

Summary

Theme

The Republic of Kiribati comprises 33 atolls and reef islands stretching 5,000 km across the central-western Pacific. Its 90,000 people, with a 2001 national income (GNPⁱ) of around \$1,800 (US\$950) per head, are undergoing a process of social and economic change that penetrates all aspects of Kiribati culture, organization, and activity. At the center of the process is the monetization of values and relationships. Real incomes have risen through communications, monetized trade, and financial transactions with a globalizing world economy. The same factors have weakened traditional systems of redistribution and mutual support while facilitating population growth and urbanization, with serious environmental consequences. Appropriate skills, understanding, structures, and codes of conduct are required in all areas of public and private life to enable the Kiribati economy to meet its people's needs for a sustainable livelihood.

Focusing for Best Effect

The Government's response to these challenges is set out periodically in a statement of national development strategies. The present report is a contribution to the next such statement, expected in 2003. The change process involves a great number of social and economic issues whose interactions are complex and outcomes only partly predictable, and the resources available to deal with them are limited. This argues for concentration of effort in a small number of *key result areas*, where effective intervention may have a positive multiplier impact on the speed and nature of development by unlocking additional human, physical, and financial resources and improving cohesion of effort. The key result areas identified in this

report are economic growth, fair distribution, public sector performance, equipping people to manage change, conservation of physical assets, and sustainable use of financial reserves. They are summarized in the Box at the end of this Summary.

Economic Activity

The effect of buoyant, global economic conditions, the use of the Australian dollar as domestic currency, ready access to external development assistance, and generally prudent fiscal policies have produced macroeconomic stability and growth. Investment earnings of the Government's reserve fund and other external reserves, with foreign fishing license fees and remittances of Kiribati workers on overseas ships, make the country's gross national product (GNP) about twice as big as its gross domestic product (GDP), and crucially underpin current levels of public and private disposable income. For this reason, GNP is a more useful indicator than GDP of the condition and capability of the economy. GNP in 2001 was about \$160 million. Public external debt is less than 25% of GNP and is on highly concessionary terms, while end-2001 official external reserves were four times GNP. There is almost no domestic public debt.

During the 1990s, the Kiribati economy expanded, driven by a doubling of public expenditure, with national income growing at 4–5% annually in real terms. This was made possible by rapid growth in sovereignty-based revenues (particularly fishing licenses for the exclusive economic zone), accompanied by extraordinary increases in the value of overseas financial reserves. Population growth of 1.7–1.9% has enabled significant real increases in national income per head and a marked rise in average consumption levels. The narrow scope and vulnerability of the source of external earnings need to be kept in mind. There are signs that the prudent fiscal policies that helped to make the growth possible may have been relaxed or ignored, and that unproductive public and private expenditures have been allowed to rise at the expense of productive investment.

GDP was about \$80 million in 2001. There is little value-adding domestic economic activity. Most government outlays, equivalent to more than 100% of GDP, are quickly respent on imported goods for consumption. Marine products (seaweed and aquarium fish) in some islands and copra in most rural areas are the main export products, but contribute only 10–20% of GDP. Tourist-related activities are significant and growing, but are virtually confined to Kiritimati and Tabuaeran in the Line Islands. Other economic activity is concentrated in South Tarawa and Kiritimati, where 50% of the population live.ⁱⁱ The monetary economy is dominated by the public sector, which provides two out of every three formal jobs and four out of every five dollars of pay.

Small-scale growth of the domestic private sector is occurring, but there is little foreign private investment. Domestic and foreign private commercial investment generally is constrained by economic handicaps related to Kiribati's remote location and small size, but also by political and official concerns that successful private enterprise may lead to inequitable distribution of wealth and loss of political sovereignty. These concerns can be overcome by a regulatory and taxation framework that protects fair distribution and sovereignty while encouraging and rewarding enterprise and investment. Such a framework is not yet in place. Sustained increases in income per head over the medium term are likely to require a nearly stable total population, for which there needs to be a coincidence of public and private population policies.

Environment

Kiribati lies in relatively calm latitudes, but its low atolls and islands are vulnerable to obliteration by long-term sea-level rise and, more immediately, exposed to continuing coastal erosion and inundation during high tides and strong winds that cause salinization of the water lens and damage to dwellings and other property. The risk of costly economic losses is increasing. The dense urban population of South Tarawa creates specific environmental problems of water supply and disposal of liquid and solid waste. Abundant

reports have highlighted the problems, but Kiribati has yet to develop a coordinated response. Relevant responsibilities are fragmented among official agencies. Efforts to tackle environmental issues do not attract wide public support. The way forward lies in cost-effective measures that reduce the risk of crippling losses while enhancing current amenity and productivity.

