

4. The Republic of Kiribati

Population: 89,600 (2000)

Land Area: 700 square kilometres

Exclusive Economic Zone: 3,550,000 square kilometres

Political Status: independent republic

GNP: US\$81 million (1999)

Major Industries: fisheries, agriculture, remittances, copra

Merchandise Exports (FOB): US\$6 million (1998)

Major Exports: fish, copra

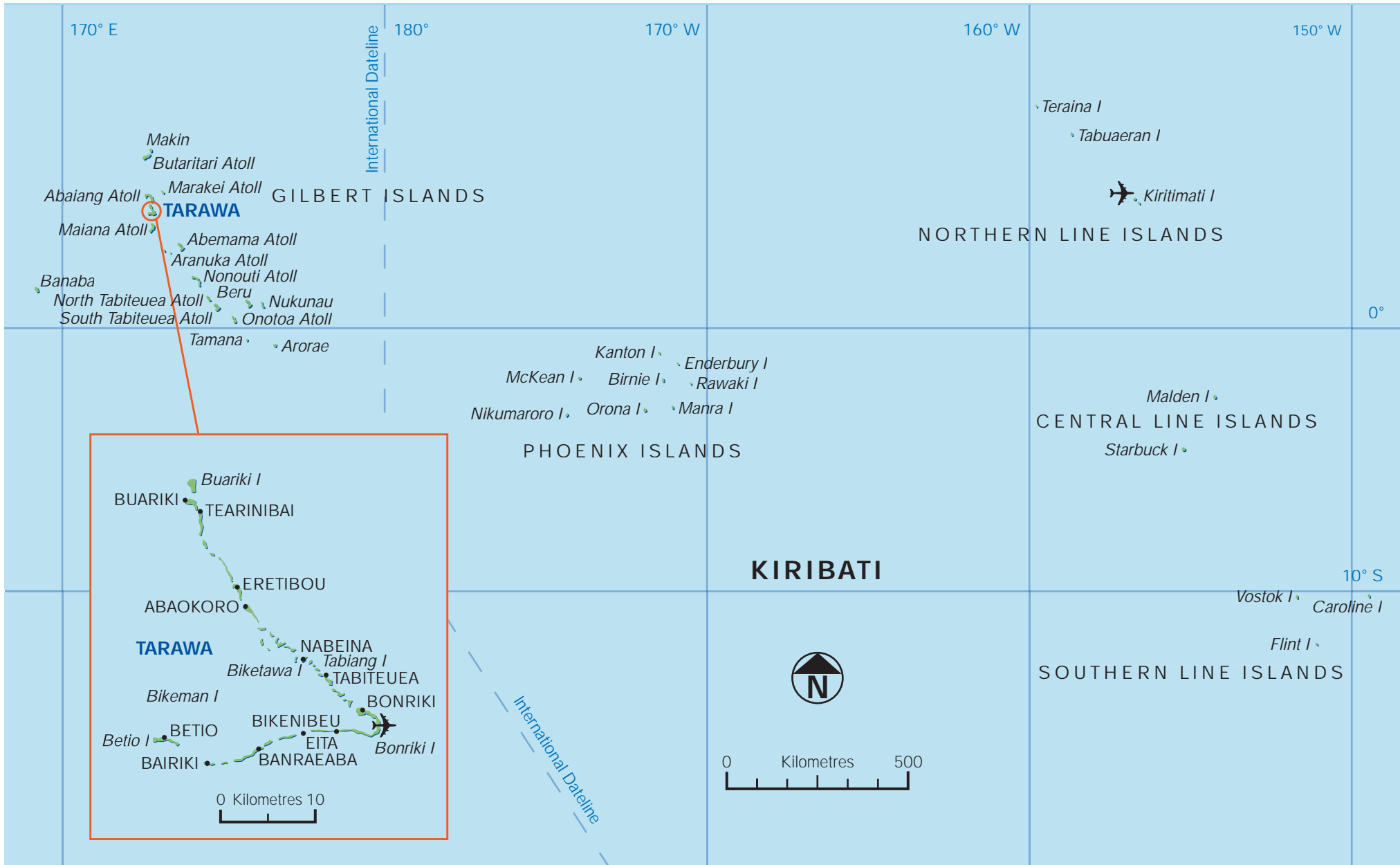
Merchandise Imports (CIF): US\$33 million (1998)

