

Foreword

This report is one of a series of Pacific Island Economic Reports on the economic and social conditions and prospects of the developing member countries of the Asian Development Bank (ADB) in the Pacific. It is the second such report on Kiribati. As with several other reports in the series, preparation of the material was cofinanced by the Australian Agency for International Development.

The Pacific islands share some important characteristics deriving from their oceanic location and relatively small size, but the culture, history, and resource endowment of each island country are unique, and their social and economic circumstances, priority issues, and potential development paths vary widely. Detailed prescriptions for development delivered from outside the national governance structure of government, business, and civil society stand little chance of being appropriate, even less of being accepted and implemented.

As a major development partner of its Pacific island members, ADB seeks to contribute to the formulation of appropriate strategies and policies for each country, but not to dominate the policy debate or dictate the content of national strategies and development planning. Working in close collaboration with governments and consulting as widely as possible within countries, ADB brings to bear additional analysis and comparative insights from its regional and wider experience, aiming to enrich domestic policymaking and strengthen the sustainability of the eventual strategy and policy choices of the national authorities.

This report aims to contribute to the expected formulation by the Kiribati Government during 2003 of national development goals and strategies for the next three to five years. It identifies key areas in which goals and strategies need to be formulated, briefly states what the authors consider to be the most important issues to be addressed in each of those areas, and suggests policy responses for potential incorporation in the Government's development strategies. The report neither prescribes what those strategies should be nor recommends detailed implementation programs or resource

allocations. Those are for the Government to consider in the context of its medium-term planning and budgeting process.

The report was prepared by a consultant team consisting of David Abbott, Tony Hughes (team leader), Carolyn Marsh, Komeri Onorio, and Craig Sugden, under the direction of Umaporn Wongwatanasin, Economist, Pacific Department, ADB. The material was gathered during several weeks in mid-2002, through an extensive consultative process in South Tarawa, Butaritari, and Kiritimati. More than 200 persons were interviewed or took part in workshop discussions designed to draw out insights and opinions. The names of most of them are listed in Annex F. The report also benefited from access to a wide range of reports by the Government of Kiribati, United Nations agencies, the World Bank and International Monetary Fund, and Pacific regional organizations. ADB is grateful for this broad-based and stimulating dialogue, and for the excellent collaboration of the Government in the preparation of the report. We look forward to continued engagement in the social and economic development of the nation and people of Kiribati.

Jeremy Hovland
Director-General
Pacific Department
Asian Development Bank

Contents

List of Tables, Figures, and Boxes	xii
Abbreviations	xiv
Currency Equivalent	xv
Map	xvi
Summary	xvii
Part 1 Focusing Strategic Concerns	1
Chapter 1 Evolution of the Monetary Economy	3
Chapter 2 Key Result Areas, Issues, and Proposed Reponses	11
Economic Growth	11
Fair Distribution	16
Public Sector Performance	19
Equipping People to Manage Change	21
Education	22
Health	23
Governance	23
Conservation of Physical Assets	25
Maintenance of Fixed Assets	25
Environment	27
Marine Resources	30
Sustainable Use of Financial Reserves	32
Reserves of the Financial System	32
Revenue Equalisation Reserve Fund	34
Part 2 Economic and Social Conditions	41
Chapter 3 Economic Activity, Population, and Social Dimensions	43
Key Features of the Economy	43
Recent Macroeconomic Performance and Prospects	48

South Tarawa and the Outer Islands of the Gilbert Group	52
Population Size and Distribution	54
Structure and Growth	54
Differences between South Tarawa and the Gilbert Outer Islands	56
Social Dimensions	57
The Extended Family	57
Opportunities for Women	58
Challenges for Youth	59
The Human Cost of Employment Overseas	60
Broken Families	61
Landlessness	61
Social Safety Nets	61
Access to Education	62
Access to Health Services	63
Defining and Measuring Poverty	64
Chapter 4 Improving Public Sector Performance	71
Scope of the Public Sector	71
Human Resource Management	78
Managing the Budget	79
Performance of Public Enterprises	85
Key Factors in Public Sector Performance	87
Formal Rules and Informal Understandings	87
Ineffective Supervision of Public Enterprises	91
Why Public Sector Performance Matters	92
Ways to Improve Public Sector Performance	93
Improving the Flow of Information	93
Redefining Outputs and Refocusing Roles	94
Strengthening Supervision and Performance Monitoring	96
Chapter 5 Making Room for the Private Sector	101
Composition of the Private Sector	101
What Holds the Private Sector Back?	106
Reducing the Handicaps Facing the Private Sector	110

