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Pacific Island Economies: Toward Efficient and Sustainable Growth

(In Nine Volumes) Volume 3: Kiribati – Country Economic Memorandum

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Country Department III
East Asia and Pacific Region

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KIRIBATI

CURRENCY EQUIVALENTS

ANNUAL AVERAGES

1981	\$A 1.00 = US\$1.15
1985	\$A 1.00 = US\$0.70
1989	\$A 1.00 = US\$0.79
1990	\$A 1.00 = US\$0.78
1991	\$A 1.00 = US\$0.78

(The Australian dollar is the official currency and the main medium of exchange)

FISCAL YEAR

January 1 - December 31

MAJN ABBREVIATIONS AND ACRONYMS

ADB	-	Asian Development Bank
BOK	-	Bank of Kiribati
DBK	-	Development Bank of Kiribati
EEC	-	European Economic Community
EEZ	-	Exclusive Economic Zone
EIA	-	Environmental Impact Assessment
FFA	-	Forum Fisheries Agency
FIC	-	Foreign Investment Commission
GDP	-	Gross Domestic Product
ICAO	-	International Civil Aviation Organization
IRB	-	Internal Revenue Board
KCCS	-	Kiribati Copra Cooperative Society
KIC	-	Kiribati Insurance Corporation
KPF	-	Kiribati Provident Fund
MA	-	Medical Assistant
MCH	-	Maternal and Child Health
MED	-	Marine Export Division
MFA	-	Ministry of Foreign Affairs
MFEP	-	Ministry of Finance and Economic Planning
MTC	-	Marine Training Centre
NEMS	-	National Environmental Management Strategy
NGO	-	Non-government Organization
NPO	-	National Planning Office
PHN	-	Public Health Nurse
PUB	-	Public Utilities Board
RERF	-	Revenue Equalization Reserve Fund
SPMS	-	South Pacific Marine Service
SPREP	-	South Pacific Regional Environment Programme
STABEX	-	Export Earnings Stabilization System
TML	-	Te Mautari Limited (National Fishing Company)
TTI	-	Tarawa Technical Institute
UNCED	-	United Nations Conference on Environment and Development
UNDP	-	United Nations Development Programme
UNFPA	-	United Nations Family Planning Agency
WHO	-	World Health Organization

Country Data

Land Area: 810 sq. km.	Sea Area: 3,550,000 sq. km.
Population: 75,000 (1992)	GNP per capita: US\$750 (1991)
Capital City: Betio	Population of Capital: 24,328 (South Tarawa)

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Kiribati

EXECUTIVE SUMMARY

i. Kiribati is a small, remote country of 33 low-lying coral atolls widely dispersed across the central Pacific Ocean. With a GDP that is among the smallest of World Bank members, it is a country extremely small in landmass (some 810 square kilometers) but covering a sea-area of 3.5 million square kilometers, roughly equal to the land area of India. The population of some 75,000 is heavily concentrated in the western islands, especially in the overcrowded capital of Tarawa. Most of the population is employed in the subsistence sector with formal employment dominated by the public sector. The private sector is small and underdeveloped.

ii. Since independence in 1979, Kiribati has assembled a solid track record of financial stability, despite a limited range of economic assets. However, over the same time period income per capita has been on the decline, notwithstanding generous amounts of donor assistance. Basic public services—especially health and education—have not been extended in an adequate way to the great majority of the out-lying islands. The number of graduates from the education system has not risen in line with the nation's needs. New job opportunities have been largely restricted to the public sector in overcrowded South Tarawa. The gap between living standards in urban and rural areas has widened strikingly, and there has been considerable rural-to-urban drift. To be sure, this situation is partly attributable to factors that are beyond control of the Kiribati authorities. But domestic economic and social policies have contributed to this outcome, and it is vital that those policy instruments under control of the authorities are fully exploited to improve significantly upon the economic record of the first decade of independence.

iii. *Promoting Private Sector Development.* Kiribati's private sector, which is at an embryonic stage, will need to play an important role in development of the economy. As assets in this regard, Kiribati has a strong tradition of responsible financial management, which has laid a solid basis for a sound business environment. Also, Kiribati appears to be relatively competitive as regards labor and some ancillary costs such as telecommunications, although the cost of electricity is exceptionally high. The most important barriers to private sector development stem from the egalitarian nature of the society, the tax and trade policy regimes, certain incentive programs, and the traditional land tenure system.

iv. The *single most important step* that could be taken to develop Kiribati's private sector would be steadfast pursuit of the Government's policy of *commercialization and privatization* (see below). Other important steps include: *elimination of those exemptions* from import tariffs and corporate tax currently granted to public enterprises and to government departments engaged in commercial activities; for those exemptions that cannot be eliminated for social or political reasons, exemption should be extended to competing private sector operations; and removal of the tax (of 15 percent) on export of aluminum cans and other scrap metals. *Concerning the land tenure system*, the long-term strategy should be to eliminate the backlog of court disputes and to survey all rural lands, with the objective of eliminating ownership disputes. Priority should be accorded those lands that are most likely to be put to productive economic use.

v. Some changes would also be useful to Kiribati's *foreign investment approval system*, which is too heavily oriented towards negotiating

terms on a case-by-case basis. The strategy for reform in this area should stress promotion, not control, beginning with the publication of a clear set of investment eligibility criteria and the introduction of more automaticity into the granting of licenses. Also, the need for performance criteria should be re-assessed.

vi. Kiribati's *financial sector* occupies a key role in national development. The strategy for this sector should focus upon nurturing an *effective domestic demand* for credit which, in turn, depends upon the development of a private sector with the capacity to identify and undertake credit-worthy projects. Beyond this, many of the steps that need to be taken are administrative and institution-specific. Most important, re-structuring of the Development Bank's portfolio is clearly in order, together with a significant strengthening of the institution's management skills, development of effective loan appraisal, and greater regulatory supervision. All of these will probably involve sizable amounts of long-term external technical assistance. On the side of the *supply of credit*, measures could be taken to encourage private savings, for example, by the introduction of a payroll savings scheme; savings could be deducted at source and placed in time deposits with withdrawal restrictions, thereby insulating the working/saving individual from the claims of extended family members.

vii. *Sectoral Growth Strategies.* Despite a narrow resource base, there are important sectors of the Kiribati economy that offer significant possibilities for growth, most notably, fisheries, tourism, and agriculture. In this regard, *fisheries* appears to offer the most promise owing to the acknowledged vast extent of Kiribati's fish stocks. However, successful development of this resource will not be an easy task owing to the highly competitive nature of this industry, Kiribati's late start in development, and several important sectoral constraints, such as: relatively high unit costs at the state commercial fishing company (TML); long, infrequent, indirect and sometimes unreliable air service to major tuna markets; lack of facilities for shipment of iced/frozen tuna; and difficulties in enforcement of licensing arrangements in its 200-mile Exclusive Economic Zone (EEZ). The *strategy for development* of this resource should emphasize three distinct goals: restoring TML to financial health; breaking into new markets; and strengthening enforcement of EEZ licensing arrangements. To *restore TML to health*, unit costs need to be reduced significantly by, for example, allowing *TML to generate its own electricity*, increasing *competition among fuel suppliers*, selling

a substantial proportion of TML to a reliable, private sector partner, and *reducing the downtime of ships* (e.g. by negotiating with more neighbors for access to other EEZs when the fish catch drops-off at home). Also, the use of cultivated milkfish, which appears to have been an expensive, unsuccessful experiment, should be required to demonstrate immediate results, or be abandoned.

viii. As a *strategy for breaking into new markets*, regular, reliable air service must be established between supply sources (Tarawa and Kiritimati Island) and a prime tuna market, which could be Honolulu in the first instance. It is desirable that the current one-flight-a-week service to Honolulu be expanded, initially using chartered freight aircraft if sufficient volume can be developed. As experience is gained, it may be possible to expand into the Japanese and west coast U.S. markets. As for *new product lines*, higher-valued items appear desirable (for example, lobster, slope-reef fish, shark fins, sea cucumbers, and pearl farming), with the primary problem being the need to get sales up to a level that overcomes high transportation costs. Regional experience suggests that future centers for commercial fish production should emphasize drying, salting, smoking and the export of live lobsters; dependence should be reduced on cold storage, which is expensive and under-utilized. As a general proposition in this area, Kiribati should *proceed very cautiously* in the introduction of new technology (or in attempting to penetrate new markets), even if equipment is being provided on a grant basis. Before accepting new equipment, the Government could begin by leasing comparable equipment to test whether the desired gains in productivity are going to eventuate.

ix. To *strengthen licensing arrangements* of Kiribati's EEZ, it is in the country's interest to conduct negotiations on a multi-lateral basis through the Forum Fisheries Agency to improve the country's negotiating power. Also, it may be possible for greater gains along the lines that are currently being pursued in the region, that is, through the introduction of transponders into foreign vessels and through aircraft surveillance. However, there appears to be more room for relying upon adverse publicity to dissuade violators from re-entering the EEZ; confirmed sightings of unlicensed vessels in the EEZ should be reported to the FFA for placement on a regional black-list; legal systems should be explored to allow action against offenders without confiscation of equipment and catch; and an incentive framework could be developed to encourage legal fishermen to report illegal activities. Ultimately, however, it will probably be necessary for Kiribati to become more

aggressive in enforcement, for example, based upon principles of multi-lateral cost-sharing, satellite surveillance in conjunction with transponders, high-speed interception equipment, and stiff fines and confiscation of equipment and catch.

x. Kiribati's other major primary sub-sector, *agriculture*, has potential for further expansion if several important constraints can be overcome. These include an exceedingly small land mass, poor sandy soil with a high coral content, erratic rainfall, high salinity brought on by sea spray and a shallow fresh-water lens, periodic pest infestations, senescence of coconut palms, small local markets, and limited transportation links to the outer islands and export markets.

xi. As a *strategy for development of agriculture*, the Government needs to approach the issue from several directions, more or less concurrently. Concerning *coconuts*, which are likely to remain the only significant source of cash to a large portion of the population for some time, several steps need to be taken to increase productivity and to improve producer incentive, for example: by removing the Island Council *tax on copra*; by directing STABEX funds (currently used for copra price support) to the long-term development of alternative production activities on the outer islands; and by providing *secure tenure* to copra clusters in the Line Islands. The aging treestock should be replaced by new hybrid seedlings in a tightly focused replanting program, especially among smallholders where externalities are greatest.

xii. For *other crops*, there should be *greater commercialization* of nurseries, livestock, and vegetable farming while the activities of certain NGOs that are trying to introduce vegetables into the local diet need to be expanded. *Programs of pest control* need expansion, and skills of local staff such as veterinarians and entomologists need to be upgraded, including through wider distribution of *local-language information* to improve cultivation of crops and livestock. To facilitate the development of all crops, transportation links to the outer islands need to be improved by adopting a more commercial approach to domestic shipping and port operations.

xiii. To develop its *tourism* potential, Kiribati must overcome several constraints, including perceptions as an isolated destination, lacking in tourist infrastructure and amenities. Also, air access is poor, routing is erratic, and it can be difficult obtaining accurate flight information. A lack of adequate marketing of Kiribati has resulted in the destination having no particular image in the market.

xiv. As a *strategy for development of tourism*, the most essential element is a serious commitment by national and local governments to attract and assist private sector investments in the sector. Beyond this, the strategy should be to develop an effective demand for tourism, drawing a sharp distinction between Kiritimati and Tarawa. For Kiritimati, several specialty markets exist in addition to the sports fishermen who already frequent the island. Birdwatchers and other naturalists, divers, and eco- and culture-tourists could be drawn to the island, which is reasonably accessible from Honolulu. However, a second flight each week, or greater use of charter flights, would be desirable. In the case of Tarawa, the immediate target market should be World War II veterans—from both sides of the conflict—with an ideal window of opportunity in 1993 which is the 50th anniversary of the Battle of Tarawa. Culture-tourists are another possibility for Tarawa, as are pan-Pacific cruise ships. In all cases, a local clean-up campaign will be needed to improve the image of South Tarawa.

xv. *Improving Public Sector Management.* Operations of the Kiribati public sector reach deep into all sectors of the formal economy, and it is important for economic development that the scope of these operations be significantly narrowed. At the same time, there are important sectors of the economy that have not been sufficiently well-served by the government apparatus (for example, basic health and education, especially in the outer islands) despite relatively generous funding; expansion of such services will be vital in the coming years, thereby placing the Government firmly between constraints of tight finance and the need to expand some services.

xvi. One important means of public sector reform is the withdrawal of the public sector from those activities that are better undertaken by the private sector. The Government's *privatization policy* recognizes the importance of this approach, but there appears to have been little real progress since the policy was announced in 1989. To regain the momentum of reform in this area, the Government has obtained a sizable technical assistance grant (from the Asian Development Bank), which will go a good distance towards restructuring this sector of the economy. However, there are certain additional steps that would also serve to avoid stifling private sector development:

- Greater use of *private contracting*, e.g. for public works projects, motor vehicle rentals and cleaning of the hospital and offices.

- Elimination of the *monopoly/tax-exempt/or duty-free status* enjoyed by several public sector operations. And
- Restructuring of Public Utilities Board's organization and tariffs with a view to reducing cross-subsidization and setting changes at commercially viable levels.

xvii. Reform of Kiribati's civil service will be an increasingly important component of the country's development strategy. Pressure for reform is likely to develop as a consequence of continuing financial restraint in the face of a need to improve the delivery of highly labor-intensive public services—for example, education, health care, and transportation services—especially to the outer islands. In addressing these issues, one approach would view the solution as calling for a smaller, better-trained civil service, staffed by persons with better technical and administrative skills to replace unskilled and semi-skilled employees. To be sure, achieving such an end would not be easy for Kiribati. However, the *strategy should begin* with a widespread acknowledgement that the civil service can no longer serve as the main source of new jobs in the economy. *Other key elements of a strategy* would include: firm implementation of the program of privatization; overhaul of the salary structure aimed at alleviating skills shortages; more systematic in-service training; better counterpart training in technical assistance programs; and higher priority to education in public investment priorities. There should also be improved training to upgrade the skills of Island Councils.

xviii. A nation's *public investment program* constitutes a powerful tool for influencing national development. In the case of Kiribati, there is no fully-articulated Public Investment Program. However, on the basis of partial information, the composition of current and prospective capital spending has been roughly consistent with national priorities. Nevertheless, there has not been the geographical spread of benefits to the outer islands that seemed to be intended by government policy. In addition, the allocations for health and education do not appear adequate to provide services to the rural population as intended.

xix. The Government has few options available to bring the level and composition of its investment spending more into line with national priorities. The first option that should be exploited is to ensure that all available financing from donors is being utilized. Second, the Government should increase the size of its own contribution to the

investment program, preferably by holding down current expenditures and increasing the revenue base.¹ And third, the Government must improve effectiveness of its investment spending by ensuring that the composition of spending matches the national priorities and by strengthening management along the lines discussed immediately below.

xx. To improve management of public investment, Kiribati should undertake development of a Public Investment Program. As a first step, the authorities could begin with a simple tractable program for the highest priority sectors of the economy, say fisheries, agriculture, health, or education. Concurrently, *on the side of donors*, there should be a major shift in emphasis away from the commissioning of expensive time-consuming studies and in favor of the provision of long-term on-site technical assistance to support officials in the more difficult task of policy implementation. In addition, there seems to be considerable scope for better utilization of NGOs, for example, in the areas of health care, women's issues, and community development, which would build upon the successes of churches in education.

xxi. There appear to be four other significant weaknesses that need to be addressed in improving the management of public investment. First, Kiribati's development budget is overly influenced by donors, and the Government needs to gain more control over priority-setting by increasing its contribution to the development budget—if necessary, by *drawing-down more of the interest earnings of the Revenue Equalization Reserve Fund (REF)*. Second, there appears to be a cumbersome splintering of administrative responsibilities between the Ministry of Finance and Economic Planning (MFEP) and the Ministry of Foreign Affairs (MFA). In the interest of expediting project implementation and fully utilizing available funding, there appears to be a strong case for retaining all responsibility for financing within MFEP, which would be expected to coordinate with MFA. Third, there needs to be *better screening mechanisms* to ensure that approved projects are consistent with national priorities. MFEP's role in this regard should be strengthened; Ministries should not be allowed to by-pass MFEP by direct submission to Cabinet, and the Planning Office should be willing to reject projects that are not consistent with national priorities. Fourth, in the area of managing aid-in-kind, which forms a large portion of Kiribati's aid package, arrangements need to be put in place to monitor quality and to ensure convenient termination of arrangements that are falling short of expectations.

xxii. **Environmental Issues.** The major environmental issues in Kiribati stem from low material standards of living in the face of growing population pressures within the context of a fragile atoll environment. The main issues in this area are: (a) groundwater depletion, increased salination, and pollution from sewage and animal excreta; (b) shellfish contamination from human waste; (c) overfishing of reefs and lagoons; (d) waste disposal; (e) coastal erosion and sedimentation attributed largely to extraction of foreshore materials and construction of causeways between islets; (f) depletion of mangrove and other tree species reflecting a shortage of fuelwood; and (g) breakdown of the traditional subsistence production systems, resulting in malnutrition and nutrition-related diseases. Desirable interventions include:

- To improve *water supply*, new water lenses should be tapped, rainwater catchment and storage facilities should be increased, and a groundwater monitoring program that includes private wells should be established.
- Concerning *sewerage*, major renovation is needed of the South Tarawa sewerage system, including consolidation of the currently fragmented administration of water and sewerage services under a single authority and strict enforcement of WHO guidelines for rural sanitation.
- For *solid waste disposal*, there should be greater use of private contracting for disposal services; the export tax on scrap metal should be removed; dumping should be restricted to approved sites; and WHO assistance should be used for a disposal program.
- *Intra-atoll construction* should emphasize bridges and open-design causeways that do not unduly restrict natural current flows. And
- Regarding *institutions*, a second professional needs to be recruited into the Environmental Unit of the Ministry of Environment and Natural Resources; legal regulations require updating, firm implementation, and integration into a broader environmental framework; and greater use should be made of Environmental Impact Studies.

xxiii. **Human Resource Development.** Despite substantial gains since independence, Kiribati's social indicators lag behind international standards as well as regional comparators. At the heart of this problem lie the drop-off in fiscal revenues

following exhaustion of the country's phosphate deposits and the costly nature of providing health and educational services to a sparse population residing in a few small, widely dispersed islands. Notwithstanding these constraints, there are many policy options that permit further significant advances. In *the health sector*, there are several courses that should be pursued:

- There should be greater recourse to *user fees* that are identifiably linked to the provision of goods and services (e.g. drugs and surgery).
- *Health insurance* should be introduced for financing of certain in-patient health services provided at the national hospital, and possibly for the cost of emergency evacuation.
- The *outflow of doctors* should be reversed through: (i) improved pay and benefits; (ii) the use of medical assistants to replace doctors in many activities (such as radiology and anesthesia); (iii) encouraging physicians to open part-time practice on their own account; (iv) the introduction of an effective bonding scheme for recipients of medical scholarships; and (v) greater use of the Fiji School of Medicine's new, more clinically oriented program.
- The *Island Councils* need to be encouraged to play an increasingly significant role in the health field, for example, by linking central subsidies to adequate upkeep of key Council-run assets, such as health centers. And
- The *family planning program* needs to be revived and stepped-up, especially in regions of higher fertility and in the areas of improved access to various forms of contraception, training of field and clinical staff, and the development and use of management information systems.

xxiv. In *the education field*, the government's objectives are laudable, namely: to improve the quality and relevance of primary education; to expand participation—especially from the outer islands—in secondary education; to improve the relevance, quality and articulation of the secondary school curriculum; and to increase the supply of skilled manpower for national development. However, achievement of these objectives will not be an easy task, owing to competing demands and high costs. Key initiatives that would be of assistance in this regard are the following: *increased user fees*, identifiably linked to the provision of goods and services (for example,

books and supplementary tutoring); phased replacement of scholarship programs by student loans; and an effective bonding system for beneficiaries of foreign training. On the side of expenditure, priorities should be tilted more heavily in favor of primary and secondary education. As a complementary device, grants should be increased to non-government authorities—with conditions attached—to ensure quality and expansion in secondary education opportunities.

xxv. *Macro-economic Prospects.* On the explicit assumption that policy recommendations outlined in the remainder of this Country Report are followed, Kiribati has good prospects for improving significantly upon the record of declining material standards of living that characterized the first decade of independence. To be sure, Kiribati

is likely to remain heavily dependent upon external factors (for example, tuna prices and foreign assistance) for some time to come, but the dependence can be reduced appreciably through appropriate domestic policies. And on the basis of reasonable assumptions about external developments, rising per capita real incomes can be attained in combination with continued internal and external financial stability and expanding basic public services, especially to the outer islands. Failure to implement these policies would lead to further declines in per capita incomes; rising unemployment and under-employment; continued inadequate delivery of basic public services; widening gaps in living standards as between rural and urban areas; still higher rates of urban drift into already-overcrowded South Tarawa; and the accompanying risk of social unrest.

ENDNOTES

- ¹ Alternatives in this regard would include: increasing by a sizable margin the import duty on alcoholic beverages and other health-related items, such as tobacco, sugar, and goods with a high salt content; taxing the housing benefits for civil servants, or phasing in substantially higher rental rates; making exemptions from import duties and other taxes less discretionary; and converting a number of specific duties (on gasoline, rice and alcoholic beverages) to ad valorem taxes. It should be noted that there is currently no general sales tax in Kiribati. This is appropriate, considering the high share of imports (which are taxed through tariffs) in final consumption and the difficulty of taxing retail value-added in an economy of Kiribati's size and at its stage of development.

1: Review of Recent Economic Developments

A. INTRODUCTION

1.1 With a GDP (of some A\$50 million in 1992) that is among the smallest of World Bank members, Kiribati is a remote country of 33 coral islands widely dispersed across the central Pacific Ocean, roughly astride the intersection of the equator and the international dateline. The total land area of Kiribati is very small, comprising some 810 square kilometers¹, but the 200-mile Exclusive Economic Zone (EEZ) totals 3.55 million square kilometers, an area approximately equal to the land mass of India. The islands comprise three separate groups. To the west is the main group, the Gilberts, comprising 16 atolls to which has been added the raised coral atoll of Banaba.² The second group, the Line Islands (comprising 8 atolls), includes Kiritimati, also known as Christmas Island, which is the world's largest atoll, lying some 2,000 kilometers south of Honolulu. The third group consists of a further 8 atolls, the Phoenix Islands, which are situated about halfway between the Line and Gilbert Islands. The vast geographical spread of Kiribati is indicated by the distance from Banaba in the west to the Line Islands in the east, some 4,000 kilometers; the maximum north-south reach is roughly 2,000 kilometers, in the Line Islands.

1.2 The population (of some 75,000 persons) is heavily concentrated in the Gilbert Group, which includes Tarawa, the capital. One-third of the population reside around the over-crowded principal urban center on South Tarawa, where the population density reaches 1,610 persons per square kilometer. By contrast, the Phoenix Group is virtually uninhabited. With the exception of Banaba, all of Kiribati is low-lying, with maximum elevations of 3-5 meters above sea level—making the entire country vulnerable to global warming. The I-Kiribati³ have a strong cultural tradition, a proudly independent nationalist spirit, and an egalitarian ethic that is based on mutual help and cooperation.

1.3 With an estimated GDP per capita of US\$481 in 1990, Kiribati is in the category of low income countries. The bulk of the population is employed in the subsistence sector with formal employment being dominated by the public sector, which accounts for 95 percent of gross investment and almost half of GDP. The private sector is small and underdeveloped. Although the natural environment and infertile soil constrain agricultural development, the nation possesses abundant ocean resources, principally fish, seaweed, and manganese. Kiribati also obtains large inflows of income from abroad in the form of earnings from the Revenue Equalization Reserve Fund (RERF, see note 2), fishing licenses issued to foreign fleets, and remittances from I-Kiribati working overseas in shipping and mining.⁴ Official development assistance is also an important element of the Kiribati economy, having financed a large public sector and contributed to a relatively underdeveloped private sector.

B. RECENT ECONOMIC DEVELOPMENTS

1.4 *Economic Growth.* For many years prior to independence in 1979, the Kiribati economy had been supported by rich phosphate deposits on the island of Banaba. However, mining ceased when these deposits were virtually exhausted, causing a near-halving of GDP in 1980. Since that time, GDP growth has been slow and erratic, reflecting the vulnerability of the country's main export commodities (copra and fish) to price and environmental shocks (see Figure 1.1). By the end of the 1980s, GDP per capita—which is estimated to have declined by 1 percent per annum during that decade—was less than half the level that prevailed prior to independence, reflecting inability of the economy to compensate for the loss in phosphate mining.

Figure 1.1: REAL GDP GROWTH, 1980-92

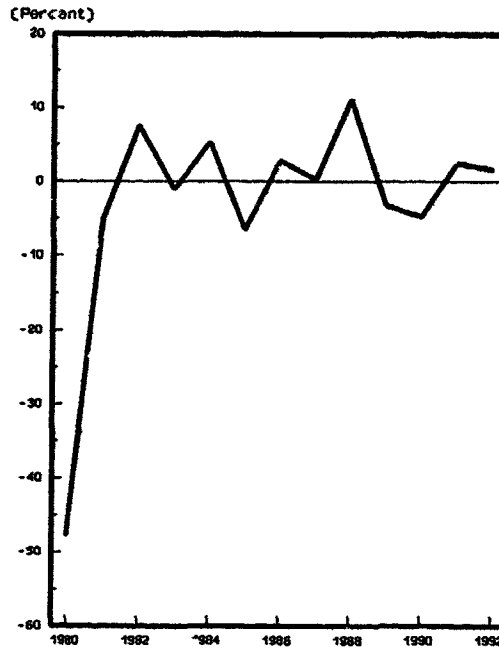
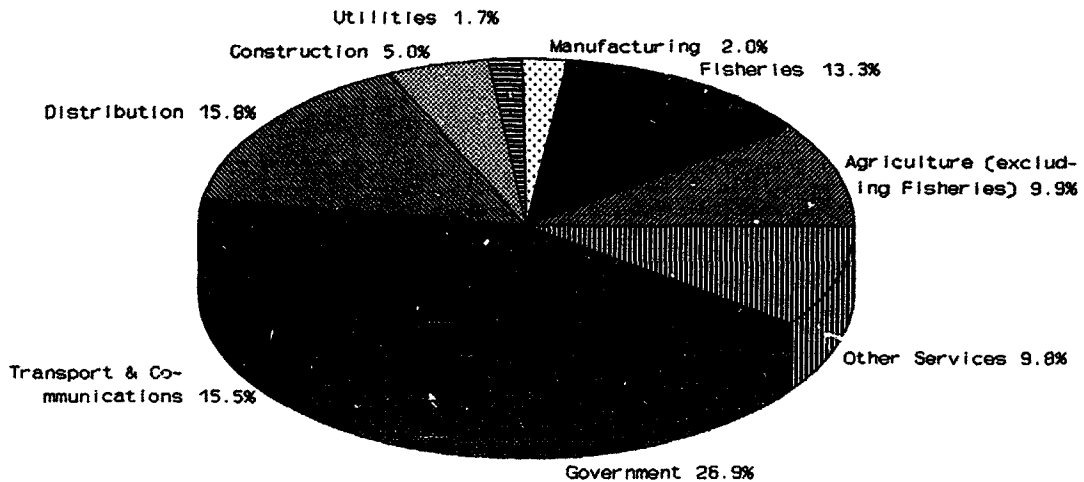


Figure 1.2: STRUCTURE OF PRODUCTION, 1992



1.5 Following a decline in real GDP of almost 5 percent in 1990, the Kiribati economy began a slow recovery in 1991 that is expected to continue at a sluggish pace in 1992 (see Table 1.1). The recovery has stemmed from the incentive effects of higher world prices for copra; successful development of a new export commodity (seaweed); high levels of construction activity; improved

airline connections to Honolulu and Fiji that led to an increase in tourist arrivals; and lower lending rates at the Bank of Kiribati beginning in early 1992. The strength of the recent recovery has been held in check by the temporary shutdown of operations at the state-owned fishing company in early 1991, followed by a resumption of only a low level of activity around the end of that year.

