



Peer Review of the Republic of Kiribati

Cairns Compact for Strengthening Development Coordination in the Pacific

**Pacific Islands Forum Secretariat
October 2010**

Acknowledgements

A peer review as provided for under the Cairns Compact agreed by Pacific Leaders in August 2009 was carried out in Kiribati from 22 to 28 April 2010. The peer review team consisted of representatives from Papua New Guinea and New Zealand, supported by the Pacific Islands Forum Secretariat. The review would not have been possible without the efforts of a number of people and organisations to whom the peer view team would like to express their gratitude:

- The Government of Kiribati for its willingness to allow Kiribati to be reviewed;
- The Secretaries of Foreign Affairs and Finance of Kiribati, who led the participation of the Government of Kiribati in the peer review process;
- The staff of the National Economic Planning Office, Government of Kiribati, who ably managed the peer review team's schedule and provided much helpful information;
- Senior staff of the Government of Kiribati, development partners and non-government organisations who gave time for the team to learn about Kiribati's development planning and implementation processes and external support; and
- The Governments of Papua New Guinea and New Zealand for agreeing to release staff to make up the review team.

\$ amounts are Australian dollars unless otherwise stated

1.0 Background

1. Forum Leaders agreed through the Cairns Compact in August 2009 that the Pacific Islands Forum Secretariat (PIFS) should establish and report annually to the Pacific Islands Forum on a process of regular peer review of Forum Island Countries' (FICs') national development planning and budget processes to:

- a. promote international best practice in key sectors;
- b. improve effective budget allocations and implementation to achieve national development priorities; and
- c. guide support from development partners.

2. The objective of the peer review process is also to guide improvements in development coordination, including by informing discussions at the Pacific Islands Forum and Post Forum Dialogue, through reviews of coordination at a country level.

3. Peer reviews are an opportunity for mutual learning between FICs on the one hand and on the other their peers from other FICs and development partners about how best to address development challenges. The peer review process is intended to contribute to reinforcing country leadership in the establishment of national priorities, and enhance the capacity of countries to guide the use of development resources. It specifically does not include a review of the policy direction of national and sector development plans, but concentrates on the process by which they are developed and by which the intentions of the plans are translated into action through annual planning, budgeting and the use of external support.

4. The review team's terms of reference (Annex A) required them to consider Kiribati's current processes for developing national and sector plans, the links between national and sector plans and the budget, the ways in which development partners align to the priorities of national and sector plans and observe aid effectiveness principles, and how national and sector plans are monitored and implementers are held accountable. This report is structured around these four main headings.

5. The team were also required to make recommendations to the Government of Kiribati and to development partners for improvements in processes. These are in section 6 headed "Conclusions and Recommendations".

6. Prior to the peer review the National Economic Planning Office (NEPO) had carried out a self assessment process using the generic terms of reference for such assessments. Notes from this process, as well as a presentation on work in progress on development coordination to a recent development partner meeting, were made available to the team.

7. The team considered the Kiribati Development Plan (KDP) 2008-2011, a NEPO report on progress against the KDP for the period January – June 2009, the 2010 budget and the Public Expenditure and Financial Accountability (PEFA) assessment of December 2009. Substantive discussions were held with the Ministries of Health, Social and Internal Affairs, Fisheries and Marine Resources, Public Works and Utilities, Communications, Transport and Tourism, and Commerce, Industry and Cooperatives (so covering Ministries responsible for the majority of public expenditure) and with the Chief Secretary, the Finance Secretary and NEPO. A number of Ministries kindly provided their sector strategic plans, where they exist, and Ministry Operational Plans (MOPs). Meetings were also held with the Kiribati Association of NGOs (KANGO) and with the Kiribati Chamber of Commerce and Industry.

8. The Government of Kiribati has been considering improvements to its planning, policy, coordination, implementation and financial management processes for some time, and this report does not set out to cover the whole range of proposals for change. In drawing up its recommendations, the peer review team has instead tried to concentrate on practical and short term measures for the Government and development partners to take together to make better use of the overall resources available to the country.

2.0 National and sector planning

9. The KDP was prepared in 2007 and covers the four years to 2011. It contains six key policy areas each with a number of strategies for which responsibility is allocated among Ministries. Provision is made in principle for tracking progress through a combination of Ministry reports on their annual operational plans and collecting data on a set of indicators related to each policy area.

10. The National Economic Planning Office (NEPO) in the Ministry of Finance and Economic Planning led the preparation of the KDP. Since they are also responsible for compiling the budget and act as the Secretariat for the Development Coordination Committee, they are in principle in a good position to ensure that budget and project bids are consistent with the KDP. NEPO is also responsible for compiling progress reports on the KDP.

11. The KDP was put together through a process of wide consultation within Government, and input was invited from community groups and from residents of a number of outer islands (Kiribati's dispersed geography making it impractical to consult in every island). The preparation was led by senior levels of Government, and the work carried out by i-Kiribati nationals; it is consistent with the President's policy statement of December 1977 on behalf of the then new Government and is recognised within the public service as the leading planning document for Government. The Ministry of Finance's own assessment is that it is unlikely that the KDP is well known or recognised outside Tarawa.

