



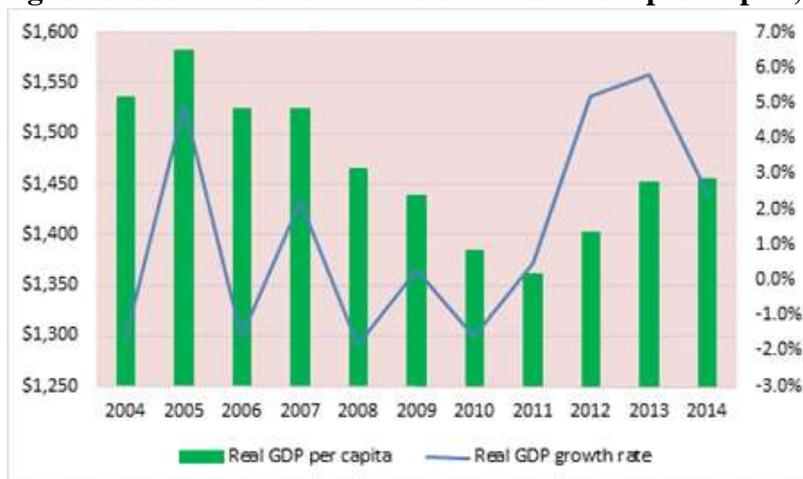
Economic Growth and Poverty Alleviation

Development Partners Forum
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Background

Economic growth in Kiribati has been improving. We experienced 5.8% growth in 2012, 5.4% in 2013, 2.4% in 2014 and the IMF forecasts solid growth of 3.4% in 2015 and 3.0% in 2016. For the first time in many years, the level of GDP per capita has started to improve.

Figure 1: Kiribati Real Growth Rate and GDP per Capita, 2004-14



Source: KNSO

However, while growth has improved, Kiribati still has one of the lowest level of GDP per capita in the Pacific.

Figure 2: GDP per Capita, Pacific Island Countries, 2014



Source: World Bank

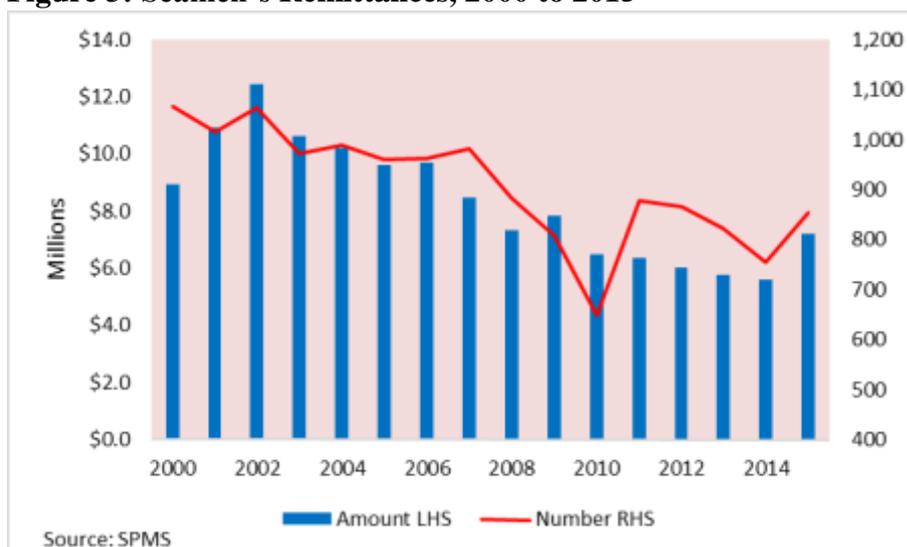
Unfortunately, no Household Income and Expenditure Survey has been held in Kiribati since 2006 when Basic Needs Poverty was measured at 21.8% nationally and highest in South Tarawa at 24.2%. Food Poverty was much lower at 5% nationally. We intend to have a new HIES in 2017.

Unemployment measured in the 2010 Population Census was 31% with 54% of our youth unemployed. Youth unemployment is a huge challenge. Currently roughly 2,000 youth enter the labour force annually. Of these, roughly 500 to 700 new students annually enter the USP campus in Kiribati. About 150 become students at the Kiribati Institute of Technology and 90 go overseas on scholarships. About 35 become students at the Australia Pacific Technical College. Another 90 new recruits are made each year into the public sector. The extension of the retirement age to 55 will also mean that some graduates will not automatically enter the public service as in the past. The Marine Training Centre takes 100 additional students annually. Most of the remaining labour force entrants must find employment in the private sector or become self-employed.