Table 1.1: GROWTH OF GDP, 1981-92
(in percent)

	1981-88	1989	1990	1991	1992 Est.
Real GDP	1.3	-3.0	-4.5	2.4	1.5
Nominal GDP	7.1	2.1	0.1	8.0	6.6
Agriculture	11.7	-18.6	-16.2	15.3	15.3
Of which:					
Commercial Fishing	14.1	-6.0	-20.6	6.3	18.7
Copra	16.6	-52.6	-54.9	110.8	38.4
Industry	7.6	14.1	3.8	-11.1	0.7
Services	5.0	9.0	3.8	8.2	4.5

Source: Data provided by Kiribati authorities.

1.6 *Labor and Employment.* Only limited information, in the form of 5-year censuses, is available on employment in Kiribati. The 1990 census indicates total cash employment (of persons 15 years or older) amounted to 10,972 persons versus 6,991 in 1985.⁵ Roughly adjusted for differences in coverage, these surveys indicate that employment in the monetized sector of the economy has been increasing at an average annual rate of near 4 percent, well above the rate of increase of total population. With real GDP barely increasing over the same period, aggregate productivity has dropped sharply, implying that many employees are only participating in the cash economy in a very marginal way. A sizable proportion of cash sector employment is accounted for by agriculture and fishing (23½ percent) and by public administration (19 percent), with the former having increased

sharply, from 7 percent, since the 1985 census (Statistical Annex Table 1.3). Males account for roughly three-quarters of cash employment, while almost two-thirds of total cash employment takes place on the heavily populated island of Tarawa, where public sector employment is concentrated.

1.7 Official *unemployment* in Kiribati is low, at just over 2 percent of the labor force. However, another 70 percent of the labor force is categorized as being employed in "village work" or "home duties", suggestive of a large pool of under-employed, especially in the outer islands.

1.8 *Savings and Investment.* The savings-investment balance of Kiribati's economy exhibits certain unusual characteristics (see Table 1.2). Most important, Kiribati enjoys a high level of

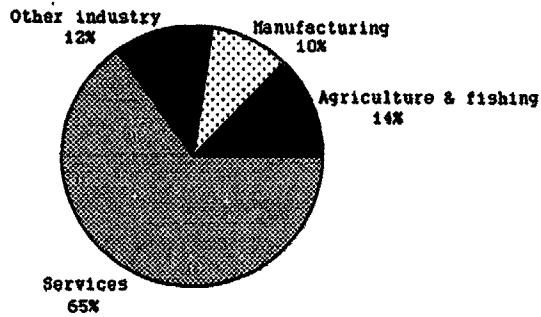
Table 1.2: SAVINGS INVESTMENT BALANCES, 1987-92
(In percent of nominal GDP)

	1987	1988	1989	1990	1991	1992 Est.
Gross Domestic Investment	29.6	28.2	26.3	24.9	23.5	21.7
Foreign Savings /a	-32.3	-14.1	-18.9	-21.2	-34.7	-17.4
Gross National Savings	61.9	42.4	45.2	46.1	58.3	39.1
Gross Domestic Savings	-54.8	-52.6	-54.0	-69.6	-48.2	-75.7
Net Factor Income	47.8	40.4	45.7	47.5	44.7	38.4
Net Current Transfers	68.9	54.6	53.5	68.2	61.8	76.5
Resource Gap	84.3	80.9	80.2	94.5	71.7	97.4

/a Current Account Deficit

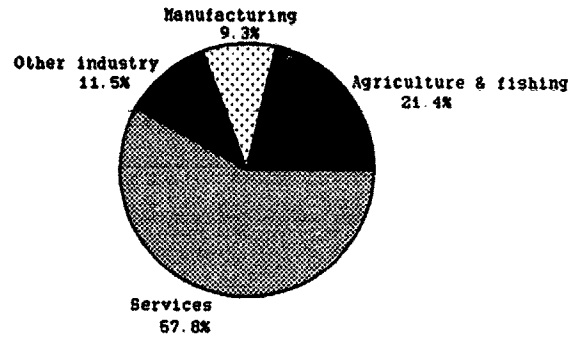
Source: Data provided by Kiribati authorities and staff estimates.

Figure 1.1: SECTORAL COMPOSITION OF GDP, 1988



Source: Office of Planning & Statistics, Majuro.

Figure 1.2: EMPLOYMENT BY MAJOR ECONOMIC SECTORS, 1988



Source: Census of Housing & Population 1988. Majuro.

1.7 After a weak performance in 1990/91, the prospects for an improvement in 1991/92 are not encouraging. Real GDP in 1991/92 is expected to decline by about 6 percent. The main factors underlying this weak performance are the deteriorating performance of public enterprises, the effects of a typhoon, and a large decline in agriculture.

Wages and Employment

1.8 **Labor Force.** The rapid population growth experienced over the past decade has contributed to a fast growing labor force. Labor force data are collected through the Census and complemented by smaller surveys during some of the inter-Censal years. Although these are not very reliable due to inconsistencies, they are indicative of broad trends. On the basis of these labor force growth in the early 1980s was about 8 percent per annum, declining to about 4 percent after 1988. About one-quarter of the population is economically active. Between 1982-88, total employment increased at about 8 percent per year (see Table 1.2), more than double the rate of population growth and faster than labor force growth. Most of this increase came from the private sector as employment in the public sector was constrained due to a hiring freeze brought on by a tight budgetary situation. In the period since 1988, employment growth has averaged 6 percent per year while real GDP growth averaged -0.1 percent per year, suggesting a decline in average labor productivity. About a quarter of those employed

are in the public sector, with the balance in the private sector. A comparison of Figures 1.1 and 1.2 shows that the sectoral distribution of employment and the sectoral composition of GDP in 1988 are similar. Nearly 60 percent of those employed were in the services sector, with the remainder split about evenly between agriculture (including fishing) and industry.

1.9 **Unemployment.** Unemployment in the RMI appears to have been on a declining trend between 1982 and 1988 but has since stagnated. Preliminary estimates suggest the unemployment rate in 1991 was about 16 percent. Unemployment rates in the two urban centers of Majuro and Ebeye are, however, much higher as these areas constitute about 85 percent of the total unemployed population. The unemployment rate in Majuro is believed to be about 22 percent. A large proportion of the unemployed are young and relatively well educated. According to the 1988 Census, over 60 percent of the unemployed are in the 15-24 years age group, and almost 80 percent of the unemployed had completed grade 8.

1.10 **Wages.** In 1986 minimum wage legislation was enacted establishing a minimum wage of US\$1.50 per hour. The Government, as the single largest employer, upholds this standard. In the private sector, especially in Majuro, some employers find that a reservation wage exists as even unskilled laborers will not work for less than US\$2.00 per hour. Many small employers, however, are believed to pay less than the minimum wage. According to the Majuro

Table 1.4: SUMMARY OF CENTRAL GOVERNMENT FINANCES, 1987-92
(In percent of GDP)

	1987	1988	1989	1990	1991	1992 Budget
Total Revenue and Grants	87.1	78.3	79.7	95.6	95.4	102.4
Tax Revenue	20.2	17.4	19.2	21.2	21.6	20.7
Non-tax Revenue	31.6	27.5	24.5	28.0	35.5	29.8
Of which: RERF drawdown	13.7	18.8	11.5	9.2	4.3	13.3
Grants	35.2	33.4	36.0	46.3	38.4	52.0
Current Expenditure	45.4	45.5	46.5	45.7	48.7	48.9
Of which: Personnel Emoluments	20.1	18.3	20.4	20.4	22.2	22.0
Capital Expenditure	36.8	34.3	36.5	49.3	40.0	55.1
Overall Balance	4.8	-1.4	-3.4	0.5	6.7	-1.6
STABEX Transactions (net)	5.1	1.1	0.4	-0.4	-0.7	-1.5
Income Re-investment in RERF	16.3	8.1	18.8	22.0	27.0	14.0
Adjusted Overall Balance	26.1	7.8	15.8	22.2	33.1	10.9

Source: Data provided by Kiribati authorities and staff estimates.

simplify loan operations. After remaining constant since the mid-1980s, BOK's lending rates were reduced by one percentage point on two separate occasions during 1992 (in February and June), leaving secured and unsecured lending rates at 10 and 11 percent, respectively.

1.13 The growth of domestic credit in Kiribati is constrained by the limited supply of viable commercial opportunities as well as by other structural factors such as collateral considerations (see the discussion on land tenure in Chapter 3). During 1991, commercial bank credit expansion of all forms—private, government and public enterprises—was essentially stagnant. Consequently, the greater part of the commercial bank's deposit growth, which has been roughly in line with the rise in nominal GDP, has been placed abroad, causing a moderate rise in net foreign assets.

1.14 *Public Finance.* Notwithstanding the large size of its public sector (see Chapter 4), Kiribati has a strong track record of fiscal prudence, which has been underpinned by relatively large grant financing from the donor community. After averaging a small surplus for several years, in 1991 the overall fiscal balance (including foreign grants and drawdowns from the RERF) widened substantially to an estimated 6½ percent of GDP,

principally reflecting unexpectedly large one-time fishing license fees under a treaty with the United States. This allowed room for exceptionally small drawdowns from the RERF (see Table 1.4).⁹ In 1992, the overall balance is budgeted to shift into a small deficit (of approximately 1½ percent of GDP) and preliminary indications are consistent with this outcome; there would be a drop-off in fishing license revenues (mirroring the once-only nature of the payment in 1991, noted above) that would only be largely offset by increased drawdowns from the RERF. At the same time, capital spending, which has been on a rising trend for several years, would climb steeply, in line with larger foreign grants, notably to acquire a vessel for shipping.

1.15 As part of the budget for 1992, changes were made to statutory personal and corporate tax rates to increase progressivity, to reduce anomalies in middle-range tax rates, and to introduce a new rebate system for low income earners. Concurrently, import duties were reduced on some basic food items. To make up for the lost revenue and to encourage local production and employment, import duties were increased on a range of luxury goods and on imports with local substitutes. The budget also introduced a 5-year tax holiday on all new businesses established in the outer islands (that is, excluding Tarawa and Christmas Island).

Table 1.5: SUMMARY OF BALANCE OF PAYMENTS, 1980-92
(in A\$ millions)

	1980	1985	1989	1990	1991	1992 Est.
Trade Balance	-15.7	-15.5	-22.2	-28.9	-29.1	-30.3
Exports, f.o.b.	2.6	6.1	6.4	5.6	4.2	5.7
Imports, f.o.b.	18.3	21.6	28.6	34.4	33.2	45.0
Services (net)	-2.2	1.3	7.2	8.4	16.4	8.4
of which: RERF Interest Receipts	4.3	5.5	13.2	13.6	15.0	14.0
Transfers (net)	15.0	19.1	23.2	29.6	29.0	40.0
Current Account Balance	-2.9	4.9	8.2	9.2	16.3	9.1
Capital Account Balance	-1.4	-1.0	-3.0	-1.7	-0.4	-1.3
Errors and Omissions	4.7	3.0	2.6	3.4	0.4	-0.5
Overall Balance	0.4	6.9	7.9	10.8	16.3	7.4
Memo items:						
Current Balance/GDP (%)	-11.8	14.9	18.9	21.2	34.7	18.2
Official Aid/GDP (%)	61.5	54.3	44.5	58.3	49.7	64.4
Gross Official Reserves (A\$m)	..	167.1	228.4	222.5	263.5	275.2
(in years of imports)	..	7.7	8.0	6.5	7.9	6.1

Source: Data provided by Kiribati authorities and staff estimates.

1.16 *Balance of Payments and External Debt.*

The structure of the Kiribati balance of payments is characterized by a sizable deficit on merchandise trade that is more than fully offset by net inflows on services account (principally interest on the RERF and fishing royalties) and by large inflows of both official and private transfers, the latter mainly comprising remittances from seamen abroad and phosphate miners in Nauru. The capital account tends to be in small deficit, owing to the modest inflows of official foreign borrowing and the tendency of Kiribati's financial institutions to hold much of their investment portfolio in the form of foreign assets. In recent years, official foreign exchange reserves have averaged the equivalent of approximately 8 years of merchandise imports, mainly accounted for by the RERF.

1.17 In recent years, the trade deficit has been on a widening trend (see Table 1.5), owing to sharply lower exports in the face of rapidly expanding imports that stemmed in part from construction of a new shopping center and a donor-financed hospital, both on Tarawa. Lower levels of merchandise exports are due to steep drops in copra prices and volumes in 1990, to poor fish catches in the same year, and to the temporary shutdown of operations of Te Mautari Limited (TML), the state-owned commercial fishery, in early 1991. These unfavorable developments on the side of exports were only partly offset by a rebound in copra prices

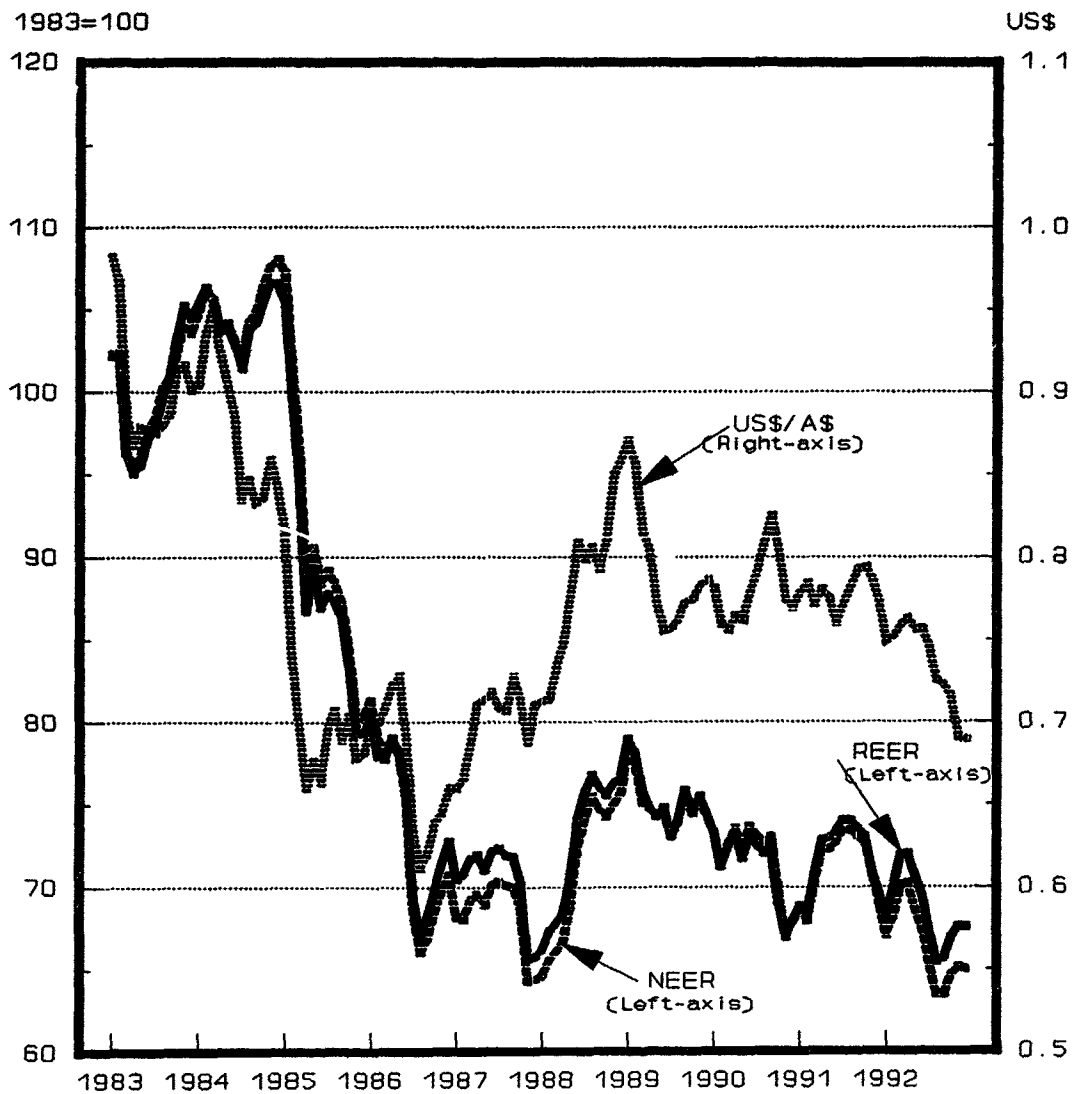
in 1991 and by spectacular growth in foreign sales of seaweed, which has become Kiribati's second largest export in only two years. Aquarium fish also emerged as a significant new export in 1991. In 1992, exports are expected to recover, largely as a result of higher copra prices, but the trade deficit would continue to widen as a consequence of an aid-related purchase of a vessel for inter-island trade and imports of construction materials associated with expansion of the Tarawa airport.

1.18 After recording sizable surpluses for several years, Kiribati's services account widened significantly in 1991 as a consequence of extraordinary receipts of fish royalties under the recently-signed fishing agreement noted earlier. In 1992, the surplus will narrow to a net inflow more typical of earlier years, reflecting the once-only nature of the special transaction in 1991; there would also be a decline in interest earnings on the country's foreign assets as a result of sharply lower international interest rates. The surplus on private transfers would continue to widen, principally as a consequence of larger remittances from Kiribati seamen working abroad; remittances from phosphate miners on Nauru have levelled off in recent years as the mineral deposits on that island approach exhaustion. The surplus on official transfers, which has been stable in the past several years, is expected to widen noticeably in 1992, due to financing for the new vessel mentioned above.

1.19 Kiribati's capital account has consistently recorded small net outflows in recent years. There have generally been small net inflows on the

government account—principally drawdowns of STABEX accounts held abroad and limited borrowings from the Asian Development Bank

Figure 1.3: KIRIBATI: TRENDS IN EXCHANGE RATE 1983-92



NEER: Nominal effective exchange rate.

REER: Real effective exchange rate.

Source: Staff estimates.

(ADB)—that have been more than fully offset by increased holdings of net foreign assets by non-bank financial institutions.

1.20 Reflecting its policy to limit foreign borrowing, Kiribati's external debt and debt service payments are very modest. At the end of 1991, the total stock of external liabilities is estimated to have amounted to only A\$2 million, virtually all on concessional terms from the ADB. Consequently, debt service was less than 1 percent of exports of goods and services. By contrast, Kiribati's external assets are quite large, amounting to some A\$275 million. Roughly three-quarters of this amount is accounted for by assets of the RERF. The Kiribati Provident Fund and the Bank of Kiribati also hold substantial assets abroad (see Appendix Table 4.2). Gross official foreign exchange reserves, which have been on a rising trend for many years, had accumulated to some A\$260 million by the end of 1991, equivalent to almost 8 years of import cover. Official reserves are expected to continue their climb during 1992, but the extent of import cover would drop somewhat owing to the sharp, temporary rise in imports discussed above.

1.21 *Exchange Rate Arrangements.* As noted, the Australian dollar circulates as legal tender in Kiribati, although the country does issue its own coinage at par value with Australian currency, in denominations up to A\$2. As a consequence of this arrangement, movements in Kiribati's effective exchange rate are almost wholly determined by external factors. Following a large depreciation between 1985 and 1988 occasioned by a fall in the value of the Australian dollar, Kiribati's nominal effective exchange rate has fluctuated within a fairly narrow range, with a mild tendency towards depreciation since early 1989 (see Figure 1.3). The country's real effective exchange rate has tracked the nominal effective rate very closely, indicative of the tight relationship between inflation in Kiribati and its major trading partners.

1.22 This exchange rate arrangement has served Kiribati well, as evidenced by the solid track-record of financial responsibility that Kiribati has established since independence. By following the present course, Kiribati has carefully weighed the advantages of seigniorage against the cost of note issue and administration, bearing in mind the limited scope for monetary policy that would be available with the issuance of domestic currency.

At the same time, developments in the financial sector are closely monitored by the Ministry of Finance, and the Government is well-represented on the Boards of Directors of local financial institutions.

1.23 *Developmental Challenges for Economic Management.* With a recovery—albeit slow—underway, the Kiribati authorities now face the challenge of maintaining domestic financial stability while setting the economy on a strong medium-term growth path and extending basic public services to a wider portion of the population. The prime objective, of course, is to find productive employment opportunities for Kiribati's rapidly expanding labor force, to provide stronger income growth for those I-Kiribati who already hold a job, and to improve the health and level of education of the general population.

1.24 Achieving this objective will not be an easy task. In Kiribati, the private sector—which is typically the key to strong, sustained growth—is at an embryonic stage of development, and disadvantaged in international markets by remoteness and a small, dispersed, low-income domestic market. At the same time, the reach of the public sector—which is usually an impediment to strong, sustained growth—extends deep into virtually all sectors of the Kiribati economy. In these circumstances, it will be important for the Kiribati authorities to set economic policy in a direction—with sufficient momentum—to permit the public sector to withdraw from many commercial activities at a pace that is consistent with nurturing development of an efficient private sector. Withdrawal of the public sector from commercial activities will provide the Government with some of the flexibility necessary to re-shape its activities to meet legitimate needs for improved basic public services (especially education and health). It would also provide room to develop a well-focused, country-driven public investment program, which is an essential element in the effort to increase growth. To further support this effort, the Government will also need significantly increased resources. In the present aid environment, appreciably greater accommodation cannot be expected on the part of donors. Consequently, meeting these goals will require a strategy that includes access to greater financing, if necessary by drawing-down a larger proportion of interest earnings on the RERF.

ENDNOTES

- ¹ Previous reports on Kiribati have cited a land area of 792 square kilometers, which excluded certain uninhabited islands in the Southern Line Islands.
- ² Banaba was the source of phosphates from which the main income of Kiribati originated prior to independence. After beginning operations around the turn of the century, mining ceased in 1979 when the deposit was exhausted. In anticipation, the authorities built up the Revenue Equalization Reserve Fund (RERF), the major part of Kiribati's external assets.
- ³ Nationals of Kiribati are referred to by the term I-Kiribati.
- ⁴ With large income receipts from the RERF and remittances from workers abroad, GNP per capita exceeds GDP per capita by over 50 percent.
- ⁵ The levels of employment in these two surveys are not directly comparable, owing to broader coverage of the 1990 survey to include informal part-time activities in the definition of "cash employment". This measure of employment does not include I-Kiribati working abroad, who augment total formal employment by around 10 percent. Recent estimates (1987) indicate that approximately 1,100 persons were working as seamen on foreign ships and another 500 or so were employed as phosphate miners on Nauru.
- ⁶ Price controls are also in effect for a range of commodities, but the controls do not appear to be binding (see the discussion in Chapter 3).
- ⁷ Official Conditions of Service are binding on government employees as well as employees of the statutory corporations; other public enterprises are expected to treat the Conditions only as guidelines, but there appear to be few differences in practice. The small number of private sector managers seem to receive somewhat higher remuneration than their counterparts in the public sector.
- ⁸ Government employees are also eligible for (tax-free) housing benefits; approximately one-quarter of all civil servants live in government housing on which minimal rents are charged.
- ⁹ Each year roughly half of the Fund's earnings are drawn down as budgetary revenue and the remainder is re-invested in the Fund. The Fund, which is managed by a London-based investment brokerage firm, is subject to a number of prudential characteristics that are designed to ensure a conservative investment strategy, including comprehensive audits every six years and performance reviews every two years.

2: Sectoral Growth Strategies

A. INTRODUCTION

2.1 Despite the striking lack of natural resources in an atoll environment, Kiribati is not without assets that can provide the basis for significant economic growth. For example, the country's 200-mile Exclusive Economic Zone (EEZ) has vast stocks of fish and mineral reserves; there is potential for some tourism development; scope exists for expansion of the agricultural sector; export of labor overseas is likely to continue; the country's location on the equator offers possibilities for space exploration; and the phosphate trust fund (the RERF) has grown into a major financial asset. The challenge for Kiribati is to develop a strategy for exploitation of these possibilities in a way that maximizes the opportunities for success. This Chapter outlines some possibilities along these lines, with emphasis upon the sectors that appear to hold the most promise: fisheries, tourism, and agriculture.

B. FISHERIES

2.2 *Sectoral Characteristics.* On average during the past decade, fisheries contributed around 10 percent of GDP, but was subject to a great deal of fluctuation stemming from changes in the migration patterns of tuna and various operational and financial problems with the national fishing fleet. Output of this sector is split roughly equally between commercial and artisanal fisheries operations. The latter constitutes an important activity in the outer islands. More than 85 percent of all households in the outer islands are engaged in some form of fishing, of which over half is subsistence.¹

2.3 *Commercial fishing* in Kiribati is mainly accounted for by Te Mautari Limited (TML), the national fishing company, which was incorporated in 1981 as the main base on which the Government

planned a viable commercial fishing industry. Under normal conditions, TML operates four pole-and-line vessels and a mother ship (all financed under aid programs). The catch is principally skipjack tuna, most of which a refrigerator-carrier transports to a cannery in Fiji² (a small proportion is sold locally in Tarawa). In addition to its own fishing operations, TML normally purchases fish from artisanal fishermen and manages brine freezing, ice-making machines, and cold storage facilities.