Major Imports: food and live animals; machines, transport equipment; manufactured goods; mineral fuels; and beverages and tobacco

Currency: Australian Dollar

Average Foreign Exchange: US\$1 = US\$1.7248





Location

The Republic of Kiribati (pronounced Kiribass) is a nation of 33 low-lying atolls divided into three island groups: the Gilbert Islands, the Line Islands and the Phoenix Islands. Located in the central Pacific, it is the only country situated on both sides of the Equator. Tarawa atoll, the capital and main island of the Gilbert Group, is 11 hours ahead of Greenwich Mean Time. The country received notoriety during the millennium celebrations as the first nation to greet the new millennium.

The total land area of Kiribati is 700 square kilometres and the islands are dispersed over a vast portion of the northern part of the South Pacific Ocean. The Exclusive Economic Zone (EEZ) covers an area of 3.6 million square kilometres.

Kiritimati (Christmas Island) is the largest atoll (48% of the nation's land area) and is the administrative centre of the Line and Phoenix groups of islands.

Banaba is an extremely remote, isolated island several hundred kilometres to the west of the Gilbert Group. It is a raised atoll, rising several tens of metres above sea level where extensive phosphate deposits were mined from the turn of the century until 1979. Royalty payments from Banaba's phosphate sales were built up over the years into the **Revenue Equalisation Reserve Fund (RERF)**, the income of which supports the recurrent expenses of the government of Kiribati.

The population of Kiribati is approximately 89,600, the majority of whom live on the island of Tarawa. The people of Kiribati are known as I-Kiribati (pronounced 'I-Kiribass').

Government

Until independence in 1979, Kiribati was part of the Gilbert and Ellice Islands and was administered as a British colony. Today it is a democratic republic within the Commonwealth.

The President is both head of state and head of government, and is elected by members of the parliament known as the Maneaba ni Maungatabu. The Maneaba ni Maungatabu is a 42-member unicameral parliament, comprising 40 members elected for a four-year term by adult universal suffrage. A seat is also reserved for Banabans now living on Rabi Island (Fiji Islands), and for the Attorney-General, who sits as a non-elected member of Parliament. The Speaker is elected to office by members of parliament but is not a member of parliament.

The President appoints his/her own cabinet, which comprises the President, Vice-President, Attorney-General and no more than ten ministers.

Economic Profile and Performance

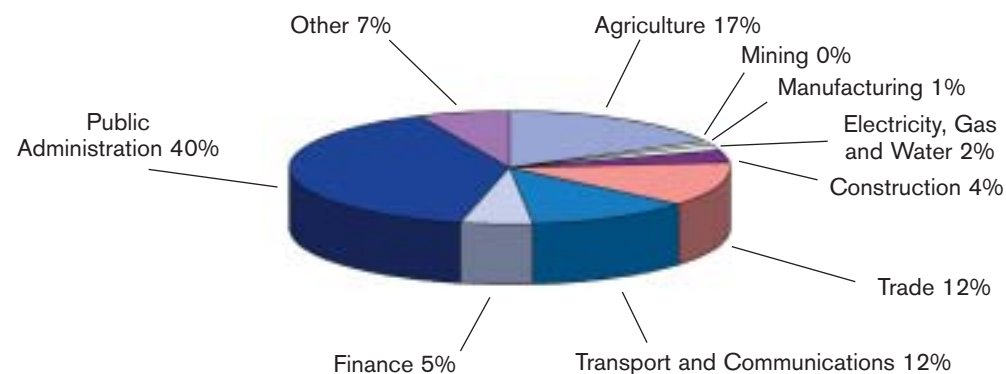
While Kiribati's land mass is small and isolated, it has a huge EEZ with a wealth of marine resources. Income is generated from licence fees of foreign fishing vessels fishing within Kiribati's EEZ, and from the export of copra, seaweed and, more recently pearls. There are also over 1,000 Kiribati seamen working on foreign ships, who send money and goods valued at over US\$1 million back home to their families.

