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DRAFT COUNTRY REVIEW PAPER

**Implementation in Asia and the Pacific of the Brussels Programme of Action
for the Least Developed Countries for the Decade 2001-2010:
progress made, obstacles encountered and the way forward**

Kiribati

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The views expressed in this draft paper do not necessarily reflect those of the United Nations or of the Government of Kiribati.

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I. INTRODUCTION

This report is the outcome of the review of the implementation of the Brussels Programme of Action for the Least Developed Countries (BPOA) for the decade 2001-2010 conducted at the national level in Kiribati as part of the preparations for the Fourth United Nations Conference on Least Developed Countries in accord with United Nations General Assembly Resolution No. 63/227.

The review exercise carried out through November to December 2009 involve consultation with key stakeholders to assess the progress of implementation of the BPOA at the national level and essentially focused on national actions contained in the Kiribati development strategies relevant to the BPOA objectives, goals and commitments. The national review also take account of the review outcome of other United Nations and other international and regional initiatives relevant to the BPOA that have been carried in Kiribati during the decade. In particular, the United Nations Development Assistance Framework (UNDAF) for the Pacific Subregion: 2008-2012; and the Millennium Development Goals Report, 2007 are amongst the key source documents.

Following the guideline issued by the UNOHRLLS, Section II provides an overview of the Kiribati context and the salient features of the social, economic, political and environmental development during the decade. Section III reviews the progress made against the principal target of the Brussels Programme of Action and the extent to which national policies and external support measures fulfilled the priorities of the BPOA. For each of the seven Commitments under the BPOA, the accomplishments and outstanding challenges are highlighted as well as the strategies and actions that have yielded positive development result, and the identified national strategic priorities for the next 5-10 years. As required also in the guideline, Section IV discusses the impact of the global financial and economic crisis on Kiribati and the measures taken by the government to mitigate its effects, especially on the most vulnerable segments of the population. The last section, Section V is the conclusion and the recommendations on priority areas of action for the Way Forward in the next 5-10 years.

This report comprise the submission from Kiribati to the BPOA regional review for Asia and Pacific LDCs, beginning with the High Level Policy Dialogue being organized by the UN ESCAP to be held in Dhaka, Bangladesh in January 2010, and the preparatory meetings leading up to the 2011 Global Conference on the Least Developed Countries (LDC IV).

II. THE KIRIBATI CONTEXT – NATIONAL DEVELOPMENT PLANNING PROCESS AND KEY OUTCOMES IN THE ECONOMIC, SOCIAL AND ENVIRONMENT PILLARS OF SUSTAINABLE DEVELOPMENT

A recent report produced by the Asian Development Bank (ADB) ¹ presents a succinct and description of the salient features of Kiribati's economic, social, political and environment situation. What follows is largely taken from that report supplemented with updated analysis from other sources to set the context of this review.

¹ Kiribati Social and Economic Report 2008: "Managing Development Risk", Asian Development Bank

A. The Nation

Kiribati is small and remote, and spread over a vast area of the Pacific Ocean. Twenty atolls and one raised island are inhabited with a total land area of 726 square kilometers (km²). Together with another 12 uninhabited atolls, the islands are surrounded by exclusive economic zones encompassing 3.5 million square kilometers (km) of ocean stretching 5,000 km from west to east and 2,000 km from north to south.

Since becoming independent in 1979, Kiribati has built a reputation for political stability and fiscal prudence while confidently pursuing its own path in regional and international relations. Its assurance in external affairs has reflected a strong sense of national identity and a distributive approach to domestic wealth and well-being. Government finances have been underpinned by a reserve fund four times larger than gross national income, built up by pre-independence taxation of phosphate mining and successful investment overseas. Kiribati also has attracted substantial external aid from bilateral and multilateral sources. Nonetheless, economic activity is constrained by isolation, sparse resources, and a fragile environment.

B. The People

The people of Kiribati are by nature hardy, egalitarian, and conservative. Land is scarce in Kiribati and land-based resources are sparse. Language and culture reflect a strong affinity to the sea. The population of Kiribati was 92,533 at the 2005 census, just over 8,000 more than the 2000 census total. This represented an average yearly increase of 1.8% - currently equivalent to about 1,750 people. The two urban centers accounted for about 50% of the total, with South Tarawa, the capital and main center, comprising 44%; and Kiritimati, almost 6%. The previously strong migration to South Tarawa has slowed somewhat, but population in Kiritimati has continued to grow rapidly. The population density in South Tarawa, at 2,558/km in the 2005 census, was about 20 times the national average of 127.

The population is young, with a median age of 21, and remarkably mobile. Movement has been chiefly around and between the Gilberts Group and the Line Islands. Several hundred I-Kiribati emigrated in 2000-2005, mostly to New Zealand. Emigration for work and permanent residence is expected to grow.

C. The Economy

Kiribati consumes far more than it produces and imports far more than it exports, paying for the difference with foreign income. The public sector dominates the economy, accounting for more than half of estimated gross domestic product (GDP). The general level of demand is largely determined by the government's recurrent budget. Half of that budget is funded by access license fees paid by foreign fishing vessels to catch tuna in Kiribati's exclusive economic zones and by earnings of Kiribati's reserve fund invested in overseas financial markets.

