

Private Sector Development Kiribati Perspective



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Kiribati facts

- 33 islands spread over 3.5 million square km
- Population 103,000, - half in Tarawa
- Limited agriculture but
- large fishing resource
- Little tourism
- Infrastructure almost all public sector
- Single commercial bank
- Small Development Bank

- Private sector involvement – agriculture, fishing, import retail, construction, accommodation, and transport

Existing SOEs

- SOEs – KSCL(Hardware), BKL(Food), KSSL(Shipping), TSKL(Communications), PUB(Electricity), AKL(Air Services), BPA(Broadcasting), BSL(Shipyard),
- SOEs dominate commercial activity – reflecting the historical need for Governments to provide services to citizens
- The private sector was too small and lacked capital to provide infrastructure
- Today, the private sector is competing in many areas

SOE Reform

- SOEs as a whole are underperforming, many have required bailouts
- Hidden advantages, e.g. free land, cross-subsidies, guaranteed debt
- Reform programme under way -
 - SOE Act and monitoring unit
 - Sale of some SOEs, e.g. Hardware store
 - Public-private partnerships, e.g. hotel
 - Business improvement plans as a condition of bailouts
 - Community service obligations – explicit subsidies

Practical issues for SOEs

- Natural monopolies (e.g. Electricity) should not be sold to the private sector without price control and regulation
- Introduction of competition without reform of the existing SOE and regulation could lead to financial failure of the existing provider (e.g. Telecommunications)
- If a SOE is to be sold, the private sector has limited ability to finance the purchase
- PPPs and concessions have potential for access to both capital and expertise
- Land is limited and access to leased land is a major attraction for purchasers

Access to Credit – the major constraint

- Single commercial bank
- Lending interest rates 11-12%
- Deposit rates 1-2%
- Largest borrower is Government and SOEs
- Private sector has limited ability to borrow
 - Risk averse lender
 - High interest rates
 - Very high charges for letter of credit
- Development Bank is small

Land

- Private sector access to land is another major constraint
- Traditional land has multiple owners so gaining a long term lease is difficult for private sector businesses
- Government may have a role in negotiating long term head leases for land with sub-leases to private sector

Conclusions

- Improved/Cheaper access to credit and land are crucial to private sector growth
- Increase competition in banking
 - Economy is small and little interest from international banks to enter the market
 - Consider expanding the Development Bank into retail banking
- Reduce public sector borrowing through the commercial bank
 - Government may seek to borrow internationally, especially to refinance SOE debt at lower cost
 - Result should improve Banks capacity to lend to private sector
- Now that the private sector is growing, the challenge is for a well-managed transfer of most SOE activities to the private sector