2.4 Following a period of financial strain, the Government of Kiribati suspended TML's operations in early 1991 and took a decision to break up the company into smaller companies along the divisional lines of TML. Pending implementation of this decision, the company resumed operations in July 1991 (although not on the previous scale) and has undertaken an internal cost re-structuring.

2.5 Other types of fish are also reared commercially in Kiribati. On Tarawa, milkfish have been farmed with limited success in specially-built ponds, intended in part for use as bait in the tuna industry. Several outer islands also have small-scale ponds (owned by local councils) to produce milkfish, and modified lagoons on Christmas Island (originally intended for brine shrimp) have been converted to milkfish production. Chilled kingfish, milkfish, and lobster have been exported by air to Honolulu by the Marine Export Division of Kiritimati.

2.6 *Fishing royalties* from Japan, Korea and the United States are another important source of revenue for the Government.³ In recent years these have averaged around A\$3 million per annum, and the Government expected them to soar to almost A\$12 million in 1992 before levelling off at a bit less than A\$5 million in subsequent years. A new multilateral fisheries treaty with the United

1.33 With a population growth rate of 4 percent per annum and over half the population under age fifteen, employment creation in the private sector will become an urgent part of the Government's agenda. The Government will need to concentrate its efforts on improving its human resources in order to improve its competitiveness

and to ensure a comfortable level of income. This will require much effort in health and education as both the requirements of a rapidly growing population and that of improved skills for the labor force will increasingly make demands on a system constrained by declining resources.

ENDNOTES

- ¹ Although large grants from the US support a relatively high level of domestic income as measured by GDP, national income is significantly higher than domestic income. The divergence between per capita GDP and per capita GNP, averaged about one-third of GDP during 1989/90-1990/91. This difference can be attributed principally to land rents received for use of Kwajalein Atoll by the US military as well as interest income, derived principally from US-established trust funds for nuclear compensation. These relatively high per capita incomes, however, probably overstate living standards quite significantly.
- ² Statistical analysis shows a high degree of correlation between the US CPI and the Majuro CPI between 1980 and 1992, in excess of 95 percent.

to the introduction of long-line fishing. As a general proposition, Kiribati should proceed very cautiously in the introduction of new technology (or in attempting to penetrate new markets, see below)—even if the equipment is being provided on a grant basis to avoid repetition of past experiences. Before accepting new equipment, the Government should begin by leasing comparable equipment to test whether the desired gains in productivity are going to materialize.

2.12 *Breaking into New Markets.* As noted, Kiribati's remoteness represents a significant—but not impenetrable—barrier to market development. As a first step, it is vital that regular, reliable air service be established between supply sources (Tarawa and Kiritimati) and a prime market, which should be Honolulu in the first instance.⁷ The current one-flight-a-week Air Nauru service to Honolulu is definitely at the lower end of acceptability. It would be highly desirable to introduce a second flight per week, perhaps as a chartered flight initially, if sufficient export volume can be developed. As experience is gained, it may be possible to expand into the Japanese and U.S. west coast markets.

2.13 As for new product lines, higher-valued items—such as lobster and slope-reef fish—appear desirable. Other products with promise would include shark fins, sea cucumbers, and pearl farming, with the primary problem in all cases being the need to get sales up to a level that overcomes high transportation costs. The best guide to success in this regard is likely to be Kiribati's own recent break-throughs in the export of seaweed and aquarium fish, which offer potential for further expansion. However, regional experience suggests that future centers for commercial fish production should emphasize drying, salting, smoking, and the export of live lobsters. Dependence should be reduced on cold storage, which is expensive and under-utilized.

2.14 *EEZ Licensing Arrangements.* It is widely acknowledged that strengthening the enforcement of EEZ licensing arrangements represents a major problem in South Pacific countries' securing maximum benefit from their fisheries resources. To strengthen licensing arrangements, it is in Kiribati's interest to conduct negotiations on a multilateral basis through the Forum Fisheries Agency, (for example, along the lines of the agreement with the United States) to improve the individual country's negotiating power.⁸

2.15 Concerning enforcement, it may be possible for greater gains along the lines that are

currently being pursued in the region, that is, through the introduction of transponders into foreign vessels and through aircraft surveillance. In particular, there appears to be more room for relying upon adverse publicity to dissuade violators from re-entering the EEZ; confirmed sightings of unlicensed vessels in the EEZ should be reported to the FFA for placement on a regional black-list; legal systems should be explored to allow action against offenders without confiscation of equipment and catch; and an incentive framework could be developed to encourage legal fishermen to report illegal activities. Ultimately, however, it will probably be necessary for Kiribati to become more aggressive in enforcement. Looking ahead to this day, the Government should be thinking in terms of enforcement based on the following principles:

- (a) multilateral cost-sharing;
- (b) random spot-checks using satellite surveillance in conjunction with transponders;
- (c) high-speed interception equipment, such as fast patrol craft or long-range helicopters with boarding capacity; and
- (d) stiff fines and confiscation of equipment and catch.

2.16 Certainly there would be sizable up-front costs with such an approach. But costs could be expected to drop-off dramatically, once credible enforceability were seen to be established.

C. TOURISM

2.17 *Sectoral Characteristics.* Tourism in Kiribati is at an early stage of development, with virtually all arrivals accounted for by two locations, Tarawa and Kiritimati Island. In the case of Tarawa, a few thousand visitors arrive each year, mostly from Australia, Fiji and Nauru. Visitors to Kiritimati Island number several hundred annually, almost all from the United States and Japan. The average length of stay is relatively long, typically averaging almost two weeks, and there is relatively little seasonal variation in numbers of arrivals. Apart from the very occasional cruise ship, all visitors arrive by air. The country is presently served 6 times per week by two international airlines from Honolulu, Fiji (one flight via Tuvalu), Nauru, and the Marshall Islands. The two international airports can accommodate jet aircraft, but not to full ICAO standards.⁹

2.18 After peaking at almost 4,000 in 1987, tourist arrivals have been on a downward trend in recent years, to less than 2,500 in 1991. The main drop-off has been in holiday traffic to Kiritimati, mainly as a result of the termination of a weekly air service by Aloha Airlines of Hawaii between Honolulu and Kiritimati; business and recreation traffic to Tarawa have increased a little in the past five years. In June of 1992, weekly service to Honolulu resumed, by Air Nauru which also flies once a week to Fiji and twice a week to Nauru. Inter-island air service is provided by the government-owned Air Tungaru.

2.19 *Sectoral Constraints.* Kiribati is considered to be an isolated destination, lacking in tourist infrastructure and amenities, with one main tourist hotel in Tarawa and one in Kiritimati (both government-owned). Air access is poor; routing is erratic; and obtaining accurate flight information can be difficult. There has been a lack of adequate marketing of Kiribati, resulting in the destination having no particular image in the market. Indeed, government policy has been a constraint, insofar as it has stressed "controlled development", apparently to maintain domestic control over tourism development and, understandably, to preserve the traditional way of life.

2.20 *Strategy for Development.* The most essential element to tourism development is a serious commitment by national and local governments to attract and assist private sector investments in the sector.¹⁰ Beyond this, the strategy should be to develop an effective demand for tourism, drawing a sharp distinction between Kiritimati and Tarawa. For Kiritimati, several specialty markets exist in addition to the sports fishermen who already frequent the island. All of these offer an opportunity to capitalize on the island's remoteness and other natural attributes; for example, birdwatchers and other naturalists, divers, eco- and culture-tourists could be drawn to the island, which is reasonably accessible from Honolulu. However, for many of these visitors, one flight per week would represent a deterrent as it forces a more extended stay than might be desired. Consequently, a second flight each week, or greater use of charter flights, would be desirable.

2.21 In the case of Tarawa, the immediate target market should be World War II veterans—from both sides of the conflict—with an ideal window of opportunity in 1993 which is the 50th anniversary of the Battle of Tarawa. Side trips to visit war relics on other islands could broaden the scope of such visits. Culture-tourists

are another possibility for Tarawa, as are Pacific cruise ships. None of these markets is large, but neither are Kiribati's present needs, and all provide an opening for the country to break into the highly competitive international tourism business. It should be noted that, in all cases, a significant clean-up campaign will be needed to address pollution in Tarawa's lagoon and solid waste disposal.

D. AGRICULTURE

2.22 *Sectoral Characteristics.* Agricultural activity accounts for only about 10 percent of GDP. It provides half of merchandise exports (in the form of copra) and a livelihood for a large proportion of the active labor force. Apart from copra, which is the only cash crop for much of the population in the outer islands, the main products are essentially for subsistence:¹¹ rootcrops (taro and sweet potatoes); tropical fruits (bananas, papayas, pandanus, limes, and breadfruit); and small livestock (consisting of pigs, chickens, and goats, the latter having been introduced recently). The Government has an active agricultural research program that aims at adapting recent advances to local conditions.

2.23 *Sectoral Constraints.* Kiribati faces many constraints in trying to develop an agricultural sector. Prominent among these are an exceedingly small land mass, poor sandy soil with a high coral content, erratic rainfall, high salinity brought on by sea spray and a shallow fresh-water lens (see the environmental discussion in Chapter 6), periodic pest infestations, senescence of coconut palms, small local markets, and limited transportation links to the outer islands and export markets.

2.24 *Strategy for Development.* The Government needs to approach development of its agricultural sector from several directions, more or less concurrently. Concerning coconuts, which are likely to remain the only significant source of cash for a large portion of the population for some time,¹² certain steps need to be taken to increase productivity (which is low by international standards) and to improve producer incentives:

- (a) the Island Council tax on copra (of A\$20 per metric ton or roughly 10 percent of world prices in 1991) should be removed;
- (b) STABEX funds (which are currently used to finance price support)¹³ should be directed more to the eventual development of alternative productive

activities on the outer islands (for example, production of seaweed and tropical aquarium fish);

- (c) secure tenure should be provided to copra clusters in the Line islands;
- (d) re-planting of the aging treestock should emphasize new hybrid seedlings and greater use of local skills and experience;¹⁴
- (e) transport links to the outer island need to be improved by adopting a more commercial approach to domestic shipping and port operations (see Chapter 4); and
- (f) monocropping should be reduced (see the environmental discussion in Chapter 6).

2.25 For other crops, transportation links also need to be improved, but in general, a different set of measures is needed, including:

- (a) commercialization of livestock and vegetable farming should be pursued as a means to expand cash incomes and speed import replacement;
- (b) the activities of certain NGOs, which are trying to introduce vegetables into the local diet (see Chapter 5), need to be expanded;¹⁵
- (c) nucleus units should be established to supply surrounding islands with better breeding livestock on a rotating basis;
- (d) Island Councils that cannot look after their breeding stock effectively should not be supported with loans;
- (e) programs of pest control (against the taro beetle, which attacks banana trees, mealy bug, and scale insects on breadfruit) need expansion;
- (f) more structure should be incorporated in recommendations of the Sustainable System of Food Crop Production for the Atolls project by significantly reducing the number of recommended species (presently at 45, which is a confusingly large number) or by specializing recommendations by groups of islands;
- (g) nurseries should operate on a more commercial basis;

- (h) a distribution system for vegetable seeds should be developed without government funding, preferably through cooperatives;
- (i) skills of local staff need to be upgraded, including those of highly technical fields, such as veterinarians and entomologists; and
- (j) there should be wider distribution of *local-language* information to improve cultivation of crops and livestock.

E. OTHER

2.26 *Minerals.* Kiribati has proven deposits of sea-bed manganese nodules and cobalt crusts, residual deposits of phosphate on Banaba Island, and a limited amount of coral mining.¹⁶ However, exploitation of the manganese and residual phosphates is not financially viable at current levels of world prices for these minerals. Kiribati's strategy should be to leave decisions regarding the timing of development of these resources in the hands of private sector companies with interests in development. In the meantime, the Government should encourage exploration, monitor developments in ocean mining, and—looking further ahead—concentrate on developing its own capacity to negotiate agreements with private companies.

2.27 *Overseas Employment.* As noted in Chapter 1, overseas employment is important to the Kiribati economy. Taken together, crewmen on foreign ships and phosphate miners in Nauru represent around 15 percent of total formal employment. Prospects are dim for phosphate mining, as the deposit is nearing depletion and employment has been on the decline for several years. However, crews working abroad represent a potential growth industry that deserves support in the form of increased financial support to the Marine Training Centre (MTC) in Tarawa (see Chapter 5). The Government should also be mindful of the possibility of this group's being the medium for the introduction of the AIDS virus to Kiribati. It would be very important to concentrate the distribution of educational information on this group.

2.28 *Manufacturing.* At present, Kiribati's manufacturing base is minimal, amounting to about 2 percent of GDP and mainly comprising boat building, handicrafts, cement/coral block-making, bakeries, coconut timber sawmill, and garments. Most of these are owned by the Government as

public enterprises or as divisions of ministries. Plans for developing a manufacturing industry in Kiribati should remain modest. Nevertheless, there are a few areas that offer significant possibilities, for example: downstream processing of local raw materials (copra cakes as feed for pigs and poultry); the sale of locally-produced and -packaged coconut soap as souvenirs to tourists; and the export of handicrafts, mainly to Honolulu. The short-term key to development of such possibilities is early

implementation of the government's program of privatization, which will open the door to private sector-led exploitation of such niche markets. Over the medium-term, the strategy for development of manufacturing should center upon the measures described in Chapters 3 and 5 to promote private sector development and to increase the availability of individuals with the appropriate mix of entrepreneurial, management, and technical skills.

ENDNOTES

- 1 In the outer islands, fish consumption per capita is estimated at 1.3 kg per day, among the highest in the world.
- 2 As of mid-1992, the refrigerator ship was being leased to a third party at the rate of \$1,250 per day, and was operating outside the Kiribati EEZ.
- 3 An agreement with the USSR lapsed in 1987.
- 4 An agreement was signed with Taiwan in late 1992.
- 5 A tuna cannery study, financed by the Commonwealth Fund for Technical Cooperation, is planned for the second half of 1992. Without a large increase in tuna prices, it is very doubtful that a cannery in Tarawa would be viable, particularly in view of other canneries that are already under consideration in the region.
- 6 Labor costs do not seem excessive. In addition, boat crews are contracted according to the time actually spent fishing, and salaries are already structured according to an incentive system (in a typical month, 50% is basic salary, 50% is bonus based on catch).
- 7 Shipment by air of iced tuna, which offers the possibility of a high return, is risky in that such shipments are extremely time-sensitive. In particular, aircraft delays can lead to spoilage of an entire shipment and to loss of reputation as a reliable supplier.
- 8 As a back-up position, Kiribati might consider requiring foreign vessels to register in Kiribati, and then allow those vessels fishing rights.
- 9 The airport in Tarawa was scheduled to be up-graded in late 1992 to full ICAO standards for B737 aircraft, with financing provided in part by the Chinese Government. This work was underway in early 1993.
- 10 It should be noted that large-scale developments are not necessary to achieve this end. Indeed, in view of Kiribati's assets and interest in preserving local culture, small- and medium-scale projects are more appropriate. Nevertheless, even small-scale projects in the outer islands will be dependent upon foreign capital and a supportive local government.
- 11 A small amount is marketed locally or sold directly to a few hotels and restaurants.
- 12 As in most of the South Pacific, the coconut tree is a cornerstone of the local economy. Traditionally, the sale of copra has been the main source of cash income to a large proportion of the population. But this is only one of several products of this life-giving tree: wood for construction; palm leaves for matting, clothing and construction; tasty, sterile drinking water from young nuts; and a traditional beverage made from the sap.
- 13 All copra is purchased by the Kiribati Copra Cooperative Society (KCCS) from the regional copra cooperatives. KCCS is in a strong financial position, capable of maintaining 1991 subsidies for another 5-10 years, owing to large surpluses that were built up during the 1980s.
- 14 For trees that are maturing but not senile, it may be possible to increase the use of manganese and potassium fertilizer. However, this option needs further research as the use of these fertilizers may be hazardous to Kiribati's fragile fresh water supply.
- 15 Two NGOs (Foundation for the People of the South Pacific and Save the Children) are currently active in this area in Kiribati.
- 16 The coral is crushed, mixed with imported cement and shaped into blocks for use in construction.

3: Private Sector Development

A. INTRODUCTION: PROFILE AND ISSUES

3.1 The private sector of the Kiribati economy is at an embryonic stage of development. It mainly comprises a large rural subsistence sector, a small amount of tourist development on Kiritimati Island, some transportation companies, and several small retail stores and cooperatives, mainly on Tarawa. Virtually all other commercial operations are conducted by divisions of government ministries or by public corporations.

3.2 Despite its embryonic state, the burden of sectoral development (as described in Chapter 2) will need to be carried mainly by the private sector for three reasons: (a) government resources are overstretched and cannot provide jobs as they did in the years immediately after independence; (b) scarce government resources are required to expand the provision of basic public goods and services, especially health, education, and transportation in the outer islands; and (c) worldwide experience suggests that the private sector would be more productive than the government in stimulating growth in commercial activities.

3.3 The policies needed to nurture development of a private sector in Kiribati are, however, unusual owing to the early state of development of Kiribati's private sector. Foremost among these is the necessity to implement—at an early stage—the Government's policy of privatization and commercialization to create the basis for a private sector. Beyond this, key elements include: (a) continued maintenance of a stable macroeconomic environment to stimulate private savings and investment; (b) improvements in the tax, trade, and regulatory systems; (c) improved infrastructure; and (d) the development of financial markets and other supporting policies to facilitate private savings and investment.

B. BUSINESS ENVIRONMENT

3.4 *Stability of the Environment.* Kiribati has established a strong tradition of financial stability, based upon fiscal restraint and relatively large amounts of foreign assistance. Inflation has been kept under control; external balance has been maintained; the value of the RERF has increased significantly in real terms; and external debt has been strictly avoided. These successes have gone far towards laying the groundwork for a sound business environment, despite difficult external circumstances.

3.5 *Competitiveness.* Judged on the basis of the standard macroeconomic indicators, Kiribati's competitiveness has remained roughly unchanged in the past six years after a large improvement (roughly 30 percent) that stemmed mainly from depreciation of the Australian versus the US dollar (see Figure 1.3). Viewed from the perspective of key selected costs, Kiribati appears to be relatively competitive as regards the cost of skilled and unskilled labor. Also, some ancillary costs such as telecommunications are low by international standards. However, the cost of electricity is exceptionally high, due in part to lack of economies of scale, which places an additional burden on companies (such as fish exporters or tourism) that make extensive use of refrigeration or air conditioning units.

3.6 *Foreign Investment Policy.* As a matter of official policy, foreign investment is generally encouraged in Kiribati. As stipulated in the Foreign Investment Act of 1985, investors who wish to establish an enterprise must make application to the Foreign Investment Commission (FIC), which is chaired by the Secretary for Commerce, Industry and Employment.¹ The other members are the Secretaries of Foreign Affairs,

Natural Resources, Finance and Planning, and Home Affairs, and the Attorney General.

3.7 The granting of licenses by the FIC is on an ad hoc, case-by-case basis. There is no investment code, no published guidelines for submissions to the FIC, and no list of priority or reserved activities. Investors are required to complete a simple form and may submit whatever other information they wish. The FIC considers the information and may give the investor an opportunity to appear before it.² For investments over A\$250,000, approval must be sought from Cabinet on advice from the FIC; for investments less than that amount, the FIC may approve the investment directly. If the application is accepted, the FIC often sets performance criteria relating to employment, training of local staff, and production targets, including a timetable for implementation. To ensure compliance, the firm is expected to submit quarterly reports. In practice, there does not appear to be a formal review process to ensure that performance criteria are met or that the reports are submitted. Consequently, the FIC performs a screening function only. In particular, the FIC does not facilitate investment; firms must directly contact other departments or government agencies as necessary to undertake the investment.

3.8 Kiribati's foreign investment approval system is too heavily oriented towards negotiating terms on a case-by-case basis and insufficiently directed towards the promotion and facilitation of investment, including through becoming a "one-stop shop" for investors. There is no strong evidence that potential investors have been discouraged by the present system. However, in the interests of transparency, evenhandedness, and speed of response, the strategy for reform in this area should stress promotion, not control, beginning with the publication of a clear set of investment eligibility criteria (rules of the game) and the introduction of more automaticity into the granting of licenses. Also, the need for performance criteria should be re-assessed.

C. REGULATORY POLICY AND INCENTIVE PROGRAMS

3.9 *Trade Policy.* The trade regime of Kiribati is very simple. The tariff schedule is based on the Harmonized System, but with tariffs charged on FOB rather than CIF, as is the standard international practice.³ Excepting the Freight Levy discussed below, there are no stamp duties or other border taxes other than the tariff. Tariff rates run from 0 to 80 percent,⁴ with rates rising roughly in

line with the degree of processing. Exemptions from import tariffs are specified in the Tariff Act and include:

- Fishing gear
- Imports by the government and armed forces
- Imports for the mining industry, agriculture or forestry
- Personal effects for expatriates on contract
- Religious materials
- Health and safety equipment
- Foreign aid related imports

3.10 The exemptions for government do not extend to public enterprises engaged in trading, which pay tariffs on the same basis as private operations. However, equipment and supplies for government operations and public enterprises outside of trading do not pay tariffs; consequently, there are distortions favoring public enterprises and favoring imports over domestic sources for procurement. Requests for exemption are directed to the Chief Customs Officer, who makes a recommendation to the Minister of Finance; he can accept the recommendation or overrule it.

3.11 There are essentially no non-tariff barriers in Kiribati. There are minor restrictions relating to firearms and legitimate health and safety concerns, but there are no import bans or quotas, and import licenses are not required.⁵ As noted earlier, currency is the Australian dollar, and there are no restrictions on imports via currency control.

3.12 The overall structure of the trade regime has the effect of offering protection to a handful of enterprises in the very limited industrial sector. Nominal protection rates range from 50 to 80 percent for enterprises making biscuits, garments, metal goods (buckets, tubs, pails, water tanks), metal chairs and soap. In some instances the tariff protection extends to a wider class of goods than is actually produced locally. For instance, tariff rates for biscuits and for garments are generally high although the specific product lines offered by the local firms are very narrow.

3.13 Imported goods bear a Freight Levy which is used to subsidize transportation among the islands of Kiribati. The subsidy is intended to equalize the prices of imported goods throughout the islands and might be viewed as compensating the outer islands for the use of public resources to establish the country's only major port in South Tarawa. The subsidy applies only to transport of imported goods plus domestically produced food (to promote food self-sufficiency). The subsidies are

set at scheduled rates per ton for each island and are paid to importers regardless of whether they use the state shipping company or private carriers. The subsidy is said to be slightly less than enough to cover actual shipping costs for the more distant islands. (Advisable policy changes to the tariff system are discussed under Fiscal Reform in Chapter 4.)

3.14 Tax Policy. The personal income tax system has gone through a number of revisions since the original act was introduced in 1990.⁶ As a general principal, the personal income tax structure should be kept simple to ease administration and compliance. It appears that the Government is contemplating introduction of a new set of rates for next taxation year: 25 percent up to A\$15,000; 30 percent between A\$15,000 and A\$50,000; and 35 percent beyond A\$50,000. This would be moderately progressive and less complicated to understand and administer, as well as being relatively well coordinated with the system of corporate and withholding taxes.

3.15 Corporate taxes have a structure similar to that for personal income taxes—25 percent for taxable income up to A\$50,000 and 35 percent beyond. Non-resident corporations and individuals are subject to a 30 percent withholding tax on Kiribati-source income, dividends and profits, but repatriated capital is not subject to tax. Kiribati has signed a tax treaty with Australia and has attempted to tax the supplementary allowances paid by the Australian government to expatriate aid workers in Kiribati, a matter that has led to some controversy between the countries. This issue, which needs to be resolved, is currently under discussion between the two Governments. (See the discussion concerning Fiscal Reform in Chapter 4 for desirable policy changes in the area of tax policy).

3.16 Price Controls. Kiribati has price controls covering flour, rice, raw sugar, tobacco, corned beef, toilet rolls, mosquito netting, exercise books, bar soap, benzine, and kerosene (the list differs from month-to-month).⁷ Retail prices in Tarawa are lower than the current price controls, suggesting that the controls are not binding at present. As of mid-1992, all the goods were available in shops in South Tarawa, and there was no indication of recent shortages. Considering the ineffective nature of its price controls, the Government should scale-back its involvement in this area, to a small group of commodities.⁸

3.17 Incentive Programs. The Government administers some incentive programs. First, Pioneer Status may be granted to firms establishing

new enterprises in Kiribati.⁹ These firms may be allowed to pay a reduced 10 percent rate of income tax for a period of five years. The applications for this incentive are judged by the Internal Revenue Board (IRB) which consists of the Secretary and Deputy Secretary of Finance, the Chief Planning Officer, the Under Secretary of the PSD, the Secretary of Commerce, Industry and Employment, the Chief Customs Officer, and the Inspector of Taxes. The IRB makes recommendations to Cabinet which makes the final decision. To encourage the development of the outer islands, from November 1992, Pioneer Firms extending their operations outside of South Tarawa and Christmas Island will be granted another 5-year tax holiday.

3.18 The Companies Ordinance, Chapter 78, provides for the licensing of "protected industries", and investment promotion literature makes reference to protected industry status. However, there do not appear to be any firms holding "protected industry" status, and awareness among government officials of this ordinance, which dates back to the colonial period, is low. The ordinance does not specify the types of protection to be offered, but it does allow for the setting of maximum prices for goods produced by such industries.

3.19 In practice, protection for domestic industries is granted on an ad hoc basis without reference to the provisions of the Companies Ordinance. Government has interests in several of the enterprises in the tiny industrial sector via loans and equity positions held by the BOK (of which the government is a shareholder) and through the DBK. In this sense the government is in the position of offering protection to itself. For example, protective tariffs have been instituted for fish products and garments. Also, protection for egg producers was instituted and persists despite the virtual disappearance of the industry.

3.20 While the range of existing and potential industrial activities in Kiribati is not great, it would be advisable to settle on a more systematic approach to dealing with requests for protection. This could be done through an overhaul of the Protected Industries Ordinance, supported by the publication of clear rules and guidelines. The tariff system is about to undergo some administrative changes. Once these are implemented and the switch over from FOB to CIF is made, there should be a rationalization of tariffs, the institution of sunset rules for temporary protection for new industries, and the establishment of some standard (and fairly narrow) criteria for granting protection.

These steps should be integrated with the process under which Pioneer Industry status is granted.