Real GDP contracted by 4% in 2000. This contrasts with growth of 2.3% in 1999 and 7.3% in 1998, when copra production was higher than normal. The fishing license revenue was also unusually high in 1998. With population growth estimated at 2.2% a year, real per capita GDP declined to US\$469 in 2000, from US\$554 in 1999.

The Revenue Equalisation Reserve Fund (RERF), which returns investment income equal to around 33% of GDP, continues to underwrite government recurrent expenditure. Fishing licence revenue, seamen's remittances, and income from the RERF make up almost half of Kiribati's national income. Consequently, the economy is open and sensitive to international influences.

Current expenditure in 2000 was US\$33 million, while US\$11 million was development expenditure. Revenues exceeded expectations as income from fishing licences was considerably higher than budgeted. The budget deficit was 5.7% of GDP. The fiscal deficits in recent years have been financed from external concessionary loans and accumulated balances in the Consolidated Fund. However, if budget deficits grow larger, there is a risk that the real value of the RERF could deteriorate.

**Figure 4.1: GDP by Industrial Origin (%) Calendar Year 2000
(At Constant 1991|1995 Factor Cost)**



Source: Asian Development Bank: *Growth and Change in Asia and the Pacific Key Indicators 2001*.

Table 4.1: Total GNP (US\$ Million) and GNP per Capita (US\$)

	1997	1998	1999
Total GNP (US\$ million)*	76	101	81
GNP per Capita (US\$)	910	1,170	910

Source: Asian Development Bank: *Growth and Change in Asia and the Pacific Key Indicators 2001*.

*Data are in terms of GDP converted from national currency to US\$ using the average exchange rate for the year.

Table 4.2: Growth Rates of GDP and Major Sectors (%)

	1995	1996	1997	1998	1999	2000*
GDP	3.5	4.3	1.0	7.3	2.3	-3.8
Agriculture	-7.9	5.3	-14.5	8.1	1.0	-1.8
Industry	-23.0	-4.4	19.6	35.3	41.9	-34.5
Services	4.0	5.1	2.4	7.3	-1.0	-1.6

Source: Asian Development Bank: *Growth and Change in Asia and the Pacific Key Indicators 2001*.

*Provisional/Preliminary/Estimate/Budget figure.

Table 4.3: Government Finance Indicators (% of GDP)

	1999*	2000*
Taxes	28.1	-
Total Expenditure	123.8	-
Fiscal Balance	-6.4	-
Health	-	-
Education	-	-
Housing and Community Amenities	-	-

Source: Asian Development Bank: *Growth and Change in Asia and the Pacific Key Indicators 2001*.

*Provisional/Preliminary/Estimate/Budget figure.

The trade deficit deteriorated in 2000 as copra income declined and imports grew. Exports declined by 10.1%, while imports increased by 0.8% as a result of increased activity in the construction sector. The trade deficit stood at 80.6% of GDP while the

current account moved to a deficit of 5% of GDP from substantial surpluses in the previous two years. International reserves are extremely healthy because of the RERF, amounting to around ten years of import cover. External debt was equivalent to a relatively modest 20.4% of GDP in 2000, remaining within manageable levels.

Inflation remained at low levels in 2000, and was broadly in line with the rate in Australia, the nation's main trading partner. General retail prices increased by less than 1% in 1999, although a slightly larger rise of around 2% was recorded in 2000, mainly as a result of the depreciation of the Australian dollar and higher world oil prices. The broad money supply grew by 5% in 2000.

Table 4.4: Annual Average Consumer Price Index (1990 = 100)

	1998	1999	2000
Consumer Price Index	134.3	-	-
Annual Change (%)	4.7	0.4	2.0

Source: Asian Development Bank: *Growth and Change in Asia and the Pacific Key Indicators 2001*.