Nevertheless, there has been substantial employment growth in the private sector over the past five years with private sector contributors to the Kiribati Provident Fund rising by 70.8% to over 3,500 at December 2015.

Remittances, mainly from seafarers, has been a major source of income in the past. In 1990, remittances accounted for 18% of GDP¹. In 2014, the figure was 9.6%. This compares with remittances from Tonga and Samoa of 26% and 18% respectively. Remittances from seafarers dropped markedly after the Global Financial Crisis, simply because fewer ships were being used. Since then, technology advances have meant bigger ships and fewer crews. Kiribati seafarers also experience competition from other countries such as the Philippines where labour has better access to international flights. Nevertheless, seafarers' remittances did rise in 2015, after several years of declines.

Figure 3: Seamen's Remittances, 2000 to 2015



¹ World Bank data

Issues

The high returns from the fishing industry in recent years has provided an economic boost which the new Government in Kiribati has used for a more expansionary fiscal policy in 2016. Counteracting poverty has been a major goal.

The new Government has doubled the copra price subsidy to \$17.2 million in 2016. The purpose of this is two-fold. First it raises the cash economy in the outer islands and provides much needed employment. Second, it acts as an incentive to counteract the high rates of migration in recent years from the outer islands to South Tarawa where population pressure has caused huge difficulties with regard to land use, provision of water and sanitation as well as pollution and health problems.

There are a range of initiatives which provide transfer payments to lower income groups. The senior citizens' benefit has been raised by \$10 a month and the age for receiving pensions has been lowered to 67. Other new expenditure occurred with subsidies to education for Forms 4, 5 and 6 and additional funds to the churches to alleviate the burden on families who supply funds to our religious institutions. \$56,000 is provided for school fees for underprivileged students.

In addition, compulsory contributions to the Kiribati Provident Fund with 7.5% of wages by employers and 7.5% by employees, provide a safety net upon retirement. However, there needs to be a re-examination of some of the policies of the KPF including the small loans scheme. Anecdotal evidence suggests that the majority of people taking out loans use the loan for consumption. This raises the possibility of spending retirement savings prematurely, possibly leaving contributors with insufficient balances when they retire. Rather than lump sum payments, a steady stream of income such as a pension should also be examined.

Private sector expansion remains a key platform for the Government. SOE reform will provide room for the private sector to grow with privatisation of the telecommunications company and the PPP for the Otintaai Hotel. Reforms to the coconut industry are continuing with the appointment of the Kiribati Coconut Development Limited Board in November 2015. These reforms will streamline the industry, allow for productivity improvements and provide administrative efficiency gains. In this context, the government intends to formulate and effectively implement a coconut sector development strategy to enhance products and export diversification in the coconut sector.

Reforms related to business registration such as the harmonisation of business licensing procedures are being advanced. An Integrated Investment Policy Framework that supports the government business reform agenda and improves foreign investment opportunities in Kiribati will be developed to harmonise business regulations and procedures with the view to improving the investment climate. Specifically, the reform process will also include a review of foreign investment legislation and guidelines to attract Foreign Direct Investment (FDI).

Alternative international market opportunities for fisheries and marine products, coconut related products, solar salt and agricultural products also require exploration. To maximize possible development benefits that would arise from trade opportunities in the sectors where Kiribati has comparative advantage, a National Trade Policy Framework will be developed and effectively implemented to increase supply capacity, enhance inter-island trade and create market conditions that link producers with the overseas markets. These will include

effective implementation of the trade policy framework and regional trade agreements that Kiribati has acceded to.

An institutional framework needs to be set up to coordinate issues related to quality standards and conformity assessment procedures. The Virgin Coconut Oil producers are concerned about the challenges related to standards which inhibits their ability to explore export markets. In this context, a National Quality Policy will be developed. It is envisaged that the policy will provide a holistic and coherent strategy, with key recommendations on regulations, legislations and institutional framework to be established or strengthened in order to address Technical Barriers to Trade (TBT)-related challenges faced by local producers, exporters, importers and consumers. The policy will provide the basis for establishing or strengthening sustainable standards and technical regulations related institutions that will provide access to conformity assessment services, certification and quality assurance services for domestic producers and exporters that are internationally recognized in order to be globally competitive.

