sequenced way and linked to areas where there is clear reform momentum.* Decisions on new investments in the second part of the CAS period will be dependent on experience with initial interventions and an assessment of how best to support reform efforts by the Government. The Government’s expressed strong support for the program outlined in this CAS will be critical in ensuring effective implementation.

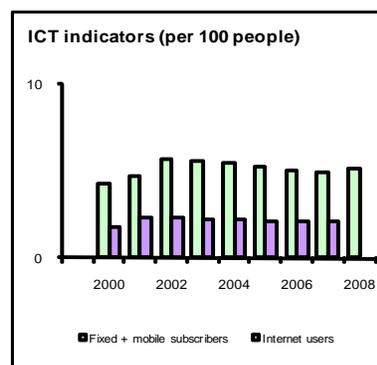
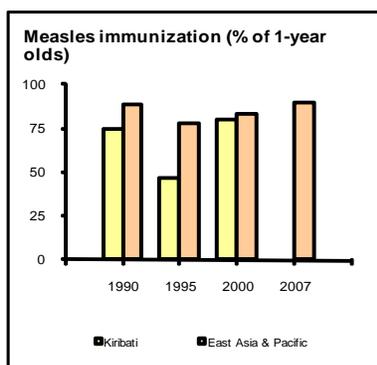
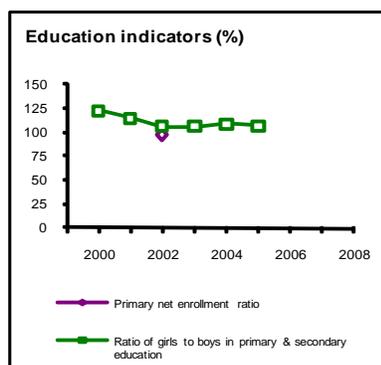
## Attachment 1: Kiribati and Pacific Island Countries: MDG Progress

	Kiribati	Melanesia				Polynesia		Micronesia		
		Fiji	PNG	Solomon Islands	Vanuatu	Samoa	Tonga	FSM	Palau	RMI
<b>MDG 1. Eradicate extreme poverty and hunger</b> Halve between 1990 and 2015 the proportion of people whose income is less than \$1 per day.	Low food poverty, but off track to halve basic needs poverty	Low food poverty, but off track to halve basic needs poverty	Off track	Low food poverty, but off track to halve basic needs poverty	Low food poverty, but off track to halve basic needs poverty	Low food poverty, but off track to halve basic needs poverty	Low food poverty, but off track to halve basic needs poverty	Low food poverty, but off track to halve basic needs poverty	Low food poverty, but off track to halve basic needs poverty	Low food poverty, but off track to halve basic needs poverty
<b>MDG 2. Achieve universal primary education</b>	On track	Slightly off track	Off track	Slightly off track	Slightly off track	On track	On track	Slightly off track	On track	Of concern
<b>MDG 3. Promote gender equality and empowerment</b> Eliminate gender disparities in primary and secondary education	On track education equality, off track empowerment	On track education equality, off track empowerment	Slightly off track	Off track	Slightly off track	On track education equality, off track empowerment	On track education equality, off track empowerment	Slightly off track	On track education equality, off track empowerment	On track education equality, off track empowerment
<b>MDG 4. Reduce child (Under 5) mortality by two thirds</b>	Slightly off track	Slightly off track	Off track	Slightly off track	Slightly off track	On track	On track	Slightly off track	On track	On track
<b>MDG 5. Improve maternal health</b> Reduce maternal mortality by three quarters	Off track	Off track	Off track	On track	Off track	On track	On track	Of concern	On track	On track
<b>MDG 6. Reverse the spread of HIV/AIDS, malaria and TB</b>	Off track	Off track	Off track	Slightly off track	Slightly off track	On track	Slightly off track	On track	On track	Slightly off track
<b>MDG 7. Ensure environmental sustainability</b> Integrate principles of sustainable development into country policies	Off track	Slightly off track	Off track	Off track	Slightly off track	On track	On track	On track	On track	Of concern
<i>Source: 2010 MDG Tracking Report, Pacific Islands Forum Secretariat</i>										
<b>Average Annual GDP Growth 2000-2009</b>	1.1	0.7	2.9	1.6	3.2	3.5	1.1	-0.1	0.9	1.9
<b>World Bank IDA Country Performance Rating 2009</b>	3.0	N/A	3.1	2.6	3.3	4.0	3.5	2.8	N/A	2.8

