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# **SOCIAL ECONOMICS, POLICY AND DEVELOPMENT**

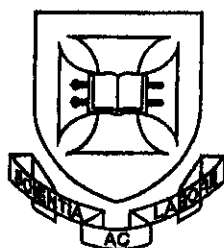
**Working Paper No. 7**

**The Development of Kiribati:  
An Analysis of Trends, Issues and Policies**

**by**

**Clem Tisdell**

**May 2000**



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\* This is a background paper used by the author as an input in preparing a report for the UN on the least developed Pacific island nations in relation to the UN "Final Review of the Implementation of the Programme of Action for the Least Developed Countries for the 1990s". The views expressed in this paper are those of the author and do not necessarily reflect the views of the United Nations.

<sup>†</sup> I sincerely wish to thank all those interviewed in Kiribati (see appendix) for their assistance as well as many outside of Kiribati who gave assistance. The usual *caveat* applies.

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### **Abstract**

Kiribati is one of the five least developed Pacific island nations according to the classification of the United Nations. This article reviews the situation of Kiribati in relation to its development generally but paying particular attention to

- public and private finance;
- social issues such as education and health;
- its trade and external balance and
- economic infrastructure.

Policy suggestions are made in relation to each of these matters and an assessment given of the development status of Kiribati.

## **1. INTRODUCTION**

Kiribati is situated in the Central Pacific Ocean. It stretches from east of Nauru to French Polynesia and straddles both the Equator and the International Date Line. It consists mostly of coral atolls. Although its land mass is relatively small (810.5 sq. kms.) its marine area (Exclusive Economic Zone) is huge on account of the scattered nature of its 33 islands.

Kiribati has a population of approximately 80, 000 persons, almost half of whom live in South Tarawa which is the capital. South Tarawa is the centre of government, the focal point of the cash economy and the main contact point with the outside world. The concentration of the population of Kiribati in Tarawa has resulted in crowding there and associated environmental problems.

Economic opportunities for Kiribati are relatively limited. Income per capita is low and ill health is relatively frequent. Infant mortality rates are high and life expectancy is low by Pacific island standards. Furthermore, Kiribati has a rapid rate of population increase.

Prior to becoming independent in 1979, Kiribati was administered by Britain as part of the Gilbert and Ellice Islands. The Ellice Islands is now Tuvalu. Whereas most of the population of Tuvalu (which adjoins Kiribati) is Polynesian that of Kiribati is primarily Micronesian. ADB (1998, p.1) reports:

“The I-Kiribati have developed a cultural system that enables them to live within the limited resources provided by their island environment. While they admire independence and self-reliance they expect individuals to subordinate personal ambition to family and community needs. Consequently their culture is characterized by sharing and cooperation.”

The communal ethic of Kiribati still has a significant impact on the nature of public policy in Kiribati, and is to some extent in conflict with the Western ethic promoting competition and the pursuance of self-interest. Within the social system of Kiribati, respect for elders is strong and they exercise considerable political influence.

As in the case of Tuvalu, Kiribati experiences considerable diseconomies in economic activities and in public administration because it has a economy of a very small size, but not as small as that of Tuvalu. This problem is further exacerbated by the segmentation of the country in to a number of widely scattered islands. In addition, like Tuvalu, it is relatively isolated from larger economies. This results in high transaction costs (e.g. transport costs) in tapping into international markets and reduces the scope for and benefits from international trade. It acts as a restriction on Kiribati 's ability to specialize in production and take advantage of international trade. In general, a strategy of specializing in production to increase the merchandise exports of Kiribati (in order to foster its economic growth) does not seem very promising. 'Exports' of guest labour (e.g. merchant seamen, fishing crews) have significantly contributed to incomes in Kiribati and there may be scope for expanding its exports of semi-skilled labour. There is also scope for expanding its export of services. From a long-term point of view, it should aim to increase the real value of its Revenue Equalization Reserve Fund (RERF) and to establish an Outer Island Development Fund similar to Tuvalu's Falekaupule Trust Fund.

Kiribati's Revenue Equalisation Reserve Fund was established in 1956 by the British Administration and has expanded in size. This Fund performs a similar function to the Tuvalu Trust Fund. It has proven to be an important means of stabilising funds available to meet public expenditure and has made a significant contribution to incomes in Kiribati.

Let us consider more detailed aspects of the economic and social position of Kiribati, its challenges and the development patterns which have emerged in Kiribati during the 1980s and 1990s.

## **2. FINANCE FOR DEVELOPMENT**

### **2.1 Introduction**

This chapter reviews both aspects of public finance and private finance for development of the five least developed Pacific nations. Although it was proposed in the terms of reference that this might be done in relation to national development plans, all of these

nations abandoned this type of planning in the 1990s to concentrate on the preparation of social and economic strategies. This appeared to conform with the idea that economic development should be mostly business-led with the main duty of the government is to provide an 'enabling environment' rather than a prescriptive or government-guided one. This was in accordance with the 'new' neo-liberal social philosophy sometimes claimed to be represented by the Washington Consensus. Economic and social reforms along these lines seem to have been eagerly sought by major donors of overseas aid to these Pacific countries including multilateral organizations such as the Asian Development Bank and the World Bank which may to some extent reflect the outlook of the major national contributors to their funds.

As described in this chapter, significant structural reforms are under way in these countries. These entail major social and economic change, especially major changes to the functions and functioning of the public sector. Particular consideration is given to trends in overseas aid to these countries and to measures which they are taking to encourage foreign direct investment in the light of their increasing resource gaps.

Detailed recommendations are made in relation to each of the individual least developed Pacific nations and some of the more important points are highlighted in the section providing concluding comments.

Consider the financial and economic situation of Kiribati, Samoa, Solomon Islands, Tuvalu and Vanuatu in turn.

## **2.2 National Development Plans and Resource Gaps**

Like most other Pacific Island countries, Kiribati no longer draws up national development plans. Rather it relies on a Medium Term Strategy (MTS) which spans three years and which is reviewed and updated annually. The current MTS applies to the period 1998-2000, was prepared in 1997 and presented to the Maneaba ni Maungatabu in 1998.

"The MTS constitutes an action programme for the National Development Strategy (NDS) to the year 2000. The NDS sets broad national and sectoral strategies for

the future while the MTS puts this into operation through the inclusion of policy action materials for the economy as a whole and for key sections. Three year forecasts of Government revenue and expenditure are also provided in the MTS" (National Economic Planning Office, Kiribati, 1999, p.i). The update and review of MTS for 1998 has been completed.

The data provided does not enable resource gaps for Kiribati to be estimated but there is little doubt that Kiribati is short of domestic funds and savings for its development requirements. Foreign aid and loans help to fill this gap. The importance of the latter can be seen from recent government revenue and expenditure data as summarised in Table 1.

#### INSERT TABLE 1

From Table 1 it is clear that the Central Government of Kiribati is highly dependent on foreign assistance to provide funds for development expenditure. In the five-year period 1995-1999, between 84% and 93.6% out of those funds were effectively secured from external sources. Usually the budgeted contribution of such funds exceeds their actual level which is an indication that a significant gap exists between Kiribati's immediate development needs and available funds.

The principal source of foreign development assistance to Kiribati is aid-in-kind. In the period 1980-2000 it has always accounted for more than half of foreign assistance for development purposes and mostly much more. Consequently, a great deal of foreign assistance to Kiribati is in the form of tied aid.

The Government of Kiribati has been reluctant in the past to commit itself to foreign loans for development purposes. However, in 1999 it expects to take up a loan from ADB of \$6.1m.

It is also apparent that there has been a considerable increase in funds (from external and internal sources) allocated for development purposes in the second portion of the 1990s by the Government of Kiribati. This is not only so in nominal but also in real terms.

As mentioned, MTS is intended to put into effect the National Development strategy (NDS). As pointed out by ADB (1998, p.39) Kiribati's first NDS came into effect in 1996 and was intended to cover the period 1996-1999. It involved a significant departure from former development plans.

"It provides a strategic framework for development rather than a list of specific projects. This new approach is more in keeping with the realities of development. Most countries are now moving away from plans toward a more strategic approach. This movement reflects the realization that the goals set out in comprehensive development plans were seldom achieved and that their pursuit often led to a misallocation of scarce resources" (ADB, 1998, p.39).

In some quarters it might have also been believed that the downsizing of government would, in any case, reduce the need for planning. Furthermore, there may have been the additional consideration that planning processes could give the public servants involved a vested interest in planning and undermine the goal of promoting the spread of market-driven economies.

In any case, the NDS for Kiribati appears to reflect the same type of blueprint as similar strategic documents for most of the other Pacific island nations reviewed here. It has the appearance of being an externally motivated strategy rather than one arising spontaneously from within Kiribati. Its preparation appears to have encouraged and guided by aid donors, as for other countries in this region. The structural adjustment strategy of Kiribati is intended to foster the private sector and reduce the dominance of the public sector. Market reforms are intended to increase the role of markets in relation to the use of land, labour and capital, reduce impediments to private business and improve the efficiency of Government operations; a commonly proposed recent formula for economic reform and development in the Pacific islands.

ADB (1998, pp.39-40) summarised some of the key policies in NDS (1996-1997) as including:

“

- Land, labour and capital market reforms by:
  - improving leasing arrangements for land;
  - establishing performance-based employment systems;
  - enabling land to be used as collateral for loans.
- Increasing the role of the private sector in the economy by:
  - reducing impediments to private sector investment;
  - improving the reliability and pricing of essential services;
  - providing budget support for investment and business development;
  - incorporating some Government activities.
- Improving the efficiency of Government operation by:
  - reducing the role of Government in the economy;
  - redirecting funds from the support of Government commercial enterprises to health, education, public safety, and the enhancement of life throughout Kiribati.”

As further explained by ADB (1998, p.40), it was envisaged in Kiribati's first NDS that the Government would concentrate on the core activities of providing social services, infrastructure and establishing “an enabling investment environment with marketable goods being provided by the private sector and independent public corporations”. Even in the core activities more involvement of non-governmental bodies is envisaged. For instance, NGOs might be expected to provide greater assistance in human resource development and assist further with social support services. Greater contracting out by government was envisaged to result in a higher proportion of infrastructure and public services being supplied by the private sector and NGOs. However, it is one thing to devise strategies and another to put them in to effect. In Kiribati, progress in putting its NDS into effect has been slow as will become clear in the discussion below.

## 2.3 Public Finance in Kiribati

The Government of Kiribati has usually had surplus in its overall budget balance. In the period 1987-1998, Kiribati only experienced an overall budget deficit on one occasion, namely 1996, and a balanced Budget has been planned for 1999.

The Government of Kiribati has adopted a cautious attitude to spending and has been assisted in recording a slight budget surplus overall for the period 1987-1999 by significant income from fishing royalties (which have shown an upward trend) and by drawdowns from RERF as well as foreign aid.

**Recurrent Income and Expenditure:** The budget of the Government of Kiribati indicates the main sources of its recurrent revenue and expenditure. According to its 1999 Budget, the main sources of recurrent revenue in declining order of importance are Fishing Royalties, Import Duty, RERF Drawdown, Personal Tax, Company Tax, Green Passport Investment Programme and NASDA Fees if Ministerial Revenue is excluded. In recent years, Fishing License Revenues have been by far the main contributor to revenues with import duties being large in relation to other items as well as RERF drawdowns. Table 2 provides a breakdown of budgeted recurrent revenues for 1999 for the Government of Kiribati.