Population and Distribution

The 2000 population of about 84,500 persons indicated an annual growth rate of 1.7–1.9% over the previous decade. The urban population of South Tarawa, at 37,000, grew twice as fast as the total, while rural populations declined. Household sizes were almost 40% bigger in South Tarawa because of extra dependents who came to town for education or work. Migration to Kiritimati is relieving pressure on Tarawa, but South Tarawa is starting to spill over into North Tarawa as densities increase. The most striking effects are the numbers of children (40% of the population are less than 14-years old) and the numbers of unemployed young adults. Formal employment was estimated at 9,200 persons in 2000, equivalent to 21% of the workforce of 44,000. Family planning advice is widely available on request, but there is no official population policy.

Aversion to conspicuous inequality of wealth and living standards is an important part of Kiribati culture. Awareness of increasing inequality with monetization and economic growth is causing concern. Traditional systems of redistribution and caring are under severe strain.

Access to education and basic health services has improved, and civil society organizations are more active in welfare work. Women are playing an increasingly prominent role in the monetary economy and public life. Official agencies acknowledge the need for engagement with social issues. However, outer island administration and facilities are often in poor shape; more young people are breaking laws; female prostitution is growing; the incidence of HIV/AIDS is increasing; family disintegration is more frequent; a landless class is beginning to emerge; and more people are having difficulty feeding, housing, and caring for themselves and their families.

The priority being given by aid donors to global poverty alleviation has the potential to help Kiribati to tackle distributional aspects of development. A preliminary effort to define and measure poverty in Kiribati has been made under technical assistance from the Asian Development Bank (ADB). The immediate outcome has been a provisional “poverty line” and an estimate that half the population lives below it. This conclusion must be treated with caution because of its narrow database and still-evolving methodology. The more important conclusion is that much more work needs to be done to define poverty in a national context and to devise reliable ways of monitoring living standards. This will require strengthening of national statistical capacity and an increase in regional support.

Public Sector Performance

The public sector includes 20 ministries and departments of government and 32 public enterprises wholly or partly government-owned and controlled. The large size and scope of the sector are partly the result of concerns that private enterprise might fail to provide certain socially essential services, and might become too wealthy or powerful through successfully providing other services. These concerns have a rational basis, but they can be met by strategies that coordinate the progressive redefinition of the public sector’s role with the promotion of growth of the private sector. Much of the existing public sector is a burden on the economy because of its inefficient use of the large amounts of human, financial, and physical assets committed to it. Improving the performance of the public sector is critical to the growth of formal and informal private enterprise and the economy overall, and to improving the distribution of income and welfare.

In the Government itself, the way forward lies in improving the management of personnel and finance, and upgrading the maintenance of physical and financial assets. The requirements are for more timely and accurate information, improved presentation of information as a basis for decisions, clear setting of performance targets, effective monitoring of performance, and appropriate action

to follow-up the monitoring. Personnel management suffers from lack of information on existing staff histories and current performance. Action is in hand internally to remedy this. The Government's output-based budget falls well short of its intended effectiveness as a financial management tool. Steps are being taken, with external technical assistance, to revise and strengthen the information base and the presentation of the budget. This will make effective performance monitoring possible.

The performance of the public enterprises (PEs) varies enormously, from highly profitable "natural monopolies" to essentially failed enterprises that only survive against commercial competition with government protection and support. The Government has been reluctant to reform or close the unsuccessful PEs. Very little information is publicly available on their performance. Information that is made public, for example, audit reports to the Public Accounts Committee, is often highly critical but rarely acted on. An overhaul of corporate governance is needed, defining the objectives and operating parameters of each PE. Directors and managers will then be in no doubt of the rules and the performance of the PEs can be regularly monitored and publicly reported. Appropriate action to close or reform the poor performers and expand or privatize (wholly or partly) the successful ones can then be publicly debated in an informed environment.

Private Sector Prospects

The private sector includes all economic activities, formal and informal, not owned or controlled by government. Although its estimated monetary value is only around one third of GDP, the private sector provides all or part of the livelihood of the great majority of the Kiribati people, mostly through informal activity. The small-scale subsector has been growing strongly on the back of rising public expenditures in South Tarawa and the Line Islands (with some export growth in the latter). Most formal enterprises are in general trading; land and sea transport; food and clothing; and export of marine products, particularly aquarium fish. The steady

growth and rising aspirations of Kiribati's working-age population mean that the economy needs all the legitimate private investment it can get, domestic or foreign.

