

Endnotes

- i GNP is preferred to GDP for reasons explained later in the Summary.
 - ii But in very different circumstances. In South Tarawa, 45% of the population are crowded into the capital, while in Kiritimati, 5% of the population live spaciouly on the atoll that accounts for almost half of Kiribati's total land area.
 - iii "Demographic momentum": the children sure to be born to families already in the making will ensure that such growth occurs, even with a shift to an active population policy to taper off the rate of growth as this report advocates.
- 1 This key result area is discussed in more detail in Chapters 3, 4, and 5.
 - 2 The rise in values in financial markets during the 1990s was well above long-term trends, and a steep fall in the value of the Australian dollar further boosted RERF book values.
 - 3 GDP is the total of all value added in domestic economic activity, while GNP includes income earned from national assets outside the country and I-Kiribati working overseas.
 - 4 This key result area is discussed in more detail in Chapter 3.
 - 5 Estimates by visiting ships in that period, if roughly correct, indicate that the Gilbert Islands other than South Tarawa supported a total population similar to that today. The increase of 35,000–40,000 between then and now is all accounted for by growth in South Tarawa and the Line Islands.
 - 6 There was nothing sentimental about this. Atoll life was never luxurious, and was often harsh and punctuated by emergencies of various kinds. Reciprocal obligations were complex, extending to taking part in warfare and other life-threatening activities. Lazy people who failed to provide for their families were looked down on. Unwanted persons and persistent offenders could be set adrift in canoes, never to be seen again.
 - 7 International concern about poverty nevertheless extends to Kiribati, and is sharpening domestic awareness that unacceptable levels of inequality are emerging. See also Chapter 3.
 - 8 Formal crime statistics are not available, but case reports from officials and an engaged NGO indicate a rising incidence of domestic violence, house breaking, traffic offences related to drinking, general underage

drinking, and several deaths from youth gang fights in South Tarawa during 2001–2002.

- 9 This key result area is discussed in more detail in Chapter 4 and Annexes A and B.
- 10 These are goods and services that for policy reasons need to be or are by their nature available to everyone regardless of ability to pay, such as basic education, health, infrastructure, law and order, and national security.
- 11 This key result area is discussed in more detail in Chapters 6 and 7.
- 12 The *maneaba* system of governance was in widespread use in the Gilbert Islands in precontact times and has survived in modified form under colonial and post-independence governments. The term derives from the large, centrally-located meeting house in which male family elders met to discuss and decide on social, economic, and security issues by consensus, under a strict code of speaking precedence and behavior, but with all sessions open to public scrutiny and subsequent informal comment.
- 13 On South Tarawa, the two urban councils, Betio and Tenainano, have very different constituencies but share many of the same problems. They will eventually need stronger coordination or consolidation and restructuring to provide effective urban services.
- 14 Aspects of this key result area are discussed in more detail in Chapter 4.
- 15 For example, sea ports and airports, electricity supply, water and sanitation systems, employees' housing, hospitals, and schools. The causeway between Bairiki and Betio, constructed with Japanese grant aid, is a distinguished exception. A toll charge is collected from vehicles using the causeway, and timely maintenance is carried out.
- 16 Many countries have seen local contractors begin with contract maintenance work for government and grow into major domestic construction and engineering enterprises.
- 17 Or at least, that the price tag for such assistance in terms of access to marine resources, etc., will continue to be acceptable.
- 18 The world trade in tuna is one of the best and oldest examples of a globalized industry, with all the hallmarks of international competition and cartels, trade barriers and preferences, coexistence of old and new assets and technology, exploitation of fishers by packers, cyclical overproduction and price volatility, high-priced stocks that are under pressure, stocks that are low-priced and still abundant, and endless

- argument about global and regional resource management. In these waters, Kiribati swims among some large and hungry predators.
- 19 The emergence of an open trade in sexual services for visiting fishers is causing concern to the authorities in Tarawa on moral and health grounds. Similar concerns arise in all Pacific island ports competing for the transshipment and provisioning business associated with the tuna fishery.
 - 20 Because Kiribati uses the Australian dollar and funds move freely in and out of the economy, it is reasonable to assume that persistently low interest rates in Kiribati have led to private savings moving abroad.
 - 21 Unlent reserves of the other financial institutions (operating in insurance, housing, and development banking) are relatively small, and the 180 village banks are in effect revolving funds with no unlent reserves. A comprehensive account of the financial sector and current issues appears in a recent study undertaken by the Asian Development Bank (ADB 2001).
 - 22 See for example, ESCAP/POC 1998, ADB 1997, and Knapman and Zhukov 2001.
 - 23 This appears to be developing into a much bigger operation—the Guarantee Corporation—than had been earlier proposed, with a significant risk to public funds from plans to issue loan guarantees up to \$0.5 million.
 - 24 A valuable by-product would be the insistence of lenders on satisfactory standards of financial and operational performance reporting as a condition of lending.
 - 25 The phosphate mine on Banaba (Ocean Island) also closed in 1979. Since then the Government has made new capital contributions of just over \$20 million. Further growth of the Fund is the result of financial market conditions, reinvestment of earnings and capital gains, and exchange rate movements. During 1997–2001, net currency and trading gains added \$160 million to the value of the RERF, while interest and dividends added \$105 million.
 - 26 Described in Chapter 3.
 - 27 Budget policy has been to estimate fisheries license revenue conservatively, and to provide for use of RERF income to balance the national budget. This, in effect, regards part of the revenue as a core source and part as a windfall. Prudent fiscal practice requires that the windfalls be saved and, in a sense, this has been done by not making budgeted drawings on the RERF. It is possible that the underlying