With selected targets to achieve between 1990 and 2015  
(estimate closest to date shown, +/- 2 years)

Kiribati

	1990	1995	2000	2008
<b>Goal 1: halve the rates for extreme poverty and malnutrition</b>				
Poverty headcount ratio at \$1.25 a day (PPP, % of population)	..	..	..	..
Poverty headcount ratio at national poverty line (% of population)	..	..	..	..
Share of income or consumption to the poorest quintile (%)	..	..	..	..
Prevalence of malnutrition (% of children under 5)	..	..	..	..
<b>Goal 2: ensure that children are able to complete primary schooling</b>				
Primary school enrollment (net, %)	..	..	97	..
Primary completion rate (% of relevant age group)	..	..	99	125
Secondary school enrollment (gross, %)	..	..	99	87
Youth literacy rate (% of people ages 15-24)	..	..	..	..
<b>Goal 3: eliminate gender disparity in education and empower women</b>				
Ratio of girls to boys in primary and secondary education (%)	..	..	122	107
Women employed in the nonagricultural sector (% of nonagricultural employment)	..	..	37	..
Proportion of seats held by women in national parliament (%)	0	0	5	4
<b>Goal 4: reduce under-5 mortality by two-thirds</b>				
Under-5 mortality rate (per 1,000)	88	77	70	64
Infant mortality rate (per 1,000 live births)	65	57	52	47
Measles immunization (proportion of one-year olds immunized, %)	75	47	80	61
<b>Goal 5: reduce maternal mortality by three-fourths</b>				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	..
Births attended by skilled health staff (% of total)	..	72	89	..
Contraceptive prevalence (% of women ages 15-49)	..	..	21	..
<b>Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases</b>				
Prevalence of HIV (% of population ages 15-49)	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	513	464	420	372
Tuberculosis case detection rate (% , all forms)	18	92	71	97
<b>Goal 7: halve the proportion of people without sustainable access to basic needs</b>				
Access to an improved water source (% of population)	48	54	62	65
Access to improved sanitation facilities (% of population)	22	25	30	33
Forest area (% of total land area)	2.5	..	2.5	2.5
Terrestrial protected areas (% of surface area)	..	..	..	55.0
CO2 emissions (metric tons per capita)	0.3	0.3	0.4	0.3
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	..	..	..	..
<b>Goal 8: develop a global partnership for development</b>				
Telephone mainlines (per 100 people)	1.7	2.6	4.0	4.1
Mobile phone subscribers (per 100 people)	0.0	0.0	0.4	1.0
Internet users (per 100 people)	0.0	..	1.8	2.1
Personal computers (per 100 people)	..	..	1.0	1.7



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

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## Attachment 2: Kiribati Results Matrix

