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THIS ACTION IS FUNDED BY THE EUROPEAN UNION

ANNEX I

of the Commission Implementing Decision on the financing of the annual action plan
in favour of the Pacific region for 2022

Action Document for EU-Kiribati Partnership for Resilience Building

ANNUAL PLAN

This document constitutes an annual work programme in the sense of Article 110(2) of the Financial Regulation, and an action plan in the sense of Article 23(2) of the NDICI-Global Europe Regulation.

1 SYNOPSIS

1.1 Action Summary Table

1. Title CRIS business reference Basic Act	EU-Kiribati Partnership for Resilience Building OPSYS number: ACT-60599 Financed under the Neighbourhood, Development and International Cooperation Instrument (<u>NDICI-Global Europe</u>)
2. Team Europe Initiative	Yes. This action will contribute to the TEI “Green-Blue Alliance for the Pacific and Timor-Leste”.
3. Zone benefiting from the action	The action shall be carried out in Kiribati.
4. Programming document	Pacific Multi-Country Multi-Annual Indicative Programme 2021-2027
5. Link with relevant MIP objectives	Priority Area 2- Inclusive and Sustainable Economic Development Sector 2.2 – Economic Governance
PRIORITY AREAS AND SECTOR INFORMATION	
6. Priority Area	DAC 151 – Government & Civil Society – general
7. Sustainable Development Goals (SDGs)	Main SDG: 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels. Other significant SDGs: 1. No poverty; 5. Gender equality; 8. Decent work and economic growth; 13. Climate change; 17. Sustainable development.
8 a) DAC code	51010 – General Budget Support

8 b) Main Delivery Channel	12001 – Central / Recipient Government			
9. Involvement of multilateral partners	No			
10. Targets	<input type="checkbox"/> Migration <input checked="" type="checkbox"/> Climate <input checked="" type="checkbox"/> Social inclusion and Human Development <input type="checkbox"/> Gender <input type="checkbox"/> Biodiversity <input type="checkbox"/> Education <input checked="" type="checkbox"/> Human Rights, Democracy and Governance			
11. Markers (from DAC form)	General policy objective	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with disabilities	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	12. Internal markers and Tags:	Policy objectives	Not targeted	Significant objective
Digitalisation		<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
digital connectivity			<input type="checkbox"/>	<input checked="" type="checkbox"/>
digital governance			<input type="checkbox"/>	<input checked="" type="checkbox"/>
digital entrepreneurship			<input checked="" type="checkbox"/>	<input type="checkbox"/>
	digital skills/literacy		<input type="checkbox"/>	<input checked="" type="checkbox"/>
	digital services		<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Connectivity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	transport		<input type="checkbox"/>	<input type="checkbox"/>
	people2people		<input type="checkbox"/>	<input checked="" type="checkbox"/>
	energy		<input type="checkbox"/>	<input type="checkbox"/>
	digital connectivity		<input type="checkbox"/>	<input checked="" type="checkbox"/>

	Migration (methodology for tagging under development)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities (methodology for marker and tagging under development)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Covid-19	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BUDGET INFORMATION				
13. Amounts concerned	Budget line: BGUE-B2022-14.020132-C1-INTPA Total estimated cost: EUR 5 million Total amount of EU budget contribution: EUR 5 million for budget support of which EUR 4.2 million for budget support, and EUR 0.76 million for complementary support, and EUR 0.04 million for evaluation and audit.			
MANAGEMENT AND IMPLEMENTATION				
14. Type of financing	Direct management through: Budget Support: State and Resilience Building Contract (SRBC) Procurement			

1.2 Summary of the Action

This action, entitled ‘*EU-Kiribati Partnership for Resilience Building*’, aims at maintaining an international partnership between the European Union (EU) and Kiribati working towards resilience building, in particular further strengthening of institutions in Kiribati for better service delivery and reducing poverty. It builds on a previous EU Budget Support programme in Kiribati, the (first) State and Resilience Building Contract (SRBC) of the Financing Agreement *EU-Kiribati Partnership for a sustainable and inclusive socio-economic development* under the European Development Fund 11 (FED/2019/041-542).

Some years ago, Kiribati created the Economic Reform Taskforce (ERT), together with donors that provide Budget Support directly to the Treasury. These donors are New Zealand, Australia, Asian Development Bank (ADB), World Bank (WB) and the EU. This working group meets regularly to define, preferably each year, in a constructive dialogue the priorities in terms of Public Finance Management (PFM) and other relevant economic policies. In view of the relatively small population of around 114,000 people dispersed over a huge area in the Pacific Ocean, efficient service delivery has remained a daunting challenge. Most Ministries reside in the capital, Tarawa. The Ministry of Finance and Economic Development (MFED) has a major coordination task for everything relating to the national budget with the line Ministries, with the Provincial Governments, and in particular with the outer islands. It also has the oversight of the progress in the achievement of the Kiribati Vision 2016-2036 (KV20) that works towards the achievement of the 17 Sustainable Development Goals (SDGs).