Economic growth in 2001 and 2002 is targeted to return to a positive 2%–3%, supported by the implementation of several significant development projects, including a sanitation, public health and environment project of the Asian Development Bank, a sports complex, and a fisheries integration project. Income from fishing licences is expected to remain low due to continuing normal seasonal conditions and low world tuna prices. The trade deficit is forecast to widen again in 2001 as a consequence of additional funding for development projects, while the current account is also expected to remain in deficit. External debt is set to increase significantly in 2001, but annual debt servicing will be kept within the medium-term performance target of not more than 1% of current revenue. Inflation is likely to continue tracking the rate in Australia, which is likely to be around 1.5% in 2001.

In line with the government's National Development Strategy for 2000–2003, reforms are focused on the government's provision of core services, and not on competing with the private sector.

Recent government initiatives to improve the investment climate include the introduction of measures to speed up the investment approval process.

Industry Sectors

Agriculture: The agriculture base, including subsistence agriculture, represents only a small contribution to GDP; copra production is the most important cash crop.

Marine: Marine resources are Kiribati's largest economic sector mainly because of its extensive EEZ. Fishing licence fees are linked to the size of catch and, therefore, fluctuate from year to year. Kiribati has the advantage, however, of being located in the migratory zones for tuna stocks.

The Atoll Seaweed Company, based in Tarawa, sources seaweed products from around the country for export to Japan and there is a small but lucrative live tropical aquarium fish export project in the outer islands targeting the Hong Kong and Hawaii markets.

Manufacturing: There is a small manufacturing base catering mainly for the domestic market. This includes a number of small garment manufacturers, a tuna jerky factory and handicraft outlets.

Wholesale/Retail: A range of small wholesale/retail outlets exist on Tarawa and the outer islands selling a range of imported consumerables and locally made products such as fresh fish and some fruit and vegetables.

Tourism: Tourism development is targeted mainly towards Kiritimati in the Line Islands, and Tarawa and selected outer islands in the Gilbert group. While tourism infrastructure is largely underdeveloped, the government has in place an 'action plan' to encourage investment in this sector.

Construction: There are only a few local companies undertaking small projects in Kiribati. The large-scale projects are usually contracted to overseas companies.

Finance and Business Services: There are two banks in Kiribati and a number of accountants and lawyers. This sector has not seen any considerable growth over the past few years.

Mining: The Banaba Phosphate Mine (the royalties from which formed the basis of the Revenue Equalisation Reserve Fund) ceased operation in 1979 when the phosphate was said to have been exhausted. Otherwise, there are no known **mineral** deposits elsewhere in the country.

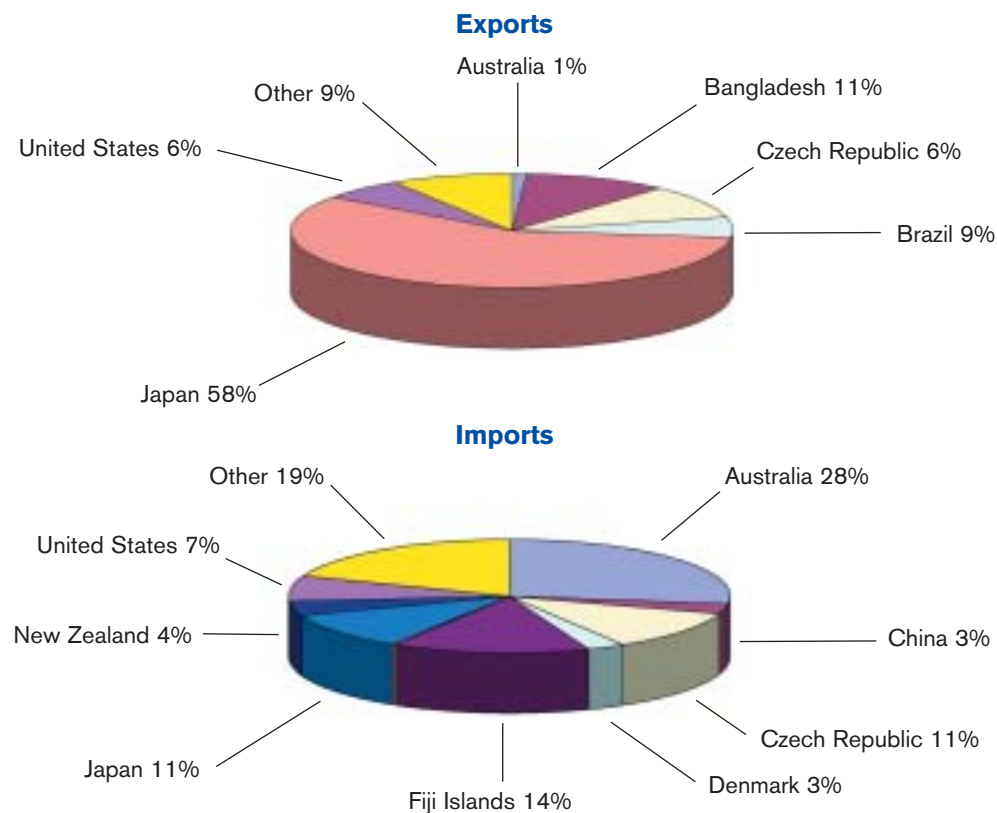
Because of its small area, there is limited **natural forest** available for timber processing. Kiritimati (Christmas) Island is the site of a Japanese National Space Development Agency (NASDA) tracking and monitoring station, which is likely to be expanded to include a rocket landing site for missiles launched from Japan.