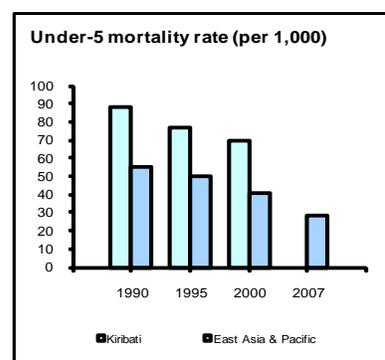
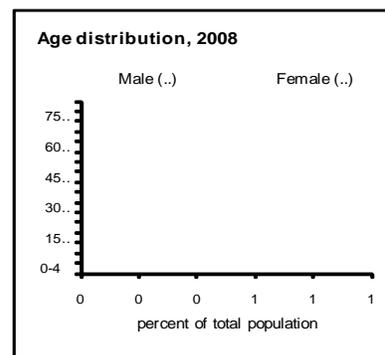
Medium-term Country Goals	Key Issues	CAS Outcomes Expected (FY11 – FY14)	Milestones	WBG Instruments and International Partners
<b><i>Strategic Area I: Building Resilience Against Climate Change and External Shocks</i></b>				
<b>Improved resilience to climate change and natural disasters</b>	<ul style="list-style-type: none"> <li>• Kiribati highly vulnerable to natural disasters and climate change</li> <li>• Fresh water lens already stressed and access to water will become more limited</li> <li>• Limited freshwater a major source of disease</li> </ul>	<ul style="list-style-type: none"> <li>• Improved coastal resilience</li> <li>• Strengthened water resources and management with greater access to clean water (baseline:48% of the population with access to clean water)</li> <li>• Greater integrated capacity to manage DRR and CCA issues</li> </ul>	<ul style="list-style-type: none"> <li>• Comprehensive strategy developed and under implementation to address CCA/ water issues on South Tarawa</li> <li>• Shoreline protection completed at key sites in South Tarawa and mangrove replanting on 5 outer islands</li> <li>• Rainwater harvesting systems in place in Banaba island and 5 sites in South Tarawa, including Tungaru hospital</li> <li>• Rainwater run-off from South Tarawa road replenishing water lens</li> <li>• Expansion of groundwater abstraction in Tarawa</li> </ul>	<p><b>AAA/TA:</b> Regional DRR/CAA risk analysis; South Tarawa climate change adaptation and water masterplan (2012)</p> <p><b>Operations:</b> Kiribati Adaptation Project 2 and 3 (2006 and 2011); Coordinated multi-donor, multi-sector climate change adaptation investment (2013);</p> <p><b>Donor Partners:</b> ADB, Australia, NZ, PRIF/PIAC. GFDRR</p>
<b>Improved capacity to transport food to remote outer islands</b>	<ul style="list-style-type: none"> <li>• Outer islands’ population heavily reliant on imported food with very high transport costs</li> <li>• Import Levy Fund (ILF) largely exhausted</li> </ul>	<ul style="list-style-type: none"> <li>• ILF reforms ensure more sustainable and efficient approach to subsidizing transport of food to outer islands</li> </ul>	<ul style="list-style-type: none"> <li>• Recapitalization of Import Levy Fund</li> </ul>	<p><b>AAA/TA:</b> Review of options to strengthen sustainability of ILF (FY12)</p> <p><b>Operations:</b> GFRP food price crisis response grant (FY11)</p>
<b>Reducing reliance on price volatile imported fuel and increase affordability of energy</b>	<ul style="list-style-type: none"> <li>• Kiribati is reliant on imported petroleum products for 75% of energy generation</li> <li>• Imported fuel accounts for 15% of GDP</li> <li>• Over 80% of the population of South Tarawa has access to grid, but prices high (peak of over \$0.50/ kWh in 2008)</li> </ul>	<ul style="list-style-type: none"> <li>• Improve petroleum supply chain to reduce price and volatility of energy supply</li> <li>• Increase renewable energy to 5% of grid supplied power by 2014</li> <li>• Direct reduction of GHG emissions of 10 ktCO<sub>2</sub> over 20 years</li> </ul>	<ul style="list-style-type: none"> <li>• 500 kW on-grid solar PV generation capacity to be introduced</li> </ul>	<p><b>AAA/TA:</b> Energy sector analysis (FY12)</p> <p><b>Operations:</b> South Tarawa solar energy (FY12)</p> <p><b>Donor Partners:</b> Australia, New Zealand, GEF, Japan (Tarawa grid), EC (outer islands off-grid PV systems)</p>