The overall objective of this action is to make Kiribati more resilient by maintaining a strong EU-Kiribati partnership and working through the policy dialogue on the strengthening of the PFM systems and frameworks, and more generally, achieving the SDGs as defined in KV20 for inclusive development and poverty reduction countrywide. The specific objective is to improve the delivery of services and goods provided by the Government with a special focus on the outer islands. Environmental protection, climate change, human rights, standards and principles and gender objectives will be mainstreamed into the action. This concerns all areas of Public Finance

Management reforms in a broad sense (budgeting, procurement, internal audit, external audit, debt management) and also new and ongoing macro-economic policies.

Another important aspect is domestic revenue mobilisation.

This action will contribute to the Team Europe Initiative “Green-Blue Alliance for the Pacific and Timor-Leste”, in particular under the climate ambition and resilience pillar. It ensures that the macro-economic, fiscal and PFM policies are aligned with and conducive to achieving the climate objectives, both in terms of mitigation and adaptation. It supports Kiribati to enhance financial resilience, to transition to risk-informed investment planning and budgeting, as well as to strengthen PFM systems. This will include increasing fiscal resources, creating or expanding contingent financing, improving access to and effective use of climate finance, and improving institutional arrangements for risk management and post-disaster response.

2 RATIONALE

2.1 Context

1. Political and Financial Outlook

The Republic of Kiribati is situated in the Central Pacific Ocean and made up of 32 atolls and one raised coral island, dispersed over 3.5 million km² in three non-contiguous groups: the Gilberts, Phoenix and Line islands. The population is approximately 114,000 people, of which more than 60% lives on 10 km² of habitable land in the capital South Tarawa (Gilbert group); the remaining population lives across 22 outer islands in rural settings. Kiribati is one of the poorest countries in the Pacific, ranking 134 in the Human Development Report of 2020 out of 189 countries. About a fifth of the population lives below the basic needs poverty line. Of the total population of Kiribati 51% are women, 47% of the adult women are unemployed and 23% of households are headed by women¹. The number of people with disability is high (around 12% of the population).² These statistics mean that women and girls are less likely to have the financial means and technical skills to access basic services and manage related facilities. The participation of women in public and political life remains low in Kiribati, largely due to traditional perceptions of women’s role in society. Women also face an additional challenge in advancing their interest at the political level with only 7% of seats in parliament held by women and at the island level with marginal representation among mayors and clerks. Although girls currently outnumbered boys in secondary and tertiary education, girls and women are still underrepresented at all levels of decision-making. Specific gender analysis will be conducted through the feasibility studies foreseen in this action.

With its distribution and remoteness, in Kiribati the cost of infrastructure and public service delivery is high. The economy is highly vulnerable to external shocks and dependent on external sources of revenue (foreign aid³) and imported food and fuel. The public sector dominates the economy, providing two-thirds of all formal sector employment. Economic development is constrained by a shortage of skilled workers, weak infrastructure, and remoteness from international markets. Weaknesses in business climate and financial intermediation also limit economic and job opportunities. With one of the lowest per capita gross domestic products (GDP) in the region, about a fifth of the population lives below the basic needs poverty line. According to the WB and the International Monetary Fund (IMF), Kiribati is a fragile state (see [IMF, Building Fiscal Capacity in Fragile States](#) and [WB, Harmonized List of Fragile Situations and List FY2018](#)). While Kiribati has no peacekeeping mission or political & peacebuilding missions, it is a country with weak institutional capacity as measured by the WB’s *Country Policy and Institutional Assessment*, also called CPIA-score.

¹ [2017 Kiribati Gender Statistics Abstract](#).

² 2015 National Population and Housing Census and OHCHR Committee of the Rights of Persons with Disabilities (2017/8).

³ [Net Official Development Assistance received 2017: 20.05 % of GNI: <http://data.un.org/CountryProfile.aspx?crName=kiribati>](#)

The country's long-run prospects are further clouded by climate change – the low elevation of the atolls (1.8 meters above sea level on average) makes the population extremely vulnerable. As such, it is at the forefront of climate change impacts. According to a WB report, Kiribati's capital of Tarawa —where nearly half the population lives— will be 25-54% inundated in the south and 55-80% in the north by mid-century. This is a major concern since there is massive internal migration towards Tarawa, offering services that isolated islands cannot provide, such as schooling and healthcare.

The action is relevant for the 2030 Agenda and it is aligned with the New European Consensus on Development as it focuses on poverty eradication while integrating the economic, social, and environmental dimensions of sustainable development. It is centred on People (Human Development and Dignity) and Prosperity (Inclusive and sustainable growth and jobs). It contributes mainly to SDG 1 “No poverty”, SDG 5 “Gender equality” and SDG 8 “Decent work and economic growth”.

The proposed action will contribute to the Team Europe Initiative “Green-Blue Alliance for the Pacific” and is closely linked to pillar 2 therein, ‘Ridge to reef, Ocean to people’. The action is also fully aligned to Priority Area 2 of the Pacific Multi-Country Multi-Annual Indicative Programme 2021-2027, ‘Inclusive and Sustainable Economic Development’ by creating opportunities for income, jobs and growth by supporting private investments while incorporating gender equality, environmental protection and participation of civil society as cross-cutting elements. In line with the policy priorities set out in the EU's Indo-Pacific Strategy and the European Commission's priorities, the action will support the green transition and a better ocean governance.

