

Improving Public Sector Performance

Scope of the Public Sector

The public sector includes general government and the PEs. General government comprises the central or national Government and local government as represented by the Island Councils.

The scope of the national Government is similar to that in other countries in the region. It comprises 20 agencies, the two largest being the health and education ministries that together account for more than a third of recurrent expenditure. The key central agencies are the Ministry of Finance and Economic Planning and the Office of the President, the Public Service Office, and the Public Service Commission. Most economic sectors are overseen by their own specialized ministry. The law and order sector is managed by three agencies (the Judiciary, Office of the Attorney General, and Police and Prisons), an independent National Audit Office is in place and there is a ministry responsible for administering the remote Line and Phoenix Groups (Table 4.1).

Public enterprises number at least 28 government-controlled businesses and four commercial joint ventures, operating in most parts of the economy including finance, primary industry, manufacturing and trading sectors, and utilities (Table 4.2). PEs include monopolies in the provision of infrastructure services, primary producers, hotels, and trading businesses operating in direct competition with the private sector.

The public sector accounts for two thirds of formal employment and almost 80% of total wages and salaries. The sheer size of the public sector means that the level of government expenditure (around 110% of estimated GDP in recent years) is a key determinant of aggregate demand and, hence, economic activity. The central role of the public sector in the formal economy means that its performance has an important influence on the ability of the private sector to develop and for people to generate their own income.

The public sector also plays a critical role in supporting living standards via its role as the main service provider. The performance

Table 4.1: Agencies of the Central Government

Department/Ministry	Functions
Office of <i>Beretitenti</i>	Administration and policy development Support to the <i>Beretitenti</i>
Public Service Office (PSO)	Management of the Public Service Human resource planning and development
Judiciary	Judicial services Magisterial services Legal support services Administration and policy development
Police and Prisons	Administration and policy development Airport and domestic fire services Custody and supervision of prisoners Surveillance of the exclusive economic zone Investigation, prosecution, intelligence General maintenance of law and order
Public Service Commission	Monitor public service appointment and discipline
Ministry of Foreign Affairs	Administration and policy development Immigration services Representation of Kiribati interests abroad
Ministry of Home affairs and Rural Development	Administration and policy development Rural development services Services to local government Land administration

of the public sector has a direct influence on the mental and physical well-being of most people in Kiribati. Public sector entities are the only provider of health services, primary and almost all junior secondary education, telephone and internet services, domestic air travel, insurance and superannuation services, radio broadcasts, port services, importing and wholesaling of petrol and diesel, solar energy systems, shipping services to several of the remotest islands, wholesale activities on most outer islands, and piped water and electricity on South Tarawa and Kiritimati.³⁸

Table 4.1 (continued)

Department/Ministry	Functions
Ministry of Environment and Social Development	Administration and policy development Civil registration Improving the environment Meteorological information Social welfare Culture and tradition
<i>Maneaba ni Maungatabu</i>	Administration and policy development Parliamentary meetings and committees
Ministry of Commerce, Industry and Tourism (MCIT)	Administration and policy development Promotion of tourism Industrial promotion and development Facilitation of commerce and trade Promotion of commerce, industry, and tourism in Kiribati
Kiribati National Audit Office	Government audits Audits of statutory authorities Audits of local governments
Office of the Attorney General	Administration and policy development Civil law Criminal prosecutions Law revision Registration of companies
Ministry of Natural Resources Development (MNRD)	Administration and policy development Services to agriculture and livestock

(continued)

Table 4.1 (continued)

Department/Ministry	Functions
Ministry of Health	Services to fisheries and marine resources Licensing of foreign fishing vessels Management of mineral resources Administration and policy development Support services and statistics Population and family planning Maternal and child health Immunization Sanitation and supply of water Control of communicable diseases Nutrition Curative care Laboratory Radiology Dental pharmacy/medical stores Health education Nurses and medical assistants training Mental health
Ministry of Education, Training and Technology (METT)	Administration and policy development Primary education services Junior secondary education Secondary education services, KGV/EBS Secondary School Secondary education services, Meleangi Tabai Secondary School Secondary education services, Teabike College Secondary education administration Secondary education services, mission schools Vocational and technical education services Support to nonformal, tertiary, and higher education Teacher training Conducting and provision of exams Teaching resources Provision of library and archival services
Ministry of Information, Communication and Transport (MICT)	Administration and policy development Search and rescue Services to shipping Infrastructure for navigation Administration and regulation of civil aviation Operation of airports Postal services Philatelic bureau

Table 4.1 (continued)

Department/Ministry	Functions
Ministry of Finance and Economic Planning (MFEP)	<ul style="list-style-type: none"> Administration and policy development Accounting and financial management Internal audit Economic planning and management Taxation administration Kiribati customs service Statistical services
Ministry of Works and Energy (MWE)	<ul style="list-style-type: none"> Administration and policy development Energy planning Electricity for public places PWD administration and policy development PWD construction services Water supply Joinery services Technical and design services Civil engineering services
Ministry of Labour, Employment and Co-operatives (MLEC)	<ul style="list-style-type: none"> Administration and policy development Labor services Employment services Services to cooperatives Marine Training Centre Fisheries Training Centre
Ministry of Line and Phoenix Group (MLPG)	<ul style="list-style-type: none"> Administration and policy development Finance management Stevedoring Wildlife management Maintenance of infrastructure Maintenance of housing Electricity distribution Electricity generation Water supply