Total demand draws in close to \$100 million of imports yearly, while yearly exports of goods are valued at around \$5 million. The balance of payments current account is sustained by factor income from abroad (i.e., tuna vessel fishing licenses, seafarers' remittances, and investment earnings) and grants received by government, churches, and other nongovernment organizations.

Gross national income – which includes factor income from abroad - averaged \$159 million, or \$1,758 per capita, in 2002-2006. This is close to double the value of domestic output of goods and services (i.e., GDP), which averaged \$947 per capita in the same period. Excluding foreign aid for development projects and private capital inflows (the latter are very small), almost 50 cents of every dollar spent in Kiribati originates in factor income and transfers from abroad.

D. Development Planning Process

Kiribati has, since achieving Independence in 1979, used a series of medium term development plans to formulate and set out the goals, priorities, and strategies for the economic, and social development of the country and people during the plan period. The current Kiribati Development Plan (KDP): 2008-2011 is the eighth in the series and one of three adopted plans during the decade, 2001-2010, covered by the BPOA. The other two are the National Development Strategies (NDS): 2000-2003, and the National Development Strategies (NDS): 2004-2007. The review in this section is based on the assessment of the national actions relevant to the BPOA implementation, as sets out in the three plans.

As most of the plan periods coincide with the 4-year term of the elected governments the policy statements of the respective governments often guide and set the overall aim of the development plans. But, the plan formulation process also involves extensive consultation with and among the key stakeholders and technical analysis of important performance indicators to inform the setting of a strategic plan for the respective plan periods.

An important feature of the more recent plans is the greater attention accorded to the implementation and performance-monitoring arrangements that are incorporated in the plan documents and are being implemented more vigorously now by the KDP Task Force, comprised of senior managers of the government ministries and departments and the public enterprises and serviced by a technical working group from the Ministry of Finance and Economic Development. The KDP indicators are being aligned to the MDG indicators and other international and regional plan indicators.

In all of the three national development plans relevant to the BPOA timeframe, the universal objective of improving the lives of the people is emphasized. However, the adopted strategies and the major development programmes set out in each plan reflect the priorities of the government of the day and the changing situation in the domestic and external environment at the time of the plan formulation.

The theme of the NDS: 2000-2003 is “*Working together for Prosperity and Peace*” the principal objective of which is to promote improvement in the living standard of the people. Acknowledging the importance of economic growth towards realizing the goal, the plan states that sustainable development and growth in the economy require structural and economic reforms and these calls for change. The plan also calls for cooperation amongst all parts of the Kiribati society; that ‘everyone must work together’.

The NDS: 2000-2003 sets out six strategic outcomes to (i) achieve a sound macroeconomic framework; (ii) establish stronger linkages between the Public and Private sectors; (ii) Private Sector Development and Employment Creation; (iii) a more competitive and diversified export base; (iv) enhanced capacity for Human Resource Development; and (v)

Stronger International linkages. The key policy issues identified are public sector reforms, the creation of an enabling environment for private sector development, and human resources development.

The NDS: 2004 - 2007 has as its theme “*Enhancing Growth and Ensuring Equitable Distribution*” The theme is adopted from the Government’s Policy Statement on taking office, which, as for previous plans, also sets the overall aim of the NDS. The plan document highlights that the strategic plan is consistent with the commitment of Kiribati to the UN-adopted MDGs.

The major national development concerns of the plan were organized into 6 Key Policy Areas (KPAs) of (i) economic growth, (ii) equitable distribution, (iii) public sector performance, (iv) equipping people to manage change, (v) sustainable use of physical resources, and (vi) protecting and using financial reserves.

The theme of the current KDP: 2008 - 2011 is; “*Enhancing Economic Growth for Sustainable Development*” with a stated vision of creating “*a vibrant economy for the people of Kiribati*”. In its foreword the Minister of Finance and Economic Development said that the vision reflects what government is all about; “*it is for the people and to ensure that the benefit derived from growth is felt and enjoyed by all the people*”.

The Key Policy Areas of the current plan, in order of priority, are (i) human resource development, (ii) economic growth and poverty reduction, (iii) health, (iv) environment, (v) governance and (vi) infrastructure. The plan document states that the main thrust of Government’s policy which is ‘economic growth for the people and by the people’ is encompassed in the KPAs.

With varying degree of emphasis in the plans, the stated development strategies of Kiribati during the decade can be summarized as follows:

- Economic growth and poverty reduction;
- Human resource development;
- Private sector development and employment creation through greater public-private partnership;
- Trade promotion and diversification of the export base;
- Social services development;
- Environment protection and conservation;
- Good governance; and
- Infrastructure development.

All of the set objectives and the adopted strategies are in line with the commitments, goals, and targets of the BPOA, and other UN international targets as well as the regional plans; including the Millennium Development Goals (MDGs), the Mauritius Strategy for the SIDS, and the Pacific Plan.

III. PROGRESS AND CHALLENGES IN THE IMPLEMENTATION OF THE COMMITMENTS OF THE BPOA

Attachment 1 to this report provides the available figures on the relevant performance indicators of the major targets of the BPOA.