In December 2018, the General Assembly concluded the UN's triennial assessment of the list of Least Developed Countries (LDCs). The Economic and Social Council recognized the unprecedented socio-economic impacts of the COVID-19 global pandemic and decided to defer the consideration of its graduation again until 2024. Upon graduation from LDC status, Kiribati will lose the EU's Everything-But-Arms (EBA) preferences three years thereafter, and will fall into the Generalised System of Preferences (GSP), which is a less favourable regime unless Kiribati accedes to the Economic Partnership Agreement (EPA) with the EU like Papua New Guinea, Fiji, Samoa and Solomon Islands did. The GSP would affect Kiribati's exports of primary commodities, which account for over 90% of merchandise exports. The fisheries sector, which accounts for over 50% of Kiribati's exports and holds the most potential for increasing further Kiribati's exports to the EU and generating income for women and youth, will be the most affected. This action prepares Kiribati to adapt to the new status maximising the potential for integrating added value chains in the fishing sector.

2. Rationale and Assessment

The rationale of this action is to maintain a solid and open partnership with the Government of Kiribati on macro-economic stability and PFM reforms, as established under the first SRBC. The ERT is the appropriate forum for this, presided by the Secretary to the Cabinet. It has been in existence for several years, during which Australia, New Zealand, the ADB, the WB and the EU have established solid relationships in their joint dialogue with the Government. ERT-missions took place regularly under the first SRBC, through which every stakeholder relevant for any of the actions on the policy matrix accounted for the progress. The main challenge is to determine the sequencing and prioritisation of policy actions. Also, there is limited skilled staff and a high turnover. During the COVID-19 pandemic the ERT has continued its regular meetings remotely via internet connections. In recent years, more technical meetings have also been established, depending on the topics and whenever needed. There are minutes of the meetings, aide-memoires, expenditure reviews and background papers on specific topics (e.g. on asset management).

3. List of Actions

The current actions in the policy matrix drive the process. The EU as a participant of the ERT can, however, weigh in at any moment and propose certain policy actions. The fight against corruption and fraud has been one of the main actions in recent years for the Government (KV20). Another major reform, regarding domestic revenue mobilisation, is the tax reform.

2.2 Problem Analysis

Short problem analysis:

In view of the dire needs of the people of Kiribati, regarding health and education but also infrastructure and the necessity to respond or adapt to climate change, the main problem is the sequencing of reforms given the limited human capacity to improve Government service delivery and ultimately, to achieve the SDG targets.

Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action:

- The National Economic Planning Office (NEPO) of the MFED and the Secretary to the Cabinet have the mandate to drive the ERT process. MFED has limited capacity in view of the challenges at hand;
- Other line Ministries that will be involved in the process of defining policy actions for the ERT policy matrix. For example, in the past the Ministry of Education promulgated regulations for early childhood care and literacy and the Ministry of Fisheries and Marine Resource Development promulgated regulations for the conservation and management of coastal marine resources, to put limits on catches;
- Other development partners in Kiribati (New Zealand, Australia, ADB and WB) are essential partners to maintain the strong relationship in the ERT;
- Civil society through the Kiribati Association of Non-Governmental Organisations (KANGO) and the private sector through the Chamber of Commerce will be involved in the decision making processes and its monitoring, such as the tax reforms. As yet, Kiribati has no well-established Human Rights Institution, though this action could promote its establishment;
- Youth and women organisations and organisations representing vulnerable and marginalised groups, including groups representing persons with disabilities. The most vulnerable groups in Kiribati are in the outer islands.

2.3 Additional Areas of Assessment

2.3.1 Pre-condition on Fundamental Values

Kiribati is an electoral democracy. The President is popularly elected in a two-step process whereby Parliament nominates candidates from its own ranks and voters then choose one to become President. Since independence from UK in 1979, Kiribati has maintained a stable and democratic government. At the shifting from Taiwan to People's Republic of China in 2019, there was some political instability. Meanwhile this has been resolved and Kiribati has been stable since mid-2020.

Kiribati ranks 69 on a scale of 0 (worst) to 100 (best) according to the WB Indicator on the Rule of Law.

The country has ratified four core international human rights conventions: Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), the Convention on the Rights of the Child (CRC), the Convention against Torture and Other Cruel Inhuman or Degrading Treatment or Punishment (CAT) and the Convention on the Rights of Persons with Disabilities (CRPD).⁴

2.3.2 Public Policy

Kiribati's overarching long-term development framework is the [Tobwaan Ao Karikirakean Kiribati or Kiribati 20-year Vision 2016-2036 \(KV20\)](#) covering the period 2016-2036. The vision is to become a wealthy, healthy and peaceful nation with the people at the centre of it. Kiribati wants to fast track and accelerate growth through the maximisation of returns from Kiribati's natural, human and cultural capital.

⁴ [United Nations Human Rights Treaty Bodies](#)

Along with this long-term strategy paper KV20 covering 20 years, there are the medium-term Kiribati Development Plans (KDP) with four-year cycles, the Ministerial Strategic Plans and the Ministerial Operational Plans. The latter two are at the Ministerial level only. The MFED monitors and evaluates the development strategy in consultation with key stakeholders. The four-year reviews align outcomes, strategies, indicators and targets to reflect current realities. The most recent [KDP](#) covers 2020-2023. It also assesses the Key Performance Indicators for the previous medium-term period. The [2015-2019 KDP](#) was the follow-up of the *Comprehensive Development Plan 2012-2015*. MFED reviewed the 2015-2019 KDP in 2018 (find it [here](#)).