### INSERT TABLE 2

As for operating expenditures (see Table 3), the Ministry of Education, Training and Technology has by far the largest allocation (A\$11.6m) followed by the Ministry of Health (A\$7.87m). The next largest is for Police and Prisons (\$3.43m). When combined with the allocation for the Judiciary it can be seen that over \$4m is spent annually on law and order. However, the Commissioner of Police is responsible for number of functions usually assigned to other ministries or bodies in larger states. These include fire services, custody and supervision of prisoners, surveillance of EEZ, emergency assistance, and



# KIRIBATI

**Table 1**  
**Central Government Development Fund Revenue for Kiribati, 1995-1999,**  
**External Grants and Loans and Aid-in-kind \$Am**

Item	1995	1996	1997	1998	1999
External Grants	2.2 (11.2)	1.4 (5.8)	1.1 (4.2)	7.3 (20.1)	7.6 (18.7)
Loans	-	-	-	-	6.1 (15.0)
Sub-total	2.2 (11.2)	1.4 (5.8)	1.1 (4.4)	7.3 (10.4)	13.7 (33.7)
Aid-in-kind	15.0 (76.5)	19.0 (78.2)	23.6 (89.4)	13.7 (66.2)	21.9 (53.9)
Sub-total	17.2 (87.6)	20.4 (84.0)	24.7 (93.6)	31.0 (86.6)	35.6 (87.7)
Other (internal)	2.4 (12.4)	3.9 (16)	1.7 (6.4)	4.8 (13.4)	5.0 (12.3)
<b>TOTAL</b>	<b>19.6 (100)</b>	<b>24.3 (100)</b>	<b>26.4 (100)</b>	<b>35.8 (100)</b>	<b>40.6 (100)</b>

Notes: Figures in brackets are percentages of total Development Fund Revenue. Because of rounding additions are not all exact.

Source: Based on data in Table 6, Government of Kiribati, Economics Statement 1998, National Economic Planning Office, March, 1999

**Table 2**

**Estimates of Recurrent Budget Revenue for 1999 for Government of Kiribati by Source in A\$'000 and as a Percentage of Government Total Revenue**

	<b>\$'000</b>	<b>%</b>
Company Taxation	2,700	5.7
Hotel Tax	300	0.6
Import Duty	12,091	25.4
Dividends from Shares	700	1.5
Fishing License Revenues	12,800	26.9
Interest on Consolidated Fund Investments	75	0.2
Green Passport Investment Programme	1,350	2.8
NASDA Fees	1,560	3.3
RERF Drawdown	12,600	26.5
Personal Taxation	3,200	6.7
Chinese Tracking Station	220	0.5
Government of Kiribati Revenue	47,596	100
Appropriation from previous year Surplus	10,718	-
Ministerial Revenue	5,299	-
<b>TOTAL</b>	<b>63,613</b>	<b>-</b>

**Source:** Based on Republic of Kiribati (1999, Table 2, p.3)

**Note:** Due to rounding sums may not total exactly.

national security. Appropriately \$0.5m has been allowed for surveillance of Kiribati's EEZ. This sum is relatively small in relation to royalty income from its fisheries.

#### INSERT TABLE 3

The only other ministries or public bodies with a budgeted allocation in excess of \$2m are Ministry of National Resource Development, Ministry of Works and Energy and the Ministry of Line and Phoenix Group. Debt servicing is relatively modest at A\$200,000.

**Long-term Budgeting Position:** The longer-term budgeting situation of the Government of Kiribati can be seen from Table 4. This shows the following:

- (i) The consistently high importance of indirect taxes (mostly import duties) as a source of revenue.
- (ii) The consistently high contribution made from earnings from RERF.
- (iii) The growing and major importance of fishing royalties. However, as in the case of Tuvalu, this is a volatile item. Earnings depend significantly on cyclical weather conditions. For example, royalties in 1994 more than halved compared to 1993. In 1997, they reached A\$29.4m (well above budget estimates) and revised estimates for 1998 are A\$42.0m, indicating a significant windfall gain.
- (iv) External grants while making a large contribution to recurrent expenditure between 1987 and 1993, sharply declined after 1993. Although there appears to have been some recovery since 1997, they have not recovered to their earlier relative contribution.

#### INSERT TABLE 4

**RERF Features:** Before discussing development funding and expenditure by Kiribati, it is appropriate to point out some features of the RERF. The RERF funds are invested abroad and are fairly evenly distributed between bonds and equities using London-based fund managers. Over the long-period quite high returns have been obtained and the Fund has increased substantially in nominal and real value. However, compared to Tuvalu in

**Table 3**

**Recurrent Expenditure of Government of Kiribati as for 1999 Budget Estimates by Authority and Other Purposes in A\$'000 and as a Percentage of the Total**

	<b>Operating Expenditure to 31<sup>st</sup> December 1999</b>	
	<b>A\$'000</b>	<b>%</b>
Contributions to Development Fund	5,000	7.8
Contributions to the RERF	5,000	7.8
Office of the Beretitenti	1,046	1.6
Judiciary	685	1.1
Police and Prisons	3,425	5.4
Public Service Commission	99	0.2
Ministry of Foreign Affairs	597	0.9
Ministry of Home Affairs and Rural Development	1,465	2.3
Ministry of Environment and Social Development	856	1.3
Maneaba ni Maungatabu	1,136	1.8
Ministry of Commerce, Industry and Tourism	843	1.3
Kiribati National Audit Office	535	0.8
Office of the Attorney General	291	0.5
Ministry of Natural Resource Development	2,448	3.8
Ministry of Health	7,886	12.4
Ministry of Education, Training and Technology	11,608	18.2
Ministry of Information, Communications and Transport	1,910	3.0
Ministry of Finance and Economic Planning	1,712	2.7
Ministry of Works and Energy	2,248	3.5
Ministry of Labour, Employment and Cooperatives	1,514	2.4
Ministry of Line and Phoenix Group	2,228	3.5
Debt Servicing	200	0.3
Other Expenses	10,880	17.1
<b>Total</b>	<b>63,613</b>	<b>100</b>

**Source:** Based on Government of Kiribati (1999, p.1)

**Note:** Sums may not add exactly due to rounding.

**Table 4**  
**Budget Summary for Kiribati 1987-1997**  
**in A\$million at current prices**

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996 (budget)	1997 (budget)
Revenue	26.0	24.9	29.3	29.5	43.2	47.1	52.0	51.1	60.7	48.9	55.6
Tax	8.5	8.5	9.3	10.2	11.5	11.3	12.9	12.9	16.9	13.5	16.1
Direct Tax	2.5	2.4	3.2	3.7	4.1	3.4	3.9	3.5	5.4	4.7	5.4
Indirect Tax	6.0	6.0	6.1	6.5	7.3	7.9	9.0	9.4	11.5	8.8	10.8
Non Tax <sup>1</sup>	17.5	16.4	20.0	19.3	31.8	35.8	39.1	38.2	43.8	35.4	39.5
Entrepreneurial Income	0.0	0.0	1.3	1.8	1.0	0.9	0.1	0.1	0.1	0.2	0.2
RERF Interest and Dividend	10.0	11.6	11.5	13.5	14.7	17.1	16.8	16.3	17.4	15.0	17.0
Fishing Royalties	2.1	2.2	2.9	4.0	11.9	13.0	14.1	18.4	18.2	11.0	16.3
Other	5.3	2.5	4.2	5.9	4.1	4.8	8.1	3.5	8.2	9.3	6.0
External Development Grants <sup>2</sup>	18.4	19.4	20.5	25.9	22.4	34.7	20.5	4.3	4.6	3.5	10.4
<b>Total Revenue and Other Grants</b>	<b>44.3</b>	<b>44.2</b>	<b>49.8</b>	<b>55.4</b>	<b>65.7</b>	<b>81.8</b>	<b>72.5</b>	<b>55.4</b>	<b>65.4</b>	<b>52.4</b>	<b>66.0</b>
Current Expenditure <sup>3</sup>	26.7	31.2	36.5	35.4	42.8	41.5	45.1	42.2	55.0	49.2	48.4
Development Expenditure <sup>4</sup>	10.1	9.2	8.6	16.0	7.9	22.5	7.1	5.7	8.5	6.3	12.2
<b>Total Expenditure</b>	<b>36.8</b>	<b>40.3</b>	<b>45.1</b>	<b>51.4</b>	<b>50.7</b>	<b>63.9</b>	<b>52.2</b>	<b>47.9</b>	<b>63.6</b>	<b>55.6</b>	<b>60.5</b>
<b>Overall Balance (-deficit)</b>	<b>7.5</b>	<b>3.9</b>	<b>4.7</b>	<b>4.1</b>	<b>15.0</b>	<b>17.9</b>	<b>20.3</b>	<b>7.5</b>	<b>1.8</b>	<b>(3.1)</b>	<b>5.5</b>
Reinvested from RERF	3.4	8.0	8.6	12.0	12.7	10.6	11.3	11.9	9.9	1.4	4.4
STABEX Transactions <sup>5</sup>	0.5	0.2	(0.2)	(0.3)	(0.3)	(0.7)	0.8	(0.4)	(0.3)	(1.1)	(1.1)
<b>Adjusted Overall Balance<sup>6</sup></b>	<b>11.3</b>	<b>12.1</b>	<b>13.0</b>	<b>15.8</b>	<b>27.4</b>	<b>27.8</b>	<b>32.3</b>	<b>19.0</b>	<b>11.4</b>	<b>(2.9)</b>	<b>8.8</b>

Source: ADB 1998 (Table A-3, p.201)

relation to its TTF, Kiribati seems to have been more inclined to draw its Funds for budgeting purposes and has in recent times injected little extra capital from outside the Fund e.g. from fishing royalties. However, for 1999 it has budgeted a contribution of A\$5m to the RERF. Its only other contribution appears to have been in 1992 when it deposited \$12.2m.

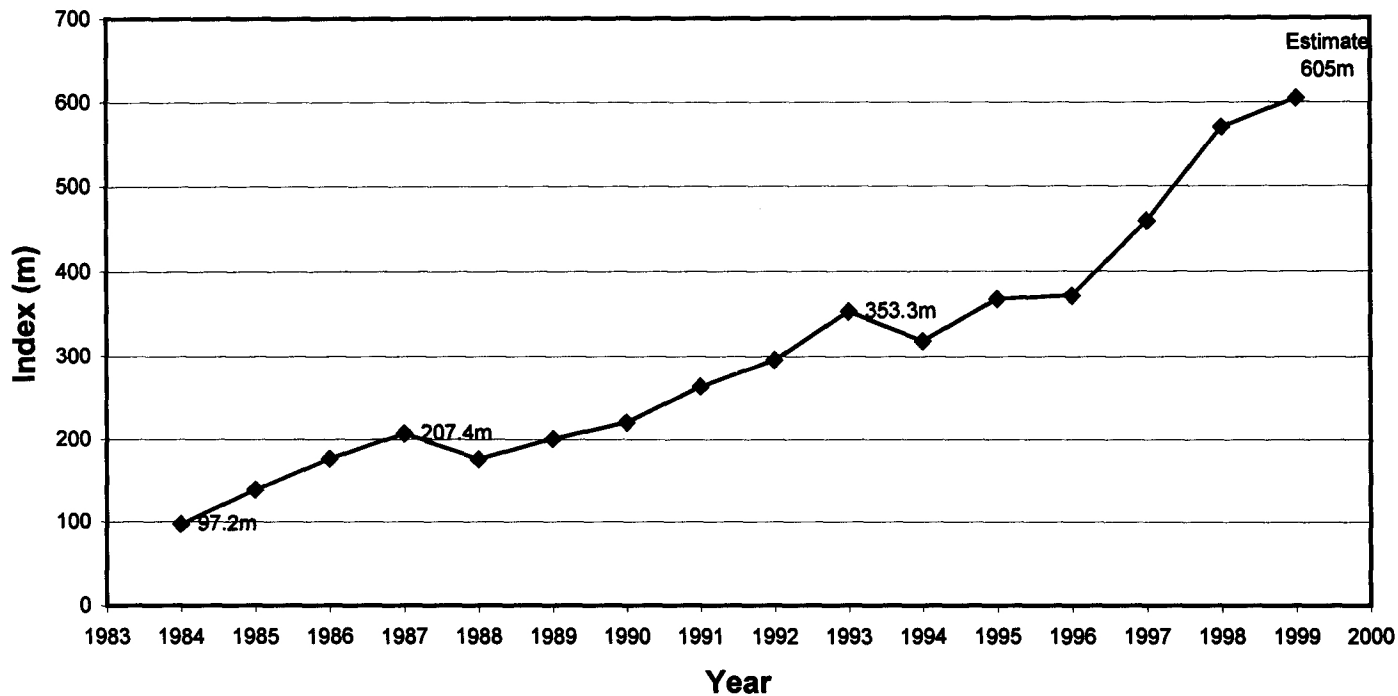
ADB (1998, sec.5.2) expresses several concerns about the ability of the Fund to sustain its past contribution to the finances of Kiribati. It provided evidence (ADB, p.51) that the real value of the Fund per person after rising exponentially between 1980 and 1993, appeared to be going into a decline. Also it suggested that much of the considerable gains in the Fund were of a windfall nature and due to good fortune. But since its pessimistic prognosis the nominal value of the RERF has almost doubled and the real value would shown a substantial rise (See Figure 3.1). Nevertheless, investment portfolios do involve risks and can fluctuate in value as global economic conditions alter. A conservative approach to drawdowns would therefore be appropriate to hedge against such risks.