The principal target of a GDP growth rate of at least 7% per annum and a 25% per annum investment to GDP ratio were clearly not achieved. The average GDP growth rate available figures for the years 2001 – 2008 indicates an average growth rate of around 3% for the decade while the investment to GDP ratio figure is not available. Compared to the last decade, 1991 – 2000 the GDP growth rate was much higher at an annual average of 5% while the investment to GDP ratio is also not available.

According to the MDG Report 2007, since the early 1990s to the late 2000s Kiribati's economic growth as measured by GDP growth rate, GDP trends, and GDP per capita has gone through changes that shows a 'not so good' economic performance for the period leading up to 1997, followed by a very positive economic growth up to 2002/2003, and finally a decline in growth from 2003 to 2006.

The "boom" period of the late 1990's to early 2000 is due to a number of factors including buoyant global economic situation, the use of the Australian Dollar as the domestic currency, increases in fishing license fees, increase in the value of external investments through the Government's Revenue Equalization Reserve Fund (RERF) and the national superannuation fund, increase in passport sales, increased accessibility to external assistance from development partners, and Kiribati's generally prudent fiscal policy. The "recession" years of the early 2003 to 2006 was largely the effect of the reverse of external factors that had boost the national economy in the preceding "boom" period, including increases in international terrorism. The major factors affecting the trends in the national income changes during the 1990s and 2000s highlights the great vulnerability of Kiribati to external factors, which is going to remain a major issue for the Government and the development partners. This requires appropriate and serious efforts to address to avoid greater adverse impacts on the people in the future.

For the priorities set out in the BPOA the following are Kiribati's performance based on a recent assessment produced in the Millennium Development Goals (MDGs) Report 2007 for the first two priorities related to the MDGs, and the review assessment for the other priorities.

A. Poverty Reduction (MDG 1)

Kiribati's current progress as assessed in the MDG Report is that achievement of the target of halving the proportion of the population who live below the national poverty line by the year 2015 is unlikely to be achieved despite the and wide support of the target by the government and the people.

In talking about poverty in the Kiribati context, it is useful to have a relevant definition as the word can mean different things to different people. In the Kiribati context poverty is best defined as one's lack of access to opportunities and hardship (Poverty of Opportunity). Poverty is not an openly discussed matter because of the belief that people cannot be poor if they work in their subsistence living ways. Also family support obligations have lessened what might have

been a really desperate situation for a significant proportion of the population. But things are changing due to the monetization of the economy.

Based on the 1996 Household Income and Expenditure Survey, Kiribati has the highest proportion amongst Pacific SIS of households with per capita incomes below the National Basic Needs Poverty Line at 50%.

A more recent estimation of the Basic Needs Poverty Line² and the incidence of poverty in Kiribati based on the 2006 Household Income and Expenditure Survey data reveal that the average incidence of basic needs poverty, as measured by the Head Count Index (HCI) over all households nationally, is estimated at 17.0%, accounting for 21.8% of the population. Within the national average, South Tarawa recorded the highest incidence of basic needs poverty of 18.3% of households and 24.2% of the population. In contrast in the Line Islands the data indicates a very low level of basic needs poverty incidence affecting only 6.8% of households and 8.9% of the population. In the rural Gilberts an estimated 17.9% of households and 22.0% of the population fell below the level of the BNPL. These relative levels of national basic needs poverty compare favourably with other countries around the region indicating an improvement in Kiribati's relative standing.

The same report also measures income inequality using the Gini-Coefficient measure and find that at the national level the Gini-Coefficient in 2006 was estimated at 0.39, with South Tarawa and the Line Islands being slightly lower at 0.35 and 0.34 respectively and the rural Gilberts slightly higher at 0.42. These Gini coefficients are broadly in line with those estimated for other Pacific countries. A "reasonable" level of equality would be signified by a Gini of between 0.30 and 0.35, so therefore Kiribati is bordering on an unreasonable level of inequality.

The growing inequality of income and opportunity is potentially the source of the most serious risks in the development process of Kiribati.

Government statements on development policy and strategic plans emphasize continued economic growth with more equitable distribution of costs and benefits through improved governance. The aims are to narrow the gap between wealth and poverty by promoting more widespread private investment in production and by improving the efficiency of public provision of services and infrastructure.

The challenges identified in the MDG report focusing on the poverty of opportunity definition leads to the identification of the following as priority areas for poverty reduction in the next 5-10 years:

- Education and training;
- Creation of economic opportunities;
- Establishment of centers for the elderly;
- Implementation of the national Population policy;
- Improvement in town planning and strengthening of the building code;

² A Report on the Estimation of Basic Needs Poverty Lines and the Incidence and Characteristics of Poverty in Kiribati

- Establishment of links to markets, especially for handicrafts, fish, coconut oil products and other home made products;
- Improvement of services and infrastructures, water sanitation, roads, transport and communications including internet services in the outer islands.

B. Human and Institutional Resources Development to support sustained growth and sustainable development (MDGs 2-6)

The MDG Report gives the following assessment for Kiribati on MDGs 2-6:

- *MDG 2 – Achieve Universal Primary Education* is likely to be achieved with the evident ‘strong’ national support to the target.