trend has shifted upward because of climate and market changes and recent access negotiations, but information is not currently available to test this proposition.

- ²⁸ In 1996, a drawing of \$13.6 million was required to balance the national budget. This was 2.7 times the \$5 million annual average of the previous 10 years and rang alarm bells within the Government, leading to the policy decision.
- ²⁹ Cofinancing a project with an aid donor enables use of the foreign partner's appraisal process, while "purchasing" influence on the design of the project. The proposed Outer Island Development Trust Fund is an example of this. Kiribati and ADB plan to invest matching amounts in a new trust fund, to which island communities will also contribute, with the disposable income of the fund being available to the island communities for their own development projects and programs. The project provides a way of putting RERF savings to work domestically with minimal risk to the capital moneys involved.
- ³⁰ Proposals for the implementation of this strategy are in Annex C.
- ³¹ At first sight this seems a mysterious statistic, but it is explained by the fact that much government expenditure is converted almost immediately into the purchase of imports by the Government itself or its employees, involving very little value-adding economic activity in the Kiribati economy. What is respent in the domestic economy provides the demand for PE and private sector output.
- ³² Although there have been no drawings from the RERF in recent years, they have been budgeted and then not implemented as fish licensing revenues grew. The rapid growth of the RERF appears to have had an important influence on the willingness of the Government to spend other sources of revenue, and on attitudes to the need to develop the tax system.
- ³³ The statistics presented in this section on the sources of household income are based on the census findings regarding the main and secondary sources of household income. The census reported more than one main source of income per household, when only one should have been recorded. This obscures the true main source of income, and may also affect the data collected on the secondary source of income. Consequently, these statistics, as presented in the present report, should be seen as illustrative only.
- ³⁴ So called because most of the fishing vessels calling at Tarawa are from the Republic of Korea.

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- ³⁵ Among its conclusions, the survey found that the top 20% of income earners in the outer islands had monthly expenditures 10% higher than their counterparts in South Tarawa. Given the preponderance of higher-paid persons in South Tarawa, this seems an improbable conclusion, attributable to problems with the survey scale and methodology.
- ³⁶ Basic-needs poverty and food poverty lines for South Tarawa and the outer islands were calculated using data from the 1996 HIES (South Tarawa, Onotoa, and Butaritari) and a model subsistence diet (based on an adult food requirement of 2,200 calories/day) provided by the Nutrition Unit of the Ministry of Health. The cost of the diet was determined separately for South Tarawa and outer island households to take account of the varying availability of own-production food. The results and conclusions must, however, be treated with some caution because the 1996 HIES data are not considered to be very robust or reliable; the survey only estimated cash expenditure, excluding own consumption and gifts. A more systematic and rigorous HIES is needed to verify the calculations and the assessment of the incidence of poverty.
- ³⁷ These poverty measures assume that a family must have access to a minimum level of cash. A family with no cash, or without the minimum requirements, is defined as poor based on the methodology applied. For example, the outer island poverty line assumes that a family must have \$1.90 per day to spend on rice, \$1.50 per day to spend on bread, and \$0.64 per day to spend on nonfood items. However, it may be that a family is able to achieve an acceptable minimum standard of living without the defined minimum level of cash, for example, by producing its own food or benefiting from gifts from relatives. The estimates presented are likely to overstate the true extent of poverty.
- ³⁸ Excluding back-up power systems.
- ³⁹ Most PEs appear to have adopted the public service pay scales, but they are free of any scrutiny by the PSO and PSC of their employment practices. While it is desirable that such enterprises should have greater flexibility to use pay levels and conditions of service to motivate staff than is the case in the public service, it is also important that their payroll and other costs are kept under tight control. In the absence of market-driven disciplines, this will have to be achieved through supervision. See Annex A for discussion on a code of corporate governance and service agreements.
- ⁴⁰ The number of people who leave the service during a year (this could include retirees).