<b>Strategic Area II: Overcoming Isolation and Generating Opportunities from Greater Global and Regional Integration</b>				
<b>Medium-term Country Goals</b>	<b>Key Issues</b>	<b>CAS Outcomes Expected (FY11 – FY14)</b>	<b>Milestones</b>	<b>WBG Instruments and International Partners</b>
<b>Improve transport infrastructure for remote populations and provide countercyclical employment opportunities</b>	<ul style="list-style-type: none"> <li>• South Tarawa road has failed</li> <li>• Air transport critical for remote communities, but safety concerns risks stoppage of flights (as has already occurred At Tarawa for 2 weeks and Kiritimati island for 12 months in 2009)</li> <li>• Unemployment and underemployment increasing as a result of global economic slowdown</li> </ul>	<ul style="list-style-type: none"> <li>• Functioning road system on South Tarawa, with continuing maintenance undertaken by domestic private sector contractors</li> <li>• Bonriki and Cassidy airports moving from non-compliant to compliant with ICAO standards</li> <li>• Temporary employment of 1,000 person months on road construction</li> </ul>	<ul style="list-style-type: none"> <li>• 31 km of roads rehabilitated</li> <li>• Agreed plan for reform of road sector management and financing under implementation</li> <li>• Navigation and safety aids installed at Bonriki and Cassidy airports</li> <li>• Civil aviation masterplan agreed and under implementation</li> </ul>	<p><b>Operations:</b> South Tarawa Road Rehabilitation (FY11) and Kiribati Aviation Infrastructure Investment (FY11)</p> <p><b>Donor Partners:</b> ADB; Australia; Taiwan, China; New Zealand</p>
<b>Improved access to telecommunications services to provide opportunities for growth</b>	<ul style="list-style-type: none"> <li>• Telecoms services provided by monopoly state owned TSKL</li> <li>• Mobile penetration is less than 10% of the population</li> <li>• High cost telecoms (\$20 monthly rental charge with 30c per minute mobile to mobile on South Tarawa up to \$1.30 per minute from South Tarawa to Kiritimati island)</li> </ul>	<ul style="list-style-type: none"> <li>• Mobile penetration to increase to 40% by 2014</li> <li>• Reduced price for telecoms services</li> <li>• Regulatory environment that allows competition with equal access by all market players</li> </ul>	<ul style="list-style-type: none"> <li>• Second telecoms license granted to allow new private sector market participant (2012)</li> <li>• Transparent CSO for outer islands services</li> </ul>	<p><b>AAA/ TA:</b> Telecoms TA (2011)</p> <p><b>Operations:</b> Telecoms reform investment (FY12)</p> <p><b>Donor Partners:</b> IFC, Australia</p>
<b>Greater opportunities for Kiribati temporary labor migration</b>	<ul style="list-style-type: none"> <li>• 150 Kiribati workers currently participate per year in NZ RSE scheme</li> <li>• Each worker on average returns with \$4,000</li> </ul>	<ul style="list-style-type: none"> <li>• Increase in Kiribati workers participating in temporary labor migration schemes in Australia and NZ, with higher returns per worker as efficiency increases</li> </ul>	<ul style="list-style-type: none"> <li>• WB and Government to improve the competitiveness of Kiribati workers in RSE scheme</li> </ul>	<p><b>AAA:</b> Trade facilitation TA (FY12)</p>

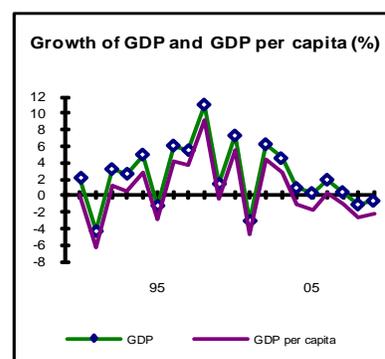
# Kiribati at a glance

1/14/11

Key Development Indicators	Kiribati	East Asia & Pacific	Lower middle income
<i>(2009)</i>			
Population, mid-year (millions)	0.10	1,930	3,767
Surface area (thousand sq. km)	0.8	16,299	31,923
Population growth (%)	1.6	0.7	1.2
Urban population (% of total population)	44	44	40
GNI (Atlas method, US\$ billions)	0.2	5,283	7,709
GNI per capita (Atlas method, US\$)	1,820	2,738	2,046
GNI per capita (PPP, international \$)	3,350	5,596	4,481
GDP growth (%)	-0.7	8.5	7.5
GDP per capita growth (%)	-2.2	7.7	6.3
<i>(most recent estimate, 2003–2009)</i>			
Poverty headcount ratio at \$1.25 a day (PPP, %)	..	17	..
Poverty headcount ratio at \$2.00 a day (PPP, %)	..	39	..
Life expectancy at birth (years)	..	72	68
Infant mortality (per 1,000 live births)	47	22	44
Child malnutrition (% of children under 5)	..	12	25
Adult literacy, male (% of ages 15 and older)	..	96	87
Adult literacy, female (% of ages 15 and older)	..	90	73
Gross primary enrollment, male (% of age group)	112	111	109
Gross primary enrollment, female (% of age group)	114	112	105
Access to an improved water source (% of population)	65	88	86
Access to improved sanitation facilities (% of population)	33	59	50