Kiribati is aware of the need of enhancing the compilation of data and statistics. [The National Statistics Office](#) operates under the UN Fundamental Principles of Official Statistics. IMF's Pacific Financial Technical Assistance Center (PFTAC) and other donors (currently ADB) are providing support regarding macro-economic indicators.

The KV20 is ambitious but definitely relevant for all people in Kiribati while its credibility still depends on many factors, amongst others the direct impact of the COVID-19 pandemic on government finances in coming years. Given that only five years have past of the twenty years that KV20 covers, the goals set could still be achieved. Currently the strategy is thus still credible.

The ERT policy matrix is renewed every year for a two-year period and thus has a much shorter horizon than the KV20, though it is fully consistent with this strategic plan. It is therewith relevant. It is also credible since the actions are defined in such a way that it is feasible for the Government to take them in the defined timeframe.

In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore the policy can be supported by the Commission with the proposed budget support contract.

2.3.3 Macroeconomic Policy

According to the IMF (press release December 2021), Kiribati's economy shows signs of recovery with real GDP-growth projected at 1.5% in 2021 following a contraction of 0.5% in 2020 (the COVID-19 hit year). Strong fishing revenues and supportive fiscal policies boosted government and household financial balances. Inflationary pressures appear to have risen substantially in 2021 due to a combination of supply disruptions and high domestic demand. The nascent recovery is expected to gain steam as the vaccination drive continues. The IMF's projection of real GDP-growth at 2.4% in 2022 will likely be lower due to the first lockdown early 2022. Inflationary pressures are expected to continue in 2022, partially due to the pass-through effect of higher energy prices. Risks to the outlook are substantial and predominantly tilted to the downside, primarily stemming from COVID-19 developments potentially delaying the global recovery.

In the absence of monetary policy, fiscal policy is the main policy instrument. The Government has adjusted its fiscal medium-term projections (see Budget 2022), from the unstable situation that was projected earlier (see Budget 2021) and subsequently discussed within the ERT. According to the IMF, supportive fiscal measures should remain in place until the recovery is firmly underway, but measures should be well-targeted. During 2020-21, the authorities approved an economic relief package of about AUD 30 million (11.5% of 2020 GDP), partly financed by reallocating donor grants. The relief focused on health spending, unemployment benefits, financial aid for cargo deliveries, support for private firms and state-owned enterprises, and repatriation of stranded nationals. With half of the allocated funds still undisbursed, the authorities have room to continue to cushion the economic impact of the pandemic, if needed. All pandemic related spending should be well-targeted and focused on the most vulnerable, with proper safeguards in place. A swift vaccination of the eligible population is key to safeguard the nascent growth and reopen the borders. The authorities' plans to reopen the Phoenix Islands Protected Area (PIPA) to commercial fishing should be designed to ensure sustainability of fishing and preserve marine biodiversity.

Improvements in tax administration remain key to increase domestic revenue mobilisation and diversify government income. As with the first SRBC, this action will contribute to support the Kiribati Tax Department

(KTD) in its efforts to broaden the tax base and pass new tax bills. The rules set by the ERT for using funds from the Sovereign Wealth Fund, called the *Revenue Equalization Reserve Fund* (RERF) of around AUD 1 billion should be adhered to. The external debt stock remains relatively low at less than 25% of GDP and solid cash reserves are conducive for macroeconomic stability. However, according to the IMF the country was already at a high risk of debt distress in 2019 and it is unlikely that this has improved during the COVID-19 pandemic.

In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy and the eligibility criterion is met.

2.3.4 Public Financial Management

The Public Finance Management systems need to be strengthened. Progress in procurement laws and regulations has been achieved over the last years, which the ERT stimulated in view of the ad hoc decision to buy two airplanes in 2018/19. Apart from procurement, the ERT has focused on the Financial Management Information System (FMIS) that ADB is strongly supporting with technical assistance, on reporting of main Budget documents such as the Fiscal Strategy, and the management and rules for the RERF and state-owned enterprises. All other areas in PFM still need more attention. Domestic revenue mobilisation in the form of improvements in the tax administration is one of the areas where substantial support is currently provided by the EU and PFTAC.

The latest Public Expenditure and Financial Accountability (PEFA) Assessment took place in 2018/19 and showed the weaknesses. Kiribati has a high PFM risk, according to the EU's Risk Management Framework. Gender responsive budgeting and PFM systems' responsiveness to environmental degradation and climate change are new areas of attention for Kiribati that are discussed in the ERT. The main PFM reform programme is the ERT's policy matrix. The PFM actions therein are definitely relevant and also credible, since the donors provide their Budget Support tranches on the basis of these actions. The authorities are thus committed, despite managing other priorities, e.g. the current outbreak of COVID-19 in Tarawa and the subsequent first lockdown.

In conclusion, the public finance management reform strategy is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met.