- ⁴¹ An example of a human resource policy on which advice could be given is the policy on retirement. There are more than 100 employees in the Public Service over the age of 50, which is the official retirement age. Given the crisis in demand for employment opportunities for young people, the Government may wish to consider enforcing its retirement policy more strongly or alternatively amend the policy to enable older workers to continue working as long as they are able to practice the skills and demonstrate the knowledge needed.
- ⁴² The Development Fund and the RERF are both Special Funds under the Public Finance (Control and Audit) Act.
- ⁴³ The Government's contribution to the Development Fund increased steadily and substantially during the 1990s.
- ⁴⁴ Parliament is advised of the potential total cash and in-kind allocation to a project, which generally greatly exceeds the actual expenditure. For example, the total estimated expenditure from the Development Fund for 2002, as advised to parliament, was \$78 million. Actual expenditure is likely to be less than half this amount.
- ⁴⁵ Formal public scrutiny would be limited to the financial checks of the auditor-general.
- ⁴⁶ An example of the potential problem is provided by the new copra mill. It appears that most if not all of the Government's funding of \$3–4 million is being provided from the Development Fund. A consequence is that there is no requirement for parliamentary approval of the project and there is no formal reporting of actual expenditure. While the expenditure is recorded under an output of the Ministry of Commerce, Industry and Tourism, there are no performance measures established for the project and no obvious link between the project and the ministry's output.
- ⁴⁷ Only 8 of 32 PEs received an unqualified audit opinion from the auditor-general on their last audit (i.e., the accounts were found to represent fairly the financial position of the enterprise). Most opinions are qualified and in some cases the problems have been so pronounced that the auditor-general has not been prepared to present any opinion as to the accuracy of the accounts.
- ⁴⁸ It is understood that such profit-making enterprises pay the same taxes and charges as the private sector and are largely operating without government financial assistance. A concern was raised in consultation that financial accounts may not correctly reflect the condition of some of the enterprises, which may be eroding their underlying worth, e.g., by not maintaining physical assets in order to deliver a financial profit.

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- 49 This excludes a copra subsidy worth as much as \$4 million per year, which is paid directly to growers.
- 50 An example of the potential for overemployment is provided by the Plant and Vehicle Unit. It maintains around 100 vehicles that it purchased on behalf of the Government and also undertakes maintenance on some other vehicles. Based on private sector benchmarks in South Tarawa, an efficient workshop of fewer than 10 employees could expect to service around 100 vehicles per year, but the Plant and Vehicle Unit employs 36 mechanics.
- 51 A qualified audit opinion is provided when the auditor-general is unable to satisfy himself/herself as to the reliability of the accounts.
- 52 Efficiency can be thought of as the cost of delivery (i.e., an efficient organization minimizes unit costs) while effectiveness relates to outcomes (i.e., an effective organization maximizes the outcomes achieved from its allocated resources).
- 53 An important aspect of role definition concerns conflict of interest. For example, the presence of senior public servants on the boards of PEs can create conflicts of interest in supervision and direction that will impede accountability. In some cases, regulatory responsibility may conflict with business considerations, e.g., Air Kiribati, Kiribati Supplies Company Limited, Telecom Services Kiribati Limited.
- 54 In view of the perennial problems of Air Kiribati, the possibility of putting the domestic air service out to tender is worth investigating.
- 55 Clearly it is not the case that competition is un-Kiribati. There is a strong tradition of individual and community competitive effort in all kinds of sports, dancing, sailing, and production of food crops. These attitudes need to be brought into the public sector workplace in appropriately modified forms—for example, a well-publicized competition to be recognized (and rewarded) as the best-performing department or enterprise of the year. Among other things this would usefully put the public spotlight on performance monitoring.
- 56 Since 2000, copra price subsidies have been paid directly to growers and not to the island cooperatives. This removed the ability of the cooperatives to use copra subsidies to cross-subsidize their retail activities instead of paying them directly to growers and triggered a large contraction in the cooperative sector.
- 57 There are no proposals to introduce a Kiribati currency. Earlier reports (e.g., ESCAP/POC 1998) have concluded that the risks and costs of such a move would outweigh the benefits. If Kiribati had its own

currency, the heavy weight of factor payments from abroad in determining national disposable income would reduce the effectiveness of exchange rate policy in altering relative prices, while reductions in real wages resulting from currency devaluation would be very difficult to sustain.