Net Aid Flows	1980	1990	2000	2009 <sup>a</sup>
<i>(US\$ millions)</i>				
Net ODA and official aid	19	20	18	27
<i>Top 3 donors (in 2008):</i>				
Australia	3	4	5	8
Japan	2	9	8	8
European Commission	0	1	1	6
Aid (% of GNI)	50.1	41.9	16.2	13.6
Aid per capita (US\$)	329	287	211	277
<b>Long-Term Economic Trends</b>				
Consumer prices (annual % change)	5.5	3.8	0.4	8.8
GDP implicit deflator (annual % change)	15.8	-4.7	0.3	4.6
Exchange rate (annual average, local per US\$)	0.9	1.3	1.7	1.3
Terms of trade index (2000 = 100)	..	..	..	..
Population, mid-year (millions)	0.1	0.1	0.1	0.1
GDP (US\$ millions)	28	28	68	128
<i>(% of GDP)</i>				
Agriculture	20.7	18.6	22.5	28.6
Industry	9.0	7.6	11.8	9.5
Manufacturing	2.1	1.2	5.0	6.2
Services	70.2	73.8	65.7	61.8
Household final consumption expenditure	94.5	89.6	..	..
General gov't final consumption expenditure	59.2	52.8	..	..
Gross capital formation	33.1	93.1	..	..
Exports of goods and services	23.4	11.6	6.9	9.4
Imports of goods and services	110.2	147.2	46.8	76.5
Gross savings	..	..	..	..



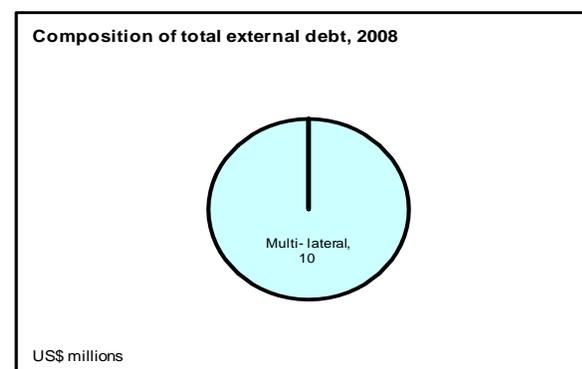
1980–90	1990–2000	2000–09
<i>(average annual growth %)</i>		
1.9	1.8	1.7
1.5	3.9	1.3
-2.3	-3.2	2.2
-3.9	6.8	-2.3
-10.7	1.9	4.4
0.1	5.5	2.6

Note: Figures in italics are for years other than those specified. 2009 data are preliminary. .. indicates data are not available.  
a. Aid data are for 2008.

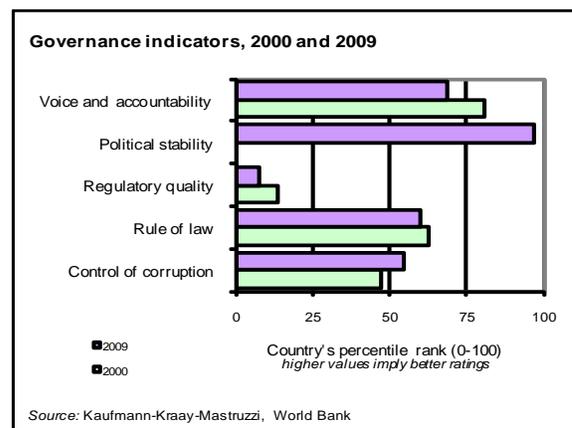
Balance of Payments and Trade	2000	2009
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	4	4
Total merchandise imports (cif)	40	60
Net trade in goods and services	-47	-81
Current account balance as a % of GDP	6 9.2	-4 -2.8
Workers' remittances and compensation of employees (receipts)	7	9
Reserves, including gold	0	0
<b>Central Government Finance</b>		
<i>(% of GDP)</i>		
Current revenue (including grants)	71.0	98.2
Tax revenue	..	..
Current expenditure	48.1	53.9
Overall surplus/deficit	-1.4	-12.4
Highest marginal tax rate (%)		
Individual	..	..
Corporate	..	..

**External Debt and Resource Flows**

<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	8	10
Total debt service	2	2
Debt relief (HIPC, MDRI)	-	-
Total debt (% of GDP)	11.1	7.7
Total debt service (% of exports)	3.0	2.5
Foreign direct investment (net inflows)	1	..
Portfolio equity (net inflows)	0	..