12. It is also acknowledged that the KDP has drawbacks as a guide to sectoral priorities and budget-making. The primary one is that the strategies vary in the extent to which they say precisely what is going to be done. Strategies for health and education (KPAs 1 and 3), which have their own sector plans, are more specific than those for infrastructure (KPA 6), which are more in the nature of inputs or continuing tasks. Work is under way across the Government to give the strategies greater specificity by assigning indicators to them; this is frequently a useful way of focussing thinking on what can realistically be achieved against a strategy in a given time. This initiative is covered further in the section on monitoring the KDP.

13. But in the meantime the strategies in the KDP remain largely a set of indicators of direction of change. Unlike some other national plans, there is little description of the degree of change expected by the end of the plan period. This may be a result of inbuilt uncertainties in the Kiribati context, either over domestic revenues or external assistance, which undermine the incentives for medium term planning.

14. The implementation of the KDP depends on:

- a. annual Ministry Operational Plans (MOPs), or Business Operational Plans (BOPs) for public enterprises, which are intended to contain the year's specific steps towards the strategies in the KDP;
- b. the annual budget; and
- c. implementation and accountability arrangements.

15. All Ministries and public enterprises prepare a MOP or a BOP. In theory they should be prepared as part of the budget process, in effect making the business case behind the budget bid, but the timing of their preparation does not appear to be well aligned to the budget timetable.

16. The MOPs in the sample examined by the review team suggest that a good deal of effort is put into them to make them comprehensive and useful to the circumstances of the Ministry (in at least one case it serves helpfully as an explanatory brochure on the work of the Ministry). All the MOPs in the sample are organised according to Key Policy Areas and strategies in the KDP, distinguishing between the Ministry's primary and supporting roles. Beyond this, however, they vary in their approach. In some, the activities describe a direction of change without being specific on what will be achieved, while others have adopted a more concrete set of activities. Indicators of achievement are included in the Public Works and Utilities MOP, but this does not appear to be widespread practice. All include a degree of costing of the year's program, but the development budget is not consistently included. The education MOP (for 2009) is the clearest example in the sample of a set of specific activities demonstrably linked to a medium term perspective with the role of external assistance integrated (this is not surprising since the Ministry of Education has well developed links with development partners and enjoys a reasonable level of predictability in its external support).

17. Ministries and public enterprises are required to report on their annual operational plan twice a year, in August and February. The response rate for the first half of 2009 was good, but at the time of the review team's visit, only six reports had been received for the second half of 2009.

18. The assumption behind the planning and reporting process is that if annual plans reflect the KDP then they will cumulatively contribute to the achievement of KDP strategies and that reporting on them will constitute reporting on the progress of the KDP. In practice these implied links have three major weaknesses:

- where the KDP strategies are pitched, as many are, at the level of principles or aspirations on the one hand or ongoing business on the other, they usually require further identification of the key issues constraining progress and policies to deal with them. The MOPs as they presently exist do not fulfil this role. For example, the strategy to "stimulate and expand the private sector", for which the lead Ministry is the Ministry of

Commerce, Industry and Cooperatives, requires agreement on a private sector policy which is still in preparation. In its annual plan the Ministry must say what it will do to promote the KDP strategy, but is limited in its ability to prioritise or to demonstrate potential impact of its activities because there is no policy framework to help it make or justify its choices. Similarly, although the KDP refers to improving and enhancing the efficiency of public enterprises, neither the KDP nor individual annual plans set out priorities for enterprise reform, which is a significant and currently active policy process which is being handled quite separately from KDP planning and reporting.

- neither the KDP nor the MOPs currently provide specific guidance on how the systemic challenges facing public financial management which affect KDP outcomes will be managed. There is reference in the KDP to strengthening public financial management and institutional capacity in the civil service, and promoting public sector reform. However, in drawing up MOPs Ministries are not required to reflect on risks or context or to take into account the fact that the total funding available and financial management and reporting are major constraints to the implementation and management of projects and so to the achievement of KDP strategies. Without such reflection the assumption that activities listed in MOPs will lead to KDP or other sector outcomes is heroic.
- what is included in the MOPS is generally what is within the control of Ministries, that is, what they plan to do with the recurrent budget. Some include expected money from the development budget but this is not universal. Many of the strategies are not achievable without external funding. Only including activities funded from the recurrent budget is understandable in an environment where external funding is uncertain and provided mainly on a year to year basis, but it undermines the role of the MOP as the action statement for the year.

19. Ministries are solely responsible for their own MOP and for their approach to implementing KDP strategies. There appears to be no expectation that MOPs will be reviewed or challenged by central departments. Beyond meetings of the inter-ministerial task force on monitoring the KDP, there is little opportunity for regular informal dialogue between Ministries and NEPO, as the main coordinating point for the KDP, over strategies, budgets, or progress reporting.

20. The gap between the KDP and MOPs is filled in the cases of education and health by medium term strategic plans. These have a number of advantages – they identify key sectoral priorities at a level of detail that is not possible in a national plan, they provide a rationale for annual activity planning, and they provide a framework for development partner support. There is some risk, identified by NEPO, that strategic plans may operate on different timetables, or be driven by development partners, or provide an alternative focus for planning and budgeting to the national plan. However, provided such sector plans are broadly in line with the KDP, these

risks should be manageable, and in practice, trying to standardise sector strategies or roll them out across Government is likely to prove to be a long term task with uncertain benefits.

21. The quality of data is recognised as a serious problem for policy making in Kiribati. On the other hand, the demand for data appears to be sporadic and centred around major events such as MDG reporting. The KDP does not mention specific information, including statistics, which have led to the formulation of strategies. The Ministry of Finance's own assessment was that very little quantitative analysis was done to either to review progress under previous plans or to back the strategies in the new plan.