2.3.5 Transparency and Oversight of the Budget

At the end of November 2021, MFED published the Budget documents – [Vice-President's Budget Speech 'Te waaki inanon te taneiai ae e boou or Adapting to the new normal' in the Maneaba ni Maungatabu \(House of Assembly\) Parliament, the Recurrent Budget and the Development Budget](#) - for the Budget year 2022 (January to December) on its internet page. These documents are quite comprehensive and provide sound budgetary information. MFED also published the RERF-withdrawal rule, instigated by the ERT, as well as the Fiscal Strategy which presents the macro-economic projections on which the Budget is based. On 11 December 2021, the House of Assembly passed an Appropriation Bill to authorise monies of the consolidated fund for recurrent expenditure for the service of the year ending 31 December 2022, in accordance with the requirements of Section 109(1) of the Constitution.

In conclusion, the relevant budget documentation has been published and the eligibility criterion is met.

3 DESCRIPTION OF THE ACTION

3.1 Objectives and Expected Outputs

The Overall Objective (Impact) of this action is to make Kiribati more resilient, socio-economically and climate-related. The action maintains the strong EU-Kiribati relationship, and more generally supports the achievement of

the actions in the ERT's policy matrix and the 17 Sustainable Development Goals as defined in the Kiribati Vision 2016-2036 (KV20) for an inclusive development and poverty reduction countrywide.

The Specific Objectives of this action are:

- SO1) More decent work and economic growth;
- SO2) To improve delivery Government services and goods, with a special focus on the constituencies.

The *induced outputs* are:

- IO1) More effective and efficient public institutions;
- IO2) More comprehensive legal and regulatory PFM framework.

The *direct outputs* are:

- DO1) Additional fiscal space created by the transfer of funds and increased predictability of funds;
- DO2) Improved policy dialogue and coordination;
- DO3) Improved policy performance assessment and monitoring;
- DO4) Strengthened core tax administrative functions.

3.2 Indicative Activities

Activities related to Output IO1 and IO2: Undertaking of technical assistance to the Ministry of Finance and Economic Development (MFED), in particular the Kiribati Tax Department (KTD).

Activities related to Outputs DO2, DO3 and DO4: Active role in the Economic Reform Taskforce (ERT) and technical meetings as a continuous monitoring system.

Team Europe Initiative

The commitment of the EU's contribution to the Team Europe Initiative foreseen under this action plan will be complemented by other contributions from Team Europe partners. It is subject to the formal confirmation of each respective partners' meaningful contribution as early as possible. In the event that the TEIs and/or these contributions do not materialise the EU action may continue outside a TEI framework.

3.3 Mainstreaming

Environmental Protection & Climate Change

Outcomes of the SEA screening (relevant for budget support and strategic-level interventions)

The Strategic Environmental Assessment (SEA) screening concluded that no further action was required.

Outcomes of the EIA screening

The EIA (Environment Impact Assessment) screening classified the action as Category C (no need for further assessment).

Outcome of the CRA screening (relevant for projects and/or specific interventions within a project)

The Climate Risk Assessment (CRA) screening concluded that this action does not carry climate risk or has a low risk (no need for further assessment).

Gender equality and empowerment of women and girls

As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G1. This implies that gender will run through all actions that the ERT will define in the annual policy matrix, where possible in view of the competing priorities.

Human Rights

Respect, protection and fulfilment of Human Rights will be promoted throughout the action. The action will apply the five working principles of the human-rights-based approach through implementation: a) applying all human rights for all; b) meaningful and inclusive participation and access to decision-making; c) non-discrimination and equality; d) accountability and rule of law for all; and e) transparency and access to information supported by disaggregated data if possible.

Disability

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D1. The inclusion of persons with disabilities is a topic in the actions that the MFED is taking in the context of the Kiribati Vision 2016-2036.

Democracy

Kiribati is a democracy. It has had free and fair elections. Democratic rights will be promoted, indirectly. Work with Civil Society Organisations, amongst others, to improve accountability and fight corruption will also be promoted.

Conflict sensitivity, peace and resilience

All Budget Support donors participating in the Economic Reform Taskforce are fully aware of the need for resilience building in a broad sense (poverty reduction, economic, social, fiscal and financial). Resilience is at the core of this action, as the title reflects. The Do No Harm Approach will be considered.

Disaster Risk Reduction

Kiribati is prone to natural disasters. DRR is mainstreamed in actions, such as the infrastructure new building code.

Other considerations if relevant

None at this stage.