There is no shortage of trained or trainable people wanting jobs, no lack of domestic savings in the financial system to help fund the investments, and access to land has improved as a result of recent changes to land law and administration. The main obstacles to wider and faster growth of private enterprise lie in the public sector—the broad scope and protected nature of the PEs, the poor quality and high cost of public infrastructure and services, and the high level of wages paid by government entities unconstrained by the need to be cost competitive at home or overseas. PEs and ministry direct-labor activities occupy economic space that could be taken by private enterprise; utilities are generally unreliable and (by regional standards) expensive; and the public sector wage structure, based on fiscal access to resource rents from the Revenue Equalisation Reserve Fund (RERF) and exclusive economic zone (EEZ), sets a far higher local market benchmark for labor costs than those of Kiribati's overseas competitors. Improving the corporate governance and financial and service performance of the public sector is the key to greater private sector activity and overall economic growth.

Education, Training, and Employment

Kiribati has made good progress in increasing access to primary and secondary education. A consistently high share of government funding at around 20% of the recurrent budget, strong donor support, and continued church engagement in secondary schools have resulted in about 80% of the 6–14 age group being recorded as enrolled in school in 2000; secondary school enrollments have doubled in the last ten years. These figures will rise further as all 20 planned junior secondary schools are completed and occupied in 2002–2003, and the 12 church-based secondary schools are fully developed. This national investment in education should pay off in a more literate, skilled, and all-round capable population.

To make sure that happens, concern is shifting now to the maintenance of physical assets, training and retraining of teachers and the supply of teaching materials, and to the provision of vocational training for those children—the majority—who will not go into formal employment when they leave school. There are major problems in all these areas. Many existing schools (including some newly built) are in disrepair, most teachers are teaching well above their level of qualification, the supply of textbooks is notoriously inadequate, and vocational skill training is only available at institutions in South Tarawa and some church schools at present.

Plans are being made to remedy these defects. Curriculum development is producing new teaching materials, better ways of managing school maintenance funds (including greater community involvement) are being discussed, teacher training is being intensified with Australian assistance, and up to 12 vocational training centers are to be built with European Union funding. All this will take time. Meanwhile, the school-age population is rising significantly faster than the overall population. Many of the needed improvements depend on factors outside the education sector, such as inter-island transport and communications. To plan and manage these issues successfully, the statistical basis of educational planning must be improved. Some of the detailed attendance and other school-based data presently in use are unreliable—including those from institutions in Tarawa.

The employment prospects for young people leaving school are such that most of them will need to make their lives in the informal sector. Currently, around 500 training and formal-sector direct employment opportunities can be expected to become available each year. About 1,700 students leave school each year now, and this will rise to about 2,000 in the next few years. The most optimistic formal training and job-creation scenario now foreseeable would take only one in three of these school leavers. It is crucially important that what students learn at school should equip them for a productive and fulfilling livelihood that does not depend on getting a formal sector job.

It will also make sense to equip them for the possibility of life and work in other countries. Emigration plays almost no conscious part in the plans of young people in Kiribati now, but it is inevitable

that the idea of moving elsewhere to work or to settle permanently will loom larger as the population increases, education levels rise, students travel, and migration schemes develop. The example of other Pacific states shows that emigration can be beneficial both to the migrating individual/family and the homeland. Kiribati would do well to take this into account in its education planning and economic strategies.

Public and Private Health

There is good coverage of basic health services and significant progress in reducing the incidence of common health problems through public health campaigns. Life expectancy has improved, and infant and maternal mortality has fallen. Almost everyone lives within 30 minutes walk of a health facility staffed by a trained professional. However, there are no doctors outside Tarawa and Kiritimati, and outer island telecommunications and medical supplies are unreliable. Kiribati's public health indicators are still among the worst in the Pacific, the national referral hospital is often overcrowded, and there are no private medical or dental facilities.

South Tarawa's notorious water and sanitation conditions constitute a standing threat of epidemic disease. The problem is currently being tackled by an ADB-funded project to bring water from North Tarawa and rehabilitate the existing sewerage system. Further public investment and improved urban management arrangements are likely to be needed before South Tarawa's water and waste disposal problems can be brought under control.