Imports/Exports

Kiribati's exports totalled US\$6 million in 1998, and were copra and fish. Its imports totalled US\$33 million in that year and comprised largely food and live animals; machines, transport and equipment; manufactured goods; mineral fuels and beverages and tobacco.

Its main export destinations during 1998, 1999 and 2000 were Japan, Bangladesh, Europe and the United States. Imports over those three years were sourced mainly from Australia, the Fiji Islands, the Republic of Czechoslovakia and Japan.

Figure 4.2: Direction of Trade, Calendar Year 2000



Source: Asian Development Bank: *Growth and Change in Asia and the Pacific Key Indicators 2001*.

Labour and Human Resources

Underemployment and unemployment levels are high in Kiribati, especially among the younger age groups. Currently, less than 20% – 8,600 people – of the working-age population are formally employed. The remainder of the population are involved in subsistence agriculture and fishing.

Yet, in both the public and private sectors, many job openings remain unfilled because individuals with the appropriate training, education or experience cannot be found. In the short run, this could mean an increase in youth unemployment as the number of school-leavers exceeds the number of new jobs created. Consequently, the government has identified human resources development as one of the key platforms of the National Development Strategy.

Higher education, including university level programmes and post-secondary vocational technical training is provided by the government and the University of the South Pacific. The largest secondary education facility in Kiribati is the Tarawa Technical Institute, which offers a number of courses in a wide range of vocational disciplines, including building and carpentry, computer and business studies, adult education and engineering. The Japanese-funded Maritime Training Centre up-skills 100 fishing vessel crew a year. The government is putting policies in place to provide further vocational training in areas of need by the public and private sectors.

The country does not at present have minimum wages legislation, although enactment plans are underway. The hotel industry is partly unionised.

Prevailing wage levels in the private sector are US\$1.08 an hour for unskilled workers and US\$2.31 an hour for supervisory level workers. Government wage rates are marginally higher.

Employers and employees must contribute to a superannuation fund at a rate of 6% each.

Infrastructure

On Tarawa a well-developed and maintained **sealed road system** is in place and roads on the outer islands are generally unsealed but well maintained.

Air Kiribati provides regular **domestic air services** from Tarawa to the Gilbert Islands and Air Nauru has a twice-weekly 737 service from Nauru to Tarawa with onward international connections via the Fiji Islands.

Inter-island **sea transport** services are provided by both government and private-sector operators. International shipping is primarily serviced by Bali Hai Lines, Chief Container Services and Kiribati Shipping Services Limited, which provide direct services to Australia and Asia. A total of 15 private shipping companies carry freight and/or passengers between Tarawa and the three neighbouring outer islands.

Telecommunications, including domestic and international telephone, facsimile and mobile service systems and Internet services are provided by Telecom Services Kiribati Limited (TSKL), a joint venture between the government and Telstra Australia.

As water is scarce, improving the supply and quality of **water resources** has long been a priority of the government. There are currently three desalination plants and further

improvements to the quality and supply of water are expected upon completion of two donor-funded projects.