Business management skills including improving access to finance and strengthening financial inclusion, marketing, record keeping, packaging, processing, costing and pricing need to be enhanced in Tarawa and in particular for the outer islands. Fostering a more entrepreneurial spirit in Kiribati will be a key to the growth of small and medium size enterprises and reducing the dependence on Government for goods and services. In this context, Kiribati would consider making a request to be among the Pacific Financial Inclusion Programme beneficiaries to enhance financial deepening which is one of the major challenges to private sector development especially among the SMEs. In the context of business development, there is a need to implement a programme that seeks to unleash the growth potential of micro and small enterprises (MSEs) through entrepreneurial and business management skills training and provision of comprehensive business advisory services including marketing skills especially targeting the outer islands.

As highlighted in the development strategy, there is need to strengthen and implement alternative business financing mechanisms to improve access to finance especially for Small and Medium-sized Enterprises. In this context, other mechanisms to improving access to finance will be explored, in addition to strengthening the ongoing implementation of the Credit Union Act.

Fishing is the major industry in Kiribati. Fishing license fees amounted to \$198 million last year. Adding value to the fishing industry will be a major concern of the Government over the next four years. Already Kiribati Fish Ltd is providing employment opportunities and boosting exports. Equally important is that exports to international market is conditional and subject to continued compliance to specific market requirements of importing countries particularly in terms of sanitary, traceability, sustainability to name a few. Such compliance is costly for both KFL as an industry and to the Government (through the Ministry of Fisheries and Marine Resource Development) as a regulator. We need to provide an enabling environment with adequate infrastructure, transport, water supply, energy and other industry supportive infrastructure so that more value-added investments can be implemented in the fishing industry as alternative to income generation and employment to I-Kiribati. Employment opportunities for I-Kiribati abroad in fish processing plants need to be secured through strategic partnerships and cooperation with fishing partners. The local fishing fleet

also needs boosting which is happening through loan schemes with DBK and other relevant stakeholders.

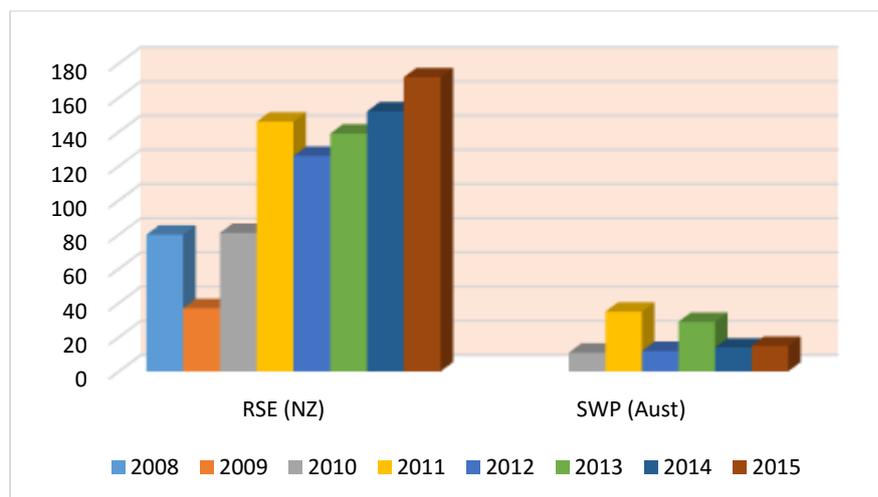
In the longer term, the Government is exploring the revenue raising possibilities through seabed mining which may have significant economic benefits to the country. However, as a starting point, there is need to establish an effective policy and regulatory framework to govern the deep sea mining industry. A good regulatory and institutional framework will ensure that the development benefits from sea bed mining, linked economic growth and poverty reduction are maximised.

Remittances from seasonal employment schemes such as the Northern Australia Pilot program for multi-year visas for Pacific Small Island States to work in unskilled areas will also assist to raise income levels. Schemes such as these will boost remittances. As well, the work of the KIT in raising the standards of trades workers in Kiribati will assist in increasing employment prospects in those industries which are in high demand in Australia such as hospitality and aged care. Higher level trades qualifications can also be advanced through the Australia Pacific Technical College.