INSERT FIGURE 3.1

**Development Budget – Outlays and Revenue Sources:** No stand alone development budget seems to be prepared for Kiribati but various data are available which throw light on the public finance involved in Kiribati's development efforts.

It can be seen that as proportion of total budget expenditures, total public expenditure on development has shown a downward trend from 1987 onwards with occasional reverse 'spikes' as in 1990 and 1992. Most of this expenditure was financed form foreign aid. But in 1997 in actual practice strong reversal of this trend occurred and development expenditure plus aid-in-kind rose to around one-third of total budget expenditure, was expected to be even higher for 1998, and was estimated to be around one-third of total budget expenditure in 1999. Table 5 indicates the greater revenue from 1997 onwards has been met by larger contributions by the Kiribati Government, ADB loans, other aid, and aid-in-kind. Most of Kiribati aid is in kind which may mean that most of it is tied to aid.

**Figure 3.1**  
**RERF Market Value in Nominal Terms**  
**Relative Value in Relation to 1984 with Selected Actual Values Indicated**



## INSERT TABLE 5

In recent years, the major external providers of development funds for Kiribati have been Japan, Australia, European Community and ADB. Australia and New Zealand combined have been the major providers of support in recent years. Table 6 indicates the estimates and projections of contributions to the Kiribati's Development Fund. Less than 20 percent (usually much less) are provided by Kiribati. Hence, Kiribati remains highly dependent on external sources for development funding.

## INSERT TABLE 6

### **2.4 Economic Reforms, especially Public Sector Reforms**

As mentioned earlier, Kiribati (presumably with some urging from external advisors) embarked on a National Development Strategy in 1996 which emphasized the need to adopt structural adjustment policies to foster private sector growth, increase economic efficiency and reduce the size of the public sector. While change has occurred, it has not been rapid. Reasons include the conflict between the traditional communal/customary system of the I-Kiribati and the Western system of pursuit of individual economic self-interest fostered by the market system. The present Government was elected on the basis of its opposition to the privatization of public undertakings.

While several of Kiribati's public sector commercial enterprises are corporatised, there does not appear to have been any significant increase in the extent of corporatisation since 1997 when ADB completed its economic report. Furthermore, privatisation has not been vigorously pursued. In general, institutional structures involving the public sector seem to have shown slight variation since 1997 even though the Annual Review and Update of the Medium Term Strategy 1999 indicates ways in which greater involvement of the private enterprise with the public sector may be fostered in the future e.g. joint venture partners are being sought for Air Kiribati, the Otintaai and Captain Cook Hotels, private sector operation of domestic shipping services is to be encouraged, and to do this



**Table 6**  
**Estimated and Projected Contributions to the Kiribati Development Fund for 1995-2001 in**  
**A\$ '000 by Detailed Source**

<b>Donor</b>	<b>Estimate 1995-98</b>				<b>Projection 1999-2001</b>		
	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
United Kingdom	1,500	1,500	1,500	1,448	1,127	1,200	1,200
Australia	4,718	4,345	4,686	6,800	6,800	6,800	6,800
New Zealand	2,700	2,568	2,672	2,800	2,800	2,800	2,800
Japan	376	800	3,200	8,500	9,558	9,000	5,000
European Community	3,550	6,500	6,500	6,500	3,400	3,400	3,400
Asian Development Bank	550	3,000	2,730	6,540	8,413	9,157	2,757
China	160	170	170	500	600	600	600
SPC/SPREP/CFTC	150	150	200	300	400	400	400
UNICEF	0	0	0	0	139	139	139
UNDP/UNFPA	700	900	1,200	1,300	1,800	2,000	2,000
USAID/Peace Corps	400	400	400	400	400	400	400
Canada Fund	200	200	200	200	225	225	225
Germany	40	40	40	40	40	50	50
South Korea	65	65	65	65	65	65	65
ESCAP	30	40	40	50	50	50	50
France	400	100	200	200	200	200	200
WHO	200	300	392	469	469	489	489
Forum Secretariat/SIS	89	92	86	90	90	90	90
USP/Regional Org.	10	120	90	100	100	100	100
Kiribati	3,800	3,000	2,017	3,000	5,000	2,500	2,500
<b>Total</b>	<b>19,638</b>	<b>24,290</b>	<b>26,388</b>	<b>39,302</b>	<b>41,676</b>	<b>39,665</b>	<b>29,265</b>

Source: Government of Kiribati (1999, p.222)

**Table 5**  
**Contributions to Development Fund of Kiribati 1997 to 1999**  
**by General Sources in A\$'000 (rounded)**

<b>General Source</b>	<b>1997 Actual Revenue</b>	<b>1998 Estimated Revenue</b>	<b>1998 Revised Revenue</b>	<b>1999 Budget Revenue</b>
Kiribati Government	1,617	3,000	4,850	5,000
ADB Loan	0	5,000	0	6,118
Other Contributions	1,134	7,261	7,261	7,583
Aid in Kind	23,637	22,924	23,694	21,903
Total	16,588	38,185	36,005	40,903

Source: Based on Government of Kiribati (March 1999, Table 2, P.3)

subsidies may be provided for uneconomic routes which could become available by tender as in Fiji. However greater contracting by the Government does not appear to be mentioned in MTS 1998.

A systematic review of the functions of government with a view to restructuring the core activities of government and considering its role in relation to other providers has not been undertaken. However, it is to be a key feature of departmental strategic plans in the period 2000-2002.

In relation to government operations, MTS 1998 reports that in government activities, increasing emphasis is to be put on identifying “options for increasing effectiveness/cost recovery/cost saving” (Government of Kiribati 1999, p.1). So far, however, cost recovery appears to have been modest. As for efficiency, and more general interest in cost recovery and saving, it is anticipated that the budget ceiling of Ministries and Departments will be reduced in the future and staffing levels reviewed. This may create increased action to achieve the above-mentioned goals. To date, however, there has not been a freeze on filling of vacant positions in the public service, although it might be that established positions are virtually frozen.

As a step towards increasing efficiency in the public service, performance goals were specified in the 1999 Budget for the first time. As explained in MTS 1998, this step is an initial one in reforming budget and management systems to:

“

- make Permanent Secretaries ‘Managers’ with clear tasks and accountable for results (through performance contracts)
- measure their performance in terms of saving money while achieving target outputs
- review incentives to performance

Preconditions for these steps necessarily include:

- (i) clearly defining accountability at ministry/departmental level;
- (ii) defining the results to be achieved;

- (iii) establishing standards to measure the results achieved;
- (iv) giving 'Managers' tools to achieve the results, and freedom to use those tools; and
- (v) providing for those who may be displaced as a result of measures taken.

The strategic planning and management system being introduced in 1998, and implemented in 1999, contributes to the first four measures above by setting out:

- desired outcomes;
- outputs of ministries intended to achieve those outcomes;
- standards of performance for such outputs;
- activities to be undertaken to provide the outputs;
- clear establishment of responsibility for meeting the outputs; and
- a management and reporting system for monitoring implementation of the strategic plans.

The reporting system will come into operation in the month following the passage of the 1999 Budget through the Maneaba ni Maungatabu.

Depending on progress with implementation of the system, consideration will be given to decentralisation of management controls, and introduction of purchase agreements and performance contracts in the following year. Given that much more effort appears to be put into securing additional financial and human resources, than increasing effectiveness in the use of resources, it is particularly important that remuneration systems should send the correct signals, and provide the right incentives." (Government of Kiribati, Feb., 1998, p.2)

MTS 1998 also addresses aspects of the reform of the Public Enterprise System. Several policy elements and actions have been identified for possible implementation but other than in relation to requests for financial assistance by the PSEs, few steps have been taken to implement these (Government of Kiribati, 1999, p.4). However, in the future it will be more difficult for PSEs to obtain financial assistance from the Government.

So far measures to facilitate the development of the private sector have concentrated on possible reforms to the taxation system. The establishment of a Private Sector Consultative Committee, a proposed Act to assist small enterprises and recommendations to improve the availability of finance for business a matter to be discussed later). MTS 1998 also mentions that a "level playing field" should be established for all businesses and that infrastructure services should be provided at reasonable cost but does not indicate what progress has been made in that respect. However, measures to improve land availability for business are specified. But it is clear that making more land available for business development on South Tarawa is a major problem.

Although market liberalisation is a major aim, more protective business measures are eagerly endorsed. These include the possibility of tax concessions for export industries and financial concessions for businesses commencing in new fields. "Measures recommended under increasing availability of finance for new fields included the use of donor funds to assist in start-up costs for enterprises establishing in new fields. It has been noted that this approach has been successful in other Pacific islands, and donors are favourably inclined towards such approaches" (Government of Kiribati, Feb., 1999). Presumably 'infant industry' arguments are being appealed to in such cases.

Reforms have also been identified to encourage foreign investment which require the amendment of the Foreign Investment Act and Regulations but little progress has occurred. However, in 1999 it is intended to seek technical assistance in making these amendments. Very little progress has been made in improving the work permit system for investors and in fostering the facilitation of foreign investment rather than its regulation and control and no progress has been made with the adoption of APEC investment principles.

Land availability is a strategic concern. However, at this point it seems that no effective policies have been identified in MTS 1998 to relieve population and other urban development pressure on South Tarawa.

Some price regulations apply to basic foodstuffs and other items in Kiribati. Adherence to Government regulations on price control and weights and measures is the responsibility of the Ministry of Commerce, Industry and Tourism. One of its performance standards as per the 1999 Budget is “a reduced number of complaints against traders concerning price controlled items, and weights and measures”. The rationale and effectiveness of price controls could not be assessed in the time available to the author.

Because Kiribati has on the whole pursued careful policies in relation to its public finance, it has not been forced by an economic crisis to adopt structural reforms rapidly as typically required by many foreign aid agencies. It can take a more evolutionary approach. Politically this seems desirable given the strong communal ethic of Kiribati and the need to sustain social cohesion. ‘Managerialism and competitive systems’ must be adapted to the cultural context in which it is sought to apply these. In addition, it needs to be increasingly recognized that there can be excesses in managerialism not only from some cultural perspectives but from an economic efficiency point of view.

## **2.5 External Financing and Public Debt**

As for the public debt of Kiribati, it is all held externally. As at the 31 December 1997, it stood at A\$17.3m (Republic of Kiribati, March, 1999, p.218). The main lender is ADB and there are also significant loans from the People’s Republic of China, and a minor loan from the European Investment Bank. All loans are soft loans.

Presently (1999) the public debt of Kiribati has probably risen to around \$2m on account of an expected ADB loan of \$6.1m in 1999. This it would be about a third of Kiribati’s predicted GDP for 1999. This would be an increase compared to the period 1995-1998 when it varied between 14.9 and 19.0 percent of GDP. The official external reserves of Kiribati stood at \$596.8m in 1998 indicating that these covered its debt several fold.

In recent years the external debt of Kiribati has risen. Nevertheless, using conventional indicators, Kiribati seems well placed to meet its obligations. However, it still needs to be

careful in using its external loans wisely to give favourable (social) returns and not to over-commit itself. Although the official external reserves of Kiribati seem high, it needs to be kept in mind that to a considerable extent these consist of the RERF. This Fund is one of Kiribati's prime means for sustaining the incomes of I-Kiribati and for stabilising its public finance. Significant erosion of RERF to meet loan repayments would spell a potential long-term disaster for Kiribati. Therefore, caution should be exercised in this case as in the case of Tuvalu.