Primary schools enrolment ratio is above 100% for the years 1990 to early 2000. However, caution should be taken with these figures as they could be grossly inflated due to weak control of entry of primary school age in the different classes, in which case these figures could be taken as Gross Enrolment Ratio which includes children of any age. There is also repetition by some pupils to make a second chance at the Secondary School entrance exams. It is encouraging to note though that primary education in Kiribati fares well with other countries in the region.

Priorities in this area are the improvement of facilities, especially in the outer islands, control of cases of repetition by those who are above age, strengthening of teachers’ qualifications and the teacher to pupil ratio.

- *MDG 3 – Promote Gender Equality and Empower Women* is unlikely to be achieved with the weak, albeit improving, national support.

Female to Male Ratio at primary school level has been below 1 from 2001 to 2006 while it has been above one in the previous 8 years. At secondary school level females are overrepresented for most of 1990 to 2006. Women participation in national parliament has increased significantly from 1999 to 2001 at below 5% and 5% from 2002 to 2005. The position of the Vice President in the present Cabinet is held by one of the four women members of the 45 members national Parliament. Representation of women in the senior public service positions is very substantial with six occupying the chief executive position of the 14 government ministries and with many also holding the second top positions in the ministries.

- *MDG 4 – Reduce Child Mortality* is potentially achievable with good national support observed.

A reduction of 25% in the under 5 mortality was achieved from the year 1990 to 2001. The overall assessment in line with current trends is for a reduction to 60 per 1,000 live births by 2015, i.e. about 32% or a third reduction from the 1990 level. The infant mortality rate on the other hand is a mixed story with reductions observed in the 1985/1990 censuses, increase seen in the 1990/1995 figures, a decline in the 1995/2000 censuses and an increase again in the 2000/2005 censuses. Child immunization against measles has an almost universal coverage now compared to the 2006 coverage of 95%.

- *MDG 5 – Improving Maternal Health* is potentially achievable given the very good national support to this target.

This is still an area of concern as the trend in the MMR shows an increase from 1990 to 2005. However, there is much need to improve the data on this indicator. Significant progress however is observed in the number of deliveries attended by skilled health personnel from 70% in 1990 to 90% in 2005.

- *MDG 6 – Combat HIV/AIDS, Tuberculosis and other diseases; HIV/AIDS target is assessed as unlikely to be achieved whereas the target for TB is assessed to have a strong likelihood to be met.*

HIV/AIDS is a new development issue to Kiribati but it is increasingly a major concern. TB data is limited but the assessment based on the records of the National TB Control Programme show an increase in the prevalence rate of TB from 1990 to 2006. But the on-going programme using the DOTS method, complemented by other initiatives, is contributing to a positive assessment of the achievement of the target for TB eradication by 2015. Non-Communicable Diseases (NCD) is a major health issue in Kiribati with 12% of the health care budget being related to NCDs. As such, much attention by the government health services and the NGO support groups is being given to this health issue. A government strategy document for the control and prevention of NCD in Kiribati was endorsed by Cabinet in December 2004.

C. Removing supply-side constraints and enhancing productive capacity and promoting the expansion of domestic markets to accelerate growth, income and employment generation

Political stability and prudent fiscal management contributing to a relative stable macroeconomic environment are the acknowledged positive points for Kiribati for investment.

Despite that and all the good statements of intent to develop the private sector as the engine of growth, as highlighted in all the three development plans, dominance of the public sector in most spheres of economic activity has in fact increased over the years since 2000. As highlighted in Section II, the public sector accounts for more than half of estimated GDP and the general level of national demand is still largely determined by government's recurrent budget funded largely by externally derived income.

A recent study carried out in the formulation of a Private Sector Development Strategy,³ that is expected to be adopted by the government soon, show that the private sector composition of national output has declined from 40% in 2001 to 26% in 2006. The same study also shows that the contribution of the formal sector of the private sector to total private sector output has declined also since 2002.

This brief account of the trends in the structure of the economy; public verses private, highlights one crucial area that needs more examination and attention if an economic growth target of anywhere over 5% is to be achieved in the next decade.

³ Private Sector Development Strategy, MCIC

There are difficult constraints facing Kiribati in her strive to improve the living standard of her people in terms of the physical characteristic of the atoll islands, the limited resource base, and the lack of skill in the population. However, a lot better can be achieved with a more conducive policy environment and effective strategies.

The following priorities to increase private sector contribution to national outputs and increase overall growth in the economy are identified in the draft Private Sector Development Strategy:

- Creating an enabling environment through the promotion of a business culture, improving access to land, restricting and making public/private competition fair, improving the efficiency and productivity of licensing and infrastructure service providers, improving the quality of infrastructure service, and improving access to capital; and
- Creating Business Opportunities targeting the Small and Medium size Enterprises.

D. Accelerating LDC growth with the aim of enhancing LDC share in world trade and global financial investment flows

The size and growth performance of the Kiribati economy does not warrant a great deal of attention to be given to the trade negotiation issues. However, Kiribati as member of a number of regional and international organizations and as a partner in a number of bi-lateral and multilateral development assistance and trading arrangements has to play her part in these arrangements.

Kiribati is a signatory to the Pacific Island Countries Trade Agreement (PICTA) and the Pacific Agreement of Closer Economic Relations (PACER) which includes Australia and New Zealand. Kiribati is also involved in the trade negotiations between the European Union and African, Caribbean and Pacific (ACP) group.