Table 4.2: Corporate Public Enterprises and Joint Ventures

Enterprise	Main Activities	Government Share (%) ^a	Responsible Ministry ^b
1 Abamwakoro Trading Limited	Wholesale household goods	82	MCIT
2 Air Kiribati	Domestic and international air travel	100	MICT
3 Atoll Motor and Marine Services Limited	Retailing of household goods	100	MCIT
4 Atoll Seaweed Company Limited	Promotion of seaweed production for export	100	MNRD
5 Bank of Kiribati Limited	Local and international banking services	25	MFEP
6 Betio Shipyard Limited	Ship repair and ship building services, upholstery and retailing of hardware goods	100	MICT
7 Bobotin Kiribati Limited	Wholesale household goods and retailing in South Tarawa	100	MLEC
8 Broadcasting and Publication Authority	Broadcasting and production/sale of publications	100	MICT
9 Captain Cook Hotel Limited	Accommodation and catering for visitors to Kiritimati	100	MLIPG
10 Central Pacific Produce	Sale of fisheries produce locally and overseas	100	MNRD
11 Development Bank of Kiribati	Source of loans and advice and assistance to businesses	100	MFEP
12 Kiribati Co-operative Copra Society	Purchase and export of copra	100	MLEC
13 Kiribati Copra Mill Company Limited	Production and export of copra oil and production for domestic sales of cooking oil and soap products	100	MCIT
14 Kiribati Handicraft and Local Produce Limited	Retail and export of local handicrafts and produce (e.g., salted fish)	100	MCIT
15 Kiribati Housing Corporation	Housing and related services, repair and maintenance of government housing, furniture and equipment replacement, etc.	100	PSO
16 Kiribati Insurance Corporation	General insurance services	100	MFEP
17 Kiribati Oil Company Limited	Distribution of petroleum products	100	MWE

Table 4.2 (continued)

Enterprise	Main Activities	Government Share (%) ^a	Responsible Ministry ^b
18 Kiribati Otoshiro Fishing Company	Offshore tuna fishing	49	MNRD
19 Kiribati Ports Authority	Operation of Kiribati's main port in South Tarawa	100	MICT
20 Kiribati Provident Fund	Provision of superannuation services	100	MFEP
21 Kiribati Shipping Services Limited (Main Operation)	Provision of domestic shipping services	100	MICT
22 Kiribati Shipping Services Limited (Te Tauu Bunkering Services)	Receipt of proceeds from the sale of the MV Te Tauu	100	MICT
23 Kiribati Supplies Company Limited	General retailer	100	MFEP
24 Kiritimati Maintenance Company Limited	Maintenance service for Japanese space vehicle project	20	MWE
25 Kiritimati Marine Export Limited	Purchase of marine products (e.g., fish, lobster) for resale locally or overseas	100	MNRD
26 Otintaai Hotel Limited	Provision of hotel accommodation, catering, shopping, and other services	100	MCIT
27 Plant and Vehicle Unit	Financing the provision and maintenance of government plant and vehicles	100	MWE
28 Public Utilities Board	Supply of electricity and water and sewerage disposal on South Tarawa	100	MWE
29 Solar Energy Company Limited	Provision of solar power systems for lights and radios outside South Tarawa	100	MWE
30 Tarawa Biscuits Company Limited	Manufacture of cabin biscuits	100	MCIT
31 Telecom Kiribati Limited	Ownership of telecommunication plant and equipment (leased to TSKL) and retailing electronic goods	100	MICT
32 Telecom Services Kiribati Limited	Provision of domestic and international communication services	100	MICT

^a Incorporates the ownership of shares held by other PEs (e.g., DBK).

^b See Table 4.1 for full titles of ministries.

Source: Ministry of Finance and Economic Planning public enterprise database.

Human Resource Management

The Public Service Office (PSO) is charged with managing the Public Service and undertaking human resource planning and development. The PSO is complemented by the Public Service Commission (PSC), which approves public service appointments.

A key management tool is the National Conditions of Service. These conditions have recently been reviewed and are with Cabinet for approval. There is awareness in the PSO of the need to reflect principles of merit selection and promotion, transparency, and accountability.

The public sector is short of capacity to manage people. Human resource management responsibility is contained in the job descriptions of deputy secretaries and some administrative assistants in each agency, but the opportunities for public sector officers to obtain skills and knowledge in people management or human resource management are limited. Although the PSO offers short training courses on an annual basis, the skills are not being used in the workplace for a variety of reasons. These include the transfer of officers who have been trained to positions where the skills are not needed; the short nature of the training vis-à-vis the complexity of some of the functions; and the attendance at training by lower-level administrative staff, which leaves higher-level management without an appreciation of the usefulness of human resource management activities.

Salaries and the numbers of positions that can be filled in the Public Service are controlled by Cabinet. A recent job evaluation of the Public Service resulted in a 6% increase in staff levels. The evaluation also recommended that the minimum qualification levels for several positions be raised. These recommendations are awaiting Cabinet approval. If they are approved, they could result in many positions being readvertized so that qualification levels can be met.

The PSO and PSC do not have oversight of PEs. The control of numbers of PE employees and their salary levels lies with their boards of directors.³⁹

To make decisions about the future human resource needs of the public service it is important to have information from which to

assess those needs. The PSO is developing a database that will provide good decision-making information. The information in the database is currently being checked for accuracy. This process is expected to be complete by the end of 2002, after which the database can be used to provide the PSO and departmental managers with such information as number of people employed by categories, such as level and sex, retirement projections, leave taken and leave due, turnover rates,⁴⁰ and discipline and achievement records of individual employees.