However, we should not be undertaking all this training just to improve skills without the jobs. Aid, through the advancement of labour mobility, is the one of the best forms of development assistance for Kiribati. It is a win-win situation. It generates income, distributes wealth to the outer islands and serves a need in developed countries by filling employment gaps in high demand areas.

Assistance for Kiribati seafarers with visa requirements to overcome high waiting times for seafarers working in Europe would enhance their employability. The EU Ambassador will be in Kiribati in the near future and will be signing a visa agreement, making access to Europe for seafarers much less of a burden as in the past.

Figure 4: Kiribati Seasonal Employment in Australia and New Zealand, 2008-15



Source: MLHRD

Niche tourism is another area where Kiribati could advance. Specific areas of tourism such as bird watching in the Line and Phoenix Island areas can be developed. Kiribati has produced quality booklets on the birds of Kiribati in the past and updated publications with private sector involvement would not only generate income but also expand the knowledge of

what Kiribati has to offer. Similarly, with the fishing industry, game fishing in areas such as Kiritimati Island is another area where private sector development can advance. However, tourism does require the infrastructure to make it all happen. Jetties, ports, (multipurpose ports) adequate aviation facilities, and good communications are all required to back up expanded tourist activity.

Another area which has potential for tourism is the World War II relics on South Tarawa. The remaining relics could be refurbished and a trail for tourists established along with interpretation and brochures. Again, once the refurbishment was carried out, private sector involvement through guides and tours could follow. The Government has earmarked Line and Phoenix Islands as prime development areas for sustainable development tourism. The islands have great ecotourism development potential geared for adventure travellers. The development of tourism in these islands would create opportunity for income generation and employment. A Line and Phoenix Islands Integrated Tourism Management Plan will therefore be developed to provide a holistic framework and strategic directions towards tourism development in the Line and Phoenix Islands.

Getting people into the cash economy also assists income generation and growth. There are a range of areas that need to be undertaken here including access by banks in the outer islands. The Government has partnered with ANZ Bank to improve outer island banking services. The ANZ Bank has also taken initiatives through its “money-minded” financial literacy programme which it introduced in 2012 to provide financial education to the outer islands. Work had already commenced in the inclusion of financial literacy in the curriculum. The KIT is undertaking programs to assist seafarers to manage their finances better. More work needs to be done in financial literacy training for seasonal workers and those who will be selected for the Northern Australian Development initiative.

Telecommunications is vital to future economic growth. World Bank studies show that in developing countries an increase in penetration of services by 10 users per 100 population leads to 0.8% GDP growth for voice services and 1.4% GDP growth for broadband internet services. Work needs to continue to be advanced on internet connectivity and also telecommunications to the outer islands.

As pointed out many times before, vulnerability to external shocks such as disasters and climate changes is a huge problem for a country such as Kiribati with its low lying coral atolls. Disasters commonly affect those that can least afford restoration and repair. The Government has attempted to manage this risk through a range of programs including the Kiribati Joint Implementation Plan for Climate Change and Disaster Risk Management as well as the projects such as the Kiribati Adaptation Project. The Government also funds projects to manage disasters through the Republic of China annual grant. As the World Bank has stressed in its report on Hardship and Vulnerability in PICs, flexible funding arrangements which can respond to changed expenditure priorities in the light of major shocks can be of assistance. The World Bank suggests that greater use of budget support increase the capacity of governments to align donor support with fiscal policy objectives of offsetting the impact of shocks through the accumulation of reserves which could be utilized to support higher expenditure, economic activity and employment during downturns and disasters.²

² World Bank (2014), “Hardship and Vulnerability in the Pacific Island Countries”, page 110.

In summary, economic growth and poverty reduction in Kiribati will be enhanced through programs to raise the social safety net and aid income generation through mechanisms such as the copra price subsidy, policies to aid development of the private sector, value adding for our marine resources and exploration of marketing initiatives and seabed mining, programs to boost labour mobility, niche tourism, financial literacy programs and disaster management.

Recent economic growth has come about mainly through the fishing industry and large scale infrastructure projects. We need to continue the work to maintain the sustainability of the fishing industry so that stocks are not depleted and maintain the work on improvements to infrastructure particularly for shipping, aviation, water and sanitation and communications.