



**Government of Kiribati**

GoK(12) DPF 04

## **DEVELOPMENT PARTNERS FORUM**

*Tarawa, Kiribati*

25 – 27 June 2012

### **AGENDA ITEM 4: Private Sector Development Priority Issues In Kiribati**

#### **Purpose**

- 1) To present the status of private sector development in Kiribati including:
  - key issues inhibiting growth of domestic and foreign business/investments in Kiribati;
  - major measures taken by Government to address such issues;
  - specific recommendations to enhance and expand private sector development in Kiribati;
- 2) To seek from donors possible areas of assistance and hence, their commitments to help enhance private sector development in Kiribati.

#### **Background**

3. Like many other small island states in the region, the Kiribati economy is dominated by the public sector, accounting for more than half of estimated GDP. Private sector is thereby small but growing. Sectors that tend to grow albeit at slow pace (and fluctuating but generally upward trend at the latter half of the 2000s) are transport, wholesale, retail, manufacturing, copra, and fishing.
4. Although the private sector plays smaller role relative to the public sector, private sector development is widely recognized as the engine of economic growth that can accrue the following key benefits:
  - ✓ Provide jobs, particularly to the young people,
  - ✓ Create wealth that is spread across the whole community, and
  - ✓ Provide government revenue in the form of taxes and fees that the government utilizes to provide needed social services such as education, health, and so on.
5. Enjoying these benefits, however, have been constrained by a number of issues facing the private sector. To understand such issues and to be able to determine the right strategies

to addressing them and hence enhance private sector development in Kiribati, the Ministry of Commerce, Industry, and Cooperatives (MCIC) developed the first ever Private Sector Development Strategy (PSDS) for 2010-2012 in 2010. Initially, there was a first draft PSDS completed in 2007 meant for 2008-2011 but was never finalized until it was overtaken by the PSDS for 2010-2012. Preparation of this PSDS used important information and inputs obtained from an extensive consultation process that included the National Summit on Private Sector Development held in 2005 and a subsequent consultative workshop held in 2006. This PSDS, however, had not yet been approved by Cabinet given some reservations on the Strategy paper that require further consideration by officials.

### **Linkage with the Kiribati Development Plan (KDP)**

6. Private sector development has been and still is one of development priorities of the past and current KDPs. For example, Key Policy Area (KPA) 2: “Economic Growth and Poverty Reduction” of the outgoing/past KDP: 2008-2011 supported private sector development through the strategies mentioned under this KPA to address private sector related issues. Likewise, the new/current KDP: 2012-2015 also supports private sector development through the same KPA 2 with the same name as well (Economic Growth and Poverty Reduction). The PSDS: 2010-2012 is thereby linked to both the past KDP: 2008-2011 and new one for 2012-2015.

### **Issues**

7. Key priority issues inhibiting growth of the private sector in Kiribati include old issues but still very valid which were obtained from the consultations mentioned above as well as updated issues received from the recent meeting with Kiribati Chamber of Commerce and Industry (KCCI) held on 2 March 2012 at MCIC. These issues include:

#### *1. Promoting a business culture:*

- Education of the advantages of saving should therefore be introduced in an education system, and saving accounts for children should be encouraged;
- Other modes of promoting business culture and to introduce the school curriculum, business related topics to include financial literacy and entrepreneurship programmes.

#### *2. Improving access to land:*

- Land lease and sublease procedures are lengthy;
- Land planning or zoning on the other hand does not consider the strategic location of the land.

#### *3. Restricting and making public/private competition fair:*

- SOEs have diverted from the business line they were established for and competed with the private sector, e.g BPA, BKL, etc.

*4. Improving the efficiency and productivity of licensing and infrastructure service providers:*

- Costly for starting new businesses & operating the existing ones, high rates charged by responsible bodies; Councils, PUB, KPA, ANZ Kiribati, etc.

*5. Improving the quality of infrastructure and service:*

- The quality of infrastructure essential to enhance economic activities is not good. In addition charges being imposed by KPA, PUB charges that too costly to individual businesses hence needs to be revised and to consider the rate being applied to individual businesses.

- Upgrading of airport facilities to be more conducive for tourism industry.

*6. Developing Business Friendly Regulations:*

- There is a need to review business related laws as such, Copyrights Intellectual Property Acts, Foreign Investment Acts, Companies Acts, Registration of Business Names Acts and other related Acts so that can be more business friendly.

- New laws designated to encourage fair competition should also be introduced to encourage a competitive environment.

*7. Improving access to capital:*

- Given the higher charges by ANZ Kiribati there is seen need for the Bank to revise interests/fees. To address this there is support for the expansion of the services offered by the Development Bank of Kiribati (DBK) to include commercial activities so that there is competition in the banking sector.

- To review the Small Enterprise Guarantee Corporation (SEGC) Scheme with the possibility of establishment using the best practices and experiences in other Pacific Countries.

*8. Making Investment Climate Conducive:*

- To encourage the flow of Foreign Direct Investments (FDIs) through removal of bureaucracy red tapes and leveling the playing field (e.g. removing excessive charges/fees and other disincentives mentioned above, ensure fair competition, and review of laws such as those stated in 6 including Foreign Investment Policy and Act).

*9. Capacity Building for KCCI*

- To enhance capacity building for KCCI in terms of technical, financial, and managerial support from the Ministry and appropriate development partners.

## Measures

8. The key step taken by Government to address private sector issues mentioned above has been in developing the first PSDS: 2010-2012 . Such a Strategy provides a useful roadmap for MCIC to work on with supporting Ministries and other stakeholders to address such issues and hence, move private sector development in Kiribati. The Strategy provides agreed issues, strategies, activities, outcomes, responsible agencies, and Monitoring and Evaluation (M&E) framework for implementation of the Strategy. In addition, it has also identified two major objectives:
  - ✓ To create an enabling environment for private sector development by reforming areas/sectors inhibiting such developments;
  - ✓ To generate as much dynamic business opportunities as possible through the use of Small & Medium Enterprises (SMEs).
9. From a recent consultation with KCCI in early March 2012, an additional objective was identified to reflect the emerging issue relating to their capacity building needs detailed below.
  - ✓ To enhance capacity building for KCCI in terms of technical and financial assistance from appropriate development partners and managerial support from MCIC.
10. Progressing finalization of the PSDS 2010-2012 and its implementation after obtaining approval of Cabinet remains the important challenge and will be a major milestone in moving private sector development forward in Kiribati.

## Recommendations

11. The meeting is invited to:
  - i. note the current status of private sector development in Kiribati;
  - ii. note the priority issues for private sector development highlighted in this paper (para. 6);
  - iii. give indication by appropriate Development Partners on which issue area they can best engage in individually or in cooperation with other partners to provide assistance to address such issues;
  - iv. note the need to move the PSDS 2010-2012 forward with its finalization and implementation so as to enable identification and provision of donor assistance as well as support from GOK including MCIC in implementation of the PSDS and hence, enhancing private sector development in Kiribati;

Government of Kiribati  
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