The above information will assist the PSO to plan future financial needs for salaries and leave to be taken, to plan leave patterns of employees so as not to disadvantage the employee's agency, to better assess future recruitment and scholarship needs, and to advise the Government on the formulation of human resource policy.⁴¹ The database could also assist senior managers when considering employees for promotion by providing ready access to up-to-date information on achievements and the discipline record of individuals.

It will also be possible to develop the database further by including job descriptions for each position against which the skills held by individuals (e.g., qualifications, participation in additional training courses) could be matched. This would help provide a more refined assessment of human resource development needs and become part of the decision-making process for promotions. Table 4.3 lists the types of data that could be considered for inclusion in an upgraded human resource management database.

Managing the Budget

Kiribati has historically shown considerable fiscal discipline. Evidence of this is the building up of massive reserves in the RERF per head of population. Governments have made conscious decisions to accumulate reserves for the long term rather than spend more on health, education, physical infrastructure, etc. Facilitating fiscal discipline is one of the requirements of a good budget system, and the Kiribati budget system has performed well in this respect.

The quality of financial management is also shown by the reliable conduct of routine tasks. Budgets are prepared in a timely

Table 4.3: Human Resource Management Data

<p>Biographical information</p> <ul style="list-style-type: none"> Employee skills/qualifications Employee impediment restrictions Employee impediment treatments Employee medical screenings Employee notations Employee biographical information <p>Establishment register</p> <ul style="list-style-type: none"> Positions Position occupants Position skills Employee exit interviews Organization units Employee establishment information <p>Training management</p> <ul style="list-style-type: none"> Training programs Training courses Training course dates Training schedules Employee training information 	<p>Recruitment management</p> <ul style="list-style-type: none"> Advertisements Applicants Salary administration Benefit types Employee benefits Employee benefit payments <p>Leave management</p> <ul style="list-style-type: none"> Leave requests and approvals Leave parameters Leave totals Leave history <p>Performance management</p> <ul style="list-style-type: none"> Performance levels Steps Job grades Employees performance levels Competence levels
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fashion, budget documents provide considerable detailed information on approved and actual expenditure, there are few problems with arrears, and the procurement process appears to be competitive and reasonably well managed. Further improvements are expected with the enactment of the Public Procurement Act, prepared with assistance from the Pacific Financial Technical Assistance Centre. Kiribati has accepted the eight principles of accountability adapted by Pacific forum countries, and must periodically report progress with their implementation.

Nonetheless, there is considerable room to improve the performance of the budget system. The main areas of weakness are defects in the system of output budgeting; the limited formal controls on individual expenditure items, particularly those outside the recurrent budget; asset management; and the quality of the links between the planning and budget system.

The output budget was first adopted in 1994, but the benefits have fallen well short of expectations. There are problems in ensuring

that outputs defined in the budget accurately reflect what a ministry actually does, and so far the output monitoring system appears to have been largely ineffective. One of the consequences is that ministries can perform poorly, free of any effective mechanism for highlighting the problem and triggering remedial action. Supplementary budget allocations are often made during a year for routine functions, pointing to a weakness in the budget planning process.

The Minister for Finance recently summarized the experience with the output budgeting system in the following terms:

“What I am suggesting is that the improvements to public financial management which we have made so far have often been more of form rather than of real substance. We have made changes in the terminology and the presentational aspects of our budgets but have we really brought about change in the way we actually think about public financial management and in monitoring and rewarding performance? This latter is the hard part, which lies ahead. We must strive now to implement the *performance management* part of the financial and budgeting system.” (Minister of Finance and Economic Planning, 2000).

Government expenditure is funded from four sources. On average, around 60% is central government recurrent expenditure funded from the Consolidated Fund. About 30% is central government development expenditure funded from the Development Fund and aid in-kind. The Island Councils account for another 3%, and the remainder is central government expenditure sourced from a number of special funds including an import levy fund that provides the freight subsidy for outer island shipping services.⁴²

Expenditure from the Consolidated Fund is appropriated by parliament to a detailed level, but there is considerable flexibility to vary this appropriation within a year without returning to parliament. Parliamentary approval is only required for an increase in the appropriation for a “head.” A head of expenditure normally comprises the allocation of funds to a major function of government, e.g., education, assigned to a ministry. Funds can be moved between outputs within a head (e.g., a ministry) with the approval of the Minister of Finance, while the accounting officer (normally the permanent secretary of the responsible ministry) has the authority

to move funds between the items of an output (e.g., from stationery to electricity), except for wages and salaries.

Such flexibility in the management of the Consolidated Fund is important in allowing agencies to work effectively and efficiently, but it needs to be balanced by appropriate accountability measures. In this respect, the present weakness in the output budget system in adequate reporting on the activities and performance of agencies is of concern.

Parliament has a much more limited role in the operation of the Development Fund. Parliament approves the total government allocation to the Development Fund from the Consolidated Fund. This only accounts for the lesser part of the Development Fund, on average 15% over the 1990s or almost 35% more recently. Parliament does not approve allocation to individual projects.⁴³ Most of the cash for the Development Fund is provided by donors, who also provide additional in-kind development contributions that are not processed through the Development Fund at all. None of this donor funding is approved by parliament. Parliament is advised of the total that might be allocated to individual projects by the Government and donors (cash and in-kind) as part of the documentation accompanying the annual budget,⁴⁴ but there is no reporting to parliament of actual expenditure on individual development projects.