22. There is a certain amount of information available to inform policy choices: Kiribati undertook a Household Income and Expenditure Survey in 2006 and a Demographic Health Survey in 2009. UNDP has carried out a poverty study based on the data from the HIES. Both the education and health sectors maintain sectoral information systems. Australia's partnerships set out to be evidence based and target driven, and are therefore placing much more emphasis on regular scrutiny of good information; other development partners could also do more to contribute to both supply of and demand for information.

23. The Statistics Department takes part in reviews of progress under the KDP, but there has not so far been consistent collection of the set of key data envisaged in the Plan.

3.0 Links to the budget

24. Like a number of Pacific Island countries, Kiribati has separate recurrent and development budgets. Broadly, the recurrent budget is financed from Government revenues and drawdowns from the Revenue Equalisation Reserve Fund, while the development budget comes from development partners (although the Government resumed its own contributions to the development budget in 2010). More accurately, the development budget is the accumulation of the forecast development assistance for the year known to NEPO at the time of budget finalisation. The recurrent budget is voted by Parliament, while the development budget appears in the same document but is presented for information, since it is outside the control of the Government and it is uncertain even at budget time that the funds will be made available.

25. The KDP is financed by annual allocations from the recurrent budget and periodic commitments by development partners which may or may not have regard to the Kiribati budget cycle. There is no medium term financial planning at the whole of government level, and therefore little incentive to adopt medium term expenditure perspectives at sector level.

26. Ministries bid annually for their share of the recurrent budget within a ceiling set by the Ministry of Finance. The PEFA reports that Ministries see this as a more or less mechanical process that is related less to the quality of expenditure plans than to the likely availability of revenue and historical patterns of expenditure.

27. If they wish to promote a piece of capital expenditure or seek technical assistance over \$50,000, Ministries must put forward a project proposal through NEPO to the Development Coordination Committee chaired by the Chief Secretary. In principle this process allows checking for consistency with the KDP as well as for basic project appraisal, although there is scope for extending the depth of analysis, especially for larger or other significant proposals. Proposals must cover the impact on the recurrent budget, but there is no mechanism for tracking the cumulative impact of a number of projects on, say, maintenance provision. The Committee approves the project for submission to Cabinet or sends it back for further work. If it is approved by Cabinet it is presented through the Ministry of Foreign Affairs to a development partner for funding and will usually appear in the following year's development budget.

28. The budget document itself combines detailed revenue and expenditure provisions for each Ministry with a list of expected aid expenditure broken down by Ministry. This list is based on information available from development partners, and is frequently incomplete, despite the investment of considerable effort by NEPO in collecting the information. The inclusion of development expenditure in the same document as the budget is a major step towards transparency. But because the recurrent and development budgets are entirely separate it is difficult for legislators or the public to get a sense of the direction of overall expenditure. While

it would be unrealistic to expect a detailed correlation between the budget and KDP outcomes, which is more for the MOPs, it is worth noting that the “outcomes sought” which preface the budget provision for each Ministry do not reference the KDP.

29. The split between the recurrent and development budgets presents significant problems for financial management.

- it leads to split accountabilities. The two budgets are treated differently for accounting purposes. The recurrent budget is tracked through monthly reporting by the Accounts Department of the Ministry of Finance and through Ministries’ own systems (although there are problems with the accuracy and reconciliation of both). These reports are available throughout Government. There is no regular reporting of development expenditure; the Ministry of Finance maintains some control by requiring acquittals of previous advances from the development fund before making further advances, but relies on six-monthly reporting on MOPs for information on overall progress of projects. Because virtually all projects are funded by development partners, they are in a better position to demand information on progress than central departments of Government. In effect, while accounting officers account through Government to Parliament for their share of the recurrent budget, their major accountability for the development budget is to development partners;
- there is no clear linkage between the recurrent and development budgets. Recurrent budget provision generally takes no account of the volume of development expenditure likely to be undertaken by a Ministry in the year, or of operation and maintenance costs arising from capital investment;
- it sets up a rigid distinction between recurrent and development expenditure which may not be the best way of achieving long term outcomes. For example, improving infrastructure involves deploying people and plant effectively as well as building new assets. But the division in the budget, and the reality that it is development partners who provide development funds, means that dialogue with development partners will tend to focus on the creation of new assets, or replacement of worn out assets, unless specific steps are taken to encourage a wider dialogue about outcomes; and
- it may mask the fact that the development budget, defined as combined external grants, will often contain elements of recurrent expenditure or deferred maintenance.

30. A key element in the implementation of a national plan is the ability to say how much it will cost. While the national plan itself may not contain costings (and it would be difficult to do this for the KDP, given the nature of its strategies) the ideal is for it to be backed by costed medium term sector strategies linked to a medium term expenditure plan. In practice in the Pacific the experience of running costed sector strategies is patchy; the fall back is that a sector Ministry should at least be sure of its total budget for the year ahead and be able to say what will

be achieved with the resources provided. However, in Kiribati even this fall back is not always possible because of a combination of the absence of clearly stated outcomes and the unpredictability of much of the aid which arrives in project form, and it is only gradually becoming a feature of sector management, mainly in education and health.

4.0 Development assistance

31. The development budget lists 22 development partners active in 2009 or 2010. This number includes regional specialised and UN agencies, and is an underestimate as it does not include development partners such as Cuba who only provide assistance in kind. The major development partners are Australia, New Zealand, Taiwan, the EU, the World Bank and UNDP, who between them account for 95% of external aid commitments in 2010 (Japan is also a major donor, but has no commitments recorded in the 2010 budget).