Private Sector-led Growth: When, How, and How Much?	112
Chapter 6 Facing the Future: Education, Training, and Employment	117
Laying the Foundations	117
Current Government Policies and Priorities	119
Intention and Reality	120
Performance	121
Increasing Classroom Resources	121
Teacher Qualifications and Skills	122
Maintenance	122
Attendance	124
Further Education	125
Prospects of Formal Employment	127
Employment Opportunities	128
Education for Livelihood	132
Migration as an Economic Strategy	134
Chapter 7 Better Health for More People: Self-help and Outreach in Health Services	135
Achievements and Policy	135
Budget and Performance	137
Basic Health Indicators	138
Health Trends	141
Emerging Diseases	142
Women's Health	144
Family Planning	145
Services in Outer Islands	145
Policy Challenges	146
The Interdependence of Health-related Services	146
Limiting Future Health Costs	147
Better Management and Improved Outreach of the Health System	148
Bibliography	151

Annex A	A Framework for the Supervision of Public Enterprises	155
	Who should be Involved?	155
	The Role of Key Partners in Supervision	158
	Possible Components of a System of Supervision	163
Annex B	Upgrading Qualifications and Professional Development for Senior Managers in the Public Service and Public Enterprises	169
Annex C	Statutory Restructuring of the Revenue Equalisation Reserve Fund	171
Annex D	Kiritimati Island (Christmas Island), Kiribati's Newfound Land	177
Annex E	An Outer Island Village: Onomwaru, Butaritari	185
	The Onomwaru Village Survey	185
Annex F	Persons Consulted	193
Part 3	Statistical Appendix	201
	Table A.1 Profile of Kiribati's Islands	202
	Table A.2 Population Profile	204
	Table A.3 Nominal GDP by Industry and GNP	206
	Table A.4 Real GDP by Industry and GNP	208
	Table A.5 GDP by Industry as a Share of GDP	210
	Table A.6 Prices	212
	Table A.7 Balance of Payments, Current Account	214
	Table A.8 Balance of Payment, Capital Account, and Overall Balance	216
	Table A.9 Exports by Commodity	218
	Table A.10 Imports and Duty Collections	220
	Table A.11 Direction of Trade	222

Table A.12	Visitors to Tarawa	222
Table A.13	EEZ Access Fee Revenue, 1999–2001	223
Table A.14	Reported EEZ Fish Catch	223
Table A.15	Central Government Expenditure from the Consolidated Fund	224
Table A.16	Central Government Expenditure from the Consolidated Fund as a Ratio to GDP	226
Table A.17	Government Expenditure by Funding Source and Type	228
Table A.18	Consolidated Government Expenditure by Economic Classification	230
Table A.19	Analysis of Consolidated Government Expenditure by Economic Classification ..	232
Table A.20	Consolidated Government Revenue and Budget Balance	234
Table A.21	Projected Budget Position of the Central Government Including External Contributions	236
Table A.22	Revenue Equalisation Reserve Fund	238
Table A.23	Formal Employment by Sector, 2000	240
Table A.24	Economic Activities of the Adult Population, 2000	241
Table A.25	Source of Household Income, 2000	242
Table A.26	Wages and Salaries by Sector	243
Table A.27	Business Activity	244
Table A.28	Operating Profits of the Public Enterprises	246
Table A.29	Net Profit after Tax of the Public Enterprises	248
Table A.30	Book Value of Equity Net Worth of the Public Enterprises	250
Table A.31	After-Tax Rate of Return on Equity of the Public Enterprises	252
Table A.32	Recurrent Budget Subsidies	254
Table A.33	Subsidies and Investment in Public Enterprises	256
Table A.34	Overview of the Education Sector	258
Table A.35	Budget of the Ministry of Education, Training and Technology	260

Table A.36	Common Health Problems.....	261
Table A.37	Common Health Problems, by Island	262
Table A.38	Budget of the Ministry of Health	268