The documents supporting the budget refer only to the total contribution from the Consolidated Fund to the Development Fund and an estimate of the total donor contribution.

Thus, as much as 30% of government expenditure is largely outside public scrutiny.⁴⁵ This is an important shortcoming in the accountability framework. It provides the Government with a means of shielding certain expenditures from parliamentary and public attention. For example, if a government wanted to reduce the scrutiny of a new initiative, it could place the initiative under the development budget rather than the recurrent budget. This would avoid the requirement for parliamentary approval of the funding or for reporting on actual expenditure.⁴⁶ Although there is no obvious sign that this shortcoming has been abused, it is a weakness that would be better removed.

Expenditures from Special Funds are subject to rules submitted to parliament. In practice these rules provide considerable discretion to the Minister of Finance and there is minimal opportunity for the parliament or the public to scrutinize expenditure from special Funds. This is a further weakness in the accountability system.

Little is known publicly about the expenditure of Island Councils. Their estimates are approved by the Minister of Home Affairs and Rural Development. While local social pressures may be an effective constraint on Island Councils, a better system of monitoring and reporting would provide more opportunity for the general public to discuss and influence their expenditure.

The budgets of PEs are subject to much less public scrutiny than the general government sector, although some are required to submit their budgets for approval of the responsible minister. The only time parliament is required to approve funds to these enterprises is when a subsidy or investment is made from the Consolidated Fund and, as noted above, even this scrutiny could be avoided by shifting the funding to the Development Fund. The public reporting of PE activities is limited to the financial audits of their accounts provided to the Public Accounts Committee of parliament by the auditor-general. Some of these financial audits are several years out of date, and in any event say very little about the operations or performance of the enterprises.

Both the Government and public-enterprise sector have a tendency to poor management of physical assets, highlighted by the deterioration in power and water services on South Tarawa, characterized by regular blackouts and the rationing of piped water supply to one to two hours a day. For some time Air Kiribati has had only one of three aircraft operating and since late 2001 there have been frequent closures of the international airport due to poor maintenance of the runway. There are also widespread problems in maintaining school buildings and health centers, particularly in the outer islands.

In addition to maintenance problems, it appears that significant shortcomings can emerge in the evaluation of some investment decisions. This is evidenced by the recent decision to build a copra mill intended to produce coconut products for local sale and export. The preparatory documentation did not establish the project's

expected profitability or need for financial support. Another example is a recent decision to lease a medium-range aircraft for Air Kiribati to provide international air services in the central Pacific. The lease and insurance cost of the aircraft is substantial at approximately \$3 million per year. These costs are incurred whether the aircraft flies or not. The lease commenced at a time when Air Kiribati was unable to ensure that any of its three existing aircraft were operational, before important operational and marketing arrangements were in place, and without any detailed evaluation of the ongoing subsidy that the aircraft will require. Less-than-commercial viability may be justified in certain circumstances, leading to the need for capital and operating subsidies, but it is dangerous to accept the risk to public funds without quantifying it.

The policy framework guiding the activities of the public sector is spelt out in the National Development Strategies. While the Strategies are a useful statement of how the public sector would like to operate at some point in the future, there are many discrepancies between the policy position and actual implementation, particularly in the areas of economic management. This casts doubt on the extent to which the budget process is being guided by a clear policy direction. Long-term budget planning requires a more realistic and achievable vision of policy objectives and strategies.

A related issue is the need to improve the procedures for integrating donor activities and the budget process. There is a tendency for donors to manage their own projects outside the budget process, a move apparently triggered by concerns about delayed acquittal information and the inflexibility of the budgetary process. The outcome is a weakening of transparency and accountability. As noted above, donor cash contributions do not require parliamentary approval and all in-kind expenditure is effectively off-budget. There is no formal internal mechanism for ensuring the integration of donor activities with accountability to parliament and budget process. This has the potential to encourage inefficient and nontransparent allocation of public resources.

Performance of Public Enterprises

The Government fully owns 28 businesses and shares with the private sector ownership of another four (Table 4.2). These businesses are either incorporated under the Companies Ordinance or are established under their own legislation as statutory authorities. A small number of business-like activities also operate within ministries, such as the Government Printer, the Post Office, and the workshops of the Ministry of Works and Energy.

Most PEs were established to undertake activities considered by governments to be inappropriate for the private sector or unlikely to attract private investment (e.g., activities that are not commercially viable). In general, the enterprises are run more as extensions of the responsible ministry than as independent businesses aimed at maximizing shareholder value. Most of the economic sector ministries are responsible for at least some such enterprises.

To evaluate the performance of a PE, it is necessary to clarify the factors responsible for its performance, and distinguish between those factors that the enterprise can be expected to control and those it cannot. For example, some PEs are obliged to undertake activities that are not commercially viable because of poor demand or high costs of supply, or are subject to price controls because of a government objective to provide essential services cheaply. Others appear to be weighed down by overstaffing, but are unable to rationalize their operations because of the potential political cost of cutting back staff numbers. Under such constraints, good performance may be precluded.