E. Environmental protection, accepting that LDCs and industrialized countries have common but differentiated responsibilities

The “environment” as defined in the Environment Act includes the natural, social, and cultural systems; their constituent parts and aspects; and their interactions. Associated with the interactions, there will be feedbacks to the natural, social and cultural systems and these will be reflected in the assessment of reduction of vulnerability and protecting the environment.

Kiribati has tried for many years to come to grips with environmental management by establishing a technical department in the ministry dealing with natural resources development initially and later moving the department to the ministry dealing with lands and agriculture, the Ministry of Environment, Lands and Agriculture Development (MELAD). The policy and operational synergies are obvious. Environment officials have struggled, however, with their multiple roles as advisers, regulators and enforcers.

Passage of the Environment (Amendment) Act, 2007 has given the Government more scope and powers to plan, manage, and regulate activities impacting the environment. Officials are well aware that they need to carry public opinion with them and they are devoting much

more effort to public consultation, use of the media, and visits to build rapport with communities. MELAD plans to expand on several fronts adding specialist positions in climate change planning, waste management and biodiversity and conservation; undertaking initiatives involving volunteers in wetlands improvement, coastal zone management, and public parks cleaning. At the same time MELAD will need to keep abreast of the considerable ongoing regional and global activity in environment management.

As a signatory to the United Nations Convention on Biodiversity, Kiribati actively tries to fulfill its commitments. An important and high profile development in this area is the establishment of the Phoenix Islands Protected Area, the largest marine protected area in the world.

Few countries are more vulnerable to the predictable effects of climate change than Kiribati. Not many countries of comparable size have done more to prepare themselves for it in terms of raising awareness, engaging local and overseas advisers, and participating in international consultations including the Copenhagen COP 15. Climate change manifested through higher sea levels and temperature is all encompassing and in an atoll country there is no escaping it, nowhere to retreat to.

There are numerous challenges facing Kiribati in dealing with climate change. The national policy and strategy to address the issue of climate change are defined in the Government Policy Statement on Climate Change. The following are key excerpts:

Kiribati Policy Statement on Climate Change

As Kiribati cannot escape climate change it must adapt to it. The adaptation process needs to give people the best possible chance of living decent lives during and beyond the period of climate change now foreseen. As the impact of climate change reach into all aspects of life in Kiribati, broad public consultation and participation in planning and implementation are needed for sustainable responses. Many department of government are involved, requiring both central policy coordination and clear delegation of responsibility for action. And as the precise speed and extent of future climate change is unknowable, adaptive responses themselves need to be risk risk-minimising, flexible and progressive.

The institutional set up for national management of climate change is being reviewed to ensure better coordination and coherence in the implementation of the National Adaptation Programme of Action (NAPA) and the Kiribati Adaptation Programme (KAP) that are administered now under different departments.

F. Attaining food security and reducing malnutrition

In the semi-subsistence economy of the outer islands, where half the population live, food security was assured with the active members of the households going out fishing and obtain their basic needs from the land. However, with the increase in the population, the change in the diet with imported rice, flour and sugar becoming staple foods, and the increasing monetization of the economy food security is a major development issue these days.

To help ease the negative impacts of price increases on the people, especially those in the more remote atolls the government has maintained a price subsidy scheme for basic items and a transport subsidy scheme for the same items traded to the outer islands.

High world prices for rice last year fed through into domestic inflation (cushioned somewhat by price subsidies), but the global food price declines have not yet been reflected in lower domestic prices. Administered fuel prices mean that the public sector absorbed the impact of the run-up in global fuel prices through mid-2008, but the depreciation of the A\$ will in part offset the subsequent decline in international fuel prices.

The national strategies adopted to address food security include revitalizing the replanting of staple food crops.

The critical accomplishments and outstanding challenges for Kiribati in each of the seven BPOA commitments; the success stories, good practices, and innovative strategies that have yielded positive development results in the past 9 years; and the strategic priorities under each commitment over the next 5-10 years are discussed under each Commitment section as follows:

1. Commitment 1: Fostering people-centred policy framework

The stated intentions, the commitments, and the focus, of all the successive governments in Kiribati, since it achieved independence in 1979, has all been about the people and the improvement of their living standard. All of the strategic documents reviewed attest to this overriding commitment to uplift the human conditions towards a more prosperous and happy life.

The capacity of the governments however, is often limited by what resources are available to it from time to time, the conditions of the global environment that the national development efforts are affected by, and also the state of being of its subject matter – the people.

Despite all the good intentions and the relevant policy objectives stated in the development plans reviewed, Kiribati is still faced with big and difficult development challenges associated with its geographical make-up; poor resource base; lack of economies of scale; lack of development capacity in terms of human skill and investment capital; and its increasing dependence on imports thus increasing its vulnerability to external shocks to name the major challenges.

However, it has not been negative for Kiribati during the decade. There are important successes achieved and/or maintained during the period including the maintenance of political stability and peace that has kept the nation together despite its wide population dispersal, prudent fiscal management including the continued maintenance of the government reserve fund, the RERF, that has enabled the government to continue to provide a sufficient level of essential social services to the people.