3.21 Land Policy. Kiribati's land tenure system represents a significant impediment to private sector development, especially for foreign investors who are not allowed to own land in the country. The procedures by which a foreigner can obtain access to land by lease are not, in themselves, overly complicated.¹⁰ However, complications can arise in several important ways. For example, in the Gilbert Islands,¹¹ most land is owned communally by family and, while the Government will assist the investor in locating the landowners, it is the investor's responsibility to negotiate directly with the local landowners.¹² Such negotiations can become quite extended, particularly if land boundaries are under dispute among landowners.¹³ As a further complicating factor, there appears to be considerable variation among Island Councils concerning policies related to land use and administration.

3.22 In the case of an I-Kiribati who wishes to buy land, special problems arise. Understandably, boundary disputes become more serious when ownership is involved. However, in addition, there are certain legislative restrictions on the sale of land by landowners. Namely, the courts have the power to overturn any sale of land if, in the judgement of the court, insufficient land will remain for the sons and daughters of the seller. Also, the Government is presently unwilling to sell or lease to I-Kiribati on Kiritimati Island.

3.23 To ease these constraints, the Government's long-term strategy should be to eliminate the backlog of court disputes and to survey all rural lands with the objective of eliminating ownership disputes. In this process, priority should be accorded those lands that are most likely to be put to productive economic use. At the same time, joint venture enterprises should be encouraged whereby the local partner's contribution would be access to land. Moreover, the Government needs to establish a policy regarding the sale and lease of government land to I-Kiribati; the policy should favor sale or lease of those lands likely to be put to productive economic use.

3.24 Policy Coordination. As a more general proposition relating to the various topics discussed above, there is a need for integration of the systems for tariff protection, tax concessions (under the Pioneer Status), investment licensing, land access, and other areas of investor-government negotiation. These issues are currently handled by separate government agencies in an ad hoc manner. As

steps to address this general problem, an Investment Code should be developed, and a single government agency designated to implement its provisions.

3.25 Transportation Policy.¹⁴ The geography of Kiribati requires an efficient transportation network to support the country's development. The Government has recognized this need in its development planning and in its policy of privatization, which includes major holdings in the transport sector. It should also be noted that the private sector plays an important role in this sector. It is responsible for bus services on Tarawa and for land freight services (operations outside Tarawa are minimal and informal).

3.26 In a recent decision to spur the key maritime subsector, the Government has separated the Shipping and Ports Division of the Shipping Corporation of Kiribati. The new arrangement is expected to provide a better basis for competition because it forces a more commercial approach to the provision of shipping services by excluding the option of cross-subsidizing shipping from port activities. In port operations, the Port Authority needs to meet its legally-set commercial objectives in the setting of charges and in its operation. Maintenance, repair, and dredging of the port are also in need of urgent attention.

3.27 With regard to the aviation subsector, the Government is proceeding to upgrade the Tarawa and Kiritimati airports to improve air links. The immediate financial viability of these projects is doubtful, but they are virtually a pre-condition for progress in other sectors of the economy (see Chapter 2). A priority of government is to provide improved domestic air service to increase national cohesion, notwithstanding that direct financial viability is unlikely.

3.28 On land transport, there is limited need for new roads, and maintenance is not a central issue. However, road safety is an emerging problem in Tarawa, and operation of the Plant and Vehicle Unit should be privatized or placed on a fully commercial basis (see Chapter 4). Along similar lines, more maintenance operations of the Department of Public Works should be tendered to private contractors.

D. FINANCIAL SYSTEM

3.29 There are three sources of long-term finance in Kiribati: the Bank of Kiribati (BOK),¹⁵ the Development Bank of Kiribati (DBK), and the Kiribati Provident Fund (KPF). The BOK is the

sole commercial bank in Kiribati; it is free to set all interest rates and to make loans as it wishes, although the Government may influence bank policy through the Bank's Board of Directors. As of September 1991, BOK's assets totalled A\$37 million, of which A\$28.5 million was held overseas as term deposits; only A\$3.9 million was in the form of domestic loans and advances. Like the BOK, the KPF, operating since 1 July 1977, holds the bulk of its assets abroad, mainly in long-term bonds, equities, mortgages and real estate. The KPF is financed by a compulsory superannuation scheme to which all formal sector employees are required to contribute 5 percent of their wages and salaries, with an equivalent contribution by employers.

3.30 The DBK was established in 1987,¹⁶ and currently has total assets of some A\$2.5 million; most are loans for small businesses, especially fishing vessels and buses.¹⁷ In principle, loan procedures involve a project evaluation by DBK staff and a credit check. In addition, there is a requirement for 20 percent of the investor's own capital and 150 percent collateral. Non-performing assets have increased sharply recently, from 25 to 35 percent of the Bank's portfolio.

3.31 The main impediments to domestic lending are a dearth of bankable projects and weaknesses in the local legal, land tenure and accounting systems. As outlined above, there are restrictions on the transfer of land and on freehold land as collateral for securing loans that effectively disallow land as loan collateral.¹⁸ In addition, the lack of established financial houses and presence of only one accredited accountant in the country means that records for most businesses are inadequate. As a consequence, most of BOK's domestic loans are to state enterprises with a government guarantee.

3.32 The strategy for development of Kiribati's financial sector should focus upon nurturing an effective domestic demand for credit. This, in turn,

depends upon the development of a private sector with the capacity to identify and undertake creditworthy projects. Consequently, the early implementation of all steps noted elsewhere in this Chapter would constitute movement in the right direction. Beyond this, many of the steps that need to be taken are administrative and institution-specific. For example, in the case of the DBK, portfolio re-structuring is clearly in order, together with a significant strengthening of the institution's management skills, development of effective loan appraisal, and greater regulatory supervision. All of these will probably involve sizable amounts of long-term external technical assistance. The portfolio and management situations at the KPF are less serious, mainly as a result of the great bulk of the Fund's assets being placed abroad. However, certain changes would also be useful at the KPF: current interest rates paid by the Fund are exceedingly high by international standards (13½ percent in mid-1992), and should be brought back more in line with international yields; actuarial reports need to be done on a more regular basis (the last was completed in 1985); records of the Fund need to be computerized; and the Fund needs to look ahead to the day when it will be a significant source of domestic investment capital.

3.33 On the side of the supply of credit, measures could be taken to encourage savings, especially as regards offering alternatives to the "bubuti" system, which enables I-Kiribati to lay claim on the resources of working (extended-) family members. One promising possibility in this regard would be payroll savings schemes; savings could be deducted at source and placed in time deposits with withdrawal restrictions, thereby insulating the working/saving individual from the bubuti claims.

ENDNOTES

- ¹ Domestic investors must also register their companies. They pay an A\$250 registration fee and buy a license that costs roughly A\$60, depending on the particular line of business. Changes or expansion of the business also require a license. However, these processes are essentially automatic and do not appear to represent a barrier to investment.
- ² The FIC meets monthly and usually considers one or two applications. The decision turnaround is roughly two months.
- ³ A shift to the CIF is planned for January 1, 1993.
- ⁴ There are 12 rates: 0, 10, 15, 20, 25, 30, 35, 40, 50, 60, 75 and 80.
- ⁵ Kiribati has a quota for sugar from Fiji, but this is a collective purchasing arrangement in which public and private importers coordinate for purposes of negotiating with the Government of Fiji.
- ⁶ That act specified four rates of tax: 10 percent for \$0 - \$1,000 taxable income, 20 percent for A\$1,001 - A\$3,000, 30 percent for A\$3,001 - A\$6,000, and 35 percent over A\$6,000. However these rates were out of alignment with those of the corporate tax and the system was modified to two rates—25 percent on income up to A\$50,000 and 35 percent above A\$50,000. In addition, income up to A\$1,616 was exempted from tax and a rebate of 7.5 cents per dollar was instituted for income up to A\$7,000. A tax credit of A\$525, reduced by 7.5 cents per dollar between A\$1,616 and A\$7,000, has been discussed as a means of smoothing the tax payable in the lower ranges. However, this arrangement would effectively create a 32.5 percent marginal tax rate between A\$1,616 and A\$7,000, after which the rate would fall to 25 percent, and is therefore regressive in that range. By early 1993, this anomaly in the tax rates had been corrected, and the proposal noted in the main text had been adopted, including an exemption up to A\$1,800.
- ⁷ It is curious that many price controls in Kiribati are brand-specific (for example, only one brand of soap, toilet paper, and corned beef is controlled). In view of the large number of brands of these items, it is very doubtful that these controls are effective. It should also be noted that, if effective, the controls would substitute artificially cheap, unhealthy substitutes (raw sugar, tobacco and corned beef) for locally produced foods. This would add to nutritional problems and health care costs while stifling the most active private sector activities in the country, agriculture and fishing.
- ⁸ The price samples were all taken on the main island, and it is possible that the situation may be different in the outer islands. The freight levy should, however, tend to equalize prices throughout the country. The only exception might be in tiny islands with intermittent supply connections where hoarding and monopoly pricing might be a problem.
- ⁹ Currently, there are four "pioneer" firms.
- ¹⁰ Neither does the length of lease (which is usually between 21 and 99 years) appear to be a problem.
- ¹¹ In the Line and Phoenix Islands most land is owned by the Government; in the case of Kiritimati, all the land area is owned by the Government. In these cases, local landowners are not involved, making procedures relatively simple.
- ¹² Landowners will typically designate a trustee, who will negotiate on their behalf, in consultation with the landowners.

- ¹³ Outside South Tarawa, land boundaries are usually under dispute, and there is a long backlog of court cases on land disputes waiting to be resolved. In addition, a shortage of local judges has resulted in foreign judges being used to hear cases, a procedure that apparently leads to uneven court decisions. In South Tarawa, land boundaries are well-defined; in this region, the investor's problem is more a matter of availability of land, which is in short supply due to heavy population pressures.
- ¹⁴ The World Bank has just completed a major study of the Pacific Islands transport sector (Report No. 10543-EAP, 1993) including Kiribati. Many of the issues summarized in the main text are discussed in detail in that study.
- ¹⁵ This is a joint venture between a major private Australian bank (which holds a 51 percent share) and the Government of Kiribati, which holds the remaining shares. The Board of Directors consists of a Chairman and the General Manager, who are Australian, and two I-Kiribati, currently the Minister of Finance and the Attorney General.
- ¹⁶ DBK assumed the portfolio of the National Loan Board, which consisted of equity investments and loans totalling A\$1.6 million in three subsidiaries: Abamajoro Trading Company, Atoll Marine Motor Supply, and the Otintaai Hotel. Since 1986, policy has been to divest these assets, but no sales have taken place as yet.
- ¹⁷ DBK had also been making personal loans secured against government wages, but this practice has been stopped by the Attorney General, an action that is to be commended.
- ¹⁸ The BOK will also hold a bill of sale as collateral, but there are limits to this as a form of security because the pace of deterioration of the goods tends to exceed the amortization of the loan.

4: Improving Public Sector Management

A. INTRODUCTION: SCOPE OF ACTIVITIES

4.1 Operations of the Kiribati public sector reach deep into all sectors of the formal economy. Government staff number some 2350 persons (another 400 or more positions are vacant), which by international standards is only moderately high relative to the population of the country. However, direct public administration accounts for almost 20 percent of total cash employment, and the Government currently operates and/or owns virtually all of the larger enterprises in the economy including key utilities through the Public Utilities Board (PUB). Public administration has been the only source of significant employment growth (roughly 5 percent per year) since independence. This widespread public sector involvement in economic activities was originally occasioned by a dire shortage of skills, capital, and management experience in the private sector at the time of independence in 1979. Since then, the Government has been slow to shed its commercial activities, despite an announced policy of divestiture since as early as 1987.

4.2 Notwithstanding this large presence of the public sector in the Kiribati economy, there are important sectors of the economy that have not been sufficiently well served by the government apparatus, for example, health and education (see Chapter 5) and inter-island transportation. Expansion of these services will be vital in the coming years, thereby placing the Government firmly between constraints of limited resources and the need to expand services.

B. ISSUES RELATED TO PUBLIC ENTERPRISES

4.3 As was just noted, public sector enterprises (or commercial arms of government depart-

ments) operate in essentially all sectors of the economy, including wholesale and retail trade, printing, food manufacture, shipping, airways, fuel supply, ownership of residential housing, banking, insurance, hotel accommodation, telecommunications, fishing, and seaweed harvesting. In total, thirty-seven government operations are estimated to have been established for such purposes.

4.4 In recognition of the constraints on development resulting from extensive public sector ownership and management, the Government adopted in 1989 a policy framework that emphasized privatization of selected government-owned operations, or of the management function in those cases where private ownership was considered inappropriate. To oversee implementation, a high-level Special Committee on Privatization was established. Since then, two government corporations have been converted to limited liability companies; two government-owned companies have entered into private management arrangements; and approximately one-quarter of shares in a trading company have been sold to private investors and to one of the Island Councils.

4.5 Notwithstanding these developments, there appears to have been little real progress towards achieving objectives of privatization and commercialization.¹ Changes that were intended to promote commercialization seem to have been changes in name only, with management continuing to follow practices more akin to those of a civil service than to a commercial enterprise. Divested shares of the trading company were sold to the KPF, which only serves to change ownership among arms of the Government. Also, subsidies continue to be paid to the PUB, albeit at a much lower level than a few years ago.² In addition, there is evidence that the downstream costs of inefficient public enterprises are endangering the financial health of other companies. For example, the high cost of PUB's electricity (see Chapter 2)

has pushed up costs at TML, the fishing company, and the portfolio of the Development Bank is weak, in large part because of loans to public enterprises. Moreover, and most important, the economy continues to retain a strong public-sector character.

4.6 To regain the momentum of reform in this area, Kiribati has arranged a sizable technical assistance grant from the ADB, which will go a good distance towards restructuring this sector of the economy. However, there are certain additional steps that the Government should take in order to avoid stifling potential private sector ventures, namely:

- (a) make greater use of private contracting, for example, for public works projects (if necessary initially through use of foreign contractors), motor vehicle rentals, cleaning of the hospital, offices etc.;
- (b) eliminate the monopoly status enjoyed by several of the public sector operations (e.g., Air Tungaru, the Housing Corporation, the KIC, the Seaweed Corporation, and the Copra Cutting Scheme);
- (c) eliminate the tax-exempt status of several of the public sector operations (e.g., the Housing Corporation, the KIC, and the Plant and Vehicle Unit);
- (d) eliminate the duty-free status of several of the public sector operations (e.g., Air Tungaru, the Housing Corporation, Kiribati Shipping Services, the Export Marine Division, the Plant and Vehicle Unit, and TML);
- (e) restructure PUB's tariffs with a view to reducing cross-subsidization (profits in electricity subsidize water and sewage operations) and setting changes at commercially viable levels;
- (f) restructure PUB's organization to strengthen management and to reduce costs;
- (g) appoint to Boards of Directors persons with a direct financial stake in the respective enterprises;
- (h) prepare up-to-date audited reports for entities;³
- (i) broaden the use of user fees (see Chapter 5); and

- (j) show greater willingness to shut down loss-making institutions permanently.

4.7 It is important that these steps be taken at an early stage before inefficiencies in the operations become further entrenched. Undue delay will be more costly, requiring more drastic adjustments in terms of employment, wages, and the provision of services. Early implementation seems likely to require long-term, on-site technical assistance; the donor community should give high priority to funding this type of assistance.

C. CIVIL SERVICE REFORM

4.8 A well-functioning civil service is a vital component of any country's development strategy. In the specific case of Kiribati, there will be particularly strong pressures to improve the functioning of the civil service emanating from two directions. On the one hand, there is likely to be significant financial pressure to contain growth in the number of civil servants and to reduce further real wages, particularly if the Government wishes to improve the salary structure (see immediately below) and to gain more control over its public investment plan by increasing transfers from the recurrent budget. On the other hand, there will be legitimate needs to improve the delivery of highly labor-intensive public services—for example, in the areas of education, health care, and transportation services, especially to the outer islands.

4.9 *Salary Structure.* At the present time, Kiribati exhibits unmistakable signs of a salary structure that makes insufficient allowance for remuneration of skills that are in short supply. In particular, specialized staff (such as certain health workers) are being lost to neighboring countries, and returnees from costly post-secondary overseas training cannot be retained at present salary scales, despite a bonding arrangement (these issues are discussed further in Chapter 5). Salary scales are tightly compressed, and there is little financial return to promotion or experience.

4.10 *Decentralization.* Following a period of strong federalism during the years immediately after independence, Kiribati decentralized power in a significant way in 1984 when four District Centers were replaced by a system of nineteen Island Councils.⁴ After about two years, the process of decentralization leveled off. During this time, a great deal of responsibility was devolved to the Councils, but in practice their limited implementation capacity (for example, see Chapter 5) has resulted in the federal government continuing

to bear most of the responsibilities through the provision of staff and support grants.⁵

4.11 Strategy for Progress. Senior officials of the Kiribati Government readily acknowledge the importance of these general issues. They are keenly aware of the challenges to be faced in molding the civil service to meet the country's needs. However, their thinking as regards solutions appears to be at a preliminary stage, and no well-defined strategy seems to be in place as yet to provide a solution for overcoming these problems.⁶ Indeed, the Government expects growth in the civil service to continue through the next 4-year Development Plan.

4.12 In addressing these issues, one approach would view the solution as calling for a smaller, better-trained civil service, staffed by persons with better technical and administrative skills to replace unskilled and semi-skilled employees. To be sure, achieving such an end would not be easy for Kiribati. However, a strategy towards this end should begin with a widespread acknowledgement that the civil service can no longer serve as the main source of new jobs in the economy. Other elements of a strategy would include:

- (a) a shift in culture of management away from the details of administration in accordance with established conditions in favor of more cost-effective operations;
- (b) strengthened and more systematic in-service training, particularly as concerns retraining, skills up-grading programs, and supervisory talents;
- (c) according higher priority to education, including local training, in public investment priorities;
- (d) a localization plan for line positions;
- (e) better provision for counterpart training in technical assistance programs;
- (f) overhaul of the salary structure to offer more variation in salaries in line with greater skills;
- (g) a cost-effective enforcement mechanism for the existing bonding system;
- (h) a career path for specialists that does not require abandonment of their professional skills;
- (i) improved training to upgrade skills of Island Councils⁷; and

- (j) firm implementation of the program of privatization to allow the Government room to withdraw from activities that are better provided by the private sector.

D. PRIORITIES FOR PUBLIC INVESTMENT

4.13 Kiribati does not have a fully articulated Public Investment Program. Instead, there is an Annual Development Budget (see Appendix Table 4.1), with a forward-looking program based on a time horizon that varies by donor.⁸ Consequently, information beyond the current year is somewhat fragmented. At the administrative level, all responsibilities and procedures related to investment projects are well-defined on a project cycle basis, including an allowance for fast-tracking of urgent projects. Despite this attention to administrative detail, there is little provision for the economic and financial evaluation of projects.

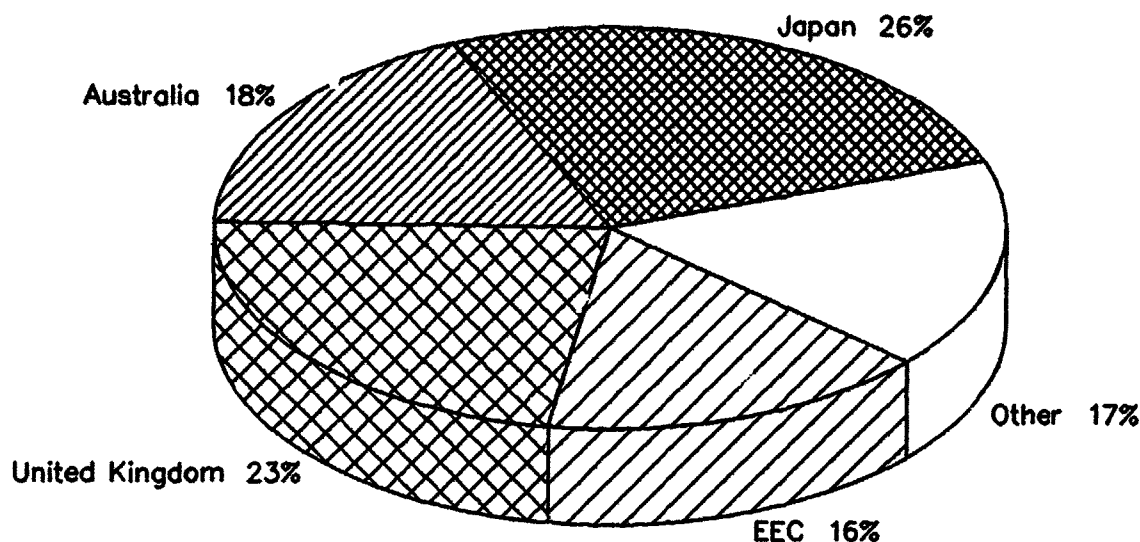
The Public Investment Program and the Aid Donor Community

4.14 As discussed in more detail in the following sub-sections, the level of Kiribati's development budget is highly dependent on external assistance.⁹ Total donor assistance over recent years is estimated to have been between 50 and 60 percent of GDP.¹⁰ Four donors currently provide around 80 percent of external assistance (see Figure 4.1 for the distribution of assistance by aid donors).

4.15 In the past, the distribution of assistance has varied significantly from year to year due to the small number of relatively large projects spread across different sectors. Over the last three years there has been a trend towards rising spending in the social services sector offset by declines in expenditure for economic infrastructure. However, the social service sectors' share of aid declined to about 20 percent in 1992 owing to completion of the hospital in Tarawa. Education (including support for overseas training) absorbs the majority of social services spending.

4.16 Expenditure on economic infrastructure has expanded rapidly over the last two years, with increased expenditure on telecommunications and construction of a multi-purpose cargo vessel. Economic infrastructure's large share of total aid, which is now about 35 percent, is expected to be maintained in the medium term as reconstruction of the Bonriki airport gets underway and programs to support development of the outer islands proceed.

Figure 4.1: KIRIBATI: MAJOR SOURCES OF EXTERNAL AID, 1991/92



Source: Bank staff estimates.

4.17 The productive sector accounts for only around 15 percent of external assistance. Over the last two years it has been mainly concentrated on development of artisanal fisheries, development of seaweed operations, and support for the development bank.

4.18 In addition to these official aid flows, Kiribati almost certainly receives sizable net inflows of assistance from the NGO community. Data are lacking in this area. Nevertheless, the presence and influence of several prominent groups, which are noted in various other sections of this report (see, for example, the discussions of Education, Health, Women's Issues and the Environment), provide indirect evidence of their important role in national development. These NGOs generally represent an underutilized resource whose strength lies in the personally committed nature of their members, who are prepared to serve in adverse circumstances in the most remote locations of the country. In addition, the successful NGOs already have in place an organization that is geared to the delivery of services at the village level. The main challenge for the Government is to better integrate this valuable resource into its scheme of development. Important means to this end would include the establishment of improved lines of communications

between the various levels of Government and the existing NGOs, as well as the extension of invitations to new NGOs that offer services presently in short supply in the country.

4.19 *Size and Composition of the Program.* Based upon the available partial information (which covers less than half of external assistance), external financing for public investment in Kiribati appears likely to stay roughly unchanged in real terms over the next few years. By recent international standards, such an outcome would be quite favorable for Kiribati. But as indicated in other parts of this report, an increase of this order of magnitude seems likely to fall short of the amount likely to be needed in order to extend even a modest level of public services to all the people of Kiribati.

4.20 *Priorities of the Program.* As presented in the President's 1991 post-election policy statement to the Parliament, priority would be accorded to rural development programs, with a view to improving living standards on the outer islands. To this end, policies to support sectoral development outside the urban areas (e.g., agriculture, fisheries, and tourism in the Line and Phoenix Islands) would be a principal focus. Emphasis would also be placed on infrastructural

development for the outer islands, especially through an expansion of rural transport, telecommunication, educational, and health services. To promote rural development further, efforts would also be made to strengthen the planning capacity of Island Councils as well as of the rural development planning unit in the Ministry of Home Affairs and Rural Development.

4.21 The composition of current and prospective capital spending has been very roughly consistent with these priorities. However, the lumpiness of certain large projects has meant that resources for particular sectors (for example, health or fisheries) tend to have their allocations concentrated in particular years and geographical locations. Consequently, there has not been the geographical spread of benefits to the outer islands that seemed to be intended by government policy. In addition, the allocations for health and education do not appear adequate to provide services to the rural population as intended (see the discussion in Chapter 5).

4.22 The Government has few options available to bring the level and composition of its investment spending more into line with national priorities. The first option that should be exploited is to ensure that all available financing from donors is being utilized. Second, the Government should increase the size of its own contribution to the investment program, preferably by holding down current expenditures and broadening the tax base. And third, the Government must improve effectiveness of its investment spending by ensuring that the composition of spending matches the national priorities and by strengthening management along the lines discussed immediately below.

4.23 *Directions for Improved Management.* Most important, Kiribati should undertake development of a Public Sector Investment Program. As a first step, the authorities could begin with a simple tractable program for the highest priority sectors of the economy, say fisheries, agriculture, health, or education. On the side of donors, there should be a major shift in emphasis away from the commissioning of expensive, time-consuming assessment studies in favor of the provision of long-term on-site technical assistance to support officials in the more difficult process of policy implementation.

4.24 Unlike most other developing countries, Kiribati receives virtually all its official assistance in the form of aid-in-kind. This unusual characteristic merits some special commentary, because aid-in-kind involves certain indirect costs

and benefits to the recipient. For example, as a benefit, the burden of administration is largely borne by the donor, which contrasts sharply with the complicated procedures concerning loan contracting with, for instance, most multilateral institutions. In addition, the country benefits in this type of arrangement because recruitment and screening of personnel are typically done by the donor, which should increase the quality of persons provided under the arrangement. On the other hand, aid-in-kind places certain responsibilities on the recipient country to ensure effectiveness. Most important, quality monitoring is needed by the country, and there should be some convenient mechanism in place to ensure that the arrangement can be ended prematurely without prejudice, if the quality of the aid-in-kind falls short of the country's expectations.

4.25 There appear to be four other significant weaknesses that need to be addressed to improve aid management in Kiribati. First, as noted elsewhere, Kiribati's development budget is overly influenced by donors, being largely a matter of matching donors' priorities in aid allocations and the Government's sectoral needs. Local contributions to the budget are very small, typically only a few percent of total development expenditures. As a matter of fundamental principle, it is vital that the Government gain more control over priority-setting by increasing its contribution to the development budget—if necessary, by drawing-down more of the interest earnings of the RERF.

4.26 The second weakness concerns what appears to be a cumbersome splintering of administration responsibilities regarding financing among Ministries. The Ministry of Finance and Economic Planning (MFEP) is responsible for the identification of funding, but the Ministry of Foreign Affairs (MFA) makes the formal request to donors. In the interest of expediting project implementation and fully utilizing available funding, there appears to be a strong case for retaining all responsibility for financing within MFEP, which would be expected to coordinate with MFA.