Despite the emphasis on service delivery, there is little information available on how well the PEs perform. Financial accounts provide almost the only source of relevant information. There are limits to the usefulness of such information. Delays in the preparation of audited accounts can mean the available information is out-of-date and no longer relevant; the accounts may not correctly represent the true financial position of the enterprise;⁴⁷ a poor financial performance may have more to do with externally imposed constraints than the quality of management; or an enterprise may be poorly run and inefficient, but still show a profit because it can take advantage of a monopoly position.

The reported financial performance of the PEs is mixed. Some earn high profits, some achieve an acceptable performance with prospects for improvement, while others have sustained losses (Table 4.4). Most of the profitable enterprises are monopolies including the BoK, Telecom Services Kiribati Limited, the Kiribati Ports Authority, and the Kiribati Provident Fund. However, some monopolies are unlikely to earn profits because they have an obligation to undertake activities that are not commercially viable or have constraints on pricing. Enterprises within this group include the Public Utilities Board, the Broadcasting and Publication Authority, the Solar Energy Corporation, and Air Kiribati.

Some PEs achieve acceptable financial results in competition with the private sector. The ability to compete is a *prima facie* indication that such enterprises are operating efficiently.⁴⁸ They include the wholesaler/retailer Bobotin Kiribati Limited, the Atoll Seaweed Company Limited, the Otintaai Hotel on South Tarawa, and the Captain Cook Hotel on Kiritimati Island. Some that have struggled to survive because of strong competition include Atoll Motor and Marine Services, Abamakoro Trading Limited, Kiribati Marine Export Limited, Kiribati Shipping Services Limited, Kiribati Co-operative Society, and Te Mautari Limited. Te Mautari collapsed in 2001 and has been revived under new management in the form of Central Pacific Producers.

Some of the enterprises performing well now previously had financial difficulties. Atoll Seaweed has only recently become profitable. The currently successful Bobotin Kiribati Limited was created from the failed Co-operative Wholesale Society. A key contributing factor to the failure of the latter was intense competition from another PE, Abamwakoro Trading Limited. The situation reversed over the 1990s when Bobotin began to earn good profits while Abamwakoro began to make large losses. More recently, Abamwakoro has addressed its management problems and overstaffing, and closed down some branches in an effort to return to profitability in 2002.

Government financial contributions—subsidies and investments—to the PE sector are substantial, totaling \$5.9 million from the Recurrent Budget and \$2.2 million from the Development Fund in 2001.⁴⁹ The budgeted cash contributions from the Recurrent

Budget for 2002 are down at only \$1.4 million. However, the cash contributions from the Development Fund over the first half of 2002 were \$4.5 million, with the full year cash contributions budgeted as \$13.1 million. Budgeted in-kind contributions for 2002 are \$21.3 million, mainly in the form of a new power station.

Total company tax receipts from PEs are about \$2.0 million, most of which is paid by BoK and Telecom Services Kiribati Limited. These are also the only two companies to pay dividends to the Government, amounting to about \$1 million per year.

As well as the employment objective in this and other chapters, an often-stated reason for the large number of PEs in Kiribati is the need to provide competition to the private sector. This is seen as a way of keeping the prices of goods and services down and generating benefits for consumers and the economy. There is some anecdotal evidence of a price lowering effect from their presence. For example, the diversification of Betio Shipyards into retailing is credited with a reduction in hardware prices, and private wholesalers argue that the government-owned wholesale businesses simply depress earnings throughout the sector. Such price-reducing competition may be a legitimate tool of policy if the playing field were really level, that is, if the PEs met similar costs to those facing the private sector. It is also possible that rather than reducing prices, an inefficient public enterprise that does not have to compete to stay in business may actually raise average prices.

Key Factors in Public Sector Performance

Formal Rules and Informal Understandings

The formal rules of the public sector are routinely set out in government publications such as budget documents, the National Development Strategies, and the National Conditions of Service. However, these formal rules differ markedly from informal understandings that appear to apply widely in the public sector. Consultations for this report found strong indications that these informal understandings are more influential than the formal rules

Table 4.4: Financial Performance of Public Enterprises

Enterprise	Key Financial Aggregates for the Latest Year ^a	
	Assets (\$ million)	Equity (\$ million)
1 Abamwakoro Trading Limited	3.7	1.0
2 Air Kiribati	2.2	0.7
3 Atoll Motor and Marine Services Limited	1.9	1.1
4 Atoll Seaweed Company Limited	0.6	0.4
5 Bank of Kiribati Limited	58.1	1.9
6 Betio Shipyard Limited	1.8	0.9
7 Bobotin Kiribati Limited	5.3	1.0
8 Broadcasting and Publication Authority	1.0	0.8
9 Captain Cook Hotel Limited	2.1	1.3
10 Central Pacific Producers/Te Mautari Limited	4.8	-4.0
11 Development Bank of Kiribati	5.6	3.8
12 Kiribati Copra Cooperative Society Limited	3.0	2.3
13 Kiribati Copra Mill Company Limited		
14 Kiribati Handicraft and Local Produce Limited		
15 Kiribati Housing Corporation	4.9	4.7
16 Kiribati Insurance Corporation	2.4	1.0
18 Kiribati Oil Company Limited	6.6	5.1
19 Kiribati Otoshiro Fishing Company		
20 Kiribati Ports Authority	23.4	23.1
21 Kiribati Provident Fund	65.1	64.9
22 Kiribati Shipping Services Limited (Main Operation)	14.3	0.3
23 Kiribati Shipping Services Limited (Te Tauu Bunkering Services)	3.1	0.8
24 Kiribati Supplies Company Limited	3.0	2.2
17 Kiritimati Maintenance Company Limited	0.4	0.4
25 Kiritimati Marine Export Limited	0.5	-0.2
26 Otintaai Hotel Limited	2.2	2.0
27 Plant and Vehicle Unit	4.4	5.6
28 Public Utilities Board	7.6	6.0
29 Solar Energy Company Limited	0.3	0.2
30 Tarawa Biscuits Company Limited	0.3	0.1
31 Telecom Kiribati Limited	6.6	1.3
32 Telecom Services Kiribati Limited	5.2	2.0
Total	240.5	130.6

n.c. = not calculated.