3.4 Risks and Lessons Learnt

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
SDG	Slow progress in the achievement of SDGs	H	M	Due to COVID-19 and the lockdown(s), this is likely since the MFED has low capacity and huge responsibilities. The intervention will also promote the collection and greater

				availability of relevant data on the SDGs.
Political	Political crisis and no new coalition	L	H	Kiribati had regularly political upheavals but was stable in 2021. If a political crisis were to happen, it could negatively impact the economy for years to come.
Fiscal	If the COVID-19 pandemic continues, spending on medical equipment and treatments, as well as social security will remain high while revenues remain low	M	L	As long as the donors are present, and the IMF remains on good terms with GoK, the risk is medium. The ERT and the IMF keep the Government accountable and play a role in stimulating GoK to support main areas (KTD and DRM, Integrated Financial Management Information System, procurement, state-owned enterprises, Sovereign Wealth Fund).
Macroeconomic	The Government breaches the RERF-rules, against the agreements made with the ERT	M	H	This almost happened in 2021 and it damaged trust between the Government and development partners. The situation was saved by publication of the withdrawal rule and the close monitoring of the WB/ERT.
Outer islands	Government not being inclusive, e.g. regarding the income support (COVID-19)	M	M	ERT and IMF's support and advice in making decisions and implementing policies will help.
Climate change displacement, internally displaced persons (IDP) situation, risks of disasters	Lack of systematic climate change mitigation and disaster risk reduction; unintended harmful impacts on displaced communities	M	M	The Office of the President and the Ministry of Environment (MELAD) start implementing the legislation that passed in Parliament end of 2021.

Lessons Learnt:

During the first SRBC, a strong relationship with the Government has been built. The EU has been perceived as a reliable partner, supporting the Government where possible, not the least in the KTD with long-term Technical Assistance, as in NEPO and in the Office of the Auditor-General. An international partnership with Kiribati is highly relevant for the European Union. The country suffers from the consequences of climate change. Relocations of villages are likely to occur when the sea level keeps on rising. The EU, as a strong promoter of its Green Deal, will have to live up to its goals set regarding the environment and the climate. In addition, the COVID-19 pandemic is impacting Kiribati more severely than other countries worldwide due to its remoteness and status of the health sector. Two years after COVID-19 hit developed countries, Kiribati faces the COVID-19 disease in-country for the first time early 2022. The lockdown(s) in 2022 may impact Kiribati socio-economically for some years to come. A continued dialogue with the country is thus key.

3.5 The Intervention Logic

The underlying intervention logic for this action is that the EU will continue to work closely with other Budget Support partners in the ERT in dialogue with the Government, on PFM reforms and other policy actions that may concern any other sector of the economy (e.g. infrastructure regarding climate-resilient building codes or environment regarding the implementation of the new Act to protect the environment, including concrete entitlements for IDPs), striving for better service delivery for all the people in Kiribati, inclusively, and ultimately for poverty reduction. Regularly, the ERT will adopt a matrix with medium-term policy actions. This will be endorsed by Cabinet. The attainment of these actions will trigger Budget Support tranche releases. The KTD and/or NEPO will be supported by means of technical assistance in good cooperation with the other ERT partners, and possibly the IMF Washington and PFTAC.

Throughout the intervention, an important topic will be the greenness of the PFM areas, i.e. the ‘no harm to the environment’ principle, gender equality, digitalization of the Government systems (IFMIS and tax administration) and communication with the public through consultation on new bills and regulations regarding taxation and KV20-priority areas (corruption, climate responsiveness, gender), to increase transparency, accountability and access to information. Since the Government’s work is currently still paper-based, long strides can be made. All areas of PFM must show elements of climate responsiveness. In this respect, the promotion of green budgeting, green taxation and integration of natural capital accounting in the country’s Public Financial Management system will be supported and encouraged. PFTAC may wish to perform a climate responsiveness and gender assessment (linked to the Public Expenditure and Financial Accountability (PEFA) assessment). The action will promote the collection and availability of data on all key development indicators (in line with the SDGs), where possible disaggregated.

If the activities are undertaken, i.e. if the technical assistance is provided to KTD and/or NEPO, and the development partners (including the EU) will continue to play an active role in the ERT with a continuous monitoring system, then the more effective and efficient public institutions will be established and the legal and regulatory PFM framework will be comprehensively revised. If the direct outputs materialise, i.e. (i) additional fiscal space; (ii) improved policy dialogue; (iii) improved performance; and (iv) strengthened core tax administrative functions, and if at the same time the Government will be able to fill the key in-line positions successfully with qualified persons, then this action will achieve the induced outputs. If more effective and efficient public institutions will be established and the legal and regulatory PFM framework will be comprehensively revised, and at the same time, in-country travel will have been possible, then there will be more decent work and economic growth generated and there will be improved delivery of Government services to all Constituencies. If these outcomes are realised and no major shocks occur, then Kiribati will become more resilient, socio-economically but also climate- and gender-related, all-inclusive with respect for human rights.