4.27 The third weakness to be addressed concerns screening mechanisms to ensure that approved projects are consistent with national priorities. MFEP's role in this regard should be strengthened; ministries should not be allowed to by-pass MFEP by direct submission to Cabinet, and the Planning Office must show more willingness to reject projects that are not consistent with national priorities.

4.28 Finally, as noted earlier, it appears that NGOs could be better utilized as a resource for development in Kiribati. Against the background of the churches' success in education, it seems that greater use of NGOs' services could be made, for example, in the areas of health care, women's issues, and community development.

E. STRATEGY FOR FISCAL REFORM

4.29 The Government's strategy for fiscal reform should have two key objectives: encouraging development of the private sector, and generating sufficient domestic resources to provide the Government with more leverage over its public investment program. To support the first objective, certain changes to the tax system would be useful, including:

- (a) elimination of those exemptions from import tariffs and corporate tax currently granted to public enterprises and to government departments engaged in commercial activities (see the discussion of public enterprises in Chapter 3);
- (b) for those exemptions that cannot be eliminated for social or political reasons, exemption should be extended to competing private sector operations;
- (c) removal of the tax (of 15 percent) on export of aluminum cans and other scrap

metals, as it runs counter to environmental and tourism promotion objectives; and

- (d) looking further ahead, consideration of introducing a duty drawback scheme for exporting industries.

4.30 Some of the preceding measures would serve to increase revenue, but in addition, the Government should:

- (a) increase by a sizable margin the import duty on alcoholic beverages and other health-related items, such as tobacco, sugar, and goods with a high salt content;¹¹
- (b) tax housing benefits for civil servants or phase-in substantially higher rental rates;¹²
- (c) make exemptions from import duties and other taxes less discretionary; and
- (d) convert a number of specific duties (on gasoline, rice, and alcoholic beverages) to ad valorem taxes.

4.31 There is currently no general sales tax in Kiribati. This is appropriate, considering the high share of imports (which are taxed through tariffs) in final consumption and the difficulty of taxing retail value-added in an economy of Kiribati's size and at its stage of development.

- (a) a modest aquarium fish export business which has been operating successfully out of Majuro for the last 10-15 years;
- (b) an outer-island giant clam project funded by the Government on Likiep atoll which is still in its infancy. Two other clam production projects are also ongoing, but operations are comparatively small; and
- (c) the previously unused transshipment facility on Majuro was leased under the terms of a joint venture between MIDA and a Hawaii-based company which has based five long-line fishing vessels in Majuro, in support of the operation. Fresh fish (primarily sashimi-grade bigeye and yellowfin tuna) is air-freighted to Hawaii and trans-shipped to Tokyo. Ten additional ships joined the facility in late 1992.

Tuna and Large-Scale Fishing

4.15 ***Tuna Operations.*** Tuna is the most important commercial marine resource in the RMI, forming an important part of the diet of the subsistence sector in the outer islands. Tunas are also caught by small-scale commercial fisheries and sold fresh in the urban markets of Ebeye and Majuro. These activities are important locally, but production is insignificant compared to the production of large-scale, distant-water-fishing-nation (DWFN) fleets.

4.16 Large-scale fishing operations are carried out by pole-and-line and purse-seine fleets primarily from Japan and the United States. These vessels harvest surface-dwelling tuna, the overwhelming majority of which is skipjack. Japanese vessels return to their home base to off-load their production for canning or processing as katsuobushi. American vessels deliver their catch to cannery centers or to transshipment bases for transfer to canneries. Large subsurface tunas, albacore, bigeye and yellowfin, are targeted by longline fishing vessels from Japan, Taiwan, and more recently the United States. Albacore production is transferred to canneries, while large, high-quality bigeye and yellowfin are delivered to sashimi markets in Japan and increasingly Hawaii.

Licensing Arrangements

4.17 Both the pole-and-line and longline fisheries in the Marshall Islands are dominated by the Japanese, while the US effort is concentrated in purse-seining. With the exception of the agreement governing purse-seining with the US, which was

negotiated multilaterally, fishing rights access fees are paid to the RMI under terms of bilaterally negotiated contracts with the participation of the regional Forum Fisheries Agency (FFA). Japanese access fees which averaged about US\$1 million in the mid-1980s have recently risen to about US\$1.3 million in 1991 but can be expected to decrease in 1992 because of the declining world price of tuna and the sharp drop-off in Japanese fishing effort in RMI waters. Similarly, the purse-seining access fees paid by the US have also declined from about US\$0.5 million in 1990 to US\$0.3 million in 1991.

4.18 Enforcement of fishing rights access is a difficult if not impossible undertaking, given the vastness of the Marshall Islands' EEZ and the small human and financial resources available to the Government. The Government has, however, recently stepped up its enforcement efforts in this area and is reported to have successfully taken actions against violators.

New Projects

4.19 A number of projects are presently in the planning and implementation stages. These include: (a) a joint-venture to purchase five long-liners, to be financed by MIDA; (b) an expansion of the Majuro transshipment operation through acquisition of five additional long-liners; (c) various mariculture projects being considered by the Marshall Islands Marine Resources Authority (MIMRA) in seaweed and giant clam production; (d) construction of a tuna cannery aimed at the US market, which would take advantage of the duty exemption granted by the US; and (e) an ADB-funded project to build a transshipment facility in Ebeye, similar to the one in Majuro.

Prospects and Recommendations

4.20 Despite the problems, the limited longline fishing effort to date has demonstrated that the capture and shipment of sashimi grade tuna from Majuro may be a viable undertaking. Fishing operations have confirmed catch rates and the quality of tuna in the area, and Air Marshall Islands has shown its air cargo capability to handle and deliver the fish to market though the airline is operating at a considerable loss. The high cost of air freight and reliability of air service remains problematic.

4.21 The constraints to commercial fisheries development remain centered around the poorly developed domestic commercial fishery, remoteness of the RMI from major metropolitan markets, high

5: Human Resource Development

A. HUMAN RESOURCE REQUIREMENTS FOR GROWTH

5.1 Development of Kiribati's human capital represents an important complement to the nation's overall strategy for faster, sustainable development. This approach is central to improving the welfare of low-income groups and to encouraging broadly-based participation in the growth process. In addition, appropriate health and education programs result in a healthier and more flexible workforce, which serves to increase productivity, per capita incomes, and international competitiveness. Without substantial improvements along these lines, other efforts to promote economic development are likely to be ineffective, stalling economic growth and hastening declines in living standards.

5.2 Despite substantial gains since independence (see Table 5.1), Kiribati's social indicators lag behind international standards as well as regional comparators.¹ Several factors have disadvantaged Kiribati in achieving more rapid improvement in social development. Most important among these has been economic adjustment to the exhaustion of the country's phosphate deposits, which has necessitated strict fiscal discipline in the form of spending restraint, occasional hiring freezes, and modest wage and salary increases. At the same time, it is costly and challenging organizationally to provide health and educational services to a small population residing in 33 small, widely dispersed islands. Health gains are tied to the disposal of human waste and to the availability of clean water. Water supplies in these small, low-lying atoll settlements are threatened by sea penetration, by crowded living conditions, and in some cases by the practice of burying the dead near the family residence.

5.3 Notwithstanding these constraints, there are many policy options open to policymakers that

offer the promise of further significant advances. The key strategic targets in this report should be a major expansion in the availability of basic health and education services, particularly in the outlying islands. Following a short discussion of labor force issues, the remainder of this chapter lays out some options in this regard with particular reference to the health and education sectors, which are fundamental to human capital development. A brief summary of issues related to the role of women in development is also included.

B. THE POPULATION AND LABOR FORCE: OUTLOOK AND ISSUES

5.4 *Demographic Characteristics and Outlook.* Population trends will largely determine the size and mix of skills in the Kiribati labor force, the demand for social services, and the capacity of families (and the economy) to support such services. Census information indicates that the population is increasing at an average annual rate of 2.3 percent, with fertility rates on a gentle decline. The age distribution of the population is relatively young (more than 40 percent of the population is under 15 years of age), and the population is characterized by a very high dependency ratio.² A continuation of these trends would imply, for instance, a doubling of the population in the next 28 years; primary school entrants increasing at around 2.5 percent annually; and a temporary drop-off in the demand for maternal and child health-care services. Policy prescriptions that will be needed to address issues such as these are outlined in the sections that follow.

5.5 *Labor Force Outlook.* The youthful nature of the Kiribati population implies that the growth of the population of labor force age will be considerably more rapid than overall population

Table 5.1: SOCIAL INDICATORS, 1978/80-1991 /a

Indicator	Units	Kiribati		East Asia	Lower-Middle Income
		1978-80	1991 /a		
Population					
- Growth rate	% per annum	2.1	2.3	1.6	2.0
Infant mortality rate	per 000	87.0	65.0	33.6	49.5
Total fertility rate	births per woman	5.0	4.3	2.7	3.7
Life expectancy at birth					
- Male	years	50.3	57.7	-	-
- Female	years	53.8	62.8	69.9	67.9
Gross enrollment ratios					
- Primary	percent	99	104	130	101
- Secondary	percent	20	34	47	58
- Tertiary	percent	1	3	-	-

/a Or most recent estimate.

Source: Statistics Office, Mission estimates and World Bank, "Social Indicators of Development", 1991-92.

growth (approximately 2¼ versus 2¼ percent annually). In addition, the growth rate of the labor force is likely to be pushed up further by continuation of a steeply rising participation rate for women that more than offsets a declining trend for men. With the prospect in store of labor force growth rates of 3 percent or more during the next decade, Kiribati faces a sizable quantitative employment challenge, best addressed by the means discussed in earlier chapters.

5.6 Kiribati also faces large challenges as regards the mix of skills of its labor force. Despite only fragmented information, the picture that emerges is of a labor market characterized by a large excess demand for skilled and professional labor, coexisting with a large excess supply of unskilled labor.⁵ To aggravate the situation, the present structure of school-leavers implies that current skills shortages will continue for some time without the major policy changes discussed in Section D below. Skills shortages are especially severe as regards professional and technical workers, of whom less than 10 percent have a tertiary qualification. For Administrative and Managerial occupations, the proportion is around 12 percent.

5.7 Overcoming these difficult issues will require a strong commitment on the part of government and large incremental expenditures,

including financing from aid donors. In addition, results should be expected to accrue only slowly, with reforms directed at the most deeply-rooted problems requiring a decade or more to show substantial results.

C. HEALTH SECTOR ⁴

5.8 *Existing Health Services.* The basis of the government-supported health system are the Sanitarians and Village Health Aides (referred to as MCH Aides), who are trained through apprenticeship arrangements for about six months. MCH Aides provide elementary health services (sometimes including child delivery at home), referring more complex cases to the nearest dispensary. Sanitarians inspect public eating establishments and public markets, and work to improve water supplies and waste disposal in rural areas.

5.9 MCH Aides are supervised by Public Health Nurses (PHNs) from the local dispensaries. There were 42 such dispensaries in 1990, supported by 24 larger health centers. The latter serve as the home base of the Medical Assistant (MA), who supervises the PHNs and Sanitarians and also deals with referrals, deliveries, and minor operations. The PHN and MA are members of the health department, while local Island Councils are

responsible for the salaries of MCH Aides and local sanitarians and for the maintenance of dispensaries and health centers. The health department pays for medical supplies.

5.10 Centrally, there is an Assistant Health Inspector assigned to supervise Sanitarians in each of six districts, and a Senior Health Inspector with overall responsibility for these activities. In addition, five Health Educators work on program areas such as sanitation, immunization, and nutrition; there are also Principal Nursing Officers for each district who have responsibilities for programs such as nutrition or immunization.

5.11 In urban South Tarawa, the pattern of dispensaries and clinics is complemented by a new 100-bed hospital staffed by specialist doctors, all of whom are expatriates made available through the United Nations volunteers program. Medical services and medicines are provided free of charge in the hospital and in the network of dispensaries and clinics. The only charge in the hospital is a modest private room fee ranging from A\$10 to A\$20 per day.

5.12 There are no private doctors trained in western medicine in Kiribati, although private traditional healers are often used by the public. For their services, traditional figures (whose healing methods include massage, herbs and magic) receive food and/or money, with compensation in urban areas roughly twice that in rural locations.

5.13 *Cost and Financing Considerations.* The government's health program is funded largely from the overall recurrent budget and through donor assisted development allocations. Funding from the health department's own revenues is negligible, amounting to only 0.5 percent of recurrent sector spending, down from roughly 2 percent in the mid 1970s. Over the past year, donor spending on specific activities accounted for another 21 percent of the health department's regular budget.⁵ The Island Councils contributed another 2.5 percent of health department expenditures.

5.14 The health department's share of total government spending has risen since the early 1970s, reaching 15 percent in the early 1990s when real per capita spending averaged almost A\$16. Since the early 1970s, the share of personnel-related costs has fallen, while that of drugs, transport, and utilities has increased. Disaggregated by facility, over half of the health budget goes to the Tungaru Central Hospital in South Tarawa and another 27 percent to clinics and dispensaries.

5.15 *Health Patterns and Determinants.* Available death and disease indicators for Kiribati suggest that impressive recent gains in child survival and life expectancy (see above) may be difficult to sustain in the 1990s. The gains of the 1980s were largely attributable to increased coverage of immunization for childhood diseases, control of vitamin A deficiency, and improved access to curative care. Yet during 1985-90, there were also increases in the incidence of many acute communicable diseases typically associated with poverty and crowded living conditions, for example, a five-fold increase in the incidence of lower respiratory tract infections and dysentery in the 1985-90 interval. In addition, there was a large increase in many "lifestyle" sicknesses more common in high income countries; for instance, disease rates for bronchitis more than doubled during 1985-90; the prevalence of gonorrhoea rose twelve-fold; and the first two HIV-positive cases were reported in 1991.

5.16 Several factors are relevant in formulating an explanation of this pattern of illnesses in Kiribati.

- *Lifestyle Factors:* Consumption of tobacco, alcohol, sweets, and other sugar-based products rose sharply in the 1970s and has remained at high levels. Meanwhile, large numbers of I-Kiribati men work abroad as merchant seamen and miners, and when they return to Kiribati they bring new patterns of behavior with them (see preceding paragraph).
- *Allocation of Health Spending.*⁶ Some questions arise with respect to the allocation of available resources, for instance, the low share of spending on maintenance and repairs, high outlays in some years on overseas medical care, and the substantially higher outlays since the mid-1980s on drugs. In addition, the reduced share of budgetary spending on salaries and allowances has made it difficult to retain well-qualified staff, including doctors (see immediately below).
- *Dwindling Supply of Doctors:* There are currently 14 practicing physicians in Kiribati, down from 22 or so in the mid-1970s and 15-18 in the mid-1980s.⁷ This is a troublesome situation, which is not solved by substituting expatriates for qualified I-Kiribati. The expatriates are expensive (Kiribati makes a significant contribution to the UN in this regard). They have studied and worked in diverse medical traditions, have little

knowledge of the local language, are less likely than permanent residents to bring long term commitment to their work, and may wish to leave at short notice.

- **Spending Out-of-line With Health System Priorities:** The Kiribati health program covers a wide range of activities and targeted diseases, including assigning high priority to family planning, safe motherhood, adequate food supplies, and nutrition, and provision of safe water and basic sanitation. However, among the largest program outlays are those for surgical treatment of eye problems and dental health, including constructing and equipping a dental clinic. By contrast, family planning was allocated only 4 percent of the development budget, and only modest amounts were allocated to water and sanitation and to diarrheal disease.
- **Unfocused, Donor-Driven Development Spending:** In 1991, ten different donor agencies contributed to 45 different health projects. At one end of the spectrum, most donors concentrate on one or two spending areas.⁸ On the other hand, WHO seemed to lack a strategic focus (exempting perhaps AIDS education and prevention); its 23 projects spanned nine spending categories, but did not provide funds for a number of primary health care activities, despite its well-publicized "Health for All" orientation.
- **Health Awareness and Education:** The I-Kiribati people do not have a good knowledge of diseases and how to prevent them, as illustrated by continued use of beaches and other areas for defecation, even when public toilets are available. Regarding family planning, there was early acceptance of modern contraceptives by about 20 percent of the population, but further extensions of coverage have proven to be difficult, despite endorsement of a National Plan.
- **Ineffectiveness of Island Councils:** Many island health institutions are in a poor state of repair (no running water, electricity, obstetric beds, or operating tables in clinics), raising questions about the orientation and effectiveness of the Island Councils.

Policy Options

5.17 What must the Kiribati policymakers do in order to find an exit from the cul-de-sac towards which the country's health sector is headed? No

single definitive answer can be provided, but several options exist for improving the present situation. The following paragraphs list many specific steps that would contribute to a solution.

5.18 **New Financing Options.** Kiribati is already allocating a large share of the government budget to health (see para. 5.14). Yet funding requirements are likely to continue to rise in order to pay for programs initiated with donor assistance and to bear the costs of chronic diseases whose prevalence rates are rising rapidly. Other forms of financing that should be considered are outlined immediately below.

- **Increased User Fees:** Greater recourse will be needed to patients' fees, payments for drugs and other user charges.⁹ As a basic principle, it is best to collect fees for those goods and services (that is, drugs and surgery) that yield direct and immediate therapeutic benefits to individuals.¹⁰ As regards the level of fees, charges should be set with an eye to certain important aims, most importantly to capture extra revenue. But in addition, fees signal that real resources are being used to provide services, thereby forcing the public to weigh the cost of a health service or of a drug in the same way as when purchasing any other type of scarce commodity or service. Finally, payment of fees raises the quality standards that users expect of services, which can become a powerful motivating force for health staff.
- **Introduction of Health Insurance:** The prospect of substantially higher user fees is likely to raise the cost of health care services to individuals. Also, many I-Kiribati are already covered by this option in one form or another.¹¹ However, other than the Government of Kiribati, only the KPF and the KIC have the potential to develop a local type of health insurance coverage, and both institutions lack the professional expertise needed to develop a full health insurance product line. Consequently, many types of health insurance would not be feasible, given the human resource constraints of these two entities.¹² At present, the best option would be for the country to begin considering health insurance as a mechanism for financing in-patient health services provided at the national hospital, and possibly for the cost of emergency evacuation of sick persons and members of the household.¹³ This type of insurance package would be relatively easy to implement since the numbers of claims would

not be large, and the plan would conform to the basic principle of insuring against large losses.

- **Increasing Selected Import Levies:** As a mechanism to increase general revenues, import duties on certain goods (sugar, tobacco, alcohol, and goods with high salt content) should be increased. This would effectively constitute a "health tax", even though the revenues may not be earmarked for the health sector.
- **Securing Greater Cost Savings:** The health department may be able to realize cost savings by developing standard treatment protocols for services by health personnel and through improved management and rationalization of the use of pharmaceuticals. The current drug list is longer than necessary, and ordering and inventory are not computerized. A more extensive managerial review should yield other savings from the non-personnel line items included in the budget.

5.19 Retaining Skilled Personnel. As noted earlier, Kiribati is experiencing difficulties in retaining skilled manpower, *inter alia*, in the health care field. Several options exist for containing this problem, with the nature of the approach varying according to the type of skill, as discussed immediately below.

- **Doctors: Stemming the Outflow.** There are too few practicing I-Kiribati physicians in the country. The Government will need to raise pay and benefits to attract and retain physicians, but other alternatives are also available. First, the government could make greater use of MAs to replace doctors in many activities (such as radiology and anesthesia), as is being done in other countries. Second, some of the existing physicians should be encouraged to open part-time practices on their own account, thereby supplementing their incomes and increasing the incentive to remain in the country (or to give up administrative jobs). Third, Kiribati should introduce an effective bonding scheme for recipients of medical scholarships. Fourth, if investments are to be made in physician training, the country should encourage more I-Kiribati to enter the Fiji School of Medicine's new, more clinically oriented program. The graduating cadre of doctors would have a level of skills that would be generally acceptable within the Pacific Island member countries, but less

marketable in New Zealand and other possible international destinations. Finally, consideration might be given to using the Fiji School of Medicine as a means to introduce well-qualified nurses and MAs into the physician stream.

- **Nurses.** Nurses are of the view that their pay and benefits have not received sufficient attention. However, nursing opportunities outside Kiribati are less extensive than for doctors, thereby significantly weakening their bargaining position. The Government needs to ensure that nurses' pay is high enough to protect the long-run supply of well motivated and skilled employees. It should also enable nurses to practice privately on a full- or part-time basis, or to work with doctors who have opened private practices. Furthermore, career opportunities within the nursing field could be expanded, including the possibility of introduction to the physician stream (see immediately above).
- **Other Skilled Personnel.** The terms of service for pharmacists, laboratory technicians, radiographers, and other skilled personnel need to be reviewed regularly in order to retain such needed employees in the country. Health Inspectors merit separate consideration; this cadre has critical public health responsibilities for ensuring safe water and food and appropriate waste disposal. To bring their pay into line with responsibilities, it may be useful to link their salary package to various health status outcomes. The top managers of the health system could also be rewarded, at least partially, on such a basis.
- **More Focused Training of Health Workers.** As the population grows more sophisticated and disease problems more varied, it seems likely that a formal course will be needed for VHAs to replace the present informal apprenticeship arrangements.¹⁴ In addition, the government could endeavor to integrate the current MA course into the Fiji School of Medicine, thereby enabling the Kiribati course to be recognized as the equivalent of a first step in the Fiji program. Communication channels could be established with other nursing schools in the region to exchange views on textbooks and other topics. MAs could be trained in anesthetics, ophthalmology, audiology, and other specialist disciplines like their counterparts elsewhere in the Pacific. Finally, manuals for the standard treatments of common conditions

could be made available to health workers at all levels; manuals now in use in Papua New Guinea could be taken as models.

5.20 *Improved Family Planning.* The national program, which made a good start in the late 1960s and early 1970s, needs to be revived and given stronger leadership. Program efforts should focus on higher fertility areas and groups, for example, those living in the Northern Gilbert Islands group and less educated couples. Stepped-up program efforts would need to cover improved access to various forms of contraception, training of field and clinical staff, and the development and use of management information systems. Technical assistance should be sought from countries with successful programs, such as Indonesia. Results from the recently enacted MCH/FP program (financed by the UNFPA) are expected to provide improvements in many of these areas.

5.21 *Strengthening Island Councils.* The Island Councils need to be encouraged to play an increasingly significant role in the health field. To this end, adequate upkeep of key Council-run assets—such as health centers—could be ensured by linking central subsidies to maintenance allocations and activities. Also, responsibilities for the provision of equipment in health centers need to be better delineated to ensure that facilities are adequately supplied with basic items.

5.22 *Addressing Water and Sanitation Concerns.* The installation of an upgraded sewerage system in South Tarawa based on private household toilets is a matter of great urgency. Elsewhere, ventilation pit toilets, which have been adopted in some African countries, should be tested and adopted, as appropriate, especially in the outer islands. On the side of water supply, existing sources should be expanded by tapping new water lenses and by providing rainwater storage containers (perhaps stored under-ocean). Other useful actions would involve investigating the cultivation of swamp taro to see if the plant (or alternative varieties) could be produced with less surface water, thereby reducing mosquito breeding areas. Finally, sanitation regulations should be enforced where they exist and promulgated where they are absent; particular emphasis should be placed on the sanitary disposal of human waste and the appropriate location of burial sites and wells.

5.23 *Improved Health Education.* Efforts in this crucial area need much greater attention and funding. Program staff should visit outer islands more frequently to interact with Island Council members and village groups and to brief and

support field staff, including Sanitarians who, as noted above, play a key role. The health education group should prioritize their activities so that they concentrate on a small and feasible number of problems and themes. Media messages, which should be targeted towards carefully defined audiences, should be based on an understanding of the knowledge, attitudes, and activities of the targeted groups and their reactions to previous media messages. Priority audiences include: national and local leaders (including members of Island Councils and religious figures), many of whom may need special courses or training sessions on public health issues; teachers, who are influential social figures in such matters; personal hygiene; workers returning from abroad, who are potentially the media for transmission of the HIV virus; and high school students, who will be starting their own families shortly. As regards this latter group, the high school curriculum needs to include a strong health education component.

D. THE EDUCATION SECTOR ¹⁵

5.24 Kiribati has a long tradition of formal schooling for a substantial portion of the population. This tradition, which began with the missionaries in the nineteenth century, accounts in large part for the high rate (96 percent) of adult literacy in the country. During the 1950s and 1960s the Government steadily became more involved in schools, and today all primary schools are government-run. The churches have maintained their involvement in secondary schools and actually account for an increasing share of enrollments at that level.

5.25 *The Existing Education System.* At present, the educational system in Kiribati comprises:

- (a) primary schools, which consist of classes 1 to 9 (with classes 1-7 classified as lower primary and 8-9 as upper primary);
- (b) academic secondary schools, which consist of junior secondary (forms 1-3) and senior secondary (forms 4-7);¹⁶
- (c) community high schools for class 9 graduates not entering academic schools; and
- (d) a tertiary system consisting of a teachers college, a technical institute, a marine training center, and a nurses training school.¹⁷

5.26 Primary schools are government-owned, and students do not pay fees.¹⁸ At the secondary level, the majority (around 70 percent) of students are in non-government (usually religious) schools. These students typically pay annual fees of A\$480 with the Government providing small grants to supplement school resources. Students at the government secondary schools pay only A\$135 per annum, with boarders paying A\$225.

5.27 Within the government school system, about 60 percent of expenditure goes to wages and salaries; 9 percent is for regional organizations; and 7 percent is for educational materials. Among the remainder, less than 2 percent represents grants for non-governmental schools and less than 1 percent is reserved for maintenance of facilities. By level, about 50 percent is spent on primary education, 16 percent on government secondary schools, and 12 percent on tertiary institutions within the Ministry. The student teacher ratio is 29:1 and 16:1 at the primary and secondary levels, respectively.

5.28 *Constraints on the System.*¹⁹ Despite achievement of universal primary education around 1980, the quality of primary education is generally considered to be inadequate. A significant portion of teachers have insufficient training (especially at the secondary level), there are major shortages of educational materials, and schools are in need of repair and badly equipped.²⁰ In a recent test administered to class 6 students, 20 percent did not achieve basic levels of literacy and numeracy.

5.29 Until recently, expansion at the secondary level had been explicitly constrained by policy owing to fear of the emergence of educated unemployed.²¹ Only 30 percent of those who sit for the class 7 entry exam are successful in entering academic secondary school, and significant numbers drop out at the end of forms 3, 4 and 5. Consequently, forms 6 and 7 have only low enrollments, seriously restricting the pool of students qualified for overseas scholarships for degree level training. There are also quality problems at the secondary level; some 40 percent of teachers are underqualified; less than half of those sitting for the form 5 exam (the basis for entry to the permanent civil service) are successful; and there is evidence that the level of exam results has been falling over time. In addition, the school curriculum needs to be strengthened appreciably in the areas of languages, mathematics, and science.