^a Expressed in nominal terms (i.e., without any adjustment for inflation).

^b Corresponds to the year of the latest audited accounts (note that the period of the financial year varies between enterprises). Data on the value of equity for KPF, DBK, KCCS, KIC, PUB, and Kiribati Otoshiro Fishing Company are for a later year.

Source: Statistical Appendix.

Table 4.4 (continued)

Rate Of Return on Total Assets (%)	After-Tax Rate of Return on Equity (%)	Year ^b	Government Subsidy and Investment	
			2001 (\$ million)	2002 (\$ million, estimated)
-9	-29	2000	0.0	0.0
-10	-27	2000	0.7	3.1
2	3	2000	0.0	0.0
11	60	2001	0.0	0.0
1	97	2000	0.3	0.0
9	21	1995	0.0	0.0
2	21	2001	0.0	0.0
0	0	1999	0.0	0.0
16	21	2000	0.0	0.0
-19	n.c.	1997	0.8	0.1
0	-2	1997	0.0	0.0
-14	-18	1996	0.0	0.0
			0.3	2.4
			0.2	0.0
2	2	1999	0.4	0.4
-2	-4	1992	0.0	0.0
17	22	1998	0.3	0.0
			0.0	0.0
4	8	2000	0.0	0.0
-2	-2	1998	0.0	0.0
-1	-38	2001	0.0	0.0
118	79	1998	0.0	0.0
3	4	2000	0.0	0.0
2	2	2002	0.0	0.0
0	n.c.	1997	0.2	0.0
7	2	1998	0.0	0.0
-6	-6	1994	0.0	0.0
0	0	1995	1.0	8.5
-16	-27	2000	0.0	0.0
13	25	2001	0.0	0.0
-3	-15	1999	0.0	0.0
8	41	2001	3.5	0.0
			7.6	14.6

in guiding the behavior of individual staff members, ministries, and PEs. Some of the most pervasive informal understandings are that

- employment in the public sector is a way of distributing government income through the extended family rather than a contractual obligation to work;
- nonperformance of work obligations will be tolerated if it is not too obvious;
- private enterprise is to be treated with caution bordering on noncooperation;
- information is not to be shared unless asked for, and then only sparingly; and
- issues are best not confronted and problems are best left to solve themselves.

These informal understandings represent a constraint on raising formal performance standards that may prevent significant or sustained change. Failure to take their existence into account in the design of programs and policies leads to unrealistic goals and unachievable schedules. They have an important bearing on strategies for improving public sector performance.

The objective of using public sector employment as a distributive mechanism is perhaps the most important informal understanding. Overemployment adds to the costs of operations and can undermine motivation if it is common knowledge that employment is not solely merit based.⁵⁰ Both factors tend to reduce performance of government entities, have a flow-on cost to the general community, and inflate budget allocations. Overemployment also results in payment in excess of productivity levels. To the extent that public sector wages set the benchmark for wages in the country, this can lead to wages being above what the private sector can afford to pay, hindering the emergence of private sector activity and more productive work opportunities.

Ineffective Supervision of Public Enterprises

Only a small number of PEs regularly receive government subsidies or investment, and associated political and official intervention. Most enterprises enjoy considerable independence in managing their affairs. The boards of most of them are chaired by either the permanent secretary or deputy secretary of the “caretaker” ministry, and these senior public servants provide the main link between the enterprise and the Government.

The main form of external scrutiny is provided by the auditor-general, who monitors their financial performance when auditing their annual financial statements. The regular criticism by the auditor-general of the accounting and reporting standards of a number of the enterprises indicates a vigorous monitoring of financial records. Unfortunately, it appears that the full value of this work has not been realized. Although the auditor-general reports to the Public Accounts Committee and also to the MFEP, there is only partial follow-up by boards and management of the enterprises of adverse findings. This is reflected in the repetition from year to year of adverse findings on the same matter and a high incidence of qualified audit opinions.⁵¹

The effectiveness of the financial audits is impaired by the delay in the submission of financial accounts by some enterprises. This is mainly a problem in those incorporated under their own legislation, which does not set a time period within which financial accounts must be submitted for audit and in responding to queries by the auditor. In contrast, enterprises incorporated under the Companies Act must submit accounts within 6 months of the completion of their financial year; and there are penalties for late submission.

Apart from arranging generalized “capacity-building” activities, it appears that the central government agencies have a “hands-off” approach to the performance of PEs, showing very little interest in their operations except when extra public funds are requested. The reporting on performance is sparse and there is no formal mechanism for the Government to routinely involve itself in strategic decisions. This means that their performance is largely a matter for their own board and senior management. The effectiveness of this management

appears to be what makes the difference between good and poor performance.

PEs appear to respond to much the same pressures and informal rules as the rest of the public sector. There is a perception that provision of employment is one of their roles, there are few checks on performance, there is little information available on their operations, and—with a few exceptions—the views and needs of customers appear to be a low priority. There is considerable potential to improve the performance of the sector, if the influence of the informal rules can be weakened and more formal performance criteria brought to bear.