The incidence of illness attributable to changed lifestyle, diet, and sexual promiscuity is rising. Diabetes, hypertension, anemia, cancer and alcohol-related illness (and traffic accidents and fight wounds) are reported to be increasing. HIV/AIDS and hepatitis B are both present, with 38 cases of HIV/AIDS reported by September 2001—most of them traceable to returning seafarers. The reporting of HIV/AIDS and lesser sexually transmitted diseases is hampered by confidentiality concerns, and the actual incidence of HIV/AIDS is likely to be higher than the official figures indicate.

Women's health and family planning are closely related and the services are often delivered by the same staff. The case for a national population policy is argued elsewhere. More and better professional attention to women's health will have a positive multiplier effect on public health as a whole.

Improvement in the general level of health will need tighter management of the limited public resources available—money and trained staff—combined with greater attention by people to their own health. Public resources need to be focused for maximum effect, with targets selected by use of improved health statistics (some of the present statistical data are unreliable, but could be readily improved by closer supervision). Personal health can be improved quickly and dramatically by people taking more exercise, eating less fatty foods, drinking less alcohol, and giving up smoking. These aims need government campaigns to persuade people to change the way they live. Present indications are for rising health service costs to treat lifestyle diseases, reducing the resources available for all other health needs.

Economic and Social Outlook

Short-term prospects for economic activity and employment are dominated by existing externally-funded public sector projects (construction of schools, water and sanitation projects, power generation, and a sports stadium) and the speed with which others in the pipeline can be mobilized. The 2003 budget will also be influenced by the changed outlook for RERF earnings and EEZ license revenues, which may to some extent offset each other, and the cost of implementing changes to public service pay and conditions. Real economic growth in 2003–2004 is expected to be close to that of 2002, just above the rate of population growth, at around 2–3%. This will mean job creation around recent levels and an increase in the number of unemployed young persons in South Tarawa.

From 2004 onward, there are prospects of attracting private direct investment in both the Gilbert Islands and the Line Islands,

into export-oriented production and processing of marine resources, and specialized tourism. There are plans for further public investment in water supply and sanitation in Tarawa and the outer islands, action to reduce vulnerability to the effects of storm damage and climate change, investments to improve the quality and coverage of public telecommunications, and a progressive upgrade of outer island administration and services. These will directly create additional jobs during their construction phases and afterwards. They will also justify upgrading domestic air and sea transport services, and improve the scope for private investment in small-scale production and processing of foodstuffs and light manufacturing. External funding will be available for some of the bigger projects, but the domestic financial system is well able to play a part in financing the flow of public as well as private investments.

Real growth rates of 4–5% are then foreseeable through the middle of the decade, with job creation keeping pace with the increasing numbers leaving school, that is, a similar proportion of school-leavers finding paid employment as in recent years (but increasing absolute numbers of unemployed). Rising education levels will enable both formal and informal sectors to operate at higher levels of skill, and will produce more people able and willing to look for work outside Kiribati, on contract or by emigration. The same factors will make people more demanding of participation in processes of governance and more openly critical of government failure.

Meanwhile population pressure on resources will mountⁱⁱⁱ and internal migration is set to continue, with the main flow running from the rural Gilbert Islands to South Tarawa and on to Kiritimati and, for some, overseas. South Tarawa's urban villages will increasingly spread along North Tarawa, endangering the water lens now being tapped to supply the capital, and necessitating further investment in urban infrastructure and services as villages extend northwards. Major changes to the governance of both Tarawa and Kiritimati atolls are inevitable, and will be needed within the next five years.

The social and economic issues discussed in this report will not soon disappear. For the process of change to be coherently

managed, and for its public and private costs to be afforded, the ministries and public enterprises making up the public sector will need to become better at planning and budgeting, more efficient in using scarce resources, more effective in safeguarding the environment, and more responsive to public needs than they are now. At the same time, the private sector, formal and informal, will need to take every legitimate opportunity to make and sell useful products or services, creating jobs and raising living standards in the process, while preserving the sense of social responsibility that is the community's best defense against poverty and deprivation.

Key Result Areas, Issues, and Proposed Responses

Economic Growth

Key issue: Kiribati's prospects for sustained growth of income per head are at risk from overdependence on the Government, lack of private investment in value-adding and export-oriented enterprise, inefficiencies in public sector operations, and continued population growth.

Proposed responses: Narrow the scope and sharpen the focus of government interventions, promote a greater role and make more room for domestic and foreign private enterprise and financial capital in economic activity, improve the efficiency of public sector operations, and revive public awareness of the value of family planning.

Fair Distribution

Key issue: Monetization and population growth are worsening disparities in the distribution of incomes and well-being, and unacceptable levels of rural and urban deprivation are emerging.