5.30 At the post-secondary level, all institutions have low enrollments and moderate to extremely high unit costs (except the Nurses Training School). Staff salary levels are quite

moderate, and all institutions, except for the Marine Training Centre (MTC), are severely under-serviced. The major constraint at this level appears to be the quality of the teaching staff; with the notable exception of the MTC, the academic qualifications of most of the staff are barely above the level of qualifications that the institutions are awarding to their students.

5.31 *Demographic Demands in the 1990s.* As noted earlier in this chapter, the Kiribati population is young—more than 40 percent are under 15 years of age. However, a significant reduction in fertility in the 1960s and 1970s (a consequence of foreshortened family planning effort) temporarily reduced the relative size of the child-bearing cohort. Consequently, the next five years are expected to witness declining growth rates in the population aged 0-4; the growth rate would pick-up again in the second half of this decade.

5.32 As a consequence of this unusual pattern in the demographics of Kiribati (and assuming implementation of a more aggressive family planning program), the number of students requiring primary schooling is expected to increase very slowly (by just over 1 percent annually) over the next decade. This will provide the Government with an opportunity to improve the quality of primary education and to reduce the drop-out rate at the secondary level. Present plans assume that secondary enrollments would increase sharply (by approximately 4 percent per annum) over the next five years; most of these will want to complete at least form 5, thereby significantly increasing the supply of well-trained entrants to the labor force.

5.33 *Strategic Priorities.* The stated objectives of the Government are laudable, namely: to improve the quality and relevance of primary education; to expand participation—especially from the outer islands—in secondary education by doubling the number of graduates who complete form 5; to improve the relevance, quality, and articulation of the secondary school curriculum, with particular relevance to math, science, and accounting skills; and to increase the supply of skilled manpower for national development.

5.34 However, achievement of these objectives will not be an easy task, especially in view of the high costs²² involved and the competing demands that are likely to be made on Kiribati's limited financial means. Key initiatives that would be of assistance in this regard—including some that would ease the financial constraint—are the following:

- (a) increased user fees, especially those that are identifiably linked to the provision of goods (for example, books and supplies) and services (for example, supplementary tutoring) provided by the educational system;
- (b) phased replacement of scholarship programs by student loans (on concessional terms);
- (c) design and implementation of an effective bonding system for beneficiaries of foreign training;
- (d) where possible, consolidation of schools, increased use of multi-class teaching and increased student-teacher ratios;
- (e) use of the financial room opened-up by the preceding suggestions to tilt spending priorities more heavily in favor of primary and secondary education by improved curriculum, better qualified teaching staff, external assessments of programs, and increased supply of materials to schools. At the same time, grants should be increased to non-government authorities—with conditions attached—to ensure quality and expansion in secondary education opportunities;
- (f) increased emphasis on secondary teacher training opportunities under overseas scholarships/student loan programs for government and non-government schools;
- (g) development of quality control mechanisms for post-secondary institutions, for example, by using regional mechanisms to periodically review curriculum, staff and examinations.

5.35 A special word is in order regarding the Marine Training Center (MTC), which is already training to international standards with an excellent reputation for quality. This institution currently graduates approximately 75 students per year, adding to the pool of 1,800 seamen (of whom about 1,200 are employed overseas in any one year). With these seamen remitting earnings of about A\$4 million per annum, the MTC provides the basis for an important source of foreign exchange. To safeguard these earnings and increase the likelihood of greater receipts (for example, by commissioning seamen into the officer corps), the quality of staff and programs needs to be constantly upgraded.

With the support of aid donors, a strategy is needed to carry the MTC forward into the 21st century. The key element of this strategy should be continued upgrading of training programs in line with the evolving international shipping industry.

E. THE ROLE OF WOMEN IN DEVELOPMENT OF KIRIBATI

5.36 Women play an important economic role in Kiribati. They have responsibility for the production and marketing of a large share of agricultural output;²³ they prepare the great bulk of food consumed at home; they are well-represented in retailing and, to a lesser extent, in the public service; and they perform the vast majority of child-rearing and family maintenance activities. Moreover, their role in the local community has been elevated as a consequence of the out-migration of men to South Tarawa or overseas on work assignments.

5.37 There has been a significant increase in women in the Kiribati labor force (average annual growth of almost 10 percent versus less than 1 percent for men) between 1985 and 1990. However, a striking gender gap remains in the cash work force, where men outnumber women by almost three to one. By contrast, women dominate in village work (see Table 5.2). On the positive side, it should be noted that women currently have good access to education; they account for 50 percent of enrollments overall and an even higher proportion at academic secondary schools. Pre-service overseas scholarships (which are generally allocated on merit) appear relatively well-balanced, but selection for in-service scholarships seems to be tilted in favor of males.

5.38 Women face special problems in Kiribati. For example, infant and maternal mortality rates are high; contraceptive use has not changed substantially since the 1970s, especially in the poorer outer islands; the Development Bank will not lend to a woman without the full endorsement of her husband; domestic violence is widely accepted as a major problem; and alcoholism among men is taking a toll, particularly in South Tarawa where migrant families (who do not have traditional landrights) are heavily dependent upon the cash economy.

5.39 The Government recognizes these as significant developmental problems and has undertaken some initiatives to resolve them. By way of example, the Department of Trade and Commerce, in conjunction with women's groups, is

Table 5.2: ACTIVE WORKFORCE BY GENDER AND ECONOMIC ACTIVITY, 1985-1990

	1985	% of Total	1990	% of Total	% Growth Per Annum
Cash Work	6,791	25.8	11,142	34.2	10.4
Males	5,233	31.1	7,972	45.6	8.8
Females	1,758	18.5	3,170	20.9	12.5
Village Work	18,719	71.1	20,568	63.1	1.9
Males	11,176	66.4	8,975	51.4	-4.3
Females	7,543	79.3	11,593	76.6	9.0
Unemployed	627	2.4	900	2.8	7.5
Males	414	2.5	528	3.0	5.0
Females	213	2.2	372	2.5	11.8
<u>TOTAL</u>	<u>26,337</u>	<u>100.0</u>	<u>32,610</u>	<u>100.0</u>	<u>4.4</u>
Males	16,829	100.0	17,475	100.0	0.6
Females	9,514	100.0	15,135	100.0	9.7

Source: Kiribati Population Census, 1985 and 1990.

encouraging women in business. Also, the Social Welfare Division of the Ministry of Health, the Women's Bureau and women's groups meet regularly to develop strategies to address the alcohol problem. However, these initiatives fall short of the effort that will be needed to change social attitudes towards women in Kiribati. As noted elsewhere, import duties on alcoholic beverages should be increased significantly, and

legal recourse for crimes against women should be improved. In addition, special attention to these problems should be provided in the domestic education curriculum, and high priority should be accorded family planning services and rural maternity services. Also, special efforts are needed to ensure that activities such as bank lending and in-service scholarships are considered on an equitable basis.

ENDNOTES

- ¹ For example, Kiribati's infant mortality rate, which stood at 65 per thousand in 1991 (versus 82 per thousand in 1976), is well above that for Polynesia and for Micronesia as a whole, 28 and 58 per thousand, respectively.
- ² The dependency ratio is defined as the ratio of the young (under 15 years) and elderly (over 64 years) to the adult population (15-64 years). For Kiribati, this ratio was 0.73 in 1990. By way of comparison, dependency ratios average 0.6 in Asia; for developed countries, they are in the range of 0.3 to 0.5.
- ³ Evidence from a recent World Bank study (*Kiribati: Post Secondary Education and the Labor Market: Issues and Options*. World Bank study on Higher Education in the Pacific, Report No. 10522, 1993) confirms skills shortages and little unemployment among post-secondary graduates. There was also evidence of considerable job mobility among such graduates.
- ⁴ This section is a summary of the preliminary conclusions from a larger study for Kiribati undertaken in August 1992. The study is part of a regional health review of South Pacific countries, which is expected to be nearing completion by mid-1993.
- ⁵ Excluding the substantial support (roughly \$10 million in 1991) provided by the Government of Japan to construct and equip the new 100-bed hospital in South Tarawa.
- ⁶ It should be noted that the *relative* level of health spending is not considered to be a serious problem, in itself. Certainly, real per capita health spending fell during the 1980s, but so did government outlays in other sectors; per capita health expenditures fell by less than non-health outlays from the mid-1970s to the mid-1980s, suggesting that health programs were protected during the initial period of adjustment following the end of phosphate mining. As noted above, real per capita outlays and health's share of the budget and of GDP rose in the 1990s, providing further indication that the sector had secured its general position within the government's priorities.
- ⁷ The fall in numbers would have been greater if United Nations- and Chinese-supplied physicians had not substituted for I-Kiribati doctors who have taken better paying jobs in nearby countries or moved into purely administrative positions.
- ⁸ For example, Canada supports the vitamin A deficiency control and alcohol abuse control programs, and France paid for the dental clinic.
- ⁹ The idea of user fees in the health sector is not new to Kiribati. Payment in some form (perhaps a gift) is normally given to traditional birth attendants and healers. Also, the Health Ministry has required payment for some services (for example, private hospital rooms) since at least the early 1970s. By early 1993, the Cabinet had already moved in this area, by approving a decision to charge for services, beginning with expatriate patients. Consideration is being given to extending fees to the general public.
- ¹⁰ Charging for immunization and other preventive activities is not recommended since such services yield benefits to individuals only over a long period of time, and provide substantial spillover benefits to other individuals.
- ¹¹ These include customers (approximately 300 subscribers) of the KIC, who are reimbursed for medical expenses incurred outside of Kiribati, and those of the New Zealand Medical Treatment scheme, which provides medical treatment for those referred by the Kiribati health department, up to an annual amount of \$NZ 90,000. The KPF also pays a pension to members (about 10,000 in 1992) who are certified by two doctors in Kiribati to have suffered a handicap and who are permanently disabled. Finally, the Government

of Kiribati effectively acts as an insurer since it pays for health care services when such services may be required by any member of the public.

- ¹² From a financial perspective, the KPF has the resources to insure against the potential large loss that might come with an epidemic of cholera. The KIC may be able to reinsure itself with an external institution if required.
- ¹³ Prior to considering health insurance on a broad scale in Kiribati, it would be necessary for the health department to develop a fee structure which allowed for full cost reimbursement of the services provided by health facilities and services covered by the insurance plan. This would entail a detailed cost study prior to implementation. In addition, the patient record system would need to be strengthened to ensure that all services were recorded prior to processing for reimbursement.
- ¹⁴ One option would be to start a course at the Nurses Training School using the Medex Primary Health Care series, as modified in Papua New Guinea.
- ¹⁵ See also the major World Bank study of post-secondary education in Kiribati, cited in Note 3. Many of the issues summarized in the main text are discussed in detail in that study.
- ¹⁶ The majority of students enter form 1 of junior secondary from class 7 primary, after an entrance examination. A minority enter form 2 from other levels of primary school.
- ¹⁷ Also, the University of the South Pacific has a university extension center in Tarawa to support studies via distance education, and the Government operates an overseas scholarship program for secondary and university level programs.
- ¹⁸ School committees and Island Councils have the responsibility for raising additional funds for school activities and for building maintenance.
- ¹⁹ It should be noted that gender imbalances are not an issue, as there is no significant difference between male and female enrollments and participation in school. Likewise, Kiribati has achieved a reasonably equitable geographical distribution of education facilities.
- ²⁰ Kiribati does poorly in the provision of basic pedagogical resources such as text and exercise books, simple teaching aids, and healthy, safe work spaces.
- ²¹ This policy has led to an insufficient number of trainable secondary graduates, and to an under-supply of skilled workers.
- ²² Illustrative calculations by the ADB indicate that a doubling in the secondary school enrollment rate by 2010 will necessitate a three-fold increase in constant-dollar expenditures from current levels of spending.
- ²³ Typically, women market fish but do not participate in catching it.

6: Growth and the Environment

6.1 Kiribati's fragile atoll environment has been preserved for many generations in substantial part by traditional resource-use patterns. However, the low material standard of living of much of the population, combined with rising expectations for the future, points towards a danger. If not pursued with a clear view to environmental sustainability, the growth strategies outlined elsewhere in this report could undermine those resource-use patterns and destroy the fragile balance with nature that has sustained Kiribati fairly well in the past. This is particularly the case in light of the need to rely upon Kiribati's marine and agricultural resources as a base for economic development and in view of the heavy population pressures in South Tarawa.

A. ENVIRONMENTAL ISSUES

6.2 The major environmental issues in Kiribati arise in the Gilberts Group, especially in overcrowded South Tarawa where the bulk of the nation's population lives on small, resource-poor urbanized islets. The main issues in this area are: (a) groundwater depletion, increased salination for whatever reason, and pollution from sewage and animal excreta; (b) shellfish contamination from human and other waste; (c) over-fishing of reefs and lagoons; (d) waste disposal; (e) coastal erosion and sedimentation; (f) depletion of mangrove and other tree species reflecting a shortage of fuelwood; and (g) breakdown of the traditional subsistence production systems, resulting in malnutrition and nutrition-related diseases. These and related problems, together with solutions, are discussed immediately below.

6.3 *Water Supply.* Many of the health problems of the I-Kiribati can be traced to a shortage or contamination of water. The main problems of water supply include: (a) water demand on South Tarawa that exceeds the capacity of readily-accessible sources;¹ (b) high losses;

(c) insufficient utilization of rainfall by roof collection methods; (d) contamination of sources by squatters on reserves and by defecation on the beach; (e) slow progress in providing potable water to rural communities; and (f) skill shortages, financial deficiencies, and splintered responsibilities among too many government departments.

6.4 Outside of South Tarawa, the quality of the water resources is also open to question. Many people still use unprotected (and untested) wells, in some cases a short distance from sewage pits and toilets. On Kiritimati, old partially-renovated systems provide water of generally acceptable quality, but with very high faecal coliform bacteria levels and excessive saline levels.

6.5 Government is addressing water supply issues through a 1992-2001 National Water Masterplan, which is currently under review. The draft plan has identified potential sources in North Tarawa, proposes modifying the outer island water supply program to improve its effectiveness, and recommends increased rainwater catchment for both urban and rural areas.² In broad terms, the plan is reasonable. However, in addition, the Government should establish a regular groundwater monitoring program, which includes private wells.

6.6 *Sewerage.* Although South Tarawa has basic sewerage facilities,³ the system is ineffective owing to inadequate coverage and poor maintenance, and much of the population relies on the beach for convenience. A recent study indicates that the water quality in the southern part of the lagoon has not improved since the outbreak of cholera in 1977, and by some measures the quality of lagoon water has declined.

6.7 To resolve this issue, Government and a major donor have agreed in principle to renovate the South Tarawa sewerage system. Communal toilets will be replaced by individual household

units at a cost of several million dollars spread over an extended time period, possibly five years or more. The program will include a large element of hygiene education, but it does not appear that the program will cover a significant proportion of the rural South Tarawa population. As additional measures, it will be very important that WHO guidelines for rural sanitation be strictly enforced. The Government should also consolidate the fragmented administration of urban and rural water and sewerage into a single authority, perhaps within the Public Utilities Board.

6.8 Solid Waste. Solid waste disposal is difficult in Kiribati due to the limited availability of good landfill sites which, *inter alia*, will not contaminate groundwater. The limited extent of general refuse collection⁴ has resulted in numerous unsightly informal rubbish dumps. To gain better control over solid waste management, there should be greater use of private contracting for disposal services, and the export tax (of 15 percent) on scrap metal should be removed. Dumping should be restricted to approved sites with rigorous enforcement, and the Government should follow-up with WHO for assistance in designing and administering an adequate solid waste disposal program.

6.9 Toxic Wastes and Residual Radiation. In the late 1980s, there were several attempts by companies from metropolitan countries to dispose of large amounts of toxic wastes in uninhabited islands of the Phoenix and Line groups. These proposals were rejected. However, there are also lingering concerns that residual radiation from atmospheric nuclear testing on Kiritimati Island in the mid-1950s and early 1960s may pose a long-term health hazard. These concerns need to be put to rest before finalizing major developments on that island.

6.10 Biodiversity and Agro-Deforestation. The limited soils of Kiribati are infertile, supporting a terrestrial flora that is among the least varied in the world.⁵ Nonetheless, a wide range of important products (for example, medicines, beverages, animal feed, fuelwood, fertilizer, tools, handicrafts, fishing equipment, construction materials, canoes, fencing, fibers, dyes, oils, and perfumes) are produced from indigenous species. Their estimated value, together with subsistence fishing, constitutes a sizeable proportion of the real incomes of rural, outer-island communities.

6.11 Threats to remaining biodiversity include the use of fuelwood on South Tarawa at an unsustainable rate for cooking, deterioration of the traditional agro-forestry system, neglect of tree planting, overemphasis on monocropping for copra

production, elimination of trees from gardens, and a rapid rate of mangrove deforestation. The widespread practice of burning organic debris is said to be leading to soil degradation. Similarly, increased use of inorganic fertilizers on the fragile atoll soils may lead to water lens contamination.

6.12 Protection of the subsistence production system should be a priority for sustainable development, as this sector constitutes the dominant economic activity for the population. The government should endeavor to balance monocropped copra production with protection of more traditional agro-forestry systems through a mix of tree crops, ground crops, and various plants of economic, cultural, and ecological importance. Further policy steps to support agriculture are outlined in Chapter 2.

6.13 Causeways. Since the mid-1970s, nearly thirty causeways have been built in the Gilberts group to facilitate travel among the fragmented atoll islets. Research into their effects indicates mangrove forest depletion, reduced natural flushing of lagoons, destruction of sea life, altered patterns of erosion and sedimentation, declining oxygen levels, coastline erosion, and the complete disappearance of some islets. Future construction should emphasize bridge⁶ and open-design causeways which do not unduly restrict natural currents.

6.14 Climate Change and Sea Level Rise. Kiribati, with maximum elevations generally less than three meters above mean sea level, is among the countries most vulnerable to the impact of climate change on high spring tides, storms and tsunamis. The effects of possible climate change and an ensuing rise in the mean sea level are widely perceived as Kiribati's most serious long-term problem.

6.15 In anticipating this problem, Government should discourage activities that reduce the resilience of the foreshore—such as coral mining and the collection of reef rock, stones, and sand from areas of flat reef. Major new developments should be approved only on the wider islands, and these should be set well back from the high water mark. A long-term program of protecting existing coastal mangrove forests, replanting indigenous multi-use species, reclamation, and coastal reinforcement is suggested to protect the coasts, as well as to provide resources for food and traditional products. Early-warning systems for alerting the local population to impending storms should also be put in place, as well as plans for emergency evacuation of heavily populated areas to protected shelters on such higher ground as is available.

B. ENVIRONMENTAL PLANNING AND INSTITUTIONAL DEVELOPMENT

6.16 Staffing of Environmental Institutions. There are few staff in the Government with an environmental background. The Environmental Unit of the Ministry of Environment and Natural Resources Development consists of one professional officer with occasional support from short-term advisers. The Ministry of Home Affairs, which has no environmental staff, is developing environmental guidelines for outer island development partly based on a study by a major donor on the impact of causeways. The Ministry of Works and Energy has one engineer with some environmental skills and responsibilities. Given that it is important for Kiribati's limited resources to be developed in a careful and sustainable manner, one professional environmental officer is unlikely to be sufficient. A second officer should be recruited, preferably with some skills in overseeing environmental impact assessments (EIAs), an area where the Ministry is expected to have increased responsibilities.

6.17 Legal Framework. Although Kiribati does not have specific environmental legislation, regulations were passed between 1958 and 1978 for, *inter alia*, coastal protection, conservation of fish, and protection of specified bird and plant species. There are no requirements for EIAs and no regulations that forbid cutting important plant species or that promote their replanting. Among such regulations as do exist (for example, requiring new buildings to include roof water catchment), enforcement is weak. The regulations in general require updating, firm implementation, and integration into a broader environmental framework.

6.18 Several initiatives have been undertaken to address this situation. WHO is reviewing environmental health legislation and perhaps solid waste management. An environmental legislative review has recently been completed through UNDP/SPREP assistance, and a seminar on legislative needs is planned. Water resource legislation may be separately reviewed by UNDP consultants during the year. It is recommended that any new legislation require EIAs for all coastal developments and forbid the widescale clearing of mangroves and other trees.

6.19 The National Environmental Management Strategy (NEMS). A Kiribati Task Force on the Environment,⁶ which reviewed the consultants' draft of the UNCED report, is expected to oversee the preparation of a National Environmental Management Strategy by expatriate and local consultants. This is expected to be completed by late 1993.⁷

6.20 To make best use of this work, environmental considerations should be integrated into the national planning and annual budgeting processes. With Kiribati's limited land area and high population densities, the protection of coastal vegetation, reforestation of important local species, and agroforestry are issues that must be addressed at the national policy level if sustainable development is a serious objective.

6.21 Initiatives to address many of the issues mentioned in this section are deserving of strong donor support.

ENDNOTES

- ¹ The current freshwater lenses in South Tarawa have an estimated sustainable yield of 1,000 cubic meters per day versus 1,250 that are presently being extracted. Supply is typically restricted to 6 - 7 hours per day indicating effective rationing. Despite continued restrictions on consumption, by 1995 demand is expected to reach 1,500 cubic meters per day, even at the modest daily level of consumption of 50 liters per capita.
- ² Preliminary estimates indicate that A\$11 million would be required to finance this project, including several million for sewerage and institutional reform.
- ³ This comprises a pipe system connected through communal toilet blocks that uses salt water to pump untreated sewage beyond the reef.
- ⁴ It is estimated that less than 20 percent of urban households are served by a weekly garbage collection service.
- ⁵ Some 83 species (of which 30-70 percent are locally endangered) are indigenous or possibly indigenous to Kiribati. By comparison, there are approximately 257 in Tonga, 548 in Samoa, 600 in French Polynesia, and 1100 in Fiji. Nevertheless, it should be noted that the Phoenix and Line Islands are among the most important seabird nesting regions in the world.
- ⁶ The Task Force last met in February 1993.
- ⁷ NGOs were members of the UNCED Task Force and are expected to participate in the NEMS preparations.

7: Prospects and External Financing Requirements

7.1 Kiribati's main macroeconomic challenge for the coming decade is to achieve a turnaround in the country's poor growth performance since independence in 1979. On the explicit assumption that policy recommendations outlined earlier in this report are implemented, Kiribati could attain a medium-term growth path that will raise per capita real incomes, increase job opportunities, expand the provision of basic public services, and maintain domestic and external financial stability. On the other hand, failure to implement these policies in an effective way would lead to continued declines in real incomes; widening disparities of living standards between urban and rural areas; accelerated migration to Tarawa; and deterioration in the delivery of basic public services, especially to rural areas.

7.2 *Short-term Outlook.* Three key considerations dominate Kiribati's short-term economic outlook: restoration of normal operations at the state fishing company, TML; preservation of a substantial portion of the recent rebound in world copra prices; and continuation of the recently improved air service to Hawaii and Fiji for tourism. On the assumption of a favorable outcome in each of these areas, the economic recovery that began in 1991 would pick up some momentum in 1992 and 1993, led by a rebound in copra production; commercial fishing (which is expected to require several years to fully recover from the shutdown at TML) would contribute to the recovery, as would tourist-related spending, partly as a consequence of the 50th Anniversary of the Battle of Tarawa in 1993. The main drags on economic activity would be government spending, which will continue to face financial constraints, and the industrial sector, excluding construction. Inflation would continue at a moderate pace.

7.3 Concerning the balance of payments, the surplus on current account would narrow considerably in 1992, reflecting the drop-off from

the large one-time fish royalties received in 1991, which are not likely to be fully offset by the large rebound in copra prices and production. Also, interest income would be down a little owing to lower yields on Kiribati's large external assets. The capital account would continue in sizable deficit as small net government borrowings are insufficient to offset accumulations of net foreign assets by financial institutions. In 1993, the surplus on current account would widen considerably as yields on external assets rise, copra production increases and fish prices recover somewhat from their depressed levels of recent years. Gross official reserves would increase by a moderate amount in both 1992 and 1993.

7.4 *Medium-term Growth Projections.* As the recovery gains momentum, Kiribati has the potential to achieve sustained growth of around 4 percent per annum, which would imply an annual increase in real per capita GDP of approximately 1½ percent, versus a decline of nearly the same magnitude in the 1980s (see Table 7.1). As indicated elsewhere in this volume, the leading sectors would be agriculture and fisheries (copra production in the earlier years, followed by commercial fishing later on), and tourism-related activities, principally trade, hotels, and transportation and communication. The industrial sector, which would benefit from the privatization initiatives, would be buoyed up mainly by construction activity, but also by public utilities and manufacturing in the outer years. Following the projected pattern of international price increases, inflation would pick up a little in the coming years before drifting downwards towards international levels over the medium-term.

7.5 Certain key policy assumptions underlie Kiribati's attainment of these growth rates. In the all-important fisheries sector, normal operations need to be restored at TML, new products should be developed, local markets need to be encouraged,

Table 7.1: MEDIUM-TERM PROJECTIONS, 1992-2001

	Estimates 1987-91	Projections	
		1992-96	1997-2001
Growth Rates (% per annum)			
GDP	1.1	3.7	4.2
Agriculture and Fisheries	-1.0	4.7	4.0
Industry	-3.4	3.1	5.0
Services	1.8	4.1	4.3
Gross Investment	-6.5	4.7	7.7
Ratio to GDP (%)			
Gross domestic investment	26.5	22.1	23.7
Gross domestic savings	-55.8	-57.1	-51.1
Other Indicators			
Current account balance (% of GDP)	24.2	16.1	22.7
Debt Service (% of exports)	0.5	0.4	0.3
DOD (% of GDP)	1.3	4.3	6.9

Source: Kiribati Statistical Yearbook 1988 and World Bank estimates.

and EEZ surveillance needs to be strengthened significantly (see Chapter 2). To restore the financial viability of TML's operation, there needs to be significant unit cost reductions, *inter alia*, by allowing TML to generate its own electricity, increasing competition among fuel suppliers, selling a substantial proportion of TML to a reliable, private sector partner, and reducing the downtime of ships (for example, by negotiating with more neighbors for access to other EEZs when the fish catch drops off at home). Strengthened EEZ surveillance would involve multi-lateral cost-sharing, satellite surveillance in conjunction with transponders, high-speed interception equipment, and stiff fines and confiscation of equipment and catch.