4.1 Volume and partnerships

32. Aid disbursements to Kiribati have remained relatively stable in recent years. Development Assistance Committee (DAC) statistics show aid from DAC members (ie not including Taiwan) and multilateral agencies roughly constant around US\$27 million a year from 2006 to 2008. Estimated external development receipts in the 2010 budget are A\$42 million, but this does not include much of the aid that is provided in kind or the aid that otherwise bypasses Kiribati's budget systems, and contains some aid that is not certain to arrive.

33. Of Kiribati's major partners, Australia has a long term partnership agreement covering support for basic and technical education and economic governance; the EU has a country program under the 10th European Development Fund focusing on water and energy; New Zealand is currently finalising a long term partnership that will focus primarily on urban development and workforce skills development; and Taiwan has an understanding that it will provide \$11 million annually for development projects. Japan's aid is negotiated project by project, some of it in the context of fisheries negotiations.

4.2 Development partner coordination

34. Australia, New Zealand, Cuba and Taiwan have resident representation. The UN has a joint presence covering the work of UNDP, UNICEF, UNIFEM, and UNFPA, and providing a point of contact for other UN agencies. The WHO has separate resident representation co-located with the Ministry of Health. There is a JICA office primarily covering the Japanese volunteer program. The EU finances a locally contracted position in the Ministry of Finance whose role is to help with the administration of EU aid and to contribute to capacity development. The ADB is planning a liaison position to be shared with the World Bank.

35. The main formal mechanism for development partner coordination is the Development Partnership Forum held roughly every two years. The latest was in March 2010 and provided a useful opportunity for the Government to update development partners on progress on the KDP, to air some concerns about development coordination and to present some current major project requirements.

36. Each of the resident representations has regular meetings with line Ministries and the Chief Secretary, and with the Finance Secretary when necessary, and there are frequent informal exchanges between the heads of resident missions. There are well established examples of multi-donor activities, including the World Bank led Kiribati Adaptation Program, and valuable practical initiatives such as moves by UN agencies to incentivise joint working and to harmonise accounting and reporting for their projects. However, with the possible exception of contacts between Australia and New Zealand, coordination appears to be very strongly focused on information exchange and the avoidance of duplication. This is in contrast to better practice elsewhere in the Pacific where Governments are beginning to lead regular informal contacts with all development partners in a sector to consider outcome data and obstacles to implementation of national and sector plans. This is now beginning to happen in education in Kiribati, with Australia as lead donor helping the Ministry of Education to harmonise the dialogue among all development partners in the sector (although this has not prevented uncoordinated initiatives in the sector). The agreement at the Development Partnership Forum to set up a coordination mechanism for the water sector is also promising. Where these meetings do not occur, some important opportunities for collective problem solving may be missed (for example, the considerable expertise available in the team of Cuban doctors is not being harnessed as well as it might be to give practical perspectives on health sector management).

37. The concentration on exchanges over individual projects and the lack of frequent, informal and broad based concentration on key sectoral issues have not served either Kiribati or its development partners well. Development partners have not taken the initiatives that they might have done to encourage dialogue. The implementation schedule for support to education under the Australian partnership refers to the problems of previous development partner support for the sector (including Australian aid), deriving from a failure to take a broad and consistent look at the sector's real needs. The PEFA describes some public financial management reforms supported by external assistance as unsustainable or politically not feasible, despite this area being a declared Government priority. It goes on to note that initiatives to bring about change in public financial management are still project based and that the Government (and by implication its development partners) is not working on the basis of a long term strategy. There is some hope that a new approach can be taken through a partnership with the Asian Development Bank, with other development partners playing a supporting role, which will take a considered view not only of what needs to be done but also of the political and institutional risks attached to change. Work on public financial management, if pursued inclusively, has the potential to bring development partners together round a set of crucial policy and aid management issues.

38. Perhaps the clearest example of development partners failing to concentrate on the really important issues is the problem of maintenance in Kiribati. Provision for maintenance is the

responsibility of Government, but development partners have so far been unable to explore in a supportive way with the Government the financial and systemic constraints which have led to under-provision year by year for maintenance in the recurrent budget, while they have continued to build new assets.

39. Development partner coordination is one of the responsibilities of NEPO. However, as presently constituted it has limited capacity to drive the behaviours expected under international commitments, including joint missions and analysis and use of Kiribati systems for aid delivery. Its main efforts are concentrated on tracking flows of development aid. The budget document is very clear that these efforts are not always successful. It notes that “Unforeseen changes in priorities as mentioned above including donors’ own policies, and the fact that some donors tend to keep information on their program expenditures and so on to themselves are the key examples [of factors beyond the control of the Government]”. The result is that the development budget is incomplete, contains estimates of expenditure that may not come to pass in the year, and does not distinguish between aid that will use the Government’s No 4 account, or the Development Fund, and aid which will not. Some development partners are better than others at reporting and forecasting aid – Australia, New Zealand and Taiwan have a good record of transparency with NEPO.

40. NEPO also does not have the capacity to keep track of current discussions between line Ministries and development partners on possible aid financing – staff frequently know about a project only when it is submitted to the Development Coordination Committee – or of the overall burden on the Government of managing donor relations (in which it fully shares, being obliged to spend a lot of its time on the logistics of development partner missions). Without better information Kiribati cannot make a case to development partners for rationalisation of visits, which at present it usually feels obliged to accept.