The performance of Kiribati can be better, with more targeted assistance to the strategic priorities in the development plans, and stronger political commitment to the changes that has to be made.

The identified priorities for the next 5-10 years to boost economic growth include infrastructure development, expansion of domestic production for export, market access for domestic products, and greater private sector participation in the domestic economy.

2. Commitment 2: Good governance at national and international levels

In its political structure, Kiribati remains very democratic and a stable government thus it has been ranked higher in its electoral system when assessed against the World good governance indicator (Macdonold B, 1996). Kiribati has never been labeled as a *failed state*, manifesting political stability in Kiribati.

The concept of good governance is not new to Kiribati. It has been in the fabric of Kiribati tradition for several decades.

Over the period covering 2001 – 2010, Kiribati has been adopting good governance practices at all national levels, details of which are discussed below.

In implementing principles of Good governance in Kiribati, there have been a number of government agencies and statutory bodies involved in the process. Increasingly, there has been a clear involvement and attention of the Donors communities in supporting national activities promoting good governance in Kiribati.

The overall progress in achieving the implementation of good governance in Kiribati has been increasingly satisfactory. This is being manifested through recognition of principles of good governance increasingly in Kiribati.

The NDS 2004 – 2008 articulated development policies and plan aiming to achieve and enhance equitable distribution of development benefits through good governance.⁴ In 2004, the Government convened a National Summit aimed for developing National Leadership Codes which would essentially guide leadership and development within Kiribati. This is still in the legal process before it is tabled in Parliament. The involvement of private sector, non-government organizations and other civil-based organizations has been increasingly encouraged by the Government.

In the current KDP: 2008 – 2011, governance has become one of the key policy areas (KPA) articulating effective strategies to embrace best practices to achieve economic growth and ensure the welfare of the people (especially the disadvantaged and vulnerable group) is safeguarded through good governance. There has been a number of legislation reviews aimed at improving the practice of good governance in Kiribati. These include review on Local Government Acts (Amendment 2009) to empower and strengthen local government councils. This paves the way to promote broad-based popular participation in development through decentralizing certain authorities to island council. **The amendment to Public Finance (Control and Audit) Ordinance aimed to enhance accountability and transparency in the management of public funds.** The Kiribati Police Force has changed to Kiribati Police Service, changing its approach from the force to community policing. There is being materialized by a new Act, Police Service Act (2008) aimed to empower the Kiribati Police Service (KPS) to work more closely with community to protect welfare and right of an individual citizen includes

⁴ See the overarching thrust of the NDS 2004 – 08.

women and children. This Act in essence has now enabled the KPS to carry out their responsibilities under international human rights and related conventions like CEDAW and CRC more effectively. There have been institutional capacity building programs within the Kiribati National Audit Office (KNAO) to improve and strengthen auditing work in Kiribati so that the public funds are used properly in accordance to financial regulations. The Government through the Ministry of Labor & Human Resources has ratified all fundamental principles of the ILO through enacting amendments to employment ordinance (Employment Act Amendment 2008) and to the Trade Union and Employers Act (Amendment 2008). These amendments are accompanied by programs/activities tailored to protect the right of workers at workplaces, eliminating gender discrimination under the work schemes of the Government. These activities are supported by the ILO funding assistance. The Government has just completed the Public Expenditure and Financial Accountability (PEFA) Assessment, a report of which will be endorsed end of this month, December 2009. This report presents the need for reform programs to be implemented within the Finance Ministry.⁵

Within the Parliament, there has also been number of legislation reviews aimed at making the Parliament more accountable by having well-defined and clear rules and procedures on the conduct of the members' conduct of business during meeting sessions. The UNDP is currently supporting programs/activities relating to (Institutional capacity strengthening) enhancing strengthening the Parliament office in order to serve members of parliament (MPs) more efficiently and effectively so that the latter can be able to carry out their governance responsibilities to the general public.

At the regional and international arena, Kiribati has been actively supporting the Pacific Islands Forum and particularly the UN programs and conventions promoting good governance.⁶

Good governance in its political sense requires the whole of nation approach to implant best practices and principles of governance within Kiribati, and this essentially requires institutional changes in legislative, judiciary and executive arm of the country. Though there are number of activities being implemented on principles of good governance, this really needs the appreciation, understanding and commitment toward such fundamental principles on the parts of policy makers, member of parliaments, government's ministers, senior officials, leaders of key stakeholders (NGOs, Civil Organizations, members of Kiribati Chamber of Commerce and Industry) and the people at large.

3. Commitment 3: Building human and institutional capacities

The issue on building human and institutional capacities emphasizes the importance of the human dimension of the development process, upon which the millennium development goals (MDGs) and targets are set. Kiribati as an active member of the United Nations (UN) remains committed to the MDG targets being set. These targets are very relevant to Kiribati, though its progress in implementing these goals and target is seemingly lacking behind schedule. Only recently, has Kiribati rushed in trying to speed its pace to achieve these goals and targets.

⁵ This PEFA assessment was conducted by a external consultant under the support of the ADB funding assistance.

⁶ These include CEDAW, CRC, ILO fundamental principles.

The human dimension of development (building human and institutional capacities) in Kiribati is essential and remained the central focus for development plans. All development plan documents include NDS: 2000 – 2003, NDS: 2004 – 2007 and the current KDP: 2008 – 2011, indicates the need to ensure and enable the people of Kiribati realize their potentials and aspirations.