Electricity is generated by imported petroleum products and a current aid-funded project will ensure a high level of maintenance to generators in the future.

Two **banks** operate in Kiribati – the Development Bank of Kiribati and the Bank of Kiribati – the latter being a joint venture between the government and Westpac Banking Corporation of Australia. The Bank of Kiribati offers a full range of personal and business services, including international transactions.

A small industrial park of eight one-room factory shells exists on Tarawa and a Business Advisory Centre is operated by the Ministry of Commerce, Industry and Tourism.

Investment Policy and Regulations

Foreign investment in Kiribati is generally encouraged and no discrimination is shown between foreign and local investors. Foreign investors who wish to establish an enterprise must apply to the Foreign Investment Commission, which is chaired by the Permanent Secretary of Commerce, Industry and Tourism. The government ministries, which are mostly concerned with foreign investment issues, are represented on the Foreign Investment Commission.

Granting of licences is on a case-by-case basis.

All proposals put to the Commission are considered under the following guidelines:

- the potential employment of I-Kiribati (the indigenous population);
- net export contribution;
- the balance between local resource exploitation and the size of the foreign investment;
- the potential for transferring to I-Kiribati foreign managerial and technical skills required in the enterprise;
- the extent of competition with local enterprises; and
- the impact on social and natural environments.

Foreign investment is controlled under the *Foreign Investment Act 1985* (as amended), the *Foreign Investment Regulation 1986* and the *Foreign Investment Policy 1996*.

For investment to the value of US\$156,848 and above, approval must be sought from Cabinet on advice from the Foreign Investment Commission. For investment less than US\$156,848, the Foreign Investment Commission may approve or reject the investment directly.

The average time involved in processing an investment application from point of submission to final approval is two to three months.

If the application is accepted, the Foreign Investment Commission often sets permanent criteria relating to employment, training of local staff and production targets, including a timetable for implementation. To ensure compliance, the firm is expected to submit quarterly progress reports and annual accounts, which contain a revenue statement and balance sheet.

The approval period for foreign investments depends on the level of initial capital injection and is based on the following guideline:

Approval Period	Initial Capital Injection
20 years	US\$5 million and above
10 years	US\$2.5 – US\$4.5 million
5 years	US\$50,000 – US\$2.5 million

An investor may enter into business as a full foreign investment or as a joint-venture investment with I-Kiribati or the government.

Complaints made by foreign investors (or complaints made against them) are addressed to the Foreign Investment Commission. Advice is given by the Foreign Investment Commission to the Foreign Investment Secretariat (the Foreign Investment Promotion Division of the Ministry of Commerce, Industry and Tourism) as to whether an investigation should be undertaken and a report produced for the Foreign Investment Commission's consideration. Plans are underway to improve the overall investment environment in Kiribati.

The government of Kiribati imposes restrictions on foreign investment only where local expertise or industry already exists (for example, handicrafts) or where the local, natural or social environment could be adversely affected.

Examples of areas that are closed to foreign investment include:

- local industries: piggery farming, poultry farming, millionaire (lobster) salad exportation, domestic inter-island shipping, wholesaling; and
- scarce endangered species: coconut crab harvesting, turtle hunting, giant clam harvesting, bone fishing and berried female lobster harvesting.

Some other areas in which foreign investment is allowed but subject to restrictions include the:

- fisheries sector: drifter fishing, dynamite fishing, chemical fishing, conservation areas coral exploration; and the
- agricultural sector: logging coconut-bearing trees, wildlife conserved species.

A range of incentives is available to those wishing to invest in Kiribati. These incentives are not automatic but are available on a case-by-case basis. It is up to the investor to

initiate any request for such assistance. The Foreign Investment Commission does facilitate requests from interested foreign investors for these incentives (provided these investment proposals have been approved by the Foreign Investment Commission itself or cabinet as the case may be).