Private Sector Development	2000	2009
Time required to start a business (days)	-	21
Cost to start a business (% of GNI per capita)	-	38.0
Time required to register property (days)	-	513
Ranked as a major constraint to business (% of managers surveyed who agreed)	<b>2000</b>	<b>2009</b>
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	..	..
Bank capital to asset ratio (%)	..	..



Technology and Infrastructure	2000	2008
Paved roads (% of total)	..	..
Fixed line and mobile phone subscribers (per 100 people)	4	5
High technology exports (% of manufactured exports)	..	..

**Environment**

Agricultural land (% of land area)	46	46
Forest area (% of land area)	2.5	2.5
Terrestrial protected areas (% of surface area)	..	55.0
Freshwater resources per capita (cu. meters)	..	..
Freshwater withdrawal (billion cubic meters)	..	..
CO2 emissions per capita (mt)	0.39	0.35
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	..	..
Energy use per capita (kg of oil equivalent)	..	..

**World Bank Group portfolio**

	2000	2009
<i>(US\$ millions)</i>		
<b>IBRD</b>		
Total debt outstanding and disbursed	0	-
Disbursements	0	-
Principal repayments	0	-
Interest payments	0	-
<b>IDA</b>		
Total debt outstanding and disbursed	0	-
Disbursements	0	-
Total debt service	0	-
<b>IFC (fiscal year)</b>		
Total disbursed and outstanding portfolio of which IFC own account	-	0
Disbursements for IFC own account	-	0
Portfolio sales, prepayments and repayments for IFC own account	-	0
<b>MIGA</b>		
Gross exposure	-	-
New guarantees	-	-

**CAS Annex 4 - Kiribati**  
**Selected Indicators\* of Bank Portfolio Performance and Management**

As Of Date  
12.16.2010

Indicator	2008	2009	2010	2011
<b>Portfolio Assessment</b>				
Number of Projects Under Implementation	1	1	1	1
Average Implementation Period (years) <sup>b</sup>	2.1	3.1	4.1	4.3
Percent of Problem Projects by Number <sup>a, c</sup>	100.0	0.0	0.0	0.0
Percent of Problem Projects by Amount <sup>a, c</sup>	100.0	0.0	0.0	0.0
Percent of Projects at Risk by Number <sup>a, d</sup>	100.0	100.0	0.0	0.0
Percent of Projects at Risk by Amount <sup>a, d</sup>	100.0	100.0	0.0	0.0
Disbursement Ratio (%) <sup>e</sup>	32.3	37.7	72.6	100.0
<b>Portfolio Management</b>				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	0	0
Proj Eval by OED by Amt (US\$ millions)	0	0
% of OED Projects Rated U or HU by Number	0	0
% of OED Projects Rated U or HU by Amt	0	0

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the Bank's country portfolio.

c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).

d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

\* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, this includes all active projects as well as projects which exited during the fiscal year.