7.6 For stronger, sustained growth in the agricultural sector, the incentive structure for copra production needs improvement. This would be accomplished mainly by removing the Island Council tax on copra, by directing STABEX funds (currently used for copra price support) to the eventual development of alternative production activities on the outer islands, and by providing secure tenure to copra clusters in the Line Islands. The aging treestock should be replaced by new hybrid seedlings in a tightly focused replanting program, especially among smallholders where externalities are greatest. For other crops, there should be greater commercialization of nurseries, livestock, and vegetable farming, while the activities of certain NGOs that are trying to introduce vegetables into the local diet need to be expanded.

Programs of pest control need expansion, and skills of local staff (for example, veterinarians and entomologists) need to be upgraded, including through wider distribution of local-language information to improve cultivation of crops and livestock. To facilitate the development of all crops, transportation links to the outer islands need to be improved by adopting a more commercial approach to domestic shipping and port operations.

7.7 For Kiribati's nascent tourism sector to contribute significantly to growth, the national and local governments must initiate a serious commitment to development, based upon developing effective demand for tourism. Small specialty markets should be targeted, with a sharp distinction between the Kiritimati and Tarawa markets. For Kiritimati, the objective should be to capitalize on the island's remoteness and other natural attributes, attracting sports fishermen, birdwatchers, other naturalists, and eco-tourists, essentially from Honolulu with more frequent air service or expanded use of charters. For Tarawa, war veterans are the best possibility, although culture- and eco-tourists offer interesting opportunities; a clean-up of solid waste in South Tarawa and reducing pollution in the lagoon will be important components of this initiative.

7.8 *Balance of Payments.* On the external side of Kiribati's accounts, Kiribati's traditionally large trade deficit would widen continually over the medium-term as substantial growth in exports is

Table 7.2: EXTERNAL FINANCING REQUIREMENTS AND SOURCES, 1992-2001
(US\$ millions per annum)

	Estimates 1987-91	Projections	
		1992-96	1997-2001
Requirements	28.5	43.8	69.3
Merchandise imports	22.9	33.2	49.6
Merchandise exports	-4.2	-5.6	-9.7
Principal repayments /a	0.3	0.6	0.9
Interest payments /a	0.0	0.0	0.1
Other service payments /b	3.4	5.0	10.3
Change in Gross Official Reserves	5.9	10.5	18.1
Sources	28.5	43.8	49.3
RERF interest	9.8	16.8	13.1
Private transfers	3.1	7.2	11.4
External grants	16.9	20.0	22.7
Public loan disbursements	0.0	0.6	0.9
Other capital (net)	-1.5	-0.9	1.1

/a Public MLT debt only.

/b Excludes RERF interest.

Source: World Bank staff estimates.

outstripped by a rapid rise in imports that reflects the economy's relatively strong medium-term growth. Measured in relation to GDP, the widening of the trade deficit is expected to be roughly matched by a stronger surplus on services, most notably earnings on the RERF. On transfers account, official transfers would remain roughly unchanged in real terms, while private transfers would rise at a pace that reflects larger numbers of I-Kiribati working abroad, principally as seamen. After widening in the first years of the decade, the surplus on current account would narrow somewhat in relation to GDP, ending the projection period roughly unchanged from the early 1990s. On capital account, there would be a sizable increase in borrowing by the Government to augment official transfers. There would also be substantially higher inflows of foreign direct investment as the private sector expands, and slower accumulation of net foreign assets by the financial community as sustained, strong domestic growth opens the way to more bankable local projects. Gross official foreign exchange reserves would rise in absolute terms throughout the projection period, but would drop off slowly in relation to import cover, ending the decade at the equivalent of approximately 6 years of imports.

7.9 *External Financing Requirements.* Based upon the preceding projections, a summary of Kiribati's estimated external financing requirements is provided in Table 7.2. The overall financing requirement would rise progressively over the next decade, averaging around US\$55 million per year compared with a bit less than US\$30 million in the past 5 years. The rise is largely accounted for by imports, but further accumulation of gross official reserves and service payments (mainly freight and insurance on the rapidly expanding imports) would also contribute to the rise.

7.10 To meet this expanding financing requirement, a marked shift would be needed in the composition of sources of financing. Most noticeably, the share of external grants can be expected to drop, from more than one half in the past five years to less than one-third by the final half-decade of the projection period. To offset this decline, interest earnings on the RERF would rise (brought on by higher yields as well as growing balances in the Fund) and greater private transfers would be needed. Public loan disbursements would need to rise a little and net foreign assets of financial institutions would need to accumulate at a slower pace.

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TABLE 1.1: POPULATION ESTIMATES (MID YEAR), 1981-92

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992 Est.
Banaba	80	70	60	50	48	64	89	124	173	240	245	251
Makin	1,518	1,578	1,644	1,713	1,784	1,781	1,779	1,778	1,773	1,770	1,810	1,851
Butaritari	3,858	3,424	3,491	3,560	3,630	3,657	3,685	3,713	3,741	3,769	3,855	3,948
Marakei	2,483	2,535	2,588	2,643	2,698	2,728	2,759	2,789	2,820	2,852	2,917	2,984
Abalang	3,743	3,898	4,159	4,227	4,403	4,547	4,695	4,848	5,006	5,170	5,288	5,409
N. Tarawa	2,445	2,621	2,809	3,011	3,227	3,304	3,382	3,463	3,545	3,629	3,712	3,797
S. Tarawa	19,799	20,197	20,603	21,017	21,439	22,116	22,815	23,636	24,279	25,046	25,818	26,204
Maiana	1,892	1,953	2,015	2,080	2,147	2,154	2,161	2,168	2,178	2,183	2,233	2,284
Abonama	2,593	2,684	2,778	2,875	2,976	3,020	3,065	3,111	3,157	3,205	3,278	3,353
Kuria	888	910	957	1,008	1,057	1,045	1,034	1,023	1,012	1,000	1,023	1,046
Aranuka	918	933	950	967	986	989	993	996	999	1,000	1,023	1,046
Nonouti	2,470	2,581	2,696	2,816	2,942	2,964	2,985	3,007	3,029	3,051	3,121	3,192
N. Tabiteuea	3,107	3,123	3,139	3,155	3,172	3,177	3,183	3,189	3,194	3,199	3,272	3,347
S. Tabiteuea	1,282	1,277	1,292	1,307	1,323	1,325	1,326	1,327	1,329	1,331	1,361	1,392
Beru	2,828	2,417	2,511	2,609	2,711	2,748	2,785	2,822	2,860	2,899	2,965	3,033
Nikunau	1,922	1,957	1,992	2,028	2,065	2,053	2,040	2,028	2,016	2,004	2,050	2,097
Onotoa	2,061	2,025	1,990	1,956	1,923	1,953	1,984	2,015	2,047	2,079	2,126	2,175
Tamana	1,372	1,374	1,375	1,376	1,378	1,379	1,380	1,382	1,383	1,384	1,416	1,448
Arorae	1,529	1,514	1,408	1,483	1,468	1,436	1,457	1,452	1,446	1,441	1,474	1,508
Total Gilberts	65,740	67,071	68,457	69,879	61,375	62,440	63,597	64,768	65,985	67,252	68,787	70,360
Washington	429	435	440	446	452	516	590	673	761	878	898	919
Fanning	438	440	441	443	445	541	659	802	936	1,187	1,214	1,242
Christmas	1,434	1,507	1,583	1,663	1,748	1,873	2,006	2,149	2,330	2,467	2,523	2,581
Total Line	2,301	2,382	2,464	2,552	2,645	2,930	3,255	3,624	4,027	4,532	4,635	4,742
Total Phoenix					24	27	30	34	38	42	43	44
Total Kiribati	68,041	69,453	70,921	72,431	64,044	65,397	66,882	68,426	70,060	71,828	73,465	75,146

Source: Data provided by Kiribati authorities.

Notes: (1) Estimates shown in this table take into account the repatriation of 353 Tuvaluans, about 400 expatriates (including Chinese laborers) and over one thousand I-Kiribati from Banaba when the British Phosphate Commission ceased its mining operation in 1979. Of the I-Kiribati repatriated 948 were assumed to return to their respective home islands in 1979 and the remaining 400 in 1980. The islands' growth rates calculated from the adjusted 1980 population and the 1985 figures are then used to derive the intervening years' estimates. Interpolation between 1985 and 1990 uses the 1985 and 1990 Census counts with respect to each individual island. Estimates for 1991 and 1992 are derived by applying a natural population growth rate of 2.23% per annum.

(2) The 1985 figures shown above are slightly higher than the 1985 census figures because of the mid-year estimate adjustments.

TABLE 1.2: ACTIVITY STATUS OF THE INDIGENOUS POPULATION (15 YEARS & OVER)
BY SEX AND ISLAND, 1990

	MALE				FEMALE				TOTAL			
	Cash employment	Village work	Home duties	Unemployed	Cash employment	Village work	Home duties	Unemployed	Cash employment	Village work	Home duties	Unemployed
Banaba	53	21	1	7	8	15	52	1	61	36	53	8
Makin	72	337	5	1	26	366	43	2	98	723	48	3
Butaritari	307	541	13	6	89	660	47	2	396	1,401	60	8
Marakei	363	171	72	107	81	196	440	85	444	367	512	192
Abaiang	192	931	67	2	56	1,127	77	2	248	2,058	144	4
N. Tarawa	322	513	35	19	119	578	245	10	441	1,091	280	29
Maiana	86	391	148	4	36	326	294	--	122	717	442	4
Abemama	659	118	17	3	348	222	285	2	1,007	340	302	5
Kuria	75	171	13	1	15	229	54	--	90	400	67	1
Aranuka	230	45	1	--	32	251	5	1	262	296	6	1
Nonouti	123	59	584	3	39	32	736	2	162	91	1,300	5
N. Tabiteuea	350	497	16	5	90	417	382	6	440	904	399	11
S. Tabiteuea	71	288	26	1	23	224	151	--	94	512	177	1
Beru	481	222	31	24	178	216	274	60	659	438	305	104
Nikunau	173	391	4	--	99	434	25	--	272	825	29	--
Onotoa	72	531	8	2	30	639	11	--	102	1,169	19	2
Tamana	59	254	63	1	23	46	422	--	82	300	485	1
Arorae	62	363	32	1	33	428	37	--	95	791	69	1
Total: Outer Island	3,750	5,834	1,116	167	1,325	6,625	3,580	193	5,075	12,459	4,696	380
S. Tarawa	3,221	2,570	260	341	1,648	3,906	1,405	174	4,869	6,476	1,665	515
Washington	164	104	4	--	11	221	15	--	175	325	19	--
Fanning	287	81	--	--	17	275	27	--	304	356	27	--
Christmas	426	327	2	--	115	551	12	--	541	878	14	--
Canton	--	--	3	1	--	7	1	--	--	7	4	1
Total: Kiribati	7,848	8,916	1,385	529	3,116	11,585	5,040	367	10,964	20,501	6,425	596

Source: 1990 Population Census.

Notes: (1) A significant proportion of those in "cash employment" are wage and salary earners.

(2) Village work includes subsistence activities like fishing, cutting toddy, etc.

(3) The definition of un-employed here may be different from those adopted by other countries. Not included are the disabled, jail-inmates, students, old age persons, etc.

TABLE 1.3: CASH EMPLOYMENT BY INDUSTRY, SEX AND AGE GROUP, 1990

	Male					Female					Total
	15-24	25-34	35-49	50+	Total	15-24	25-34	35-49	50+	Total	
Agriculture & Fishing	512	735	649	391	2,277	69	90	92	52	303	2,580
Mining	--	--	--	--	--	--	--	--	--	--	--
Manufacturing	35	47	53	31	166	76	129	155	95	455	621
Electricity & Water	21	70	101	19	211	23	32	28	5	88	299
Construction	53	128	110	21	310	4	10	8	--	22	332
Distributive Trade	144	306	297	155	902	148	153	88	37	424	1,326
Transport & Communication	98	319	327	49	791	30	56	33	--	119	910
Finance Service	53	92	98	39	282	41	46	47	12	146	428
Public Administration	153	484	662	246	1,545	150	243	133	17	543	2,088
Education	42	108	185	22	357	75	189	116	10	390	747
Health	21	42	44	15	122	52	104	90	10	256	378
Other Services	140	225	262	127	754	105	96	81	25	307	1,061
Not Stated	21	48	47	23	139	18	23	16	6	63	202
TOTAL	1,291	2,602	2,835	1,128	7,856	791	1,171	885	269	3,116	10,972

Source: 1990 Population Census.

TABLE 2.1: GROSS DOMESTIC PRODUCT BY ECONOMIC ACTIVITY, 1981-1992
(A\$'000 at current prices)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992 Est.
Agriculture	6,823	7,393	9,053	12,083	8,939	7,561	7,796	11,761	9,571	8,024	9,253	10,670
Copra	2,242	1,982	2,304	5,223	2,784	-242	1,891	3,985	1,888	851	1,794	2,500
Fishing	1,467	1,798	2,925	2,920	2,040	3,500	1,935	3,208	3,014	2,393	2,544	3,020
Other Commercial Activity							70	90	100	130	170	300
Non-monetary	3,114	3,613	3,824	3,940	4,135	4,303	4,400	4,480	4,589	4,850	4,745	4,850
Phosphate mining	--	--	--	--	--	--	--	--	--	--	--	--
Manufacturing	535	572	649	670	705	723	761	782	820	840	875	920
Monetary	232	218	224	214	183	170	180	..	..	..	..	..
Non-monetary	303	354	425	456	522	553	581	..	..	..	..	..
Electricity & Water	358	358	595	783	797	732	871	832	1,129	1,035	759	800
Construction	1,480	1,510	1,417	1,379	1,607	2,227	1,980	2,200	2,380	2,620	2,360	2,300
Monetary	1,228	1,237	1,108	1,044	1,205	1,745	1,400	..	..	..	..	..
Non-monetary	254	273	309	335	402	482	580	..	..	..	..	..
Trade and Hotels	3,884	4,888	3,902	4,251	4,439	4,634	5,000	5,500	6,050	6,650	6,900	7,250
Transport and Communications	3,862	6,278	5,600	4,683	5,341	5,727	5,750	6,100	6,340	6,630	6,790	7,130
Transport	3,497	5,837	5,054	4,237	4,853	4,775	4,794	5,088	..	..	..	..
Communications	375	441	546	446	688	952	956	1,014	..	..	..	..
Finance and Insurance	828	886	819	877	1,470	1,932	1,980	2,000	2,190	2,190	2,250	2,200
Real Estate	152	108	234	-21	251	265	88	283	240	170	200	230
Owner-occupied Dwelling	427	473	542	580	845	887	700	714	730	743	760	780
Government	7,301	7,355	8,129	7,962	8,351	8,837	8,420	8,703	9,868	10,013	11,745	12,338
Community Services	455	703	767	714	838	1,040	1,093	1,148	1,200	1,230	1,250	1,300
Less: imputed bank charges	-572	-843	-498	-832	-1211	-1802	-1850	-1900	-1950	-2010	-2080	-2000
GDP (at factor cost)	25,331	29,679	31,011	33,109	32,170	32,763	32,599	39,083	39,568	38,135	41,062	43,916
Plus: Indirect taxes	3,992	3,960	3,850	3,996	4,360	4,980	5,309	5,199	5,319	5851	6475	6500
Less: Subsidies	-3818	-4908	-4632	-3570	-3733	-1800	-728	-780	-501	-558	-615	-398
GDP (at market prices)	25,505	29,733	30,229	33,535	32,797	35,943	37,180	42,496	43,384	43,430	46,922	50,018
Monetary GDP	21,407	24,020	25,129	28,224	27,093	29,918	30,760	35,956	36,714	36,649	40,004	50,018
Non-monetary GDP	4,098	4,713	5,100	5,311	5,704	6,025	6,420	6,540	6,670	6,781	6,918	--
	7.7	5.5	6.3	5.4	4.6	6.5	6.5	3.1	5.3	4.8	5.5	5.0
Memorandum Items:												
Real GDP (1980 Prices)	23,671	25,275	25,019	28,331	24,639	25,343	24,618	27,295	28,463	25,278	25,887	26,281
CPI (1980=100)	107.7	113.7	120.8	127.4	133.1	141.8	151.0	155.7	163.9	171.8	181.3	190.3
Nominal GNP	..	34,745	36,994	42,345	42,157	53,012	54,940	59,666	63,194	64,070	67,882	70,088
Real GNP (1980 Prices)	..	30,564	30,618	33,248	31,670	37,378	36,377	38,324	38,547	37,291	37,450	36,826

Source: Data provided by Kiribati authorities and staff estimates.

Note: Real series have been derived by using CPI as deflator.

TABLE 3.1: BALANCE OF PAYMENTS, 1981-92
(A\$ million)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992 Est.
Exports, f.o.b.	3.6	2.4	4.0	12.5	6.1	2.5	6.1	6.7	6.4	5.6	4.2	5.7
Imports, f.o.b.	22.8	22.8	19.8	20.9	21.6	21.5	25.1	28.2	28.6	34.4	33.2	45.0
Trade Balance	-19.2	-20.4	-15.8	-8.4	-15.5	-19.0	-19.1	-21.5	-22.2	-28.9	-29.1	-39.3
Services (net)	-2.4	-2.5	-3.4	0.1	1.3	9.2	5.5	4.4	7.2	8.4	16.4	8.4
Receipts	12.5	12.0	12.6	15.2	18.4	26.4	25.0	25.2	27.5	30.3	37.0	30.1
of which RERF Interest	5.8	4.8	5.5	6.7	5.5	10.9	11.1	11.6	13.2	13.6	15.0	14.0
Payments	14.9	14.6	16.0	15.1	17.1	17.2	19.5	20.8	20.3	21.9	20.6	21.7
Private transfers, net	1.2	1.8	1.3	1.5	1.3	2.4	3.2	3.4	3.9	4.3	5.7	7.9
Official transfers	16.7	13.8	18.4	16.2	17.8	22.0	22.4	19.8	19.3	25.3	23.3	32.2
Current Balance	-3.7	-7.3	0.7	9.4	4.9	14.6	12.0	6.0	8.2	9.2	16.3	9.1
Capital balance	2.1	-0.4	-2.8	2.2	-1.0	-1.4	-4.6	-7.1	-3.0	-1.7	-0.4	-1.3
Borrowing, net	1.5	-0.1	-0.3	-1.3	0.0	0.1	-0.4	--	-0.1	0.8	--	0.6
Savings accounts abroad	0.9	0.4	-0.9	3.3	0.0	0.0	-3.1	1.9	-0.1	-0.5	1.9	--
Non-bank finance institutions	-0.3	-0.7	-1.6	-0.7	-0.9	-1.8	-1.1	-7.5	-2.3	-2.4	-1.9	-1.5
Others	0.0	0.0	0.0	-0.2	-0.1	0.3	--	-1.5	-0.4	0.4	-0.4	-0.4
Errors and Omissions	-0.8	6.4	5.8	1.2	3.0	-5.6	-1.3	-0.8	2.6	3.4	0.4	-0.5
Overall Balance	-2.4	-1.3	3.7	12.8	6.9	7.4	6.1	-1.9	7.9	10.8	16.3	7.4
Monetary Movements (increase in foreign assets)	2.4	1.3	-3.7	-12.8	-8.9	-7.4	-6.1	1.9	-7.9	-10.8	-16.3	-7.4
Commercial bank	2.4	1.3	-3.5	-11.5	-8.8	-0.5	-0.6	4.8	-1.7	-1.9	-1.1	--
Monetary authorities	--	--	-0.1	-1.2	1.8	-6.9	-5.6	-3.0	-6.2	-8.8	-15.3	-7.4
Reserve Fund	--	--	-0.2	-1.2	2.2	-7.1	-6.1	-3.5	-6.3	-8.8	-15.3	-7.4
Government foreign accounts	--	--	0.1	--	-0.4	0.2	-0.5	0.5	0.1	--	--	--
Reserve position in the IMF	--	--	--	--	--	-1.0	1.0	--	--	--	--	--
Memo items:												
Current Balance/GDP (%)	-14.5	-25.4	2.3	28.0	14.9	40.6	32.3	14.1	18.9	21.2	34.7	18.2
Official Aid/GDP (%)	65.5	48.0	60.9	48.3	54.3	61.2	60.2	46.6	44.5	58.3	49.7	64.4
Gross Official Reserves (A\$m)	..	90.8	101.5	116.6	167.1	206.4	240.5	201.9	228.4	222.5	263.5	275.2
(in years of imports)	..	4.0	5.2	5.8	7.7	9.6	9.6	7.2	8.0	6.5	7.9	6.1

Source: Data provided by Kiribati authorities and staff estimates.

TABLE 3.2: VALUE OF EXPORTS BY COMMODITY: 1981-91
(A\$'000)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Copra	2,638	1,454	2,158	6,987	4,718	459	1,173	4,203	3,127	1,023	2,089
Handicrafts	3	2	1	4	8	3	3	--	4	3	1
Shark fins	15	30	18	49	35	22	16	18	42	82	24
Fish	701	516	1,503	1,718	1,017	1,775	823	1,608	2,600	984	277
Seaweed	--	--	--	--	--	21	62	15	85	723	676
Pet Fish	--	--	--	--	--	--	--	--	--	--	336
Other domestic, nes	20	17	9	10	12	14	41	6	115	264	11
Domestic exports	3,377	2,018	3,689	8,788	5,790	2,294	2,118	5,848	5,973	3,009	3,414
Re-exports	200	335	316	3,687	265	202	751	823	462	672	748
TOTAL EXPORTS	3,577	2,353	4,005	12,455	6,055	2,496	2,869	6,671	6,435	3,681	4,162

Source: Data provided by Kiribati authorities.

TABLE 3.3: VOLUME AND UNIT VALUES OF MAJOR DOMESTIC EXPORTS, 1982-91

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
<u>Volume (metric tons)</u>										
Copra	8,796	6,764	11,333	10,876	4,611	4,437	11,790	10,175	4,662	7,817
Fish	579	1,658	2,289	1,038	1,524	658	1,466	2,667	661	146
Seaweed	--	--	--	--	22	65	32	115	798	693
Shark Fins	2	1	3	2	1	1	1	2	1	1
<u>Unit Values (A\$/metric ton)</u>										
Copra	165	319	617	455	100	264	356	307	218	267
Fish	889	809	751	980	1,165	1,251	1,103	1,013	1,120	1,897
Seaweed	..	..	..	..	955	954	469	739	906	975
Shark Fins	18,750	20,000	16,333	19,444	20,000	16,000	15,000	21,000	29,091	24,000

Source: Data provided by Kiribati authorities.

TABLE 3.4: DOMESTIC EXPORTS BY DESTINATION, 1981-91
(A\$'000)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
OCEANIA											
Australia	15	31	18	50	38	22	108	15	39	11	18
New Zealand	--	--	6	2	6	28	56	13	7	1	--
Fiji	74	211	247	2	202	1,140	451	1,358	2,388	652	..
Marshalla	407	321	51	1,068	710	32	1	5	405	272	..
A. Samoa	--	281	1,133	1,489	245	140	--	--	--	--	--
Tonga	--	--	--	--	--	--	131	144	10	--	--
Other	46	70	143	721	209	22	10	11	1	8	28
TOTAL OCEANIA	542	914	1,598	3,932	1,410	1,384	757	1,544	2,848	944	606
ASIA											
Japan	36	887	239	--	101	--	--	--	--	--	--
Other	524	--	--	2	1,171	--	1	3	3	21	1,689
TOTAL ASIA	560	887	239	2	1,272	--	1	3	3	21	1,689
AMERICAS											
USA	619	216	371	230	484	481	324	247	273	542	442
TOTAL AMERICAS	619	216	371	230	484	481	324	247	273	542	442
EEC											
Denmark	--	--	1,482	4,604	--	--	--	--	85	723	676
W. Germany	--	--	--	--	1,181	--	--	--	--	--	--
Netherlands	--	--	--	--	--	161	1,037	4,054	2,784	778	--
Other EEC	--	--	--	--	--	--	--	--	--	--	--
TOTAL EEC	--	--	1,482	4,604	1,181	161	1,037	4,054	2,849	1,501	676
OTHER, nes	1,657	--	--	--	1,489	268	--	--	--	--	--
GRAND TOTAL	3,378	2,017	3,690	8,768	5,798	2,294	2,119	5,848	5,973	3,008	3,413

Source: Data provided by Kiribati authorities.

Note: Exports to Fiji consist mainly of fresh tuna from Te Mautari Ltd, the national fishing company.

TABLE 3.5: IMPORTS BY COMMODITY GROUP, 1982-91
(A\$ 000)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Food and Live Animals	5,213	5,138	5,626	5,975	5,691	7,793	8,090	8,669	9,147	9,953
Beverages and Tobacco	1,174	1,147	1,130	1,039	1,236	1,540	1,588	1,506	1,530	2,285
Crude Materials	375	517	268	184	338	266	574	451	954	503
Mineral Fuels	3,441	2,520	3,088	3,236	2,239	2,671	2,980	3,201	3,694	3,631
Animal and Vegetable Oil and Fats	30	18	38	29	24	29	44	128	149	83
Chemicals	917	822	1,090	1,086	1,142	1,248	1,371	2,389	1,754	1,838
Manufactured Goods	2,843	3,378	2,169	2,060	4,408	3,633	3,584	2,949	4,074	4,113
Machinery and Transport Equipment	6,276	4,446	6,062	6,354	4,251	5,219	7,681	6,585	6,566	8,241
Miscellaneous Manufactured Articles	2,356	1,515	1,314	1,417	1,984	2,480	2,151	2,406	6,381	2,382
Other Miscellaneous	146	105	0	202	159	293	192	314	197	208
Total	22,771	19,606	20,878	21,582	21,452	25,142	26,185	28,596	34,446	33,237

Source: Data provided by Kiribati authorities.