Incidentally some of its external loans have been relent by the Government of Kiribati to bodies such as Betio Shipyard Ltd., the Public Utilities Board and Development Bank of Kiribati but many of these loans have minimal chance of recovery e.g. that to the Development Bank of Kiribati (cf. Government of Kiribati, March, 1999, p.217). Such loans provide a *de facto* subsidy to the public enterprises concerned.

## **2.6 Encouragement of Foreign Direct Investment and External Financial Flows**

As mentioned in section 3.2.3, little progress has been made with reforms in this area but there are plans for change. The proposed reforms are intended to clarify the areas where foreign investment would be welcome, reduce the number of institutional hurdles to such investment and facilitate the issue of work permits for overseas workers to be employed in foreign owned businesses. The Ministry of Commerce, Industry and Tourism has been requested to draw up amendments to the Foreign Investment Act to facilitate reforms.

A higher level of performance is going to be required of the Ministry of Commerce, Industry and Tourism in relation to its output for industrial promotion and development (see Government of Kiribati, 1999, pp.64-65). "This output involves promotion of industrial development, establishment and management of industrial estates, and fostering the Enterprise Development Scheme. It also involves facilitating inquiries by potential foreign investor, and promoting investment prospects in Kiribati". The Ministry will be required to implement "sound, transparent and non-discretionary policies on foreign investment approvals", simplify procedures, streamline the issue of work permits, take a

more liberal approach to FDI but ensure that it does not compromise Kiribati's ecological principles and reduce the time for processing FDI applications. One may therefore expect significant changes in the medium-term.

## **2.7 Domestic Finance and Financial Markets**

Like all counties in this survey, financial markets in Kiribati are relatively underdeveloped compared to those in high-income countries. An excellent short review of "Finance and Capital Market" is given in ADB (1998, Section 5.5) and the situation has not changed fundamentally since then. There is no central bank or monetary authority and funds are free to move into and out of the country.

The principle institutions (which are mirrored in most of the Pacific countries under review) are:

- Bank of Kiribati
- Development Bank of Kiribati
- Kiribati National Provident Fund
- Kiribati Insurance Corporation
- National Housing Authority

The Bank of Kiribati is owned 51% by Westpac Ltd (an Australian bank) and 49% by the Government of Kiribati. All the other financial institutions are wholly owned by the Government of Kiribati. In addition to this, several village-based banks exist, and some cooperatives and informal money-lenders offer short-term credit.

There were 181 village banks registered at the end of 1991 and MTS - 1998 indicates that it is planned to increase the number. They provide micro-finance and service locations and customers not provided for by larger institutions.

In its report, ADB (1998) indicates that a central bank or monetary authority was not required for Kiribati but notes the monopoly which BOK has in relation to banking in



Kiribati. BOK is *de facto* a central bank – banker to the government, and receives considerable business as a result.

The Development Bank of Kiribati (DBK) generally makes small loans with most being less than \$10,000. Despite some privileges, it has performed poorly mainly because of bad debts. DBK has found it very difficult to recoup loans. There are therefore some parallels with the situation of the Development Bank of Tuvalu, discussed later.

The Kiribati Provident Fund (KPF) is an important financial institution in Kiribati. A contribution is required on behalf of any employee earning a cash income of \$10 or more per month. The employee contributes 5% of pre-tax income and the employer the same amount, and employees are paid a lump sum on retirement. Annual contributions to KPF exceed \$2.5 million per year. The goal of KPF is to maximise returns on the deposits of its members. To do this, it invests nearly all of its funds offshore.

The Kiribati Insurance Corporation is wholly Government owned and is the only insurance company operating in Kiribati. As suggested by ADB (1998, p.72) its economics performance could be improved e.g. by obtaining higher returns on deposit or funds and possibly obtaining some economies scale by merger with KPF.

ADB (1998, pp.72-73) also suggests that the operations of the National Housing Corporation, a statutory body, could be improved. It mainly provides housing for public servants and dominates the housing sector in Kiribati.

Increased competition for the Kiribati Insurance Company might be desirable. For example, some banks operate associated insurance companies and the Bank of Kiribati could do likewise or foreign companies may be encouraged to begin operations. Again in relation to housing provision measures mentioned by ADB (1998) could be taken to encourage the supply of private rental properties. Public supply can be inefficient.

The above indicates that competition in the financial sector of Kiribati is weak. This is partially a result of the small market but it may also have been reinforced by discouragement of new foreign investment in this sector.

Since ADB (1998), Kiribati has undertaken a review of its financial sector. The review committee recommended that steps be taken to increase the availability of finance within Kiribati. The report made the following recommendations:

- “ (1) develop and publish policy goals for the financial sector;
- (2) establish a Financial Sector Advisory Committee;
- (3) enact legislation for the regulation and supervision of banks and financial institutions;
- (4) introduce a partial guarantee scheme for specific categories of bank loans;
- (5) strengthen supervision and extension services for semi-formal financial institutions;
- (6) consider amendment of the KPF Act to allow a limited amount of direct investment by the Fund in ownership of certain kinds of enterprise in Kiribati;
- (7) encourage development of a domestic capital market, without the use of government guarantees;
- (8) take no action on a national currency, but review the position periodically;
- (9) undertake consultations with Westpac to improve the quality and pricing of BOK’s services to quasi-competitive standards, and revise the joint venture agreements to ensure transparency, agreement on corporate goals, and arms-length relations with shareholders.”

The report draws attention to the very large ‘pool’ of funds, representing savings by the people of Kiribati, but which are generally used to generate economic activity elsewhere. The recommendations are framed around increasing the availability of such funds for domestic business activity.

Implementation of the recommendations of the report will be a priority over the next two years. The amended Policy Action Matrix consequently lists “Increase the availability of

finance to small businesses through introduction of appropriate financial sector reforms” as a key policy element aimed at facilitating the growth of the financial sector.” (Government of Kiribati, February, 1999, pp.5-6)

However, the recommendations do not seem to be made on closely reasoned grounds, such as market failures or questions of distributional justice. In the absence of market failures, financial advantages to one economic group involve social economic costs. Measures to retain funds in Kiribati may do likewise because returns on funds in Kiribati at the margin are lower than from investment overseas. For this reason BOK and NPF invest most of their funds offshore. A further indication of the low returns in Kiribati is that interest rates in Kiribati are usually two to three percentage points less than in Australia (ADB, 1998. p.68) which would indicate that there is already a bias in favour of investment in Kiribati and that some returns on funds are being forgone as a result. The argument for some bias in favour of local investment needs to be carefully developed and assessed.

## **2.8 Recommendations**

- The replacement of national plans by development strategies provides an improved dynamic setting for policy implementation, as does incorporation of these strategies in a medium-term strategy document which is reviewed and updated annually. This approach should be continued. This process can also be dovetailed neatly with budget preparation. Kiribati’s budget now includes descriptions of expected output and standards for departmental performance.
- The adoption of performance accounting in relation to public finance represents a significant step forward in the integration of policies, procedures to ensure their implementation, and is a means to increase economic efficiency in the public service. Their impact will, however, depend on the social climate and incentive systems. While performance accounting should continue to be used, negative effects can arise if it is carried to extremes. Extremes can result in high transaction costs and loss of self-generated enthusiasm.

- Kiribati has followed relatively cautious policies in relation to public finance and given its economic vulnerability, would be wise to continue to do so. Because of its relatively sound financial position, Kiribati has not been forced by external pressures to adopt structural adjustment policies rapidly. Thus it has retained some degree of national independence in relation to its economic policies.
- From the point of view of cultural and political stability in Kiribati, rapid structural economic reforms are undesirable. Kiribati must find solutions consistent with the culture of I-Kiribati which is communal in nature. Nevertheless, economic reforms can clearly progress further without disrupting this culture if such reforms are selective and gradual. Nevertheless, it is likely that the Government of Kiribati will be expected to play a major role in the economy for some time to come. A mixed economic system will continue to be preferred with the government sector having a larger role than in larger more developed countries. This seems appropriate for the circumstances of Kiribati.
- The RERF has proven to be an important means for helping to stabilise available public revenues for Kiribati, and an important vehicle for raising the national income of Kiribati. Its role is vital given the considerable instability of revenues from fishing royalties. It has enabled the overall development policies of Kiribati to be pursued with some confidence. Its contribution has been similar to that made to Tuvalu by the Tuvalu Trust Fund. Naturally the real per capita value of this Fund should not be allowed to decline, especially bearing in mind that it does show variations with fluctuations in international capital markets. In fact, windfall gains from fishing royalties should be used in part to increase the size of the Fund as Kiribati has done recently.
- Kiribati relies heavily on external sources for funding its development expenditure but relative to public revenue, foreign aid for Kiribati has fallen. Some of the shortfall has been met from Kiribati's own funds and extra borrowing but Kiribati has limited capacity to fund its development expenditure. Continuous and sustained donor assistance is required.
- The public debt of Kiribati is relatively small and all of it is funded externally by soft loans. But even soft loans involve repayment obligations and therefore have to be

assessed carefully from the point of view of the net benefit to the borrower. It has been observed that some of the external funds are relented to public bodies but in some cases they are unlikely to repay the loan. This means that the burden of loan repayments falls on the general taxpayer. More care needs to be exercised with such loans unless they are really intended to provide a subsidy to recipients. It appears that because of increasing relative scarcity of external aid, Kiribati has had to recently increase its dependence on foreign loans.

- Financial markets in Kiribati remain 'thin' and underdeveloped. This is partly a result of the less developed status of Kiribati as well as the smallness of its markets. So there are few providers of finance and competition between suppliers is limited. Except for the Bank of Kiribati which is 51% owned by Westpac and 49% by the Government, all the major financial institutions are government-owned. As pointed out in ADB (1998) scope exists for reforms.
- There appears to be some confusion about the role to be played by the financial sector. For example, the Development Bank of Kiribati has financial difficulties because it has presumably provided 'easy credit' so creating a distortion in financing. Its role needs to be assessed and particularly the reasons for its bad debts need to be examined carefully. Its situation is similar to that of several other development banks in the Pacific.
- A recent review of the financial system of Kiribati does not appear to have clarified policy choices very well and fully justified from an economic point of view reasons for showing a preference for the funding of small business or retaining funds in Kiribati for lending rather than investing these overseas. While there could be grounds for such a preference, there can also be costs in terms of foregone returns on capital. Currently there is a net outflow of commercial funds from Kiribati because of the higher returns available abroad. While assessment of this matter is complex, an in-depth report analysing the matter is recommended.
- Foreign direct investment in Kiribati appears to have been hampered in the past by bureaucratic hurdles. There are advantages in pressing ahead with the industrial reforms proposed which would appear to maintain sufficient safeguards, for Kiribati.

### **3 SOCIAL ISSUES**

#### **3.1 Background**

Social conditions, especially health problems, remain a major concern in Kiribati as well as unemployment and underemployment in South Tarawa. Little 'hard' information is available about the extent of unemployment and poverty in Kiribati but the ILO is involved in efforts to collect more information on this aspect. Despite the communal nature of the society of Kiribati, it is likely that considerable income inequality exists and inequalities clearly exist between South Tarawa and the outer islands, a factor which results in continuing in-migration to South Tarawa despite some adverse environmental consequences of this inflow. Let us consider aspects of education, health and discuss general social issues for Kiribati.

#### **3.2 Education**

Both education and health in Kiribati are given extensive coverage in ADB (1998, Ch.7) so the review here will not cover the same ground but concentrate mainly on developments since 1997.

From Table 3, it can be seen that in the 1999 Budget, education at 18.2% is the Government's major outlay from its recurrent budget. This proportion has fallen compared to 1998 when it was around 23% of the recurrent budget but is broadly consistent with the proportionate allocation since 1985. The budget for education in 1998 was up due to the extension of the length of time for compulsory education which now means that most students will be required to complete the Junior Secondary School programme. The MTS reports that the education sector's share of the recurrent budget averaged 18% in the period 1985-90, and moved up to 19% in the period 1991-1997 (Government of Kiribati, February, 1999, p.33).