Examples of incentives and concessions available include:

- Pioneer status: A company that wishes to establish a pioneer business or industry in Tarawa or Kiritimati may apply to the Internal Revenue Board for pioneer status. This allows for a reduced tax rate of 10% for up to five years.
- Customs duty concessions: Import duties are generally low and full or partial exemptions of import duties may be granted on capital items. This includes building materials, plant and equipment, furniture and fittings and boats.
- Direct government investment: The government may assist through government involvement or through joint-venturing a project. Assistance might be in the form of a financial contribution or through another resource contribution such as land.
- Development of infrastructure: Assistance may be provided for development projects, such as tourism.

Land

The government of Kiribati owns about two thirds of the land area, most of which is in the Line and Phoenix groups. Although the land area is small, suitable land still exists in certain areas for development. The government has earmarked Christmas and the Fanning islands in the Line group and Canton Island in the Phoenix group as prime areas for future development.

Foreigners cannot buy land in Kiribati; however, for investment purposes land can be leased on a long-term basis. The Lands Management Division of the Ministry of Home Affairs and Rural Development handles all enquiries and approvals for government land.

Foreign investors may enter into direct negotiations with private landowners on the terms and conditions for leasing. However, where the term of the lease is more than 21 years, the consent of the Minister of Home Affairs and Rural Development must be sought before the lease agreement is concluded.

Taxation and Other Regulations

The normal **company tax** is based on a flat rate of 25% of net profits for the first US\$38,500 and 35% for amounts in excess.

Personal income tax is at progressive rates and is applied to chargeable income (taxable income less allowable expenses) at the following rates.

Per Annum	Tax Rate
First US\$1,120	Nil
US\$1,120 – US\$9,360	25%
US\$9,360 – US\$31,200	30%
US\$31,200 and over	35%

There is a **withholding tax** on dividends paid to overseas investors of 30%, except for dividends paid to Australian residents, where the rate is 20%.

There is **no foreign exchange control** in Kiribati nor is there a central monetary authority. However, the Bank of Kiribati monitors foreign reserves and domestic currency requirements. At present, **no export duty** is charged on exportable items. There are also no restrictions on items for export except the export products. An export licence from the Fisheries Division of the Ministry of Natural Resources Development is required for marine products. **Import duties** are relatively low and exemptions might be provided for investment project items.

Investment Opportunities

In its National Development Strategy, 2000–2003, the government outlined a number of sectoral priorities in which they would like to engage the private sector. These priorities include but are not limited to:

- increasing private-sector participation in agriculture through the provision of support services to commodity industries, developing strategies for diversifying the agricultural base, facilitating value-adding of traditional crops and reviewing quarantine regulations;
- promoting private-sector production and marketing of marine products, supporting a target number of marine products of the highest value and improving the trans-shipment by foreign vessels of these products;
- providing a transparent and fully supported business environment and training service to diversify the small manufacturing base of the country; and
- promoting tourism-related investment in infrastructure required to support tourism development, including hotels and resorts, airports and ground transportation.

A range of projects exists in all areas of the economy but the following sectors offer the greatest opportunities for foreign investors:

Marine: With the vast stocks of tuna migrating through Kiribati's massive EEZ, there are opportunities in the seafood capture and export industry, as well as onshore processing. Opportunities also exist for projects involving pearl, seaweed and milk fish farming.

With the upgraded port facilities capable of servicing overseas fishing trawlers, an opportunity for a ship repair and slipping operation also exists, given the number of foreign fishing vessels passing through the area.

Agriculture: Successful trials have been conducted in the growing of Eucheama, a red algae from which Carrageenan (a stabilising gel used in pet food and cosmetics) is produced, and joint-venture opportunities exist for the farming and processing of this product. Opportunities also exist in the copra industry by value-adding to the resource, including the production of palm oil butter, coconut cream and oil products.

Tourism: The tourism industry is largely underdeveloped and there are opportunities to establish a range of accommodation facilities from small guest houses to resort-style accommodation, as well as diving and fishing tour services. A sea sports centre on Tarawa is currently being proposed within the framework of the recently released Kiribati Tourism Action Plan prepared by the South Pacific Tourism Organisation. This would involve the establishment of an integrated sailing, water-skiing, windsurfing, scuba diving and sea angling venue targeting incoming overseas visitors.

USEFUL CONTACTS

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