41. The difficulty for Kiribati of managing development partner programs is compounded by the fact that some major partners are not represented locally. This means that the quality and consistency of dialogue is lower and that partners’ reliance on the Government for logistics during visits is higher. The priority given to Kiribati by development partners in terms of time and professional attention could be increased – Kiribati suffers more than most from the 36 hour visit syndrome which is encouraged by airline timetables.

4.3 Alignment and use of national systems

42. All development partners consulted by the review team confirmed that their programs were designed to align with the KDP. Since the KDP is so broad, the test for alignment is not difficult to pass. However, aid is still overwhelmingly provided in project form. The 2010

Development Budget shows 168 lines of activity with approved budgets for 2009¹. There are exceptions to the project mode: Japan has provided non-project support for fuel purchase, and Australia is now providing more flexible forms of aid. But alignment, especially in the context of Kiribati, means more than selecting the right sectors. Senior managers within Government are still often faced with the problem of knitting together aid from different sources with different timings and design and reporting requirements. Moreover, in a project environment there is significant risk of Ministry staff being diverted to manage and monitor development partner activities. Experience with education and health is that the existence of sector strategic plans influences donor behavior in the direction of aid that is not only nominally directed towards KDP objectives but is provided in more streamlined ways and better coordinated with Kiribati's own efforts and capacity. It does not necessarily take a whole sector strategy to bring this about – Australia has worked with the Ministry of Fisheries and Marine resources on plans to improve fisheries surveillance and revenue and is backing them with contributions to their recurrent budget tied to achievement of milestones.

43. The instrument for receipt and disbursement of aid funds is the Development Fund. When money is received by the Ministry of Finance, it is released to the implementing Ministry according to the project schedule, with further advances being made on receipt of acquittals from earlier advances. Money passing through this account uses Kiribati's financial management, procurement and accounting systems. Some \$20 million a year passes through the Development Fund, of which over half is the bulk of Taiwan's development program. This means that around two thirds of aid does not use national systems, and that the proportion for donors other than Taiwan is much higher (the PEFA assessment contains estimates from Australia and New Zealand of 8-10% of each program using national systems).

44. Aid from regional institutions is much more likely to bypass national systems than aid from bilateral programs; as the amounts involved are likely to be relatively small the amount of effort that goes into collecting this information needs to be balanced by its usefulness. An annual note reporting on past expenditure and forecasting likely future spend would, however, be useful for planning purposes.

45. The use by development partners of their own systems for implementing aid projects is a matter of concern to the Government of Kiribati. Officials point out that while national systems may be considered slow they are subject to regulation. They would strongly prefer development partners to work with them on improving the systems rather than bypassing them, and point out that it is not a good use of Government time to salvage projects which have come to grief not using national systems.

¹ Given incomplete data, this is an underestimate.

46. Government officials recognize that a good deal needs to be done to build trust in national systems. Slowness of disbursement, to the extent of causing major damage to project outcomes, and slowness in acquittals were the most common complaints cited to the peer review team by Ministries, development partners and the non-government sector.

47. Improvement in the efficiency of public finances is one of the expected outcomes of the comprehensive support to public financial management reform to be led by the ADB building on the findings of the PEFA assessment.

48. Australia, New Zealand and the EU have signalled a willingness to use national systems to a greater extent. The Ministry of Finance has considered negotiating a target for the use of national systems along the lines of that set by PNG (see box). For this to happen, there would need to be an improvement in data on total flows to be able to track percentage trends.

The PNG commitment on aid effectiveness

In June 2008 PNG agreed with its development partners on a series of practical actions to entrench the principles of the Paris Declaration in aid programs in PNG. Actions include commitments by PNG to reforms to national systems, improvements to reporting by development partners, agreement on protocols for visits (including an annual cap on missions) and technical assistance provision, and targets for use of national systems.

The targets for 2012 are that 60% of aid flows should use national procurement systems and 50% should use national financial systems.

49. Predictability of aid is improving, with Australia's partnership commitments including implied annual amounts for each partnership area. New Zealand provides the Government with a copy of its indicative forward aid programme, setting out expected expenditure for the next three years. The EU has a long standing commitment to specified sums of aid being provided under successive European Development Funds, and the stability of Taiwan's aid program helps with financial planning particularly for development in the outer islands.

5.0 Monitoring the KDP

50. The KDP provides for six monthly monitoring of progress through the synthesis of reporting from Ministries and public enterprises. There is also a set of high level indicators in the KDP, although information has not been collected centrally against them and it is not clear that the information exists for all of them. Work has been in progress for some time on a set of lower level indicators for KDP strategies which would allow Ministries to report progress with more precision than is possible at present. This has proved to be a complex undertaking, with proposals emerging for a large number of indicators but with varying degrees of ownership from line Ministries. Even if agreement could be reached in the near future, there is now little time left in the life of the KDP to apply it (although the monitoring framework for the next plan would undoubtedly build on it).