Available budget funding for education is becoming tighter. After significant growth in total available public funds in real terms in the period 1994-1996, there appears to have been a slight decline in real funds. Indications are that real public funding per capita for education may be going into a decline. If the quality of educational services are to be

sustained greater efficiency will be needed in their delivery and/or larger private contributions to education will be needed.

Education and training in Kiribati are primarily the responsibility of the Ministry of Education, Training and Technology (METT). Primary schools are operated by the Government and of the eleven secondary schools three are run by the Government and eight by the Churches. Non-government schools are monitored by METT.

Primary school education is free and compulsory and the intention is to extend compulsion so that most students complete junior secondary school. It was hoped to introduce compulsory junior secondary school education simultaneously on all islands in 1998 but this proved to be impractical and in 1999 its introduction was partial. The government is encouraging the churches to vacate the junior secondary school and concentrate on senior secondary education, leaving junior secondary education primarily to the state.

In Kiribati, the churches dominate secondary school teaching. The percentage of senior school students enrolled in Government secondary schools fell from 41% in 1980 to around 23% in 1998. At primary school female-male enrolments are about equal but at secondary school level females outnumber males, are 55% of the enrolment. There is a preference for enrolment in urban schools, with South Tarawa favoured by many parents. As in Tuvalu, it is generally believed by parents that metropolitan schools provide education of higher quality than in those rural areas.

ADB (1998, pp.177-178) points out that shortages of qualified teachers, out-of-date curricula, shortages of textbooks and school equipment as well as poor school infrastructures hamper education in Kiribati. The fragmentation of the country into many islands adds to the costs of providing educational services, as it does in Tuvalu.

The extent to which it is economic to extend universal education in Kiribati is debatable. In any case the Governments schedule for extending the system of junior secondary

schools (JSS) has proved unworkable, as predicted by ADB (1998, p.134) which commented:

“ The Government’s apparent determination to implement JSS on all islands at the same time is a particularly difficult constraint. It is highly unlikely that all the necessary construction and re-training of staff can be completed at the same time. A staged introduction may be more practical, albeit a less politically satisfactory, alternative”

In relation to cost recovery from the educational activities of the Ministry of Education, Training and Technology, there has been little cost recovery. This is evident from Table 7 In 1999 for example, fees and charges only accounted for \$284,821 of the total recurrent expenditure of METT of \$11,323,182, that is 2.5% of its revenue. Taxpayers contributed therefore 97.5% of the total revenue of METT.

#### INSERT TABLE 7

On the other hand, it is clear that the Government’s relative contribution to secondary education has declined since the beginning of the 1980s because the percentage of secondary school students attending state schools has almost halved and the government makes little contribution to the funding of church schools. As pointed out by ADB (1998, p.162):

“The church schools are heavily dependent on their own resources and student fees for revenue. The Government assists by paying the salaries of nine teachers and the cost of three volunteers for each church school.”

Many international organizations urge reduced public assistance for education at higher levels. To date, Kiribati has achieved this indirectly but this trend may in the short-term be reversed by the introduction of JSS. At the same time, however, the government has signaled, its intention to depend more heavily on church schools for the provision of senior secondary school education.



**Table 7**  
**Summary of Ministry of Education, Training and Technology**  
**Expenditure and Funding, Kiribati**

	<b>1997 Actual (\$)</b>	<b>1998 Revised Est. (\$)</b>	<b>1999 Estimate (\$)</b>
<b>Recurrent Expenditure</b>	8,970,750	11,170,556	11,608,003
<i>Funded from:</i>			
Fees and charges	227,303	290,320	284,821
Taxpayer contribution	8,743,447	10,880,236	11,323,182
<b>Development Expenditure</b>	2,837,747	3,518,600	5,524,328
<i>Funded from:</i>			
Development Fund	461,939	758,265	3,834,328
Aid-in-Kind	2,375,808	2,760,335	1,690,000
<b>Total Expenditure</b>	11,808,497	14,689,156	17,132,331

Source: Government of Kiribati (March, 1999, p.111)

The Government's future proposed policies for education are succinctly set out in its Annual Review and Update of the Medium Term Strategy – 1998 as presented in Table 8. They address most of the issues mentioned above.

#### INSERT TABLE 8

As in many countries in the Pacific there is considerable emphasis on the relevance of curricula at school in relation to business interests. But it is by no means clear what is the appropriate form of training from that point of view is and doubts have been raised by some scholars about the economic value of such an orientation. In any case, it needs to be kept in mind that education serves multiple functions, one of which is cultural sustainability. Furthermore, improving the 'quality' of a product need not increase the demand for it substantially. Increased education is not a magic wand for economic growth - its value depends very much on the available resources and other opportunities to make use of it.

For its size, Kiribati is quite active in post-secondary education. As pointed out by ADB (1998, pp.163-164), institutions available in Kiribati include:

- University of the South Pacific (USP)
- Tarawa Teachers College (TTC)
- Marine Training Centre (MTC)
- Fisheries Training Centre (FTC)
- Tungaru Nurse Training School
- Police Training Centre

Not all of these are under the jurisdiction of METT. For example, MTC and FTC are the responsibility of the Ministry of Labour, Employment and Cooperatives. Both train students for employment on foreign vessels with some assistance from Germany and Japan. They make an important contribution to providing employment for the economic growth of Kiribati and add to the foreign exchange earnings of Kiribati. The extent to which the Tarawa Technical Institute adds to such possibilities could not be investigated

**Table 8**  
**Education Policy Matrix, Kiribati**

<b>Goal: An education system achieving high standards, broad coverage, relevance and cost effective delivery.</b>		
<b>Medium Term Objectives</b>	<b>Policy Elements and Actions</b>	<b>Timing and Responsibilities</b>
Upgraded resourcing of the primary school system.	Give priority to teacher training, classroom upgrading, and provision of teaching aids and textbooks, at the primary education level.	METT
Universal access to education up to Form 3	Proceed with Junior Secondary School programme in a staged and cost effective manner.	METT
Improved cost effectiveness at all levels of the education system.	Retain and build on church and community participation in delivering education at all levels.	METT, Churches, Community
	Optimise pupil/teacher ratios.	METT
	Introduce fees for all non-compulsory services.	METT, MFEP
	Seek efficiencies in the provision of post-secondary education, in both local institutions and in the funding of training at overseas tertiary institutions.	METT
Improved quality and relevance of the education system	Support community and church groups in establishing early childhood education principles in the pre-school system.	METT, Community, Churches
	Improve linkages between the education system and the job market.	METT, MLEC, MCIT

Source: Government of Kiribati (Feb., 1999, p.36)

during my short visit. Given the limited opportunities for employment on Kiribati any contribution which the TTI could make to offshore employment would undoubtedly be welcomed.

### **3.3 Health**

As mentioned in the introductory section the people of Kiribati suffer from relatively poor health. This is reflected in a relatively low length of expected life, high infant mortality rates and the high incidence of debilitating diseases.

Table 9 sets out the health problems/disease recorded in Kiribati in the period 1992-1998. Respiratory diseases are by far the most frequent followed by diarrhoeal diseases. The incidence of tuberculosis and hepatitis is relatively high and cases of hypertension, diabetes and mental disorder seem to be on the increase. Parasitic infections, particularly from worms are frequent on some islands. Cases of anaemia and malnutrition seem on the whole to be declining which is a positive sign from an economic development point of view. However, the incidence of vitamin A deficiency has not declined and seems to be an indication of lack of fruit and vegetables. Kiribati is fortunate in not having malaria present unlike the Solomon Islands and Vanuatu.

#### **INSERT TABLE 9**

Public expenditure on health constitutes the second largest outlay of recurrent expenditure from the Budget of the Government of Kiribati. In 1999, it amounted to 12.4% of the total budget and in recent years has been around 16% of the recurrent Budget. As a percentage of the recurrent Budget it increased significantly in the 1990s compared to the 1980s. In 1985, it was only 10% of the recurrent Budget. Real expenditure has generally been upwards (Government of Kiribati, February, 1999, p.37). The Government provides all health services and so far has only made very limited use of the user-pays principle. This is evident from Table 10 where fees and charges of the Ministry of Health can be seen to be a minimal source of its revenue, less than one per

**Table 9**  
**Priority Health Problems/Disease Recorded**  
**(Mortality) in Kiribati, Number of Cases Reported**  
**1992-1998**

<b>Nature</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
<b>1. POPULATION</b>							
- P.V. Bleeding	233	280	242	241	284	435	283
- A.P.H	19	52	35	6	19	28	20
- P.P.H	29	35	32	14	13	27	44
- P.V. Offensive Discharge	34	54	35	73	51	152	69
- Purperial Pyrexia	16	14	10	29	47	6	18
- Toxaemia of Pregnancy	4	2	10	2	7	5	1
<b>2. RESPIRATORY TRACT INFECTION</b>							
- Influenza	69166	95709	90032	93763	99764	122558	69344
- Sore Throat	8200	7275	4747	3400	4235	5056	4054
- LRTI	1581	4420	2824	1298	2055	4543	4029
- Bronchitis	13533	13409	10811	240	10430	8488	7307
- Pneumonia	3248	2669	1011	919	5365	1717	1854
<b>3. DIARRHOEAL DISEASES</b>							
- Diarrhoea	19581	14113	11848	9606	8842	9891	8779
- Food Poison	1765	1775	1150	1084	1032	1428	1078
- Dysentery A/B	2194	3387	3999	3031	4453	4801	4506
- Typhoid	116	44	233	302	171	96	263
<b>4. WOUNDS ACCIDENTS</b>							
- Wounds/Sores	20989	26743	23642	15875	15739	16449	18455
- Motor Vehicle Accidents	177	105	119	96	151	115	261
<b>5. SKIN DISEASES</b>							
- Tinea Tantan	3695	3623	2681	1756	2153	3225	2650
- Scabies	5293	7224	7117	3490	3084	2936	4552
- Tinea Kone	5991	8506	6661	4309	4048	5547	4302
<b>6. EYE DISEASES</b>							
- Conjunctivitis	7479	10948	10482	8111	19413	7112	4867
- Trachoma	318	426	443	191	197	218	381
<b>7. EAR DISEASES</b>							
- Otitis Media	2118	1843	1508	1179	1718	3224	1853
- Discharging Ears	2903	2504	1778	1372	1916	2931	2061

*Table 9 continued on next page*

*Table 9 continued*

<b>Nature</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
<b>8. COMMUNICABLE DISEASES</b>							
- Tuberculosis	100	121	186	162	251	464	132
- Leprosy	42	24	31	12	44	47	45
- Dengue Fever							
- Chicken Pox	855	794	337	319	379	182	435
- Meningitis	39	38	37	22	33	55	93
- Gonorrhea	86	68	64	52	58	113	51
- Measles	4357	114	292	4	13	25	355
- Hepatitis	114	139	86	30	180	128	232
- Tetanus	27	13	32	4	27	17	27
- Whooping Cough	63	13	169	68	335	466	197
<b>9. ANAEMIA AND NUTRITIONAL DISORDER</b>							
- Anaemia	640	474	314	252	238	540	311
- Malnutrition	383	411	319	165	200	278	274
- Vitamin A. Deficiency	706	590	637	570	739	716	745
<b>10. FISH POISONING</b>							
- Fish Poisoning	1172	1119	822	505	423	363	365
<b>11. PARASITIC INFESTATION</b>							
- Worm Infestation	3752	4436	4162	4064	3378	4609	5239
- Lice Infestation							
<b>12. DENTAL DISEASES</b>							
- Dental Carries	5139	6252	5106	3463	4629	4591	3868
- Periodontal Diseases	472	516	410	462	503	843	840
<b>13. NON COMMUNICABLE DISEASES</b>							
- Hypertension	244	197	253	236	333	558	702
- Diabetes	118	166	135	254	300	244	507
- Mental	55	47	58	37	55	63	92
<b>TOTAL</b>	<b>187046</b>	<b>220692</b>	<b>194846</b>	<b>167068</b>	<b>197305</b>	<b>155541</b>	<b>155541</b>

Source: Ministry of Health (1999, pers. com)

cent. Virtually all expenditure is financed from taxpayers' contributions plus some contribution from aid.