Why Public Sector Performance Matters

Elsewhere in the region, large financial failures and concerns about corruption have triggered major reforms in the public sector, with mixed results. Kiribati has so far been free of those unhappy conditions. The causes of concern about the public sector in Kiribati are different, and the nature and timing of any proposed changes must recognize that. There are strong arguments for improving the performance of the public sector and a number of simple ways of doing so.

First, *accountability* demands improved performance. The Government is elected to serve the community and is entrusted with public resources for which it is constitutionally accountable. The community will be best served when the public sector is efficient in its delivery of goods and services, is responsive to the needs of its customers, and reports regularly and fully on how it uses the community's resources.

Second, the *large size* of the public sector requires increased efficiency of resource use. The public sector dominates the economy and absorbs the major part of the nation's financial and skilled human resources. Safeguarding the community's well-being over the long term requires that the public sector be an efficient user of scarce resources, replenishing existing capital assets, and assisting the economy to create new assets for future incomes.

Third, *development of the private sector* requires its improved performance. The scope of government and PE activity is such that private enterprise is heavily dependent on the quality, timeliness, and price-competitiveness of public sector outputs for its own efficient operations. As mentioned, the private sector operates under difficult conditions because of the endowed handicaps of its atoll location. It is important not to add the extra handicaps of an inefficient and less-than-supportive public sector, if economic growth is to be made more sustainable through a greater role for private capital and enterprise.

Ways to Improve Public Sector Performance

The performance of the public sector in sustaining and distributing economic growth can be improved by action in three areas: improving the flow of information publicly and internally; redefining outputs and refocusing the roles of departments and PEs; and strengthening supervision, performance monitoring, and motivation.

Improving the Flow of Information

A fundamental part of modern public sector management is a good flow of information on the public sector's role, efficiency, and effectiveness.⁵² Regular, informative, easy-to-use published reports are essential. Mechanisms need be in place to ensure that this information can be used as a catalyst to improving performance.

Information can empower the general public, the "customer" of the public service, to influence public sector performance. At present, the linkage to the customer appears to suffer from a number of weaknesses. A member of the community would find it very difficult to establish what ministries are supposed to do because the budget statements of most ministries do not provide clear descriptions. There is practically no timely information on what each PE is expected to achieve with its share of the community's resources.

Most people in Kiribati are literate. They are avid readers of the available newspapers and listen keenly to parliamentary sessions. Providing the community with information about public sector intentions and achievements, and the challenges facing Kiribati and the difficulties of meeting them, will demonstrate the will of the Government to engage the community fully in the governance process and produce a better informed, more engaged civil society. People generally will have a better understanding of the roles and responsibilities of citizens, public servants, and politicians and will be able to contribute positively to consultative processes of governance.

Redefining Outputs and Refocusing Roles

In the present economic circumstances, a large public sector is necessary and appropriate. What is important is that the Government, PEs, and the public should know exactly what the components of the public sector are supposed to be doing, how well they are doing it, and if they are not doing it well, how to improve matters. A comprehensive program is under way in MFEP and line ministries to improve the output budgeting system, redefining outputs so that they can be used to manage and monitor performance. A parallel process is required for PEs (see proposals in Annex A).⁵³

There are good reasons why under certain conditions the Government should continue to operate a number of the current PEs for at least the time being. The main reason is that the cost of dealing with a third party supplier of goods and services is so high that it is best for a Government entity to be the supplier.

There are several areas of the economy where there is room for only one supplier and the choice is between a government-owned or a privately-owned monopoly. A privately-owned monopoly would need to be carefully regulated. The prices it charges would need to be monitored and kept to a level that provides a reasonable level of profits on justifiable costs. The administrative cost of the required regulatory regime would be high and may strain the capacity of the Government. It can be more sensible for the Government to own the monopoly in order to have direct control over operations, pricing,

etc. This rationale is most relevant for the Public Utilities Board, Air Kiribati, Kiribati Ports Authority, Broadcasting and Publication Authority, Kiribati Oil Company Limited, Kiribati Provident Fund, and Telecom Services Kiribati Limited.

The Government provides substantial subsidies for the provision of services considered to offer important social benefits. Subsidies for shipping, air freight, and copra exports are justified as one way to ensure that important services are provided to the outer islands at a reasonable cost. Channeling these subsidies through a government entity can be efficient if it avoids the need for costly negotiation and monitoring of contracts with private sector providers.

There are also good reasons why a government would want to avoid owning business enterprises. The experience of many countries is that the incentive to perform and meet customer needs is normally stronger under private ownership than under government ownership. That is, businesses tend to run better when owned by the private sector. The argument for private ownership is strongest when the market is competitive because there is minimal need for regulatory oversight.

It is also important to keep in mind that it is possible to create competition by putting government subsidies out to tender. This could lead to the creation of the beneficial price discipline of competition. Private suppliers could be asked to tender to supply remote island shipping services that they would normally not provide because such services are noncommercial. Providing the tendering process can be made clear and simple, such an approach could avoid the need for a government-run operation. There appear to be many services currently provided by PEs that have the potential for competitive tender.⁵⁴ By the same token it is difficult to justify the retention of enterprises that operate in well developed competitive markets without a clear social rationale for their operation, such as the Plant and Vehicle Unit and the two retailers, Atoll Motor and Marine Services Limited and Kiribati Supplies Company Limited.