51. The system of six month reporting, in which reports from Ministries and public enterprises are scrutinized and synthesised by NEPO, shows that the Government takes monitoring seriously. It is carried out in consultation with the KDP task force which includes representation from across Government. There are a number of recognised problems with it which need further work:

- Compliance. As noted earlier, the rate of return of reports fell significantly between the January-June and July-December periods. This may be because Ministries do not feel that completing reports on their MOPs is their core business, that they do not understand what use is made of them, or that the messages about what is required are not clear;
- Lack of precision. For reasons covered earlier in this report, reporting on tasks set out in MOPs does not give a set of information that is readily synthesized into evidence of progress against KDP strategies; and
- Synthesis and interpretation. The latest KDP progress report (for January-June 2009) was seen as an improvement on previous reports, drawing on a wider and higher quality set of information from Ministries and public enterprises. But it recognises that there is still a problem translating reporting into judgments about progress. The assessments are largely based on the available information, that is, performance against tasks. However, the drawback to this form of assessment is illustrated by the judgment that the Ministry of Public Works and Utilities has performed well against its tasks but that the overall state of maintenance remains poor. The resulting information helps to feed back a performance assessment to Ministries, but is of less help to senior decision makers or in telling an overall story of progress to the outside world.

52. The progress report had not been submitted to Cabinet at the time of the peer review visit, which raises questions about its strategic value. In the absence of information that is readily absorbable at senior levels, neither the Development Coordination Committee nor the Cabinet receives reporting about progress against the KDP overall. The main form of reporting to both is by way of requests for more money for projects.

53. In discussions with a number of senior Government officials the review team gained the impression that the current fragmented arrangements for reporting progress on budgets, projects, MOPs and the KDP are seen by some as an obstacle to greater accountability for the totality of resources which Ministries manage. The Development Coordination Committee, which is made up of all Secretaries, would be the natural point for this accountability to be exercised. But for this to happen, Ministries would need to be clear about:

- the major constraints to progress in their sector and priority actions to overcome them; this would involve improving the strategic nature of MOPs;
- what they are accountable for and to whom; and
- how they can use evidence to demonstrate progress on KDP strategies.

54. Development partners could encourage a greater use of selected key indicators and broad judgments about progress and help to shape the form and content of reporting through the informal and frequent discussions proposed by this report, and by assisting with specialised monitoring and evaluation advice where required.

6.0 Conclusions and Recommendations

55. Kiribati faces urgent development challenges with limited money and capacity for policy formulation and implementation. The systems for allocating, coordinating, managing and overseeing resources are changing, but not fast enough to deliver the outcomes required. Kiribati will depend for the foreseeable future on external support to achieve its development objectives, but the country will need to assert greater leadership over and control of that support if aid is to make an effective contribution and not undermine national management capacity. The necessary improvements in public financial management, accountability, monitoring and evaluation and development partner behaviour have been well canvassed within Kiribati. What is needed is the determination on the part of Government and development partners that changes should be introduced without further delay.

56. The challenge is to harness the considerable resources available to Kiribati to tackling the main constraints to economic and social outcomes, within realistic medium term perspectives and enabling the allocation of total resources across priority areas as flexibly as possible. If Kiribati wishes to do this, it will need to accelerate the changes that are already taking place in its understandings with some of its development partners and spread them to others. It will need to provide a framework for the Finance Secretary's vision of development partners who increasingly take the trouble to understand Kiribati and work closely with the country rather than simply providing money. Models already exist in the education and fisheries sectors.

57. Without attempting to change everything at once, Kiribati will need to determine for itself a set of short term actions for the remainder of 2010 and 2011 which fit its situation, canvass them with development partners, and allocate responsibility for pursuing them. For their part, development partners need to be ready to fit in with the expectations articulated by Kiribati and provide appropriate assistance for discrete coordination tasks as required.

58. The suggestions for short term action by the team would be:

- draw development partners into more frequent collective, informal and consensual discussions of progress and challenges in each sector, building mutual accountability for results. With important development partners not having resident representation, the means to bring everyone together may include meetings in Nadi or telephone conferences, for which development partner facilitation may be required. The agenda for such discussions might include evidence of progress, the appropriateness of various forms of support, and the need for sector strategies or revised MOPs. It would also allow development partners to understand the requirements for flexibility where it is not possible to implement programs as intended;
- build a sense of accountability for results within its own senior staff. The initiative to apply performance indicators to the KDP has been a valuable exercise, but to be meaningful it needs to have the full backing of Secretaries who see delivery against

indicators as part of their core job. The best way of doing this may be to reform the KDP reporting system so that a shorter report is provided which is more closely associated with the chief executive of each agency with lead responsibilities under the KDP. One possibility would be to devolve away from NEPO finalisation of the identification of indicators for the KDP and give it back to lead agencies who will have to account for progress against them, subject to the overall supervision of the Development Coordination Committee or other suitable body; and

- encourage medium term planning by Ministries and a move to integrate aid into Ministry plans rather than perpetuating the split between routine activities funded from the recurrent budget and development projects. Taken together with informal consultations suggested, this should encourage a move away from projects as the dominant form of aid delivery.

Recommendation 1

That the Government encourage chief executives of agencies receiving significant amounts of external resources to organise regular meetings of all development partners contributing to the sector; that development partners provide facilitation of such meetings if required; and that development partners provide consistent representation at an appropriate level.

Recommendation 2

That the Development Coordination Committee make space on its agenda for regular six monthly or annual reports from Ministries on progress on KDP strategies.

As the agency primarily responsible for coordinating the implementation of the KDP and for aid coordination, NEPO should be in a position to advise Ministries on links between sectoral outcomes, annual planning and budgets and the management of development assistance. It does not have the resources to do everything it would like to. But experience elsewhere in the Pacific suggests that where planning offices and their equivalents make time to understand the strategies and activity pipelines of line Ministries they can influence better planning practice and accountability.