#### INSERT TABLE 10

As observed in the Medium Term Strategy-1998, reform of the health sector has been slower than the National Economic Planning Office had expected. Progress has been slower than expected in relation to

“

- the introduction of charges for services, particularly those which do not involve positive public health externalities (though some increases have been made in existing charges for private wards);
- review of the referral system with the aim to cut down on the number of caretakers (though efforts have been made to tighten the administration of existing rules; and
- seeking to overcome constraints on the establishment of private clinics, pharmacies and health insurers (discussed below).” (Government of Kiribati, 1999, p.36)

A change in legislation is required to encourage private medical practice. Politically it is difficult to reform the medical system and in particular to introduce user-charges successfully in countries such as Kiribati where the communal ethic is strong. Similar comments apply to those raised later for Samoa and Tuvalu.

The institutional structure of health delivery in Kiribati is well outlined in ADB (1998). At the present time the most adequate provision of health services is in South Tarawa which contains the region's general hospital for Kiribati. Outer islands are served by health clinics staffed by nurses, although a small hospital exists on Kiritimati. Public funding for health services in Kiribati is unlikely to increase significantly. Therefore further development of this sector will depend on increased efficiency in delivery of health services and greater private funding of additional services. This is indicated in the Medium Term Strategy – 1998 which states:

**Table 10**  
**Summary of Ministry of Health Expenditure and Funding, Kiribati**

	<b>1997 Actual (\$)</b>	<b>1998 Revised Est. (\$)</b>	<b>1999 Estimate (\$)</b>
<b>Recurrent Expenditure</b>	<b>8,368,438</b>	<b>8,304,921</b>	<b>7,886,000</b>
<i>Funded from:</i>			
Fees and charges	38,074	57,250	57,250
Taxpayer contribution	8,330,364	8,247,671	7,828,750
<b>Development Expenditure</b>	<b>39,110</b>	<b>426,547</b>	<b>1,426,261</b>
<i>Funded from:</i>			
Development Fund	39,110	148,215	964,294
Aid-in-kind	0	278,332	461,967
<b>Total Expenditure</b>	<b>8,407,548</b>	<b>8,731,468</b>	<b>9,312,261</b>

Source: Government of Kiribati (March, 1999, p.111)



“Current proposals to upgrade facilities on the outer islands, and to develop a larger hospital in Kiritimati, combined with efforts to improve primary health care will put pressure on the health budget. In this situation efforts to increase cost recovery and work with community groups in delivering services will become increasingly important” (Government of Kiribati, February, 1999, p.38). With this in mind the health policy matrix outlined in Table 11 has been drawn up.

INSERT TABLE 11

### **3.4 Additional Social Concerns**

There are of course additional social concerns. These include differences in equality of opportunity and income inequalities. In particular, considerable differences exist between the degree of development of Tarawa and the other islands and inter-island differences exist. Concerns about such differences are partly reflected in the fact that there is a separate Ministry of Line and Phoenix Group. These islands are very distant from the western islands where Tarawa is located and transport communications with Tarawa are slow. As mentioned earlier, an effective way to promote island regional development may be by the establishment of funds similar to the Falekaupule Trust Fund of Tuvalu.

It might also be noted that serious environmental problems exist in Tarawa in relation to water quality and water availability, sanitation, and disposal of wastes. There are adverse impacts on environmental health. These may be addressed to some extent as a result of infrastructure expenditure to be completed as a result of the SAPHE loan from ADB.

There is also a scheme for encouraging resettlement on Tabuaeran and Teraina but it has not been possible to assess its effectiveness in this study.

### **3.5 Recommendations**

- While increasing human resource capital can make an important contribution to economic growth, in itself it is not a panacea for such growth. The effectiveness of the policy depends on the presence of complementary resources and demands. In

**Table 11**  
**Health Policy Matrix, Kiribati**

<b>Goal: To achieve significant improvements in the health status of the community.</b>		
<b>Medium Term Objectives</b>	<b>Policy Elements and Actions</b>	<b>Timing and responsibilities</b>
Focus on primary health care as the lead mechanism for delivering health services.	Strive for greater community acceptance of family planning and maternal child health.	Ongoing, MHFP and the community, National Population Committee
	Strengthen immunisation programmes to improve coverage.	Ongoing, MHFP MICT (delivery of vaccines) Community
	Expand community awareness programmes on nutrition and maintenance of a healthy living environment to control communicable diseases.	Ongoing National Nutrition Committee Water and Sanitation Committee National AIDS Committee Community and NGOs
	Strengthen environmental health including water and sanitation.	Ongoing NWSCC, MHFP, MESD, MHARD, BTC, TUC, NGOs
	Strengthen mechanisms to control tobacco and alcohol through public education and the possible introduction of tax and legislative measures, and the control on non-communicable diseases.	MHFP MFEP MCIT AG's Office Community

*Table 11 continued on next page*

*Table 11 continued*

<b>Medium Term Objectives</b>	<b>Policy Elements and Actions</b>	<b>Timing and responsibilities</b>
Rationalisation of curative services through greater emphasis on cost recovery, health workforce planning, and maintenance of facilities.	<p>Introduce charges for services, particularly those which do not involve positive public health externalities.</p> <p>Review and strengthen existing charge mechanisms on private ward fees and drugs, dental and ophthalmic needs.</p> <p>Review, and strengthen administration of, the referral system with the aim to cut down on the number of caretakers.</p> <p>Explore ways to improve training, and retention of trained personnel.</p> <p>Strengthen all curative support sections.</p> <p>Give priority to maintenance of existing assets over new construction.</p>	<p>1999 MHFP</p> <p>Ongoing MHFP, National Drug Committee</p> <p>Ongoing Partnership effort, Parliamentarians Community</p> <p>Ongoing MHFP, PSO, MFEP, MFA</p> <p>Ongoing MHFP</p> <p>Ongoing maintenance work, JICA post evaluation work on TCH</p>
Partnership in health with churches, local government, and community organisations to participate more fully in health care delivery.	Mobilise community groups in health education and extension services. Instill into the community a feeling of ownership to health initiatives and programmes.	To be ongoing as a partnership effort.
Development of a private health care market.	Seek to overcome constraints on the establishment of private clinics, pharmacies, and health insurers.	MHFP, MFEP, AG's Office reformation of Medical Council under the Medical Services Act to facilitate and regulate private practice.

Source: Government of Kiribati (February, 1999, pp.38-39)

particular policies for expanding the education sector need to be assessed in a holistic interdependent context.

- While extending the period of universal education for school children is a worthy objective, its economic value is likely to be compromised if extended effort reduces the overall quality of education received, especially if more gifted students are disadvantaged.
- The argument for free education is strong for primary education but has been subject to more challenge at secondary and higher levels. Due to economic pressures, Kiribati is exploring greater adoption of user-pays at these levels. Increased use of scholarships or suitable loan schemes may be required at these levels to ensure that equality of opportunity is sustained for the gifted but poorer members of society and/or to assist the education of children of poor parents with the same ability as those from richer homes but who may be denied educational opportunities because of their parental background. Financial assistance from aid donors may be required for such support.
- School facilities such as books and equipment seem to be inadequate and could be a priority for foreign assistance.
- Because public contributions to health in Kiribati are unlikely to keep pace with expanding demand for health services, increased consideration is being given to greater use (a) of fees, (b) possibilities for insurance and (c) the development of a private health sector. In relation to matters (a) and (b) account should be taken of the type of concerns raised in Samoa about these (discussed later). On the whole (c) seems desirable. The main risk is that it may deprive the public health system of personnel or where medical personnel can have joint opportunities in the public and private sector result in neglect of duties in the former and encouragement of public patients to use private services.
- There appears to be a high incidence of morbidity in Kiribati and continuing foreign assistance is required to help deal with its health problems. There is some evidence that in the long-term the most effective way of improving health is via improvements in nutrition, in water supplies and sanitation as well as in other environmental

conditions. Policies for the development of health sector must be considered also in a holistic context.

- The proposals for policy reforms in health as set out in the Medium Strategy -1998 seem sound from an economic view point but the introduction of these reforms will need to be tempered by political and social realities.
- Further study is required of economic inequality in Kiribati. An ILO study which is currently underway may throw more light on the subject. However, it is unclear how much attention will be paid to regional inequality. Considerable inequality seems to exist between the degree of development in Tarawa and that on other islands. To help address this inequality and support regional development consideration should be given to a fund similar to the Falekaupule Trust for Tuvalu.

## **4 TRADE AND EXTERNAL BALANCE**

### **4.1 Overview**

The external economic balance of Kiribati is typified by a considerable trade deficit (negative balance of international trade in merchandise) and a major negative balance on payments for services. On the other hand, Kiribati usually has a positive balance on external income from factors of production, a net credit on current transfers of funds and a positive capital and financial balance. Thus in most years Kiribati has a positive balance of payments. Nevertheless most of its external balances are subject to considerable uncertainty and fluctuation. Despite this, in most years in the 1990s Kiribati managed to increase its foreign assets. Consequently in 1998, the level of its gross official foreign reserves were estimated to amount to 7.4 years of imports. However, since much of its foreign reserves are essential for the long-term sustainability of its investment income (an important component of its factor income from abroad), the long-term social and economic costs of depleting these reserves would be severe. Table 12 provides a summary of statistics of the balance of payments of Kiribati in the 1990s. Let us consider its components.