Strengthening Supervision and Performance Monitoring

An active search for better performance is an integral part of the private sector model of business. This attitude is also highly appropriate to ministries and PEs, even though it seems to run counter to the informal rules mentioned earlier. Somehow, the private sector's continuous drive to improve performance—to do any task better because if you don't your competitors will beat you—has to be imported into government departments and enterprises.⁵⁵

Public sector managers, both in the Public Service and private enterprise, will be better able to improve performance if they are skilled and knowledgeable about management techniques that have been proven to be effective in situations not too different from Kiribati, and how to implement and monitor them. An outline of a management program that would impart such skills and knowledge and provide the opportunity for managers to improve their organization's performance is outlined in Annex B.

Most PEs have little guidance from the Government on what it expects them to achieve, and there is only occasional scrutiny of their performance. It is important for these enterprises to be responsible for their own day-to-day management, but it is equally important that the Government as owner accept responsibility for strategic issues. Based on the general private sector model of running a business, there is a sound case for a more active system of external supervision.

This would provide many opportunities to improve the financial and service delivery performance of PEs, provide early warning of emerging problems and any need for budget funds, help the Government provide appropriate support via strategic investment or pricing decisions, and enhance the incentive to perform.

A system of independent supervision would also enhance the accountability of PEs by providing more information to parliament and the general public on their activities. An illustrative system of supervision for PEs including a number of policy initiatives that could be readily adopted to provide the basis for gradual improvement in performance, is described in Annex A. The initiatives include a code of governance for the enterprises, the adoption of

service agreements that essentially act as a contract between the enterprise and the Government, the expansion of the role of the auditor-general to undertake performance audits in addition to the current financial audits, and strengthening the role of the Public Accounts Committee as the keystone of the public sector supervisory system.

Box 4.1 uses the case of Telecom Services Kiribati Limited to illustrate the type of analysis likely to be undertaken and the issues that may arise. This enterprise stands out in its advanced information systems backed up by corporate planning. This makes it possible to readily identify the strengths and weaknesses of the organization and its emerging needs.

Box 4.1: Strategic Planning at Telecom Services Kiribati Limited (TSKL)

TSKL is the monopoly provider of telecommunication services in Kiribati. Services provided on South Tarawa include a landline phone system, a mobile phone network, internet services, public phones, PABX, and fax services. TSKL also operates a radio system for the outer islands and provides mobile services to three nearby islands. The corporation operated over much of the 1990s as a joint venture with Telstra, Australia's main telecommunications provider, and entered into full government ownership in June 2001 following the purchase for \$3.4 million of Telstra's 49% stake.

Prior to Telstra's departure, the corporation reported high levels of profitability. Every dollar in sales revenues provided around 25 cents in profit and the return on (the book value of) equity was typically in the order of 75% per annum. On the one hand, the very high profits reported are encouraging because an efficient, well-run operation would be expected to make profits. On the other hand, such a return is considerably higher than competitive benchmarks and this suggests that the corporation may be exercising its monopoly power and setting prices too high. It is also possible that the exercise of monopoly power could be hiding inefficiencies in the operation, in which case action could be justified to reduce prices and raise efficiency levels.

Given the risk that TSKL is exercising its monopoly power, a ministry overseeing the corporation would ideally examine the operation closely. The starting point would be information on productivity and service standards by business segment. The organization's future capital requirements would also need to be examined closely. High prices normally point to the abuse of a monopoly position, but they can also be a sensible way of rationing access to equipment reaching full capacity and may actually be a signal that additional investment is warranted.

Much of the required information is provided in the corporation's business plan for 2002–2007. The plan does point to weakness in efficiency, a key factor being high labor costs. This is reflected in the low number of subscriber

lines per employee—22 compared to 61 for the Fiji Islands, 90 for the Federated States of Micronesia (FSM), 116 for Australia, and 152 for the Asia-Pacific region—and can be partly traced back to a 25% increase in staff numbers over 2000. TSKL's fault rates are high at 171 per 1,000 calls compared to 153 in the Fiji Islands, 89 in FSM, and 64 for the Asia-Pacific region. But revenue and operating expenses per subscriber line compare favorably to regional benchmarks.

The business plan points to the need to invest more in the business. Much of the electronic equipment is 10 years old and requiring major upgrades, the mobile phone system is almost fully subscribed, and there are plans to develop an outer island phone system. Projected capital expenditure over the next 10 years is \$16.8 million. Of this amount, \$10 million for the outer island phone system which will provide phones to the Island Council offices, health facilities, schools, and two pay phones per island.

The corporation plans to fund the initial phase of the outer island phone system from accumulated reserves and the retention of dividends. The latter requires the approval of the responsible minister. Current charges for radio-based outer island calls of \$0.90 per minute for private calls and \$3 per minute for government calls are likely to be well below the full cost, at least until traffic volumes grow, and this implies the need for a cross-subsidy from other activities (mainly international calls).

Profits are projected to continue at between \$1.5 million and \$2.5 million per annum until 2004. Much of the planned capital works could be funded from retained profits over the next 10 years. Alternatively, as argued in this report, financially viable telecommunications development is an excellent opportunity for the use of medium-term loans from, for example, KPF and BoK, thus putting domestic savings to developmental use and allowing TSKL to continue to distribute profits while undertaking capital investment.

Source: TSKL 2002 and personal communications.