**CAS Annex 5 - Program Summary - Kiribati**

As Of 1.31.2010

**Indicative Program Including IDA and Potential Trust Funds**

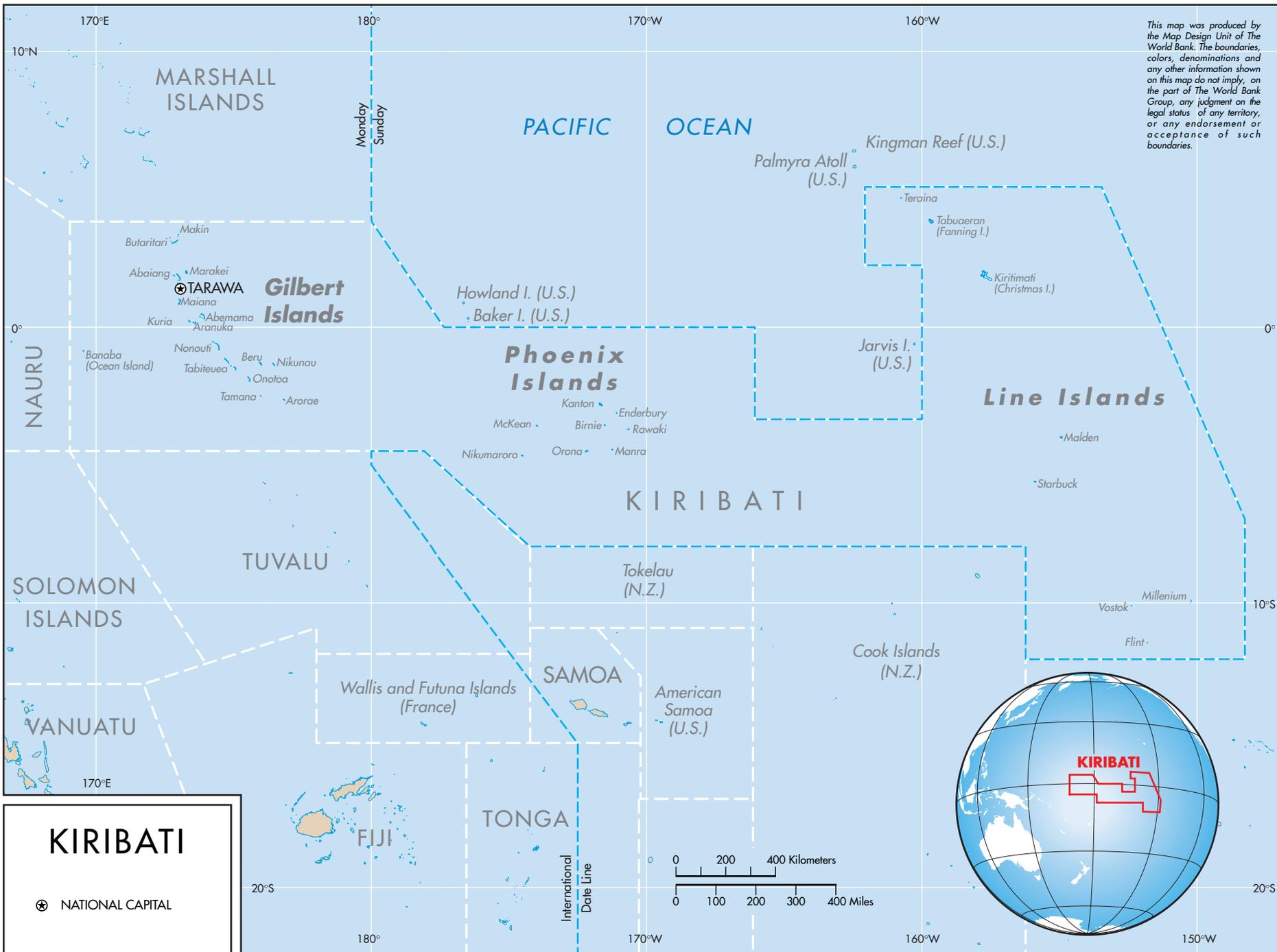
<i>FY</i>	<i>Project ID</i>	<i>US\$(M)</i>	<i>Strategic Rewards b (H/M/L)</i>	<i>Implementation b Risks (H/M/L)</i>
2011	Kiribati Road Rehabilitation Project	24.0	M	M
2011	GEF Kiribati Climate Adaptation 3	5.0	H	L
2011	Food Price Crisis Response	2.0	M	L
2012	Kiribati Airport Rehabilitation	10.0 – 15.0	M	M
2012	Tarawa Solar Energy	3.0 - 4.0	M	L
2013	Kiribati Telecommunications Reform	3.0 - 5.0	H	L
2014	Kiribati Climate Change Adaptation	10.0 - 20.0	H	H

CAS Annex 5 - Kiribati  
Operations Portfolio (IBRD/IDA and Grants)  
As Of Date 16 December 2010

Closed Projects      0

<b>IBRD/IDA *</b>	0.00
Total Commitments	0.00
<b>GEF</b>	1.80
Total Commitments	1.80
Total Disbursed	1.50

Project ID	Project Name	<u>Last PSR</u>		Fiscal Year	<u>Original Amount in US\$ Millions</u>			Cancel.	Undisb.	Difference
		Supervision Rating			IBRD	IDA	GRANT			Expected
		<u>Development Objectives</u>	<u>Implementation Progress</u>							Disburse
									Orig.	
P089326	KI Adaptation Program 2	MS	MS	2006			1.8		0.3	



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**KIRIBATI**

⊕ NATIONAL CAPITAL