INSERT TABLE 12

**Table 12**  
***Balance of Payments Statistics, Kiribati***  
***(in thousands of Australian dollars)***

	1990	1991	1992	1993	1994	1995	1996(p)	1997(p)	1998(p)
<b>Current Account</b>									
Merchandise Exports, f.o.b	3,681	3,697	6,513	5,069	7,110	10,030	6,817	8,432	9,410
Merchandise Imports, f.o.b	34,446	33,226	50,530	42,373	36,115	47,547	48,583	52,536	53,161
Trade Balance	-30,765	-29,529	-44,017	-37,304	-29,005	-37,517	-41,766	-44,104	-43,751
Other Exports of Goods	600	965	1,000	1,228	1,300	352	93	0	0
Other Imports of Goods	981	560	517	780	1,190	0	0	0	0
<b>Balance on Goods</b>	<b>-31,146</b>	<b>-29,124</b>	<b>-43,534</b>	<b>-36,856</b>	<b>-28,895</b>	<b>-37,165</b>	<b>-41,673</b>	<b>-44,104</b>	<b>-43,751</b>
<b>Services: Credit</b>	<b>5,949</b>	<b>4,318</b>	<b>5,879</b>	<b>7,252</b>	<b>5,643</b>	<b>5,243</b>	<b>5,818</b>	<b>5,318</b>	<b>5,318</b>
Transport	3,798	2,139	3,224	4,322	2,808	2,808	2,692	3,330	3,716
Travel	1,292	1,144	1,510	1,867	1,785	1,595	1,781	2,039	2,702
Communications	389	536	590	597	600	840	845	845	845
Other Credits	470	499	555	466	450	0	500	0	0
<b>Services: Debit</b>	<b>24,248</b>	<b>22,964</b>	<b>26,573</b>	<b>288,669</b>	<b>24,028</b>	<b>26,656</b>	<b>25,816</b>	<b>27,445</b>	<b>27,913</b>
Transport	15,563	12,505	16,550	16,462	14,408	16,836	16,199	117,828	18,296
Other of which:	8,685	10,459	10,023	12,207	9,620	9,820	9,617	9,617	9,617
Travel	3,327	3,0992	3,542	3,957	4,206	5,264	4,721	4,721	4,721
Communications	604	414	863	699	800	730	665	665	665
Insurance	572	624	447	573	630	413	423	423	423
Financial	1,078	1,179	1,021	1,828	1,834	1,763	1,999	1,999	1,999
Other Business	104	150	150	150	150	150	259	259	259
Government	3,000	5,000	4,000	5,000	2,000	1,500	1,550	1,550	1,550
<b>Balance on Services</b>	<b>-18,299</b>	<b>-18,646</b>	<b>-20,694</b>	<b>-21,417</b>	<b>-18,385</b>	<b>-21,413</b>	<b>-19,998</b>	<b>-22,126</b>	<b>-22,595</b>
<b>Factor Income: Credit</b>	<b>28,631</b>	<b>38,304</b>	<b>39,279</b>	<b>37,933</b>	<b>41,583</b>	<b>47,416</b>	<b>33,604</b>	<b>58,747</b>	<b>76,868</b>
Compensation of Employees	3,300	4,700	4,700	4,792	5,446	7,072	7,716	9,244	11,245
Taxes on Production	3,974	11,917	13,007	14,127	18,373	18,812	6,234	29,434	42,464
Investment Income	21,357	21,687	21,572	19,014	17,764	21,532	19,654	20,069	23,159
<b>Factor Income: Debit</b>	<b>3,167</b>	<b>1,981</b>	<b>1,716</b>	<b>2,533</b>	<b>3,106</b>	<b>1,838</b>	<b>1,714</b>	<b>1,074</b>	<b>1,430</b>
Compensation of Employees	0	0	0	0	0	0	0	0	0
Investment Income	3,167	1,981	1,716	2,533	3,106	1,838	1,714	1,074	1,430
<b>Factor Income Balance</b>	<b>25,464</b>	<b>36,323</b>	<b>37,563</b>	<b>35,400</b>	<b>38,477</b>	<b>45,578</b>	<b>31,890</b>	<b>57,672</b>	<b>75,438</b>
<b>Current Transfers: Credit</b>	<b>14,278</b>	<b>19,392</b>	<b>16,943</b>	<b>18,986</b>	<b>12,247</b>	<b>12,094</b>	<b>10,495</b>	<b>11,031</b>	<b>14,327</b>
Government	10,316	15,119	13,110	14,913	7,910	7,622	6,201	6,737	10,033
Other	3,962	4,273	3,833	4,073	4,337	4,472	4,294	4,294	4,294
<b>Current Transfers: Debit</b>	<b>2,337</b>	<b>2,878</b>	<b>3,012</b>	<b>2,496</b>	<b>1,844</b>	<b>2,370</b>	<b>1,660</b>	<b>1,720</b>	<b>1,883</b>
Government	637	878	812	696	844	1,370	560	620	783
Other	1,700	2,000	2,200	1,800	1,000	1,000	1,100	1,100	1,100
<b>Balance on Current Transfers</b>	<b>11,941</b>	<b>16,514</b>	<b>13,931</b>	<b>16,490</b>	<b>10,403</b>	<b>9,724</b>	<b>8,835</b>	<b>9,310</b>	<b>12,444</b>
<b>Current Account Balance</b>	<b>012,040</b>	<b>5,067</b>	<b>-12,734</b>	<b>-6,383</b>	<b>1,600</b>	<b>-3,276</b>	<b>-20,947</b>	<b>752</b>	<b>21,536</b>
<b>Capital Account</b>									
Capital Transfers to Government	15,973	7,865	22,337	8,401	3,478	7,283	6,416	6,970	10,381
<b>Financial Account</b>									
Direct Investment	384	549	554	-1,132	367	123	0	223	0
Abroad	0	0	0	0	38	0	0	0	0
In Kiribati	384	549	554	-1,132	405	123	0	223	0
Portfolio Investment									
Assets	-1,900	-1,582	-1,518	4,811	-4,054	-9,572	5,379	-10,248	-9,246
Other Investment									
Liabilities	3,877	1,059	3,220	0	1,934	0	0	0	0
<b>Balance on Financial Accounts</b>	<b>2,361</b>	<b>26</b>	<b>2,256</b>	<b>3,679</b>	<b>-1,753</b>	<b>-9,449</b>	<b>5,379</b>	<b>-10,025</b>	<b>-9,246</b>

*Table 12 continued on next page*

*Table 12 continued*

	1990	1991	1992	1993	1994	1995	1996(p)	1997(p)	1998(p)
<b>Balance on Capital and Financial Accounts</b>	<b>18,334</b>	<b>7,891</b>	<b>24,593</b>	<b>12,080</b>	<b>1,725</b>	<b>-2,166</b>	<b>11,795</b>	<b>-3,055</b>	<b>1,135</b>
<b>Bal. On Current, Capital and Financial Accounts</b>	<b>6,294</b>	<b>12,958</b>	<b>11,859</b>	<b>5,697</b>	<b>3,325</b>	<b>-5,442</b>	<b>-9,152</b>	<b>-2,302</b>	<b>22,671</b>
<b>Net Errors and Omissions</b>	<b>5,406</b>	<b>3,424</b>	<b>2,541</b>	<b>30,003</b>	<b>15,075</b>	<b>9,042</b>	<b>3,061</b>	<b>11,817</b>	<b>20,701</b>
<b>Overall Balance</b>	<b>11,700</b>	<b>16,382</b>	<b>14,400</b>	<b>35,700</b>	<b>18,400</b>	<b>3,600</b>	<b>-6,091</b>	<b>9,515</b>	<b>43,372</b>

Source: National Economic Planning Office and Statistics Office, Kiribati

## **4.2 Trade and External Balance**

As can be seen from Table 12, Kiribati experiences a substantial external deficit in relation to its balance of trade and external transactions for services. Its trade deficit is equal to or almost equal to its GDP and when combined with its deficit in relation to services exceeds its GDP.

Its exports, which consist mostly of agricultural and fishing products, show considerable fluctuation on account of substantial variations in prices and volumes from year to year. As shown in Table 13 copra is the major export of Kiribati and in the 1990s accounted for one-third to around 80% of the value of its exports depending on the year. Due to rising copra prices, the proportionate value of this item in relation to total exports is higher in the latter part of the 1990s than in the earlier part. Other significant contributions to exports in terms of their expected contributions in 1998 are fish, pet fish, seaweed and shark fin. Food is the largest single import item.

### **INSERT TABLE 13**

It is clear that Kiribati depends on a narrow range of products for its export income, mainly copra. The production of this is subsidised. While ADB (1998) is critical of the subsidy for copra, the subsidy does provide a means of redistributing some cash income to the outer islands.

The main contributor to Kiribati's large deficit on account of services is its costs of transport, a function of its relative isolation. It also experiences deficits in relation to travel and communications.

## **4.3 Factor Income Balances and Current International Transfers**

Kiribati has experienced significant positive balances on its international factor income account and on current transfers. These have been sufficient a few years in the 1990s for it to achieve a positive balance on its current account.



**Table 13**  
**Kiribati: Composition of Exports**  
**(Value in thousands of Australian dollars)**

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Total Exports (f.o.b)	5581	3698	6513	5069	7111	10030	6817	8432	9410
<u>Domestic Exports</u>	3009	2950	5645	4462	6798	8735	5978	5686	8477
Copra	1023	1625	4350	2348	4480	6366	3605	4040	5135
Fish	964	277	363	513	389	266	211	110	1047
Seaweed	723	676	286	217	297	176	382	829	660
Shark Fins	32	24	118	123	145	659	194	94	129
Pet fish	-	336	258	533	511	817	639	698	716
Handicrafts	3	1	8	5	2	2	1	12	3
Others (value)	264	11	262	723	1030	449	946	-97	787

*Source: Statistics Office and National Planning Office, Kiribati.*

The major source of foreign income in recent years has been a tax on production, namely income from fishing royalties and investment income such as that from returns on RERF. Income from fishing licenses varies greatly. The National Economic Planning Office has observed that: "While fishing license revenue is generally the largest item in the account, it is worth noting that the smallest item seamen's remittances, is the most important in terms of the number of people affected, and direct impact on levels of personal consumption. The steady increase in this item, to an estimated \$11 million in 1998, reflects increasing numbers of seamen (presently estimated at over 1300), and the depreciation of the Australian dollar."

Current transfers from donors to the Government of Kiribati dominate international transfers. It can be seen that these are much lower in the latter part of the 1990s than earlier and reflect reduced aid by donor countries generally. The remaining transfers involve private remittances. These make a positive contribution but are not as significant as in the case of Samoa.

#### **4.4 Capital and Financial Accounts**

The capital account of Kiribati shows a positive balance in the 1990s and consists almost entirely of capital items provided by donors to the Government of Kiribati. This item is still well below its level in the early 1990s even though it has shown some increase recently. "The financial account is dominated by reinvestment of Provident Fund earnings, as well as net contribution by members, and movements in the overall level of BOK overseas investments" (Government of Kiribati, March, 1998, p.21).

#### **4.5 Overall Situation**

In the 1990s Kiribati has managed to record a surplus on its balance of payments in every year except 1996. Consequently, its official reserve assets have risen significantly. Whereas they were equivalent to 3.7 years of imports in 1990 this rose to an estimated 7.4 years in 1998. Nevertheless many of the components of the balance of payments of Kiribati are highly volatile so it is not in as safe an external position as this statistic may

suggest. Furthermore, the assets held externally play a major role in the long-term sustainability of income in Kiribati and in stabilizing government revenues.

It might be noted that compensation for employees exceeds the entire value of the exports of Kiribati. They (with the items just mentioned) play a vital role in helping maintain the external balance of Kiribati and sustaining domestic incomes.

It was noted earlier that import taxes are the major source of the government's domestic revenue. In a free trade situation pressures are likely to exist to eliminate these or reduce their levels. They appear, however, to be more revenue-raising devices than protective measures. In the case of Kiribati (and Tuvalu) the arguments for replacing these by value-added taxes may not be strong, particularly given the difficulties and costs likely to be incurred in the collection of VAT. In trade reforms, it seems desirable to give special consideration to Kiribati and Tuvalu in that respect.

#### **4.6 Recommendations**

- The scope for Kiribati economically diversifying its range of exported goods and services may be limited and it may be preferable for it to give more attention to diversifying its sources of factor income, especially compensation for employees overseas. Overseas markets for semi-skilled persons additional to those for seamen and master fishermen should be explored.
- Care must be taken not to over-harvest export items such as shark fins and pet fish if exports of these are to be sustained and animals are not to have the same fate as sea cucumbers (*bêche-de-mer*).
- While it may be argued that subsidies for some of the exports of Kiribati such as copra and seaweed do not promote economic efficiency, few possibilities for factor substitution may exist on outer islands and these activities provide a way of injecting additional cash income into these communities.
- The comparative decline in donor support for Kiribati compared to the 1980s and early 1990s has been noted. Should Kiribati suffer a major decline in its overseas

earnings, increased assistance may be required on humanitarian grounds. Its economy remains vulnerable despite indicators of its positive external economic performance.

## **5 ECONOMICS INFRASTRUCTURE**

### **5.1 Overview**

The overall infrastructure of Kiribati is inadequate, especially on islands other than Tarawa. South Tarawa has the most adequate infrastructure in Kiribati, a factor which encourages internal migration to South Tarawa.

In terms of Kiribati's 1999 development budget, spending on infrastructure accounts for the major part of it being more than 56%. The next major category of expenditure from this budget is on human resources development, as can be seen from Table 14.

INSERT TABLE 14

### **5.2 Transport**

The development of transport infrastructure in Kiribati is patchy. Tarawa is reasonably well provided with sealed roads although they require continuing maintenance. The position on the outer islands is unclear. Causeway and other road constructions in the past have sometimes had adverse environmental consequences and more attention must be given to these aspects than in the future. The Dai Nippon Causeway for example has interfered with the natural flushing of Tarawa Lagoon adding to pollution and other problems. While it is very important as a road link, a different type of construction would have been environmentally more friendly. Given the narrow and elongated area of Tarawa, its subject to growing traffic congestion and roads are constructed very close to buildings.