TABLE 3.6: IMPORTS BY COUNTRY OF ORIGIN, 1981-91
(A\$'000)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Australia	10,961	9,639	9,120	8,490	8,388	8,693	10,993	12,352	13,119	11,493	13,413
New Zealand	1,106	1,682	2,316	2,141	1,376	1,065	1,819	1,382	1,397	1,827	2,167
Fiji	1,579	1,563	1,269	1,692	1,822	2,543	1,633	4,313	3,621	6,658	5,708
Other	564	351	383	1,496	2,101	1,891	2,256	1,570	482	209	85
TOTAL OCEANIA	14,210	13,235	13,088	13,819	13,165	14,182	16,891	19,617	18,619	20,287	21,363
Japan	2,682	3,995	3,572	3,478	4,566	4,155	2,980	3,086	4,361	8,140	6,101
Hong Kong	305	316	353	354	422	421	724	810	791	447	483
China	223	231	395	410	780	591	1,121	1,473	1,373	1,529	1,742
Other	183	173	205	274	575	461	1,051	848	965	1,066	1,699
TOTAL ASIA	3,393	4,715	4,525	4,511	6,343	5,628	5,876	6,217	7,490	11,212	10,025
USA	4,255	2,239	1,265	548	560	698	1,076	1,356	1,839	2,279	1,180
Other	10	5	4	6	3	95	142	22	12	27	24
TOTAL AMERICAS	4,265	2,244	1,269	554	563	793	1,218	1,378	1,851	2,306	1,204
Netherlands	--	--	--	--	--	--	--	--	--	145	1
UK	906	560	622	877	1,192	570	281	427	410	368	369
Other	35	46	79	1,067	150	188	137	503	108	86	121
TOTAL EEC	941	606	701	1,966	1,342	758	418	930	518	597	491
Other countries, nes	22	1,974	22	24	169	91	740	43	118	44	154
GRAND TOTAL	22,831	22,774	19,605	20,877	21,582	21,452	25,143	28,185	28,598	34,446	33,237

Source: Data provided by Kiribati authorities.

Table 4.1: EXTERNAL GRANTS AND LOANS, 1982-92
(In millions of US\$)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992 Est.
United Kingdom	8.5	9.0	5.2	4.9	3.5	3.7	2.4	2.1	1.7	1.7	1.4
Budgetary grant	3.5	3.2	1.5	1.0	--	--	--	--	--	--	--
Project aid	1.9	3.2	1.9	1.3	0.8	1.2	1.0	1.0	1.0	0.8	0.8
Technical assistance	3.2	2.6	1.7	2.4	2.7	2.7	1.4	1.1	0.7	0.9	0.7
Australia	2.3	2.0	2.5	1.6	1.9	1.8	2.0	3.9	1.9	2.1	2.3
Sewage project	1.1	0.4	0.1	--	--	--	0.2	0.2	0.0	0.0	0.0
Water project	--	0.5	1.0	1.0	1.3	1.2	0.0	0.3	0.5	0.8	0.8
Other aid	1.1	0.9	0.9	0.4	0.5	0.5	0.9	2.9	1.0	0.9	1.1
Bank of Kiribati equity loan	--	--	0.3	--	--	--	0.0	0.0	0.0	0.0	0.0
Defense cooperation program	--	--	--	--	--	--	0.5	0.2	0.0	0.0	0.0
Technical assistance	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.4	0.4	0.5
New Zealand	0.4	0.4	0.5	0.8	1.6	1.8	1.7	1.6	1.4	1.8	1.5
Of which: Technical assistance	--	--	--	--	0.1	0.1	0.3	0.2	0.2	0.2	0.2
Japan	1.1	2.2	1.4	2.5	4.2	3.6	1.6	2.5	8.8	3.2	9.0
Fishing vessels	--	1.2	1.3	2.1	--	--	0.0	0.0	0.0	0.0	0.0
Cold storage facilities	0.7	0.7	--	--	--	--	1.4	0.4	0.2	0.0	0.4
Causeway	--	--	--	--	3.9	3.1	0.0	0.0	0.0	0.0	0.0
Technical assistance	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Hospital	--	--	--	--	--	--	0.0	0.2	8.2	1.7	0.1
New Ship	--	--	--	--	--	--	0.0	0.0	0.0	0.2	7.9
Other	0.3	0.2	--	0.3	0.2	0.4	0.0	1.7	0.2	1.1	0.4
European Community	0.3	1.5	2.2	0.7	0.8	2.1	3.6	0.8	0.9	4.1	6.0
Direct	0.3	0.8	0.9	0.6	0.7	0.1	2.7	0.2	0.7	3.0	2.1
Regional	--	--	1.2	--	0.1	0.1	0.0	0.6	0.2	1.1	3.4
STABEX	--	0.9	--	0.1	--	1.8	0.9	0.0	0.0	0.0	0.5
Training	--	--	--	--	--	--	0.0	0.0	0.0	0.0	0.0
Asian Development Bank	0.2	0.2	0.4	0.4	0.5	1.0	0.5	1.7	0.5	0.5	1.1
Loans	--	--	--	0.2	0.2	0.6	0.3	1.4	0.3	0.2	0.6
Technical assistance	0.2	0.2	0.4	0.2	0.2	0.4	0.2	0.2	0.2	0.2	0.5
Other	1.2	1.6	2.1	1.5	2.1	2.3	3.9	4.2	4.8	5.0	3.8
WHO	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.2	0.3	0.3	0.5
UNDP/UNFPA/UNICEF	0.1	0.1	0.2	0.1	0.4	0.5	1.0	1.2	0.9	0.9	0.6
Save the Children/FSP	0.2	0.3	0.3	0.3	0.4	0.4	0.0	0.1	0.1	0.1	0.1
Canada/Fed. Rep. of Germany	0.3	0.3	0.4	0.3	0.4	0.4	0.3	0.3	0.2	0.4	0.3
China	--	--	0.3	0.1	0.2	0.3	0.0	0.0	0.4	0.2	0.8
SPC/SPEC/ESCAP	0.1	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.3	0.2
USAID/Peace Corps	0.1	0.3	0.3	0.2	0.4	0.3	0.4	0.9	0.3	0.3	0.4
France/Korea	--	--	--	--	--	--	0.0	0.1	0.2	0.1	0.2
Others	--	--	--	--	--	--	1.7	1.3	2.2	2.4	0.8
Total	14.1	16.6	14.2	12.5	14.8	16.4	15.6	16.7	20.1	18.4	24.9
Memorandum items:											
Development expenditure 1/	6.5	8.9	9.6	7.7	11.0	10.2	11.8	11.1	16.1	..	..
Technical assistance	7.5	7.8	4.6	4.8	3.8	6.2	3.5	2.9	4.0	..	..

Sources: Data provided by Kiribati authorities and staff estimates.

1/ Based on central government budget data.

Table 4.2: GROSS EXTERNAL ASSETS, 1982-92
(In millions of A\$)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992 Est.
Total external assets	94.98	107.25	123.11	174.50	215.62	250.83	219.75	249.69	245.08	287.95	275.20
RERF	83.80	90.10	97.10	138.60	176.56	207.45	176.08	200.94	220.40	263.25	275.00
Reserve position in the IMF	--	--	--	--	1.05	--	--	--	--	--	--
Government bank accounts abroad	2.59	3.46	0.11	0.50	0.33	3.93	1.48	1.53	2.09	0.20	0.20
STABEX accounts abroad	2.40	3.33	0.00	0.00	0.00	3.15	1.21	1.33	1.87	--	--
Other 1/	0.19	0.13	0.11	0.50	0.33	0.78	0.27	0.20	0.22	0.20	0.20
National Provident Fund	4.20	5.80	6.50	7.40	9.20	10.35	17.89	20.22	22.59	24.50	--
Bank of Kiribati	4.40	7.90	19.40	28.00	28.50	29.10	24.30	26.00	--	--	--
Memorandum items:											
Reserve Fund											
Changes, net	10.77	3.64	5.17	6.32	18.47	28.94	-31.37	24.86	19.46	42.85	11.75
Interest received	4.97	5.39	6.81	6.13	11.46	11.14	11.64	13.15	13.58	14.03	14.00
Valuation gains 2/	10.77	3.64	3.96	8.78	9.95	22.80	-35.01	16.71	9.98	26.27	4.39
Transfer to the budget	-4.97	-5.39	-5.59	-8.57	-2.94	-5.00	-8.00	-5.00	-4.00	0.55	-8.64
Currency composition											
U.S. dollars	27.20	26.50	31.30	32.51	36.19	27.00	41.22	46.58	46.75	55.64	60.00
Deutsche mark	12.30	11.80	11.50	31.39	50.80	37.20	21.68	24.48	9.07	16.01	15.00
Japanese yen	22.40	26.69	28.80	46.10	52.70	44.70	19.13	16.39	28.94	43.08	35.00
Pounds sterling	14.80	14.71	13.00	13.60	10.89	40.85	17.31	10.46	16.41	23.01	25.00
Australian dollars	7.10	10.50	11.10	15.20	25.10	34.60	39.80	62.28	71.16	78.02	80.00
Other	--	--	--	--	--	23.10	36.94	40.75	48.07	48.50	60.00
Portfolio											
Bonds	83.80	90.10	97.10	138.60	176.56	207.45	148.60	167.65	156.80	152.74	145.00
Equities	--	--	--	--	--	--	27.48	43.29	63.60	110.51	130.00
External debt service											
(In percent of exports of goods and services)	--	0.40	0.14	0.36	0.45	0.47	0.35	0.03	0.02	0.01	0.04
	--	2.43	0.50	1.48	1.57	1.63	1.11	0.64	--	--	--

Source: Data provided by Kiribati authorities and staff estimates.

1/ Consists of the Crown Agent Account, Coinage Account, and until 1987, Surplus Revenue Account.

2/ Including accrued interest not received, unrealized capital gains, and the effects of exchange rate changes.

Table 5.1: SUMMARY OF CENTRAL GOVERNMENT FINANCES, 1982-92
(A\$ million)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	
											Budget	Est.
Total Revenue and Grants	22.6	26.8	26.7	30.1	29.5	32.4	33.3	34.6	41.5	44.8	51.2	51.2
Tax Revenue	4.5	4.6	4.5	5.0	5.7	7.5	7.4	8.3	9.2	10.1	10.3	10.3
Non-tax Revenue	8.3	8.9	9.5	12.7	8.1	11.8	11.7	10.6	12.2	16.6	14.9	14.9
Of which: RERF drawdown	4.8	5.5	5.5	7.7	2.8	5.1	8.0	5.0	4.0	2.0	6.6	6.6
Grants 1/	9.9	13.3	12.7	12.5	15.8	13.1	14.2	15.6	20.1	18.0	26.0	26.0
Current Expenditure	18.0	18.4	15.7	18.8	18.6	18.9	19.3	20.2	19.9	22.8	24.5	24.6
Of which: Personal												
Emoluments	5.8	6.6	6.9	6.9	6.8	7.5	7.8	8.8	8.8	10.4	11.0	11.0
Capital Expenditure	6.4	9.8	10.9	11.0	16.4	13.7	14.6	15.8	21.4	18.8	27.6	27.6
Overall Balance	0.2	0.5	0.0	2.3	-3.5	1.8	-0.6	-1.5	0.2	3.2	-0.8	-0.9
STABEX Transactions (net)	--	--	--	--	--	1.9	0.5	0.2	-0.2	-0.3	-0.8	-0.8
Income Re-invested in RERF	--	--	1.2	-2.2	8.1	6.1	3.5	8.1	9.6	12.7	7.0	7.0
Adjusted Overall Balance	0.2	0.5	1.3	0.1	4.6	9.7	3.3	6.9	9.6	15.5	5.5	5.3

1/ External assistance excluding STABEX, technical assistance, food aid and loans. Includes UK budgetary support for 1982-85.

Source: Data provided by Kiribati authorities and staff estimates.

TABLE 5.2: CENTRAL GOVERNMENT REVENUE AND GRANTS, 1982-92
(A\$'000)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992 Budget
Direct tax	1,020	1,278	1,054	1,202	1,581	2,360	2,318	3,090	3,520	3,817	3,750
Personal	747	1,067	954	1,038	1,180	1,231	1,807	1,801	1,763	2,006	1,860
Company	273	211	100	164	401	1,129	1,011	1,289	1,757	1,811	1,900
Indirect tax	3,445	3,932	3,482	3,776	4,078	5,165	5,069	5,241	5,899	6,313	6,585
Import duty	3,428	3,299	3,472	3,739	4,023	5,090	5,014	5,213	5,628	6,213	6,500
Export duty	2	15	--	--	--	--	--	--	--	--	--
Licences	15	18	10	11	12	10	21	--	--	--	--
Hotel tax	--	--	--	26	43	65	33	26	73	100	85
TAX REVENUE	4,465	4,610	4,536	4,978	5,659	7,525	7,386	8,331	9,219	10,130	10,335
Entrepreneurial Income	1,590	874	666	231	123	425	281	272	376	529	1,280
House rent	--	1	1	19	56	58	88	79	96	84	201
Philatelic sales	1,047	--	2	2	--	23	--	--	--	--	--
Shipyard sales	66	145	37	--	--	--	--	--	--	--	--
Telecom	183	171	243	--	--	--	--	--	--	--	--
Fish sales	73	57	22	26	47	217	47	42	38	32	30
PWD income	221	500	361	184	20	115	126	151	244	413	1,049
Private work	--	--	--	--	--	12	--	--	--	--	--
Property Income	5,176	6,748	7,563	11,202	7,038	7,452	10,427	8,224	8,252	14,565	11,839
Fish licence	--	983	1,930	3,105	3,780	2,148	2,213	3,009	3,974	11,917	4,723
RERF drawdown 1/	4,750	5,500	5,500	7,700	2,800	5,082	8,000	5,000	4,000	2,000	6,630
Interest received 2/	426	295	133	375	393	78	118	109	144	183	180
Bank of Kiribati	--	--	--	22	83	146	96	106	134	465	306
Administrative Fees, Charges	1,511	1,233	1,244	1,228	922	3,874	1,002	2,134	3,553	1,541	1,774
Aircraft landing fees	--	--	2	--	--	114	109	64	57	52	170
School fees	108	104	103	98	97	96	98	86	135	130	154
Naada contribution 3/	316	223	630	229	104	194	--	511	284	300	373
Other	1,087	908	509	901	721	3,470	795	1,473	3,077	1,059	1,077
NONTAX REVENUE	6,277	6,855	9,473	12,661	6,061	11,751	11,690	10,630	12,161	16,835	14,693
TOTAL REVENUE	12,742	13,465	14,009	17,639	13,740	19,276	19,076	18,961	21,400	26,765	25,228
GRANTS	9,900	13,300	12,674	12,484	15,800	13,100	14,200	15,600	20,100	18,000	26,000
TOTAL REVENUE & GRANTS	22,642	26,765	26,683	30,123	29,540	32,376	33,276	34,561	41,500	44,765	51,228

Source: Data provided by Kiribati authorities.

1/ Amounts withdrawn. The balance of payments shows the amounts earned.

2/ Does not include interest from STABEX deposits.

3/ Payments by Japanese space agency for the use of Christmas Island facilities to obtain meteorological information.

TABLE 5.3: CENTRAL GOVERNMENT RECURRENT EXPENDITURE: 1981-92
(A\$'000)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992 Budget
Salaries	4,387	4,156	4,972	5,277	5,397	5,497	5,927	6,281	7,135	7,141	8,260	9,470
Wages	916	813	702	473	448	460	439	343	442	320	389	395
Allowances	361	238	288	319	337	288	334	466	269	326	408	337
Overtime	205	193	180	299	212	223	349	344	590	616	653	428
Provident fund	269	310	325	313	402	223	304	251	318	347	405	310
Pensions & gratuities	135	139	169	179	105	88	128	68	84	98	85	85
Land rents	345	236	218	212	229	221	249	252	226	224	515	290
Water supplies	330	330	330	330	280	230	180	130	80	60	25	20
S. Tarawa sewerage	-	98	139	139	140	140	200	310	186	150	115	100
Maintenance of government housing	508	473	380	280	380	315	148	96	108	161	149	160
Other subsidies	1,253	1,896	1,164	696	1,189	548	186	394	394	377	284	179
Outer islands grant	151	230	256	253	257	297	343	368	459	578	515	700
Transfers to non-profit institutions	41	66	75	56	71	72	80	84	25	152	17	253
Transfers to household	14	39	385	3	25	94	19	40	--	--	--	--
Transfers abroad	377	179	362	268	166	579	393	251	864	641	815	624
Office expense	148	164	163	179	199	323	319	333	392	392	391	460
Travelling	1,277	1,412	1,199	1,401	1,531	1,874	1,616	1,895	1,845	1,851	2,095	2,235
Hire of vehicles	1,174	885	1,006	1,057	1,288	825	1,023	628	906	910	996	1,207
Overseas travel	124	132	98	135	196	197	171	308	560	456	458	603
Utilities	405	529	556	526	507	569	468	522	544	536	584	600
Others n.e.c.	5,559	3,530	3,473	3,343	3,406	3,574	4,013	6,537	4,773	4,531	5,465	6,022
TOTAL	17,978	16,016	16,439	15,739	16,815	16,635	16,868	19,325	20,189	19,667	22,834	24,478

Source: Data provided by Kiribati authorities and staff estimates.

- Notes:
- (1) Magistrate's sitting allowance, volunteer assistance and special constabulary payments all included in "allowances".
 - (2) Government contributes half of its employees total provident fund payments to the Kiribati Provident Fund (KPF).
 - (3) "Furniture for houses" expenditure is included with "maintenance of government housing".

**TABLE 6.1: MONETARY SURVEY, 1987-91 1/
(In millions of A\$)**

End of period	1987	1988	1989	1990	1991 Est.
Foreign Assets (net)	29.1	24.8	26.0	27.9	29.8
Domestic Credit	-0.2	-1.6	-0.8	-0.3	-0.4
Claims on Government (net)	-2.1	-5.1	-5.1	-4.9	-5.1
Claims on Public Enterprises	1.2	1.2	0.6	0.6	0.8
Claims on Private Sector	0.7	2.3	3.7	4.0	3.9
Deposits	28.9	28.9	24.2	26.1	28.6
Demand	4.2	4.2	4.1	4.4	4.9
Savings	3.9	4.7	5.0	5.5	6.5
Time	20.8	15.0	15.1	16.2	17.2
Other Items (net)	--	-1.2	0.9	1.5	0.8

Source: Data provided by Kiribati authorities.

1/ Balance sheet of Bank of Kiribati, the only commercial bank.

TABLE 8.2: INTEREST RATES STRUCTURE, 1982-1992 1/
(percent per annum)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992 2/
LENDING RATES											
Secured	10.50	10.50	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	10.00
Unsecured	10.50	10.50	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	11.00
DEPOSIT RATES											
Term Deposits under A\$ 50,000											
3-6 months	7.00	7.00	6.00	6.00	6.00	..	..	..	..	..	..
6-12 months	7.25	7.25	7.00	7.00	7.00	7.00	7.50	7.50	8.00	8.00	8.00
12 months & over	7.50	7.50	8.00	8.00	8.00	8.00	8.50	8.50	9.00	9.00	7.00
Term Deposits over A\$ 50,000											
7 days	..	..	9.00	14.00	--	--	11.125	15.00	10.20	6.625	
14 days	..	..	9.00	14.00	--	--	11.125	15.50	10.30	6.825	
1 month	..	..	9.37	15.31	--	--	11.90	16.00	10.60	7.025	
2 months	..	..	10.45	16.44	--	--	12.15	16.25	10.70	7.125	
3 months	..	..	10.37	16.62	--	--	12.275	16.50	10.80	7.225	
6 months	..	..	11.12	16.19	--	--	12.525	16.50	10.90	7.352	
Savings Accounts	4.00	4.25	5.00	5.00	5.00	5.00	5.50	5.50	6.00	6.00	4.00
Island Accounts	--	--	--	--	--	6.50	7.00	7.00	7.50	7.50	5.50

1/ Bank of Kiribati interest rates as of September.

2/ Rates became effective June 15, 1992.

Source: Data provided by Kiribati authorities.

TABLE 7.1: COPRA PRODUCTION AND FISH CATCH, 1982-90
(Metric tons)

	1982	1983	1984	1985	1986	1987	1988	1989	1990
COPRA PRODUCTION									
Gilbert Islands	8,081	6,362	11,403	5,334	4,411	5,188	12,731	7,323	4,066
Line Islands	1,808	585	1,988	3,149	1,500	850	1,711	2,602	1,537
Total Kiribati	9,889	6,947	13,389	8,483	5,911	6,038	14,442	9,925	5,603
FISH STATISTICS: TML 1/									
Vessels' Catch	492	1,838	2,053	719	1,358	384	1,504	2,330	577
Local Purchases	177	397	387	348	227	4	252	302	169
Total Supply	669	2,035	2,440	1,066	1,585	388	1,756	2,632	746
Local Sales	159	164	133	151	182	204	153	87	54
Exports	497	1,789	2,219	959	1,433	224	1,208	2,474	787
Total Sales	656	1,953	2,352	1,110	1,595	428	1,361	2,561	821

Source: Data provided by Kiribati authorities.

1/ Te Mautari Ltd., the national fishing company.

TABLE 7.2: VISITOR ARRIVALS BY COUNTRY OF RESIDENCE AND MODE OF TRANSPORT, 1987-91

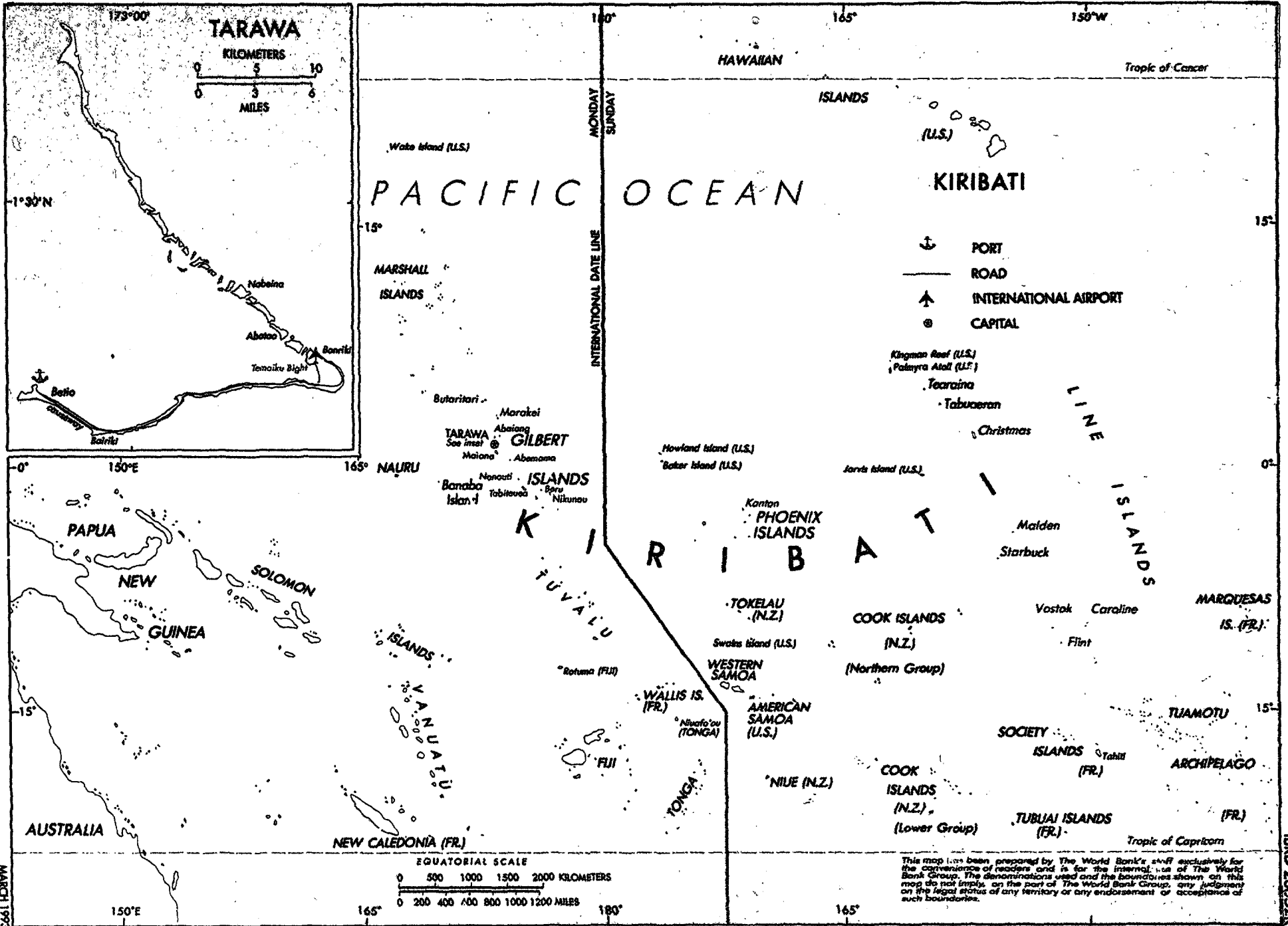
	TARAWA					KIRITIMATI				TOTAL				
	1987	1988	1989	1990	1991	1988	1989	1990	1991	1987	1988	1989	1990	1991
United States	230	304	236	221	141	588	703	421	216	230	892	939	642	357
Japan	101	141	144	130	133	65	62	122	38	101	206	206	252	171
United Kingdom	72	111	95	78	48	17	12	22	2	72	128	107	100	60
Australia	271	362	439	362	375	15	31	19	17	271	377	470	381	392
New Zealand	184	187	197	141	96	25	14	17	4	184	212	211	158	100
Fiji	225	312	312	304	277	8	11	2	--	225	320	323	306	277
Nauru	702	464	79	828	397	--	--	--	--	702	464	79	828	397
Tuvalu	396	197	99	154	178	--	--	--	--	396	197	99	154	178
Other Oceania	393	381	186	182	241	7	9	--	16	393	388	196	182	257
Other Countries	200	237	334	381	215	44	48	58	25	200	281	380	419	240
TOTAL	2,774	2,696	2,121	2,761	2,101	769	868	661	318	2,905	3,465	3,009	3,422	2,419
BY AIR	2,661	2,519	2,008	2,679	2,101	671	823	587	318	3,741	3,190	2,831	3,266	2,419
BY SEA	113	177	113	82	--	98	65	74	--	164	275	178	156	--

Source: Data provided by Kiribati authorities.

TABLE 8.1: INDEX OF CONSUMER PRICES, 1981-91
(annual average percentage change)

	Food 500	Alcohol & Tobacco 140	Clothing 80	Transport 80	Housing & Househo'd 75	Misc. 125	All Items 1,000
1981	6.8	1.0	8.4	24.7	14.0	1.8	7.7
1982	3.7	9.9	5.0	7.9	9.6	5.1	5.5
1983	3.5	14.5	3.9	7.2	11.4	4.5	6.3
1984	4.6	5.1	8.9	2.4	10.4	6.0	5.4
1985	4.2	3.5	14.0	11.3	-2.5	2.8	4.5
1986	7.3	8.0	1.6	10.3	4.8	7.1	6.6
1987	6.0	4.0	6.0	3.1	14.9	1.5	6.5
1988	4.1	2.2	7.8	1.1	-0.1	2.7	3.1
1989	3.7	0.4	8.8	5.3	8.9	15.0	5.3
1990	3.0	5.6	4.2	6.4	3.0	13.0	4.8
1991	4.2	9.8	1.7	6.5	12.0	1.7	5.5

Source: Data provided by Kiribati authorities.



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