- ⁵⁸ A Japanese grant aid project is currently installing new generating and distribution capacity, but the organizational culture of PUB is unchanged.
- ⁵⁹ An example is provided by the protection of the copra industry from rats. The attack on young coconuts by rats is contributing to poor harvests in some areas (in addition to raising health issues). There is little point in one individual applying rat poison to a property, because rats from adjoining properties can easily attack the owner's coconuts. A coordinated, area-wide approach is required and this is best facilitated by the Agriculture Department. It is understood that a shortage of funds has largely stopped rat poisoning by that department. Another important area of potential deficiency is the provision of extension services to agriculture and fishing, such as the dissemination of research on the pearl industry.
- ⁶⁰ See World Bank (2002) for a review of the tax and tariff systems.
- ⁶¹ It is possible that the protection afforded by some high tariffs, such as provided to garment manufacturers and producers of chickens and eggs, will ultimately undermine private sector development by shifting resources to inefficient uses. However, this concern needs to be seen in the context of the limited alternative use of resources and the apparent excess supply of labor and capital, which means any inefficiencies created may only be small.
- ⁶² The Ministry of Works and Energy has indicated that it expects all maintenance work to be open to competition in 2003. As noted by the Ministry, facilitating competition in the building industry generally may require the establishment of a building code to set basic quality standards (a building code is an example of a public good). This may give buyers more confidence that the private sector will provide acceptable quality of work.
- ⁶³ A business holds market power if it is able to cause a market outcome significantly different from that achieved under a competitive situation. Market power is normally held by a business that is a monopoly or when there are few participants in a market, but this need not always be the case.

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- ⁶⁴ The Government recently purchased shares in BoK and TSKL at a value that appears to be based on a continuation of existing high prices rather than on prices that might apply in a competitive or competition-stimulating regulatory environment. Shares in the BoK were then sold to ANZ Bank, also at what appears to be a higher value than achievable in a competitive environment.
- ⁶⁵ Such price controls can be a sensible way to prevent the abuse of any market power, provided prices are high enough to provide a reasonable return on efficient, needed investment without providing excessive profits. If they are set inappropriately, they can deter investment or encourage the wrong type of investment or excess investment.
- ⁶⁶ Republic of Kiribati 2002c.
- ⁶⁷ Republic of Kiribati 2000, p. 67.
- ⁶⁸ *Ibid.*, p. 68.
- ⁶⁹ Accessible information is information that is easily located and available for stakeholders to consult.
- ⁷⁰ Republic of Kiribati 2002c.
- ⁷¹ An additional 9 teachers are “approved” to be employed on contract with no apparent qualifications.
- ⁷² Performance standard in METT budget output 2302, which is Primary Education Services.
- ⁷³ The attendance data are unreliable and incomplete at this stage; trends have been identified based on the sample of complete and verifiable data.
- ⁷⁴ Tarawa Technical Institute Prospectus 2002.
- ⁷⁵ Republic of Kiribati 2002c.
- ⁷⁶ Republic of Kiribati 2001b.
- ⁷⁷ *Ibid.*
- ⁷⁸ In the mid-1950s and mid-1960s, several thousand people were resettled by the colonial administration from the drought-stricken Phoenix and southern Gilbert islands to Solomon Islands. There has been a trickle of additional family-based emigration to Solomon Islands since then. Temporary migration to New Zealand for work has been organized under official New Zealand-Kiribati government schemes for many years, and some of those who went have not returned. A new scheme starting in 2002 that will assist a small number of permanent settlers to New Zealand is likely to be heavily oversubscribed.
- ⁷⁹ Less than 30 minutes walk from home.

- ⁸⁰ UNDP 1999, Annex 4, Table 2.
- ⁸¹ UNDP 1999, Table 15, p. 59.
- ⁸² Republic of Kiribati 2001b.
- ⁸³ The legal age for alcohol consumption in Kiribati is 21.
- ⁸⁴ ADB 1995.
- ⁸⁵ UN 2002.
- ⁸⁶ Republic of Kiribati 2001a.
- ⁸⁷ ADB 1995, p. 10.
- ⁸⁸ Ibid.
- ⁸⁹ Ibid.
- ⁹⁰ UN 2001, p. 43.
- ⁹¹ World Bank 2000.
- ⁹² These presently form part of the Government's "working capital" funds held on deposit with the BoK. The receipt of large sums, e.g., fisheries revenues, distorts the reserves picture of BoK, as these short-term government deposits cannot be used to back its medium-term development lending.
- ⁹³ As provided by Section 69 of the Constitution.
- ⁹⁴ Buyers of such bills would include the domestic financial institutions, PEs, and the private sector—anyone with short-term surplus cash.
- ⁹⁵ The discussion here uses projections developed in consultation with the Kiribati authorities. The values used are for illustrative purposes only.
- ⁹⁶ Equivalent to around 13% of projected GDP. These projections are more optimistic than those prepared by the IMF in 2001, which indicated a sustainable off-take equivalent to 9.5% of GDP, and more in line with internal government projections suggesting that 15% of GDP might be assumed. The performance of RERF and the level of GDP can move independently of each other, except to the extent that the Government spends RERF earnings through the budget in ways that contribute to domestic economic activity.