3.6 Logical Framework Matrix

Results	Results chain	Indicators	Baselines 2022	Targets 2027	Sources of data
Indicative Impact of the policy	To make Kiribati more resilient, socio-economically and climate-related.	1. Fragile state status	1. Kiribati is a fragile state	1. Kiribati is not a fragile state	1. World Bank annual publication online
Expected Outcomes of the policy	SO1. More decent work and economic growth created, with respect for gender and climate.	1.1 Annual Gross Domestic Product-growth (average past three years) 1.2 References to greenness 'no harm to the environment' and gender aspects in Budget process	1.1 1.6% ⁵ 1.2 0	1.1 > 2.5% 1.2 Multiple references in each of the annual Budget documents	1.1 IMF website / Article IV 1.2 Budget speech and other Budget documents
	SO2. To improve delivery of Government services and goods with a special focus on the outer islands.	2.1 Satisfaction rates from the outer islands	2.1 Low	2.1 Moderate to high	As measured by NEPO in a progress report
Induced Outputs	IO1. More effective and efficient public institutions established.	1.1 Governance effectiveness indicator	1.1 47 th rank (where 0 is worst and 100 best)	1.1 At least in the 60 th rank	1.1 World Bank
	IO2. More comprehensive, legal and regulatory PFM framework.	2.1 Status of revision and implementation of Income Tax Bill, Inland Revenue Board Bill and VAT and Excise Bill 2.2. Status of the assessment of the Public Expenditure Financial Accountability (PEFA) Climate and Gender responsiveness Module	2.1 Old legislation 2.2 None done since 2018/9	2.1 Income Tax Bill, Inland Revenue Board Bill and VAT and Excise Bill passed in Parliament and being implemented 2.2 The two modules done and published	2.1 Kiribati Parliament website 2.2 PFTAC/PEFA-secretariat/other
Direct Outputs	DO1. Additional fiscal space created by the transfer of funds and increased predictability of funds.	1.1 Disbursement level of the Budget Support	1.1 0	1.1 €4.5 M	1.1 ERT mission and TA reports
	DO2. Improved policy dialogue and coordination.	2.1 Cumulative no of ERT-meetings, with agenda and minutes	2.1 n/a	2.1 8	2.1 ERT agenda and minutes
	DO3. Improved policy performance assessment and monitoring.	3.1 Percentage of agreed actions in the ERT Policy Reform Matrix achieved (monitoring)	3.1 n/a	3.1 >60%	3.1 ERT aide-memoires or equivalent report
	DO4. Strengthened core tax administrative functions.	4.1 Average in strengthened core tax administration functions.	4.1 1.6 ⁶	4.1 >2.5	4.1 IMF/PFTAC's Annual Report progress logical framework

⁵ The IMF's website and press release December 2021 shows that real GDP-growth was 3.9% in 2019, -0.5% in 2020 and is projected at 1.5 in 2021. Hence, the average is 1.6%.

⁶ IMF/PFTAC's 2020 Annual Report page 19.

4 IMPLEMENTATION ARRANGEMENTS

4.1 Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with the partner country.

4.2 Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3 Implementation of the Budget Support Component

4.3.1 Rationale for the Amounts Allocated to Budget Support

The amount allocated for the budget support component is EUR 4.2 million. This is based on experience with the (first) SRBC of the Financing Agreement *EU-Kiribati Partnership for a sustainable and inclusive socio-economic development* under the European Development Fund 11 (FED/2019/041-542). The amount proposed in this action will guarantee continuity of the participation of the EU in the Economic Reform Taskforce. The third and last tranche under the first SRBC is scheduled for 2023 and this action can provide a first tranche release in 2024. This SRBC will thus seamlessly follow-up on the first SRBC. Given the COVID-19 pandemic and its impact on the Kiribati economy, with excess spending for medical equipment and social security, Kiribati needs fiscal space. Another argument for continuing Budget Support is the remoteness of the country and its endeavours to remain in close and solid contact with development partners, even if this contact only takes place via internet connections. Continuation of the ERT-dialogues enables Kiribati staff and donors to exchange and adapt views on policy plans and initiatives and to improve their sense of realism.

The amount allocated for complementary support is EUR 0.76 million. This amount is also based on experience with the first SRBC. Since Kiribati has been mainly dependent on fisheries in recent years and is seeking diversifications in its sources of income, domestic revenue mobilisation through improved tax collection is an obvious domain since there is ample room for improvement. Not only has legislation been outdated, also the tax base can be broadened. With the planned complementary support, the EU can continue to support the KTD, as it has been doing under the first SRBC. The amount in this action equals the amount used for two long-term advisors for the KTD under the first SRBC, in addition to support one staff-member in NEPO (to support this Action). The ERT strongly encourages the EU's support to the KTD, as does the IMF's PFTAC which delivers regularly short-term support to the KTD, aligned with the EU activities. Also here, seamless follow-up of this complementary support with the first SRBC applies. For the KTD, continued EU-support is thus almost surely guaranteed.

The proposal is to have three annual payments, each payment being a fixed tranche of EUR 1.4 million. This schedule is indicative. The actual disbursement calendar and profile will be set out in the financing agreement and may remain subject to change.

4.3.2 Criteria for Disbursement of Budget Support

a) Conditions

The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the Public Finance Management (PFM) reforms and national/sector policies as defined in the matrix of the Economic Reform Taskforce, as well as progress more broadly related to the Kiribati Vision 2016-2036 (KV20) and continued credibility and relevance thereof or of the subsequent policy.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

b) Fundamental values

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

4.3.3 Budget Support Details

Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the Euro transfers disbursed into Australian dollars will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

4.4 Implementation Modalities

The Commission will ensure that the EU's rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures⁷.

4.4.1 Direct Management (Procurement)

The procurement will consist of complementary support to either PFM-reforms or the achievement of ERT- or KV20-goals. This concerns support to the KTD and NEPO. KTD will need support to implement the new tax Acts and tax regulations with the aim to increase the tax base, to limit tax evasion and to review tax deductions. The support to NEPO will also provide for administrative tasks related to this Action.