As for shipping, Tarawa will be well served by port facilities when construction work at Betio Port is completed in July 2000. The outer islands are much less well served by port facilities. In many cases, no harbours exist and people and goods have to be loaded and unloaded at sea between lighters or smaller craft and the ship. This can be extremely

**Table 14**  
**1999 Development Budget for Kiribati**  
**Estimated Expenditure by Sector in 1999**

Ministry	Business Development	Infrastructure	Human Resources Development	Community Development	Public Administration	TOTAL
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Office of Beretitenti	0	298,758	3,336,492	0	0	3,635,250
Judiciary	0	0	0	197,003	0	197,003
Police and Prisons	0	0	14,054	236,650	0	250,704
Ministry of Foreign Affairs	0	0	0	0	10,000	10,000
Ministry of Home Affairs and Rural Development	0	47,726	0	1,086,281	377,000	1,511,007
Ministry of Environment and Social Development	0	0	0	719,610	52,285	771,895
Maneaba ni Maungatabu	0	0	0	0	0	0
Ministry of Commerce, Industry and Tourism	844,628	0	0	0	0	844,628
Kiribati National Audit Office	0	0	0	0	0	0
Office of the Attorney General	0	0	0	118,000	0	118,000
Ministry of Natural Resources Development	760,586	0	0	160,210	0	920,796
Ministry of Health	0	500,000	926,261	0	0	1,426,261
Ministry of Education, Training and Technology	0	0	5,524,328	0	0	5,524,328
Ministry of Information, Communication and Transport	0	10,611,942	13,385	0	0	10,625,327
Ministry of Finance and Economic Planning	0	8,438,400	15,000	0	2,302,285	10,755,685
Ministry of Works and Energy	0	1,135,789	0	9,100	0	1,144,889
Ministry of Labour, Employment and Cooperatives	763,838	0	172	0	0	936,258
Ministry of Line and Phoenix Group	0	1,933,000	0	0	0	1,933,000
<b>TOTAL</b>	<b>2,369,052</b>	<b>22,965,615</b>	<b>10,001,940</b>	<b>2,526,854</b>	<b>2,741,570</b>	<b>40,605,031</b>
<b>Percentage of Total Expenditure for 1999</b>	<b>5.8%</b>	<b>56.6%</b>	<b>24.6%</b>	<b>6.2%</b>	<b>6.8%</b>	

Source: National Economic Planning Office (March, 1999, p.224)

dangerous and slow and is dependent on weather conditions. The small craft involved sometimes run aground on reefs with loss of life. The blasting of channels through the coral reefs would facilitate and make operations safer. But donors are reluctant to provide assistance for this because of possible adverse natural environmental impacts. However, it is necessary to weigh costs in this regard against benefits and at the same time minimise environmental costs from such developments.

While the Gilberts Group of islands appears to be relatively well served by shipping services some remote islands in the Line and Phoenix Groups are not. Domestic shipping services are subsidised. The Medium Term Strategy – 1999 reports:

“Subsidy for domestic shipping continues to be applied through the import levy fund, which receives the proceeds of a levy on imported sea freight (\$25 per cubic metre) and applies this to subsidising freight delivered to the Gilberts Group. Freight to the Line and Phoenix Groups is partially subsidised (on the leg from Tarawa to Arorae). During 1997, receipts into the fund totaled \$1.3 million and payments totaled \$1.2 million.

The subsidy is applied largely to imported consumer goods delivered to the islands, and it is not generally applied to cargo exported from the islands (it is therefore not as effective as it could be in facilitating the development of new industries in the islands). Further, most of the subsidy is applied to the most heavily trafficked routes which are likely to be the most viable routes (the operation of the subsidy does not ensure that the more remote and less heavily populated islands receive shipping services).

Given the above shortcomings of the existing system of subsidising freight to outer islands, it may be timely to review the system in an effort to develop a more cost effective system with greater impact on social and economic development in outer islands. One possibility worthy of consideration would be to offer a subsidy to shipping operators through a competitive tender for the provision of regular services to outer islands which currently receive a poor level of service due to their remoteness or small volume of cargo. Such a system would improve services, assist the development of

private sector shipping services, and encourage cost effectiveness in the application of subsidy” (Government of Kiribati, Feb, 1999, pp. 25-26).

Air transport facilities are superior to those in Tuvalu. Bonriki airport on Tarawa appears to meet international standards Cassidy airport, Kirimati, is reported to require upgrading to reach international standards. It is served by Aloha Airlines which flies under charter from Hawaii. There are some internal airway links between islands as a result of the operations of the Government-owned airline, Air Kiribati. But the coverage of islands is limited and there is no direct link between Tarawa and Kirimati.

Air Kiribati has made major losses and the Government is seeking a private sector partner for it. Kiribati air links to the outside world are superior to those of Tuvalu, with whom it no longer has an air link. There may be scope for better rationalisation of airline routes and operations in the Pacific islands area even if a regional airline is not formed.

### **5.3 Water and Sanitation**

Several of the health problems experienced by I-Kiribati appear to be related to the poor quality of water and lack of adequate sanitation. A major project is commencing on South Tarawa to address these problems. This project known as the Sanitation, Health and Environment (SAPHE) project and is being financed from a concessional loan from the ADB. Its goals are:

“

- Participatory development to promote hygiene, public sanitation and water conservation;
- Water supply system upgrade, covering rehabilitation and improvement of the reticulated water supply on South Tarawa;
- Sewerage system upgrade, covering rehabilitation and improvement of the sewerage system on South Tarawa, and constructing composting toilets in areas not served by the reticulated system;
- Environmental conservation and solid waste management; and

- Capacity building and institutional support for the Public Utilities Board.”

(Government of Kiribati, Feb., 1999, p.23)

Means to make greater use of groundwater on a number of islands are being explored. However, considerable care is needed in that respect to ensure sustainability of supplies and avoid saltwater intrusion.

The supply of sanitary services and water is administered by the Public Utilities Board which in the past has received considerable subsidisation. It is proposed to operate the Public Utilities Board in the future “on a commercial basis with transparent subsidies provided for any non-economic services”. Ways will be explored “to improve [its] efficiency including contract management, twinning, concession arrangements, and other forms of commercialisation”

#### **5.4 Energy**

Compared to the other islands, Tarawa has a well-supplied energy infrastructure. Electricity generated by imported oil is widely available on Tarawa. The outer islands rely on biomass for much of their energy needs, on some solar units supplied by the Government through its Solar Energy Company, kerosene and in some cases small electricity generators.

The Public Utilities Board is responsible for electricity supplies in urban areas. The proposed reforms for it mentioned in relation to sanitation and water supplies will also apply in relation to electricity. Regulatory mechanisms for electricity tariffs and other operations are being considered.

Considerable interest is being shown in developing renewable energy systems, especially solar systems, for rural areas. However, the economics of such schemes must be proven. It is suggested in the Medium Term Strategy – 1998 that the operations of the Solar Energy Company be privatised.



## **5.5 Telecommunications**

The telecommunication services of Kiribati are provided by Telecom Kiribati Ltd. (TK) and Telecom Services Kiribati Ltd. (TSK) which supply complementary services, TSK is jointly owned by Telstra (Australia) and the Government of Kiribati whereas TK is wholly owned by the Government of Kiribati and is mainly responsible for distribution services e.g. lines. The National Economic Planning Office has expressed dissatisfaction with the progress of economic reforms in telecommunications and comments as follows:

“Telecommunication is a vital ingredient to social and economic development in Kiribati, and it is a field in which rapid technological change is opening up many new opportunities. It is important that Kiribati capitalises on these opportunities if it is to overcome the problems currently being experienced in providing a full range of modern, efficient and low cost services to urban areas and outer islands. Current institutional arrangements, which do not encourage competition and the servicing of niche markets, appear to be holding back the development of the sector and it may be timely to initiate a major review of the sector (drawing on assistance from bodies such as the International Finance Corporation, which has experience in this field)” (Government of Kiribati, Feb., 1999, p.31).

This Office also suggests that the post office should operate more as a business and that greater private sector participation in niche markets providing postal service be encouraged.

## **5.6 Overall Comment**

Considering that infrastructure expenditure constitutes such a large share of the development budget of Kiribati, there may be a case to improve the coordination and evaluation of this expenditure. On the face of it also, this expenditure seems to be heavily concentrated in South Tarawa. This may be appropriate but it is likely to encourage population movements to Tarawa. A more effective means may be needed to encourage the development of infrastructure on the outer islands and an outer island development fund could play a useful role in that respect.

## **5.7 Recommendations**

- Inter-island transport involves several problems and some economic innovations are being explored to better manage these services. These are worth pursuing.
- Many islands lack adequate facilities for handling shipping and construction of reef passages needs to be considered seriously even if some environmental costs are involved.
- There are only air services to a few islands in Kiribati and Air Kiribati, the national carrier, is in financial difficulties. Ways to ensure its more economical operation are needed. Whether a partner for a private joint venture can be found remains to be seen.
- Water, sanitation and garbage disposal facilities in South Tarawa need to be improved for health reasons. The SAPHE project will help considerably in that regard. As suggested in the Medium Term Strategy – 1998, it is important to improve the economics of the administration of these facilities by the Public Utilities Board.
- Again the economics of administration of electricity supplies needs to be improved and the proposals suggested by the National Economic Planning Office are worth following up.
- This Office also suggests that economic reforms should be accelerated in relation to telecommunications and the post office. There may be scope for this but the small size of the economy of Kiribati may make competition policies which ‘work’ in larger economies unavailable in Kiribati. Workable economic policy solutions in mini-economies can differ from those in larger ones. So care is needed.
- The regional aspects of infrastructure development should not be neglected. An outer islands development fund similar to the one established for Tuvalu is recommended.

## **6. CONCLUDING REMARKS**

The GDP per capita of Kiribati was significantly lower in the 1990s than in 1979. Compared to the 1980s, its official overseas aid was lower in the 1990s and a larger proportion of its overseas aid was tied or policy-conditional aid. Official loans rose in

comparison to grants as a proportion of aid to Kiribati; a common pattern for all least developed Pacific island nations.

In the absence of its Revenue Equalization Reserve Fund (RERF), the economic condition of this mini-economy would have been much worse than it actually was. Furthermore, rental income from deep water fishing nations using its EEZ boosted its income in the 1990s due in part to conditions favourable to fish catches brought about by the El Niño effect and the benefits of a collective approach to fishing royalties by South Pacific Forum countries pioneered by the Forum Fisheries Agency.

Although the Government of Kiribati has basically followed communally oriented economic policies, it has managed its public finance in a prudent manner preferring basically to live within its limited means rather than incur substantial public debt.

Kiribati places a high value on education. Kiribati's literacy levels are relatively high. Universal access to primary education has been achieved and the aim is to make universal junior secondary education available. But further development of the educational system using public finance is becoming difficult because available public finance is now showing slow growth. Resources for expanding the system are also very limited. Serious health problems exist in Kiribati and once again public finance for further expansion of health services has become scarce. Ways to more efficiently use the available resources such as performance budgeting are being adopted. In general, there has been much thought given to ways to increase the efficiency with which public funds are utilised. While Kiribati has been undertaking economic reforms, it has done this slowly and carefully taking into account its special circumstances and its communal values.

Kiribati has a relatively low level of merchandise exports. They account for a small percentage of its foreign receipts. It also has a low level of development of infrastructure. For example, inter-island transport is inadequate and it lacks availability of adequate supplies of electricity on most of its outer islands.

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## **APPENDIX**

### **Interviews in Kiribati**

**Conducted 14 - 16 September, 1999**

1. Mr. Boorau Koina, Senior Assistant Secretary, Ministry of Education.
2. Ms. Ngaina R. Teiwaki, Project Economist, Ministry of Finance and Economic Planning.
3. Mr. Atanteora Beitan, Chief Economist, Ministry of Finance and Planning.
3. Mr. Ruatu Bweua, Acting Secretary, Ministry of Works and Energy.
4. Mr. Rutete Ioteba, Energy Planner, Energy Planning Unit, Ministry of Works and Energy.
5. Mrs. Kaobari, Senior Statistics Officer, Statistics Office.
6. Mr. Miteti Abete, Director of Marine Services, Ministry of Information, Communication and Telecommunication.
7. Mr. Tiare Erekan, Industry Officer, Ministry of Commerce, Industry and Tourism
8. Mr. Itintaake Etuati, International Trade Officer, Ministry of Commerce Industry and Tourism.
9. Mr. Taiaki Irata, Economics Division, Ministry of Foreign Affairs, Bairiki.
10. Dr. Airambiata Metai, Director of Hospital Services, Ministry of Health and Family Planning, Nawerewere, Tarawa.

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