Recommendation 3

That NEPO prioritise a greater degree of informal contact with agencies with significant expenditure programs and that they are included in the informal contacts with development partners recommended above.

For their part, development partners should be prepared to devote sufficient professional resources to effective policy dialogue, to accept more flexible and predictable forms of aid within the limits of their aid programs, to accept that development partners have a responsibility

for outcomes, not just for projects, and to negotiate their aid provision in the context of informed sector dialogue, not as an adjunct to other discussions; and to take full account of the need to reduce the burden of aid management on the Government.

Public financial management reform is recognised as a priority by the Government, and the external support already planned should start as soon as possible. It should be subject to the informal and regular review process recommended above, as a “sector” in its own right. The reform program should be regarded as an opportunity for dialogue on greater use of national systems by development partners. The pace of change may be slow but it is important for building confidence that the direction of change, both towards better systems and greater use of them, should be clear.

In the meantime, development partners need to make a greater effort to ensure that their financial provision for the year ahead is clearly signalled and reflected in the development budget. Without this certainty Ministries cannot be held accountable for progress. For all practical purposes, for NEPO to capture the plans of the six or seven major development partners is likely to be more cost effective than attempting to get blanket coverage.

Recommendation 4

That the ADB and AusAID mobilise the proposed support for public financial management reform as soon as possible; and that the Secretary Finance convene a working group for all major development partners to track the progress of reform and discuss greater use of national systems.

Recommendation 5

That the Government and development partners agree a target for the proportion of aid funds going through the development budget by 2013 and a methodology for tracking it.

Recommendation 6

That NEPO set out an annual timetable for the provision of information for the following year’s development budget, including the split between funds that will and will not pass through the Development Fund; and that development partners commit to providing the information requested by the due date.

Whatever Kiribati decides to do to improve its development coordination in the next 12-18 months, it would be helpful to make it an explicit statement of intent agreed with its development partners. A simple set of actions tailored to the capacity of NDOE would be better than something too ambitious; but if short term technical assistance (eg from other Pacific island countries which have better established coordination mechanisms) is required to start the process off, development partners should be prepared to finance this.

Recommendation 7

That the Government replies to this report by setting out its preferred short term measures (to end 2011) for change in development coordination practice, and draw on the experience of other Pacific island countries to implement them.

Annex A: Terms of Reference - Kiribati Peer Review

Purpose

This note sets out draft Terms of Reference for a peer review of Kiribati's national development planning and related processes under the Cairns Compact on Strengthening Development Coordination in the Pacific.

These Terms of Reference draw on a concept note on the peer review process that was circulated by the Pacific Islands Forum Secretariat (PIFS) on 20 October 2009 and discussed at a regional workshop on 26-28 November.

Background

Through the Cairns Compact, Forum Leaders agreed in August 2009 that the

Pacific Islands Forum Secretariat (PIFS) should establish and report annually to the Post-Forum Dialogue on a process of regular peer review of Forum Island Countries' (FICs') national development plans to:

- a. promote international best practice in key sectors,
- b. improve effective budget allocation processes; and
- c. guide support from development partners.

The objective of the peer review process is also to guide improvements in development coordination, including by informing discussions at the Pacific Islands Forum and Post Forum Dialogue, through reviews of coordination at a country level.

Peer reviews are an opportunity for mutual learning between FICs on the one hand and their peers in other FICs and development partners (donors) on the other about how best to address development challenges. The peer review process is intended to contribute to reinforcing country leadership over the establishment of national priorities, and enhance the capacity of countries to guide the use of development resources.

Issues for review

The peer review will consider the following issues:

- Processes for preparing and reviewing plans, including:
 - whether the national and sector plans define a clear set of development results and set realistic timeframes for achieving these

- how domestic stakeholders are consulted in the preparation and review of national and sector plans
- the extent to which the Government has communicated national and sector plans within Government and to other domestic stakeholders
- the extent to which the Government has established and implemented an effective review process for national and sector plans
- how evidence (including statistics) was used to develop national and sector plans, set budgets and monitor progress.
- Links between the national plan, sector plans and budgets, including:
 - the extent to which the plans included above are supported by realistic and appropriately costed annual budgets and sector plans
 - whether the processes for developing and reviewing national plans, sector plans and annual budgets are integrated with each other
- Relationship of development partners to plans, including
 - the extent to which development partners align their assistance to the priorities articulated in national and sector plans in a coordinated manner
 - the adequacy of national and sector plans to provide clear guidance to development partners on how aid can complement national resources
 - the extent to which development partners deploy aid resources through national (government and other domestic stakeholder) systems.
- Monitoring the implementation of plans, including
 - processes for tracking and reporting progress against outcomes in national and sector plans, and for drawing policy conclusions from progress reporting.

Outputs

The key output from the peer review process will be a report prepared by the review team and agreed by the Government that will summarise the available evidence, based on existing documents and in-country consultations, to draw conclusions on the above issues as the basis for:

- Recommendations to the Government on how it can improve:

- processes for preparing and reviewing its national and sector plans, including consultation mechanisms with domestic stakeholders
- processes for linking these plans to the annual budget
- coordination of development partners assistance, including by providing appropriate guidance through national and sector plans
- budget allocation and monitoring systems
- Recommendations for development partners on how they can improve:
 - processes for aligning their assistance to the priorities articulated in the KDP national and sector plans
 - processes for coordinating assistance between development partners
 - efforts to support and strengthen Government monitoring and implementation systems.
- Broader lessons on the above issues for other FICs and development partners to consider through the Post Forum Dialogue and other regional meetings.