4.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

⁷ www.sanctionsmap.eu. Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

4.6 Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)
Budget support - cf. section 4.3	4 960 000
Strengthened policy dialogue on PFM reforms and SDGs for an inclusive development and poverty countrywide	4 200 000
Procurement (direct management) – cf. section 4.4.1	760 000
Evaluation – cf. section 5.2	40 000
Audit – cf. section 5.3	
Totals	5 000 000

4.7 Organisational Set-up and Responsibilities

The policy dialogue will take place in the ERT and in meetings among the Budget Support donors and Government staff at technical levels. The Secretary to the Cabinet steers the dialogues. On behalf of the Budget Support donors, the WB has led the dialogue in recent years but any other donor (ADB, New Zealand, Australia or the EU) could take over this role. New Zealand and Australia have their High Commissioners on the ground in Tarawa and full teams. In view of their fiscal years, their will to push for reforms increases in the first half of calendar years. Depending on the subjects of the ERT-agenda their experts participate in the ERT-meetings. From the MFED, the Director of NEPO (financed by Australia) and a selection of the NEPO senior staff follow all discussions. It is the responsibility of the Secretary to the Cabinet to seek the endorsement of the policy matrix in the Cabinet. Discussions with the Minister of Finance take place, when required. Discussions with other Ministries depend on the policy actions, as deemed relevant to the donors and the Secretary and the Director of NEPO. Since the COVID19-pandemic started in early 2020, the IMF mission chief of the Article IV also participates regularly in the ERT-meetings, which has turned out to be extremely useful.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

5 PERFORMANCE MEASUREMENT

5.1 Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the log-frame matrix (for project modality) and the partner's strategy, policy or reform action plan list (for budget support).

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

[The National Statistical Office](#) has the role and responsibility for most macro-economic data collection. NEP has the role and responsibility of analyses and monitoring.

NEPO will perform a survey to measure the baseline for the indicator associated with special objective (SO1) *Improved delivery of Government services and goods, with a special focus on the outer islands*. NEPO will also perform the end-survey in 2027 regarding this indicator, and the indicator on digitalisation (DO4).

The statistical and monitoring systems as well as the quality of official data in the policy field covered are regularly assessed. Recent assessments feed into the design of the action via checks and balances, also from the other partners (ADB, WB, IMF/PFTAC) on amongst others actual macro-economic indicators, including public finance data, and legislation.

5.2 Evaluation

Having regard to the nature of the action, a final evaluation may be carried out for this action or its components through a mission.

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that the country is fragile, that human resources are therefore limited, and that the EU may wish to support a follow-up Budget Support operation.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

Evaluations shall assess to what extent the action is taking into account the human rights-based approach working principles (i.e. applying all human rights for all; meaningful and inclusive participation and access to decision-making; non-discrimination and equality; accountability and rule of law for all; and transparency and access to information supported by disaggregated data) as well as how it contributes to gender equality and women's empowerment. In this regard, expertise on human rights and gender equality will be ensured in the evaluation teams, as well as progress on skills on disability inclusion.

The evaluation reports may be shared with the partners and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, apply the necessary adjustments.

Evaluation services may be contracted under a framework contract.

5.3 Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

Audit and verification may be contracted under a framework contract.

6 STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

The 2021-2027 programming cycle will adopt a new approach to pooling, programming and deploying strategic communication and public diplomacy resources.

It will remain a contractual obligation for all entities implementing EU-funded external actions to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. This obligation will continue to apply equally, regardless of whether the actions concerned are implemented by the Commission, partner countries, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU member states.

However, action documents for specific sector programmes are in principle no longer required to include a provision for communication and visibility actions promoting the programmes concerned. These resources will instead be consolidated in Cooperation Facilities established by support measure action documents, allowing Delegations to plan and execute multiannual strategic communication and public diplomacy actions with sufficient critical mass to be effective on a national scale.

Appendix 1 REPORTING IN OPSYS

An Intervention⁸ (also generally called project/programme) is the operational entity associated to a coherent set of activities and results structured in a logical framework aiming at delivering development change or progress. Interventions are the most effective (hence optimal) entities for the operational follow-up by the Commission of its external development operations. As such, Interventions constitute the base unit for managing operational implementations, assessing performance, monitoring, evaluation, internal and external communication, reporting and aggregation.

Primary Interventions are those contracts or groups of contracts bearing reportable results and respecting the following business rule: ‘a given contract can only contribute to one primary intervention and not more than one’. An individual contract that does not produce direct reportable results and cannot be logically grouped with other result reportable contracts is considered a ‘support entities’. The addition of all primary interventions and support entities is equivalent to the full development portfolio of the Institution.

The present action identifies as:

Action level		
<input checked="" type="checkbox"/>	Single action	Present action: all contracts in the present action

⁸ [Ares\(2021\)4450449](#) - For the purpose of consistency between terms in OPSYS, DG INTPA, DG NEAR and FPI have harmonised 5 key terms, including ‘action’ and ‘Intervention’ where an ‘action’ is the content (or part of the content) of a Commission Financing Decision and ‘Intervention’ is a coherent set of activities and results which constitutes an effective level for the operational follow-up by the EC of its operations on the ground. See more on the [concept of intervention](#).