In the current national plan document (KDP: 2008 – 2011), Kiribati is trying to pursue a pro human development oriented strategy by having the human resources development as the first priority policy area. There are a number of policies being pursued through income – generating program including overseas labor scheme with Australia and New Zealand, introducing of the TVET program for self-employment and the Kiribati and Australia Nursing Initiative (KANI). In broader term these programs are tailored more specifically for improving social well being but not to eradicate poverty.

The Ministry of Education had organized a National Summit on Education in 2006 in which a comprehensive review and analysis on critical issues relating to the standard of education. The outcome of this National summit would inform policy makers in the formulation of a more meaningful, worthwhile and effective education policies and plans. Further, this outcome has also been used as a basis to formulate reform programs in which donors communities (AusAid, NZAid and UN Agencies) have engaged to provide both technical and financial support. There is a 10- year Education Plan being developed through a partnership between the Government and AusAid that would tie in AusAid commitment toward this sector. The UNICEF in particular is also keen in helping government ministries to mainstream social policies into development process.

In relation to improving water and sanitation and health related programs, Kiribati has had activities being implemented but with mixed results. Given the high capital cost required in these areas, the Government of Kiribati has already engaged with potential donors (ADB, EU) that may be able to provide funding support on these. The Government has initiated introducing user-pay policy as part of enabling the Government to finance maintenance and even capital cost of the infrastructure that will support the improvement of the water, sanitation and health related programs.

4. Commitment 4: Building productive capacities to make globalization work for the least developed countries

Kiribati's small size, remoteness, and difficult operating environment make utilities, transport services, and infrastructure expensive and subject to disruptions in service. This, in turn, makes Kiribati a difficult place for business activity, but at the same time highlight the need for efficiency and innovative solutions in the provision of these essential services.

Investment in utilities and infrastructure has risen sharply in recent years, and the current state of services and facilities is at a relatively high point in historical terms. However, the sustainability of these investments is still a major issue and deterioration in service levels can be expected as the investments depreciate.

In the energy sector, a new national energy policy has been formulated and adopted by government in May 2009 with a focus to make “available, accessible, reliable, affordable, clean

and sustainable energy option for the enhancement of economic growth and improvement of livelihoods in Kiribati”.⁷

Although the public sector still dominates a large number of sectors in the domestic economy the private sector is growing steadily and is pervasive and lively in many important services and operations including public transport, building construction, garage businesses, wholesale and retail stores, bakeries, boatbuilding, guest houses and rental accommodations, and domestic fisheries and export of aquarium fish.

There is potential for a greater contribution of the private sector to the growth prospect of the domestic economy and a strategy to stimulate and expand the private sector is one of the strategies adopted in the current KDB to increase economic growth and reduce poverty.

For most of the atoll islands in Kiribati prospects for development of commercial agriculture and the agriculture sector in general are constrained by the harsh environmental realities, which include infertile soils and poor rainfall. The principal commercial agricultural activity is the coconut industry with copra the main commercial product that government is using as a conduit to distribute the cash income through to the people in the rural outer islands people the majority of whom lack other cash income sources.

To address the food security issue the Government is encouraging production of indigenous food crops using organic farming. Farmers’ cooperatives have been set up on most islands and are managed separately by the farmers themselves. The technical mission of Taipei, China is also contributing to the promotion of home gardening on South Tarawa and some outer islands.

The limited amount of manufacturing in Kiribati is undertaken largely by the public sector. Some small scale manufacturing takes place in the private sector.

Recreational tourism is very small and concentrates mostly in the Northern Line islands of Kiritimati and Tabuaeran. The potential for tourism to assist national social and economic progress needs to be realistically assessed. A national tourism action plan has just been formulated for 2009 – 2014 to stimulate a sustainable tourism industry. The tourism plan implements the focus of the KDP for tourism development in the areas of development of the Line and Phoenix Groups as tourism growth centre, the stimulation and enhancement of private sector and public enterprises, improving the quality of local products, developing and promoting eco-tourism opportunities, and strengthening wildlife conservation.

5. Commitment 5: Enhancing the role of trade in development

The Ministry of Commerce Industry and Cooperatives (MCIC) is responsible for trade matters in Kiribati and participates in the regional and international trade negotiations involving Kiribati. The ministry needs strengthening to effectively enhance the contribution of trade to national progress and a number of institutional strengthening actions are being implemented to strengthen the ministry.

⁷ Kiribati National Energy Policy, Ministry of Public Works and Utilities, 2009

The divisions dealing with cooperatives, industries and foreign investment are being strengthened with more staff to improve capacity to provide support to the clients.

A draft Private Sector Development Strategy has been prepared by the Ministry. The Kiribati Chamber of Commerce and Industries (KCCI) is active in assisting its members in their business development and it is holding an annual trade fair and business award event.