Review team

The review team will consist of a representatives from another FIC [Papua New Guinea] and one representative from a development partner [NZAID]. The review team will be supported by an international consultant engaged by PIFS.

Stages of review process

Analytical review

The consultant engaged by PIFS will consider the Government’s self assessment against the agreed format for annual reporting by all FICs on their national development plans, and any reflections by, or commissioned by, the Government on the implications of the self assessment, as well as any other recent reporting on implementation of plans, progress against the MDGs, and the economic and financial situation. An issues paper will be prepared for the review team and shared with the Government.

In-country review

The peer review team would meet with relevant stakeholders. A list of stakeholders will be agreed between the Government and the review team. It is anticipated that consultations will include:

- Ministers and officials in central planning and financial management agencies and key service delivery agencies (e.g. education and health).
- Representatives of key development partners
- Representatives of non-government organisations and the private sector.

The peer review team will also hold an open public consultation session.

Preliminary Report

The peer review team with PIFS' assistance will produce a preliminary report for review and comment.

Government Response

The host country will be able to respond to and approve the draft reports.

PIFS Report on Peer Reviews to PIC-Partners and PPAC meetings

PIFS will present the peer review report and a consolidated report summarising the peer reviews undertaken in 2010 at the Pacific Island Countries – Development partners meeting and the Pacific Plan Action Committee (PPAC) meeting. The conclusions of the peer reviews will be reported to the Forum Leaders meeting as part of the PPAC Chair's Letter to the Chair of the Forum.

PIFS Report on Peer Reviews to Leaders and Post Forum Dialogue – August 2010

PIFS will present [a summary of] the peer review report and a consolidated report summarising the peer reviews undertaken in 2010 to Forum Leaders and the Post-Forum Dialogue to inform discussions on development coordination.

Administrative arrangements

In addition to the consultant, PIFS will provide logistical and administrative support to the peer review process.

The major costs of the peer review process will be met by PIFS with the support of Australia and New Zealand (and possibly other development partners). These costs include the consultant and administrative support provided by PIFS, travel by the peer review team and incidental costs

incurred by the Government such as hiring meeting facilities and catering. The only significant costs to the Government will be the time of officials consulted. It is proposed that the development partner participating in the review team will cover their own costs.

The Government will nominate a designated focal point to set up and manage the consultation process in close coordination with PIFS.

Annex B: Lessons from the Kiribati Peer Review

The lessons from the Kiribati review are broadly the same as those from the Nauru review:

- the importance of country ownership;
- the need for a high degree of preparedness from officials of the country concerned and the peer review team; and
- the need for a simple tracking of recommendations as part of an ongoing self assessment.

The Government of Kiribati put a great deal of effort into arranging the program and NEPO had prepared by holding internal discussions using the self assessment questionnaire. The fact that there was no formal completed self assessment document was not a disadvantage. The review team had the benefit of a frank oral assessment and notes from the internal NEPO discussion which were a useful starting point for its investigations.

Although the Cairns Compact was well understood in NEPO and although written briefing was sent to Ministries in advance, the level of knowledge of the Compact was variable. The Forum Secretariat should consider a standard written brief which can be widely circulated before a peer review visit and used as a reference during the visit.

The review also highlighted, as in Nauru, the opportunity for an aid and planning office to take a step back from day to day concerns and to reflect on current procedures and relationships. Future peer reviews should allow plenty of time with all the staff of the planning department or equivalent.

The review process also underlined again the need to get the agreement of peer reviewers and their Governments to participate well in advance of the peer review.

The team for the Kiribati review made a particular effort to contact non-resident development partners with representation in Suva. These contacts helped to round out the picture of development partner activity and should be repeated for future reviews.

Annex C: Recommendations

Recommendations to the Government of Kiribati

	Timing
1. That the Government encourage chief executives of agencies receiving significant amounts of external resources to organise regular meetings of all development partners contributing to the sector.	Starting now
2. That the Development Coordination Committee make space on its agenda for regular six monthly or annual reports from Ministries on progress on KDP strategies.	Second half of 2010 (in line with current reporting cycle)
3. That NEPO prioritise a greater degree of informal contact with agencies with significant expenditure programs and that they are included in the informal contacts with development partners recommended above.	Starting now
4. That the Secretary Finance convene a working group for all major development partners to track the progress of public financial management reform and discuss greater use of national systems.	By end 2010
5. That NEPO set out an annual timetable for the provision of information for the following year's development budget, including the split between funds that will and will not pass through the Development Fund.	In preparations for 2011 budget

6. That the Government replies to this report by setting out its preferred short term measures (to end 2011) for change in development coordination practice, and draw on the experience of other Pacific island countries to implement them. End 2010

Recommendations to development partners

1. That development partners provide facilitation of informal sector meetings if required and provide consistent representation at an appropriate level for such meetings. Starting now

2. That the ADB and AusAID mobilise the proposed support for public financial management reform as soon as possible. Third quarter of 2010

3. That development partners commit to providing the information requested on expenditure and forward plans by the due date. In preparations for 2011 budget

Recommendation to Government and development partners

1. That the Government and development partners agree a target for the proportion of aid funds going through the development budget by 2013 and a methodology for tracking it. In time for tracking to start in 2011