Proposed responses: Improve statistical reporting of living standards, distribution of income, and access to services; undertake collaborative programs with civil society to assist needy sections of the community; improve infrastructure and services in the outer islands; broaden skills training and access to economic opportunity; and define and build support for forms of modernization of land tenure that minimize social costs.

Public Sector Performance

Key issue: How to motivate government departments and public enterprises to behave as if they were operating in a competitive environment that rewards achievement, tackles problems, and punishes failure, while strengthening the regulatory independence and ethics of public service.

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Key Result Areas, Issues, and Proposed Responses (cont.)

Proposed responses:

For ministries and departments, tighter and clearer definition of key roles and tasks in policy statements and budget outputs, leadership training and stimulation of competitive “pursuit of excellence” within the public service, objective public reporting of departmental performance against output targets, and increased outsourcing of activities.

For public enterprises, application of “hard budget” rules and tying of subsidies to specific noncommercial services, more detailed definition of corporate goals and enforcement of governance standards, opening up to competition in areas of interest to the private sector, and strengthened performance monitoring and public reporting.

Equipping People to Manage Change

1. Education

Key issue: How to improve the quality of teaching and the relevance of the curriculum to the challenges that school leavers will face, ranging from engagement in the nonformal sector to tertiary education overseas.

Proposed responses: Progressively upgrade teacher qualifications, increase pupil/teacher ratios (larger classes), invest in male and female vocational training, improve asset maintenance systems, and strengthen community involvement in education.

2. Health

Key issue: How to contain and roll back the incidence of lifestyle diseases while improving the delivery of public health and basic curative services.

Proposed responses: Refocus and intensify health education activities, and strengthen management, supervisory, and maintenance arrangements for hospital and clinic-based health services nationwide.

3. Governance

Key issue: How to strengthen and protect the formal and informal machinery of government accountability and participation of civil society in policy formulation without weakening the authority of the parliamentary process.

Proposed responses: Increase the flow of public information on issues in economic and social development, develop and maintain regional linkages on governance issues, establish specific consultative forums on subjects of public concern, and publish the public sector performance reports proposed above.

Conservation of Physical Assets

1. Maintenance of Fixed Assets

Key issue: How to ensure timely maintenance of social and economic assets in the public sector.

Proposed responses: Clearly identify and fully cost asset maintenance in budget outputs and work programs, protect budget allocations to maintenance, increase the contracting of maintenance work to private enterprise, and highlight the execution of planned maintenance in performance monitoring reports.

2. Environment

Key issue: How to consolidate the fragmented stock of environmental knowledge and institutional responsibility into an effective system of advocacy and implementation.

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Key Result Areas, Issues, and Proposed Responses (cont.)

Proposed responses: Designate a single coordinating authority within the Government and assign to it by law overriding powers for design and implementation of policies on managing the physical environment and adapting to climate change.

3. Marine Resources

Key issues: How to maximize sustainable economic benefits from the tuna stocks in the exclusive economic zone (EEZ), how to conserve other fish stocks under pressure from domestic food and export demand, and how to manage the “development transition” from government-funded research to privately-funded production.

Proposed responses:

For the tuna fishery, without compromising the ability to negotiate bilaterally, strengthen regional collaboration and information exchange in resource management, while seeking onshore processing investments by reputable foreign enterprises with market access.

For other fisheries, strengthen lagoon and inshore resource management capabilities in collaboration with fishers, island authorities, and communities; make the results of fish farming research available on negotiated terms to selected private investors; and promote private enterprise operation of fishing, fish farming, and trading activities.

For revenue, develop a “core” and “windfall” revenue model for EEZ licensing revenues and save the windfall component into reserve.

Sustainable Use of Financial Reserves

1. Reserves of the Financial System

Key issue: How to protect the financial system's stability and safeguard public deposits, while increasing the use and improving the efficiency of domestic credit in financing economic growth.

Proposed responses: Establish a prudential regulatory framework for financial institutions, promote competition within the regulatory framework, improve the access of new and small businesses to bank credit, and promote medium- and long-term domestic financing of income-earning infrastructure projects.

2. Revenue Equalisation Reserve Fund

Key issue: How to protect the Fund's ability to underpin future budgets while providing more flexibility of access to reserves for funding of recurrent and development expenditures.

Proposed responses: Legislate the separation of the Fund into a protected fund (National Reserve Fund) to provide long-term budget underpinning, and an accessible fund (Government Reserve Fund) fed by the protected fund to finance recurrent and/or development budget needs; and strengthen parliament's supervision of the operations of both funds.