6. Commitment 6: Reducing vulnerability and protecting the environment

Kiribati government has enacted its first Act on the Environment in 1999. In 2007 this Act was amended and strengthened to cover the range of environmental issues. This Act establishes control mechanisms to allow development to proceed whilst protecting the environment from their adverse impacts, require inspection and monitoring of the environment, and reporting. In addition it also obliges Kiribati to comply with international agreements pertaining to the environment. Among these are the UNFCCC, UNCBD, UNCCD, and the Laws relating to the protection of the ocean. The staff complements of the Environment Division which implements the Act, laws, and International Environmental Agreements have increased over the past five years. Regular monitoring of the shoreline to check illegal removal of sands and gravel, cleaning up of public areas at least on South Tarawa are normal schedules of the ECD. Planting of mangroves along parts of South Tarawa is also an activity of the ECD. Support of the communities is enlisted for these activities and there is good participation of few communities.

NAPA specifically addresses the vulnerability of Kiribati (its environment and people) that arise from climate change. Series of national consultations were conducted. Representatives from local governments that is island councils, women, youths, and unimwane attended these consultations at which they identified sectors and aspects of their livelihood that are vulnerable to impacts of climate change and identified ways to cope with the impacts. They also proceeded to prioritize these coping strategies on the basis those that are immediate, those that require support from government, and those that can wait. These priorities are refined by members of the Climate Change Study Team, a multi sectoral committee of government officials and NGOs. The same priority ratings were adopted in the design of KAP II which has been implemented, regularly monitored and scaled down to match implementing capacity and pace. Much of the activities are on studies, information and tools development for water resources, and for risk management related to the vulnerability of coastal areas to sea level rise and storm surges.

An Adaptation Policy and Strategy was adopted in 2005 and formed the basis of the design of KAP II. NAPA never saw the light of the day, but some of its proposed activities are to be incorporated into a project after KAP II. This next project is on water and coastal risk management, the two sectors to which Kiribati with the WB agreed to be priority areas.

MELAD has closely followed up the negotiations. At the Copenhagen COP, H.E Te Beretitenti is attending the High Level Segment, and MELAD and FA and OB members of the delegation are following the negotiations. A LCA Text has been proposed by AOSIS and Kiribati are active members of the AOSIS.

Kiribati has not explored opportunities to participate in the CDM. This is largely from the assumption that there are no potential projects that can attract investment under the scheme

by any developed country member of the UNFCCC. However, Kiribati has benefited from grants for the development and promotion of solar lighting. On Kiritimati wind mills are used in the water supplies.

7. Commitment 7: Mobilizing financial resources

The financial sector is underdeveloped, even by small developing country standard, consisting only of a single commercial bank, the Bank of Kiribati (BOK) owned by the ANZ Banking Corporation (75%) and the Government of Kiribati (25%). The BOK and three other non-bank financial institutions account for the bulk of the assets of the sector. The other larger institutions include the Kiribati Provident Fund, the Development Bank of Kiribati, and the Kiribati Insurance Corporation.

There is also a network of village banks operated by the local councils throughout Kiribati. The village banks provide micro-credits especially targeting the women in the rural outer islands. The village banks have had failures as well as successes in starting and or expanding small rural businesses.

IV. IMPACT OF GLOBAL FINANCIAL AND ECONOMIC CRISIS AND POLICY RESPONSES

The main impacts from the global financial crisis and slowdown have, so far, been through global asset price declines and the depreciation of the Australian dollar (A\$). The Revenue Equalization and Reserve Fund (RERF) and the Kiribati Provident Fund (KPF) declined by respectively 12 percent and 20 percent during 2008 (or 31 percent and 37 percent in U.S. dollar terms). High world prices for rice last year fed through into domestic inflation (cushioned somewhat by price subsidies), but the global food price declines have not yet been reflected in lower domestic prices, in part because of the depreciation of the A\$. Administered fuel prices mean that the public sector absorbed the impact of the run-up in global fuel prices through mid-2008, but the depreciation of the A\$ will in part offset the subsequent decline in international fuel prices.

V. CONCLUSION AND THE WAY FORWARD

Eight leading sources of development risk confronting Kiribati are identified, and these require understanding and appropriate responses in the form of well-formulated national development strategies and the support of development partners:

- Climate change,
- International prices of the Australian dollar and petroleum-based fuel,
- The continued population increase,
- The limited resource base and sources of income available to the economy,
- Unplanned and unmanaged urban growth,
- Underperformance by government departments and public enterprises,
- Passive management of public finance; and
- The emergence of divisive political tendencies.

The first two listed are outside the control of Kiribati but demand well thought-out strategic responses. The impacts and outcomes of points (iii) – (viii) are highly dependent on the quality of Kiribati strategies for economic and social management.

The policy actions recommended as keys to the full range of responses that need to be formulated to cope with development risk are:

- Population policy and poverty;
- Improvement of health services, educational standards, and technical training, particularly further expansion and upgrading of the Maritime Training Centre (MTC);
- Progressive renewal and transformation of South Tarawa’s urban areas;
- Constitutional reforms to enhance the accountability and performance of national and local governments;
- Climate change;
- Kiribati support for management of Pacific tuna stocks;
- Devolution of governance for development of Kiritimati, and promotion of the Phoenix Islands as a Phoenix Islands as a globally significant marine protected area;
- Closure or sale of nonstrategic public enterprises, and enforcement of governance standards for strategic public enterprises;
- Promotion of alternative energy sources; and
- Strengthened public financial management.

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