Endnotes	269
-----------------	-------	------------

List of Tables, Figures, and Boxes

Table 2.1	RERF Value, 1992–2001	38
Table 3.1	Regional Comparisons	47
Table 3.2	Estimated Poverty Incidence, using 1996 HIES Data	67
Table 3.3	Profile of Living Standards.....	68
Table 4.1	Agencies of the Central Government	72
Table 4.2	Corporate Public Enterprises and Joint Ventures	76
Table 4.3	Human Resource Management Data	80
Table 4.4	Financial Performance of Public Enterprises	88
Table 5.1	Comparative Profile of Formal Private and Public Enterprises in 2001	105
Table 6.1	School Enrollments	118
Table 6.2	Five-year Changes in Formal Employment	130
Table 6.3	Identified Training and Employment Opportunities for School Leavers, 2002	131
Table 7.1	Total Fertility Rate, Infant Mortality Rate, and Population Growth Rate	136
Table 7.2	Basic Health Indicators	139
Table 7.3	Purpose of Visits to Health Centers and Dispensaries	141
Table 7.4	Five Leading Causes of Morbidity and Mortality, July 1999	143
Table E.1	Tabulation of Results from the Onomwaru Village Survey	190
Figure 3.1	Exports and Imports	45
Figure 3.2	Overseas Income	45
Figure 3.3	GNP and GDP Per Capita	46
Figure 3.4	Total Government Expenditure	47

Figure 3.5	Real GDP	49
Figure 3.6	Inflation Rate	50
Figure 3.7	Consolidated Budget Balance as a Ratio of GDP	51
Figure 3.8	Central Government Revenue and Expenditure ...	52
Figure 3.9	Population Pyramid by Age and Sex, 2000	55
Figure 5.1	Importance and Nature of Informal Activity	103
Figure 5.2	Distribution of Wage and Salary Employment ..	104
Figure A.1	A Circular System of Supervision	158
Box 1.1	Public and Private Sectors and Enterprises	6
Box 1.2	National Development Strategies 2000–2003	8
Box 2.1	Impact of Population Size on Income per Head ..	14
Box 2.2	Economic and Social Statistics	18
Box 2.3	Making Good Use of Resources	26
Box 2.4	Environmental Management: Many Reports, Little Action	28
Box 2.5	Tapping Foreign Savings: Official Aid and Private Investment	35
Box 4.1	Strategic Planning at Telecom Services Kiribati Limited	98
Box 6.1	Progress in Curriculum Development	123
Box 6.2	Enabling Children with Disabilities	125
Box 6.3	Exporting World-standard Skills: Seafarers and Tuna Fishers	129
Box 7.1	Water, Sanitation, and Waste Management in South Tarawa	148

Abbreviations

ADB	Asian Development Bank
BoK	Bank of Kiribati
DBK	Development Bank of Kiribati
EEZ	exclusive economic zone
EU	European Union
GDP	gross domestic product
GNP	gross national product
GRF	Government Reserve Fund
HIES	household income and expenditure survey
ILC	Island Learning Centre
FDI	foreign direct investment
FTC	Fisheries Training Centre
JSS	junior secondary school
KCCS	Kiribati Co-operative Copra Society
KFS	Kiribati Fishermen's Service
KPF	Kiribati Provident Fund
MCIT	Ministry of Commerce, Industry and Tourism
MESD	Ministry of Environment and Social Development
METT	Ministry of Education, Training and Technology
MFEP	Ministry of Finance and Economic Planning
MICT	Ministry of Information, Communication and Transport
MLEC	Ministry of Labour, Employment and Co-operatives
MLPG	Ministry of Line and Phoenix Group
MNRD	Ministry of Natural Resource Development
MOH	Ministry of Health
MTC	Marine Training Centre

MWE	Ministry of Works and Energy
NDS	National Development Strategies
NGO	nongovernment organization
NRF	National Reserve Fund
ODA	official development assistance
PAC	Public Accounts Committee
PE	public enterprise
PRC	People's Republic of China
PSC	Public Service Commission
PSO	Public Service Office
PUB	Public Utilities Board
RERF	Revenue Equalisation Reserve Fund
SPMS	South Pacific Marine Services
STD	sexually transmitted disease
TSKL	Telecom Services Kiribati Limited
TTI	Tarawa Technical Institute
UNDP	United Nations Development Programme
UNFPA	United Nations Fund for Population Activities
USP	University of the South Pacific
WHO	World Health Organization

Currency Equivalent

Kiribati uses the Australian dollar as its currency. Exchange rates against the US dollar for recent years are shown in Table A.6.

\$1.00 = US\$0.54 as of June 2002.

In this report, “\$” refers to Australian dollars unless otherwise specified.

